

# Cui Bono? How Employee Fringe Benefits Contribute to College Costs

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June 2, 2016

# Research questions

- How do employee fringe benefits contribute to core education costs on a per student (not per employee) basis?
- How do benefits costs vary by sector, by state, and over time?
- To what extent do benefits costs relate to increased prices and/or revenues from students?

# Principal findings

- Benefits costs for education & related (E&R) spending averaged \$2,880 per FTE student in FY 2014
  - 17.2% of all E&R spending
  - 28.7% of net tuition and fee revenue
- Wide variation among states and sectors
- Increase observed in per student costs in constant dollars and share over time
- Minimal relationship to increases in tuition revenue.

# Methods

- Adopted “education & related” expenses construct from Delta Cost Project
- Harvested IPEDS universe for 2003-04, 2008-09 and 2013-14
- Adjustments to
  - Push “parent” institution revenues/expenses to “child” institutions
  - Back out depreciation, interest, and operations & maintenance
  - Convert to constant 2014 dollars using CPI
- Examined benefits component of remaining E&R expense
  - As share of total
  - Per FTE enrollment

# Education & Related (E&R) Expenses

Developed by the Delta Cost Project to measure spending on student-related education

$E\&R = \text{Instruction} + \text{Student Services} + \text{share} * \text{overhead}$

Overhead = Academic Support, Institutional Support + Operations & Maint.

$$\text{Share} = \frac{(\text{Instruction} + \text{Student Services})}{(\text{Instruction} + \text{Student Services} + \text{Research} + \text{Public Service})}$$

# Limitations and Considerations

- IPEDS Finance Survey
  - Different accounting standards by sector
  - Changes over 10 year period
  - Front-line accounting affects institutional reporting
- States and localities cover varying proportions of benefits for public institutions
- Post-retirement benefits included for private institutions but not public institutions
- State/local activity to “catch up” on underfunded benefits affects metrics

# IPEDS Finance differences by institution control

	Public	Private Not-For-Profit	Private For Profit
Accounting Standard	Almost all GASB	FASB	FASB [condensed]
Expenses by function and natural classification	FY 2010* -	FY 1998 -	FY 2014-
Benefits costs	Often covered by state/local govt, with many costs but listed on institution expenses	Covered by institution	Covered by institution or parent company
Post-retirement benefit expenses	Not included until FY 2015	Included	Included

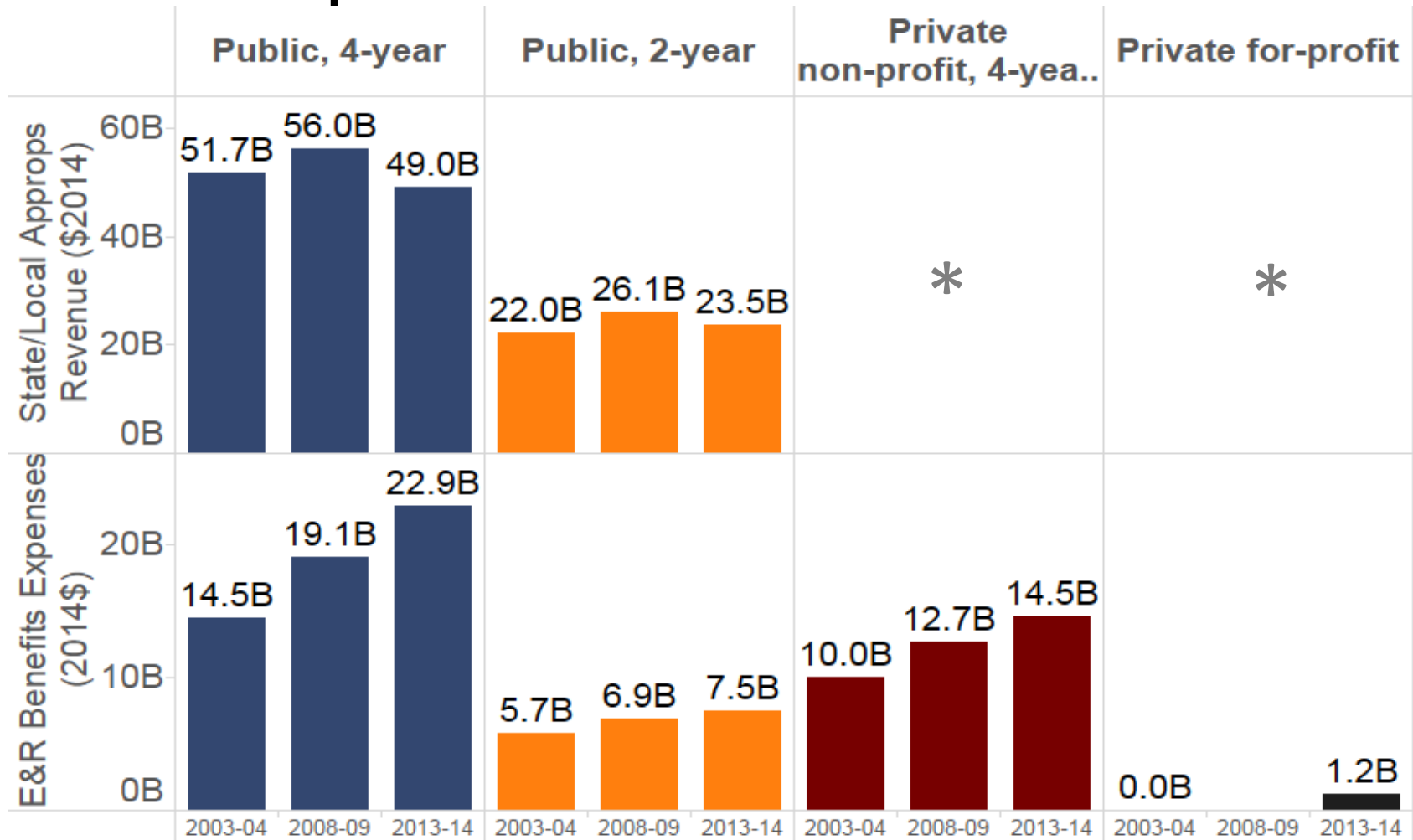
# Adjustments to Remove Operations & Maintenance, Depreciation, and Interest

Example: Stony Brook Expenses, 2013-14

Functional Expense	Total	Salaries & wages	Fringe benefits	Oper. & maint.	Deprec.	Interest	All other
Instruction	\$479.1	\$215.4	\$133.4	\$60.6	\$26.2	\$19.0	\$24.4
Student serv	\$51.5	\$19.1	\$11.2	\$7.2	\$3.1	\$2.3	\$8.7
Research	\$117.4	\$61.4	\$24.4	\$4.8	\$2.1	\$1.5	\$23.1
Public service	\$25.6	\$12.5	\$6.8	\$1.9	\$0.8	\$0.6	\$3.1
Academic support	\$120.4	\$41.3	\$27.3	\$19.4	\$11.1	\$6.1	\$15.2
Institutional support	\$119.4	\$51.9	\$29.8	\$6.5	\$2.8	\$2.0	\$26.4



# Overall findings: In constant (2014) dollars, state appropriations revenue has decreased, but spending on the E&R portion of benefits has increased



# Overall findings, FY 2014

Sector	FTE Enrollment (millions)	E&R spending (\$ billions)	E&R benefits (\$ billions)	Net Tuition & Fees Revenue (\$ billions)
Public 4-year	6.9	113.3	22.9	61.0
Public 2-year	3.9	38.3	7.5	9.5
Private, non-profit 4-year	3.5	96.6	14.5	68.1
All for profit	1.7	19.5	1.2	22.2
Other	0.1	1.3	0.2	0.7
<b>Total</b>	<b>16.1</b>	<b>269.1</b>	<b>46.3</b>	<b>161.5</b>

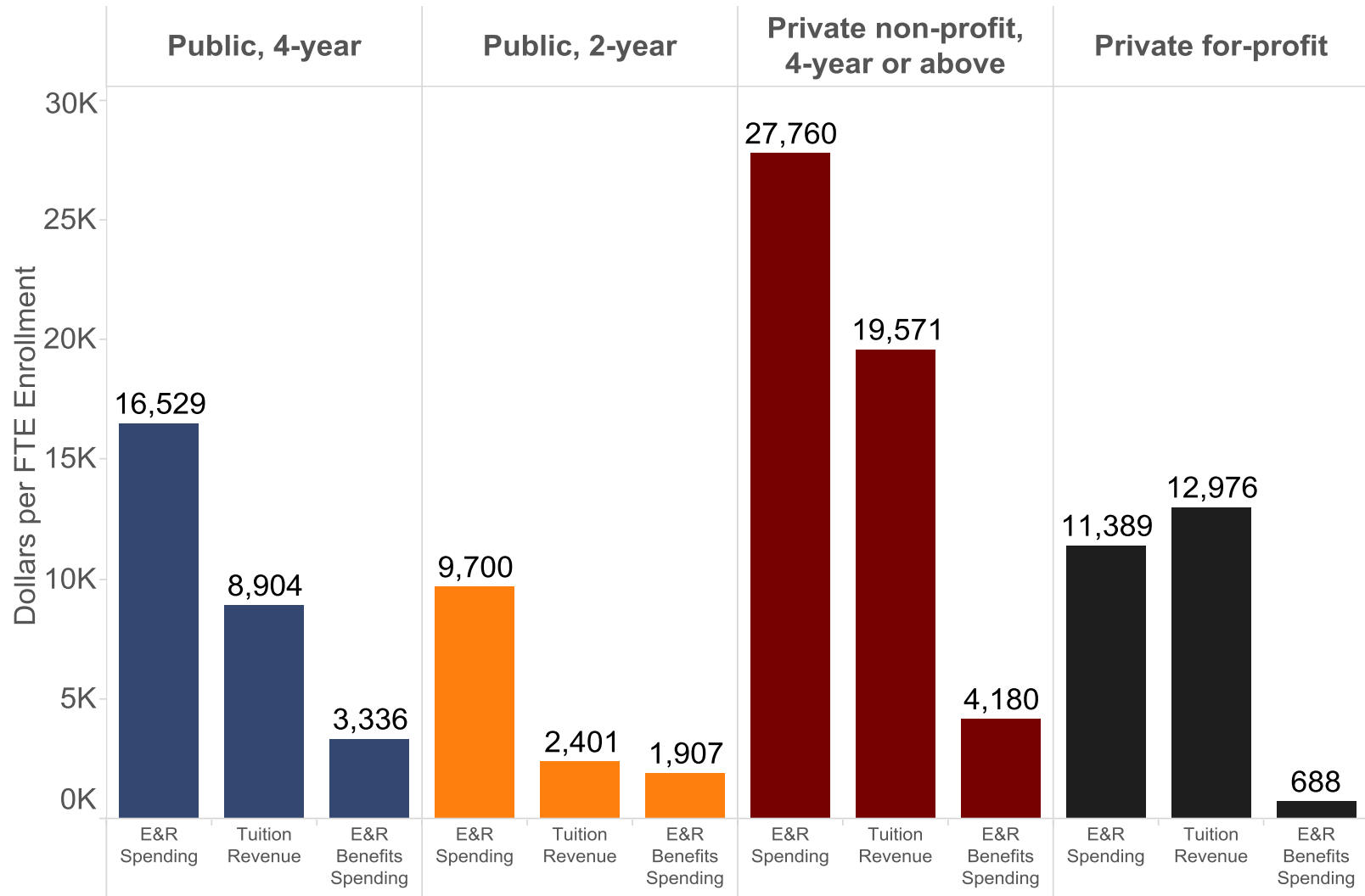
FTE based on NCES fall headcount method. Institution N = 7,428

