Pay Transparency and Benchmarking: The New Compulsory Pillars of Total Rewards Strategy

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As artificial intelligence (AI) transforms compensation strategy and pay transparency becomes a legal and cultural imperative, benchmarking has emerged as a critical tool for aligning rewards with market realities. This article explores how organizations can leverage AI and data-driven insights to enhance transparency, optimize compensation and retirement plans, and attract top talent in a competitive labor market.

As organizations navigate a competitive labor market and rising employee expectations, AI is reshaping how employers approach compensation and total rewards. With budgets under pressure, benchmarking—especially for compensation, employee benefits, and retirement plans—is emerging as a strategic lever to drive retention, transparency, equity, and cost efficiency.

WHEN EMPLOYERS DO NOT SHARE, AI FILLS THE GAP—OFTEN INCORRECTLY

More than two-thirds of today's workforce believe their pay is below market, compared to roughly half of the workforce four years ago, despite improved economic conditions and more pay transparency.[1] In the absence of employer-led pay transparency, employees are increasingly turning to generative AI tools and social media platforms to estimate their market value. While this signals a growing demand for compensation clarity, it also introduces significant risks.

Generative AI tools often rely on outdated or incomplete public data, which can lead to inflated salary expectations, misinformed negotiations, and increased employee turnover. Effectively using AI—especially for something as nuanced as compensation—requires careful framing of questions. When employees pose poorly structured questions, it leads to misleading or incomplete answers. For example, factors such as industry, company size, and employee location are essential to ensure compensation data is truly comparable. Employers are increasingly reporting a rise in compensation-related conflicts driven by inaccurate data sourced from AI and social media, as well as a general lack of understanding among employees about the many factors that influence pay decisions.

Without clear communication and credible

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benchmarking from employers, employees are left to fill in the blanks themselves—and the results can be damaging. AI-generated compensation data may lack the perspective of internal equity, affordability considerations, and compliance with local laws.

WHY PAY TRANSPARENCY MATTERS MORE THAN EVER

A growing number of U.S. states and cities now require employers to disclose salary ranges in job postings. Even where it is not legally mandated, candidates expect it: 98% of workers believe employers should share pay ranges up front, and more than half would not apply to a role without one.[2] Employees who work for a very transparent organization are 59% less likely to leave their job compared to a less transparent organization.

Recent advancements in AI technology are revolutionizing compensation strategy by enabling real-time market pricing, reducing bias, and enhancing fairness. Tools powered by AI can now analyze vast datasets to benchmark salaries, identify pay gaps, and support strategic budget planning.

- **Real-time salary benchmarking:** AI tools aggregate market data to provide up-to-date compensation ranges, helping employers stay competitive.
- **Bias reduction:** Algorithms can detect and correct disparities across gender, race, and other demographics, promoting pay equity.
- **Strategic planning:** AI enables more precise allocation of compensation budgets, aligning pay with performance and market trends.

TAKEAWAY: If employers do not proactively offer *pay transparency* backed by reliable benchmarking, they risk losing control of the narrative and potentially their top talent.

BENCHMARKING ALIGNS COMPENSATION WITH MARKET REALITIES

Despite recent positive signs, average wages in the U.S. have not fully caught up to the cumulative inflation experienced since 2021. After reaching a 50-year low in 2023, the unemployment rate has risen steadily throughout 2025.[3] For the first time since 2021, there are now more unemployed people than job openings, a sign that the job market is weakening. However, most employers are still experiencing a tight talent market and anticipate this continuing into 2026. This is evidenced by the average pay increase projections for 2026 remaining over 3%.[4]

Unemployment rates remain at lower levels

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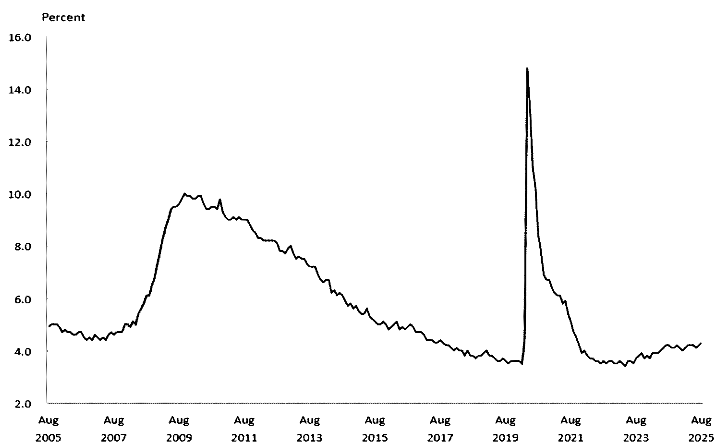

Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
Source: U.S. Bureau of Labor Statistics

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Employers are under pressure to design competitive, equitable compensation programs amid economic uncertainty and tighter budgets. Benchmarking helps them validate their compensation strategy and identify plan design changes to optimize value. By comparing internal pay practices to external market data, employers can:

- Maintain competitive salary ranges.
- Increase pay equity and transparency.
- Reward employee achievements within defined budgetary constraints.

