



What scientists need to know about F&A (“indirect costs”) on NIH research grants

By Federal government rules, the costs of research supported by grants from NIH are divided into two categories: direct costs for doing the research work and Facilities and Administration (F&A or “indirect costs”) for institutional infrastructure required to conduct the research.

These rules allow grants to support direct costs for research: salaries and benefits for the Principal Investigator and research staff, including postdoctoral scientists; stipends and tuition for graduate students; supplies; travel for scientific presentations; costs of publications; and some equipment.

These rules specify that all other costs of research are paid at the institution level rather than by individual laboratories. Such expenses are called F&A and include: laboratory buildings and shared major equipment reimbursed to the institution as depreciation based on the cost of construction and major instrument purchases; rent; maintenance, light, power, HVAC, and housekeeping for laboratory buildings; handling and disposal of hazardous and biological waste materials; radiation safety and disposal; general laboratory safety, including training and compliance; library services, including site licenses for scientific journals; IT services, including Internet access and cybersecurity; administrative staff to process grant applications and ensure compliance with governmental regulations and reporting requirements for funded grants; support for grant-related HR for hiring, training, and benefits; purchasing (ordering and receiving supplies for research); and financial management of grant funds (paying salaries and bills).

An audit by government accountants from Health & Human Services or Office of Naval Research every two to four years reviews the expenses of each institution to verify that they are valid F&A costs. Then they negotiate with the institution to set a rate for F&A reimbursement for the next period.

The rate for reimbursement of indirect costs is reported as a percent of modified direct costs that do not include rent, major equipment, patient care, graduate student tuitions, and a few other direct costs. By law, reimbursement for administrative costs is capped at 26% of modified direct costs despite steadily increasing costs for compliance with regulations.

Indirect cost rates vary from about 50% to more than 80% of modified direct costs depending on the type of institution and its location. A more transparent way to describe these reimbursement rates is as a fraction of total costs. In 2023, NIH-funded grants included \$26B of direct costs and \$9B of F&A (26% of total costs or 35% of total direct costs). This fraction has been steady for years. Since 2017 Congress has banned changes in F&A rates once negotiated.

If the NIH F&A reimbursement rate were reduced to 15% of modified direct costs, as recently proposed, most institutions could not maintain their current level of research. Already they do not recover the full costs of supporting research, and over recent decades, the contribution of educational institutions to their research activities has increased to almost half the Federal support. If the lost F&A costs were included in direct costs on grants, less funding would be available for research unless NIH increased funds for direct costs proportionally, which is not part of the recent proposal or assured.

Grants from philanthropic organizations usually pay lower rates for F&A, but often allow as direct costs items that are not included in direct costs on Federal grants, because they are covered in the negotiated F&A rate. Many but not all institutions see this philanthropy as a net benefit and accept this lower reimbursement, but they must make up the difference.