

At a Glance

Cost-cutting plans for the next 12 months have decreased across the board.

Organizations are shifting to alternative cost-cutting methods such as reducing hours through mandatory shutdowns or reduced workweeks.

Pay increases are down in 2009, but employers expect a rebound in merit increase budgets in 2010.

Effect of the Economic Crisis on HR Programs

Update: April 2009

About the Survey

In April 2009, Watson Wyatt continued our ongoing research on the financial crisis by surveying HR executives at 141 U.S.-based companies to understand what adjustments they are making to their HR programs (e.g., staffing, pay, benefits) in response to the economic downturn. This is an update to our bi-monthly reports that began in October 2008.

Executive Summary

Overall, cost-cutting actions appear to have peaked. Companies have done what they can in terms of using layoffs, hiring freezes and salary freezes to combat the recession. Some are now turning to other measures like reducing hours and in some cases, reducing salaries. However, many employers are anticipating the eventual recovery and expect to reduce their cost-cutting measures over the next 12 months.

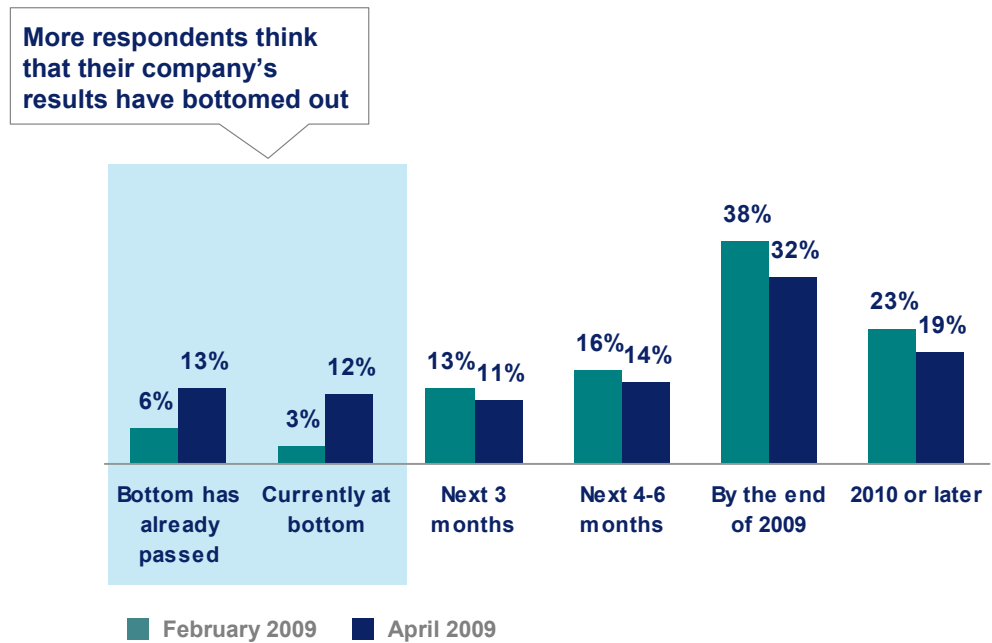
Pay increases are down across the board for 2009, with lower merit increases and short-term incentive funding. Yet, companies feel more optimistic about the future, projecting merit increase budgets to be closer to previous years' levels.

Key Findings

- The number of respondents that think their organization's results have already "bottomed out" has more than doubled from 6 percent in February to 13 percent in April. An additional 12 percent think that they are currently at the bottom (from 3 percent in February). Approximately half (51 percent) think that the bottom will come by the end of 2009 or later.
- Merit increase budgets for 2009 are down (median 2 percent), but companies are anticipating a rebound in 2010 with projected merit increases of 3 percent.
- Salary reductions jumped from 7 percent in February to 21 percent in April.
- The percentage of companies that have reduced the employer 401k match increased from 12 percent in February to 22 percent in April.
- Employers have decreased hours through reduced workweeks (22 percent), mandatory shutdowns (24 percent) and mandatory and voluntary furloughs (17 percent and 11 percent) as methods to cut costs.
- More than half of companies (53 percent) are no longer planning layoffs in the next 12 months. Sixty-seven percent of companies surveyed are not planning any more hiring freezes and 65 percent are not planning to make any organizational restructuring changes.
- Approximately one-quarter (23 percent) of companies have decreased their organization financial performance targets in the last 12 months. One-quarter (25 percent) will also decrease the organization financial performance targets in the next 12 months.
- Only 17 percent of respondents conducted cost-cutting measures with the intent of protecting bonus pool funding.

