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PENSION SERVICES, INC.  
DESIGNING TODAY'S RETIREMENT PLANS

## Prevailing Wage Retirement Plans

Business owners who do prevailing wage work and use the fringe allocation of the specified wage to set up a bona fide benefit plan for their hourly workers can use that allocation to greatly improve their own retirement benefit.

### Payroll Savings Now

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. Another option is to allocate this amount to a bona fide benefit plan or plans resulting in significant cost savings. Benefits that might be included in a bona fide benefit plan offering are retirement, medical, dental, vision and life insurance plans.

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, FUTA, 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 on each dollar paid as cash wages.

### Sample Calculation

Assume ABC Construction Company has ten employees doing prevailing wage work. These employees work approximately 2,080 hours each 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%.

10 employees X 2,080 hours = 20,800 total hours

20,800 hours X \$10 = \$208,000 in additional payroll

\$208,000 X 25% = **\$52,000 in potential company savings!**

The savings realized by allocating the fringe portion of the prevailing wage to bona fide benefit plans means two things for contractors, more competitive bids and/or higher profitability.

With record numbers of contractors registering to bid on federal and state contracts, competition for the opportunities presented by President Obama's Economic Stimulus package are already fierce.

### Advantages for Company Owners

The combination of facilitating more competitive bids, offering quality benefits for hourly workers, and increasing company owners' ability to contribute to their own retirement accounts is hard to beat.

Company owners are often frustrated over their inability to use a 401(k) to save money for retirement. Generally speaking, IRS regulations limit owners and other highly compensated employees to contributing a maximum of 2 percent more than

the average contributed by all non-highly compensated employees and if they aren't contributing, well, the math isn't hard to do.

Many company owners and traditional 401(k) plan administrators don't realize that prevailing wage contributions to a retirement plan can be counted as elective deferrals for compliance testing purposes. Simply by taking advantage of this, owners of companies that do a lot of prevailing wage work can often increase their own 401(k) contributions to between 10% and 15% of their income.

Alternatively, a company may use prevailing wage contributions to offset other company contributions. Let's say the company would like to give the non-prevailing wage employees, (i.e. office staff) a 3% contribution based on their annual wages. The prevailing wage contributions paid to field employees can offset the amount you give your office staff. In other words, if your lowest paid prevailing wage employee receives 3% of his annual wages through prevailing wage contracts, you can give your office staff that same 3% without having to give the field employees anything more than they have received through their prevailing wage contracts. This is a nice way to reward those employees and owners who work in the office versus the field.

Depending on the plan design, your company can save thousands of dollars in addition to the already-significant reduction in payroll costs. Tax savings are realized for both the company, which is not taxed on monies contributed; and the owner, who doesn't pay personal income tax on the amount contributed on his or her behalf. This arrangement also benefits employees by reducing their tax burden and helping them to plan for the future.

Some companies may still hesitate, concerned that although they may be doing a great deal of prevailing wage work one year, this may not be the case in subsequent years. The plan is designed to handle whatever actually occurs in a given year. Companies can use the prevailing wage portion when and if they want to. Think of it as a tax planning tool that is hard to beat.

Existing 401(k) plans can add prevailing wage plan provisions at any time. If your company is comfortable with a Safe Harbor plan design, which requires a minimum company match or profit-sharing contribution to all employees, prevailing wage contributions can be counted toward those contributions as well.

## Getting Employee Buy-In through Education

Some contractors worry their workers will object to a benefit plan when they see the reduction in their paychecks, but the current economic climate makes that unlikely. During enrollment presentations, the bidding process is explained to workers. Most quickly understand that savings generated by offering the plan help the company win bids, which means they're more likely to continue to have jobs. With so many workers unemployed, often for long periods of time, any objections usually disappear. In addition, the plan helps them put money away for retirement and provide medical insurance for themselves and their families, as well as ancillary benefits like vision, dental and life insurance.

It's more important than ever to submit the most competitive bid possible. If companies you're competing against are saving money with a prevailing wage benefit plan, and you don't have one, you're already at a disadvantage.

Many contractors view public works projects generated by the Economic Stimulus Plan as a welcome lifeline. By correctly using prevailing wage laws and contributions to their full advantage, it can also represent an opportunity for both business owners and hourly workers to build more secure futures for themselves and their families while better positioning the company to compete and grow profits.

The first step is to meet with a retirement plan professional like Qualified Pension Services, Inc., who specializes in custom designed prevailing wage retirement plans. We offer free consultations and with a simple employee census from your payroll department we can run sample plan designs which will show you exactly how this type of plan would benefit your company. Visit our website at [www.qpsinc.biz](http://www.qpsinc.biz) for more information.