



# A Guide to Costing Labor Contracts



Training and Development Department  
International Brotherhood of Teamsters

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## INTRODUCTION

The first thing members do upon opening a new contract is go straight to the wage provisions. Teamster contracts contain many strong provisions, such as *Seniority*, *Union Rights* and *Grievance Procedure*; but it is the economic provisions that always attract the most attention. As each contract is negotiated, all eyes are focused the amount of money put on the table. During bargaining, and even after agreement is reached, both parties will have to know the true cost and value of items proposed - and agreed to - at the table.

The Employer's negotiating team costs items to plan the future of the business (or public sector entity) and to predict the amount of resistance they can exert against the Union's demands. Of course, they will most likely keep such information to themselves and send a few false signals in the early stages of negotiations.

The Union's team needs to know the costs of the demands and the impact they will have on the members, the employer, or in some cases, an entire industry. The Union's objective is to secure the maximum gains possible while keeping the members securely employed. In the early stages of negotiations, the Union negotiators will try to minimize the demands made on the Employer. However, in caucuses, the Union will have to evaluate actual total costs (to the Employer) if they expect to adequately determine the amount of resistance to expect from the Employer.

In order to make the right decision at the table, the Union must know the exact cost of each proposal. The Employer may accept the Union's proposal (for example, a fifteen (15) cent an hour health and welfare increase), if they (the Union) agree to drop another proposal (such as a 1% increase in the night shift differential). Any intelligent counter proposal will require the Union to know how much each of those proposals will actually cost the Employer.

Similarly, when the Employer says that "we have already agreed to a 21% total package and won't give any more", the Union negotiators can counter more effectively if they know whether the package actually does costs 21%.

In the last analysis, reaching agreement means that both parties must make many decisions about adjusting their positions. Careful costing of the package helps the Union to determine what adjustments to make.

Computing the cost of contract settlements helps Union negotiators explain the package to the bargaining committee and members, the latter often not knowing the actual cost of benefits won at the table. It is difficult to determine whether a contract settlement should be ratified without knowing how much that settlement costs in both actual and percentage terms. Knowing the costs allows members to compare their current settlements to previous ones. Costing lets members determine for themselves how much the Employer can afford as well as to what is reasonable and possible to expect in a settlement. Even if the Employer is unwilling to supply cost data or if the data supplied is suspect, Union negotiators can calculate basic employer labor costs.

The following provides examples of simple costing procedures, which can be translated into an average hourly rate, including the hourly value of benefits.

## 1. Determining Averages

No evidence is more misused as statistics, with the most prevalent misuse centering on the word **average**, which is often used three separate and distinct ways. Many people talk about the "average" yet never seem to specify what it means.

We can clarify the separate usages of "average" with an example. Suppose the Production Department employs 16 people, including management. In response to the Union's information request, the Employer produced the following table of last year's earnings. There were no overtime earnings.

Management		Production		
Classification	Salary	Classification	Number of EE's	Salary
Director	\$ 55,000	A-1	3	\$ 21,507
Assistant Director	\$ 42,000	A-2	2	\$ 20,509
Production Manager	\$ 42,000	A-3	1	\$ 19,510
Superintendent	\$ 41,000	B-1	1	\$ 18,990
Supervisor	\$ 30,000	B-2	4	\$ 17,992

With negotiations taking place, the Employer announces that the *average* annual wage for the Production Department is **\$26,625.44**. Therefore, no further wage increase can be justified. The Employer arrived at this figure by totaling all wages and dividing by the total number of employees. This is called a **mean**.

The Union replies by stating that the average annual wage for the hourly workers is **\$19,510.00**, a figure based on the fact that half of all hourly employees earn more and half earn less than \$19,510.00. This is the **median**.

Yet, there is a third method of reporting the "average" wage. The **mode** is the wage that occurs most frequently; in this case, the wage is **\$17,992.00**.

Even if the Employer figures these averages correctly, a smart Union negotiator will nevertheless check the calculations. A careful analysis allows the Union to document the justification of the Employer position.

## 2. What is a "Good" Wage Settlement?

To determine whether to recommend accepting a contract offer, Union negotiators must weigh many factors: wages, benefits, contract language, etc. For the sake of illustration, we will look at wages in isolation from other factors.

