CALCULATING LABOR BURDEN

The purpose of this operating procedure is to provide the methodology for calculating labor burden. This serves as a guide for determining labor burden for workers. **Provided by member:** Williams Diesel Service in Ocala, Fla.

Begin by determining the average rate for your direct workers. The wages for your officers, office workers and other employees that are not directly related to producing income will be taken into account when overhead rates are calculated. Calculate rates for each classification of employee by following the same steps that you use to determine the total average wages that will be paid to all employees. Some employees, because of the skill level and the type of work they do, are paid a higher rate. In this case, you may want to calculate the rate for each classification. However, at times it is hard to determine which employee will be doing which task at the time a quote is compiled. Because of this and other factors, you can use the average hourly wage, or the highest rate paid to employees.

1) Annual Gross Pay: Calculated for active, direct workers only. Take the average (highest) rate and multiply by your average working hours per week (not including overtime hours) times the working weeks in the year. 40 X Ave. Hourly Rate X 52 Weeks = Annual Gross Wages.

2) Bonus and/or Incentives: This is any planned bonus that is regularly paid to employees, such as Christmas Bonus, Pre-planned Profit Sharing, etc.

3) Other Compensation: Taxable compensation that is not included above.

4) Total Annual Pay: The sum of all of the above.

5) Burden Uplift: This is your cost in addition to the wages paid in 4). This is calculated as a percentage of the annual wage and may be capped. This is added to the annual wage to calculate the total wage cost.

5b & c) Federal Unemployment and State Unemployment: These percentages can be located on your tax return for the respective agencies you are paying. Keep in mind if the employees’ average wage is less than the maximum wage cap, use the average wage. If the average wage is more than the maximum, use the maximum to calculate your portion of the tax.

5a & d) Social Security & Medicare: This rate can be found on your federal quarterly tax return for calculating your employer’s matching portion each quarter. Currently the combined rate is 7.65 percent of the wage ceiling, with a maximum $72,600 of the total wages that you must apply the percentage to so that you can arrive at the amount you would pay for that employee.

Keep in mind if the employees’ average wage is less than the maximum, use the average wage. If the average wage is more than the maximum, use the maximum to calculate your portion of the tax. Be aware this rate is subject to change at the will of Congress. Therefore, you should review it periodically.

5e) Workers Compensation: This rate is found on your most current workers compensation premium bill. Be sure to adjust the rate by any audit additions or subtractions. Most workers compensation policies are audited at least on an annual basis and are revised as your experience rate is increased and/or decreased.

5f) Other: Any other employee related costs.
Total Burden: This is the total burden added together.

6) Sub-Total: Line # 4 + Line # 5

7) Health Insurance: Take your projected monthly company cost of health insurance cost you anticipate from your insurance carrier’s statement. Divide the total estimated premium by the number of employees to get your average monthly premium. Then multiply by 12.

8) Other: (SEP/401k, etc.) Any other charges (annualized).

9) Other. Any other Company expense for an employee. (Uniforms, shoes, etc.)

10) Total annual Company Cost. Calculated for you.

11) The next step is to determine the productive hours worked by a direct labor employee.

Annual Paid Hours: 40 hours per week X 52 weeks per year.

12) Subtract: Holiday Pay: Determine the total number of annual holidays X the normal hours worked per day (usually 8).

13) Subtract: Vacation Pay: The average vacation days earned by the majority of your employees.

14) Subtract: Sick Pay: Any hours for sick leave given to employees.

15) Subtract: Break: This is the portion of an hour given to employees while on the clock each day for paid breaks. Example: Two 15 minute breaks per day X 5 days per week X 52 weeks per year = break hours.

16) Subtract: Other (Training, Seminars, etc.) you give employees that will lead to a reduction in productive hours worked.

17) Subtract: Other (Shop Clean-up).

18) Subtract: Travel To & From – Time traveling to and from a job site.

19) Subtract: Other – Any paid time you give employees that will lead to a reduction in productive hours worked.

20) Total Net Annual Productive Hours: The total of 12 through 19 subtracted from item 11. This is the hours available for each direct labor employee.

Prod Cost per hour (Effective Total Employee Cost) =

Line 20 (Total Net Productive Hours) divided by Line 10 (Total annual Company Cost)

= Productive cost per hour including burden.

This calculation should be reviewed each quarter. This will ensure that you are pricing your jobs to cover the cost of your labor.