Retirement Plans in Construction

Presented by: Nat Peniston
Vice President, Fringe Benefit Group
Agenda

• About The Contractors Plan & ABC
• Creating a positive context for your plan
• Participation by industry and Union status
• Ways to increase participation
• Retirement plans in construction
The Contractors Plan & ABC

- Founded in 1983
- Retirement plans and health benefits
- Prevailing wage fringe compliance expertise
- Emphasis on helping contractors offer benefits
- ABC Strategic Partner & national Business Partner
- Preferred Pricing for ABC Members
  - No set-up fees
  - Waive 1st year annual fee on retirement plans
  - Other included services at no additional cost
Participation level in employment-based pension plans

<table>
<thead>
<tr>
<th>Industry</th>
<th>% of workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public admin</td>
<td>82%</td>
</tr>
<tr>
<td>Finance</td>
<td>63%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>63%</td>
</tr>
<tr>
<td>Mining</td>
<td>63%</td>
</tr>
<tr>
<td>Transportation &amp; Utilities</td>
<td>61%</td>
</tr>
<tr>
<td>Services</td>
<td>52%</td>
</tr>
<tr>
<td>Wholesale &amp; Retail</td>
<td>48%</td>
</tr>
<tr>
<td>Construction</td>
<td>38%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>24%</td>
</tr>
<tr>
<td>All industries</td>
<td>54%</td>
</tr>
</tbody>
</table>

- Red: Participating
- Blue: Eligible but not participating
Union status in construction pension plans

- 78% of workers in union plans
- 28% of workers in non-union plans
- 34% of workers in total

CPWR - The Center for Construction Research and Training
Current State of 401(k)s:

- Plan Sponsorship Rates Increase With Company Size.
  - 500+ employees: 92%
  - 10 to 99 employees: 72%
- Workers and Employers Agree on the Importance of Benefits
  - Workers: (89%) and Employers (84%)
  - Slightly more workers (60%) than employers (53%) see a 401k as being “very important.”
Creating a positive context

Definition of retirement

1. a: an act of retiring: the state of being retired
   b: withdrawal from one's position or occupation or from active working life
   c: the age at which one normally retires • reaches retirement in May
2. : a place of seclusion or privacy
Opt-in vs. Opt-Out

Organ Donations?

% of drivers donating organs

Denmark: 4
Netherlands: 28
United Kingdom: 17
Germany: 12
Austria: 100
Belgium: 98
France: 100
Hungary: 100
Poland: 100
Portugal: 100
Sweden: 86

TED
"I did not participate because..."

- 40% "Money was tight"
- 60% "Too busy" or "too much trouble"
Increasing Plan Participation

- Automatic enrollment
- Automatic contribution escalation
- Reduce complexity
- Employer match design
- Offer a loan program
The $100,000 Difference
Many contractors pay some or all of the mandatory fringe benefit package as wages because they believe it is the easiest way to satisfy DOL compliance.

It may be the easiest…however, it is absolutely the most costly……
Calculating Payroll Burden

All cash wages subject to payroll burden:

- **FICA**: 7.65%
- **FUTA**: .80%
- **SUTA (Ohio)**: .4-11%
- **General Liability**: 2.00%
- **Workers’ Comp**: 10%-40%

The average payroll burden is between 20%-40%
This Increases Your Labor Costs!!!
Employer Decides How to Satisfy the Fringe Obligation

- Contractors typically pay the “base” amount in cash and then choose how to pay the “fringe” portion:
  - Furnish “bona fide” fringe benefits
  - For vacation and holidays
  - Into an approved apprenticeship program
  - As cash, and have it treated as wages
# How it works…

**Plumber**

<table>
<thead>
<tr>
<th>Pay Fringe in Paycheck</th>
<th>Pay Fringe to “Bona Fide” Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base Wage</strong></td>
<td><strong>Base Wage</strong></td>
</tr>
<tr>
<td>$34.52</td>
<td>$34.52</td>
</tr>
<tr>
<td><strong>Fringe</strong></td>
<td></td>
</tr>
<tr>
<td>$10.33</td>
<td><strong>Total Wage</strong></td>
</tr>
<tr>
<td></td>
<td>$34.52</td>
</tr>
<tr>
<td><strong>Total Wage</strong></td>
<td><strong>Payroll Burden</strong></td>
</tr>
<tr>
<td>$44.85</td>
<td>(30%)</td>
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<tr>
<td><strong>Payroll Burden (30%)</strong></td>
<td><strong>“Bona Fide” Plan</strong></td>
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<tr>
<td>$13.46</td>
<td>$10.33</td>
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<tr>
<td></td>
<td><strong>Bid Cost</strong></td>
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<tr>
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<td>$58.31</td>
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<tr>
<td><strong>Bid Cost</strong></td>
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</tr>
<tr>
<td></td>
<td>$55.21</td>
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</tbody>
</table>

$3.31/hr savings per person. Bid is 5.7% lower
Plumbing Contractor

- 25 hourly employees
- About 50% PW work
- 2080 annual hours x 50% = 1040 hours
- Hourly savings $3.31
- Annual savings:
  1040 hours x 25 EEs x $3.31 hour = **$86,060**
Prevailing Wage Contributions

- Specified and communicated in **writing** to covered employees
- **Irrevocable**, made to a third party or trust and **immediately vested**
- Convey a group benefit to the person actually performing the work
- Accounted for on an **hourly basis**
- Exempt from “annualization”
- Are **employer** contributions
Prevailing Wage Retirement Plans

• Employer may adjust contributions by:
  – job classification
  – job site

• Stand-alone plan for fringes vs. in conjunction with elective deferrals and/or Profit Sharing

• Count employer fringe contributions toward:
  – “HCE” elective deferral contributions
  – Profit-sharing contributions
Conclusion

• If you are not offering a retirement plan, **start**
  – Employees want to contribute
  – Simple to administer
  – Equalize against unions

• If you are offering a retirement plan, be sure to:
  – Reduce complexity
  – Automatic enrollment & escalation

• Prevailing Wage fringes put into “bona fide” plan
  – Reduce your payroll burden
  – Equalize wages between public and private work
Thank You!

Questions & Answers

• The Contractors Plan Website:
  – http://abc.contractorsplan.com
  – Contact Us – to find nearby field support

• ABC Partnership Websites:
  – http://www.abc.org/membership/memberdiscounts/thecontractorsplan
  – http://www.abc.org/en-us/membership/strategicpartners/fringebenefitgroup

• Contact Us at:
  – Nat Peniston, Vice President
  – Phone: 512-827-5359 Email: npeniston@fbg.com