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Boon Snapshot

The Boon Group® is a full-service employee benefits company specializing in the design, implementation and administration of cost-effective fringe benefit plans for federal, state and local government contractors. Since 1982, The Boon Group has developed a partnership philosophy that expands beyond the products and services we offer. We stand with the employers and employees who, just like all who work at The Boon Group, are faced with the daunting task of navigating the U.S. healthcare system.

The McNamara-O'Hara Service Contract Act (SCA)

Now Officially Called "Service Contract Labor Standards"

enacted in

1965

1. **In General,** *service contractors have minimum hourly requirements for wages and benefits.*

2. The hourly requirement for benefits is called a **fringe rate.** (However, sometimes these are called **prevailing wages or H&W**)

3. Because **benefits are required to be tracked on an hourly basis,** complications can arise from trying to fit a traditionally priced monthly benefit plan into an hourly requirement on a government contract.

Davis Bacon Act

enacted in
1931

1. **Protects communities and workers** from competition caused by non-local contractors

2. **Requires payment of:**
   a) Locally Prevailing Wages
   b) Fringe Benefits

3. **Requires weekly pay** and certified payrolls

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29 CFR 5.31

(a) A contractor or subcontractor performing work subject to a Davis Bacon wage determination may discharge his minimum wage obligations for payment of both straight time wages and fringe benefits by paying in cash, making payments or incurring costs for "bona fide" fringe benefits of the types listed in the applicable wage determination or otherwise found prevailing by the Secretary of Labor, or by any combination thereof.

Important Considerations for Government Contractors:

The 3C's

1. **Cost Savings.** If a contractor can lower labor costs on an existing contract. This typically results in an immediate impact to their financials. Compounded over the life of a multi-year contract, the savings can really add up!

2. **Competitiveness.** Government Contracts are awarded for the most part via a very competitive bid process. In the *Low Price Technically Acceptable* (LPTA) arena, even a small savings in payroll can mean the difference between winning and losing contracts.

3. **Compliance.** The DOL.

You Face Heavy Competition for Contracts

Less than

5%

Many Contractors are bidding projects with a profit margin of less than 5%.

It will vary based on the work that you do and the fringes that are being paid.

It might be possible to lower the overall bid by 3% – 7%.-

If the job requires the same man hours and the same materials – how can you lower your bid?

BENEFITS can be part of the answer

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Problem:

Paying the fringe portion in cash is the most expensive way.

Competitiveness

The best way to quickly become more competitive within the government contracting industry is to contribute the designated fringe rate to a bona fide benefit plan rather than pay cash to the employees.

Cost saving analysis

The cost saving analysis example illustrates the savings as a result of providing benefits versus paying the fringe in cash:

	Fringe Rate Paid in Cash	**Fringe Rate Paid into Benefit Plan**
Cash Wages	$19.27	$15.00
Health & Welfare Benefits	$0.00	$4.27
Total Required Compensation		
Estimated Bill Rate (FICA, worker's compensation premiums, unemployment taxes, public liability programs)	$2.89	$2.25
Estimated Contract Bid	$22.16	$21.52
Contract Savings per Year	**$0.00**	**$66,560**
Five-Year Contract Savings	**$0.00**	**$332,800**

NOTE: Calculations are based on a 15% indirect/overhead rate and 50 employees

Benefits Can Make All the Difference

Payroll Tax Savings:
taxes don't apply to benefits

Example:

Construction Company A:

Prevailing Work Force of	100 employees
Fringe Rate:	$8.00
Average hours worked	2,000
Total Fringe:	**$1,600,000**

Typical Payroll Taxes:

FICA	7.65%
WC	15.00%
FUTA	1.60%
SUTA	1.40%
	25.65%

Annual Savings by Paying in benefits:	**$410,400**

Compliance and Audits

The Contracting Officer or DOL can audit you to verify that employees were paid what they were owed:

Hours Worked

Keep track of hours worked on each job – Maintain accurate records to whom the fringe was paid and the benefits that were received

