

# How Much Does an Employee Really Cost?

***Make employees aware that their compensation is made up of more than just their salary.***

Dear Dan,  
I have been an owner for 20 years. As an owner, I have hired and fired employees. Part of my job at the end of each year is to decide what bonus, if any, to give to my staff and how much of a raise to give them as well.

Since the passage of the Affordable Care Act, I now provide benefits for my staff as well. These benefits are not cheap. When employees question their salary, bonus or raise, I am tempted to show them their full compensation, including benefits. What can I include in the compensation figures to relay to them our investment in them as employees?

*Guilty Employer in Glitter Gulch*

Dear Guilty,  
This is a great question. We already know that, as a service business, funeral firms need people to provide the many services that keep their doors open. Staffing is the single largest cost of running a funeral home, and it's a critical issue. In a well-run funeral home, staffing costs may be 26 percent of revenue. This includes com-

penetration for the owner/manager and licensed, nonlicensed and part-time staff.

Salary is only one part of the cost; taxes and benefits are a large component. Let's break these down as a budget.

### **Owner or Manager's Salary**

Most funeral home owners do not understand taxation, and therefore, many take out whatever they want as salary. This is a problem if that amount is too low or too high. If you worked for a third-party company running the business you are now running, what would they pay you? The amount a third party would pay you is the fair market wage for your job.

If the amount is too low, then your overhead is not properly established. Improper overhead means you are setting your prices improperly. If you are not paying yourself enough, your prices could be too low, and therefore, you are not getting the return on investment or return on labor you should be getting.

Conversely, if your compensation is too high, the IRS can invalidate the tax deduction you are taking for that compen-

sation and leave you with less personal income and more corporate taxable profit. This can result in your retirement plan being overfunded, and it can be a nightmare to correct!

I like to see base compensation for an owner/manager in the minimum range of the regional average but not to exceed more than 10 percent of revenue. Then offer a bonus to the owner/manager based on some factor he or she can control or influence. This can be a bonus based on the profits of the company or case count, for example.

The NFDA Compensation Study is a good resource to consult (the 2013 study is available through the NFDA Resource Store at [www.nfda.org](http://www.nfda.org)). It shows several different classifications for employee or owner/manager compensation based on the size and location of the firm. It isn't perfect, but what third-party source is? Consider it a base from which to draw.

### **Staff Salary**

For all staff, base compensation should probably be about 15 percent to 18 percent of revenue. If your staffing cost is more than this, you need to look for ways to control the cost.

Do you pay staff for providing services beyond their 40-hour work week? In most cases, funeral home employees are not exempt from overtime. How much overtime have you been charged by the staff? Do you pay them for labor beyond certain hours, such as night removals or night embalming? At some point, it may be less costly to hire a part-time person or another full-timer if overtime costs get too high.

### **Taxes and Benefits**

Taxes and benefits (costs for health insurance, disability or life insurance and a re-



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tirement program) is probably about 17.5 percent of total payroll. Taxes are about 10 percent of payroll and benefits run about 7.5 percent of payroll. The percentage of payroll for benefits might seem low, but keep in mind that it really only covers full-time staff. A typical 125-call funeral home has two full-time licensed people, including the owner/manager, and one full-time, nonlicensed person. A firm might employ about 20 people, but the others are part-timers and therefore not provided benefits.

If your benefit/cost ratios are higher than the percentage I suggest, let's try to identify the reason. Remember, a percentage is a ratio, or fraction. The denominator is revenue and the numerator is expense. Therefore, a common reason your percentage is higher is that your revenue is too low.

The ratio may also be high as a result of offering a more generous benefit plan than the industry average. Most companies provide health insurance for the employee and allow the employee to pay for added family members. If you are providing full family benefits, that can add up fast in today's health insurance market. In addition, the age of the insured is a factor. One result of the Affordable Care Act is that underwriting for premium costs is based on age for the members. Most funeral homes employ more people over age 45, so they are going to be more expensive to cover.

If you have a staff of full-timers who are over age 45, your benefit costs will be double that of a company with a staff of under 45ers. Furthermore, employees who are older come with more experience and usually a higher compensation. It is tough to have the same prices as a com-

petitor when your staff costs are higher than the competitor's.

The rationale of setting prices should not be understudied. I have written about pricing a funeral home's services and will be addressing attendees at the NFDA International Convention & Expo in Philadelphia on pricing for cremation services.

The key point is this: If revenue is off, every ratio will be off.

#### Other Benefits

Other benefits include clothing allowances, dry cleaning, continuing education, license renewal, cellphone and auto use. In some cases, employees are living in apartments or homes owned by the company, so this benefit is substantial! To determine this benefit, you can go to any online reference source (such as Zillow.com) to find comparable apartments or homes and their lease rates. Remember, furnished and unfurnished are different rental rates.

#### Commission

A big source of incentive income is commission. Some firms offer commission for the sale of monuments and others for preneed sales. This can be a few thousand dollars, but looking at it relative to salary, it is often 10 percent or more! That is a big part of someone's income.

In Glitter Gulch, like everywhere, employees will be concerned if they are underpaid. Like so many forms of comparison, we look at what we want to look at. Salary is only one part of total compensation. For full-time staff, salary might actually be only 65 percent of the total cost of employment.

I would be happy to have all of the Glitter Gulch Funeral Home employees get a

report every January showing their total compensation. For example:

• Salary	\$ _____
• Overtime	\$ _____
• Extra Service	\$ _____
• Social Security Payment	\$ _____
• Retirement Contribution	\$ _____
• Commissions	\$ _____
• Health Insurance Premium	\$ _____
• Other Benefits	\$ _____
TOTAL	\$ _____

But, my dear Guilty, don't be! Hire the best you can. Do not be like one client I have who has trouble hiring and then is depressed when staff quits after a short time. He told me, "Dan, I wouldn't hire anyone who would come to work for me!"

As you look to recruit, look at the total compensation a person is currently receiving. If they want to leave an employer due to low wages, ask to see their total wage statement. You can then compare what you are offering to their current total compensation. In Glitter Gulch, as in the rest of the nation, I bet it is tough to hire and retain staff, so the more you explain the figures to them the better.

I've often said, "If you think experienced, smart staff is expensive, you should to see what stupid staff costs you!"\*

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