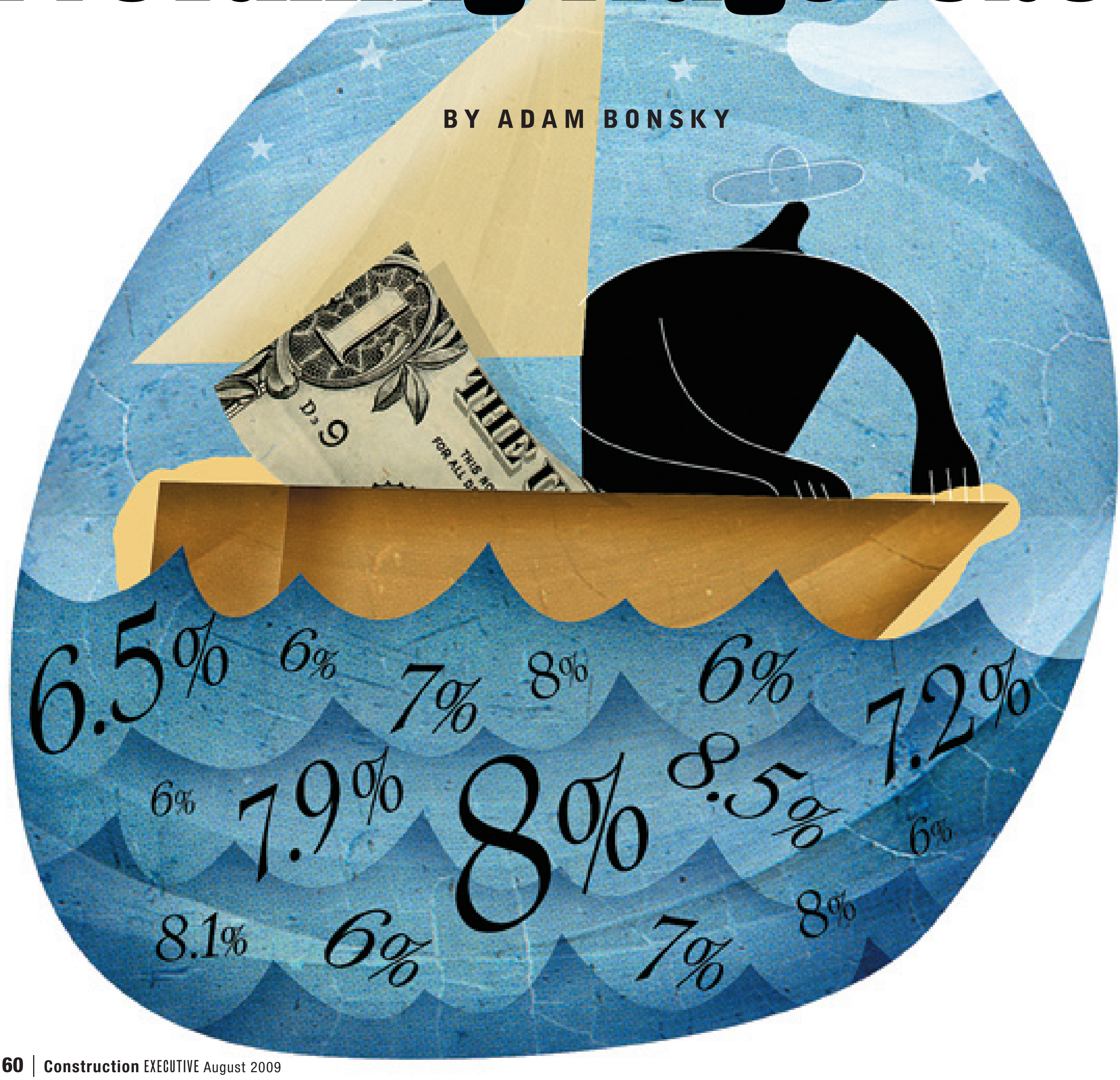
Putting Fringe To Work on Prevailing Wage Jobs

BY ADAM BONSKY



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Although many contractors see the jobs promised by the American Recovery and Reinvestment Act as a lifeboat in stormy economic seas, the thought of sailing in uncharted waters may deter some construction business owners from entering the prevailing wage marketplace.