# Overall findings, FY 2014

Sector	E&R spending (per FTE)	E&R benefits (per FTE)	Tuition & Fee Revenue (per FTE)	Benefits as pct of E&R	E&R Benefit Costs as pct of Tuition Revenue
Public 4-year	16,529	3,336	8,904	20.2%	37.5%
Public 2-year	9,700	1,907	2,401	19.7%	79.4%
Private, non-profit 4-year	27,760	4,180	19,571	15.1%	21.4%
All for profit	11,389	688	12,976	6.0%	5.3%
Other	15,166	2,218	7,800	14.6%	28.4%
Total	16,728	2,880	10,042	17.2%	28.7%

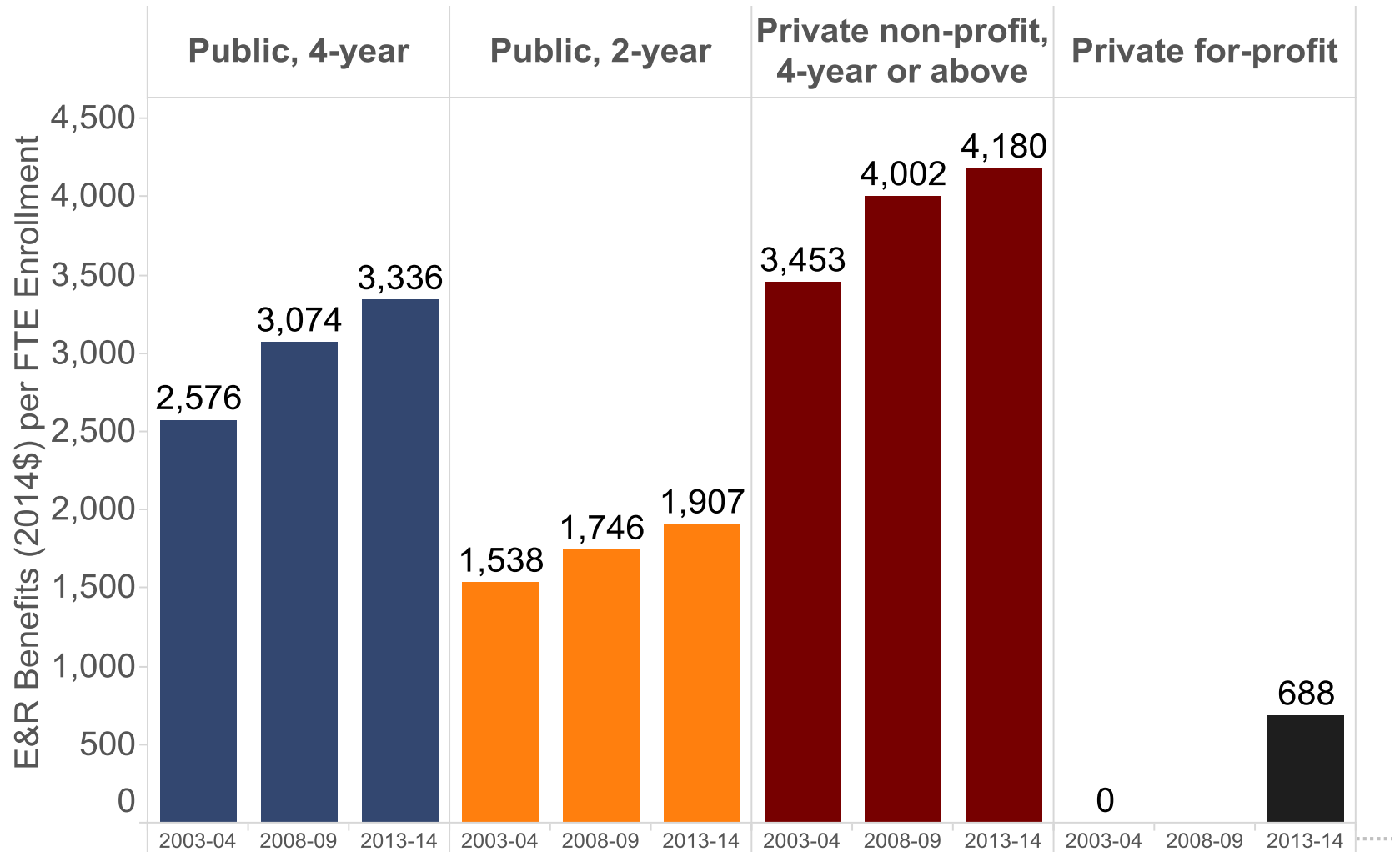
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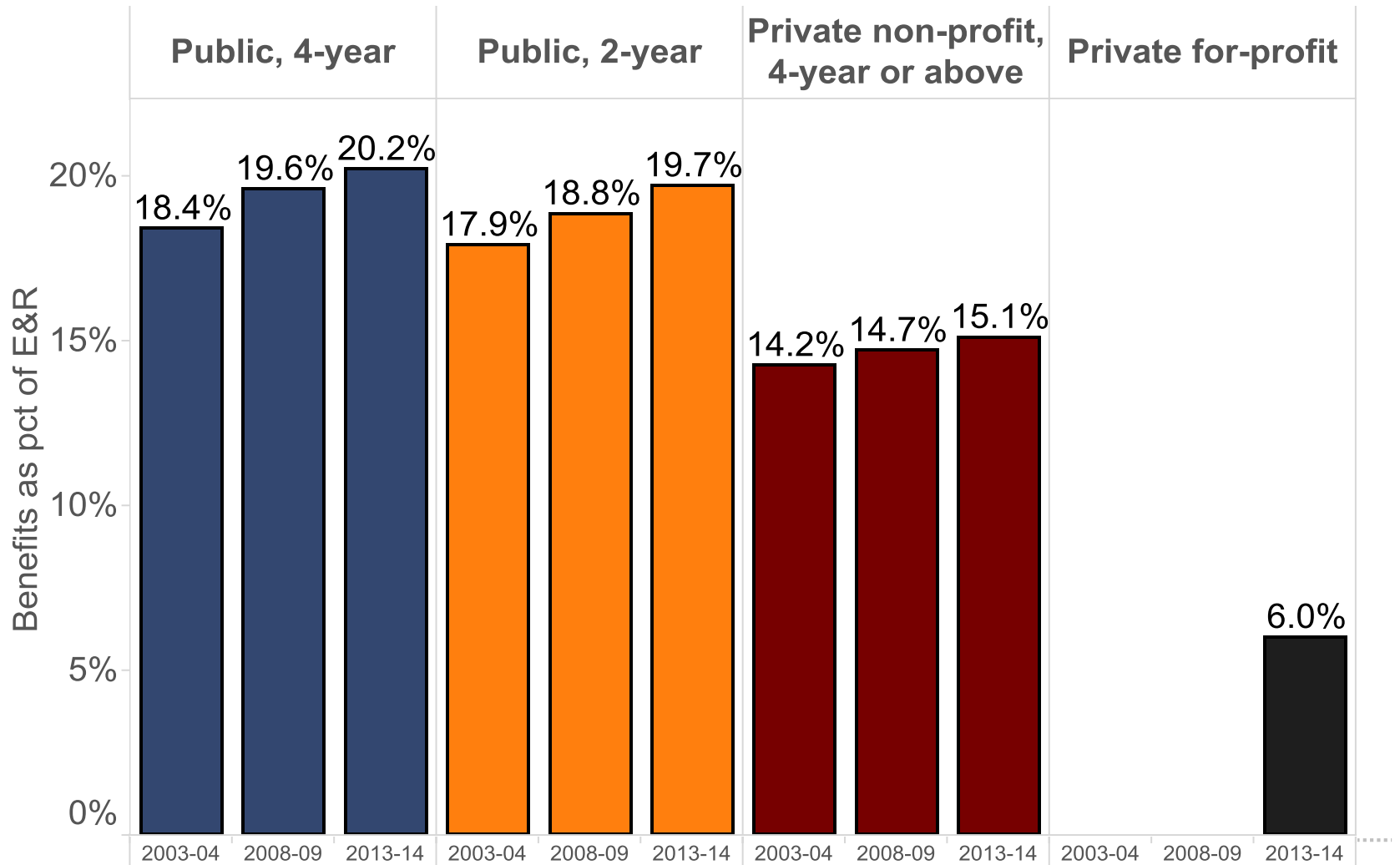


# E&R benefits costs have increased across sectors

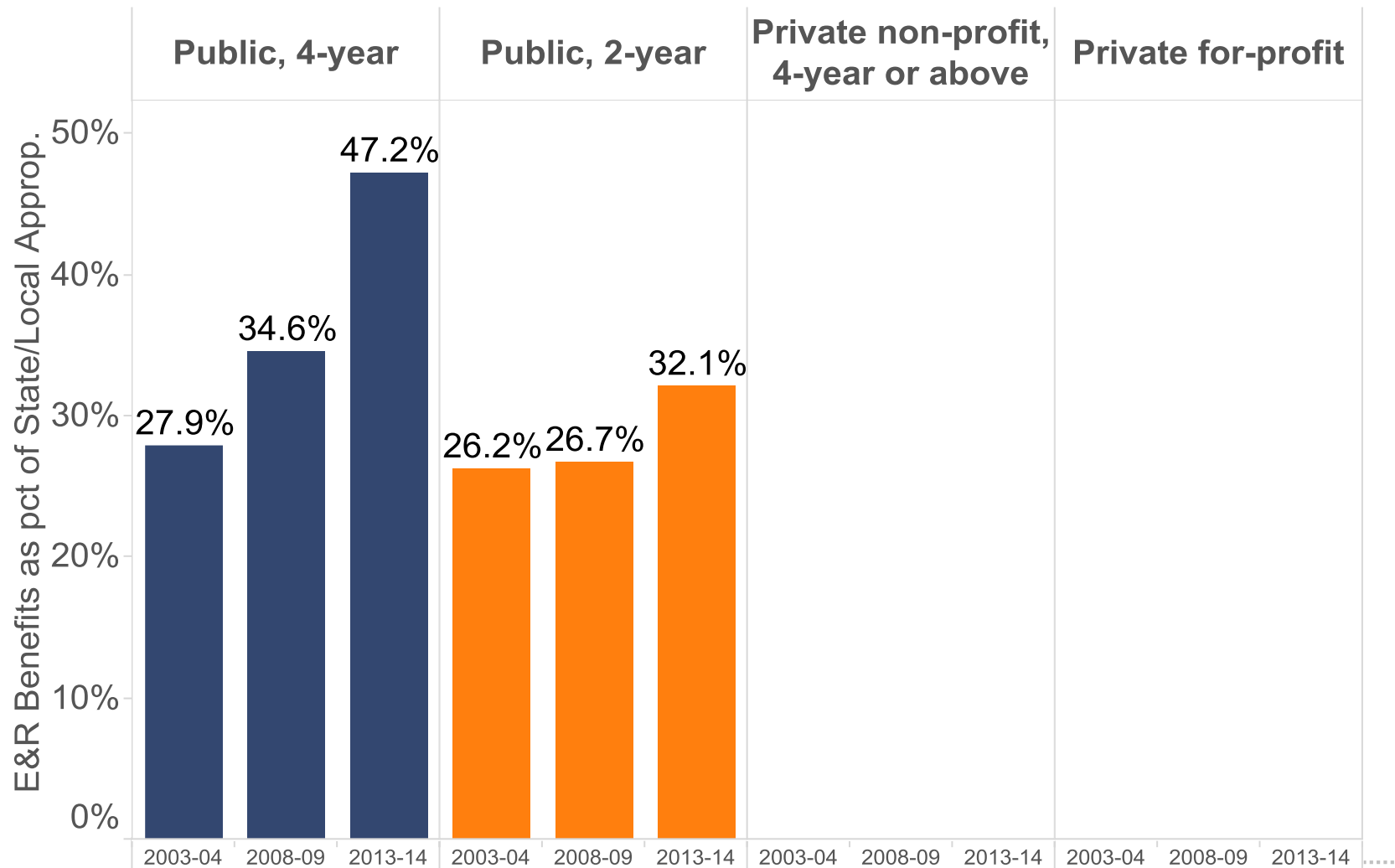
(constant \$ 2014)



