

Anticipating a tough 2009, companies remain selective about workforce, pay and benefit cuts



Key survey findings

- Eighty-one percent of survey respondents expect a decline in their own company's business performance in 2009, and 35 percent are likely to make significant workforce reductions.
- Most respondents are likely to curtail overall hiring, reduce 2009 salary increases and cut bonus payouts, while continuing to hire talent to fill shortages in key skill sets.
- Worry about retirement investments tops the list of employee concerns, respondents report, outweighing employee anxiety about job security.
- A deep or prolonged economic downturn could force more drastic action.

A significant majority of companies worldwide are trying to be selective in planning 2009 workforce, compensation and benefit cuts, even as they anticipate a decline in their company's business performance next year, according to a new Mercer survey, "*Leading through unprecedented times.*"

The survey, conducted in early November, yielded responses from 1,028 human resource and finance professionals representing organizations with operations in more than 100 countries. The findings paint a vivid picture of the talent, compensation, benefits and related investment strategy challenges that organizations are facing as a result of the current economic turmoil.

"Many companies have been facing rising cost pressure throughout 2008 and in recent months have been managing compensation costs and workforce levels aggressively while working to keep employees engaged and productive," says Patricia A. Milligan, Mercer's Chief Markets Officer. "But our survey shows that – at least as a group – most of these companies have refrained from taking severe and broad-based steps, such as very deep workforce cuts, across-the-board salary freezes, reductions in defined contribution plan contributions, or elimination of certain health benefit programs."

According to Ms. Milligan, Mercer believes that many fundamental HR-related decisions are likely to be revisited in response to year-end results and updated economic forecasts for 2009. "This is a balancing act. Discussions with our clients indicate that more dramatic actions are being considered by boards and senior management should the downturn become deeper or prolonged," she added. "It is also likely that companies learned important lessons in previous economic downturns about the importance of talent in creating competitive advantage, and so are reluctant to take actions that could hamper their recovery once the economy improves."

2009: A tough year ahead

Globally, 81 percent of respondents in the Mercer survey expect their company's business performance to decline in 2009. Of course, differences exist by country. The most pessimistic are respondents with operations in Japan and Hong Kong (90 percent expect such a decline) and the most optimistic are respondents with operations in Canada and the US where 72 percent and 82 percent, respectively, expect their company's performance to decline in 2009.



Merger and acquisition (M&A) activity has also felt the impact of the economic slowdown. Two-thirds of respondents view an increase in M&A activity as unlikely. However, 47 percent of respondents in both France and Australia expect that M&A activity will likely increase in 2009. Certainly a tough economy can force mergers or create acquisition opportunities that might not arise in a more prosperous economic environment.

Talent paradox: Workforce reductions vs. selective hiring

One-third of respondents to the Mercer survey (35 percent) expect to make significant reductions in their workforces – a significant number but, given the likely depth of the downturn, a relatively conservative response. The figure does rise to considerably higher levels for certain industries. At the high end, respondents representing 48 percent of manufacturing firms and 48 percent of technology firms will likely reduce their workforces by significant levels. This compares with 24 percent of those representing professional services firms and 28 percent from retail and wholesale firms. “While there may not be significant reductions across the workforce in some industries, our experience indicates that many companies are trimming staff selectively and strategically, by reviewing staffing in specific workforce segments, business units or geographies,” said Ms. Milligan.

On the other side of the coin, despite the weak economy, talent shortages still exist for key skill sets and selective hiring remains a top priority for employers. While more than two-thirds of respondents (69 percent) will likely curtail overall hiring to below replacement levels, 69 percent will likely hire top talent at originally planned levels.

Seventy percent of respondents do not expect to reduce the number of staff on international assignments, as these employees are often sent to high-growth markets. However, 42 percent expect to review international assignment programs and policies as part of expense control.

Compensation: Cold but no freeze

The majority of respondents (73 percent) are now likely to reduce salary increases in 2009 from those originally budgeted. Only 12 percent of respondents said freezing wages at 2008 levels is a highly likely course of action, but it is a stronger possibility in some industries, notably banking and technology.

