



MASSACHUSETTS INSTITUTE OF TECHNOLOGY

TO: Department Heads  
Administrative Officers  
Graduate Administrators  
CGSP Representatives

FROM: Robert A. Brown

DATE: February 25, 2004

SUBJECT: Proposal for Handling Graduate Student Medical Insurance for RAs, TAs, and  
Fellowships Supported Through MIT

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One of the challenging issues facing us is the rapidly rising cost of medical insurance for graduate students. The increasing cost of the Student Extended Insurance Plan (SEIP) is rapidly driving up the cost of living for our graduate students and putting pressure on our faculty through the increased cost of a graduate student to a contract or grant. As we know, the cost of this insurance increased by 60% for a single graduate student in FY04, and there is the potential for another increase in FY05. Until now we have relied on increases in graduate student stipends to absorb the increases in medical insurance costs. This is a very inefficient method for funding medical insurance since it creates taxable income for the students and because the stipend is subject to F&A costs on a grant or contract. Neither of these impacts can be altered as long as the funds to pay the medical insurance are distributed through the stipend.

I am writing to inform you of a plan to change the way we fund the SEIP for RAs, TAs, and Fellows supported through MIT for FY05. The goal of the plan is to separate the payment of the SEIP for students funded by MIT as RAs, TAs, and Fellows from the student stipend so as to pay this insurance in the most financially efficient means for both the student and the faculty. By separating the SEIP from the stipend, the discussion about the increases in graduate student cost of living and the decision for stipend levels can be separated from the increases in the cost of the SEIP. Finally, we will still need to work to understand and contain the increases in the cost of this medical insurance. We have additional committees and consultants addressing this challenge.

The plan described here was developed over several months by a group that examined practices by other universities and several options for MIT. The proposal has been vetted by a focus group composed of faculty and graduate students.

The new process for paying the SEIP for RAs, TAs, and Fellows is described below. There are many implementation details that will need to be worked through in the weeks ahead, but the information described here gives the essence of the plans.

. Research Assistants

Because funding for RAs comes directly from research contracts and grants, our approach is designed to improve the financial efficiency of the process. The basic idea is to remove the SEIP from the graduate student stipend and thus remove the burden to the faculty of paying F&A costs on this portion of the stipend and relieve the income tax burden on this expense to the students. The plan is as follows:

We will reduce the Institute subsidy of the 9-month tuition for an RA by an amount equal to the cost of the health insurance, that is by 5 % (this percentage may rise as the cost of the SEIP increases in future years). The Institute funds released by lowering this subsidy will be used to fund from a central resource the SEIP for each full time equivalent RA.

The improved financial efficiency of this method is easily seen by looking at a calculation of the current cost of an RA to a research contract or grant. This computation is presented below for an RA with the average stipend level of \$ 1980/month, the annual cost of the SEIP at \$ 1440 (the FY04 rate) and a tax burden of 17%. The calculation is done for an F&A rate of 60%, a 9-month tuition subsidy of 50% (the subsidy and tuition set for FY05) and an estimated Academic Year tuition rate of \$30,600.

Cost of RA to contract FY05 (current system):

Academic year Tuition:	\$30,600
Stipend (include SEIP):	\$23,760
F&A (60% of stipend):	\$14,256
<u>AY tuition subsidy (50%):</u>	<u>- \$15,300</u>
Total:	\$53,316

(For the present 65% AY tuition subsidy, the total cost in FY04 is \$ 48,426.)

The net stipend for a graduate student when the SEIP is paid from the stipend is computed as:

Stipend:	\$23,760
SEIP (single student)	- \$ 1,440
<u>Taxes (17%)</u>	<u>- \$ 4,039</u>
Net Stipend	\$18,281

These numbers can be compared to the plan to pay the SEIP out of MIT funds in FY05. Assuming that the graduate student stipend is fixed at the present level, the cost of an RA to a contract becomes:

Academic Year Tuition:	\$30,600
Stipend	\$23,760
F&A (60% of stipend):	\$14,256
<u>AY tuition subsidy (45%):</u>	<u>- \$13,770</u>
Total:	\$54,846

which represents a net increase of 2.9% over the previous method. If we did not pursue this approach and only increased stipends by 2%, the net increase to a grant would be 3.2% and the students would only see an after tax increase of 1.7%. The total increase in the cost of an RA to a research award over

. the FY04 rates is 13.5% caused by the increase in tuition, the decrease in tuition subsidy, and the new method for funding the student's SEIP.

The net stipend for a graduate student becomes

Stipend:	\$23,760
SEIP (single student paid by MIT)	0
Taxes (17%)	- \$ 4,039
Net Stipend	\$19,721

which is a \$ 1440/yr or 7.9 % net increase in stipend for each student. This large increase will mitigate the need for an increase in stipend rates in FY05.

The new method for funding the SEIP leads to a lower cost to the research contract or grant and a higher net stipend for the student.

### Teaching Assistants

In order that the payment of the SEIP is transparent to as large a number of graduate students as possible we will institute the same mechanism for funding the SEIP for full-time equivalent TAs. The SEIP for TAs will have to be funded directly from the MIT budget. The mechanism for handling this payment will be worked out as part of the implementation. The increase in net stipend that each TA will see will be effectively the same as computed above and the cost of implementing this plan can be partially offset by the reduced need for stipend increases.

### MIT Funded Fellowships

We strongly advise that graduate fellowships funded by MIT also move to a system where the SEIP for a full-time equivalent Fellow is funded separately outside of the graduate stipend and that the stipend rates reflect that added benefit. The implementation work this spring will create the methodology for doing this.

### Implementation

The implementation of the new plan for funding graduate student SEIP will take considerable work. Ms. Doreen Morris, Assistant Provost for Administration, has assembled the following team to work through the needed details by the end of this fiscal year: Marilyn Smith, Janet Fischer, Alison Salie, and Janet Sahlstrom. This group will work on the policy issues. It will then be expanded to include others from CAO, SFS, GSO, OBFP and Medical to work on implementation procedures.

### Unresolved Issues

Although the proposal here removes the burden of the cost of health care from our single graduate students it will only partially cover the insurance for students with partners and children who pay much more for health insurance and who are experiencing the same large yearly increases. Because each graduate student will receive the benefit of the cost of the single student SEIP rate, the medical insurance rates for funded graduate students with dependents will decrease (by the amount of the single student SEIP); the remaining rates are still high and we continue to search for ways to reduce this cost.