TOWERS WATSON

2011 Recession, Recovery and Rewards Flash Survey

Key Canada Findings

To better understand the impact of the recession on reward decisions, Towers Watson surveyed large and midsize employers in January and February 2011. Participants shared with us their near-term plans for merit increases, differentiation based on performance and other elements of attraction and retention that are evolving as the economy continues its recovery. Our key findings are detailed in this report.

Participant Profile

A total of 71 organizations provided data on Canadian operations in the 2011 Recession, Recovery and Rewards Flash Survey.

- Participants represented a broad range of industry classifications, including durable and nondurable consumer products, energy, financial services, health care, high tech, pharmaceutical/biotechnology, retail/wholesale and telecommunications.
- Participant employee populations ranged from fewer than 1,000 to 50,000 employees, with 78% of organizations having employee populations with fewer than 5,000 employees.
- Participant total annual revenue ranged from fewer than $500 million to $20 billion or more, with just over 70% reporting annual revenues fewer than $5 billion.

Canada Economic Conditions

Companies in Canada continue to face uncertain economic prospects as they recover from the recession of 2009, with the broader economy showing high unemployment and limited growth in 2010. These economic uncertainties are reflected in the cautious optimism with which survey participants are approaching reward and talent management this year.

Fewer Organizations Report Frozen Salary Increase Budgets

As the economy shows some signs of recovery, fewer salary budgets will be frozen in 2011 than in 2010. Overall, only 3% of organizations that froze salaries in 2010 are planning freezes for 2011.

Analysis of salary budgets by employee group shows that almost one-fourth of organizations froze executive salaries in 2010, while only 10% plan to freeze budgets in 2011. A similar pattern is seen for management, professional/technical and administrative support employee groups. For these groups, approximately 10% to 12% of organizations froze budgets in 2010, while only 4% to 6% plan to do so in 2011. Salary budgets are also thawing for hourly employees, but to a lesser degree; 23% of organizations froze hourly salary budgets in 2010, and 18% intend to do so in 2011.

Moderate Increases are Projected for Merit Increase Budgets

Merit increases are expected to average around 3% for 2011, reflecting higher budgeted amounts across all employee groups, compared to the 2.6% granted in 2010. The largest change is seen for professional/technical and administrative support groups where merit increase budgets are increasing from 2.5% to 3%.

Average total increases for 2011 are also expected to be around 3%, unchanged from the actual total increases granted in 2010.

Figure 1: 2010 Actual and 2011 Projected Merit and Total Increase Budgets

	2010 Actual		2011 Projected	
	Merit Increase	Total Increase	Merit Increase	Total Increase
Executives	2.7%	3.0%	3.0%	3.0%
Management	2.7%	3.0%	3.0%	3.0%
Professional/Technical	2.5%	3.0%	3.0%	3.0%
Administrative Support	2.5%	2.9%	3.0%	3.0%
Hourly	2.5%	2.5%	2.7%	3.0%
Overall Budget	2.6%	3.0%	3.0%	3.0%

Median values excluding companies that did not grant increases

Distribution of Merit Budgets and Annual Short-Term Incentive Plans Linked to Performance

Survey participants were asked to report average merit increases in relation to job performance. Employees whose performance met expectations received merit increases averaging 2.3%. As expected, the higher the performance level, the higher the average merit increase, with 4% representing the average increases to the 6% of employees who far exceeded expectations and 3.5% to the 23% of employees who exceeded expectations.

As with merit increases, companies are striving to differentiate short-term incentive (STI) awards based on individual performance. Differentiation between top performers and average performers for 2011 is expected to remain consistent with 2010 levels. Average STI funding as a percentage of target for 2011 is also expected to remain at levels similar to those in 2010. Actual funding for 2010 was 93% and is projected to remain the same for 2011.

