

## At a Glance

Employers are moving to less drastic cost-cutting efforts – freezing salaries, or cutting 401(k) matches, for instance – instead of laying off additional workers.

The changes to merit pay budgets are substantial, and more than half of companies making these changes have done so in just the last two months.

Most companies expect their financial results to continue to be down through 2009 and some into 2010.

# Effect of the Economic Crisis on HR Programs

## Update: February 2009

### About the Survey

In mid-February 2009, Watson Wyatt continued our ongoing research on the financial crisis by surveying HR executives at 245 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 October and December 2008 reports.

### Executive Summary

Companies are now settling in to what many believe will be a long recession. More than 60 percent of companies indicated that they believe their business results will not hit bottom until the end of 2009 or into 2010. In response, many employers made significant changes to their HR programs between October and February, including layoffs, salary and hiring freezes, and resetting merit increase budgets for the upcoming year.

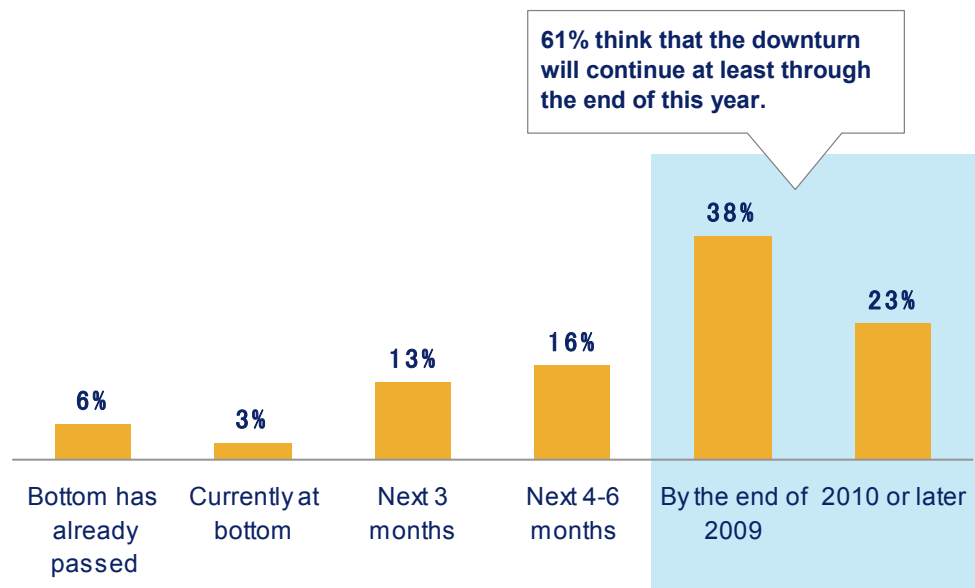
However, our results show that many companies are putting the drastic cuts behind them, and are now looking to make smaller cost-cutting changes moving forward.

## Key Findings

- More than half of companies (52 percent) have already made layoffs, up from 39 percent two months ago. However, the number of companies *planning* layoffs has fallen ten percentage points from 23 percent to 13 percent.
- Forty-two percent of companies have already put salary freezes into place, an increase from only 13 percent two months ago.
- Sixty-nine percent of companies have revised their merit increase budgets for 2009. The median increase at those companies has decreased from 3.5 percent to 1.5 percent.
- Short-term incentive funding has not changed substantially since October – from an average of 86 percent funded last year, projected STI funding for this year stands at 71 percent.
- Twelve percent of respondents (up from 3 percent in December) have lowered their company 401(k) or 403(b) match.
- Since the economic crisis hit, 79 percent of respondents have noticed 401(k) or 403(b) participants changing their investment mix to move out of equities (up 20 percentage points from 59 percent in December).

