Future of Pay

Evolving pay strategy in a digital-first world

February 2025

The better the question. The better the answer. The better the world works.

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Foreword

Foreword

As we navigate the evolving economic and geopolitical landscape of 2024-25, India stands resilient, bolstered by strong domestic demand, a flourishing digital economy and robust economic fundamentals. Despite global uncertainties, organizations in India are demonstrating adaptability and strategic foresight to shape the future of work and compensation.

The Union Budget 2025 plays a pivotal role in influencing compensation, benefits and employee well-being, fostering both financial security and workforce productivity. A key highlight of this year's budget is the increase in the income tax exemption threshold from INR 6 lakh to INR 12 lakh per annum, effectively boosting disposable income for junior to mid-level employees. The formalization of gig workers under government-backed welfare programs, including expanded healthcare access, strengthens job security and provides stability to this growing segment of the workforce. In line with India's digital and skill-driven economy, the budget significantly invests in upskilling and talent development. With dedicated funding for skill enhancement across sectors such as IT, manufacturing and energy, businesses now have the opportunity to bridge talent gaps and drive workforce agility without heavy internal reskilling costs. Further, enhanced funding for women-centric and diversity programs encourages companies to strengthen DE&I initiatives as part of their Total Rewards framework. With these transformative policies, the budget empowers employers to strengthen their total rewards framework, aligning compensation strategies with evolving workforce expectations while driving employee satisfaction, retention and productivity in a rapidly changing economic environment.

Our latest research indicates that salary increments for 2025 are projected at 9.4%, slightly lower than the 9.6% recorded in 2024, signaling a slight moderation in pay growth. Notably, the e-commerce sector is expected to witness the highest salary increments, surpassing 10%, driven by the rapid expansion of digital commerce, increased consumer spending and technological advancements. Meanwhile, key industries such as automotive, pharmaceuticals, manufacturing and financial services continue to demonstrate resilient compensation trends, reinforcing India's competitive standing and employers' commitment to talent retention and workforce investment despite the slight dip in salary growth.

However, while attrition rates have moderately declined from 18.3% in 2023 to 17.5% in 2024, the workforce faces acute skill gap challenges with 80% of organizations struggling to find qualified talent, particularly in high-demand industries such as IT and Energy. This underscores the urgent need for upskilling and reskilling initiatives to bridge the talent divide and sustain long-term employability.

Despite these challenges, businesses remain optimistic, driven by strategic workforce investments and policy measures aimed at economic expansion. A comprehensive Rewards Value Proposition (RVP) is emerging as a key differentiator in enhancing employee engagement and maximizing return on investment. Organizations are fostering a culture of recognition, prioritizing well-being programs for physical and mental health and expanding flexible and inclusive benefits to align with evolving workforce expectations.

Furthermore, India's digital HR transformation is accelerating, with organizations increasingly leveraging AI-driven tools to optimize compensation strategies, enhance pay equity and improve decision-making. As companies continue to integrate advanced digital platforms, Total Rewards is evolving from a transactional function to a strategic enabler of workforce transformation.

At EY People Consulting, we are committed to staying at the forefront of these changes, helping organizations navigate the complexities of the evolving Total Rewards (TR) landscape. Our "Future of Pay" report delves into the latest trends, emerging compensation strategies and insights that will shape the future of talent management. We extend our sincere gratitude to industry stakeholders, partners and experts whose contributions have enriched this study. Together, we can pave the way for a workforce strategy that not only meets today's needs but also anticipates the challenges of tomorrow.

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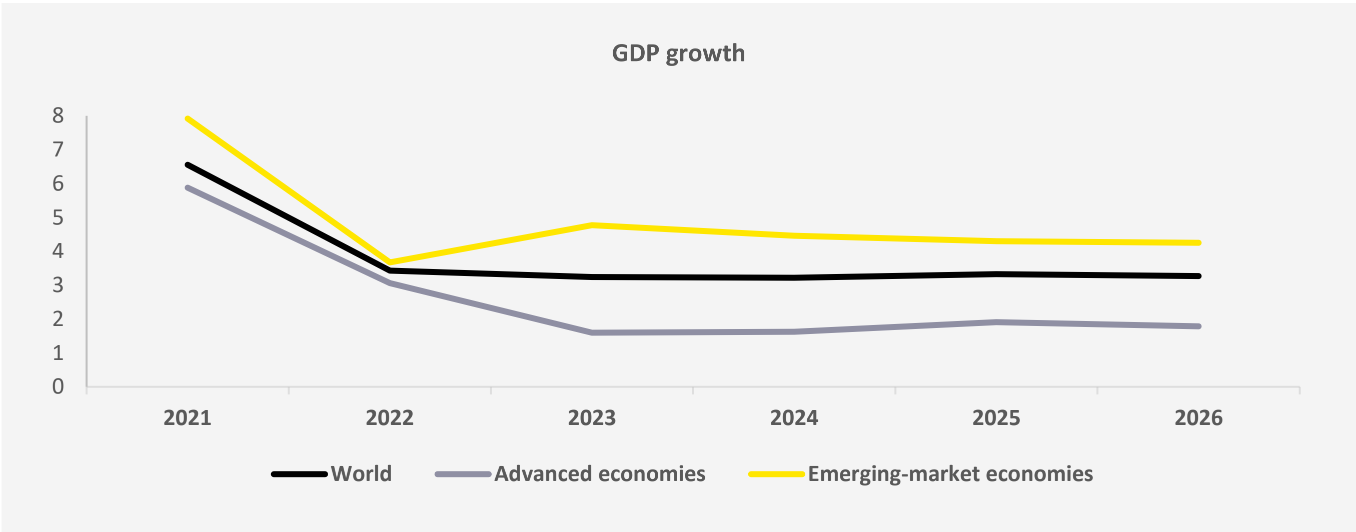
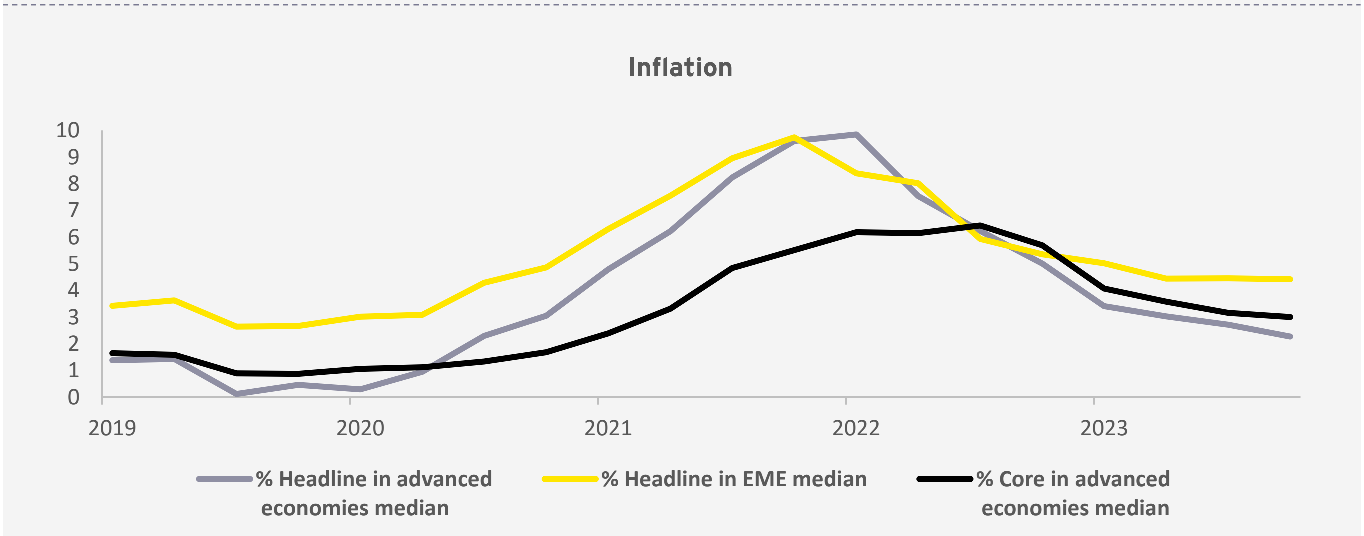
Economic outlook: Global and India

