pave

Alpine Rewards

The Merit Cycle State of the Union

Raises, promotions, & performance in 2025



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Introduction

Welcome to the “do more with less” era of merit cycles. Merit budgets tightened in the first half of 2025 compared to 2024—and things may look even tighter for 2026.

Though the market is volatile and difficult to predict, compensation leaders need to find ways to take control and deliver the best possible outcomes.

There are several levers organizations can pull to be successful: the size of their budget, employee eligibility, differentiation on performance and promotions, and efficiency metrics.

In this report, we’ll explore findings from H1 2025 merit cycles in Pave’s real-time dataset to understand how companies are handling these complex issues. Let’s dive in.



Key Findings

3.8%

The median total salary increase was 3.8% among eligible employees, down from 2024. But this varies between companies that run 1 vs 2+ cycles—and those with 2+ cycles spend more.

80%

80.0% of eligible employees received cash raises—but ongoing equity is not a given.

9.7%

The median base salary raise for promoted employees was 9.7%, while the median raise for non-promoted employees was 3.8%. This spend varied across functions, with the largest amounts going to Research & Development (R&D).

The varying raise amounts and equity grants by performance rating show that **companies are using pay for performance to reward top performers.**



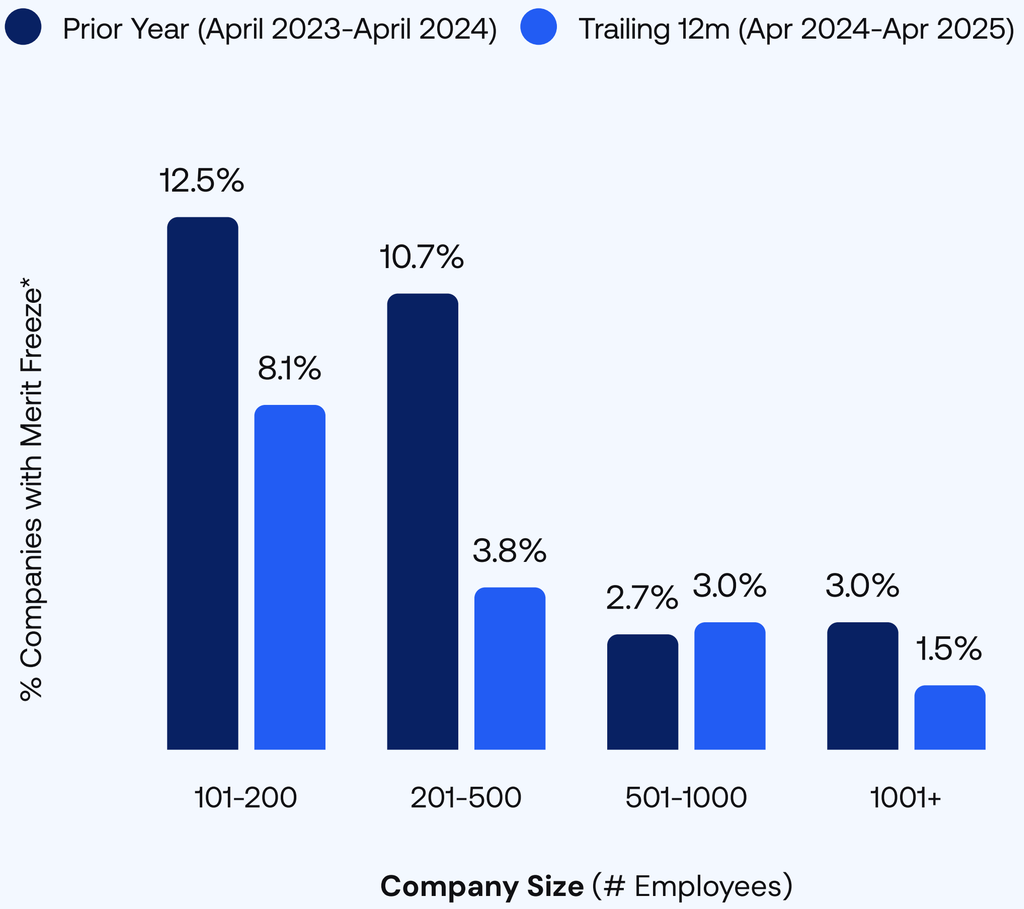
The merit cycle freeze is thawing out.

Faced with market volatility, many companies have to weigh tough options, such as whether to lay off employees or implement a merit cycle freeze. Last year, many organizations opted for the freeze. This belt-tightening was especially evident at companies with fewer than 500 employees. Now, the data shows an apparent return to "business as usual".

Most companies that froze merit cycles last year have since run a merit cycle in the past 12 months.

However, just because merit cycles are back in motion doesn't mean employees should expect blanket raises across the board. As we'll explore in the pages ahead, salary and equity increases aren't necessarily a given in this new era.

Merit cycle freezes over time



Sample size: 5K employees

*Merit Freeze defined as <10% of employees receiving a salary increase within the 12 month period

Compensation Scorecard 2025

As companies opened or reopened their cycles, we wanted to understand how those cycles took shape. How were merit budgets distributed, and how were promotions and raises awarded? Our compensation scorecard provides an overview of these key merit cycle trends.

2025 Merit Cycle Trends

2.5%	**Total salary increase** (across all employee payroll)
3.6%	**Total salary increase** (across *eligible* employee payroll)
80.0%	**Employees who received a raise** (across *eligible* employees)
9.8%	**Employees who received a promotion** (across *eligible* employees)
3.8%	**Median salary increase** (for *non-promoted* employees who received a raise)
9.7%	**Median salary increase** (for *promoted* employees)

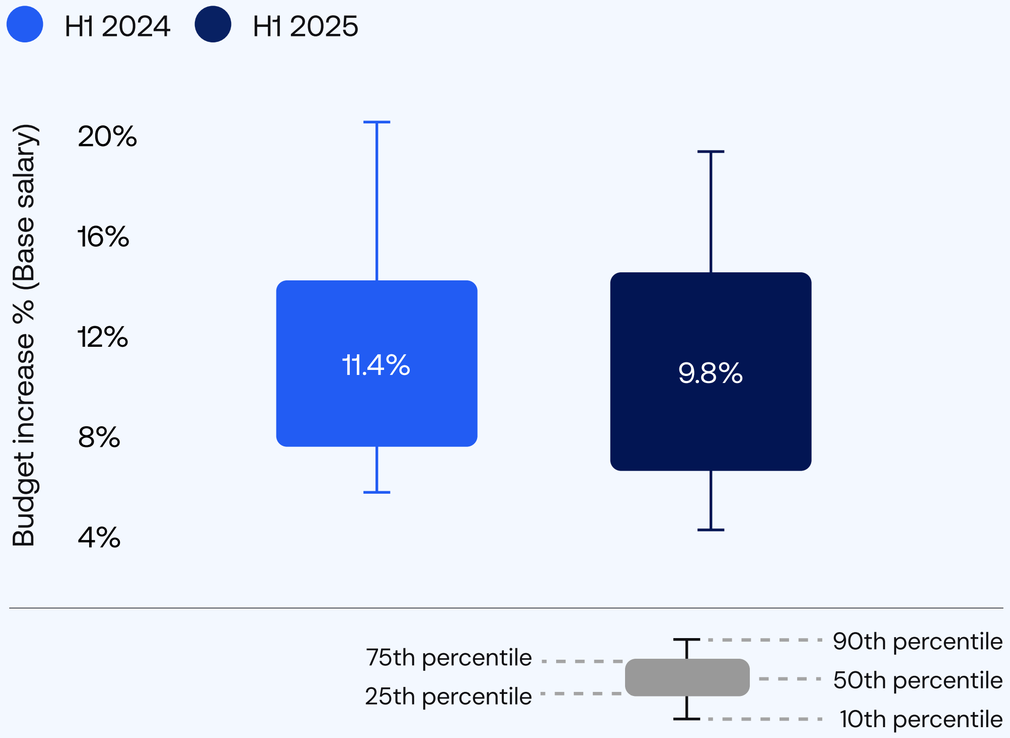
Sample size: 96k employees (US employees only)

Let's zoom in on one key metric: promotion rates. Our findings show they were down year-over-year (YoY), from 11.4% in 2024 to 9.8% in 2025.

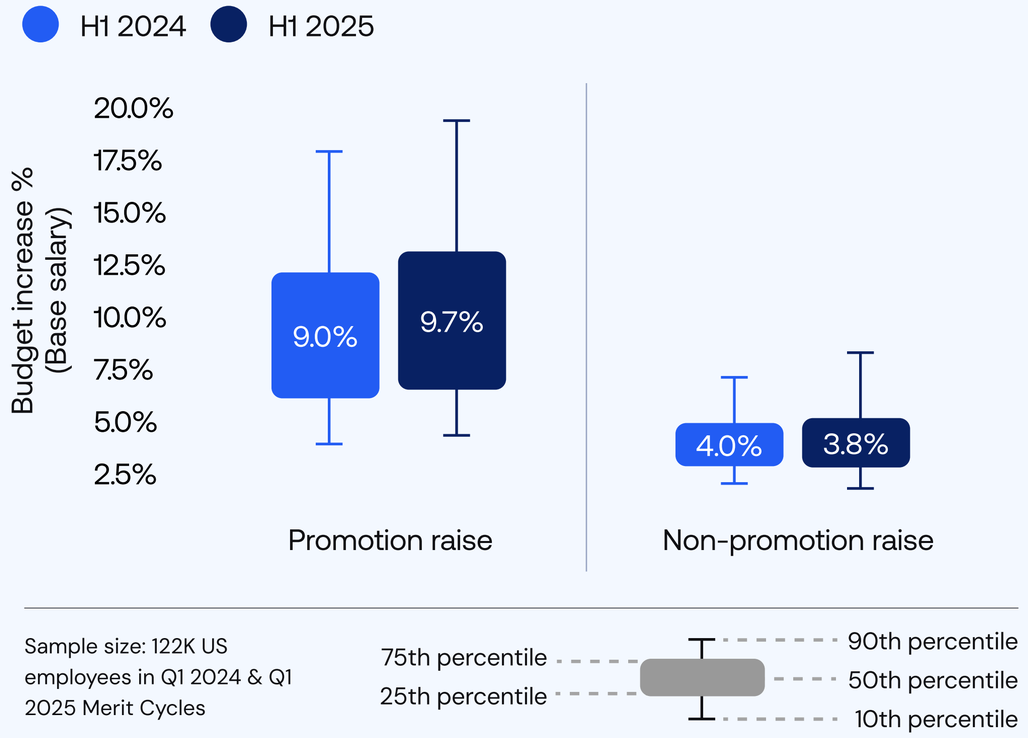
Promotion rates have a major impact on overall spend. The median salary raise among promoted employees was 9.7%—up from 9.0% in 2024. However, for employees who were not promoted, the median increase was 3.6%, down from last year's 3.8%.

