**Final Report from the Ad Hoc Committee on the Appropriateness of the Fringe Rate on Sumer Salary of 9 Month Faculty**

**Nov 22, 2016**

**Charge (issued July 2016):**

Certain 9-month faculty charge extramural grants or reserve accounts for the time they work on projects during the summer.  There is a question about the charge for fringe benefits against those salaries since faculty believe that the benefits have been paid for during the normal course of the nine-month academic year.  Determine if there are inappropriate charges being applied and if yes, how we might get this corrected.  If no, develop an explanation of the current charges so that faculty can understand why they need to be levied.

**Ad Hoc Committee Membership:**

David Held (Committee Chair), Associate Professor, College of Agriculture

Scott Parsons, Director, Business Office, College of Agriculture and AAES

Julie Howe, Associate Professor, College of Agriculture

Michael L Stern, Associate Professor of Economics and Department Chair, College of Liberal Arts

Michael Baginski, Associate Professor, Samuel Ginn College of Engineering

Jason Bond, Department Head, Biological Sciences, COSAM

**Background:**

The issue was presented as a motion (Appendix A) from the floor by D. Held, Senator from Entomology and Plant Pathology in the College of Agriculture. Faculty in that department and other departments in the College of Agriculture supported concerns that their accounts were unexpectedly being charged for fringe on their summer salary in FY2010 but not before. There was little communication about this change. For 9 month faculty, summer salary and fringe may be paid from grant budgets or from reserve accounts in years without grant support.

**Process:**

We solicited data (Appendix B) from Martha Taylor about 9 month faculty receiving summer salary, Larry Teeter provided fringe cost calculations, and Bryan Elmore with Budget Services made a presentation to our committee. Data on peer institutions were found online with clarification provided by Bryan Elmore when he appeared before our committee and in a follow up email. These data and issues were discussed at our in-person meetings. The minutes and summaries were circulated to the committee for comments. Not all committee members provided comments to the chair.

**Conclusions:**

* **Fringe rates must be paid and are therefore appropriate.** Fringe rate for the employer contribution is pooled and annualized. The university pays the rates for all employees and 9 month faculty active in grant writing offset those costs when paid by grant funds.
* **Communication about the change to a pooled fringe rate was poorly handled.** Once the change was made in FY2010, it was not communicated appropriately to faculty either by departmental staff or central administration.
* **A pooled fringe rate is the best policy for budgeting, but has consequences for faculty that fund their summer salary.** Pooling the benefits rates provides consistency in annual budgeting. Peer institution (LSU, UA, and UFL) that have a pooled fringe rate do not support reducing a fringe rate on summer salary. Other peer institutions had either complex calculations, still use actual fringe costs, or were not available online (Appendix B5). The primary consequence of pooling is for the >200 faculty that generate summer support. Their contribution of the full fringe rate in grant budgets may help to keep the pooled rate low, which benefits everyone including 9 month faculty without summer salary support. This is where the perceptions that 9 month faculty are subsidizing the pool originated.
* **Should the summer fringe rate change to incentivize extramural grant writing?** The pooled fringe rate cannot exempt individuals without possibly increasing the pooled rate. An estimate of the fringe rate needed to cover the summer salary benefits for 9 month faculty is about 20% (Appendix B3). The following were discussion points related to possible ways to work with the current annualized, pooled rate to address the concerns of faculty.
  + If faculty that pay salary from grants pay a reduced amount (20%) for summer salary, how much would it really increase the pooled fringe rate?
  + It may also be possible to retain a regular fringe rate for salaries charged to grants but provide a reduced rate when charged to non-grant accounts (faculty reserve funds). Many 9 month faculty count use reserve accounts for operating their programs either annually or in years between extramural grant support.
  + A change in the summer fringe rate may improve faculty morale and incentivize research/scholarship.
  + Modifications of the fringe rate may be better handled at a local level (College or Department) and not university wide due impacts on the pooled fringe rate. But local units have less discretionary funds to ‘buy down’ a fringe rate.

