A startup leader's guide to building an effective compensation strategy

Strategically plan and implement a data-driven compensation strategy to attract and retain talent, manage financial resources, and align your company's goals with employee incentives.

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Introduction

Find out how to strategically plan and implement a data-driven compensation strategy that can help you attract and retain top talent, manage financial resources effectively, and align your company's goals with employee incentives.

Compensation planning is a critical aspect of managing a startup, but it can be challenging to get right. It's not just about setting salaries; it's about creating a comprehensive strategy that aligns with your company's goals, values, and financial capabilities. Each decision you make about compensation can significantly impact your ability to attract and retain top talent, manage your financial resources, and foster a motivated and committed workforce.

In this guide, we'll cover everything you need to know about compensation planning.

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Compensation overview

Employee compensation refers to the payment employees receive in exchange for their work or services. While seemingly straightforward, compensation planning is complex and can significantly impact your startup's success or failure, so it's important to approach it thoughtfully.

Types of compensation:

Compensation can be broken into two categories: direct compensation and indirect compensation. Direct compensation is what most people traditionally think of as pay while indirect compensation includes benefits, like health insurance, retirement plans, etc. Total rewards encompasses both pay and benefits.

Direct compensation

Base pay

Often the cornerstone of total rewards, it can vary by location to stay competitive in local markets.

Bonuses

Variable compensation tied to performance or company goals. Annual company bonuses or commissions are examples.

Equity compensation

Stock options, restricted stock awards (RSAs), or restricted stock units (RSUs) encourage long-term commitment by giving employees and other key contributors a stake in the company's success.

Indirect compensation (benefits):

- Medical insurance (healthcare)
- Dental and vision coverage
- Retirement benefits
- Wellness benefits (such as gym reimbursement)
- Educational incentives or continuous-learning stipends
- Well-being benefits (coaching, meditation, therapy)
- Volunteer opportunities
- Flexible spending accounts (FSA)
- Flexible work opportunities (hybrid work)
- Paid time off (PTO), sick leave, and paid holidays
- Life insurance and disability insurance (DI)
- Company equipment (such as a laptop)
- Reimbursement for childcare expenses
- Relocation stipends or housing options
- Reimbursement for work-from-home costs
- Commuter benefits

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How to create a compensation philosophy

A good compensation philosophy outlines your strategy to hire, retain, and reward talent. It can help you hire affordably, competitively, and fairly.

What is a compensation philosophy?

A compensation philosophy is a statement that outlines your company's approach to employee compensation. It serves as a framework for making consistent and fair compensation decisions and defines, on a high level, your strategy to hire, retain, and reward talent.

Before hiring, take time to document your compensation strategy. This foundational statement should be revisited as your company grows and market conditions evolve, ensuring it remains relevant and effective. Establishing a clear compensation philosophy early on lays the groundwork for equitable compensation practices as your startup scales.

Things to consider

Company values and culture

Ensure that your compensation philosophy reflects your company's core values and culture. For instance, a company that values teamwork might prioritize team-based bonuses over individual performance bonuses.

Market positioning

Determine your company's compensation strategy in relation to the market. Decide whether you want to lead the market, meet the market, or lag behind. Some companies may choose to lead the market (exceed median levels) in certain types of compensation, such as equity, while meeting or lagging in others, such as salary. For instance, an early-stage company with limited cash might meet the market for salary but lead the market for equity compensation.

Pay mix

Define the balance between base salary, bonuses, and equity compensation. For startups, this often involves a higher proportion of equity to conserve cash while offering potential long-term value.

Incentive plans

Clarify how individual and company performance will influence compensation. This might include performance-based bonuses or equity grants.

Things to consider (continued)

Transparency

Decide on your approach to pay transparency. Will you openly share salary ranges and equity information, or keep it more confidential? Some companies publish their salary bands and equity allocation policies to promote transparency.

Equity philosophy

Outline your approach to equity compensation, which is especially important for startups. This includes how you'll allocate equity among different roles and levels.

Review and adjustment process

Establish how often you'll review and adjust compensation, and what factors will drive these decisions. For instance, annual reviews might be based on market data, company performance, and individual performance.

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How to create your compensation philosophy

Define your objectives

Establish a clear compensation philosophy that aligns with and supports your overall business strategy. This involves identifying the primary goals of your compensation strategy and determining how to balance various objectives like attracting top talent, retaining key employees, and incentivizing performance. Ensure your compensation approach reinforces your company's values and long-term business objectives.

Analyze market data

Conduct market research and use compensation benchmarks to understand compensation trends in your industry and region. Use this data to inform your compensation decisions.

Engage stakeholders

Involve key stakeholders, including founders, HR leaders, and department heads, in the development process to ensure alignment and buy-in.

Document and communicate

Once developed, document your compensation philosophy and communicate it to all employees. Ensure that everyone understands the principles and rationale behind it.

Implement and monitor

Implement the compensation philosophy and continuously monitor its effectiveness. Be prepared to make adjustments as needed based on feedback and changing business conditions.

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Compensation philosophy examples

How exactly do compensation philosophies work in practice? Here are a couple of (hypothetical) examples to consider.

