

At a Glance

Companies are planning to reinstate or reverse some cost-cutting actions over the next 12 months, particularly hiring and salary freezes.

Certain actions will likely become permanent changes to compensation and benefits programs.

In the long-term, companies expect to see a shift in their workforce, with smaller staff sizes and more employees working past their desired retirement age.

Effect of the Economic Crisis on HR Programs

Update: June 2009

About the Survey

In June 2009, Watson Wyatt continued our ongoing research on the economic crisis by surveying HR executives at 179 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

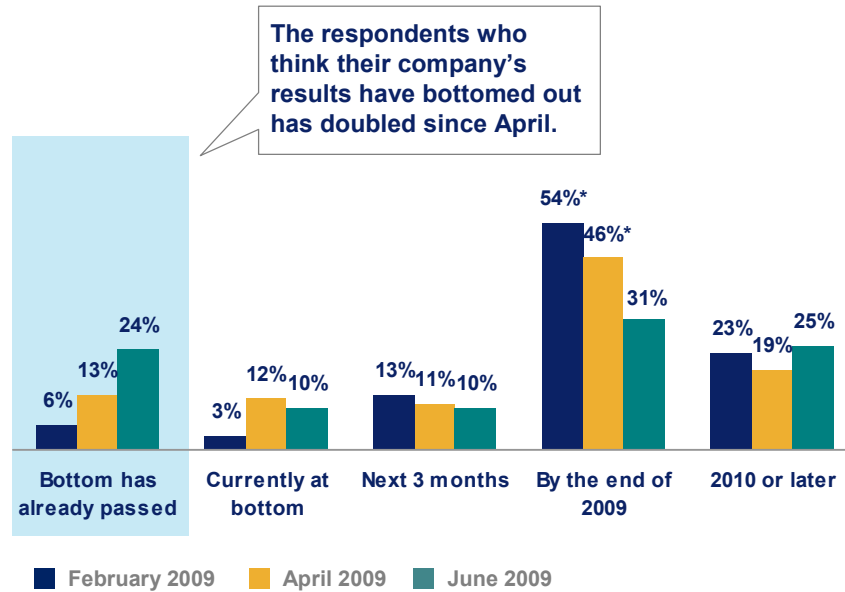
While many companies are planning to reinstate or reverse some of the cost-cutting actions made to HR programs over the past 10 months, most do not believe that things will go back to “business as usual.” Hiring freezes (62 percent) and salary freezes (69 percent) will be reversed for most of the companies who have instituted them, but not all of the changes made during the economic crisis will be reinstated. Pay and benefits will not necessarily be restored to levels seen before the economic crisis began. Two in ten companies do not expect to reverse salary reductions, and almost half of companies expect the increased employee contributions to health care will be a permanent change. In addition, more than half of the respondents (52 percent) think that permanent staffing levels will be decreased three to five years from now.

Key Findings

- The percentage of respondents who think that their company's results have "bottomed out" was nearly double the percentage in the April survey (24 percent vs. 13 percent).
- Thirty-seven percent of companies expect to reverse hiring freezes in the next six months, with another 25 percent doing so in the next 12 months.
- Almost 7 in 10 companies expect to reverse a salary freeze in the next year (17 percent in the next 6 months and 52 percent in the next 12 months). Only 4 percent will not reverse salary freezes.
- Two in ten companies do not expect to reverse salary reductions taken due to the economic crisis.
- More than half of respondents (52 percent) expect staff size at their company to be decreased 3-5 years from now.
- Respondents expect to see a large permanent increase in employees working past their desired retirement age (79 percent) and the percentage of health care costs paid by the employee (73 percent).
- More than half of respondents (55 percent) noticed a decrease in participant contributions to 401(k) or 403(b) plans since the economic crisis hit last fall.

One-quarter of respondents think their company's results have already bottomed out; however, another 25 percent believe the bottom will not come until 2010 or later.

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



*February and April data choices "Next 4-6 months" and "End of 2009" combined.

