



Total Cost of Employment

*....A Snelling White
Paper*

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Employees are the greatest asset that a company can have, but they are often the most expensive investment a company can make.

The unemployment numbers are high and have remained high for the last couple of years. Despite federal tax breaks and incentives, businesses are not hiring new employees until they are absolutely certain they need to. The reason? Employees are often the most expensive investment businesses make.

The reason is not just salaries; it is much more than a worker's salary. Fixed expenses, such as federal and state taxes, health insurance, workman's compensation, and benefits are all included in the total compensation amount. In addition, there are soft costs such as the time spent training a new hire. These additional expenses can add approximately 40% more to an employee's base pay.¹

These expenses are not going away. The headlines sum it up nicely. The cost of employee benefits, in particular, the cost of medical insurance, has consistently gone up year after year. These increases impact business's bottom line, forcing managers and corporate leaders to make hard choices.

However, the increasing cost of health care coverage is not the only component affecting the total cost of employment; other costs and expenses also impact the cost of hiring and employing an additional worker.

Employee Cost

Employees are the greatest asset that a company can have, but they are often the most expensive investment a company can make. According to a recent survey done by PriceWaterhouseCoopers, 83% of CEOs believe that the workforce is the single largest expense for their businesses.

But what exactly makes up that expense? What components go into assigning a cost for an employee? According to the US Bureau of Labor Statistics, private industry employers* pay, on average, \$28.24 per hour for each employee. However, only \$19.91 of that amount makes up an actual wage. Almost 30% (or \$8.33) goes towards various benefits.² To think of it another way, employers' average expenditures for benefits/taxes are higher than the minimum wage salaries earned by more than 4.4 million people in the United States.

**Private industry statistics do not include numbers for government workers – federal, state and local.*

Of this \$8.32 cost for benefits, the breakdown is as follows²:

Compensation Component	% of Total Benefit Costs per Employee
Wages/Salaries	70.5%
Benefits	29.5%
Paid Leave	6.7%
Supplemental Pay	2.8%
Insurance	8.1%
Health	7.6%
Life	0.2%
Short-term disability	0.2%
Long-term disability	0.2%
Retirement Benefits	3.6%
Defined benefit pension contributions	1.6%
Defined contribution pension plans	2.0%
Legally Required	8.3%
Social Security	4.7%
Medicare	1.2%
Federal Unemployment Insurance	0.1%
State Unemployment Insurance	0.8%
Workers' Compensation	1.5%

Legally Required Benefits

Companies are responsible for paying their portion of payroll taxes. These payroll taxes are an added expense over and above an employee's gross pay. The employer-portion of payroll taxes includes the following:

- FICA Taxes
 - Social Security taxes (6.2% up to the annual maximum)
 - Medicare taxes (1.45% of wages)
- Federal unemployment taxes (FUTA)
- State unemployment taxes (SUTA)

The Tax Relief Act of 2010 reduced the employee portion of Social Security to 4.2% from 6.2% for 2011. Starting in 2012, the employee portion will revert back to the full 6.2%.

Effective July 1, 2011, the FUTA rate decreased to 6.0%. After applying the 5.4% credit, the effective rate nets to 0.6%.

For an overview on SUTA tax rates, along with the average starting rate, by state, see “State Unemployment Tax Rates” chart on page 8

FICA Taxes

FICA taxes consist of Social Security and Medicare taxes and are paid by both the employee and the employer – each pays half of these taxes. FICA taxes add up to 15.3%, and they are broken down as follows:

- Social Security (Employee pays 6.2%)
- Social Security (Employer pays 6.2%)*
- Medicare (Employee pays 1.45%)
- Medicare (Employer pays 1.45%)

**NOTE: The Tax Relief Act of 2010 reduced the employee portion of Social Security to 4.2% from 6.2% for 2011. Starting in 2012, the employee portion will revert back to the full 6.2%.*

FUTA

FUTA (Federal Unemployment Tax Act) imposes a federal employer tax used to help fund state workforce agencies. It covers the cost of administering unemployment insurance and job service programs in all states. In addition (and very relevant to today’s economic conditions) it pays ½ of the cost of extended unemployment benefits during periods of high unemployment and provides a fund from which states can borrow in order to pay benefits.