Company A is a well-funded Series D startup that's busy building infrastructure to scale. The company decided early on to compensate engineers more highly than other employees, as they're essential to success. They aim to lead the market by paying engineers in the 75th percentile (better than 75% of companies of the same size in their region) for equity. They're looking to pay all other roles at the 50th percentile of the market. To make employees feel valued, Company A has an annual bonus plan for everyone and grants equity at the 50th percentile across the board.

Sample philosophy based on job type

Job type	Target market percentile
Engineering and Design	75th percentile equity
All others	50th percentile equity

Company B is a seed-stage startup that launched last year and has raised $800,000. The company is only able to pay salaries at the 25th percentile, and it has chosen not to pay an annual bonus. However, hiring the first employees at such a small company comes with the opportunity to offer significant equity. They're targeting the 75th percentile of the market for their first five hires and have decided to revisit their philosophy in a year.

Sample philosophy based on compensation type

Type	Target market percentile
Salary	25th percentile equity
Equity	75th percentile equity

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How to calculate the size of your option pool

An option pool, also known as an equity pool, is a block of shares set aside by a company to issue equity to employees, advisors, consultants, and other service providers. The equity granted from the pool can take various forms, including stock options, RSAs, and RSUs.

Calculating the size of your option pool is a critical task for startup leaders, since it impacts your ability to attract and retain talent while managing dilution for existing shareholders. This chapter will guide you through the process of determining the appropriate size for your option pool.

Why do you need an option pool?

Issuing equity compensation is a standard practice in the startup ecosystem since it allows startups to attract and retain talent without significantly impacting cash flow. Additionally, venture capital investors often require startups to have an option pool in place as part of their funding agreements.

How option pools work

Your option pool is part of your cap table, the record that details and tracks all ownership in your private company, including that of founders and investors.

An option pool can also be used as a budget planning tool to help plan your hiring while maintaining a strong investor-relations strategy. By forecasting how much equity you need to reserve for new hires between each funding round, you'll help your investors understand exactly what percentage of your company they own and have more certainty around future dilution.

How big should your option pool be?

Determining the size of your option pool involves balancing the need to attract talent with the need to manage dilution. The size of the pool should be sufficient to cover equity grants for new hires and refresh grants for existing employees until your next funding round. According to Carta data, early-stage companies typically expand their equity pool at each funding round, with the average time between rounds being 18 months to 2.5 years.

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Methods to size your option pool

There are two primary methods to size your option pool: the bottoms-up approach and the top-down approach. Using both methods can help ensure that your pool is appropriately sized.

Bottoms-up approach

The bottoms-up approach involves building your equity pool based on your company's specific hiring needs and compensation plan. Here are the steps:

Create a hiring plan

Outline your company's expansion needs and projected team growth until your next expected funding round.

Assign planned equity grants

Allocate equity grants to each role based on industry benchmarks related to company stage, function, and seniority.

Calculate total equity needs

Sum the total equity required for planned new hires and refresh grants for existing employees.

Tools like Carta's New Hire Equity Forecast report can help you calculate the approximate number and value of shares needed for your hiring plan. Keep in mind that early employees may require more equity due to the higher risk they are taking by joining a young company.

Top-down approach

The top-down approach uses comparable company data to inform your option pool size. A common rule of thumb is that the option pool should represent about 12–13% of company shares. However, this percentage can vary based on factors such as company stage and industry benchmarks. While this approach provides a useful check, it is less precise than the bottoms-up method.

Managing dilution

Creating a new option pool or resizing an existing pool dilutes existing shareholders' ownership, including a founder's. However, the first option pool usually only dilutes a founder's shares because there are typically no other shareholders at that time. For example, if a founder owns 10,000 shares (100% of the company) and creates an option pool of 1,500 shares, the total number of shares becomes 11,500. The founder's ownership percentage decreases to approximately 87% (10,000/11,500).

Option pools and funding rounds

Option pools and their effect on dilution become especially important during funding rounds, when investors seek to provide your company with funding in exchange for percentage ownership. When investors offer a term sheet to a company, they usually include a target option pool percentage as a core pricing term. The option pool increase is typically counted in the "pre-money shares" and won't dilute the incoming investor. Option pool increases after the financing round, however, will equally dilute all stockholders, including the investors. By mapping out your key hires and their equity needs over the next year or two, you can negotiate a realistic option pool size with investors.

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How to level and pay employees fairly

Job leveling is a crucial component of a fair and effective compensation strategy. It provides a structured framework for defining roles, responsibilities, and compensation across your organization. This chapter will guide you through the process of creating and implementing a job leveling system to ensure fair and competitive compensation for your employees.

What is job leveling?

Job leveling is the process of creating a framework that defines a set of job expectations that remain consistent across departments. As part of your compensation plan, a job leveling framework outlines the skills, knowledge, competencies, and level of responsibility associated with each role.

By linking each job level to a compensation range, you can ensure fair and competitive valuation of your employees' contributions.

The importance of job leveling

While it may seem less urgent than immediate hiring needs, implementing a job leveling framework is crucial for long-term success and efficient growth.

Here's why:

Employee retention

A clear job leveling framework provides employees with a visible career progression path. Research shows that workers who can't see a clear career progression within their company are more likely to seek opportunities elsewhere.

