AI in Compensation

Promises, Pitfalls, and Practical Guardrails

Lisa Harpe and Stephanie Horn

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Our Presenters

Lisa Harpe, Ph.D

Director of HR & EEO Analytics

Stephanie Horn, M.B.A, SHRM-SCP, SPHR

Senior Compensation Consultant

DCI: Data Driven – Client Focused

Our Mission

Advancing non-discrimination and fairness in the workplace by implementing merit-based and skill-focused employment practices.

Our Vision

We believe every person deserves equal opportunity and fair treatment in the workplace and beyond.

How DCI Can Help

Compliance

- VEVRAA and Section 503 AAPs
- Mandatory job listings
- State affirmative action and non-discrimination
- EEO-1 and VETS-4212 reports
- DOL compliance review support
- State pay reporting
- Pay transparency
- Proactive guidance on regulatory change

Selection and Assessment

- Job analysis
- Selection procedure development and validation
- Expert evaluation/bias audit of HR systems, including artificial intelligence

Workforce Analytics

- DEI risk mitigation
- EEO disparity analyses
- Damage calculations
- Non-discrimination in employment plans
- Reduction-in-force analyses
- Barrier analyses

Pay Equity and Compensation

- Pay equity studies
- EU Pay Transparency
- Pay compression studies
- Wage gap studies
- Job architecture development
- Market benchmarking
- Pay band creation
- Executive compensation reviews
- Bonus program reviews

Litigation Support

- Consulting expert in applied research in class action litigation
- Testifying expert in case strategy, expert reports, & sworn testimony
- Expert reviews of AI-based hiring procedures

Webinar Format

- → Participant phone lines are **muted**
- → **Submit questions** by sending an email to questions@dciconsult.com
- → If you have any **technical difficulties during the call**, please email questions@dciconsult.com

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Due to the rapidly changing nature of government regulations, DCI cannot guarantee that these materials will remain up-to-date.

Agenda

01

AI and Compensation Landscape

02

Possible Uses

03

Key Takeaways

AI and Compensation Landscape

What are we talking about when we say AI?

SHRM
SOCIETY FOR HUMAN RESOURCE MANAGEMENT

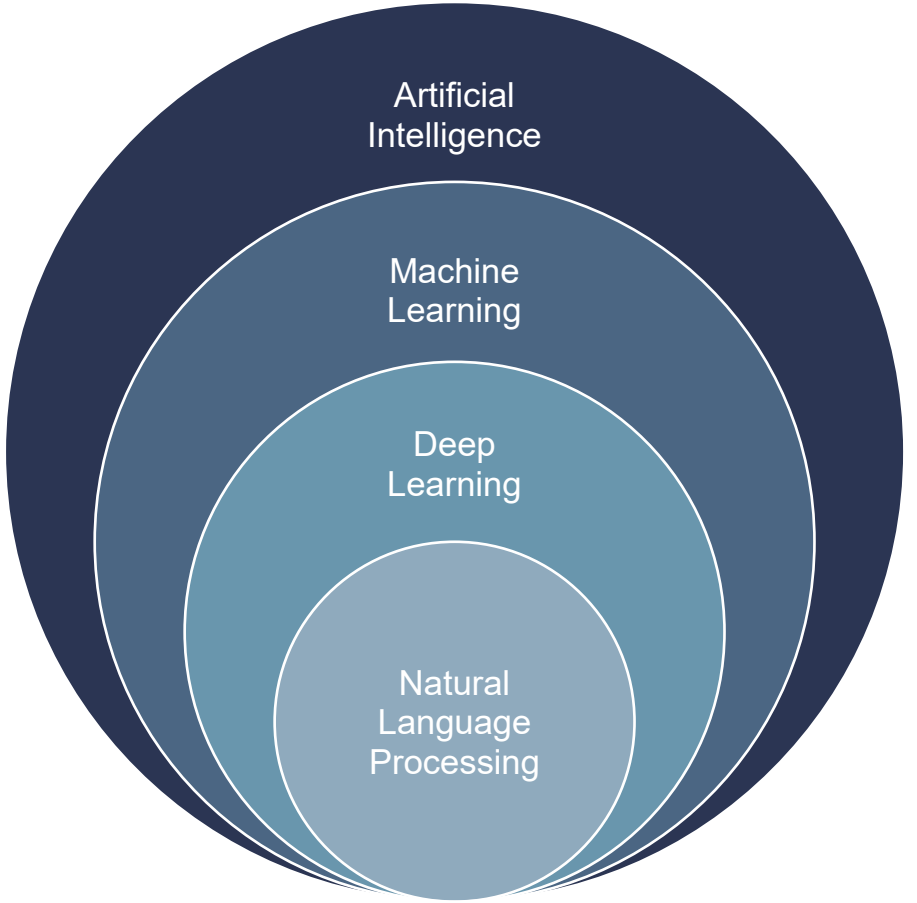
"Use of computers to simulate human intelligence in various ways."

