UNIVERSITY OF OREGON

MEMORANDUM

To: Vice Presidents, Deans, Directors, Department Heads, and Campus Budget Managers

Date: Tuesday, January 24, 2017

From: Jamie Moffitt, Vice President for Finance and Administration and CFO

Subject: Fringe Benefits: Blended OPE rates effective Fiscal Year 2018

On July 1, 2017, the University of Oregon is implementing a new process for charging employee OPE (Other Personnel Expenses) costs to departments. Under the current model, the university charges departments the actual cost of employee benefits. This requires an individual calculation for every single university employee. The Federal Office of Management and Budget (OMB) allows universities to use an allocation method that applies uniform, "blended" rates to predetermined employee pools. The new rates will encompass all of the applicable fringe benefit charges (listed in detail below), and have been calculated based upon historical averages within each employee pool, determined by employee type or E-Class. Internally we are referring to this method as "blended OPE." We will create a number of new E-Classes to align with the employee pools and will be implementing a blended OPE model starting July 1, 2017.

Why is the University of Oregon changing to a process that uses blended OPE rates?

There are many benefits of using a blended OPE model. They include the following:

1. It will simplify the preparation and administration of budgets for faculty and staff.
2. It will simplify the budgeting and accounting for OPE expenditures.
3. It will provide consistent accumulation and allocation of OPE expenses to all functional activities as required by Cost Accounting Standards 501 and 502, and OMB Uniform Guidance.
4. It will resolve the UO's current challenges with allocating the cost of employee leave across multiple funds or grants.
5. It is considered a best practice among leading research institutions.

Which fringe benefits will be included in the new Blended OPE Rates?

1. Retirement
2. Health Insurance
3. Leave (Sick, Vacation, Comp Time and Personal Leave)

4. FICA Tax (employer side of Social Security and Medicare)
5. SAIF (Worker's Compensation)
6. Unemployment insurance
7. Liability insurance
8. Life insurance

How will leave (sick, vacation, comp time, and personal leave) be charged?

The new blended OPE rates include the cost of leave time for employees. Going forward, when an employee is out on sick, vacation, comp time or personal leave, the department will NOT be charged for their salary and OPE. Instead their salary and OPE will be charged to a central pool. This should help departments to cover costs for employees out on extended leave and eliminate the issue of departments having to cover large vacation payouts when employees leave. It will also help with issues related to leave and grant accounting.

Why do the rates seem so much higher than in previous years?

The proposed blended OPE rates for Fiscal Year 2018 are noticeably higher than in previous years for two reasons. First, the new blended rates contain the average leave taken (vacation, sick, comp time, etc.) within each rate group. This accounts for the majority of the rate increase. While the OPE rates are higher, units will not be responsible for salary and OPE charges when employees take leave. Under the old system, OPE rates were lower but departments had to cover salary and benefits when employees took leave. Second, in addition to the inclusion of leave, the proposed rates include an expected increase in PEBB costs and a large increase in PERS for the Fiscal Year 2018. The rates for each employee group represent the actual projected benefit charges the University expects to pay.

What are the proposed employee pools and corresponding Blended OPE rates for the Fiscal Year 2018?

Employee Pool (To be determined by E-Class)	**FY 18 Rates**	**Description**
12-month Faculty and all OAs (Faculty/Staff A)	72.3%	The Faculty/Staff A Employee Class consists of faculty members that are on a twelve-month schedule and salaried Officers of Administration (OAs). These employees are all eligible for sick leave and vacation leave.
9-month Faculty and Executives (Faculty/Staff B)	48.3%	The Faculty/Staff B Employee Class consists of faculty members that are on a nine-month schedule that are sick leave-eligible but not eligible for vacation leave and includes employees coded as Executives.
Summer employees (Faculty/Staff C)	30.7%	The Faculty/Staff C Employee Class consists of all summer term employees excluding students.
Athletics	43.8%	All Athletic Department employees

Classified Service	108.0%	The Classified Service Employee Class consists of hourly employees coded as service/maintenance such as groundskeepers, custodians, laborers, and food service workers.
Classified Skilled/Clerical	93.6%	The Classified Skilled/Clerical Employee Class consists of hourly employees coded as skilled and clerical.
Classified Technical	79.6%	The Classified Technical Employee Class consists of hourly employees coded as technical and professional.
Retirees and Temporary Employees	25.7%	The Retirees and Temps Employee Class consists of retired University of Oregon officers/teachers/researchers and temporary support staff employees.
Students	2.5%	The Students Employee Class consists of graduate employees and undergraduate student employees.

How were the blended OPE rates calculated?

Employees were grouped into nine categories of blended OPE eligibility: Faculty/Staff A, Faculty/Staff B, Faculty/Staff C, Athletics, Classified Service, Classified Skilled/Clerical, Classified Technical, Retirees and Temps, and Students. This will require some modification to the E-class coding, currently underway.

All actual benefits costs associated with each employee group were included in a “pool” of costs. The total benefits cost pool was then divided by the salary and wage base for each employee group, resulting in an average or blended OPE rate for each group of employees. It is important to note that the blended rate for each employee group is based on the actual benefits costs for that group of employees. The benefits costs for each employee group also includes the cost of leave time which, as explained above, will allow the university to cover all leave costs out of a central pool instead of having them charged to departments.

How will the implementation of blended OPE rates affect budgets?

Our goal is to have the proposed new blended OPE rate pools affect final costs to departments as minimally as possible. To this end, we will be adjusting budgets as best as possible in order to minimize the impact (positive or negative) of this transition. Your financial analyst from Budget and Resource Planning will contact you to discuss any budget issues associated with this transition.

How will these new rates affect my sponsored project budgets?

Sponsored project budgets are unique in that they must adhere to not only UO policy but also sponsor requirements. The Office of the Vice President for Research and Innovation will be releasing guidance specific to sponsored projects shortly that will explain the impact of blended OPE rates on grant budgets.

Will the rates change in the future?

The blended OPE rate for each employee group will be reviewed annually to ensure an accurate allocation. Any over or under recovery of actual OPE costs will be adjusted for each rate in the next rate calculation along with any additional cost increases.

How can I get additional information, training, and support?

Over the coming months, the Office of Budget and Resource Planning will be conducting mandatory training for all Level 3 budget managers on the new blended OPE rates. Additional information about the new rates, including FAQs, is posted at https://brp.uoregon.edu/content/blended-ope-process. If you have any questions regarding blended OPE, please contact your Budget and Resource Planning analyst.