



Reshaping The Workforce *

The challenge

Many organisations around the world continue to face escalating changes in their business environment, brought on by a combination of factors including increased competitive pressures, mergers/acquisitions and other strategic or operational shifts. In many instances, the evolving environment requires a reshaping of the workforce. Such changes inevitably pose significant organisational and HR challenges as businesses attempt to cut costs, improve earnings, or increase productivity. Often such changes lead to workforce reductions. Redundancies in Ireland have averaged 25,000 jobs in recent years with a 27% increase in the numbers reported in the first four months of 2008. Some predictions suggest that the rate of increase will escalate leading to further challenges for many employers in Ireland.



The options

In order to achieve the required efficiencies employers may opt to implement redundancies without fully exploring the alternative solutions available. For example, depending on the particular circumstances, some of the following might achieve the necessary efficiencies without having to make employees redundant:

- reduction in working hours of permanent full time employees;
- wage or bonus restraint, perhaps in return for future increases, share allotments, etc;
- shifting part of the workforce to part-time status;
- retraining to increase productivity levels;
- redeployment to more productive areas;
- early retirement;
- leave of absence;
- natural attrition - recruitment freeze;
- capping the cost of benefit provision (e.g. via flexible benefits scheme);
- reduction in employee related incentive costs.

Added benefits may also arise from some of the above actions such as a greater alignment of HR strategy with business strategy.

Achieving efficient workforce reductions

Of course, situations arise where redundancies become inevitable, posing significant questions and challenges for an employer.

Many complex issues need to be addressed including:

Legal: The necessity for employers to ensure they comply with all of the various legal provisions relating to redundancy.

Design of the exit package: Enhanced Severance Payments (ESPs) are now a regular feature of termination settlements. The law does not require employers to provide additional severance payments, but it is not uncommon for employers to make ESPs as a matter of company policy or pursuant to a negotiated severance agreement. In a unionised environment, the amount payable will usually be negotiated with the relevant trade union(s).

Taxation & PRSI treatment: While statutory redundancy (SR) payments are exempt from income tax, employers need to be aware of ongoing changes in the SR rules. The tax treatment of ESPs is more complex, particularly if employees have worked in a number of companies for the same group or where pension benefits also arise. Such payments can attract 6 different types of tax exemption. Employers need to be aware of the level of payments which can be made free of PAYE and PRSI. A special rate of PRSI applies to the taxable element of an ESP.

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Pension benefits: If the employer operates a pension scheme, immediate or deferred benefits may be due to employees, which will impact on both the ESP tax exemption and the overall financial position for departing employees. The question of pension scheme funding may also need to be addressed, particularly in merger or acquisition situations.

Employee assistance: Job loss is a very stressful experience. Prudent employers offer outplacement and career transitioning interventions to provide psychological and practical support - even in buoyant employment markets, departing employees view such counselling as an opportunity to enhance their employability. An outplacement programme can also help to foster the commitment of the 'surviving' employees, who may be suffering low morale and reduced commitment to the organisation. Many employers will also arrange for employees to receive group or one-on-one financial counselling sessions, to outline their severance payment entitlements, tax position, social security entitlements, pension and investment options.

How PricewaterhouseCoopers can assist employers

Our HR Services team is a unique blend of business advisors. We bring together a wide range of expertise including reward, employment law, employment/personal tax, pensions, benefits, IR, HR and management development specialists, to help employers of all sizes who are engaged in reshaping their workforces - from organisational re-structuring to an assessment of the efficiency of reward strategy and training programmes. Collectively this team has many years experience in assisting organisations across all industries in both restructuring and shutdown situations. Our Workforce Reduction Services offering is geared to handling programmes of all sizes from one off executive severance packages to large scale redundancy programmes.

We offer comprehensive 'one-stop-shop' advice and support covering:

- severance programme benchmarking, design and implementation;
- statutory redundancy package preparation and clearances;
- tax-free lump sum calculations and Revenue clearances;
- pension scheme calculations and Revenue clearances, together with pre-termination pension planning;
- group and/or individual employee financial counselling (covering tax, social security entitlements, pension scheme options, self-employment financial 'primers' etc);
- employee communications assistance;
- one-on-one management outplacement services;
- representation before Employment Appeals Tribunal and the Irish Courts where this becomes necessary.

Our proprietary software and standardised methodologies and other deliverables under our Workforce Reduction Services programme enable us to offer competitively priced services. Client feedback suggests that our investment in technology and customised termination training programmes has enabled us to provide significant additional value to organisations who are undertaking large scale workforce reduction or termination programmes.

Our collective experience has given us a keen insight into the challenges faced by individuals and organisations undergoing workforce changes and we are only too aware of the need to ensure that exit programmes are handled with the utmost care and attention.

For further information in relation to any of our services, please feel free to get in touch with your usual PwC contact, or any of the people listed below.

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