

Insights

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Independent Electrical Contractors

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Avoiding the Potential Prevailing Wage Pitfalls in Federal Contracting

By Adam Bonsky

The economic stimulus package has increased funding on public work projects. Contractors are registering to bid on these jobs in record numbers, which means competition will be fierce. And, state and federal agencies have already begun gearing up to intensify compliance efforts.

Federal construction contracts in excess of \$2,000 are subject to the Davis-Bacon Act, which requires payment of locally "prevailing wages" including the "anticipated cost of prevailing benefits." Generally, this is expressed as a per-hour wage and per-hour cash equivalent value of benefits, and is often based on a union scale. Prevailing wages are set by the U.S. Department of Labor and are included in the bid specifications of covered contracts.

Many electrical contractors pay the fringe benefit portion of the prevailing wage as additional cash wages, believing it's the easiest way to comply with the law. Allocating this amount to a bona fide benefit plan or plans, however, results in significant cost savings. Benefits that might be included in a bona fide benefit plan offering are retirement, medical, dental and vision plans, and life insurance.

It's no surprise so many electrical contractors are looking to government work in this economic climate.

The reason contractors save money by offering a bona fide benefit plan is that 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 FICA, federal and state unemployment taxes, and workers compensation insurance. Although there are variances in the rates for the last two, conservatively these taxes represent an additional 25 cents on each dollar paid as cash wages.

Sample Calculation

Assume XYZ Construction Company has 15 employees doing prevailing wage work. These employees

work approximately 1,000 hours each per year. The fringe amount above the base rate is \$8/hour and the average approximate additional payroll cost when paying fringe dollars as cash wages is 25%.

15 employees X 1000 hours =
15,000 Total Hours
15,000 hours X \$8.00 =
\$120,000 in Additional Payroll
\$120,000 X 25.65% =
\$30,780 XYZ Construction Company Savings

The number of bids submitted for public works projects is increasing dramatically, which means there's much greater competition for new jobs. The number of contractors registered with the Central Contractor Registry, the primary registrant database for the U.S. Federal Government, has grown more than 10 percent in the past year. Anecdotally, we have had feedback that the number of contractors bidding on state and local government jobs

is two to three times the amount seen a year ago. If your competitors are using a bona fide benefit plan—and you're not—you're at a disadvantage.

Traditional benefit plan providers often struggle with prevailing wage plans due to the seasonal nature of construction work. A company that specializes in this industry can easily "turn off" contributions to the plan when the job finishes, and resume them when the next prevailing wage job starts. Some companies, like Fringe Benefit Group, offer a unique "hour banking" program which enables employers to offer benefits for their hourly workers even during slow times or layoffs. In addition, Fringe Benefit Group tracks benefits on an hourly basis,

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which is a significant timesaver for contractors when it comes to payroll and reporting. With prevailing wage jobs, it is important for contractors to be able to track and report benefits premium by the hour. Most benefits providers can only offer benefits on a monthly premium basis, forcing the contractor to manually adjust the monthly premium to the appropriate number of hours worked.

It's no surprise so many electrical contractors are looking to government work in this economic climate. Working with a business partner that specializes in prevailing wage projects is an easy, and inexpensive way to bid more competitively on these new opportunities, and ease concerns about unintentionally falling out of compliance. Using a firm that understands federal and state regulations, is familiar with recordkeeping requirements, and offers a full complement of benefits to allocate the full fringe amount can give electrical contractors the advantage needed to compete in an increasingly crowded bidding environment.

INSIGHTS

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