

Construction Accounting and Financial Management

Chapter 8
Determining Labor Burden

Components of Labor Pricing

- Wages
- Cash equivalents and allowances
- Payroll taxes (Medicare and Social Security)
- Unemployment insurance (FUTA and SUTA)
- Workers' compensation insurance
- General liability insurance
- Insurance benefits
- Retirement
- Union payments
- Vacation

Hourly Cost

- Hourly Cost = Total Costs/Hours Worked
- Hours worked excludes vacation and sick leave
- Hours worked incorporates vacation and sick leave into the hourly cost

Wages

- Type
 - Hourly
 - Salaried (exempt)
- Pricing source
 - Market
 - Union
 - Federal (Davis-Bacon)

Burden

- Includes all costs paid by employer in addition to the wages

Cash Equivalents and Allowances

- Cash equivalents
 - In lieu of benefits
- Allowances
 - Vehicle use
 - Tool
- Are subject to taxes the same as wages

Payroll Taxes

- Social Security
 - 6.2% on first \$97,500 of wages for each employee for 2007
 - Limit is increased each year
- Medicare
 - 1.45% on all wages
- The employee payments for medical insurance may be exempt from payroll taxes

Unemployment Insurance

- Federal (FUTA)
 - 6.2% on first \$7,000 of each employee's wages
 - Up to 5.4% credit given:
 - Based on amounts paid by your company for State Unemployment Insurance (SUTA)
 - Only if you pay state unemployment on time
 - Minimum is 0.8% on first \$7,000

Unemployment Insurance

- State (SUTA)
 - Varies by state and company
 - Based upon claim history
- Calculation from historical data
 - $FUTA \% = \frac{\text{Total FUTA}}{\text{Total Wages}}$
 - $SUTA \% = \frac{\text{Total SUTA}}{\text{Total Wages}}$
 - Wages include cash equivalents and allowances

Workers' Compensation Insurance

- Expressed as \$/\$100 of wages
 - Wages include cash equivalents and allowances
- Experience modifier based upon last three years losses not including the most current year
 - Range 0.6 to 2.0

General Liability Insurance

- Expressed as percentage of wages
 - Wages include cash equivalents and allowances
- Varies by worker classification

Insurance Benefits

- Paid by employer
- May include
 - Health
 - Dental
 - Life where employee is beneficiary

Retirement

- 401(k)
- Often requires a match
- Often limited to a percentage of wages

Union Payments

- In lieu of benefits

Annual Cost and Burden Markup

- Annual cost equals the cost to the employer for the employee for one year
- Burden Markup = $\frac{\text{Annual Cost}}{(\text{Wages}_{\text{Total}} - \text{Wages}_{\text{Time Off}})} - 1$