



The T & M Group Inc

Your Prevailing Wage Resource

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What We Do

- The T&M Group assists firms engage in contract work with Federal, State and Municipal agencies that fall under the Davis-Bacon, Prevailing Wage, and Service Contract Act.
- We identify companies operating in this market place and assist them with the design, implementation and administration of Hour Bank plans.
- All recommended and/or referred providers, administrators, professional advisors and consultants have extensive experience the in prevailing wage arena.
- The T & M Group represents clients – NOT providers or vendors.
- Our job is to understand client objectives, identify and deliver appropriate solutions, assist in the implementation of those programs and monitor their performance.
- We are a fee based firm.

PREVAILING WAGE OVERVIEW

The wage determination belongs to the contractor (not the employee) with the mandate that it be spend for the employee's benefit in some combination of wages and bonafide third party administered benefits (i.e. health insurance, qualified retirement plans, flexible spending accounts, certified training programs, vacation plans and severance pay plans).

In California, the base wage must be paid out as cash compensation. Contractors not governed by Collective Bargaining or Project Labor agreements may redirect some or the entire fringe portion of a wage determination into the aforementioned plans at their discretion. The employee has no say in how the fringes are allocated. These monies are clearly viewed as employer contributions - not employee elective contributions.

An Open Shop contractor has enormous flexibility in allocating fringe dollars (absent a Project Labor agreement) to include allocating some or the entire fringe as an add-on to base wages.

In addition, these allocation choices can be made on a job by job and labor classification basis. As a result, if it is advantageous to pay additional cash wages to compete with a Union contractor for labor or to attract certain trades on a particular job, there is latitude to do it.

Because of the discretionary nature of the fringe allocations, benefit plan designs can be customized to meet a contractor's

individual specifications. This flexibility often allows benefit plans to operate off the same platform for work performed in either the public or private sector - or, conversely, prevailing wage driven benefit plans can be established to operate concurrently with existing core benefit plans.

The ability to redirect fringe dollars into benefit plans affords a significant tax savings to both the employer and employee.

Since these dollars don't flow through payroll, they are not subject to payroll taxes (FICA, FUTA, SUTA, Workers Compensation or General Liability insurance based on payroll) nor are they subject to income tax at any level.

This tax advantage allows an Open Shop contractor to compete with Union contractors who realize this savings by virtue of being mandated

to contribute fringe dollars to Union Trusts under Collective Bargaining agreements.

How these tax savings (often 5% or more of the labor cost associated with a project) are applied is at the total discretion of the contractor. They can be utilized to reduce bids or increase profits - and that decision can be made on a job by job basis.

TAX SAVINGS

Contractors performing work (services) subject to the Davis Bacon Act, State or Municipal Prevailing Wage law or the Service Contract Act (who are not subject to a collective bargaining agreement) can save substantial bottom line dollars by redirecting fringe dollars into bonafide benefit plans.

The contractor controls the allocation of fringe dollars. The contractor, however, is required to pay out those dollars on a per-hour / per-employee basis for every hour worked – but they may do so in any combination of cash and/or bonafide benefit plans(s).

Paying fringes as cash in lieu of benefits creates a liability equivalent to your payroll tax burden in the following areas: *

- FICA Contributions
- Workers Compensation premiums
- General Liability premiums (if based on payroll)
- Federal Unemployment taxes (to the cap)
- State Unemployment taxes (to the cap)

* *Varies by state*

OUTSTANDING ADVANTAGES TO THE EMPLOYER

LOOK WHAT IT CAN MEAN FOR YOU!!

	<u>25</u>	Number of Employees
X	<u>\$10 per hour</u>	Fringe Rate
X	<u>160 per month</u>	Hours Worked
=	<u>\$40,000</u>	Contribution per month
X	<u>25%</u>	% Payroll Burden (FICA, FUTA, SUTA, COMP.*, LIAB.)
=	<u>\$10,000</u>	Savings per Month

INCREASED PROFITS! OR BID REDUCTION!

