

# Future of Pay

Redefining pay through skills, performance, and future-ready rewards

February 2026

The EY logo, consisting of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

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# TABLE OF CONTENTS

01

Foreword

02

Economic outlook: Global | India

03

Why pay is changing?

04

The new rules of pay: Interpreting Labour Codes and Union Budget 2026

05

Workforce attrition and retention insights

06

Salary increments and incentives

07

Executive compensation and LTI trends

08

Total rewards reimaged

09

Total Wellness

10

What CHROs and rewards leaders should do next?



01

Foreword

# Foreword

The future of pay is no longer a distant conversation; it is unfolding in real time.

Over the past year, organizations have been forced to confront hard questions about how they invest in their people. Margin pressure, accelerating AI adoption, evolving employee expectations and regulatory shifts have exposed a simple truth: traditional approaches to pay, rewards and HR technology are no longer sufficient. What once worked as policy now needs to function as strategy.

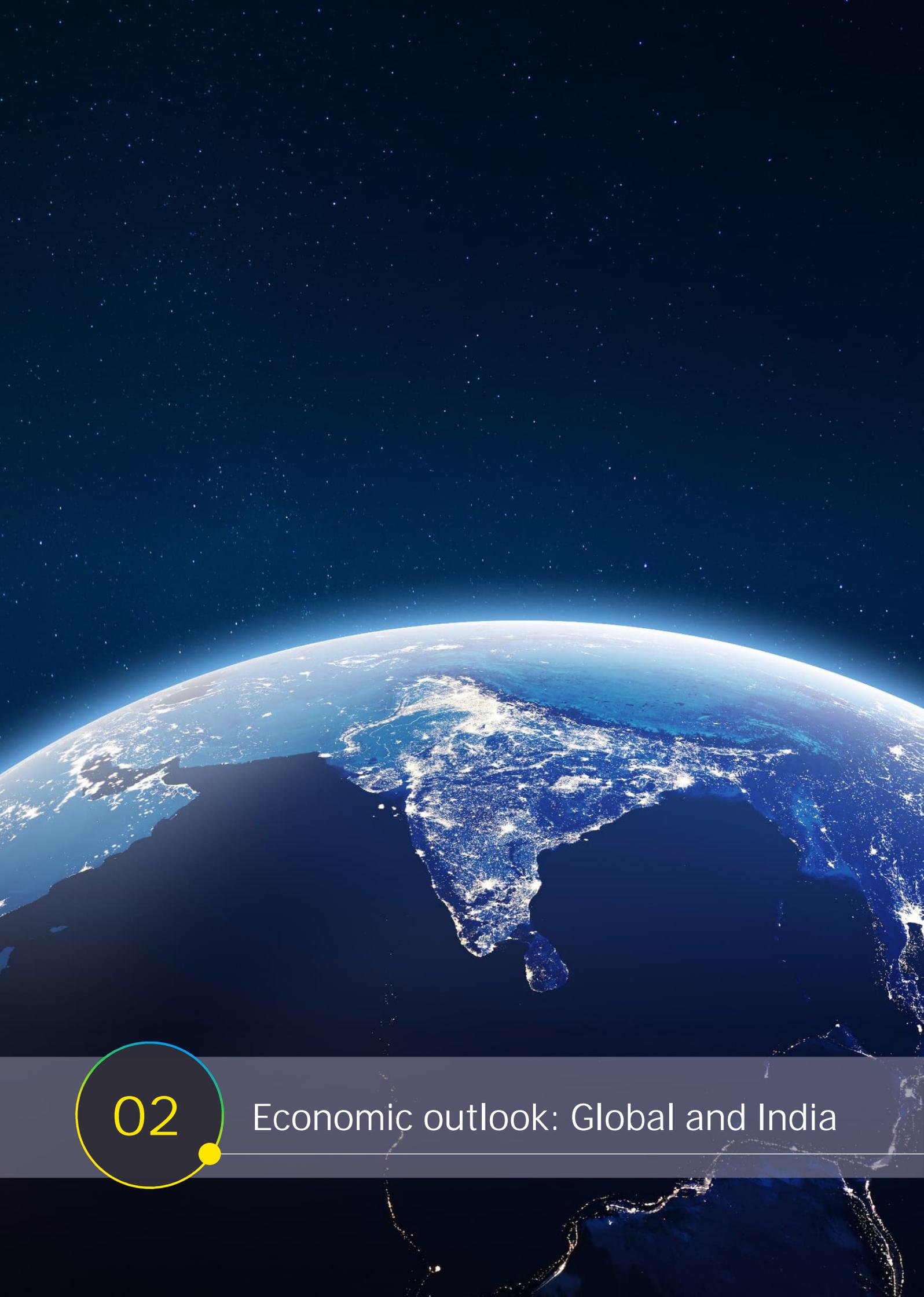
We are witnessing a fundamental reset in how organizations think about investments in people. Pay structures are shifting from job-title alignment towards skill-based models. Total rewards are shifting from broad expansion to targeted precision. Rewards technology is evolving from administrative infrastructure into decision intelligence. Employees are no longer evaluating organizations solely based on how much they pay, but on how fair, transparent and meaningful those decisions feel.

India's talent market reflects these shifts sharply. Pay corrections across sectors, increasing premiums for digital and AI skills, the aggressive scaling of Global Capability Centers (GCCs), and the ongoing recalibration of workforce expectations are forcing organizations to rethink what "market-competitive" truly means. At the same time, new Labour Codes and stabilizing attrition trends are reshaping how leaders plan for 2026 and beyond.

The Future of Pay Survey 2025-26 has been designed to provide HR and total rewards leaders with practical insights, not just benchmarks. It offers a view into how organizations are adjusting salary strategies, where attrition pressures are shifting, how rewards philosophies are evolving, and how technology is increasingly shaping pay decisions.



**Abhishek Sen**  
Partner & Practice Leader  
Total Rewards, HR Technology and Learning  
[abhishek.sen@in.ey.com](mailto:abhishek.sen@in.ey.com)

