

At a Glance

About half of companies plan to reverse salary and hiring freezes in the next six months.

While most companies are making new hires, one in five is still contemplating further layoffs.

Retention of key talent will be a major concern for employers in the recovery and beyond.

Effect of the Economic Crisis on HR Programs

Update: October 2009

About the Survey

In October 2009, Watson Wyatt continued our ongoing research on the economic crisis based on survey responses from HR executives at 201 U.S.-based companies. This is an update to our bimonthly reports that began in October 2008 to understand what adjustments they are making to their HR programs (e.g., staffing, pay, benefits) in response to the economic downturn.

Executive Summary

A little more than one year after the financial crisis began, employers are beginning to lift freezes on hiring and salary increases. The percentage of companies reversing freezes has increased markedly from our June and August surveys.

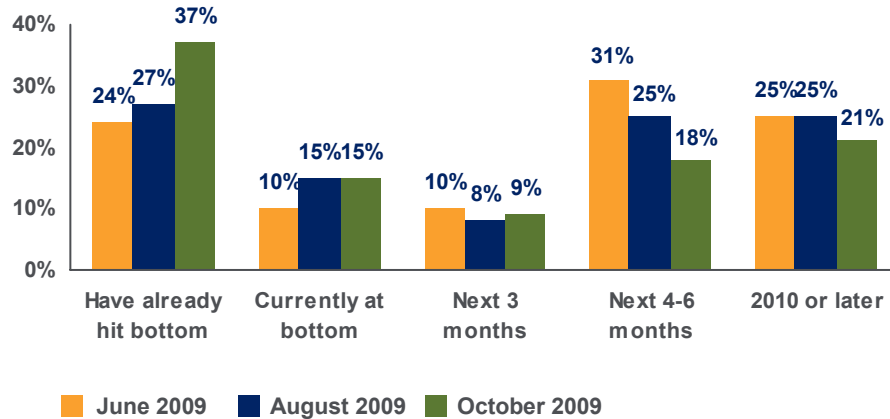
Almost all companies have made offers to new hires in the past three months, and the vast majority anticipates making offers in the next three months. However, approximately one-fifth still anticipate making layoffs in the remainder of 2009 or in 2010. This number is significantly less than six months ago, but reinforces that companies are at different stages in a recovery that promises to be uneven. But as the labor market slowly begins to thaw, almost two-thirds of employers report that they are more concerned about the retention of critical-skill and top-performing employees than they were before the economic crisis hit.

Key Findings

- Fifty-four percent of the companies that have made salary freezes are planning to restore them in the next six months, compared with 33 percent two months ago.
- Almost half of respondents (49 percent) plan to reverse hiring freezes in the next six months, compared with 38 percent in August 2009.
- An increasing number of employers are planning to reverse reductions to 401(k) match contributions in the next six months; this number has increased to 35 percent, from 24 percent two months ago and 5 percent in June.
- Almost all companies (96 percent) have made offers to new hires in the past three months, and the vast majority (93 percent) anticipates making offers in the next three months.
- Approximately one-fifth of companies still anticipate making layoffs in the remainder of 2009 or in 2010.
- Almost two-thirds (65 percent) report that they are more concerned about the retention of critical-skill and top-performing employees than they were before the economic crisis hit.
- In light of the recession, 44 percent of employers have encouraged managers to make increased use of recognition plans. Of those that did, 64 percent expect the increased use to remain permanent.
- Only 37 percent of employers plan to organize a holiday party in 2009, compared with 47 percent that organized one in 2008 and 70 percent in 2007. Two in five (41 percent) of those that are planning a holiday party have decreased their budgets relative to prior years.