Historically, FUTA has imposed an annual tax rate of 6.2% on the first \$7000 of gross earnings per employee. Once the employee’s earnings reach \$7000, the employer no longer pays any FUTA for that worker for that year. However, due to credits – up to 5.4% - that employers can earn if they pay their state unemployment taxes (SUTA) in full and on time, the effective rate nets to only 0.8%.

Effective July 1, 2011, the FUTA rate decreased to 6.0%. After applying the 5.4% credit, the effective rate nets to 0.6%.

SUTA

SUTA is paid by an employer and is added to a state-administered fund that can be used by qualifying employees in the event they are unemployed. Different states have different state unemployment tax rates and administer their programs differently. Because of this, employers need to educate themselves on their state’s particular requirements regarding their unemployment tax rates and maximum wage base. In many cases, states require new businesses to use an average starting rate until an employment history is established.

For an overview on SUTA tax rates, along with the average starting rate, by state, click [here](#)

A Word About Workers' Compensation Insurance

Workers' compensation laws provide money and medical benefits to employees who have a workplace injury as a result of an accident or occupational disease. Workers' compensation insurance is designed to protect workers and their dependents against the hardships from injuries arising out of the work environment. It is intended to benefit the employee and employer alike.

Workers' compensation is administered/regulated by the individual states (and territories)*; there is no single cohesive set of rules governing coverage, premium computation or benefits. In the vast majority of states, workers' compensation is solely provided by private insurance companies. Many states operate a state fund (which serves as a model to private insurers and insures state employees), and a handful have state-owned monopolies. However, all states have a governing board that oversees these varying public/private combinations of workers' compensation systems.

Because of the different states' infrastructures, costing out worker's compensation insurance for employers can be incredibly difficult. Some states never require worker's compensation insurance, some always require it, and some require it dependent upon the number of employees the business has. Employers who have considerable experience in dealing with one state's workers' compensation system will find themselves dealing with a very different set of rules if they expand their business to a different state.

**The federal government has its own workers' compensation program, subject to its own requirements and statutory parameters for federal employees.*

Other Types of Benefits

Basic salary and employment taxes are the minimum costs that employers contribute/allocate/pay out. Most employers (in order to acquire best-in-class employees) provide some benefits. Typical benefits include life insurance, health coverage, long-term disability, dental assistance, vacation, paid leave, overtime, bonuses, retirement plans, etc. These typically involve an actual payment by the employer, but there are also administrative costs involved in managing the benefit programs.

Insurance Premiums

It is often quite expensive to provide benefits to every worker in a business. Employer contributions for single employee health benefits can

For a complete overview of the different states' workers' compensation laws, see chart titled "State By State Comparison of Workers' Compensation Laws" on page 11

It is far less expensive for a business to bring on one additional contingent worker than to hire an additional full-time worker.

range from \$3800 - \$4300/year per person based on the type of health plan (PPO, POS, HMO, etc.).³ Employer contributions for family health benefits can range from \$8000-\$10,000/year per person based on the type of health plan (PPO, POS, HMO, etc.).³

Voluntary Payroll Deductions

Voluntary payroll deductions pay for various benefits which employees have chosen and are withheld from their paycheck only if the employees have agreed to the deduction. They can include the following:

- Health insurance premiums (medical, dental, and eyecare)
- Life insurance premiums
- Retirement plan contributions (such as a 401k plan)
- Employee stock purchase plans (ESPP and ESOP plans)
- Meals, uniforms, union dues and other job-related expenses

Voluntary deductions can be paid with pre-tax dollars or after-tax dollars, depending on the type of benefit being paid for, but they usually have some form of administrative costs attached to them since employers have to manage these benefit programs.