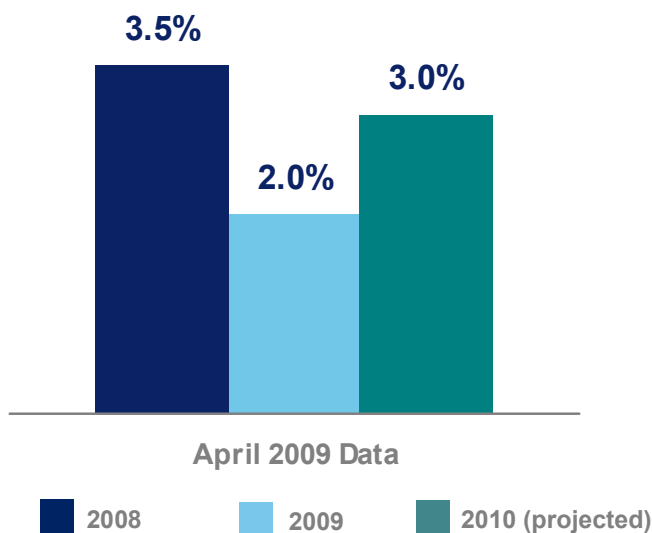
More respondents say their company's results have bottomed out in April compared to February.

Figure 1 | With regard to the recession, when do you think your company's results will "bottom out" and begin to improve?



Companies are anticipating a rebound in merit increase budgets for 2010.

Figure 2 | Indicate your organization's merit increase budget for 2008 and 2009, and projection for 2010 (as a percentage of total payroll)



Expected short-term incentive plan funding remained steady from February to April.

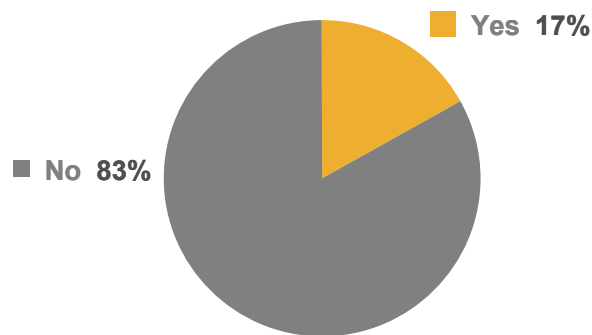
Figure 3 | If your organization offers a short-term incentive plan, how was it funded in the most recently completed year, and what is the projected funding for the current year?

	Funded last year	Expect to fund this year
April 2009	72%	69%
February 2009	86%	71%

