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Slump prods U.S. firms to seek a new compact with workers

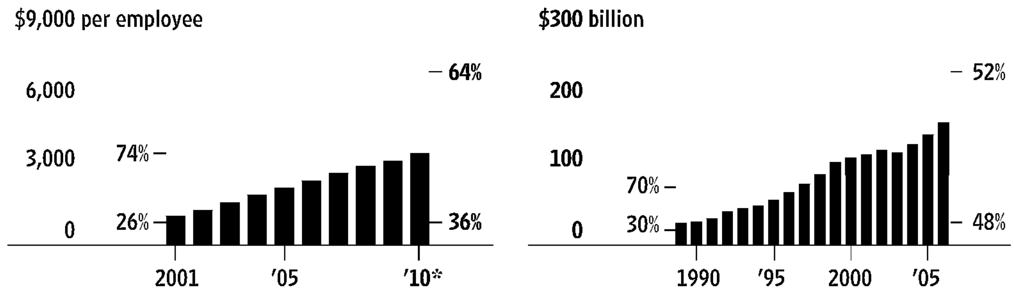
More are requiring employees to shoulder rising costs of benefits

Shifting burden

Employees are paying a bigger share of health costs... **...And funding a larger percentage of their retirements.**

Health-care cost paid by: Employer ■ Employee

Contribution toward retirement:† Employer ■ Employee



*Projected †Includes contributions to both traditional pensions and 401k plans
Sources: Hewitt Associates; U.S. Department of Labor

By Phred Dvorak and Scott Thurm

THE deep recession appears to be drawing to a close, but not its effect on the workplace.

Since the downturn began, thousands of employers in the U.S. have cut pay, increased workers' share of health-care costs or reduced the employer contribution to retirement plans.

Two-thirds of big companies that cut health-care benefits don't plan to restore them to pre-recession levels, they recently told consulting firm Watson Wyatt. When the firm asked companies that have trimmed retirement benefits when they expect to restore them, fewer than half said they would do so within a year, and 8% said they didn't expect to ever.

Changes like these are reshaping employment in America, injecting uncertainty and delivering the jolting news that pay can go down as well as up. The changes are eroding two pillars of the late-20th-century employment relationship: employer-subsidized retirement benefits and employer-paid health care.

Even as Congress wrestles with how to extend health insurance to more Americans, and considers putting pressure on employers to offer coverage, some companies feel they have no choice but to pull back—dropping health plans or weighing such a move.

One reason: Although employers pay a smaller percentage of health costs, their dollar


NEWS IN DEPTH
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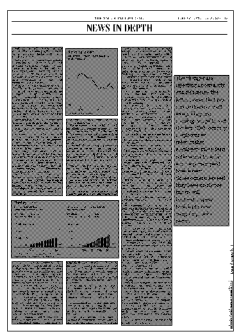
NEWS IN DEPTH

La crisi spinge le società americane a cercare nuovi accordi con i lavoratori (ac) outlays continue to rise rapidly, as medical costs do. Employers that offer health insurance spend an average of $6,700 per employee on it this year, nearly twice as much as in 2001, according to consulting firm Hewitt Associates.

Some shifts in the employer-employee relationship have been building for years, but the recession, by making companies acutely cost-conscious, has accelerated them.

"I think we've entered into a fundamentally new era," says David Lewin, of the Anderson School of Management at the University of California, Los Angeles. He describes employers as "leery of long-term commitments," including both benefits and pay increases.

Bonnie Templeton is living in the new era. The information-technology specialist in Loveland, Colo., went to work for a small sign company last year in a job that pays about $42,000, just over half what she earned in her previous job at a university.

Her new employer doesn't offer a traditional health-care plan covering most expenses. It has a high-deductible plan, under which she must pay the first $3,000 of her medical bills each year. Most bills after that are covered, but Ms. Templeton also owes a $75 monthly premium. "You really are covering your own expenses," she says.

Like most private-sector employers today, hers doesn't offer a pension such as the one her 89-year-old father collects via Exxon Mobil Corp. There's a 401(k) plan, enabling workers to set aside some pay tax-deferred, sometimes partly or fully matched by the employer. These accounts have the advantage of portability. Workers don't lose what they have accrued if they leave after a few years, as can happen with a pension.

