

# Educating Employees about Prevailing Wage Benefits

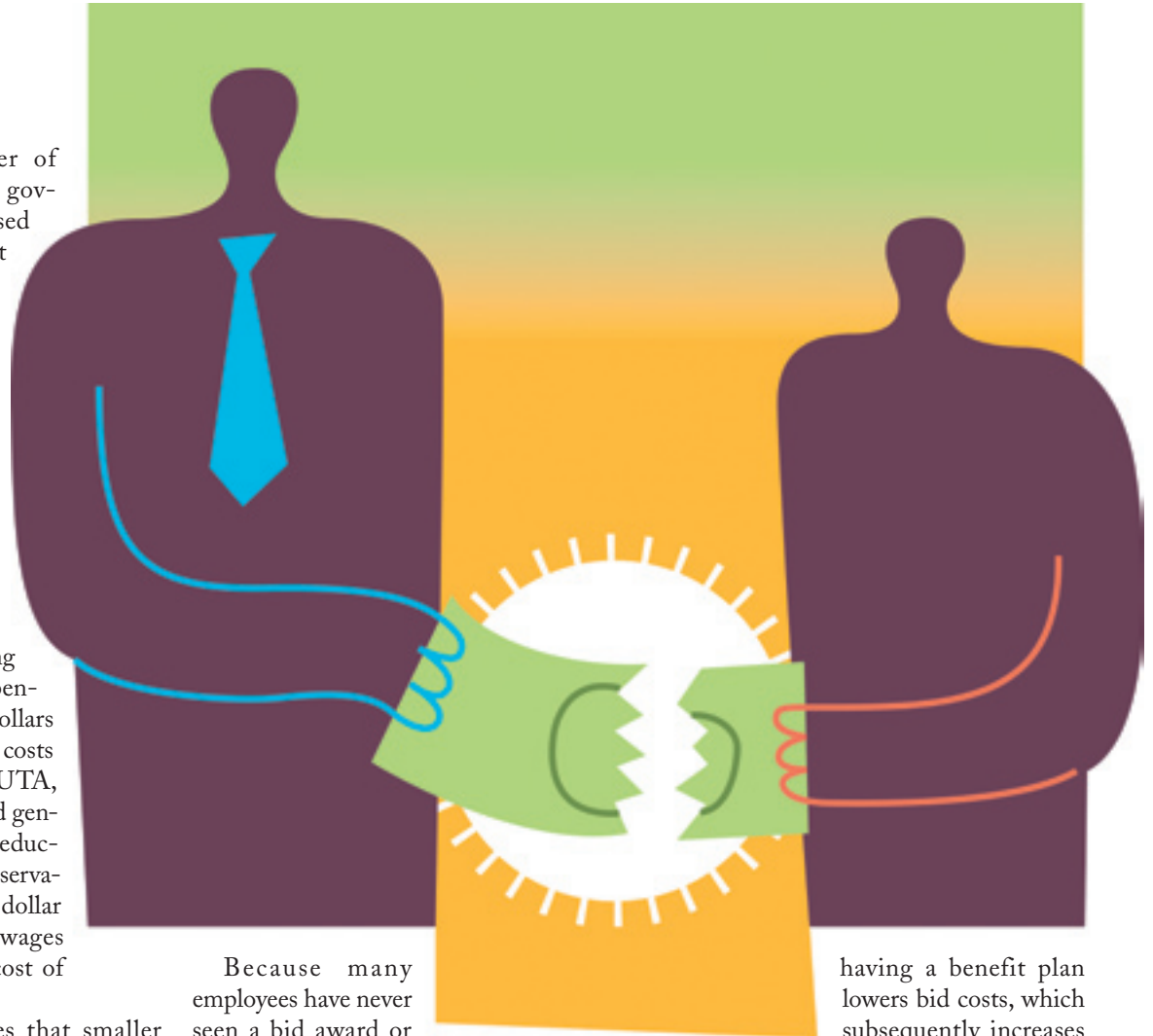
**T**he number of contractors bidding on government jobs has increased dramatically in the past 18 months. Contractors that pay the fringe benefit portion of the prevailing wage to their employees as additional cash wages—rather than implementing bona fide benefit plans—are at a distinct disadvantage in this competitive bidding environment.