Expected funding remained steady from February to April

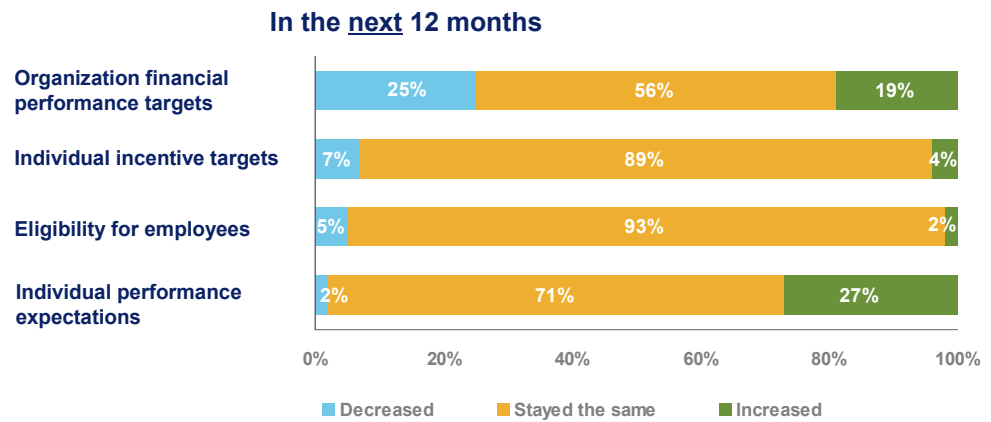
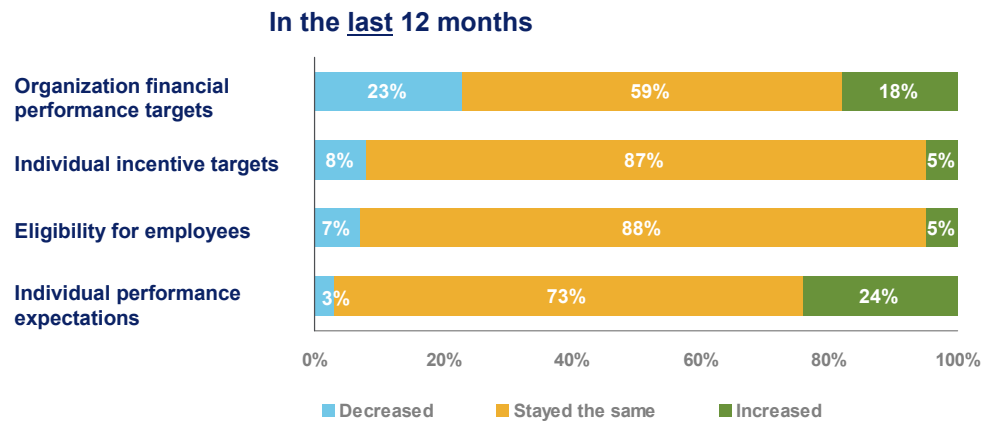
Consistent with short-term incentive plan designs, most companies did not try to protect bonus pool funding.

Figure 4 | Did your organization conduct cost-cutting measures with the intent of protecting bonus pool funding?



While one-quarter of respondents have lowered organizational financial performance targets, most companies are not changing elements of their STI programs.

Figure 5 | With regard to your organization’s STI programs, how have the following changed:



Cost-cutting measures taken by respondents have risen consistently from October through April.

Figure 6 | Given the recent events in the economy and financial markets, what changes have you already made and do you expect to make?

	Already made change				Expect to make change in next 12 months			
	April 2009	February 2009	December 2008	October 2008	April 2009	February 2009	December 2008	October 2008
Hiring/Restructuring								
Hiring freeze	72%	56%	47%	30%	4%	10%	18%	25%
Layoffs/reduction in force	72%	52%	39%	19%	5%	13%	23%	26%
Eliminate or reduce the hiring of seasonal workers	46%	44%	28%	17%	7%	9%	16%	18%
Organization-wide restructuring	49%	31%	23%	14%	10%	20%	21%	23%
HR function restructuring	39%	23%	14%	15%	15%	22%	21%	19%
Voluntary reduction in force	23%	N/A	N/A	N/A	4%	N/A	N/A	N/A
Pay								
Salary freeze	60%	42%	13%	4%	7%	14%	19%	12%
Salary reductions	21%	7%	5%	2%	4%	4%	6%	4%
Pay at risk (e.g., X% salary reduction with the opportunity to earn back based on company performance)	5%	5%	N/A	N/A	5%	8%	N/A	N/A
Reduction in variable pay targets	12%	N/A	N/A	N/A	8%	N/A	N/A	N/A
Benefits								
Raise employee contribution to health care premiums	29%	22%	20%	21%	26%	24%	17%	25%
Reduce employer 401(k)/403(b) match	22%	12%	3%	2%	8%	12%	7%	4%
Early retirement window	10%	6%	3%	4%	3%	6%	6%	5%
Hours								
Mandatory shutdown	24%	13%	N/A	N/A	5%	4%	N/A	N/A
Reduced workweek	22%	13%	2%	4%	4%	8%	6%	4%
Mandatory furlough	17%	11%	N/A	N/A	4%	6%	N/A	N/A
Voluntary furlough	11%	10%	N/A	N/A	5%	9%	N/A	N/A
Communications								
Increase communication to employees about their benefits	43%	31%	32%	35%	25%	27%	35%	35%
Increase communication to employees about their pay	34%	28%	16%	18%	32%	31%	43%	37%
Other programs								
Add/increase restrictions to company travel policy	77%	69%	48%	34%	1%	10%	16%	21%
Eliminate or reduce training	42%	35%	23%	10%	8%	15%	18%	18%
Reduce or eliminate other employee programs	38%	23%	12%	8%	10%	18%	12%	11%
Increase use of company recognition plans	24%	15%	N/A	N/A	17%	18%	N/A	N/A

Most companies do not expect to make major cost cutting changes in the next 12 months.