Consider the wage structure from the previous section: the Union has proposed a wage

increase of \$1.20 over three years. The Employer, who has not given a wage increase for two years, first offered a wage increase of \$.60 over three years; then over the course of several negotiation sessions, they have increased the offer to \$.75 over three years.

The Union’s Bargaining Committee has two rank and file members. The first member is at the bottom of the wage scale and thinks this is a good offer and suggests that the committee recommend it to the membership. The second member sits atop the wage scale and considers this offer too low. So, what will the Union recommend?

### **3. Does The Employer's Offer Keep Up With Cost of Living?**

The cost of living is an important factor to consider when costing out a contract. A Labor Union should strive to beat the cost of living in their contracts. Fortunately, today’s Union negotiator has access to a variety of resources and information on the Internet. One invaluable source can be found through the Bureau of Labor Statistics, website at [www.bls.gov](http://www.bls.gov), which provides statistics, such as wage earnings, benefits and cost of living averages for the entire United States as well as for each major metropolitan area.

Since 2000, inflation has averaged around 2.18% annually; with some years as high as 3.85% or as in 2009 an actual decrease of -0.34%. Using the average rate, this indicates a decrease in the buying power of those workers who receive no wage increases. In the above scenario, will the Employer's \$0.75 increase allow the workers to keep up with the cost of living at 2.18% inflation? The offer to increase wages by \$0.75 over three years is an average wage increase of \$0.25 per year. When negotiating a successor agreement, it is recommended to look back at past increases to see how if they beat the cost of inflation. **Note: The above inflation rates should be used only as examples; the actual rate of inflation will differ from year to year.**

### **4. Calculating the Weighted Average Base Rate (WABR)**

Most workplaces will have a number of different job classifications earning different rates, and within these different job classifications there will be different wage rates for the employees. Instead of calculating out proposals based on each classification and wage rate, it is often helpful to calculate the Weighted Average Base Rate (WABR). Consider the table below showing the different classifications and wage rates for the employees of XYZ, Inc.:

<b>Weighted Average Wage Rates</b>			
Classification	Members	Rate	Wage Per Hour
A-I	25	\$ 15.25	\$ 381.25
A-II	30	\$ 16.50	\$ 495.00
A-III	15	\$ 17.25	\$ 258.75
B-I	50	\$ 17.50	\$ 875.00
Totals	120		\$ 2,010.00
		WABR	\$ 16.75

In this example, XYZ, Inc. employs 120 employees in four separate wage classifications with

each classification earning a different rate. Figuring out the weighted average base rate will make calculating your proposals and the employer’s proposals much easier. All of this information can be obtained through an information request to the employer.

To calculate the WABR, multiply the number of each member in each classification by their wage rate. In the A-I classification, multiply the 25 members by their hourly rate of \$15.25 to reach a total hourly rate for the A-I classification of \$381.25. Do this same calculation for the remaining classifications and add the total hourly rates together for all of the classifications. This total equals \$2,010, which when divided by the total number of members (120) will equal your WABR of \$16.75. In this example we will assume that the employees work 40 hours a week during the 52 weeks of the year for a total of 2080 hours worked. To figure the total base line wages for this bargaining unit we will multiply our WABR (\$16.75) by the total number of employees (120), by the total hours worked (2080) and arrive at \$ 4,180,800.

Now that we have our WABR, let’s look at some wage offers you will typically see at the bargaining table.

## **5. Moving Money through the Years**

There will be many negotiations in which the Employer offers a wage increase, yet does so in the option of several packages. Alternately, you may agree on the dollar amount of an increase, but may counter with different packaging of the figure. A good negotiator will instinctively try to get as much as possible as soon as possible. Generally, this can be the wise choice. This section provides the formula to go through the math of making a packaging decision.

Assume that the employer is offering a 9% wage increase over the course of a three year contract. Would it be better to front-load the 9% by moving the first year’s increase to 5% and putting 2% in each of the next two years? What if we spread the 9% evenly by increasing wages 3% in each year of the contract? Lastly, would it be better to back-load the contract by putting 2% in the first two years of the contract and 5% in the last? Let’s calculate each of these proposals to see which is best:

First, let’s look at the formula for our front loaded proposal:

<b>Front Loaded</b>						
Year	WABR	Increase	New WABR	Members	Hours	Wages
1	\$ 16.75	5%	\$17.59	120	2080	\$ 4,390,464
2	\$ 17.59	2%	\$17.94	120	2080	\$ 4,477,824
3	\$ 17.94	2%	\$18.30	120	2080	\$ 4,567,680
					Total	\$ 13,435,968

Using the WABR from our prior example, we will multiply the WABR of \$16.75 by 5% to find our new WABR of \$17.59 per hour. Multiplying the new WABR by the amount of employees and the total number of hours worked brings the total cost of the wages in the first year to

\$4,390,464. This is an increase of \$209,664 for the 5% wage increase. Using the same formula we can calculate the remaining two years of the front-loaded proposal. When done we can add all of the contract years of wage increase and arrive at a total of \$13,435,968 for our front loaded proposal.

