

# Fringe Benefit Rate

## DCTA Financial Management Series



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## What are Fringe Benefits?

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2 CFR Part 200.431 – Compensation – Fringe benefits are defined as allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages.

The costs of fringe benefits are allowable provided that the benefits are:

Reasonable

Required by law

As part of a Non Federal  
entity employee agreement, or

An established policy of the  
non Federal entity

# Fringe Benefit Examples

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## **Fringe benefits include, but are not limited to:**

- The costs of leave (vacation, sick leave and bereavement)
- Employee insurance (health, dental and life)
- Pension plan contributions and/or retirement plans
- Unemployment benefit plans
- Employer portion of Medicare and social security tax
- Worker's compensation insurance

A wide range of fringe benefits may exist from one employer to another and from one class/group of employees to another.

## Poll Question #1



Select all examples of Fringe Benefits?

- a) Worker's Compensation
- b) Professional Development
- c) Paid Holidays
- d) Housing

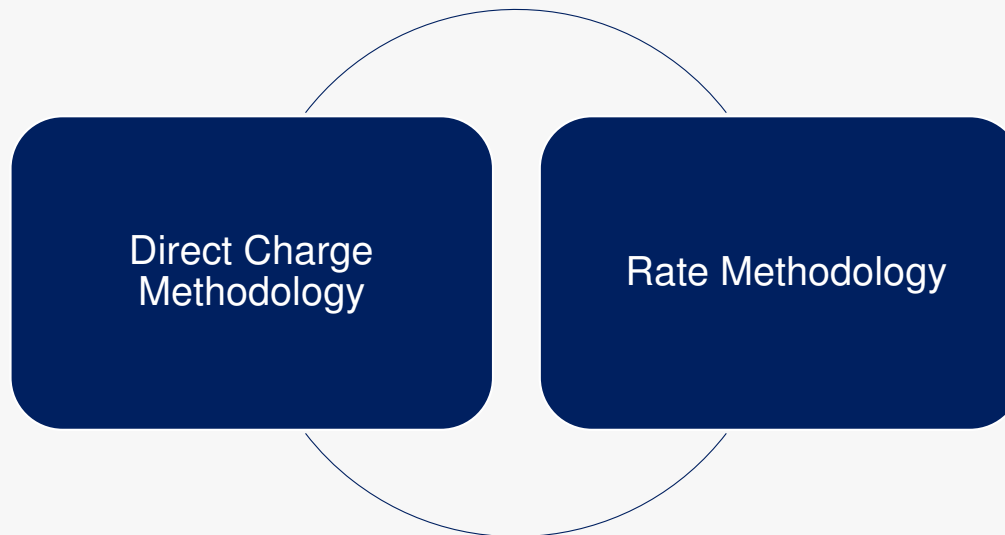
# Fringe Benefits

## Methods for Allocating Fringe Cost

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There are two options for budgeting and charging benefits to funding sources:



# Fringe Benefits

## Methods for Allocating Fringe Costs

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**There are two options for budgeting and charging benefits to funding sources:**

- **Direct Charge** – with the direct charging method, all benefit costs are tied to an individual and are budgeted using everyone's benefit package. This results in continual fluctuation of fringe benefit costs by employee. One employee may have individual health insurance versus another employee with family coverage, for example.

Tracking and budgeting fringe benefits using the direct charging methodology can be time consuming and complicated.

When using the direct charging methodology, organizations often overlook the cost of compensated leave (vacation, holiday, sick leave, etc.) which can account for hundreds if not thousands of lost recovery of federal funds.

## Fringe Benefits

### Methods for Allocating Fringe Costs



There are two options for budgeting and charging benefits to funding sources:

- **Rate Methodology** – a fringe benefit rate, a percentage or average costs of benefits, is used to assign a fair share of the fringe benefit cost to each funding source.

This is done by:

- Pooling all fringe benefit costs
- Calculating the percentage of total benefits to annual salary
- Applying that rate to salaries to calculate the average cost of benefit for employees

Example:	Total Fringe Benefits	250,000	A
	Total Annual Salaries	1,000,000	B
	Fringe Benefit Rate	25%	A/B

*Note: You may need to develop a fringe rate for each employee group (union vs. non-union; police/fire, full time vs. part time).*



## Poll Question #2

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What are the two methods for allocating Fringe Cost?

- a) Direct Charge Method
- b) Indirect Charge Method
- c) Rate Method
- d) Simplified Method

# Fringe Benefits

## Advantages of Using a Fringe Benefit Rate



### Efficiency

This results in one charge instead of multiple charges for individual benefits

### Budgeting

Results in consistency between budgeting and charging purposes

Can simplify budget negotiations with funders

### Increased Recovery

Funding sources are charged their "full" fair share of actual fringe benefit costs

## Fringe Benefits Gather The Data

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- List of staff and their annual salaries
- Number of sick hours accrued per pay period
- Number of vacation hours accrued per pay period for each employee
- Number of Holidays per year
- Unemployment Insurance
- Retirement Match percentage
- Medical Insurance
- Dental Insurance
- Life Insurance
- Workman's Compensation rate/percentage

## Fringe Benefit Computation of Dollar Value For Compensated Leave



### Hourly Rate

(Annual Salary) / (# of hours worked per year)

#### Example:

$$\$100,000 / 2080 = \$48.08$$

### Vacation Time

(Hourly Rate) X (# of pays per year) X (# of vacation hours accrued per pay)

#### Example:

$$(\$48.08) \times (26) \times (6) = \$7,500$$

### Sick Time

(Hourly Rate) X (# of pays per year) X (# of sick hours accrued per pay)