# E&R benefits costs as proportion of total E&R spending have increased

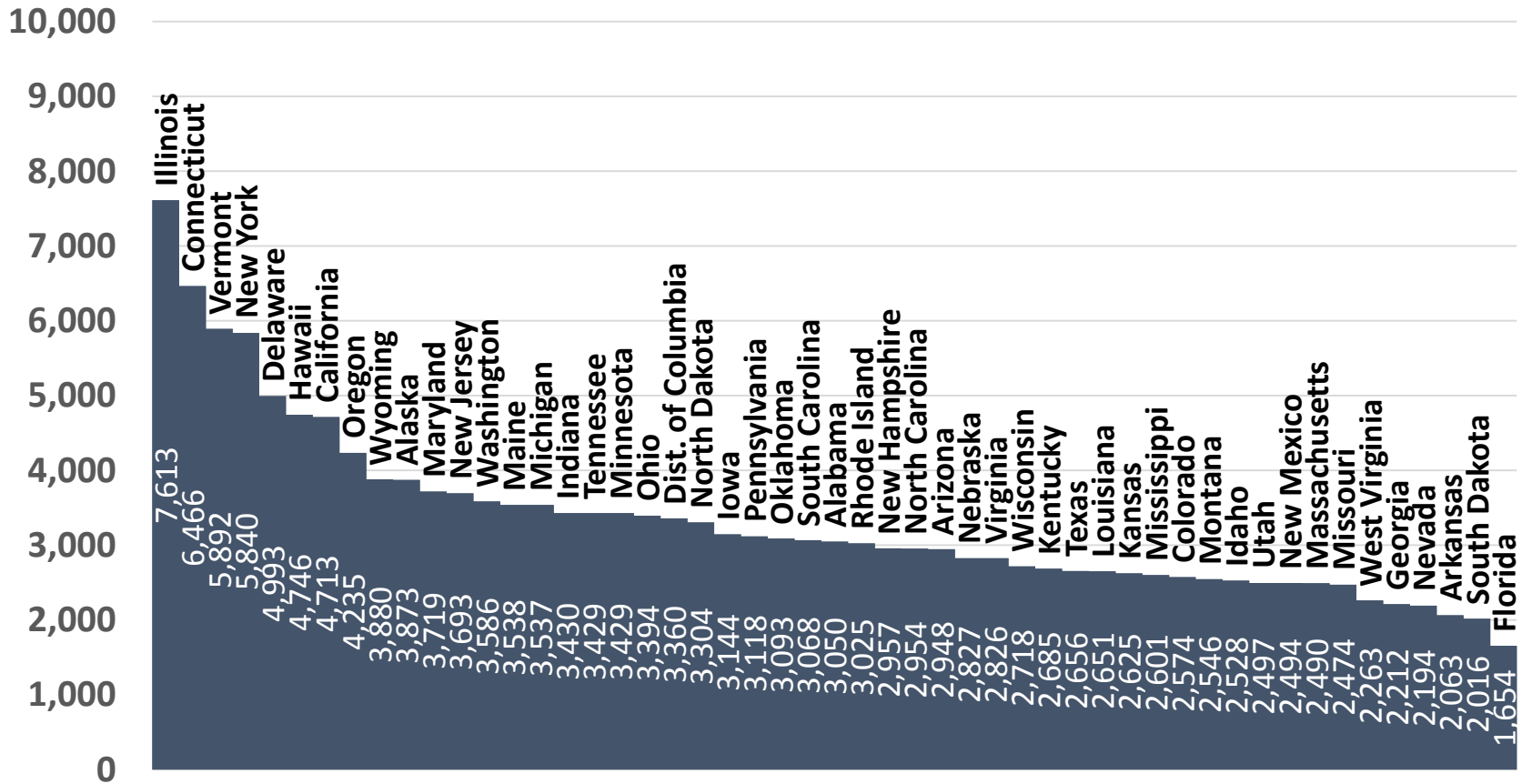


# E&R benefits costs as proportion of state & local appropriations have increased



# E&R benefits costs per FTE enrollment show wide variation among states

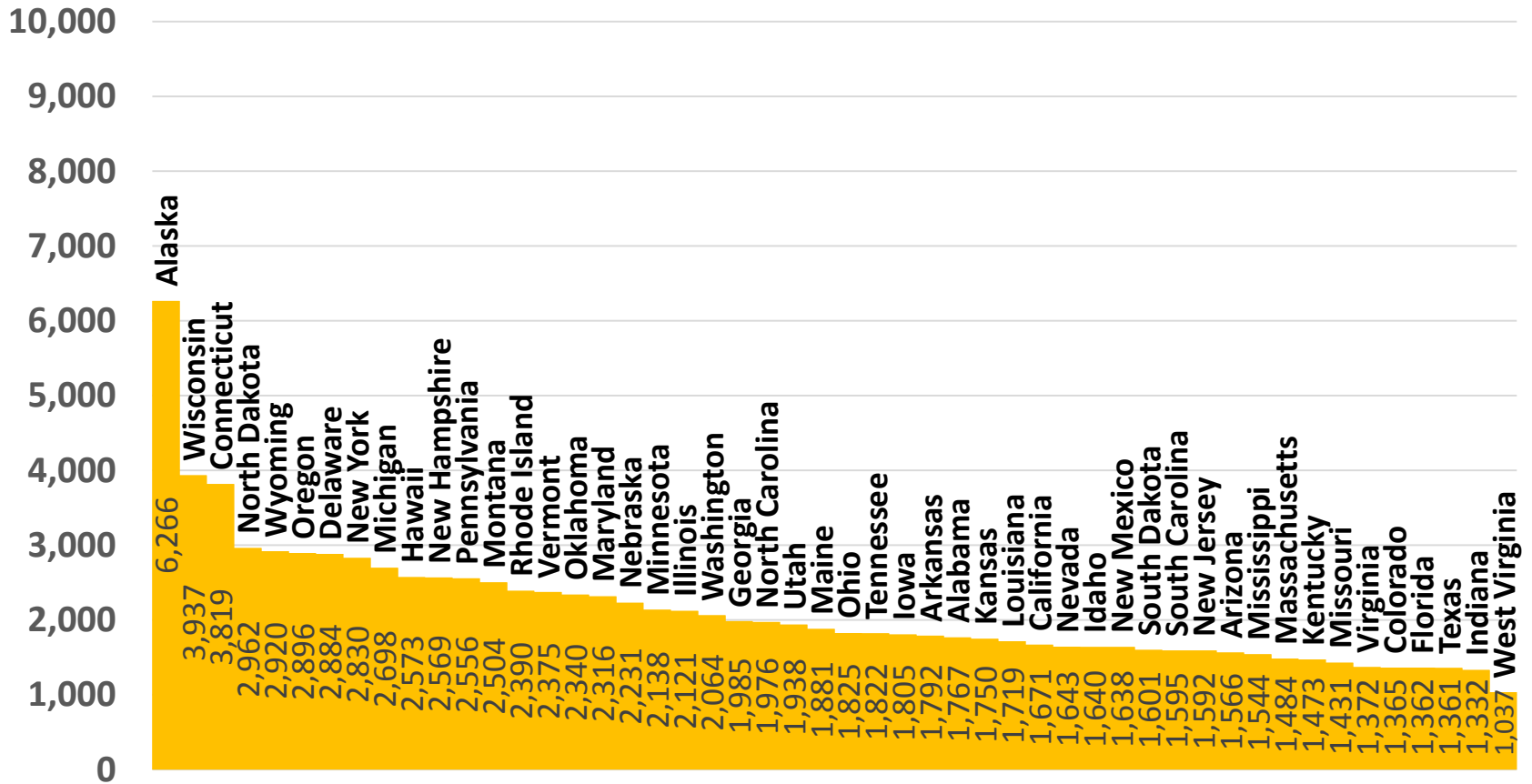
Public 4-Year, FY 2014





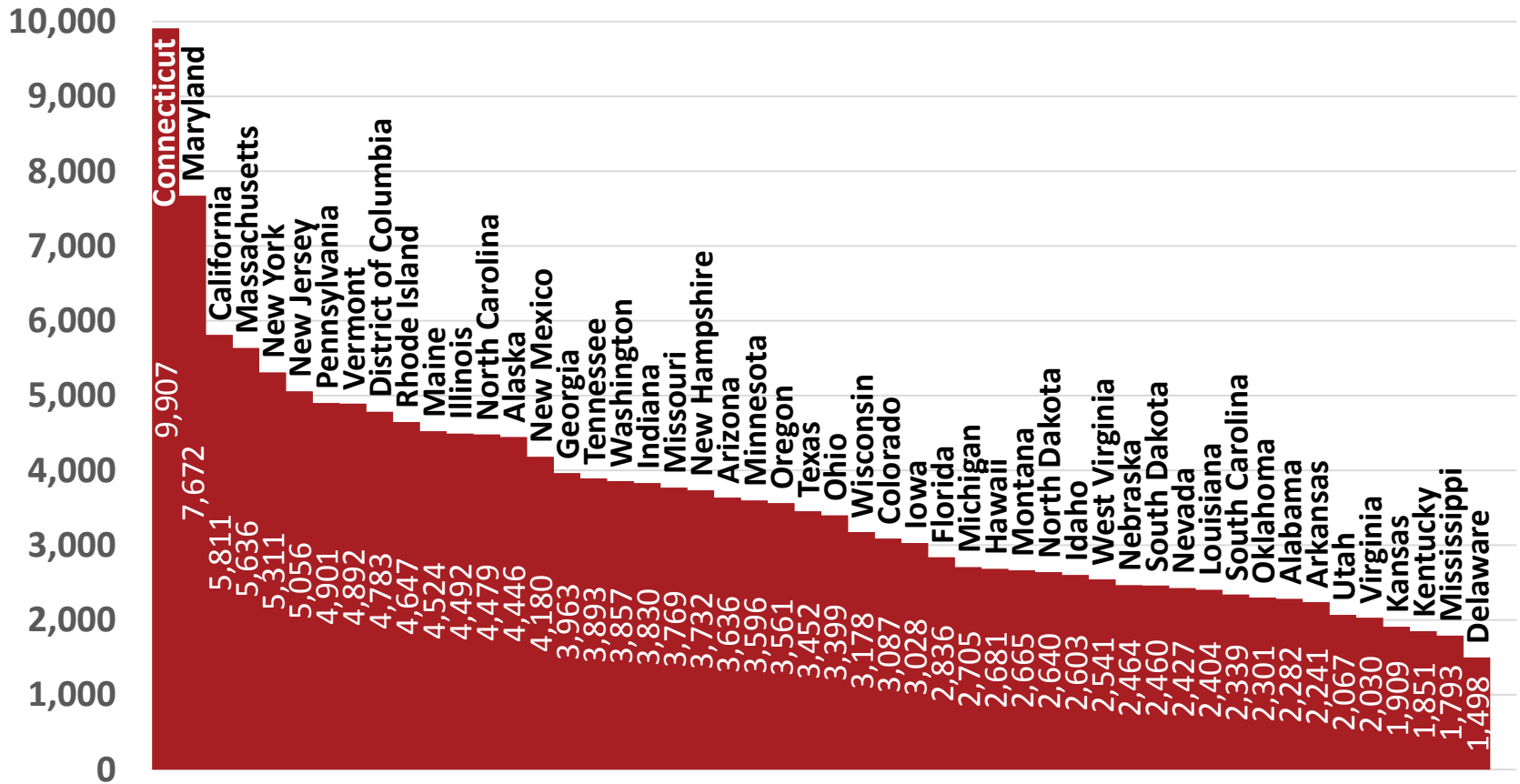
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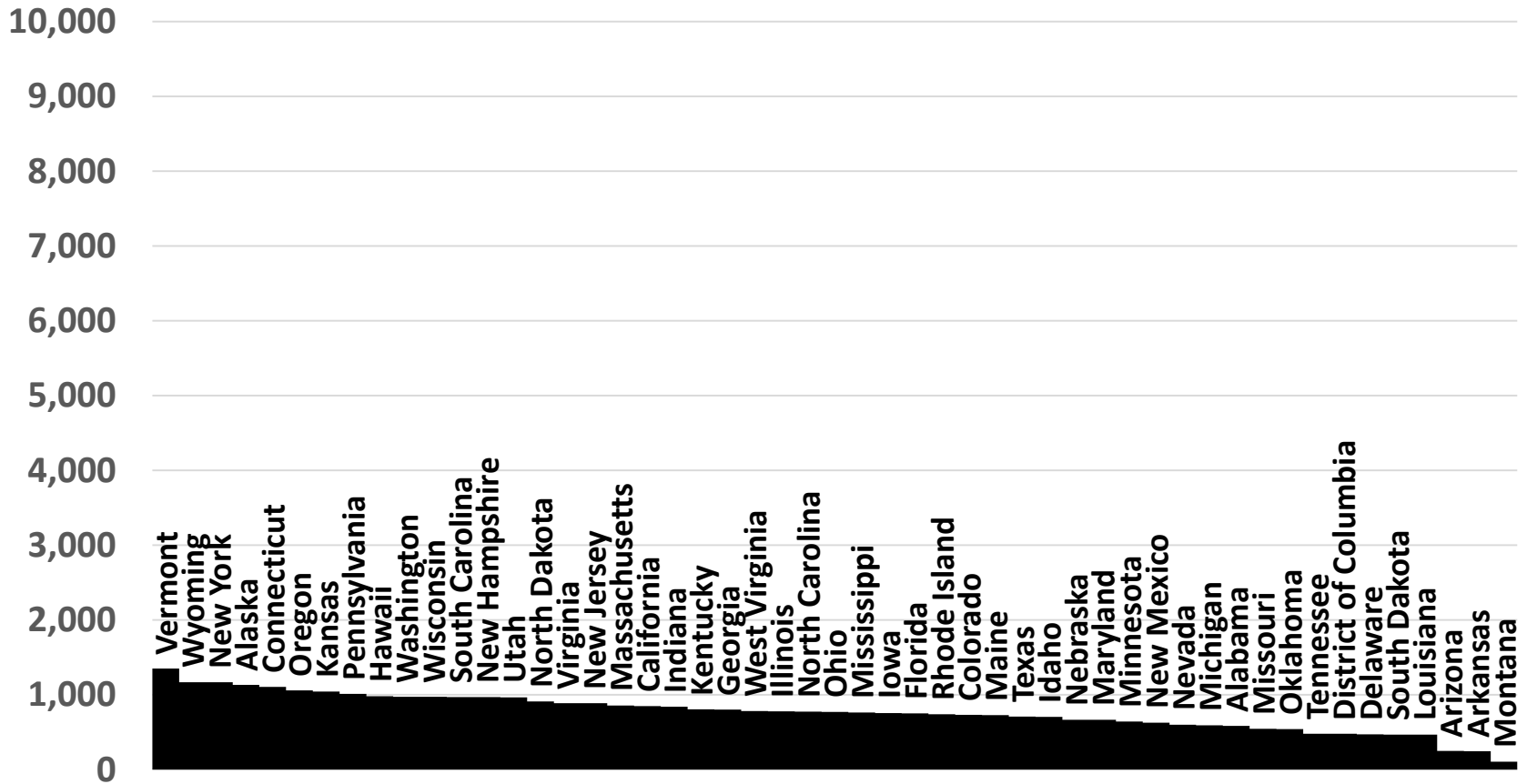
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Private non-profit 4-Year, FY 2014

