

### At a Glance

**More employers** are planning to reverse pay freezes and reductions, as well as other cutbacks.

**However, employees** are still facing lower raises, lower bonuses and higher health care costs.

**A majority of employers** are now more concerned about retaining their top performers and critical-skill employees than they were before the economic crisis hit in September 2008 and are increasing their communication programs in order to keep employees engaged.

# Effect of the Economic Crisis on HR Programs

## Update: August 2009

### About the Survey

In August 2009, Watson Wyatt continued our ongoing research on the economic crisis by surveying HR executives at 175 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 bimonthly reports that began in October 2008.

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### Executive Summary

An increasing number of employers who made cuts to their HR programs are planning to reverse them in the next six months, including salary reductions (44 percent) and freezes (33 percent) and cuts to 401(k) matching contributions (24 percent).

Employers recognize that the program cuts have an effect on employee engagement. More than half (52 percent) of employers are now more concerned about retaining their top performers and critical-skill employees than they were before the economic crisis hit. Companies are increasing communication (83 percent) and changing roles to expand responsibilities (47 percent) as ways of engaging employees during the downturn, among other actions.

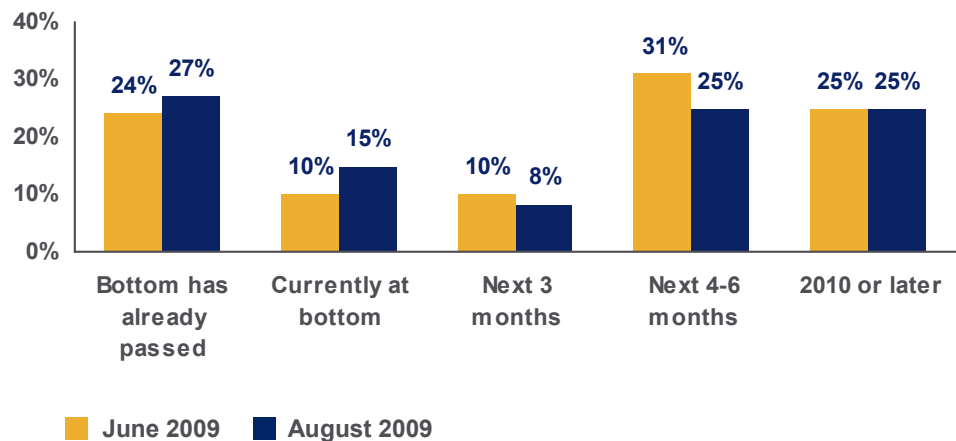


## Key Findings

- Thirty-three percent of respondents expect to reverse salary freezes in the next six months, double the number from our June survey.
- Two-thirds of companies do not expect to roll back increases to the percentage employees pay towards health care premiums.
- A large majority of respondents (83 percent) have increased their communication during the economic downturn to keep employees engaged, and four in 10 have held additional employee forums or interactive sessions to address concerns about the economy.
- Almost half of the companies (47 percent) have changed roles to expand responsibilities as a way to keep employees engaged.
- More than half of the respondents (52 percent) are more concerned about attrition of critical-skill or top-performing employees when the economy recovers than they were before the downturn.
- Seventy-one percent of respondents have made some change to their 2010 health care plan due to the economic crisis. Increasing deductibles, co-pays or out-of-pocket maximums (41 percent) and increasing the percentage of premiums paid by the employee (40 percent) are the most commonly reported changes.
- In the last two months, one-third of respondents have seen an increase in hardship withdrawals from 401(k) or 403(b) plans (36 percent) and the rate of lending to participants (37 percent).

