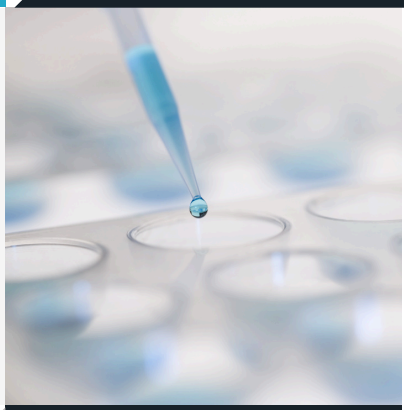
Issue Brief: Expenses Crucial for Biomedical Research - Indirect Costs

Hydrocephalus Association



What are **Indirect Costs**?

Indirect costs, officially known as Facilities and Administrative (F&A) costs, are the financial costs associated with maintaining safe and functioning infrastructure within research institutions. Unlike direct costs, which are directly used to fund specific research studies, indirect costs support multiple research studies in their use of resources and personnel. Shared factors, such as laboratory upkeep, lab equipment, utilities for high-powered research equipment, and administrative staff that run laboratories and coordinate the use of facilities, fall under the umbrella of indirect costs.

> *Indirect costs help support many factors the general public may not be aware of. Costs for IRB (Institutional Review Board) and IACUC (Institutional Animal Care and Use Committee) ensure safety reviews for both human and animal research subjects. Other costs include programs for biological, radiation, chemical safety, or hazardous removal. Indirect space costs like the facilities used by research support functions and for research include rent, real estate taxes, interest expense, depreciation, utilities, building maintenance, and custodial services.*

Why are **Indirect Costs** Important?

While some of the categories financed through indirect costs may not initially come to one's mind when thinking of the various needs of operating a research institute, they are factors integral to carrying out biomedical research. Lab infrastructure is one of the key needs supported by indirect costs. These spaces require specialized ventilation, power, and utility costs for project needs and expensive equipment like microscopes and analysis machines. Labs also need infrastructure to dispose of research materials or hazardous waste. Lab needs encompass digital resources as well. Institutions must finance their IT infrastructure to collect, store, and monitor data. Even programs like Microsoft Word and Zoom fall under this category. Labs must comply with safety requirements, adding additional costs to conduct research.

Many institutions need to maintain facilities for animal subjects (pigs or rodents), which requires specialized staff and additional costs. Animal care requires veterinarians and veterinary technicians who oversee the health of animals and regulatory compliance. Other staff must oversee operations and compliance with the National Institutes of Health (NIH) and the American Association for Accreditation of Laboratory Animal Care (AAALAC). Animal subjects must be kept in proper housing with proper food.

A research lab to find disease treatments requires many indirect costs in order to collect and process biological samples. They must have specialized freezers or other climate-controlled tanks that allow for the long-term storage of materials or biological samples used in their investigations. The lab must fund laboratory tests to take measurements from the biological samples. Technology needs are also high. Laboratory Information Management Systems (LIMS) are crucial for organizing, tracking, and compiling molecular and clinical data.

While these factors may not be associated with biomedical research at first glance, they are the backbone of scientific innovation.

HOW DOES THE GOVERNMENT FUND INDIRECT COSTS?

Because of the national implications of medical research, the federal government steps in to support institutions. As a result of conducting medical research, universities incur expenses that would not exist otherwise. To support this necessary research infrastructure, the National Institutes of Health (NIH) partially funds indirect costs for institutions. Grant recipients negotiate funding with the NIH's Division of Financial Advisory Services (DFAS) to cover expenses based on their institutional needs. The two parts of indirect costs are funded differently. The federal government caps administrative costs at 26%. Facility costs do not have a cap. The average NIH indirect cost rate has remained steady at 27%-28% over time. However, negotiated rates often exceed 50%. While indirect funding provides significant support for research operations, it does not cover the full costs needed to sustain incoming biomedical research grants. This is covered by institutions as a result.

> *Indirect costs support the university research infrastructure, such as administrative costs not directly included in the grants, including those for future grant submissions, administering the grant funds, or aiding researchers in proposal development. In our institution, a percentage of the indirect costs is returned to the investigators for expenses not covered by direct funds, such as student and postdoctoral travel funds or equipment maintenance. A certain portion of the indirect funds are also allocated for equipment purchases that are used on a shared basis.*

CURRENT FEDERAL ENVIRONMENT:

In February 2025, the Trump Administration-run NIH issued supplemental guidance that would cap federal F&A reimbursement at 15%, significantly reducing funding from the levels previously received. The policy would also require current NIH grants with previously negotiated rates to be limited at the 15% level, reduced well below the typical 50% (check %) indirect costs.

In response, plaintiffs representing research institutions and stakeholdersfiled lawsuits challenging the legality of the guidance, resulting in a permanent court injunction and judgment that would halt the F&A requirements for all institutions nationwide. In April, the Trump Administration filed an appeal on the judgment.

Additionally, the Trump Administration requested the same 15% F&A cap in their FY 2026 presidential budget request to Congress, signaling their continued support to reduce indirect costs.

