UNIVERSITY OF CALIFORNIA

Research Policy Analysis & Coordination

Guidance Memo **23-05**

July 28, 2023

To: Contract & Grant Officers

Subject: Forecasting Wage Escalation for Multi-Year Sponsored Projects

Purpose

The purpose of this Memo is to recommend an objective wage escalation rate as a guide for developing proposal budgets for extramurally-funded sponsored projects when allowed by the project's sponsor.

Background

Sponsored project proposals regularly include multi-year wage projections for project personnel. Often, these projects are multi-year and end several years after the proposal's submission. Due to the dynamic cost-of-living impacts experienced over the past few years, campuses requested a standardized, objective wage escalation rate to adequately project increased wage costs on multi-year proposals.

Application

This wage escalation rate guidance applies to all future sponsored project proposals. "Wage escalation rate" means the percentage by which the University reasonably forecasts an employee's wage to increase on an annual basis. "Sponsored project" has the same meaning as the "major functions of an institution" defined in 2 CFR 200, App. III.A.1, which are, generally: instruction, organized research, other sponsored activities, and other institutional activities.

Guidance

When allowable, standardized wage escalation adjustments for personnel should be included in sponsored project proposals to ensure the University can reasonably project potential wage obligations over the span of the project.[1] The wage escalation rate to be used for a proposal is based on the project's proposed end date and remains constant throughout the entire project budget, as shown in the following table:

[1] The wage escalation applies to hourly and salary wage calculations but does not apply to composite fringe benefit rates. Composite benefit rates must follow the applicable current or provisional rate found in the campus's federally-negotiated rate agreement.

Project End Date	Escalation Rate
By or on December 31, 2023	4.9%
Between January 1, 2024 through December 31, 2024	4.3%
Between January 1, 2025 through December 31, 2025	4.0%
Between January 1, 2026 through December 31, 2026	3.8%
Between January 1, 2027 through December 31, 2027	3.6%
After December 31, 2027	3.5%

When preparing a budget proposal for a sponsored project, the wage escalation rate would be applied after the end of the known salary scale[2] or reasonably anticipated end of the wage[3] for the budgeted position on a compounding basis. See enclosed Addendum 1 for examples of how the wage escalation rate would be applied for sample sponsored project budgets.

The formula and the resulting wage escalation rates are for sponsored project proposal budget forecasting purposes only and are based on the most recent 10-Year Economic Projections issued by the Congressional Budget Office as of the date of this letter (the "Projections").[4] The formula is not an institutional guarantee, representation, or reflection of future budgetary decisions, nor does it represent a decision with respect to any future budgetary decisions. It is provided solely as a planning tool for ***extramural*** funding proposals. The formula for calculating the wage escalation rates is included in Addendum 2.

Additional Information

To the extent that this Memo conflicts with RPAC Memo 11-01, this Memo takes precedence. The Research Policy Analysis & Coordination department intends to revise and publish this Memo on an annual basis to reflect revised economic projections. A Frequently Asked Questions document is included as Addendum 3.

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[2] "Known salary scale" refers to salary scales provided by the Office of the President or local campuses.

[3] "Reasonably-anticipated end of the wage" refers to wage on a project budget where the personnel's wage is known and there is a reasonable basis for anticipating an increased wage, such as a general salary increase or a higher Step based on years of service.

[4] See the Congressional Budget Office's February 2023 10-Year Economic Projections and its supplemental July 2023 10-Year Economic Projections.

ADDENDUM 1 - EXAMPLE SPONSORED PROJECT BUDGETS

The following two pages show **example** project budgets for fictional sponsored projects and how to apply the recommended wage escalation rate using known salaries or salary scales.[5] In situations where a salary increase is reasonably anticipated to take place due to a known metric, such as a salary Step based on years of service, those metrics should be accounted for in project budgeting. For academic employees subject to a collective bargaining agreement, the same formula and application would apply for the future years ***not*** covered by their collective bargaining agreement.

Since fringe benefits and indirect cost recovery flow from salary expenses, ensuring more accurate salary projections will lead to more accurate projections for these downstream expenses.

[5] The examples are for illustration purposes only and do not represent any institutional warranties or compensation decisions. Consult the most current published salary scales for complete figures.

Example 1.

Scenario: A four-year project following calendar year budget periods with an end date of June 30, 202**7**6. The only salary requested on the project is for a policy-covered[6] Specialist because the project's Principal Investigator will cost-share their time. The Specialist is yet to be named and is anticipated to be a Specialist at Step 1, Year 2. The Specialist's projected salary would follow the current salary scales for the position and the appropriate escalation, which can be found in Table 24A.

Escalation Rate: 3.6% annually, since the project ends in calendar year 2027.

	Current Salary or Salary Scale	% of FTE Committed to Project	Year 1 (7/1/23 – 6/30/24)	Year 2 (7/1/24 – 6/30/25)	Year 3 (7/1/25 – 6/30/26)	Year 4 (7/1/26 – 6/30/27)
Specialist	$87,800.00	50%	$43,900*	$45,480**	$47,117	$53,651***

*Since the Table 24A 2023-24 salary scales are published as of the date of this guidance, the 2023-24 salary scale of $87,800.00 is used *without escalation* for Project Year 1 for the Specialist since the Project Year 1 dates mirror the dates for the 23-24 salary scales. The budgeted wage is 50% of the annual wage since the anticipated FTE commitment is 50%.