Global economy holds steady, but uncertainty looms on the horizon

- The global economic outlook remains cautiously optimistic, with steady growth supported by robust employment, easing inflation, and a shift towards less restrictive monetary policies.
- According to the OECD's latest Economic Outlook, global GDP growth is expected to rise marginally to 3.3% in 2025, up from 3.2% in 2024.
- In the G20 economies, gross domestic product increased by 0.7% in Q3 2024, marginally higher than the 0.6% growth recorded in Q2, reflecting resilience in key economic sectors.1
- Inflation rates are expected to decline, with the OECD anticipating a decrease from 5.4% in 2024 to 3.8% in 2025, and further down to 3.0% in 2026.
- Despite this downward trend, central banks are likely to maintain a cautious approach, keeping policy interest rates higher than the average observed from 2000 to 2019, to effectively manage persistent inflationary pressures.
- However, the global economic landscape is fraught with risks that could impede growth. Geopolitical tensions, trade fragmentation, and elevated sovereign debt levels pose significant challenges.
- Notably, 2024 has been recorded as the hottest year ever, with extreme weather events underscoring the rapid pace of climate change, adding another layer of risk to economic stability.
- In this context, co-ordinated global and national policies are crucial, prioritizing trade networks, green and digital transitions, debt relief, and food security to ensure sustainable, inclusive growth amid uncertainties.





Source: OECD

India's economy stands strong amid global challenges, projected for robust growth in FY25

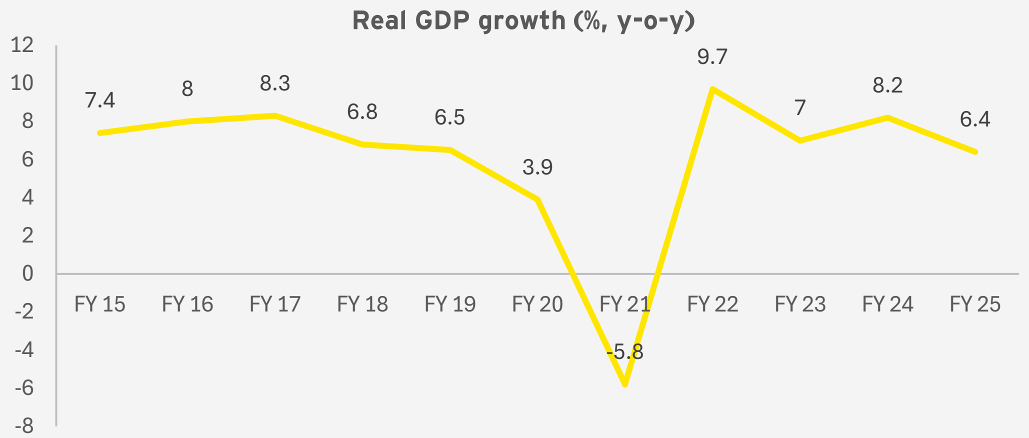
- **GDP growth moderation**: As per the First Advance Estimates (FAE) of national accounts, real GDP and GVA growth rates are estimated at 6.4% each in FY25, moderating from 8.2% and 7.2%, respectively, in FY24, due to a slowdown in gross fixed capital formation (GFCF) and investment activity.

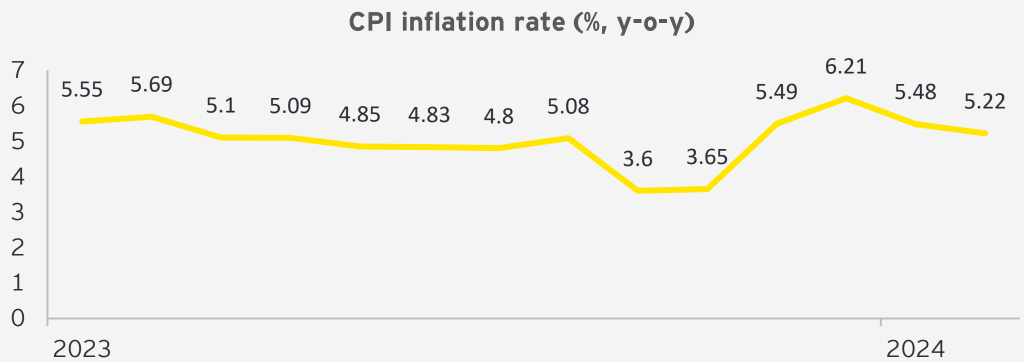
- **Inflation moderation**: CPI inflation eased to 5.2% in December 2024, primarily due to a decline in vegetable prices, while core inflation remained steady at 3.7% for the third consecutive month.

- **Fiscal deficit reduction plans**: The fiscal deficit is projected to decline to 4.4% of GDP in FY26, down from an estimated 4.8% in FY25. However, the Eighth Pay Commission could slow down fiscal consolidation due to increased salary and pension expenses.

- **Decline in capital expenditure**: GoI's total expenditure showed a low growth of 3.3% during April-November FY25, led by a (-)12.3% contraction in capital expenditure even as revenue expenditure showed a robust growth of 7.8%.

- **Long-term optimism**: Despite global headwinds, India's economic fundamentals remain strong, with policy measures focusing on fiscal discipline, investment-driven growth and infrastructure expansion. The outlook is optimistic yet cautious, contingent on domestic demand resilience and external stability.





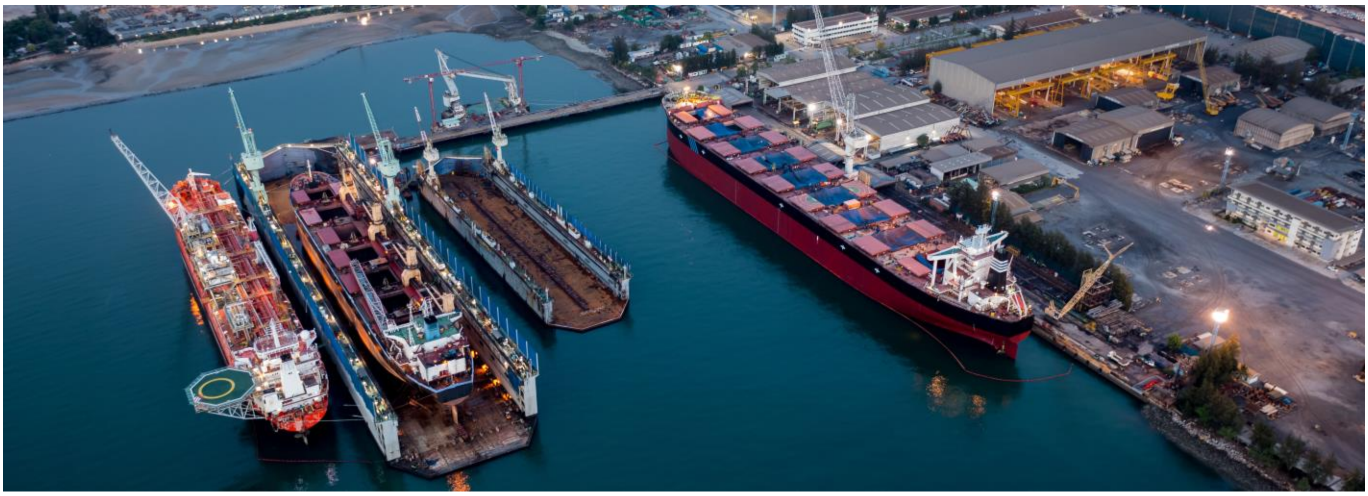
Source: EY Economy Watch Jan'24, Ministry of Statistics and Programme Implementation

Strategic investments, government initiatives and technological advancements are set to benefit these sectors, positioning India as a global economic powerhouse

India's economy is poised for strong growth by 2025, driven by technological advancements and government initiatives. With increasing global demand, growing talent pool and strategic investments, the country is set to play a key role in the global economic landscape.

