



THE
Contractors
PLAN®
Provided by Fringe Benefit Group



Construction Contractors, Prevailing Wage & Using Retirement Plans for Compliance

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ABC Partnership Overview



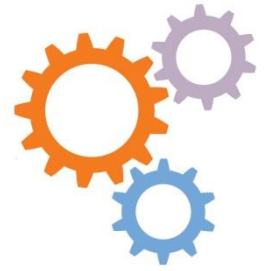
- Business partner program launched in Sept - 2009
 - One aspect of The Contractors Plan – a prevailing wage specific retirement solution
 - Over 500 contractor members signed up through brokers since launch
 - \$10's of millions in payroll burden savings created for members
- National strategic partnership launched in Dec – 2014
 - Partner for ABC core value of compliance and ethics
 - Resource for chapter staff, contractor and broker members
 - Partner page, webinars, home office and field support, educational emails, newsletter content, etc.
- **Preferred Pricing for ABC Members**
 - No set-up fees and waiver 1st year annual fee on retirement plans
 - Other included services at no additional cost

Help Contractors Meet and Exceed Regulatory Obligations



- Review options for discharging fringe benefits
- Reduce payroll taxes and costs on public work
- Be more competitive and / or profitable on public projects
- Prevailing wage-compliant health & welfare programs
- Recognize additional incentive for company owners to set up a PW retirement plan

Employer Decides How to Satisfy the Fringe Obligation



- Contractors typically pay the “base” amount in cash and then choose how to pay the “fringe” portion:
 - Furnish “bona fide” fringe benefits
 - For vacation and holidays
 - Into an approved apprenticeship program
 - As cash, and have it treated as wages

The Problem When Performing Government Work....



Many contractors pay some or all of the mandatory fringe benefit package as wages because they believe it is the easiest way to satisfy DOL compliance

It may be the easiest...however, it is *absolutely the most costly*.....

Calculating Payroll Burden



All cash wages subject to payroll burden:

- FICA 7.65%
- FUTA .80%
- SUTA (Ohio) .4-11%
- General Liability 2.00%
- Workers' Comp 10%-40%

The average payroll burden is between 20%-40%
This Increases Your Labor Costs!!!

How it works...

Plumber



Pay Fringe in Paycheck

Base Wage	\$34.52
Fringe	<u>\$10.33</u>

Total Wage	\$44.85
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Payroll Burden (30%)	<u>\$13.46</u>
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Bid Cost	\$58.31
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Pay Fringe to “Bona Fide” Plan

Base Wage	<u>\$34.52</u>
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Total Wage	\$34.52
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Payroll Burden (30%)	\$10.36
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“Bona Fide” Plan	<u>\$10.33</u>
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Bid Cost	\$55.21
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\$3.31/hr savings
per person.
Bid is 5.7% lower

Plumbing Contractor

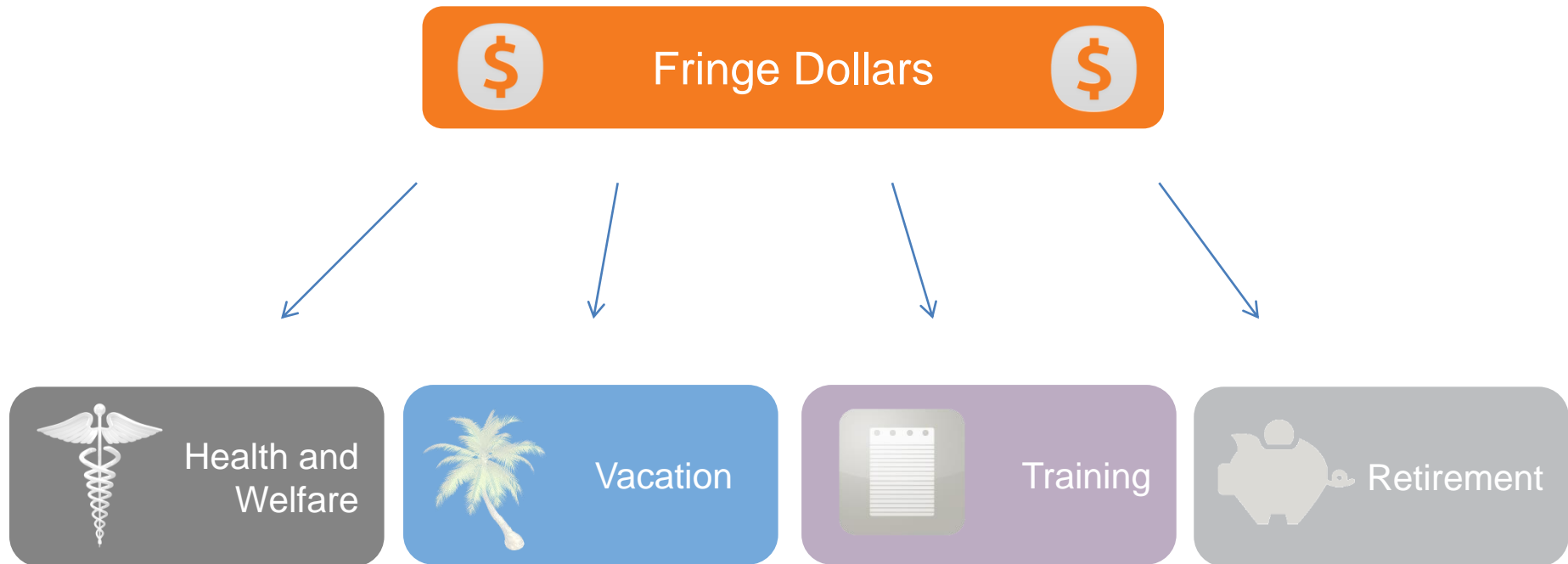


- About 75% of this contractor's work is government
 - 2080 annual hours x 75% = 1560 hours
- There are 25 hourly employees
- The hourly savings by removing the fringe from payroll is \$3.31
- The annual savings:
 - 1560 hours x 25 EEs x \$3.31 hour = \$129,090

The Solution



Remove fringes from payroll and allocate into “bona fide” benefits programs.