Next, let's look at the formula for our even distribution proposal:

<b>Even Distribution</b>						
Year	WABR	Increase	New WABR	Members	Hours	Wages
1	\$ 16.75	3%	\$17.25	120	2080	\$ 4,305,600.00
2	\$ 17.25	3%	\$17.77	120	2080	\$ 4,435,392.00
3	\$ 17.77	3%	\$18.30	120	2080	\$ 4,567,680.00
					Total	\$ 13,308,672.00

In this example we will multiply our existing WABR of \$16.75 by 3% to find our new WABR of \$17.25. This wage proposal results in a decrease of \$0.34 per hour in the new WABR compared to our front loaded example. The total first year wage package is worth \$4,305,600 which is an increase of \$124,800 compared to the current WABR. Using the same formula we can calculate the remaining two years of the even distribution proposal. When done we can add all of the contract years of wage increase and arrive at a total of \$13,308,672 for our even distribution proposal.

Finally, let's look at the formula for our back-loaded proposal:

<b>Back Loaded</b>						
Year	WABR	Increase	New WABR	Members	Hours	Wages
1	\$ 16.75	2%	\$17.09	120	2080	\$ 4,265,664.00
2	\$ 17.09	2%	\$17.43	120	2080	\$ 4,350,528.00
3	\$ 17.43	5%	\$18.30	120	2080	\$ 4,567,680.00
					Total	\$ 13,183,872.00

In this example we will multiply our existing WABR of \$16.75 by 2% to find our new WABR of \$17.09. This wage proposal results in a decrease of \$0.50 per hour in the new WABR compared to our front loaded example. The total first year wage package is worth \$4,265,664 which is an increase of \$84,864 compared to the current WABR. Using the same formula we can calculate the remaining two years of the back-loaded proposal. When done we can add all of the contract years of wage increase and arrive at a total of \$13,183,872 for our back-loaded proposal.

In all of these examples the WABR ended up being \$18.30 in the final year of the contract because all of the wage increases totaled 9%. However, as you can clearly see, front-loading a contract will bring more value to your members because it puts a larger wage increase into the first year and allows the subsequent year's increases compound out at a higher rate.

## 6. Costing the Fringe Benefit Packages

In order to do an accurate assessment of an employer's costs we also need include the costs for certain fringe benefits as some of these costs will increase as wages increase throughout the contract. Other fringe benefits, such as healthcare, will increase on their own as costs continue to rise. Costing out these benefits will give us a clearer picture on the total compensation in each contract.

### A. Health Care

Rising health care costs are a huge factor in any contract negotiations, and more recently they have taken up more time at the bargaining table, and sometimes have been more contentious than wages. To get a true cost of health care benefits, you must request the true cost of the premiums and the number of members in each covered classification (single, married, family, etc.). Consider this table showing the current costs of health care at XYZ, Inc.:

Current Healthcare Costs				
Classification	Members	Monthly Cost	Total	Annual Total
Single	25	\$ 919.00	\$ 22,975.00	\$ 275,700.00
Married	30	\$ 2,188.00	\$ 65,640.00	\$ 787,680.00
Parent and Child	15	\$ 2,050.00	\$ 30,750.00	\$ 369,000.00
Family	50	\$ 2,520.00	\$ 126,000.00	\$ 1,512,000.00
				\$ 2,944,380.00

In this example, to get a weighted average for the cost of health care you can divide the total annual cost (\$2,944,380) by the total number of employees (120) by the amount of total hours in a year (2080). The hourly weighted average for health care is \$11.80

### B. Pension Contributions

XYZ, Inc. currently contributes \$400 per month into the Union's Pension Fund. On an annual basis the Employer contributes \$576,000. You can figure out the hourly amount for pension contributions by dividing the annual contribution (\$576,000) by the amount of employees (120) by the total hours worked (2080). The hourly cost of pension contributions is \$2.31.