Financial services	Renewable energy	Electric vehicles (EVs)	Lifesciences and pharmaceuticals	Global Capability Centers
▪ India's fintech market is expected to reach US$83.48 billion by 2025. ▪ UPI transactions hit 12.2 billion in January 2024 (₹18.41 trillion value), marking a 42% YoY growth. ▪ Digital transformation, fintech expansion, and policy reforms (MSME support, agriculture funding) is driving economic growth.	▪ Economic growth, sustainability goals, and clean energy initiatives accelerating renewable adoption, with 100,000+ MW capacity expected by 2030. ▪ National Green Hydrogen Mission (5 million metric tons by 2030), PLI Scheme for solar PV modules, and 100% FDI in renewable energy projects.	▪ Subsidies, incentives, and rising consumer preference for eco-friendly transport boosting EV adoption. ▪ 49% CAGR in EV sales (2021-2030), with annual sales expected to exceed 17 million units and 8x penetration growth by 2030. ▪ US$500 million EV policy (2024), FAME India scheme, and expanded EV charging & green transport projects.	▪ India leads in generic medicine supply (20% share); biotech sector to grow from US$80 billion (2022) to US$300 billion (2030); medical tourism to hit US$14.31 billion by 2029. ▪ Ayushman Bharat (health coverage for 500 million people), PLI scheme (US$2 billion for pharma manufacturing) and National Health Mission (improving rural healthcare).	▪ GCC market is expected to reach US$100 billion by 2030 ▪ Number of GCCs in India is likely expected to reach to 2,400 by 2030, rising from 1,250 in 2019. ▪ India is set for a 15%-20% increase in non-US GCCs, led by the UK, Germany, and Japan ▪ National Framework boosting GCCs in tier-2 cities; state policies attracting multinationals with workforce & infrastructure incentives.

Source: Invest India, India Brand Equity Foundation, EY Future of GCCs in India - a vision 2030 report



While for certain sectors, strategic adaptation and innovation will be crucial for mitigating slowdowns and long-term resilience

Real estate

Outlook:
- Housing sales slowed in mid-2024, with experts predicting further moderation in 2025 due to high borrowing costs, per NHB and S&P Global Ratings.

Key challenges:
- Rising interest rates, high property prices, and the shift toward hybrid work models are expected to impact demand for both residential and commercial properties.

Media & Entertainment

Outlook:
- The sector is expected to face headwinds due to market saturation in streaming services, declining traditional TV subscriptions, economic challenges in gaming and AI-driven disruptions in content creation.

Key challenges:
- Box office dropped by ~7%-10% in 2024 due to regional cinema and OTT competition.
- Monetization struggles persist as consumers demand premium content at lower costs.

Traditional automotive

Outlook:
- As per SIAM, traditional vehicle sales face slower growth due to rising fuel costs and shifting consumer preferences, while the EV market grows at 49% CAGR.

Key challenges:
- The transition to electric vehicles (EVs) and stricter emission regulations will put pressure on traditional internal combustion engine vehicles.

Information Technology

Outlook:
- The sector shows moderated growth of 6%-7% in 2025, impacted by global economic conditions, technological advancements, and challenges in AI and cybersecurity regulations.

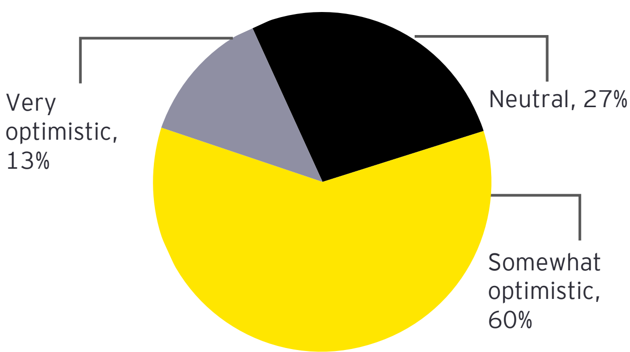
Key challenges:
- Rising cybersecurity threats, a skills gap, evolving regulations, and economic and geopolitical risks are expected to impact the growth and stability of the Indian IT sector in 2025.

Metals & Mining

Outlook:
- The Indian Ministry of Coal reported a slowdown in coal demand growth by 2.6% year-on-year in 2024. Meanwhile, India's push to meet renewable energy targets (expected to contribute 50% of the power mix by 2030) is accelerating the shift away from coal.

Key challenges:
- The transition to renewable energy, as well as government policies aiming to reduce carbon emissions, is likely to limit the growth of the coal and mining sectors.

Business outlook for 2025



Top drivers for business outlook

- Consumer behavior shifts due to economic uncertainty
- Advancements in digital transformation and technology adoption
- Financial results

The Union Budget 2025 empowers employers and employees by introducing enhanced tax exemptions, digital transformation incentives, and inclusive workforce policies, fostering economic growth and skill development

Tax benefits and cost optimization

- **Increased tax exemption and standard deduction:** Higher exemptions and tax-free perquisites for travel and medical benefits reduce employee tax liability, increasing disposable income for junior to mid-level employees.
- **Corporate tax reforms:** Lower tax rates for MSMEs and startups free up resources for providing enhanced employee benefits, incentives, and upskilling programs.

Formalization and support for the gig workforce

- **Gig workforce welfare:** Healthcare under PM Jan Arogya Yojana and e-Shram registration improve workforce stability and productivity.
- **Regulatory compliance:** Formalization ensures legal adherence, reducing risks and enhancing employer reputation.

Upskilling and innovation

- **Upskilling and talent pipeline:** Government-funded skill programs provide access to trained professionals, reducing in-house training costs.
- **Sector-specific skill development:** The budget prioritizes skill programs in IT, energy, and manufacturing to address skill shortages and prepare a future-ready workforce.

Encouragement for diversity and inclusion

- **Women-centric funding:** Increased allocations (e.g., Mission Shakti) support diversity hiring, enhancing innovation and employer branding.
- **DE&I incentives:** Employers can align with government programs to strengthen workplace inclusivity and social responsibility.

Incentives for digital transformation

- **AI and HR Tech adoption:** Tax incentives for adopting digital tools, AI-driven platforms, and automation technologies empower employers to optimize compensation planning, enhance pay equity and improve employee benefits administration.

05

Talent trends across sectors

India's talent landscape in 2025 reflects a dynamic and evolving environment, driven by technological advancements, shifting employee expectations, and the growing importance of diversity and inclusion.

Diversity, equity, and inclusion (DE&I)

- **Inclusivity gaps**: ~75% of employers feel workplaces lack inclusivity, with low diversity in senior management impacting engagement and retention.
- **Focus areas**: Priorities include preventing age discrimination, closing gender pay gaps, and boosting representation of women and minorities in leadership.

Emphasis on upskilling and reskilling

- **Global workforce integration**: According to India Skills Report 2025, India is emerging as a key supplier of skilled professionals in IT, GenAI, cybersecurity, and renewable energy, with over 55% of graduates projected to be globally employable by 2025.
- **Upskilling for the digital age**: Continuous learning is now essential for a skilled, adaptable workforce.

Adoption of AI and technology

- **AI and technology integration:** Statista projects India's AI market to reach US$8.3 billion by 2025, with 27.86% CAGR growth, highlighting the need for reskilling and ethical AI use.
- **Career impact:** The rapid growth of India's AI market is creating high demand for AI-skilled professionals, making reskilling essential for career advancement and long-term employability.

Flexibility in work arrangements

- **Hybrid work models**: A growing expectation for hybrid work environments persists, though ~60% of respondents' companies increased in-office presence, indicating ongoing challenges in balancing flexibility with organizational needs.
- **Gig and temporary roles**: ~50% of respondents' employers reported growing interest in gig and temporary roles, as employees increasingly prefer flexible, short-term positions.

Generational workforce dynamics

- **Varied priorities**: Different age groups have distinct priorities, from career development in younger generations to wellbeing and work-life balance for older professionals.
- **Multigenerational challenges**: Companies need tailored strategies to accommodate diverse needs and expectations.

Evolving compensation and benefits

- **Beyond pay**: Competitive salaries alone are insufficient for retention. Employees increasingly prioritize career progression, work-life balance, and wellbeing over financial rewards.
- **Wellbeing over promotions**: Recognizing employees' growing focus on wellbeing over promotions, employers are enhancing flexible work options, mental health support, and wellness programs to improve work-life balance and engagement.