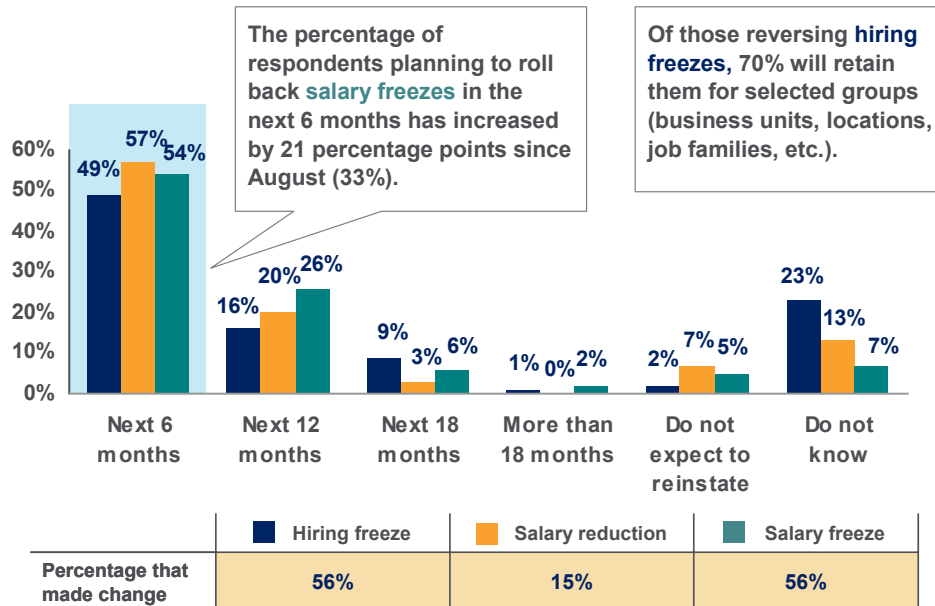
The percentage of companies that think their results have already bottomed out has jumped considerably – 27 percent in August to 37 percent in October.

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



At least half of companies expect to reverse hiring and salary freezes in the next six months.

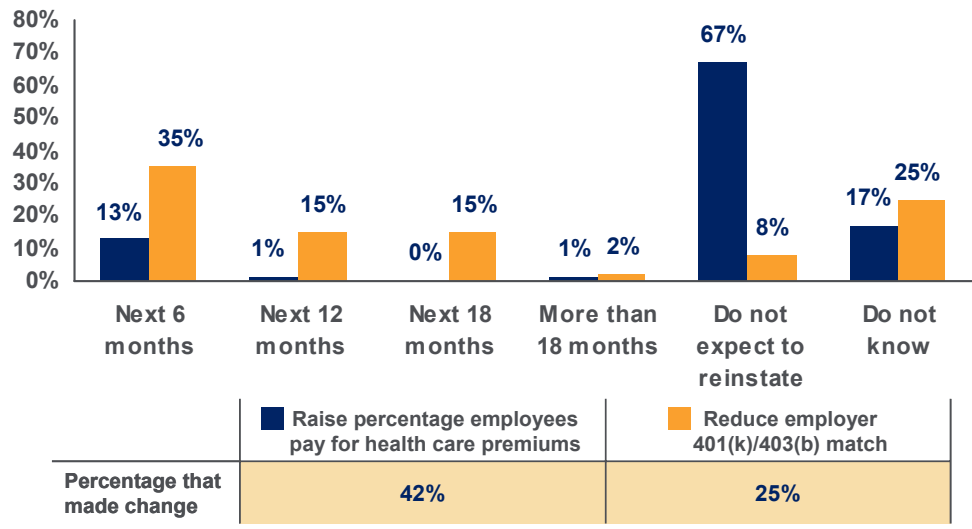
Figure 2 | If you have made changes to your hiring and pay practices, when do you expect to reverse/reinstate the changes?



Consistent with previous surveys, two out of three employers expect any increases made to the percentage of health care premiums that employees pay to be permanent. Half of respondents expect to reverse cuts to 401(k) matches in the next 12 months.

