



The Real Effects of Today's Economy on the Manufacturing Industry

2009

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Executive Summary

Organizations across the country have been affected by the recession, and the manufacturing industry is leading the pack. Pay increase budgets have fallen and healthcare costs are up placing mounting pressure on the industry. Organizations are looking for ways to enhance their compensation packages without affecting their bottom line. In addition, the industry is facing unique challenges as baby boomers begin to retire resulting in a shortage of skilled workers. This whitepaper will give you a clearer picture of what's happening at manufacturing companies now by covering the following issues:

- Pay increase budgets
- Healthcare premium increases
- Cost containment and reduction measures
- Trends in wellness programs
- Prescription costs
- Vacation packages

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Introduction

Organizations across the country are facing new challenges amid today's recession. HR professionals are being forced to make difficult decisions about pay and benefits to keep their organizations afloat. A year ago, many were discussing ways to create attractive compensation packages while keeping costs down. Today, layoffs, salary freezes and benefit cuts are happening more regularly.

Prior to the recession, the United States Bureau of Labor Statistics (BLS) projected that manufacturing jobs would decrease by 1.5 million between 2006 and 2016. With the onset of the recession, those numbers are now likely to be much higher. Compounded with layoffs and plant closings, manufacturers are also facing the impending retirement of baby boomers, which is expected to leave a shortage of skilled workers in the industry.

Pay Increase Budgets

For many years, pay increase budgets have been stagnate across all industries, but the newly released *Compensation Data Manufacturing 2009* survey results show pay increase budgets have fallen to 1.9 percent. The recent downturn is indicative of increased economic pressure. Although pay increase budgets are down this year, the manufacturing companies surveyed have projected a slight uptick in 2010 of 2.5 percent.

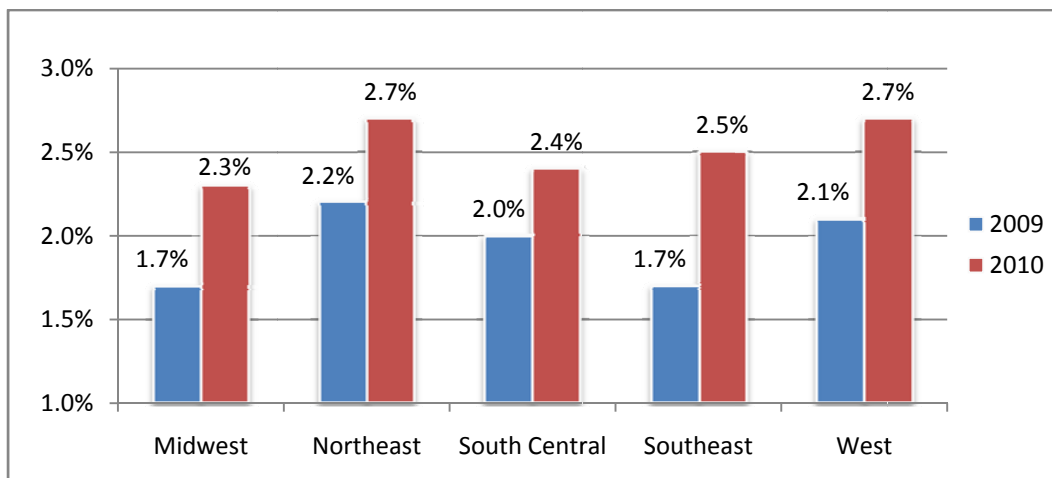
Pay increase budgets vary within the manufacturing industry. Durable goods and distribution/warehouse are at 1.7 and 2 percent, respectively. Non-durable goods are at 2.2 percent. However, the 2009 *Compensation Data Manufacturing* results show projected budgets to be relatively the same. Durable goods and distribution/warehouse are both projecting pay increase budgets will be 2.4 percent in 2010. Comparatively, non-durable goods are expecting budgets to increase to 2.6 percent.

The Compensation Data Manufacturing results showed pay increase budgets have fallen to 1.9 percent across the country.

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The 2009 *Compensation Data Manufacturing* results show pay increase budgets vary slightly by region. All regions were around 2 percent. The Northeast region had the highest 2009 pay increase budget, 2.2 percent. Comparatively, the Northeast and West regions had the highest projected budgets for 2010, 2.7 percent.