These findings show pay for performance in action: fewer top performers receive promotions, and therefore larger raises, while non-promoted employees see much smaller merit increases. As companies aim to spend their limited dollars more effectively, this trend is likely to continue.

Promotion rates year over year



Raise amounts year over year



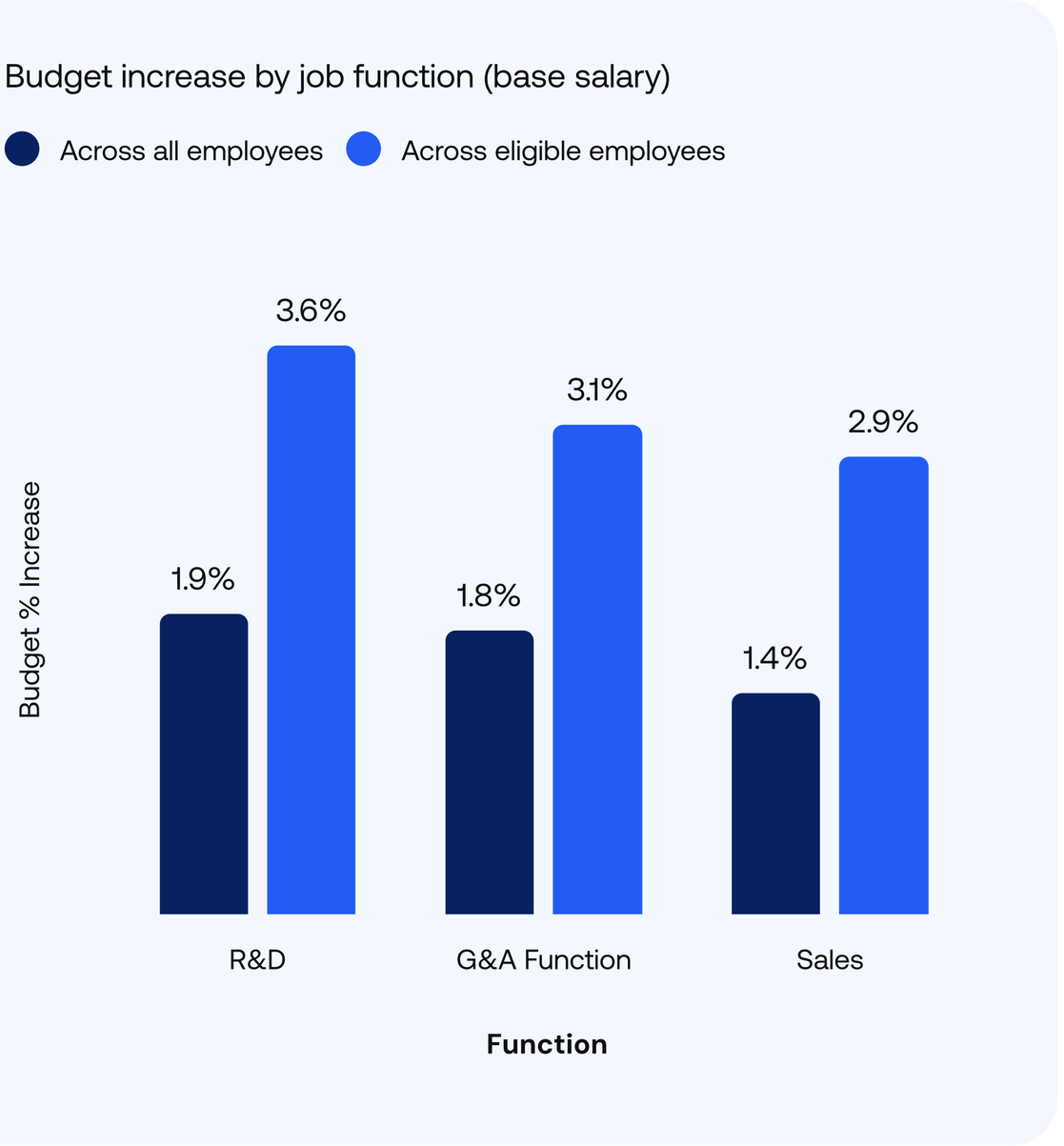
Total Salary Increases

When it comes to salary increases, our findings show that spend is not spread evenly across an organization. We sliced the data by job function and uncovered that the total base salary increase for eligible employees in R&D (which includes Product and Engineering) was around 1.25x the base salary increase for Sales.

1.25x

The total base salary increase for eligible employees in R&D is around 1.25x the base salary increase for Sales.

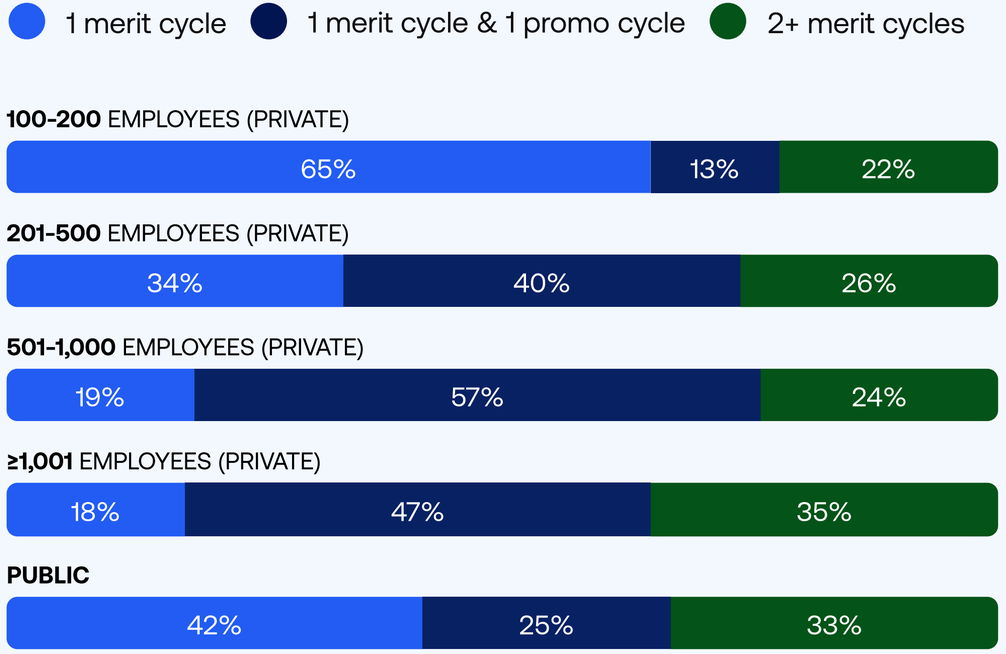
The companies in Pave's dataset are likely placing a premium on the R&D roles driving business outcomes, such as software engineers or the much-hyped AI/ML roles.



An important factor that plays into a company's merit spend is the number of cycles run in a year. Private companies are more likely to run 2+ cycles as they grow, but almost half of public companies return to a single annual cycle.

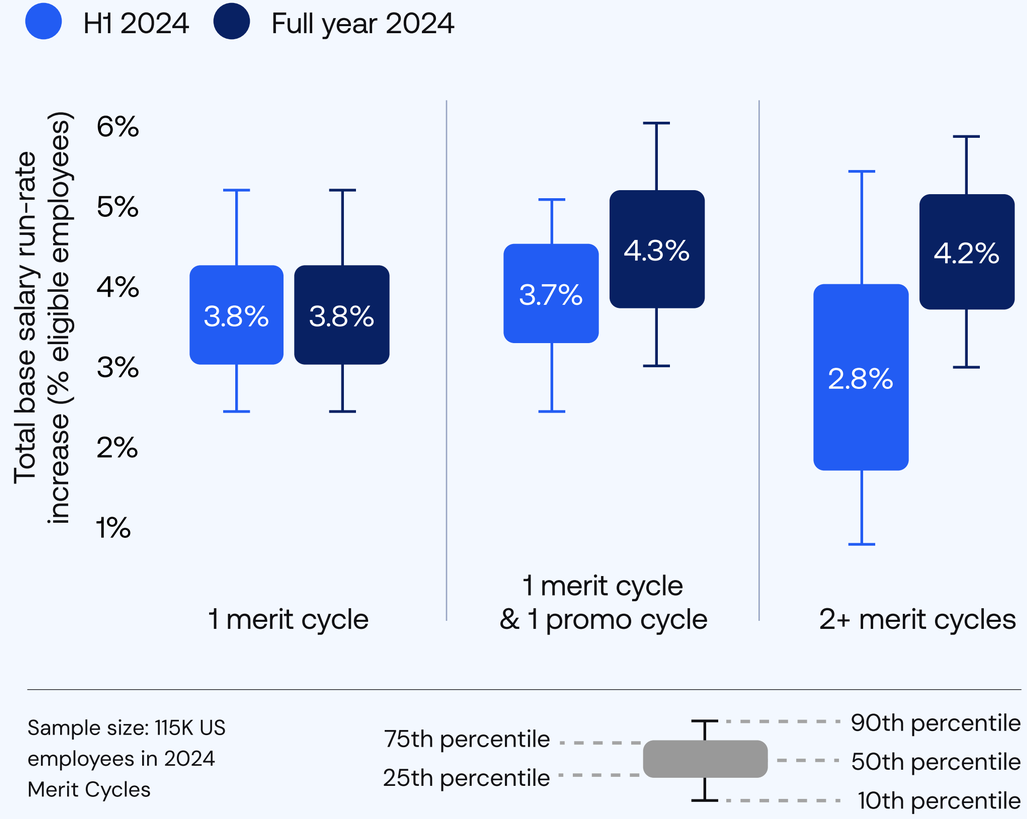
Why does this matter? Companies with 2+ cycles have a median full-year total salary increase of 4.2%, compared with 3.8% for those only running one cycle. Put simply: companies that run more cycles tends to spend more money (even though the second cycle is often smaller).

