



Pay Trends 2025 – Key trends on the horizon



White Paper

As the business pay pot in 2025 is being tightly squeezed, businesses face a number of key challenges:

- **National Insurance** – indications are that a number of employers will reduce pay budgets to accommodate the cost
- **Living Wage** – the increasing rates will likely exceed median pay awards
- **Employee Cost of Living** – high interest rates and inflation trending above the BoE's 2% target will cause real term continued cost challenges for staff
- **Market Wage Growth** – multiple years of high wage growth to combat rising inflation levels has shifted the landscape for many industries on what a competitive salary now is to recruit and retain staff

We explore below what areas of reward are high priority for HR professionals and highlight how HR can mitigate these challenges and bolster practices to support employee attraction and retention in the year ahead.



Benefits & Flexibility

HR and Reward professionals have spent the last few years trying to maintain pay against rising employee cost of living pressures from inflation and interest rates. In many cases reviewing the benefits offer has taken a backseat. Our research found the most common pay award in 2025 will be between 3-4%. In comparison, more than half of organisation's pay awards last year were 5% and above. With predictions of smaller pay pots on the horizon, there is a growing shift with companies now opting to revisit the relevance and vitality of their schemes.

Benefits packages designed pre-pandemic can now look outdated and unattractive for a more dispersed and hybrid workforce. Companies which have been successful in their overall proposition have been able to clearly communicate the total value of the package offered, including both pay and benefits.

Flexibility has become more than just a debate around working from home

In the post-pandemic work environment flexibility has become a prominent aspect of the overall package.

- **Location** – the role of a physical 'office' remains a key component on the flexibility puzzle. There has been recent debate in the media with organisations such as Amazon and PWC mandating days in the office and tracking employee attendance
- **Working days** – many companies have opted to trial and adopt a four-day week, or other compressed hour models
- **Work-life balance** – there is now far more premium placed on the ability to balance work with other important unpaid duties such as childcare or caring for an elderly relative
- **Leave options** – the ability to buy and sell holiday days is becoming more widespread, while more radical companies like Octopus Energy have done away with the concept of leave altogether, leaving it up to their employees to decide

Financial & Health Benefits remain extremely important parts of the benefit package, and the most important areas of spend outside the core benefits are all around support and prevention:

- **Mental health support** – such as counselling and a focus on wellbeing initiatives to support employee's work life balance
- **Preventative measures in health and wellbeing** – such as access to virtual GP reducing the time spent waiting for appointments and reducing the pressures of healthcare costs through more affordable cash plans
- **Financial support** – cost of living pressures faced by the workforce has led to employers providing support around money issues and in some instance taking more proactive action to offer workplace loans or savings funds

The recent change of government has meant a number of potential legislative changes that could impact pay and reward:

- **Right to disconnect** – UK may follow countries such as Ireland, Belgium and Australia by giving employees the right to opt out of work-related communications outside of work hours to promote work-life balance
- **Pension death benefits** – consultation current active of whether pensions form part of an individual's estate for inheritance tax purposes and this may impact how death-in-service benefits are structured
- **Parental leave eligibility** – to remove the current service eligibility and make unpaid parental leave and paternity leave a "day one" right

- **Enhanced flexible working rights** – strengthening the ability for employees to request a flexible working pattern, which must be granted, unless the employer can demonstrate that it is reasonable to refuse on one or more of the statutory grounds (e.g. cost, impact on quality, impact on performance, etc.)
- **Increased equity requirements** – stronger gender Pay Gap reporting rules to reflect outsourced workers and requirement for larger employer's to introduce Equality Action Plans, setting out how to address gender pay gap issues

Irrespective of the benefits they offer, we are advising our clients to look at three key areas:

1. **Communication** – for many companies, simple effective communication about existing benefits can make a massive difference to staff understanding and therefore accessing and valuing what is on offer. REBA's research found that over half of respondents (56%) planned a large-scale project on benefits communication in 2024-25
2. **Supplier review** – the same research found that 49% of companies were planning to review their current suppliers to streamline spend. With pressure on the pay pot in 2025, maximising the value from suppliers is vital to ensure return on investment
3. **Embrace Technology** – with a more dispersed workforce, the role of technology is continuing to grow. Strong HR Tech can now provide a secure and simple way for companies to house their benefits for all their workers, personalise the offering, communicate seamlessly and measure engagement

Transparency

While UK companies are not directly impacted by the EU Pay Transparency Directive, which comes into effect in 2026, research shows that it is gaining in momentum as a younger generation enters the workforce and the government commits to “Make Work Pay” for all.