When the fringe benefit portion of the prevailing wage is used to provide benefits to employees, these dollars are not subject to payroll costs such as FICA, FUTA, SUTA, workers' compensation and general liability insurance—reducing payroll burdens. A conservative estimate is that each dollar paid in additional cash wages results in an additional cost of 30 cents.

Convincing employees that smaller weekly paychecks are a good thing is tough even in the best economy. Educating workers about the savings realized by implementing benefit plans—which translates into lower bids and increased chances of winning jobs—can make this conversation go more smoothly.

## TREAT EMPLOYEES AS BUSINESS PARTNERS

There are several key components to communicating with employees about the advantages provided by a company's prevailing wage benefit plan.



Because many employees have never seen a bid award or request for bids, it is crucial to explain the bid process and all aspects of creating and submitting a bid. Provide copies of actual bidders' lists; then point out the difference between the winning bid and the bid that came in second. When employees see the difference between winning or losing a job is often a few hundred dollars, they realize this means they either have work or they don't.

Especially in this economy, nearly everyone knows someone who is out of work. When employees understand

having a benefit plan lowers bid costs, which subsequently increases the chances they'll continue to have work, their perspective usually changes.

Following this approach, one company had 90 percent of its employees sign up to put additional money into their retirement accounts. The reality is that without the plan, employees have two choices: They don't get the job, or they get paid lower rates on private work.

## KEY COMMUNICATIONS

According to Jeff Risch, a labor attorney with Chicago-based SmithAmundsen,

employers should communicate five primary points to their workers when launching a prevailing wage benefit plan.

- **The power of compound interest.** In a tight economy, it can be difficult to see past the short term. “When workers start to see how the money in their retirement accounts is growing, it’s a little easier to see the positive effects of saving rather than spending—which is what most would do if they received the fringe portion as additional cash wages,” Risch says.
- **Individual tax savings.** “Make sure employees know it’s not just the employer that enjoys tax savings when pay is deferred,” Risch says. “Ultimately, bona fide benefit plans allow employees to give less of their pay to Uncle Sam and keep more for themselves.” Because prevailing wage contributions are employer deferrals, employees avoid paying both income tax and FICA on those funds.
- **Accessibility.** “Funds invested in a prevailing wage retirement plan are immediately vested and can be accessed should

there be a catastrophic event,” Risch explains. “That option isn’t available with a union plan.” Unions generally have vesting requirements that don’t allow employees to access funds in retirement accounts or roll them over when changing employers.

- **Control.** With a union retirement plan, employees have no control over how funds are invested or disbursed upon retirement. “With a prevailing wage plan, employees choose their own investments, and they generally have the option of receiving either a lump sum or an income stream at retirement,” Risch says.
- **Accountability.** With prevailing wage benefit plans, each dollar allocated on the employee’s behalf is easy to track. “With a union plan, the funds more or less go into a pot, and there’s no way to see dollar-for-dollar how those monies benefit the employee,” Risch says, adding that it’s important for employees to realize that union dues are taken from their base pay and are not part of the fringe benefit package.

**PROACTIVE EDUCATION**

Another advantage of implementing benefit plans is minimizing pay disparities between workers who are performing prevailing wage jobs and those who are not. “When employees who are not working on prevailing wage contracts find out others get bigger checks, there can be a lot of animosity,” Risch says. “When the fringe is allocated to a benefit plan or plans, it equalizes wages and alleviates friction.”

A contractor’s biggest asset—employees—also can be its biggest cost. Protecting and educating employees is crucial during difficult economic circumstances. Ensuring that workers understand their role in the company’s growth and success, as well as the personal value they receive from prevailing wage benefit plans, can promote buy-in and minimize objections.

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