Fair compensation

A structured leveling system helps maintain consistency in pay, job titles, bonuses, and equity grants across the organization. This is especially important as your company grows and hiring becomes more competitive.

Simplified decision-making

With a leveling framework in place, fitting new employees into existing structures becomes straightforward and understandable to all parties involved.

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Creating a job leveling framework

To create an effective job leveling framework, consider the following steps:

Define levels

Establish a set of levels that cover the range of roles in your organization. For example, Carta's framework contains levels from 1 to 11.

Create dual tracks

Recognize that not all career paths lead to management. Consider creating separate tracks for Individual Contributors and Managers.

Define expectations

For each level, clearly outline expectations in the following areas:

- Description of the role
- Complexity of tasks
- Autonomy and scope of responsibility
- Leadership expectations

Adjust for company stage

Recognize that early-stage startups may not have employees at every level. Start with a basic framework that you can expand as your company grows.

Job leveling guide

Implementing a job leveling framework is a critical step in creating a fair and transparent compensation strategy. It provides clarity for employees about their career progression, ensures consistency in pay decisions, and helps your company scale efficiently.

Remember, the goal is to create a system that is clear, fair, and flexible enough to grow with your company. By investing time in developing a robust job leveling framework now, you'll be setting your startup up for long-term success in attracting, retaining, and fairly compensating top talent. On the next several pages, you'll see Carta's job leveling framework, which you can use to create your own.

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Job Leveling Framework: IC Track

	L1	L2	L3	L4	L5
Example Title & Role Description	**Associate/Specialist I** Acquires job skills and learns company policies and procedures to complete routine tasks.	**Associate/ Specialist II** Learns to use professional concepts. Applies team procedures to solve routine problems.	**Associate/ Specialist III** Developing professional expertise, applies company policies and procedures to resolve a variety of issues.	**Senior I** A seasoned, experienced professional with a full understanding of area of specialization; resolves a wide range of issues in creative ways.	**Senior II** Having wide-ranging experience, uses professional concepts and company objectives to resolve complex issues in creative and effective ways.
Job Complexity	Works on assignments that are routine in nature, requiring limited judgment.	Works on problems of limited scope. Follows standard practices and procedures to solve problems. Builds stable working relationships internally to further problem-solving.	Works on problems of moderate scope and calls upon multiple known practices and procedures to solve problems. Exercises judgment within defined procedures and practices to resolve day-to-day problems. Builds productive internal/ external working relationships.	Works on problems of diverse scope and has a developed sense of how to solve problems when in unknown territory. Demonstrates good judgment in selecting methods and techniques for obtaining solutions and escalating issues. Networks with senior internal and external personnel in own area of expertise.	Works on complex issues where analysis of situations or data requires an in-depth evaluation of variable factors. Exercises judgment in selecting methods, techniques, and evaluation criteria for obtaining results. Networks with key experts outside own area of expertise.
Autonomy & Scope	Normally receives detailed instructions on all work. Requires supervision over both routine and non-routine work.	Normally receives detailed instructions on all work. Requires supervision over non-routine work.	Normally receives general instructions on routine work, detailed instructions on new projects or assignments.	Normally receives minimal instruction on day-to-day work. Seeks general instructions on new assignments.	Requires little oversight and reviewed only for technical integrity. Determines methods and procedures on new assignments and may coordinate activities of other personnel.
Leadership Responsibilities				Has some influence in planning and timelines. Gives actionable feedback that drives improvement. Coaches and mentors less experienced team members.	Helps others to learn and grow. Creates an environment to support a successful team. Coaches and mentors others within an immediate team.

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Job Leveling Framework: IC Track

	L6	L7	L8	L9
Example Title & Role Description	**Staff** Having broad expertise or specialized knowledge, uses skills to contribute to development of company objectives and principles and to achieve goals in creative and effective ways.	**Senior Staff** As an expert in the field, uses professional concepts in developing resolution to critical issues and broad design matters.	**Principal** A distinguished technical professional who guides a specialized and/or strategic functional/ product roadmap; viewed as an expert in their field.	**Fellow** Top individual contributor technical position in the organization who brings domain expertise and impact equivalent to that of a VP; a known expert in their field.
Job Complexity	Works on significant and unique issues where analysis of situations or data requires an evaluation of intangibles. Exercises independent judgment in methods, techniques, and evaluation criteria for obtaining results. Creates formal networks involving coordination among groups.	Works on issues that directly impact current and future business success. Creates formal networks with key decision makers and serves as external spokesperson for the organization.	Generally oversees creative research or advanced development in areas such as new technologies, product innovation, engineering materials, or next-generation processes. (Some organizations only allow individual contributors at this level in the engineering area, but others allow it anywhere in the company.)	Oversees applied research or advanced engineering in the development of new products, materials, or processes.
Autonomy & Scope	Acts independently to determine methods and procedures on new or special assignments. May supervise the activities of others.	Exercises wide latitude in determining objectives and approaches to critical assignments.	Directs and coordinates activities necessary to complete major projects, requiring a wide variety of technical skills. Consults with and provides guidance to senior management and a number of departments on advanced technical issues.	Directs and coordinates activities necessary to complete major projects, requiring a wide variety of technical skills. Consults with and provides guidance to senior management and a number of departments on advanced technical issues.
Leadership Responsibilities	Influences others to achieve team goals. Coaches and mentors others within immediate and peer teams. Supports a culture that is positive, inclusive, and engaging.	Leads by example in modeling the company's operating principles and identity traits and holds others accountable for doing the same. Delegates effectively and empowers others to execute tasks with accountability.	Role model for the company's operating principles and identity traits. Builds community across functional and product lines.	Champions the company's operating principles and identity traits and holds leaders accountable to demonstrate them. Sets an inspiring vision and strategic direction that's inline with company mission.

