Fringe Benefit Rates: Guidance and Modeling

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Manager
March 23, 2016

MAXIMUS Higher Education Practice

• Headquartered in Northbrook, IL
  • Satellite Offices in-Denver, CO; Charlotte, NC; Columbus, OH; Phoenix, AZ; Charlottesville, VA; Bluffton, SC

• Backed by a $2.0 billion multinational corporation
  • Gives our practice unparalleled financial stability and the resources to invest in developing expertise in Federal regulations and guidance like 2 CFR, Part 200

• Serves over 150 colleges, universities, and university hospitals in 49 states plus universities in Puerto Rico and the US Virgin Islands
  • 90 of top 100 research institutions
  • Less than $1.0M to $1.0B in research
F&A and Other Rate Consulting Services

- F&A Cost Rate Proposal Preparation (Long and Short Form) and Negotiation (DHHS-CAS & ONR-DCAA)
- Space Surveys/Reviews
- Fringe Benefit Rates
- Federal Disclosure Statement (DS-2) and Direct Costing Policy
- Service Centers and/or Recharge Centers Rates and Policies

- **F&A Software**
  - Comprehensive Rate Information System
    - Over 150 universities use CRIS™
  - WebSpace™ – Space Utilization Software
    - Over 50 universities use WebSpace

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Fringe Benefit Agenda

<table>
<thead>
<tr>
<th>Introduction: Direct Charging vs. Fringe Benefit Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advantages and Disadvantages</td>
</tr>
<tr>
<td>Definitions – Fringe Benefits and Salaries</td>
</tr>
<tr>
<td>Identifying Fringe Benefits</td>
</tr>
<tr>
<td>Developing Fringe Benefit Rates &amp; the Calculation</td>
</tr>
<tr>
<td>Negotiating Fringe Benefit Rates</td>
</tr>
<tr>
<td>Guidance on Fringe Benefit Rates</td>
</tr>
</tbody>
</table>
Introduction

• The choice- two options

• Applying and tracking fringe benefit costs

• Simplification

• Is it right for your institution?

Direct Charging vs. Fringe Benefit Rates

DIRECT CHARGING

• Each employee's actual costs are charged
• 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

FRINGE RATES

• Fringe benefit costs are pooled
• A single rate is applied to funding sources covering all benefits
• Rates are an average cost of benefits
The accounting.....

<table>
<thead>
<tr>
<th>Direct Charge/Specific Identification</th>
</tr>
</thead>
<tbody>
<tr>
<td>FICA 6.2% of salary</td>
</tr>
<tr>
<td>Medicare 1.45% of salary</td>
</tr>
<tr>
<td>Retirement Contribution 10.0% of salary</td>
</tr>
<tr>
<td>Health Care Contribution $600/mo</td>
</tr>
<tr>
<td>Unemployment $7 per thousand</td>
</tr>
<tr>
<td>Workers Compensation allocated amounts</td>
</tr>
</tbody>
</table>

Fringe Benefit Rate 26.5% of salary

Advantages

• Increased Efficiency
• Increased Recovery
• Reduced Risk of Non-Compliance
• Easier Budgeting
Disadvantages

- Annual Fringe Proposal
- Federal review and negotiation
- Not full institution support
- Implementation time/staff

Fringe Benefit Definitions per 2 CFR 200

200.430 Compensation – personal services
- (h)(7) – Sabbatical leave costs

200.431 Compensation – fringe benefits
- (a) – Definition
- (b) – Leave Benefits
- (c) – Allowability
- (d) – Specific Assignment or Use of Fringe Rate
Fringe Benefit Definition per 2 CFR 200

200.431(a)- Compensation-fringe benefits
• 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, non-federal entity employee agreement, or an established policy of the non-federal entity

Fringe Benefit Costs

- Regular compensation paid to employees during periods of authorized absence (ie Vacation)
- Employer matching contributions (ie FICA)
- Additional employer only contributions (ie Workers Compensation)
Fringe Benefit Pool(s)

- A Fringe Benefit Pool consists of both:
  - The actual cost of fringe benefits provided to each employee and
  - The recovery of these costs through application of a fringe benefit rate.