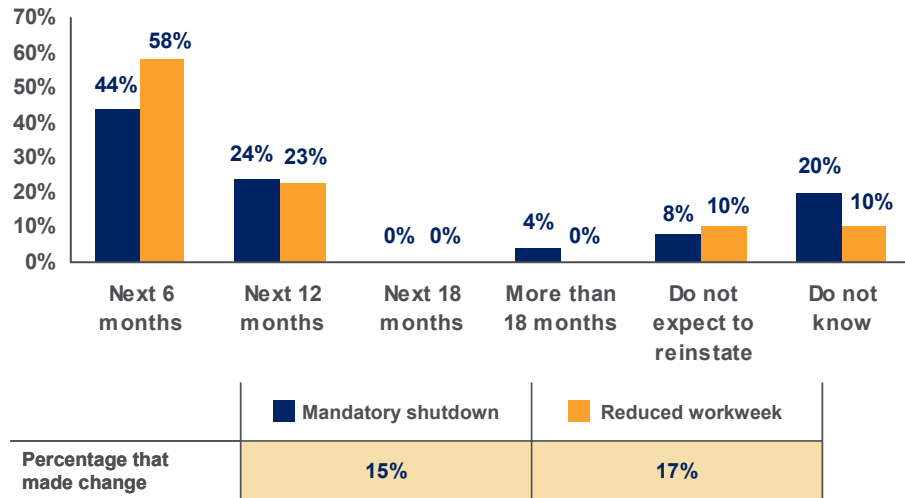
Figure 3 | If you have made changes to your benefits programs, when do you expect to reverse/reinstate the changes?

Of those reversing reductions to 401(k) matches, 70% will restore the match to its previous level, 17% will vary based on profits, and 13% will be reinstated to a new, lower level.



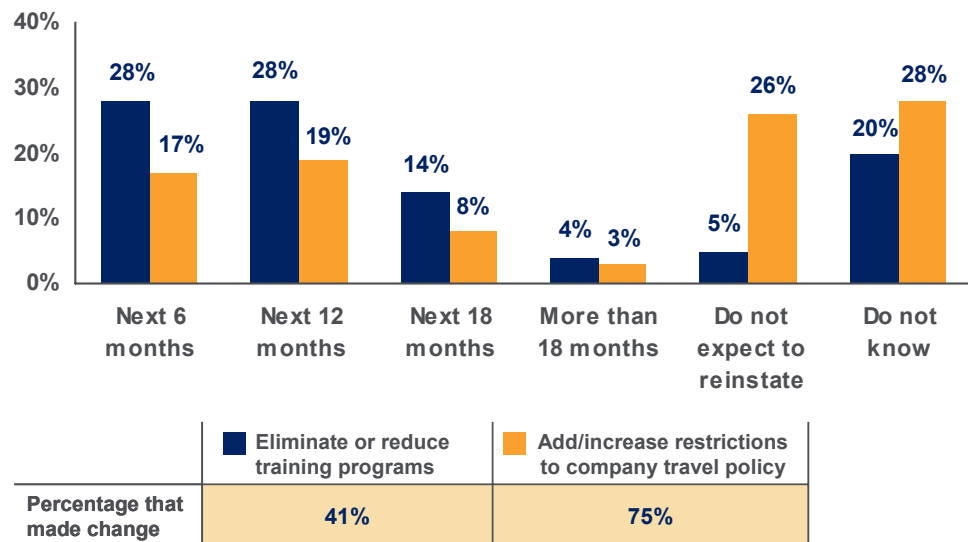
More than 80 percent of employers that instituted a reduced workweek expect to reinstate full weeks in the next 12 months.

Figure 4 | If you have made changes to worker hours, when do you expect to reverse/reinstate the changes?



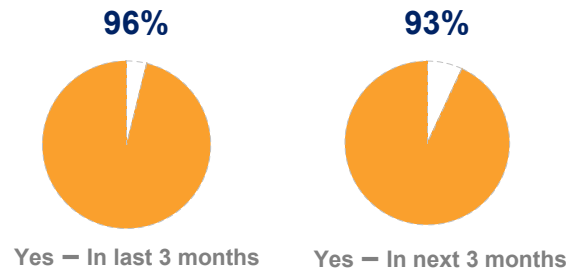
Three-quarters of employers have instituted travel restrictions since the recession began, but less than two in five expect to reverse them in the next 12 months.

