U.S. Department of Labor

Wage and Hour Division
Washington, D.C. 20210

JUL 28 2016

ALL AGENCY MEMORANDUM NUMBER 221

TO: All Contracting Agencies of the Federal Government and the District of Columbia

FROM: Dr. David Weil
Administrator

SUBJECT: 2016 Service Contract Act Health and Welfare Fringe Benefit

In accordance with 29 C.F.R. Section 4.52, the prevailing health and welfare fringe benefits issued under the McNamara-O'Hara Service Contract Act (SCA) will be retained at the current rate of $4.27. As prescribed by the regulations, the benefit rate is derived from the latest Bureau of Labor Statistics (BLS) Employment Cost Index (ECI), summary of Employer Cost for Employee Compensation (ECEC). The current SCA health and welfare benefit rate will remain at $4.27 and will be posted on the Wage Determinations Online (www.wdol.gov) and Wage and Hour Division (WHD) (www.dol.gov/whd) websites.

HISTORY

Based on the regulations adopted in 1996, SCA wage determinations (WDs) have contained two different health and welfare fringe benefit levels: a "low" (employee-by-employee) level benefit and a "high" (average cost) level benefit. The high and low health and welfare benefits have different methods for determining compliance. Compliance with the low level benefit is determined on an employee-by-employee basis whereas compliance with the high level benefit is determined based upon the contractor's average fringe benefit cost for all service employees working on the contract.

In 2004, when the BLS publication of Employer Costs for Employee Compensation indicated that the low benefit rate was about to exceed the grandfathered high benefit rate of $2.56 per hour, the Wage and Hour Division announced (All Agency Memorandum Number 197) that it would increase the fringe benefit rate for all wage determinations, but would retain the two different methods for determining compliance. That policy will be continued again this year. The employee-by-employee benefit will remain at $4.27 per hour, or $170.80 per week, or $740.13 per month. In addition, the average cost fringe benefit rate will also remain at $4.27 per hour. Consistent with the policy established in 1996 and updated since 2004, the average cost

fringe benefit wage determination will be issued only for those contracts where the formerly grandfathered "high" (average cost) benefit rate would have applied.

Wage Determination for the State of Hawaii

Under Section 2(a)(2) of the SCA, fringe benefit payments that are required by state law may not be used to satisfy the employers' fringe benefit obligations. In Hawaii, most employers are required by law to provide health insurance coverage for their employees. Therefore, employer contributions that are made to satisfy the employers' obligations under the mandated Hawaii Prepaid Health Care Act (HPHCA) may not be credited toward meeting the contractor's obligations under SCA. The SCA WDs have addressed this issue in the past by excluding the health insurance portion.

Consistent with past practice, and in recognition of the fact that Hawaii law requires employers to provide health care coverage for most employees, the SCA WDs for Hawaii will continue to exclude the health insurance portion on the benefits for all employees on whose behalf the employer provides benefits pursuant to the HPHCA. All employers, however, are not required to make, and in fact, do not make contributions for certain employees under the Hawaii insurance law. If this is the case, then the reduced fringe benefit level is not appropriate for these employees.

Therefore, effective July 29, 2016, the new SCA health and welfare fringe benefits level for Hawaii will be $1.78 per hour, or $71.02 per week, or $308.53 per month for all employees on whose behalf the contractor provides health care benefits pursuant to the Hawaii Health Care Prepaid Act. For those employees not receiving mandated health care benefits under the HPHCA, the new health and welfare amount will remain at $4.27 per hour.