2025 National Compensation Forecast

d. hilton associates inc.

Will 2025 finally be the year we get to take a breather? Probably not.

When community bankers were asked about their biggest challenges earlier this year, they mentioned cost of funds, net interest margins, and "core" deposit growth. Surprisingly, HR-related issues didn't break the Top 10. Although inflation has decreased from its peak of 9.1% in 2022, and unemployment currently stands at 4.2%, this doesn't mean that recruiting, compensation, and retention won't be crucial factors impacting financial returns and member engagement in the coming year.

Welcome to D. Hilton Associates' 21st National Compensation Forecast. This report provides insights into the 2025 compensation market and salary administration design concepts for integration into your total rewards programs. We believe credit unions must prepare for three emerging themes in 2025.

Issue One: Employee Competencies Must Match New OmniChannel Delivery Models. An essential challenge for credit unions will be adjusting staffing models to meet the demands of new digital platforms and technological changes, such as more ITM interactions, mobile banking usage, and fintech applications that must integrate with our core systems. Members are tired of disjointed financial products and are concerned about issues like identity theft and phishing. Virtually every employee must now become a help desk. All employees must become proficient in technology to use and explain new methods for conducting business with members. Higher technical proficiency will naturally require a reassessment of skill-based pay concepts.

Issue Two: Convincing Gen Z'ers to Show Up. We are facing the challenge of recruiting and retaining 20-somethings who are being labeled the "NEET population—" Individuals who are NOT in education, employment, or training. This untapped workforce, if harnessed through innovative recruitment strategies and flexible work arrangements, can significantly strengthen our workforce and enhance service delivery in a rapidly changing market environment. This presents a promising avenue for future growth and development, instilling a sense of optimism for what lies ahead.

Issue Three: Soliciting Front-Line Managers to Become a Part of the HR Team. Providing front-line managers with improved HR oversight tools is crucial to enhance employee engagement. It can no longer be the sole responsibility of the HR department to search for and develop front-line employees. Looking ahead, it's evident that we need to be proactive in exploring new ideas and opportunities that transcend our traditional approaches. As credit union executives and HR professionals, your role in this proactive approach (hunting) rather than a reactive one (gathering) is pivotal. Your proactive mindset will empower your credit union to adapt, innovate, and consistently meet the needs of your members and employees, making you an integral part of the solution.

As compensation is under greater scrutiny by politicians, the media, and credit union members, you need support to substantiate your pay practices, which may otherwise be misunderstood or misinterpreted. D. Hilton provides the framework for establishing competitive and effective programs while providing the most comprehensive and transparent benchmarking data available to credit unions today.

D. Hilton's work ensures that your employees find your compensation programs meaningful, and your stakeholders find them reasonable—the result is peace of mind. We are committed to using our strategic insights and instincts to expand the industry's technical knowledge. We devote a significant portion of our internal resources to primary research, new product development, and benchmarking best practices. We are committed to creating innovative, yet pragmatic action plans accessible to executives, staff and volunteers. We demand that our practice leaders be thought leaders in their respective disciplines. Please remember that D. Hilton Associates stands ready to partner with you to address emerging trends.

All the best in 2025,

Jeff Rock, PHR, Vice President

1

Staffing Models May Need Updating

Traditional Staffing Models

68% of financial services firms still rely on traditional staffing models.

This is down from 75% in 2022.

The reliance on stable, long-term employment relationships, well-defined roles, and clear organizational hierarchies characterizes traditional models.

The decline reflects a gradual shift as more organizations recognize the urgent need to adapt to evolving delivery models, such as agile methodologies and digital transformation initiatives, due to the limitations of traditional staffing.

This trend is driven by the need for greater flexibility, cost efficiency, and access to specialized skills that traditional models often struggle to provide without becoming siloed or overspecialized.

Source: Deloitte, 2023 Global Human Capital Trends

75%

of financial services companies have adopted some form of agile delivery model to adapt to shifting delivery models.

Digital Transformation: Financial institutions are rapidly digitizing services and moving to omnichannel delivery models.

Shared services and centers of expertise: Centralizing specialized functions like compliance, risk management, and analytics. This allows for the pooling of scarce talent.

Build-operate-transfer (BOT) models: Some are leveraging BOT approaches to rapidly set up new capabilities with vendor support before bringing them in-house.

Source: McKinsey & Company, The State of Agile in Financial Services

New models mean that different skills are needed. This has caused skills gaps to form, which have been widening year over year.

44% of worker skills will need to be updated or disrupted over the next five years.

The skills expected from entry-level roles have increased exponentially, but this has been more of an expansion of responsibilities than a cross-functional team model.

There is a talent shortage in key areas like data science, cybersecurity, and digital product development.

There are cultural barriers to consider. Moving to agile, cross-functional teams can be challenging for traditional credit union cultures.

All these challenges, on top of the regulatory constraints, can limit flexibility in staffing.

Source: World Economic Forum's 2023 Future of Jobs Report

Responsibility Bloat

Teller Skillset Requirements have increased 80% in last 10 Years

2015

Accurate cash handling
Client/Member service
Basic cross-selling (not central to job)
Be on time
Keep area clean/clear

2025

Core System Proficiency
Digital Banking Familiarity
Cybersecurity Awareness
Compliance
Product/Expertise
Transaction Handling
Effective Communication
Empathy & Patience

Problem-Solving
Identifying Member Needs
Referral Skills
Adaptability
Commitment to learning
Security Practices
Cultural Competence
Teamwork

The teller role has expanded significantly over the past decade. The job has evolved from a primarily transactional role focused on cash handling and basic customer service to a multifaceted position that requires technical proficiency, strong sales skills, regulatory knowledge, and a strong emphasis on providing personalized service. This evolution reflects broader financial services industry changes driven by technology, increased regulatory scrutiny, and shifting consumer expectations.

Multifaceted roles are inevitable.

Appropriate opportunities to develop the needed skills are not.

Credit unions have been adopting services which require employees to have both traditional banking skills and digital competencies.

There is a push for creating high-touch, fully-integrated consumer experiences across physical and digital channels. Soft skills are integrating with digital skills more than ever.

Credit Unions are working to equip frontline staff with cross-channel member insights and intelligence, which implies that even traditionally specialized roles are expanding to include broader skill sets.

Bridging the skills gap is a must, while allowing for integrated staffing models that require more individual skills. Providing training and tools to supplement the skills gaps is also necessary.

In the 2019 D. Hilton Compensation Forecast, we stated that now was the time to prepare your workforce for AI.

How did that go?

Implement AI Solutions

- Using AI or machine learning to automate routine tasks can free up staff for more complex responsibilities.
- AI can help bridge a skills gap and knowledge gap - while this should not replace a robust training and development program, it can increase the effectiveness of new and seasoned employees.
- This can ease the staff squeeze and reduce the need for certain hard-to-fill roles.

