

# Construction Accounting and Financial Management

## Chapter 8 Determining Labor Burden

Construction Accounting & Financial Management, 3/e  
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## 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

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## 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
- 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 \$106,800 of wages for each employee for 2011
  - ❑ Limit is increased in most years
- **Medicare**
  - ❑ 1.45% on all wages
- **The employee payments for medical insurance may be exempt from payroll taxes**

## Unemployment Insurance

- **Federal (FUTA)**
  - ❑ 6.0% on first \$7,000 of each employee's wages (6.2% before July 1, 2011)
  - ❑ Up to 5.4% credit given:
    - For employees covered by State Unemployment Insurance (SUTA)
    - Only if you pay state unemployment on time
  - ❑ Minimum is 0.6% on first \$7,000 (0.8% before July 1, 2011)

## Unemployment Insurance

- State (SUTA)
  - Varies by state and company
  - Based upon claim history
- Calculation from historical data
  - $\text{FUTA \%} = \frac{\text{Total FUTA}}{\text{Total Wages}}$
  - $\text{SUTA \%} = \frac{\text{Total SUTA}}{\text{Total Wages}}$ 
    - 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
- Markup = 
$$\frac{\text{Annual Cost}}{(\text{Wages}_{\text{Total}} - \text{Wages}_{\text{Time Off}} - \text{Bonuses})} - 1$$