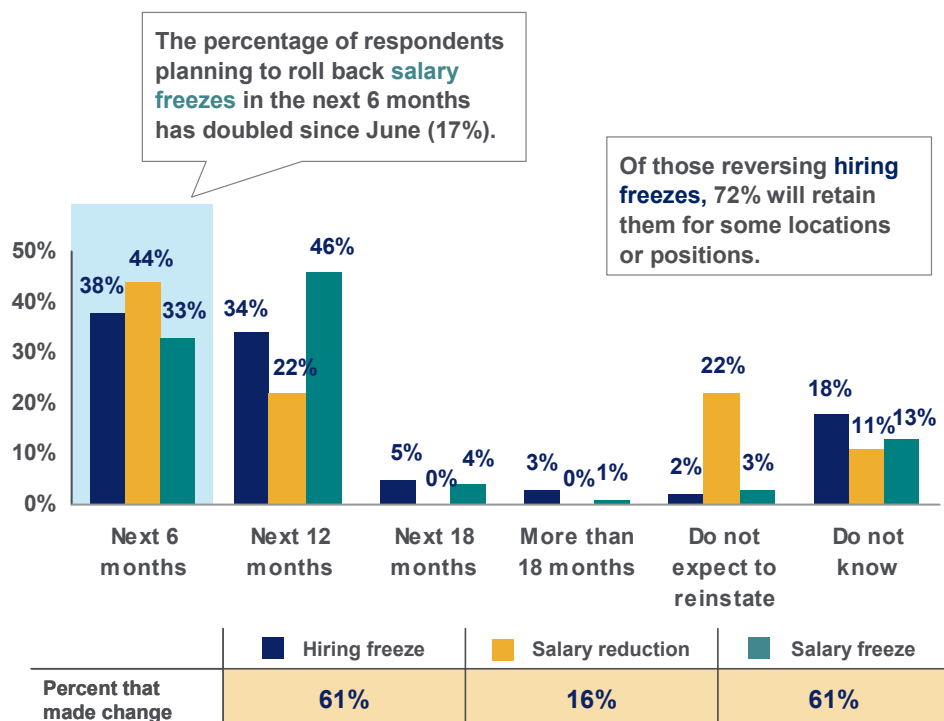
## Respondents' outlooks remained fairly steady from June 2009 through August 2009.

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



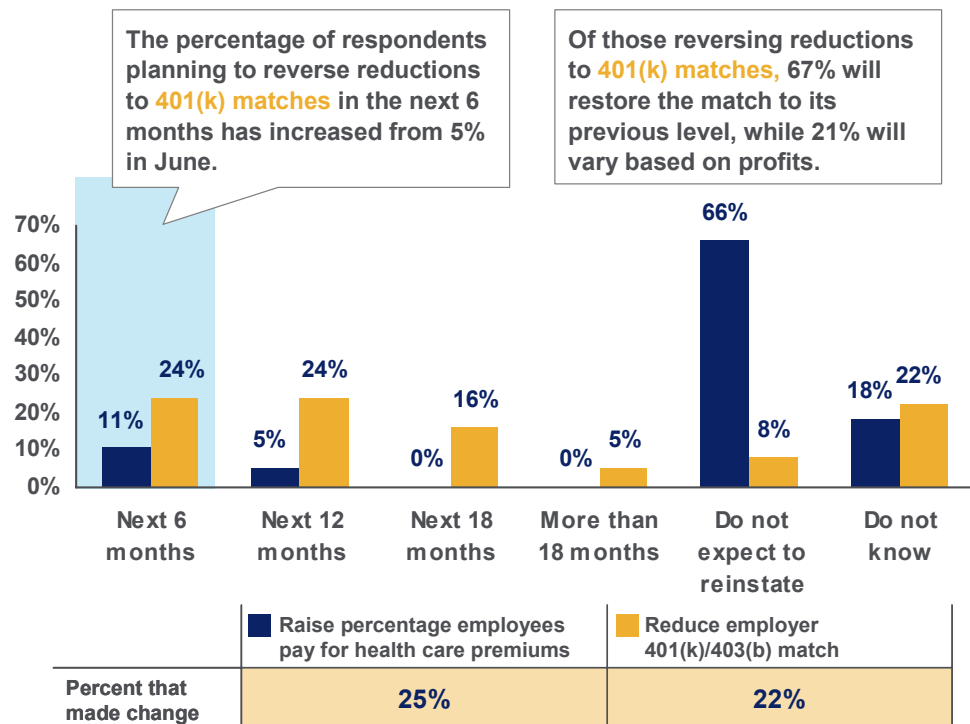
## Most companies expect to reverse hiring and salary freezes in the next year.