- Alt Inc. became the world's first company to create AI clones of their employees and PAY the employees' AI clones.
- They introduced a system that adds to their employees' salaries based on their clone's productivity, which can translate in real-time, answer questions based on the employee's personality, and is available 24/7.
- You can even have a conversation with the AI clone of the CEO.

Generative AI will enhance – not erase – customer service: "AI, guided by humans, will require… judgment, insight, moral reasoning, and innovation. This is a far cry from following scripts or handing off customers to other, more knowledgeable CSRs.

Source: Harvard Business Review, 2023

Customer Service agents provide a critical human element: **empathy**. By providing the best of both worlds: speed and human empathy, AI can create more satisfied customers and more engaged employees.

Source: Forbes, 2023

Staffing models for credit unions to support modern delivery challenges should consider:

Implementing flexible work arrangements: Where possible, provide remote or hybrid work options to attract a wider talent pool.

Creating career advancement opportunities: Establish clear paths for career growth. This does not mean only creating additional levels in a job title.

Creating agile, cross-functional teams that can adapt quickly to changing member needs and delivery methods.

Partnering with other credit unions to share specialized talent and resources.

Focusing on skill-based hiring rather than specific experience, further broadening the talent pool.

Leveraging AI solutions to automate routine tasks.

Build a robust training and development program and process to focus on the skills gaps.

One of the single most important skills to train and develop for the future is Management Skills.

Whether you are leading people or a team of AI assistants, the same core skills will be needed:

Goal Setting
Strategic Thinking
Delegation
Project Management
Adaptability
Leveraging the team or individual (or AI) strengths

2

The NEET Generation

What is NEET?

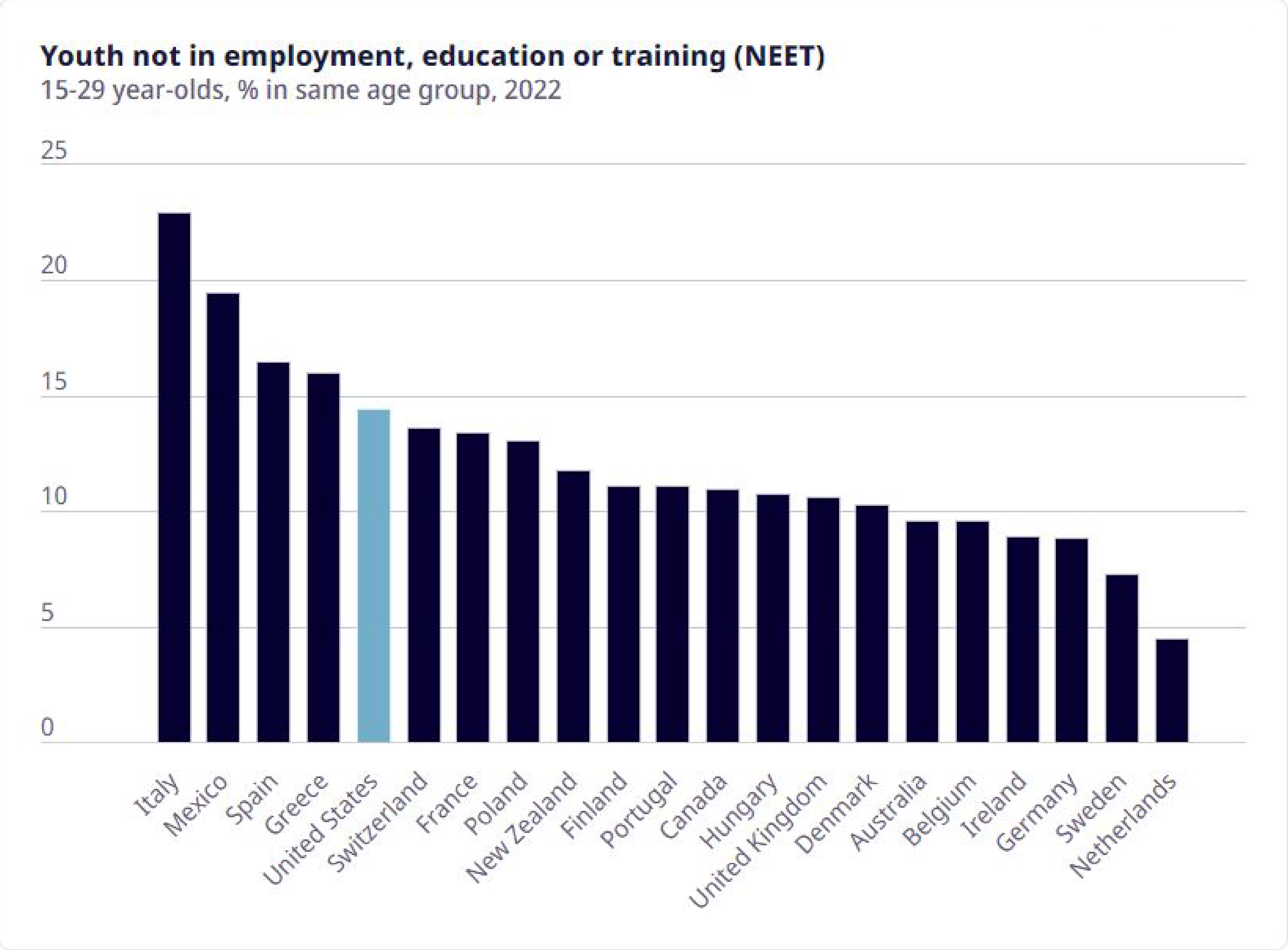
NEET stands for "Not in Employment, Education, or Training" and refers to young people, usually between 15 to 29 years old, who are not working or enrolled in formal education or vocational training.

A growing cohort of Gen Zers are rejecting life’s significant milestones and becoming NEETs.

1 in 5 young people around the world are currently classified as NEET.

There is a higher proportion of men than women in this population. One possible explanation for this is that women are more likely to accept job offers that may not perfectly align with their career path, while men often hold out for roles that offer better compensation, status, or are more closely related to their career goals.

It’s not that young men do not want to work –they want the right type of work.



Source: Organization for Economic Co-operation and Development

The NEET population has seemingly stabilized or plateaued over the last few years.

The new reality is setting in.

The financial pressures to find a career and the mindset of holding out for the unicorn role has started to fade. The sky-high expectations and supreme compensation for similar roles that their predecessors enjoyed after the COVID pandemic are becoming more grounded in the market reality.

Targeting the Untapped Potential of NEET

Refocus on Financial Literacy Programs. Credit unions are preeminently qualified to offer financial education workshops tailored to young people, introducing them to banking concepts and potential career paths. Many credit unions have pulled back on these initiatives; refocusing them is a strategic move that promises better returns.

