

MEMORANDUM

Date: All College and University Chief Financial Officers

To: Laura M. King Vice Chancellor Chief Financial Officer

From: January 27, 2005

Subject: FY2006-2007 College and University Inflation Planning Guidelines

Many of you have inquired of us concerning direction regarding planning for inflation in the next biennium. Our biennial budget request was built in part on biennial budget guidelines released by the Department of Finance. These guidelines provided for a 4% per year increase in employee compensation and 1.5% inflation on all other operating costs. I would suggest you begin your planning with the assumptions released by the Department of Finance.

If you want to do a more detailed cost estimate, the following is suggested:

- Build up your health insurance cost estimate by assuming 10%-15% increase in January 2006 and in January 2007.
- Increase life and dental premiums by 5% - 10% per year mid year.
- As a conservative approach, assume the employer will continue to pay 85% of dependent cost and there will be no additional shift to the employee.
- Assume that step increases will continue for those classified employees eligible to receive them.
- Then spread what ever you have left to an across the board increase after providing for the impact that will have on the retirement and FICA employer contribution.
- A high cost scenario would increase the above numbers to above 5% for compensation inflation and 2.5%-3.0% for other operating cost inflation.
- A low cost scenario would assume a base salary increase of zero. I would advise keeping health insurance at least in the double digits even in the best case.

I would suggest that for all those eligible for supplemental retirement that you build in at least a \$100 increase in the maximum over the biennium, probably to impact FY 2007. For the colleges with former UTCE employees you might want to use \$200 for that adjustment.

The DOF guidelines concerning other operating cost inflation are subject to your own judgment. You could use their suggestion for your other operating cost projections or perhaps round up to 2% if energy costs are a large part of those expenditures.