



May 14, 2026

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

Introduction

The McNamara-O’Hara Service Contract Act (SCA) of 1965, 41 U.S.C. §§ 6701-6707, requires the payment of locally prevailing wages and fringe benefits to employees working pursuant to contracts that

1. are made by the federal government or the District of Columbia;
2. involve an amount greater than \$2,500; and
3. have a principal purpose of furnishing nonconstruction services in the United States by service employees.

The SCA was intended to establish labor standards for service employees who were generally not covered at the time by the federal Fair Labor Standards Act (FLSA) or by state minimum wage laws. Because, at the time of passage, federal contracts were typically awarded to the lowest bidder and labor costs were the predominant factor in most service contracts, companies providing the lowest wages were more likely to be successful. The Johnson Administration advocated for service contract proposals in Congress, saying they would prevent low-bid federal contracts from depressing wages.

This In Focus examines the SCA and how it is currently implemented and enforced by the Wage and Hour Division (WHD) of the Department of Labor (DOL).

Coverage

Service Employees

The SCA defines a *service employee* as “an individual engaged in the performance of a contract made by the Federal Government ... the principal purpose of which is to furnish services in the United States.” The definition does not encompass those determined to be “bona fide executive, administrative, or professional” employees for purposes of the FLSA. Typical covered positions include cooks, medical assistants, and gardeners.

Covered Contracts

The SCA applies to contracts exceeding \$2,500 for services furnished in the “United States,” which includes any state, the District of Columbia, Puerto Rico, the Virgin Islands, the Outer Continental Shelf, American Samoa, Guam, the Commonwealth of the Northern Mariana Islands, Wake Island, and Johnston Island. The SCA does not apply on military bases within foreign countries.

The SCA does not apply to contracts for construction services (many of which are covered instead by the Davis-Bacon Act of 1931); purchases of goods (many of which are covered by the Walsh-Healey Public Contracts Act of

1936); the carriage of freight or personnel; the furnishing of services by radio, telephone, telegraph, or cable companies; public utility services; and the operation of postal contract stations. It also does not apply to employment contracts for direct services to a federal agency by an individual.

Typical examples of covered service contracts involve the provision of guard services, janitorial services, cafeteria services in federal buildings, and the provision of call centers answering questions about federal programs.

Wage Determinations and Other Requirements

Monetary Wages

WHD generally determines prevailing wages using median (or sometimes mean) wages for the occupation and locality as estimated annually by the Occupational Employment and Wage Statistics program of the Bureau of Labor Statistics (BLS). Wage determinations may also be based on wage rates included in collective bargaining agreements, where they have been determined to prevail in a locality for specified occupational classes of employees. When changes in prevailing wage determinations increase or decrease employee compensation during a multiyear service contract, a contractor may request an adjustment in the price of the service contract.

Wage determinations can be affected by executive action involving federal contracts. In 2014, Executive Order (E.O.) 13658 established an hourly wage floor of \$10.10 for workers performing work on federal contracts, including those subject to the SCA, beginning on January 1, 2015, with annual adjustments for inflation thereafter. In 2021, E.O. 14026 established a higher hourly wage floor for service contracts beginning January 30, 2022. In 2025, Section 2(d) of E.O. 14236 revoked E.O. 14026, but the earlier E.O. 13658 remains in effect for some multiyear service contracts awarded between January 1, 2015, and January 29, 2022. The hourly wage floor for workers on these contracts has been adjusted for inflation to \$13.65 per hour (unless the prevailing wage is higher).

Federal agencies must obtain wage determinations for every new service contract, extension, or major modification. These determinations (which list required wages and benefits) are available for most commonly employed occupations by locality at sam.gov; where they are not already published, agencies request wage determinations from WHD. The sam.gov website also links to the SCA Directory of Occupations, which describes work done in each occupational classification so that agency staff can select the most appropriate wage determination for each position.

Fringe Benefits

The SCA requires contractors to provide covered workers with locally prevailing fringe benefits, such as pensions, health insurance, and life insurance benefits that are not otherwise required by federal, state, or local law. Since 1997, WHD has determined the dollar amount of required health and welfare benefits using the benefits component of the BLS Employment Cost Index (ECI) for all employees in private industry rather than through an evaluation of the fringe benefits commonly provided for individual occupations in each locality. The SCA allows the Secretary of Labor to deviate from the requirement that fringe benefits be determined for various classes of service employees in a locality when it is “necessary and proper in the public interest.”