Number of cycles per year



Sample size: 151 companies with 2024 merit cycles

Budget increase by cycles per year



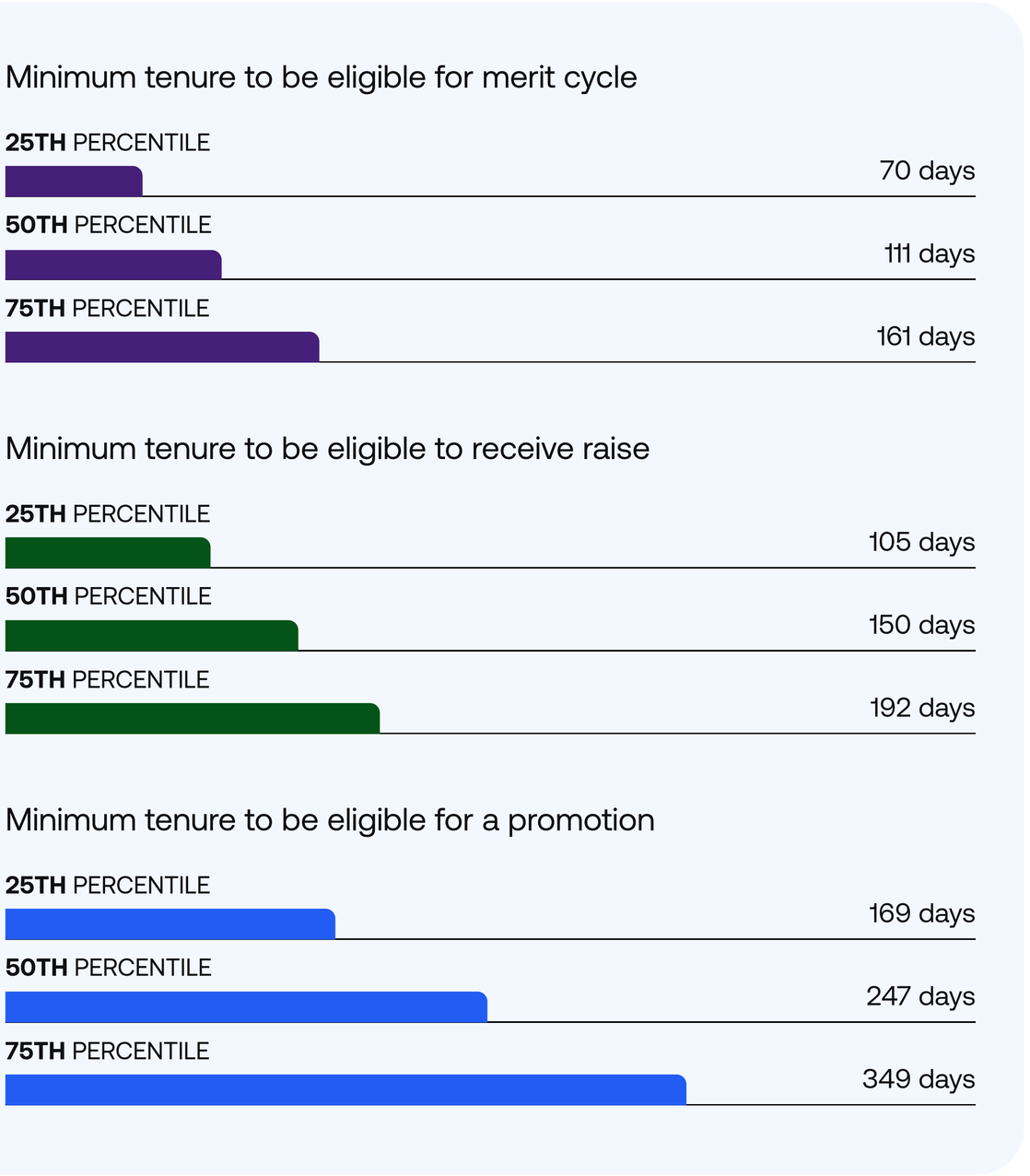
Sample size: 115K US employees in 2024 Merit Cycles

Eligibility

Tenure

When prioritizing budget effectiveness, a key lever compensation leaders can pull is eligibility. Which employees are eligible for merit increases or promotions, and which are not? To explore this, we examined the data across two common dimensions: tenure and performance rating.

For this analysis, tenure is defined as the number of days between an employee's start date and the merit cycle start date. Tenure is a clear factor in employee eligibility for receiving raises and promotions, as most compensation and HR professionals would expect. The tenure to be eligible for promotion is the longest, with a median of roughly 8 months—another expected trend.



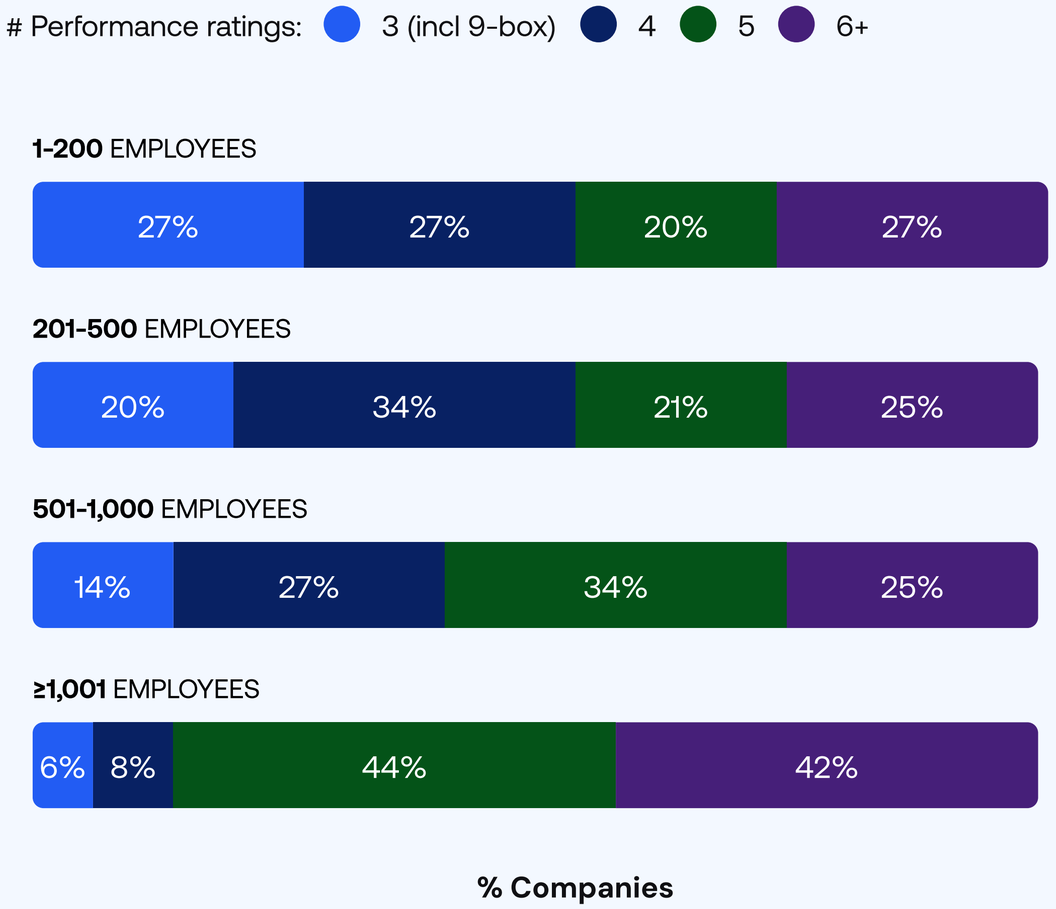
Performance Ratings

In order to differentiate eligibility by performance, companies need a rating scale. We explored the number of performance ratings used by companies in our dataset who bring their performance information into Pave's Compensation Planning module to understand the various approaches.

In general, the number of performance ratings used increases with company size.

Practices vary widely at companies with fewer than 500 employees. But at larger organizations, there's a clear tendency toward scales with 5 or 6+ ratings.

