

## Advanced Plan Design – Prevailing Wage Plans

*The key to achieving the tax advantages of a qualified plan is to follow the non-discrimination rules that are contained in the Internal Revenue Code.*

Employers with non-union employees that accept government contracts are often required to make “Prevailing Wage” pension contributions or payments as a substitute for union pension payments. This is an outgrowth of the Davis-Bacon Act that attempts to put Union, non-Union, and out of area contractors on an even contract cost basis.

Since many Employers already sponsor their own pension or profit sharing plans, these employers have the option to either, a) pay these contributions as additional hourly wages to the employees, or b) contribute these contributions to the Plan on behalf of these employees.

If the prevailing wage amount is contributed to the plan instead of being paid as wages, it is not a basis for payroll taxes such as Social Security, Medicare, disability, or other employment taxes. Many employers see drastic cost reductions in Workers’ Compensation premiums and disability costs when providing non-cash benefits instead of paying wages.

Also, this contribution can be used to offset regularly scheduled plan contributions. For example, if the plan is scheduled to make a 10% employer contribution, and the prevailing wage pension contribution is 8.5%, the only remaining contribution would be 1.5%. If the prevailing wage pension contribution exceeds the regularly scheduled contribution, no additional contribution would be required.... It has already been made.

### You Should Be Aware Of Some Conditions:

- ◆ The employer must apply this condition to all Prevailing Wage Employees. This is not a voluntary deferral; no one is allowed to “opt out.”
- ◆ Any waiting period for plan participation is waived for the Prevailing Wage Contribution. However the plan may still apply service conditions for other contributions or for 401(k) deferrals.
- ◆ Prevailing wage contributions are always 100% vested.

In the following example, about 60% of the staff already have a prevailing wage contribution over 5%. It will only cost this employer about \$30,000 of additional contributions to staff to provide the desired 10% (\$34,000) contribution to managers and the maximum benefit (\$183,000) to the owners. Depending on the circumstances and demographics of the employer, other advanced plan design options may be employed to allow for an even smaller required contribution.

#### Contact:

#### Current Clients

650-692-2043

webinfo@primarkbenefits.com

#### New Accounts

833-987-2315

retirewell@primarkbenefits.com

#### Why Primark Benefits

- ◆ **EXPERIENCE:** We’ve been in business since 1971
- ◆ **EXPERTISE:** Our credentialed staff are experts and leaders in the field
- ◆ **ACCURACY:** We have rigorous quality control and a compliance dept
- ◆ **ATTENTION:** Your satisfaction is our priority

Age Compensation			Prevailing Wage Component	Percent of Compensation	Profit Sharing Contribution	Percent of Compensation	Total Contribution	Percent of Compensation
Owner	65	\$305,000	\$0	0.00%	\$61,000	20.00%	\$61,000	20.00%
Owner	53	305,000	0	0.00%	61,000	20.00%	61,000	20.00%
Owner	53	305,000	0	0.00%	61,000	20.00%	61,000	20.00%
<i>Average 57</i>			<i>Subtotal</i>	<i>% of Total</i>	<i>Subtotal</i>	<i>% of Total</i>	<i>Subtotal</i>	<i>% of Total</i>
			0	0.00%	183,000	74.28%	183,000	58.33%
Manager	58	145,000	0	0.00%	14,500	10.00%	14,500	10.00%
Manager	64	127,743	0	0.00%	12,774	10.00%	12,774	10.00%
Manager	65	64,800	0	0.00%	6,480	10.00%	6,480	10.00%
<i>Average 62</i>			<i>Subtotal</i>	<i>% of Total</i>	<i>Subtotal</i>	<i>% of Total</i>	<i>Subtotal</i>	<i>% of Total</i>
			0	0.00%	33,754	13.70%	33,754	10.76%
Staff	57	108,500	0	0.00%	5,425	5.00%	5,425	5.00%
Staff	58	107,000	0	0.00%	5,350	5.00%	5,350	5.00%
Staff	62	76,531	0	0.00%	3,827	5.00%	3,827	5.00%
Staff	41	70,000	0	0.00%	3,500	5.00%	3,500	5.00%
Staff	52	64,846	0	0.00%	3,242	5.00%	3,242	5.00%
Staff	42	62,500	0	0.00%	3,125	5.00%	3,125	5.00%
Staff	61	61,571	7,176	11.65%	0	0.00%	7,176	11.65%
Staff	67	59,846	0	0.00%	2,992	5.00%	2,992	5.00%
Staff	50	56,817	13,714	24.14%	0	0.00%	13,714	24.14%
Staff	39	53,558	10,568	19.73%	0	0.00%	10,568	19.73%
Staff	52	44,213	6,305	14.26%	0	0.00%	6,305	14.26%
Staff	40	43,620	9,438	21.64%	0	0.00%	9,438	21.64%
Staff	53	39,892	4,398	11.02%	0	0.00%	4,398	11.02%
Staff	56	39,260	5,186	13.21%	0	0.00%	5,186	13.21%
Staff	57	32,441	726	2.24%	896	2.76%	1,622	5.00%
Staff	43	29,369	2,668	9.08%	0	0.00%	2,668	9.08%
Staff	30	25,390	0	0.00%	1,269	5.00%	1,269	5.00%
Staff	49	19,494	2,874	14.75%	0	0.00%	2,874	14.75%
Staff	61	17,384	979	5.63%	0	0.00%	979	5.63%
Staff	31	15,289	2,122	13.88%	0	0.00%	2,122	13.88%
Staff	47	3,784	889	23.48%	0	0.00%	889	23.48%
Staff	43	2,218	306	13.78%	0	0.00%	306	13.78%
<i>Average 50</i>			<i>Subtotal</i>	<i>% of Total</i>	<i>Subtotal</i>	<i>% of Total</i>	<i>Subtotal</i>	<i>% of Total</i>
			67,349	100.00%	29,627	12.02%	96,975	30.91%
<b>2,286,067</b>			<b>67,349</b>		<b>246,381</b>		<b>313,730</b>	

Owners	0
Managers	0
Staff	67,349

Owners	183,000
Managers	33,754
Staff	29,627

Owners	183,000
Managers	33,754
Staff	96,975

