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Companies Benefit by Helping Employees Prepare for Retirement

By Adam Bonsky

As an employer, it can be frustrating to see workers put themselves and their futures in jeopardy by failing to save for retirement. And because the percentage of pay owners and key employees can defer to the company's 401(k) plan is tied to the amount hourly workers put away, it affects everyone's ability to save for retirement.

A report released last year by the Employee Benefit Research Institute estimates nearly half of all Americans are at risk for having inadequate retirement savings. Although the possibility of not having enough money to cover basic expenses in retirement is frightening, the lure of immediate gratification can be tough for some to resist. For companies that do prevailing wage work, one way to help workers save for retirement is to use the fringe portion of the prevailing wage as it was intended: to provide bona fide benefits such as retirement plans on prevailing wage jobs. This makes a difference for hourly workers and, when properly handled, prevailing wage contributions to retirement plans can be used to increase the amounts owners, key employees and non-prevailing wage workers can defer.

The Davis-Bacon Act and Public Works Projects

The Davis-Bacon Act applies to all federally funded construction projects with a value exceeding $2,000, and to all projects funded in part or in total by the American Recovery and Reinvestment Act. The Davis-Bacon Act requires all contractors and subcontractors performing work on federally funded construction contracts to pay their laborers and mechanics not less than the prevailing wage rates and fringe benefits for corresponding classes of laborers and mechanics employed on similar projects in the area. Prevailing wage rates and fringe benefits are determined by the U.S. Secretary of Labor, and are specified in the terms of the request for bid. Thirty-one states have enacted state prevailing wage legislation, commonly referred to as "Little Davis-Bacon" provisions, that requires payment of prevailing wages and fringe benefits on state projects as well as federal projects.

The base wage rate is generally paid to the worker in wages, but the fringe portion may be used to provide fringe benefits (such as retirement plans and medical, dental, vision, disability and life insurance) or paid as additional cash wages, all at the employer's discretion. When contractors use the fringe portion of the prevailing wage to provide "bona fide" benefit plans for their workers, these dollars are taken off the payroll and are exempt from payroll taxes such as FICA, FUTA and SUTA, as well as workers' compensation. Rates for SUTA and workers' compensation vary from state to state, but a conservative estimate is that payroll taxes and workers' compensation add 25 cents to each dollar paid as additional cash wages.

The first advantage to using the fringe portion of the prevailing wage to provide benefits for hourly workers is the immediate reduction in payroll burden. This represents considerable savings on project costs, which translates into lower bids and better chances of winning jobs. But this is just the tip of the iceberg; there are other significant advantages business owners can realize when it comes to saving for retirement.

More Opportunities to Save

To fully maximize the advantages of prevailing wage contributions made to retirement plans for hourly workers, employers must have a traditional 401(k) plan—not a SIMPLE plan. SIMPLE plans are not a good option for prevailing wage contractors for many reasons. The biggest problem with SIMPLE plans is they are statutorily prohibited from accepting contributions that vary between job classifications by an hourly rate, and prevailing wage contracts generally include several job classifications with different wage determinations. In general, SIMPLE plans lack the flexibility needed when working on prevailing wage jobs.

Companies should be aware that their existing retirement plan may not be appropriate for use as a prevailing wage benefits plan. Most providers lack experience in the unique challenges faced by government contractors; for example, stopping contributions when a job ends and starting them again when a new project begins, or being able to determine contributions on an hourly basis. A retirement plan provider with specific expertise in this niche can set up a second plan specifically for prevailing wage contributions. Both plans would have to be aggregated for non-discrimination testing; however, this can be easily coordinated and facilitated by the recordkeepers.

Companies that specialize in prevailing wage benefit plans also can help contractors use contributions made to retirement plans to the advantage of the entire company. These contributions can be treated as if the employees chose to defer them, which increases the amount owners and other key employees can contribute to the company's 401(k) plan. Or, for companies that do profit-sharing, these retirement plan contributions can be used to decrease the cost of profit-sharing, while at the same time increasing profit-sharing amounts that can be contributed for other employees.

Using the fringe to provide bona fide benefits is an affordable way to help employees save for retirement. In most states, plans only need to be funded with fringe contributions when workers are on public jobs. This is significantly less expensive than plans that must be funded for all workers and for all hours worked, on both public and private jobs.

Helping Employees Save for Retirement

With some job classifications, the fringe amount can be quite high. Employers that offer medical insurance and take credit for this against the fringe amount often find themselves with "leftover" benefit dollars that could be used as retirement savings for employees rather than paid out as cash.

Some prevailing wage benefit plan providers have systems in place requiring the entire fringe benefit allocation to be utilized for benefits and retirement. The cost of health insurance is taken from the employee's fringe allocation and then the employee can choose ancillary benefits such as vision, dental and life insurance. Any remaining fringe dollars are funneled automatically to a prevailing wage retirement plan. Not only does this protect employees and promote retirement savings, it maximizes payroll and tax savings for the employer as well.

Setting Up Investment Choices

When choosing a retirement plan provider, government contractors should look for a company that designates a third-party trustee for the plan investments. This takes a significant burden off the employer by reducing any fiduciary responsibility regarding monitoring investments.

The benefits plan provider that sets up the retirement plan should coordinate with management to offer investment choices that are appropriate for hourly workers. Target date funds have become an increasingly popular choice because they simplify investments by allowing enrollees to choose a fund that matches their anticipated retirement date. Some benefit plan providers offer target date funds alongside a menu of funds, which allows employees to choose their own asset mix.

The Importance of Saving

Providing benefits to workers is a significant issue, particularly at a time when many in Congress are eyeing modifications to Social Security as a means of reducing the national budget deficit. Government contractors that contribute the fringe to a retirement plan for their hourly workers may help reduce the chances these workers face income shortfalls in retirement. It is a requirement to pay these fringes, so consider doing the right thing for employees, especially knowing they may not do it for themselves.

Adam Bonsky is executive vice president of government markets for Fringe Benefit Group. For more information, call (800) 662-6177 or email abonsky@fibi.com.