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HOW TO LEVERAGE FRINGE BENEFITS IN PREVAILING WAGES

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In [2019](#), the federal government spent close to \$600 billion on government contracts, an increase from over \$550 billion in 2018. As our economy strengthens, the Northwest has become a fast-growing hub for government contract activity. In Washington State, there are many large contractors such as Lockheed Martin, The Boeing Company, Vigor, and Granite Construction that are each awarded well over \$100 million a year. These large contractors will subcontract out many jobs to dozens of smaller businesses in industries such as construction, manufacturing, security, janitorial, and professional services to name a few. The Department of Defense and The Department of Energy are two of the largest agencies in annual spending; another worth noting is the Department of Transportation.

I know that some employers are leaving money on the table when they didn't intend to.

Contractors that step into government contracting know there is a needed learning curve to ensure they are meeting all that the government requires. This is particularly true for compliance with prevailing wage laws. Contractors that perform jobs for the federal or state government are required to pay their workers what is called a prevailing wage.

In construction, you may operate under the Davis-Bacon Act (DBA). In many service-led industries such

as security, IT, janitorial, or landscaping, you may operate under the McNamara O'Hara Service Contract Act (SCA). Both DBA and SCA contracts add complexity in their compliance requirements.

Having worked with government contractors exclusively over the last few years, I have seen a real opportunity for many employers to better align how they approach the various employee populations to their short and long-term goals. Wise contractors approach the prevailing wage laws to ensure they are first in compliance and second, handled efficiently to keep things running smoothly. However, contractors can wield the prevailing wages in a way that will increase profits, win contracts, eliminate risk exposures, get help with compliance, and even boost employee retention.

Contractors can save a tremendous amount of money by taking advantage of the fringe benefits...

In a prevailing wage, the person's paycheck is divided into two components. There is the base wage and a fringe benefits wage. Contractors can save a tremendous amount of money by taking advantage of the fringe benefits component when they are currently paying the fringes as cash in lieu of benefits. When you put

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the fringes into benefits and/or retirement, you drastically reduce your payroll burden. It is possible to save 20% on payroll taxes just by putting the fringe benefit portion into a health and welfare benefits plan that includes retirement.

It is how you go about managing the fringe allocation and setting these programs up that will determine the potential impact on your general and administrative

expenses. This is where your employee benefit consultant needs to understand the world of government contracting in order to help you navigate through this. No one is a master of everything. Taking a team approach and coordinating the right people and vendors is the key to setting this up well.