

CBIZ Government Contracting Practice Benefit Bulletin



Subject: Dealing with the Sequester
Date: March 5, 2013

Now that the Sequester is a reality and not just a bad dream we've all been having, you and your organization are certainly looking at how to deal with it. Whether that means furloughs, layoffs, or transferring people from a full-time to part-time classification, benefits to Service Contract Act employees are likely to be affected in some way.

Obviously the Sequester doesn't eliminate the requirement under the Service Contract Act to meet the hourly fringe benefit obligation. Nor is there any provision of the SCA that would dictate how to deal with any cost cuts you will need to make. For employees working on individual cost contracts, you will still be required to provide each employee with benefits, cash in lieu of benefits or a combination of the two equal to at least the hourly fringe for each hour the employee is paid. In the case of average cost contracts, you still need to provide benefits costing an average of the hourly fringe for all hours worked on that contract.

If you furlough an employee, say one day a week, and thereby reduce the hours the employee is paid, that will likewise reduce the amount of hourly fringe you are obligated to provide. If the employee remains benefit eligible, the monthly premium cost will remain the same. You will therefore need to decide whether to subsidize that cost by making employer contributions at the pre-furlough level, or whether the employee will be expected to pay the extra cost due to the reduction in hours. Choosing the later saves money, but presents other problems. First, it's obviously an employee morale issue. You've just cut the employee's pay and are now requiring the employee to pay more towards benefits. Second, passing on the cost increase in this instance may not be an automatic event. It may in effect constitute a qualifying event that allows the employee to make new benefit elections, such as waiving medical coverage.

If you lay off employees you will be saving both the cash wage and hourly fringe cost for those employees. Employees who had COBRA eligible benefits can elect to continue those benefits via COBRA and pay for the coverage themselves.

If you transfer employees from a full-time to part-time class, making them ineligible for group health benefits such as medical and dental, you will still need to provide them the hourly fringe for all hours paid (in the case of individual cost contracts). For part-time employees the hourly

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fringe can be provided in the form of cash or another bona fide fringe benefit such as an employer contribution to a qualified retirement plan. Again, in this case, employees who had COBRA eligible benefits can elect to continue those benefits via COBRA and pay for the coverage themselves.

If you have SCA employees covered under a Collective Bargaining Agreement, you will need to make sure any action taken is in keeping with the terms of that agreement.

Unfortunately there is no one right or best answer. Different circumstances will dictate different solutions.

If you have questions about specific situations or contracts, please contact your CBIZ Government Contracting Practice consultant.