

Effect of the Economic Crisis on HR Programs

About the Survey

In mid-October 2008, Watson Wyatt surveyed a broad cross-section of 248 U.S.-based companies to understand what adjustments they are making to their HR programs (e.g., staffing, pay, benefits) in response to the recent events in the economy and financial markets.

Executive Summary

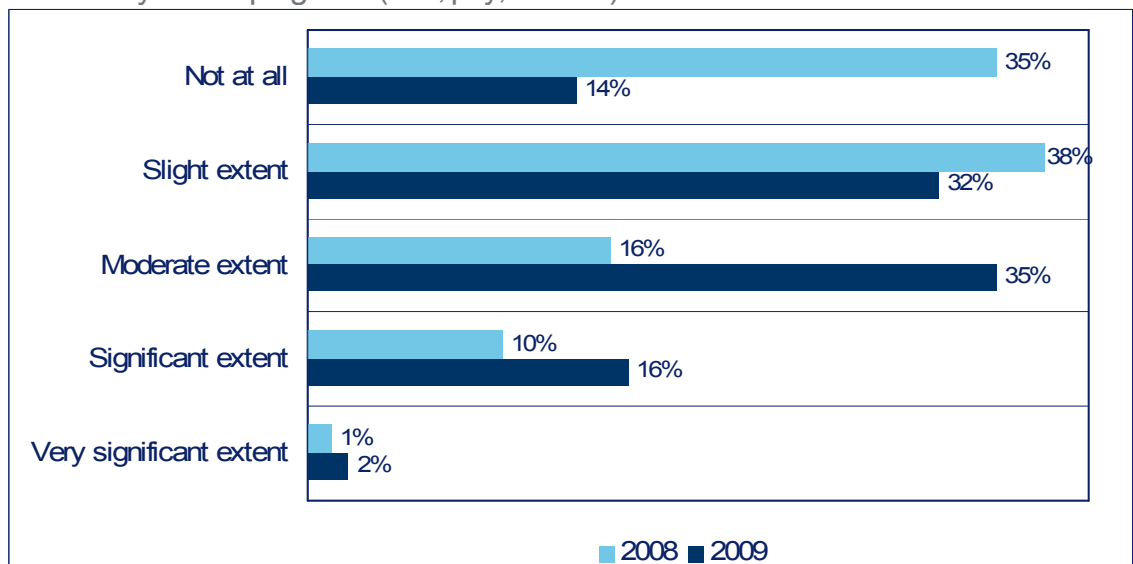
As employers sort out the impact of the economic crisis, many will take a measured approach when it comes to staffing, pay and benefit decisions. While results from Watson Wyatt's recent survey find that fewer than one in five currently expect recent economic events to have a significant or very significant impact on their HR programs, a large majority expect to be affected to some extent. Many companies expect to increase employee communication and make a range of cost-cutting changes in the next 12 months. Most notably, one quarter plan layoffs, hiring freezes and increased employee contributions to health care premiums.

Key Findings

- 86 percent of companies reported that they expect recent events in financial markets to affect their HR programs in the next 12 months.
- Increased communication around benefits is the change most companies have made so far. Other top actions already taken include restricting travel policies, instituting hiring freezes, raising the employee contribution to health care premiums and layoffs.
- Over the next 12 months, one in four companies expect layoffs or reductions in force (26 percent), hiring freezes (25 percent) and increases in employee contributions to health care plans (25 percent).
- 28 percent of companies are revisiting merit increase budgets for 2009. Those that are making changes are decreasing budgets by an average of 32 percent (3.7 percent to 2.5 percent). On average, short-term (annual) incentive funding is dropping from 95 percent funded in the previous fiscal year to 81 percent funded in the current fiscal year.
- More than half the companies responded that their employees are moving 401(k) portfolios out of equities.

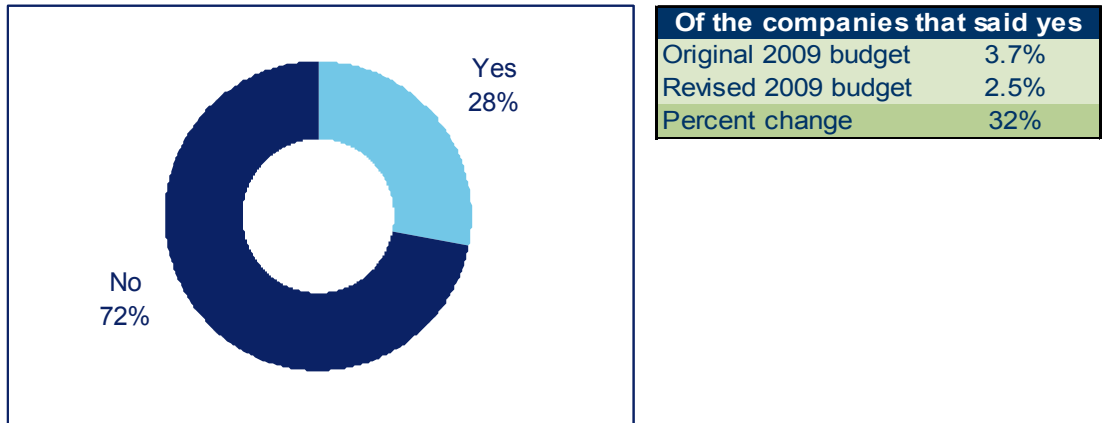
A majority of companies will see their HR programs affected by the economy in the coming year.