Number of performance ratings by company size



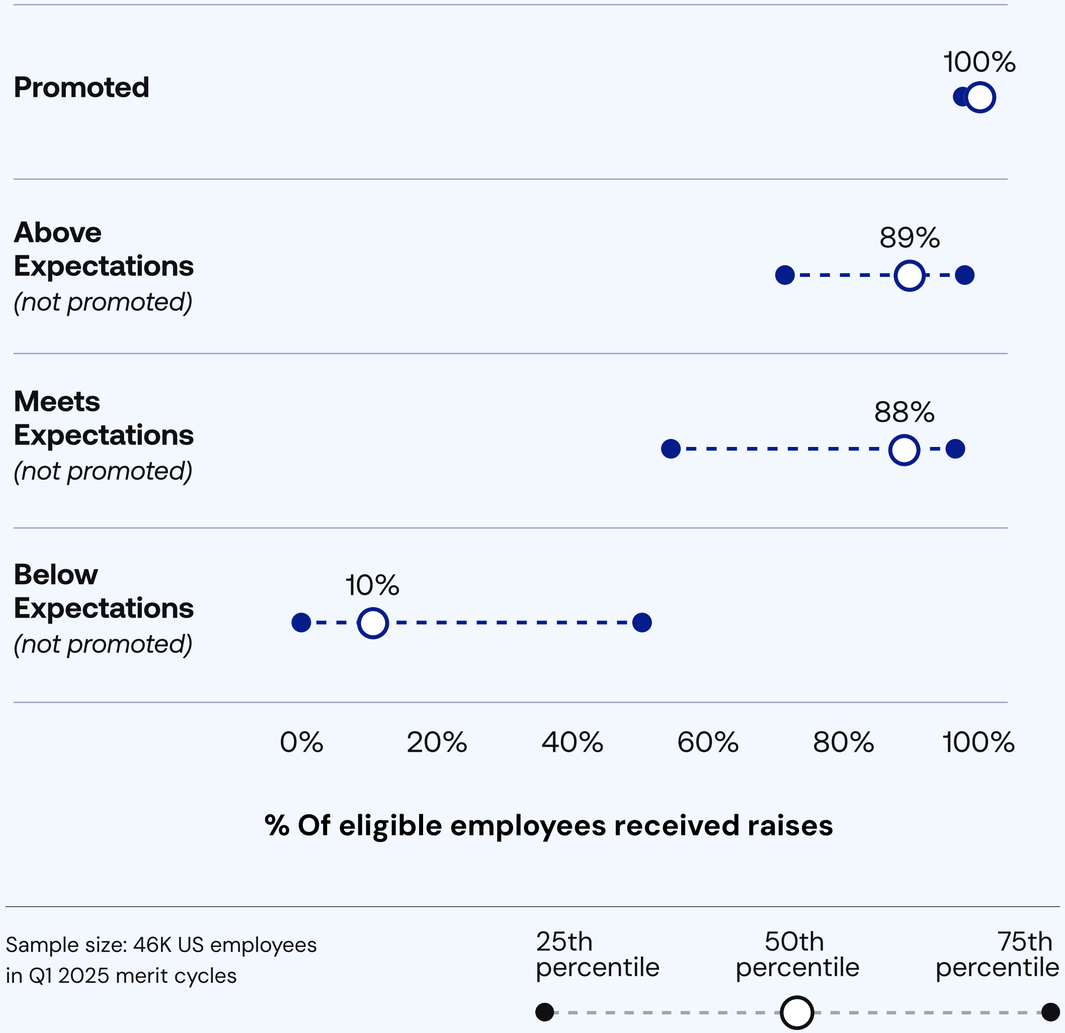
Sample size: 200 companies with merit cycles in the past 12 months

Furthermore, our findings show companies are indeed using those ratings to determine who receives raises. As we can see, a median 100% of promoted employees get a raise, followed by medians of 89% and 88% of employees who receive “Above” and “Meets” expectations ratings, respectively.

100% A median 100% of promoted employees get a raise.

Meanwhile, a median of only 10% of employees rated “Below Expectations” receive a raise. This is clear differentiation in action.

Percent of employees who received raises by performance rating



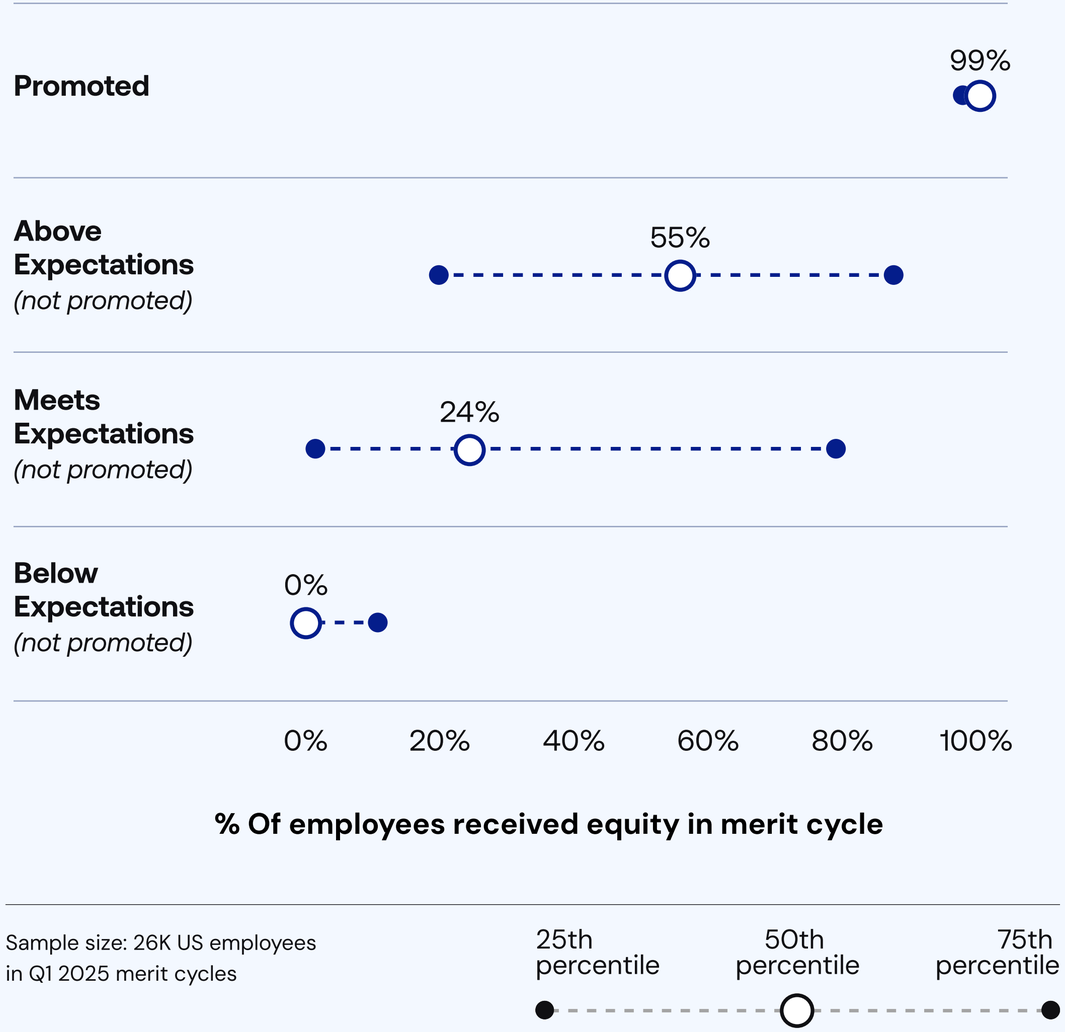
Sample size: 46K US employees in Q1 2025 merit cycles

We also investigated how equity is factored into a pay-for-performance strategy by looking at the data on employees who received grants at private companies. Of those, the median participation rate was 99% for promoted employees, 55% for those rated “Above Expectations”, and 24% for those rated “Meets Expectations”.

It’s important to note that there’s a large variance in equity participation across percentiles. Honing in on employees with an “Above” rating, we can see that equity participation can range from 20% at the 25th percentile all the way up to 90% at the 75th percentile. This indicates that there is less consensus among companies on how to incorporate ongoing equity into a pay-for-performance strategy.



Employee equity participation by performance rating



Sample size: 26K US employees in Q1 2025 merit cycles

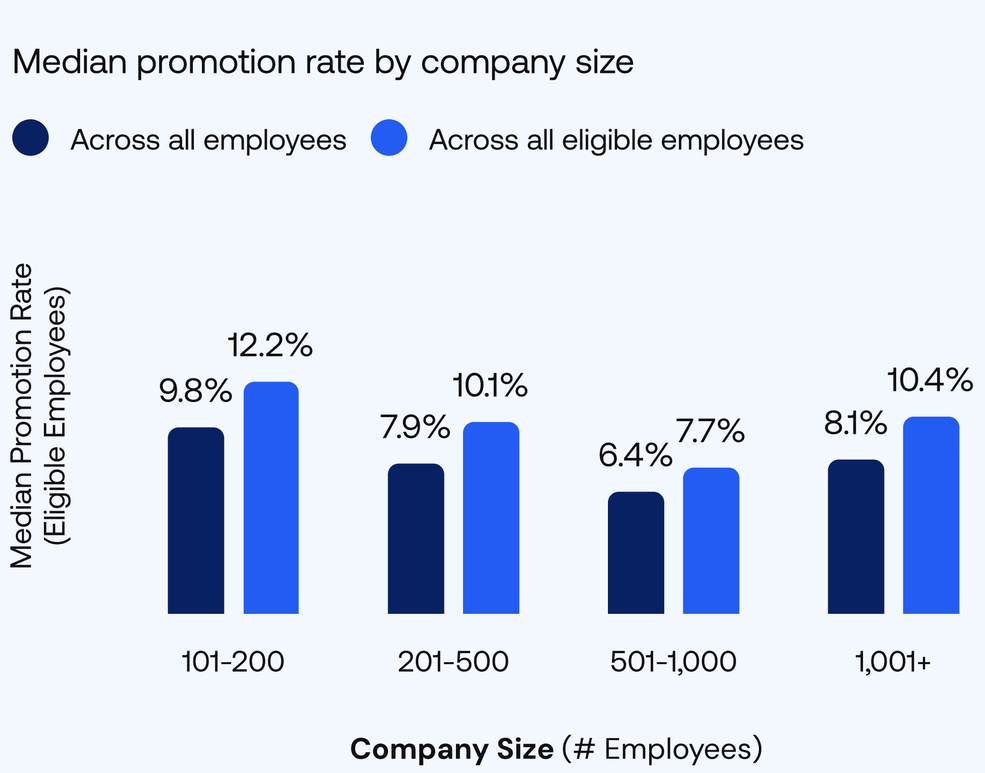
Differentiation: Promotions & Raises

A crucial way that differentiation occurs within organizations is through promotions. As we've shown, promoted employees receive higher raise amounts, so these practices have a large impact on merit cycle spend.

