

**CENTRALIZED OR DECENTRALIZED BENEFIT
EXPENDITURES?**

**TRY SPECIALIZED BENEFITS POOLS –IT’S THE BEST OF BOTH
WORLDS!**

**Lisa J. Clough
University Budget Officer
North Carolina State University**

Abstract

Employee salaries and associated benefits represent the largest expense category for institutions. To maximize resources, what can be done to ensure appropriate resources support associated benefits for employee salaries? Should benefit costs be born at the unit level, with decentralized budget and authority to redirect resources to manage surpluses or shortfalls? Should benefit costs be managed at the institution level, allowing administration the flexibility to redirect resources in times of budget reductions or in support of institutional priorities?

*The solution doesn't have to be an "all" or "nothing" environment. **Special Benefit Pools** afford institutions the leverage to move on a continuum between centralized and decentralized benefit cost strategies. Utilizing a largely centralized strategy, an institution may choose to deploy costs such as FICA at the unit level and manage all other associated benefit costs centrally. On the other extreme, all associated benefits costs may be decentralized to units with a central benefits pool to serve solely for collective costs such as yearly unemployment insurance charges. The continuum can be anything in between – tailored to assist the campus with the appropriate level of accountability and flexibility that matches the institution's administrative culture.*

Introduction of the Organization

North Carolina State University, located in Raleigh, NC, opened in 1887, founded as the land-grant institution for the citizens of North Carolina. Historically known for agriculture and engineering programs, it also provides programs in humanities and social sciences, design, education, life sciences, management, natural resources, physical and mathematical sciences, textile and veterinary medicine. It awards bachelor's degrees in 102 fields, master's degrees in 108 fields and doctoral degrees in 60 fields.

NC State serves a student population of 29,957 with a faculty population of 1,825 that includes nine members of the National Academy of Sciences, eight members of the National Academy of Engineering, and one member of the Institute of Medicine.

Centennial Campus is the research park complex for NC State and home to more than 100 companies and agencies. The environment enables an advanced technology community, fostering partnerships with industry, government and education. NC State is ranked 6th in technology strength of patents, 7th among national research universities in industry-funded research, and 12th among national research universities in non-federally funded research.

Serving our land-grant heritage, NC State extension activities reach all 100 counties throughout the state and the Cherokee Reservation.

Simply said, NC State is "Innovation in action".

Statement (restatement) of the Problem/Initiative

The benefit costs associated with personnel expense in higher education present an ongoing challenge. Like death and taxes, salary expense has corresponding benefit expense. From part-time student workers with FICA expense to employees with federal pension programs, the myriad of associated benefits costs can be as complicated as coffee selections at Starbucks. In a perfect world, all units have adequate budget to cover all associated benefits expense at a fully staffed level. In the real world, universities make benefit budgets stretch – by factoring in attrition, using temp workers with lower benefits costs and reevaluating the level of benefit programs they are able to offer their employees.

One approach to managing benefit expense is an “economies of scale” or centralized strategy. If all benefits budget is maintained centrally, surplus budget as a result of attrition resides with administration for reallocation to other institutional priorities. This approach affords little incentive to campus departments to manage their employee costs beyond salary expense since there is no return to the department for responsible resource management. When benefit expense is decentralized to every campus unit, the small independent units are vulnerable to unanticipated expenses and are likened to uninsured motorists. They have no resource to cushion an “accident” such as one-time costs for worker’s comp settlements. Neither option is optimal but a blending of the two may afford the best of both worlds.

Design

At NC State we wanted to create a mechanism that would facilitate managing benefit expense at each unit level, encouraging fiscal responsibility but also establishing a “parachute” resource for the unpredictable and burdensome one-time expense. We call our “parachute” the **Special Benefits Pools**.

Working within state fund limitations and contract and grant restrictions, five Special Benefits Pools were created to manage the exchange of benefit expense within funding types. All units funded by state appropriations for our academic mission share one special benefit pool. Due to state law limitations, we cannot transfer state appropriations between designated agencies. As the land grant institution with three separate state appropriations, we needed two more pools to service the remaining state appropriated entities for agriculture research and cooperative extension. Contract and grant activity is confined to very restrictive rules as negotiated through our Finance and Administrative rate proposals and another special benefit pool was established to service all contract and grant activity. The fifth and final pool represents all other university endeavors.