Trends in Transparency

Whether driven by legislation or simply an appetite to stay ahead of the curve, we anticipate certain actions and measures over the next 12 to 18 months:

- **Collection of employee data** – many organisations will need to start collecting new data on their workers and communicate effectively around what the information will be used for
- **Job levelling** – to establish work of equal value and provide information on average pay levels for comparable work, organisations will need some form of levelling framework in place and be sure it's applied without bias
- **Establish or review pay structures** – to provide pay ranges for recruitment that is fair and free of bias, organisations will need some form of pay structure. Many organisations with pay structures in place are reviewing them to make sure they are still fit for purpose and being applied consistently, especially in light of wage compression due to National Minimum Wage increases
- **Equality monitoring** – to ensure pay structures and policies remain free from bias organisations should build into their calendar a means of regular reviews. This may include:
 - Equal Pay Audits
 - Tracking and reviewing starting salaries for work deemed as equivalent by protected characteristic
 - Monitoring pay progression by protected characteristic
 - Reviewing salary decisions by gender for internal moves vs external hires

- **Increased Gender Pay analysis** – depending on how the government plans to stay in line with the EU, more analysis may be needed by companies to understand and explain reasons for differences of 5% or more, and to create action plans to address them
- **Benefits** – The EU Pay Transparency Directive includes transparency on benefits, so we expect the focus to start widening to include them here also

WTW found in a recent survey that while only 16% of companies currently disclose individual pay ranges to employees in the UK, 54% plan to in the future.

Communication

To make information easy to understand around pay decisions and the setting of salaries, communication will need to be clear and concise.

Where companies leave an information vacuum, employees will draw their own conclusions as to whether reward is fair and consistent.

Communicate the EVP – by communicating effectively, companies can help workers better understand the value of their wider reward offering and reinforce its value.

Protect your Productivity – Employee turnover has a negative impact on productivity, which is going to be key in mitigating cost increases facing all businesses in 2025. Productivity is not only impacted by the employee leaving but also in the time it takes to recruit their replacement and get them up to speed.

Pay Trends survey findings

36% of companies feel they don't communicate their EVP effectively and **29%** weren't sure.

79% plan to invest in EVP and the employee experience in the next 12-24 months.

Common barriers to effective Communication

Multiple factors influencing employee compensation – being clear about what factors impact pay decisions can build trust in the fairness and consistency of the decision-making process.

Concerns about a manager's ability to answer questions – upskilling managers on what impacts decisions empowers them to hold better conversations about pay.

Concerns around employee privacy – clearly explaining what pay transparency is – and is not – as well as how it won't compromise privacy can help to dispel misconceptions around what is shared.

Lack of executive support – communicating the business case for transparency to your executive team can help gain their support.

Why leaders should care about Transparency

The evidence is compelling for three main reasons:

1. Studies show that when we believe our pay is fair, we are more productive, loyal and engaged, helping business by boosting retention, reputational value and profit.
2. Greater Pay Transparency in the workplace improves job satisfaction and morale.
3. Job adverts that include salary information get twice as many clicks and six times as many applications.



Skills and training – a renewed emphasis for 2025

Are we witnessing the decline of the degree? While certain roles will continue to require a degree, studies show a decline in the number of people needing one, and going to university – particularly amongst young people who enjoy tech.

Accompanying this trend is a rise in EdTech companies offering alternatives to formal education, while schools and colleges are also buying in EdTech tools or online learning materials.

Companies who have defaulted to requiring a degree for roles may need to rethink or risk significantly restricting their talent pool.

Given the pace of technological change, it is likely that a healthy proportion of future jobs will be in areas we do not yet understand or know how to teach. At the same time, competition for tech talent is likely to become fiercer so buying in talent will get harder, especially for smaller businesses.