Figure 5 | If you have made changes to other programs, when do you expect to reverse/reinstate the changes?

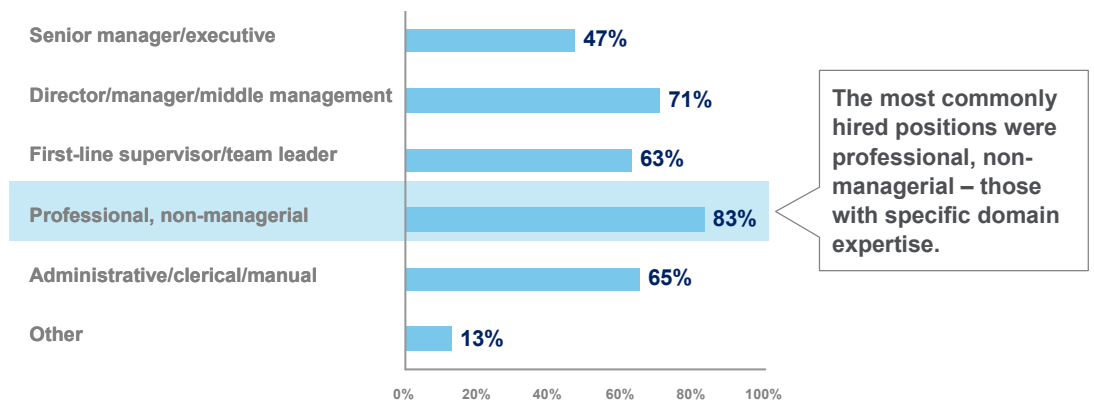


Almost all companies have made or will make offers to new hires. They are hiring across all job types, with professional, non-managerial hires the most common and executive-level positions the least common.

Figure 6 | Have you made any new hires in the last 3 months? Do you anticipate making offers to new hires in the next 3 months?

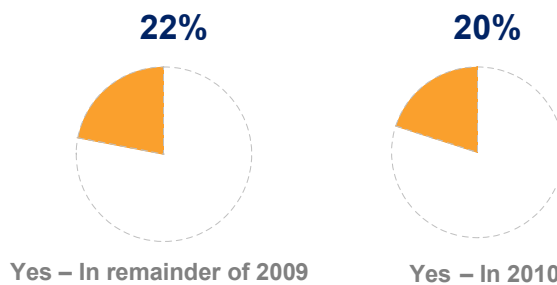


What type(s) of positions did you/will you hire?



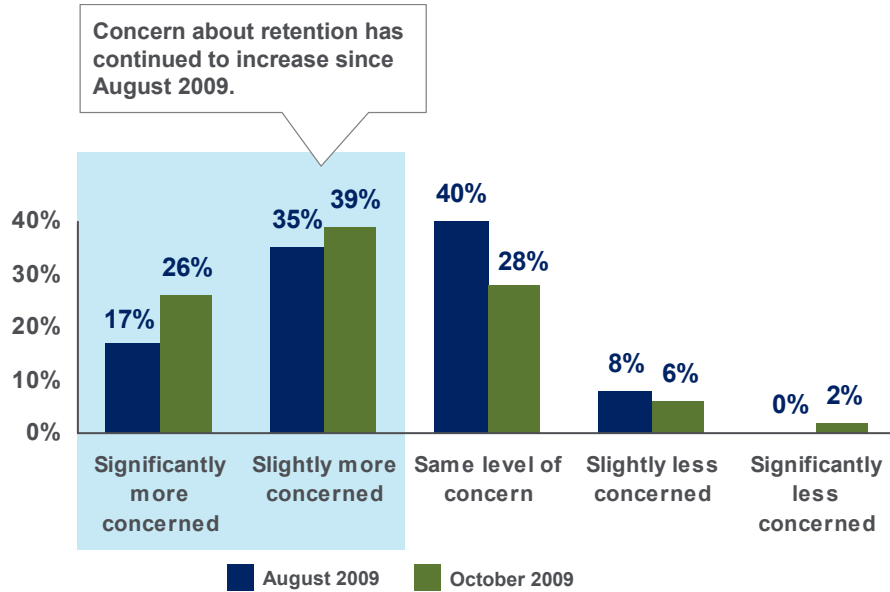
One in five companies expects to make layoffs in the remainder of 2009 and in 2010. This has decreased significantly since April 2009 when almost 50 percent expected to make layoffs.

