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MAXIMUM FRINGE

Using a specialized benefit plan provider helps contractors tackle prevailing wage work

By Adam Bonsky

With private construction drying up, government contracts can look like an oasis in an otherwise desert-like market. And with President Obama's economic stimulus package promising hundreds of thousands of jobs on infrastructure projects, thirsty contractors are registering to bid on government jobs in droves.

There's no question the economic stimulus package presents once-in-a-lifetime opportunities for contractors. But it also poses some tremendous challenges. Competition is tougher than ever, and that means it's important to shave every possible dollar off your bid. It's also expected that contractors will be scrutinized more closely for compliance with state and federal regulations.

Working with a company that specializes in this market can make the transition from private construction to public works much easier on both the cost-savings and compliance fronts. And it can help contractors who currently perform prevailing wage work become more competitive.

BONA FIDE BENEFIT PLAN

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 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. But allocating this



amount to a bona fide benefit plan results in significant cost savings—which translates into increased profitability and more competitive bids. Benefits that might be included in a bona fide benefits plan offering are retirement, medical, dental and vision plans, and life insurance.

The reason contractors save money with 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 taxes such as FICA, federal and state unemployment taxes, and workers' compensation insurance.



Although there are variances in the rates for the last two, typically these costs 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 \$4 per hour and the average approximate additional payroll cost when paying fringe dollars as cash wages is 25 percent.

15 employees X 1,000 hours = 15,000 total hours
 15,000 hours X \$4.00 = \$60,000 in additional payroll
 \$60,000 X 25% = \$15,000 XYZ Construction Company Savings

REAL-WORLD APPLICATION

Ann Erickson, office manager of Geo's Paint and Finish in Brainerd, Minnesota, was responsible for implementing a bona fide benefit plan for her employer. "We'd received information from Fringe Benefit Group, a company that works exclusively with benefit plans for prevailing wage," she says. "I looked it over and realized what a difference it could make to our bottom line if we started a plan for our guys."

Erickson took the information to her boss and explained to him that the company could save a significant amount on payroll expenses, while also helping their workers build nest eggs. "He told me to go ahead and set it up, but made it clear he didn't have a lot of time to spend on getting it implemented and running," she says.

As it turned out, Erickson and her boss did not have to spend much time setting up their plan. "I worked with John Allen from Fringe Benefit Group, and he was wonderful," she says. "He answered all our questions and was always quick to respond whenever I needed anything."

Erickson says although she had anticipated resistance from Geo's workers, there "really wasn't a lot of kicking and screaming." In fact, she says many of the workers are now making additional voluntary contributions to their retirement accounts.

Geo's has had their benefit plan in place for nearly 3 years. "There are so many bidders, and contracts are being awarded for lower amounts than ever," Erickson says. "Having this plan in place has really helped us." She adds, "As we've grown, the plan has grown with us. It's been a wonderful thing for Geo's."

USING SPECIALIZED FIRMS

One of the advantages of using a firm that specializes in prevailing wage plans is that they design a plan that meets the specific needs of both the business and the industry. Some payroll companies run into difficulty due to the seasonal nature of construction work. A company that specializes in prevailing wage can set up their system so it is easy to "turn off" the benefits when one prevailing wage job ends, and then turn them back on when the next job starts. Some companies, like Fringe Benefit Group, offer a unique hour-banking program, which makes it possible for contractors to provide medical coverage for their workers year-round, even during slow times or layoffs.

Many contractors shy away from prevailing wage work because of increased recordkeeping requirements and fear of unintentionally falling out of compliance with the IRS or Department of Labor (DOL) regulations. Nancy Knapik, controller of Kaser-Spraker in South Bend, Indiana, says using a firm with prevailing wage expertise was a huge benefit for her company.

"All our reports are delivered in a timely manner," Knapik says, "and the fact that Fringe Benefit Group handles all that is a huge burden lifted from me and our administrative staff."

Knapik adds that when her company ran into a snag with a compliance-related issue last summer, the expertise Fringe Benefit Group provided was invaluable. "They got us right back into compliance," she says. "It was such a relief to have them in our corner. They were extremely responsive and it was so nice not to be left flailing around on our own trying to figure out the DOL regulations."

Knapik says using Fringe Benefit Group as their bona fide benefit plan provider has been a "very positive experience" in all respects. "With the market the way it's been recently, some of our workers got concerned about the money in their retirement accounts," she says. "They wanted to know how their money was invested, and how safe it was." Knapik says Fringe Benefit Group's John Allen was quick to respond and made sure her workers' questions were answered.

It's no surprise so many contractors are looking to government work in this economic climate. Contractors considering turning to prevailing wage work can save time, money, and headaches by enlisting the expertise of a company that specializes in this market. 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 them the advantage needed to compete in a crowded bidding environment. ♦

ABOUT the AUTHOR



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