

From: David L. Murphy
Sent: Friday, December 28, 2007 10:31 AM
Subject: Retroactive Fringe Benefit Rate Increase

We learned last Friday that the federal government has approved the state's request of a **38.32%** fringe benefit rate for GIC/Retirement/Terminal Leave. This new rate replaces the provisional fringe benefit rate of 29.37%. It is retroactive to the beginning of the fiscal year. The new rate will be implemented in the first payroll in January (check date 1/11/08). A retroactive charge for the difference between the provisional rate and the approved rate will be posted during January.

This adjustment affects only non-state funds. The other components of the fringe benefit rate remain unchanged. These components include the blended rate for unemployment insurance, universal health insurance, and the employer's share of the Medicare tax; workers' compensation; and sick leave bank.

The driver in this rate increase is the inclusion for the first time of funding for Other Post Employment Benefit (OPEB) costs related to retiree health insurance. The state has a large liability in the retirement system for health care and other non-pension benefits for retired members of the system which this new OPEB rate is designed to address. The provisional rate excluded OPEB costs.

There is no information yet available on FY09 fringe benefit rates but it is safe to assume they will remain at or near this higher level.

This difficult news comes when many campus units have submitted or will soon submit FY2008 revised and FY2009 projected student fee and revenue operation budgets. The calculation of the fringe benefit charge in these budget forms assumed a lower fringe benefit rate for both FY2008 and FY2009. There is no need for departments to make any changes to these forms. Our office will prepare a fund by fund analysis estimating the impact on the ending fund balance resulting from this fringe benefit increase and will contact EFO's and fund managers as warranted.

Please contact me if you have any questions.

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