Figure 7 | Does your organization anticipate layoffs?



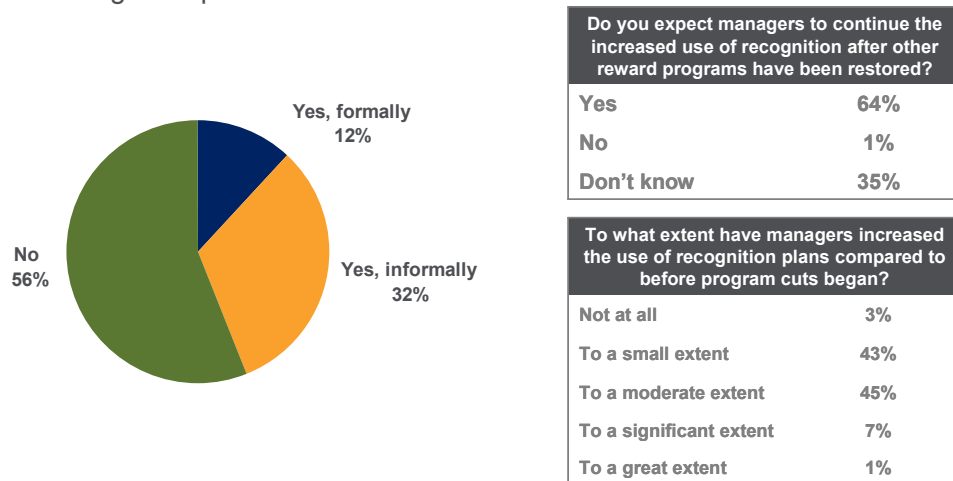
Companies are concerned about retaining their top talent; almost two-thirds of respondents are more concerned now than they were before the economic crisis.

Figure 8 | 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?



Almost half of respondents have encouraged an increase in the use of recognition plans, and most expect to continue the elevated levels after other program cuts have been restored.

Figure 9 | In light of cutbacks on other reward programs because of the recession, has your company encouraged managers to make increased use of recognition plans?



Difficulty attracting and retaining key talent is a long-term concern for employers.

Figure 10 | 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%	1%
Percentage of health care costs paid by employee	72%	25%	4%
Difficulty retaining critical-skill employees	55%	41%	3%
Development programs for employees	51%	41%	8%
Difficulty attracting critical-skill employees	50%	47%	4%
Salary increase levels	35%	38%	27%
Staff sizes	28%	29%	43%
Employer contributions for pension plan	11%	73%	17%
Employer contributions for defined contribution plan	7%	82%	11%

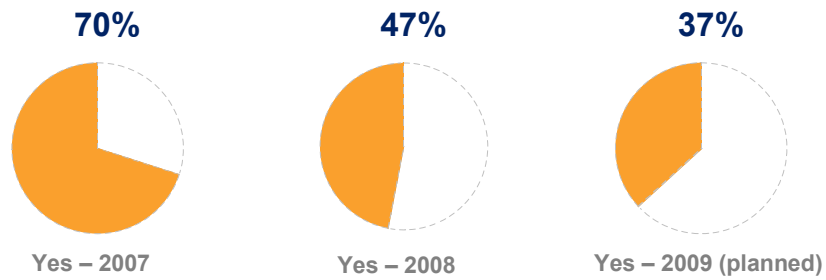
Some employees continue to use their retirement savings to get through the recession. In the last two months, more than four in ten employers have seen more hardship withdrawals and an increased rate of lending to plan participants.