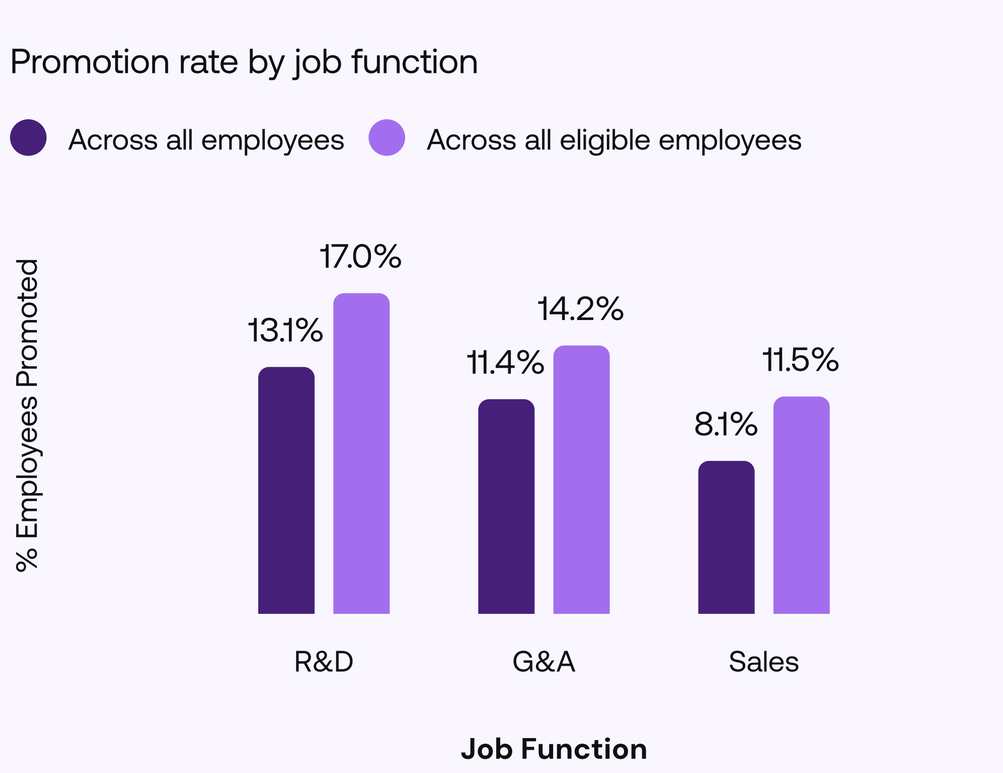
Promotion rates vary by a number of dimensions, and we explored several in our data. First, when we look at promotion rates by company stage, we find smaller companies tend to promote more employees than larger companies.

Next, when we examine promotion rate by function, we see promotion rates for eligible R&D employees that are ~1.5x that of eligible Sales employees.

Median promotion rate by company size



Promotion rate by job function



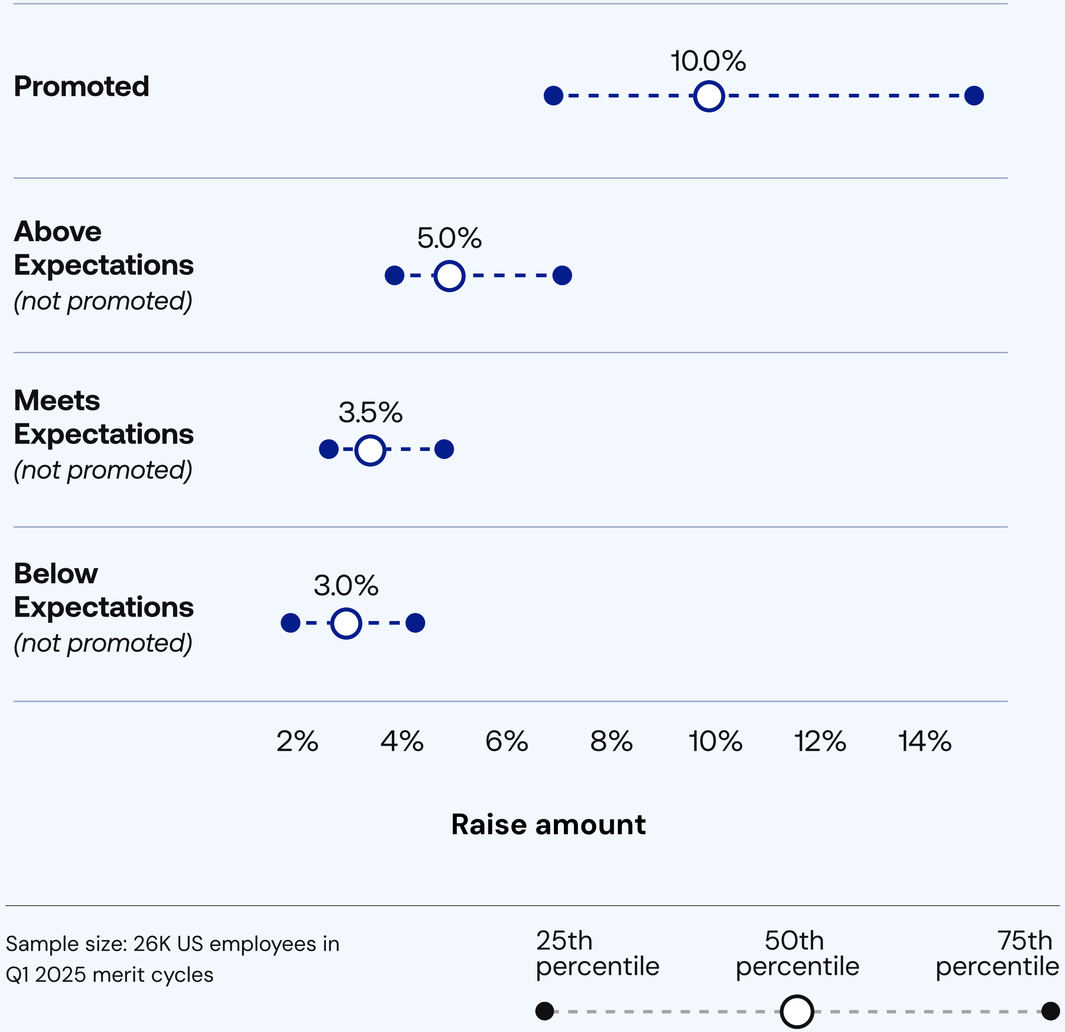
Another way differentiation takes shape is through the actual raise amounts given to employees. Again, many companies opt to leverage a strategy of pay for performance and allocate raise amounts based on performance ratings.

The median raise for employees that receive an “Above Expectations” rating is 5.0%, while the median amounts for “Meets” and “Below” expectations are 3.7% and 2.3% respectively. Being promoted earns an even higher reward—the median employee in this group received a 10% raise.

10%

Being promoted earns an even higher reward—the median employee in this group received a 10% raise.

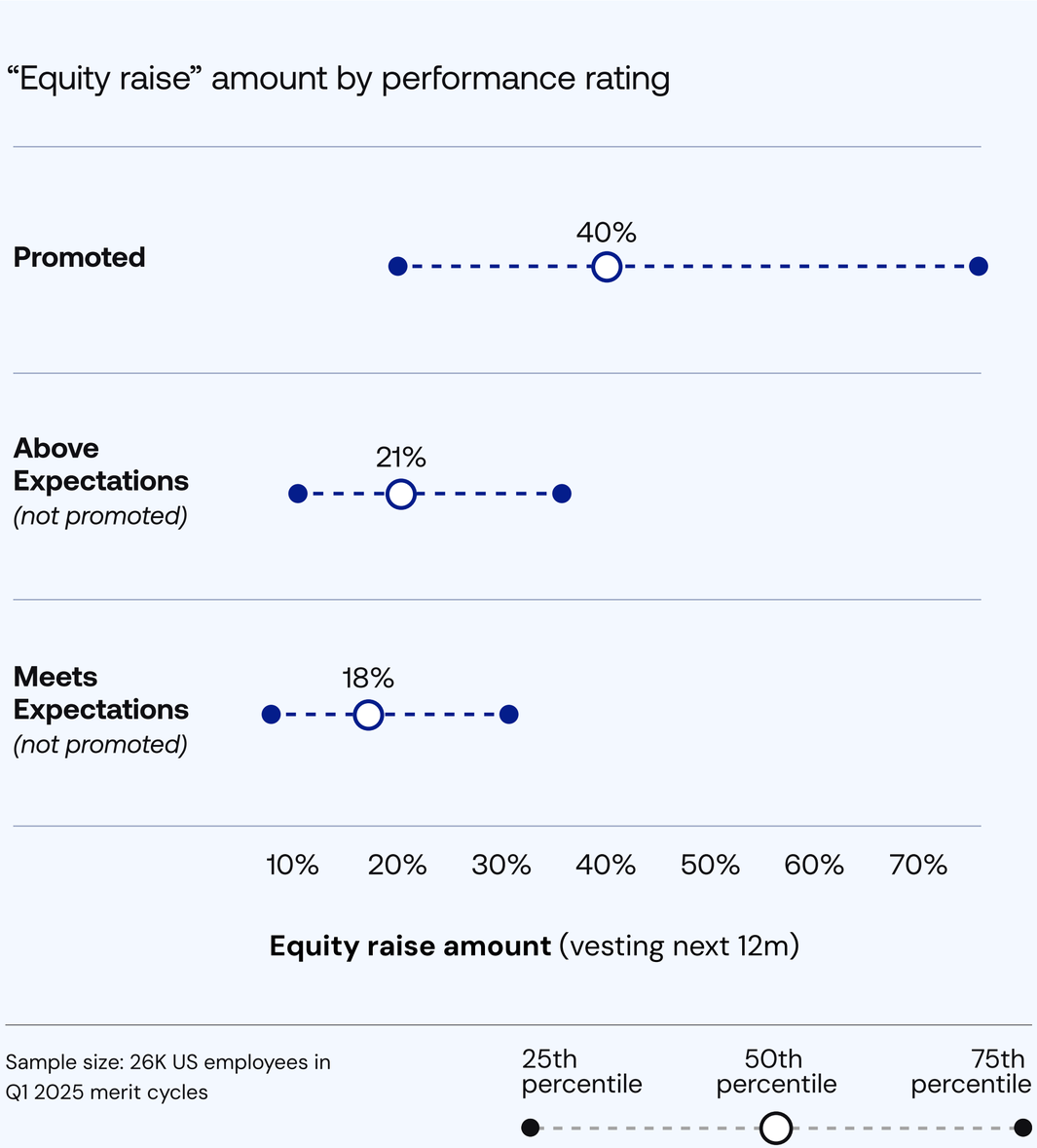
Raise amounts by performance rating



Sample size: 26K US employees in Q1 2025 merit cycles

To get a view into the impact of performance rating on employee equity, we looked at "equity raises", defined by the percent increase in equity value vesting over the next 12 months for employees who received ongoing equity grants as part of a merit cycle.

