

## **2010-11 DISTRIBUTION OF STATE OPERATING FRINGE BENEFITS BUDGET TO DIVISIONS**

### **PROJECT and IMPLEMENTATION PLAN**

#### RATIONALE

As we are all seeking to stretch too few dollars to cover critical functions, the university has identified and implemented a number of approaches to improve the openness, effectiveness, and efficiency of our budgeting processes. One change is to decentralize responsibility for budgeting fringe benefits, bringing it “closest to the ground” where the best-informed decisions can be made. Currently, people make personnel decisions without being allowed to considering consequences for fringe benefits. In the new approach, people will be able to weigh the consequences of various alternatives, picking the approach that makes the most sense given the priorities for their program.

This new approach is absolutely budget neutral. *It is not a passing on of any unfunded benefits mandate or hidden cut of some type.* One hundred percent of the dollars now being used to cover current benefits of actual employees will now appear in departmental budgets. If departments then make choices that result in increased benefit obligations, that will be the responsibility of the unit; if choices are made that result in benefit savings, those stay in the departmental budget.

Much of the university is accustomed to this approach; for example, auxiliaries, those managing funded grants or contracts. For those without that experience, the training and implementation plan described in the following sections will be particularly helpful. A new approach will need to be understood. But, with that change comes greater opportunity to make the best possible use of the funds available for departments. And, consequently, for the university.

#### INTRODUCTION

Budgeting at Western Washington University is a continuous process. However, once legislative outcomes are revealed to the university, an annual State Operating Budget is approved by WWU’s Board of Trustees, and implemented starting on July 1 of each fiscal year. WWU’s State Operating Budget covers basic instructional and support missions and these activities are supported primarily by state appropriations and net tuition operating fee revenue.

There are also self-sustaining budgets at Western – those supported either wholly or in part by revenue generated by one or a combination of various student and/or user fees (e.g., Housing and Dining System, Viking Union, campus recreation, intercollegiate athletics, bookstore, parking, summer session, continuing education, the physical plant, telecommunications, etc.)

#### CURRENT TREATMENT OF EMPLOYEE FRINGE BENEFITS IN WESTERN BUDGETS

For the State Operating Budget (not for self-sustaining accounts), fringe benefits related to salaries up to and including the initial 2010-11 operating budget have been diverted from unit budgets to be pooled and managed by University Planning and Budgeting in a central account. Fringe benefits include but are not limited to the employer share of pension payments, health insurance premiums, Social Security,

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Medicare, etc. In 2009-10, approximately \$24M was budgeted in this pooled account to cover state operating budget fringe benefits.

Self-Sustaining budgets include fringe benefits at the departmental level. Benefits follow salaries in this case, resulting in each financial manager and/or budget officer at the department or division level managing budgets that include salaries and associated benefits, and unit operations. In 2009-10, approximately \$7M was budgeted for benefits in these budgets. Divisions/departments also manage fringe benefits for grants and contracts.

#### MORE CLARITY NEEDED

With nearly every level within the university developing a bottom-up budget, linked to strategic priorities, best practices in budgeting call for clarity and transparency. Because the central budget office currently sets up the pooled benefits budget for state funded operations, adjusts it when needed, and monitors all expenditures, departments remain somewhat in the dark about the full cost of employee compensation, its impact on their budgets, and its impact on the university's budget.

#### PROJECT

With the approval of the President and Vice Presidents, the advice of the Deans and Directors, and the understanding of budget and finance professionals across campus, University Planning and Budgeting, Human Resources, Accounting and IT will immediately move forward to implement a project to permanently adjust division and department state operating budgets to reflect fringe benefits associated with all 2010-11 permanently budgeted and salaried positions, as indicated in the initial 2010-11 budget load.

#### BROAD OBJECTIVES

- Improve budgeting practices at the University
- Simplify the budgeting of employee benefits
- Build more flexibility into division/department budgets
- Provide divisions/departments the ability – supported by training and education -- to successfully manage their fringe benefits budget.
- Improve division/departmental management decisions since budget savings possibilities will be more immediately transparent.

#### PROJECT

Distribution of pooled benefits to departments will have three components:

Component #1 consists of communicating to all levels of management and budget/finance professionals the reasons for this project and the steps that will be taken to ensure successful implementation.

Component #2 consists of fully preparing the campus for the change through education and training. Initial training will be followed by budget office support and additional training, as needed, over the next year.

