How to Analyze Labor Rates for Competitive Government Contract Bids

When I first started bidding on government contracts, I thought the hard part was understanding the technical requirements. It turned out that the real challenge was pricing. Specifically, figuring out the right labor rates to apply to each line item. Get those wrong, and you either lose the bid or win a project that bleeds money from day one. Over the years, I have seen both outcomes play out, and the difference almost always comes down to how well a contractor understands the compensation data behind the rates.

Government agencies do not just accept whatever hourly figure you throw into a spreadsheet. They expect your proposed rates to be grounded in reality, supported by market data, and consistent with what similar contractors charge for similar work. That means you need a systematic way to pull together salary surveys, wage determinations, and internal cost data, then adjust them for your specific contract type. It is a lot of moving parts, but the process becomes manageable once you break it down into a few clear steps.

Start with the Right Wage Determination

Every federal contract over a certain threshold comes with a wage determination attached to it. That document tells you the minimum hourly rates you must pay for each class of labor, usually based on the Service Contract Act or the Davis-Bacon Act. If you ignore that baseline, you risk a wage complaint or a audit that could cost you the contract. I always make a habit of pulling the latest wage determination from the Wage and Hour Division website before I even open my pricing template.

But here is the thing: the wage determination sets a floor, not a ceiling. Your actual labor rates will often be higher, especially if you are bidding on work that requires specialized skills or security clearances. The trick is to know where that floor sits so you can build your pricing structure on top of it. If you are bidding on a janitorial service, the wage determination might give you a clear number. If you are bidding on IT support, you might need to look at locality pay adjustments and prevailing wage surveys to get a realistic picture.

Collect Salary Data That Matches Your Scope

Once you know the legal minimums, the next step is to gather real-world salary data for the roles you are staffing. I have found that the most reliable sources are the Bureau of Labor Statistics Occupational Employment Statistics, industry association salary surveys, and your own company's historical payroll records. Each one has strengths and weaknesses. BLS data

is broad and free, but it often lags by a year or two. Association surveys are more current, but they cost money and tend to cover only certain job families.

Your own records are valuable because they reflect your actual cost structure. But they can also mislead you if you have only worked in one region or one agency. I once worked with a small business that had only ever done work in the Midwest. When they tried to bid on a project in the Washington D.C. area, they used their usual rates and lost money on every hour. Their internal data did not account for the higher cost of living and the premium that cleared talent commands in that market.

To avoid that trap, I recommend building a composite rate from multiple sources. Take the BLS median, add a weighted average from your own payroll, and then apply a geographic adjustment factor. The result is a number that you can defend in a audit and that still leaves you room for overhead and profit.

Understand the Burden Structure

Labor rates are never just the hourly wage. You have to add fringe benefits, payroll taxes, workers compensation insurance, and any other direct labor costs. In government contracting, these are often called fringe or burden costs, and they can add 30 to 50 percent on top of the base wage. I have seen contractors lose money because they forgot to include the employer portion of Social Security and Medicare taxes, or they underestimated the cost of health insurance.

The best approach is to calculate your burden rate as a percentage of direct wages. Track your actual fringe costs for the past twelve months, divide by total direct labor dollars, and you get a burden factor. Then apply that factor to every labor rate in your proposal. If your burden factor is 1.35, a base wage of $30 per hour becomes a fully loaded rate of $40.50. That is the number you should use for pricing, because that is the real cost of employing someone for an hour of billable work.

One nuance here: burden rates vary by employee classification. Executives might have different benefit packages than technicians. I keep separate burden factors for each major job category and update them annually. It is a small amount of extra work that pays off when an agency asks you to justify a rate during a price negotiation.

Factor in Overhead and Profit

After you have fully loaded labor rates, you still need to add indirect costs and profit. Indirect costs include things like rent, utilities, computers, software licenses, and the salaries of people who do not bill directly to contracts. These are often expressed as a percentage of direct labor, and the percentage can vary wildly depending on your business model. A small consulting firm

might have an overhead rate of 15 percent. A large systems integrator with lots of facilities and equipment might run closer to 30 percent.

I have learned to calculate my overhead rate using the same approach as the burden factor: total indirect costs divided by total direct labor dollars over the past year. Then I add a profit margin that is competitive but not greedy. Government agencies typically allow profit margins between 5 and 15 percent on cost-reimbursable contracts, but on fixed-price work you can often push a little higher if your rates are efficient.

Here is where many contractors stumble. They set their profit margin first and then try to make the numbers fit. That usually leads to either inflated rates that get rejected or squeezed margins that make the project unprofitable. The better sequence is to calculate your true costs first, then add a reasonable profit on top. If the resulting labor rates are too high to win the bid, you need to find ways to reduce your costs, not fudge your numbers.

Adjust for Contract Type and Risk

Not all government contracts are the same. A time-and-materials contract requires a different pricing structure than a firm-fixed-price contract. On a T&M contract, your labor rates are essentially your ceiling. You charge what you estimated, and the agency pays that amount for every hour worked. On a fixed-price contract, your labor rates are an internal target. You need to estimate how many hours the work will take and multiply by your rates to get a total price. If you underestimate hours, your effective hourly rate drops.

I have seen companies treat both contract types the same way, and it always backfires. On a T&M contract, if your rates are too low, you leave money on the table. On a fixed-price contract, if your rates are too high, you price yourself out of the competition. The solution is to maintain separate rate schedules for each contract type, or at least to apply different overhead and profit percentages. For fixed-price work, I tend to use slightly lower overhead percentages because the risk of cost overrun is higher. For T&M work, I use full overhead because the risk is lower.

Keep Your Data Current

Labor rates change over time. Wages rise, benefit costs increase, and market conditions shift. A set of rates that worked perfectly last year might be out of date by the middle of this year. I have made it a habit to review my rate structure every quarter. I check the latest wage determinations, look at new BLS data, and compare my actual payroll costs against my estimates. If I see a gap, I adjust my rates before the next proposal goes out.

One practical tip: keep a simple spreadsheet with your base wages, burden percentages, overhead percentages, and profit margins for each job category. Update it whenever you get

new data. Then when a solicitation comes out, you can pull your numbers in minutes instead of starting from scratch. That speed can be a competitive advantage, especially when the response window is short.

The whole process sounds like a lot of paperwork, and it is. But building a defensible, competitive rate structure is one of the most valuable investments you can make in your government contracting business. It protects you from losing money on contracts, gives you confidence when negotiating with contracting officers, and helps you win more bids by pricing smartly rather than just low.

I have seen too many small businesses treat labor rates as a guess. They pick a number that sounds reasonable, cross their fingers, and hope for the best. That approach works until it does not. Then it takes one bad contract to wipe out years of profit. Spend the time upfront to get your rates right. Your bottom line will thank you.