The Real Effects of Today's Economy on Organizations Providing Services

2009

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Executive Summary

Organizations across the country have been affected by the recession, and those providing services are no exception. In fact, some of these companies have been the hardest hit. Layoffs, staffing cuts and closings have become commonplace. The 2009 *Compensation Data Services* results include data from accounting firms, business services, cable companies, engineering firms, law firms, personal services, real estate/construction, technology and data processing and trucking or household goods moving companies. This whitepaper will give you a clearer picture of what's really happening at organizations offering services by covering topics by organization type and geography. The issues covered will include:

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

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, organizations are closing and layoffs are prevalent. Salary freezes and benefit cuts are happening more regularly.

Each industry has been affected in a different way, and organizations providing services are no exception. The 2009 *Compensation Data Services* results cover a variety of service organizations. Each of these has been affected to varying degrees. For example, real estate/construction companies have garnered national news attention with their decline, while accounting firms are less affected. The *Compensation Data Services* results cover the following kinds of companies:

- Accounting Firms
- Business Services
- Cable Companies
- Engineering Firms
- Law Firms
- Personal Services
- Real Estate/Construction
- Technology and Data Processing
- Trucking or Household Goods Moving Companies

Pay Increase Budgets

The 2009 Compensation Data Services *results showed pay increase budgets have fallen to 2.5 percent across the industry.*

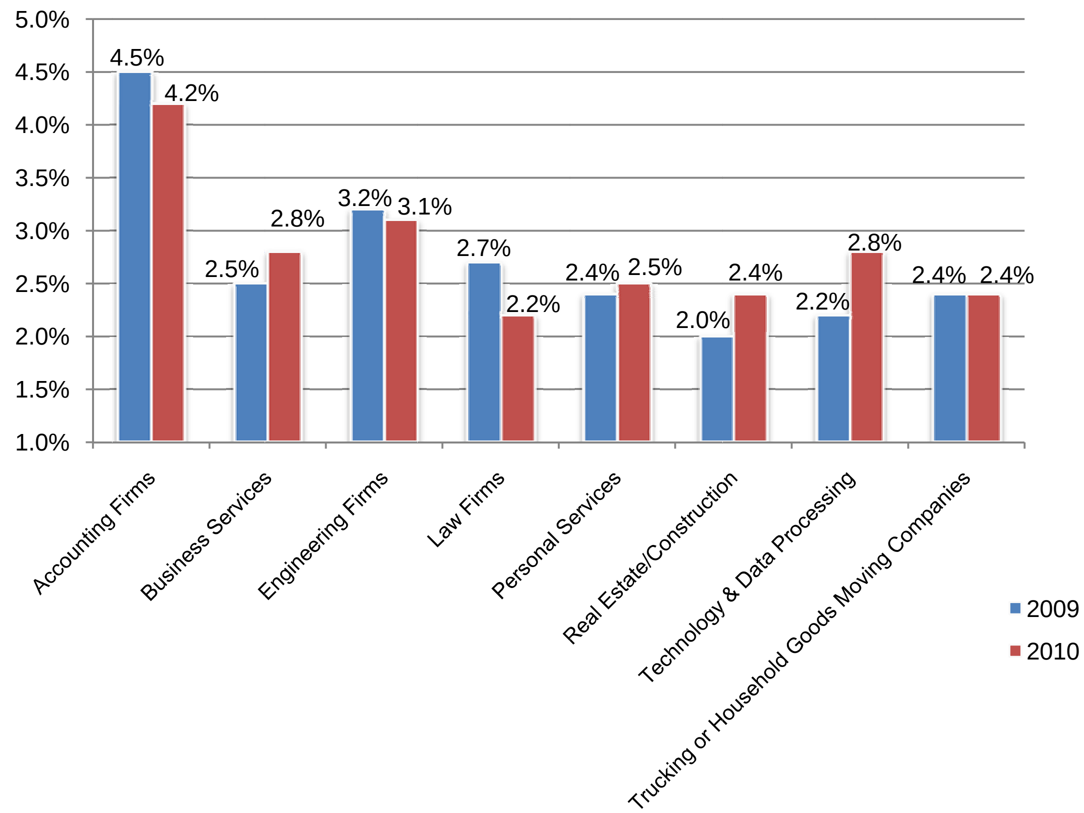
For many years, pay increase budgets have been stagnate across all industries, but the newly released *Compensation Data Services 2009* survey results show pay increase budgets have fallen to 2.5 percent. The recent downturn is indicative of increased economic pressure. With layoffs happening regularly, many companies are working to keep current employees on staff, while keeping the organization in business.

