

Deep workforce and benefit cuts show signs of moderating in the last half of 2009, Mercer global survey shows



Eighty-two percent of respondents globally anticipate reduced business and financial performance levels in 2009 compared to 2008, according to Mercer's survey.

There are signs that deep workforce, pay and benefit cuts are moderating as businesses budget for the remainder of 2009, according to Mercer's latest *Leading through unprecedented times* global survey.

The survey, conducted in May 2009, includes responses from more than 2,100 organizations with employees and operations in more than 90 countries. The findings summarize challenges related to talent, compensation, benefits and investment strategy that organizations are facing as a result of the current economy. The new survey updates a global survey Mercer originally conducted in November 2008, and it yielded twice as many responses, indicating organizations' ongoing interest and concern regarding this topic.

While the findings reveal continued actions taken by companies to relieve cost pressures – workforce reductions, salary freezes, reduced contributions to retirement plans and increased costs for health benefits – equally notable is the fact that organizations generally are not taking certain actions such as cutting pay across the organization and eliminating benefit programs altogether. The findings also show clearly how the economy is having a different impact in different regions of the world and among various industries.

Business and financial performance

Globally, 82 percent of respondents say it is somewhat or very likely they will experience reduced business and financial performance in 2009. Companies with operations in Asia are slightly more upbeat – 75 percent see reduced performance as likely. Those in the US (86 percent), Australia/New Zealand (85 percent) and Europe (85 percent) lead among pessimists (likely to see reduced 2009 performance). Among major industries represented in the survey, manufacturing respondents rank as the most downbeat, with 59 percent seeing reduced performance as highly likely.



Globally, 58 percent of organizations worldwide plan some cuts to their workforce in the remainder of 2009 compared to 66 percent that had implemented workforce cuts in the six months prior to the survey.

Talent management

Some 58 percent of organizations worldwide plan some cuts to their workforce in the remainder of 2009 compared to 66 percent that had implemented workforce cuts in the six months prior to the survey. Significantly, however, only 5 percent of these organizations plan deep cuts (more than 10 percent of staff) in the next six months, compared to 13 percent that made such cuts in the six months preceding the survey.

The percentage of companies planning layoffs in the next six months varies by region, with less of a change expected in Europe compared to the six months prior. Some 71 percent of European survey respondents said their companies made workforce cuts in the previous six months, and this pace is expected to hold steady for the remainder of the year at 70 percent. But in Europe, as in other regions, the number of companies planning substantial cuts (more than 10 percent of the workforce) is expected to drop to 10 percent of the companies represented – from the 16 percent that had made such cuts in the six months prior to the survey.

US-based companies were more likely to have made at least some workforce cuts in the previous six months (74 percent), but fewer companies (64 percent) plan cuts in the next six months. Some 59 percent of Asian companies responding to the survey made cuts in the six months prior and are also less likely to make cuts in the remainder of the year (45 percent of respondents). The number of Asian companies planning significant cuts (of more than 10 percent) falls sharply from the number that made such cuts in the previous six months – from 14 percent to 4 percent.

About three-quarters (76 percent) of manufacturing and technology/computer services companies reduced staff this year compared to firms in finance/banking (69 percent) and professional services (67 percent). Manufacturing firms (68 percent) and technology/computer services firms (67 percent) are most likely to reduce their workforces in the remainder of the year.

Despite the impact of the weak economy, many companies remain focused on their most valuable employees. More than one-third of organizations globally (37 percent) say they will continue to hire key talent even as they reduce their workforce overall. Approximately another third of organizations (35 percent) plan to hire talent to replacement levels only, while 15 percent expect overall workforce reductions and 12 percent expect to expand their workforces in 2009.

