

Ohio Public Employees Retirement System

October 16, 2015

Ms. Bethany Rhodes, Director
Ohio Retirement Study Council
88 East Broad Street, Suite 1175
Columbus, OH 43215

Dear Ms. Rhodes:

Enclosed is the proposed 2016 operating budget for the Ohio Public Employees Retirement System (OPERS). The proposed operating budget of \$111.0 million reflects a 4.8% increase in expenses from the prior year's budget. A significant portion of the proposed operating budget increase relates to on-going expenses planned to be paid from the operating budget next year rather than the capital budget or through investment credits. The 2016 proposed operating budget increase excluding these items reflects a 2.9% increase from the prior year budget.

The OPERS 2016 proposed operating budget includes a shift of approximately \$1.4 million in personnel expenses from the capital budget associated with the capitalized labor from an on-going IT capital project. Accounting rules require that the costs associated with using internal staff labor to develop an IT application be capitalized or added to the cost of the capital project. As such, these costs have been included during the last several years as a component of the capital budget rather than the operating budget. Since a portion of the capital project is completed, the associated staff costs shift back to the operating budget.

Similarly, the proposed operating budget reflects a shift of approximately \$0.7 million in professional services expenses for investment research fees. These costs were previously funded through commission sharing arrangements and reflected in the non-cash items on page 2 of Attachment 1.

The proposed operating budget reflects funding for on-going operations and key initiatives included in OPERS' strategic plan. The strategic plan key initiatives include the continued implementation of the health care plan changes and the continued implementation of a number of significant technology initiatives designed to position the system to handle the expected large growth in retirees without a corresponding increase in staff. These initiatives, which began several years ago, will enable OPERS to continue to provide quality customer service to our over one million members and retirees, thereby continuing OPERS' proud tradition of providing value for the State of Ohio through the distribution of pension benefits and health care coverage.

Attachment 1 reflects the proposed 2016 operating budget. The most significant increase is in the personnel category and occurs due to the combination of a salary merit increase, a shift in the capitalized labor from the capital budget to the operating and, finally, due to an increase in expected health care expenses. The proposed budget includes a 3% merit increase (no automatic step increase) based upon a thorough evaluation process, which represents approximately \$1.7 million of the budget. While OPERS leverages our investment in technology

to the extent possible to avoid significant increases in staffing levels as membership increases, OPERS is adding two positions in 2016. As noted above, another significant portion of the budget increase occurred in the personnel expenses, with an additional \$1.4 million resulting from the shift of capitalized labor budget from the capital budget back into the operating budget. Finally, employee health insurance costs are expected to increase approximately \$0.9 million. OPERS is self-insured for health insurance and has experienced several significant catastrophic claims.

The second area of significant increase is the professional services expense. This increase mainly results from the shift in the investment research from being funded by investment credits to the operating budget.

OPERS' proposed capital budget is \$4.8 million, which is a significant decrease of \$14.2 million from the prior year. This budget includes funds for the implementation of IT system enhancements related to health care changes, other system upgrades, and building-related system and equipment replacements.

Attached you will find budget information presented in the uniform format adopted by the five Ohio public retirement systems.

- The first page is the comparative summary for all five retirement systems. This page has been updated to reflect the OPERS 2016 budget currently being submitted to the ORSC.
- Attachment 1 is a statement of planned operating and capital expenditures, including comparisons to the 2015 fiscal year budget for OPERS. At the request of the ORSC, for the first time last year, a column was added to this attachment that reflects projected actual expenses for the current year.
- Attachment 2 is the detailed capital budget.
- Attachment 3 is a schedule of Retirement Board-related budget expenses that are included in the overall organization operating budget. At the request of the ORSC, for the first time last year, a 10-year trend bar graph for the Retirement Board-related budget items was added to this attachment.
- Attachment 4 is a three-year historical summary of investment costs and management fees.
- Attachment 5 is statistical information about the number of participants in OPERS, the number of staff providing benefits and services and the corresponding cost per participant.
- Attachment 6 shows the OPERS budgeted education and training and due diligence travel detailed by division on a per-FTE basis.

In accordance with the requirements of Section 145.092 (D) (1) of the Ohio Revised Code, the OPERS Board will not adopt the budget sooner than sixty days from the date of this correspondence.

We believe this budget provides the necessary support to continue to fund the operations of a growing and complex multi-billion dollar organization. Further, it recognizes the unique expenses associated with the continued implementation and communication of the pension and

health care changes and new GASB standards. As OPERS plans for the increased number of retirees, we are committed to running an efficient organization that continues to provide enhanced customer service to our members and supports the State of Ohio.

Please feel free to contact me if I can assist with any questions or provide additional information.

