

TO: Warren K. Wray
Provost and Senior Vice President
For Academic and Student Affairs

DATE: December 20, 2002

FROM: Tony N. Rogers and Deborah L. Lassila
Co-Chairs, Fringe Benefit Rate Committee

SUBJECT: Fiscal Year 2004 Fringe Benefit Rate
Recommendation

CC: P. Eveland
D. Greenlee
M. Haapapuro
A. Quinn
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BLG Members

In October 2002, the Fringe Benefit Rate Committee reconvened to review and recommend, if necessary, a change in the fringe benefit rate structure. Attached is a list of the current membership of the Committee. The group discussed issues relating to the overall rate structure, rate calculations, research grant competitiveness, and Office of Naval Research (ONR) requirements. In addition, the Committee also reviewed the effects of direct charging holiday pay on research grants and contracts and responded to a request from Dr. Bruce Rafert regarding calculation of a fringe benefit rate for graduate students for recovery of health benefits insurance. A formal recommendation of the MTU rate structure for FY04 is due to the ONR in early January.

Following much discussion and feedback from Dave Reed and those responsible for implementing the process for direct charging of holiday pay for soft-dollar employees, it is recommended to discontinue this practice. The Committee would like to recommend that holiday pay for soft-dollar employees be direct charged to the fringe benefit account in the same manner in which vacation and sick leave are currently being handled. The additional cost of including holiday pay in the fringe rate is approximately \$130,000 which results in a .02% adjustment in the rate. In addition, the Committee recommends that the MPERS past service liability continue to be excluded from the rate calculations for reasons of research competitiveness.

It is recommended to adopt a rate structure which includes individual rates for the following categories: regular full-time and part-time employees, summer faculty, and temporary employees. Based on this structure, the committee developed a methodology for projecting costs using historical data and projecting future trends. Based on this analysis the Committee recommends a rate of 39% for regular full-time and part-time employees. This represents a reduction of .9% from the FY2003 rate primarily attributable to health care cost containment due in part to cost-shifting to the employees. In addition, continuation of the current 25% rate for summer faculty and 10% rate for temporary employees is also being recommended. (Attached is a copy of the projected FY04 costs and rate structure.) It should be noted that these calculations are based on the assumption that the two recommendations above are approved.

In response to Dr. Rafert's request, the Committee considered the addition of a fringe benefit multiplier for graduate students. Following much discussion it became clear that policy decisions need to be made by the administration regarding graduate student health insurance eligibility and degree of coverage before a rate can be calculated. In addition, there are also a number of administrative and implementation issues that will need to be addressed if a pooled rate concept is adopted. Once these policy decisions have been made, the Committee can then make the appropriate calculation and recommendation. It is important to note that this cost cannot be built into research grants and contracts until formally recommended and approved by ONR. Therefore, final decisions need to be made as soon as possible.

Attachments