



The Employee vs. Subcontractor Staffing Guide

Staffing has two different questions hiding inside it: who should do ongoing work, and how should a short-term gap get covered. This guide answers both with worked numbers.

Two staffing questions get conflated constantly: should this ongoing work be done by an employee or a subcontractor, and should a short-term coverage gap be handled by hiring or by overtime. They have different math and different answers, and mixing them up leads to over-hiring for a temporary problem or under-committing to a permanent one.

Employee vs. subcontractor, worked through

At 1,000 hours of work a year, a \$26.00 loaded employee rate plus \$10.00/hour overhead (\$36.00/hour variable cost) plus a \$3,000 fixed annual cost (onboarding, benefits) totals \$39,000. A \$45/hour subcontractor for the same 1,000 hours costs \$45,000. The employee is cheaper by \$6,000, about 13.3%.

The crossover point matters too: the break-even is 333 hours a year. Below that, the subcontractor's lack of a fixed \$3,000 cost wins instead, the employee only comes out ahead once there is enough volume to spread that fixed cost across.

Hire vs. overtime, a different question entirely

Now take a 15-hour-a-week coverage gap that is only expected to last 20 weeks, a seasonal push, not a permanent need. Paying it out in overtime costs \$15,210 total across the 20 weeks. Hiring someone to cover it, including a \$2,000 one-time hiring cost, costs \$29,040, almost double.

Overtime wins clearly here, not because overtime is generally cheaper (the premium rate makes it expensive per hour), but because the gap is too short-lived to amortize the fixed cost of hiring. Duration is the deciding factor this engine is built around.

Why the same \$26.00 rate gives opposite answers

The first comparison is about steady, ongoing volume, where a subcontractor's convenience costs a real premium once fixed hiring costs are spread thin enough. The second is about a short, defined gap, where overtime's per-hour premium is cheaper in total than committing to a new hire for a demand that will not last. Neither answer generalizes to the other question, that is exactly why they are two separate engines.

Key takeaway. Ongoing volume favors whichever option amortizes its fixed cost best over enough hours. Short-term gaps favor whichever option avoids a fixed commitment for a temporary need. Check duration and volume before assuming either answer.

Assumptions

- The worked examples use a \$26.00 loaded labor rate (matching the Loaded Labor Cost Guide's own worked example), a \$45/hour subcontractor rate, and a 15-hour/week, 20-week coverage gap, all illustrative.

Frequently asked questions

Does hiring always win at high enough volume?

For the employee-vs-subcontractor question, yes, past the break-even hours the fixed cost of hiring gets diluted enough that the lower variable rate wins. For the hire-vs-overtime question it depends on both volume and expected duration, a long-lasting gap favors hiring even at moderate hours.

What is included in the \$10/hour employee overhead in the worked example?

That figure is illustrative, representing costs beyond the loaded wage itself (tools, vehicle allocation, supervision time). Enter your own number in the calculator rather than assuming \$10/hour fits your business.

Why is overtime priced at 1.5x with burden added on top in the hire-vs-overtime engine?

The 1.5x multiplier is the standard overtime premium. Labor burden (payroll taxes, workers comp) still applies to overtime pay just as it does to regular pay, so it is applied on top, matching how the cost actually lands on the business, not just what shows up on a pay stub.

Can a subcontractor ever make sense even below the break-even hours?

Yes, this guide covers cost only. Subcontractors can be the right call for reasons the math does not capture: specialized skills, flexibility, or avoiding a hiring commitment during an uncertain season, use the cost comparison as one input, not the only one.

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