You save:

- FICA contributions
- Workers compensation premiums*
- Public liability premiums
- Federal unemployment tax
- State unemployment taxes

Results:

- You become more competitive
 - You increase your contract volume
 - You generate higher profits
-

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PAYCHECK EXAMPLE #1 – FRINGE ON CHECK:

- Operator; Total hourly rate including fringes = \$46.15
- Based on 40 hour week; Single – 4 Exemptions, SUTA 4.7%, ETT 0.1%

\$46.15 per hour @ 40 hours:	\$1,846.00
Federal W/H	332.63
Employee Soc. Sec.	114.45
Employee Medicare	26.77
SDI	19.94
State W/H	<u>121.51</u>
Net Check	\$1,230.70

Cost to Employer

\$46.15 per hour @ 40 hours:	\$1,846.00
Employer Soc. Sec.	114.45
Employer Medicare	26.77
SUTA (on 1 st \$7,000)	86.72
ETT (on 1 st \$7,000)	1.85
W/C (CC 6308 – 13.54% - No Ex Mod)	249.95
FUTA (on 1 st \$7,000)	<u>14.76</u>
Total Cost to Employer	\$2,340.50

PAYCHECK EXAMPLE #2 – FRINGE TO PLANS:

- Operator; Total hourly rate less fringes = \$31.49
- Based on 40 hour week; Single – 4 Exemptions, SUTA 4.7%, ETT 0.1%

\$31.49 per hour @ 40 hours:	\$1,259.60
Federal W/H	117.00
Employee Soc. Sec.	78.06
Employee Medicare	18.26
SDI	13.60
State W/H	<u>66.97</u>
Net Check	\$ 965.71

Cost to Employer

\$31.49 per hour @ 40 hours:	\$1,259.60
Employer Soc. Sec.	78.06
Employer Medicare	18.26
SUTA (on 1 st \$7,000)	59.20
ETT (on 1 st \$7,000)	1.25
W/C (CC 6308 – 13.54% - No Ex Mod)	170.55
FUTA (on 1 st \$7,000)	<u>10.08</u>
Subtotal:	\$1,597.00
Less Fringe to Plans	<u>586.40</u>
Total Cost to Employer	\$2,183.40

HOW BENEFIT PLANS REDUCE TAXES

OPERATOR

\$1,230.70 – Take Home w/o Benefits

\$ 965.71 – Take Home w/ Benefits

\$ 264.99 – Actual Difference

\$ 560.40 – Benefit Plan Contributions

\$ 264.99 – Difference in Take Home Pay

\$ 295.41 – Taxes You Pay w/o Benefits

Potential Benefits over the Next Ten (10) Years

\$12,702.63/YR (Weekly Tax Savings @ 4%) = \$167,484.17

\$ 8,000.00/YR (\$5/HR @ 6% In A Retirement Plan) = \$111,776.00

\$12,800.00/YR (\$8/HR @ 6% In A Retirement Plan) =
\$178,841.00

\$16,000.00/YR (\$10/HR @ 6% In A Retirement Plan) =
\$223,552.00

Based on working 40 hours per week for ten (10) months of the year

FRINGE ALLOCATION

OPERATING ENGINEER GROUP 8

Total Fringe:	\$14.66
Less Training:	<u>0.65</u>
Subtotal:	14.01
Less Medical:	<u>6.18</u>
Equals Pension*	\$ 7.83

* Pension contribution can be 100% of compensation up to \$49,000 for an individual as long as aggregate company contributions do not exceed 25% of payroll.

GENERAL INFORMATION

WAGE DETERMINATION FORMATS:

On Federal jobs, the fringe portion is expressed as a lump sum – the union trust allocates the fringe within the trust on an hourly basis by category of benefit as determined by the collective bargaining agreement (referred to as “Line By Line”). Open Shop contractors can allocate the fringe to benefits in amounts at their discretion.

On State and Municipal jobs, the fringe is issued in a “Line By Line” format. The union trust is mandated to allocate the fringe according to that schedule. Open Shop contractors are not bound by that allocation schedule and can allocate the fringe to benefits in amounts at their discretion (With the exception of training).

VACATION / SICK PAY:

Open Shop contractors are not required to provide a vacation / sick pay benefit with the fringe. If they choose to provide this benefit, they cannot avoid ultimately running those dollars thru payroll. At best, they can only defer the taxes by setting up a vacation / sick pay plan and accruing dollars to be paid out when the employee takes time off. This requires setting up a trust to hold the money, establishing accounts for each employee, tracking and disbursing funds, etc.

In view of the foregoing, many contractors opt to put those funds into other non-cash benefits and offer no vacation / sick pay time they want to provide in an annualized per hour amount and put on the check each pay period as an add on to wages.

ANNUALIZATION PRINCIPLE:

In order to take full credit against the fringe, an Open Shop contractor must pay on every hour an employee works in a pay period regardless of whether it is public or private work.

The only exception is contributions to qualified retirement plans (because they are 100% vested immediately and a “cash in kind” benefit).

Since Union contractors are obligated by collective bargaining agreements to contribute to their Health & Welfare Trust on every hour worked regardless of whether it is public or private work, it would give the Open Shop contractor an unfair advantage in providing medical benefits by allowing them, in effect, to subsidize benefits provided on private work with dollars accumulated from fringes on public works.