Partner with Schools and Colleges. This can include information about careers or internship opportunities that can provide an alternative to those at risk of becoming NEET

Offer Apprenticeship Programs designed explicitly for NEETs. These programs, which combine on-the-job training with classroom instruction, can make a significant social impact by providing opportunities for NEETs.

Increase Digital Skills Training and offer these to attract tech-savvy youth. This is an opportunity to provide digital banking and fintech courses, such as ‘Introduction to Digital Banking’ and ‘Fundamentals of Fintech’ to attract tech-savvy individuals. This also serves to create a more robust internal digital banking curriculum to bridge the existing skills gaps.

Continue with the basics that make credit unions so valuable to the community

Local Partnerships: Work with community organizations and government agencies that work with NEETs to create referral programs and job placement services.

Youth Advisory Board: Establish a youth advisory board to provide insights on how credit unions can better serve and employ young people.

Flexibility is still a major draw for employees

Flexible Work Arrangements	Offer part-time, hybrid, or remote work options to accommodate NEETs who may have caregiving responsibilities or other constraints.
Entry-Level Positions	Have a clear career path with defined milestones and pathways for advancement designed to accommodate those with limited work experience.
Mentorship Programs	Pair new NEET hires with experienced credit union professionals – it just so happens that many Gen-X prefer to provide mentor-like support.

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Top 3 Drivers for Employee Attraction

Pay (Including Bonus) 56%

Job Security 35%

Flexible Work Arrangement 32%

Top 3 Drivers for Employee Retention

Pay (Including Bonus) 43%

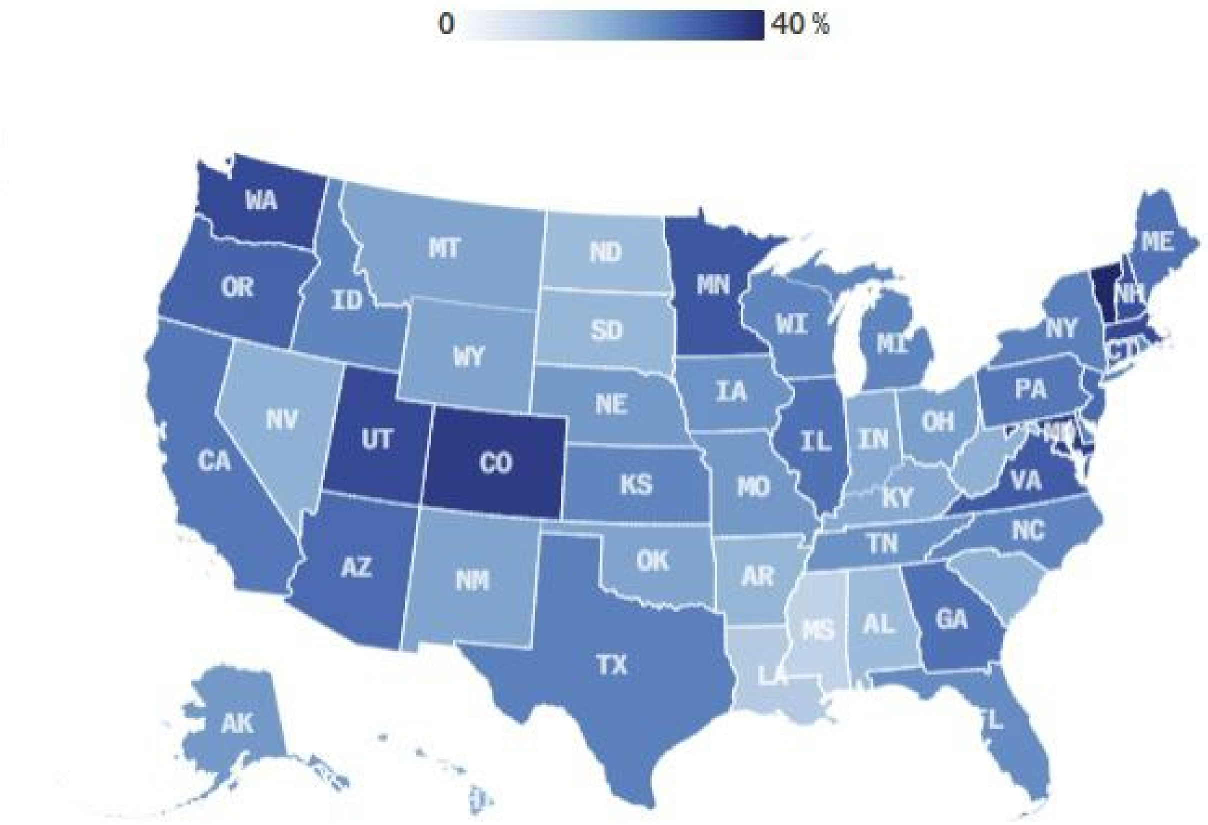
Job Security 39%

Working Environment 32%

Source: 2024 WTW Benefits Attitudes Survey

America's Remaining Remote Work Hot Spots

[% who said that someone in household had teleworked / worked from home in the last 7 days, May 28 - Jun 24]



Flexible work arrangements are still prevalent

Utilize the market trends to craft a strategy that will be most competitive

Source: Census Bureau Household Pulse Survey

3

Frontline Managers: The First-Line of HR

Human Resources has long been on an island. The concept has been the same as other departments: specialize in what that department does and then manage that process.

Shifting HR from managing the process to leading the function is a precedent that we have been discussing. However, it is now more important than ever to invest in expanding the HR process through different avenues.

With laws changing constantly and the push for transparency, expanding the reach and scope of the HR process through the frontline managers is a great first step in boosting the key performance indicators across the board.

80% of the world's workforce falls under the frontline category.

60% of a company's leadership are frontline managers.

40% of frontline managers are in their first year of leadership.

70% of them want more training to do better in their jobs but are not receiving it.

Frontline managers are the backbone of most organizations, overseeing the majority of the workforce.

Despite their critical position, many are underprepared and under-supported, missing the opportunity to act as the first-line of HR in addressing employee concerns and fostering a positive work environment.

By investing in their development through comprehensive training and mentorship programs, companies can empower frontline managers to lead effectively and manage human resources proactively, ultimately driving greater employee satisfaction and organizational success.

Source: Beekeeper Frontline Workforce Pulse Report 2024

Why should you develop the frontline managers' skills in HR?

Bridge the gap:

Frontline managers act as a crucial link between upper management and frontline employees. They communicate organizational strategies and gather feedback from employees, making them pivotal in implementing HR policies and practices.

Large direct impact on employee engagement:

The effectiveness of frontline managers directly influences employee engagement and morale. Their increased ability to motivate and support employees can lead to improved performance and job satisfaction.