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Job Leveling Framework: Manager Track

	L4	L5	L6	L7
Example Title & Role Description	**Team Lead** Provides supervision to individual contributors (ICs), primarily in terms of work output and ability to meet team/role objectives. Acts as advisor to unit or sub-units and may become actively involved, as required, to meet schedules and resolve problems.	**Manager** Manages, perhaps through other Team Leads, the coordination of the activities of a section or department with responsibility for results.	**Senior Manager** Manages the work and teams of two or more departments. Oversees costs, strategies, and staffing. May have managers reporting to them depending on team size/need.	**Director** Leads a broad functional area through several department managers within the company. Has overall control of planning, staffing, budgeting, managing expense priorities, and recommending and implementing changes to methods.
Job Complexity	Works on issues within a defined team/procedural framework. Exercises judgment within defined procedures to determine appropriate action.	Works on issues of diverse scope and familiar with current business trends. Follows processes and operational frameworks to solve problems. Acts as advisor to reports to meet goals and resolve problems. Develops and administers goals, schedules, and performance requirements; may have budget responsibilities.	Works on issues that require in-depth knowledge of organizational objectives. Establishes and assures adherence to budgets, schedules, work plans, and performance expectations.	Works on complex issues that require an in-depth knowledge of the company. Participates in company creation of methods, techniques, and evaluation criteria for projects, programs, and people. Ensures budgets and schedules meet company requirements.
Autonomy & Scope	Receives defined objectives and processes by which to meet goals. Provides direction to employees according to established policies and management guidance. Management reviews work to measure meeting of objectives.	Receives objectives and determines how to use resources to meet goals. Provides guidance to reports in alignment with team frameworks. Recommends changes to frameworks and establishes procedures that affect immediate organization(s).	Establishes operational objectives and work plans and assigns work to the appropriate reports. Senior management reviews objectives to determine success. Involved in developing, modifying and executing work that affect immediate operations and may also have company-wide effect.	Participates with other senior managers to establish strategic plans and objectives. Makes final decisions on administrative or operational matters and ensures effective achievement of objectives.
Leadership Responsibilities		Guides individual goal-setting aligned to team objectives. Manages hiring and performance of direct reports. Develops a high-functioning and successful team.	Leads team goal-setting and defines deliverables and timelines. Responsible for hiring and overall performance of direct and skip-level reports.	Coaches and mentors others, including employees who do not directly report to them. Responsible for hiring senior talent and reducing the occurrence of single sources of knowledge within the team.

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Job Leveling Framework: Manager Track

	L8	L9	L10	L11
Example Title & Role Description	**Senior Director** Leads one or more functional areas, product groups or service areas through senior managers who have overall responsibility for the successful operation of those assigned areas.	**VP** Leads a complete functional area through multiple levels of management within the company. Has overall control of planning, staffing, budgeting, and approving changes to strategies and practices. Manages a team of directors and/or high-level individual contributors.	**SVP** Leads more than one functional area or product group through vice president level executive leaders who have overall operational responsibility for their assigned functions, geographic regions, and businesses.	**C-Suite/Executive**
Job Complexity	Consistently works with abstract ideas or situations across functional areas of the business. Through assessment of intangible variables, identifies, and evaluates fundamental issues, providing strategy and direction for major functional areas. Requires in-depth knowledge of the functional area, business strategies, and the company's goals.	Develops strategic plans to ensure achievement of objectives across one or more functional areas. Requires an in-depth knowledge of the company, competitive environment, technology and products, and economic or social implications of company activities. Participates in development of company strategies, priorities, and evaluation criteria for projects, programs, and people. Approves budgets and plans.	Consistently works with abstract ideas or situations across functional areas of the business. Through assessment of intangible variables, identifies and evaluates core issues, providing strategy and direction for major functional areas. Requires in-depth knowledge of the function, business strategies, and the company's goals as well as external factors affecting governance of company activities.	
Autonomy & Scope	Develops company and/or organizational policies and oversees their implementation. Detailed knowledge of company allows for innovative concepts and promoting new ideas. Provides direction to senior managers in various areas, groups, and/or operations.	Sets vision, direction, and resource allocation for a significant organization or business unit. Responsible for multiple functions, products, departments, and/or geographies. Develops and implements strategic plans and objectives for the organization in alignment with company strategy; oversees direction and approves administrative, operational, and budgetary decisions to ensure achievement of objectives.	Sets vision and direction through resource allocation decisions for multiple significant organizations or business units where each is typically led by an executive. Develops corporate and/or organizational strategies and authorizes their implementation. Provides vision and direction to senior managers in various groups, and/or operations.	Develops company-wide vision and the strategy to achieve highest company priorities.
Leadership Responsibilities	Drives and supports talent and succession planning within department.	Makes strategic decisions for hiring, departure, growth, and compensation in close partnership with the People Team.	Shapes a people-first culture that exemplifies kindness, promotes helpfulness, and assumes positive intent. Builds a strong leadership pipeline with a future focus. Inspires teams to work toward a shared vision and common goals.	Shapes a people-first culture that exemplifies kindness, promotes helpfulness, and assumes positive intent. Holds senior leadership accountable to living out the company culture defined by its identity traits and operating principles. Inspires business units to work toward a shared vision and common goals.