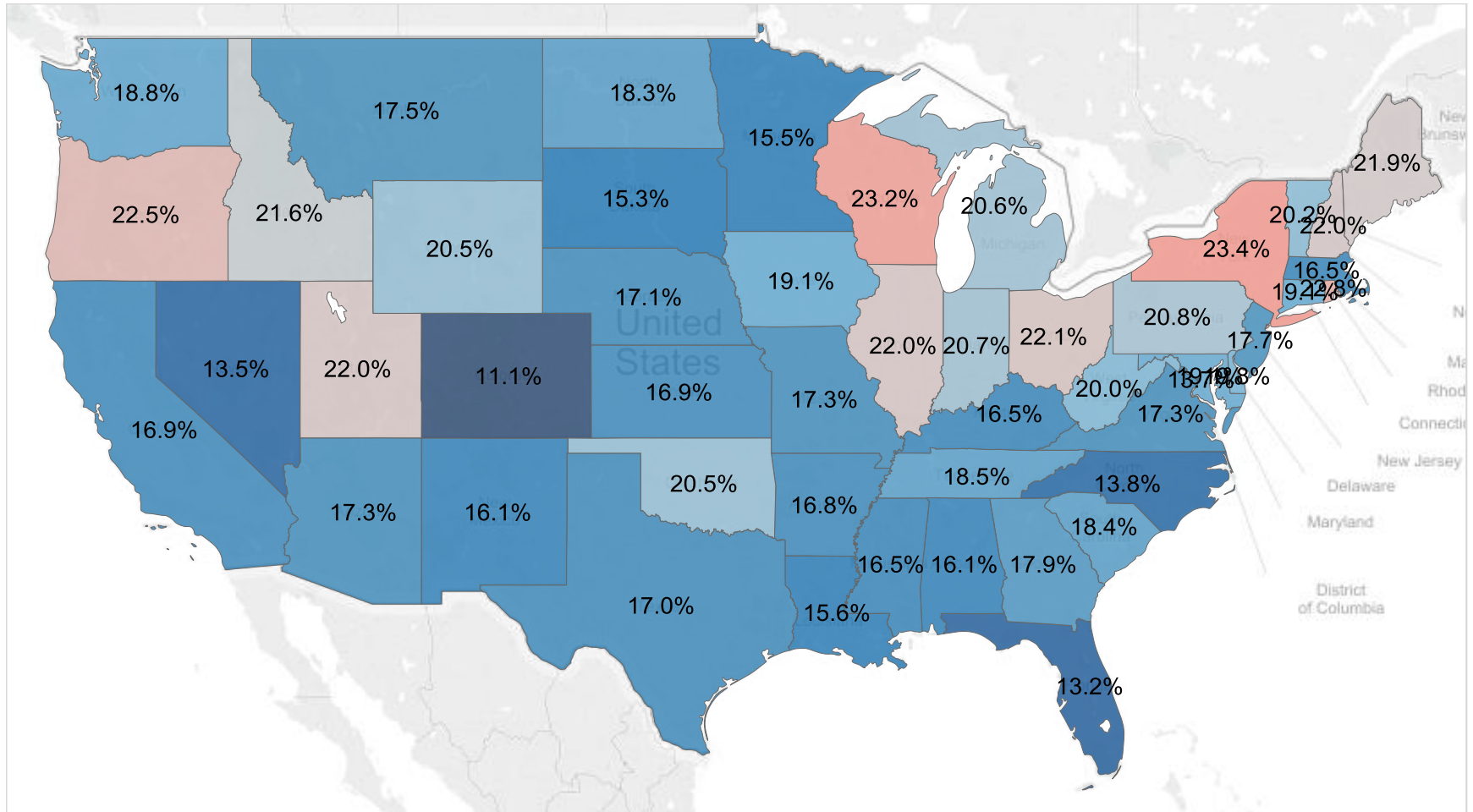


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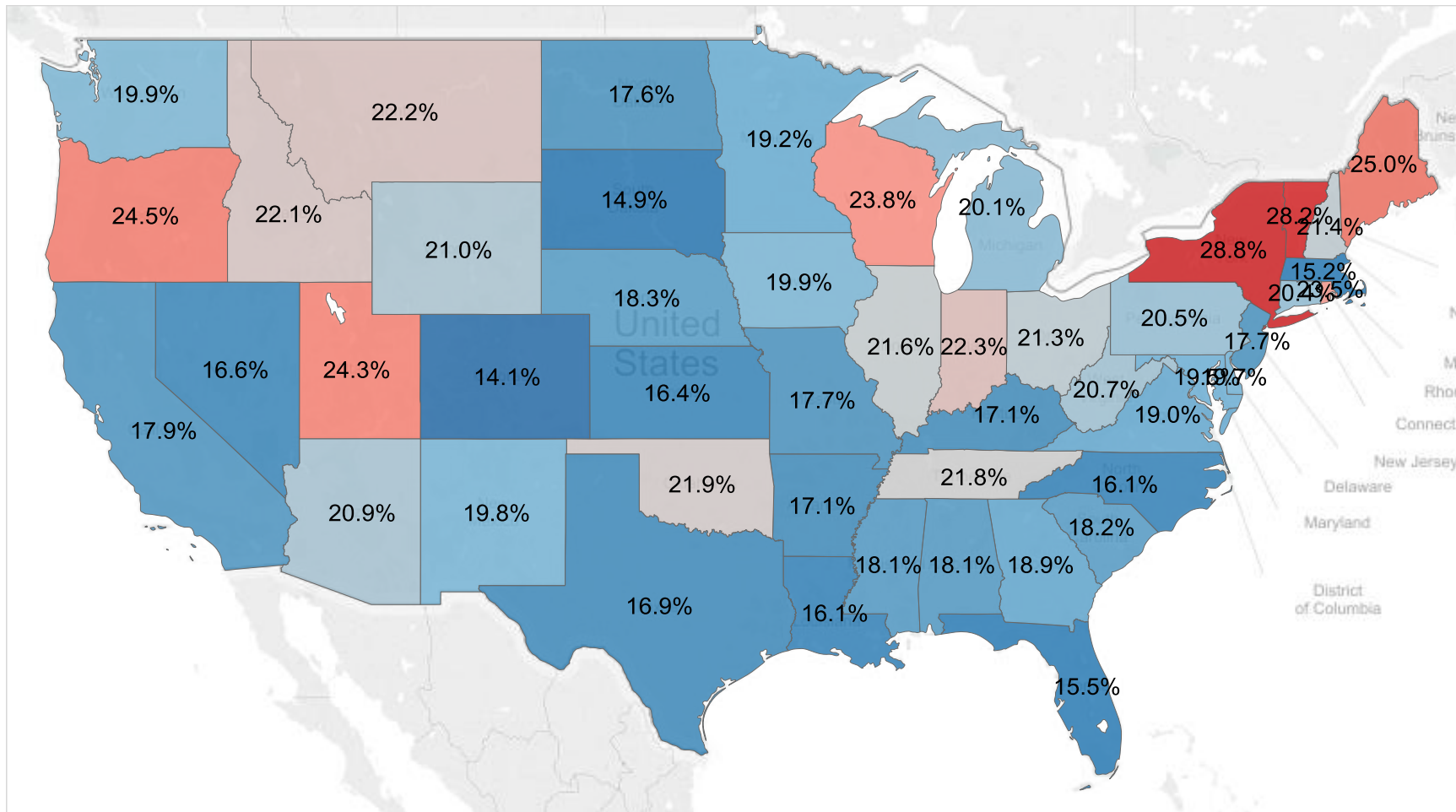
Private for profit, FY 2014