Compliance and Regulation:

Regulatory compliance is critical. Arming managers to speak accurately and articulately about pay transparency will allow critical information to flow in a manner which will build confidence that pay is considered fairly. Perception is reality.

Be Strategic:

Target key areas of HR for the greatest returns, such as pay transparency – it is only going to become more relevant.

Prepare the Team

Comprehensive Training Programs:

- Develop training that covers HR fundamentals, pay structures, and compensation policies specific to the credit union.
- Include modules on effective communication, especially regarding sensitive topics like pay.

Understand Pay Transparency:

- Educate managers on the importance and benefits of pay transparency, such as fostering trust, promoting equality, and enhancing the employer reputation.
- Train them on relevant laws and regulations regarding pay transparency in your area. If there are none specifically, it is time to plan for it and what your pay philosophy should say about it.

Communication Skills:

- Develop managers' ability to have open and honest conversations about pay.
- Train them in handling difficult questions and addressing employee concerns.

Prepare the Team

Compensation Philosophy

- Ensure managers understand and can articulate the credit union's compensation philosophy.
- Help them explain how pay is determined based on performance, experience, and market benchmarks.

Pay Equity

- Train managers to recognize and address potential pay disparities – salary ranges help with this significantly.
- Educate them on the importance of fair and equitable compensation practices.

Change Management

- Prepare managers to lead their teams through changes in pay transparency policies
- Managers must be prepared to lead their teams through pay transparency policies, such as increased disclosure of salary information or new evaluation criteria. These changes can occur faster than expected, so preparedness is key.
- This preparation will ensure they can effectively manage employee reactions and expectations, fostering a sense of security and confidence in their leadership.

Like many roles, frontline managers are expected to manage a significant range of responsibilities. It is time to rethink their role as part of a broader effort to reshape workforce expectations. Specifically, equipping frontline managers with HR training is crucial for fostering better relationships and creating a more unified workforce.

Too often frontline managers feel overwhelmed or uncertain about handling sensitive topics, which can lead to deferring employee concerns to HR. This practice creates an 'us vs. them' mentality and undermines the manager's authority and autonomy. Organizations can promote a more cohesive work environment by empowering managers to address issues directly.

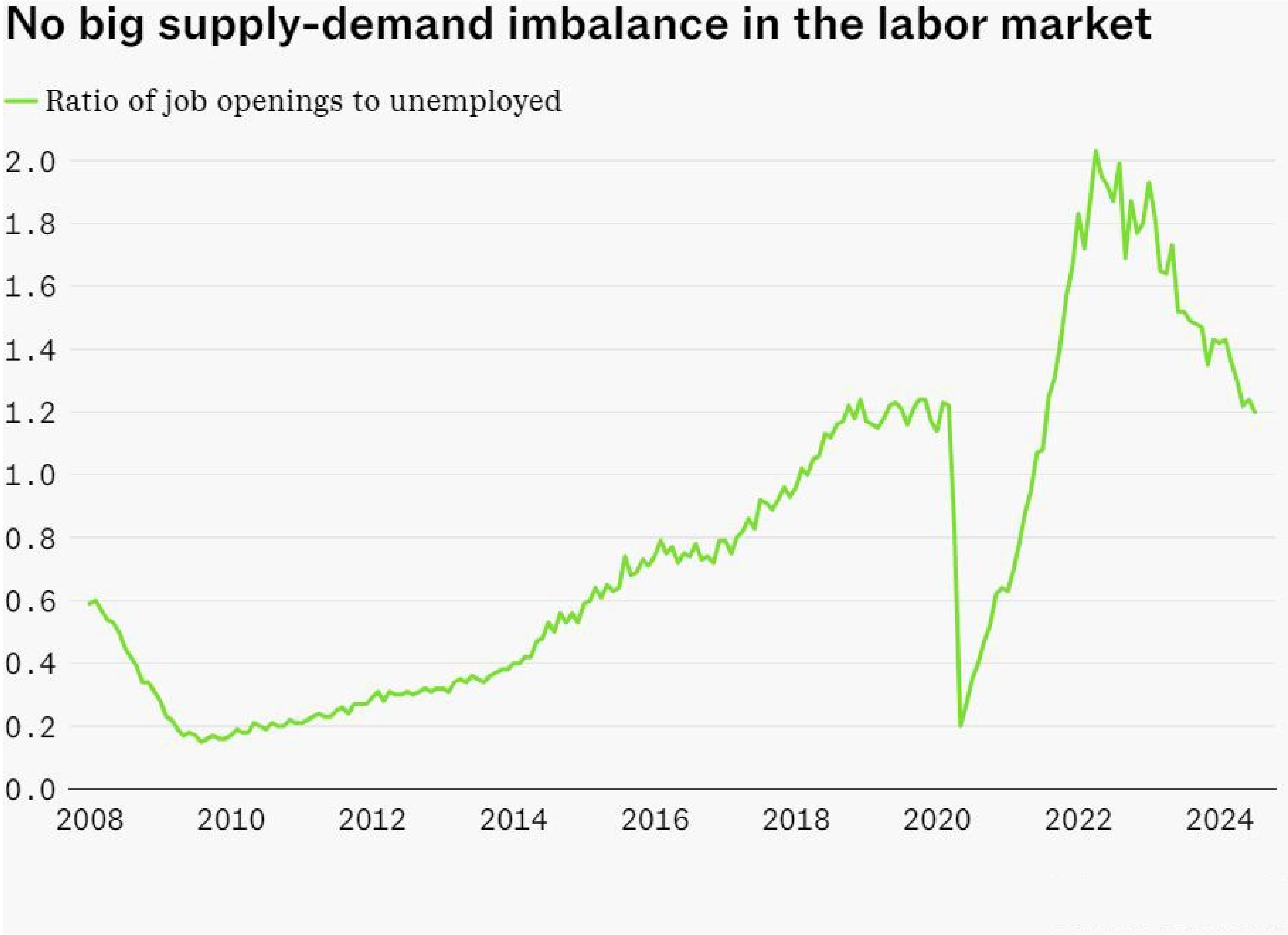
Credit unions should invest in ongoing training to help frontline managers confidently handle HR issues. This approach ensures that employees feel supported early on and fosters a culture of trust and collaboration.

D. Hilton's 2025 Budgeting Forecast

The U.S. labor market is experiencing several key trends, with changes in wage growth, job turnover, and public perception all impacting the overall economic outlook. Understanding these dynamics is crucial for assessing the potential direction of employment, wage pressures, and economic growth in the coming quarters.

These labor market factors will significantly influence salary budget projections for 2025. As wage growth trends slow and perceptions of job availability decline, companies may adjust their compensation strategies accordingly. Anticipated lower turnover rates and potential increases in layoffs could lead to more conservative salary budget allocations. Understanding these shifts will be essential for making informed decisions about employee compensation and financial planning for the upcoming year. Here are some of the critical factors shaping the labor market today.