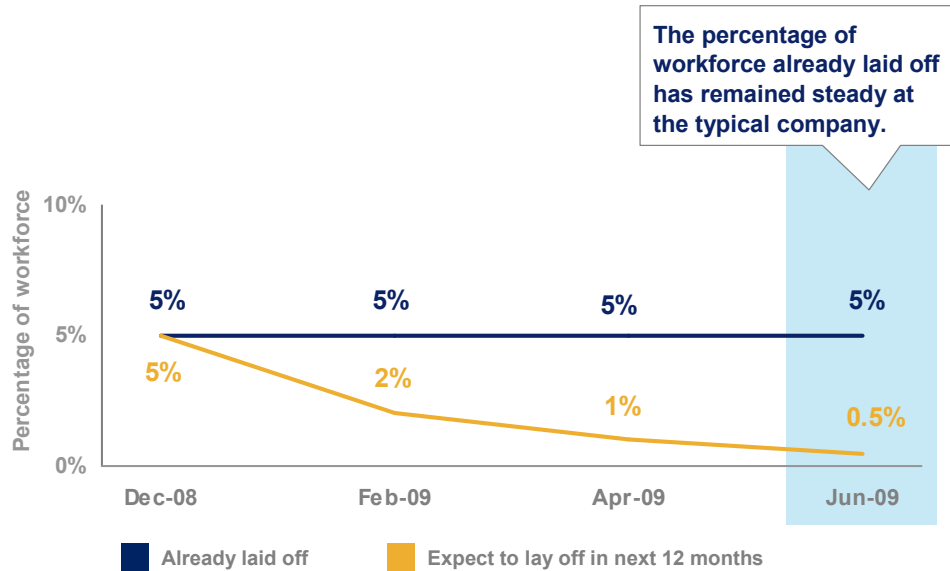
Companies' cost-cutting plans remain fairly stable from April through June, though planned layoffs have decreased.

Figure 2 | Given the recent events in the economy, what changes do you expect to make?

| 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 | |
| | June 2009 | April 2009 | June 2009 | April 2009 | June 2009 | April 2009 | June 2009 | April 2009 |
| Layoffs/reductions in force | 31% | 41% | 4% | 5% | 39% | 31% | 25% | 22% |
| Organization-wide restructuring | 20% | 24% | 10% | 10% | 27% | 25% | 43% | 40% |
| Salary freeze | 16% | 17% | 3% | 7% | 43% | 43% | 39% | 33% |
| Salary reductions | 1% | 7% | 2% | 4% | 12% | 14% | 86% | 75% |
| Reduce employer 401(k)/403(b) match | 5% | 4% | 11% | 8% | 16% | 18% | 68% | 70% |
| Reduced workweek | 10% | 16% | 5% | 4% | 8% | 6% | 77% | 75% |

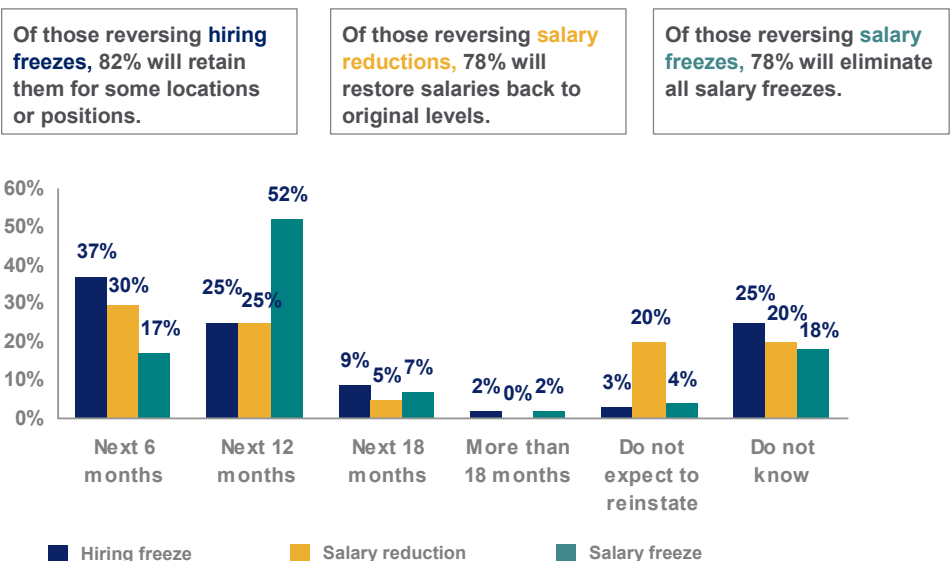
Expected layoffs have decreased each month since December.

