

# Do The Math!



## Pay Now or Pay Later

By Jay Goltz

In most cases, costs are pretty obvious. You buy the moulding, you get an invoice, you see what went into a job. You pay people. At the end of the week, you can more or less figure out how much a job cost. There are some costs that are less direct. While most people understand that just because you pay someone \$8 an hour doesn't mean they cost \$8 an hour. There are some associated payroll costs that are not necessarily predictable.

For instance, FICA is a number that the government gives you so you know exactly what an employee is going to cost you. On the other hand, there are other costs that are predictable in the short run but not in the long run. Every year you get a statement telling you what your contribution rate is for unemployment, if your state operates like Illinois. This number is a direct reflection of how many unemployment claims you put through in the previous three years. In Illinois, if you fire someone (versus their quitting) they are eligible for unemployment.

Let's say you have an employee named Agnes who is not doing a good job. She's been with you long enough that she is now eligible for unemployment, which in Illinois is 30 working days. You have counseled her on numerous occasions but you have concluded she does not have the capability and/or desire to perform to your satisfaction. She does not have any desire to quit either. You have two choices: 1) you can keep her on hoping that she gets better or she quits (in an effort to avoid unemployment) or 2) you can un-hire her and pay the unemployment.

So, let's do the math!

Let's presume if you fire her, Agnes collects \$314 a week for 13 weeks (based on the fact that she has children and her husband does not work). That's a payout of \$4,082—though you could get lucky and Agnes could get a job right away. The state tacks about 30% more onto that and charges it to your "account." This is going to affect your rate for the next three years—depending on when this happens. In Illinois, the fiscal year ends on June

30th, you get your new rate in November, and you start paying that new rate in January. If you end up firing Agnes after June 30th, that calculation will not get put in until the following June 30th and won't affect you until the following January—that's a year and a half later.

What is the total cost of firing that person? \$5,306.60 paid over three to five years. It's kind of an installment payment for unfortunate circumstances.

Let's look at the other side of the formula: the cost of keeping this person. Agnes makes \$25,000 annually. The cost of keeping her could be substandard productivity, damaged artwork or wasteful with materials, she takes up more of your time with "counseling sessions," she causes lack of productivity in other employees, she loses you customers.

### Total Cost Per Year

Unemployment paid over 3-5 years:	\$5,306
<b>Cost of keeping her</b>	
Substandard productivity (10% inefficiency of a \$25,000 employee)	\$2,500
Damaged artwork or wasteful with materials	\$1,000
She takes up more of your time with "counseling sessions" (12 sessions @ \$50 each)	\$ 600
She causes lack of productivity in other employees	\$1,000
She loses you customers (one per month)	\$3,600
<b>Total cost per year</b>	<b>\$8,700</b>

Cost to the morale of your company and your sanity  
PRICELESS

These numbers are obviously estimates, but the point is that keeping an unproductive employee is not free. Either pay now or pay later. ■