Figure 11 | 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 hardship withdrawals	42%	55%	3%
Rate of lending to participants	40%	58%	2%
Percentage of assets invested in equities	9%	56%	35%
Percentage of pay contributed by participants	3%	65%	32%

Half as many companies are planning a holiday party in 2009 as held one in 2007. And those that do host parties will have reduced budgets.

Figure 12 | Did your organization host a holiday party?



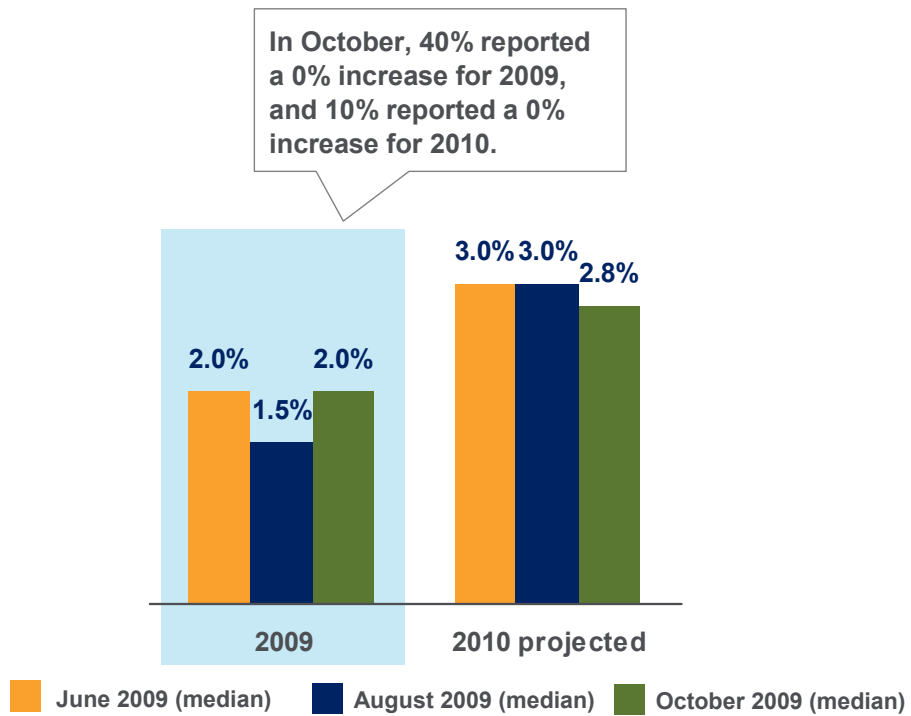
How does your 2009 holiday party budget compare to past years?

2009 budget is:	2007	2008
Significantly higher	1%	1%
Slightly higher	4%	7%
The same	54%	51%
Slightly lower	20%	32%
Significantly lower	21%	8%

Holiday party budgets decreased from 2007 to 2008 and are expected to decrease again in 2009.

Projected merit increase budgets have remained relatively steady since June.

Figure 13 | Indicate your organization’s merit increase budget for 2009 and projection for 2010 (as a percentage of your total payroll):



Expected annual bonus funding for the current year is at levels similar to the most recent year funded.

Figure 14 | 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	79%	79%
Mean STI funding	71%	68%



Conclusion

The general economic picture is brighter than it was just a few months ago. Companies are beginning to reverse some program cuts and lift salary and hiring freezes. But even as hiring begins to pick up, it will be done selectively, and companies may still need to make cuts. This dichotomy of hiring while still making some layoffs will likely continue into 2010 as employers adjust their workforces for the new business environment amidst a potentially choppy recovery.

Employers remain concerned about their ability, both currently and in the long run, to attract and retain critical-skill employees. The increased use of recognition programs is one way to help keep key talent engaged and motivated. Having the right people in place and productive will be a key differentiator for companies looking to outperform competitors in a recovery.



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