Sectoral growth, emerging technologies and workforce transformations may bridge skill gaps and drive inclusive development

High-growth sectors (rapid expansion, high attrition, strong salary increases)

Financial services

Salary increments: 10.1%(2024), 10.3%(2025)

Attrition: 26.4%(2024), 24.8% (2023)

Talent trend: Surge in hiring for fintech specialists, digital banking experts and cybersecurity professionals due to increasing digital transactions and financial regulations.

E-commerce

Salary increments: 10.9%(2024), 10.5%(2025)

Attrition: 19.6% (2024), 22.4%(2023)

Talent trend: High demand for AI-driven marketing, logistics automation and data analytics professionals.

Global Capability Centers (GCCs)

Salary increments: 10%(2024), 10.2%(2025)

Attrition: 15.1%(2024), 14.6%(2023)

Talent trend: Shift towards AI-powered business processes and digital transformation roles, increasing demand for product management and advanced analytics experts.

Stable sectors (consistent growth, moderate attrition, balanced salary increments)

Engineering and manufacturing

Salary increments: 9.9%(2024),10%(2025)

Attrition: 14.2% (2024), 17%(2023)

Talent trend: Rising demand for robotics engineers, automation specialists, and supply chain analysts driven by Industry 4.0 advancements.

Information Technology (IT)

Salary increments: 9.8%(2024), 9.6%(2025)

Attrition: 20.7% (2024), 23.3%(2023)

Talent trend: Rising demand for AI/ML specialists, cloud architects, and cybersecurity experts.

Lifesciences & pharmaceuticals

Salary increments: 9.6%(2024), 9.8%(2025)

Attrition: 15.2% (2024), 15.2%(2023)

Talent trend: Increased hiring of clinical research specialists, biotech engineers, and regulatory affairs professionals due to global healthcare investments

Low-growth sectors (slower expansion, conservative salary increments, or downsizing risks)

Media & Entertainment

Salary increments: 9%(2024), 9%(2025)

Attrition: 19.4%(2024), 19.5%(2023)

Talent trend: Decline in traditional media jobs, but demand for content strategists, digital advertising specialists, and OTT platform analysts is rising.

Traditional automotive

Salary increments: 9.7%(2024), 9.9%(2025)

Attrition: 12.4% (2024), 11.1%(2023)

Talent trend: Hiring slowdown for internal combustion engine (ICE) specialists, while demand for EV engineers and battery tech specialists rises.

Real estate and infrastructure

Salary Increments: 9.5%(2024), 9.4%(2025)

Attrition: 18.4%(2024), 20.9%(2023)

Talent trend: Growth in smart city planners, proptech (property technology) professionals, and infrastructure AI specialists.

04

Workforce attrition and retention insights

Attrition drops to 17.5% in 2024: A positive shift driven by economic stability and strategic retention efforts

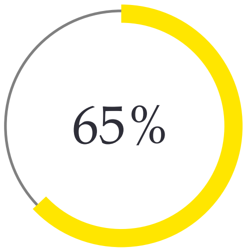
Attrition %	2023 Actual	2024 Actual	Voluntary	Involuntary
	18.3%	17.5%	14.1%	3.4%

Sector	2023 (A)	2024 (A)	2024 (A)	
			Voluntary	Involuntary
Chemicals	11.1	10.9	9.5	1.4
E-Commerce	22.4	19.6	16.5	3.1
Oil & Gas	15.6	15.0	14.4	0.6
Engineering/Manufacturing	17.0	14.2	13.2	1.0
Media & Entertainment	19.5	19.4	17.0	2.4
Financial services	24.8	26.4	21.8	4.6
FMCG/FMCD	18.0	14.3	13.6	0.7
Global Capability Centers	14.6	15.1	12.8	2.3
Information Technology	23.3	20.7	16.7	4.0
IT-enabled services	21.8	19.4	15.5	3.9
Lifesciences and pharmaceuticals	15.2	15.2	13.6	1.6
Metals & Mining	22.3	18.8	16.0	2.8
Traditional automotive	11.1	12.4	10.8	1.6
Professional services	24.2	23.2	19.9	3.3
Real estate/infrastructure	20.9	18.4	15.4	3.0
Telecommunications	18.4	17.4	15.0	2.4

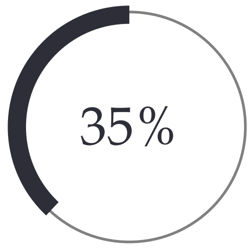
Key insights

- The steady decline in attrition from 21.2% in 2022 to 17.5% in 2024 underscores a positive trend driven by economic stability, proactive retention strategies, and shifting employee priorities.
- Although voluntary attrition has declined from 15.2% (2023) to 14.1% (2024), organizations still require a continuous focus on retention strategies like career growth opportunities, competitive pay, and flexible work policies.
- Mature industries (e.g., manufacturing) show declining attrition as employees seek long-term career paths, whereas growing sectors (e.g., fintech, renewables) experience higher voluntary attrition due to aggressive talent poaching.
- **Financial services:** Attrition increased to 26.4% in 2024, the highest across all sectors, driven by intense competition and high-stress environments.
- **E-commerce and IT:** Significant but still high attrition, with e-commerce dropping to 19.6% and IT to 20.7%, reflecting industry stabilization.
- **Professional services and telecommunications:** Declining attrition, yet remain high due to industry stress and job-switching.
- **Traditional automotive** attrition rose from 11.1% to 12.4%, driven by the EV transition and skill shortages.
- GCCs remain a top talent hub despite rising attrition, driven by restructuring and a focus on efficiency and value creation.2025 projection: Modest rise in voluntary attrition in 2025, driven by market recovery and job mobility, with IT, BFSI, and traditional automotive sectors facing the highest turnover.

Pay alone does not retain talent anymore: Navigating the rising attrition challenges

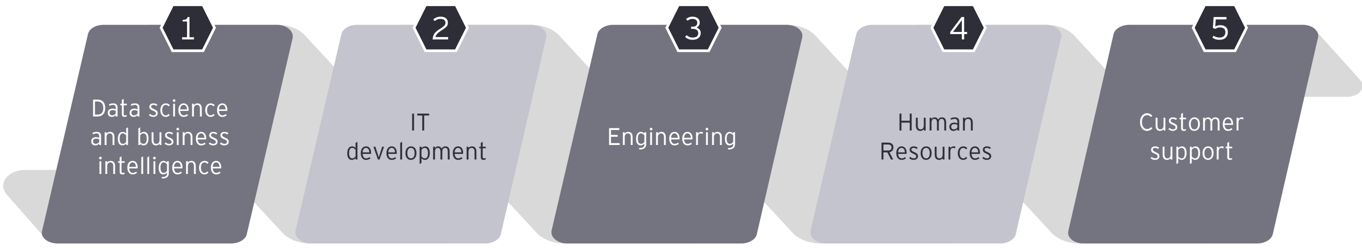


Organizations believes that flexible work options play a role in shaping your talent acquisition strategies



Companies are struggling with employee retention highlighting competitive talent market

Top functions with highest attrition



Growing importance of flexible work in talent strategies

- Organizations acknowledging the role of flexible work in talent acquisition increased from 57% in 2023 to 65% in 2024.
- This highlights a strategic shift towards hybrid or remote work models to attract top talent.

Retention challenges intensifying in a competitive market

- Companies struggling with employee retention rose from 43% in 2023 to 48% in 2024, indicating higher turnover rates and talent mobility.
- Organizations need stronger retention strategies, competitive compensation, and enhanced career development opportunities.

Evolving trends in voluntary attrition drivers

- External compensation inequity remains #1 - The top attrition driver in both years, highlighting the need for market-aligned pay structures.
- Internal pay inequity becomes a bigger concern - Moved from #4 to #2, indicating rising dissatisfaction with internal pay gaps.
- Learning & growth becomes less pressing- Dropped from #2 to #4, yet remains a key retention factor, indicating that organizations have increased investments in learning and development (L&D) programs, though some gaps persist.
- Performance assessment issues persist - Ranked #3 in both years, emphasizing the need for fairer, more transparent review processes.
- Higher education remains a key exit reason - Consistently at #5, reinforcing the need for education support and career pathing initiatives.