Use caution when considering the job opening metric



Along with NEETs impacting this metric, 13.2% of retired boomers started a new job and effectively "unretired" as inflation and prices cut into savings.

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Job growth during long economic expansions often includes individuals not actively job hunting the previous month, making the measure of potential workers less reliable.

Due to this, the metric used to gauge potential workers (the denominator) is not ideal for assessing the actual size of the labor force.

Job openings are not a strong indicator of labor market tightness, as adding job postings only sometimes correspond to actual labor market changes.

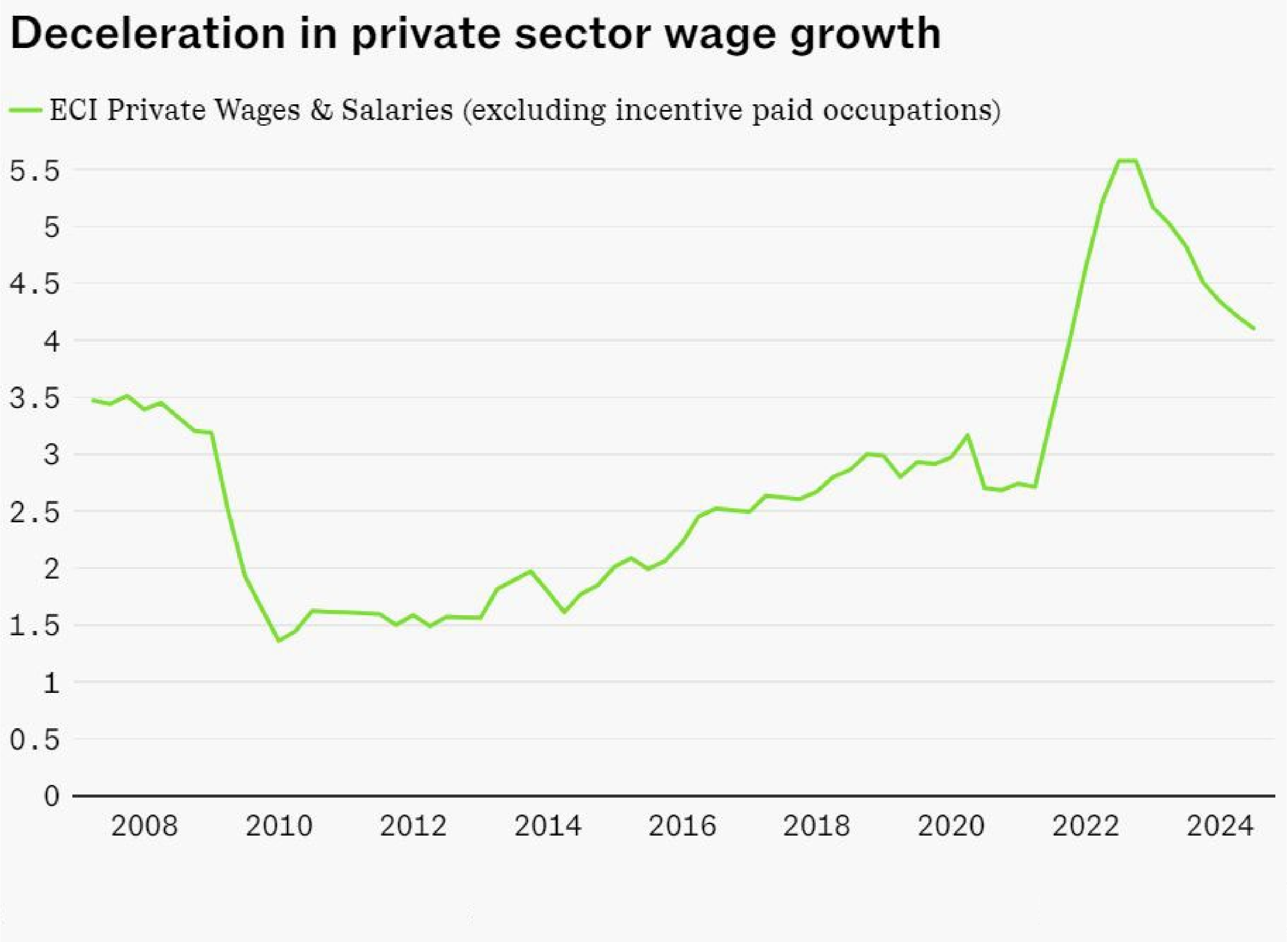
Source: Bureau of Labor Statistics / Sherwood

Quitting a job usually indicates confidence in having a better opportunity, while hiring directly impacts the job market.

The current private sector quits rate (2.3%) is lower than pre-pandemic levels, and the hiring rate is close to its 2020 low.

The labor market has low turnover, with a low firing rate, but if economic growth slows further, layoffs are more likely to increase than hiring.

Source: Bureau of Labor Statistics / Sherwood



The Employment Cost Index, a key measure of wage pressures used by the U.S. Federal Reserve, showed that annual growth in private wages and salaries (excluding incentive-based roles) slowed to 4.1% in the second quarter, the lowest rate since 2021.

Wage growth remains high, partly due to delayed catch-up pay increases for unionized workers, following changes in market compensation.

With a decline in quit rates, compensation costs could decrease in the coming quarters, reducing upward pressure on inflation and creating downside risks for both growth and inflation.

