Discretionary Costs

Discretionary costs are an important component of any compensation package. When choosing between offers, benefits are an important determinant in a candidate’s final decision.

Discretionary costs include employee benefits and perks, such as:

- Vacation, sick leave or paid time off
- Paid holidays
- Paid leave (such as maternity or bereavement)
- Medical insurance
- Dental insurance
- Life insurance
- Vision insurance
- Retirement or pension plans
- 401(k) match
- Child/elder care
- Tuition reimbursement
- Other perks, such as incentive travel, bonuses, events, cafeteria or meals, gifts, etc.

Discretionary costs may not always be thought of as large hiring expenses, but these costs turn out to be a large expense for the organization. According to the Bureau of Labor Statistics, the average employer cost of benefits is about 31% of wages. Besides salary, this makes discretionary benefits the second biggest employment expense behind direct wages.

Human Resource Costs

Human resource (HR) costs may be the most overlooked aspect when evaluating the cost of hiring. These costs are more intangible and can be harder to quantify. Some HR costs include:

What It Really Costs to Hire an Employee

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There are three other major areas that contribute to the total cost of hiring an employee: statutory costs, discretionary costs and human resources expenses. Though each area is unique in and of itself, when considered side-by-side, employers can really begin to see just how much it truly costs to hire an employee.

Statutory Costs

Statutory costs are the mandatory payroll expenses that are required for all employees. These statutory costs include:

- FICA (Social Security and Medicare)
- SUI (State Unemployment Insurance)
- FUI (Federal Unemployment Insurance)
- Workers’ Compensation Insurance
- Disability Insurance (required in some states)
- Local Taxes (may include municipal, county or school taxes)

Unlike some of the other intangible expenditures, statutory costs are typically a known entity, allowing the organization to plan and budget accordingly. FICA rates are the biggest single payment for organizations and are currently 6.2% of an employee’s salary up to a certain baseline figure ($118,500 for 2015). Employers pay an equal amount for each employee. Other required benefits vary depending on the industry, but in 2014, legally required benefits accounted for an average $2.58 per hour worked.

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employee’s salary up to a certain baseline figure ($118,500 for 2015). Employers pay an equal amount for each employee. Other required benefits vary depending on the industry, but in 2014, legally required benefits accounted for an average $2.58 per hour worked.
While not as tangible as statutory and discretionary costs, HR costs can be a large expense when hiring employees. As an example, the Society for Human Resource Management cited that recruiting cost per hire for an IT professional is between $9,777 and $19,219. In addition to the recruiting costs associated with hiring, it is estimated that HR overhead costs per hire are around 5% of total wages.

So what do all these percentages amount to when hiring an employee? For reference, the average national yearly salary of a Java developer is around $100,000, according to job aggregator Indeed.com. Here is what the total cost of hiring would be for a Java developer making $100,000 per year:

<table>
<thead>
<tr>
<th>Salary</th>
<th>$100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory Costs</td>
<td>$6,200</td>
</tr>
<tr>
<td>Benefits</td>
<td>$31,000</td>
</tr>
<tr>
<td>Recruiting Expenses</td>
<td>$9,777</td>
</tr>
<tr>
<td>HR Overhead</td>
<td>$5,000</td>
</tr>
<tr>
<td><strong>Total Cost</strong></td>
<td><strong>$151,977</strong></td>
</tr>
</tbody>
</table>

As you can see, even using the low-end estimates of HR overhead and recruiting expenses, a Java developer making $100,000 can end up costing a company over $150,000 to hire initially. This does not include other “soft” expenses that would raise the total even further, such as office equipment, computers/laptops, cubicles or workspace, and even productivity lost during orientation or training.

Clearly, it takes a significant investment for organizations to recruit, hire and train new employees. To mitigate the high cost of hiring, companies must ensure the hiring process is as effective and efficient as possible.

**Determine the best way to fill the position**

The first step in organizing an efficient hiring strategy is to determine the requirements for the position. Many open positions may require traditional, full time "permanent" workers, but special projects can often be addressed with the expertise of temporary contract workers that specialize in one functional area. Utilizing temporary contract workers in place of permanent workers provides greater workforce flexibility and more variable costs, allowing the organization to save money in multiple areas of the hiring process.

**Engage a recruiting and staffing partner**

After determining if the position is permanent or temporary, decide whether to pursue candidates with internal recruiting resources or look to a staffing firm to fill the position. Most staffing agencies can support both temporary staffing and direct-hire requirements.

Using contingent labor provided by a staffing agency usually allows companies to save money on hiring and employment costs. According to Staffing Industry Analysts, organizations that utilized contingent labor reported a median savings of 13% on their expense budgets. Using a staffing company allows an organization to know from the beginning exactly what the employee will cost over the life of the employment.

A staffing company often offers the most financially beneficial choice for filling a position, especially for shorter project-based positions. According to the Studer Group, “A survey of 610 CEOs by Harvard Business School estimates that typical mid-level managers require 6.2 months to reach their break-even point.” In other words, recouping the initial hiring investment for a mid-level position will take more than six months. Since a majority of IT projects run about six months, it makes more financial sense for organizations to use contingent talent for these short-term projects.

A job market where demand far exceeds supply offers fertile ground for over-the-top spending. Being equipped with knowledge and understanding of hiring costs and staffing options is the first step in organizing an efficient and effective hiring process. Organizations that are able to optimize their resources as they equip themselves with needed talent will gain a significant edge over competitors in any race to innovate and grow.