



THE REAL COST DIFFERENCE:
FREELANCERS VS. FTEs



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> Introduction

Freelancer vs. full time employee. No matter where you stand on the matter, the pros and cons of each can be debated at great lengths. More specifically (and often most importantly), the costs of each are deserving of a close analysis for business leaders and managers navigating the world of hiring.

We all know some of the benefits of FTEs. They learn the business over time, become part of the team, and contribute greatly to the company culture. In the best of situations, FTEs grow into their roles and continue to excel as they take on more work and responsibility.

Freelancers offer their own set of perks. They can be commissioned for low commitment gigs, require less overhead, and bring immediate aid to projects and teams that could use the extra hands on deck.

So which is better?

Here's the TLDR: Ultimately, a blend of full-time employees and freelancers is the most logical and cost-efficient approach when considering a company's short and long-term health.

But don't just take our word for it. In this guide, we'll break down the numbers to explain why adding freelancers to your team is a worthwhile investment. So let jump right into our quantitative analysis and see how FTEs and freelancers stack up.



> **Freelancers vs. FTE:** Cost Breakdown Example

In order to perform a productive cost analysis, let's work backwards from a hypothetical scenario. Let's say you have a new project that will take exactly one year to build and launch. Two development options are on the table:

1. You can hire a full-time, senior software engineer for \$135,000 per year

OR

2. You can hire a senior freelancer for \$150 per hour

As we know, both have their qualitative pros and cons. When jumping into the numbers, let's start at the top.



Recruiting and Training

The Center for American Progress estimates that for high-level positions that require advanced education, the costs of hiring a new employee can be 213% of annual salary. In other words, the cost to hire an engineer earning \$135,000 could actually be \$287,550.

The Society for Human Resources Management is more conservative and estimates that the average cost of hiring and training a salaried employee is about 6 to 9 months of salary. For a \$135,000 employee, that means it will cost \$67,500 to \$101,250 to fill the position.

Truth be told, recruiting can be difficult for both full-time employees and freelancers. There is no guarantee that the person you bring on board will be effective in either situation. For finding full-time employees, recruiting agencies make life easier, but of course there are fees associated with finding the best and the brightest. On the freelance side, vetting can be extremely difficult as well. Companies like 10x are designed to take the hassle out of finding qualified talent without a recruiting fee.

Now... training. Once you've made the decision to hire a candidate, training is one of the costliest investments that a company makes. This is one area where experienced freelancers have a leg up. The best freelancers require less training than standard employees, largely because they only need to know exactly what the task requires. They don't need to know about all your policies, fringe benefits, ping pong rooms and happy hours.

Taxes

If you're hiring a full-time employee, you need to include allowances for:

- **Payroll Tax:** 15% of an employee's salary
- **Social Security:** 6.2% on each employee's wage up to \$118,500
- **Federal Unemployment Insurance:** 6% on first \$7,000 of employee's wages
- **Workmen's compensation:** on average about 1.85% of employee's wages
- **Medicare:** 1.45% on each employee's salary

On top of that, keeping track of expenses can be complicated, so hiring an accountant may make sense for your company, depending on the size. We'll leave that expense off the books for now.

	FTE	Freelancer
Recruiting and training	\$100,000	\$0
Payroll tax	\$20,250	\$0

\$120,250

> Fringe Benefits

Of course, full-time employees require benefits. These typically include:

- **Health coverage:** \$2,000 to \$3,000 per employee 401k savings plans
- **Vacation**
- **Life insurance**
- **Dental insurance**

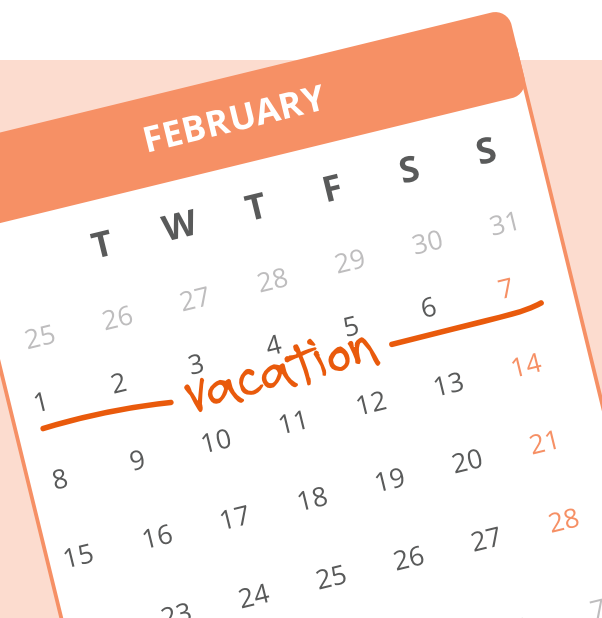
According to Joe Hamzida, senior lecturer at MIT Sloan School of Management, after including taxes and benefits, the costs of hiring a full-time employee are roughly **1.35 times base salary**.