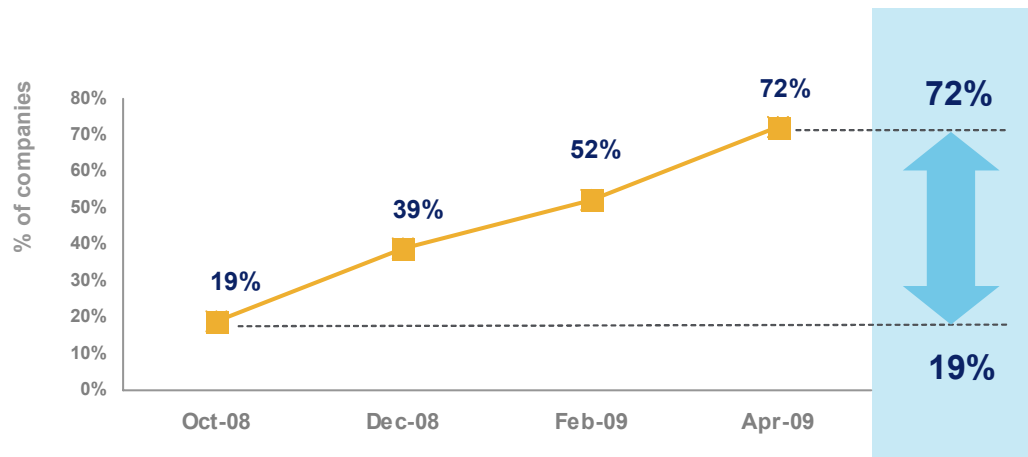
Figure 6a | Actions taken and planned in April 2009

Actions	Planning change in next 12 months		Not planning change	
	Have already made change and expect to do so again	Have not made change yet but expect to in next 12 months	Have already made change and do not expect to make further changes	No changes made or expected
Layoffs/reductions in force	41%	5%	31%	22%
Organization-wide restructuring	24%	10%	25%	40%
Salary freeze	17%	7%	43%	33%
Salary reductions	7%	4%	14%	75%
Reduce employer 401(k)/403(b) match	4%	8%	18%	70%
Reduced workweek	16%	4%	6%	75%

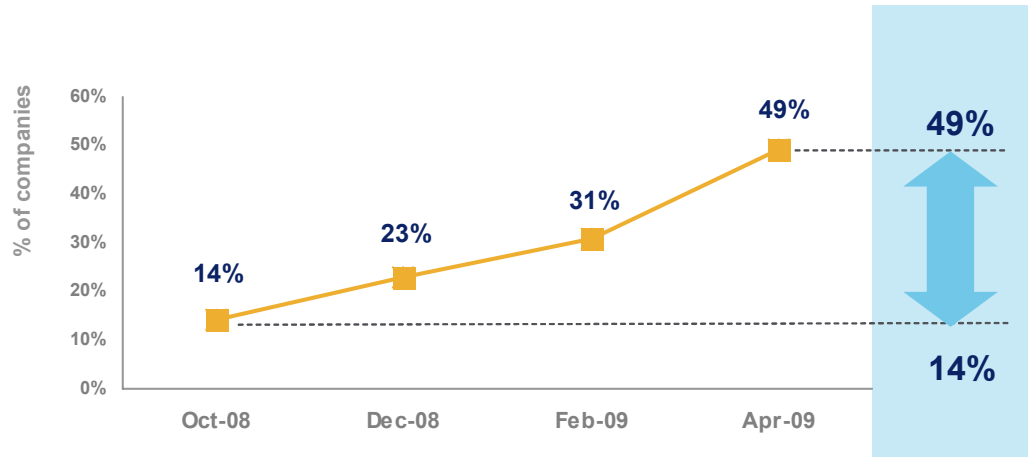
Significant increases were observed in a number of cost-cutting measures since this series of surveys began in October 2008.

Figure 6b | Given the recent events in the economy and financial markets, what changes have you already made?