**Since the Specialist began the project at Step 1, Year 1, and the Step is three years, Project Year 2 would see one escalation applied to the Specialist's anticipated wages. The escalation basis for the wages begins with the salary scale for a Specialist at Step 1, which is $87,800. Here's a breakdown of how the appropriate amount is calculated for the Specialist for Project Year 2:

1. ***Wage Escalation Project Year 1:*** No escalation since Project Year 1 follows the published salary scale for FY 23-24. = **$87,800.00**
2. ***Wage Escalation Project Year 2:*** $87,800.00*1.036 = **$90,960.80**
3. ***Adjust Salary based on Commitment:*** $90,960.80*.50 = **$45,480.40**

***Since the Specialist began the project at Step 1, Year 1, and the Step is three years, it is reasonable to presume in Project Year 4 the Specialist would move to Step 2. Therefore, the escalation basis for Project Year 4 for the Specialist would begin with the salary scale for a Specialist at Step 2, Year 1, which is $96,500, and then three escalations would be applied:

1. ***Wage Escalation Project Year 1:*** No escalation since Year 1 follows the published salary scale for FY 23-24. = **$96,500.00**
2. ***Wage Escalation Project Year 2:*** $96,500.00 * 1.036 = **$99,974.00**
3. ***Wage Escalation Project Year 3:*** $99,974.00 * 1.036 = **$103,573.06**
4. ***Wage Escalation Project Year 4:*** $103,573.06 * 1.036 = **$107,301.69**
5. ***Adjust Salary based on Commitment:*** ($107,301.69 *.50) = **$53,650.85**

[6] "Policy covered" employees are those non-represented employees to which the Academic Personnel Manual applies. Consult UCOP Academic Personnel and Programs for any questions related to "policy covered" status.

Example 2.

Scenario: A four-year project following calendar year budget periods with an end date of December 31, 2027. The Principal Investigator, a faculty member, has a current known salary of $150,000 per calendar year and they will commit 10% of their time to the project. The project also involves a yet-to-be-named policy-covered Specialist. The Specialist is anticipated to be a new policy-covered Specialist at Step 1, Year 1, meaning their projected salary will follow current salary scales for the position and the appropriate escalation (Table 24A).

Escalation Rate: 3.6%, since the project ends in calendar year 2027.

	Current Salary or Salary Scale	% of FTE Committed to Project	Year 1 (1/1/24 – 12/31/24)	Year 2 (1/1/25 – 12/31/25)	Year 3 (1/1/26 – 12/31/26)	Year 4 (1/1/27 – 12/31/27)
Principal Investigator	$150,000	10%	$15,679*	$16,244	$16,829	$17,434
Specialist	$87,800	50%	$44,690**	$46,299	$47,965	$54,617***

*For the Principal Investigator, since faculty annual general increases usually occur in October, the PI's annual increase should be projected as a reasonably-expected increase. In this case, the first annual increase would occur in October 2023; therefore, the first 9 months of the Principal Investigator's Year 1 salary is subject to one escalation, and the final 3 months' salary for Year 1 is subject to two escalations.

1. ***Wage Escalation Project Year 1****:* (($150,000*1.036)*.75)+(((($150,000*(1.036^2)*.25) = **$156,798.60**.
2. ***Adjust Salary based on Commitment:*** ($156,798.60*.10)= **$15,679.86**

This same escalation would continue for each year of the project.

**For the Specialist, the salary scales for FY 23-24 are already published, so the first escalation would occur in July 2024; therefore, the first 6 months of the Specialist's Project Year 1 salary is not subject to any escalation, and the final 6 months' salary for Project Year 1 is subject to one escalation.

1. ***Wage Escalation Project Year 1****:* (($87,800*.5)+(($87,800*1.036)*.5) = **$89,380.40**
2. ***Adjust Salary based on Commitment:*** ($89,380.40*.5)= **$44,690.20**

***For the Specialist in Year 4, they are presumed to advance to Specialist Step 2 at the beginning of Project Year 4, so their projected salary is based on the first 6 months of salary being subject to the Specialist Step 2, Year 1 salary at three escalations, and the second 6 months of salary being subject to the Specialist Step 2, Year 1 salary at four escalations.

1. ***Wage Escalation Project Year 4****:* ((((($96,500*(1.036^3)*.5)+ (((((($96,500*1.036^4)*.5) = **$109,233.12**
2. ***Adjust Salary based on Commitment:*** (**$109,233.12***.5)= **$54,616.56**

ADDENDUM 2 – WAGE ESCALATION FORMULA AND BACKGROUND

The formula and the resulting wage escalation rates are for budget forecasting purposes only and are based on the most recent 10-Year Economic Projections issued by the Congressional Budget Office as of the date of this letter (the "Projections")[7]. The recommended wage escalation rates are calculated by adding projected inflation to 1%, which is a presumption that actual wage growth of University employees will outpace projected inflation.

