



# The University of Memphis

## Incentive Pay Plan

### **Purpose:**

The incentive pay plan seeks to reward faculty members with incentive pay equal to 50% of the amount of salary 'recovered' from external funding sources.

### **Background:**

In order to comply with federal cost principles in OMB Circular A-21, it is important that the cost to the external sponsor remain unchanged as a result of the incentive pay plan. In general, federal grants do not allow extra compensation to be direct charged. Thus, it is unallowable to direct charge incentive pay to a federal grant.

Federal cost principles permit direct charging a percentage of base salary commensurate with the faculty's level of effort on the federal grant. University funds 'recovered' by direct charging base salary to external funding sources can then be used for incentive pay provided that no TBR policy or Tennessee law is violated.

For many years, TBR limited extra compensation to 20% of annualized salary. The 20% limit was liberalized with the approval of TBR policy 5:01:05:00 "Outside Employment and Extra Compensation." However, Tennessee law still limits the number of extra hours faculty are allowed to work and so extra compensation is limited by Tennessee law. In contrast, Tennessee law does not limit incentive pay because incentive pay requires no additional hours of work.

The U of M received TBR approval in November 2001 to implement the research incentive program on a trial basis for select faculty. TBR's approval was based on the understanding and limitation that compensation exceeding the base salary would be derived from external funding sources. In June 2002, the Vice Chancellor for Academic Affairs approved extending the research incentive program to all faculty.

Incentive compensation is more money for the same work; extra compensation is more money for more work. Faculty may receive both incentive compensation and extra compensation if the situation warrants. Put another way, payment of extra compensation does not preclude the payment of incentive compensation.

Situations will arise in which the external funding source can pay extra compensation or incentive compensation. Since incentive compensation is limited to 50% of the amount recovered, faculty may be able to receive more money by choosing extra compensation. However, this is appropriate only if more work is performed. Faculty receiving release time to work on the externally funded project should not receive extra compensation.



# The University of Memphis

## Incentive Pay Procedure:

### Overview:

Faculty seeking incentive pay must obtain external funding for their base salary, negotiate an agreement with their chair and dean, verify work performed by signing the semester's effort certification form, and initiate payment on the mid-month payroll by completing an incentive pay request form.

### External Funding Proposal:

For faculty to be eligible for incentive compensation, the external sponsor must provide funding for their base salary, all associated benefits, and the maximum Facilities and Administration (F&A also known as indirect costs) rate allowed by the sponsor's formal policy.

### Faculty Incentive Pay Plan Agreement:

The purpose of this agreement is to create an understanding between faculty, chairs, and deans regarding the disposition of base salary budget recovered from external funding sources.

1. Before any incentive can be paid, the needs of the university must first be met. The most common need of the university is to employ a temporary instructor to replace faculty who receive a course release. The cost of temporary instruction should be specified in block A1 of the agreement.
2. At the discretion of the chair and dean, other situations may require additional funding for the department prior to paying the incentive to faculty. Any additional needs should be included in block A2.
3. Some faculty have research appointments with contracts that require that they bring in external funding to pay a percentage of their base salary. Faculty in this situation must first recover that portion of their base salary before being eligible for incentive pay. In this situation, the amount or percentage which must be recovered should be specified in block A2 of the agreement. After repaying the university the amount or percentage specified in block A2, research faculty are entitled to receive incentive pay up to the maximum of 50% of total salary recovery. For example, consider a research faculty member who by contract must recover \$20,000 of his/her base salary. If that faculty member recovers \$50,000 of their base salary, the university gets the first \$20,000, the incentive for the faculty member is (50% of \$50,000) \$25,000, and the university gets the last \$5,000. Consider the same situation but the faculty recovers only \$30,000 of their base salary. The university gets the first \$20,000 but the maximum incentive (50% of \$30,000) cannot be paid because only \$10,000 remains. The incentive payment is \$10,000.
4. Historically, departments have had control over 100% of their salary recoveries and may be dependent on salary recoveries to operate the department. With the advent of incentive pay, these departments face a loss of operating funds. Therefore, chairs and deans are not required to pay the maximum incentive of 50%. Rather, chairs and deans may negotiate incentive percentages less than 50% in order to meet department and college needs. Use block B to document the agreed upon incentive percentage.
5. The comment section should be used to document the expected course load or other assigned duties upon which the agreement was based.



