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Employers Eyeing Flat Salary Increases in 2026

Employers are planning to stay flat with salaries — or decrease them — in the next year, leaving organizations to rely on engaging employees and keeping them happy in other ways. Average salary increase budgets for U.S. companies in 2026 are expected to remain steady at 3.5%, matching 2025's actual increases, according to a survey of 1,569 U.S. organizations from consulting firm WTW.

About 3 out of 5 organizations saw their salary budgets change in the last pay cycle. Of those, 53% reported no change between their anticipated and actual pay budgets in 2025. About a third (31%) said they are projecting lower salary increase budgets than last year — the most common reasons cited are an anticipated recession or weaker financial results (51%) and concerns related to cost management (45%). Just 15% plan to boost salary increases in the next year. Tight labor markets (59%) and inflationary pressures (30%) are the most common reasons for change among the relatively few organizations that are projecting higher salary increase budgets. Although salaries are mostly staying flat, the real compensation shift is “beneath the surface,” said Brittany Innes, director of rewards data intelligence at WTW.

Economic Uncertainty Overall, the salary shift is occurring as employers say they are less concerned with retaining and attracting employees: Fewer than one-third of organizations (30%) reported difficulty attracting or retaining employees, a decrease of 11 percentage points since 2023, according to WTW. Employees are largely staying put with their companies as they contend with fears over job security and economic impacts. Employee optimism is near a record low, driven by economic and political concerns, according to an April SHRM pulse survey of 1,067 U.S.-based workers and 2,060 HR professionals.

The WTW findings are the latest to indicate that employers are pumping the brakes on overly competitive pay raises. A March 2025 Mercer survey found that employers are issuing lower-than-anticipated annual pay increases. So far in 2025, employers delivered an average merit increase of 3.2% — the percentage of payroll given to employees as a base salary increase for merit — below the 3.3% they projected they would give last November. The average total increase employers gave in 2025 was 3.5%,

which accounts for all salary increases, including merit, promotional, cost-of-living, and other adjustments. That's also lower than their fall projections, when U.S. employers said they expected to deliver an average 3.6% pay bump. The data suggests that economic tailwinds are affecting pay plans.

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Health Benefit Cost Increases Expected to Hit 15-Year High, Mercer Warns

2026 will mark the fourth consecutive year of substantial health benefit cost growth, signaling “mounting pressure on employers’ healthcare budgets.”

Dive Brief:

The cost of health benefits per employee could climb an average of 6.5% next year — the highest increase since 2010, according to preliminary results from Mercer’s 2025 National Survey of Employer-Sponsored Health Plans, released Sept. 4.

The record increase comes even after employers calculated in planned cost-reduction efforts, Mercer said. Had they not made any changes to their plans, the average increase would have been closer to 9%.

2026 will mark the fourth consecutive year of higher health benefit cost growth; for the previous decade annual increases were around 3%, Mercer said. The outsized increases signal “mounting pressure on employers’ healthcare budgets.”

Dive Insight:

“Health benefit cost trend has two primary components — healthcare price and utilization. Right now, both are rising,” Sunit Patel, Mercer’s U.S. chief actuary for health and benefits, said in a news release.

While advances in diagnostics and therapeutics, such as cancer treatments and weight-loss drugs, can lead to better health outcomes, they tend to be more expensive, Mercer said. At the same time, inflation and the ongoing consolidation of providers have led to higher prices, the report found.

Meanwhile, utilization is up, likely in part due to delayed or missed care during the COVID-19 pandemic, Mercer said.

“The rise of virtual healthcare — and growing consumer acceptance of it, particularly in behavioral health — is also affecting utilization patterns because it removes geographic barriers to care and can be a more convenient option for patients,” Patel said.

In response to rising costs, 59% of the more than 1,700 U.S. employers surveyed said they plan to make changes to their plans to cut costs in 2026, compared to 48% in 2025 and 44% in 2024. Employers said they were considering raising deductibles and other cost-sharing provisions, as well as strategies that wouldn’t shift costs to employees.



The Business Group on Health’s latest annual healthcare benefits survey, released in August, found that employers might shift more costs to employees through premium contributions.