**Appendix**

1. **Text of motion presented to the Senate**

My name is David Held, Senator from Entomology and Plant Pathology. I am here presenting an issue brought to me by my faculty; and this likely impacts faculty in many other departments on campus.

The issue is the unfair levying of the full benefit rate, currently at 32%, on summer salary used by 9 month faculty. According to HR Benefits, faculty with a 9 month appointment paid bi-monthly are assessed benefits at a rate which pays the same benefits amount of 12 month faculty, just in 18 installments. Faculty on a 9 month appointment may choose to supplement their salary with funds from state, federal or private grants or contracts, however this additional compensation is also subject to the full benefits rate of 32%. Other than about 10% in retirement contributions, 9 month faculty do not receive additional benefits by procuring 22% more funds from grants or contract, they just pay more into the system. This has been a point of frustration and decreased faculty morale. One of my faculty colleagues expressed this frustration when he told me that, “If administrators had to fund their own summer salary-this situation would NEVER have been considered.”

*Why are faculty suddenly upset and seeking action?* First, many faculty have only recently realized the situation. When I came to Auburn in Aug 2008, summer salary was not assessed a fringe rate. The first reference to a policy change that I could find was in the Financial Liaison meeting presentation dated Aug 31, 2009. In that presentation, it states the fringe rate on summer salary would be effective Oct 1, 2009 at 33.19% rate for FY2010, and a 34.96% rate for FY 2011. These rates are greater than the current rate, and apparently there was a recalculation of fringe rates, perhaps due to initial negative feedback.

In some departments, it is probable that the initial taxation of summer salary for 9 month faculty was covered by discretionary funds because grant funded projects would not have enough salary funds in the budget to cover this initial hike. Over time (and through proration), departmental resources have waned and the full fringe rate now falls on faculty. Many faculty are only recently aware of this change as it was not publicized well. In addition, summer salary forms used in the College of Agriculture (and perhaps in other Colleges) do not clearly indicate that fringe will also be taken from their accounts in addition to salary. Faculty would only know this if they checked their accounts closely.

At the current fringe rate, 9 month faculty have to essentially budget the equivalent of a whole month of salary to cover fringe benefits for 1 summer of salary. Since many grants only allow 1 or 2 months of salary (or none at all), this means that 9 month faculty must manage 4 or more research projects in addition to our teaching appointment in order to pay ourselves during summer. It could be argued by the administration that this should motivate 9 month faculty to be productive grant writers to insure they are paid; however, most federal grant programs now have a 90% or greater rejection rate for initial submissions. Practically, these rejection rates create an inconsistent cash flow into programs such that faculty may have summer salary in some years but not others. Since virtually all faculty hires on campus are now 9 month appointments, this adds stress for personal finances and family and professional relationships. It may also be an impediment to retaining new hires through to Associate and Full Professorships.

*So What now?* My faculty have asked me to bring this issue before the Senate and I have the support of 9 month colleagues in other departments in my college. Like many of you, I like to find solutions when presented with a problem. In this case, there are precedents at other institutions that could be applied here. For example, the University of MD Eastern Shore has a 32% fringe rate for faculty on 9 and 12 month appointments (similar to ours); however their summer fringe rate is just 8%. Reducing the fringe rate for summer salary to 8% at AU, for example, would enable the researcher to reallocate the 24% difference to other areas in the budget (student stipend, supplies, or equipment).

Another solution may now be feasible in the context of the RCM budget model allowing benefits costs to the handled at the college level versus centrally. As we transition to RCM, why can’t fringe benefits be treated similarly to indirect costs, which are proposed to flow back to the college and departments that generated the revenue? Under RCM, the real benefits costs would be deducted from the grant budget then the unused portion of those costs would flow back to the unit that generated the funding. Faculty and departments then realize incentives to be more productive in grant writing. Colleges or departments could then choose to reward their faculty with research allocations from these funds.

In conclusion, this problem demands attention and needs a solution to maintain faculty morale. I make a motion that the Senate direct this to an appropriate existing committee or form an ad hoc committee to research this issue and outline solutions. Thank you Dr. Teeter and Senate colleagues for your time, attention, and hopefully your support in this effort.