CONGRESS.GOV
H.R.6216 – National Artificial Intelligence Initiative Act of 2020

"Machine based system that can, for a given set of human-defined objectives, make predictions, recommendations or decisions."

ChatGPT

"The simulation of human intelligence processes by machines, especially computer systems."



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Different Types of AI

DETERMINISTIC AI

Rule-based logic: Follows fixed, predefined rules and decision trees

Predictable output: Same input always produces the same output

Narrow scope: Designed for a specific, well-defined task

Explainable: Decisions can be fully traced and audited (the rules are the explanation)

Examples: Spam filters, fraud detection rules, document classifiers, structured search

VS

GENERATIVE AI

Probabilistic logic: Learns statistical patterns from vast training data

Creative output: Produces novel text, code, images, or analysis

Broad capability: Can handle open-ended, ambiguous tasks

Less explainable: Reasoning may not be fully traceable

Examples: ChatGPT, Claude, Copilot, Gemini, Midjourney, DALL-E

Why Sensitive Data + Generative AI Requires Care

Training Data Exposure

Many cloud-based GenAI tools may use submitted data to improve future models, potentially exposing confidential information.

Privilege & Confidentiality

Attorney-client privilege, trade secrets, HIPAA/PHI, PII, and financial data can be inadvertently disclosed via third-party AI platforms.

Hallucination Risk

GenAI can confidently produce inaccurate outputs. Relying on AI-generated analysis for legal or compliance decisions creates liability.

Cloud vs. On-Premise

Cloud GenAI tools route data through vendor servers. On-premise or local deployments keep data inside your security perimeter.

AI Tool Guide: Sensitive & Privileged Data

Tool / Platform	Type	Data Leaves Org?	Risk Level	Recommended For
Cloud GenAI (ChatGPT, Claude.ai, Gemini, Copilot)	Generative	Yes — cloud servers	HIGH ⚠	Non-sensitive work only: drafting, research, coding, public content
Enterprise GenAI (Azure OpenAI, AWS Bedrock — contracted)	Generative	Yes, but w/ data protection clauses	MEDIUM	Internal business use with proper DPA & access controls
On-Prem / Local GenAI (Ollama, private LLM deploy)	Generative	No — stays local	LOW ✓	Sensitive internal data, PII, draft legal docs
Traditional Search / Document AI (eDiscovery, OCR)	Deterministic	Varies by vendor	LOW–MED	Legal review, structured doc processing, compliance workflows
Rules-Based Automation (RPA, decision trees, classifiers)	Deterministic	Depends on config	LOW ✓	High-stakes decisions, regulated data, financial/compliance
NEW xAI (Grok — cloud & enterprise tiers)	Generative	Yes — cloud servers; enterprise contracts available	HIGH ⚠	Non-sensitive work, real-time web research; enterprise tier w/ DPA

Possible Uses

AI in Compensation Programs

- AI is already making pay decisions — the question is whether your team is steering it or just along for the ride.
- Regulatory considerations including EEOC guidance on algorithmic employment tools and the wave of state-level pay transparency laws incorporate AI accountability requirements.
- Speed vs. defensibility. AI can benchmark 500 roles overnight, or even faster — but do you know what assumptions are baked into that output?
- Today we're not debating whether to use AI. We're talking about how to use it without creating new liability for your organization.