Figure 1 | Given the recent events in the U.S. economy and financial markets, to what extent will your HR programs (staff, pay, benefits) be affected?



Companies who are revising 2009 merit budgets plan to decrease them by an average of 32 percent.

Figure 2 | Have you revised your merit budget for 2009 given the recent events in the economy and financial markets?



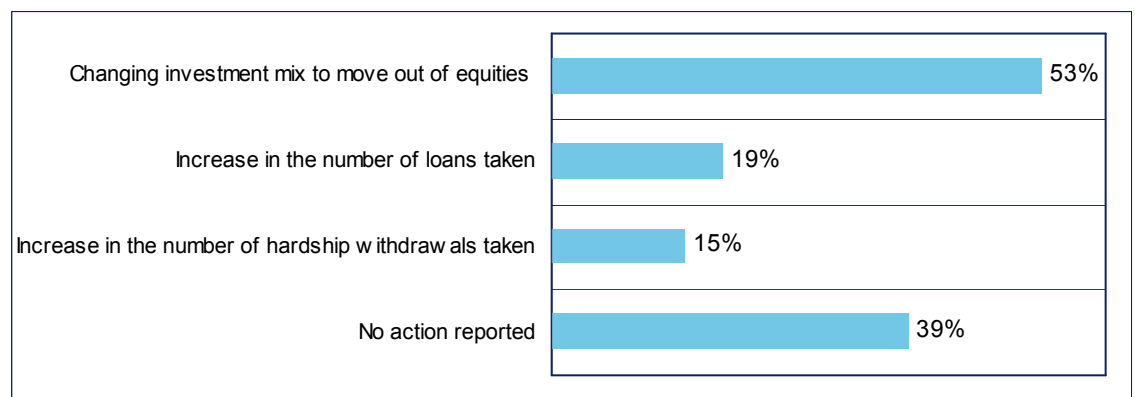
Short-term (annual) incentive funding will decrease compared to the previous fiscal year.

Figure 3 | If your organization offers a short-term incentive plan, at what level do you expect to fund it for the current fiscal year?

Short-term incentive funding (as a percentage of target)	
Last fiscal year	95.0%
Current fiscal year	81.5%
Percent change	14%

More than half of companies say their employees have moved their 401(k) portfolios out of equities.

Figure 4 | In the past few weeks, what changes have you noticed in participant activity in 401(k) or 403(b) plans?



The most common actions planned in the next 12 months are increasing communication about pay and benefits, and layoffs/reduction in force.

Figure 5 | Given the recent events in the economy and financial markets, what changes do you expect to make?

	Already made change	Expect to make change in next 12 months	No change expected
Increase communication to employees about their pay	18%	37%	45%
Increase communication to employees about their benefits	35%	35%	31%
Layoffs/reduction in force	19%	26%	55%
Hiring freeze	30%	25%	45%
Raise employee contribution to health care premiums	21%	25%	54%
Organization-wide restructuring	14%	23%	64%
Add/increase restrictions to company travel policy	34%	21%	45%
HR function restructuring	15%	19%	66%
Eliminate or reduce training	10%	18%	72%
Eliminate or reduce the hiring of seasonal workers	17%	18%	65%
Downgrade or cancel company holiday party	19%	18%	64%
Salary freeze	4%	12%	84%
Reduce or eliminate other employee programs	8%	11%	81%
Early retirement window	4%	5%	91%
Reduced workweek	4%	4%	92%
Reduce employer 401(k)/403(b) match	2%	4%	94%
Freeze/close pension plan	11%	4%	86%
Salary reductions	2%	4%	94%
Mandatory holiday shutdown	6%	2%	92%

Demographics

Of the 248 employers who completed the survey:

- 89 percent have more than 1,000 employees
- 61 percent are for-profit, publicly traded companies; 21 percent are for-profit, private companies; 17 percent are not-for-profit organizations; 1 percent are government organizations.
- Median of 6,800 full-time employees and 400 part-time employees.

Participants are spread among industries. The industries with the most participants are manufacturing, health care and financial services - insurance.

Conclusion

The full fallout from the financial crisis has yet to be seen. Most companies believe their HR programs will likely be affected, but appear to be holding off from making dramatic changes in the short term. Regardless of the choices they will make in the coming months, companies will need to juggle the need to control costs, maintain employee morale and prepare for future staffing challenges.

About Watson Wyatt Worldwide

Watson Wyatt is the trusted business partner to the world's leading organizations on people and financial issues.

Our client relationships, many spanning decades, define who we are. They are shaped by a deep understanding of our clients' needs, a collaborative working style and a firm-wide commitment to service excellence.

Our consultants bring fresh thinking to client issues, along with the experience and research to know what really works. They deliver practical, evidence-based solutions that are tailored to your organization's culture and goals.

With 7,200 associates in 32 countries, our global services include:

- Managing the cost and effectiveness of employee benefit programs
- Developing attraction, retention and reward strategies that help create competitive advantage
- Advising pension plan sponsors and other institutions on optimal investment strategies
- Providing strategic and financial advice to insurance and financial services companies
- Delivering related technology, outsourcing and data services

For more information on research and analysis related to the financial crisis, call your Watson Wyatt consultant or visit watsonwyatt.com.