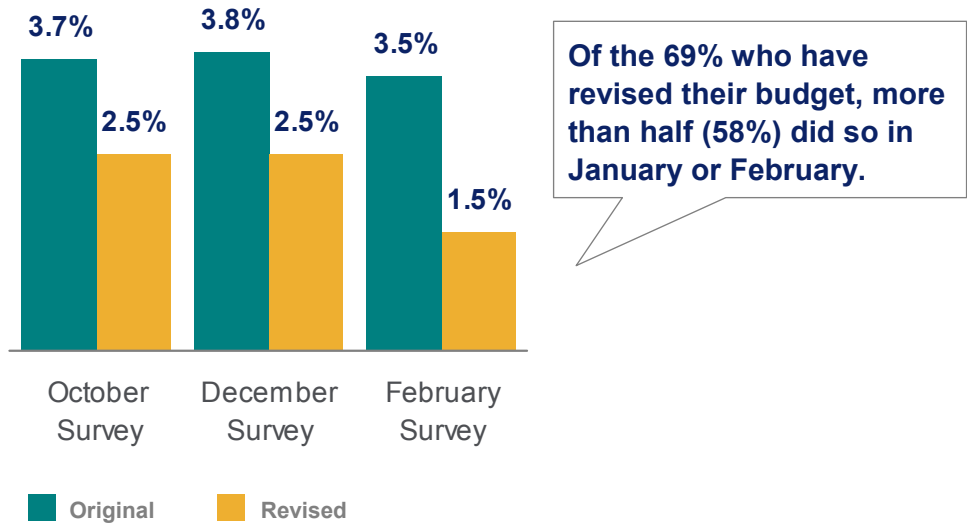
## Companies believe that this recession is going to last.

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



The majority of companies have now revised their merit budgets, slashing them from 3.5 percent to 1.5 percent for 2009.

**Figure 2** | If you revised your 2009 merit budget given the recent events in the economy, please provide your original budget and revised budget as a percentage of payroll.



While anticipated short-term incentive funding is lower than last year, a dramatic decline is not expected.

**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?

	Funded last year	Expect to fund this year	PERCENT CHANGE
<b>February 2009</b>	86%	71%	▼ -17%

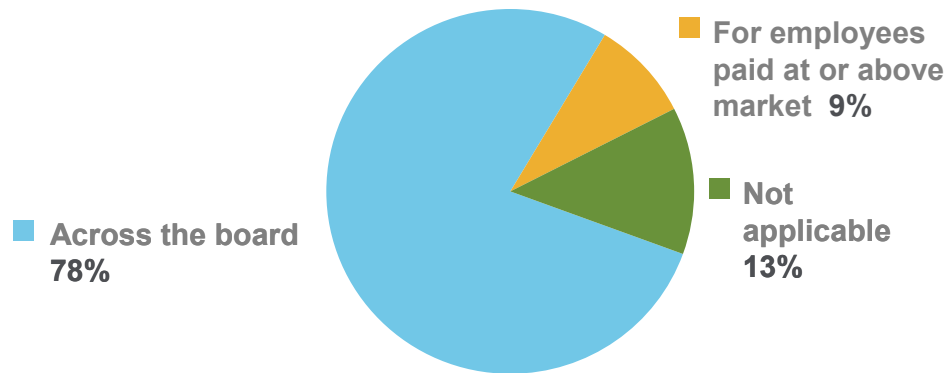
Expected funding is lower than last year.

Companies appear to have already made most of their largest cuts. The number of employers that have already conducted layoffs increased in February, but planned layoffs have dropped since our last survey.

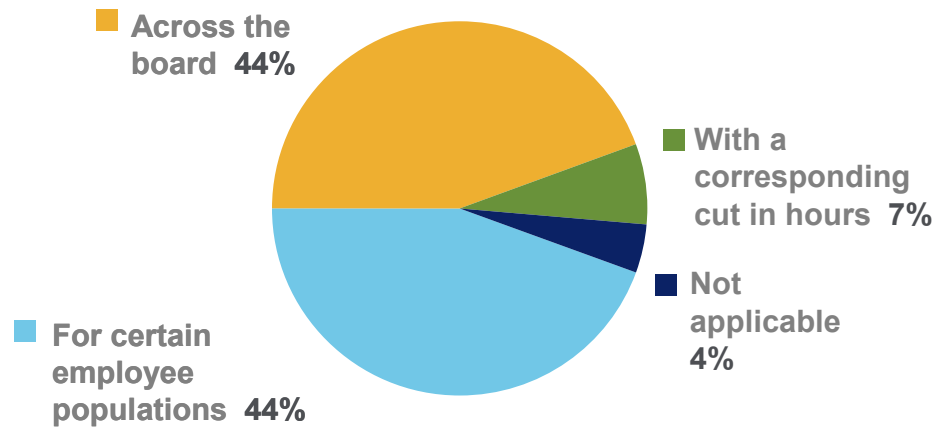
**Figure 4 |** Given the recent events in the economy and financial markets, what changes do you expect to make?