Component #3 consists in identifying the technical steps required to implement the change in Banner Finance based on the advice of budget, human resources, and information technology specialists.

### Component #1 -- COMMUNICATION

After meetings and discussions with UPB, HR, and IT to identify and agree on technical processes, the following steps in communicating to campus will be followed:

- 1) Meet and discuss with VPs
- 2) Meet and discuss with Deans, Directors, and President Cabinet
- 3) Email from UPB to Budget Management Advisory Council, explaining that administration of the benefits budget will change by November 4, and that this will be a subject of discussion at the next BMAC meeting on September 23. (Copy email to Deans, Directors, and President's Cabinet).
- 4) Sep 23: Introduction of plan to 45 budget/finance professionals at Budget Management Advisory Council (BMAC) to include the following:
  - a. Timeline of Project
  - b. Sample Banner Finance reports reflecting the change.
  - c. HR/UPB will present list of benefits and definitions
  - d. UPB will share with BMAC a benefits calculator to be posted to the HR website with a link from UPB website.
  - e. Link to discussion web-forum will be provided
  - f. Link to FAQ on project to be posted to UPB website.
  - g. Formulate list of budget/finance professionals currently working with benefits in self-sustaining budgets who will support new learners (e.g., Gary Jordan, Raquel Vigil, Kurt Willis, Adam Leonard, Jeff Ritter, etc.)
- 5) Possible email to campus announcing that a change is imminent with more information to follow – directing campus to UPB website Q&As.

### Component #2 - TRAINING

- 1) Identify list of finance managers/budget authorities to be trained. Not all finance managers/budget authorities handle salaries (e.g., the Dean's Assistants handle salaries in the Colleges).
- 2) Develop training materials (UPB & HR)
  - a. Step by step procedures to calculate benefits for all employee classes (a benefits calculator to be posted and updated as benefits change, on the HR website, with a link from the UPB website)
  - b. Step-by-step determination on how changes in salaries impact benefits (includes HR rules regarding when changes qualify for which benefits – students, temporaries, part-time staff, etc.), and the process to project full annual cost of benefits
  - c. Introduce method to reconcile with HR Monthly Transaction Detail Report Banner (not all areas will rely on this report). This is a simple process that will require one calculated balancing number produced by UPB and HR and provided to users.
  - d. Develop list of relevant Banner and other reports (eventually develop list of relevant Millennium reports).
  - e. List of specific benefits, with definitions.

- 2) **Sep 23 BMAC Meeting:** Introduction of process and initial training to Budget Management Advisory Council (BMAC) -- 45 budget/finance professionals.
- 3) **Early October** – Schedule four 2-hour trainings sessions for the following areas to be led by UPB and HR with assistance of self-sustaining budget officers already well-versed in budgeting benefits:
  - a. AA Budget Office and Dean’s Assistants (21 units, including 6 colleges, with IT, Shannon Point, EESP, Woodring, grants in all areas, etc. working on self-sustaining accounts and familiar with budgeting benefits).
  - b. Student Affairs budget officer and department budget personnel (21 units with close to 100% of the units working on self-sustaining accounts and familiar with budgeting benefits);
  - c. BFA directors and budget personnel (2 of 6 directors working on self-sustaining accounts and familiar with budgeting benefits); and
  - d. University Advancement budget officer.
- 4) **Oct 28 BMAC Meeting:** Continue training with questions/answers on information provided to date.
- 5) **Nov 23 BMAC Meeting:** This will be a **post Nov 4 implementation meeting** – to field additional questions/problems/suggestions
- 6) Introduce project at next Finance/HR Focus Group meeting.
- 7) Web forum discussion for questions and email questions to UPB.
- 8) FAQs (see appended draft list of FAQs)
- 9) Additional follow-up training sessions, if needed.

### Category 3 - TECHNICAL

The 2010-11 state operating budget has been loaded into Banner with all benefits supported by state operating funds (tuition and state appropriations) budgeted to the institution’s pooled benefits account. In order to transfer fringe benefit budgets and expenditures-to-date from the pooled benefits account to department accounts, UPB, HR, Accounting and IT propose the following steps and timeline:

- 1) **Sep 6 to Oct 6** UPB will calculate departmental annual fringe benefit budgets employee-by-employee, to be reviewed and discussed with each division’s budget officer from **Oct 11-14**. These estimates will be based on the initial 2010-11 annual operating budget.
- 2) **On October 20**, HR and IT professionals will remove the pooled benefits crosswalk from the payroll process that currently directs all benefits on per employee basis to the pooled benefits account. October 20 is the posting date for payroll #20 (October 1 to 15).
- 3) **On or before October 20**, HR and IT professionals will ensure that work-study employee benefits continue to flow into the pooled benefits account since the federal work-study grant cannot accept charges for student work-study benefits.
- 4) **From October 21 to November 4**, UPB will prepare an **accounting journal voucher** to move all fringe benefit expenditures through payroll #20 in Banner Finance from the pooled benefits account to division/department budgets. It is not necessary nor feasible to perform this process in the Banner payroll system.

