

Two Basic Methods of Calculating the Hourly Value of Fringe Benefits

I. Standard Hours Method (allows one to take credit for fringe benefits only on hours worked up to 40 hours per week)

A. Use 40 hours to calculate the value of benefits that are paid weekly.

Example: An employer contributes \$50 per week into an employee's savings plan.

$$\$50 / 40 \text{ hours} = \$1.25 \text{ per hour}$$

B. Use 173 hours for benefits paid monthly.

Example: An employer contributes \$250 per month for an employee's health insurance.

$$\$250 / 173 \text{ hours} = \$1.45 \text{ per hour}$$

C. Use 2080 hours for benefits paid yearly.

Example: An employee who is paid \$12 per hour receives two weeks (80 hours) paid vacation and 5 paid holidays (40 hours) per year.

$$\begin{array}{r} 80 \text{ hours} \times \$12 = \$960 \\ 40 \text{ hours} \times \$12 = \$480 \\ \hline \$1440 \end{array}$$

$$\$1440 / 2080 \text{ hours} = \$0.69 \text{ per hour}$$

II. Actual hours worked method (allows one to take credit for fringe benefits on ALL hours worked)

Explanation: Calculate the hourly fringe benefit by dividing by the actual hours worked. Often the previous year's hours are used.

Example: An employer pays a \$500 year-end bonus to an employee. Last year the employee worked 1600 hours total. The number of hours to be worked this year by the employee is uncertain. (May require an end of the year recalculation and payment)

$$\$500 / 1600 = \$0.31 \text{ per hour}$$