In other words, our \$135,000 full-time employee actually costs \$182,250 per year, and this doesn't include recruiting and training expenses.

In comparison, from a cost perspective freelancers look like an attractive alternative... no benefits or vacation, so you're only paying for the time that they're working.

> Lost Time

For FTEs, let's assume 3 weeks of vacation and 5 paid sick days per year. That's 7.7% of the full work year. Right off the bat, your full-time employee will not be working 7.7% of the work year. At an annual salary of \$135,000, that's \$10,395 going to vacation and sick time. Freelancers, on the other hand, may take vacation or sick days, but are not paid for that time.



	FTE	Freelancer
Recruiting and training	\$100,000	\$0
Payroll tax	\$20,250	\$0
Insurance & other benefits	\$33,000	\$0
Lost time	\$10,395	\$0

\$163,645

Meetings & Distractions

It's no surprise that US employers spend \$759 BILLION each year on "work" that's not actually done. Countless meetings, water cooler talk, surfing the internet, and lack of sufficient workload are serious problems that plague many workplaces. With full-time employees, you run the risk that they feel bored and disengaged from their jobs after a certain amount of time, and you are paying people for work that becomes routine and lackluster. Freelancers are judged solely by their output, so if the result is lackluster, it is likely they will not be in business for very long. Plus, when they go out to get coffee or lunch, they're not on the clock...so you don't pay!

This may be a difficult one to quantify, so we'll play it conservatively and consider that each employee costs \$5k in wasted time per year.

Office Space & Equipment

Traditionally speaking, furnishing the office, providing physical space, and providing the proper technological equipment (laptop, phone, etc.) all add up. While companies are increasingly going remote and technology can range in price, let's assume on average that for office space and equipment, we are spending \$5,300 per full-time employee. Depending on the job, you may have to provide a freelancer with physical space in which to work, but likely not any other equipment.



	FTE	Freelancer
Recruiting and training	\$100,000	\$0
Payroll tax	\$20,250	\$0
Insurance & other benefits	\$33,000	\$0
Lost time	\$10,395	\$0
Meetings / distractions	\$5,000	\$0
Office space / equipment	\$5,300	\$0

\$173,945

> The Final Tally

It isn't difficult to see how the costs involved in hiring a full-time employee go beyond just salary. Excluding recruiting and training, with taxes and benefits alone you're paying 1.3 to 1.6 times the base salary for each employee.

Freelancers, on the other hand, generally charge by the hour and their rates are exactly what you pay. Leveraging freelancers in addition to FTEs unlocks an on-demand workforce that allows you to scale your business with great efficacy.

So we've gone through a handful of major costs....now let's tie it all together. Comparing our \$150/hour freelancer to our \$135,000 FTE, let's assume you are hiring both at the same time, and that they both work a full year:

1. Assume a 40 hour work week
2. 49 weeks per year x 40 hours per week = 1,960 hours per year

After the first year, assuming your full-time employee stays on board and you subtract recruiting and training, your FTE will cost you approximately \$208,945/year.

The rub is that average job tenure for technology jobs is falling quickly, and even the most competitive companies like Google suffer average job tenure of [1.1 years](#). That That said, if you can find a stellar FTE who is in it for the long haul, then hiring full-time might make financial sense.

But if you have a project that needs to be done in the short or medium-term, or you need to satisfy demand at peak times (or any number of other reasons), then hiring freelancers is a financially-sound alternative.

It's clear that both the freelance employee and the full-time employee can be expensive, but the costs are not always so cut and dry. A lot of considerations should be taken into account when hiring someone. It's not that freelancers are definitively better for a business than full-time employees. Rather, freelancers should often be considered as a comparable price alternative to full-time employees, even when that doesn't appear to be the case at first glance.

FULL-TIME EMPLOYEE : \$308,945
FREELANCER : \$294,000

	FTE	Freelancer
Recruiting and training	\$100,000	\$0
Payroll tax	\$20,250	\$0
Insurance & other benefits	\$33,000	\$0
Lost time	\$10,395	\$0
Meetings / distractions	\$5,000	\$0
Office space / equipment	\$5,300	\$0
BASE SALARY	\$135,000	\$0

\$308,945

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