Source: Bureau of Labor Statistics / Sherwood

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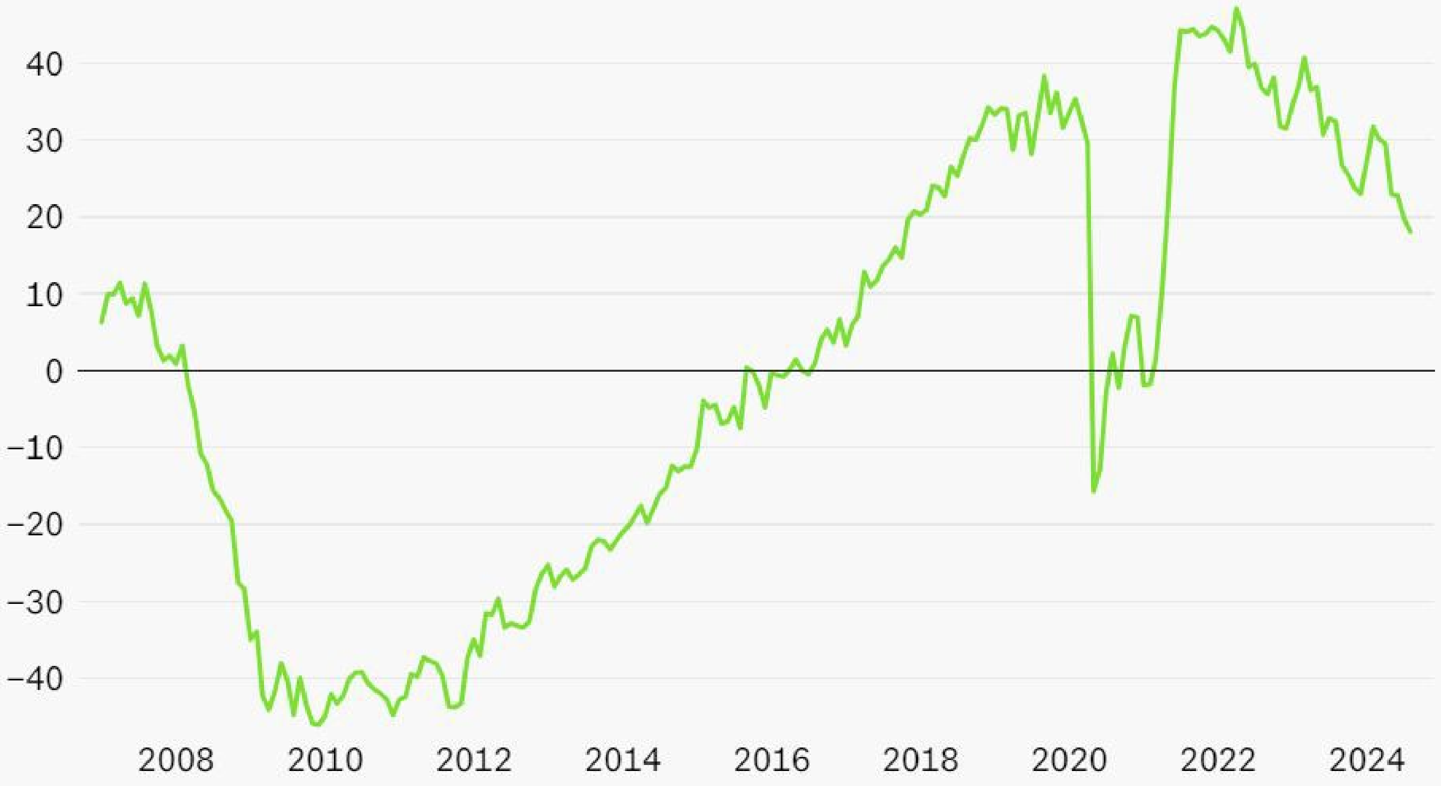
Vibe shift on the labor market

The share of Americans think jobs are "plentiful" versus "hard to get" is narrowing



Americans' perceptions of the labor market are becoming more negative.

The Conference Board's "labor differential," which measures the gap between those who think jobs are plentiful and those who believe jobs are hard to find, is decreasing.

This metric, which typically trends opposite to the unemployment rate, is continuing to decline.

Source: Bureau of Labor Statistics / Sherwood

D. Hilton 2025 Budget Forecast

Capital Concerns
<7% Capital
86 Credit Unions (1.8%)

Forecasts
Staff Merit Increases
0.0% - 2.5%

Executive Merit Increases
2.5% - 3.5%

Sufficiently Capitalized
7% - 10% Capital
1,317 Credit Unions (28.2%)

Forecasts
Staff Merit Increases
3.0% - 4.0%

Executive Merit Increases
4.0% - 6.0%

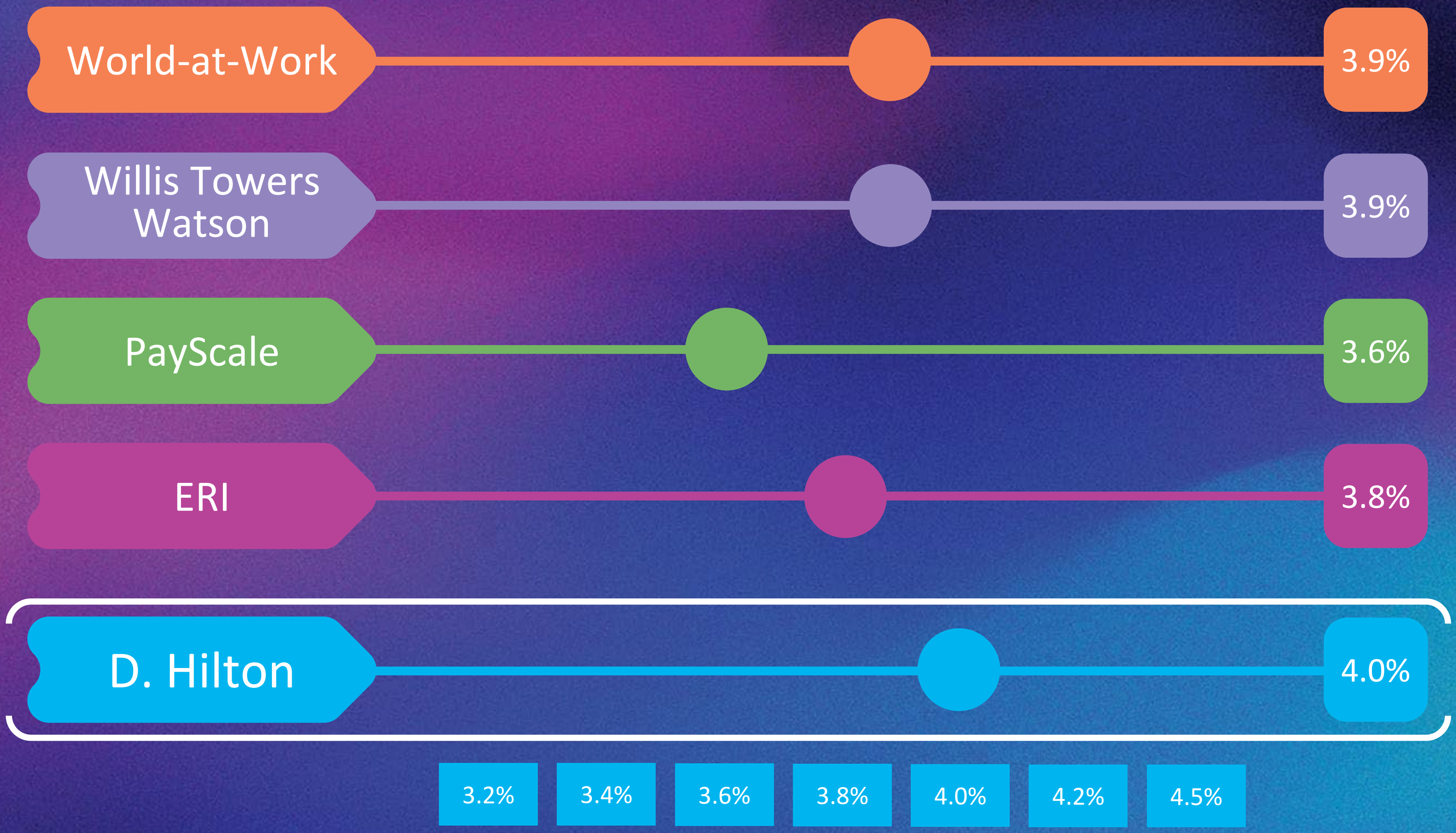
Well Capitalized
>10% Capital
3,267 Credit Unions (70.0%)