1. **Data on the current AU fringe rate policy and situation**
2. Data from Martha Tayor

FY 2015

Academic year salary charged to sponsored programs                      $ 3,021,148

Associated fringe benefits                                                                         $    890,367

# of 9 month faculty involved 132

Summer Salary charged to sponsored programs                                  $ 4,391,656

Associated fringe benefits                                                                         $ 1,323,883

# of 9 month faculty involved 221

**FY 2016**

Academic year salary charged to sponsored programs                      $ 2,975,983

Associated fringe benefits                                                                         $    927,290

# of 9 month faculty involved                                                                                 133

Summer Salary charged to sponsored programs                                  $ 3,980,151

Associated fringe benefits                                                                         $ 1,273,102

# of 9 month faculty involved                                                                                  209

1. Summer fringe rate calculations provided by Larry Teeter

|  |  |  |  |
| --- | --- | --- | --- |
| FY 2017 Summary Rates |  |  |  |
|  | Full-Time | Part-Time | Graduate |
| Retirement | 13.0% | 2.7% |  |
| FICA/Medicare | 6.8% | 6.7% | 0.0% |
| Health Insurance | 7.3% | 0.5% | 5.4% |
| Life Insurance | 0.1% | 0.0% |  |
| Long-Term Disability | 0.1% | 0.0% |  |
| Worker's Compensation | 0.2% | 0.1% | 0.2% |
| Unemployment Comp | 0.1% | 0.1% |  |
| Retiree Benefits | 2.9% |  |  |
| Employee Tuition Remission | 0.5% |  |  |
| Sabbatical Pay | 0.1% |  |  |
| Termination Pay | 0.3% | 0.6% |  |
| Stop Loss | 0.1% |  |  |
| Carry Forward | 0.6% | -1.1% | 0.1% |
| **Total Fringes** | 32.0% | 9.6% | 5.6% |

The percentages are calculated as:

Total Benefits paid by AU on full-time employee salaries for the fiscal year

\*Includes 9 month faculty summer salary in in denominator and 9 month faculty benefits in numerator

Total Benefits paid by AU on full-time employee salaries for the fiscal year

1. Minutes from Oct 4 meeting when Bryan Elmore met with our committee

Ad Hoc Committee on Fringe Benefit Charges on Summer Salaries Paid from Extramural Grants

Attendees: David Held, Scott Parsons, Julie Howe, Michael Stern, Michael Baginski, and Jason Bond. Invited presenter: Mr Bryan Elmore

Meeting began about 4:00 and ended about 5:10 PM.

Prior to the meeting, D. Held circulated by email the presentation and paperwork from the previous meeting to committee members and Mr Elmore. D. Held introduced Bryan Elmore and the meeting started with a summary of the history and background of fringe rate calculations.

A summary of key points from the discussion on fringe rate calculations:

* Effective Oct 1 2009 (FY 2010), fringe benefits began to be assessed as a pooled fringe rate. Prior to this, fringe rates were assessed as employer actual costs on each individual which was difficult for budgeting purposes (each person had a person fringe rates; some may be 38% while others are 12%). Also, faculty and staff effective fringe rates were subject to change in the middle of a budgeted project. Similarly, when fringe rates were actual employer costs, there was no pool of funds to pay for unpaid leave or health benefits for employees that left the university. A pooled fringe rate is analogous to a real estate escrow account. The pooled fringe rate also must be federally approved every fiscal year.
* There is a perception among 9 month faculty that the payment of fringe during summer is a ‘tax’. Also the change was made without effective communication in many departments-accounts were just charged or business managers explain this as a tax. This helped to fuel animosity against the change to a pooled rate. Faculty members in the room expressed that grant budgets are strapped. Once increasing fringe rates, IDC, and full salary for 9 month employees are paid, it leaves relatively little money to actually do research.
* The fringe rate that shows in an employee’s check is different from the 33% (or current effective fringe rate) paid by grant budgets. The employee payment is the pooled rate for the employee portion of benefits. The employee pays out of their paycheck based on his/her benefit elections. The employer portion is the fringe charged to a departmental FOP, which in some cases, have very little correlation. For 9 month faculty, these rates are assessed only over 9 months. The employer portion however, for all employees is annualized over 12 months. This means that salary taken by a 9 month faculty member must have fringe assessed- it must be paid by someone. At this point, it became apparent to the committee that a fringe rate pool is relatively inflexible at the university level for a reduction in fringe rates due to the cost averaging nature of the calculation. Few persons on the committee knew how this calculation was being made further illustrating the lack of communication on the part of administration. This helped to resolve the issue about the origin of the fringe rate payment over summer but raised the question about who should pay this.
* Mr Elmore estimated that actual costs for summer faculty rate would be closer to 20% than 33% (or current pooled fringe rate). But decreasing the costs on this subset of faculty (9 month faculty doing research) would effectively increase the costs of the pooled rate for everyone else. Martha Taylor’s office was contacted by D Held and that office is currently working on providing an estimate of how many 9 month faculty are involved in extramural research relative to all 9 month faculty.
* Mr. Elmore addressed some of the benchmark university data presented in the first meeting and expressed concern about the accuracy of data collected from public portions of webpage