From flexibility to purpose: Innovative retention trends for a new workforce era

Talent Retention

1

Clear career growth pathways

Beyond compensation, limited career growth is a key factor driving attrition. To address this, companies are implementing structured career pathways, transparent promotions, upskilling programs, mentorship, and regular feedback to emphasize long-term growth opportunities.

2

Wellness as a retention strategy

Recognizing employees' preference for well-being through promotions, companies are investing in mental health support, fitness perks, and counseling services to enhance employee satisfaction and overall work-life balance.

3

Inclusive, purpose-driven culture

Companies are enhancing DE&I initiatives and aligning roles with personal values to foster inclusivity, particularly for GenZ.

4

Blending rewards with personal appreciation

Beyond bonuses, companies are embracing awards, public recognition, and personalized appreciation to build employee loyalty.

5

Flexibility fuels retention

A sentiment of job dissatisfaction is seen among employees facing strict return-to-office mandates. Hybrid models, flexible hours, and extra time off are crucial to retention.

6

Beyond pay checks: Total rewards approach

Companies are tackling pay inequities and enhancing compensation with stock options, wellness stipends, and performance incentives to attract and retain talent.

05

Salary increments and incentives

India's salary increments at 9.6% in 2024 projected to moderate to 9.4% in 2025

Attrition %	2023 Actual	2024 Actual	2025 Projected
	9.6%	9.6%	9.4%

Sector	2023 (A)	2024 (A)	2025 (P)
Chemicals	9.4	9.7	9.5
E-commerce	10.5	10.9	10.5
Engineering/manufacturing	10.1	9.9	10.0
Media & Entertainment	9.6	9.0	9.0
Financial services	10.4	10.1	10.3
FMCG/FMCD	9.2	9.5	9.5
Global Capability Centers	10.5	10.0	10.2
Information Technology	10.3	9.8	9.6
IT-enabled services	9.5	9.2	9.0
Lifesciences and pharmaceuticals	9.3	9.6	9.8
Metals & Mining	9.0	9.2	9.0
Oil & Gas	9.1	9.1	8.9
Traditional automotive	10.4	9.7	9.9
Professional services	9.7	10.0	9.5
Real estate/infrastructure	9.1	9.0	9.0
Telecommunications	8.9	9.3	9.3

Note: Financial services sector is inclusive of Fintech companies

Key insights

- **Overall stability with marginal decline**: Overall increment rates slightly dropped from 9.6% (2024) to 9.4% (2025), reflecting cautious but steady approach to salary increments.
- Sectors **like e-commerce and financial services** consistently show increments above 10%, signaling strong industry growth and competition for talent.
- **IT-enabled services**: Salary increments decline from 9.5% (2023) to 9.2% (2024) and further to 9.0% (2025), potentially due to automation and cost optimization.
- **Engineering/manufacturing**: Increment rises from 9.9% (2024) to 10.0% (2025), signaling a recovery in industrial activities and talent retention.
- **Oil & Gas**: Decline from 9.1% (2024) to 8.9% (2025), reflecting global transitions to renewable energy and reduced investments in traditional energy sources.
- **Information Technology**: Increments dip from 10.3% (2023) to 9.8% (2024) and 9.6% (2025), possibly due to hiring slowdowns and market corrections.
- **Lifesciences/Pharmaceuticals**: Increment growth from 9.3% (2023) to 9.8% (2025) highlights consistent sectoral demand fueled by healthcare innovations.
- **Media & Entertainment**: Flat increments at 9.0% for 2024 and 2025 indicate a lack of aggressive talent investments.
- **Professional services**: Increments peak at 10.0% (2024) before falling to 9.5% (2025), reflecting demand for specialized skills followed by market saturation and increased competition.
- **Traditional automotive**: After a dip to 9.7% (2024), it is expected to rebound to 9.9% (2025), supported by growth in electric vehicles and "Make in India" initiatives.
- **GCCs'** increments showed a slight decline from 10.5% in 2023 to 10% in 2024, with a marginal recovery projected at 10.2% in 2025, reflecting a cautious yet competitive approach to balancing cost optimization and talent retention.

Top strategies to adapt total rewards to evolving needs

Market benchmarking
Regularly assess industry trends and salary benchmarks to stay competitive

Customizable flexible benefits
Provide employees with the flexibility to tailor benefits to their needs

Employee feedback
Conduct surveys to gather insights on reward preferences and make informed adjustments

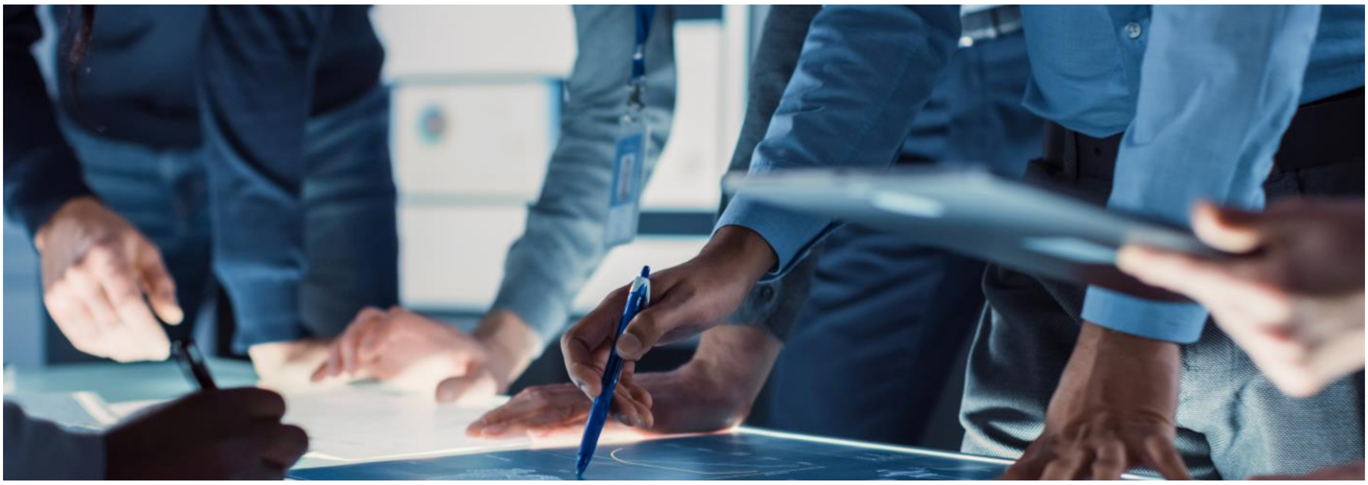
A strong Rewards Value Proposition (RVP) attracts, retains, and engages talent by aligning rewards with employee needs and business goals

Top five challenges in total rewards management
Balancing cost control with competitive compensation
Attracting and retaining top talent in a competitive market
Aligning total rewards with changing employee expectations
Managing the complexity of diverse benefits offerings
Adapting rewards for remote and hybrid work models

Top five considerations when recommending a salary increase budget
Organization/business unit performance
Industry/business outlook
Projected increase as per industry benchmark or standards
Economic conditions like change in cost of living, inflation rate, etc.
Payroll cost as a percentage of revenue

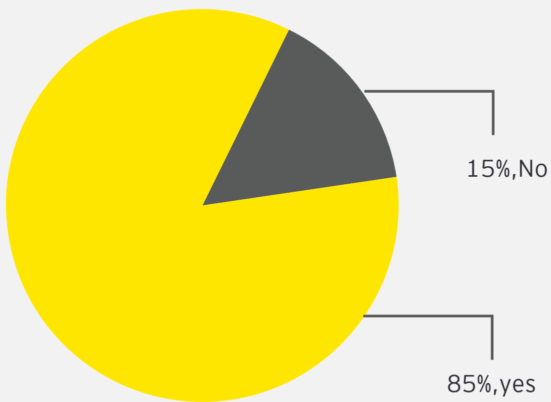
Performance-based pay differentiation: Organizations are increasingly differentiating salary increases for top performers. Even though the overall percentage of top performers is small, they receive significantly higher rewards.