Benefits of a Staffing Firm

It is far less expensive for an organization to hire one additional contingent worker than to hire one additional full-time worker, primarily because they are not:

- Assuming payroll and administrative costs
- Providing social security and unemployment tax payments
- Processing federal and state taxes
- Providing Workers' Compensation
- Paying for sick time, hospitalization, and life insurance
- Paying employees during slow periods

In today's economy, many businesses are trying to do more with less. Staffing agencies absorb the soft costs associated with recruiting, screening, hiring, managing, disciplining, and firing workers in addition to the fixed expenses such as taxes and insurance. Finally, temporary/contingent workers can be hired only as needed. They can be hired or relieved as the employer's amount of work increases or decreases. This is money that cannot be saved by hiring a full-time employee, who is still employed despite the ebbs and flows of the business cycle. .

Snelling's staffing solutions have helped employers reduce their total employment costs for over 60 years. Our ability to understand industry and

economic trends and how they affect a company's profitability will help us to create a comprehensive staffing solution that accommodates our clients changing workforce needs.

If you are interested in learning more about Snelling's staffing solutions, visit us today on our website - www.Snelling.com—to find your local office and an industry expert who can help you with all your staffing needs.

Sources:

¹ Clifford, Catherine. (2010, March 26). *Why a \$14/hour employee costs \$20. [Electronic Version]. Money. Retrieved October 31, 2011, from http://money.cnn.com/2010/03/26/smallbusiness/employee_costs/index.htm*

² Bureau of Labor Statistics. (2011). *Employer Costs for Employee Compensation—September 2011. Washington DC: Author: Retrieved January 25, 2011 , from <http://www.bls.gov/news.release/pdf/ecec.pdf>*

³ Employer Health Benefits. (2010) Kaiser Family Foundation & Health Research & Educational Trust. Retrieved October 31, 2011, from <http://changehealthcare.com/downloads/industry/Kaiser-2010-Benefit-Survey.pdf>.

State Unemployment Tax Rates

(NOTE: There are many details involved in calculating an employer rate. The numbers shown here are meant to be an overview.)

State	Minimum Rate	Maximum Rate	New Business Rate	Wages Subject to Tax	Notes
Alaska	1%	5.4%	2.63% - 2.96%	\$34,600	
Alabama	2.25%	8.4%	2.70%	\$8,000	<ul style="list-style-type: none"> • Schedule D is in use for 2011 • Rates do not include Shared Cost Assessment of 1.6% or ESA of -0.06%
Arkansas	1.2%	11.1%	3.7%	\$12,000	
Arizona	0.02%	5.86%	2%	\$7,000	Rates do not include Job Training Surcharge – 0.1%
California	1.6%	6.2%	3.4%	\$7,000	Rates do not include Employment Training Fund contribution of 0.1%
Colorado	1%	11.02%	See notes	\$10,000	<ul style="list-style-type: none"> • New construction employers use 4.62% • New non-construction employers use 2.52% • Rates include solvency surcharge of 0.22%
Connecticut	1.9%	6.8%	3.7%	\$15,000	Rates include fund solvency tax of 0.7%
District of Columbia	1.8%	7.2%	2.7%	\$9,000	Rates do not include administrative assessment fee of 0.2%
Delaware	0.3%	8.2%	See notes	\$10,500	<ul style="list-style-type: none"> • New construction employers use 4% • New non-construction employers use 2.1% • Rates include supplemental assessment of 0.2% and the Training Tax Assessment of 0.15%
Florida	1.03%	5.4%	2.7%	\$7,000	
Georgia	0.3%	7.29%	2.7%	\$8,500	Rates include an administrative assessment of 0.08%
Hawaii	1.22%	5.42%	3%	\$34,200	Rates do not include additional employment and training fund assessment / interest payment assessment of 0.02%
Idaho	0.96%	6.8%	1.302%	\$33,300	
Illinois	0.7%	8.4%	3.1%-3.4%	\$12,740	
Indiana	0.565%	8.362%	2.7%	\$9,500	Rates do not include a Skills Training Assessment of 0.09%
Iowa	0%	9%	1%	\$24,700	New construction employers use 8%
Kansas	0.11%	7.4%	See notes	\$8,000	<ul style="list-style-type: none"> • New construction employers use 6% • New non-construction employers use 4%
Kentucky	1%	10%	2.7%	\$8,000	Schedule E in effect for 2011
Louisiana	0.11%	6.2%	1.07%-2.81%	\$7,700	

