

Farm Management



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Do You Really Know How Much It Costs to Hire Employees?

As an employer you pay a lot more for labor than your employees take home with their pay check. However, many employers do not know or they don't take the time to figure out how much their employees actually cost their business. In many cases labor cost is the single largest expense burden on your business. Therefore, it is critical that you know exactly how much each person's wages is truly costing the business.

The information that you need is the cost of each employee for each hour that they are productively working at their prescribed job. This will help you determine the appropriate wage rate to charge to your customers so all of your costs are covered. Just a subtle reminder, if you are not billing or charging your customers the appropriate amount to cover all costs then how are you guaranteeing your business a profit.

The way to calculate your labor cost per productive hour is to subtract the time that you are paying for but the employee is not working, such as vacations, holidays, sick days, time lost due to accidents and daily breaks. Figure out what all of your labor costs are and then divide that total by the number hours worked per year to arrive at a per hour cost. Non-productive time (travel time, breaks, lunch, etc.) on a day to day basis is handled by applying a productive time/paid time ratio to the total of all other labor costs.

Before the first employee is ever hired and the first paycheck is ever written for wages earned many preliminary steps must be taken.

The following is a list of what needs to be done before an employee is hired:

- Obtain a Federal Employer Identification number.
- Obtain a copy of Pennsylvania Combined Registration Forms and Instructions, commonly referred to as the PA-100.
- Obtain a copy of the Pennsylvania copy of the New Hire Reporting Form. New for 1998
- Obtain Worker's Compensation from a private insurance company or from the State Workmen's Insurance Fund (SWIF). Having Worker's Compensation Insurance for your employees is not an option it is a requirement of the law.
- Call or write to your local Bureau of Employer Tax Operations in your area to register your business with the Pennsylvania Unemployment Compensation Fund. In Pennsylvania, you are required to pay into the State Unemployment Fund for all of your employees.

The following is a sample labor cost calculation illustrating the impact of benefits, taxes and non-productive time on labor costs

Base Rate \$8.00
At \$8.00/hour, the employee will earn \$64.00/day
(before taxes) and has the potential to work 2,000 hours per year before overtime

Benefits
Two weeks paid vacation (80 hours or \$640) amounts to .33/hour
Eight paid holidays (64 hours or \$512) amounts to .26/hour
Coffee breaks (two ten-minute breaks/day equals 80.67 hours/year, \$645.36/year) or .32/hour
Non-productive time - average of fifteen minutes/day (61.75 hours/year or \$494/year) or .25/hour

Base Rate	\$8.00
Paid Vacation	.33
Paid Holidays	.26
Coffee Breaks	.32
Non-productive time	.25

Employer's Contributions	
FICA (6.2%)	.50
Medicare (1.45%)	.12
Federal Unemployment (.8%)	.06
State Unemployment (3.5%)*	.28
Workmen's Compensation Ins. (10)*	.80
Health Insurance (\$200/month/emp)*	1.20
Liability Insurance (\$200/year/emp)*	10
Uniforms (\$100/yr/employee)	.05
Education (\$100/yr/employee)	.05
Other (Christmas party, picnic)	.02

Total Hourly Cost **\$12.34**

* Will vary depending upon your business

Because you are paying for 8 hours of work, but only getting 7 hours of productive work divide 7 by 8 to determine your productive contingency factor. Then divide the total hourly cost by that number to determine what the employee costs you each hour that they are actually working.

Actual cost of employee/hour **\$14.10**
(\$12.34 Total Hourly Cost/0.875)

Be sure to use your own figures when calculating labor costs for your particular situation!

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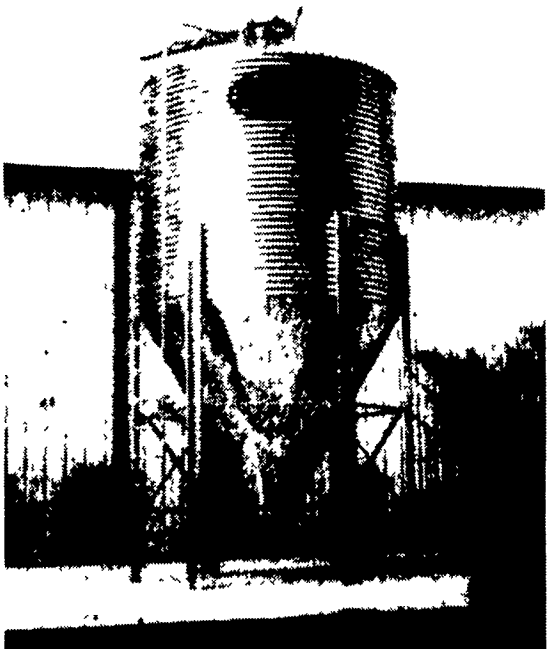


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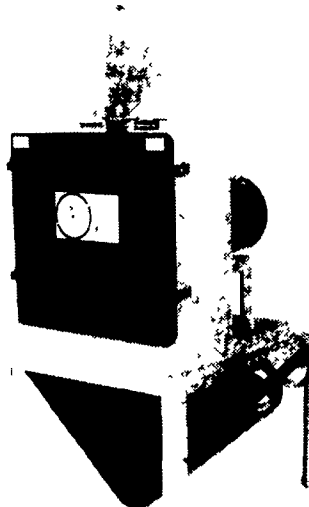
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