UNIVERSITY OF MARYLAND

Main Administration Building, Room 1119
7901 Regents Drive
College Park, Maryland 20742-5031
301.405.5252 TEL 301.405.8195 FAX

MEMORANDUM

TO: Cynthia Hale, Associate Vice President of Finance and Personnel

Paul Dworkis, Associate Vice President for Finance and Chief Financial Officer

Denise Clark, Associate Vice President for Administration, Division of Research

FROM: Dean Kitchen, Committee Chair

SUBJECT: Fringe Benefits Rules Committee - Proposed Business Rules

DATE: December 3, 2018

The Fringe Benefits Rules Committee was charged with developing proposed rules for the implementation of full budgeting of fringe benefits in all University units.

The members of the committee included: Colleen Dove Auburger, Dylan Baker, Cynthia Barnes, Daniel Catalano, Aphi Daigler, C. Christina Ho, Ann Holmes, Marchon Jackson, Dean Kitchen, Meredith Lee, Maureen Meyer, Michael Paszkiewicz, Daniel Ramia, Carolyn Schupbach, Jeffrey Snider, Jessica Vernon, Linda Ward and Julie Wright.

Below are the conclusions reached by the committee, including suggested rules and other recommendations relating to the changes in budgeting of fringe benefits by the University.

Thank you,

Dean Kitchen, Assistant Dean, College of Computer, Mathematical & Natural Sciences

cc: Dylan Baker, Executive Director of Policy and Fiscal Analysis
Dan Ramia, Assistant Dean for Finance & Management
Chad Nazworth, Project Manager for the Administrative Modernization Program

Guiding Principles

- The University has submitted a fringe rate proposal to the U.S. Department of Health and Human Services (DHHS) with the intent to use these negotiated rates for all types of accounts, regardless of fund source, beginning July 1, 2019.

- The fringe rate components will include:

    - FICA (Federal Insurance Contributions Act)
    - Unemployment
    - Workers Compensation
    - Health Insurance
    - Retirement
    - Terminal Leave Payout
    - Employee Assistance

- Parental leave, while supporting the University's drive to support a "Thriving Workplace," will not be included for FY20. Uncertainty surrounding legislative mandates in this area, lack of data tracking, and pending implementations of new systems to handle eTerp, PHR and SIS, require that this category not be included in the initial rate implementation. It is the University's intention to include parental leave in future rates once additional information is collected and the University has the ability to accurately capture this leave category.

- Rate development should be based on the current pilot model of six rates:

    - Faculty non-leave payout (1011 & 1015)
    - Faculty leave payout eligible (1012, 1016 & 1018)
    - Exempt staff leave payout (1013)
    - Non-Exempt staff leave payout (1014)
    - Graduate Assistants, Contingent I & II (1020,2072,2073 & 2090)
    - Additions to Pay & Students (2067-2071, 2080 & 2081)
    - A new object code for Lecturer (non-tenured, term contract) needs to be created for non-leave payout eligible and will be included with the 1011, 1015 rate

- The fringe benefit budget will be created by division.

    - Lower level budgeting will be allowed at the discretion of the division.

    - The fringe benefit budget will be based on actuals at a specific freeze date (yet to be determined) based on employment classification and budgeted at object code level.

- Any changes to existing practices will minimize negative consequences or have a neutral effect on current employees.

- Rates will be structured so that hiring managers/supervisors will be blind to the type or cost of health insurance or pension choices to ensure that hiring decisions are not affected by said choices.

- Family friendly policies will be considered in determining which leave benefits will be included in rates. The goal will be to spread the costs of these leave types across the campus so no single unit or research award is unduly burdened with these costs.

- The rules will be designed to ensure that employees are not migrated between funding sources for the sole purpose of avoiding fringe benefit costs.

- No exceptions to the current established fringes rates will be allowed. Fringe benefit costs will be based on employment categories and charged on salaries at the applicable percentages to all accounts, regardless of employee or funding source. Internal or "behind the scenes" funding agreements will not affect fringes expenditures.

    - At the time of submission to the Federal government, central University offices will announce proposed changes to the campus accounting practices related to fringe benefits to all University units. This announcement must occur every time changes are requested. The proposed fringes rates will be used for budgeting purposes on sponsored research proposals and internal commitments, as well as all other budgeting and forecasting activities. Current and pending fringes rates will be available online at all times at the Vice President for Administration & Finance (VPAF) and Office of Research Administration (ORA) websites.