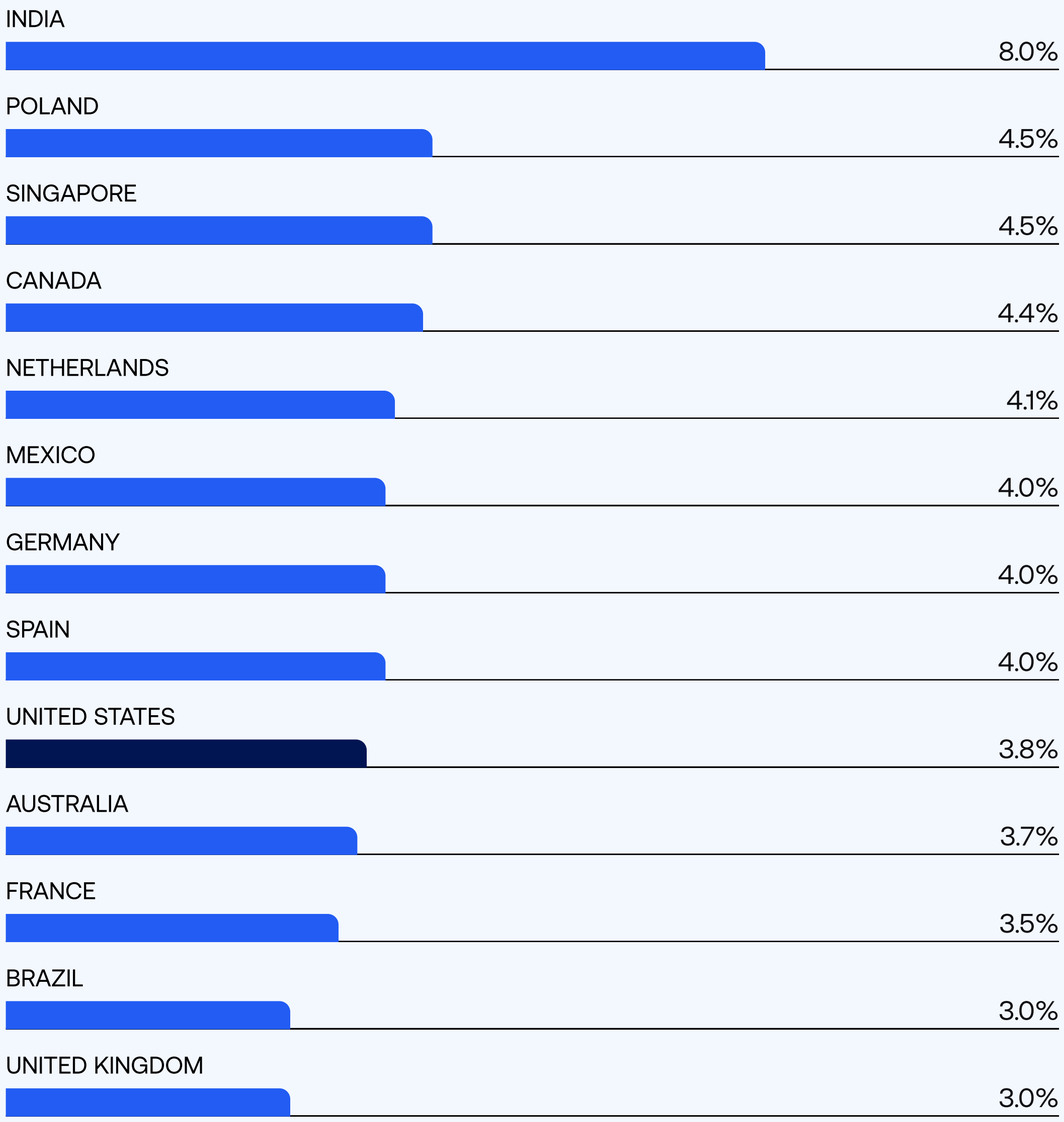
For promoted employees, the median "equity raise" was 40%. For employees who weren't promoted, the median "equity raise" was 21% for high performers with an "Above Expectations" rating, and 18% for those rated "Meets Expectations. Again, the differentiation is most pronounced for employees who receive promotions.



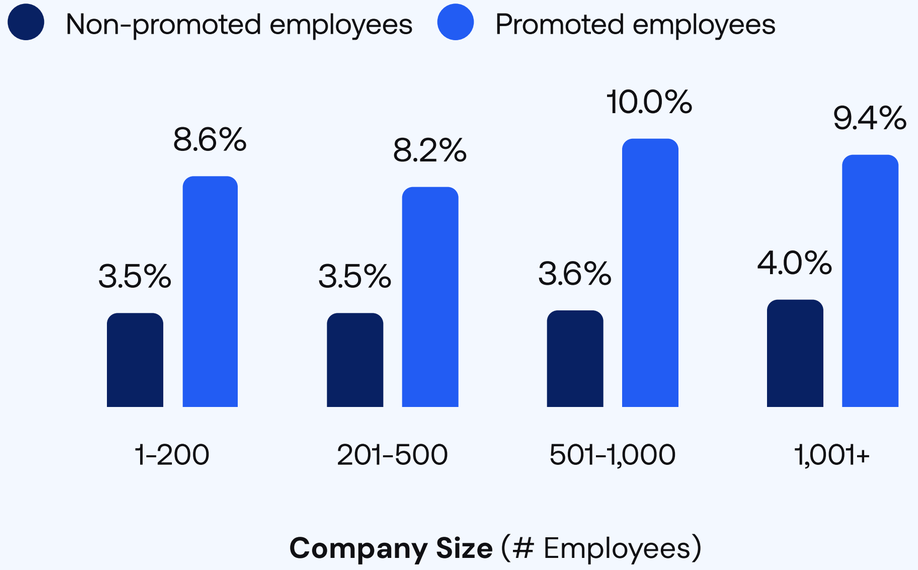
Organizations with global teams can also differentiate based on location, and develop unique practices for each country in which they operate. In Pave's dataset, median raise amounts are high in India. Other common countries for international operations, such as Mexico, Spain, Germany, and Australia, had outcomes similar to those of the US.



Median raise amounts by country (non-promoted employees)

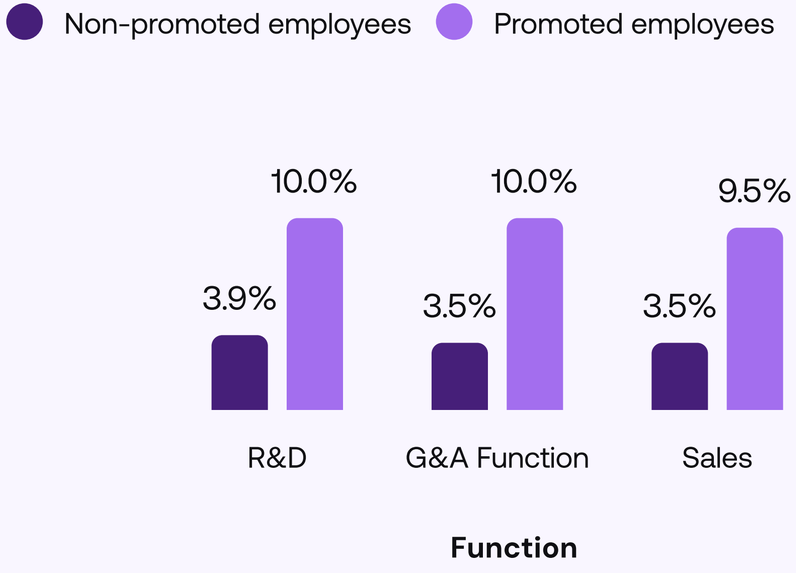


Median raise amounts by company size



Raise amounts also vary by company stage. Larger companies tend to award higher raises, for both promoted and non-promoted employees. Pave data shows that the largest median raise amounts for promoted employees is 10.0%, and can be found at companies with teams of 500-1,000 employees.