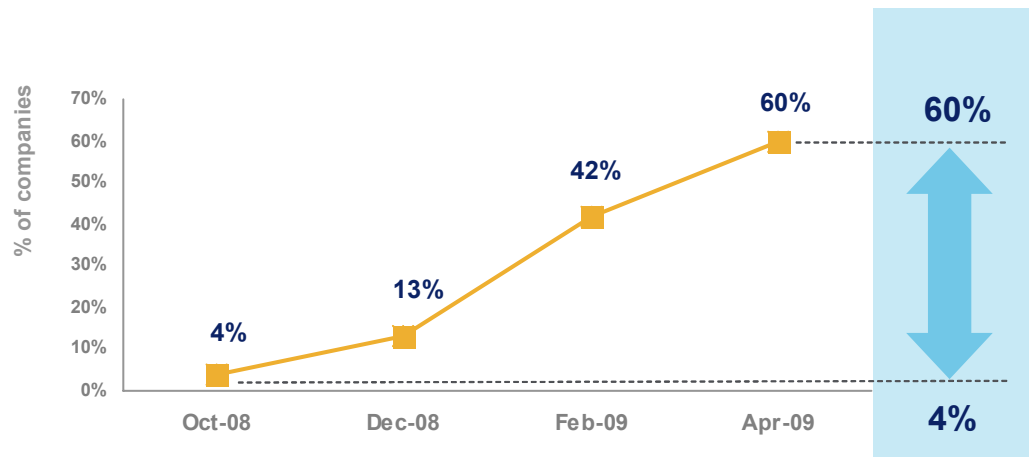
Layoffs/Reduction in force



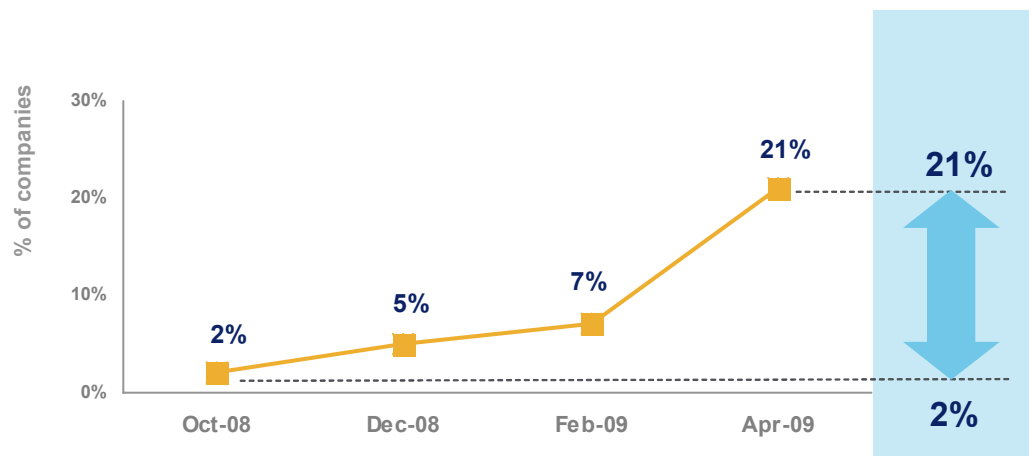
Organization-wide restructuring



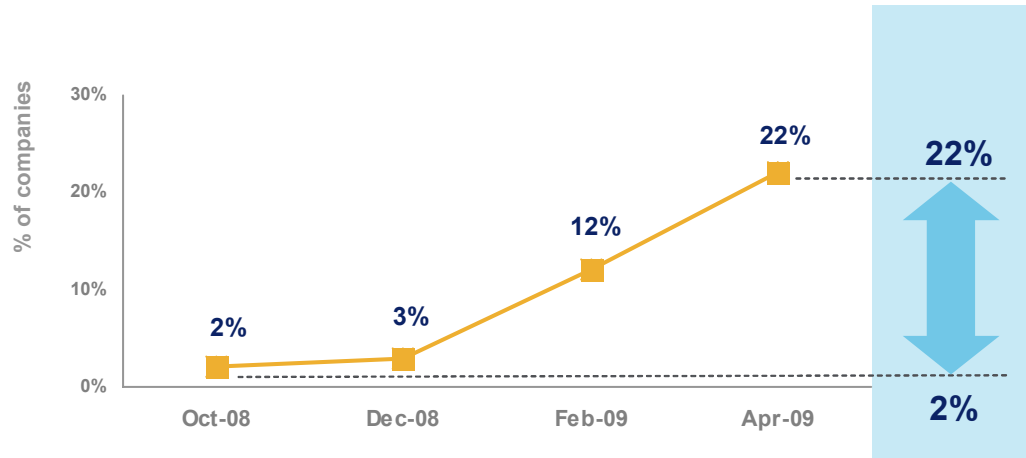
Salary freeze



Salary reductions

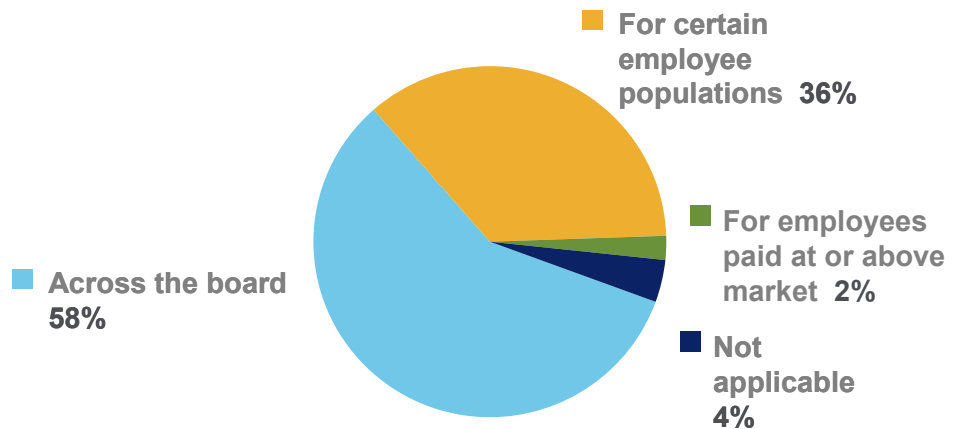