Changes in Operations

- With a unified fringe benefit rate, each employee type will be charged a single rate regardless of funding source.
        - Self-supports and auxiliaries will continue to use their internally generated revenue to fund these benefits.
        - Divisions with state-supported employees will be allocated a separate budget to fund their fringe benefits.
        - A clear and consistent method for allocating state operating-related fringe budgets is needed.
        - This approach requires the review and update of all KFS accounts to ensure that only activity consistent with the core state mission of undergraduate education, academic (non-professional/vocational) graduate education, and state-defined research and public service efforts is being supported by state funding.

      - The review of accounts will occur after the new campus budget model re-bases the state allocations of the divisions to ensure that current academic activity is not disrupted.

<u>Accounts Subject to State Fringe Pool</u>

- The accounts that will be covered by each division's state fringe pool are:

    - All accounts in Sub Fund Group 401100 - *State Operating*; and Sub Fund Groups 431100 and 431110 – *State, Restricted*
    - All undergraduate Differential Tuition accounts
    - All Ledger 1 MPower accounts
    - All undergraduate Enhancement accounts
    - A "hold harmless" policy will be in effect fiscal years 2020 and 2021 with a phase out starting fiscal year 2022

- No new state-supported accounts may be established without sufficient budget revenue in Object Code 0221 (State Appropriation) to fund all positions to be paid from the account.

- Cash or salary expenditure transfers to fund activity that draws from state- supported fringe pools but does not correspond to state-supported activity are prohibited.

<u>Accounts Not Subject To State Fringe Pool</u>

- Some accounts currently belonging to Sub Fund Group 401100 - *State Operating* should not be labelled as state under the current system or in the new one. These are:

    - **Entrepreneurial Program Accounts**

        - These were designed to provide revenue related to professional masters programs. Due to special deals in the past, however, several accounts are inscribed in KFS as belonging to state operating activity rather than their actual purpose.
        - These accounts must be changed to Ledger 2 or Office of Extended Studies (OES) in alignment with other similar entrepreneurial programs.
        - Funding will be provided centrally over FY20-22 to programs impacted by the move to Ledger 2 so that tuition adjustments may be made gradually to accommodate these costs.
        - All expenditures related to these programs must be recorded in the account receiving the revenue.
        - The overhead rate should be lowered to 5% for all entrepreneurial

    - accounts to parallel the amount paid by OES-managed programs and to lower the impact of this change.
    - All new entrepreneurial and new Shady Grove programs are to be established in OES.

  - **OES Program Accounts**

    - All OES accounts for Summer / Winter / Freshman Connection / Professional Programs must continue to pay the fringes for their personnel.

- All appointments from other divisions in OES must reflect the faculty/employee's complete FTE and appropriate category status (not just the work undertaken in OES).

- No exceptions to these rules can be made. Any relief sought due to potential costs related to these rules will be treated as a funding issue for which financial support may be offered, rather than a change to the rules or the granting of an exemption.

<u>Unrestricted Accounts</u>

- Units are required to budget fringe benefits by employee type and by rate.

- Turnover will be budgeted at the division level or lower at the discretion of the division.

- Additional object codes for turnover will be established for faculty, exempt, and nonexempt staff.

- Any deficits in fringe benefit budgets caused by adding new positions or increasing salaries will be the responsibility of the division in the year in which they are incurred.

- New initiatives
  - When funding is requested it should be fully loaded with the fringe rate for the positions budgeted.

<u>Restricted Accounts</u>

- Deficits created by fringe benefits expenditures exceeding budgets in externally funded sponsored awards must be absorbed within the project funding.

- ORA will provide notices in advance of a change in rates for budgeting in proposals. Notice will be provided in a manner similar to the procedure used for changes in F&A rates.

Auxiliaries

- Guidance on rates for the future year will be provided by the VPAF in time for auxiliaries to establish their mandated fees.

Unusual situations

- Where significant unusual situations arise that result in a large increase in unbudgeted fringe benefits expenditures, it will be the responsibility of ORA for restricted accounts and the appropriate Vice President for unrestricted accounts to provide guidance to resolve the problem.

Changing Rates

- Rates will be submitted to the Federal government annually.

- Mid-year reductions in rates can be made by the VPAF to ensure that significant annual variations in the rates are prevented.

- Any state mandated mid-year reversions of fringe benefit appropriation will be handled centrally by the University and will not be the responsibility of the divisions.

Year-End Surpluses and/or Deficits

- Any year-end surplus of fringe benefits funds at the division level will be reverted to the University.

- Beginning in FY22, any deficits in funding from fringe benefit expenditures exceeding fringe benefit budgets will be the responsibility of the division incurring the deficit.

Tracking and Forecasting Fringe Benefit Expenditures

- Changes to KFS will be required to ensure that divisions can forecast and track fringe benefits expenditures against budgeted fringe benefits at the unit level.