Figure 3 | If you have made or are planning to make layoffs, what percentage of your employee population is affected?



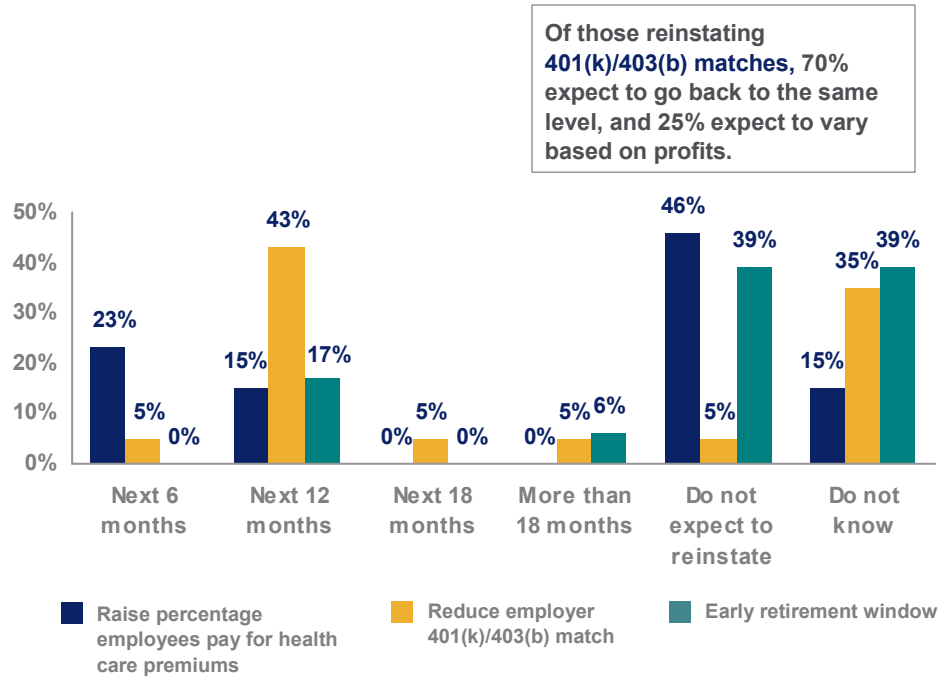
Companies are expecting to reverse freezes on hiring and salaries in the next 12 months or sooner. Fifty-five percent of companies will expect to restore salary reductions in the same time period.

Figure 4 | When do you expect to reverse/reinstate the changes made to your pay programs and hiring practices?



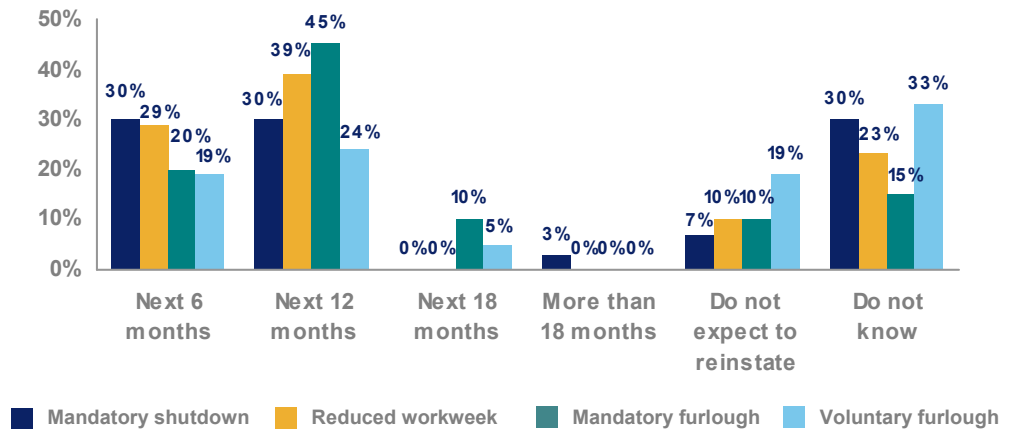
Almost half of the respondents that have raised employee contributions to health care do not plan to reverse the increases. More than one-third are unsure when they will reinstate the 401(k)/403(b) match.