Current Pension Costs	
Monthly Contribution	\$400
Members	120
Annual Cost	\$576,000
Hours Worked	249,600
Pension Cost Per Hour	\$2.31



### **C. Holidays**

Currently, the members at XYZ, Inc. are entitled to 10 paid Holidays. The total annual cost of paid holidays can be determined by multiplying the number of holidays (10) by the number of paid hours for each day (8) by the number of members (120) by the WABR (16.75). The total cost for paid holidays is \$160,800.

<b>Current Holiday Costs</b>	
Number of Holidays	10
Hours Per Day	8
Members	120
WABR	\$ 16.75
Total	\$ 160,800.00

### **D. Vacation**

Vacations should be calculated using the same process as the weighted average base rate for wages. In the example below, this information can be obtained using an information request to the employer, or by looking at a current seniority list. The number of members earning vacation at different levels should be multiplied together to show the total number of weeks for each level of vacation. After adding all of the weeks of vacation earned at each level, you can divide that number by the total number of members. This will show the average number of weeks earned for each employee. This will make it easier to calculate the costs of vacation leave as you figure out the total compensation in each year of the proposed contract. In our current example the 120 members of XYZ, Inc. earn a total of 330 weeks of vacation. When we divide the 330 weeks of vacation by the 120 total members we arrive at an average of 2.75 weeks of vacation per member.

<b>Vacation Leave</b>		
Members	Vacation Weeks	Total Weeks
25	1	25
30	2	60
15	3	45
50	4	200
120		330
	Weighted Average	2.75

### **E. Paid Time Off**

Paid time off could be calculated separately if your contract separates sick time and personal time, however all of the time could be added together into one category. The members at XYZ, Inc., are entitled 9 paid days off. The total cost for all paid time off can be determined by multiplying the number of paid days off (9) by the number of paid hours for each day (8) by the

number of members (120) by the WABR (16.75). The total cost for paid days off is \$144,720.

<b>Current PTO Costs</b>	
Number of PTO Days	9
Hours Per Day	8
Members	120
WABR	\$ 16.75
Total	\$ 144,720.00

## **F. Overtime**

Depending on your bargaining unit, you may want to calculate the cost of overtime compensation. If your bargaining unit earns overtime you should send the employer an information request for the amount of overtime hours worked by the members. You could determine the amount of overtime earned by your members by multiplying the total number of overtime hours worked by the overtime rate (\$16.75 x 1.5).

<b>Overtime Costs</b>	
Members	120
Total Overtime Hours Worked	35,040
Average Hours of Overtime worked	292
Overtime Rate	\$25.13
Total Overtime Worked	\$880,380.00

**\*NOTE: Some Employers will not factor in overtime and will base cost estimates on a 40-hour basis, especially if the overtime is not guaranteed. We will not add these costs in our example.**

## **7. Costing the Total Baseline Compensation**

Now that we have calculated each cost for wages and fringe benefits, we need to add them together so our baseline compensation costs can be compared to the Union's and the Employer's proposals against the baseline.

<b>Current Annual Baseline Costs</b>	
Wages	\$4,180,800.00
Vacation	\$221,100.00
Holiday	\$160,800.00
PTO	\$144,720.00
Healthcare	\$2,944,380.00
Pension	\$576,000.00
Total Annual Cost	\$7,701,180.00
Cost Per Hour	\$30.85

Please note that the costs associated with Vacation, Holidays, and Paid Time Off are **not added** to wages since we used the standard wage calculation of 2080 hours. If you want to calculate the cost of actual hours worked, the costs for Vacation, Holidays and Paid Time Off should be **subtracted** from the amount of wages.

## **8. Costing the Union Proposal**

After extensive negotiations, the Union and XZY, Inc. have reached a tentative agreement that provides for the following modifications to the current contract:

### **A. Wages:**

The tentative agreement calls for a 9% wage increase over the three years in the following incremental steps: 5% in the first year, 2% in the second year, and 2% in the third year.