Figure 2: Average 2010 Distribution of Merit Increases by Performance Level

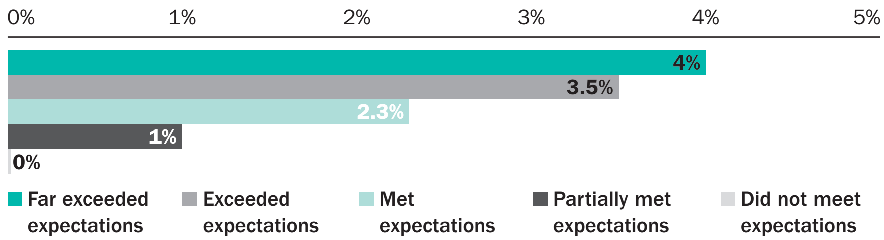
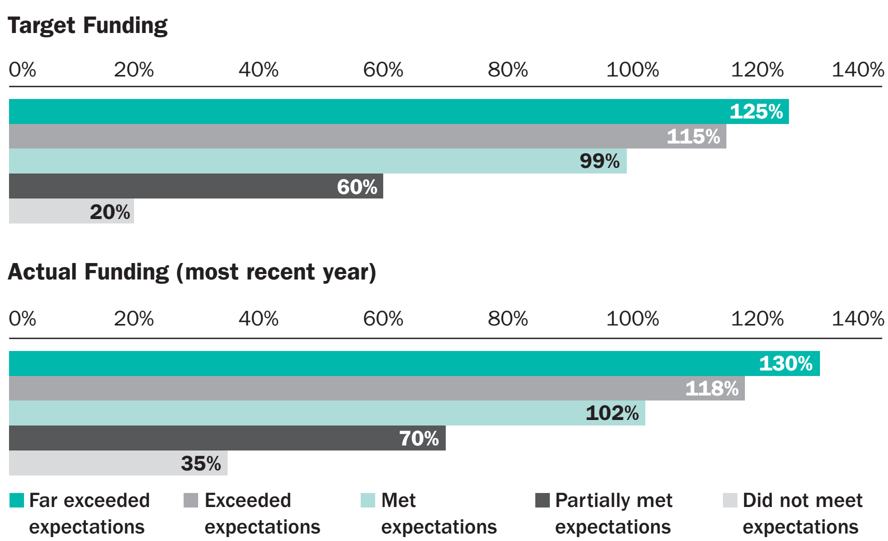


Figure 3: Short-Term Incentive Distributions by Performance Level



Attracting Critical-Skills Employees and Top Talent Pose Challenges

Attracting key personnel has been challenging for many employers, with nearly half (48%) reporting difficulty attracting critical-skills employees, 38% reporting difficulty attracting top performers and 34% reporting difficulty attracting high-potential employees. Employers reported fewer challenges attracting sales personnel and employees overall.

Consistent with data from 2010, survey responses point to challenges with regard to employee retention. Thirty-two percent of organizations reported challenges keeping critical-skills employees, 26% reported issues with retaining high-potential employees and 25% reported concerns with retaining top performers. Fewer challenges were reported in retaining sales personnel and employees overall.

Figure 4: Percentage of Respondents Reporting Difficulty in Attracting or Retaining Employees

	Problems Attracting	Problems Retaining
Critical-Skills employees	48%	32%
Top-Performing employees	38%	25%
High-Potential employees	34%	26%
Sales employees	17%	9%
Employees overall	20%	13%

Recent Hiring Freezes are Starting to Thaw

One indication of their confidence in the economy is reflected in organizations' projected changes to headcount in 2011. For management, professional/technical, critical-skills, sales and administrative support employee groups, the percentage of participants planning to increase headcount is greater than the percentage of participants planning to reduce headcount. Hiring freezes are starting to thaw, especially for professional/technical and critical-skills job families.

Figure 5: Projected Headcount Changes for 2011

	Headcount Reduction > 5%	Headcount Reduction < 5%	Flat Staffing	Headcount Increase < 5%	Headcount Increase > 5%
Executives	4%	7%	80%	9%	0%
Management	3%	10%	67%	16%	3%
Professional/ Technical	5%	12%	50%	21%	12%
Critical-Skills job families	2%	7%	61%	21%	9%
Sales	4%	4%	74%	15%	4%
Administrative Support	5%	9%	69%	16%	2%
Hourly	9%	6%	70%	9%	6%

Conclusion

For most Canadian companies and employees alike, the worst impact of the recession on rewards programs seems to be waning, with merit increases improving and funding for short-term incentive programs projected to hold steady in 2011 at the full funding levels reported in 2010. While most employers anticipate flat staffing levels, only small percentages indicate they plan to reduce headcount this year, with many more projecting headcount increases.

About Towers Watson

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With 14,000 associates around the world, we offer solutions in the areas of employee benefits, talent management, rewards, and risk and capital management.