Figure 5 | When do you expect to reverse/reinstate the changes made to your benefits programs?



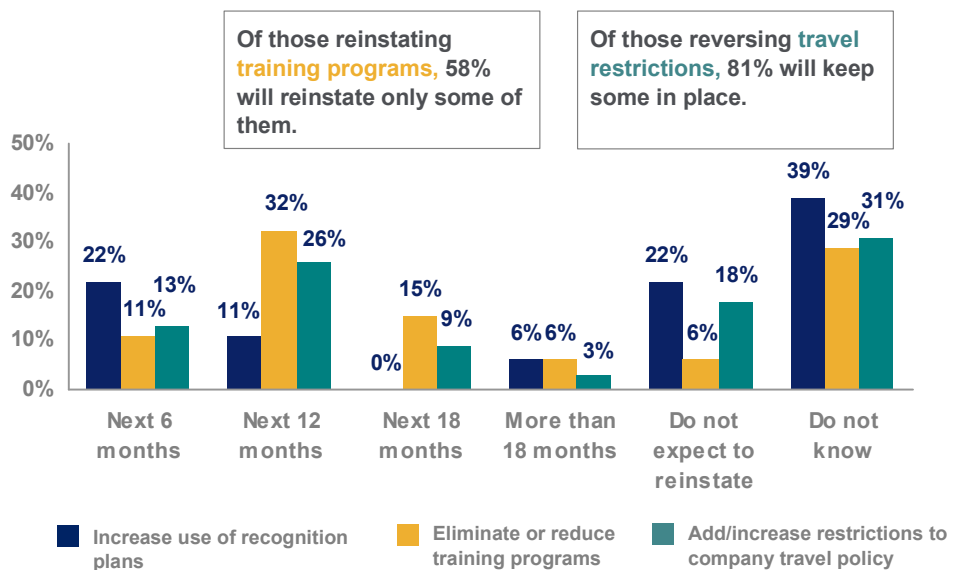
Three in ten companies expect to reverse cuts to hours (via mandatory shutdowns and reduced workweeks) in the next six months. However, many companies do not know when they will reverse policies such as furloughs and reduction in hours.

Figure 6 | When do you expect to reverse/reinstate the changes made related to hours?



About 40 percent of companies expect to reverse at least some of their travel restrictions in the next 12 months. However, another 31 percent do not know when travel restrictions will be lifted.

Figure 7 | When do you expect to reverse/reinstate the changes made to your other programs?



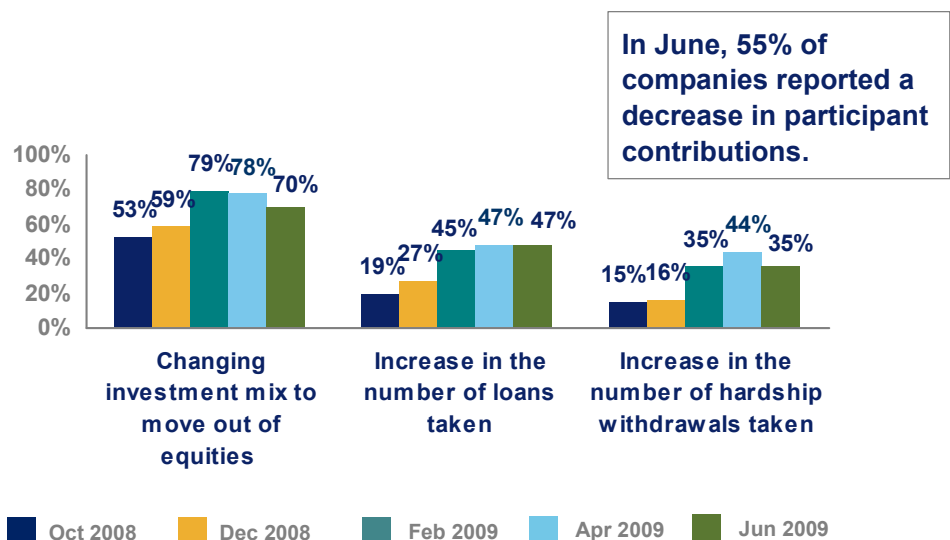
Employers are expecting long-term changes from the economic crisis, particularly around staff sizes, health care costs paid by employees and the age that employees retire.