Reduction of **Indirect Costs** to 15% Strains Medical Research:

Extensive reductions to NIH indirect cost funding, like the 15% policy from the Trump Administration, would have disastrous short and long-term financial, medical, and scientific impacts on research institutions in the United States. As a whole, indirect cost infrastructure represents a key pillar of a successful research institution. As the pillars are pulled out due to the significant funding cuts, it becomes very difficult to maintain long-term sustainability in important research.

Estimates project that the proposed policy from the Trump Administration would result in a $2.99 billion loss for public institutions of higher education, while private institutions would lose $2.25 billion. Without adequate indirect funding, universities would be forced to make difficult decisions, likely resulting in funding holes for shared infrastructure, technology, or administrative functions. This means grantees may not be able to invest in lab maintenance or new technology, compromising the quality and reliability of their scientific work. Additionally, funding cuts could even impact financing for the simplest of indirect costs, like electricity and water used by labs.

Facilities would be forced to let go of administrative staff who coordinate budgets and oversee scheduling, helping to take some workload off investigators. Many universities have already imposed hiring freezes and let go of staff. These roles provide strong support in the grant application process by assisting with research, documentation, and compliance. As a result, researchers can put their primary focus on proposals and ongoing science. Administrative staff reductions would impact the efficiency of research processes and decrease the number of federal grants facilities could take on, slowing down innovation and scientific breakthroughs.

These large indirect cost reductions would have the largest impact on small and mid-sized universities that lack funds to make up the difference. Small and medium-sized research facilities rely heavily on NIH support. And without large endowments to supplement the reductions, facilities would be forced to close labs and implement hiring freezes. The uncertain budget environment is already causing universities to scale back their budgets. Many are also implementing or leaning towards implementing hiring freezes to account for possible funding shortfalls.

While the F&A cap would hurt all forms of biomedical research, it would disproportionately impact high-cost research like clinical trials like those testing new medications or treatments in the hospital. Clinical research, which is 50% more expensive than basic biological research, must account for a variety of factors, including unique staffing costs, complex protocols, monitoring and reporting needs, and regulatory requirements. For example, some clinical trials require an indirect cost-supported pharmacist to approve specific dosages for participants. If an institution lacks the funds to support the staff member, this can lead to unsafe conditions for the subjects. Lack of funding to support needed staff or technology at research hospitals would reduce the number of clinical trials taking place and limit the number of new treatments and devices entering the market.

> *"Our research is already seeing the impact of the indirect cost reduction. Knowing that we may not have sufficient funds to support the hiring of support staff, our institution has immediately put a hiring freeze in place. This has prevented the Neurosurgery department from hiring a Grants and Contracts Specialist. As a result, we don't have sufficient support to maintain the sub-awards contracts for our 22 subsites, which need to be renewed annually, process and pay invoices from those sites, or monitor and audit the grant sufficiently to ensure appropriate stewardship of federal funds."*

Erosion of an Already **Shaky Biomedical Research** Pipeline

Threats to F&A funding have exacerbated the current challenging research environment. Medical research costs have been on the rise, posing significant barriers to the sustainability of labs. While funding for the NIH has seen moderate increases in the past decade, it has failed to keep pace with inflation. Rising costs hamper institutions, especially smaller ones, from hiring larger research teams and investing additional resources into their programs.

The challenges present unique barriers for young investigators looking to join the field as well. Unpredictable funding opportunities, hiring freezes, and the threat of lab closures erode job stability. While direct costs help pay the investigator's salary, a strong research sector also depends on labs with adequate funding to sustain its operations. A once-thriving American research space is now at risk of failing to bring future scientists into the sector

Adding to the adverse incentives, foreign governments are actively lobbying American scientists to move to their countries. France has set aside 100 million euros to recruit researchers from the United States. French universities have created programs to attract American researchers who were affected by canceled federal grants. Countries with more adversarial governments, like China, are bolstering efforts to recruit American or foreign scientists who may have had previous interest in coming to the United States.

Foreign recruitment efforts have shown signs of success. A poll released by the academic journal Nature, which assessed the attitudes of American researchers, found that approximately 75% of respondents were considering relocating to other countries from the United States.

What **You Can Do**

NIH F&A reimbursement rates cannot be a “one-size-fits-all” approach. While reform to the funding structure is possible, it must involve collaboration with key stakeholders who rely on funding to support their research programs. Members of Congress must understand the long-term damage this policy would impose. Take action and urge your members of Congress to oppose the NIH indirect funding cap.

ACTION ALERT

Oppose Cuts to NIH Indirect Research Funding

Not being able to pay the electric bill or being understaffed in paper pushers isn’t quite as ‘sexy’ as surgery techs, but the paper pushers truly are the unsung heroes of the research world. We’ve been under-resourced in terms of support personnel for years. Neurosurgery has two finance folks in our department managing around 300 grants and contracts. They work every night and every weekend. Further cuts will cause them to burn out and leave, taking priceless institutional knowledge with them. The cuts to IDC would truly exacerbate an already unsustainable situation.