What AI is Doing in Compensation Programs

- Market pricing & salary benchmarking (matching jobs to survey data at scale)
- Job description generation
- Salary Structure Design
- Pay equity analysis and anomaly detection
- Offer recommendation
- Total rewards modeling

Market Pricing & Salary Benchmarking

- Automated benchmarking tools match internal job descriptions to survey benchmarks using Natural Language Processing (NLP). The match is only as good as the job description and the survey's job architecture.
- Common failure modes: matching a hybrid role to a single-function benchmark, using outdated survey cuts, applying national data to a hyper-local labor market.
- AI will find a match. It won’t reliably tell you the match is wrong.
- External market data reflects the pay inequities already embedded in the labor market

Salary Structure Design

- Development of grade levels, band widths and pay ranges can be automated with AI
- AI models can unintentionally reinforce existing pay disparities if trained on biased datasets
- AI provides the *mathematically defensible* answer, but organizational history, union agreements, and other factors may require additional consideration

Job Description Generation

- Job description creation is one of the most time-consuming and inconsistently executed tasks in compensation work. AI can take the title, level, function and SME inputs to produce a first draft nearly instantaneously.
- AI can keep the job description sections and tone consistent across the organization.
- AI job descriptions are starting points, and the finished product requires validation from humans.

Offer Recommendation and Total Rewards Modeling

AI tools offer decision support capability quickly, however, be aware of the following trade-offs:

- AI tools don't replicate the instinct of an experienced compensation professional
- Compliance exposure
- Accountability gaps

AI-Powered Pay Equity

An option provided by Claude when asked where can AI be useful related to Compensation practices

1

Data Processing & Cleaning

Pulls HRIS, payroll, and performance data; standardizes job families, levels, tenure, and location variables.

2

Regression Modeling

Multivariate regression isolates unexplained pay differences after controlling for legitimate factors (level, tenure, performance rating, geo).

3

Gap Identification

Flags statistically significant disparities by gender, race/ethnicity, age, and other protected classes with confidence intervals.

4

Remediation Costing

Instantly models the cost to close gaps under multiple scenarios — full remediation, partial, phased — supporting budget planning.

AI-Powered Pay Equity: Risks

Legal & Compliance Risks	Attorney-client privilege exposure Self-incrimination Regulatory scrutiny
Data Privacy & Security Risks	Sensitive employee data exposure Vendor data use policies Cross-border data transfer
Methodological Risks	Flawed statistical analysis Misclassification of comparators Garbage in, garbage out. False confidence
Organizational & Governance Risks	No audit trail or defensible methodology Acting (or not acting) on findings without guidance Scope creep and inconsistency

Key Takeaways

Using AI and XAI for Compensation Decisions

While Compensation Professionals can use AI to validate pay recommendations, and audit compensation programs there are still risks to be aware of:

- False confidence (output viewed as more authoritative than it is)
- Inconsistent interpretation of “explainable AI” (XAI) results
- Metric Gaming (skewing the model)
- Explanations may be moot as soon as model evolves
- May undervalue unique situations
- Potential increased liability when expose internal equity gaps at a large scale

XAI is a force multiplier in compensation programs, amplifying whatever is already happening in your pay system. Requires infrastructure to handle issues more quickly than traditional analytical methods.

Before You Use an AI Tool, Ask These Questions

1

Is the data sensitive, privileged, or regulated?

YES → Use on-prem/local AI or deterministic tools only

NO → Cloud GenAI tools may be appropriate

2

Does the vendor have a signed DPA / data processing agreement?

YES → Proceed with caution — review data retention terms

NO → Do not submit any confidential information

3

Is a human reviewing and validating the AI output?

YES → Acceptable for drafting / research support

NO → Not appropriate for legal, compliance, or high-stakes decisions

When in doubt, consult your IT Security or Legal/Compliance team before using any AI tool with sensitive data.

Final Thoughts

- Understand your organization's AI policies and practices
- Understand what AI tools are available within your organization and how it handles data
- Form a committee to identify areas where AI may be useful to include Compensation, IT, Legal
- For each use case, ensure that the inputs will be handled appropriately by the AI tools you will use
- Create protocols for each use case
- Test and refine as necessary
- Always include a human in the loop

Thank you for your attention!

Questions?

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