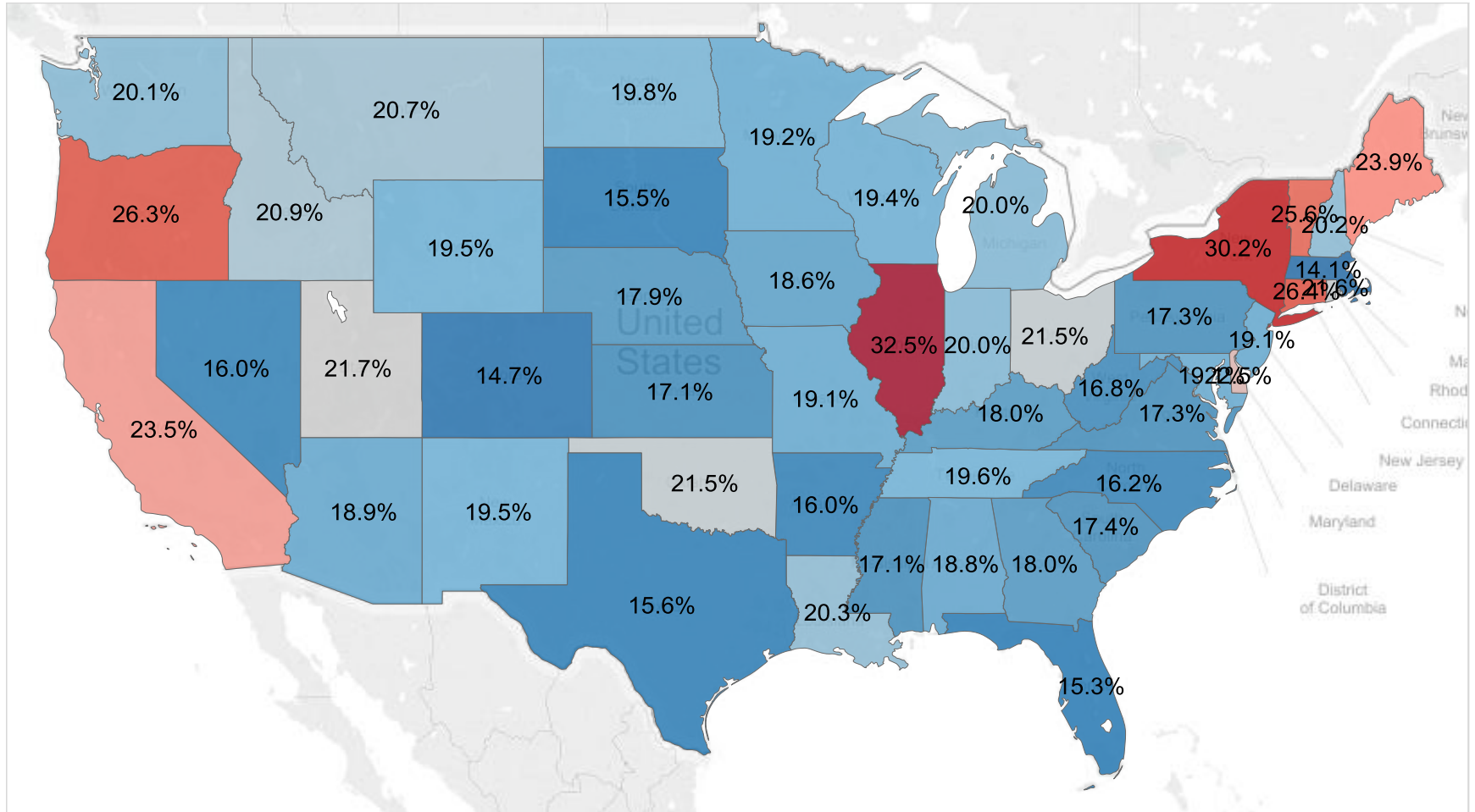
# Benefits as a percent of E&R spending Public, 4-year FY 2004



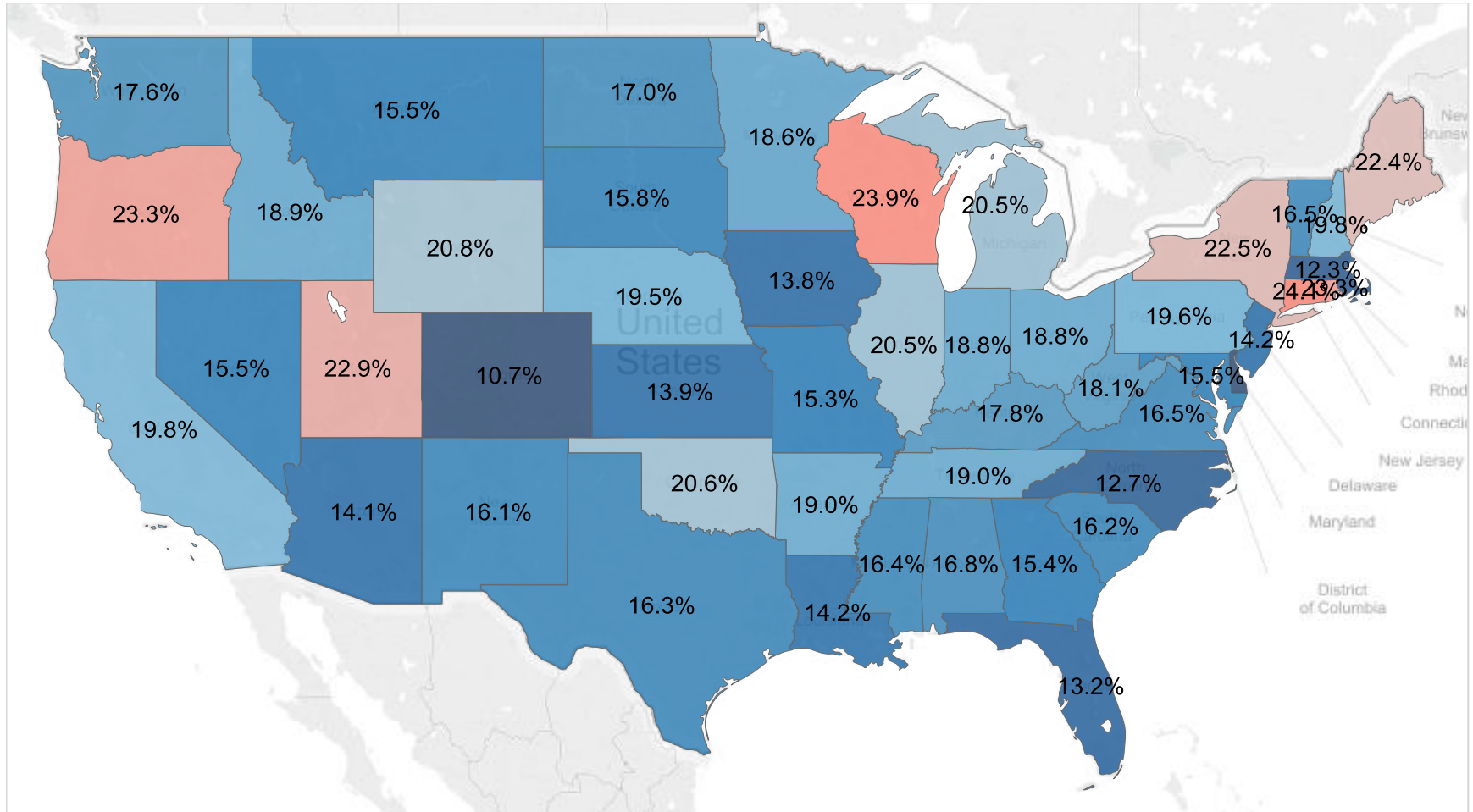
# Benefits as a percent of E&R spending Public, 4-year FY 2009