<i>State</i>	<i>Minimum Rate</i>	<i>Maximum Rate</i>	<i>New Business Rate</i>	<i>Wages Subject to Tax</i>	<i>Notes</i>
Maryland	1.32%	12.33%	2.3%	\$8,500	Construction employers with HQ in another state use 9.4%
Massachusetts	1.32%	12.33%	2.83%	\$14,000	<ul style="list-style-type: none"> • New construction employers use 8.62% • Work Force Training Contribution is 0.06% • Health Insurance Contribution rate is 0.36%
Michigan	0.06%	11.05%	2.7%	\$9,000	New construction employers use 7.9%
Minnesota	0.7014%	11.05032%	1.91%	\$27,000	<ul style="list-style-type: none"> • New high experience rating industry employers use 8% • Special assessment of 14% of tax due • Rates do not include Workforce Enhancement fee assessment of 0.12%
Mississippi	0.85%	5.4%	1.15%	\$14,000	Rates include 0.3% workforce training enhancement tax
Missouri	0%	9.7%	3.51%	\$13,000	<ul style="list-style-type: none"> • New construction employers use 3.619% • New mining employers use 3.51% • Non-profit contribution rate is 1.3%
Montana	0.06%	6.3%	0.06%-3.18%	\$26,300	Rates do include a 0.18% Administrative Fund tax
Nebraska	0%	8.66%	1.29%	\$9,000	New construction employers use 5.4%
Nevada	0.3%	5.4%	2.95%	\$26,600	Rates do not include Career Enhancement Program fee of 0.05%. This is charged on taxable wages unless assigned rate is already 5.4%
New Hampshire	1.1%	9.5%	1.7%	\$12,000	
New Jersey	0.6%	6.4%	3.3%	\$29,600	
New Mexico	0.05%	5.4%	2%	\$21,900	
New York	1.5%	9.9%	4.1%	\$8,500	Rates do not include the subsidiary tax of 0.625% or reemployment tax of 0.075%
North Carolina	0%	6.84%	1.2%	\$19,700	
North Dakota	0.2%	10%	1.17%	\$25,500	New construction employers use 9.86%
Ohio	0.7%	9.6%	2.7%	\$9,000	New construction employers use 6.4%
Oklahoma	0.3%	7.5%	1.2%	\$18,600	
Oregon	2.2%	5.4%	2.4%	\$32,300	Rates do not include the 0.07% JOBS Plus Unemployment Wage Tax Fund
Pennsylvania	2.677%	10.8236%	3.703%	\$8,000	<ul style="list-style-type: none"> • New construction employers use 10.2626% • Additional contributions tax of 0.65% in effect for 2011
Puerto Rico	3.4%	5.4%	3.3%	\$7,000	
Rhode Island	2.2%	10.3%	2.43%	\$19,000	Rates do not include Job Development Assessment of 0.21%

<i>State</i>	<i>Minimum Rate</i>	<i>Maximum Rate</i>	<i>New Business Rate</i>	<i>Wages Subject to Tax</i>	<i>Notes</i>
South Carolina	0.103%	11.279%	3.4%	\$10,000	Rates do not include a Contingency Assessment of 0.06%
South Dakota	0%	10.03%	1.75%	\$11,000	New construction employers use 6.55%
Tennessee	1.1%	10.60%	1.5% - 6%	\$9,000	
Texas	0.66%	8.25%	See notes	\$9,000	<ul style="list-style-type: none"> • New employers use greater of the avg. rate for all employers in the NA-ICS code to which they belong or 2.7% • Employer rate consists of General Tax Rate + Replenishment Tax Rate + Obligation Assessment Rate + Employment Training Investment Assessment.
Utah	0.4%	9.4%	Varies	\$28,600	New out-of-state contractors are assigned maximum tax rate of 9.2%
Vermont	1.3%	8.4%	1%-5.4%	\$13,000	
Virginia	0.77%	6.87%	3.17%	\$8,000	Foreign contractors doing business in VA use 6.27%
Washington	0.52%	6.03%	See notes	\$37,300	New employers use average industry tax rate, but not less than 1%
West Virginia	1.5%	8.5%	2.7%	\$12,000	New foreign construction employers use 7.5%
Wisconsin	0.27%	9.8%	See notes	\$13,000	<ul style="list-style-type: none"> • New employers with payroll < \$500,00 use 3.6% • New employers with payroll > \$500,000 use 4.1% • New construction employers pay 6.6%
Wyoming	0.67%	10%	1.53% - 2.49%	\$22,300	