Figure 8 | Looking ahead three to five years at your company, do you expect any of the following to permanently change compared with pre-economic crisis levels (September 2008)?

| | Increase | No change | Decrease |
|---|----------|-----------|----------|
| Employees working past their desired retirement age | 79% | 18% | 2% |
| Percentage of health care costs paid by employee | 73% | 24% | 3% |
| Difficulty retaining critical-skill employees | 45% | 45% | 11% |
| Difficulty attracting critical-skill employees | 41% | 50% | 9% |
| Salary increase levels | 28% | 45% | 26% |
| Staff sizes | 22% | 26% | 52% |
| Employer contributions for pension plan | 10% | 68% | 22% |
| Employer contributions for defined contribution plan (e.g., 401k) | 7% | 76% | 17% |

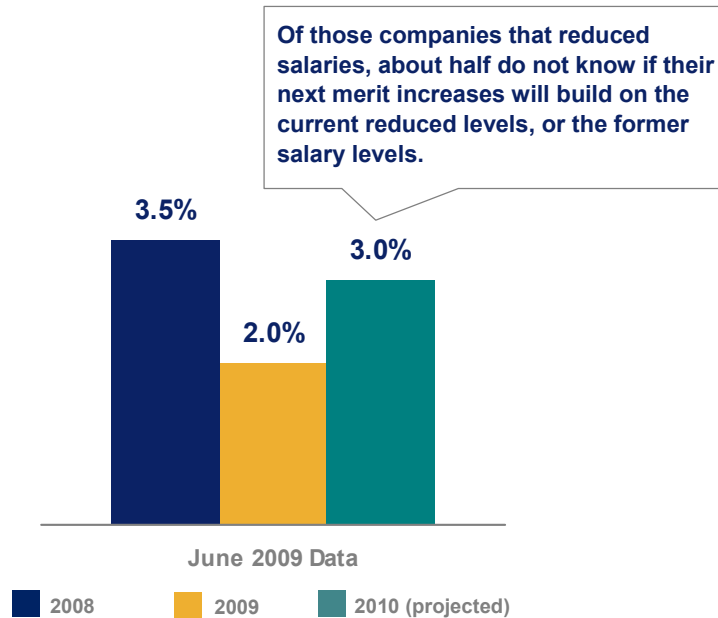
Respondents observed a decrease in hardship withdrawals by plan participants from April to June.

Figure 9 | Since the financial crisis hit last fall, what changes have you noticed in participant activity in 401(k) or 403(b) plans?



Planned merit increase budgets are projected at three percent for 2010.

Figure 10 | Indicate your organization’s merit increase budget for 2008 and 2009 and projection for 2010 (as a percentage of your total payroll).



Projected short-term incentive funding remains steady at just less than 70 percent for the next bonus cycle.

Figure 11 | 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?

Expected funding remained steady from February and April.

| | Funded last year | Expect to fund this year |
|----------------------|------------------|--------------------------|
| June 2009 | 70% | 68% |
| April 2009 | 72% | 69% |
| February 2009 | 86% | 71% |



Conclusion

While more employers feel that the worst of the current downturn may be behind them, the actions taken over the past 10 months will likely have long-lasting implications. Companies will need to determine which cost-cutting changes can be reversed and which will become ingrained into the permanent business environment.

Many companies expect to be operating with a smaller workforce, with more employees working past their ideal retirement age and with less attractive benefits packages. This will no doubt have an effect on attracting and retaining critical talent. While it will take time to see what “the other side” of this downturn shapes up to be, many expect a new reality in the workplace.



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For more information on research and analysis related to the economic crisis, call Watson Wyatt at 800.388.9868 or visit watsonwyatt.com.