

How To Realistically Set Your Fees - Part 3

By Chuck And Sue DeFiore

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Effect of Benefits

We have previously examined realistic billable hours and the effect of business expenses on your hourly rate. Now we'll look at the effect of benefits.

Once upon a time, when we were employed, we received a benefits package from our employer. This usually included health, life and disability insurance. Many firms also had available pension programs, profit sharing, dental and vision coverage. In addition, one-half of your social security was paid by your employer.

As self-employed individuals, we have to provide these benefits for ourselves. This means an additional boost to the hourly rate we've calculated so far. For the sake of argument, let's figure a standard benefits package consisting of health, life, disability, pension and profit sharing. Let's figure health insurance costs at \$300 per month; life at \$50 per month; disability at \$150 per month; pension (a SEP-IRA) at \$500 per month and about 10% for a profit margin.

If we total these up we get a yearly figure of \$12,000. Now keep in mind, that most of these will be paid for in after tax dollars. So, we need to add approximately an additional 30% to this number, for a true total of about \$15,600 per year. The 30% represents the amount of taxes you need to pay to end up with the net amount of money needed to pay for your benefits package. Keep in mind that I chose 30% as a completely arbitrary number. Your own tax situation may be higher or lower.

How does this effect our hourly rate, let's see. Last article we left off at \$56 per hour. This represented a yearly salary of \$42,000 plus annual business expenses of \$15,000. If we take the \$15,600 in benefit costs and divide by our billable hours of 1100 per year, we get approximately \$14 per hour. This brings our total hourly rate to \$70 per hour.

Now, we need to factor in our profit sharing percentage. Once again, I choose 10% as a representative number. Your targeted profit could be higher or lower. If you take your \$70 per hour rate, multiply by 10%, you end up with \$7 per hour. Your total hourly rate comes to \$77 per hour.

This is the amount you need to charge to cover all we discussed so far.

Compare this to the approximately \$20 per hour you would need to get paid by an employer to earn our hypothetical \$42,000 per year. And yes, I know today many employers require a co-payment on their benefits package. I stated it this way for simplicity sake.

So, you need to charge almost 4 times what you would earn in salary to end up at the same place. Don't be discouraged, there are many people out there that are charging a lot more than this and getting all the business they can handle. Remember, these numbers are hypothetical, your situation may be much different.

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