- Fringe benefit sub-pools may be used

- Accounted for similar to a service center

Fringe Benefit - Salary/Wage (S&W) Base(s)

- Entity wide salary/wage base is used
  - The earnings or wages that the fringe benefit rate will be applied to
  - One base for each fringe benefit homogeneous employee category or group
  - For some fringe costs, these should be the wages that the benefit costs would be paid on
    - FICA covered wages
    - Retirement covered wages
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

Fringe Benefit Rates – Salaries and Employee Categories

**SALARY BASE -** Determine the salary base to develop rates against

- Earnings Elements
- Institutional Base Salary
- Excluding Certain Salary Components
- Salary Caps

**EMPLOYEE CATEGORIES -** Determine the number and approach

- Use of salary bands
- Benefits received
- Fulltime / Part time
- Staff categories
- Employment Levels
- Separating out Medical Centers
- Bargaining Units
- Exempt/Nonexempt
- Separate Auxiliary Rate
Different 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

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Preliminary Calculation

**What will you need?**

- Base year **actual fringe benefit costs** by fringe benefit sub-pool

- 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 Rates – Which Benefits?

<table>
<thead>
<tr>
<th>Fringe Benefit Category</th>
<th>Example Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers Comp</td>
<td>Employee tuition remission</td>
</tr>
<tr>
<td>Health &amp; Dental</td>
<td>Termination Leave Payments</td>
</tr>
<tr>
<td>Retirement</td>
<td>Unemployment</td>
</tr>
<tr>
<td>FICA</td>
<td>Disability</td>
</tr>
<tr>
<td>Employee Welfare Programs</td>
<td>Life Insurance</td>
</tr>
<tr>
<td>Graduation Health Insurance</td>
<td>Self Insurance Program Costs</td>
</tr>
<tr>
<td>Graduate tuition remission</td>
<td>Transportation subsidies</td>
</tr>
<tr>
<td>Incentive Award plans</td>
<td></td>
</tr>
</tbody>
</table>

### Identifying Fringe Benefits

**Potential sources of information**

- Human Resources benefit website
- Human Resources benefits staff
- New employee orientation materials
- Disclosure Statement (DS-2)
Identifying Fringe Benefits

Determine how fringe benefit costs are currently charged and accounted for.

Specific identification method

Centrally funded in Institutional Support accounts (General Administration for F&A).

Prohibited from moving an administrative cost to fringe benefits.

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 Exempt Staff

  \[ \text{Avg Cost of Fringe by Benefit : Exempt Staff} \div \text{Eligible Salaries : Exempt Staff} \]

  \[ \frac{280,000}{1,000,000} = 28.0\% \]
Developing Fringe Benefit Rates

- **Overview**
  - Need senior management support
  - Work with HR/Payroll and external consultant, if needed, to determine how your system can accommodate a pooled rate and how you will implement
  - Determine how many employee categories or groups you need and benefits to be included in the rate
  - Systems and personnel needed to implement

Developing Fringe Benefit Rates - Implementation

- Decide when you plan to implement
- Consider your F&A base year and next F&A Cost Rate Proposal timeline
- Identify who is going to be responsible for this project

<table>
<thead>
<tr>
<th>Internal Communication, Preparation, and Discussion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 1: Calculate Base Year Rate</td>
</tr>
</tbody>
</table>

| External Communication/Negotiation with Federal Government |
Developing Fringe Benefit Rates - Earnings 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.
  - This information will be the detailed information to support your benefit wage base
  - Source will probably be from payroll/human resources

Developing Fringe Benefit Rates – Benefits Matrix

• Benefit cost per employee class
• Allocation of benefit costs
  - Costs per $ of salary
    - Life Insurance
  - Cost per employee (headcount)
    - Health insurance
  - Cost as a % of S&W
    - Social Security, Medicare, Retirement
  - Cost based on claims
    - Workers’ Compensation
### Report Submission

<table>
<thead>
<tr>
<th>No standard format required by government</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Contact a peer institution with fringe benefit rates</td>
</tr>
<tr>
<td>• Same cognizant agency</td>
</tr>
<tr>
<td>• What did they submit</td>
</tr>
<tr>
<td>• Were there any issues</td>
</tr>
<tr>
<td>• Contact cognizant agency to ask if they have a format they prefer</td>
</tr>
<tr>
<td>• Typically they don’t</td>
</tr>
</tbody>
</table>

### Report Submission

- **Due date**: Six months after fiscal year end (not first year - implementation)
- **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**
Dear Mr. Government,

I am transmitting the Fiscal Year (FY) 20xx Proposal for Fringe Benefit rates for Compliant University. This includes the following predetermined rate:

<table>
<thead>
<tr>
<th>FY Reference</th>
<th>Benefit Pool</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>20xx Blended</td>
<td>Schedule 1</td>
<td>28.4%</td>
</tr>
</tbody>
</table>

Please note that the proposed rate was prepared in full compliance with federal regulations.