Benchmarking enables employers to explain the "what" and "why" behind pay structures, driving employee engagement and fostering a high-performance culture.

CONSIDERATIONS FOR COMPENSATION BENCHMARKING

Compensation benchmarking is a multistage process that requires organizations to engage in thorough preparation and research.

- **Step 1: Identify key roles** and standardize job descriptions to match external data.
- **Step 2: Gather compensation data** from reputable sources, considering industry, location, and company size.
- **Step 3: Implement changes** to ensure fair and compliant compensation practices that promote employee retention and satisfaction.
- **Step 4: Review compensation regularly** to remain competitive and aligned with business goals.

POOR RETIREMENT PLAN DESIGN COSTS EMPLOYERS

Poor retirement plan design can lead to delayed retirements and costly turnover. Replacing an employee can cost 1.5 to two times their annual salary.[5] For example, a 100-person organization with an average salary of $50,000 could face turnover costs of $660,000 to $2.6 million annually.

Retirement plan fee benchmarking helps employers evaluate plan fees, investment options, and services to ensure their plan:

- Competes with employers of similar size/industry/location.
- Attracts and retains top talent.
- Meets the organization's financial objectives.
- Minimizes long-term benefit costs by supporting retirement readiness.

Optimizing plan design enhances employee satisfaction, retention, and plan participation, leading to fewer delayed retirements and significant savings for the organization.

Regular reviews allow plan sponsors to identify any potential issues early on. The U.S. Department of Labor (DOL) recommends a formal retirement plan fee benchmarking review at least once every three to five years to ensure the plan operates in the best interest of its participants.

HIDDEN SAVINGS IN RETIREMENT PLAN FEES

As employers shift more of their total rewards budget toward compensation, retirement plan fee benchmarking offers a practical way to uncover cost-saving opportunities.

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- **Fee scrutiny pays off:** Nearly half of retirement plan sponsors that benchmarked fees reduced costs, often by switching to lower-cost investment vehicles like collective investment trusts.[6]

- **Fiduciary responsibility:** The Employee Retirement Income Security Act of 1974 (ERISA) requires retirement plan sponsors to ensure fees are reasonable. Benchmarking helps define "reasonable" and defend against litigation.

- **Participant impact:** Lower fees can significantly improve retirement outcomes, making fee benchmarking a win-win.

OPTIMIZING REWARDS ALLOCATION

In 2025, total rewards leaders are prioritizing investments that deliver the greatest value. With slower base pay growth, organizations are reallocating budgets toward personalized benefits, wellness programs, and career development.

- **Data-driven decisions:** Advanced analytics help measure the effectiveness of rewards spending and support stakeholder reporting.

- **Hyper-personalization:** Artificial intelligence (AI) enables tailored benefits portfolios, improving employee satisfaction and engagement.

- **Compliance and transparency:** Emerging regulations require validation of compensation decisions and disclosure of AI usage.

As AI continues to evolve, total rewards leaders must stay agile, using data to personalize benefits and meet rising employee expectations.

CONCLUSION

In an era of AI proliferation and talent scarcity, benchmarking is no longer a back-office exercise—it is a strategic necessity. Whether through compensation analytics or retirement plan fee reviews, organizations that embrace data-driven benchmarking will be better positioned to optimize their total rewards strategy, enhance transparency and attract top talent.

Now is the time for human resources (HR) and finance leaders to embrace benchmarking as a strategic imperative. Start by reviewing your compensation and retirement plans to ensure they are aligned with today's market and tomorrow's expectations.

NOTES:

[1]Fair Pay Impact Report, Payscale (2025), https://www.payscale.com/research-and-insights/fair-pay-impact.

[2]Monster Poll: Workers Want Pay Transparency, Monster (Nov. 7, 2022), https://hiring.monster.com/resources/blog/workers-want-pay-transparency/.

[3]United States Unemployment Rate, Trading Economics (October 2025), https://tradingeconomics.com/united-states/unemployment-rate.

[4]WorldatWork: 2026 Salary Increase Budgets Project U.S., Global Caution, Workspan Daily (Jul. 17, 2025), https://worldatwork.org/publications/workspan-daily/worldatwork-2026-salary-increase-budgets-project-u-s-global-caution.

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