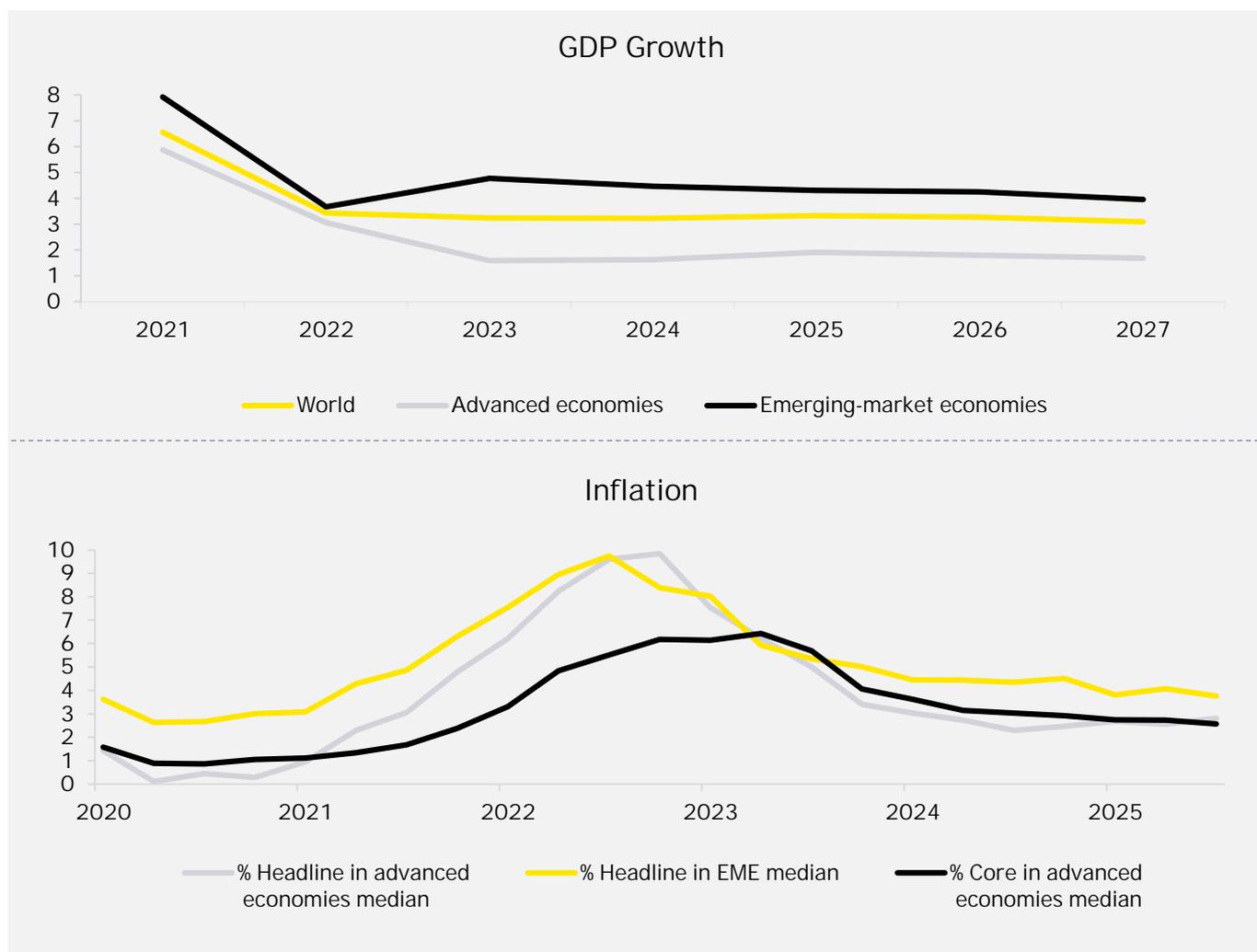


02

Economic outlook: Global and India

# Global economy in transition: Characterized by moderate growth amid heightened uncertainty

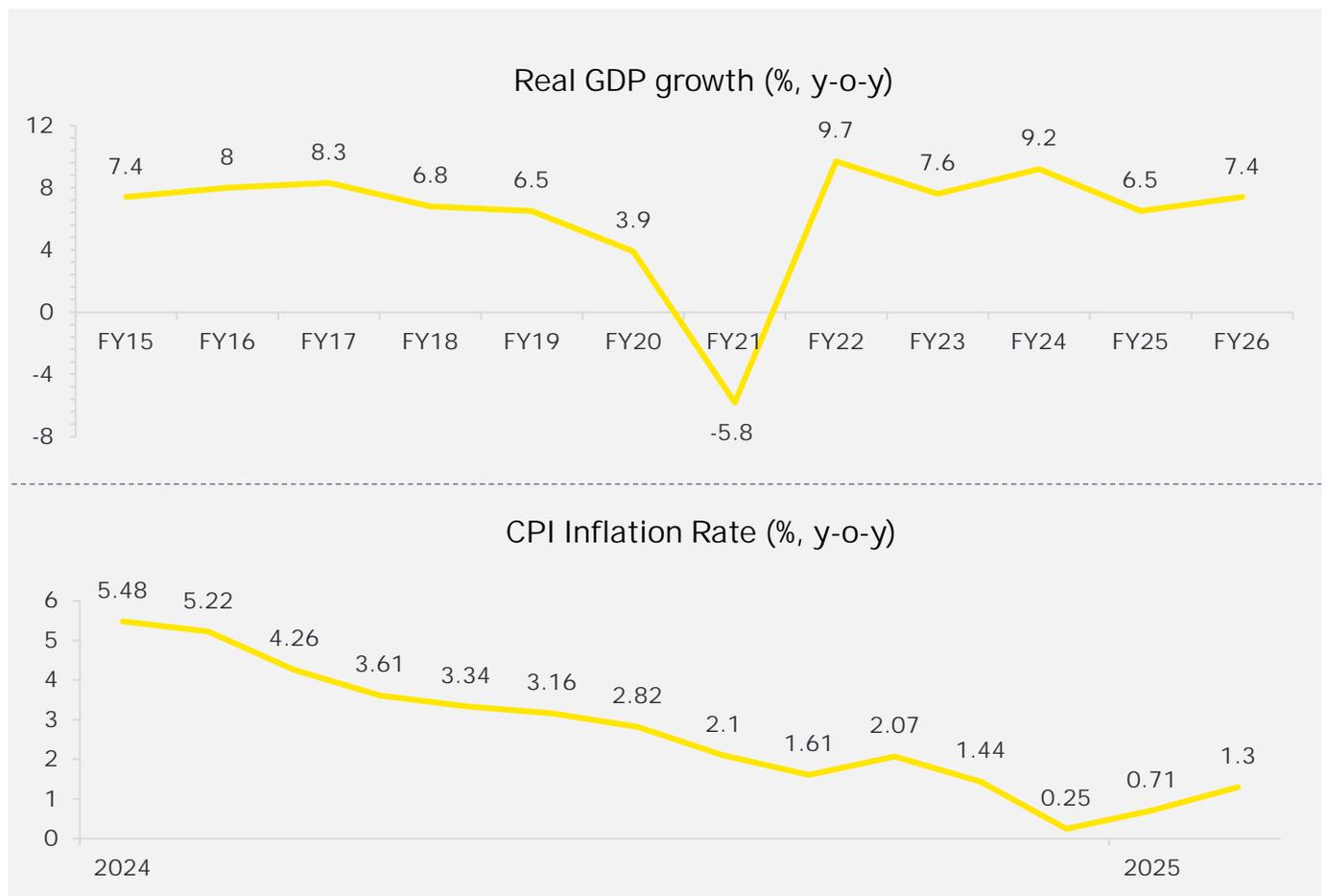
- The global economy in 2025–26 is undergoing a period of adjustment following earlier disruptions driven by inflationary cycles, geopolitical uncertainty and technological shifts. Rather than returning to the pre-2020 era of synchronized growth, the world economy is entering a phase marked by moderate growth, regional divergence and structural transformation.
- Global growth outlook remains modest:
  - Global growth is projected to remain stagnant at 3.3% in 2026, decelerating to 3.2% in 2027 as per IMF.
  - Growth in advanced economies is forecasted at 1.8% in 2026 and 1.7% in 2027, while emerging market and developing economies (EMDEs) are projected to grow at 4.2% and 4.1%, respectively.
- Global trade faces headwinds, with world trade volume growth projected to decline to 2.8% in 2025 and 2.2% in 2026, weighed down by persistent trade-policy uncertainty .
- Growth in developing economies is projected to moderate to 4.0% in 2026 from 4.2% in 2025, before edging up to 4.1% in 2027.
  - Growth in low-income countries firmed to 5.0 % in 2025
- and is projected to rise to 5.7 % in 2026, before easing slightly to 5.6 % in 2027.
- Inflation is easing but remains sticky:
  - G20 headline inflation is projected to decline from 3.8% in 2025 to 3.2% in 2026.
  - Core inflation remains elevated at 2.5% to 2.6%.
  - Services inflation is expected to stay high at 3.6% to 4.0%, keeping inflation above central bank targets.
- The global economic environment remains vulnerable to geopolitical tensions, trade fragmentation and rising debt burdens, which could derail growth. However, coordinated global policy action centered on structural reforms, macroeconomic stability and inclusive investment will be critical to achieving resilient, sustainable and inclusive growth over the medium term.



Sources: OECD, World Bank, EY Economy Watch Jan 2026

# Indian economy continues to demonstrate resilience amid global uncertainty

- The Indian economy continues to demonstrate resilience amid global uncertainty, supported by strong domestic demand, public investment and macroeconomic stability.
- Economic growth remains robust:
  - Real GDP growth for FY26 is estimated at a strong 7.4%, with Gross Value Added (GVA) rising to 7.3%, supported by robust investment and consumption demand.
  - Growth momentum moderated from 8.0% in the first half of FY26 to an implied 6.9% in the second half of FY26, reflecting softer consumption and a larger drag from net exports.
  - Services remain the primary growth engine, with transport, financial services and public administration expanding strongly at 7.5%, 9.9% and 9.9%, respectively, alongside a rebound in manufacturing (7.0%) and construction (7.0%).
- Inflation has moderated but remains sensitive to food and energy prices:
  - CPI inflation was low, although increasing marginally to 1.3% in Dec 2025 from 0.7% in Nov 2025,
  - Core CPI inflation edged up to 4.7% in Dec 2025 from 4.3% in the previous month, remaining significantly higher than headline CPI inflation mainly on account of the impact of higher inflation in gold and silver.
- Fiscal performance and policy outlook:
  - As of April–November 2025, the fiscal deficit reached 62.3% of the FY2025–26 target of 4.4% of GDP, underlining the government’s focus on capital expenditure and infrastructure outlays.
  - Continued infrastructure spending and supportive fiscal measures, likely outlined in the 2026 Union Budget, are expected to sustain growth drivers.
- The Indian rupee has faced pressure, with forecasts suggesting further moderation against the US dollar, reflecting capital flow dynamics and currency market adjustments.
- While global risks such as trade uncertainties, punitive tariffs, slower global growth and currency pressures persist, India’s macroeconomic fundamentals and policy buffers underpin a positive medium-term outlook.



Source: EY Economy Watch Jan 2026

# India's emergence as a global investment hub unlocks multi-sector growth



India is projected to reach ~US\$4.7 trillion in GDP by 2026, supported by strong macro fundamentals, infrastructure expansion and sustained global investment interest, reinforcing resilience despite moderated growth.

## Renewable energy



- India's renewable energy capacity stands at 226.9 GW with solar energy contributing the largest share, and the country is targeting 500 GW by 2030.
- Green hydrogen market is projected to grow from ~US\$9 billion in 2024 to ~US\$34 billion by 2030
- Implies ~21% CAGR, supported by strong policy backing and energy transition investments

01

## Semiconductors



- Government approved INR76,000 crore PLI scheme under the India Semiconductor Mission
- FY26 budget allocation increased to INR2,499.96 crore, signaling a long-term commitment
- Focus on building a domestic semiconductor ecosystem to reduce import dependence

02

## Healthcare



- Health tech market is projected to reach US\$22-US\$25 billion by 2026, driven by digital adoption
- Healthcare analytics and AI are estimated at ~US\$2.1-US\$2.2 billion
- EHR systems are expected to reach ~US\$1.3 billion, supported by Ayushman Bharat Digital Mission (ABDM) and public digital infrastructure

03

## Global Capacity Centers (GCCs)



- India is expected to host ~2,100 GCCs by FY28, growing at ~8% CAGR
- Sector revenue potential of ~US\$100 billion by 2030
- Bengaluru, Hyderabad and NCR continue to attract global investments as leading GCC hubs

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Why pay is changing?

# The converging forces behind the pay reset



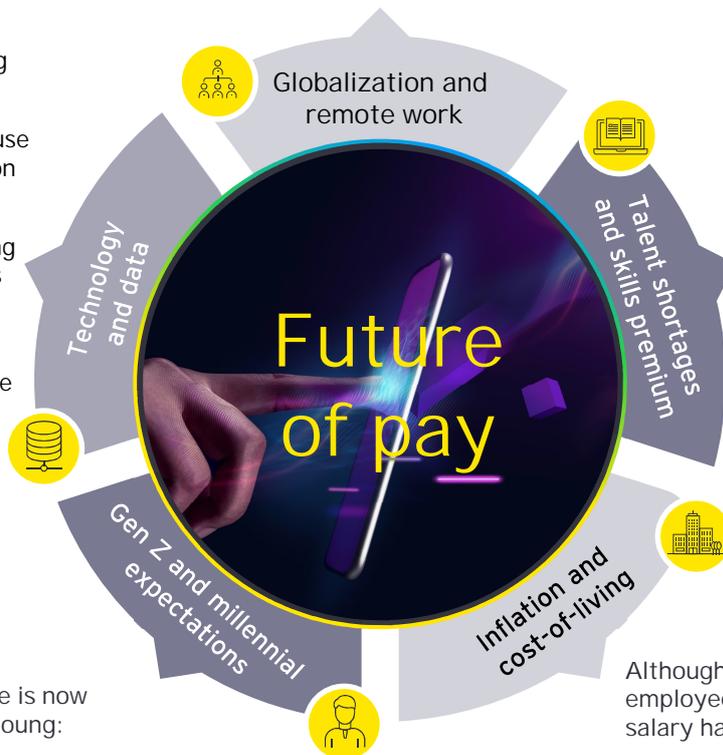
Pay models that worked for decades are no longer fit for today's talent and business realities. Compensation is being reshaped not by one force, but by the convergence of economic pressure, workforce transformation and technological acceleration.

India is now a global talent hub for digital and engineering roles:

- 63% of GCCs hire for niche skills
- Cross-border hiring has significantly increased, with above-market pay premiums for niche skills
- Addressing location-based vs. role-based pay differences

Pay decisions are becoming more evidence-based:

- 50%-60% of large firms use analytics in compensation planning
- Pay equity, skills mapping and attrition dashboards are now mainstream
- AI use in rewards and learning has tripled in the last 2-3 years



India's market is increasingly skills-driven:

- Emerging tech roles can command up to 40% skills-based premiums
- 45%-50% of organizations are shifting to skills-based pay
- Demand-supply gaps persist despite hiring moderation

India's workforce is now predominantly young:

- Pay transparency, faster growth, flexibility and continuous feedback strongly influence retention

Although inflation has moderated, employee expectations around salary have not:

- Employees now view increments less as a "reward" and more as protection against lifestyle erosion

India's talent landscape in 2026 reflects a structural shift – from role-based to skill-based pay, from uniform increments to intentional differentiation, from annual cycles to continuous calibration and from policy-driven pay to strategy-driven rewards.

# Why rewards decision frameworks matter now

## *Navigating a more volatile, complex talent environment*



Rewards decisions are shifting from reactive to predictive and data-driven, with compensation evolving into a strategic lever tied to capability and impact. Trust, transparency and AI-enabled calibration are emerging as immediate competitive differentiators in how organizations design and deliver pay.

Framework	What it is	Framework inputs	How it is useful
1 Skills-capital framework	Rewards based on skill value, not job title	Skill scarcity, strategic importance, proficiency levels	Directs pay investment to future-critical capabilities
2 Predictive rewards (AI-led)	Uses analytics to forecast the impact of pay decisions	Attrition risk, performance data, market trends	Enables proactive, targeted reward actions
3 Outcome-linked rewards	Links rewards to measurable business results	KPIs, OKRs, productivity and impact metrics	Aligns pay with real value creation
4 Total rewards portfolio framework	Optimizes spend across all reward elements	Spend mix, employee preferences, benefit utilization	Improves ROI by balancing reward investments
5 Lifecycle rewards framework	Tailors rewards to career stages	Career levels, life-stage needs, retention patterns	Improves engagement across workforce segments
6 ESG-linked rewards framework	Links rewards to sustainability and social outcomes	ESG KPIs, governance goals, leadership accountability	Aligns rewards with long-term corporate responsibility

Modern rewards leadership is transitioning from managing pay structures to designing intelligent decision systems that guide where, when, and how every reward dollar is spent.