<b>Wages - XYZ, Inc. Tentative Agreement</b>						
Year	WABR	Increase	New WABR	Members	Hours	Wages
1	\$ 16.75	5%	\$17.59	120	2080	\$ 4,390,464
2	\$ 17.59	2%	\$17.94	120	2080	\$ 4,477,824
3	\$ 17.94	2%	\$18.30	120	2080	\$ 4,567,680
					Total	\$ 13,435,968

### **B. Vacation Leave:**

The Union was seeking an increase in vacation leave to five weeks for members with 25 years or more of service. Although the members wanted this increase, it wasn't something the Employer was willing to accept. In the end, the negotiating committee felt it was better to put money elsewhere. Even though the Union didn't get an increase in the amount of vacation earned, the cost of vacation will still increase based on the wage increase listed above.

<b>Vacation Cost</b>			
	Year 1	Year 2	Year 3
Hourly Wages	\$17.59	\$17.94	\$18.30
Hours in Workweek	40	40	40
No. of Vacation Weeks	2.75	2.75	2.75
No. of Members	120	120	120
Annual Cost	\$232,188	\$236,808	\$241,560
Hourly Cost Per Member	\$0.93	\$0.95	\$0.97

### **C. Health and Welfare**

In this example contract negotiation, the Union presented their Taft-Hartley Health and Welfare Fund which made small adjustments to the plan design to provide significant savings

to the Employer. The new rates are roughly five percent lower than the Employer's current costs. Additionally, the fund was able to provide rates for the next two years at five percent increases in each year which further stabilized the Employer's rise in health care rates. If the Health and Welfare Fund or other Healthcare Benefit Provider cannot provide rates in the next few years, you should ask for a premium rate history to show the average rate increases for the plan. With this information you can make reasonable assumptions about the cost of health care increases. Keep in mind, that nothing is certain when health care costs are concerned given the political climate in Washington, DC. The new rates for health care coverage are listed below, with the increases in the second and third years of the contract listed as well. Also note the initial savings in the first year of \$147,219, which is equal to \$0.59 per hour, per employee.

<b>New Healthcare Proposal Costs</b>						
Classification	Members	Monthly Cost	Total Monthly Cost	Year 1	Year 2	Year 3
Single	25	\$873.05	\$21,826.25	\$261,915.00	\$275,010.75	\$288,761.29
Married	30	\$2,078.60	\$62,358.00	\$748,296.00	\$785,710.80	\$824,996.34
Parent/Child	15	\$1,947.50	\$29,212.50	\$350,550.00	\$368,077.50	\$386,481.38
Family	50	\$2,394.00	\$119,700.00	\$1,436,400.00	\$1,508,220.00	\$1,583,631.00
			<b>Total Annual Cost</b>	\$2,797,161.00	\$2,937,019.05	\$3,083,870.00
			<b>Prior Annual Cost</b>	\$2,944,380.00		
			<b>First Year Savings</b>	\$147,219.00		
			<b>Hourly Savings</b>	\$0.59		

#### **D. Holidays**

The Union bargained for an extra paid Holiday, and was successful in negotiating the extra paid Holiday. The cost of the holiday is listed below. Since the members are paid eight hours for each paid day, you would multiply eight hours by the new hourly rate of \$17.59 by the number of members in the bargaining unit (120). The total cost to the employer for one extra paid day is \$16,886.40 in the first year. The total hourly cost per member can be found by multiplying eight hours of pay by the WABR of \$17.59 per hour divided by the total hours worked in a year (2080). This amounts to a cost of \$0.067 cents per hour, rounded up to \$0.07.

<b>Cost of One Paid Holiday</b>	
Number of Holidays	1
Hours Per Day	8
Members	120
WABR	\$17.59
Total	\$16,886.40
Hourly Cost	\$0.07

The total annual cost for all paid Holidays is represented in the following chart. In year one, you multiply the WABR (\$17.59) by the number of members in the bargaining unit (120), by the total hours paid for a Holiday (8), by the number of total paid Holidays (11). Total cost for all paid Holidays in the first year of the new contract is \$185,750.40.

<b>Add One Holiday For All Members</b>			
	Year 1	Year 2	Year 3
Hourly Cost	\$17.59	\$17.94	\$18.30
Number of Members	120	120	120
Hours in Workday	8	8	8
Number of Holidays	11	11	11
Total Cost of Holidays	\$185,750.40	\$189,446.40	\$193,248.00

### **E. Paid Time Off (PTO)**

The Union was again successful in negotiating and extra day of paid time off (PTO) and increased the total allotment of paid days off from nine to ten. The new costs for the extra paid day can be found by multiplying the WABR (\$17.59) by the number of members in the bargaining unit (120), by the total hours paid for a paid day off (8), by the number of total paid days off (10). Total cost for all paid days off in the first year of the new contract is \$168,864.00. The additional costs for the next two years of the contract can be found in the chart below.