Mercer's study also shows that organizations are beginning to employ or are considering alternative work arrangements to control workforce costs. Ten percent globally have already instituted voluntary reductions in hours with a corresponding reduction in pay, while 12 percent have instituted such a program on a mandatory basis. Roughly an equal number of organizations are considering similar actions in the remainder of 2009. The popularity of



With respect to defined contribution retirement plans, most organizations globally do not plan to reduce the level of employer contributions in the remainder of 2009; only 14 percent have already done so in the past six months. Regarding defined benefit plans, organizations plan to get a better understanding of, and take actions to mitigate the risk inherent in, these plans.

these programs varies by industry. Twenty-nine percent of manufacturing firms have instituted mandatory reduced hours, compared to 13 percent of technology/computer services firms and 3 percent of finance/banking firms.

Compensation

Organizations globally are almost equally divided on whether their 2009 base pay budgets will be more than their 2008 budgets (31 percent), equal to 2008 budgets (33 percent) or less than 2008 budgets (36 percent).

They have been more likely to freeze pay levels or defer pay increases than to implement pay cuts. In the past six months, 51 percent froze salaries at 2008 pay levels for at least part of their employee population; 32 percent froze pay enterprise-wide. Just 30 percent deferred 2009 pay increases, and even fewer (13 percent) decreased salaries from 2008 levels. Interestingly, more than half of organizations (54 percent) in the technology industry froze pay company-wide compared to only 28 percent in finance/banking firms.

Regarding annual bonus payments, 57 percent of organizations globally awarded smaller bonus payouts for 2009 (based on 2008 performance) compared to 2008 awards (based on 2007 performance). Just 20 percent granted higher bonus payments in 2009 compared to 2008.

“As a result of the economic downturn and labor market conditions that currently favor employers, organizations are moving away from pay based on market competitiveness, instead focusing on internal affordability and sustainability,” said Steve Gross, global leader of Mercer’s broad-based performance and rewards consulting business. “While it makes sense today to do what you can afford, organizations need to be careful not to stray too far from market rates of pay, or they may find themselves at a significant disadvantage when the economy improves and the labor market becomes more balanced.”

Retirement benefits

With respect to defined contribution retirement plans, 73 percent of organizations globally do not plan to reduce the level of employer contributions in the remainder of 2009. Notably, 14 percent have already done so in the past six months. To date, a third have reviewed their overall fund lineups (32 percent) and both investment and administrative fees (33 percent), while 43 percent are likely to take these actions by year-end.

“Fee transparency on defined contribution plans is becoming a must for companies,” said Barb Marder, worldwide partner in Mercer’s retirement, risk and finance consulting business. “The current economic hardships many companies are facing have resulted in closer scrutiny of the fees they are paying to their investment and administration providers.”



The majority of companies (94 percent) have not eliminated any current health and group benefit programs to control expenses this year. Instead, most increased employee contributions for health coverage and raised employee cost-sharing of the program. And many organizations plan to do the same for next year's health care plan.

Regarding defined benefit plans, 37 percent of organizations plan to get a better understanding of, and take actions to mitigate the risk inherent in, these plans. Within the six months prior to the survey, 34 percent had already done so. Looking ahead, organizations are more likely to change the investment strategy to reduce risk (38 percent) rather than change the funding policy (25 percent); 14 percent and 12 percent, respectively, have already taken these steps. Only 16 percent of organizations are likely to cut back or stop accruals in the remainder of the year; 10 percent have already done so.

Health benefits

Although health benefit utilization often increases during a recession, the majority of companies (94 percent) have not eliminated any current health and group benefit programs to control expenses this year. Instead, most increased employee contributions for health coverage and raised employee cost-sharing of the program. And many organizations plan to do the same for next year's health care plan.

Over the past six months, 29 percent of respondents added wellness programs and another 38 percent reported that they are likely or highly likely to do so. Just over a quarter of respondents (26 percent) increased premium contributions. Increased employee contributions are most common in the US (45 percent) and among organizations with more than 10,000 employees (34 percent). Nearly a quarter (23 percent) also have intensified their efforts to understand cost drivers. Looking ahead, organizations are very or somewhat likely to turn to the changes they know will produce predictable results – continue to increase employee contributions (58 percent), require cost-sharing (50 percent) and offer lower-cost plan options (41 percent).

