# Prevailing Wage Essentials

### What they are?

A combination of hourly wage rates plus an hourly fringe benefit rate. Together these two rates add up to the prevailing wage.

### Who sets them?

The federal government sets prevailing wages for federal contracts. Many states have prevailing wage laws as well.

### Who must use them?

All government contractors must follow prevailing wage laws. When both federal and state rates exist, default to the higher amount.

**EXAMPLE**

**$32** Hourly Wage + **$8** Hourly Fringe = **$40** Hourly Prevailing Wage Rate

## Why do we have prevailing wages?

Prevailing wages were put into law with the Davis–Bacon Act of 1931 as a way to even out competition and level the playing field for workers. Currently, prevailing wage rates are derived from market surveys conducted by location and within specific timeframes. Leading companies, and unions, influence how prevailing wage rates are determined.

**State and municipal prevailing wage regulations may also be in place!**

## Pros and Cons of Prevailing Wage Jobs

- ✓ Prevailing wage projects are lucrative once you know the process
- ✓ Increased ability to bid for work by including federal and state jobs
- ✓ Government projects are typically available, even when private work slow down
- ✓ The job set up and construction process are predicable

- ✕ Higher operating costs, especially if fringe is paid in cash.
- ✕ Lost opportunities and higher bids due to increased labor costs & difficulties involved in prevailing wage contracts.
- ✕ Greater risk due to compliance and regulatory issues.
- ✕ Increased admin burden due to special accounting, payroll and compliance requirements.

## How do companies handle prevailing wages?

Companies must pay the prevailing hourly rate as required by law, but there is some flexibility in how the fringe portion is handled. Fringe benefits can be paid in cash or through a qualifying bona fide fringe trust.

When **paid in cash**, companies must pay workers' compensation, taxes and general liability on every fringe dollar, which increases payroll costs substantially.

When paid thru a **third-party, bona fide trust**, companies don't have to pay workers' compensation, taxes and liability, which frees up the money for growth and operating capital.

# Cash vs Trust Savings per Employee

| **Residential Carpenter:**<br>• 50% Certified<br>• $20.65/Hour Fringe Benefit | **Fringe Paid in Cash (Monthly)** | **eBacon Fringe Saver Trust* (Monthly)** |
|---|---|---|
| **Fringe Benefit Paid to Employees per Month** | **$1,789.67** | **$1,789.67** |
| Employer Payroll Taxes | $136.91 | $0.00 |
| Workers Comp Rate | $143.17 | $0.00 |
| General Liability Rate | $17.90 | $0.00 |
| **Total Amount Paid** | **$2,087.65** | **$1,789.67** |
| **Gross Employer Monthly Savings** | $0.00 | **$297.98** |
| **Gross Employer Annual Savings** | $0.00 | **$3,575.76** |

**For a company of 20 employees, this adds up to $70,000 in savings!**

* Assumes 100% fringe benefit is added to the trust

**Call us:**
**833.432.2266**

**We help government contractors remain compliant, reduce operating costs and be more competitive.**