Although pay increase budgets are down this year, the services organizations surveyed have projected a slight uptick in 2010 of 2.7 percent. These numbers further reinforce predictions of little economic growth in the coming year.

The 2009 *Compensation Data Services* results show pay increase budgets vary slightly by region. All regions were under 3 percent. The South Central and Northeast regions had the highest pay increase budget, 2.8 percent. The Southeast region had the smallest. All regions projected some growth for 2010. Comparatively, the South Central region had the highest projected budget for 2010, 3.3 percent. The Midwest had the smallest.

Pay increase budgets also vary between the industries surveyed. The 2009 *Compensation Data Services* results show accounting firms have the highest pay increase budget, 4.5 percent. Real estate and construction firms have the lowest with 2.0 percent, according to the newly released results.

Pay Increase Budgets by Industry



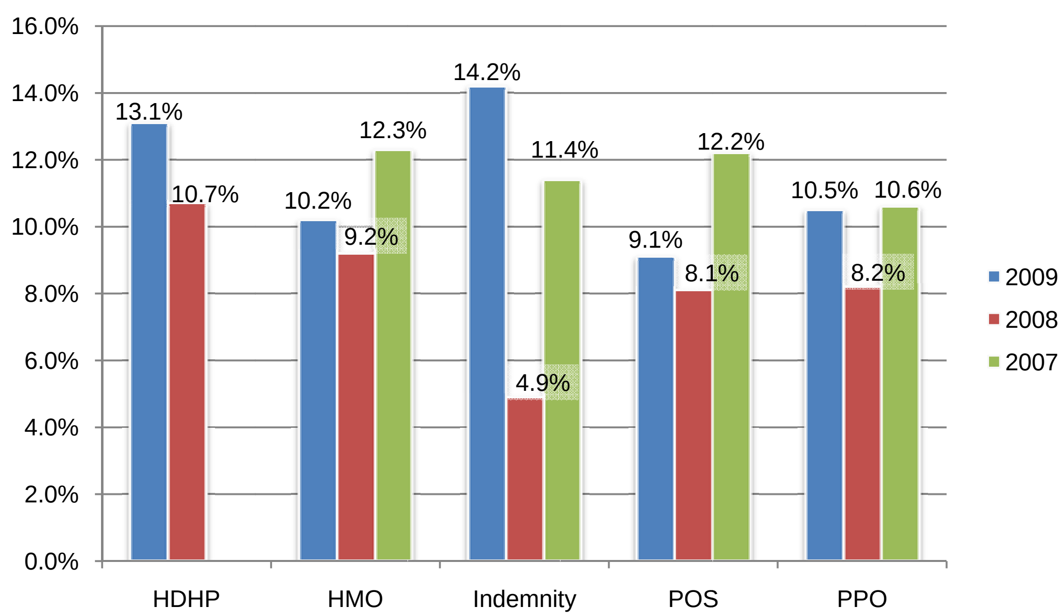
Healthcare Costs

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 Services* results showed the average premium increase was 10.7 percent for all plan types this year.

Comparatively, the average premium increase was 8.3 percent in 2008 and then, 11.2 percent the previous year. When comparing plans in 2009, organizations offering PPO plans saw an average increase of 10.5 percent. Those offering HMO and POS plans had average premium increases of 10.2 and 9.1 percent, respectively. HDHP plans had increases of 13.1 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, U.S. service organizations utilized a variety of methods. The most highly used was coordination of benefits at 78.5 percent in 2009, while a network of healthcare professionals was employed by 76 percent. Disease management was prevalent, as 55.6 percent of organizations used it to contain costs.