1.6X	Outstanding performer
1.3X	Exceeds expectations
1X	Meets expectations
0.7X	Does not meet expectations



As businesses adapt to dynamic market conditions, short-term incentives emerge as a pivotal strategy, driving employee motivation and fostering performance excellence

Eligibility of incentive plan



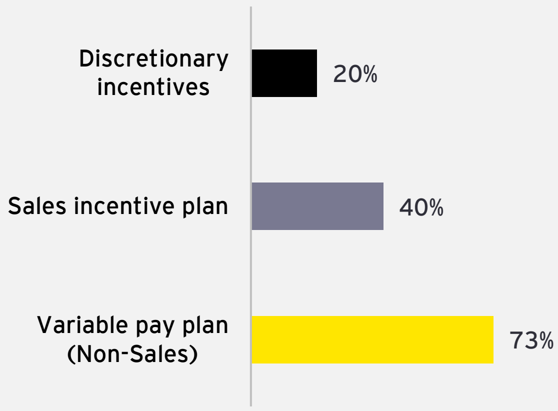
Variable Pay % | 2024 (A)

Variable pay highlights

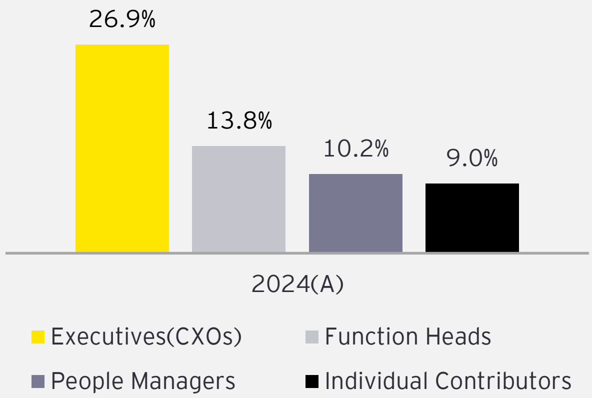
Average variable pay-out as a percentage of total fixed pay

14.8%

Types of incentive plans offered



Variable pay across levels



Key insights

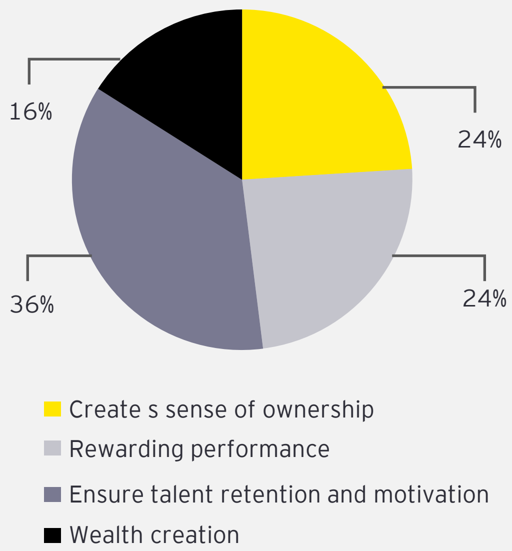
- **Marginal decline in average variable payouts in 2024**: Dropped from 15.05% in 2023 to 14.8% in 2024, reflecting cautious compensation planning amid global economic uncertainties.
- **Performance-driven differentiation**: While the average variable pay reduced, executives (CXOs) saw an increase in their variable pay from 26.2% to 26.9%, highlighting a strategic focus on rewarding top leadership.
- **Consistent variable pay in 2025**: Variable payouts in 2025 are projected to remain consistent with 2024 levels, maintaining a strong focus on performance-based rewards across all organizational tiers.
- **Sectoral variations**: Industries facing talent shortages, such as technology and life sciences/pharmaceuticals, are expected to provide higher-than-average variable components to attract and retain critical talent.

06

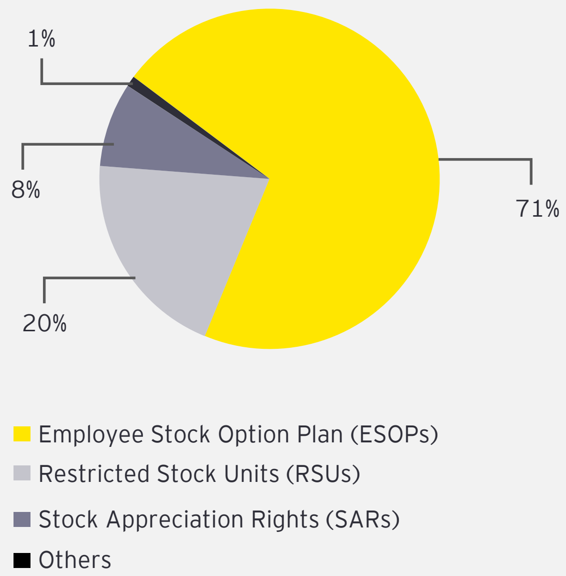
Executive compensation and long-term incentive(LTI) trends

Organizations are strategically evolving LTIPs to balance talent retention, performance alignment, and wealth creation, fostering long-term success

Purpose of long-term incentive plans



Prevalent LTI instruments



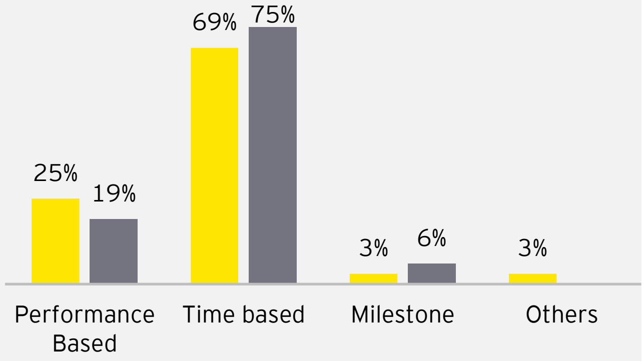
Key insights

- **Growing Importance of equity-linked incentives**: Adoption of ESOPs, RSUs, and SARs increased from around 63% in 2020 to 75% in 2024, reflecting their role in aligning employee performance with organizational goals.
- **ESOPs lead stock incentives**: RSUs gain traction, while SARs decline due to market uncertainty and economic challenges.
- **Broader participation**: LTIPs, once limited to senior management, are expanding to a wider employee base, especially in technology, financial services, followed by manufacturing, consumer retail, and e-commerce sectors, extending benefits beyond traditional roles.
- **Prevalence at executive level**: Close to 40% of organizations report having LTIPs, which remain primarily focused on executives.
- **Wealth creation focus**: Equity-based incentives foster ownership and long-term commitment, emphasizing wealth creation alongside talent retention.
- **Adapting to market dynamics**: Companies are revising LTIP structures, including performance targets and vesting periods, to align with shifting economic and business priorities.
- **Diversification of LTIP vehicles**: Organizations are moving away from solely offering stock options, opting instead for a mix of long-term incentive vehicles, including RSUs, performance shares, and SARs, to better align rewards with long-term objectives.

Varying LTI practices in listed and unlisted companies

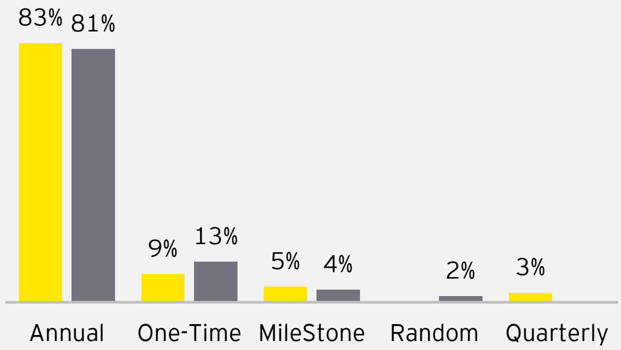
Vesting

- **Time-based vesting for retention**: Dominant in both listed and unlisted companies, it effectively promotes long-term employee retention.
- **Performance-based vesting for outcomes**: More common in listed companies, emphasizing rewards aligned with measurable performance.



