

Labor Burden Shouldn't be a Burden!

Why and How to Calculate
Labor Burdens





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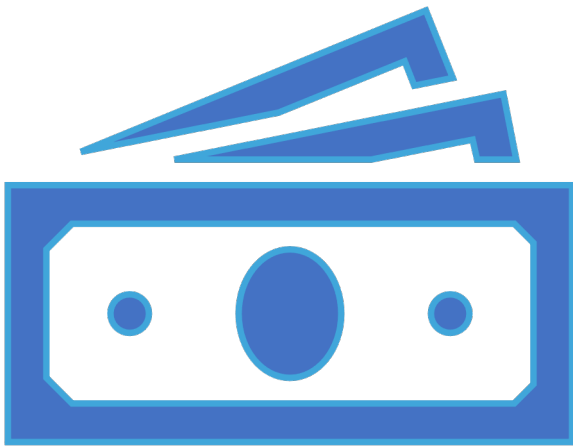
- 20+ years in construction accounting
- Founder of The Profit Constructors
- Advanced Certified in QuickBooks Online
- Certified QuickBooks Desktop ProAdvisor up to Enterprise
- Knowify Advisor
- Wife, mom of 3, chocolate lover



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What is Labor Burden?

- Calculation of what labor truly costs your business
- Cost rate to use in budgeting (**not the billing rate**)
- ONE important component of job costing (not job costing entirely)
- Can include indirect costs
- Calculated prior to budgeting



Why Is Labor Burden Important?

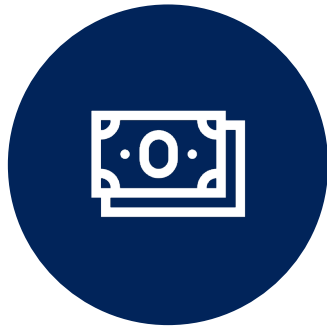
- Stop losing money on every hour worked in the field
- Stop losing money on every hour worked in the office
- Analyze whether your company can actually afford a new hire

Burdened Labor Rates vs. Payroll Costs

Burdened labor rate = gross compensation + all the costs connected with hiring those workers besides gross wages and salaries.

Unburdened labor rate is the basic gross compensation paid to workers.

Basic Labor Burden Calculation



BURDENED ANNUAL
COST

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THE TOTAL ACTUAL
HOURS WORKED

=



EMPLOYEE PRODUCTION
RATE / HOUR



Basic Labor Burden Calculation

How Many Hours does “Joe” work?

40 hours per week X 52 weeks a year = **2,080** hours per year

NOW SUBTRACT: 24 Days or 192 Hours

6 holidays

10 vacation days

6 sick or personal days

2 days of training and certifications

Leaving **1,888** available working hours.



Basic Labor Burden Calculation

How Many Hours does “Joe” work?

1,888 hours per year

NOW SUBTRACT: 2 hours from each remaining work week (47)

Meetings

Timekeeping

Shop Time

Etc.

This adds up to another 94 hours,
leaving **only 1,794** available working hours.

Basic Labor Burden Calculation

Labor Burden Calculation

Burden		
Payroll Taxes	\$3,973	FICA, FUTA, SUTA
Workman's Comp	\$1,974	
Annual Health Insurance	\$5,220	\$435 Month Company Contribution
401K Plan	\$1,000	Estimated 401k Company Contribution
Cell phone costs	\$840	Based on \$70 month average
Gasoline and Veh. Maint.	\$4,800	Based on \$400 month average
Training	\$200	OSHA Courses or other training
Tools and Equip.	\$1,200	Based on \$100 month average
PPE / Uniforms	\$600	Based on \$50 month average
Company Events	\$100	BBQs, Christmas parties, etc.
Total Burden Cost	\$19,907	Total annual burden for employee

Basic Labor Burden Calculation

Labor Burden Rate Calculation

Base Pay Rate	\$52,000	Based on base rate of \$25 / hour
Total Burden Cost	\$19,907	From last slide
Burdened Annual Cost of Employee	\$71,907	Base Pay + Total Burden Cost
Actual Total Working Hours	1,794	Initial calculation of actual production hours
Production Rate / Hour	\$40.09	Burdened Annual Cost (\$71,907) / Total Annual Working Hours (1,794)
Burden Rate Per Hour	\$15.09	Production Rate / Hour (\$40.09) less Base Hourly Pay Rate (\$25.00)
Labor Burden Rate	61%	Burden Rate (\$15.09) / Base Hourly Pay Rate (\$25.00)




What's included?

- The calculation should be based on actual hours worked
- Many, many things should be considered and taken into account when it comes to calculating actual labor burdens
- NOT all indirect costs incurred by the company should figure into labor burden for job costing
- ALL indirect costs incurred during the course of completing contract work should figure into labor burden for job costing



Don't Forget

- Many small businesses will include taxes, workman's comp costs, 401k, etc. in labor burden. Other items are often forgotten.
 - Examples of items that are forgotten and should be considered:
 - Field Communication Expenses (mobile phones, radios, etc.)
 - Depreciation (vehicles and large equipment)
 - Training
 - Safety
 - Uniforms
 - Small tool loss
 - Fuel / vehicle maintenance
- 



Q & A



Get in Touch with The Profit Constructors

Call us at 480-442-4032 or drop us an email.

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Wrap Up

1. Labor burden doesn't have to be a burden
2. You are capable of calculating labor burden
3. Use all the tools at your disposal