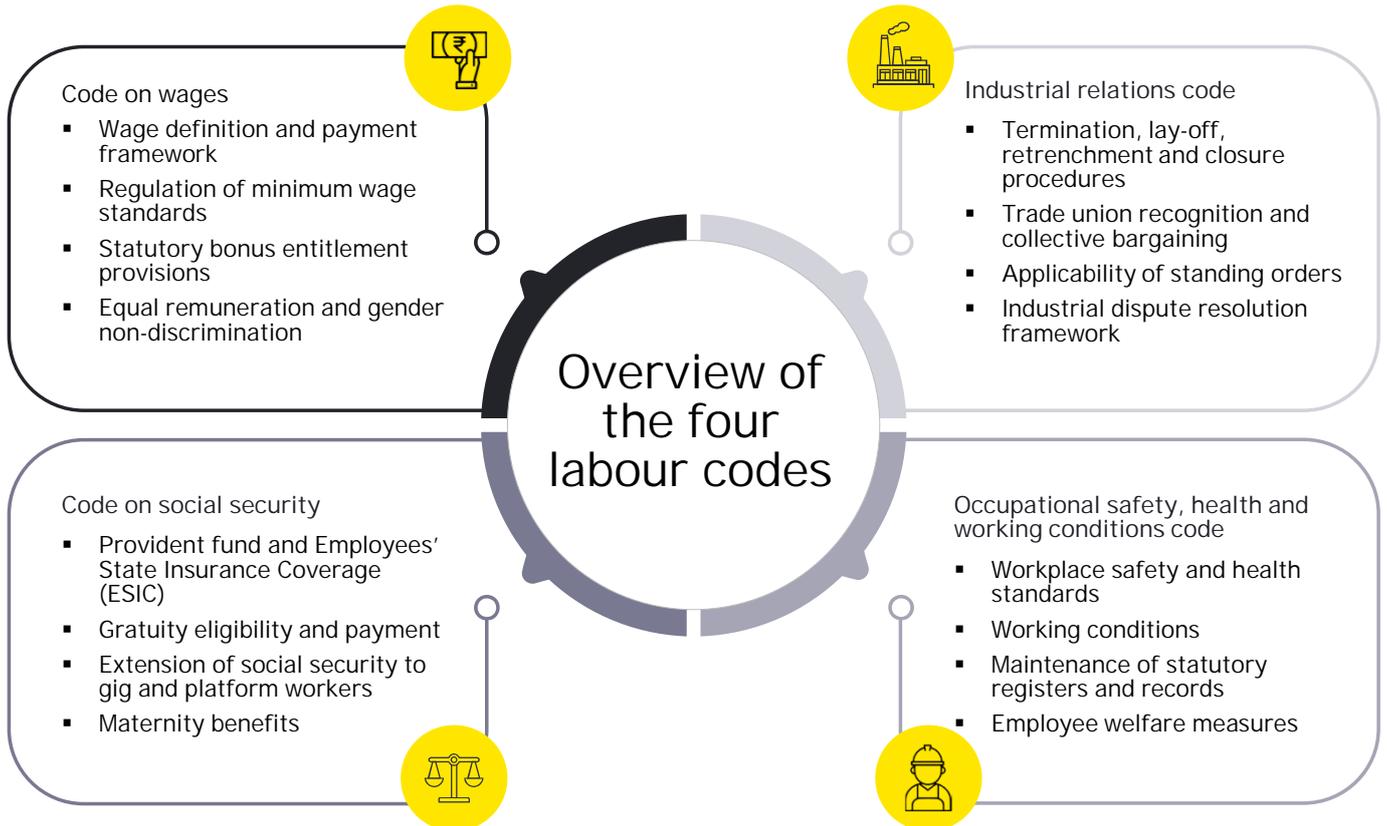
04

The new rules of pay: Interpreting Labour Codes and Union budget 2026

# India's new Labour Codes: Understanding the new regulatory framework

*From complex, overlapping statutes to four integrated Labour Codes*

Labour Codes were introduced to consolidate 29 central labour laws that had evolved over decades, resulting in overlapping provisions, inconsistent definitions and high compliance complexity. The reform seeks to create a uniform legal framework with standardized definitions, clearer regulatory coverage and streamlined compliance across employment, wages, industrial relations and social security.



# Key implications on total rewards and the path ahead

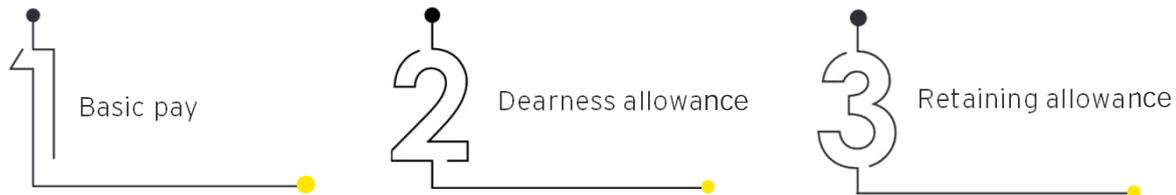
## Definition of wages and minimum wages



### Definition of wages

#### Covered

Covers all salary components expressed in terms of money or capable of being so expressed and includes:



#### Exclusions

- Conveyance allowance
- House rent allowance
- Overtime allowance
- Commission
- Provident fund / pension contribution
- Remuneration payable under any award or settlement
- Gratuity/retrenchment compensation
- House-accommodation
- Light, water, medical attendance
- Value of travel concession
- Bonus payable under any law
- Amenity / service excluded by general or special order of appropriate government
- Sum paid to defray special expenses
- Limit on exclusions: 50% of total remuneration
- Remuneration in kind to the extent that it does not exceed 15% of total wages shall be included in wages



### Minimum Wages

- Minimum wages applicable for all employees
- "Wages" paid by an employer cannot be less than notified minimum wages
- Floor wages to notified by central government
- Minimum wages to be notified by the state cannot be lower than minimum wages

# Key implications on compensation and benefits

## Impact of various statutory employee benefits

### Definition of wages

#### Change

- Inclusion of basic pay, DA, retaining allowance.
- Exclusions capped at 50% of total remuneration.
- In-kind pay included up to 15% of wages

#### Impact

- Increase in PF, gratuity, bonus, and leave encashment base.
- Reduced flexibility to structure high allowances.
- Likely rise in total employment cost unless CTC is rebalanced.
- Shift toward higher fixed pay proportion.

### Minimum wages

#### Change

- Universal minimum wage coverage with a national floor wage.

#### Impact

- Upward pressure on base salaries in low-pay segments.
- Compression of wage differentials at lower levels.
- Increased payroll cost for labour-intensive sectors.

### Gratuity

#### Change

- Gratuity eligibility for fixed-term employees after one year; calculation linked to "wages."

#### Impact

- Higher long-term benefit liability.
- Increased CTC for fixed-term hiring.
- Incentive to rebalance fixed vs variable pay mix.

### Employees' Provident Fund (EPF)

#### Change

- EPF applicability broadened; wage ceiling of ₹15,000 continues.

#### Impact

- Potential rise in employer PF contributions if wage definition expands.
- Higher retirement benefit accrual for employees.
- Possible restructuring of allowances to manage PF cost.

### Overtime

#### Change

- Overtime eligibility and calculation linked to the revised wage definition and regulated working hours (48-hour week framework\*).

#### Impact

- Higher overtime cost due to expanded wage base.
- Potential shift toward fixed-term or flexible staffing to control overtime payouts.

\*As per draft central rules"

# Key implications on total rewards and the path ahead

## Impact of various statutory employee benefits and way forward

### Leave Encashment

Change

- Broader definition of wages increases the salary base used for leave encashment calculations.

Impact

- Higher leave encashment payouts at separation or policy-triggered events.
- Increased provisioning liability on company balance sheets.
- Reduced ability to minimize payouts through allowance-heavy salary structures.

### Employees State Insurance (ESIC)

Change

- Wider social security coverage and wage-linked contribution framework under Labour Codes.

Impact

- Increase in employer ESIC contributions where wage restructuring raises coverage eligibility.
- Higher statutory benefit access for employees (medical, disability, dependents).

### Statutory bonus

Change

- Bonus eligibility and calculation become linked to the revised definition of wages, with caps and thresholds continuing under the Code on Wages framework.

Impact

- Higher bonus payouts where the expanded wage base increases the calculation amount.
- Potential rise in overall payroll cost

### Way Forward

New Labour Codes will reshape wage structures, benefits and compliance obligations. CHROs should act now to facilitate readiness, cost control and compliant execution



**Salary structure audit:**  
Review salary components against the revised definition of wages, identify non-compliant allowance structures, and model the impact on PF, gratuity, and CTC.



**Cost impact analysis :**  
Estimate incremental PF and gratuity costs, align implications with the April budgeting cycle, and present cost, risk, and compliance impact to the CFO.



**Payroll system updates:**  
Update wage definitions in payroll systems, reconfigure PF and gratuity calculations, and validate payslips for accurate statutory deductions and disclosures.



**Employee communication:**  
Develop clear FAQs on take-home pay changes, explain the long-term benefit impact, and equip managers with consistent messaging.



**Multi-state compliance:**  
Track state-wise notifications, update HR and payroll policies, and coordinate with local partners to ensure timely filings and registrations.

### CHRO action checklist

# The Union Budget 2026 strengthens India's workforce ecosystem through sustained tax stability, large-scale skilling investments, digital infrastructure incentives and expanded social inclusion measures.

## 1 Taxation and compliance framework



- Personal income-tax slabs and the standard deduction have been retained at existing levels for FY27, with no structural change to the direct tax regime.
- A new simplified Income Tax Act will be implemented from 1 April 2026, aimed at streamlining provisions and reducing compliance complexity.
- Tax Collected at Source (TCS) provisions have been rationalized across overseas remittances, education/medical spends and foreign travel under LRS.

## 2 Education and skill development



- A high-powered "Education to Employment and Enterprise" Committee will align higher education outcomes with industry skill requirements.
- The budget proposes five university townships near major industrial and logistics corridors to integrate learning hubs with employment ecosystems.
- Sector-focused skilling investments, including healthcare and emerging services, target the training of 1 lakh allied health professionals over five years.

## 3 Digital and technology infrastructure



- Companies leveraging domestic cloud and data center infrastructure will receive a tax holiday extending till 2047, encouraging long-term digital investment.
- Semiconductor Mission 2.0 and electronics manufacturing incentives have been expanded to strengthen domestic chip and component production.
- Support has been announced for digital tool rooms and advanced technical training centers to build automation, AI and Industry 4.0 capabilities.

## 4 Inclusion and workforce participation



- Girls' hostels will be established in every district to improve women's access to education and employment opportunities.
- Divyangjan Kaushal Yojana will provide targeted skill training and employment pathways for persons with disabilities.
- Budget allocations include the expansion of mental health, trauma care and allied healthcare infrastructure to strengthen workforce well-being.

## 5 Public capex and industrial growth



- Public capital expenditure has been increased to INR12.2 lakh crore, continuing the government's infrastructure-led growth strategy.
- Investments have been announced for freight corridors, waterways, coastal shipping and logistics networks to enhance industrial connectivity.
- Biopharma, electronics and advanced manufacturing sectors receive higher allocations to support domestic production and job creation.