Median raise amounts by job function

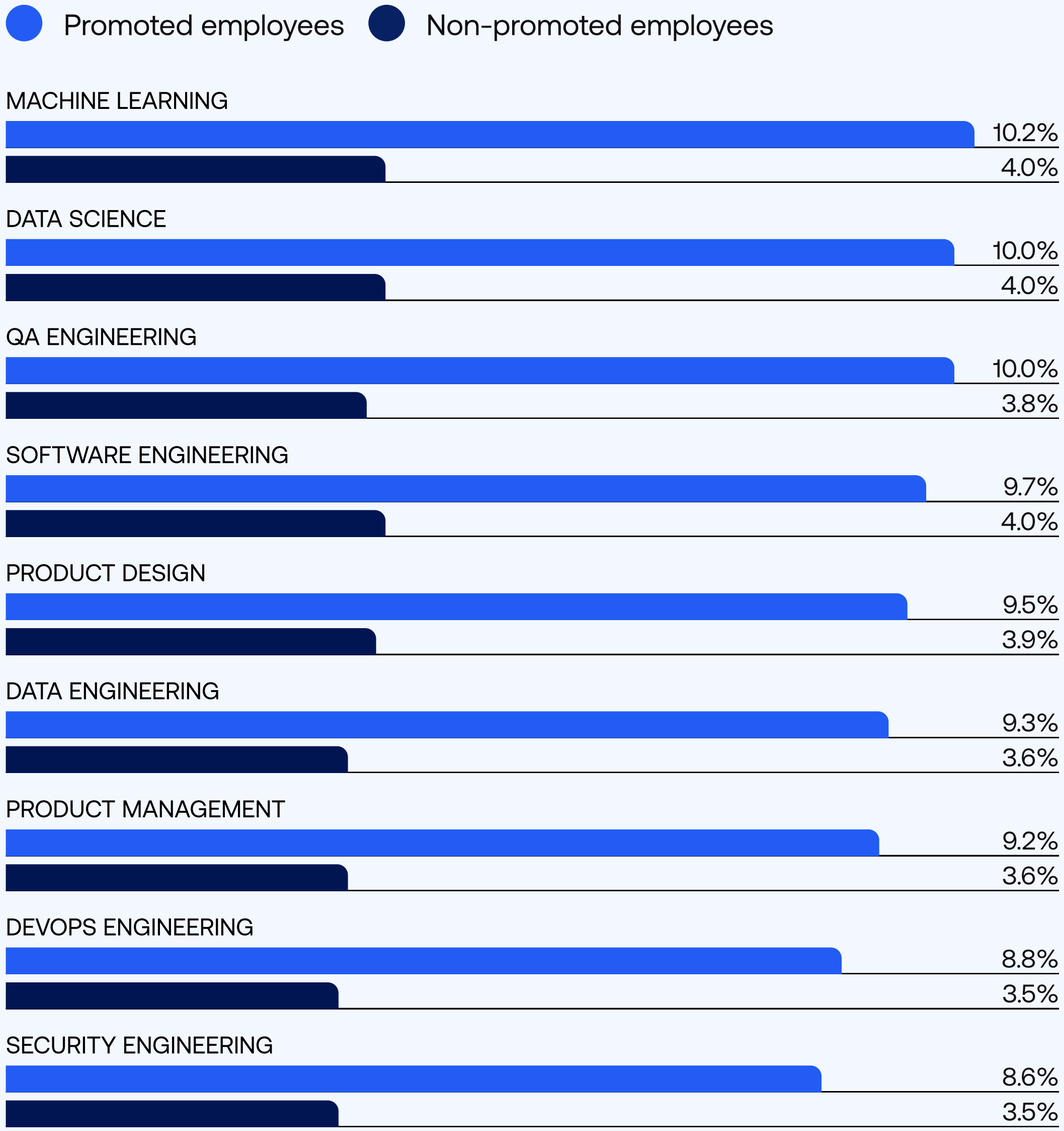


Similar to the trends on promotion rates, companies make differentiations by job function when awarding raises as well. While the median raise amount for promoted employees is consistent across functions, the median raise for non-promoted employees in Sales or G&A is lower than the median raise for non-promoted employees in R&D.

Let's zoom in on R&D in more detail and explore how salary increases are distributed across job families within the R&D function—metrics that are unique to Pave's dataset. Machine Learning employees received the highest raises (for both promoted and non-promoted employees), while DevOps Engineering and Security Engineering tend to receive the lowest raise amounts.



Median raise amounts by R&D job family



Efficiency

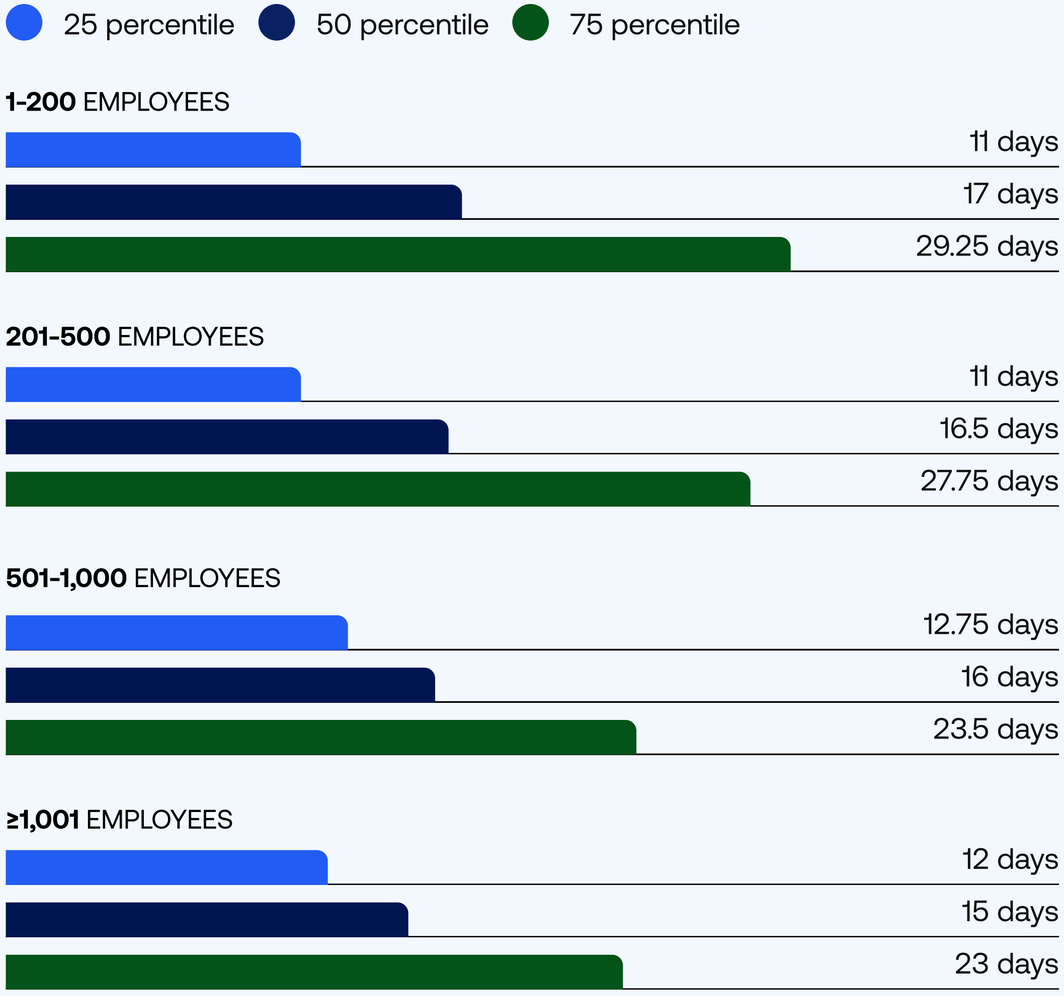
A successful merit cycle hinges on smart budget allocation, yes—but another important element is efficiency. Are the outcomes achieved by the cycle in line with the organization's compensation strategy?

One key area to explore is cycle timelines. We looked at Cycle Length in Pave, which measures the active cycle period in our tool. This is the window of time compensation leaders allocate for managers to review compensation recommendations and finalize raise amounts for each employee.

The median merit cycle lasts 15-17 days in Pave, with features like Planning Windows and Cycle Insights helping processes stay on track.



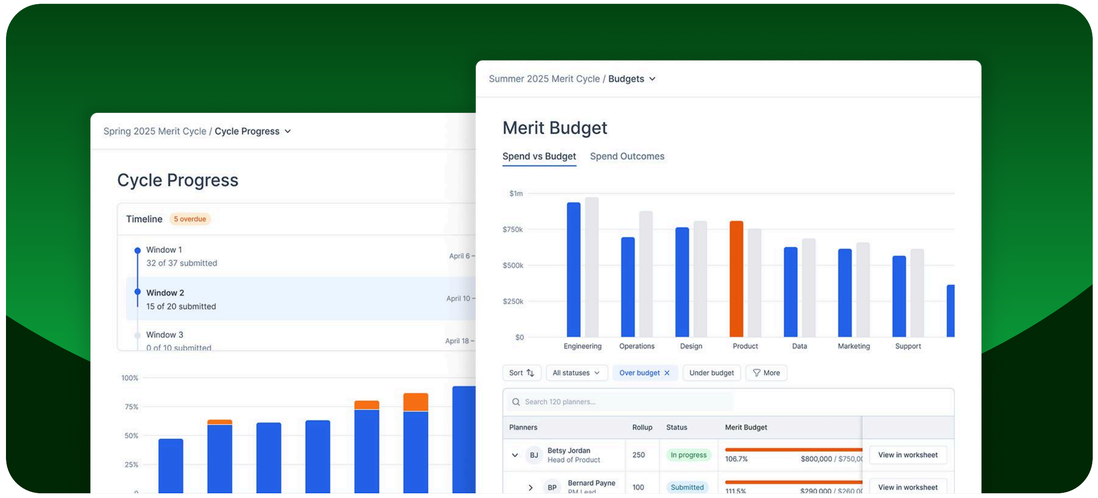
Median merit cycle length by company size



Achieve Pay for Performance with Pave & Cycle Insights

Pave's powerful end-to-end compensation management platform makes it easier than ever to incorporate pay for performance into your total rewards strategy.

Our tools are tailor-made for total rewards and compensation leaders looking to connect performance decisions to pay outcomes. With Pave, you can maintain pay bands, set recommendation logic based on performance and budgets, and run seamless merit cycles, on time and on budget—all from one place.



