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Compare: Salary increase budgets vs. salary increases

Organizations around the world use different budgeting strategies. A **salary increase budget** is the total amount of money an organization has available to disseminate to employees, usually on an annual basis. It's generally discussed as a percentage, which represents the increase to the organization's annual salary expenditure. A **salary increase** refers to the percentage increase in compensation for an individual employee.

Salary increase budget

- Refers to the total amount of money allocated to salary increases for all employees.
- Typically expressed as a percentage (of payroll spend).
- Salary increase budgets may be organization-wide or department-wide and select areas of an organization may receive a higher or lower budget amount.
- Salary increase budgets are frequently set on an annual basis.
- The salary increase budget is usually determined based on the financial success of the organization, market conditions and organization-specific policies and practices.
- The budget may include a cost of living adjustment (COLA) or funds to help offset high inflation. It may also include funds to be allocated to employees receiving a promotion, or to address internal or external equity issues.
- Some organizations have a separate budget for merit increases, promotions or other types of salary increases.
- The salary increase budget typically requires approval by HR, finance, senior leadership, or the executive or management team, which may include the CEO and CFO.
- The salary increase budget may be communicated to managers or department heads who then determine the increase amount each employee receives, or it may be distributed directly to each employee.

Salary increase

- Refers to an employee's raise in annual salary.
- A salary increase is employee-specific and the amount is generally different for each employee.
- Salary increases are typically provided annually, but can also be provided for a promotion or as an off-cycle adjustment, for example during an internal equity review.
- May be expressed as a percentage increase (of base salary) or fixed amount.
- A salary increase can often be dependent on an individual's performance throughout the year, as well as market trends.
- An individual's position within their salary band, may impact their salary increase (if an employee is at the low end of the salary band they may get a higher percent increase compared to an employee that is already at the higher end of their salary band).

Example:

Company A has a **salary increase budget** of 5%, which is the equivalent of 50,000 EUR. As a manager, Erik has decided to give a 5% **salary increase** to John and a 6% **salary increase** to Ana. John makes 60,000 EUR annually, so his **salary increase** of 5% (3,000 EUR) will result in an annual salary of 63,000 EUR. Ana makes 67,000 EUR annually, and with her 6% **salary increase** (4,020 EUR) she will make 71,020 EUR annually. Erik has 42,980 EUR remaining in the **salary increase budget** to distribute to the remaining employees.

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