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Implementing fair pay with job leveling

Once you have established your job leveling framework, you can use it to implement fair pay practices:

Set pay bands

Associate each job level with a compensation range or pay band. This helps ensure consistency across roles at the same level.

Regular reviews

Conduct annual reviews of pay bands to keep up with market rates. Be prepared to adjust more frequently if recruiting feedback indicates a need.

Fairness checks

Regularly review your compensation plans to ensure job levels are being applied fairly and consistently across the company.

Use market data

Leverage tools like Carta Total Comp to access industry benchmarking data, ensuring your offers are competitive and informed.

Once you have established your compensation philosophy, created and correctly sized your option pool, and implemented a job leveling framework, the next step is making job offers that maximize your chances to hire the people you need for your company to grow. Even if you have not yet completed all those stages, a better job offer letter will increase your chances of hiring talent. Carta has a job offer letter template that you can download and customize for your specific needs.

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How to review your compensation plan

Regular compensation reviews are crucial for retaining top talent in your startup. By consistently evaluating and adjusting employee compensation, you can ensure your team remains motivated, valued, and aligned with your company's goals.

The importance of regular compensation reviews

Employee compensation doesn't end with an offer letter. The market changes quickly, and if your company is too slow to react, you risk losing high-value employees, being turned down by top talent, or burning through cash more quickly than necessary.

Regularly reviewing your compensation plan is essential for several reasons:

Market alignment

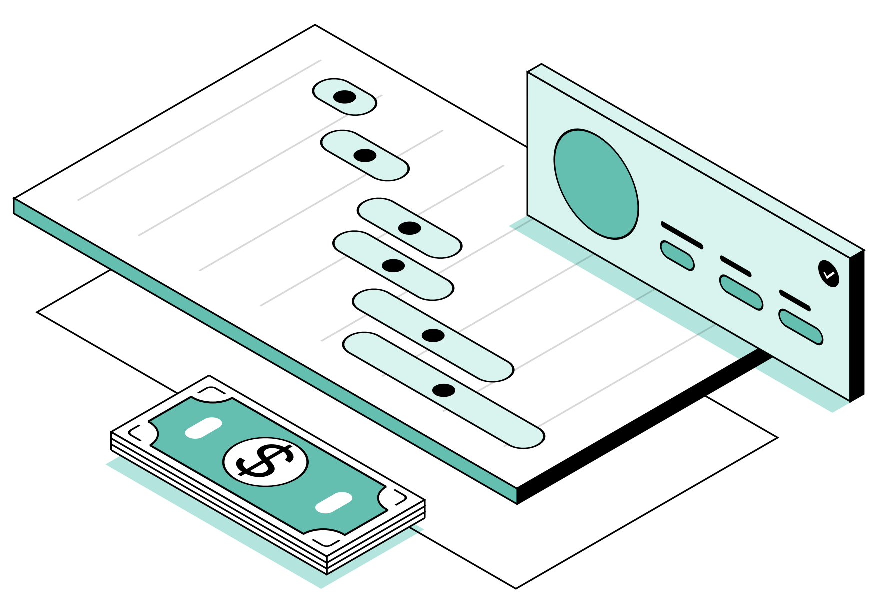
Ensuring your compensation remains competitive with market rates helps attract and retain talent.

Employee satisfaction

Regular reviews help address issues of employee equity and ensure that your top performers feel recognized and rewarded.

Strategic adjustments

Adapting your compensation plan based on market conditions and company performance helps maintain financial health and employee morale.



What to consider as you review compensation

Audit job levels and compensation bands

Accurately assigning job levels to each employee helps set expectations about their role and opportunities for advancement. Ensure that each job description accurately reflects the employee's responsibilities and corresponds to a compensation band. Regularly move top performers up within their compensation band as an incentive to stay, and have a clear plan for their promotion to the next job level.

