BUILDING FOR THE FUTURE WITH A PREVAILING WAGE RETIREMENT PROGRAM

How do prevailing wage plans work?

By law, your business may be able to direct a portion of your employees' salary into a pre-tax, fringe benefit plan, rather than putting it in an envelope on payday. A tax qualified retirement program qualifies as a fringe benefit. This affords *you*, the contractor, significant tax savings on the dollars funneled into a fringe benefit. The savings coming from reducing the cash wage that otherwise would have been paid. In doing so, you will avoid payroll expenses like FICA/FUTA contributions, state unemployment taxes and workers' compensation premiums, just to name a few.

Does my business qualify for one of these plans?

The availability of these types of plans originated from the 1931 Davis-Bacon Act. Any contractor having non-union employees working on **public projects** may participate. You can choose to pay part of the prevailing wage rates in the form of a fringe benefit, such as a qualified retirement plan. Offering a fringe benefit instead of cash can help impact your bottom line in a positive way.

Tell me more about how this impacts my business.

Spiraling costs are a challenge to every contractor. Anything that can make you more competitive and help maintain employee morale at the same time is worthy of consideration. The prevailing wage plan allows you to equalize the paychecks of both prevailing wage and standard wage employees. The prevailing wage plan will help you retain employees by growing their retirement account balances. Employees that are serious about staying with your firm will respect this valued benefit. It could be one more reason they work long and hard for you.

When's the last time someone surfaced an issue that was…

A win-win situation for all involved?

Many of the benefits discussed so far including reducing your payroll burden, are focused on the employer. There are also important benefits for your employees:

- **Pre-tax Investing** – Contributions made to the retirement plan are made before taxes are taken out. This means the employee will be taxed on a smaller gross income, boosting your employee's investing power.
- **Tax-Deferred Growth** – Growth on the money is not taxed annually. Investments are allowed to grow without interruption, and the employee pays no taxes on this money until it is taken out of the plan. Withdrawals prior to age 59 ½ may be subject to a 10% IRS penalty.
- **Professional Management** – Plans are designed to provide employees with professional services and money management. All employees participating in the plan will have access to multiple investment options offered in the plan. There's something for everyone – from conservative to aggressive investment possibilities.

Show me the savings!

Let's take a look at a hypothetical illustration of the hourly savings for one employee:

Employee	Without Fringe Plan	With Fringe Plan	
Base Pay	$23.00	$23.00	
Fringe Pay	$ 8.00	$ 0	
Fringe Plan	$ 0	$ 8.00	No Payroll taxes or insurance due on this amount
Payroll	$31.00/hr	$23.00/hr	
Payroll Taxes & Insurance*	$ 9.30/hr	$ 6.90/hr	($9.30 - $6.90 = $2.40/hr savings)

*Based on a 30% labor burden

- **Your Hypothetical Savings:** **$ 2.40 per hour!**
- **Savings For A 40/hr Work Week** **$96.00 weekly!**
- **Annual Savings ($96.00 x 52 wks)** **$4,992.00 per employee annually!**

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