**Figure 2** | When do you expect to reverse/reinstate the changes made to your pay programs and hiring practices?



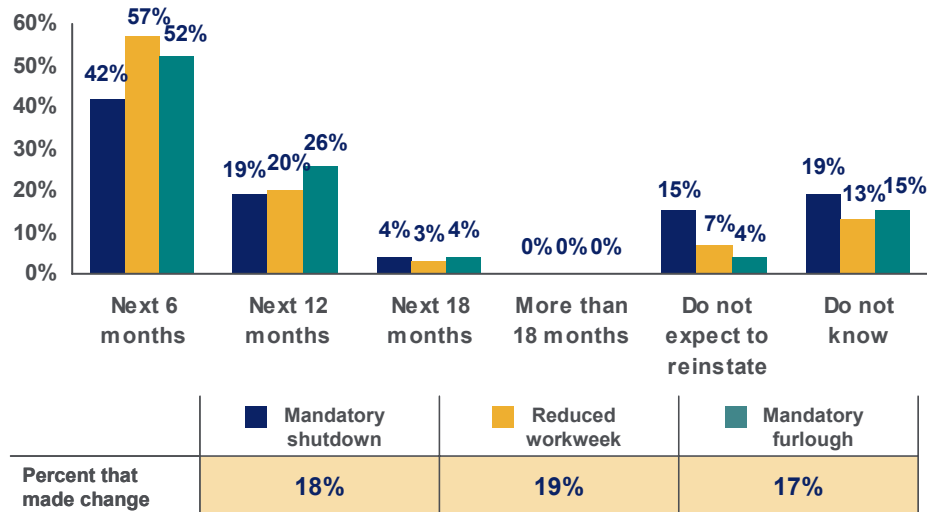
While half of respondents indicate they will reverse reductions to 401(k) or 403(b) matches in the next year, two out of three participants who increased employee health care contributions do not expect to reinstate them.

**Figure 3** | When do you expect to reverse/reinstate the changes made to your benefits programs?



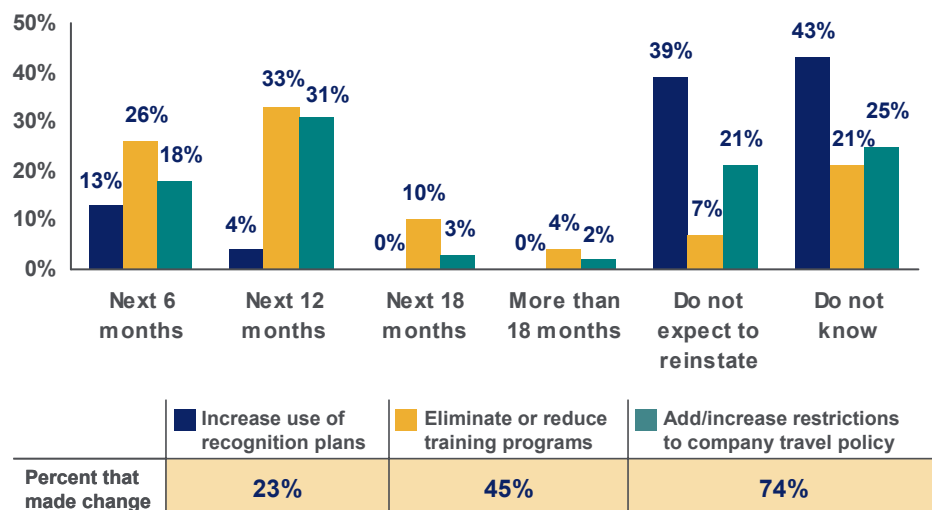
More than half of respondents expect to reverse changes to employee hours in the next six months, including reduced workweeks and mandatory furloughs.