Research salary and equity against the market

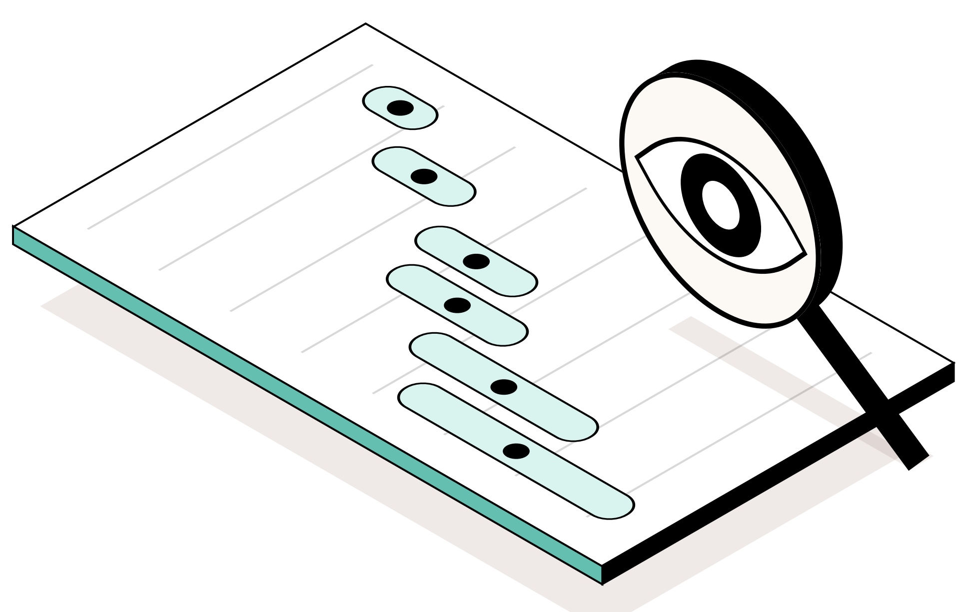
Once you have your job levels in a good place, make sure that existing salary and equity ranges, or compensation bands, are still relevant for your employees' location, industry, and role. You can do this by using Carta Total Comp, which uses data from our database of customers along with machine learning to establish salary and equity ranges.

Reward high-performing employees

Make sure that your top performers are compensated fairly to prevent attrition. If your compensation review process follows your performance review cycle, you'll have a good sense of who your top performers are and can easily adjust their compensation. You should also compare current employees' compensation to new hires to avoid discrepancies that could lead to low morale—especially since many states now have pay transparency laws, making pay discrepancies even more noticeable.

Plan for employees with vested equity

As employees approach the end of their initial vesting period (often four years), consider implementing equity refresh grants to keep them motivated.



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How to use equity for retention

Most startups grant equity compensation to new hires as part of their overall compensation package to incentivize them to join and stay at a company. But what about rewarding and incentivizing employees who have been at your company for a few years? Recruiting and training new employees is costly, so it's important to have strategies—like equity refresh grants— in place to retain your top performers.

Refresh grants

Refresh grants are additional equity grants given to employees to maintain their ownership stake in the company. They are crucial for retaining employees who have been with the company for several years and whose initial equity grants are halfway or fully vested.

Types of refresh grants

1 Time-based, retention, or tenure grants

These grants are given to employees when they reach a set tenure milestone or are completing vesting of their new-hire grant. These are aimed at retaining employees beyond the cliff of their new hire grant and are generally issued when the initial grant has vested at least halfway. You can calculate the number of shares to grant employees eligible for "refresh" or "tenure" grants with Carta's Equity Refresh Calculator.

Traditional annual refresh grant

Some startups treat equity refreshes like yearly salary raises and give a standard increase to all employees to stay competitive against the market. These grants start vesting immediately and vest over either one or four years on top of any other grants. As a business, this is easier to budget equity for but it can exacerbate the drop-off after year four because employees will never earn more equity than they do during their fourth year.

Boxcar grant

You grant equity to an employee at year two or three, but the new grant only starts vesting once the new hire grant is fully vested (after year four). These grants vest over one year vs. a traditional grant that vests over four years. This method avoids overlapping vesting periods while ensuring employees can take advantage of a lower stock option strike price and potentially pay less in taxes if your company valuation continues to rise.

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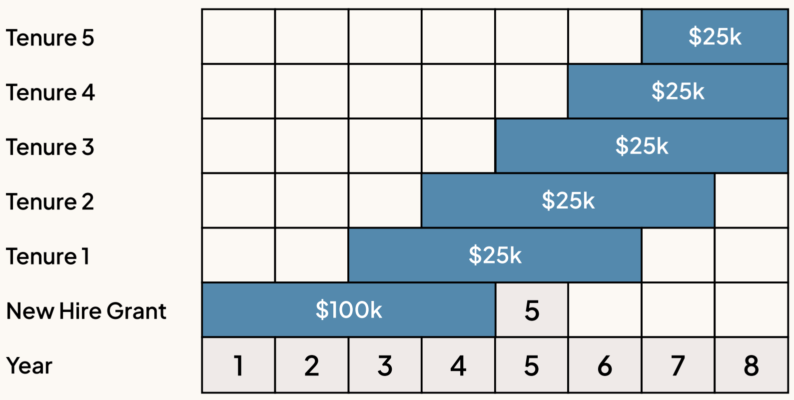
Tenure grant approach

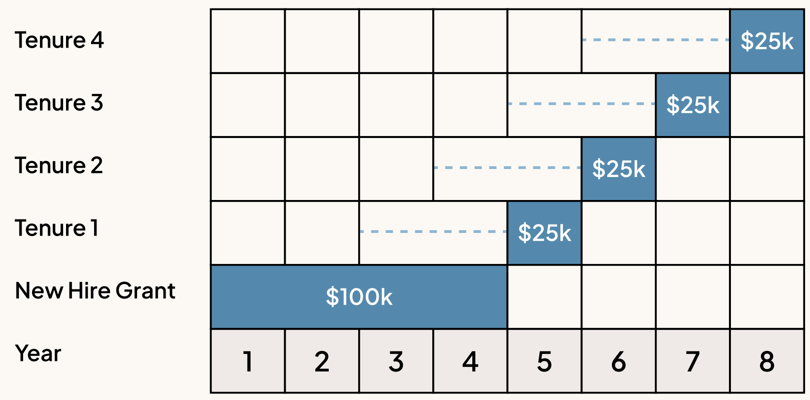
There are two types of vesting schedules.