Strategies may need to switch towards nurturing existing talent or bringing in talent at entry level positions to train. Traditional educational thinking may not be agile enough for this, providing opportunities to embrace new EdTech tools or forge EdTech partnerships. Either way, organisations will need structures in place to facilitate skills and career development.

London Interdisciplinary School Study found that **44%** of graduates regret their field of study and **37%** say their education didn't prepare them for their career

Global research company GWI found a **21%** decline in Gen Z'ers considering a degree

Burning Glass Institute found the percentage of jobs requiring a degree fell from **51%** in 2017 to **44%** in 2023

Key questions to consider:

- How good are we at hiring people with limited experience, or without a degree?
- How competitive is our starting pay compared with the market?
- How are our most loyal employees paid compared with the market?
- How much career mobility do we offer?
- How much parity do we have in promotions in terms of ethnicity and gender?
- How many of our leaders have climbed through the ranks?

Did you know?

In the US, Harvard Business School has collaborated with The Burning Glass Institute and the Schultz Family Foundation to create the American Opportunity Index. The Index assesses how well America's largest companies maximise internal talent to drive business performance and individual growth, focusing on jobs open to those without a degree. In 2024, it used independent data to measure 5.4 million employees at 395 of America's largest companies, ranking businesses on wage growth and competitiveness; barriers to hiring like unnecessary qualifications; career mobility and pay parity. It provides a benchmark for employers and gives employees and candidates additional information on which to base their career decisions. It also promotes transparency.

Management training

The other key area of focus in skill development is the training and upskilling of managers, who are already under increasing amounts of pressure to be productive and now stand to take on greater levels of responsibility.

If there is a shift towards growing talent from within, the typical worker may have more tech skill but less business experience, creating a different dynamic and requirement in terms of management style, with a greater emphasis on onboarding and support.

Changes in Pay Transparency will inevitably lead to more questions and conversations around pay.

Management training regarding reward will vary but should cover:

- When to have a conversation about pay and what to cover
- How much to divulge about how reward decisions are made
- How to handle frequently asked questions with confidence – particularly where a decision could prompt an emotional response or is contrary to an employee's expectation
- When to involve HR/People Team or business leaders

A **WTW** survey found that nearly **75%** of organisations considered managers the most common channel for communication on pay.

50% had concerns over managers' effectiveness

38% felt they were educating managers well enough on pay

13% felt they were educating employees effectively on pay.



Pay Progression

There are many reasons why employees leave organisations, but pay is consistently one of the top reasons. A lack of pay progression impacts retention.

If the estimated cost of replacing an employee varies between £14,000 and £50,000, depending on the sector and level of seniority, we strongly believe that it is worth doing all we can to keep those we have invested in, and - crucially - to maximise their length of time they stay with us to generate a return on investment for our spend.

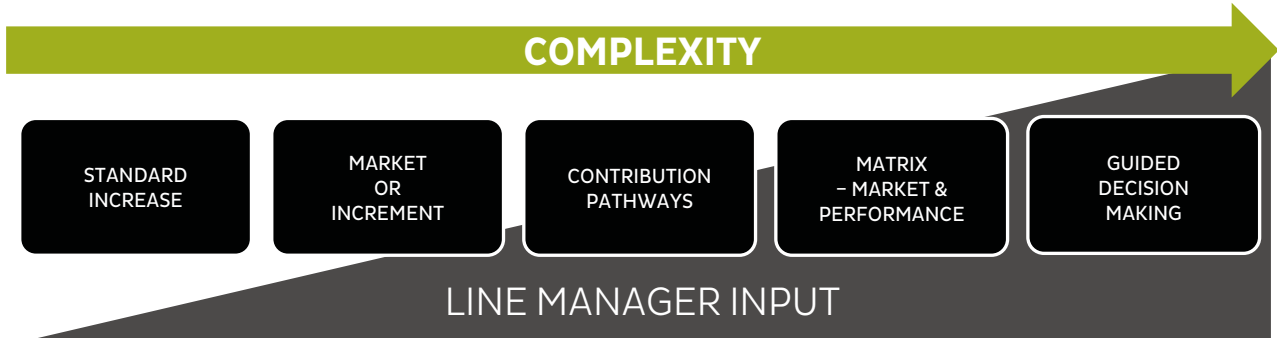
The inability for employees to see how they progress their pay is a big issue for HR teams. Whilst we might put in place pay ranges, most employees don't understand how they are used and how they might progress pay within them.