05

Workforce attrition and retention insights

# India attrition trends: A phase of normalization amid evolving hiring dynamics

Attrition %	2024 Actual	2025 Actual	Voluntary	Involuntary
	17.5%	16.4%	13.8%	2.6%

Sector	2024 (A)	2025 (A)	2025 (A)	
			Voluntary	Involuntary
E-Commerce	19.6	18.2	15.3	2.9
Financial Services	26.4	24.0	19.9	4.1
Professional Services	23.2	21.3	18.0	3.3
Global Capability Centers	15.1	14.1	11.2	2.9
Engineering/Manufacturing	14.2	13.4	11.7	1.7
Hi-Tech/Information Technology	20.7	20.5	16.0	4.5
Chemicals	10.9	10.0	8.1	1.9
Automotive	12.4	11.5	9.8	1.7
Lifesciences/Pharmaceuticals	15.2	14.3	12.8	1.5
FMCG/FMCD	14.3	12.9	11.6	1.3
Real Estate/Infrastructure	18.4	17.0	13.7	3.3
Telecommunications	17.4	16.5	14.7	1.8
Metals and Mining	18.8	17.7	15.2	2.5
IT Enabled Services	19.4	18.0	14.9	3.1
Oil & Gas	15.0	13.7	12.9	0.8
Entertainment & Media	19.4	18.0	15.8	2.2

## Key Insights

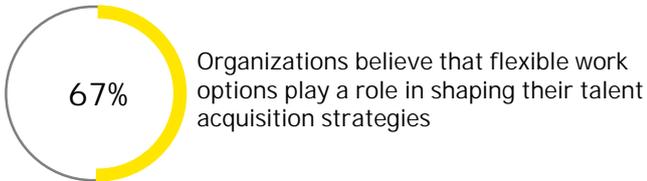
- The decline in overall attrition from 17.5% in 2024 to 16.4% in 2025 is consistent with a cooling labor market, where employee risk appetite has reduced.
- Voluntary attrition continues to account for over 80% of total exits, indicating that attrition is largely employee-driven and opportunity-led rather than driven by restructuring or forced separations.
- Financial Services (24.0%) remains the highest-attrition sector, driven by elevated voluntary exits (19.9%), particularly in sales, relationship management and digital roles.
- Professional Services (21.3%) continues to experience high churn, reflecting utilization pressures and a performance-driven talent model.
- Hi-Tech/Information Technology (20.5%) has marginally moderated in 2025, as softer voluntary attrition was partially offset by elevated involuntary exits following targeted workforce reductions across large technology employers aimed at resetting productivity and cost structures.
- E-Commerce (18.2%) and ITES (18.0%) remain above the market average, driven by skill portability and ongoing demand for niche capabilities.
- Global Capability Centers (14.1%) continue to demonstrate structural stability, with lower voluntary attrition relative to IT and ITES.
- The moderation in attrition during 2025 reflects a more balanced labor market shaped by disciplined hiring, normalized salary increases and cautious employee mobility.

# Continued...

## Patterns shaping voluntary attrition across functions and workforce segments

Cost of attrition: Employee departure costs have increased, approximately doubling the annual salary due to hiring, training and productivity loss.

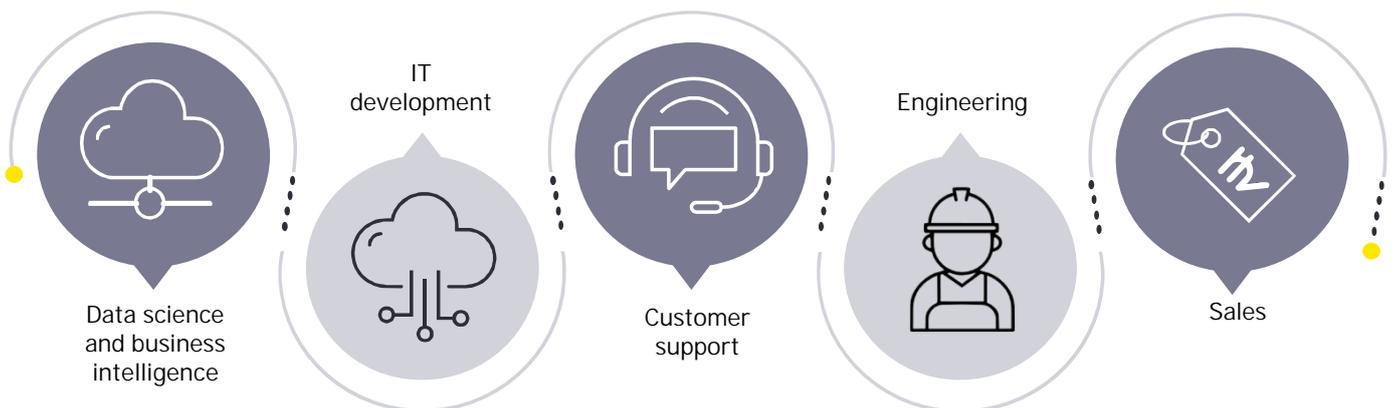
Retention ROI: Even a small improvement in employee retention can generate substantial payroll savings and significantly reduce overall talent replacement costs.



### Top 5 drivers of voluntary attrition

- 1 Limited growth opportunities have become #1 from #4. Career acceleration and role mobility now outweigh incremental pay increases, with employees switching firms to fast-track progression.
- 2 External compensation inequity shifted to #2 from #1. Market pay gaps remain a strong pull factor, though the normalization of increased salary budgets has slightly reduced pay-driven exits.
- 3 Leadership effectiveness emerged as a key driver. Poor managerial support and a lack of development conversations are increasingly prompting voluntary exits, especially in hybrid work environments.
- 4 Work environment has gained prominence. Flexibility, culture and wellbeing expectations have become critical retention levers, with rigid or high-stress environments accelerating attrition.
- 5 Internal pay inequity shifted from #2 to #5 but remains relevant. Recent pay corrections have reduced dissatisfaction, though perceived fairness continues to influence retention decisions.

### Top functions with highest attrition



# Retention playbook

## Targeted levers to reduce voluntary attrition



### Skill-based career architecture

#### *Anchor retention through visible growth and internal mobility*

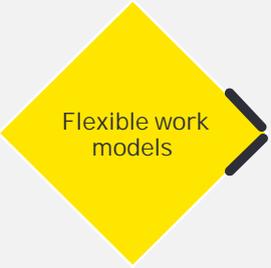
- Enable lateral and diagonal career moves to reduce dependence on external job switches
- Invest in continuous upskilling and reskilling aligned with future skill demand
- Activate an internal talent marketplace to support project-based work, skill development and faster career progression

#### *Build trust by addressing perceived and real pay gaps*

- Increase transparency around pay bands and progression criteria to reduce uncertainty
- Proactively address pay compression and internal inequities, particularly for critical skills
- Strengthen governance on gender and role-based pay equity
- Shift from reactive corrections to planned, data-led pay interventions



### Pay transparency and equity



### Flexible work models

#### *Retain talent by enabling choice and productivity*

- Hybrid work adoption increased to 92%, suggesting a stabilization in workplace flexibility
- Defining productivity outcomes, rather than emphasizing work location, supports transparency and strengthens retention
- Provide flexibility in work schedules while maintaining accountability
- Position flexibility as a retention lever, not a short-term concession

#### *Equip managers to act as the first line of retention*

- Train managers to conduct structured retention and stay conversations
- Use stay interviews to identify disengagement risks early and intervene proactively
- Strengthen ongoing recognition mechanisms to acknowledge contributions consistently
- Reinforce the role of people managers as retention owners, not just delivery leads



### Manager enablement and recognition



### Benefits personalization

#### *Differentiate through choice, relevance and support*

- Move toward cafeteria-style benefits, allowing employees to tailor benefits to personal needs
- Expand access to mental health and wellbeing programs to manage stress and burnout
- Introduce financial wellbeing initiatives to address long-term security concerns
- Use personalization to increase perceived value without significantly increasing costs



06

## Salary increments and incentives

# India salary trends: Stabilization and continued moderation in 2026



2024 Actual	2025 Actual	2026 Projected
9.6%	9.3%	9.1%

Sector	2024 (A)	2025 (A)	2026 (P)
E-Commerce	10.9	10.1	9.9
Financial Services	10.1	10.0	10.0
Professional Services	10.0	9.6	9.4
Global Capability Centers	10.0	10.2	10.4
Engineering/Manufacturing	9.9	9.7	9.0
Hi-Tech/Information Technology	9.8	9.4	9.2
Chemicals	9.7	8.8	8.6
Automotive	9.7	9.2	8.9
Lifesciences/Pharmaceuticals	9.6	9.6	9.7
FMCG/FMCD	9.5	9.2	9.0
Real Estate/Infrastructure	9.5	9.0	8.9
Telecommunications	9.3	8.8	8.4
Metals and Mining	9.2	8.7	8.5
IT Enabled Services	9.2	9.0	8.7
Oil & Gas	9.1	8.8	8.5
Entertainment & Media	9.0	8.7	8.6

## Key Insights

- 2025 marked a year of stabilization, with overall salary increments moderating to 9.3%, followed by a marginal softening to 9.1% in 2026, reflecting sustained cost discipline and a greater normalization of salary budgets.
- GCC salary increments remain structurally elevated, supported by sustained global demand and skill scarcity, positioning GCCs as the strongest salary growth segment, reaching 10.4% in 2026.
- Financial Services demonstrates resilience, maintaining increments around 10%, driven by ongoing investments in digital platforms, regulatory compliance and risk management capabilities.
- E-Commerce and Hi-Tech/Information Technology show gradual normalization, with increments easing from 2025 as hiring momentum moderates and organizations prioritize productivity-led growth over aggressive pay expansion.
- Lifesciences/Pharmaceuticals continue to demonstrate high resilience, maintaining near-consistent, above-average increments across all three years.
- Professional Services shows structural moderation, with 2026 increments remaining below 2024 levels, reflecting utilization and margin pressures.
- Engineering, Manufacturing, Automotive and Infrastructure sectors continue to moderate, with increments trending below prior years, reflecting cautious capex cycles, utilization pressures and tighter margin discipline.
- Metals & Mining, Telecommunications and Oil & Gas remain structurally below the overall market, reflecting capital intensity and regulatory constraints.
- The 2026 outlook signals stabilization rather than acceleration, with organizations maintaining prudent salary budgets and prioritizing skill-based differentiation over broad-based increases.

Note: Financial services sector is inclusive of Fintech companies

# India salary increase outlook 2026: Stable budgets, sharper differentiation, skill premiums

In 2026, organizations are holding salary budgets steady while sharpening differentiation by deploying targeted pay corrections, skill premiums and performance-led rewards to balance competitiveness with cost discipline.