Forecasts
Staff Merit Increases
4.0% - 5.0%

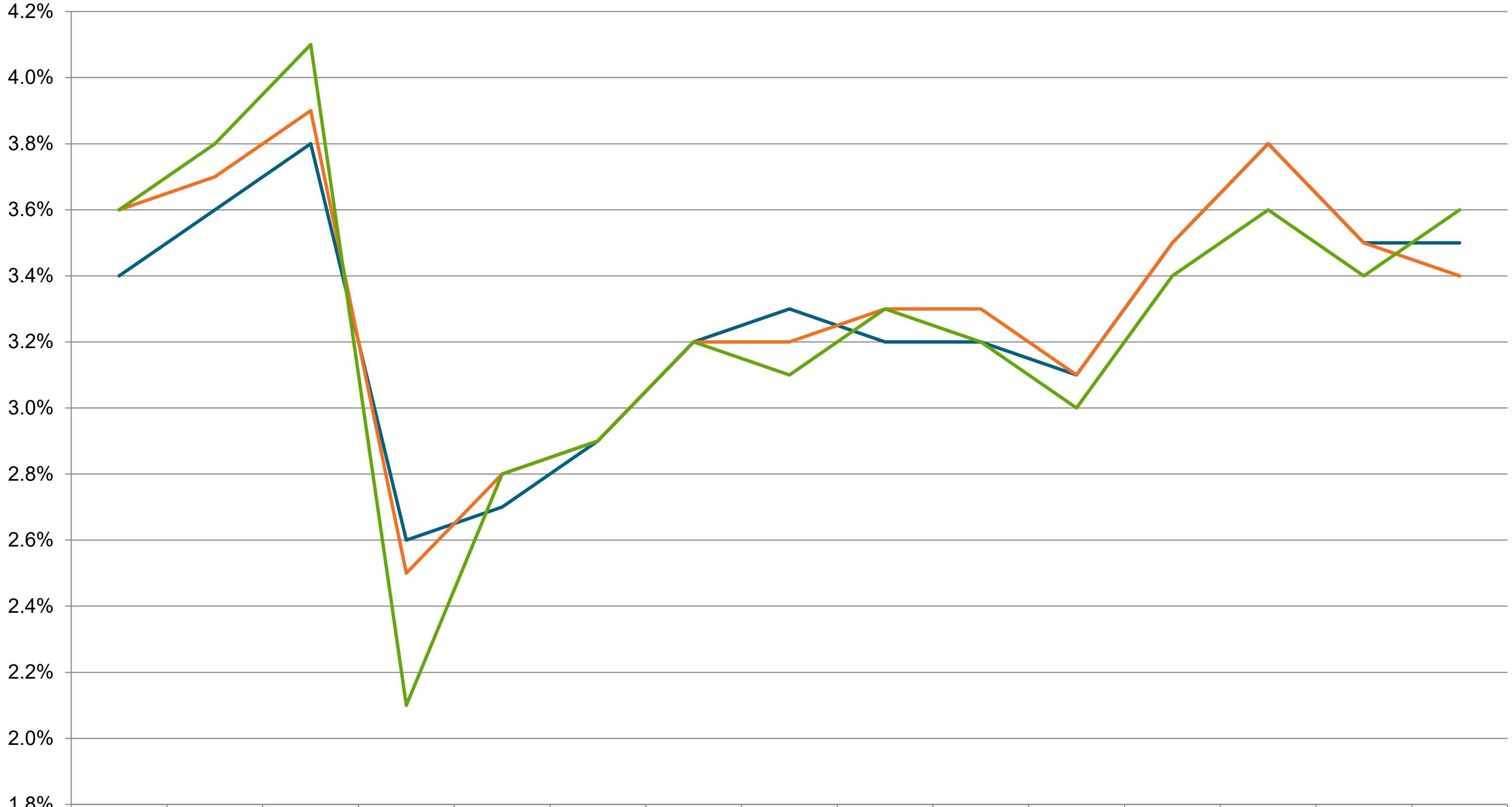
Executive Merit Increases
5.5% - 7.5%

Salary Range Increases
Non-Exempt: 2.25% Exempt: 2.50% Executives: 3.00%

U.S. Salary Budget Forecast 2025



U.S. Salary Budget Forecast 2025



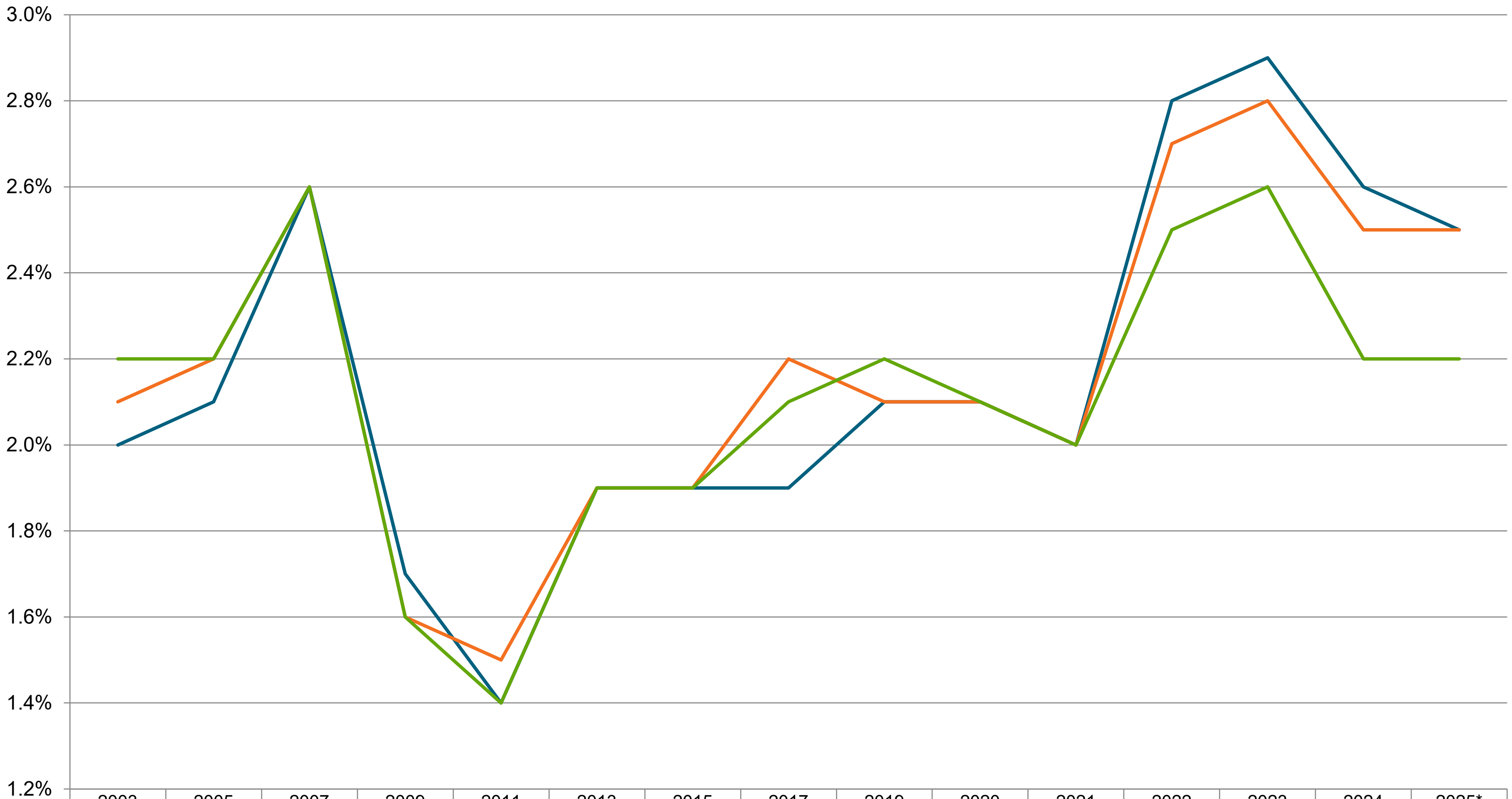
	2003	2005	2007	2009	2011	2013	2015	2017	2019	2020	2021	2022	2023	2024	2025*
Nonexempt	3.4%	3.6%	3.8%	2.6%	2.7%	2.9%	3.2%	3.3%	3.2%	3.2%	3.1%	3.5%	3.8%	3.5%	3.5%
Exempt	3.6%	3.7%	3.9%	2.5%	2.8%	2.9%	3.2%	3.2%	3.3%	3.3%	3.1%	3.5%	3.8%	3.5%	3.4%
Executives	3.6%	3.8%	4.1%	2.1%	2.8%	2.9%	3.2%	3.1%	3.3%	3.2%	3.0%	3.4%	3.6%	3.4%	3.6%

*projected

WorldatWork 2024-2025 Salary Budget Survey

2025 National Compensation Forecast

Salary Range Adjustment Trends



	2003	2005	2007	2009	2011	2013	2015	2017	2019	2020	2021	2022	2023	2024	2025*
Nonexempt	2.0%	2.1%	2.6%	1.7%	1.4%	1.9%	1.9%	1.9%	2.1%	2.1%	2.0%	2.8%	2.9%	2.6%	2.5%
Exempt	2.1%	2.2%	2.6%	1.6%	1.5%	1.9%	1.9%	2.2%	2.1%	2.1%	2.0%	2.7%	2.8%	2.5%	2.5%
Executives	2.2%	2.2%	2.6%	1.6%	1.4%	1.9%	1.9%	2.1%	2.2%	2.1%	2.0%	2.5%	2.6%	2.2%	2.2%

*projected

WorldatWork 2024-2025 Salary Budget Survey

Employer Healthcare Costs Are Projected to Hit A 10-Year High in 2025.

Healthcare Cost Increase: Projected healthcare costs for employers are expected to rise by 8% next year, marking the largest increase in over a decade (up from this year's 6%).

Historical Growth: Since 2017, actual healthcare costs for employers have grown by 50%.

Drivers of Cost Surge: Specific factors contributing to the predicted increase in employer healthcare spending include various economic, demographic, and policy changes.

Increasing Priority for Mental Health Services: Employers are prioritizing mental health services, especially due to high rates of depression and anxiety among adolescents and young adults.

Focus on Accessibility: 79% of employers in a survey indicated that improving access to mental healthcare is a priority for 2025, with strategies including low-cost virtual counseling, removing out-of-network barriers, and providing on-site counselors.

Source: 2025 Employer Health Care Strategy Survey

About D. Hilton Associates

Compensation Services

- Executive Compensation Plan Design & Administration