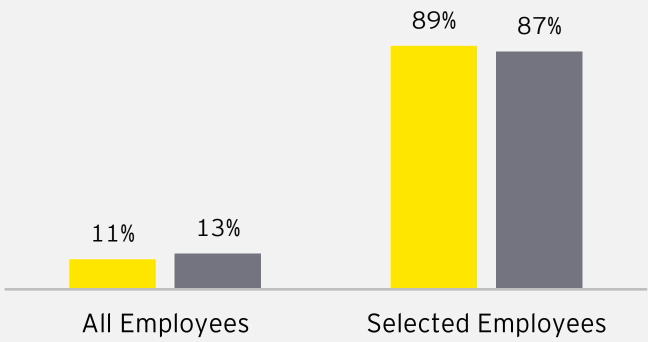
Frequency of grant

- **Annual grants are the norm**: Preferred by listed and unlisted companies, offering predictable and structured rewards.
- **Onetime grants**: More common in unlisted companies (13%)17 than in listed ones (9%), reflecting flexibility in addressing specific needs or one-off incentives.



Eligibility

- **Selective approach to LTIs**: LTIs are largely restricted to selected employees, particularly in leadership or critical roles, aligning incentives with organizational priorities.
- **Flexibility in unlisted companies**: Unlisted companies exhibit slightly more flexibility, evident in their higher adoption of onetime grants and broader employee coverage.



Listed Companies Unlisted Companies

Source: EY LTI Report 2024

CEO compensation in India is marked by substantial growth, a focus on performance-linked incentives, expanding pay disparities, and broader metrics

CEO compensation trends

- **CEO pay surge:** Median CEO pay in Nifty50 companies has risen to 18%-20% from 2023 to 2024, indicating a substantial year-over-year growth.
- **Widening pay disparity**: CEO-to-median employee pay ratios expanded by 130-150% from 2020 to 2024, reflecting a sharp increase in income inequality.
- **Stable pay mix**: The total compensation package is structured as follows: 25% to 30% fixed pay, 30% to 35% short-term incentives, and the rest in long-term incentives.
- **Promoter vs. professional CEOs**: Promoter CEOs earn about 30% to 40% more than professional CEOs, with their numbers rising significantly over the past five years.
- **Preference for internal promotions**: 40% to 45% of CEO transitions in the past five years were internal promotions, indicating a strong preference for homegrown talent.

Performance-linked compensation

- **Pay-at-risk:** ~70% of CEO compensation is performance-linked, with no payout if share prices or business performance decline.
- **Incentive trends:** More companies, especially in financial services, are shifting from pool-based to target-based annual incentives, driven by RBI and IRDAI regulations.
- **Significance of LTIs:** Professional CEOs earn ~25% of target compensation through share-linked incentives, with performance-based LTIs dominating over time-based schemes.
- **Expanded performance metrics:** Boards and remuneration committees now include broader parameters like ESG goals, sustainability, diversity, and community impact in performance assessments.
- **Transformative focus:** CEO compensation increasingly aligns with launching ventures, enhancing brand value, driving engagement, and adopting AI, robotics, and other transformative technologies for long-term growth.

Sectoral trends

- **Transparency in pay disclosures:** Regulatory and stakeholder demands have enhanced transparency, ensuring alignment with company performance and accountability.
- **Sectoral variations:**
  - IT and e-commerce: CEOs in these sectors enjoy significantly high compensation packages.
  - Traditional sectors: Moderate growth in compensation for manufacturing and traditional automotive executives.
  - Stable sectors: Steady increments in healthcare and FMCG, driven by consistent demand.

07

Future of employee rewards

The gig economy: A cornerstone of India's employment landscape, projected to reach 23 million workers by 2030

- **Workforce growth:** From 7.7 million (2021) to 23.5M (2030).
- **GDP impact:** Contributing 4%-5% by 2030.
- **Sector Adoption:** Driven by e-commerce, logistics and professional services.
- **Tech boost:** Digital infrastructure fuels expansion.

- **Digital infrastructure**: Affordable smartphones and data drive gig platform adoption.
- **Flexible work preferences**: Millennials and GenZ favor autonomy and flexible schedules.
- **Corporate adoption**: Businesses leverage gig workers for cost-efficiency and scalability.

- **Skilled roles growth**: IT, analytics and design gigs are set to rise.
- **Logistics and ride-hailing**: Continued expansion in urban gig sectors.
- **Rural opportunities**: Platforms for agriculture and small businesses will drive rural gig growth.
- **Global access**: Indian tech and creative gig workers will tap into international freelancing markets.

- **No social security**: Lack of insurance, pensions, or paid leave creates financial risks.
- **Income volatility**: Earnings fluctuate due to demand and platform policies.
- **Legal gaps**: Labor laws often exclude gig workers, though reforms are underway.

Under the Union Budget 2025, gig workers will receive healthcare coverage under Pradhan Mantri Jan Arogya Yojana and formal welfare access via e-Shram registration.

Flexible work arrangements are becoming essential to meet the expectations of today's workforce

Key attraction factor

- **90%** of respondents work in **hybrid setups**, combining in-office and remote work.
- Employees **highly value**:
    - Flexible hours
    - Ability to choose in-office days
    - Remote work options

Generational priorities

- Younger workers: Prefer in-office work for career development and mentorship.
- Older workers: Favor remote arrangements, highlighting diverse generational needs.

Risks of rigid policies

- Rising in-office mandates are driving attrition, underscoring the need for balanced flexibility policies. While ~60% of companies increased office presence, challenges in meeting employee expectations persist.
- Highlight the need for tailored, employee-centric flexibility policies.

Employer discrepancy in flexibility value

- Management's view: managers highly value flexibility for themselves but undervalue its role in retention, creating a strategic gap.

Organizations are integrating ESG pillars into total rewards to drive sustainability and workforce engagement

Environmental

Environmental performance in compensation

- Bonuses for executives and employees are tied to achieving an organization's environmental goals like carbon neutrality.

Green benefits

- Incentives for sustainable commuting and support for eco-friendly initiatives promote sustainability.

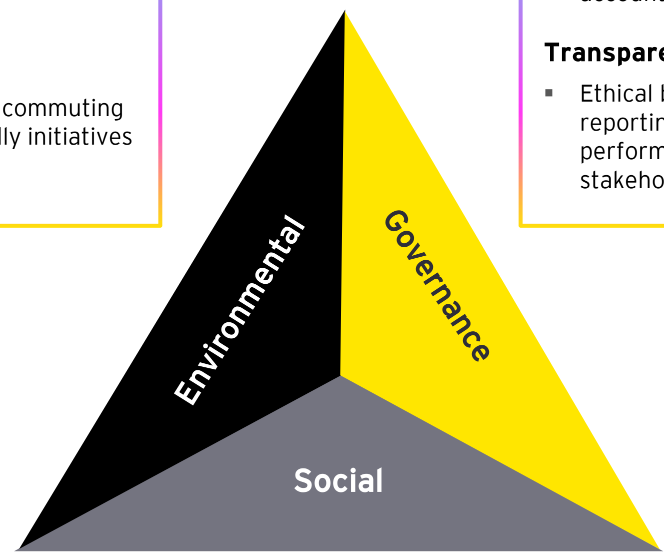
Governance

Alignment of executive compensation with ESG goals

- Executive pay is linked to ESG target achievements to ensure accountability.

Transparency and ethics

- Ethical business conduct, transparent reporting, and standardized ESG performance disclosures build stakeholder trust.20



Social

Diversity, equity, and inclusion (DE&I)

- Pay structures are reformed for fairness, with equity analysis and salary adjustments to eliminate disparities.

Comprehensive employee well-being programs

- Beyond standard health insurance, companies are offering mental health support, flexible work, financial wellness resources, and holistic benefits.

Community engagement

- Paid volunteer days, donation matching, and CSR participation encourage social responsibility.

Value-based recognition

- Recognition programs reward behaviors aligned with organizational values and social responsibility.

Top sustainability initiatives include transition to paperless HR/payroll, eco-friendly office supplies and flexible work to reduce carbon footprints.