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- 5) **From October 21 to November 4**, UPB will prepare a **budget journal voucher** to permanently move the annual budget for fringe benefits from the pooled benefits budget to division/departmental units.
- 6) **On November 4**, when payroll #21 (Oct 16 to Oct 31) posts, units will be able to see the following new information in their Banner reports for the remainder of the fiscal year and beyond:
  - a. An annual fringe benefits budget for 2010-11 to the end of the fiscal year; and
  - b. Fringe benefit expenditures by benefit type (social security, unemployment, employer medical payments, etc.) from July 1, 2010 through October 31, 2010.  
[Monthly Banner reports emailed to budget units on November 8, 2010, will also reflect these changes].

***Note: While salary expenditures in Banner Finance include encumbrances to the end of the fiscal year, it will not possible to encumber benefits to the end of the fiscal year. However, the total benefit budget will be clearly stated on Banner reports and easy for budget officers to segregate from other available budget balances.***

## FREQUENTLY ASKED QUESTIONS

- What is the pooled benefits account?

*An account held centrally at the university level (in UPB) where the budget and actual expenditures for employee fringe benefits for those employees supported by the State Operating Budget are directed and pooled. UPB manages this budget on behalf of the institution.*

*Because of the pooled nature of fringe benefits, departments do not have access to department fringe benefits budget or see fringe benefit expenditures on Banner Finance reports.*

- How will my department/division benefit by managing our own benefit budget?

*Divisions and or departments will have more flexibility and responsibility in managing their budgets and expenditures. Under the pooled benefit system, when a position becomes vacant, the benefit portion of the position is held and expended centrally. Under this new system, divisions or departments will be able to spend associated benefits savings along with the salary savings. **Some divisions may not allow their departments to keep and spend salary or benefit savings; it is critical to understand and follow your division's internal budget policies.***

- What are the new budgeting responsibilities that this change?

*After the annual benefits budget is provided to departments based on the initial budget load for 2010-11, if departments add temporary employees, pay overtime or salary differentials, or pay higher level duty pay on a temporary basis, etc., those divisions or departments will be responsible for both the salary and benefits budget.*

*Note: Departments have always been responsible for the state operating benefits associated with salary upgrades, reclassifications, and adding new permanent positions via UPB and the pooled benefits budget.*

- What happens if we do not have the budget necessary to pay the benefit costs?

The division or department lacking funds may not be able to enact the desired change or may need to modify the desired change. It is important to check with your division budget officer should this occur.

- What are the fringe benefits? How many are there?

*There are eight (8) fringe benefit codes in Banner. The first six are the most commonly used.*

- F910 – OASDI-Social Security

- *F915 – OASDI-Medical*
  - *F920 – Retirement*
  - *F930 – Medical Aid/Industrial Insurance*
  - *F940 – Health, Life, Disability Insurance*
  - *F960 – Unemployment Compensation*
  - *F980 – Other Employee Benefits*
  - *F990 – Salary Reimbursements*
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- Where will be able to see the total benefits' budget and costs for an organization?
    - 1) *Banner report, FBBSO2.*
    - 2) *This fall the Millennium Operating Statement (Millennium is not yet up and running; this is reporting software from Banner data via a newly created Banner Finance Data Warehouse).*
  
  - When will this change be effective?

*On November 4 divisions/departments will be able to see fringe benefit expenditures year-to-date in Banner reports, as well as an annual budget for 2010-11 fringe benefits.*
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- Who will help me with fringe benefit calculations?

*A fringe benefits calculator will be posted on the HR website, with a link from UPB. Both HR and UPB will assist departments with calculations, should any questions arise.*

*Additionally, the HR website explains all fringe benefits in detail.*
  
  - Who are the budget/finance professional that currently handle benefits for self-sustaining budgets and grant budgets?