<b>Add One PTO Day for All Workers</b>			
	Year 1	Year 2	Year 3
Number of PTO Days	10	10	10
Hours Per Day	8	8	8
Members	120	120	120
WABR	\$17.59	\$17.94	\$18.30
Total	\$168,864.00	\$172,224.00	\$175,680.00

### **F. Pension**

The Union came to a tentative agreement with the employer on an increase of fifty dollars per month per member in the first year of the contract and maintains that amount throughout the contract. This raises the total monthly contribution to four hundred fifty dollars per member per month. To figure out the hourly rate of the monthly contribution you would multiply the monthly contribution (\$450), by number of months in a year (12), and divide that number (\$5400) by the total number of hours worked in a year (2080). The total cost per hour, per employee of the pension contribution is \$2.60. The total annual cost of the pension contribution can be found by multiplying the monthly contribution (\$450), by the total number of members, by the number of months in a year (12). The total annual cost of the pension contribution is \$648,000 for each year of the contract.

<b>Pension Proposal</b>	
Monthly Contribution	\$450
Members	120
Annual Cost	\$648,000
Hours Worked	249,600.00
Pension Cost Per Hour	\$2.60

## **9. Total Cost of the Proposed New Contract**

Just as we did for the baseline costs, we can now add up the proposals in each of the three years to see what the cost of the entire proposed new contract. When adding the proposals together, something should stand out. While the Union negotiated a five percent wage increase in the first year, with additional holidays and paid days off, and an increase in the employer's pension contribution, the total percentage increase is only 1.75%. How can this be? If you look back through the Union's proposal, when the Union proposed moving to the Union's Health and Welfare Fund, the Union provided significant savings to the Employer, while leaving those savings on the table. This illustrates the importance of costing out a contract. If a negotiator and/or the bargaining committee do not understand the costs and implications of each proposal, negative consequences will happen at the negotiating table.

<b>Total Proposal Costs</b>			
	Year 1	Year 2	Year 3
Wage Increase	\$4,390,464.00	\$4,477,824.00	\$4,567,680.00
Vacation Leave	\$232,188.00	\$236,808.00	\$241,560.00
Holiday Proposal	\$185,750.40	\$189,446.40	\$193,248.00
PTO Proposal	\$168,864.00	\$172,224.00	\$175,680.00
Healthcare Proposal	\$2,797,161.00	\$2,937,019.05	\$3,083,870.00
Pension	\$648,000.00	\$648,000.00	\$648,000.00
Total Proposal Costs	\$7,835,625.00	\$8,062,843.05	\$8,299,550.00
Total Hourly Costs	\$31.39	\$32.30	\$33.25
Percentage Increase	1.75%	2.90%	2.94%

## **10. Roll-Up**

In the spreadsheet above, some of the benefits increased as the hourly wage increased throughout the contract. These benefits not only increase when you add additional days off, but when wages that are tied to the benefits increase. In our example, these fringe benefits are vacation leave, Holiday pay and PTO pay. These benefits that increase as the hourly wage increases are considered "roll-up" or "creep" costs. Note that the pension increase in this example is not included as it is a flat amount that is not tied to wages. A pension contribution that is represented by a percentage of the hourly rate would be counted in the "roll-up" factor. The same would be true for a shift differential. If the shift differential is a flat rate it will not be

counted in the roll-up calculation, but if the shift differential is paid out as a percentage of the hourly rate, it will be included in the roll-up calculation.

To figure out the roll up factor, you would calculate the hourly rate of the benefits that “roll-up”. Once you have the total hourly rate for all of the roll-up benefits, you will divide that number by the weighted average base rate (WABR). The rollup factor will be represented as a percentage. In our example the hourly rates for these benefits can be represented in the following chart:

	Total Cost	Members	Hours Worked	Total Hours Worked	Cost Per Hour
WABR	\$4,180,800.00	120	2080	249600	\$16.75
Vacation	\$221,100.00	120	2080	249600	\$0.89
PTO	\$144,720.00	120	2080	249600	\$0.58
Holiday Pay	\$160,800.00	120	2080	249600	\$0.64
				Total Roll-Up	\$2.11
				Roll-Up Factor	13%

In our example, the total hourly rate for Vacation Leave, PTO and Holiday Pay is \$2.11. Dividing this number by the WABR of \$16.75, you will see that the roll-up costs are 13% of the WABR. In other words, for every dollar increase you receive in hourly wages, the costs of the roll-up benefits will increase 13%, so a \$1 increase in wages will actually cost the employer \$1.13.

