Understanding and Managing the NIH Salary Cap

Division of Financial Affairs
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Program Agenda

• Background
• Cap levels and effective periods
• Impact on proposal budgets
• Accounting for the cap
• Details of calculation
• Questions
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BACKGROUND
Background

• The NIH Salary cap was first instituted in 1990
• Cap is imposed by Congress, through the annual appropriation bill funding NIH
• Most recently the cap has been tied to the federal Executive Level II salaries. When the EL-II rate goes up, so does the cap.
  – Prior to 2012 the cap was tied to the EL-I (higher) rate
• The cap is imposed on the rate of pay
• Volunteered effort (e.g. saying that one will work 5%, and not charging it to the project) is not a factor in the management of the cap. This effort is recorded at actual cost.
Rate of Pay

• The NIH expresses the cap as a rate of dollars per full year that they will pay for someone’s salary
  – “An individual's institutional base salary [IBS] is the annual compensation that the applicant organization pays for an individual's appointment, whether that individual's time is spent on research, teaching, patient care, or other activities.”
  – At Cornell IBS excludes salary supplements and allowances.

• Based on the IBS below, what is annual rate of pay:
  – Vet professor, with a 12 month, full time, appointment, earning $8,333.33 semi-monthly?
  – Plant Biology professor, with a 9 month, full time appointment, earning $150,000 per year?
  – Research scientist, with a 3 month, summer, quarter time appointment at $4,166.67 per month?
What is the annual rate of pay of a:

- Vet professor, with a 12 month, full time, appointment, earning $8,333.33 semi-monthly?
  • $8,333.33 \times 2 \times 12 = $200,000

- Plant Biology professor, with a 9 month, full time appointment, earning $150,000 per year?
  • \frac{150,000}{9} \times 12 = $200,000 (or 150,000 \times \frac{12}{9ths})

- Research scientist, with a 3 month, summer, quarter time appointment at $4,166.67 per month?
  • $4,166.67 \times 4 \times 12 = $200,000
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CAP LEVELS and EFFECTIVE PERIODS
Cap Levels

• Cap is currently tied to the federal Executive Level II salary

• As of January 11, 2015 that amount is $183,300
  – This rate is for full time, 12 month service
  – This translates to $137,475 for a 9 month appointment

• Googling “nih salary cap level” will take you to http://grants.nih.gov/grants/policy/salcap_summary.htm which is the cap summary from 1990 to the present
Salary Cap Summary (FY 1990 - Present)

FY 2015 Awards Issued

October 1, 2014 through January 10, 2015 (Executive Level II) $181,500
January 11, 2015 through September 30, 2015 (Executive Level II) $183,300

FY 2014 Awards Issued

October 1, 2013 through January 11, 2014 (Executive Level II) $179,700
January 12, 2014 through September 30, 2014 (Executive Level II) $181,500

FY 2013 Awards Issued

October 1. 2012 through September 30, 2013 (Executive Level II) $179,700
Effective Periods

• Awards
  – Awards are made at the level in effect when the award (or increment) is made. For example, an award made in November 2013 would only fund salaries up to a rate of $179,700 per year

• Expenditures
  – Expenditures may be made up to the level in effect at the time of the expenditure. For example, a payment from the above award, in February 2014, could be at a rate up to $181,500.
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IMPACT ON PROPOSAL BUDGETS
Proposal Budgets

• Proposal should budget and indicate the full, institutional base salary (IBS), for all individuals.
  – For example: Professor Lopez is working 10% on project A, she makes $200,000 per academic year
    • Her budgeted effort is $20,000, her IBS is $200,000.
    • Remember, IBS excludes administrative supplements and allowances
• The NIH may reduce the award to the capped level in effect at the time of award or increment.
  – If awarded by the NIH today, Professor Lopez’s salary would be limited to $13,747 (10% effort on 9/12ths [9 month appt] of the cap)
  – To jump ahead, the difference between $20,000 and $13,747 must be accounted for separately.
ACCOUNTING FOR THE CAP

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Accounting for the Cap

- **Policy 3.11, Effort Planning**, details this procedure

- At least one KFS cost sharing (type CS) sub account must be established for each NIH award on which capped individuals are working.
  - This sub account **cannot** be used for any other purpose (e.g. cost shared effort or other expenses) and the title must begin with NIH CAP.
Accounting for the Cap

- In our previous example Professor Lopez was devoting 10% to the project. However, of that $20,000, only $13,747 may be charged.
- The salary should be allocated as follows
  - 6.87% to the NIH award account
    - $6.87 \times 200,000 = 13,747
  - 3.13% to the Salary Cap Cost sharing subaccount
    - $3.13 \times 200,000 = 6,253
- These allocations should be in place for each pay.
  - Avoid doing catch up adjustments which undermine our compliance credibility
An individual may opt to be paid their summer salary at the cap level.

- In this case a cost sharing sub account is not necessary
- However, it is critical that the limitation is documented and that there is no pay “taking the place” of the above the cap portion
- E.g. Prof. Wan, who normally earns $197,000 per academic year, may be paid at the rate of $15,275 per summer month (cap level) rather than $21,889 (IBS).

None of the 6,614 can be paid from a sponsored source, since he is being paid at the cap level.

If he were paid at his IBS, the 6,614 would be in an NIH CAP cost sharing sub account.

In either case, the amount paid must represent a full month of work, regardless of the percentage of the IBS.
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DETAILS OF THE CALCULATION
The impact of the cap when there is a stated level of effort.

- Assume 9 month IBS of $160,000, 12 month cap of $183,300, 15% effort

- 15% of 9 month cap is \(0.15 \times 0.75 \times 183,300 = 20,621\)
  this is the maximum amount that can be charged

- 15% of the IBS is \(0.15 \times 160,000 = 24,000\)

- \((20,621/160,000)\) or 12.89% is the portion to charged the award

- \((24,000-20,621)/(160,000)\) or 2.11% is charged to the NIH CAP sub account
• The impact of the cap when there is a stated amount to charge to the award.
  
  – Assume 9 month IBS of $175,000, 12 month cap of $183,300, $25,000 on the award.
  
  – This individual’s rate exceeds the cap by $175,000 – (183,300 x .75) = $37,525
  
  – To charge $25,000 the individual would allocate $25,000/$175,000 = 14.29% to the award account. There must also be an allocation of 
    $(25,000/(183,300 x .75)) – 14.29 = 3.90\%$ to the NIH CAP sub account for the cap exceedance.
  
  – Thus, to charge the award $25,000 the person must be working at least $3.90 + 14.29 = 18.19\%$ of the time on the project during that period. (Note: 18.19\% equals 25,000 / 9 month cap)
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QUESTIONS
For further information contact: uco-cost@cornell.edu