# Benefits as a percent of E&R spending Public, 4-year FY 2014

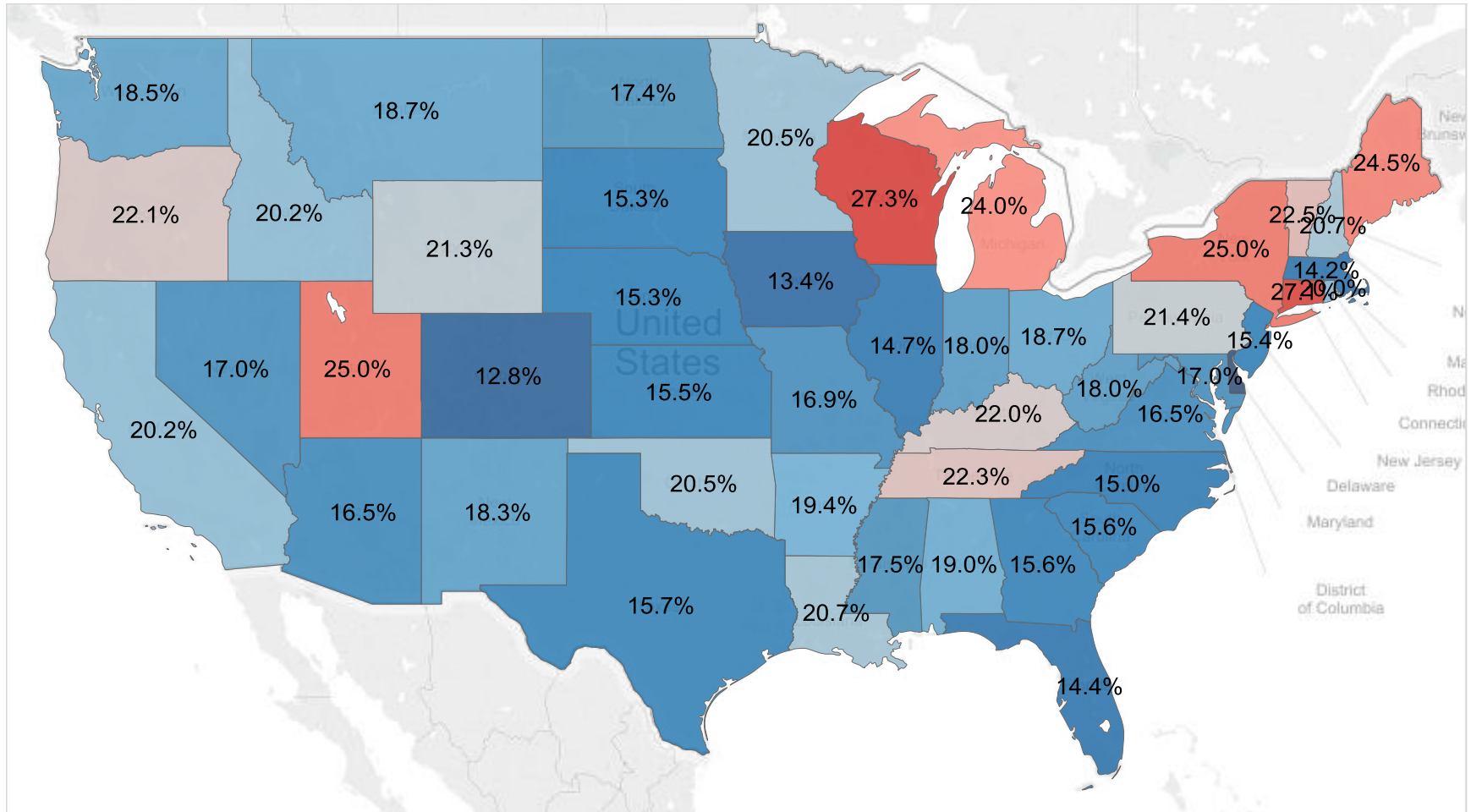


# Benefits as a percent of E&R spending Public, 2-year FY 2004



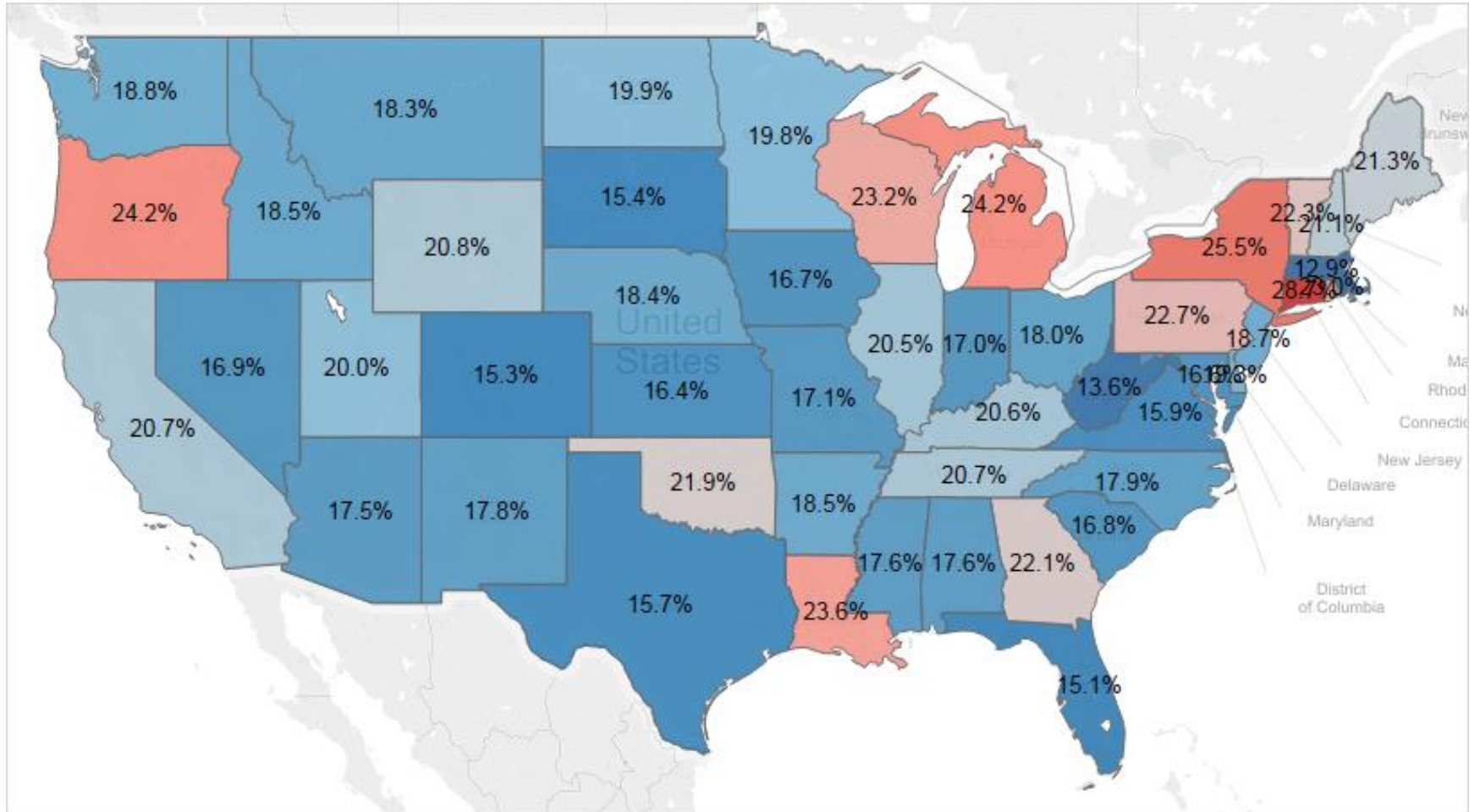


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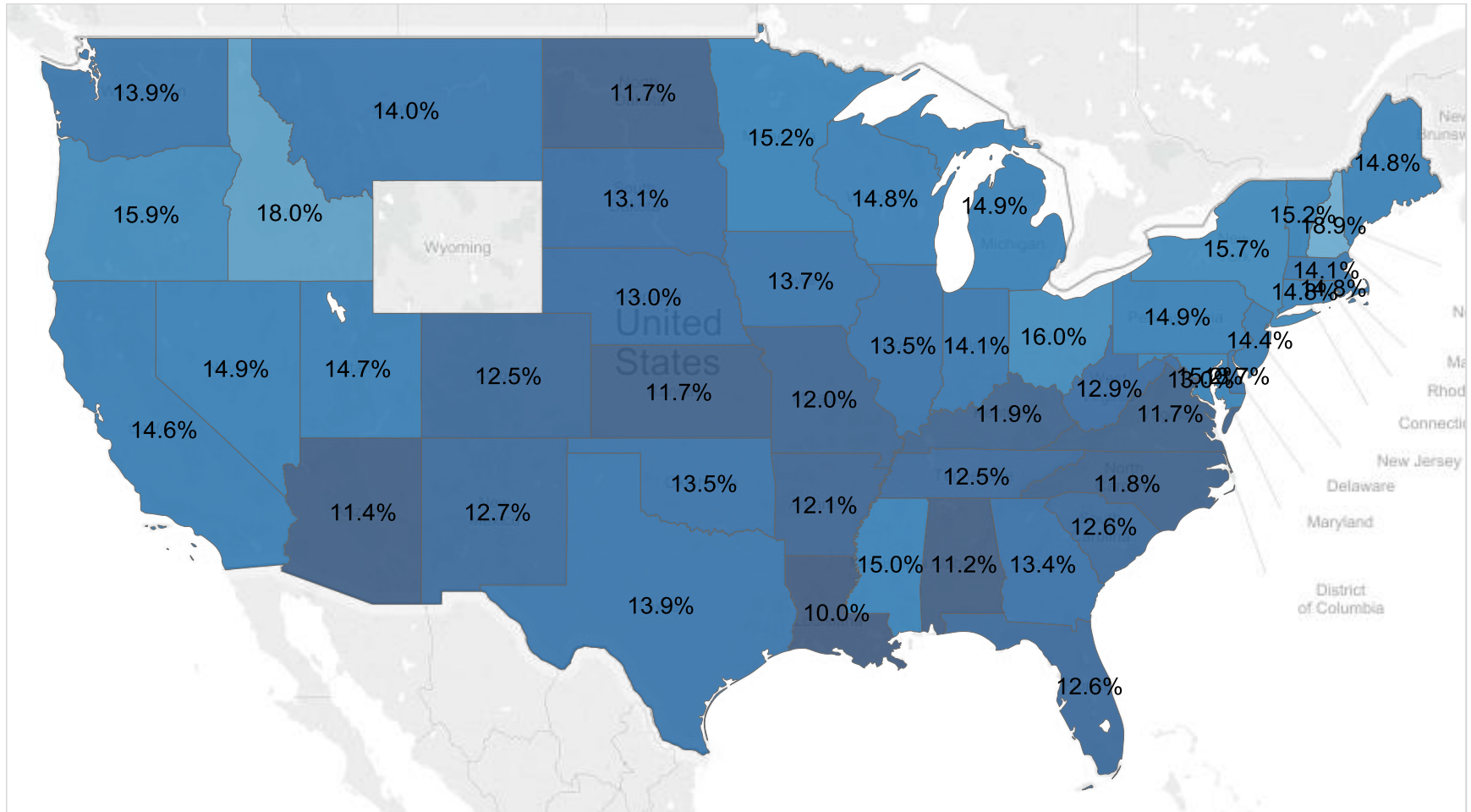




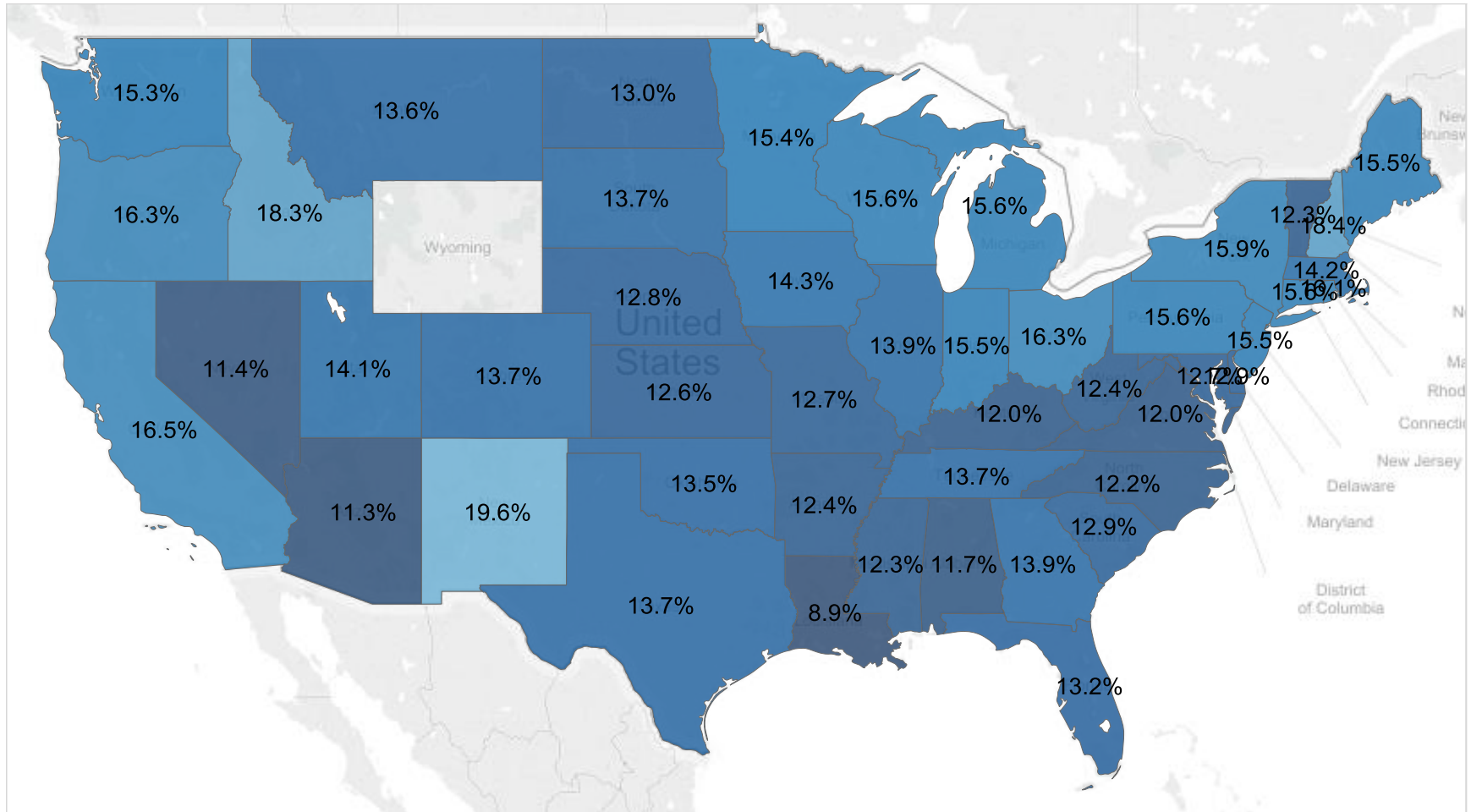
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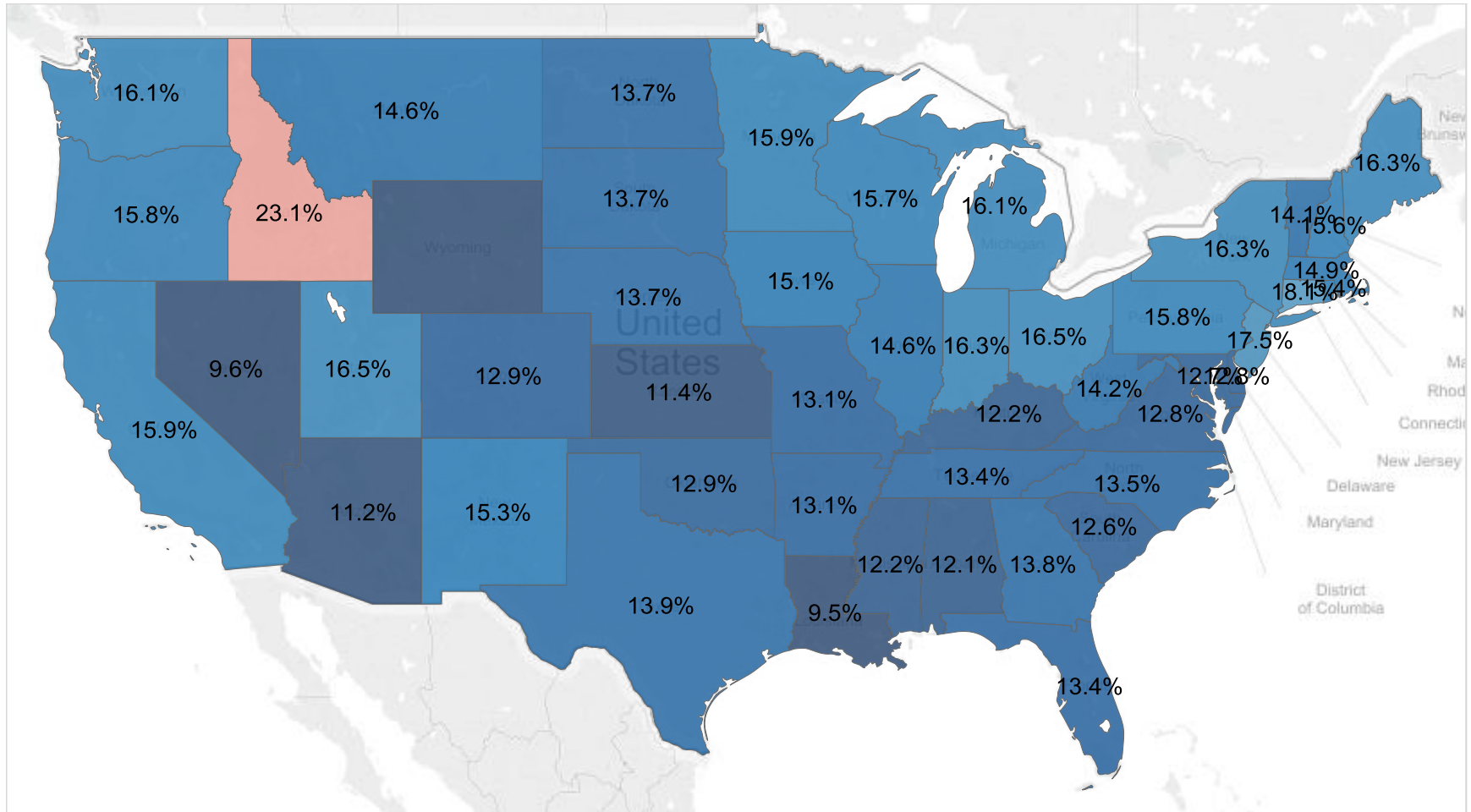
# Benefits as a percent of E&R spending Private Not-for-profit, 4-year FY 2004



