

## **The Effective Indirect Cost Recovery Rate for my Local Church is About Sixty Percent**

By Bill Menke, February 11, 2025

Indirect Expenses have become increasingly important to the national debate, because the National Institutes of Health (NIH) last week slashed<sup>1,2</sup> their Indirect Expense Recovery (ICR) rate for medical research to 15% (from something is in 30-60% range, depending upon the university hosting the research). Their ostensible reason was that cutting the rate makes more money available for research.

Here, I calculate the effective ICR rate for the community church that I attend. Of course, neither the church nor its donors think of the church's expenses as being divided into the two categories of "direct expenses" associated with particular programs and "indirect expenses" associated with funding the overall operation of the institution. However, my divvying up of their 2025 budget (which is available on the web) into categories roughly following NIH rules is straightforward and allows me to calculate an effective ICR rate. Furthermore, a church is a sufficiently different kind of non-profit from a university that one might expect that different "cultural" practices might lead to different levels of expenses. The comparison might lead to important insights.

The church's total annual budget is \$203,000. By scanning down the categories, the church appears to have three programs: the Sunday service, internal outreach programs like a coffee hour, and external outreach programs like contributing to the local food pantry. Direct costs related to the service are by far the largest. They include the preacher's salary and benefits (\$100,000), the organist's part-time salary (\$20,000) and some minor materials and supplies like candles. Internal and external outreach programs and external programs are smaller, totaling \$2,000 and \$5,000, respectively. These three programs sum to \$127,000 of direct expenses. All other expenses must be considered indirect, because they benefit church programs as a whole without being attributable to any specific one. They include insurance (\$19,000, wow!), custodian (\$10,000), administrative assistant (\$9000), heat (\$6500), website (\$5000), fire alarm (\$1,000), etc. These indirect expenses (none of which seem particularly extravagant) total \$76,000.

Consequently, the Indirect Cost Recovery (ICR) rate is 59.8%. That is,

$$\$127,000 + 0.598 \times \$127,000 = \$203,000$$

The notion that the church could slash its rate to 15% (about \$19,000) seems implausible at best, as the church spends \$19,000 on insurance, alone, and expenses like custodian, heat, etc. are legitimate indirect expenses, too. They are all necessary expenses that cannot just be eliminated. Furthermore, reducing them by letting the church building get a little dirtier or a little colder in the winter is not an option for an institution that has activities to which the public is invited.

Most churches will honor a donor's earmarking of a gift for a specific purpose (like supporting the food pantry). I suppose that such donors realize that they are not supporting the full cost of the church's operation, but are expecting that it will be borne by other donors. That's fine when

the earmarked gifts account for only a small fraction of the church budget. However, a church could not continue to operate if all gifts were restricted to direct costs.

Some people might point out that many churches and universities have endowments, the income from which supplements that of donors. However, this thinking overlooks an important limitation of endowments: most are earmarked for very specific direct costs and the earmarking is enforced by state law. The church, for instance, has an endowment restricted to pastoral housing. It cannot be used for any other purpose.

The 59.8% effective ICR rate for the church is on the high end of the range that NIH has negotiated with universities. I think that that is due mainly to the church and high-ICR-rate universities both being located in high-cost-of-living metropolitan areas. Both are paying similar rates for costs like insurance, custodial and administrative services, etc. Insurance would undoubtedly be lower, say in rural Maine, both because property values and the cost of rebuilding are lower.

The comparison performed here indicates that the church and NIH-funded institutions spend a similar percentage of their budget on indirect costs. The discussion cannot accurately be posed in terms of NIH funds being wasted. The substantive issue really concerns the policy question of whether the Federal government should continue to underwrite the full cost of medical research.

<sup>1</sup><https://grants.nih.gov/grants/guide/notice-files/NOT-OD-25-068.html>

<sup>2</sup>But note that the reduction of rates has been stayed by a Federal court.