COMPLIANCE:

Wage determination dollars are viewed as belonging to the contractor – technically, they are not the employee’s dollars, however, the contractor is required to use them on behalf of the employee.

Because they are considered employer dollars by both the IRS and DOL, the employee has no say in how fringe dollars are spent – that’s why there are no taxes paid (not even FICA) on those dollars when they are allocated to bonafide benefit plan(s).

The employer’s obligation is to spend the money for the benefit of the employee on a per-hour / per-employee basis in some combination of cash and bonafide benefits – with the requirement that the base rate be paid on the check.

In an audit, the employer does not have to prove the employee received a benefit from the fringe dollars (it is assumed that if the fringes went into a bonafide plan, the employee received a benefit). The employer has to prove that they spent the required dollars on each employee on every hour that employee worked in that pay period under the wage determination.

MECHANICS:

Wage determinations for every trade and labor classification within that trade are issued on a Federal, State or Municipal basis and include a base wage rate and the fringe amount(s) for benefits.

In California, the base rate must be paid on the check as wages – fringes can be handled several ways.

Union contractors are bound by their Collective Bargaining agreement to pay the fringes to the Union Health and Welfare Trust who then allocates it on an itemized hourly rate basis by benefit type. The trust provides and administers the benefit programs.

Non Union (Open Shop) contractors are not bound by Collective Bargaining agreements and have the option to pay the fringe in cash (added to wages) or contribute a portion or the entire fringe to a bonafide third party administered benefit program (i.e. group medical, qualified retirement plans, flex accounts or severance pay plans).

The proportional allocation of the fringe among the various eligible plans is at the discretion of the contractor. They must, however, be reconciled on a per-hour / per-employee basis and paid on every hour worked on the respective contract.

Fringes paid as wages are subject to payroll taxes – FICA, SUTA and FUTA (to the caps), Workers Comp and General Liability (when based on payroll). This added labor burden makes the contractor less competitive in bidding or reduces profits.

The availability of compliant benefit plans levels the playing field for Open Shop contractors by providing the same opportunity the Union contractor has to reduce taxes and provide employee benefits – with the added advantage of being able to customize plan designs as opposed to the more structured configuration in Union Trusts.

HOURLY BANK PLANS:

Under an Hour Bank plan, an employee becomes eligible for insurance coverage by accumulating the minimum required hours of work credit. If, for example, eligibility for benefits is based on working 120 hours per month, each 120 hour increment of work credit provides one subsequent calendar month of benefit for the employee (and dependents if family coverage is elected). Contributions will occur as long as the minimum hours of work credit in the Hour Bank is maintained.

The hourly equivalent for monthly premiums is determined by dividing each employee's monthly premium by the hour bank level (i.e. \$360 monthly premium divided by 120 hour bank level equals \$2.00/hr hourly equivalent).

Once the employee has completed the necessary 120 hours work credit, the employee will be covered effective the 1st day of the following month (i.e. if contributions started September 1st, coverage would begin October 1st).

Employees may accumulate hours of work credit for excess hours worked (i.e. an employee worked 160 hours in a month, the employee will accumulate an excess of 40 hours of work credit for that month (160 hours worked minus 120 hours required equals 40 hours excess credit toward future coverage).

If an employee falls below the required amount of hours of work credit, they will receive a COBRA notification and may exercise their COBRA rights, if desired. Once the minimum required hours have been reached again, the employee's benefits will resume the 1st of the following month.

Upon termination of employment, any remaining hours may be used to offset COBRA premiums, if elected, or the employee may request a cash refund in writing. All refunds are subject to income tax and they will receive a 1099 at the end of the calendar year.

HOURLY BANK PLAN ADVANTAGES:

Hour Banks solve the problem of contractors paying health and welfare insurance premiums for employees as though they were working full time when they are, in many cases, working less than full time.

Under this methodology, premiums are paid on a retrospective basis. The traditional method pays premiums at the beginning of the month with no way of knowing how hours an employee will actually work that month. As a result, a contractor is either overpaying or underpaying in the month.

With Hour Bank Plans, this situation is remedied with the added benefit of reconciling monthly premiums to an hourly rate for compliance purposes.

From an Employer's Perspective:

- Employees learn coverage has to be earned
- Addresses "lack of value" perception of benefits by employees
- Aligns cost of benefits with bidding/job costing
- Affords flexibility in amount of cost employee pays on private work

From and Employees Perspective:

- Helps with cash flow issues when not working
- Dollars vest immediately
- Simple to understand – work an hour get paid a benefit for one hour
- Earn extra benefits by working extra hours