Targeted market corrections for critical skills

Employers are increasingly using selective market corrections for scarce skills and high-demand roles rather than broad-based "one-rate" adjustments



Skill premiums provision

AI/digital roles are continuing to pull ahead, pushing firms to refresh job architecture and skill-based premiums



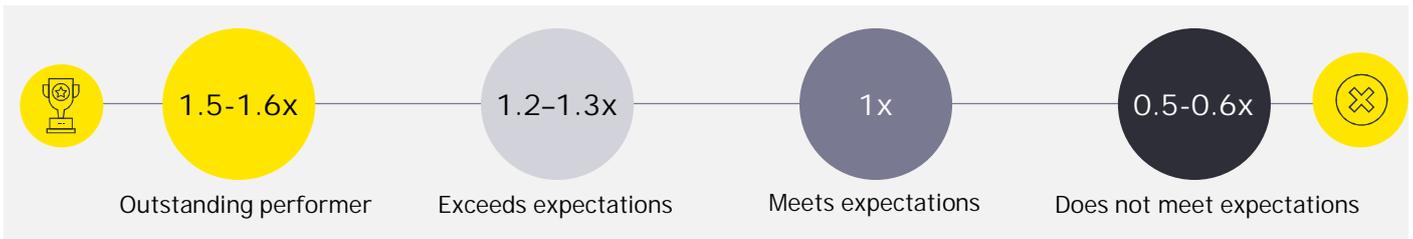
Employee listening and insights

Use pulse surveys and analytics to guide targeted reward investments

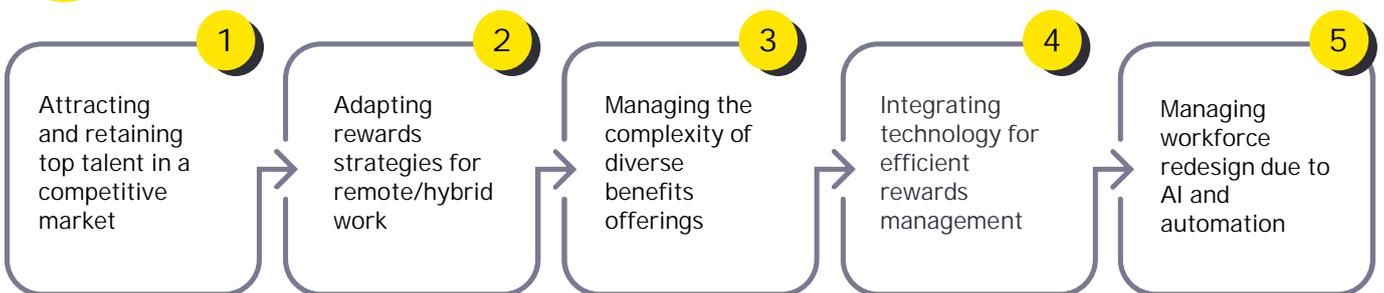
Performance-based pay differentiation

With salary budgets remaining broadly stable, differentiation is the primary lever.

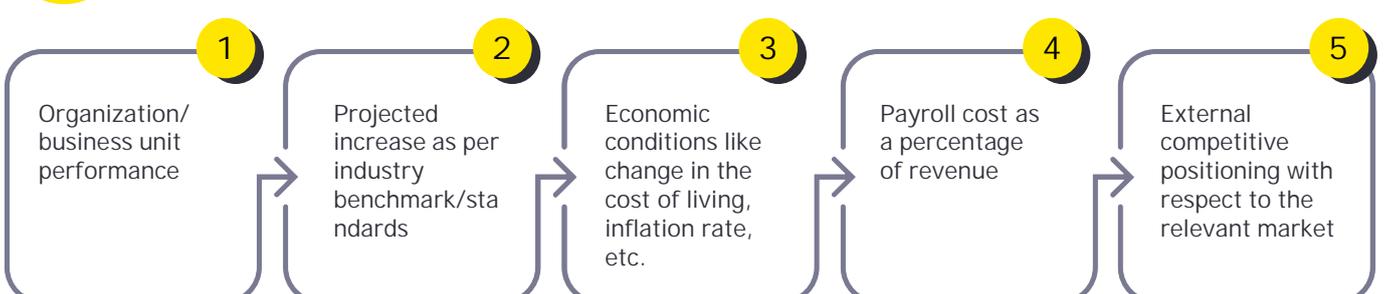
- Focus rewards on top performers and critical roles
- Reinforce a strong link between performance, impact and pay outcomes
- Maintain overall budget discipline while increasing perceived reward fairness



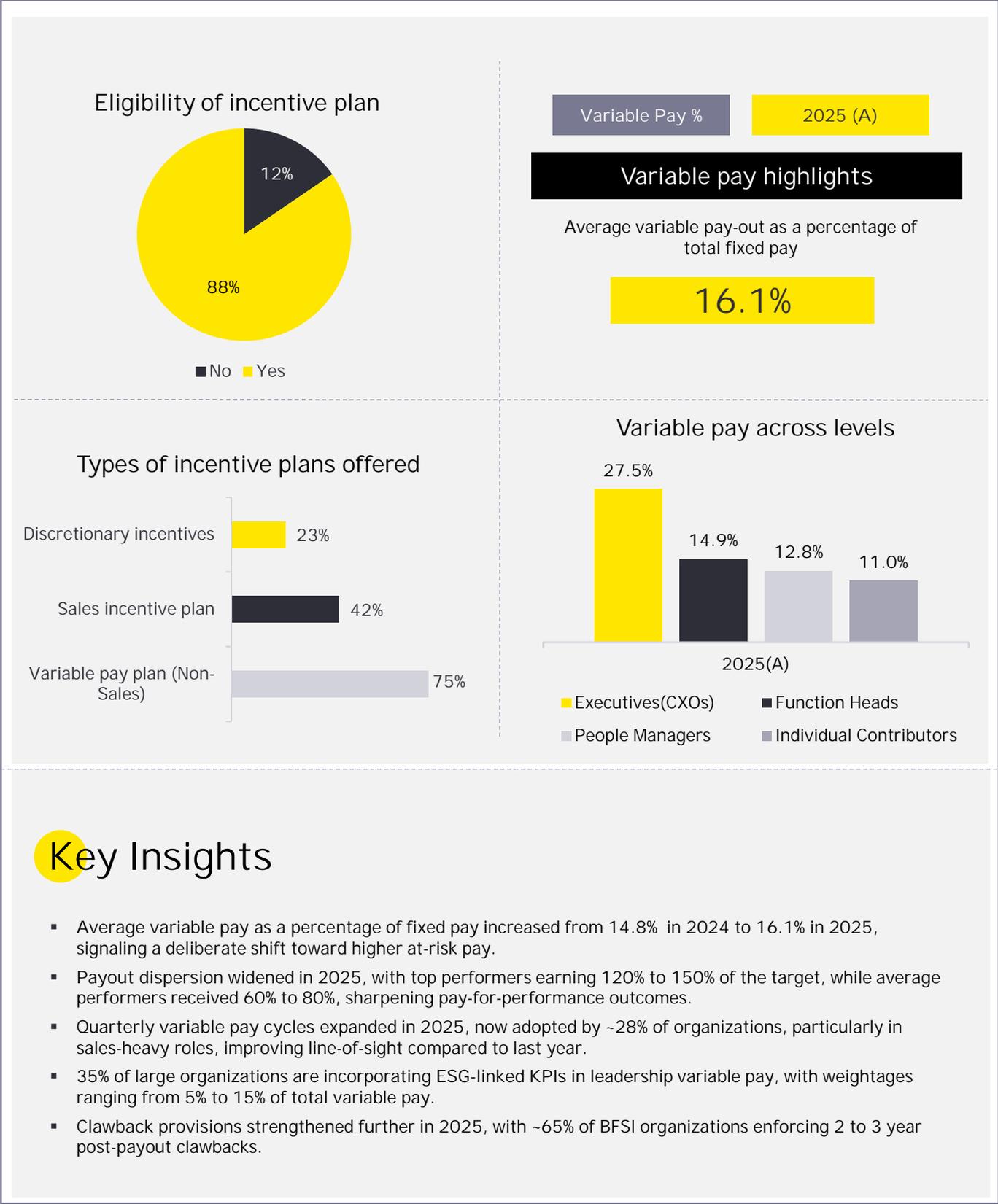
## Top 5 Challenges in Total Rewards Management



## Top 5 considerations when recommending a salary increase budget



# 2025 saw a clear shift toward higher at-risk pay, stronger differentiation and tighter performance linkage



## Key Insights

- Average variable pay as a percentage of fixed pay increased from 14.8% in 2024 to 16.1% in 2025, signaling a deliberate shift toward higher at-risk pay.
- Payout dispersion widened in 2025, with top performers earning 120% to 150% of the target, while average performers received 60% to 80%, sharpening pay-for-performance outcomes.
- Quarterly variable pay cycles expanded in 2025, now adopted by ~28% of organizations, particularly in sales-heavy roles, improving line-of-sight compared to last year.
- 35% of large organizations are incorporating ESG-linked KPIs in leadership variable pay, with weightages ranging from 5% to 15% of total variable pay.
- Clawback provisions strengthened further in 2025, with ~65% of BFSI organizations enforcing 2 to 3 year post-payout clawbacks.

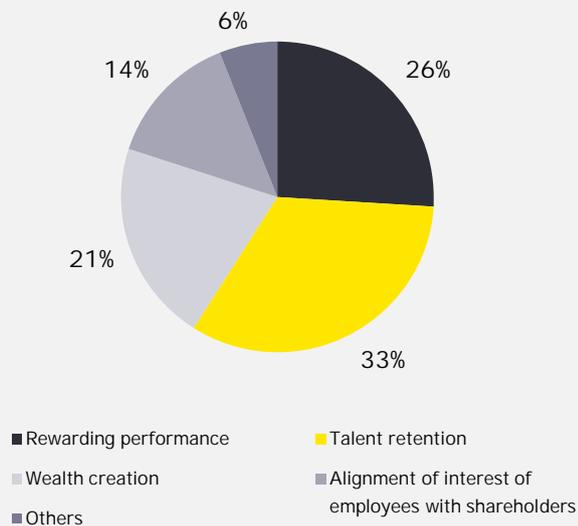


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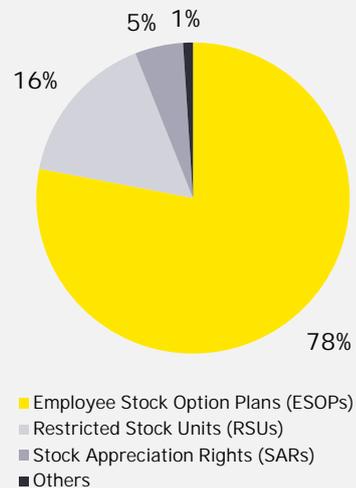
## Executive compensation and long-term incentive (LTI) trends

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

Purpose of long-term incentive plans

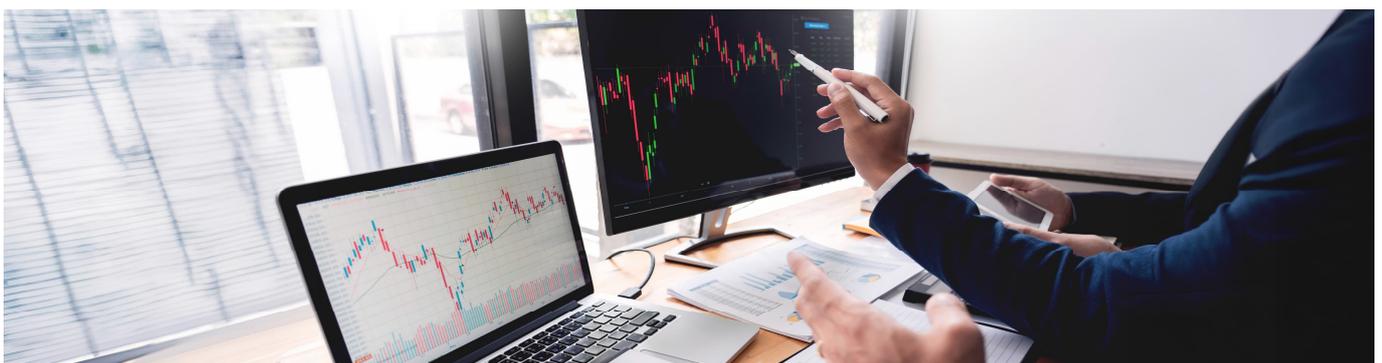


Prevalent LTI instruments



## Key Insights

- LTI design has shifted from defensive to strategic, with plans predominantly retention-led in 2024, while 2025 reflects a more balanced focus on retention, performance alignment and ownership, signaling improved confidence and a stronger long-term value orientation.
- ESOPs strengthen their dominance as the preferred LTI Instrument, with ESOP adoption increasing from ~71% in 2024 to ~78% in 2025.
- While ESOPs dominate, organizations are increasingly complementing them with Performance Stock Units (PSUs), particularly for senior leadership, to link vesting to multi-year financial, strategic and ESG outcomes.
- GCCs and technology-led organizations are extending LTI participation beyond leadership roles to individual contributors with critical and scarce skills, reflecting a sharper focus on long-term capability retention.
- RSU prevalence declined from ~20% to ~16%, indicating reduced reliance on guaranteed, time-based vesting in favor of performance-linked equity.
- SARs and other niche instruments account for less than 6% combined, reflecting the simplification and standardization of LTI frameworks.
- About 30% of companies operate two or more LTI plans in tandem, using a combination of tenure-linked and performance-linked instruments.
- About 35% of organizations are deploying one-time retention or sign-on LTI grants outside regular award cycles to secure critical talent during transformation, M&A or leadership transitions.
- Over 70% of organizations use graded vesting schedules, while only about 30% impose cliff vesting.