Reduce employer 401k/403b match



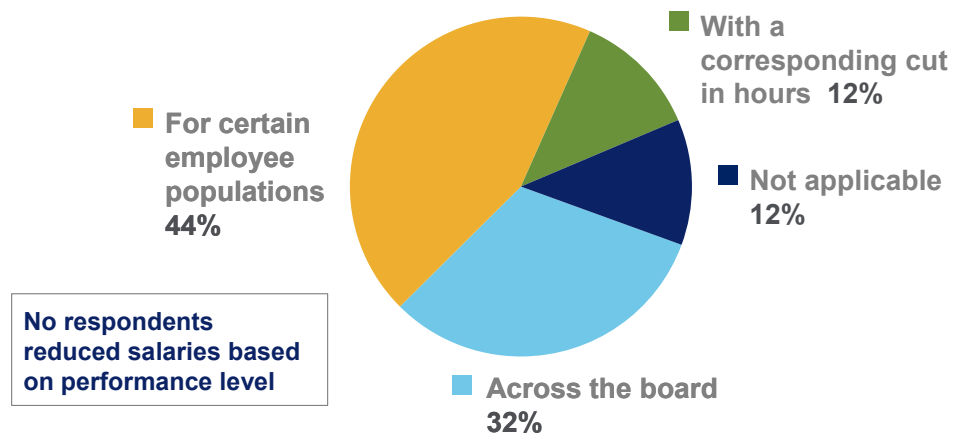
Most companies freezing salaries will do so for all employees.

Figure 7 | If you have already frozen salaries or plan to freeze salaries in the next 12 months will it be:



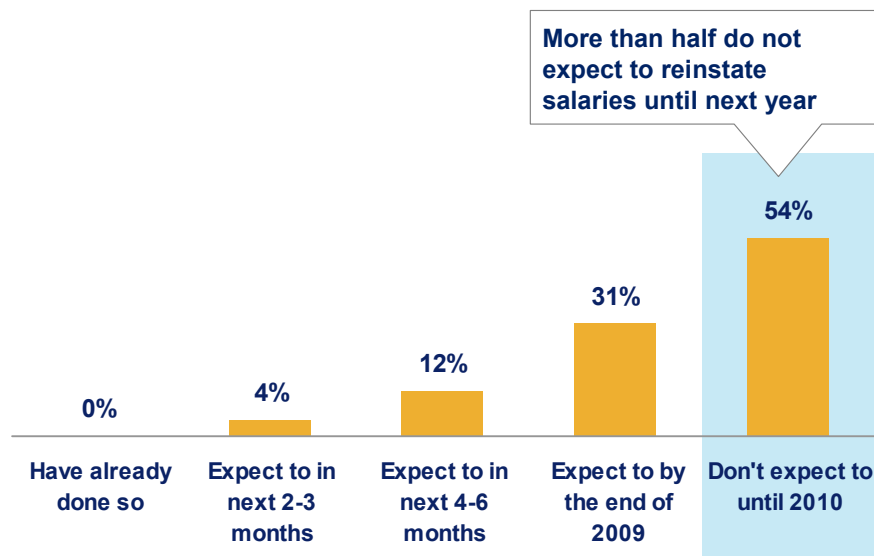
There is not a single approach to reducing salaries.

Figure 8 | If you have already reduced salaries or plan to reduce salaries in the next 12 months will it be:



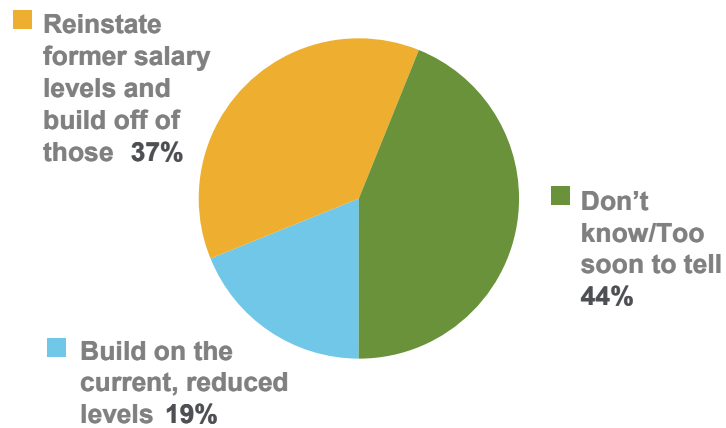
Companies that have reduced salaries do not expect to reinstate them in the near term.

Figure 9 | If you have already reduced salaries, are you considering reinstating them?



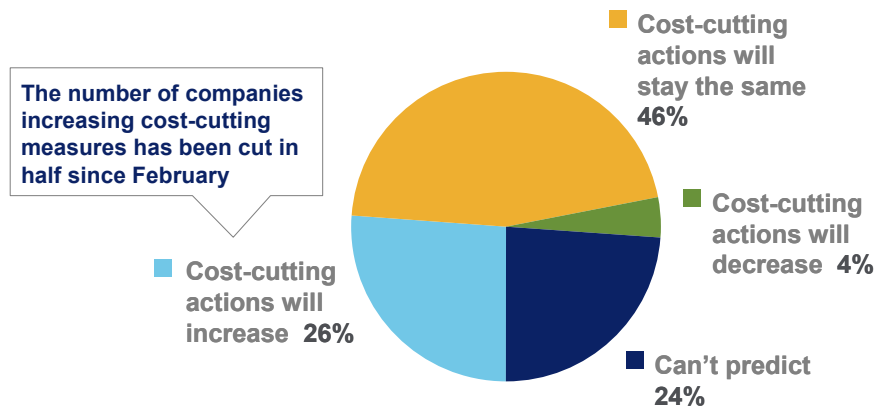
It is too soon for almost half of the respondents to know how they will handle the next merit increase.

Figure 10 | If you have already reduced salaries, your next merit increases will:



About half of the respondents will keep their cost-cutting measures the same over the next 12 months.

Figure 11 | Which of the following best describes the future of HR cost-cutting measures in your organization over the next 12 months?



The percentage of workers that companies plan to layoff in the next 12 months has decreased since December.