In addition to the examples above there are a few other calculations you may want to figure into your proposal as the do increase an employer’s costs.

## **11. Benefits Applying to a Faction of the Membership**

**A. General Formula:** Figure the cents per hour cost of benefit *as though* all of the membership received it. Multiply the above figure by the percent of employees that *do* receive this benefit.

**B. Example:** Cost of 10% night shift premium  
**Data:** Average hourly wage: **\$16.75**  
 Employees receiving shift premium: **15%**

Cost per hour if 100% received premium:  $\$10.50 \times .1 = \$1.675$   
 Actual cost:  $\$1.675 \times .15\% = \$.25$

## **12. Workers Compensation**

These rates are normally expressed as a figure per dollar of payroll, i.e., \$3 per \$100. Thus, a dollar per hour increase in wages will cause a 3-cent per hour increase in the cost of Workers Compensation. Using this example, there is a 3% multiplier for any change in wage. Workers Compensation rates will vary by state, job classification and employee. This is due to differences in benefit levels, risks and severity of injury and experience rating.

### **13. State Unemployment Insurance**

The percentage of payroll due in taxes, i.e., .02 or 2%, is based upon an employer's experience rating and differs from state to state. Contrary to the above example, a \$1.00 wage increase actually costs an additional \$.02 cents if the contribution rate is 2%.

### **14. Federal Unemployment Insurance**

For 2017, the FUTA tax rate is 6.0%. The tax applies to the first \$7,000 an employer pays to each employee as wages during the year. The \$7,000 is the federal wage base. Your state wage base may be different. Generally, an employer can take a credit against their FUTA tax for amounts they paid into state unemployment funds. The credit may be as much as 5.4% of FUTA taxable wages. If you're entitled to the maximum 5.4% credit, the FUTA tax rate after credit is 0.6%

### **15. Social Security and Medicare Taxes (FICA)**

The Federal Insurance Contributions Act requires an employer to pay Social Security Taxes of 6.2% and Medicare Taxes of 1.45% of wages. These two FICA taxes combined equal 7.45%. These taxes are subject to certain caps that can be changed by Congress. In 2016 the earnings cap on Social Security Taxes was \$118,500, which means that the tax only applies to wages earned up to \$118,500. In addition, employees earning over \$200,000 are subject to a 0.9% surcharge for all wages earned in excess of \$200,000.

Doing some addition, in this example:

Workers Compensation	\$0.03
State Unemployment Compensation	\$0.02
Federal Unemployment Compensation	\$0.01
Social Security	\$0.08
Total	\$0.13

Thus, due to government-mandated costs, there is a multiplier of 13% on any wage increase. A \$1.00 per employee increase costs the employer \$1.13 per hour, plus the increased costs of vacation, holiday and sick benefits. Although, these costs are usually not brought to the table, they are very real. Such costs would be raised during the negotiation of a targeted specific dollar amount of concessions.

The Roll-Up costs coupled with the associated tax multiplier costs in this example add approximately 26% in cost to whatever increase in the hourly rate is negotiated.

As long as the fringe benefit levels are not changed (i.e., 13 to 14 holidays), the same rollout factor can be used to compute rollout costs in the second and third year of the contract.



## 16. Final Thoughts

Costing out your baseline costs, proposals costs, and the costs of the tentative agreement will help you negotiate and ratify your collective bargaining agreement. The baseline costs and initial proposal costs should occur in the preparation stage of negotiations and should be done before you present your economic proposals at the table. Remember, how well you prepare directly affects how successful you will be at the negotiating table. In today's world of labor relations, it is imperative that a Union negotiator is capable of explaining the costs of a proposal or tentative agreement at the table and to the membership.

There are many tools available to help cost a contract. Programs like Excel are particularly helpful, but have their own challenges if the wrong information or formula is entered into the spreadsheet. Many Union negotiators feel perfectly comfortable using a pencil, notepad and calculator. The important thing is to find a method you feel comfortable with, and always check your work.



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