Traditional: Grant vests over four years on top of any other grants.



Pro: Easy to communicate and immediate reward
Cons: Exacerbates year four drop

Boxcar: Grant vests over a 12-month period after the original new hire grant is finished vesting, but is granted years in advance.



Pro: Solves for the year four drop
Cons: More difficult to communicate

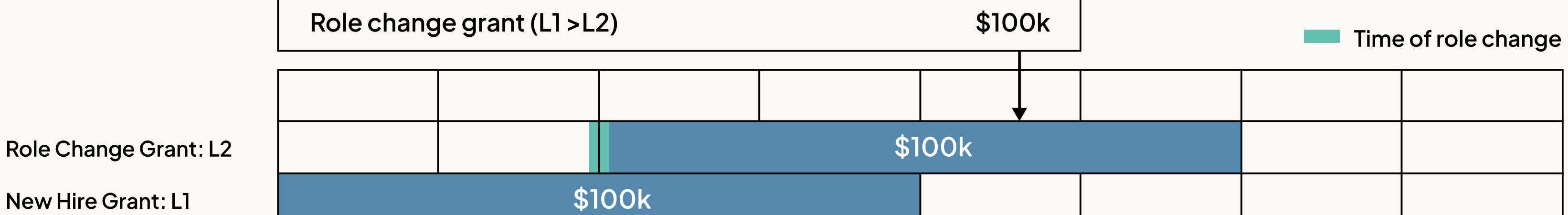
2 Promotion grants

These are granted at the time of a promotion to reflect the new role or level's compensation. To determine the amount to issue for these grants, you'll need real-time, accurate compensation data for what a new hire in that role would receive. Then you would match the difference.

Promotion grants

Make the grant equal to the difference between the midpoints of the level the employee is moving from and the level they're moving to ensure employees receive additional equity.

L1 grant midpoint	$100k
L2 grant midpoint	$200k
Role change grant (L1 >L2)	**$100k**



Year	1	2	3	4	5	6	7	8
Total Value at Grant	$25k	$25k	$50k	$50k	$25k	$25k		
Total Value w/ Growth*	$25k	$38k	$81k	$122k	$56k	$84k		

*Assumes 50% annual growth

3 Performance grants

These are granted to reward top performers or when employees hit certain predetermined metrics. The vesting schedule may vary (vesting over one or four years), but they generally start vesting immediately to reward employees. These are typically awarded once a year during a company's standard review cycle.

Performance grants (4-year vest)

High performing employees receive additional equity incentive grants on top of the base-rate tenure grants. Grant will be around 20% of new hire grant depending on ratings distribution and frequency.

Performance Grant 1			$20k					
New Hire Grant	$100k							
Year	1	2	3	4	5	6	7	8
Total Value at Grant	$25k	$25k	$30k	$30k	$5k	$5k	-	-
Total Value w/ Growth*	$25k	$38k	$61k	$92k	$11k	$17k	-	-

*Assumes 50% annual growth

When do companies usually issue refresh grants?

According to Carta data, between 2022–2024, about 20% of employees received a refresh grant at year one. By year two, nearly 50% of employees received at least one additional grant beyond their new hire grant.

Companies of all sizes are granting refresh grants. Between 2022–2024, pre-seed to Series A companies allocated approximately 35–37% of their equity pool to refresh grants and Series B-E companies granted between 40–50% of their equity pools to refresh grants.

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Equity refresh best practices

The main goal of a refresh grant is to retain top talent and reward employees' contributions, ensuring continued alignment between their interests and the long-term growth and success of your company. But, the criteria for who receives a refresh grant—and when—varies widely from company to company. Whether or not you offer equity refresh grants, and to who, should be based on your compensation philosophy. While there's no one-size-fits-all way to structure your equity refresh program, there are some general best practices to follow.

Plan proactively

When it comes to implementing an equity refresh program, proactive compensation planning is essential.

Key elements of proactive planning include:

Forecasting

Regularly assess the impact of refresh grants on your equity pool and potential dilution. Use data from your cap table for accurate forecasting over 12, 24, or 36 months for your employees.

Board involvement

Keep your board informed and involved. Present them with detailed forecasts for all types of grants to gain their approval and support.

Adapting to changes

Be ready to adjust your plans based on company growth, returns to your equity plan pool, market conditions, and employee feedback.

Use relevant, accurate compensation data:

To understand how much equity you should be granting, it's important to have up-to-date and accurate equity compensation data. This ensures your refresh grants are fair, competitive, and in tune with market trends.

When using data, you'll want to ensure:

- **The data is updated regularly:** What was relevant a year ago could be very outdated today. To ensure you're compensating fairly and competitively, make sure the data you're basing your decisions on is updated quarterly.
- **You're evaluating an employee's total equity packages:** A holistic view of an employee's total equity package, including existing holdings, is essential. This will help in determining the appropriate size of the refresh grant, ensuring it reflects an employee's contributions and standing within the company.