“Coming into 2009, employers turned to time-tested tactics that would have an immediate cost impact,” said Linda Havlin, worldwide partner in Mercer's health and benefits consulting business. “Now they are exploring more strategic solutions, including wellness and behavior change, which have the potential for a bigger impact, albeit a longer time horizon.”

Employee attitudes

New 2009 survey findings show that the impact of the recession on job security now tops the list of significant employee concerns (50 percent), followed by the impact on the overall organization (40 percent), 2009 merit increases (38 percent) and retirement plan investments (37 percent). This high level of anxiety is fairly consistent worldwide. Organizations in Europe, Asia and the US ranked the concern of job security slightly higher (54 percent), while Canada and Australia/New Zealand ranked it slightly lower (42 percent and 46 percent, respectively).



Mercer's survey findings show that the impact of the recession on job security tops the list of significant employee concerns (50 percent), followed by the impact on the overall organization (40 percent), 2009 merit increases (38 percent) and retirement plan investments (37 percent).

This is a change from Mercer's November 2008 survey, when the potential impact of the recession on retirement plan investments topped the list of significant employee concerns (54 percent), followed by concerns about the impact on the overall organization (37 percent), job security (34 percent) and 2009 merit increases (32 percent).

"Clearly employees are concerned about the impact the economy is having on their companies and, in turn, the security of their jobs," said Bruce Finley, global leader for Mercer's workforce communication and change consulting business. "However, employee engagement is high right now as employees are stepping up – they are ready to be part of the solution. Organizations that communicate openly and foster collaboration and innovation among their workforce will benefit most once the economy recovers."

Other findings

- The HR function continues to be under cost pressure, and 21 percent of organizations surveyed reduced planned investments in HR services in the past six months. Some 23 percent are likely to do so in the remainder of 2009.
- Consolidation of outsourcing vendors is another action companies are taking to help manage overall HR costs; 17 percent of organizations worldwide have already done so in the past six months and another 33 percent are likely to consolidate vendors in the remainder of the year. In addition to the cost and process efficiencies that consolidation of vendors provides, it also presents an opportunity to drive employee engagement across all benefits by offering an integrated employee experience online and a holistic view of employer-sponsored benefit programs in employee communications.
- Survey results show continued pessimism toward actively pursuing acquisitions as a growth strategy; 67 percent of respondents globally say they are unlikely to be acquiring in 2009, with European companies slightly more optimistic, at 61 percent, and US companies less optimistic, at 71 percent. Organizations that indicated the greatest likelihood to increase M&A activity are those within the technology and finance/banking industries (13 percent).
- Most organizations (72 percent) are not planning to reduce the number of employees on international assignments nor review their programs and policies in an effort to reduce overall costs (63 percent). These findings are similar to the November 2008 survey, in which 70 percent did not plan to reduce expatriate assignments and 58 percent did not plan to review programs for cost savings. International assignments are not an area for cost control, most likely because assignments are located in regions of business growth.

MERCER



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

About the survey

Mercer's *Leading through unprecedented times* global survey was conducted May 12 – 29, 2009. It includes responses from more than 2,100 organizations representing employees and operations in over 90 countries worldwide. This response is twice as large as the response to Mercer's initial *Unprecedented times* survey in November 2008.

By geography, respondents to the May 2009 survey represented North America (64 percent), Europe (22 percent), Asia (19 percent), Latin America (8 percent) and Australia/New Zealand (4 percent). Respondents also represented a range of sizes: less than 500 employees (39 percent); 501 to 5,000 employees (40 percent); 5,001 to 10,000 employees (9 percent); and more than 10,000 employees (12 percent).

For more information, visit www.mercer.com/unprecedentedtimes. Additional resources on this site, including a series of podcasts by Mercer business leaders worldwide, 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 19,000 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 mid-size 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.