What Makes a Fringe Benefit Plan “Bona Fide”?



- Specified in writing and communicated to covered employees
- Irrevocable contributions made to a third party or trust
- Convey a benefit to the person actually performing the work
- Group benefit plan
- Accounted for on an hourly basis (weekly payroll reporting form WH347)

Retirement Plans



- PW-compliant plan permits employer to determine how much to contribute on hourly basis per job class and site
- Fringe contributions are considered employer contributions
- Contributions have to be 100% vested
- Plan may be set up as stand-alone plan for fringes only, or used in conjunction with 401(k) or Profit Sharing plan
- Fringe dollars may be leveraged to help owners maximize their own plan contributions through plan design...
- Contributions may be made only on PW jobs
 - Exemption from “annualization”

Retirement Plan Options



- 401(k): Fringes may be counted as deferrals to help owners / HCEs contribute more. Generally, HCE contribution % limited to only 2% over average of NHCE group
 - % will be much higher if you count fringe contributions
- Profit Sharing: Generally, employer contribution will be a level % of compensation for all eligible employees
 - You will not have to contribute as much, if anything, for PW workers if you count fringes as a profit-sharing contribution
- An industry unique loan program

How Your Prevailing Wage Contributions Benefit Owners and Top Staff



Example: 401(k) with Prevailing Wage “Boost” vs. cash

NHCEs	Pay	Deferrals	PW Contributions*	PW Contributions**	Avg* Deferral %	Avg** Deferral %	Test	Test
Secretary	\$25,000	\$1000	N/A	N/A	4%	4%	4%	4%
Bookkeeper	\$35,000	\$1400	N/A	N/A	4%	4%	4%	4%
20 PW Employees	\$1,000,000	\$10,000	\$0	\$100,000	1%	11%	20%	220%
Total NHCEs		\$12,400		\$100,000			28%	228%
Divide total % by # of NHCEs (22) for NHCE Actual Deferral Percentage							1.27%	10.36%
Computed Maximum HCE Deferral Percentage							2.54%¹	12.95%²

*Prevailing Wage if paid in Cash

**Prevailing Wage Used as “Boost”

¹If NHCE ADP is <2%, the HCE Deferral % is 2x the NHCE ADP

²If NHCE ADP >8%, the HCE Deferral% is 1.25 x the NHCE ADP

Advantages to Employer



- More competitive bids and / or higher profits
- Free up cash flow
- Equalize wages between public and private work
- Increase retirement savings for owner and other HCEs
- Provide meaningful health & welfare benefits to employees
 - Employee retention and equalizing footing against unions
- Simple to administer
- Helps keep your business *compliant with PW requirements*

Advantages to Employees



- Lowers taxable income
- Employees have medical & specialty benefits *from their employer* vs. having to obtain via a state health exchange
- Option to direct their own retirement plan investments within a portfolio of stocks, bonds and fixed income
 - Lump sum distribution option 60 days after termination
- Tax deferred savings – provides income at retirement
- Company savings = lower bid costs = more PW work

Annualization Principle



- Applies to benefits of a continuous nature (e.g., health insurance, pension plans)
- Determine hourly rate of contribution that is creditable towards contractor's Davis-Bacon prevailing wage obligation by:
 - Dividing the total annual contributions by the total annual hours worked (both Davis-Bacon and non-Davis-Bacon work); and
 - Allocating fringe benefit credits so that Davis-Bacon work is not used to fund benefits on private (non-Davis-Bacon) work

Annualization Principle

Defined Contribution Pension Plans



- Davis-Bacon credit is based on the effective annual rate of contributions for all hours worked in a year (both Davis-Bacon and non-Davis-Bacon work)
- An exception to the annualization principle applies to plans that provide immediate participation and essentially immediate vesting (100% vesting after an employee works 500 or fewer hours).
 - This exception allows full credit for the amount of contributions made on Davis-Bacon work

Annualization Example



- Employer provides medical insurance at \$500 per month to electrician, for an annual cost of \$6000
- Electrician works 500 hours of the year on PW jobs, at \$38/hour base wage and \$12/hour fringe
- Electrician works 1500 hours of the year on private jobs
 - $\$6000 \text{ annual health cost} / 2000 \text{ annual hours} = \3.00 (credit per hour)
 - Only \$3/hour of the fringe dollars can be used as a credit against the annual health care costs
 - This leaves \$9.00/hour in fringe wages on the 500 PW hours still to be discharged, either on the check or to other bona fide benefits

Prevailing Wage / DBA Expertise



- Implemented the first “bona fide” benefit plan for prevailing wage contractors in 1979
- Compliance assistance available
- Audit support for IRS, DOL, GC, local compliance officers inquiries
- Familiar with certified payroll reports, fringe benefit statements, wage determinations, etc.
- Industry experts on staff and consultant in Washington, DC to help clients
- Government contractors = sole focus for over 30 years

Thank You!



Questions & Answers

- **The Contractors Plan Website:**
 - <http://abc.contractorsplan.com>
 - Contact Us – to find nearby field support
- **ABC Partnership Websites:**
 - <http://www.abc.org/membership/memberdiscounts/thecontractorsplan>
 - <http://www.abc.org/en-us/membership/strategicpartners/fringebenefitgroup>
 -
- **Contact Us at:**
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