

2009/2010 U.S. Strategic Rewards Report

Advance Highlights

About the Survey

The 2009/2010 U.S. Strategic Rewards Survey was fielded this year from April 6 to May 15. A total of 235 U.S.-based employers took part. The organizations span all industries and have a minimum of 1,000 employees each.

This report also references data from Watson Wyatt's series of surveys on the effect of the economic crisis on HR programs.

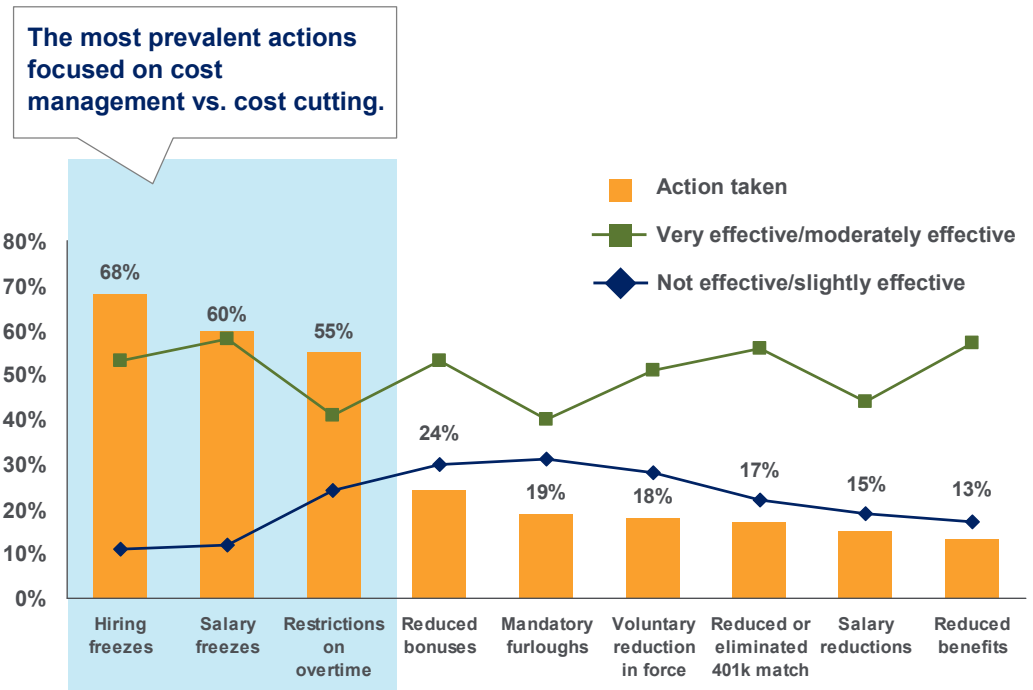
Executive Summary

Since September 2008, companies have taken a variety of restructuring actions to dampen the effects of workforce reductions. The most prevalent actions have focused on cost management – hiring freezes, salary freezes and reductions in overtime – with varying degrees of effectiveness.

Both merit increase budgets and annual bonus funding are down in 2009; however, companies are projecting a rebound in merit increase budgets for 2010. The projected merit increases for 2009 that companies had planned last year were reduced sharply throughout this year to a low of 1.5 percent in February. But companies remain committed to rewarding top-performing employees and maintaining performance-based differentiation, giving out much smaller raises to weaker performers.