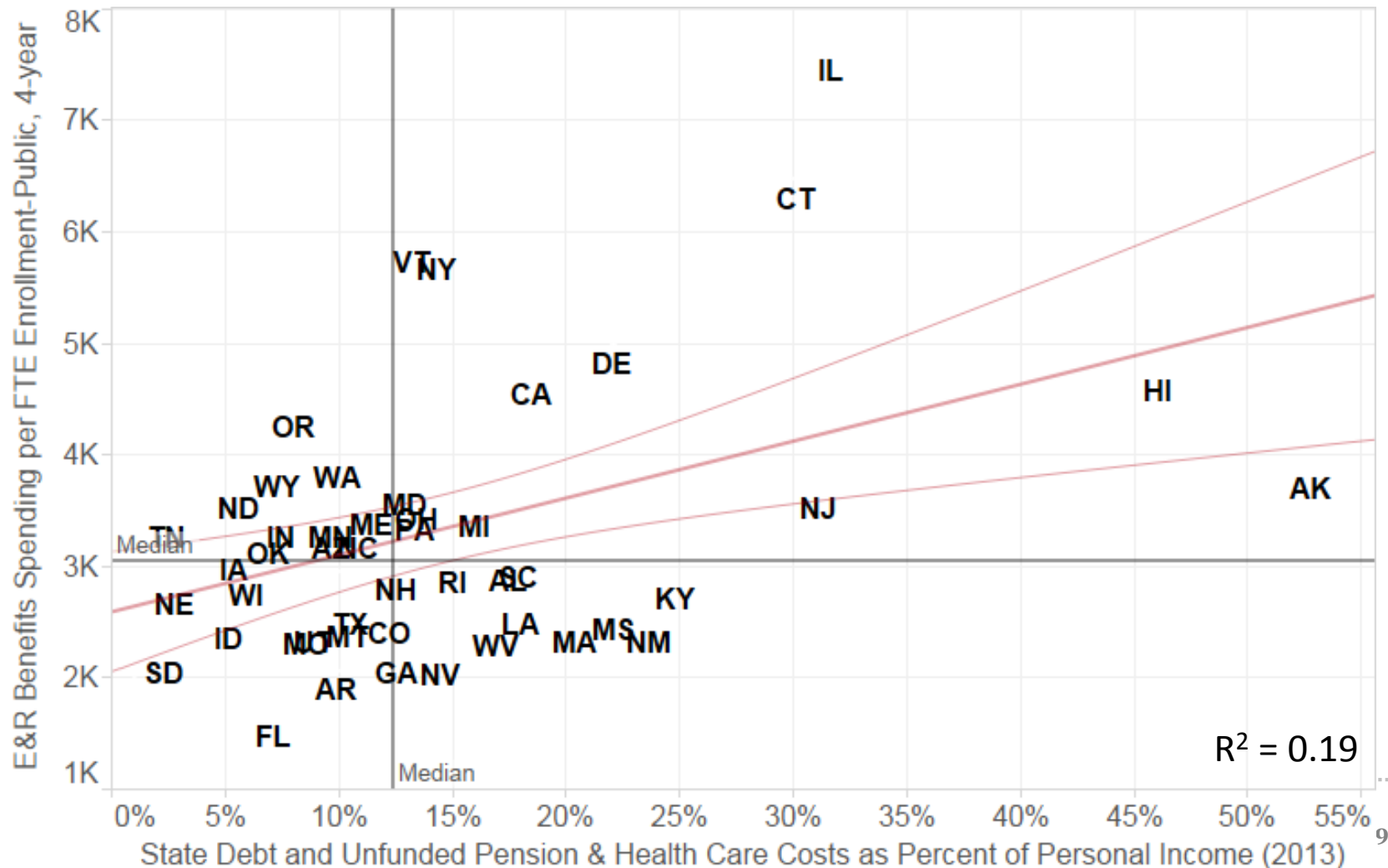
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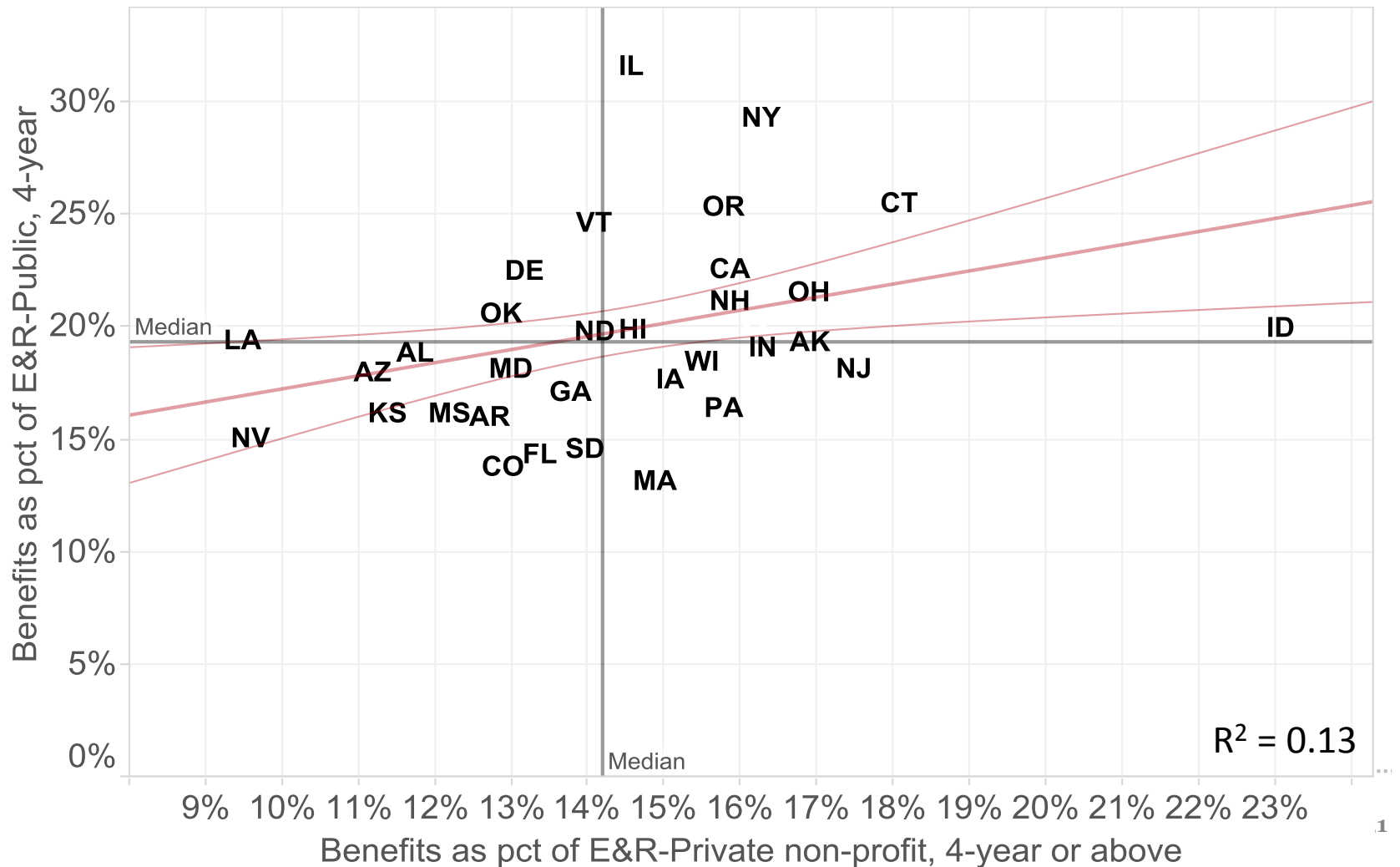
# States with higher debt and unfunded pension and health care liability spent more on E&R benefits per FTE in 4-year public institutions



