

The Basics of Prevailing Wage

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Prevailing Wage work can be interesting and profitable and the prognosis looks good – that prevailing wage work whether at the federal, state or local level is always going to be there. To a lot of contractors, however, this work seems confusing and complicated with a lot of red tape. Like so many things, however, if it's "broken down" into concepts we understand, it becomes more manageable and exciting. The basic premise is simple, straightforward and easy to understand. As long as you know the basics of why, what's in it for me and how - you'll want to learn more and take advantage of your expanded business opportunities to become more competitive and profitable.

The basic idea of prevailing wage is straightforward. A contractor who bids on any type of government funded project is subject to the federal prevailing wage provisions of the Davis-Bacon Act or its state or municipal counterparts. These laws require contractors working on these funded projects to pay their employees a prevailing wage including the anticipated cost of prevailing benefits. These laws, originally passed in 1931, were and still are designed to protect communities and workers from the economic disruption caused by non-local contractors coming into an area and winning construction projects by underbidding local wage levels. The laws require payment of locally prevailing wages and fringe benefits to laborers, mechanics, journeyman and apprentices employed on contracts in excess of \$2000 for construction, alteration or repair of public buildings or public works.

Prevailing wage rates are the wage rates listed on the wage decision for the project. This wage decision includes the minimum basic hourly rate of pay for each work classification and a fringe benefit amount. While the base rate of prevailing wage has to be paid in cash, the fringes can be paid into a "bona fide" benefit plan. Examples of benefits that might be offered under a "bona fide" benefit plan are retirement plans, medical insurance, vision and dental coverage, life insurance and vacation and other paid leave as well as some contributions to training programs. The total hourly wage that is required to be paid may be no less than the total wage rate (basic wage plus fringe benefits). If the value of the fringe benefits you provide is less than the total fringe benefit rate on the wage decision, you will need to add the balance of the wage decision fringe benefit rate to the basic rate paid to the employee. All cash wages including any fringe dollars paid in cash to the employee are subject to payroll taxes such as FICA, FUTA, State Unemployment and Workers Compensation. In Pennsylvania, all those taxes can average about 15 cents on the dollar – and with fringes averaging \$12 - \$20 an hour (or more) – that adds up quickly. Simply by providing employees with a benefit plan (or a combination of plans) the contractor can reduce payroll costs by the same amount while offering employees valuable benefits.

Why would a contractor want to enter this arena? How about to become more competitive and profitable? Again, any fringe dollars spent on benefits do not incur that 15% payroll burden.

How can I determine how much I can save?

Typical Payroll Taxes	
FICA	7.65%
FUTA	1.00%
SUTA	1.00%
General Liability	5.00%

Total Payroll Taxes 14.65% - lets round that to 15%

A normal work year has 2000 hours. If we assume 10 employees doing prevailing wage work one half of the time and with an average fringe benefit amount of \$12.00/hr, the numbers would look like this:

10 employees X 1000 hours = 10,000 total hours of prevailing wage work
10,000 hours X \$12.00 fringe = \$120,000 additional payroll
\$120,000 X the 15% payroll burden = \$18,000 – your savings by not paying the fringe allocation in cash or this is the added cost to payroll if those fringes are paid as cash wages – your choice.

While the cash option to pay the fringe amount, at first, seems the simplest, it is the most costly to the business. Contractors should look for that competitive edge. Providing fringes in benefits, as you can see, can actually save the contractor money. Effectively paying the fringe allocation in benefits not only affects the contractor's balance sheet on every prevailing wage job, it reduces your payroll costs thereby allowing you to lower your bid costs as well. On average, payroll costs can be reduced by as much as 4 – 5 % thereby reducing the overall bid by 1 – 2 %. We all know that most bids can be won, or lost, with less than a 1% margin.

It's that simple. Prevailing wage jobs make you more money when you take advantage of the options available to you, allowing you to become more competitive in the bidding process, securing more work and making those jobs more profitable. All that is a good thing.

Karen deMontigny, CFP is the Northeast Regional Vice President for Fringe Benefit Group and Barbara Hostetler, LUTCF, CPIA of Hostetler Insurance Associates, Inc. provides local representation in Central Pennsylvania for the Fringe Benefit Group, a company that pioneered prevailing wage benefit plans. The Fringe Benefit Group continues to be the leader in providing unparalleled products and services to the prevailing wage marketplace. **The information is provided for informational purposes only.** We recommend you consult with your attorney, CPA and/or other financial advisor to determine how prevailing wage work can affect your business. Karen deMontigny can be reached at Fringe Benefit Group, 11910 Volente Road, Austin, TX 78726; (800) 690-7793, FAX (800) 690-7789 or by email at kdemontigny@fibi.com. Barbara Hostetler can be reached at Hostetler Insurance Associates, Inc., 275 Hess Blvd., Ste. 103, Lancaster, PA 17601; (717) 293-7100, FAX (717) 293-7815 or by email at brh@hostetlerinsurance.com. On the internet visit our website at www.fibi.com.