# Executive compensation in 2025 balances growth, performance and governance discipline



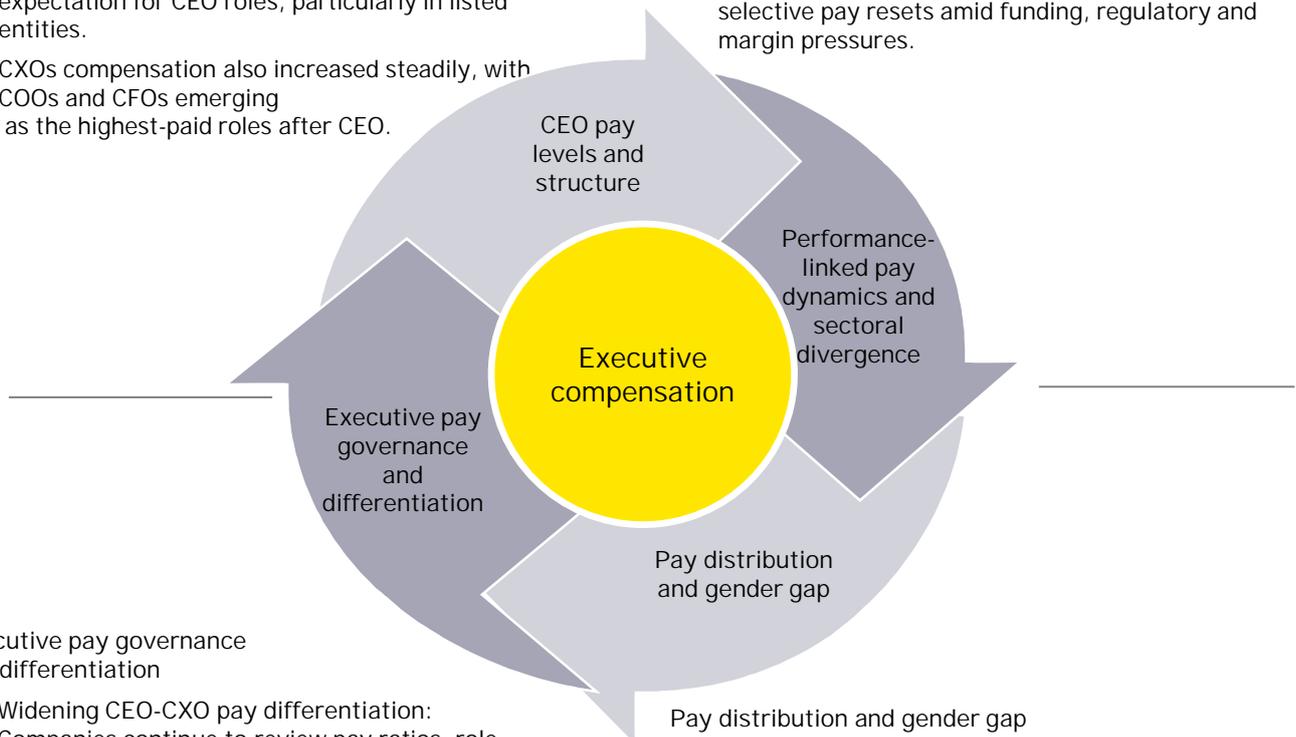
Indian companies are moving away from uniform pay increases toward incentive-heavy, performance-contingent CEO compensation models. Boards are increasingly using differentiated pay outcomes, multi-metric scorecards and tighter performance thresholds to reinforce accountability and long-term value creation.

## CEO pay levels and structure

- Median CEO compensation in Nifty 200 companies has reached INR7-INR9 crore in 2025, indicating a substantial 12%-15% year-over-year increase.
- On average, 25%-30% of total compensation is fixed, while short-term incentives account for 25%-30% and long-term incentives for 45%-50% of total CEO pay.
- With ~75% of NSE 200 companies offering LTIs, they are no longer a differentiator but a baseline expectation for CEO roles, particularly in listed entities.
- CXOs compensation also increased steadily, with COOs and CFOs emerging as the highest-paid roles after CEO.

## Performance-linked pay dynamics and sectoral divergence

- While top IT and financial services CEOs earn very high packages, compensation varies widely by sector and company size.
- Pay-at-risk: ~70% of CEO compensation is performance-linked, with no payout if share prices or business performance decline.
- The use of multi-metric scorecards for determining incentive payouts has increased across executive roles.
- Startups and consumer internet saw 25%-35% cuts in executive pay, while EdTech and FinTech witnessed selective pay resets amid funding, regulatory and margin pressures.



## Executive pay governance and differentiation

- Widening CEO-CXO pay differentiation: Companies continue to review pay ratios, role criticality and internal equity, as executive pay differentiation has widened with increased CEO pay growth versus low CXO increases.
- Governance standards are converging toward global norms:
  - Clawback provisions in over 70% of companies reflect stronger downside risk sharing.
  - 100% independent NRCs indicate mature board oversight.
  - Rising say-on-pay scrutiny suggests boards are proactively future-proofing compensation structures.

## Pay distribution and gender gap

- CEO-to-median employee pay ratios expanded by 130%-160% from 2020 to 2025, reflecting a sharp increase in income inequality.
- 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.
- 40% to 45% of CEO transitions in the past five years were internal promotions, indicating a strong preference for homegrown talent.
- Gender disparities remain significant, with women CEOs earning much less than male CEOs at the median.



08

Total rewards reimagined

# AI adoption and its impact on total rewards

## From managing people costs to allocating reward capital



AI adoption is accelerating!



AI has moved from the pilot stage to everyday use, with ~85% of employees now using AI tools



Adoption depth remains uneven; only ~5% are advanced users, widening capability and value gaps



Focus is shifting from experimentation to measurable productivity and ROI



What this means for total rewards strategy?

### Reward budget reallocation

- Rewards spend is being reallocated, not reduced, from blanket increases to targeted, skills-led investments

### Sharper pay differentiation and premiums

- 25%-40% skill premiums are emerging for AI-first and digital capabilities
- Increased dispersion in variable pay and LTIs to reward productivity leverage

### Shift from role-based to capability-based rewards

Traditional job architectures are under pressure as AI changes role content faster than structures can adapt. Growing use of skill allowances, project incentives and differentiated LTIs for AI-augmented roles

### Productivity replaces headcount as the core reward anchor

Slower headcount growth, but higher performance expectations and steeper pay-for-performance curves. Variable pay and LTIs are increasingly tied to output, adoption and business impact, rather than effort



What are the challenges?

Reward systems are lagging AI-enabled work models:

Static bands and annual cycles struggle to price fast-moving, perishable skills

Internal equity and trust risks are rising:

Rapid skill premiums are creating compression, fairness concerns and talent friction

Workload intensity is increasing, not decreasing:

Despite AI, majority of organizations report higher pace and expectations, raising burnout and retention risks

Governance is becoming a rewards issue:

Boards expect a clearer linkage between AI investment, productivity gains and executive pay outcomes

AI is not reducing reward spend; it is forcing organizations to be far more selective, dynamic and defensible in how reward capital is allocated.

# Skills-based pay: Reallocating pay to what creates value

## From paying for roles to investing in capabilities



### Why the shift is happening?

Skills now move faster than roles  
AI is reshaping work faster than job architectures can adapt; skills, not roles, are the new unit of pay differentiation.

01

From scarcity to measurable impact  
Organizations are shifting from “paying for scarce talent” to paying for measurable skill impact and productivity leverage.

02

Rapid market adoption  
45%-50% of organizations have already moved toward skills-based pay frameworks, with adoption accelerating in 2026.

03



### How organizations are operationalizing skill pay?

Skill taxonomies embedded into job architecture:  
Pay bands augmented with skill tiers and proficiency levels

More frequent recalibration:  
Skill premiums reviewed bi-annually or quarterly instead of annually

Stronger governance and transparency:  
Clear eligibility criteria, sunset clauses and audit mechanisms to manage equity and risk

## Key Insights

- Generative AI, ML engineering and advanced analytics attract the highest base pay premiums (30%-40%+), with Technology and GCCs leading, and BFSI rapidly closing the gap.
- BFSI offers above-market premiums for cybersecurity, AI risk and data governance due to regulation and systemic risk.
- Cloud architecture, platform engineering and AI-enabled product roles command sustained premiums in Tech and GCCs for scalability and global delivery.
- Business-technology hybrid skills combining domain expertise with analytics in finance, risk and operations attract 10%-20% premiums.
- Leadership skill premiums, especially for AI-led transformation roles, are increasingly delivered through LTIs rather than base pay, notably in BFSI and Technology.
- Manufacturing and industrial firms exhibit lower absolute premiums but strong momentum in automation, intelligent operations and digital supply chain skills (15%-20%), signaling focused and selective digital transformation.
- Organizations use time-bound allowances and LTIs for scarce or transformation skills, limiting permanent base pay inflation.
- Skill-based pay is becoming more dynamic and short-lived, with premiums expected to compress faster as capabilities scale and commoditize, necessitating more frequent recalibration and sunset mechanisms.