**Who should be paying fringe rate and does the full fringe rate added to grant proposals create negative impacts on research?**

* During this part of the meeting, RCM model and fringe rate were discussed extensively. Through RCM, IDC recovery may provide opportunities for colleges or departments to incentivize research by either subsidizing fringe rates or returning IDC to faculty that generate IDC. Michael Stern shared how his department has an example policy (however not with IDC or fringe) to incentivize research activity.
* There is an inconsistency across departments and colleges on IDC returned to faculty. Two faculty shared that there is currently no IDC returned to faculty in their departments yet Biological Sciences returns a portion of IDC to faculty that generate IDC. Scott Parsons shared that the College of Agriculture is initiating a new policy to return a portion (15%) of IDC recovered directly to faculty that are active in grant writing.
* Colleges and even departments may be better positioned under the RCM model to use either returning IDC or to subsidize fringe rates to reduce the perceived ‘tax’ of fringe benefits rates on summer salary. This will likely have more of an effect for faculty in departments that currently do not share IDCR with faculty. An administrator on the committee expressed concern that it would not be possible for departments to fully subsidize fringe rates over summer. Also, since their department already returns IDC to faculty it is not possible for them to make significant increases in IDC returned to faculty. Department must pool IDC as a means to produce the large ($100,000s) needed for startup accounts for new faculty.

The next steps are:

* To develop a draft of the presentation and report for the Senate Steering Committee.
* To get the data from Martha Taylor for the report

The next meeting will be Oct 18 at the same time and location

1. Bryan Elmore was allowed to review the minutes from the Oct meeting to make sure they were an accurate representation of the main points of his presentation. His email is provided below.

Dr. Held,

Thank you for the opportunity to attend your meeting as well as respond and make edits to the notes.  I’m sorry I am just now getting around to doing so, but with the start of the new fiscal year and several ongoing projects that needed my attention, this is the first opportunity I have had to get back with you.

I have made a few edits and added a couple of comments to the documents, but for the most part, I think it was a fair representation of the discussion.

To answer your specific questions:

1)   The only schools that I have been able to make full contact with are Florida, Alabama, and LSU.  Florida is consistent with what we do, although they have a greater number of fringe rates than we do.  As I mentioned before, they do not have separate rates for their 9 month faculty and the summer appointment for those same faculty.  Alabama basically employs the same fringe system we used to before we went to the negotiated fringe rate.  They estimate their fringe rate and end up charging actuals.  They do monthly true-up entries on their base-budgeted funds to sweep any overage or shortage.  LSU has a negotiated fringe rate, but they only use that rate for contract & grant employees.  They calculate their other pools in the same way as the negotiated rate, but they don’t actually propose those to the feds.  They charge the calculated fringe rate, and they also do not differentiate their 9 month employees and the summer appointments.  For the others, UGA, MSU, UT, Arkansas, South Carolina, and Clemson, the data are correct as you presented.  North Carolina has a consistent practice to South Carolina (they come up with a base fringe rate and then add the health dollar amount above that), although they do not differentiate between 9 month and summer appointments.  I also pulled some information on some other high research activity institutions.  Duke and Wisconsin use the same practices Auburn and Florida do (negotiated rates with the number of pools varying) without differentiating between 9 month and summer appointments.  Harvard basically falls the same principles but their faculty has a different rate from their professional or staff employee groupings, which ultimately results in a lower faculty rate.  North Carolina State follows the same principles as Alabama.

