Advisor Insight on Prevailing Wage System at the Center of Retirement Plan Turnaround

Retirement Advisor Council

The Situation

Tom Hoffman of KAF Financial Advisors still vividly remembers an encounter in 2013 that ultimately landed his firm a retirement client that has experienced significant asset growth over the past four years.

"I was out to dinner when I ran into a friend I hadn't seen in a while," Hoffman explains. "During our conversation, I asked how his mechanical contracting business was doing. He told me a bit about the organization's ups and downs, and then—knowing my profession—asked if it made sense to add a second retirement plan to his company's existing 401(k).

The short answer Hoffman offered at the time was an emphatic "No!" Hoffman's longer response centered on his deep knowledge of the Prevailing Wage system—and how adding a Prevailing Wage retirement savings component could give his friend's business a competitive advantage while simultaneously helping his contracted employees build a stronger retirement.

The Solution

In the weeks following that initial conversation, Hoffman met several more times with the client to talk through the powerful retirement savings benefits of Prevailing Wage retirement contributions.

Hoffman admits that the conversations weren't easy at first because the rules and regulations of the Prevailing Wage system can be perplexing. "I kept the talks going because Prevailing Wage contractors have unique advantages in the marketplace—advantages that give them a leg up on the competition." While both Union and non-Union contractors pay the same Prevailing Wage of the specific trade for the specific geographic zone, the Union contractors pay into the Union fund. Compared to a non-Union contractor without a Prevailing Wage retirement plan, the non-Union contractor with a retirement plan has a bidding advantage because their employers pay less employment taxes and have decreased workman's compensation costs.

There are also other advantages:

- No employee eligibility waiting period—Workers are automatically and immediately eligible to receive the benefit.
- Immediate vesting—Every dollar contributed to the worker's account is immediately 100% vested.
- Improved testing—Owners and staff who aren't subject to the Prevailing Wage can increase their 401(k) contributions without triggering discrimination testing.
- Reduced plan costs—Because Prevailing Wage contributions act like a pre-funded profit sharing contribution, the overall employer cost of the plan is lowered.

Still, even with so many significant advantages, Hoffman knew that convincing the client was just the first step. For the plan to be truly successful, the workers needed to take advantage of the benefit. With that in mind, Hoffman set up group meetings as well as one-on-ones to ensure every worker knew about the opportunity in front of them.

During these meetings, Hoffman stressed the immediate eligibility and vesting benefits, but also made sure each worker understood the power of starting early, dollar-cost-averaging, and tax-deferred savings.

“The Prevailing Wage component is great for business owners and their office staff, but it also provides an incredible retirement savings benefit to the contracted employees,” Hoffman says.

The Results

Before bringing Hoffman and KAF on board, the client’s 401(k) plan had just 11 out of 52 workers contributing. Assets were just $350,000. “It’s no surprise the plan had discrimination testing issues,” Hoffman says.

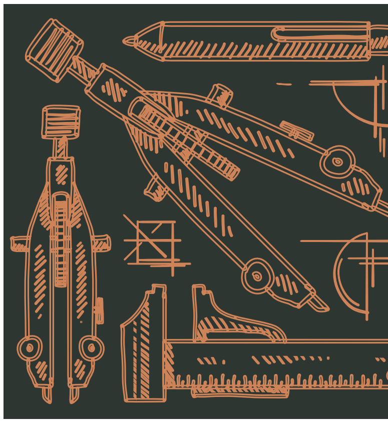
Today, after roughly four years with Hoffman and KAF, the plan has seen exponential growth:

- It went from 11 covered employees out of 52 total employees to 185 covered employees out of 201 total employees—an increase in participation from 21% to 92%.
- Assets in the plan rose from $350,000 in 2013 to more than $3.6 million today—a 928% increase.

Hoffman also takes great pride in the fact that his client now operates an even more successful company that helps workers save for their financial future. He concludes: “My client is now operating a stronger company—one that attracts and retains quality workers—thanks in part to his decision to offer a stronger retirement plan benefit.”

About KAF Financial Advisors

KAF Financial Advisors was founded to provide personal and business financial planning for its clients. The firm provides innovative and diverse financial services by blending technical expertise and experience to help solve financial issues. They develop solid financial plans based on each client’s unique needs for the future. Their team of highly skilled specialists are dedicated to creating long-term strategies that help secure a client’s overall financial well-being.



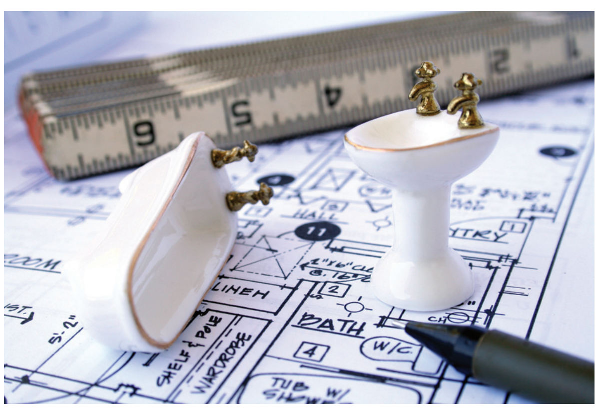
Thomas E. Hoffman, AIF, CRPS, CFS, *Accredited Investment Fiduciary, Chartered Retirement Plan Specialist, Certified Fund Specialist*

KAF Financial Advisors, LLC • 10 Forbes Road West • Braintree, MA 02184
781-356-2000 x1171 • Fax: 781-380-3833 • thoffman@kafadvisors.com

About the Retirement Advisor Council

The Council advocates for successful qualified plan and participant retirement outcomes through the collaborative efforts of experienced, qualified Retirement Plan Advisors, investment firms and asset managers, and defined contribution plan service providers. The Council accomplishes this mission by its focus on:

- Identifying duties, responsibilities and attributes of the Professional Retirement Plan Advisor
- Sharing our professional standards with plan sponsors
- Providing collective thought capital to decision makers, product providers, legislators and the public
- Giving voice to the Retirement Plan Advisor community
- Providing tools to evaluate Advisors, helpful in promoting successful retirement outcomes.



There is no guarantee that any strategies discussed will result in a positive outcome. You should discuss any legal, tax or financial matters with the appropriate professional. All investing involves risk and no investment strategy can guarantee a profit or protect against loss, including the potential loss of principal.

Dollar cost averaging is a strategy in which an investor places a fixed dollar amount into a given investment on a regular basis. A plan of regular investing does not assure a profit or protect against loss in a declining market. You should consider your financial ability to continue your purchases over an extended period of time.

Tax-deferred savings plans may defer taxable income earned within the account either until withdrawal or until a particular date. Withdrawals would be subject to federal income tax in the year they are withdrawn. A penalty tax may be imposed for early withdrawals.

EACH enterprise
61 Rainbow Road
East Granby, CT 06026
www.retirementadvisor.us

Hoffman 3/2017 V#1