maximus

Fringe Benefits Costs and Establishing Rates Webinar

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Agenda

Introduction to MAXIMUS Higher Education Practice

Definition & Guidance for Fringe Benefits

Advantages of a Fringe Benefit Rate

Mechanics of Calculating a Fringe Benefit Rate and Submitting the proposal

How to obtain a Negotiated Fringe Benefit Rate

COVID Issues and Special Rates





Maximus Higher Education Practice

Organization and structure

- Established in 1985
- Headquartered in Northbrook, IL, with multiple satellite offices across the country

Consulting services

- F&A proposal assistance, Space Survey, Negotiations
- Fringe benefit rate proposals
- Reviews of service/recharge centers

- Uniform Guidance Compliance Diagnostic
- Pre- and Post-Award Assistance

Software Solutions

- Comprehensive Rate Information System (CRIS®)
- WebSpace® Space Inventory and Survey System
- Effort Reporting System®

30+

Years of Experience

250+

Colleges and universities served





Experience

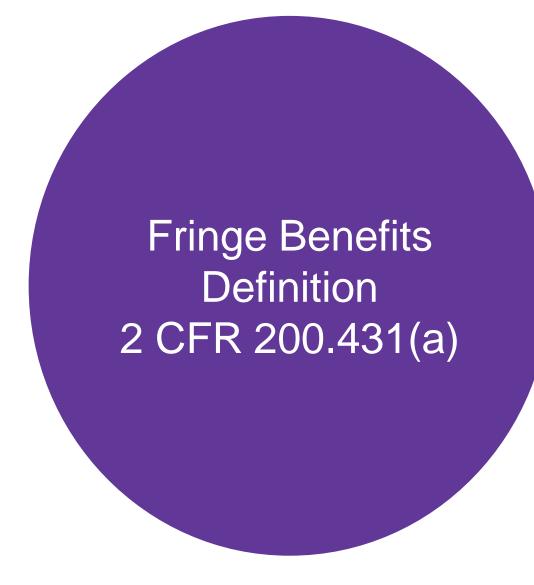
- Assist 30 universities each year with F&A cost rate proposals, space surveys and negotiations, Fringe Benefits
- Experts on Uniform Guidance 2
 CFR 200 and Fringe Benefits
 - Offer national annual F&A workshops
 - Hold Free webinars

- Most staff have significant experience as senior managers at large, research-intensive universities
- Strong relationship and successful negotiations with HHS-CAS
- Present F&A sessions and workshops at national conferences









- Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages
- Except as provided elsewhere in these principles, the costs of fringe benefits are allowable provided that the benefits are reasonable and are required by law, nonfederal entity employee agreement, or an established policy of the non-federal entity



Fringe Benefits Examples

FICA Medicare

Life Insurance Health
Insurance
premiums
paid by
Employer

Retirement

Short/Long Disability





Two options for charging Fringe Benefits

SPECIFIC IDENTIFICATION

- Each employee's actual costs are charged
- Sometimes funding sources are not charged a full proportion of benefit costs
- Some fringe benefits costs are paid for centrally with unrestricted funding
- Benefit charges are based on actual employee circumstances

FRINGE RATES

- Fringe benefit costs are pooled
- A single rate is applied to salaries by employee category charged to funding sources recovering the cost of all benefits
- Rates are an average cost of benefits





Advantages of a Pooled Rate method vs Specific Identification method

- Simpler approach to administering budgets
- More accurate fringe planning associated with all salaries
- Simplifies grant proposal budget process
- Opportunity to recover benefits currently funded at the institution, college or department level
- Places accountability at point of decision making



Most common examples
Negotiated
Fringe Benefit
Rates

Faculty

Staff

Student





Fringe Benefit Rates – Employee Categories

Most common employee categories that rates are established for include:

- Exempt Staff
- Classified Staff
- Faculty
- Student (non-graduate)
- Graduate Student
- Other





Why Differentiate Between Employee Categories?

