Federal Regulations

Guidance regarding severance expenses comes from two primary sources:

NIH Grants Policy Statement, Part II, Subpart A, Cost Considerations

Severance Pay

- Allowable only to the extent that such payments are required by law, are included in an employer-employee agreement, are part of an established policy effectively constituting an implied agreement on the part of the organization, or meet the circumstances of the particular employment. The amount of severance pay to be provided should be determined according to established organizational policy consistently applied regardless of the source of funds and should be reasonable, taking into consideration the practice of similar types of organizations and the extent of the organization's dependence on Federal funds. The applicable cost principles should be consulted regarding the different treatment of severance pay in regular and mass termination situations.

OMB Uniform Guidance, Subpart E §200.431

Severance Pay

- Severance pay is compensation in addition to regular salary and wages which is paid by an institution to employees whose services are being terminated. Costs of severance pay are allowable only to the extent that such payments are required by law, by employer-employee agreement, by established policy that constitutes in effect an implied agreement on the institution's part, or by circumstances of the particular employment.
- Severance payments that are due to normal recurring turnover and which otherwise meet the conditions of §200.431(i)(1) may be allowed provided the actual costs of such severance payments are regarded as expenses applicable to the current fiscal year and are equitably distributed among the institution's activities during that period.
- Severance payments that are due to abnormal or mass terminations are of such conjectural nature that allowability must be determined on a case-by-case basis. However, the Federal Government recognizes its obligation to participate, to the extent of its fair share, in any specific payment.
- Costs incurred in excess of the institution's normal severance pay policy applicable to all persons employed by the institution upon termination of employment are unallowable.

Charging Severance Expenses against Federal Grants Awarded to Harvard

Given the federal guidance detailed above, and in keeping with Harvard's own internal policies, the charging of severance expenses against federal awards is allowable provided:

- Severance expenses comply with the "proportionality principle"; that is, they are charged in proportion to the amount of benefit received by the project. Variables to be considered include number of years worked on the award and percentage of effort expended by the employee during those years. For
example, if an employee worked and was charged 50% of her salary to ABC Grant for the duration of her employment with HU, working on the ABC Grant for the entirety of her employment with HU, ABC grant would pay 50% of the severance cost for this employee. The 50% balance of severance would be charged to another source of funds, representing the activity completed by the employee, or to an unrestricted source.

- Severance payments comply with Harvard’s Cost Transfer policy (i.e., all charges must be made within 90 days of the end date of the award; no expenses beyond this date will be allowed).

**FAQs**

(1) **Q. I charge severance against non-federal awards?**
   A. Yes, to the extent that such charges comply with the provisions listed above for federal awards.

(2) **Q. May I charge work security expenses, as well as severance, for my non-exempt employees?**
   A. Yes, to the extent that such charges comply with the provisions listed above. In most cases it will be possible to charge work security or severance but not both to awards that have ended, owing to the fact that work security typically extends beyond the 90-day cost transfer window.

(3) **Q. If I have to lay-off the person well before the grant ends, can I pay both work security and severance from the award, since we’re not yet into the 90-day reconciliation period?**
   A. Yes, once again assuming the proportionality principle is met.

(4) **Q. What does "proportionality principle" mean? May I charge my 3-year award with severance for a staff member who has been working in my group for 10 years, since this is the last and only source of funding for this employee and he worked 100% of his time and was paid 100% of his salary from this award?**
   A. Like all expenses against federal awards, severance expenses must be charged in proportion to the amount of benefit received by the project. In this case, you may charge 3 years worth of severance against the grant if the individual was charged 100% of his time and paid 100% of his salary from this award.

(5) **Q. What if I don’t have any other funding sources? Where does the difference come from?**
   A. It is up to each Tub to determine and communicate internally how these costs should be funded if there is no available source of funding at the PI or org level.

(6) **Q. How do I handle people paid from multiple grants? That is, can I charge severance to a grant that isn’t ending if the employee is split-coded between that grant and one that is ending?**
   A. Yes, again, it is appropriate and allowable to charge severance against any open award (or within the 90 day reconciliation period on a closed award) provided the amount of severance charged to both is proportional to the benefit received by each project. For example, if a person works 50% on a grant that is ending, and 50% on a grant that will remain active, both awards may be charged 50% of the severance (with the total amount being determined by how long the person has worked at 50% effort on each of the awards).

(7) **Q. If the grants belong to different PIs, should the second PI be responsible for a severance situation caused by the first PI?**
   A. Unless other arrangements are made (e.g., the employee opts to remain at 50% on the one award, or the Department/School offers to pay the second part of the severance), yes, the second PI should be responsible for covering his/her proportion of the severance expenses.
(8) Q. What's the standard for deciding whether two consecutive grants are part of the same project or not?
A. Grants are part of the same project only if they represent different segments of work generated from one original award (e.g., NIH competing continuation projects). "Closely related" projects can not be considered the same project, and they may not share in the severance burden that may apply to one of the closely related projects.

(9) Q. Do these principles apply to paid-time-off (PTO) as well (e.g., vacation, sick leave, family leave, etc.)?
A. Yes, generally speaking the principles described here should form the basis for addressing similar questions with respect to PTO, except for vacation. Please see more on PTO under the topic "Absence Management" on OSP Homepage>Quick Links> Training>Presentations & Guides.

Revision History
7/25/13 – Added to OSP website in PDF format
12/3/14 – Updated references to the Uniform Guidance