**Figure 4** | When do you expect to reverse/reinstate the changes made related to hours?



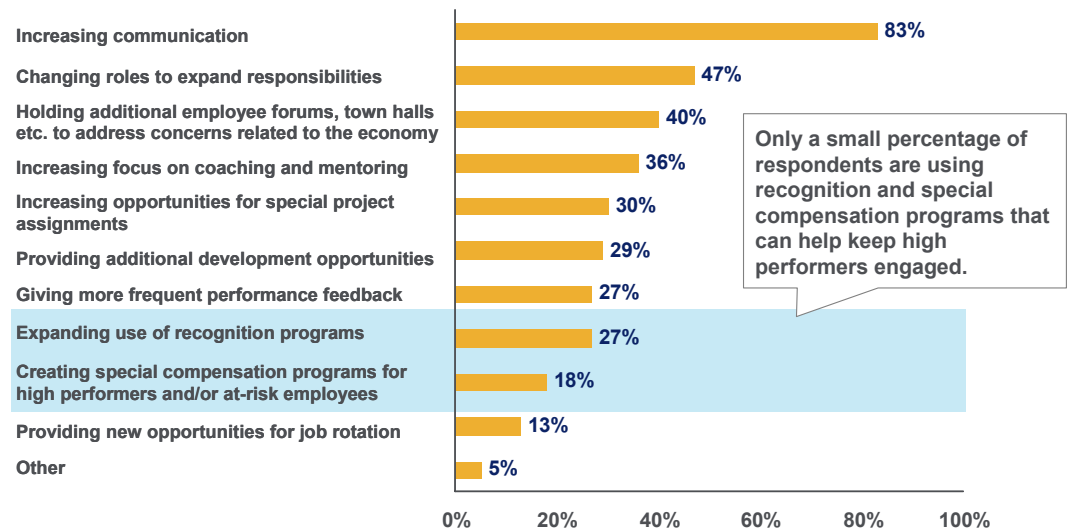
Restrictions to travel policies were one of the most common changes; half of the respondents expect to roll those back in the next 12 months.

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



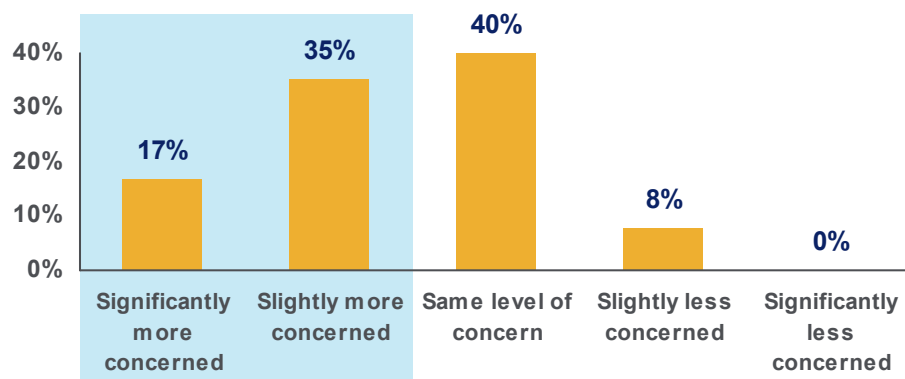
Increased communication is the most common option companies are using to keep employees engaged. Companies are also holding additional forums and town halls to help address concerns related to the economy.

**Figure 6** | In light of changes/cuts you have made to HR programs, what are you doing to try to keep employees engaged?



Half of the respondents (52 percent) are now more concerned about attrition of critical-skill or top-performing employees when the economy recovers than before the economic crisis hit.

**Figure 7** | Compared to your level of concern about retention before the economic crisis hit, to what extent are you concerned about losing critical-skill or top-performing employees when the economy begins a recovery?