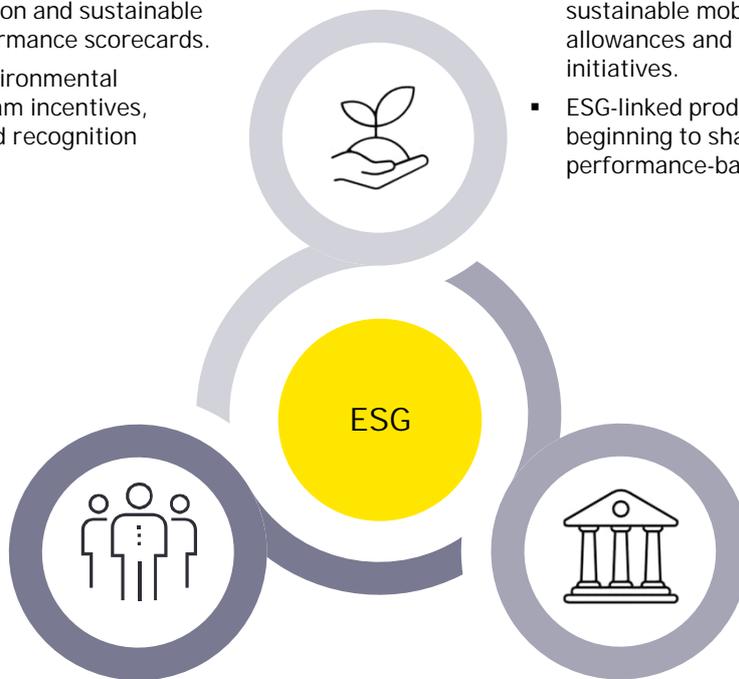
# ESG integration is reshaping pay, benefits and workforce governance

Environmental, social, and governance (ESG) integration in pay is accelerating, with large Indian and global organizations embedding ESG metrics into executive incentives, typically accounting for ~5%-20% of LTI weightage. This shift is rapidly moving beyond the C-suite to reshape enterprise-wide total rewards, embedding sustainability into performance management, pay equity, benefits and workforce governance, thereby aligning the entire employee value chain with long-term value creation.

## Environment

How does it shape workforce rewards?

- Operational roles increasingly include energy efficiency, waste reduction and sustainable process metrics in performance scorecards.
- Site-level safety and environmental compliance influence team incentives, productivity bonuses and recognition programs.
- Growing adoption of green benefits such as sustainable mobility support, paperless allowances and eco-friendly workplace initiatives.
- ESG-linked productivity improvements are beginning to shape gain-sharing and performance-based rewards.



## Social

How does it influence employee experience and pay?

- Pay equity, fair wage practices and gender representation are becoming core reward governance priorities.
- Employee wellbeing, flexibility, mental health and caregiving benefits are expanding as measurable ESG outcomes.
- Engagement, inclusion and capability-building metrics increasingly shape manager incentives and merit differentiation.
- Organizations are linking retention, skilling and internal mobility to long-term social sustainability.

## Governance

How does it strengthen reward accountability?

- Greater emphasis on pay transparency, structured performance calibration and documented reward decisions.
- Expansion of ethical conduct metrics into performance management is occurring across leadership and managerial layers.
- Auditability of incentive outcomes and linkage to compliance, risk and conduct frameworks is being prioritized.
- Alignment of workforce rewards with regulatory disclosures, stakeholder scrutiny and long-term value protection.

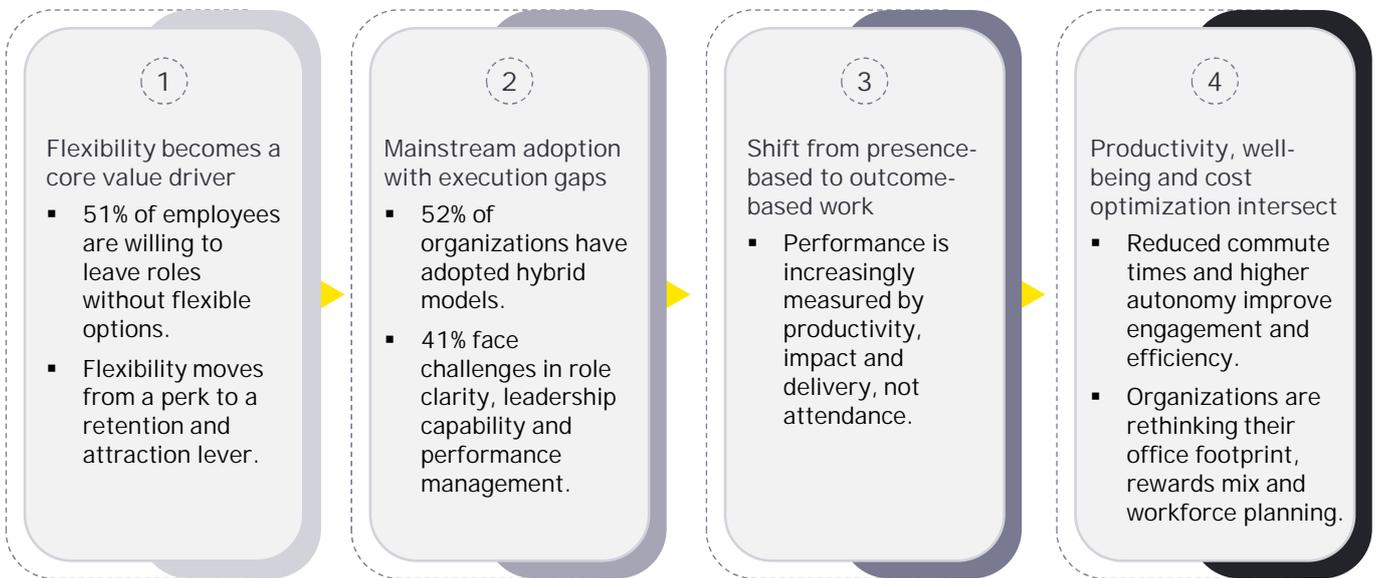
# Hybrid has moved from trend to standard

## Hybrid operating models are reshaping talent and rewards

### Why hybrid work is gaining momentum?

- Hybrid work has shifted from a pandemic response to a permanent operating model.
- The majority of organizations now enable flexible or hybrid arrangements.
- Employee expectations around flexibility, autonomy and wellbeing continue to rise.

### Strategic implications for workforce and total rewards



### Key risks and execution barriers

68% of employees affected by return-to-office mandates. Misalignment increases turnover and disengagement risk.

Risk of proximity bias, unequal growth access and pay perception gaps.

Employees show willingness to trade compensation for flexibility.

Policy momentum (e.g., Right to Disconnect Bill, 2025) signals a focus on healthy work boundaries.

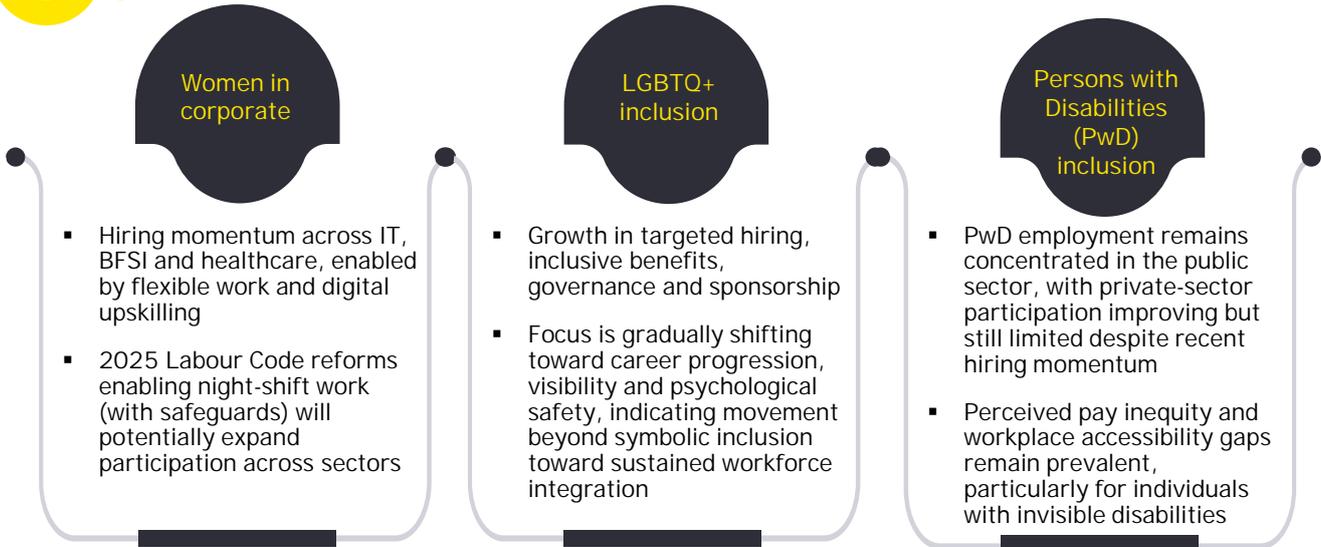
Hybrid work is the new operating baseline. Competitive advantage depends on execution quality, strong leadership and employee-centric flexibility.



# DEI is shifting from intent to execution across representation, rewards and culture

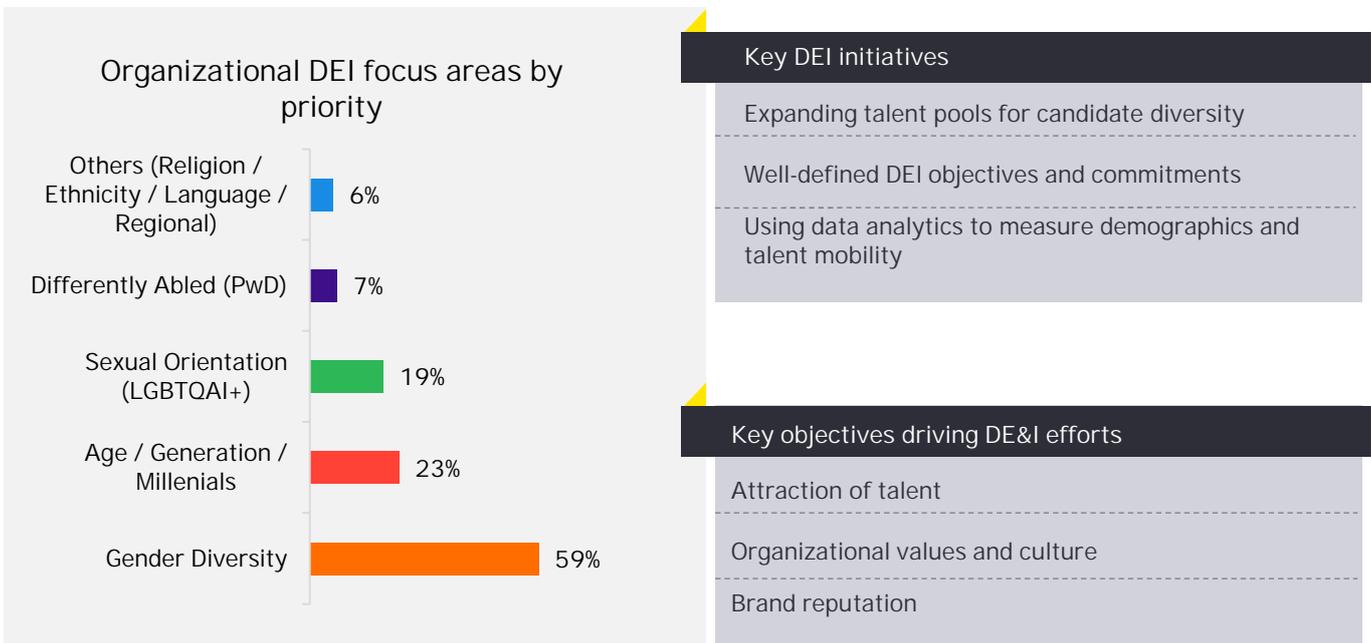
DEI is shifting from a values initiative to a driver of performance, engagement and employer brand. In India, organizations are embedding inclusion into business strategy, workforce design and ESG outcomes.

## Key dimensions of DEI progress



## How DEI is influencing total rewards

- DEI is embedding pay equity, inclusive incentives and benefits into core rewards strategy.
- Pay, incentives and benefits are increasingly aligned to fairness, representation and workforce inclusion.
- DEI is moving rewards from compliance to measurable equity and accountability.