Innovation Spotlight: Cycle Insights

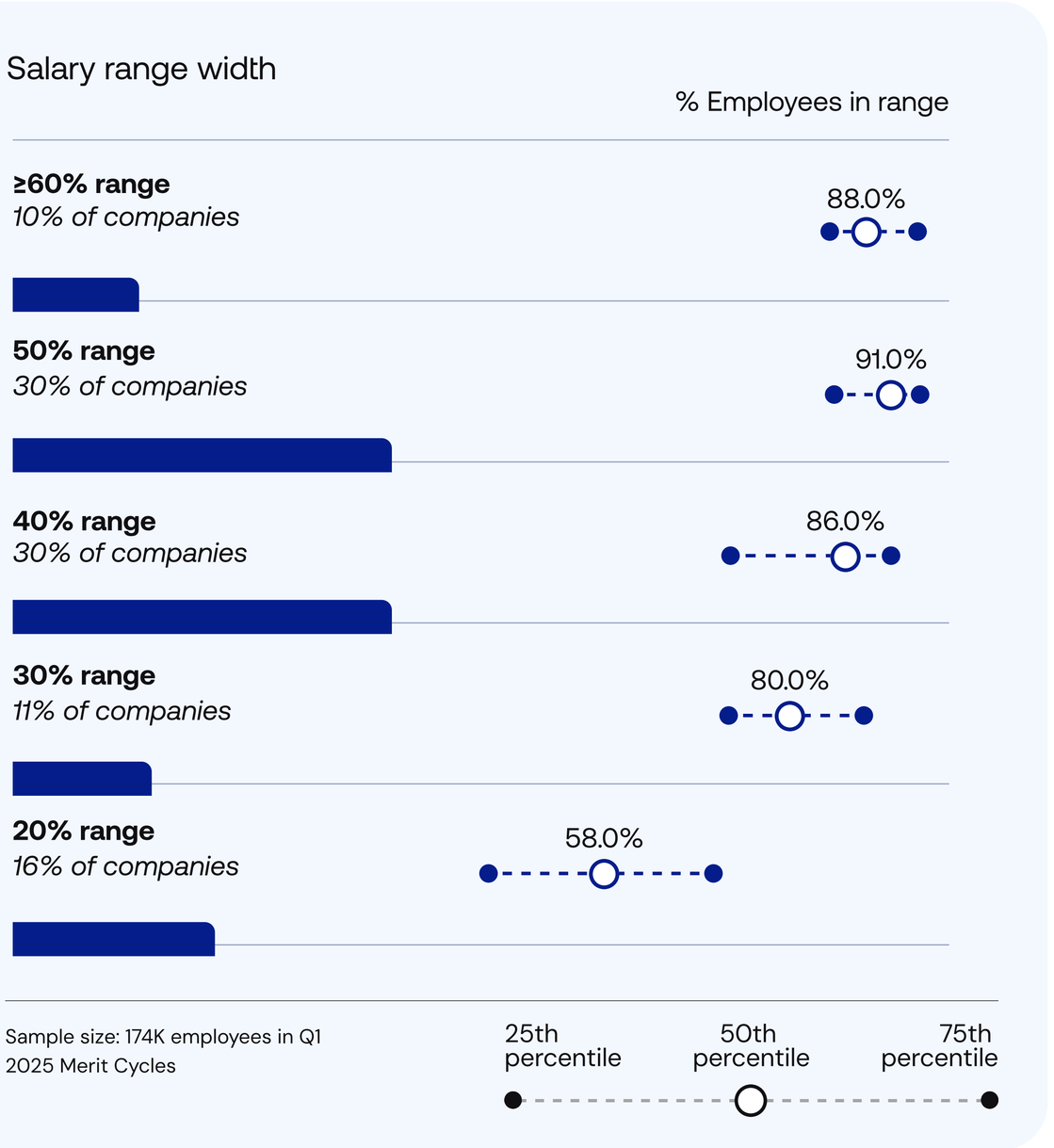
Cycle Insights is a series of powerful visualizations inside Pave's Compensation Planning tool that give customers access to valuable intelligence, such as:

- **Cycle Progress**: Instantly understand how far along each department is in your cycle, including the submission of planner worksheets and seeing where bottlenecks exist.
- **Budgets:** Create a clear, data-driven view of budget allocations, spending trends, and overspending across your organization as cycles are underway.
- **Cycle Outcomes:** Access crucial data on your closed cycles—including the ability to compare base salary, bonus, and equity award outcomes for individual employees against their peers to assess the quality and consistency of compensation decisions.

Another important marker of cycle efficiency is band adherence, or the percentage of employees in band.

Within our dataset, we find that roughly 60% of companies sit in the middle with either 40% or 50% salary range widths. That said, even within a company, there can often be different salary range widths across various rungs of the job ladder.

How does range width impact band adherence? Companies with the narrowest 20% ranges have the lowest percentage of employees within range, while companies with broader ranges (40% and above) typically have 85% or better band adherence.

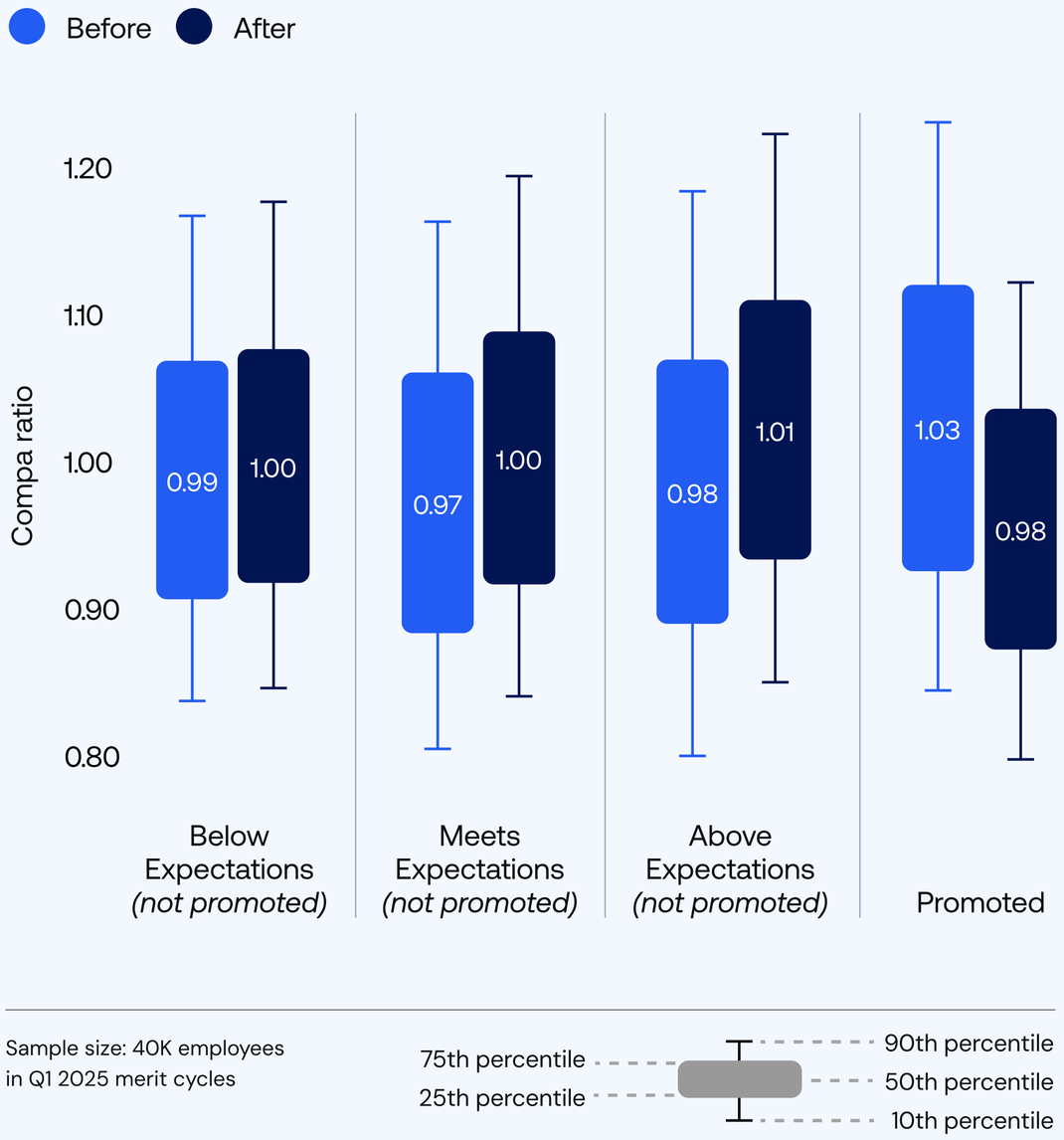


Similarly, compa ratios are another indicator of cycle efficiency. In general, a compa ratio between 0.80 and 1.20 (80-120%) indicates an employee's salary is competitive for their role relative to the market.

Companies are rewarding top performers in order to retain them.

This chart explores the resulting compa ratios following salary increases for non-promoted employees who received a raise, broken down by performance rating. Employees who received "Above Expectations" ratings saw the highest increase in their compa ratio, indicating that companies are rewarding top performers in order to retain them.

Compa ratios before and after merit cycle



Sample size: 40K employees in Q1 2025 merit cycles

Conclusion

Merit cycles are complex productions that carry an outsized pressure to get things right. Even as market volatility and macro-economic factors create turbulence, compensation leaders are expected to do more with less.

By operating the levers of eligibility, differentiation, and efficiency, total rewards professionals are able to implement strategies that reward top talent and derive better merit cycle outcomes. With tools like Pave, it's possible to gain control over cycle budgets and bring any compensation philosophy to life with confidence.

Want more data & insights from Pave?

Join Pave Data Lab, our compensation insights community built for compensation and total rewards professionals. Get early access to daily research and insights from our team, plus invitations to participate in weekly polls and larger pulse surveys.

Apply to join Pave Data Lab today →



Methodology

Pave's dataset consists of compensation insights from roughly 8,000 integrated customers.

The analysis in this report is made up of two key data sources:

- Merit cycle data from customers running their merit cycles in Pave's Compensation Planning tool, including insights around types of compensation adjustments, promotions, bonuses, equity, and more.
- Daily compensation data from Pave's full dataset, from which we infer salary raises, promotions, and merit cycles

For both sources, we use Q1 2025 as an analysis time frame, and in some cases use 2024 dates as a comparison point.

"Total Salary Increase" is calculated as median percentage of payroll spent across all companies analyzed in the report.

"Promotion Rate" is calculated as the median promotion rate across all companies analyzed in the report. For promotion rate insights with function/family breakouts, we calculate the overall percentage of all employees within the given function who were promoted.

All results are filtered to US employees unless otherwise specified.

About Pave

Perfecting the art and science of pay.

Pave is a market-leading compensation management platform for the modern enterprise.

Our powerful suite of real-time compensation data and workflow software—infused with AI insights—empowers teams to take control of their company's investment in people, make pay decisions with confidence, and earn trust from leaders and employees alike.

Companies running their compensation programs on Pave include Atlassian, Block, CSL Behring, Databricks, Dropbox, Electronic Arts, Instacart, Okta, OpenAI, McDonald's, Ramp, Rivian, Roblox, Snowflake, SoFi, Stripe, Unity, Zoom, and thousands more.

Learn more at Pave.com →

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Alpine Rewards is a strategic advisor for the Life Sciences and Technology sectors, providing comprehensive expertise in Executive Compensation and Employee Rewards.

Bringing industry experience, a focus on people, and linking to your business needs, Alpine Rewards designs and develops compensation and rewards programs with an intuitive strategy to align interests, inspire performance, and achieve results.

From Board of Director and IPO Compensation to Cash Incentive Plan Design and Equity Strategy, Alpine Rewards is actively innovating approaches to attract and retain the best talent.

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