Different employee types receive different benefits

Classified Staff employee fringe benefit typically costs include:

FICA, Health Insurance, Retirement, UCI, WCI, Liability Insurance, Employee Tuition Benefits

• Student (non-graduate) pool fringe benefit costs include:

WCI and small amount of Medicare and FICA may have to be included as student wages may be subject to Medicare and FICA during summer sessions



Fringe Benefit Rates – Salaries and Employee Categories

SALARY BASE Determine the
salary base to
develop rates
against

- Earnings Elements
- Institutional Base Salary
- Excludes Certain Salary Components Typically
- Salary Caps

EMPLOYEE
CATEGORIES Determine the
number and
approach

- Use of Salary Bands
- Benefits Received
- Fulltime / Part time
- Staff categories
- Employment Levels
- Bargaining Units
- Exempt/Nonexempt
- Separate Auxiliary Rate





Fringe Benefit Matrix

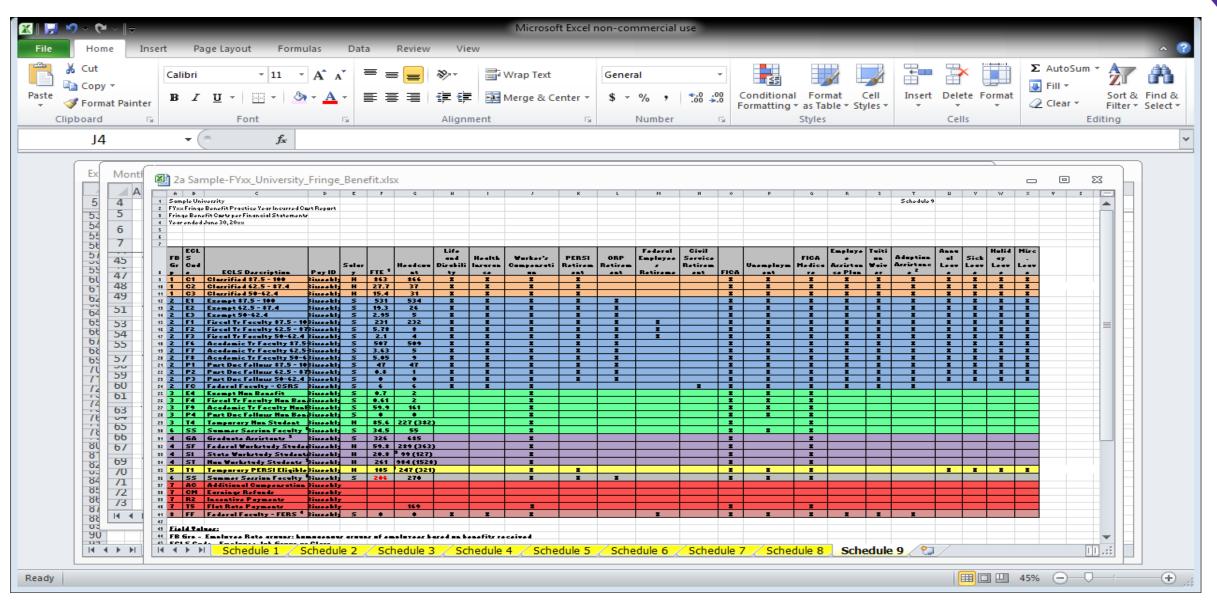
Create an earnings matrix by earnings type and employee type

- Use this matrix to determine which earnings will be included in the base(s)
- Bi-weekly Wages, Monthly Wages, Overtime, etc.
- Source will probably be from Payroll/Human Resources
- This information will be the detailed information to support your benefit wage base





Fringe Benefits Matrix





Preliminary Calculation

- What will you need?
- Base year actual fringe benefit costs by fringe benefit sub-pool and by employee category, if available
- Base year actual salary & wages by employee category
- Details about forthcoming benefit costs, changes in salaries, changes in number of employees (+/-)
- Trend analysis of S&W costs by employee category



Fringe Benefit Rate - Basic Calculation

The average cost of fringe benefits for a group of employees divided by the total cost of the benefit eligible salaries for the same group of employees.

Example:

Fringe Benefit Rate for Academic (Faculty):

Fringe Benefits of Academic (Faculty)

Eligible Salaries of Academic (Faculty)

 $\frac{$280,000}{$1,000,000} = 28.0\%$



National Averages of Fringe Benefit Rates

- Academic 25 to 35%
- Non-Academic 25 to 40%
- Student Professionals 5 to 20%
- Students 0 to 10%

- Grad Student Tuition Waiver Rates Various!
 - Can be 40% (or, higher)
 - Some schools use lump-sum \$
 amounts or \$/hour

