Guidance Memo: PHS Salary Cap

Responsible Office: Sponsored Programs Administration

Responsible Officer (title only): Associate Vice President for Research and Sponsored Programs

Contact Person:Carrie Blackwood-Williams, Director, Sponsored Programs Administration

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# Purpose

# The Public Health Service (PHS) salary cap applies to grants, cooperative agreements, and applicable contracts (sponsored awards) issued by PHS agencies such as the National Institutes of Health (NIH), limiting the direct and indirect salary costs that can be charged to a sponsored award with a PHS agency. This guidance memo aims to ensure Northern Illinois University’s compliance when implementing and administrating funding from PHS agencies.

# Definitions:

**Annual Rate:** The amount of pay an individual would receive from NIU for a 12-month period.

**Applicable cap:** The effective salary limitation of the award. It is tied to the federal executive pay scale and the salary cap amount may change for each budget period of the award.

**Direct Cost:** Costs that are directly related to the project or project activities. These costs are based on actual expenses or are costs that are easily estimated accurately. Examples of direct costs are generally salaries, travel, equipment, and supplies for activities under the sponsored award.

**Direct Salary:** The monetary compensation that NIU pays employees for services performed. It is exclusive of fringe benefits, and facilities and administrative (F&A) costs.

**Effort:** Actual amount of time spent by an employee on a sponsored project. Effort is expressed as a percentage of the total amount of time spent on all NIU work-related activities or for which the employee is compensated. Effort is not defined in the context of a 40-hour work week or any other standard work week since the number of hours each week may vary. All effort must equal 100%.

**Funding Limitation:** The limitation on the annual rate of NIU salary for full-time effort that the agency provides in a given award. This limit is usually established at the time of a competitive award based on the salary cap in effect at that time. However, if after a sponsored award is made the PHS announces an increased salary cap, the agency will typically allow Principal Investigators to re-budget awarded funds in that or future years to charge the higher salary level, if funds are available.

**FTE Rate:** The full-time equivalent salary rate is associated with payroll records in the HRS database. Nine-month and part-time agents working on a PHS-funded project must be converted to a full-time annual rate.

Indirect Costs: Costs not readily tied directly to the project or project activities. If a cost is classified as indirect, it cannot also be listed as a direct cost for any federal award. Examples include facilities operation and maintenance costs, depreciation, and administrative expenses. For salary cap purposes, indirect salaries include executive salaries in various uncapped cost pools.

**Institutional Base Salary:** The annual compensation set by the Institution (through an academic unit or administrative unit) for an employee’s regular appointment, whether that employee’s professional effort for the institution is spent on research, teaching, outreach, administration, or other activities and whether that employee is appointed full-time or part-time.

**Salary Cap:** A maximum annual rate of salary that can be given to an individual for full-time effort that can be charged to an award. PHS salary caps are indexed to a specific government executive pay level. The salary for the executive pay level may vary for each government fiscal year in which the funds are awarded (usually on January 1st).

# Guidance and Procedures

The dollar amount of the PHS salary cap is indexed to selected executive pay levels established by the federal government and may vary for each government fiscal year in which funds are awarded. The salary cap amount is the maximum annual salary that the PHS will allow to be paid out to an individual working on a sponsored award. For PHS grants, cooperative agreements, and applicable contracts issued on or after January 1st of a given fiscal year, the salary cap cannot exceed the Executive Level II salary of the Federal Executive Pay Scale (as determined by the [Office of Personnel Management Salaries & Wages](https://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/)) for that same fiscal year.

The PHS direct salary cap applies to senior personnel, which includes the Principal Investigator (PI), co-investigators, and other key personnel working on the project. The PHS salary cap limitations apply to sub-awardees and subcontractors as well.

Unobligated funds being carried forward into a subsequent budget year are subject to the salary cap in effect within the fiscal award year to which the funds are being carried forward.

# Salary Cap and NIU Institutional Base Salary

For salary cap limitation purposes, the terms “direct salary,” “salary,” and “institutional base salary” have the same meaning and are exclusive of fringe benefits and F&A expenses (also referred to as indirect costs). An individual’s institutional base salary excludes any income that an individual may be permitted to earn outside of the duties to the project and is not constrained by the PHS salary limitation. The salary cap simply limits the amount that may be awarded and charged to PHS grants, cooperative agreements, and applicable contracts. NIU must pay an individual’s salary amount that is in excess of the salary cap with non-federal funds. Note: Fringe benefit costs and salary overages cannot be considered toward cost share.

At NIU, salary verifications are done twice a year covering periods January 1st to June 30th and July 1st to December 31st. At the end of each period, NIU’s Sponsored Programs Administration (SPA) prepares effort statements for all individuals who have been paid from sponsored funds during the verification period. These individuals are required to certify that the salaries and wages charged to an award reflect the work performed on the project.

# Preparing a Budget Proposal Using the Salary Cap

## When preparing a PHS budget proposal, the following general principles should be kept in mind:

* If the individual is working on a project for only a portion of their time (e.g., 50% effort), NIU may only charge the grant for that portion, capped at the PHS salary limit. For example, if someone makes $250,000 annually and works on an NIH project for 50% of their time in 2025, they could allocate up to $112,850 (50%) of the maximum allowable annual salary ($225,700) under Executive Level II of the Federal Pay Scale from the grant.
* The agency will fund the salary cap at the level in effect at the time of the award. If the salary cap is increased during the period of the award, NIU may be able to use rebudgeting authority to budget the salary to a higher level. The agency, however, will not award any additional funds for this purpose.
* When an individual’s salary exceeds the salary cap established by the PHS agency, the difference between that individual’s actual salary and the maximum amount allowed under the PHS salary cap for that percent of effort must not be charged to another federal award.
* Faculty with a 9-month appointment and receiving summer compensation from a sponsored project are not compensated by NIU for salary over a sponsor-imposed cap. Salary for a 9-month appointment reflects only the academic year salary with no obligation to provide summer salary support.