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

**Figure 5 |** For those companies that have already frozen salaries (42%) or plan to freeze salaries (14%) in the next 12 months, it will be:

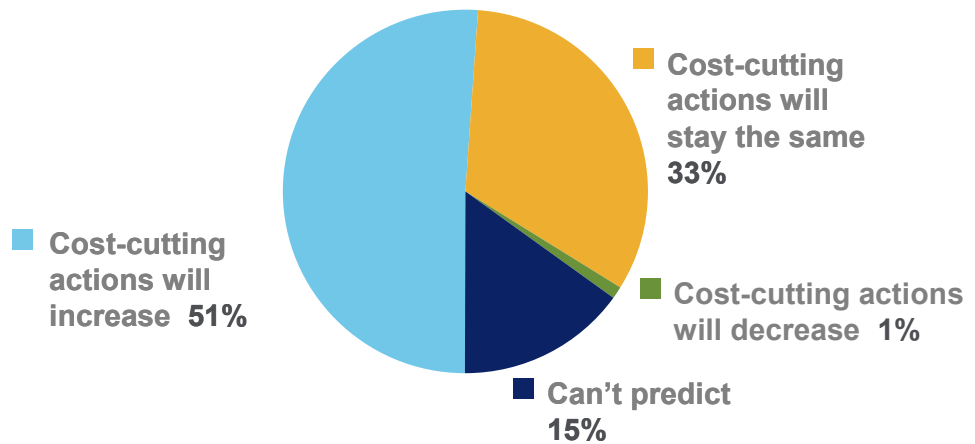


**Figure 6 |** For those companies that have already reduced salaries (7%) or plan to reduce salaries (4%) in the next 12 months, it will be:



More than half of companies (51 percent) expect to increase their cost-cutting measures in 2009 and beyond.

**Figure 7 |** Looking ahead to 2009 and beyond, which of the following best describes the future of HR cost-cutting measures in your company?



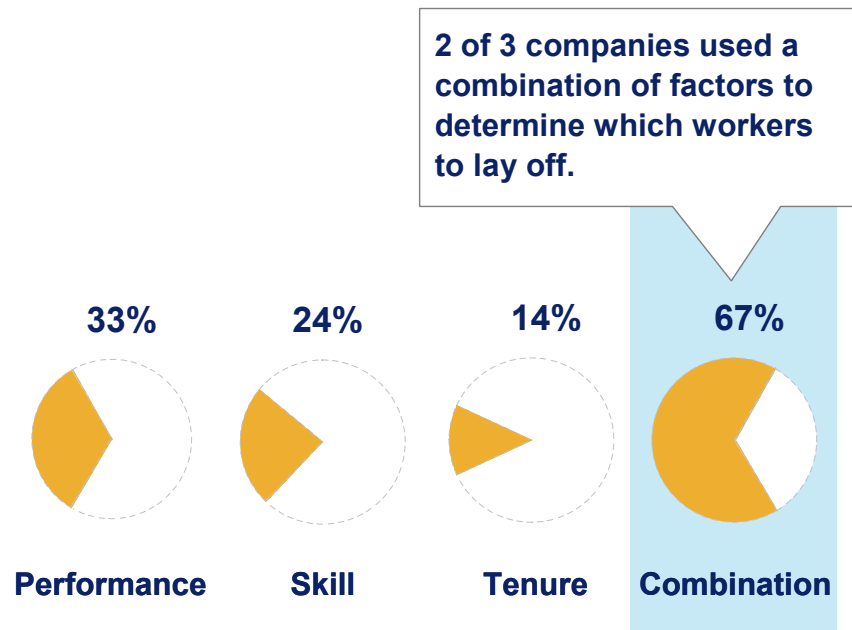
While some companies expect to conduct layoffs in the next 12 months, the percentage of their workforce that will be affected has decreased.