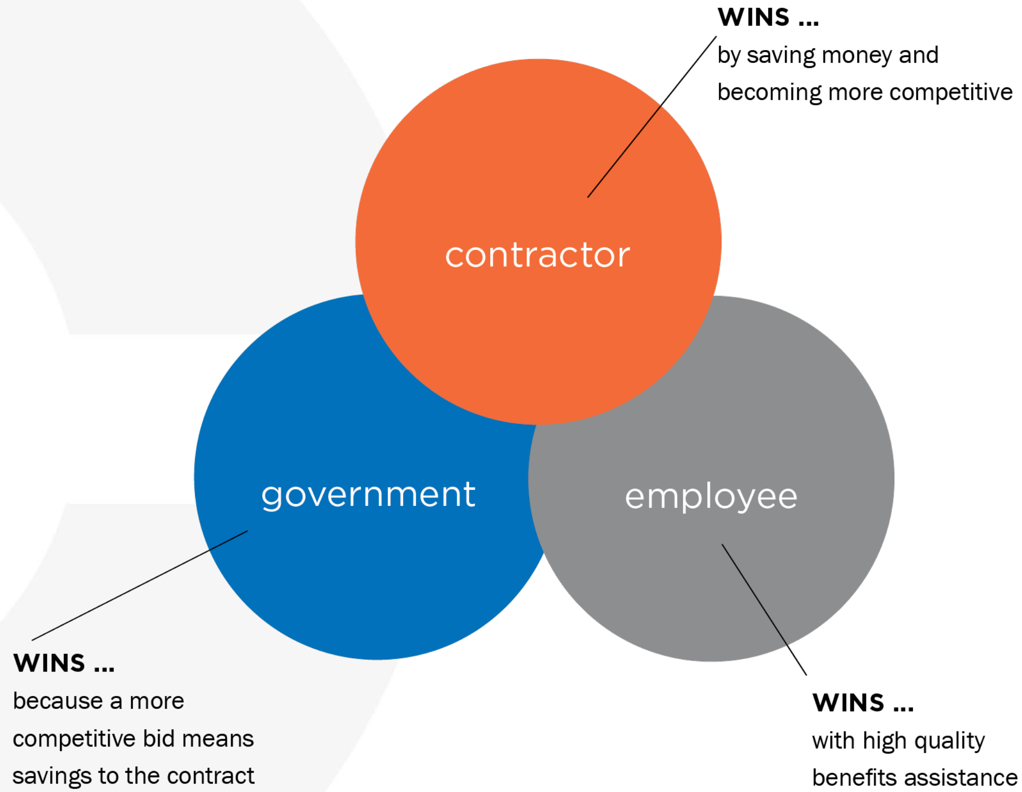
Fringe Money

When using Fringe money to pay for benefits – it must be made payable to a third party and it must be irrevocable

Compliance

Under contracts where the fringe amount must be allocated individually, compliance is achieved when the employer spends the exact amount of the fringe obligation *(fringe rate times hours paid)* to provide bona fide fringe benefits.

The Winning Solution–



Flexibility

Is an hourly priced plan better than a traditional medical plan?

Understand the Difference

Recommend the Best

Hourly Fringe Administration Model

PROS

- Designed specifically for government contractors
- Eliminates the need for more complicated fringe administration
- Protects the contractor from financial exposure
- Funding method is predictable

CONS

- Less traditional
- Hourly premiums are based on number of hours worked or paid

BEST FIT FOR

- Contractors with variable hour employees
- High concentration of part-time or seasonal employees
- Contractors with above average benefit costs
- Contractors looking to limit financial exposure
- New or renewing contracts

Monthly Fringe Administration Model

PROS

- Designed specifically for government contractors
- Traditional cafeteria style of benefit offering
- Employee can see the true cost of each line of coverage
- Cost of benefits is consistent

CONS

- More financial risk to the contractor
- Less predictable retirement funding
- Requires "hourbanks," "benefit banks," or reserve accounts
- Creates employee confusion during "benefit bank" funding period

BEST FIT FOR

- Contractors with a consistent 40-hour-per-week workforce
- Contractors replacing an existing cafeteria style benefit program
- Contractors with low-cost or competitive benefit packages
- New or renewing contracts

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