Allocating the benefit portion of the prevailing wage to a bona fide benefit plan works to a contractor's advantage.

The transition to government work doesn't need to be complicated. While state and federal agencies are bolstering compliance efforts—and competition for these jobs is intensifying every day—resources are available for contractors considering prevailing wage work.

The U.S. Department of Labor sets the prevailing wage for federal construction contracts subject to the Davis-Bacon Act. The Davis-Bacon Act requires payment of local prevailing wages, including the "anticipated cost of prevailing benefits." This generally is expressed as a per-hour wage and per-hour cash equivalent value of benefits, and is often based on a union scale.

What many contractors don't realize is that allocating the benefit portion of the prevailing wage to a bona fide benefit plan works to their advantage on a number of levels.

MORE COMPETITIVE BIDS

The most immediate advantage contractors realize from implementing a bona fide benefit plan is significant savings on their payroll burden, which translates into lower bids. When the fringe portion of the prevailing wage is used to provide benefits for hourly workers, this amount is not subject to payroll costs such as social security taxes, federal and state unemployment taxes, and workers' compensation insurance. Although rates for the last two vary, a conservative estimate is that these costs represent an additional 25 cents on each dollar paid as cash wages.

Assume a company has 15 employees performing prevailing wage work, with each employee working approximately 1,000 hours per year. The fringe amount above the base rate is $10 per hour, and the average approximate additional payroll cost when paying fringe dollars as cash wages is 25 percent.

15 employees × 1,000 hours =
15,000 total hours
15,000 hours × $10 =
$150,000 in additional payroll
$150,000 × .25 =
$37,500 in savings

These savings are immediate. In a fierce bidding environment in which the margin between winning a bid and coming in second is often a few thousand dollars, the savings resulting from a bona fide benefit plan can make all the difference.

INCREASED RETIREMENT SAVINGS FOR OWNERS AND KEY EMPLOYEES

Prevailing wage benefit plans also can help business owners and key employees maximize the amount they can contribute to their retirement plans.

Many owners are limited by strict Internal Revenue Service guidelines as to the amount they can contribute to 401(k) plans. Most hourly workers don't contribute large amounts, and the maximum contributions for owners and other highly compensated employees (HCEs) are tied to the average amount contributed by non-HCEs. By counting prevailing wage retirement contributions as elective deferrals, the amount owners and key employees can contribute increases substantially.

Alternatively, companies that typically make profit sharing contributions can count prevailing wage contributions toward the amount of profit sharing contributed for hourly employees. This often saves companies thousands of dollars in addition to the significant reduction in payroll costs.

INDIVIDUALIZED PLAN DESIGN

Even contractors that have previously performed prevailing wage work can benefit from implementing a bona fide benefit plan, which may include retirement, medical, dental, vision and life insurance plans.

Until recently, Wescott Electric, Co., an open shop contractor in Aston, Pa., that primarily performs prevailing wage work, offered two retirement plans: a traditional 401(k) plan and a prevailing wage plan.

"We were paying two sets of fees for two plans," says Jay Giuliani, Westcott Electric's CFO. "And our company owner was extremely limited as to what he could contribute to the 401(k). What we wanted was a two-piece plan from one vendor."

Giuliani interviewed about a dozen companies, and chose a company that specializes in prevailing wage plans because they were the only vendor to propose a "safe harbor" plan. In general, a safe harbor plan allows employers to count prevailing wage retirement contributions as elective deferrals and use these contributions to offset any profit sharing contributions made to the retirement accounts of prevailing wage employees.

"Now we have a better plan with the same funds and the same administrator," Giuliani explains. "It's exactly the solution we were looking for."

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