Direct Charging vs. Fringe Benefit Rates and the Process of Changing to a Fringe Benefit Rate Methodology

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Agenda

- Direct Charging Fringe Benefits verse Fringe Benefit Rates
- Advantages of Implementing a Fringe Benefit Rate
- Critical Decision Factors
- Fringe Benefit Rate Implementation Approach
- Notification and Approval with Cognizant Agency
- Implementation Challenges
- Contact Information
Direct Charging Fringe Benefits

verse Fringe Benefit Rates

• Direct Charging Fringe Benefits
  — Individual Actual costs are charged to funding sources
  — Sometimes funding sources are not charged a full proportion benefit costs
  — Some fringe benefits are paid for centrally with unrestricted funding
  — Benefit charges are based on actual employee circumstances
Direct Charging Fringe Benefits
verse Fringe Benefit Rates

- Fringe Benefit Rates
  - Fringe benefit costs are pooled
  - A single rate is applied to funding sources covering all benefits
  - Rates are an average cost of benefits
Advantages of a Fringe Benefit Rate

• Full Recovery:
  • A fringe benefit rate will allow your institution to recover costs that are not currently distributed as direct costs to sponsored projects
  • Universities can likely increase cost recovery by implementing comprehensive fringe benefit rates
  • Fringe benefits that are funded by central administration are only partially recovered through the facilities and administrative cost rate
  • A fringe benefit rate will allow universities to further increase recovery by directly charging full fringe benefits to auxiliary operations
Realized Advantages of a Fringe Benefit Rate Implementation at a Major University

- Full Revenue Recovery
  - Project goal was to be revenue neutral
  - Consistent charging across all fund sources
    - Summer Faculty
    - Differential pay types
  - Accelerated sponsored project billings / draw-downs
Advantages of a Fringe Benefit Rate

- Increased Efficiency:
  - A fringe benefit rate will pool fringe benefit costs and will distribute total costs to benefiting departments, sponsored projects, and other cost objectives
    - One charge for fringe benefits instead of many charges for individual benefits (FICA, retirement, health, etc.)
  - A fringe benefit rate will allow for easier recordkeeping and less maintenance of benefits and costs of programs for employees
  - A fringe benefit rate will simplify the following processes:
    - The monitoring of fringe benefit charges to departments, grants, and contracts
    - Billing for grants and contracts
    - Salary transfers
Realized Advantages of a Fringe Benefit Rate Implementation at a Major University

- **Increased Efficiency**
  - Reduced FB Objects in departmental accounts from 30 to 1
  - All pay is assessed the same rate
  - Simplified salary expense transfers
  - Mid year benefit changes are embedded into the rates
Advantages of a Fringe Benefit Rate

- **Easier Budgeting:**
  - A **comprehensive** fringe benefit rate can be used to budget sponsored projects and departmental expenditures
  - A fringe benefit rate will simplify budget negotiations with sponsors
  - The same fringe benefit rate will be used for budgeting and charging purposes
    - Variances between budget and actual costs for grants, contracts, and departmental budgets will be decreased
Realized Advantages of a Fringe Benefit Rate Implementation at a Major University

- **Easier Budgeting**
  - Standardized rates across fund sources and employee groups have led to better budgeting practices and projections
    - Decentralize benefit pools
    - Consistency across campus with grant budgets
  - New / replacement staff are charged the same rate
Critical Decision Factors

- Determining the Fringe Benefit cost to include in the rate proposal
  - Health & Dental
  - Retirement
  - FICA
  - Employee Welfare Programs
  - Workers Comp
  - Employee Tuition Remission
  - Retirement Health Benefits
  - Self Insurance Program Costs
  - Incentive Award Plans
  - Graduate Health Insurance
  - Etc.
  - Termination Leave Payments
  - Unemployment
  - Disability
  - Life Insurance
  - Sabbaticals
  - Transportation Subsidies
  - Admin Benefit Support Costs
  - Non Recurring Lay-off Costs
  - Legal Insurance
  - Graduate Tuition Remission
Critical Decision Factors

- Determining the salary base to develop rates against
  - Earnings Elements
  - Institutional Base Salary
  - Excluding Certain Salary Components
  - Salary Caps

- Determining the number and approach to fringe rates
  - Use of salary bands
  - Benefits received
  - Fulltime / Part time
  - Staff categories
  - Employment Levels
  - Separating out Medical Centers
  - Bargaining Units
  - Salary Bands
  - Exempt/Nonexempt
  - Separate Auxiliary Rate
Critical Decision Factors – Rates at a Major University

- Fringe Benefit Rate Project Goals
  - Remain budget neutral
    - Minimize significant changes within fund sources and Organizations
    - Develop employee groupings that are logical to the campus
    - Utilize existing Payroll System attributes to define employee groupings
  - Employee Groupings
    - 5 Retirement Eligible Groups
    - 2 Non-Retirement Eligible Groups
    - Students
    - Postdoctoral Employees
Fringe Benefit Rate Implementation Approach

(assumes a July 1 implementation)

Step 1: Calculate FY11 Rate
Sept – Oct

Step 2: Determine Impact to Institution
Oct – Nov

Step 3: Calculate FY13 Rate
Nov – Dec

Step 4: Implement & Update Systems
Jan - Jun

Step 5: Test Systems
Apr - May
Notification and Approval with Cognizant Agency

- Notify cognizant agency early in the process of intent to change methodologies
- Required to provide a Fringe Benefit Rate proposal 3 months before rate implementation goes into effect
- Recommend submitting rate proposal 6 months before rate implementation goes into effect
- Rate review focuses on benefit cost categories and salary base development
- Approval is generally straightforward and negotiation is centered on actual costs

Review and Approval
Implementation Challenges at a Major University

- Existing Awards
- Medical Faculty
  - Developed a 2 tier system for Medcomp Faculty
- Highest Earners
  - Implemented an assessment cap
- Campus Perceptions
  - Increased benefits on individuals not receiving benefits
  - Assessing full rates to pay-lines that have not historically received full benefits
Contact Information

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