Source: State Tax Research. Payroll-Taxes.com. Retrieved October 31, 2011 from <http://www.payroll-taxes.com/state-tax.htm>

Different states have different state unemployment tax rates and administer their programs differently.

State By State Comparison of Workers' Compensation Laws

State	Information
Alaska	Each employer having one or more employees in Alaska to obtain workers' compensation insurance, unless the employer has been approved as a self-insurer.
Alabama	Employers with at least 5 employees have to carry workers' compensation insurance.
Arizona	All public and private employers with at least one employee have to carry workers' compensation insurance. Coverage is optional for domestic servants, working partners and sole proprietors.
Arkansas	Most employers with 3+ employees are required to have workers' compensation insurance coverage for their employees. There are exceptions to this rule, so all employers should double-check their status.
California	Workers' compensation insurance is required in every work situation, normally covered under the owner's insurance, if they cannot obtain coverage through the CA State Fund
Colorado	All public and private employers with at least one employee (full or part-time) have to carry workers' compensation insurance. A person hired to perform services for pay is presumed by law to be an employee.
Connecticut	Employers with at least one employee have to carry workers' compensation insurance except for those able to self-insure. Sole proprietors, multiple member LLC's, corporate officers and partnerships may elect to not carry workers' compensation insurance for themselves, but they must always provide coverage for their employees.
Delaware	Employers with at least one employee have to carry workers' compensation insurance.
District of Columbia	Employers with at least one employee have to carry workers' compensation insurance.
Florida	If employer is not in construction they must offer workers' compensation insurance if they have 4+ employees. Exempted corporate officers do not count as an employee.
Georgia	Every employer regularly employing 3+ employees (full or part-time). Exempted corporate officers or exempted members of LLCs do not reduce this number
Hawaii	Any employer (except for those excluded) have one or more employees – full-time or part-time employee or temporary worker – is required to provide workers compensation coverage for its employees.
Idaho	Employers with one or more full-time, part-time, seasonal, or "occasional" employee are required to carry workers' compensation unless specifically exempted. The coverage must be in place when the first employee is hired.
Illinois	Required in every worker situation
Indiana	It does not matter how many workers are employed in a business; all employees must be covered.
Iowa	Workers' compensation insurance is mandatory, unless the Iowa Insurance Commissioner to become self-insured.
Kansas	Employers who annual payroll gross exceeds \$20,000 must make workers' compensation available for all employees. Agricultural employers are exempt.
Kentucky	All private or governmental employers are legally obligated to have workers' compensation policy in place. The number of employees does not matter.
Louisiana	All employers must provide workers compensation insurance for their employees and must be able to show proof that they have the financial means to carry the policy. There are some exceptions, such as real estate brokers, musicians, performers, etc.
Maine	Employers with at least one employee have to carry workers' compensation insurance.
Maryland	Employers with at least one employee have to carry workers' compensation insurance. Agricultural employers with less than 3 employees or annual payroll for full-time employees less than \$15,000 are exempted.
Massachusetts	All employers must provide workers compensation insurance for their employees. Employees in domestic service who work at least 16 hours a week must also be covered.