Regional Pay Increase Budgets



Healthcare Costs

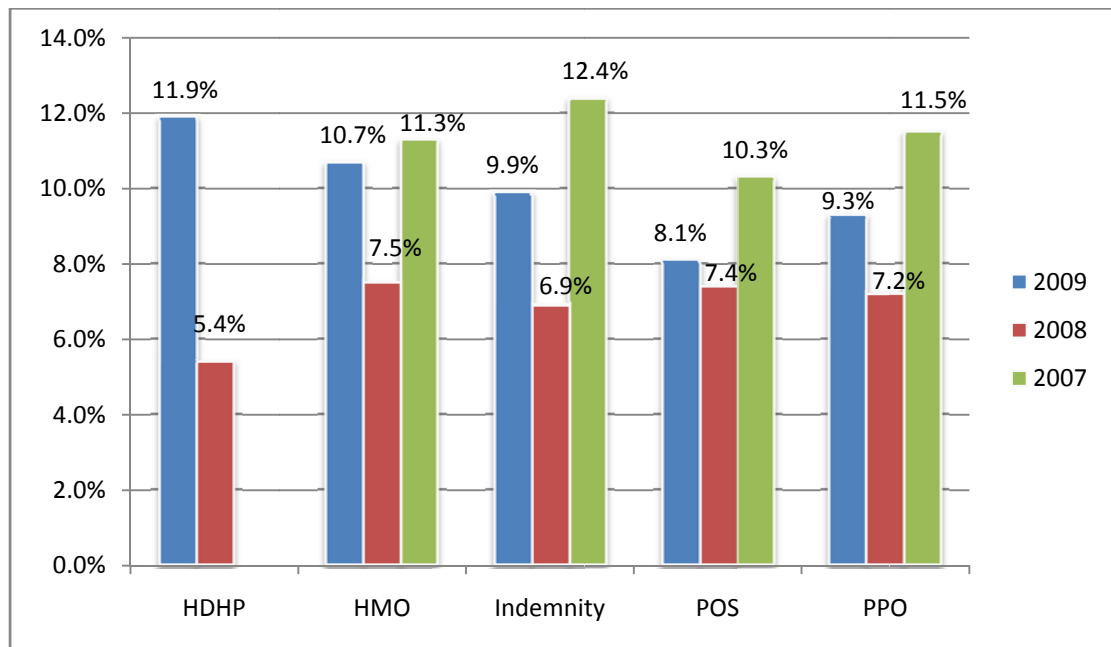
To say healthcare costs are impacting the economy is an understatement. Currently, nearly 50 million Americans are thought to be without health insurance. In 2007, the United States spent approximately \$2.2 trillion on health care or \$7,421 per person. If costs continue to grow, the Congressional Budget Office estimates that by 2025, one out of every four dollars in our national economy will be tied up in the health system.

Rising health insurance premiums further support these findings and compound economic pressures. Although the average premium increase had been decreasing in previous years, the numbers are up again. The 2009 *Compensation Data Manufacturing* results showed the average premium increase was 9.6 percent for all plan types this year.

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Comparatively, the average premium increase was 7.1 percent in 2008 and then, 11.4 percent the previous year. When comparing plans in 2009, organizations offering PPO plans saw an average increase of 9.3 percent. Those offering HMO and POS plans had average premium increases of 10.7 and 8.1 percent, respectively. HDHP plans had increases of 11.9 percent.

Average Premium Increases by Plan Type



Medical plans continue to be a source of scrutiny, as high health insurance costs are cutting into organizations' bottom lines. The U.S. government is taking an active interest in healthcare reform, and President Obama has plans to sign a bill this fall. Although a new plan has not been formalized, meetings with doctors, hospitals, drug makers and insurers have resulted in pledges to reduce costs. Many are speculating as to the deals made to receive these promises.

While Congress deliberates, companies continue to search for ways to reduce healthcare costs. Often higher health insurance costs are passed on to employees. To contain rising costs, manufacturing companies utilized a variety of methods. The most highly used was coordination of benefits at 83.1 percent, while a network of healthcare professionals was employed at 77.5 percent. Utilization review was prevalent, as 59.8 percent of organizations used it to contain costs.

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Wellness programs are a popular option for containing costs. In many cases, organizations are using a combination of methods. These can include onsite health clinics, physical fitness facilities and annual physicals. Flu shots/immunizations are used by 85.3 percent of companies. Lifestyle options, like tobacco cessation and weight management, are offered by 50.3 and 31.9 percent, respectively. Health risk assessments are provided by 53.1 percent of the companies surveyed.

Over one-quarter of the companies surveyed use rewards and incentives as part of their wellness program. The most popular reward is gift cards at 32.4 percent. Insurance discounts are used by 30.5 percent. Contributions to health savings accounts or health reimbursement accounts and health and fitness products are each used by nearly 30 percent. Gas or phone cards are offered by 8.7 percent.

Wellness programs could gain even more popularity if the Healthy Workforce Act of 2009 is approved. The bill would provide a tax credit to employers who sponsor wellness programs. It would cover 50 percent of the cost of the program up to \$200 per employee for the first 200 employees and \$100 for every employee over 200. To receive the credit, companies would be required to meet the definition of a qualified wellness program.

The 2009 *Compensation Data Manufacturing* results showed that 60.1 percent of companies increased the employee portion of the premium in their efforts to reduce costs. This is higher than the percentage seen in the last two years. Currently, 44.2 and 24 percent of companies increased deductible levels and employee co-insurance levels, respectively. On average, manufacturing companies contribute 10.6 percent of payroll towards the cost of health benefits, which is the same cost to provide all of the following benefits: dental, life, retirement, disability and other non-mandated benefits.