The only school mentioned that uses the federally negotiated fringe rate and differentiates between 9 month faculty and summer appointments is Clemson.

2)a) Keep in mind that the only amounts that have ever been charged to a departmental FOAP or a contract/grant have been the employer portion of the benefits.  The employee’s benefit elections don’t actually hit the contract/grant.  During the 9 month period, you would have been paying for 40% of your health insurance and the university would have been paying for 60%.  Because the employer had already paid the full cost of the health insurance during the 9 month period, there was nothing to charge out as employer cost over the summer.  As we discussed, the fringe rate applied across the board, takes that 9 month cost and spreads it over the entire 12 months, so for the 9 month period, the university has only paid 75% of its portion of your health insurance while you have paid 100%.  The university pays for the additional 25% on salaries charged during the summer months.

b) I think the answer to the subsidy question is ultimately yes.  Assuming the rates are different for the full-time pool over the course of the year and a summer faculty rate, if faculty are charging their time to their grants only in the summer, the full-time rate for the rest of the year has to be increased.  The sources of the revenues that fund the full-time rate are almost exclusively tuition and state appropriations.  With limited growth in state appropriations, the tuition bucket is the only one that can really be changed, and as I mentioned, we are left with the conundrum of whether or not to increase tuition rates to pay for the fringe benefit rate increase on unrestricted funds or do we start stripping out costs that can’t be justified as strategic.

c) Yes, I already have a good idea based on historic spending rates on restricted funds for summer faculty appointments, but I would like to see what Martha comes back with for her numbers.  The one thing that I fear the most is the reaction to a smaller summer fringe rate.  The more that shift their grant activity to the summer (which isn’t consistent with 9 month faculty appointment percentages and may even blur the ethical lines), the higher the full-time rate has to be, meaning larger increases in tuition or greater cuts in other areas.

When we made the decision to shift to the negotiated fringe rate 7 years ago, I was not initially in favor of it because we did a pretty decent job of estimating our fringe rate, but ultimately it made the most business sense because of the predictability in the charging as well as the ease for budgeting. We also went through some struggles in the first couple of years to follow the prescribed methodology the feds have for calculating which complicated things.  Once we figured out their processes, it made a lot more sense to us.  The decision to do so was not without questioning by faculty.  For the first three years after implementation of this (and even beyond that), I got this same question on a regular basis.  My response was always the same.  The university made the decision which was in its overall best interest; to be consistent with our budgeting practices, bring the predictability for grant proposals, and to spread its costs evenly over the course of the year.

Thank you again for the opportunity to comment.  Let me know if I can be of more help to you or to the ad-hoc group.  Also, I would like to be there on the date of the presentation so that I can be a resource for any questions that might come up, so if you would let me know when that might happen, I would appreciate it.

Thanks,

Bryan

1. Peer institution data available online.

UT has a spreadsheet to calculate fringe rate. Their site said that fringe on summer salary for 9 month is calculated at a lower rate. <http://osp.utk.edu/budget-preparation/proposal-budget-categories/>

Texas A &M also had a complex calculation and no standard posted pooled fringe rate.

UKY had a base of 21.25% but then you had to add in full family health insurance and life insurance. http://www.research.uky.edu/ospa/info.html#fringe

UNC has a fixed fringe rate plus health insurance.

UGA shows a lower percentage but states they are still using actual fringe costs that may vary. <https://research.uga.edu/spa/frequently-used-information/#rates>

MS State shows a reduced rate applied to summer salary for 9 month faculty. Like UGA, this is just an estimate because they still use actual costs to calculate fringe rates. <http://www.osp.msstate.edu/budgeting/benefits.php>