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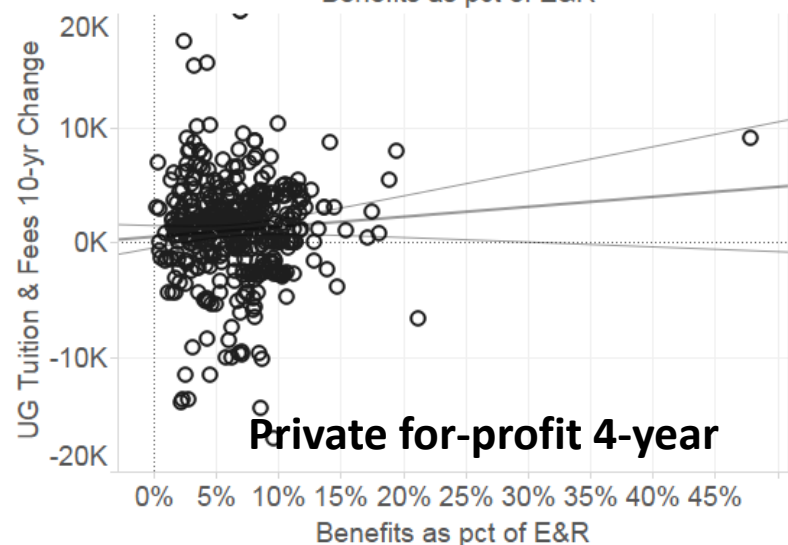
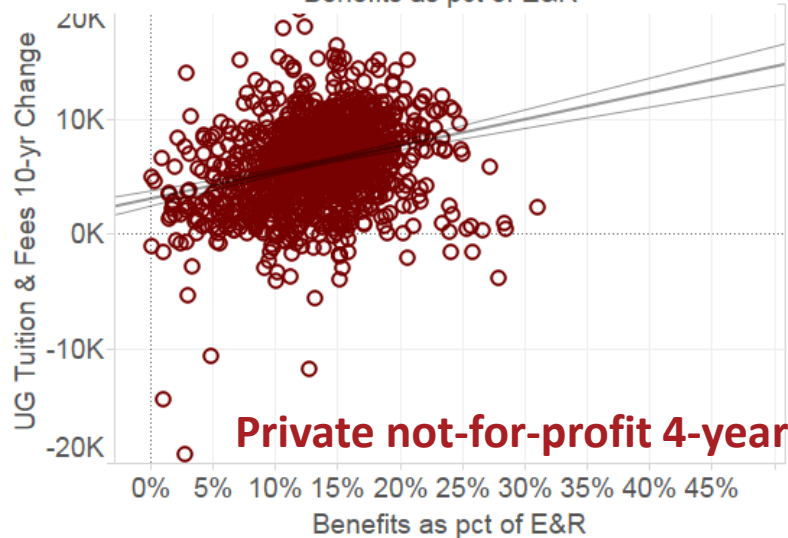
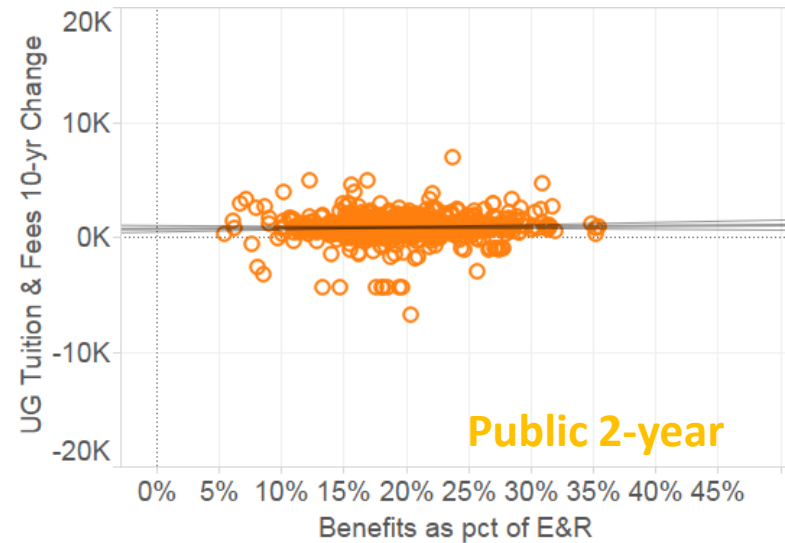
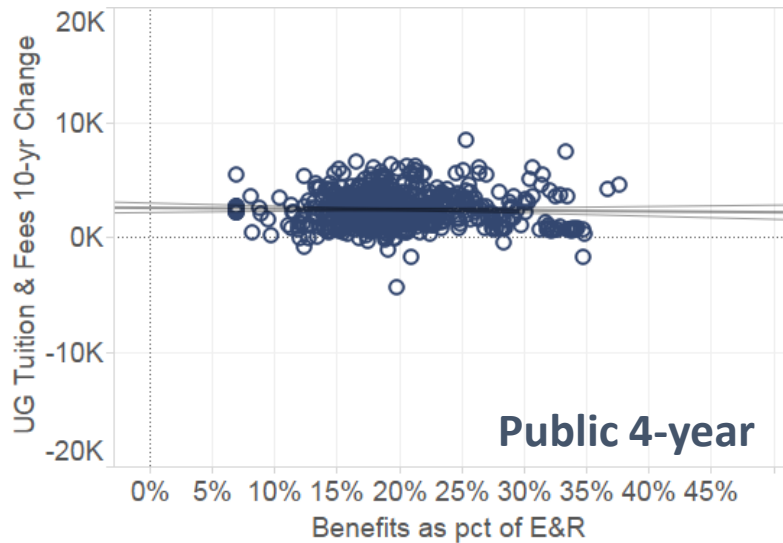


# Proportions of E&R spent on benefits in the public sector may influence spending in the 4-year private not-for-profit sector.



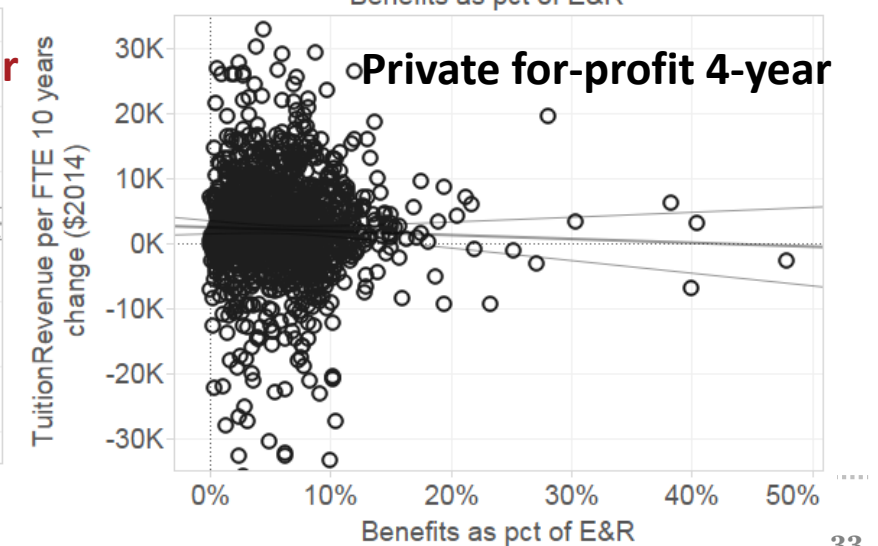
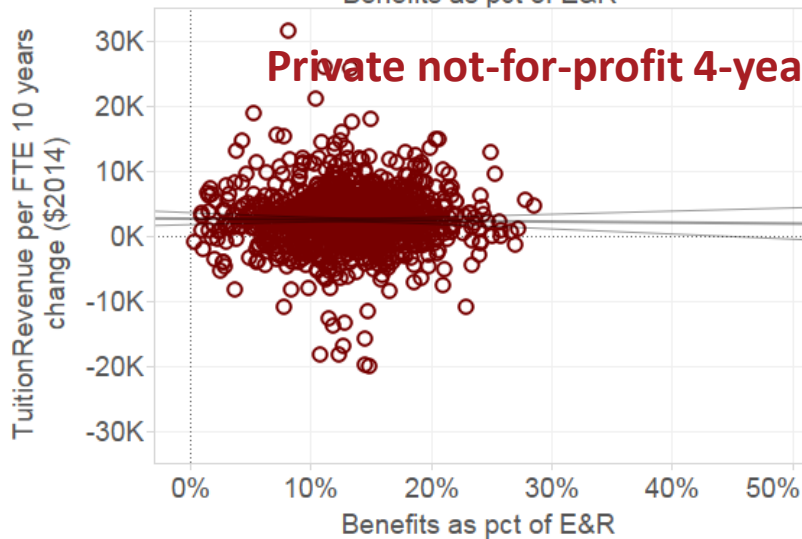
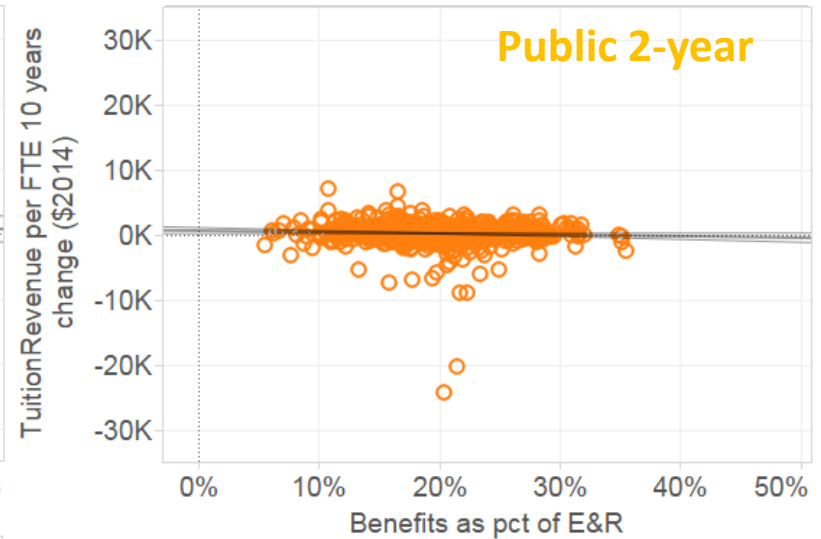
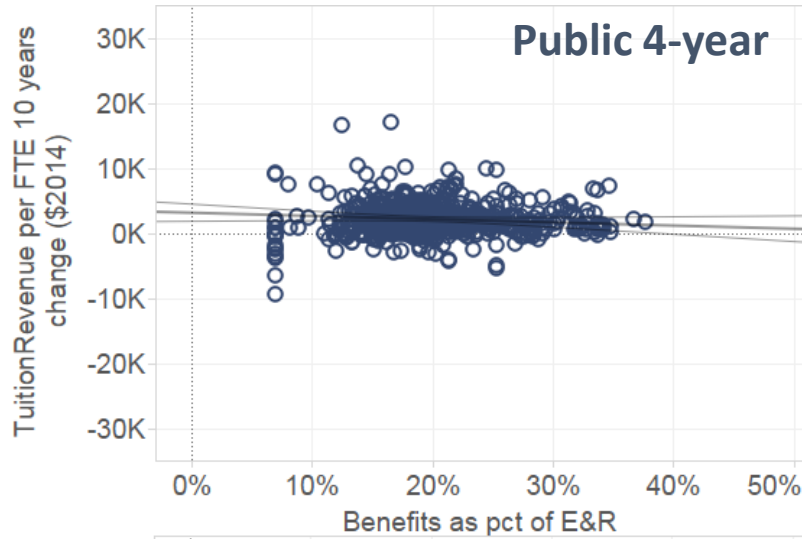


# Ten-year change in published tuition & fees (constant \$2014) increased as a function of the proportion of benefits in E&R spending only in the **4-year private not for profit sector**





# No relationship observed between change in tuition & fee revenue per FTE and share of benefits within E&R spending



# Conclusions (1)

- Benefits costs are increasing for all sectors at a rate that exceeds CPI (even HEPI)
- Benefits costs are not universally problematic across higher education
- But high costs in some states and institutions will place downward pressure on spending in other areas.  
States with potential public sector issues:

\* High benefits spending in 2-year and 4-year sector

† High benefits spending in 2-year sector only

## Conclusions (2)

- But high costs in some states and institutions will place downward pressure on spending in other areas. States with potential public sector issues:

Illinois

Connecticut\*

Vermont

New York

Delaware

Hawaii

California

Oregon

Wisconsin†

\* High benefits spending in 2-year and 4-year sector

† High benefits spending in 2-year sector only

## Conclusions (3)

- Increases in tuition and fees revenues are generally unrelated to increases in benefits costs, meaning
  - Benefits costs are eating into other revenue sources
  - Contributing to unfunded liabilities on public balance sheets

## Conclusions (4)

- Institutions have little short-term control but some long-term control over benefits costs
- Potential approaches
  - Private institutions: continue to monitor, manage
  - Public institutions:
    - Understand benefits effects on local spending (to what extent are benefits depressing operations revenues?)
    - Work with policymakers to fashion longer-term cost controls (increased use of 403b plans, reasonable health care cost sharing with balanced premiums and deductibles)

# Discussion and Questions

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Thank you!

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