*To be determined during the Sep 23 BMAC Meeting.*
  
  - What happens to the annual salary sweep with this change?

*The annual salary sweep will not occur after FY 2009-10. The last salary sweep occurred in July 2010.*
  
  - What if benefit costs rise?

*Benefit costs rise for a variety of reasons. For example, when employees turn 50, the employer contribution to retirement under WWURP increases to 10%. UPB will request funding for this change from the legislature, and if funded, will distribute the increase to affected departments.*

*Olympia will also provide funding for benefit increases related to health care, workers compensation, etc.; once appropriated, these amounts will be*

*distributed to affected departments in the annual operating budget process. The distribution will be on a proportional basis since Olympia does not always fully fund 100% of benefit changes.*

*In both of the cases above, if there is a shortfall due to a shortfall in appropriations, UPB will request any additional funding needed during the annual operating budget process for distribution to departments.*

- What if benefit costs fall?

*Olympia will reduce Western's appropriations in this case; and the reduction will be distributed to departments accordingly. This means that departments will return a portion of their benefits budget to cover the legislatively authorized budget reduction.*

- When an across-the-board pay raise is enacted by the legislature, where do the monies for associated benefits come from?

*Olympia provides the associated benefits in Western's appropriations. Again, because Olympia does not always provided the full amount needed, WWU will distribute the amount appropriated on a proportional basis, and UPB will request the additional amounts required during the annual operating budget process.*

- For faculty increases in accordance with collectively bargained agreements, who will pay the benefits? (e.g., promotion/tenure, post-tenure review, etc.)

*At the current time, the Academic Affairs Division covers promotion, tenure and advancement to senior instructor increases, including associated benefits. At the current time, the Institutional Budget covers post-tenure review increases, including associated benefits.*

- If a NTT faculty person works over .5 fall, under .5 winter, and over .5 spring, does he/she receive benefits in winter? What about summer?

## **REGARDING ELIGIBILITY FOR HEALTH INSURANCE FOR NTT FACULTY**

### **A. NEW NTT FACULTY – ESTABLISHING ELIGIBILITY**

Health insurance eligibility for a new NTT faculty member depends on both the signed contract and the language included on the finalized Personnel Action form (PA):

- **Quarterly Contract**: If the NTT faculty member's signed contract is a quarterly contract there are no health insurance benefits, **unless**:

The NTT faculty member under quarterly contracts works two consecutive\* quarters at a minimum of half-time in each quarter (50%\*\* NTT appointment). In this case, the NTT faculty member is eligible for health insurance benefits beginning on the 1st of the month after the start of the 2nd consecutive quarter.

*\*Consecutive quarters can cross over academic years: a) teaching in the Spring and then teaching in the Fall is considered consecutive; b) or Spring and then Summer; c) or Summer and then Fall.*

*\*\*How many credit hours equal a 50% NTT appointment?*

*Generally, full-time = 12 credit hours/quarter or 12-week period; **and***

*Half-time = 6 credit hours/quarter or 12 week period.*

- **Annual Contract**: If the NTT contract signed is annual (not including summer session) and the NTT faculty member teaches all three quarters over the course of one academic year, there are potential health insurance benefits as long as the corresponding PA submitted by the department and approved by the Provost's Office, indicates an annual contract and reflects an appointment that averages a half-time (50% appointment\*) during the academic year.

Examples:

- a)  $.5 \text{ fall} + .3 \text{ winter} + .5 \text{ spring} = .433 \text{ annual average} = \text{not eligible.}$
- b)  $.7 \text{ fall} + .4 \text{ winter} + .4 \text{ spring} = .533 \text{ annual average} = \text{eligible.}$

*\*How many credit hours equal a 50% NTT appointment?*

*Generally, full-time = 12 credit hours/quarter or 12-week period; **and***

*Half-time = 6 credit hours/quarter or 12 week period.*

## B. RETURNING NTT FACULTY (Quarterly or Annual Contracts)

1. **Return to WWU within 12-calendar Months.** If a NTT faculty member is returning to an NTT appointment within 12 calendar months after ending employment duties, and was previously eligible for health insurance, the NTT faculty member would be eligible for health insurance benefits during quarters worked under a new contract at an appointment that is greater than or equal to half-time.
2. **Two-Year Averaging Rule for Continuous Health Insurance Coverage:** A NTT faculty member without a multi-year contract may become eligible for continuous health insurance benefits via the two-year averaging criteria as established in law: namely, that NTT faculty with quarterly or annual contracts who teach at least an average of 50% per Academic Year for at least two Academic Years (i.e., F, W & S quarters) will be eligible to receive health insurance benefits continuously, that is, over the summer quarter between year two and year three whether or not they teach, and during subsequent quarters. Please call HR for help with the application of this rule.

