

THE PRICE OF LABOR

If you think your employees are making \$8 an hour, you're wrong. They're probably pulling down more like \$13 an hour, including downtime and benefits!

by Ed Wandtke, CPA

In the past five years, pay rates for labor in the industry have increased at an annual rate of 8 to 10 percent. These increases are the result of two trends.

First, there are fewer quality employees available on the job market. Secondly, production efficiency of individuals has increased, once they are hired and trained.

Many companies are now seeing pressure on their profit margins due to pay rates becoming so high that customers might not be willing to pay the billing rate. This column will discuss the true benefits cost for an employee, and how to calculate it for your company. This

will give you a basis upon which to set your billing rate at a profitable level.

Rate of pay

When rendering services at an hourly rate, most green industry companies find it hard to determine what a profitable billing should be. Service companies are also concerned with justifying to the customer the billing rate.

To determine the effective cost of an employee, you need to answer some basic questions about the amount of the costs you are experiencing for various tax, insurance, and other benefits.

Whether an individual is paid hourly, weekly, monthly or as a percent of production, you eventually will need to know the effective rate of pay the individual is earning. The effective rate (ER) is the total wages paid an individual for a 13- or 26-week period, divided by the total hours worked during the same period.

Other paid time

One area most often overlooked by a company in determining the true cost of an employee is the number of hours during which the employee is paid but doesn't really perform any work. Break time each day, paid lunch period, holiday pay, sick day pay, and other time-off programs are some examples of compensated time when the individual is not really working.

For most companies, the unworked time per year breaks down into the following table:

Break time (30 min./day, 200 days)	100 hrs.
Paid lunch (45 min./day, 200 days)	150 hrs.
Holiday (6 days/year)	.48 hrs.
Sick pay (5 days/year)	.40 hours
Left early or arrived late	.8 hrs.
Training (8 days)	.64 hrs.
Drive time (1 hr./day, 200 days)	.200 hrs.
Total unworked	.610 hrs.

Benefit costs

Most states require certain insurance or worker's compensation on all employees whether they are full-time or part-time.

Keeping these costs down is generally out of your hands as the owner of a lawn or landscape company. Knowing the effective rate of these costs for each employee will help cover them when you bill the individual employee's time.

Voluntary benefits

Voluntary benefit costs are life insurance, health coverage, dental, eye-wear coverage, disability insurance, life insurance, retirement, etc.

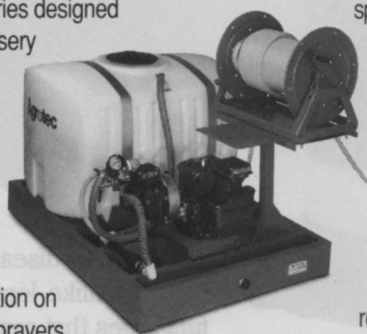
Some of these costs have been increasing at such a fast rate that many companies ask the employee to pay a percentage. Other companies are lim-

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iting eligibility until an employee has been working at a company for a longer period of time.

Statutory benefits

Statutory benefits are payroll-related costs set by the federal, state and local governments.

The most common of these expenses are FICA worker's compensation, disability insurance, unemployment insurance (federal and state) and licensing fees. Of the group, worker's compensation and unemployment insurance have been escalating at an unusually high rate.

These fees are a result of your company's experience and the ratings scale for your business's location. Knowing your rates for these costs and their pattern for the increase over the past three years will provide you with some insight as to the costs you should anticipate changing to determine the billing rate for an employee.

Cost model

As related earlier, you are paying for 610 hours of unproductive time per employee per year. Based on a typical employee's wages of \$8 per hour, that's \$4880 per employee per year.

Costs for mandatory benefits, based on \$8 per hour or \$16,640 per year, could be calculated as such:

FICA (7.5% of \$16,640)	\$1268
Fed. unemployment (.8% of \$16,640)	135
State unemployment (3.5% of \$16,640)	609
Worker's comp. (2.8% of \$16,640)	473
Total statutory costs	\$2486

Voluntary payroll costs are benefits which you can elect to pay. In many markets, employers see most of these benefits as necessary costs in order to retain or attract employees. The types of these costs and the amounts might be, for the same employee:

Long term pay (1.843% of \$16,640)	\$312
Short term pay (.483% of \$16,640)	82
Life insurance (1.78% of \$16,640)	301
Medical single (\$68.55 x 12 mos.)	823
Retirement (4.66% of \$16,640)	788
Uniform services (\$25/mo. x 12)	300
Outside educational program	100
Total typical voluntary costs \$2705	

Summary

As you evaluate whether you can afford to pay any additional benefits for your employee, you need to focus on how much more efficient your employees can become. For most individuals, maximum productivity or efficiency occurs when they are billing or productive for 65 percent of the total time they are compensated. How is the efficiency factor for your employees? Should you be providing better benefits to retain and attract a higher caliber of individual to your company? **LM**

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