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 84.8 percent of companies. Lifestyle options, like tobacco cessation and weight management, are offered by over 30 percent of the service organizations surveyed. Health risk assessments are being provided by almost half of the companies surveyed.

Nearly one-fourth use rewards and incentives as part of their wellness program. The most popular reward is gift cards. Contributions to health savings accounts or health reimbursement accounts and health and fitness products are used by nearly 30 percent. Insurance discounts are used by 22.6 percent. Gas or phone cards are offered by 13 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.

On average, service organizations contribute 8.9 percent of payroll toward the cost of health benefits, which is more than the cost to provide all of the following: dental, life, retirement, disability and other non-mandated benefits.

The 2009 *Compensation Data Services* results showed 56.9 percent of companies increased the employee portion of the premium in their efforts to reduce costs. This is higher than the percentage seen in 2007. Currently, 42.4 and 30.7 percent of organizations increased deductible levels and employee co-insurance levels, respectively. On average, service organizations contribute 8.9 percent of payroll toward the cost of health benefits, which is more than the cost to provide all of the following benefits: dental, life, retirement, disability and other non-mandated benefits.

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.

Even in today's challenging times, the 2009 *Compensation Data Services* survey results found at least 92 percent of organizations providing services offer prescription drug coverage as part of their PPO, Indemnity, HMO, HDHP or POS medical plan offerings.

Average Prescription Co-Pay by Plan Type in 2009

Type	Indemnity	HMO	PPO	POS	HDHP
Generic	$10	$12	$11	$10	$12
Formulary	$26	$27	$28	$28	$31
Non-Formulary	$42	$44	$47	$48	$48

When comparing prescription costs, non-formulary co-pays have increased in the last three years. The 2009 *Compensation Data Services* results found POS and HDHP plans had the highest co-pay, $48.00, while non-formulary co-pays on PPO plans were $47.00. Over the last three years, the cost on PPO plans has increased by 9.2 percent.

While co-pays for non-formulary drugs have risen nationally, formulary drugs have also seen an increase in cost on HMO, PPO and POS plans. In 2007, the average cost of formulary drugs on PPO plans was $25.65. This number has increased by 9.2 percent over the last three years. HDHP plans had the highest formulary cost this year, $31.00, and Indemnity 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 and $12.00 for HMO plans. On average, an individual could save nearly $35.00 per prescription when choosing a generic over a non-formulary drug.

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. Full-time employees are given nearly the same number of days off as their part-time counterparts. The gap is at the most one day and gets smaller with increasing years of service.

Annual Vacation Days By Years of Service

	During 1st Year	1 Year	5 – 9 Years	10 – 14 Years	15 – 19 Years	20 – 24 Years	25 – 29 Years	30+ Years
Full-Time	9.2	10.9	14.8	18.0	19.9	21.2	21.7	21.9
Part-Time	8.2	10.2	14.4	17.8	19.7	21.0	21.6	21.7

Compensation Data Services also reported 71.9 percent of companies allow carryover of vacation days, and 89.8 percent place a limit on the number of days that can be carried over. The maximum number of days allowed for exempt employees is 21.2 days, compared to 21.1 for non-exempt.

In addition to vacation time, exempt and non-exempt employees receive three personal days on average. Both groups also have nine paid holidays and seven sick days. More than half of the organizations surveyed allow employees to carryover sick days with 64.9 percent placing a limit on it. The maximum number of days that can be carried over for sick days was around 40 for both exempt and non-exempt workers.

The 2009 Compensation Data Services *results found 67.5 percent of companies allow flexible schedules.*

Flexible schedules are one inexpensive way organizations are adding value to their benefit package. The 2009 *Compensation Data Services* results found 67.5 percent of companies allow flexible schedules. When comparing prevalence among employee groups, they are most offered to administrative employees, 55.1 percent.

Conclusion

Many organizations providing services have been adversely affected by the downturn in today's economy, but the degree to which these companies are affected varies widely. That being said, lower pay increase budgets and higher medical insurance costs are found across the board and are creating new challenges for HR professionals. Designing attractive and 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 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 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 Services* results, which include data from nearly 530 U.S. organizations providing services.

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.

For more information, visit our Web site www.compdatasurveys.com/2009.

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