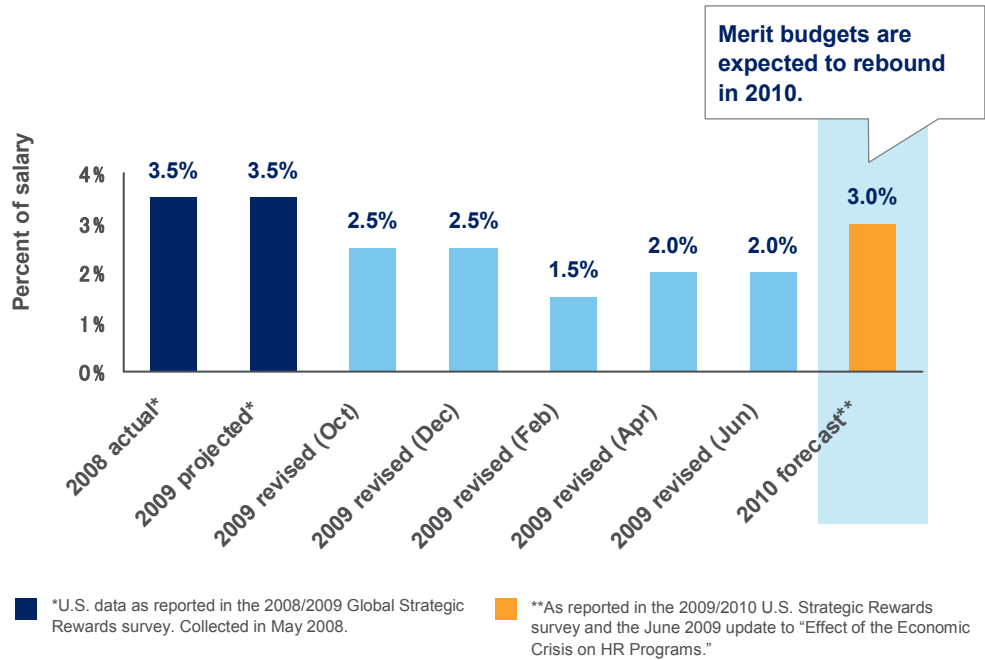
Companies were most likely to implement hiring freezes, salary freezes and reductions in overtime to avoid or minimize layoffs. When considering the impact of the various actions taken, employers were more likely to rate freezes and outright reductions to pay or benefits as effective.

Figure 1 | Prevalence and effectiveness of restructuring actions



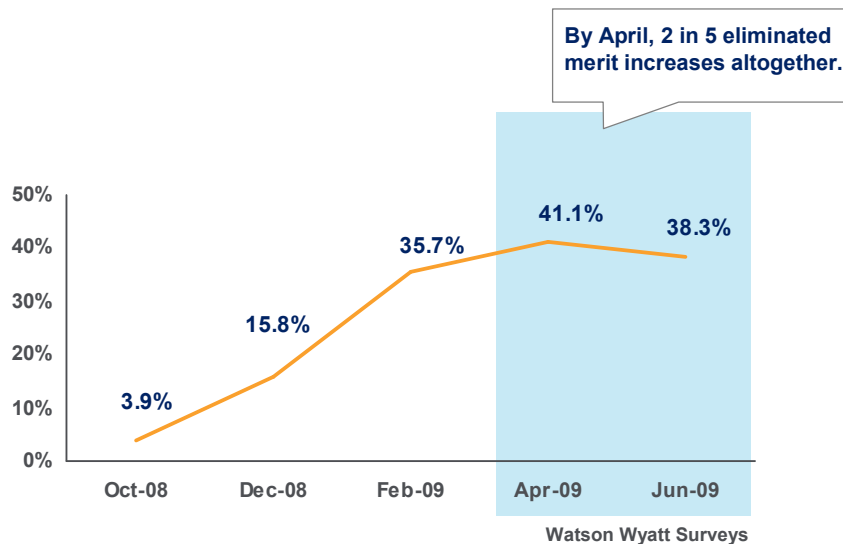
The difficult economy forced companies to cut back significantly on projected merit increase budgets.

Figure 2 | Trend in median merit increase budgets (as a percentage of salary)