The formula[8] to determine the recommended wage escalation rate is the sum of the projected inflation found in 1) and the 1% in 2) here:

1) Determine projected inflation for the project by using the Personal Consumption Expenditures (PCE) Price Index[9] projected calendar year annual percentage change rate published in the Projections (the "Percentage Change") as follows:
    a) For projects ending the same calendar year this letter is published, the projected inflation is the Percentage Change for the calendar year this letter was published rounded to the nearest tenth;
    b) For projects ending by or on December 31 of the fourth full calendar year after this letter is published, the projected inflation is the arithmetic average of the Percentage Changes[10] for each year beginning with the calendar year this letter was published and ending with the calendar year the project is expected to end, rounded to the nearest tenth;
    c) For projects ending after December 31 of the fourth full calendar year after this letter is published, the projected inflation is the arithmetic average of the Percentage Changes rounded to the nearest tenth for five years beginning with the Percentage Change for the calendar year this letter was published is the projected inflation.
2) 1% is added because the actual wage growth of University employees will likely outpace projected inflation.

For example, a project ending the year this letter is published would be subject to an escalation rate of 4.8%, which is comprised of the 3.8% projected inflation for 2023 plus 1% for presumed outpaced wage growth.

As an additional example, the wage escalation for a project ending the year after this letter is published is calculated as shown:

- Projected inflation for 2023 (**3.855%**) + Projected inflation for 2024 (**2.769%**) = **6.624%**
- **6.624%** ÷ 2 (the number of years of the project) = **3.312%**
- **3.312%** rounded to the nearest tenth = **3.3%**
- **3.3%** (average projected inflation over the project period) + **1%** (assumption of additional wage growth) = **4.3%**

Therefore, the calculated wage escalation for the project would be 4.3%.

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[7] See Note 3. Calendar year projections from the Projections are used, not the fiscal year projections.

[8] The formula was developed in consultation with faculty from UC Berkeley's Department of Economics.

[9] The PCE is used as the deflator index for this guidance because of its inclusive dataset, including gross domestic product and supplier reports, and it measures goods and services purchased by all U.S. households and nonprofits. The more commonly known Consumer Price Index (CPI) utilizes a smaller dataset focused on U.S. urban households, which is why CPI was not used.

[10] Prior to this guidance, campuses generally used a singular percentage for determining project budget escalation (e.g., 3%). However, using the same escalation estimate for an 18-month project and a five-year project in periods of volatile inflation would lead to outsized under- or over-recovery. However, it is impractical to ask campuses to apply year-by-year escalation rates (e.g., 3.7% for FY23, 3.2% for FY24, 2.7% for FY25) in multi-year projects that largely do not follow standard calendar or fiscal years. Therefore, this guidance relies on a tailored rate determined by an arithmetic average of specified years so campus administrators have a singular escalation rate to apply based on the project's end date.

ADDENDUM 3 – FREQUENTLY ASKED QUESTIONS

1. Is the Office of the President requiring campuses to use the wage escalation rates?

No. The rates are provided as guidance in response to campus requests for such guidance. The rates are provided for multiple reasons, foremost so that sponsored project proposal budgets align with likely future economic realities. Additionally, the rates are provided to ensure that applicable university proposals comply with 48 CFR 15.403 for certified costing data.

2. May our campus use a different wage escalation rate?

Yes. This guidance provides recommended rates based on an objective forecasting methodology. In some cases, campuses may elect to exercise local autonomy and use a different rate that is more responsive to their local budget and economic realities. Campuses are encouraged to document their methodology for a local rate to ensure compliance with 48 CFR 15.403 for certified costing data.

3. Don't NIH and NSF prohibit cost-of-living adjustments in proposals?

No. NIH and NSF, on an agency-wide basis, have not prohibited or required cost-of-living adjustments in proposal budgets. Both agencies allow their individual programs, institutes, and centers to promulgate cost-of-living adjustment requirements.

4. Should the wage escalation rate be applied to other cost categories, like tuition remission, supplies, and fringe benefits?

Maybe, except for fringe benefit rates. Although the wage escalation rate is based on objective criteria to anticipate future economic realities related to wage growth, campuses may choose to apply the rate to other direct cost budget categories except for composite fringe benefit rates, which must follow the applicable current or provisional rate found in the campus's federally-negotiated rate agreement. Note that the wage escalation rate includes an additional 1% above projected inflation to anticipate wage growth.

5. I am submitting an NIH proposal with a modular budget, should I use the wage escalation rate?

Yes and no. NIH modular budgets generally do not require detailed salary information and calculations. In those instances, if the academic department maintains an internal budget to develop data and projections for modular budgets, we recommended using the wage escalation rates in campus internal budgets only.

6. What if a research team's actual wage costs are higher or lower than the projections?

Actual costs may vary from projections. The wage escalation projections are recommended to minimize any variation between actual costs and projected costs. Any variation between actual costs and projections would need to be addressed under the terms and conditions of the particular award.