# The University of Memphis

## Budgeting:

At the time the base salary is coded in the payroll system to be charged to the external sponsor, a free balance is created in the university budget for that faculty position. The amount of the free balance is equal in amount to the base salary charged to the external sponsor. This free balance is called salary recovery. A finance office moves salary recoveries from object code 1210 to object code 1265 to make it easy for departments to re-budget the funds using the online budget revision screen D21 in the Document Approval System (DAS.) Since incentive pay will be charged to object code 1265, departments need to take no action to budget for incentive pay. However, departments will need to prepare and approve online budget revisions to utilize the departmental share of salary recovery funds.

## Effort Certification:

The effort certification form is the official audit documentation to support base salary charges made to various funding sources. Before the incentive can be paid, the faculty must document for audit purposes their effort on the externally funded project. Before signing the effort certification form, faculty should verify that the percentages on the form reflect the actual effort of the faculty during the covered time period. Since it is often impossible to have exact percentages on the form, use 5% as a guideline. If the effort percentage is within 5% of your estimated effort, consider it close enough. Also consider the time span involved. For example, 40% effort for one month of a semester will correctly appear as 10% effort on the form. The effort certification form is produced three times each year: after the December 31st payroll, after the April 30th payroll for academic year faculty, and after the June 30th payroll for others. This affects the frequency that incentive pay can be paid since the effort certification form must be signed before incentive pay will be processed.

## Payment:

A new form will be developed based upon the existing summer/extra compensation form using earnings code 82 and object code 1265. Like the summer/extra compensation form, the deadline is the 5th of the month for payment on the 15th of the month. The incentive pay form must include a copy of the effort certification form and a copy of the faculty agreement. The form with attachments will be reviewed and approved by the vice provost for research (or designee) prior to submitting to the payroll office by the 5th of the month for payment on the 15th of the month. Special note for twelve month faculty: There will be a short turn around time between the creation of the effort certification form and the July 5th due date. Because of this constraint, the vice provost for research (or designee) may accept the faculty's written declaration of intent to certify in lieu of the actual effort certification form. Should the faculty fail to formally certify the effort on the externally funded project, the university will have the right to recover the incentive pay.



# The University of Memphis

## Faculty Incentive Pay Plan Agreement

The incentive pay plan allows payment of additional compensation from funds generated from external funding sources through recovery of base salary. For faculty to qualify for incentive compensation, the external sponsor must provide the maximum F&A allowed by the sponsor's formal policy. Incentive compensation may not exceed 50% of the amount recovered. Salary recovery funds shall be allocated as follows:

- A. To the department to compensate for costs incurred in replacing the faculty member's contributions to the department. Please specify the amount for temporary instruction in block A1 below and other departmental needs in block A2 below.
- B. To incentive compensation. Negotiate an equitable incentive compensation percentage with the caveat that Items A and B cannot exceed the amount of salary recovery. Please specify this percentage in block B below.

Salary recovery funds left after faculty replacement costs and incentive compensation remain with the department for its discretionary use. This amount cannot be calculated until the precise amount of salary recovery for the semester is known.

To request payment following each semester, faculty must submit an incentive pay request form (to be developed using earnings code 082 and object code 1265,) attach a copy of their effort certification form to document their effort on the sponsored project, and attach a copy of this agreement.

| Faculty Name  | Chair Name | Department Name |
|---|------------|-----------------|
| <b>A. Department Share of Recovery per Semester (Off-The-Top)</b><br>The off-the-top department share must be adequate to cover the costs incurred by the department. <ul style="list-style-type: none"> <li>1. Faculty Replacement Costs (Temporary Instruction)      \$ _____</li> <li>2. Other Departmental Needs      \$ _____</li> </ul> |            |                 |
| <b>B. Faculty Incentive Percentage of Recovery (50% max)</b>  |            | %               |
| Comments (such as course load or other assigned activities):<br><br><br>  |            |                 |

This agreement will be negotiated between faculty and chair/dean every one to three years.

Term: Valid for fiscal year(s) July 1, 2002 through June 30, \_\_\_\_\_.

|         |       |       |
|---------|-------|-------|
| _____   | _____ | _____ |
| Faculty | Chair | Dean  |