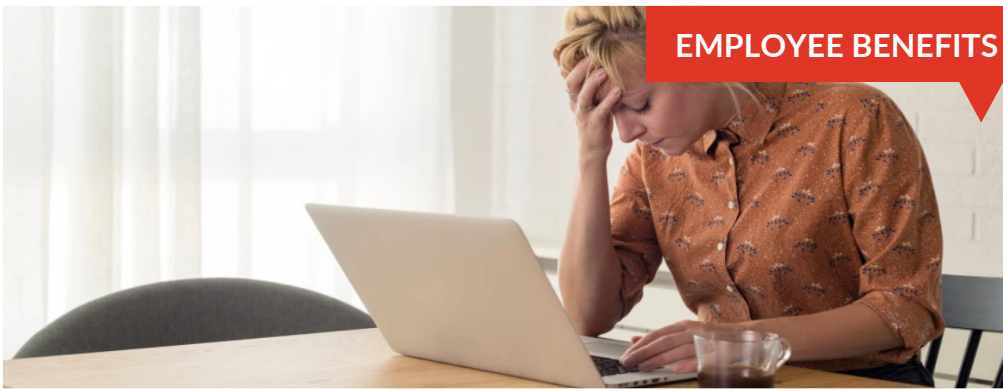
So far, only 12% of businesses said they were already increasing overall employee contributions, and only 9% were increasing employees’ out-of-pocket costs, BGH found. But a majority said they were at least somewhat considering one of the options to help with cost increases.

However, BGH’s president and CEO warned against that approach. “Passing cost increases is a Band-Aid approach,” Ellen Kelsay said. “It does not fix the long-term cost dynamic.” Instead, employers will need to work with vendors to address costs, Kelsay said.

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You Made a Mistake With Your Employees' Benefits. Now What?

Everyone is entitled to make a mistake, including HR and benefit leaders. But what happens after is the important part.

HR and benefit teams spend around 40% of their time on benefits administration, according to research from employee benefits solutions platform Amplify. And yet, 73% of companies still have at least one major benefit compliance error annually — potentially costing organizations thousands of dollars and risking employees' trust and allegiance. Knowing how to successfully address those missteps and correct them is a critical skill for any and all leaders.

One of the most common mistakes a benefit leader makes is not following a plan document, according to Bruder, overlooking critical directives for an employees' benefit plan. This includes failing to enroll an employee in the company's 401(k) retirement plan before their waiting period is over, denying a health insurance claim that was valid and misrepresenting life insurance coverage. Forty-four percent of employees also report discovering a payroll mistake at some point, according to a recent survey from HR company Hibob, 42% of which said these errors happened as frequently as every pay cycle.

Despite their severity, oftentimes these errors will go unnoticed for months, or sometimes even years, until the employee themselves notices that something went wrong. That doesn't change the fact that organizations will still be held liable and will likely have to incur any additional administrative expenses associated with the mistake, which could involve accountants, HR leaders, payroll folks and ERISA council members who have to come in and sort through what's going on.

"If there really was a mistake and a deferral didn't go into the plan in a timely manner, both the IRS and the Department of Labor require that the affected employee be put back into the same financial circumstances that they would have

been in if the mistake hadn't happened," Bruder explains. "That cost increases exponentially depending on how large the affected population is."

How you make it right matters

Admitting to a mistake is never easy, but it can make a huge difference when it comes to getting employees on board with a solution. According to a survey conducted by online educational platform Dale Carnegie Training, 81% of employees said it was important for a leader to admit they were wrong, with only 41% believing that their own supervisor would actually own up to their mistakes. If possible, Bruder urges benefit leaders to flag a mistake as early as possible and to take the initiative and start a conversation with affected employees. If the matter is brought to their attention after the fact, they should act quickly and follow up with solutions immediately.

"You can tell the plan participants you're going to fix things over and over again but until you do, they will remain skeptical," Bruder says. "Communicating with the participants once an error is discovered is important, but explaining to them not only what happened, but how it happened and what the company is doing to correct the error and prevent it in the future is the most powerful message."

Taking the right preventative steps

A clear line of communication between every department is critically important in fending off avoidable mistakes, as is establishing a checks and balances process between departments so as to distribute the accountability equally. The most effective way to put a stop to slip-ups is to keep employees educated and engaged in their own benefit plans. "Lots of time plan participants themselves can be your best safeguard against operational failures," Bruder says. "Making sure that employees know how their plans operate and how they're administered can be the key to preventing these errors in the future."

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Holiday Payroll & Delivery Schedule¹

Federal Banks will be **closed Monday Oct. 13th**, in observance of the Columbus Day Holiday.

All paychecks normally dated for Monday Oct. 13th, will be dated **Friday Oct. 10th, or Tuesday Oct. 14th.** **There will be NO deliveries Monday, Oct. 13th, 2024.**

Please submit your payroll no later than **11:00 a.m. on the appropriate day.**

To certify new hire information is completed in a timely manner, please submit all new hire information **48 hours prior** to submitting your payroll.