Sixty percent of respondents to the Mercer survey expect to reduce 2009 bonus payouts based on 2008 performance – a figure that is likely to increase after year-end results and 2009 business forecasts are finalized. A substantial 75 percent of respondents in the financial sector are likely to reduce 2009 bonus payouts; the sector also tops the list of industries likely to make changes to variable pay programs. Twenty-eight percent of respondents representing financial companies said that their company plans to change or develop new variable pay programs, which is almost twice as high as the response among survey participants overall (15 percent).



Retirement benefits: Holding off on defined contribution cuts

Regarding defined contribution retirement plans, 83 percent of respondents do not expect their company to reduce the level of employer contributions. It is worth noting, however, that 17 percent are considering this drastic action. Many respondents (77 percent) expect to review investment and administrative fees, possibly due to pressure from regulators as well as the decline in investment values. Eighty-five percent will likely enhance employee education and communication regarding investment choices, objectives and options. Three-quarters of respondents will likely review their fund line-ups.

For defined benefit plans, the focus is primarily on understanding and reducing risk. Changing investment strategy (46 percent) is the most likely method companies will take to reduce risk rather than changing funding policies (31 percent). Twenty-four percent of respondents are considering cutting back or stopping accruals, but only 4 percent say they are very likely to do so.

Health benefits: Current programs safe, employee contributions likely to rise

Recessions typically lead to an increase in health benefit utilization by employees and, thus, an increase in the cost of such programs to employers. However, 84 percent of the respondents to the Mercer survey said their company is unlikely to eliminate any current health or group benefit programs to cut expenses. Instead, companies are more likely to intensify efforts to understand the root causes of increasing costs (77 percent) and add wellness programs to improve health-related behaviors and increase employee engagement (76 percent). Fifty-four percent of respondents indicated that their company will likely increase employee contributions, particularly those representing companies with operations in the US (67 percent). Some 59 percent of respondents representing companies with operations in the US, compared to a survey average of 47 percent, may shift more health costs to employees through such mechanisms as higher deductibles.

HR investments: Coping with fewer resources

At a time when their company's performance is under pressure, HR leadership often feels a particular responsibility to improve operational effectiveness and to drive broader organizational change and transformation. In an environment in which they are asked to operate with reduced resources, 62 percent of respondents to the Mercer survey said they are likely to reduce planned investments in HR services. However, nearly twice as many respondents (38 percent) said that they planned to maintain the level of HR investments as those who said they are "highly likely" to make such cuts (21 percent). Additionally, 75 percent of survey respondents said that their company is not likely to invest more to outsource HR functions in 2009.

MERCER



Employee attitudes: Significant concern over retirement investments tops organizational anxiety

Given the nature of their jobs, HR professionals have a special perspective on changes in employee sentiment, so the survey asked respondents to gauge employee concerns related to the economic turmoil. Some 54 percent of respondents said that employees expressed a significant level of concern about the impact of economic turmoil on their retirement investments, compared to 37 percent who said that employees had expressed significant concern about the health of the company and 34 percent who said that employees had a high level of anxiety regarding their job security. "Employee concerns can lead to a decline in engagement and productivity and so need to be closely monitored and addressed," noted Ms. Milligan. "Employee communication efforts should specifically and consistently address economy-related matters to help companies and their workforces through these unprecedented economic times."

About the survey

Mercer's "Leading through unprecedented times" global survey was conducted online from 3-14 November 2008. For more information, visit www.mercer.com/unprecedentedtimes. Additional resources on this site, including a series of podcasts by Mercer experts, are available to help organizations address current economy-related challenges.

About Mercer

Mercer is a leading global provider of consulting, outsourcing and investment services, with more than 25,000 clients worldwide. Mercer consultants help clients design and manage health, retirement and other benefits and optimize human capital. The firm also provides customized administration, technology and total benefit outsourcing solutions. Mercer's investment services include global leadership in investment consulting and multi-manager investment management.

Mercer's global network of more than 18,000 employees, based in over 40 countries, ensures integrated, worldwide solutions. Our consultants work with clients to develop solutions that address global and country-specific challenges and opportunities. Mercer is experienced in assisting both major and growing, midsize companies.

The company is a wholly owned subsidiary of Marsh & McLennan Companies, Inc., which lists its stock (ticker symbol: MMC) on the New York, Chicago and London stock exchanges.