09

Total wellness

# Emerging employee benefits: From hygiene to differentiation

## Personalization over standardization

92%

Employers offering mental health support

78%

Employees prefer personalized benefits

3-4x

Wellness program ROI reported

65%

Employers offering flexible benefits

2.3x

Higher satisfaction with flexible benefits

### Health and wellness

- Preventive healthcare and mental wellbeing have become baseline expectations, with mental health utilization increasing by ~40%
- Large organizations are now increasingly offering flexible benefits platforms that allow employees to customize benefits within a defined budget

### Financial wellness

- Employers are expanding support beyond pay through zero-interest emergency loans, salary advances and access to financial planning and tax optimization services
- ~30% of organizations now provide structured financial wellbeing offerings, including counseling and financial literacy initiatives

### Family and care

- Extended maternity and paternity benefits are being widely adopted
- Benefits are being designed around life events, including marriage bonuses, parental support packages and elder care assistance
- Coverage for fertility and adoption benefits has increased considerably

### Learning and growth

- Organizations are increasing investments in learning through annual budgets
- L&D programs are increasingly focused on AI and digital upskilling
- Continuous learning is emerging as a key retention driver for Gen Z and critical talent

### Inclusive benefits

- Organizations are introducing gender-neutral health coverage, including same-sex partner benefits, gender-affirmation surgery support and dedicated leave provisions
- Companies are increasingly offering paid menstrual leave
- Partner benefits are increasingly offered across GCCs, signaling inclusion as a mainstream expectation

### Industry-driven benefits

- Retail and e-commerce sectors are implementing gig-to-permanent pathways and flexible scheduling apps for workforce management
- Pharma and automotive organizations are offering patent incentives and EV transition support, aligning benefits with innovation priorities

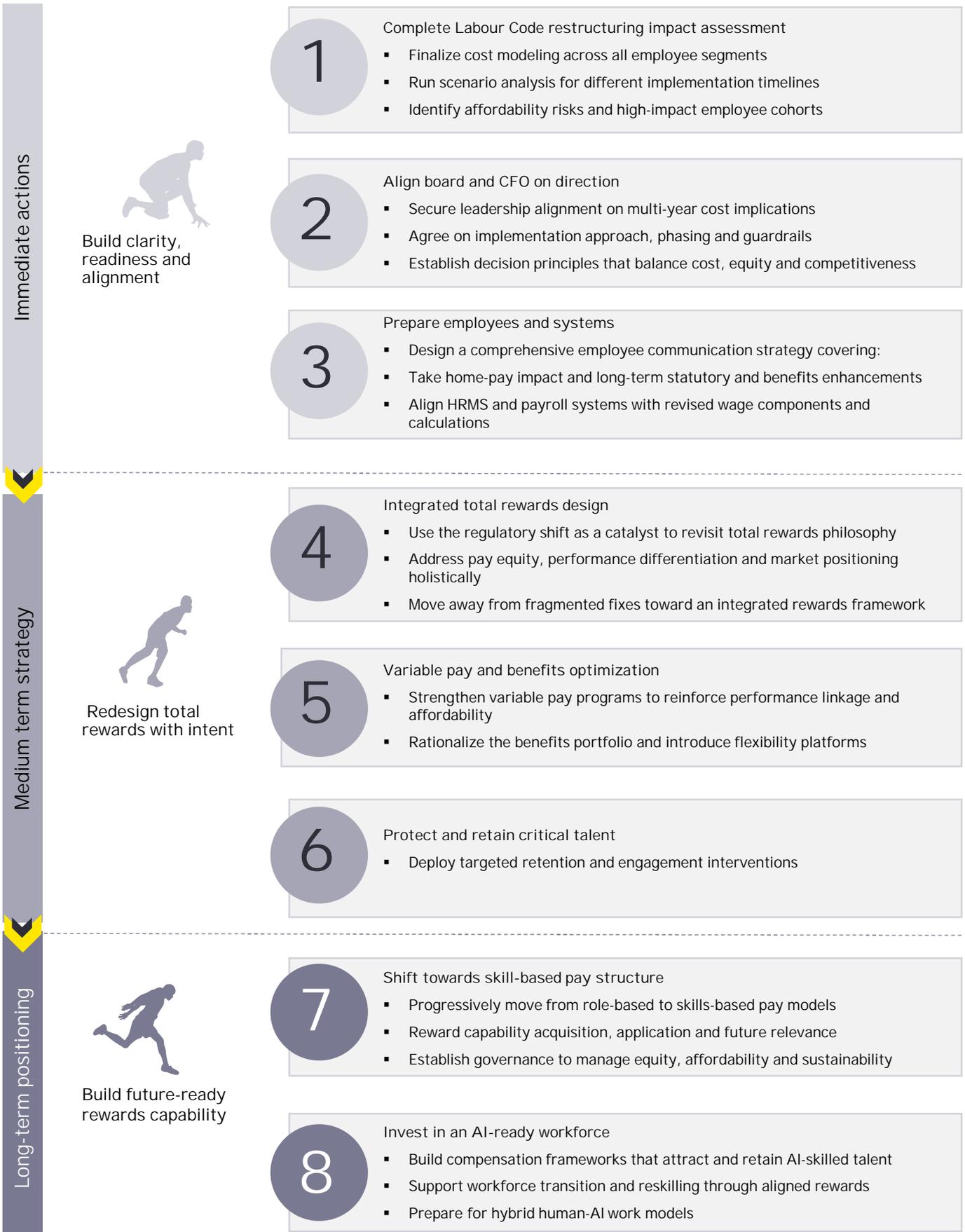
Move to cafeteria-style benefits model: Flexible benefits pools allow life-stage-based choice: a 25-year-old may prioritize learning; a 35-year-old parent may choose childcare, creating higher perceived value without increasing costs.



10

What CHROs and rewards leaders should do next?

# Key takeaways for CHROs and total rewards leaders





# EY offices

## Ahmedabad

22nd Floor, B Wing, Privilon  
Ambli BRT Road, Behind Iskcon Temple  
Off SG Highway, Ahmedabad - 380 059  
Tel: + 91 79 6608 3800

## Gandhinagar

8th Floor, Building No. 14A  
Block 14, Zone 1  
Brigade International Financial Centre  
GIFT City SEZ  
Gandhinagar - 382 355, Gujarat  
Tel: + 91 79 6608 3800

## Bengaluru

12th & 13th Floor  
"UB City", Canberra Block  
No.24 Vittal Mallya Road  
Bengaluru - 560 001  
Tel: + 91 80 6727 5000

## Ground & 1st Floor

# 11, 'A' wing  
Divyasree Chambers  
Langford Town  
Bengaluru - 560 025  
Tel: + 91 80 6727 5000

## 3rd & 4th Floor

MARKSQUARE  
#61, St. Mark's Road  
Shantala Nagar  
Bengaluru - 560 001  
Tel: + 91 80 6727 5000

## 1st & 8th Floor, Tower A

Prestige Shantiniketan  
Mahadevapura Post  
Whitefield, Bengaluru - 560 048  
Tel: + 91 80 6727 5000

## Ecospace

1st Floor, Campus 1C  
Ecospace Business Park  
Outer Ring Road,  
Bellandur - Sarjapura Area, Varthur Hobli,  
Bengaluru Urban - 560103

## Bhubaneswar

8th Floor, O-Hub, Tower A  
Chandaka SEZ, Bhubaneswar  
Odisha - 751024  
Tel: + 91 674 274 4490

## Chandigarh

Elante offices, Unit No. B-613 & 614  
6th Floor, Plot No- 178-178A  
Industrial & Business Park, Phase-I  
Chandigarh - 160 002  
Tel: + 91 172 6717800

## Chennai

6th & 7th Floor, A Block,  
Tidel Park, No.4, Rajiv Gandhi Salai  
Taramani, Chennai - 600 113  
Tel: + 91 44 6654 8100

## Delhi NCR

Aikyam  
Ground Floor  
67, Institutional Area  
Sector 44, Gurugram - 122 003  
Haryana  
Tel: + 91 124 443 4000

## 3rd & 6th Floor, Worldmark-1

IGI Airport Hospitality District  
Aerocity, New Delhi - 110 037  
Tel: + 91 11 4731 8000

## 4th & 5th Floor, Plot No 2B

Tower 2, Sector 126  
Gautam Budh Nagar, U.P.  
Noida - 201 304  
Tel: + 91 120 671 7000

## Hyderabad

THE SKYVIEW 10  
18th Floor, "SOUTH LOBBY"  
Survey No 83/1, Raidurgam  
Hyderabad - 500 032  
Tel: + 91 40 6736 2000

## THE SKYVIEW 20

2nd Floor, 201 & 202  
Right Wing, Survey No 83/1  
Raidurgam, Hyderabad - 500 032  
Tel: + 91 40 6736 2000

## Jaipur

9th floor, Jewel of India  
Horizon Tower, JLN Marg  
Opp Jaipur Stock Exchange  
Jaipur, Rajasthan - 302018

## Kochi

9th Floor, ABAD Nucleus  
NH-49, Maradu PO  
Kochi - 682 304  
Tel: + 91 484 433 4000

## Kolkata

22 Camac Street  
3rd Floor, Block 'C'  
Kolkata - 700 016  
Tel: + 91 33 6615 3400

## 6th floor, Sector V,

Building Omega, Bengal Intelligent Park,  
Salt Lake Electronics Complex, Bidhan  
Nagar  
Kolkata - 700 091  
Tel: + 91 33 6615 3400

## Mumbai

14th Floor, The Ruby  
29 Senapati Bapat Marg  
Dadar (W), Mumbai - 400 028  
Tel: + 91 22 6192 0000

## 5th Floor, Block B-2

Nirlon Knowledge Park  
Off. Western Express Highway  
Goregaon (E)  
Mumbai - 400 063  
Tel: + 91 22 6192 0000

## 3rd Floor, Unit No.301

Building No.1, Mindspace-Gigaplex  
IT Park, MIDC, Plot No. IT-5  
Airoli Knowledge Park  
Airoli West, Navi Mumbai - 400 708  
Tel: + 91 22 6192 0003

## 18th Floor, Altimus

Pandurang Budhkar Marg  
Worli, Mumbai - 400 018  
Tel: + 91 22 6192 0503

## Pune

C-401, 4th Floor  
Panchshil Tech Park, Yerwada  
(Near Don Bosco School)  
Pune - 411 006  
Tel: + 91 20 4912 6000

## 10th Floor, Smartworks

M-Agile, Pan Card Club Road  
Baner, Pune - 411 045  
Tel: + 91 20 4912 6800

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[ey.com/en\\_in](http://ey.com/en_in)

# Contacts



**Abhishek Sen**

Partner & Practice Leader

Total Rewards, HR Technology and Learning

[abhishek.sen@in.ey.com](mailto:abhishek.sen@in.ey.com)



**Rishi Sachdeva**

Senior Manager

[rishi.sachdeva@in.ey.com](mailto:rishi.sachdeva@in.ey.com)



**Sonal Shankar**

Senior Consultant

[sonal.shankar@in.ey.com](mailto:sonal.shankar@in.ey.com)



**Charul Agarwal**

Consultant

[charul.agarwal@in.ey.com](mailto:charul.agarwal@in.ey.com)



**Shweta Yadav**

Consultant

[shweta.yadav1@in.ey.com](mailto:shweta.yadav1@in.ey.com)