

MANAGING FRINGES ON PREVAILING WAGE JOBS CAN RESULT IN LOWER COST, HIGHER PROFITS AND MORE COMPETITIVE BIDS

Brian Renaud, Fringe Benefit Group

Navigating your way through prevailing wage laws can be quite challenging, even for the most experienced contractor. With the ARRA, it's more important than ever for contractors to understand their options as well as their obligations.

How you treat the fringes when you're on a prevailing wage job? As you probably know, a prevailing wage job is broken down into a base rate and a fringe rate. The base rate must be paid to the worker in wages but fringes may be used to pay fringe benefits or allocated as additional wages. The fringe allocation is determined by the employer and each fringe dollar paid as wages is subject to FICA, FUTA, SUTA and Workers Compensation costs, adding significantly to the payroll burden. Fringes allocated to "bona fide" benefits are not subject to these payroll costs, resulting in lower costs, higher profits, and more competitive bids.

Many employers offer health insurance to employees, yet fail to take appropriate credit when working on a prevailing wage job. In effect, they are paying the employee twice, paying a portion of the fringes in wages while also subsidizing the cost of the insurance.

Taking the credit for health insurance on a prevailing wage job is relatively easy. When working on a prevailing wage job and taking the appropriate credit from a traditional monthly premium health insurance plan, you need to determine an hourly cost for the benefit. Prevailing wage jobs and their wage determinations are calculated on a per hour basis. Take the employee's monthly premium and multiply by 12 months to come up with an annual cost. The annual cost must then be divided by 2080 hours. The result is the hourly equivalent cost for the employee's health insurance premium. For example:

Employer-paid monthly health premium:	\$ 200.00
Multiply by 12 months	X 12
Annual cost of Employer paid health premium	\$ 2400.00
Divide by 2080 hours (full-time work)	2080
Hourly equivalent cost of health insurance	\$ 1.15

That number - \$1.15 is the amount per hour that can be subtracted from the total fringe amount **for the employer paid portion of the health premium for an employee on a prevailing** wage job. That number can be used to reimburse yourself **(the employer)** when the employee is on a prevailing wage job. Without changing your current plan, you can make that plan more cost effective and have the employee "pay" for a portion of their own health insurance when on a prevailing wage job.

Using fringe dollars for fringe benefits is what the law originally intended. If your company has a health plan, take the credit for that premium when you're on a prevailing wage job. If you install a health plan, factor in the credit from the start to make those prevailing wage jobs more profitable. In addition to health insurance, there are other "bona fide" benefit plans that can be used to further utilize the remainder of the fringes. Every fringe dollar not paid in cash to the employee saves you money and helps you compete for new jobs.

Educating Your Employees about the Importance of Prevailing Wage Benefit Plans.

As stated, contractors who bid and work on government-funded projects, such as the jobs being created by the ARRA, gain several advantages when they implement a prevailing wage benefit plan. These include significant savings on payroll burden, which means lower job costs, leaner bids and improved chances of winning jobs; tax advantages for the company as a whole, and the opportunity for owners and key employees to maximize contributions to the company 401(k) plan and reduce their individual taxes.

Yet concern over the employees' reaction when they see the reduction in their weekly paychecks can prevent company owners from putting a plan in place. The two biggest fears contractors voice are that employees will quit or that they will unionize. Educating employees about the numerous benefits of prevailing wage plans can go a long way toward overcoming employee objections.

Showing workers a copy of a bid your company lost can be a real eye-opener. The number of bids on government contracts has increased significantly in the past year, and bids are often won by narrow margins. Tally up how much you could have saved on payroll burden with a prevailing wage benefit plan, then let your workers know, "If we'd had a plan, we would have won this bid." When workers understand the savings realized by implementing a plan can mean the difference between having work and not, any objections generally fade.

Contractors save money with a bona fide benefit plan. 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, FUTA, state unemployment taxes and workers compensation. Although rates for the last two vary, conservatively these taxes represent an additional 25 cents on each dollar paid as cash wages. Examples of benefits that might be included in a plan are health insurance, vacation time, sick time, apprenticeship programs, and retirement plans.

An important selling point for employees is that the plan will reduce their taxes dramatically. When the fringe is put towards benefits, employees don't pay federal income tax, state income tax or FICA. For even the lowest tax bracket, this can create significant tax savings, approximately 22 – 28% or more. And, when put towards retirement, the employee saves taxes on any / all earnings on their contributions until withdrawn.

Many workers don't understand that unions have strict requirements that must be met before employees are eligible for benefits. The fringe portion of the wage goes directly to the union, as does 3% of pay for union dues. But unless an employee works the required number of hours in a specified time period, they are not eligible for health insurance. Employees must belong to the union for five years before becoming vested in their retirement plans, and can only access these funds at retirement – and then only as an income stream. The union also makes all decisions as to how the monies in the plan are invested. With a prevailing wage plan, the law requires that all workers are immediately fully vested in the retirement plans, and most employers give workers investment options.

When employees understand the short and long-term advantages of implementing a prevailing wage plan, particularly when they understand the difference between

winning and losing jobs, odds are in your favor that they will embrace, not object to, a prevailing wage benefit plan. Check out the interactive calculator found at www.thecontractorsplan.com and learn how much you could be saving by implementing a prevailing wage benefit plan.