Communicate with employees

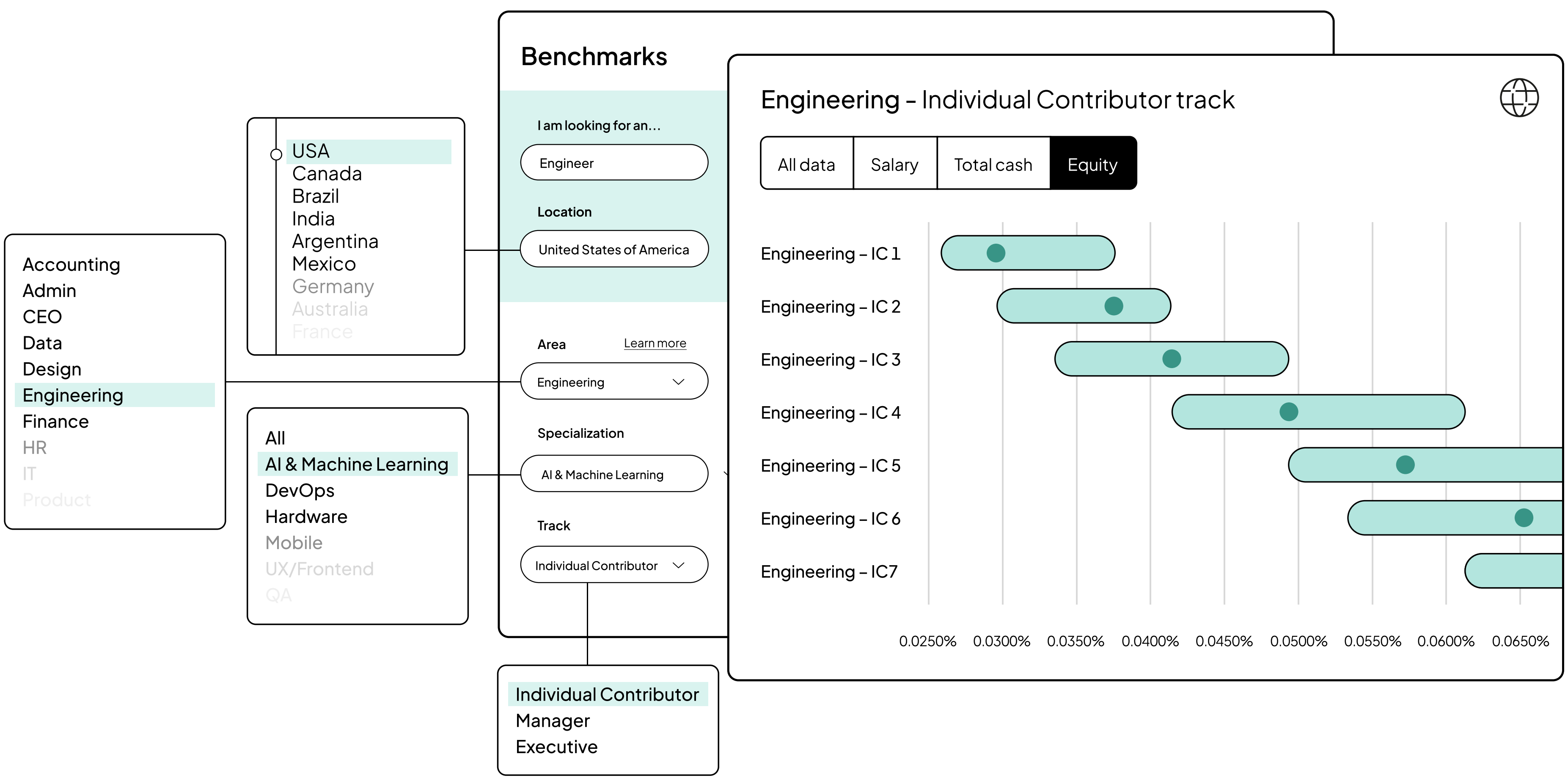
Making sure employees understand the value of their equity is crucial for a refresh program's success. Create an internal communications strategy alongside your performance cycles to make sure employees understand the value of their shares, how it can grow over time, and how they can earn more (tenure, performance, or promotion). Companies that effectively communicate the value of their equity tend to have higher retention rates.

- **Educate:** Explain the wealth-building potential of equity and how refresh grants work.
- **Be transparent:** Be clear about your decision-making process. Make sure employees understand when refresh grants are issued and who will receive refreshes. Maintain open lines of communication, especially when there are changes in the program or individual grants.

How Carta can help you make smarter comp decisions

Access exclusive equity benchmarks

Carta Total Compensation leverages millions of data points from over 40K cap tables to create real-time salary and equity benchmarks, offering companies the most comprehensive view into private market compensation.



Visibility you won't find anywhere else

Carta Total Comp distills benchmarks from over 40K businesses to give you the information you need for informed comp decisions.

Ensure competitive comp for any role or level

Access benchmarks for the specific role, level, and track you need. Carta Total Comp covers over 40 countries and all U.S. regions.

Retain employees with a data-driven approach

Compare employee comp to the latest market trends. Benchmarks are updated quarterly to help you spot over or underspending.