State	Information
Michigan	All employers must provide workers compensation insurance for their employees. There are no exceptions.
Minnesota	All employers must provide workers compensation insurance for their employees, even those who are still a minor or not a U.S. citizen.
Mississippi	Employers with less than 5 employees are not obligated to carry workers compensation insurance.
Missouri	Workers' compensation insurance is required for all employers who have 5+ employees (full or part time). If construction company, then must carry insurance for all employees.
Montana	All employers must provide workers compensation insurance for their employees.
Nebraska	All employers must provide workers compensation insurance for their employees.
Nevada	All employers must provide workers compensation insurance for their employees. However, they have the option to either be self-insured or by the coverage from a Nevada-based private insurance carrier.
New Hampshire	All employers who employ even one full-time or part-time employee is required to provide workers' compensation insurance, regardless if they are the employer's relation.
New Jersey	Employers, who are not covered by Federal programs, must have workers' compensation coverage or be approved for self-insurance. Even out-of-state employers may need workers compensation coverage if a contract of employment is entered into in New Jersey or if work is performed in New Jersey.
New Mexico	Employers with 3+ employees are required to carry workers' compensation insurance through a New Mexico workers compensation policy or a New Mexico certified self-insurance program. Construction employers must carry regardless the number of employees.
New York	New York workers' compensation laws cover all types of employees – full-time, part-time, contract or leased.
North Carolina	All employers with 3+ employees are legally required to carry workers' compensation insurance.
North Dakota	All employers must provide workers compensation insurance for their employees. There are no exceptions. The number of employees does not matter.
Ohio	All employers with 1+ employee must provide workers compensation insurance for their employees.
Oklahoma	All employers must provide workers compensation insurance for their employees. There are no exceptions. The number of employees does not matter; even one part-time worker qualifies.
Oregon	All employers must provide workers compensation insurance for their employees. There are no exceptions. The number of employees does not matter; even one part-time worker qualifies.
Pennsylvania	All employers must provide workers compensation insurance for their employees, either through self-insuring, through a competitive state fund or through a private insurance carrier. Even domestic servants and agricultural employees are not exempt.
Rhode Island	With some exemptions, all employers must provide workers compensation insurance for their employees
South Carolina	Employers who regularly employ 4+ full-time or part-time employees are required to carry workers' compensation insurance. Agricultural, railroads and railway express employers with annual payroll less than \$3,000 (regardless of the number of employees) are exempt
South Dakota	In general, all employers must carry workers' compensation insurance. They can be self-insured (if they can prove the financial capability to meet requirements) or buy coverage from private insurer.
Tennessee	Employers with less than 5 employees are not obligated to carry workers compensation insurance. This does not apply to construction companies.

State	Information
Texas	It is not mandatory for employers to carry workers' compensation insurance. There are exceptions, However, workers have the legal right to file compensation claims if they think they have a genuine case and the employers is refusing to pay monetary benefits.
Utah	All employers must provide workers compensation insurance for their employees. Employers with payroll of up to \$50,000 are exempted.
Vermont	All employers must provide workers compensation insurance for their employees. There are no exceptions based on the number of employees.
Virginia	All employers who regularly employ 3+ employees are legally required to carry workers' compensation insurance. Employers with fewer than 3 employees may voluntarily comply.
Washington	All employers must provide workers compensation insurance for their employees. There are no exceptions. The number of employees does not matter.
West Virginia	In general, all employers must carry workers' compensation insurance. Exceptions include agricultural employers with less than 5 employees or a "casual" employer with less than 3 workers.
Wisconsin	All employers with 3+ employees are legally required to carry workers' compensation insurance. Domestic servants must be provided with voluntary workers' compensation coverage.
Wyoming	All employers must provide workers compensation insurance for their employees. There are no exceptions. The number of employees does not matter. There are eligibility criteria to be self-insured.

Source: State by State Comparison of Worker's Compensation Laws . National Federation of Independent Business. Retrieved October 31, 2011 from <http://www.nfib.com/legal-center/compliance-resource-center/compliance-resource-item/cmsid/57181>

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A Snelling White Paper

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