A narrative description of our rate development process is included to facilitate your review. Also enclosed is a separate schedule by benefit type for the blended rate.

We are available at your convenience to provide additional information or to respond to questions related to costing methodologies or calculations. We look forward to hearing from you in the near future.

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<table>
<thead>
<tr>
<th></th>
<th>Full time Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost Component</td>
</tr>
<tr>
<td>Retirement</td>
<td></td>
</tr>
<tr>
<td>Estimated Fringe for FY2015 Recovery</td>
<td>13,000,000</td>
</tr>
<tr>
<td>FY2015 Estimated Eligible Salary Base</td>
<td>165,000,000</td>
</tr>
<tr>
<td>Group Life &amp; Disability</td>
<td></td>
</tr>
<tr>
<td>Estimated Fringe for FY2015 Recovery</td>
<td>565,000</td>
</tr>
<tr>
<td>FY2015 Estimated Eligible Salary Base</td>
<td>165,000,000</td>
</tr>
<tr>
<td>Unemployment</td>
<td></td>
</tr>
<tr>
<td>Estimated Fringe for FY2015 Recovery</td>
<td>235,000</td>
</tr>
<tr>
<td>FY2015 Estimated Eligible Salary Base</td>
<td>165,000,000</td>
</tr>
<tr>
<td>Social Security &amp; Medicare</td>
<td></td>
</tr>
<tr>
<td>Estimated Fringe for FY2015 Recovery</td>
<td>11,550,000</td>
</tr>
<tr>
<td>FY2015 Estimated Eligible Salary Base</td>
<td>165,000,000</td>
</tr>
</tbody>
</table>
### Cognizant Agency Approval - Implementation

- Notify cognizant agency
- Required first submission – three months
- Recommended first submission- six months
- Focus of rate review
- Approval and Negotiations
- Significantly different than the F&A rate review process

### Government Review or Audit

**Focused on largest rate drivers**
- Health insurance
- Retirement
- Wage base

**Concerns**
- Equitable distribution of costs to employee groups
- Consistency in charging and budgeting
- Excessive carry forwards
## Negotiations - Fringe Benefit Rates

<table>
<thead>
<tr>
<th>Type of Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Predetermined</strong></td>
</tr>
<tr>
<td>• More risk for both the government and the university</td>
</tr>
<tr>
<td>• Least common type of rate</td>
</tr>
<tr>
<td><strong>Fixed with carry forward</strong></td>
</tr>
<tr>
<td>• Limited risk to government so negotiations are typically not difficult</td>
</tr>
<tr>
<td>• Most common type of rate</td>
</tr>
</tbody>
</table>

## Guidance on Fringe Benefits

**Current Guidance**
- 2 CFR, Part 200
- Cost Accounting Standards
- FASB and GASB

**Best Practices**
- DHHS DCA (CAS) Best Practices Manual
- Section XII-A
Upcoming Training

Live Training:
• Start learning about all these and more at the MAXIMUS Facilities and Administrative (F&A) Long Form Annual Workshop

• MAXIMUS will host its Annual Facilities and Administrative (F&A) Long Form Workshop Tuesday, April 12 - Thursday, April 14, 2016 in downtown Chicago, just steps away from Millennium Park!

• To learn more or to register, please visit our F&A Long Form Workshop Registration Site https://highereducation.maximus.com/workshop/LongForm

Webinar Schedule
• 4/26/16 – Service Centers Caroline Beeman
• 5/18/16 – CRIS Reporting- Understanding your Data Adrienne Clifton

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  • Research Operational Reviews – Business Process Review and Improvement
  • Policy and Procedure Assistance
  • Transition Staffing
  • Audit Response Assistance
  • Export Control Compliance
  • And more
Thank You for Attending

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