## C. SUMMER QUARTER BENEFITS ELIGIBILITY

- 1) NTT Faculty with Quarterly Contracts are eligible for health insurance benefits if teaching half time or greater during the summer quarter if: a) he or she has established health insurance eligibility; or b) the summer quarter is the 2<sup>nd</sup> consecutive quarter of teaching under quarterly contracts.
- 2) Annual Contract NTT are eligible for Summer Quarter health insurance benefits if they are not expected to return in the upcoming Fall Quarter and are continuing to teach over Summer Quarter equal to half-time or greater based on an academic quarter length\*.
- 3) Both annual and quarterly contract NTT Faculty expected to return in the upcoming Fall Quarter are eligible for summer quarter health insurance benefits with or without teaching over the summer quarter based on an academic quarter length\*; if they have taught an average of at least half-time over all three quarters of the previous AY (F, W & S Quarters).
- 4) Multi-Year Contract NTT faculty expected to return in the upcoming Fall Quarter may teach or not teach in Summer Quarter and be eligible for health insurance benefits. No requirement for at least half-time in this case.

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\*Note: Half-time appointments in Summer Quarter are based on the Academic Quarter length (12 credit hours be taught in either the 6-week, 9-week, or 12-week sessions).

## **REGARDING NTT ELIGIBILITY FOR PARTICIPATING IN WWU RETIREMENT PLAN (WWURP)**

Participation requires at least two consecutive quarters at an appointment percent equal to 40% or greater during the WWURP plan year defined as July 1 through June 30.

Newly eligible NTT Faculty may waive participation for a maximum of two years. This plan requires that the employer match the employee contribution at 5%, 7.5% or 10%, depending on employee age.

For NTT faculty with a significant break (longer than 12 months) in service, eligibility for participating in WWURP may need to be re-established, this needs to be determined by HR.

- **Does an additional stipend/one-time pay for faculty (chair stipends for Tenure-Track Faculty, advising stipends or one-time pay for overload for either TT or NTT faculty etc.) increase the calculation for employer-paid benefits? That is, is the combined income amount used to calculate benefits?**

### **WWURP Retirement Plan**

- In regard to those faculty who participate in the WWURP retirement plan, Chair Stipends and Director Stipends are counted so that the employer-paid share of this benefit increases accordingly.
- Generally speaking, one-time payments other than Chair or Director Stipends are not counted so that there is no increase in the employer-paid share of this benefit.

### **Health Insurance Benefits**

- In regards to health insurance benefits, eligibility is based on whether contracts are annual, quarterly or multi-year, and on appointment percentages provided by departments, and verified by the Provost's office. Consequently, one-time payments are generally not used

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to determine health insurance eligibility. NTT or TT faculty eligibility is based on appointment, not necessarily hours

- **Could we not simply receive the NTT benefit calculations from HR, rather than trying to reinvent the very complicated benefit wheel at each college level?**

Since the health insurance and retirement eligibility rules are complex and broad with regard to NTT faculty, we do not expect departments to master the details of each and all the eligibility criteria. While a NTT faculty benefits calculator will be posted for department use, the final determination for health insurance eligibility will still be made at Human Resources (Jeff Ritter). The basic rules of NTT faculty health insurance benefits eligibility will assist colleges in understanding the budgetary impacts of personnel decisions.

Various fringe benefits calculators currently under development will be reviewed in upcoming training sessions, and improved upon as questions and issues arise. The planned training sessions will be designed as a first step to new understandings of the “ins and outs” of the budgeting of benefits. While many finance and budget personnel are currently aware of how to budget benefits (those with self-sustaining budgets), professionals dealing with only state operating budgets will be new learners.

***As always, both HR (Jeff Ritter) and UPB are available to assist in basic budgeting of benefits, while Jeff Ritter, as Western’s benefits expert, will be available for the most complex determinations.***

Go to web forum if you would like to raise additional questions; or email your questions to [Diana.Cline@wwu.edu](mailto:Diana.Cline@wwu.edu) or [Paula.Gilman@wwu.edu](mailto:Paula.Gilman@wwu.edu).