- Variable Pay & Sales Plan Design
- Staff Salary Administration Program Review

Retention & Retirement

- Evaluation & Benchmarking (SERP, 457(b), 457(f), 401(k), Split Dollar)
- Design & Implementation (SERP, 457(b), 457(f), 401(k), Split Dollar)
- Ongoing Review (SERP, 457(b), 457(f), 401(k), Split Dollar)

Executive Recruiting

- CEO Retained Executive Search
- Executive Level Search
- Executive Management Succession Planning

Strategic Services

- Market Research
- Mergers
- Strategic Planning

Board Leadership

- Development
- Strategy
- Succession

For 40 years, D. Hilton Associates, Inc. has been the leader in executive recruiting and compensation advisory for the financial services industry. The firm employs 35 full-time employees in five major practice areas.

The Leader in Credit Union Executive Recruiting & Compensation Advisory

Our commitment to clients is straightforward:

- You will have access to the best data from which to make decisions.
- You will make strategic business decisions, not compensation decisions.
- You will not let compensation become an emotional decision.

D. Hilton consultants are results-driven, independent, and focus on custom solutions for our clients. We cherish our autonomy. We do not accept third-party endorsements, which allows us to be true thought leaders.

Should you, your fellow executives, or your volunteers have any questions related to D. Hilton's services, please see our website at www.dhilton.com or contact **John Andrews at (800) 367-0433, ext. 124**

Experienced
(100+ Years Combined)

Results Driven
(No cookie cutter approaches)

Independent
(No third-party endorsements)

Industry Thought Leaders
(Fresh approaches on relevant topics)

Collaborators
(Mutual understanding on outcomes)

Total Comp Focus
(Pay-for-Performance Philosophy)

Fixed-Fee Costs
(No surprises or hidden costs)

Confidentiality
(Data is safe and sound)

Agile
(Not afraid of change or uncertainty)

Forbes 2024
AMERICA'S BEST EXECUTIVE RECRUITING FIRMS
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Forbes 2023
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Contributors

John W. Andrews, CCP, CSCP, SPHR
Executive Vice President

Jeff Rock, PHR
Vice President

d. hilton associates inc.