

Do The Math!



How Many Dollars Are in an Hour?

By Jay Goltz

Labor is a major component in estimating the cost of a job. The cost of labor involves estimating two numbers: how long it takes to do something and how much an hour of labor costs. Notice that I didn't ask how much you pay for an hour of labor. That's a different thing.

There are many hidden costs involved in figuring out what an hour of labor really costs you. I'm going to go through most of them so you can calculate your own costs. Some are subtler than others. Here is the list:

- FICA:
 - Social Security 6.2%
 - Medicare 1.4%
- Workman's comp (varies by state) about 6%
- Unemployment insurance about 2%
- Health insurance 10% (varies)
- TOTAL 25.6%

In addition, you have to factor in the hidden costs when you pay for an hour of labor, so you are not really getting an hour. You must include time that is paid when workers aren't actually working, such as sick days, holidays, vacation time, and breaks. You must also take into consideration the fact that no one works at 100 percent capacity. People go to the bathroom, take phone calls, wash their hands, clean up, and dozens of other things rather than producing work. If you are running a highly productive shop, you might be getting 85 percent output.

There's one other variable that will hurt output: training time. This is obviously dependent on your turnover of employees. Even though new employees make less money than those who are experienced, their output per dollar is not as high as someone who is fully competent.

So what does this all add up to? Let's do the math!

What does an hour of labor really cost?

Hourly wage	\$10.00
Plus taxes and insurance (25.6%)	\$2.56
Plus holidays + vacation (16 days) (Adjust for working 94% of the year)	\$0.80
Adjust to compensate for 85% output when at work	\$2.36
Total hourly cost	\$15.72

What this means, basically, is that when you pay someone \$10 an hour, you are actually paying more than 50 percent on top of that. Another way of thinking about this is that when you pay someone for a 40-hour workweek, after holidays, vacations, and other downtime are taken into account you're really only getting 32 hours of work.

If you go through this for your own personal circumstances, your numbers will vary. The only numbers in this list that are sure to be accurate are the FICA numbers. There are variations of what workman's comp or unemployment insurance will run depending on your state.

In addition, your hourly costs will rise if your workers put in overtime. And the chart shown here uses 10 annual vacation days. If your company offers a different amount or also offers personal days, you need to adjust the figures.

While you're sure to be aware of many of these factors, it's important to be as precise as possible when calculating your labor costs for a job. If you don't, you may end up losing money without being clear on why it's happening. By doing the math, you'll have a lot clearer idea of how much each hour of labor is actually costing you. ■