Estimated National Averages



Timeline of Fringe Benefit Proposal

- Due date: six months after fiscal year end
- Must be able to reconcile to financial statements
- Must be able to reconcile between Finance and HR systems
- Must be able to support your costs and carryforward
- Recommend cover letter, narrative and supporting schedules by rate requested
- Fixed with carryforward rates



Fringe Benefit Proposal Submission

No Standard Format Required by Government

- Contact a peer institution with fringe benefit rates
 - Same cognizant agency
 - What did they submit
 - Were there any issues
- Contact cognizant agency to ask if they have a format they prefer - typically they don't



Special Considerations – First Proposal Submissions

Best to Coordinate with F&A Proposal Submissions

Can do in another year but will need CAS approval

CAS may ask for "Impact Study" (Would Fringe rates have impacted F&A Proposal?)

CAS may mandate Rates be applied over 2 Years

- Since there is no history deficit / surplus carry forward
- Therefore, 1st Proposal must factor in Fringe costs over 2 year period (e.g., increased health insurance, other)

Universities typically need Negotiated Fringe Rates by March or April of each year for annual Budget Preparation





Negotiations - Fringe Benefit Rates

Predetermined

- More risk for both the government & the university
- Least common type of rate

Fixed with carryforward

- Limited risk to government so negotiations are typically not difficult
- Most common type of rate



Federal Review

- ✓ Reconciliation to Financials
- ✓ Carry forward of prior deficits/surpluses
- ✓ 2 CFR part 200 Unallowable Costs
- Inclusion of fringe administration costs
- Dependent tuition waiver (now Unallowable)
- ✓ Matching of fringe and S&W under employee classes
- ✓ Inclusion of same costs in Fringe Proposal & F&A Proposal

Audit or Review

Focused on largest rate drivers

Concerns

- Health insurance
- Retirement
- Wage base
- Equitable distribution of costs to employee groups
- Consistency in charging and budgeting
- Excessive carry forwards



COVID Issues- Retirement Contribution Reductions

Many institutions implemented a cut or reduction to the institution's retirement contributions in FY21

Some institutions reduced their Fringe Benefit rates to reflect this reduction prior to FY21

Those institutions that did not reduce their Fringe Benefit rates may have large over-recoveries in FY21

The over- recovery can be spread over two years in future fixed rates or the Federal Share can be reimbursed through a check

COVID Issues- More questions than answers.....



Many institutions implemented a cut or reduction to the institution's retirement contributions in FY21 but then went back to their normal retirement contribution rates in FY22 or FY23- how does that affect their fringe benefit rates?



How did salary reductions or furloughs affect the fringe benefit rates?



How were possible new or increase fringe benefits like: Covid testing, additional Child Care expenses, additional leave required if out for Covid testing or Covid illness handled?



Special Rates-Vacation and Leave Time Payouts

By incorporating a terminating pay component into the flat benefit rates, sponsored projects and departments avoid absorbing the cost of termination payouts for accrued vacation and sick leave.

The current practice has historically created problems when the terminating employee earned the leave while working for a department or on a sponsored project other than the one from which he/she is currently paid.

Funds generated from this rate component are pooled and used to fund payments for unused vacation leave for separating and retiring employees

These payments can be automatically charged to the central fringe benefit pool using the interface from payroll to the General Ledger.

Special Rates- Graduate Student Tuition Remission

Where allowed by the sponsor, actual Graduate Student tuition costs can be charged directly to an award.

Alternatively, the total of all Graduate Student tuition costs can be included in the Graduate Student Fringe Rate.

Some schools develop a
Graduate Student
Tuition Remission Rate
(can be as much as
40%).

Some schools use lumpsum \$ amounts or \$ per hour.

Rate may be on a predetermined basis (no carryforward of over/under).

Grad Student Tuition
Remission rate should
follow the effort of the
GRA student that is paid
on the sponsored
project.

Tuition charged to award will likely be exempt from the indirect calculation if institution uses MTDC for applying F&A costs.





Summary

- Once a school has a negotiated Fringe Benefit rate, future calculations and negotiations are normally handled by the school
- First time calculation and submission require the coordination of different departments and numerous personnel can become involved
- Most schools rely on outside consultants for their first time submission

Thank you for attending today's Webinar on Fringe Benefits!





Upcoming Webinars

 Serve Yourself: Improved Service Centers Oversight Tuesday, June 28, 2022

 Calculating the F&A Short Form Tuesday, July 19, 2022



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