Implications of the EU Pay Transparency Directive on Pay Progression

While the EU Pay Transparency Directive will not apply in the UK, it is impacting broader expectations around transparency and pay progression.

Companies must share the criteria they use to determine workers' pay, pay levels and pay progression, making sure they are applied consistently and in a non-discriminatory way. This will focus further towards fairer and more equitable pay progression practices and our own legislation may evolve to keep pace.

Our survey on Pay Progression found that over half of organisations who responded have no Pay Progression mechanic in place to effectively manage Pay Progression. It is a key area of focus for many in 2025.



Common challenges in Pay Progression

Our survey highlighted key challenges many organisations face when it comes to pay progression.

Lack of budget – ideally, we would like to be able to accelerate pay for strong contributors but competing priorities and limited financial resources can make this difficult. Often Most of the pay review budget goes to ensuring we keep up with the market, leaving little to progress pay beyond market adjustments. This is a particular challenge when the market for key roles is moving fast.

Lack of fair processes – many organisations would like to manage pay progression according to performance or competence but lack robust frameworks to assess performance or competence to make assessments or have concerns about their managers' ability to apply decisions fairly or consistently.

Lack of Modelling capability – financial sustainability is key to managing pay progression but a number of organisations lack the resource or ability to model the impact of proposed pay decisions. Our Advance tool has successfully helped clients to manage their pay progression approach.

Key questions to enable Pay Progression

- What do we want to incentivise and reward?
- What determines an individual's ongoing value in our organisation? (Performance, contribution, length of service)
- How complex do we want the process to be?
- How much do we want to involve line managers, and how capable are they to assist?
- Do we require internal resource to this drive change, or would it be better to bring in external support?
- How can we best communicate our chosen approach throughout the business?

Where workers have a clear understanding of what they need to do to advance their salaries and grow their careers, it builds a culture of trust and fairness, motivates them and cultivates their loyalty, extending their Lifetime Value and giving the organisation a stronger return on its investment.

Based on our experience a more nuanced and blended approach to pay progression works best, retaining an element of market alignment while still recognizing performance or competence. This approach must fit with a company's pay principles: first, you must agree what you wish to incentivize and reward.

We developed our Advance tool to support clients throughout this entire process. Contact us for help managing your pay progression sustainably through Advance.

About Innecto

**Innecto delivers sustainable and equitable Reward practices.
Reach out to ask how we can work with you to:**

Audit and shape your pay transparency strategy and roadmap

- Identifying the strong practices already in place
- Understanding the areas that need further work
- Identifying other contingent activities such as leadership appetite for change and engagement

Review current benefits practices and create a benefits strategy and action plan

- Delve into benefits policies and practices
 - What works well
 - What needs further improvement
 - What is missing
- Identify the desired approach based on employee expectations, market prevalence and affordability

Explore and set your pay progression philosophy and policy

- Delve into the drivers – what strategic objectives the business wants to achieve
- Understand current pay practices, limitations and opportunities
- Identify a model that is 'fit for purpose', engaging and affordable

Help you to build in more time to streamline process and define strategy through technology

- Identify where time could be better spent by automating the process
- Create a more effective and equitable outcome by tracking intelligent MI
- Enabling credible conversations with Leadership and communicating a clear Return on Investment

INNECTO REWARD CONSULTING PROUDLY STANDS AMONG THE TOP CONSULTANTS IN THE INDUSTRY


Our unique approach combines consultancy with digital tools to deliver meaningful improvements for our clients. With extensive in-house HR and Reward experience, our team understands diverse client needs across all sectors.

We collaborate closely with clients to create inclusive plans that add value, resulting in strong client loyalty and high recommendations. Our innovative solutions help organisations achieve their people strategies and reward objectives, setting them apart from competitors.

We offer a range of consulting services, including bonus schemes, pay structures, and digital tools for job evaluation and salary analysis, ensuring maximum value from projects. Our flexible structure allows us to provide tailored services, from large-scale project advice to speciality resources.

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