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Prescription Costs

Many Americans have cut back or quit taking their prescriptions amid increasing economic pressure. When individuals are not adhering to their prescribed medications, they run the risk of incurring increased medical costs in the future. Large claims drive up the cost of health insurance impacting future costs for employers.

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Even in today's challenging times, the 2009 *Compensation Data Manufacturing* survey results found at least 95 percent of manufacturing companies offer prescription drug coverage as part of their PPO, Indemnity, HMO or POS medical plan offerings.

Average Prescription Co-Pay by Plan Type in 2009

Type	Indemnity	HMO	PPO	POS	HDHP
Generic	\$12	\$11	\$11	\$11	\$10
Formulary	\$27	\$27	\$28	\$27	\$26
Non-Formulary	\$41	\$46	\$46	\$47	\$44

When comparing prescription costs, non-formulary co-pays have increased over the last three years on HMO, PPO and POS plans. The 2009 *Compensation Data Manufacturing* results found POS plans had the highest co-pay, \$47.00, while non-formulary co-pays on PPO and HMO plans were \$46.00. Over the last three years, the cost on PPO plans has increased by 8.6 percent.

While co-pays for non-formulary drugs have risen nationally, formulary drugs have also seen an increase in cost on all plan types. In 2007, the average cost of formulary drugs on PPO plans was \$25.27. This number has increased by 10.8 percent over the last three years. PPO plans had the highest formulary cost this year, \$28.00, and HDHP had the lowest, \$26.00.

In comparison, co-pays for generic drugs have stayed under \$15.00 on all plans in 2009. According to the newly released results, generic co-pays were \$11.00 for PPO, HMO and POS plans. On average, an individual could save over \$30.00 per prescription when choosing a generic over a non-formulary drug.

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Time Off

Time off is one way organizations can enhance compensation packages without spending additional funds. In fact, some organizations have offered employees the chance to take unpaid leave in an attempt to cut operating costs. Consequently, the popularity of “staycations,” or vacations at home, is on the rise.

Below is a chart detailing the time off by years of service. Non-exempt employees are given nearly the same number of days off as their exempt counterparts. The gap is one day or less for all years of service.

Annual Vacation Days by Years of Service

	During 1 st Year	1 Year	5 – 9 Years	10 – 14 Years	15 – 19 Years	20 – 24 Years	25 – 29 Years	30+ Years
Exempt	7.3	9.8	13.7	16.6	19.1	20.9	21.8	22.2
Non-exempt	6.3	9.1	13.2	16.4	18.8	20.8	21.7	22.1

Compensation Data Manufacturing also reported that 43.6 percent of companies allow carryover of vacation days, and 86.5 percent place a limit on the number of days that can be carried over. The maximum number of days allowed for exempt employees is 13 days, compared to 12.7 for non-exempt.

In addition to vacation time, exempt and non-exempt employees receive two and three personal days, respectively. Both groups also average ten paid holidays. Exempt employees have six sick days, while non-exempt have five. Over one-quarter of the organizations surveyed allow employees to carryover sick days with 67.1 percent placing a limit on it. The maximum number of sick days that can be carried over was around 20 for both exempt and non-exempt employees.

Flexible schedules are one way organizations can add value to their benefit package. The 2009 *Compensation Data Manufacturing* results found 48.5 percent of companies allow flexible schedules. When comparing prevalence among employee groups, they are most offered to administrative employees, 34.8 percent.

The Compensation Data Manufacturing results found 48.5 percent of companies allow flexible schedules.

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Conclusion

Many manufacturing companies have been adversely affected by the downturn in today's economy. That being said, lower pay increase budgets and higher insurance costs are found across the board and are creating new challenges for HR professionals. Designing attractive, yet cost-effective, compensation plans continues to be the focus of many companies. Over the next few months, organizations will continue to take a conservative approach to their compensation package. This will be critical as it is unknown how long the effects of this recession will last.

As organizations across the country make changes, HR professionals should keep in mind the lasting impact these changes will have on their organizations. Communication and informed decision making will be the key to each organization's success in the coming months.

Note:

Unless otherwise cited, all data included in this report is from the *Compensation Data Manufacturing* results, which include data from nearly 1,500 manufacturing and distribution companies covering over 1,200,000 employees.

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About the Author

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Amy N. Kaminski is the Manager of Marketing Programs for Compdata Surveys, the nation's leading provider of compensation and benefits data. Over the past seven years, Amy has collaborated with organizations of all sizes to identify specific compensation information needs in order to address changing issues impacting how organizations recruit and retain the best employees.

About Compdata Surveys

Compdata Surveys is a national compensation survey and consulting firm specializing in providing accurate and reliable data to organizations across the country. Our products and custom consulting services ensure organizations' competitive success by providing an all-inclusive solution encompassing benefits, rewards systems and salary data.

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