**Figure 8 |** If you indicated you are planning to make layoffs in the next 12 months, what percentage of your employee population will be affected?

DECEMBER 2008	FEBRUARY 2009	CHANGE (PERCENTAGE POINTS)
5.0%	2.0%	▼ -3.0

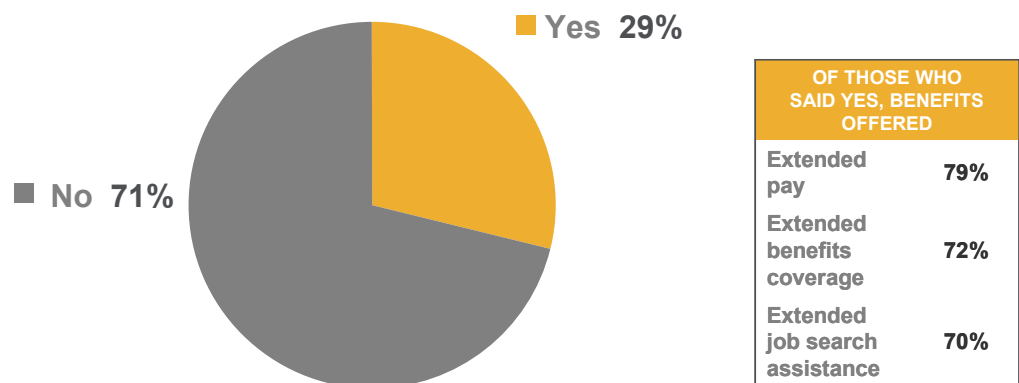
**It appears companies have already made their large layoffs. The percentage already laid off was 5.0% in both December and February.**

**Figure 9 |** What were the key factors your company considered in determining whom to lay off?



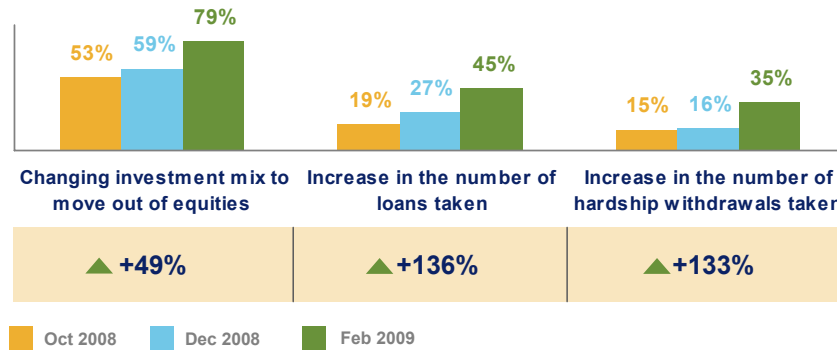
Approximately three in 10 employers that made layoffs have offered enhanced benefits to laid-off workers.

**Figure 10 |** If you have already made layoffs, have you offered enhanced severance benefits?



**Respondents have seen a large jump in employees accessing funds in their 401(k) or 403(b) plans.**

**Figure 11 |** Since the financial crisis hit last fall, what changes have you noticed in participant activity in 401(k) or 403(b) plans?



**Conclusion**

Companies expect this recession to make 2009 a tough year and are adjusting longer-term program strategies to weather the storm. Our October research saw companies taking a measured approach to cost cutting – increasing communication to employees, instituting travel restrictions, etc. However, as the business outlook remains challenging, many employers have buckled down and made more difficult decisions. The number of layoffs between December and February indicate that large cuts were necessary, but we now expect to see companies move to less drastic cost-cutting efforts – freezing salaries, or cutting 401(k) matches – instead of laying workers off.



## 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 7,700 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 Watson Wyatt at 800.388.9868 or visit [watsonwyatt.com](http://watsonwyatt.com).