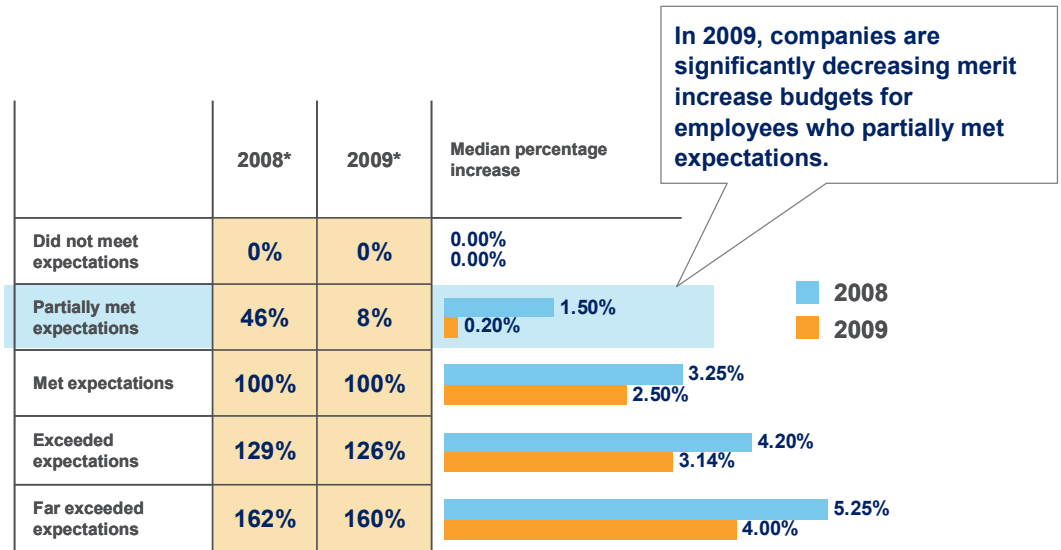
As the recession worsened, more companies planned zero merit increases.

Figure 3 | Companies with a projected zero merit increase budget for 2009



To maintain performance-based differentiation for high-performing employees, companies are significantly cutting back merit increases for poor performers; however, increases are down even for top performers.

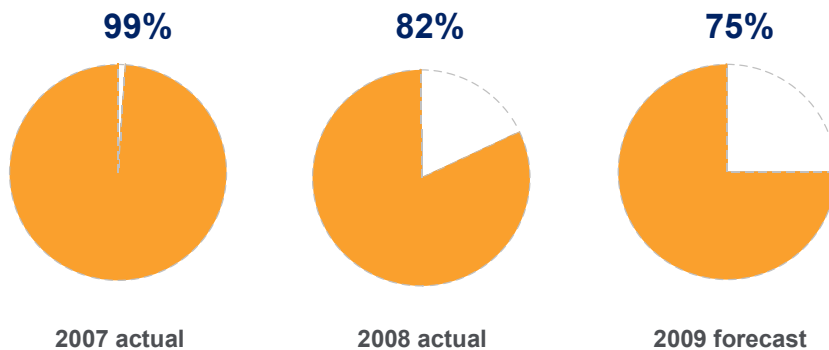
Figure 4 | Performance-based differentiation of merit increases



*Merit increase award as a percentage of "met expectations"

Companies are using the lever of variable pay in concert with other cost-cutting measures to align their human capital costs with business performance. As a result, annual incentive pools are funding at significantly lower levels in 2009 relative to past years.

Figure 5 | Most recent year funding for annual incentive awards



Reduced funding for annual incentive programs yielded below-target differentiation for stronger performers.

Figure 6 | Performance-based differentiation of short-term incentive funding for the most recent plan year

	Target funding	Actual funding	Percentage point difference
Did not meet expectations	0%	0%	■ 0
Partially met expectations	50%	50%	■ 0
Met expectations	100%	97%	▼ -3
Exceeded expectations	110%	100%	▼ -10
Far exceeded expectations	120%	103%	▼ -17

*Award as a percentage of target

Conclusion

Companies have spent most of the last 12 months cutting programs and slashing raises in the wake of the recession. But there is some good news on the horizon. Employers plan to offer larger raises next year and reinstate programs that have been eliminated or reduced as they plan for an anticipated economic recovery. They have also made efforts to motivate and retain the critical-skill and top-performing employees they will need when the economy rebounds. Companies have ensured that limited merit increase budgets have gone to the employees who exceeded expectations as opposed to those who fell short; however, there is room to improve. Like merit increase budgets, short-term incentive funding will be down in 2009. Companies have not differentiated bonuses based on performance as much as they have with merit increases.

The full “2009/2010 U.S. Strategic Rewards Report” will be released in September 2009.

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