

What an employee really costs in South Africa in 2026/27: a cost-per-productive-hour model

Owners usually price a hire from the salary. We show that the statutory extras (UIF and SDL) are small, and that what really raises the cost is paid time that is not productive. The model gives a cost per productive hour and the workload that justifies a hire.

Working paper v0.1

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4 min read

IN SHORT

- Employer UIF and SDL add only about 1% to 2% to salary. They are not the main cost of an employee.
- Once public holidays, leave and sickness are paid, a full-time employee is available for about 2,050 of 2,340 contracted hours. At 85% productivity, that is about 1,744 productive hours.
- On these assumptions each productive hour costs about 37% more than the employee's hourly pay.
- A R20,000-a-month hire costs about R245,000 a year. Buying the same hours from a contractor at R250 an hour is cheaper unless you have work for about 19 hours a week or more.

The question

What does it really cost to add one full-time employee, and how much work must there be to justify it?

The model

We take a full-time employee on a 45-hour week and add the costs an employer must bear in 2026/27.

Statutory costs

- **UIF (employer's share):** 1% of monthly pay, up to the earnings ceiling. We use a ceiling of R17,712 a month, so the employer's share is at most R177.12 a month. The ceiling comes from secondary sources and should be confirmed.
- **Skills Development Levy (SDL):** 1% of total pay, but only if the employer's annual pay bill is above R500,000. We include it, so the results are on the cautious side for an employer whose pay bill is below that.
- **Not modelled:** the Compensation Fund assessment, which varies by industry, recruitment, equipment and training.

Hours

Item	Hours
Contracted hours (45 hours x 52 weeks)	2,340
Less public holidays (12 days x 9 hours)	-108
Less annual leave (15 working days x 9 hours, the legal minimum of 21 consecutive days)	-135
Less sick leave (5 days x 9 hours, on average)	-45
Hours available for work	2,052
Productive hours at 85% of available time	1,744

The 85% figure allows for meetings, admin, downtime and the time between tasks. It is an assumption, and any employer can replace it.

For comparison, the national minimum wage of R30.23 an hour is about R5,895 a month on a 45-hour week.

Results

Monthly pay	Annual pay	UIF and SDL	Total cost	Cost per productive hour	Uplift on pay
R6,000	R72,000	R1,440	R73,440	R42	37%
R12,000	R144,000	R2,880	R146,880	R84	37%
R20,000	R240,000	R4,525	R244,525	R140	37%
R30,000	R360,000	R5,725	R365,725	R210	36%
R45,000	R540,000	R7,525	R547,525	R314	36%

Three findings follow.

1. **Statutory extras are small.** UIF and SDL (employer's share) add roughly 1% to 2% to annual pay. UIF stops growing at the ceiling, so the effect on a high salary is smaller still.
2. **Time is the big cost.** About 12% of contracted hours are paid holidays, leave and sickness, and part of the remaining time is not productive, so only about three quarters of the hours you pay for are productive. Each productive hour therefore costs about 37% more than pay per contracted hour.
3. **The uplift is stable.** (The uplift compares the cost per productive hour with pay per contracted hour.) It barely changes between salaries, so a rule of thumb of "pay per hour x 1.37" holds for these assumptions.

When does a hire beat buying the hours?

If you can buy the same work from a contractor or agency, a hire pays for itself only if you have enough work to fill the hours. For a R20,000-a-month employee, the total annual cost is about R244,525. The hours of contracted work that make the hire the cheaper option are:

Outsourced rate per hour	Break-even hours a year	Hours a week
R150	1,630	31.3
R250	978	18.8
R400	611	11.8

At R250 an hour, you need work for about 19 hours a week for the hire to be cheaper. Below that, the contractor costs less even though the hourly rate is higher.

Limits

- **Productivity of 85%** is an assumption. A busy role may be higher, and a reception role lower.
- **Leave:** we use the legal minimums and an average of five sick days. Many employers give more.
- **Bonuses:** any 13th cheque or bonus increases cost and is not modelled.
- **Incentives:** the Employment Tax Incentive can reduce the cost of some young employees. It is not modelled.
- **Overtime, notice periods and severance** are not modelled.
- **Independent contractors:** engaging one carries its own tax and labour risks. Get advice before you treat a worker as a contractor.

What we would like challenged

- What productivity share fits your roles?
- Which costs do you find most often forgotten: recruitment, equipment, training or management time?
- How does the hire-or-outsource break-even change in your industry?

Send corrections or counter-evidence using the link below.

Version history

Version	Date	Change
0.1	30 September 2026	First release.

Sources and further reading

- Budget 2026 Frequently Asked Questions (SDL and UIF rates, national minimum wage), [South African Revenue Service](#)
- National Minimum Wage amendment, effective 1 March 2026 (Government Gazette summary), [American Chamber of Commerce in South Africa](#)
- Minimum wage in South Africa: the complete 2026 guide (UIF ceiling), [Employsome](#) (secondary source)
- Basic Conditions of Employment Act 75 of 1997 (annual, sick and family responsibility leave), [Government of South Africa](#)
- Payroll in South Africa 2026: what employers must calculate, file and pay, [TBL Accounting](#)

Cite this paper

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Challenge this paper

This is a working paper: the method and limits are stated so you can test them. Send corrections or counter-evidence to info@tblaccounting.co.za and we will record them in the version history.

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