The smart pay revolution: How companies are adopting tech-driven compensation

Survey shows that 60% of the companies are planning to implement real-time rewards and AI-driven compensation in the next three years

From Automation

Data-driven compensation strategies

- **Compensation planning:** Benchmarking tools for salary comparisons and manual pay adjustments.
- **Technology adoption**: HRMS platforms like Workday, SAP SuccessFactors, and Oracle HCM for centralized reward management.
- **Incentive management**: Fixed frameworks for variable pay percentages by role.
- **Benefits management:** Cafeteria-style benefits limited to a fixed pool of options (health insurance, wellness, etc.).
- **Analytics**: Descriptive analytics for historical trends in compensation and attrition.
- **Employee engagement**: Chatbots for FAQs and self-service portals for rewards queries.
- **Wellness programs**: Standalone wellness offerings like gym memberships and counseling.
- **Digital rewards statements**: Centralized platforms display salaries, bonuses and benefits for clarity.

To AI

Next-gen rewards solutions

- **AI Insights:** AI-driven predictive models and real-time pay equity analysis for dynamic compensation strategies.
- **Technology adoption:** Fully integrated HR ecosystems leveraging AI, blockchain, and metaverse technologies.
- **Incentive management:** Dynamic bonus allocations based on real-time performance, business outcomes and industry benchmarks.
- **Benefits management:** AI-curated benefits recommendations based on employee preferences, health data, and life stages.
- **Analytics:** Predictive analytics for future workforce needs and prescriptive analytics for designing rewards strategies.
- **Employee engagement:** Interactive AI-powered assistants offering proactive insights on benefits and compensation.
- **Multi-currency payroll and geo-based pay adjustments:** Automates cross-border salary payments with tax compliance.
- **Blockchain and smart contracts:** Blockchain-powered payroll enhances security, transparency, and speed in global transactions.
- **Gamification and recognition:** Boosts engagement with leaderboards, badges, and peer recognition.
- **Wellness:** IoT-enabled integrated wellness ecosystems and personalized wellness incentives and premium reductions.

Harnessing data analytics, AI and technology

While sectors like IT and Finance are leading the transformation, challenges such as data security and limited analytics capabilities persist.

Diversity, equity and inclusion driving transformation and fostering business success

The responses demonstrate that companies actively engaging in DE&I initiatives are prioritizing **gender, age, and LGBTQIA+ diversity**, reflecting their alignment with global inclusion trends. However, the low emphasis on disability inclusion and cultural diversity highlights areas where organizations need to strengthen their efforts. These companies are proactive in addressing visible and high-priority aspects of DE&I, but must adopt a more inclusive and holistic approach to fully realize the benefits of diversity in the workplace.

Formalizing DE&I:A critical business priority

- **Formal policies**: 80% of organizations have established DE&I policies.
- **Leadership accountability**: 70% of respondents report DE&I is led by CEOs, with metrics on executive scorecards.
- **Progress tracking:** DE&I goals are tied to executive compensation, emphasizing its significance.

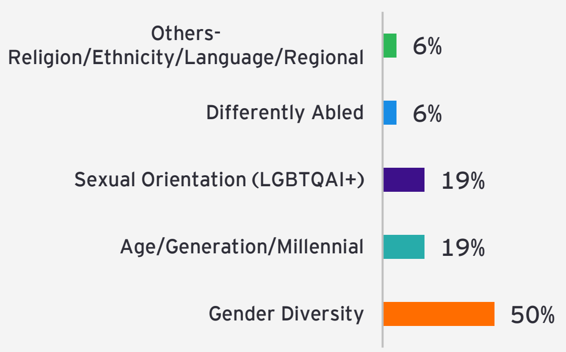
Emphasizing belonging: Moving beyond gender diversity

- **Strong commitment to gender diversity**: All responding companies prioritized gender diversity, highlighting it as the central pillar of their DE&I strategies.
- **Gaps in disability and cultural inclusion**: Only 12% of respondents mentioned efforts around disability inclusion or regional/cultural diversity, indicating that these areas are still underrepresented in DE&I initiatives.
- **Targeted recruitment**: Specialized job fairs and accessible facilities.
- **Inclusive policies**: Gender-neutral policies, benefits, and infrastructure.

Formalizing DE&I:A critical business priority

- **Diversity growth**: Diversity hiring in India has risen by 30-35% over five years, focusing on LGBTQIA+, women, and PwDs.
- **Leading sectors**: BFSI, IT, and consulting sectors are at the forefront of DE&I based hiring.
- **Tier-2 progress**: Cities like Bhopal, Bhubaneswar, and Kochi show notable advancements in DE&I hiring.

DE&I initiatives focused by organizations



Top DE&I recommendations

1	Well defined DE&I objectives and commitments
2	Expanding talent pools for candidate diversity
3	Gender pay parity

Key objectives driving DE&I efforts

1	Balanced demographic representation
2	Brand reputation
3	Talent attraction

The path to total wellness

Emerging benefits in 2025 will focus on holistic employee well-being, prioritizing mental health, flexibility, and personalized support

Personalized and flexible benefits

- 78% of the respondents recommend tailored benefits like financial planning, childcare support, pet insurance and caregiving support meet diverse employee needs.
- 62.5% companies offer on-site perks like gyms, healthcare clinics and subsidized food centers, enhancing workplace convenience and well-being.

Comprehensive health and wellness programs

- 92% of survey respondents indicate that employers support mental health initiatives, including counseling, virtual therapy, and training in some capacity.
- 87.5% companies offer enhanced insurance that includes OPD, dental, and vision, showcasing a commitment to comprehensive health benefits.

Inclusivity and diversity initiatives

- 60% of respondents indicate an increased focus on adopting inclusive policies, which include benefits such as gender affirmation surgeries, fertility treatments, and LGBTQIA+ support, reflecting a growing commitment to diversity and inclusion.
- Gender neutral leave policies are offered by 56% of the companies, emphasizing inclusivity in caregiver benefits beyond traditional roles.

Financial wellness programs

- Financial wellness programs are provided by 50% of companies, including student loan assistance and savings plans, showcasing an effort to address employees' financial health.

Work-life balance

- All respondents highlighted flexible work arrangements as the most widely adopted benefit, encompassing remote and hybrid work options.
- Digital wellness initiatives are mentioned by 62.5% of companies, focusing on tools like screen time management and ergonomic support to promote healthier digital habits.

Environmental and region-specific benefits

- 6% of respondents offer green commute subsidies or volunteer days for environmental causes, reflecting an emerging focus on eco-friendly initiatives.
- Pollution-specific benefits offer flexible work options and protective gear in high-pollution areas like Delhi-NCR.

Support for diverse life stages

- 90% of companies provide parental leave for all caregivers, childcare support, and supportive return-to-work programs for new parents, highlighting a strong focus on family well-being.

The survey highlights top three emerging benefits as flexible work arrangements, enhanced insurance coverage and family-focused benefits.

Future-proofing pay through emerging compensation strategies that prioritize adaptability, performance alignment, and workforce evolution for sustained growth and retention

Remote work and location-based pay adjustments

- Companies are aligning pay with location-based living costs.
- Stipends for home office setups and flexible schedules are now part of compensation packages.

Globalization of compensation strategies

- Businesses are adopting multi-currency payroll systems for compliance and pay equity globally.

Tech-driven pay solutions

- Automation and analytics streamline pay decisions with real-time tracking and insights for salary adjustments and bonuses.

Peer-to-peer bonuses

- Peer recognition programs allow employees to reward colleagues, boosting morale and team engagement alongside traditional compensation.

Pay transparency and equity

- Pay transparency policies disclose salary ranges and criteria, fostering trust and fairness while aligning with industry standards.

Gender pay parity

- Despite narrowing gender pay gaps, women hold only 10-12% of senior roles, demanding continued focus in 2025.

Upskilling as a compensation strategy

- Salary increases and bonuses are tied to skill development, boosting loyalty and workforce competitiveness.

High priority: Mentioned by >70% of respondents, indicating widespread focus and importance.

Medium priority: Mentioned by 30% to 70% of respondents, reflecting moderate focus.

Low priority: Mentioned by <30% of respondents, signifying limited or niche adoption.

The survey highlights the compensation strategies that employers are considering, categorized by varying levels of priority: high, medium and low.

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