In July 2025, WHD updated the benefit rate to \$5.55 per hour. Employers may either pay this amount directly to employees or pay a third party to provide these benefits. Under E.O. 13706, certain federal contractors are required to provide paid sick leave to their employees. The fringe benefit rate for employers subject to the SCA and the E.O. is \$5.09 per hour. Hawaii state law uniquely requires most employers to provide health insurance coverage for their employees, and costs associated with providing this benefit are deducted from the nationwide fringe benefit rate. The required SCA fringe benefit rate in Hawaii is \$2.42 per hour (\$1.96 per hour for employers subject to the SCA and E.O. 13706).

The SCA also requires service contracts to provide vacation and holiday pay for workers “as determined ... to be prevailing for such employees in the locality.” SCA vacation benefits are often linked to length of service, for example, “2 weeks paid vacation after 1 year of service, 3 weeks after 5 years, and 4 weeks after 15 years.” In addition, many SCA wage determinations require paid federal holidays. The value of these benefits is not included in the health and welfare benefits described above.

Additional Requirements

The SCA requires contractors to maintain safe and sanitary workplaces and requires that employees receive notices of required compensation. DOL regulations mandate recordkeeping for contractors to show they have complied with the prevailing wage and fringe benefit requirements. New contractors providing substantially similar services as a previous contractor with a unionized workforce are required to pay wages and benefits no lower than those provided under an existing collective bargaining agreement. For multiyear contracts, the SCA requires adjustment of wages and fringe benefits at least every two years.

Enforcement

WHD enforces the SCA by conducting investigations of alleged violations. If WHD determines that a contractor has failed to pay the appropriate wage and fringe benefits, it can withhold payments due on the contract or on any other contract between the federal government and the same contractor, and use withheld payments to compensate employees in compliance with the SCA. If the withheld payments are insufficient to compensate the employees, the federal government may bring an action against the

contractor in any court of competent jurisdiction. Federal courts have confirmed that the SCA does not confer a private right of action; that is, an employee may not sue the contractor for unpaid wages or fringe benefits.

A contracting agency may cancel its contract with a contractor that has violated the SCA on written notice to the contractor and execute a new contract for another entity to complete the contracted work. Added costs associated with the new contract may be charged to the original contractor.

The SCA directs the Comptroller General to distribute a list of entities that have violated the SCA to federal agencies. Unless the Secretary of Labor determines unusual circumstances warrant further contracting, an entity on the list may not be awarded another federal contract for three years from the list’s publication date. The U.S. Court of Appeals for the District of Columbia Circuit has indicated that, subject to the reasonable application of the Secretary’s guidelines, unusual circumstances may exist when a violation was not willful and there is no history of past violations.

Information on WHD enforcement of the SCA since FY2013 is available on the WHD website. Over the period from FY2013 to FY2025, the number of SCA compliance actions declined from 916 to 387 compliance actions per year. WHD enforcement data available since FY2005 show 2%-4% of the violations WHD identified each year were SCA violations. On average, identified SCA violations involved about 30 employees, with an average amount of back pay owed per employee of about \$2,750. A 2020 Government Accountability Office (GAO) report found the most common type of SCA violation identified by WHD during FY2014–FY2019 was underpayment of fringe benefits. This report recommended improvements in communication between WHD and federal contracting agencies regarding SCA violations and debarments.

Relevant Legislative Proposals

Legislation that would have adjusted the monetary threshold for SCA applicability and either expanded or limited the law’s coverage has been introduced in Congresses since 2017. The Service Contract Modernization Act, introduced in the 117th (S. 2963) and 118th Congresses (S. 335), would have adjusted the SCA’s \$2,500 threshold for inflation in future applications. The Outdoor Recreation Enhancement Act, introduced in the 115th Congress (H.R. 2771), would have amended the SCA to exempt contracts with the Secretary of the Interior or the Secretary of Agriculture involving outdoor recreational activities. In the 119th Congress, the Strengthening Job Corps Act of 2025 (H.R. 2281) would codify the SCA’s application to Job Corps operators and service providers and extend its requirements to academic and career technical instructional employees on federal contracts. These employees generally are not subject to the SCA because of their exempt status under the FLSA.

Elizabeth Weber Handwerker, Analyst in Labor Policy
Jon O. Shimabukuro, Legislative Attorney

IF13227

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.