Ms. Templeton hasn't had her job long enough to qualify for the 401(k). In any case, she says, with her reduced pay, she couldn't afford to contribute. Her husband lost his job as a technical writer in March.

Large employers began shouldering retirement and health care after World War II, partly to retain talent in an era of ample opportunity. Corporate giants in industries like steel and autos led the way, and could pass the costs on to customers, says Mr. Lewin at UCLA. In the 1970s and 1980s, amid rising foreign competition and recessions, the same companies took the lead in paring this system.

At Ford Motor Co., salaried workers hired after 2003 no longer get pensions. Instead, Ford contributes to retirement accounts they manage. They are eligible for 401(k) accounts, but Ford has frequently suspended its matching contributions, most recently on Jan. 1. In all, Ford has contributed in 2½ of the past eight years. "I don't think anyone really counts on" the company's 401(k) contributions, says Charles Lambreth, a 49-year-old Ford manager who handles parts marketing and sales to dealers in Texas.

Ford says it made the switch to self-managed accounts for the portability. Younger employees "don't think of a career with one company anymore," a spokeswoman for the auto maker said.

Last year, Ford dropped a no-deductible health plan in which Mr. Lambreth, his wife and two children were enrolled. Now, each family member must meet a $400 deductible before insurance kicks in. After that, the Lambreths pay 20% of most bills.

Such changes helped Ford cut its health-care costs for U.S. employees to $800 million in 2008 from $1.3 billion in 2006. During a stretch when employers' per-worker health-care costs rose about 10%, Ford held per-worker spending roughly flat. Ford says it offers multiple plans for varying needs and has been adding coverage for preventive care.

Mr. Lambreth says the benefit-plan changes are necessary in a brutal time for auto makers. But he has changed the way he regards his employer. "I don't look for protection from the company any more," he says.

In today's weak economy, reducing benefit costs can make it possible for employers to minimize job cuts.

At a small rubber-stamp maker called Hero Arts Inc., CEO Aaron Leventhal called his 100 employees together in July last year, asking for cost-cut suggestions so he could avoid layoffs. Someone suggested stopping company 401(k) contributions. Hero Arts, in Richmond, Calif., did so, saving around $10,000 a month—and everyone's job. Mr. Leventhal says Hero Arts is on track to restore contributions next year.

Autodesk Inc., in San Rafael, Calif., faced the same hard choice, but went the other way.

"One of the things employers struggle with," says Autodesk personnel chief Jan Becker, "is you get a whole group of employees who say, 'I'll take cuts rather than have others lose jobs.' But others say: 'I won't work here if it's not nurturing.' You have to balance. You

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don't want to make this place so draconian that they say, 'I don't want to stay here.' "

Autodesk laid off about 15% of its work force earlier this year, and Ms. Becker says most won't be replaced. Those who remain got no salary increase. Executives had their pay cut 5% to 10%, and directors 2%.

The software maker, which is in the business of helping firms be more efficient, is applying the same principle to itself. It eliminated 70 software testers by automating tasks, and created a Web site so people could perform scheduling tasks previously assigned to the training group.

Autodesk also is among employers that have given some workers unpaid furloughs, in its case of three weeks. This strategy has reached into traditionally stable government jobs. More than 20 state governments have required workers to take unpaid time off this year.

Going further, 16% of big companies have taken the previously rare step of reducing pay, for at least some, according to the Watson Wyatt survey; 61% have frozen pay.

More than half of 638 chief financial officers surveyed by a Duke University professor, John Graham, said they expected their companies to employ fewer people in 2012 than in 2007.

In some cases, employers keep workers, but not on the payroll. Last December, staffing company Spherion Corp. laid off Roberta Marcantonio, a 14-year veteran who sold franchises to local operators. It brought her back as a contractor paid by commission. "We didn't need the fixed costs, because of the recession," says Spherion's chief executive, Roy Krause. "But we needed the skills when she was able to sell something."

Ms. Marcantonio, 52, still sometimes works at Spherion's suburban Atlanta offices. She is glad for the work, but losing her six-figure salary hurts. If the economy improves, "I could be back to where I was, maybe in the third year," she says.

She is keeping her health insurance, under a law that lets ex-employees buy the coverage for a time. But she pays the whole $850 monthly premium; Spherion used to pay more than half.

