

maximus

*Fringe Benefits Costs and
Establishing Rates Webinar*

Jim Childers and Mira L. Levine

May 24, 2022

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

➤ **Experts in Fringe Benefits**



Fringe Benefits Definition 2 CFR 200.431(a)

- 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 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

Microsoft Excel non-commercial use

File Home Insert Page Layout Formulas Data Review View

Clipboard Font Alignment Number Styles Cells Editing

J4

2a Sample-FYxx_University_Fringe_Benefit.xlsx

Sample University
 FYxx Fringe Benefit Practice Year Incurred Curt Report
 Fringe Benefit Costs per Financial Statement
 Year ended June 30, 20xx

FB Gr	ECL S Cnd	ECLS Description	Pay ID	Salary	FTE	Headcount	Life and Disability	Health Insurance	Worker's Compensation	PERSI Retirement	ORP Retirement	Federal Employees Retirement	Civil Service Retirement	FICA	Unemployment	FICA Medicare	Employee Assistance Plan	Tuition Waiver	Adaptation Assistance	Annual Leave	Sick Leave	Holiday Leave	Misc. Leave
1	C1	Classified 37.5 - 100	Biweekly	H	363	366	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
1	C2	Classified 42.5 - 37.4	Biweekly	H	27.7	37	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
1	C3	Classified 50-62.4	Biweekly	H	15.4	31	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
2	E1	Exempt 37.5 - 100	Biweekly	S	531	534	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
2	E2	Exempt 42.5 - 37.4	Biweekly	S	19.3	26	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
2	E3	Exempt 50-62.4	Biweekly	S	2.95	5	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
2	F1	Fiscal Yr Faculty 37.5 - 100	Biweekly	S	231	232	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
2	F2	Fiscal Yr Faculty 42.5 - 37.4	Biweekly	S	5.78	4	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
2	F3	Fiscal Yr Faculty 50-62.4	Biweekly	S	2.1	4	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
2	F4	Academic Yr Faculty 37.5	Biweekly	S	507	509	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
2	F7	Academic Yr Faculty 42.5	Biweekly	S	3.63	5	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
2	F8	Academic Yr Faculty 50-62.4	Biweekly	S	5.05	9	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
2	P1	Part Dnc Falluar 37.5 - 100	Biweekly	S	47	47	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
2	P2	Part Dnc Falluar 42.5 - 37.4	Biweekly	S	0.8	1	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
2	P3	Part Dnc Falluar 50-62.4	Biweekly	S	0	0	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
2	F6	Federal Faculty - CSRS	Biweekly	S	6	6	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
3	E4	Exempt Non-Benefit	Biweekly	S	0.7	2	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
3	F4	Fiscal Yr Faculty Non-Benefit	Biweekly	S	0.61	2	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
3	F9	Academic Yr Faculty Non-Benefit	Biweekly	S	59.9	161	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
3	P4	Part Dnc Falluar Non-Benefit	Biweekly	S	0	0	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
3	T4	Temporary Non-Student	Biweekly	H	85.4	227 (382)	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
4	SS	Summer Session Faculty	Biweekly	S	34.5	55	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
4	GA	Graduate Assistant	Biweekly	S	326	485	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
4	SF	Federal Workstudy Student	Biweekly	H	59.8	289 (363)	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
4	SI	State Workstudy Student	Biweekly	H	20.8	99 (127)	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
4	ST	Non-Workstudy Student	Biweekly	H	261	984 (1528)	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
5	T1	Temporary PERSI Eligible	Biweekly	H	185	247 (321)	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
6	SS	Summer Session Faculty	Biweekly	S	206	270	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
7	AC	Additional Compensation	Biweekly																				
7	CM	Earning Refund	Biweekly																				
7	R2	Incentive Payments	Biweekly																				
7	T5	Flat Rate Payments	Biweekly			169																	
8	FF	Federal Faculty - FERS	Biweekly	S	0	0	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	

Field Values:
 FB Gr - Employee Rate error: kmmmmmm error of employee based on benefits received
 ECLS Cnd - Employee Job Group

Schedule 1 Schedule 2 Schedule 3 Schedule 4 Schedule 5 Schedule 6 Schedule 7 Schedule 8 Schedule 9

Ready 45%



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)

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

X *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

- Health insurance
- Retirement
- Wage base

Concerns

- 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 lump-sum \$ amounts or \$ per hour.

Rate may be on a pre-determined 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



Questions? / Contact Information

Mira L. Levine, CPA

mirallevine@maximus.com

(703) 582-5097

Jim Childers, CPA

jimchilders@maximus.com

(404) 408-8019