Each of the five special benefits pools has a unique account, solely designated to cover benefit expenditures that are not assessed at the individual unit. Every account in the financial system is linked to one of the five pools.

You might ask – where does the money come from to cover the costs that are covered in the five special benefits pools? Every unit contributes to the pools with each pay cycle, building a reserve to address the expenses incurred in the special benefits pools.

How do they contribute? As part of every payroll cycle, the special benefits process runs to determine the cost assessment charge to every account that incurs a salary expense for that payroll. The rate assessment is dependent on the Special Benefit pool the account is assigned to. Every year the Special Benefits rate is calculated for each of the five special benefits pools and communicated to campus. The calculation is based on trend analysis for at least five years, with close consideration to external forces such as unemployment trends, economic conditions and legislative imposed benefit expenses.

Implementation

The special benefits process to assess each unit with payroll expense has been automated to run in combination with sequential payroll processes. A unique expense object code is used to post the expense assessed each unit and the offsetting credit posted to the special benefits pool. Collectively within the pool, these entries net to zero. The goal of the special benefits pools is to “break even” at year-end – generating enough credits via each payroll process to cover all expenses that are managed by the special benefit accounts for each of the five pools.

The three pools designated for state funded units must be cleared before year-end.

University administration manages the year-end activity necessary to clear all state

appropriated pools before year-end but with careful estimating, this clean up activity is minor. The two non-state funded pools retain any balances into the next year and are factored into rate calculations.

At the end of each fiscal year, one global accounting entry is made to spread the credits and expenses posted throughout the year in the special benefits pools to accounts by programmatic designation. The prorating is based on the percent of assessment to the total amount generated in the special benefit pool by program. If the yearly assessment for all instructional units represents 60% of the total assessment in the special benefits account, 60% of the special benefit pool activity is moved to an instructional account. Each program follows that methodology. Allocating the activity in the special benefits pool at year-end better represents the full programmatic costs for instruction, research, public service, academic support, student services, institutional support and operations and maintenance.

Benefits

Why has NC State adopted this approach? It works like an elastic waistband – stretching to include more in times when centralized resources best address costs and shrinks when decentralizing costs result in optimal resource utilization.

Struggling with budget reductions for most of the last 15 years, the use of the special benefits pool process affords our campus the flexibility to manage benefits costs at the unit level with direct return on their savings. This approach provides some stability

against the unexpected expenses and encourages campus to wisely manage their benefit costs. If managed well, the surplus benefit budget becomes a resource to help address budget reductions, program initiatives, computer upgrades and professional development opportunities.

NC State implemented the special benefits pools more than 10 years ago. It has evolved over the years to include different costs and most recently, to address legislated bonus leave awarded to state employees. For example, restrictions in contract and grant activity would not allow lump sum payouts for bonus leave earned by employees. Without the special benefits pools, the leave payout would have to be absorbed by other institutional resources, creating an additional burden for Deans. Without a solution, this burden would cause a disincentive to hire employees with bonus leave balances on grant-funded activities. The special benefit pool covers the bonus leave payout for contract and grant activity and is negotiated in the Facilities & Administrative cost rate fringe benefit component.

The special benefits pools currently expense all worker's compensation claims and unemployment insurance charges. While not all units have employees with worker's compensation claims, the campus appreciate the "insurance" the special benefit pool provides when a claim is necessary for one of their employees. The same is true with unemployment insurance – everyone pitches into the pool knowing they can benefit from it when the situation arises.

Retrospect

The special benefit pool process has proved to be a valuable process at NC State, almost to the point of being overlooked. Benefit expense that is incurred centrally gets paid without notice from campus. Every year when the rate is revisited and the trend analysis is done, the new rate is distributed to campus without much comment. This is one example where an administrative process results in a “win – win” arrangement for campus units and administration. It’s the best of both worlds!