#### Example:

$$(\$48.08) \times (26) \times (2) = \$2,500$$

### Holiday

(Hourly Rate) X (# of Holidays per year) X (# of hours worked each day)

#### Example:

$$(\$48.08) \times (12) \times (8) = \$4,615$$

# Employee Labor and Fringe Data



		2080 hrs.	26 PPY		2 hrs.	12 days	8 hrs.								
Name	Hourly Rate	Salary	Vacation Accrual (Hours)	Vac Amt	Sick Amt	Holiday Amt	Total Comp Absences	Net Comp	Social Security	Medicare	Unempl Tax	Retirement	Medical Insurance	Workmen Comp	Total Fringe
Employee #1	\$48.08	100,000	6	7,500	2,500	4,615	14,615	85,385	6,200	1,450	94	4,000	8,500	86	20,330
Employee #2	\$43.27	90,000	6	6,750	2,250	4,154	13,154	76,846	5,580	1,305	94	3,600	7,650	77	18,306
Employee #3	\$43.27	90,000	8	9,000	2,250	4,154	15,404	74,596	5,580	1,305	94	3,600	7,650	77	18,306
Employee #4	\$52.88	110,000	6	8,250	2,750	5,077	16,077	93,923	6,820	1,595	94	4,400	9,350	95	22,354
Employee #5	\$24.09	50,100	8	5,010	1,253	2,312	8,575	41,525	3,106	726	94	2,004	4,259	43	10,232
Employee #6	\$31.49	65,500	8	6,550	1,638	3,023	11,211	54,289	4,061	950	94	2,620	5,568	56	13,349
Employee #7	\$18.08	37,600	8	3,760	940	1,735	6,435	31,165	2,331	545	94	1,504	3,196	32	7,702
Employee #8	\$26.63	55,400	6	4,155	1,385	2,557	8,097	47,303	3,435	803	94	2,216	4,709	48	11,305
<b>Totals</b>		<b>598,600</b>	<b>56</b>	<b>50,975</b>	<b>14,965</b>	<b>27,628</b>	<b>93,568</b>	<b>505,032</b>	<b>37,113</b>	<b>8,680</b>	<b>752</b>	<b>23,944</b>	<b>50,881</b>	<b>514</b>	<b>121,884</b>

# Fringe Benefit Calculation



Name	Hourly Rate	Salary	Vacation Accrual (Hours)	Vac Amt	Sick Amt	Holiday Amt	Total Comp Absences	Net Comp	Social Security	Medicare	Unempl Tax	Retirement	Medical Insurance	Workmen Comp	Total Fringe
Employee #1	\$48.08	100,000	6	7,500	2,500	4,615	14,615	85,385	6,200	1,450	94	4,000	8,500	86	20,330

### Total Benefits Includes Compensated Leave

Salaries and Wages	\$100,000	
<b>Employee Fringe Benefits Rate (Computation)</b>		
PTO (Holidays, Vacation, Sick, Bereavement)	14,615	14.6%
Payroll Taxes (Social Security, Medicare, Unemployment)	7,744	7.7%
Retirement	4,000	4%
Medical Insurance	8,500	8.5%
Workman Comp	86	0.1%
Total Fringe Benefits	34,945	35%
<b>Allocation Base Computation</b>		
Salaries and Wages	100,000	100%
Less PTO	(14,615)	15%
Total salaries (less PTO)	85,385	85%
<b>Fringe Rate Computation</b>		
Total Fringe Benefits	34,945	35%
Total salaries (less PTO)	85,385	85%
FRINGE RATE		41%

Note: Divide benefit by total salary and wages to arrive at percentages for each fringe benefit.

### Total Benefits Excludes Compensated Leave

Salaries and Wages	\$100,000	
<b>Employee Fringe Benefits Rate (Computation)</b>		
Payroll Taxes (Social Security, Medicare, Unemployment)	7,744	8%
Retirement	4,000	4%
Medical Insurance	8,500	9%
Workman Comp	86	0.1%
Total Fringe Benefits	20,330	20%
<b>Allocation Base Computation</b>		
Salaries and Wages	100,000	100%
Less PTO	(14,615)	15%
Total salaries (less PTO)	85,385	85%
<b>Fringe Rate Computation</b>		
Total Fringe Benefits	20,330	20%
Total salaries	85,385	85%
FRINGE RATE		24%

Note: Divide benefit by total salary and wages to arrive at percentages for each fringe benefit.

# Calculating A Fringe Rate

## Applying a Fringe Rate



	With Compensated Leave	Without Compensated Leave
Total Compensation (excluding PTO expense)	\$ 85,385	85,385
Fringe Rate (from previous slide)	41%	24%
Fringe Benefit (inclusive of/excluding PTO expenses)	\$ 35,008	20,492
Total Compensation (including Fringes)	\$ 120,393	105,877

Example of applying a fringe rate for budgeting and reimbursement purpose.

# Fringe Benefits

## Fringe Benefit Rate Approval

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- The organization should seek approval of the fringe benefit rate in its grant agreements.
- The methodology used to allocate fringe benefits should also be included in your grant agreement.



# Resources

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- 2 CFR 200.431, compensation – fringe benefits, [eCFR :: 2 CFR 200.431 -- Compensation - fringe benefits.](#)
- 2 CFR Appendix VII to Part 200 – States and Local Government and Indian Tribe Indirect Cost Proposals, [eCFR :: Title 2 of the CFR -- Grants and Agreements](#)