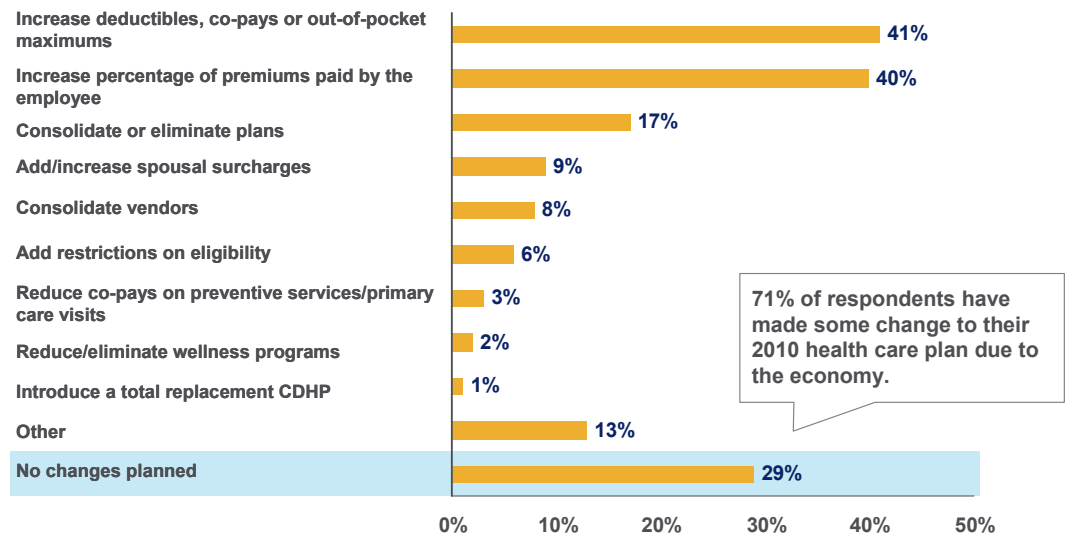
About half of the respondents expect difficulty attracting and retaining critical-skill employees to increase in the next three to five years.

**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	83%	17%	0%
Percentage of health care costs paid by employee	68%	31%	2%
Development programs for employees	52%	44%	4%
Difficulty retaining critical-skill employees	50%	46%	4%
Difficulty attracting critical-skill employees	46%	48%	7%
Salary increase levels	37%	42%	21%
Staff sizes	29%	28%	43%
Employer contributions for defined contribution plan (e.g., 401k)	14%	75%	11%
Employer contributions for pension plan	13%	64%	23%

## Employers expect to shift more costs of health care to employees in 2010 as a result of the downturn.

**Figure 9** | What changes have you made or will you make to your 2010 health care plan as a result of the economic downturn?



## More than one in three employers have seen an increase in the rate of hardship withdrawals (36 percent) and rate of lending to participants (37 percent).

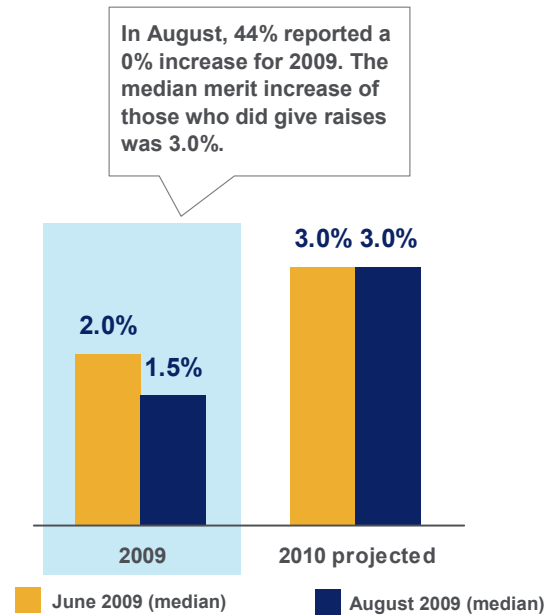
**Figure 10** | In the last two months, what changes have you noticed in participant activity in 401(k) or 403(b) plans?