Some labor-market watchers think such situations could grow more common as companies tap temporary or contract workers to hold down overhead. Mr. Krause says clients are wary of hiring back permanent workers because they want to keep labor costs flexible.

A sign of that attitude turned up in a Hewitt survey of 1,156 employers. This year, it showed, they set aside 12% of their payroll for "variable pay," such as performance awards, up from 6.4% in 1994. Routine pay increases for salaried employees averaged 1.8%, the least since Hewitt began tracking the data in the 1970s.

"The overall trend is 'travel light' by companies, because the new normal is constant change," says Edward Lawler III, a professor at the University of Southern California's Marshall School of Business.

This can mean eliminating programs. The percentage of employers offering health-care benefits is 60% this year, down from 63% in 2008 and 69% in 2000, according to the Kaiser Family Foundation.

In a survey by Hewitt last winter, 19% of large employers said they planned to move away from directly sponsoring health-care benefits over the next five years.

In the meantime, workers' share of health costs is headed up. For next year, 63% of employers that offer health coverage plan to increase employees' share of the expense, according to a survey of 1,500 employers by another consulting firm, Mercer.

One vehicle is the high-deductible plan. Twelve percent of employers offer such a plan today, up from 4% in 2005, the Kaiser Family Foundation says.

Centerstate Banks Inc. in Davenport, Fla., began offering one last year. Employees pay the first $3,000 of medical expenses for family coverage and $400 monthly premiums for coverage above that.

To encourage switching to this from a costlier traditional plan, the bank covered $1,000 of the employees' $3,000 deductible last year and this year. It says that more than 75% of employees switched, and that its health-insurance expense fell 27% in the second quarter from a year earlier.

Switching to the high-deductible plan changed how workers approach health care, says the bank's chief financial officer, James Antal. "If Suzie has a cold, you don't run to the doctor all the time thinking it's free, because it's not," he says.

The recession also has led some firms to reverse past moves to sweeten their 401(k) plans.

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Employees have long been paying a rising share of the cost of their future retirement, as traditional pension plans dwindle. In 1980, employees contributed about 11% of the cost, according to the Labor Department. By 2006, their share was 48%. Just 20% of workers now are covered by traditional pensions, the department says.

One effect of the trend is to heighten uncertainty, because employers can readily suspend their contributions to 401(k) plans. This year, hundreds did, including some nonprofits.

They include AARP, the advocacy group for people over 50. A spokesman for AARP said it hasn't decided when it might resume matching contributions.

Some employers that suspended contributions had previously enhanced them, when closing or freezing pension plans. Unisys Corp. froze pension benefits in 2006, and raised its maximum contribution to 401(k) accounts to 6% of workers' pay from 2%.

Last December, the computer maker said it wouldn't match any employee contributions in 2009, to save costs. A spokesman said Unisys hasn't decided whether or when to restore contributions.

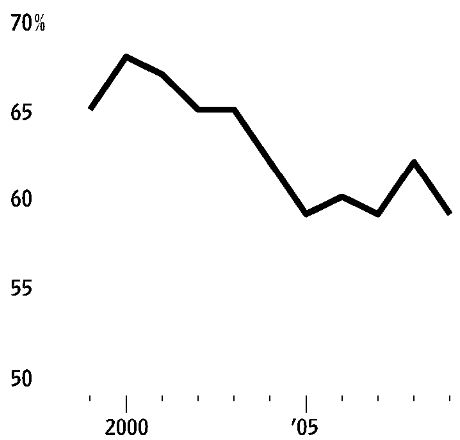
Phil Erickson, a longtime employee, says he and colleagues understand Unisys needed to reduce costs in tough times. In his mind, the cuts underscore how the workplace is changing.

"When I started, the idea was you went into a company [and] lifetime employment was the norm. You expected to rely on a company pension plan when you're done and be pretty well taken care of," says Mr. Erickson, a consulting software engineer who is 53. Mr. Erickson recently became a certified financial planner, and now he is taking evening classes toward an M.B.A.

Now, he says, "You've got to look out for yourself, take care of yourself."

Shrinking shelter

Percentage of U.S. employers that offer health insurance



Sources: Kaiser Family Foundation

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