

## RETIREMENT PLAN DESIGN FOR PREVAILING WAGE CONTRACTORS

*By Beth Harrington, QPA*

Are you ready to bid on new jobs under the Federal Stimulus package? Then bone up on the Prevailing Wage laws! The good news for contractors is that the prevailing wage can work to your advantage when it comes to retirement plan design.

In the prevailing wage hourly rate is a benefits component. These benefits dollars are first used to pay for medical, dental, disability or life insurance premiums. Benefits dollars remaining after premiums are paid can be deposited to the company's retirement plan on the employee's behalf.

### **These contributions serve two functions in the retirement plan:**

- They can be considered a Qualified Non Elective Contribution (QNEC) under the 401(k) portion of the plan. The QNEC is just like an elective deferral for testing purposes, so it helps the compliance testing results for the plan; and
- They are also considered employer profit sharing contributions, so the prevailing wage contributions offset profit sharing contributions to be made.

By designing the retirement plan to treat the prevailing wage contributions in this fashion, the company owners and office staff who are not subject to the prevailing wage reap the benefits too. They can increase their 401(k) contributions without as much concern about testing problems. And since the prevailing wage contribution also acts like a pre-funded profit sharing contribution, it reduces the overall cost to the employer.

*For example*, the employer declares a profit sharing contribution of 10% of compensation. The owner and the office staff receive the 10%, but the field staff's percentage is reduced (offset) by the prevailing wage contribution already made for them.

The prevailing wage component can serve double duty to help the owner and the office staff to get more out of their retirement plan, while still providing a meaningful benefit to the field staff. It requires careful plan design and documentation, but the advantages are clearly a win-win!

*Beth Harrington is the President of Benefit Resources, Inc., a retirement plan administration company located in Sacramento California. This document is for informational purposes only and should not be construed as legal and/or tax advice.*