	Increased	Stayed the same	Decreased
Rate of lending to participants	37%	63%	1%
Rate of hardship withdrawals	36%	63%	1%
Percent of assets invested in equities	5%	56%	39%
Percent of pay contributed by participants	2%	68%	30%



**The typical company expects to offer 3 percent merit increases in 2010.**

**Figure 11** | Indicate your organization's merit increase budget for 2009 and projection for 2010 (as a percentage of your total payroll).



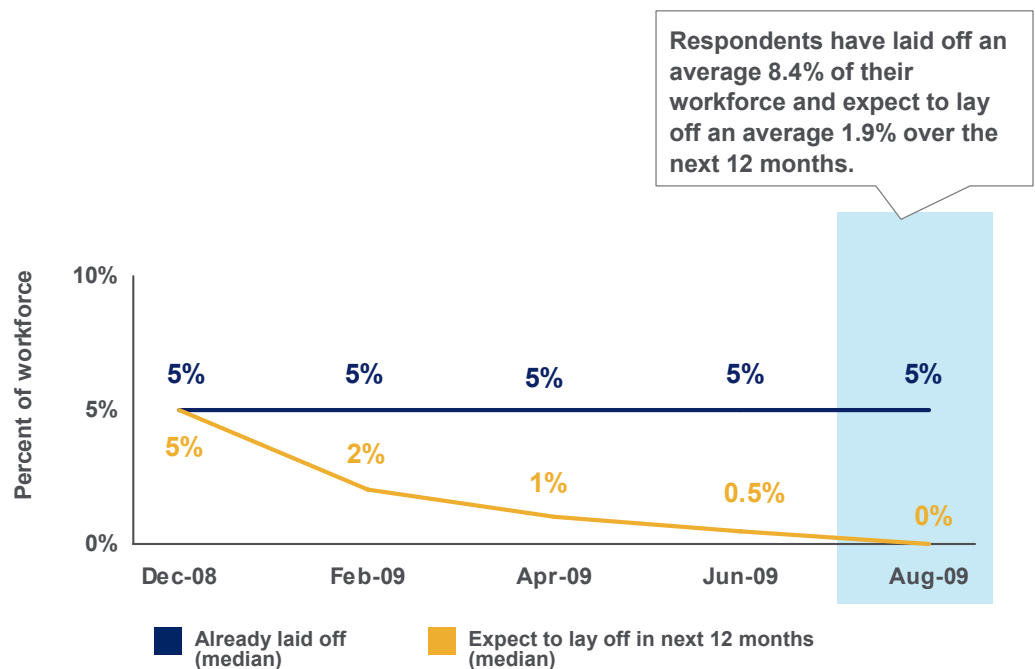
**Similar to June 2009 data, companies expect to fund their short-term incentive plan at an average of 68 percent this year.**

**Figure 12** | 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
Median STI funding	81%	76%
Mean STI funding	76%	68%

## Most respondents do not expect to make additional layoffs in the next 12 months.

**Figure 13** | If you have made or are planning to make layoffs, what percentage of your employee population is affected?



## Conclusion

Many employers are fairly optimistic about the state of the economy and are planning to reverse program cuts. However, initial rollbacks might not be enough to eliminate the attrition risk of top-performing and critical-skill employees when the economy recovers and the job market heats up again. The total value of many employees' reward packages has decreased as they have seen smaller raises, lower bonuses and higher health care costs. And at the same time, many employees have seen their workloads increase as roles are expanded to take on responsibilities of coworkers who were laid off.

Effectively using communication is critical to keeping employees engaged. But companies should also be using many of the programs they may already have in place – such as recognition plans, development opportunities, informal performance feedback, and coaching and mentoring programs – to help critical-skill and top-performing employees remain focused and engaged throughout the downturn and recovery.



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- Providing strategic and financial advice to insurance and financial services companies
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**For more information** on research related to the economic crisis, contact Watson Wyatt at 800.388.9868 or visit [watsonwyatt.com](http://watsonwyatt.com).