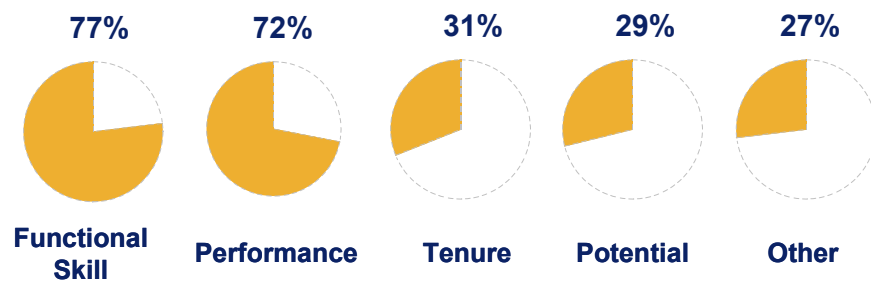
Figure 12 | If you are planning to make layoffs in the next 12 months, what percentage of your employee population will be affected?

DECEMBER 2008	FEBRUARY 2009	APRIL 2009
5.0%	2.0%	1.0%

The percentage of the workforce companies have already laid off remains steady at 5.0% in December, February and April

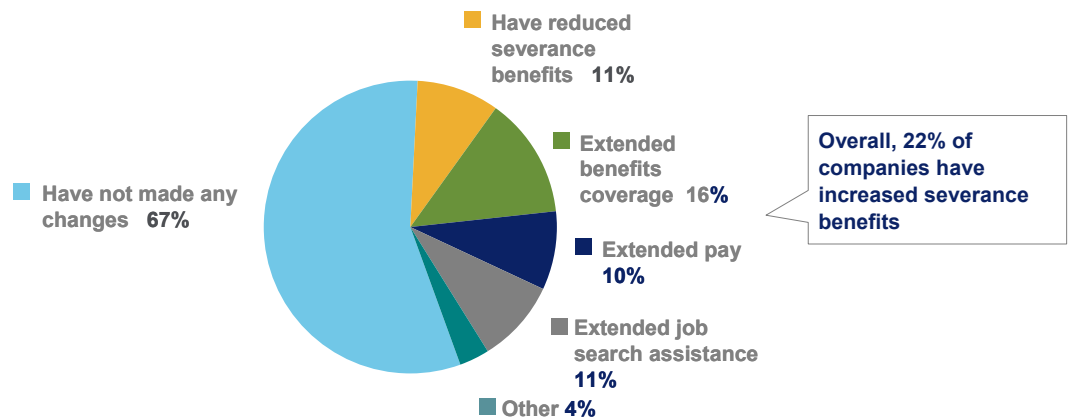
Companies are carefully considering which employees to lay off.

Figure 13 | What were the key factors your company considered in determining who to lay off?



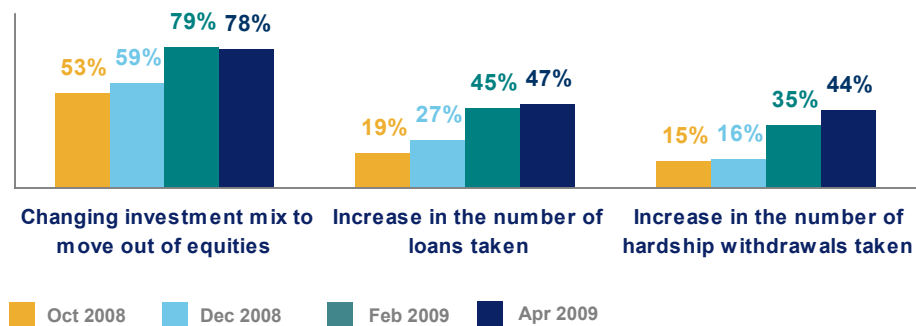
Most companies have not changed their severance benefits.

Figure 14 | If you have already made layoffs, which of the following changes to severance benefits have you made?



Companies continue to see an increase in the number of hardship withdrawals taken.

Figure 15 | Since the financial crisis hit last fall, what changes have you noticed in participant activity in 401(k) or 403(b) plans?





Conclusion

Companies have started to move into the next stage of their cost-cutting actions, but are also looking ahead to an eventual recovery. One in four employers plan to increase their cost-cutting initiatives over the next 12 months, a sharp decline from the 51 percent that were planning more cost-cutting measures in February. Many employers have adopted a “wait and see” attitude, allowing them to make decisions over the coming months as they get a better sense of how long their companies continue to be affected by the downturn.

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