Sincerely,

A handwritten signature in cursive script that reads "Karen E. Carraher".

Karen E. Carraher
Executive Director

OHIO RETIREMENT SYSTEMS BUDGET PRESENTATION TO ORSC
FY 2016 Budget

Budget Periods	Ohio Public Employees Retirement System				State Teachers Retirement System				School Employees Retirement System				Ohio Police & Fire Pension Fund				Highway Patrol Retirement System			
	1/1/16-12/31/16 2016 Budget	1/1/15-12/31/15 2015 Budget	Increase (Decrease)	% Change	7/1/15-6/30/16 2016 Budget	7/1/14-6/30/15 2015 Budget	Increase (Decrease)	% Change	7/1/15-6/30/16 2016 Budget	7/1/14-6/30/15 2015 Budget	Increase (Decrease)	% Change	01/01/16-12/31/16 2016 Budget	01/01/15-12/31/15 2015 Budget	Increase (Decrease)	% Change	01/01/16-12/31/16 2016 Budget	01/01/15-12/31/15 2015 Budget	Increase (Decrease)	% Change
Personnel	\$ 66,707,933	\$ 62,313,139	\$ 4,394,794	7.1%	\$73,238,400	\$ 69,240,300	\$ 3,998,100	5.8%	\$19,611,537	\$ 18,774,156	\$ 837,381	4.5%	\$ 14,019,095	\$ 13,359,746	\$ 659,349	4.9%	\$ 898,296	\$ 844,635	\$ 53,661	6.4%
Professional Services	26,465,842	24,891,336	1,574,506	6.3%	9,532,800	9,742,500	(209,700)	(2.2%)	6,097,942	6,886,674	(788,732)	(11.5%)	4,606,142	4,549,040	57,102	1.3%	613,100	661,600	(48,500)	(7.3%)
Communications Expense	3,057,350	3,351,420	(294,070)	(8.8%)	2,267,500	2,486,100	(218,600)	(8.8%)	1,174,626	1,226,012	(51,386)	(4.2%)	575,550	572,890	2,660	0.5%	30,600	22,500	8,100	36.0%
Other Operating Expense	10,944,573	11,428,409	(483,836)	(4.2%)	8,043,600	8,055,300	(11,700)	(0.1%)	3,443,180	3,250,353	192,827	5.9%	2,302,045	2,094,014	208,031	9.9%	204,100	190,330	13,770	7.2%
Net Building Expense	3,838,302	3,906,696	(68,394)	(1.8%)	2,322,500	2,323,000	(500)	(0.0%)	2,163,807	1,543,206	620,601	40.2%	1,285,000	1,285,000	0.0%	115,000	100,000	15,000	15.0%	
Total Operating Budget	\$ 111,014,000	\$ 105,891,000	\$ 5,123,000	4.8%	\$95,404,800	\$ 91,847,200	\$ 3,557,600	3.9%	\$32,491,092	\$ 31,680,401	\$ 810,691	2.6%	\$ 22,787,832	\$ 21,860,690	\$ 927,142	4.2%	\$ 1,861,096	\$ 1,819,065	\$ 42,031	2.3%
Depreciation	\$ 11,484,000	\$ 10,852,000	\$ 632,000	5.8%									\$ 1,850,000	\$ 1,800,000	\$ 50,000	2.8%	\$ 30,000	\$ 13,400	\$ 16,600	123.9%
Total Capital Budget	\$ 4,819,730	\$ 19,024,449	\$ (14,204,719)	(74.7%)	\$ 3,141,500	\$ 1,597,500	\$ 1,544,000	96.7%	\$ 64,000	\$ 131,000	\$ (67,000)	(51.1%)	\$ 4,560,761	\$ 2,982,195	\$ 1,578,566	52.9%	\$ 30,000	\$ 50,000	\$ (20,000)	(40.0%)

	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Budget Full-time Equivalent	644	642	638	572	578	585	181	179	177	145	143	142	8	8	10			
Actual Full-time Equivalent			633		552	557			174		141	141		8	8			

	2014 Actuals	2014 Actuals	2014 Actuals	2014 Actuals	2014 Actuals
Active Members	346,509	169,295	121,251	27,602	1,615
Inactive Members	498,610	134,844	100,121	3,187	9
Benefit Recipients	203,112	152,208	72,605	27,963	1,609
Re-employed Retirees	Included Above	Included Above	Included Above	167	Included Above
Total Membership	1,048,231	456,347	293,977	58,919	3,233

	2016 Budget	2015 Budget	2014 Budget	2016 Budget	2015 Budget	2014 Budget	2016 Budget	2015 Budget	2014 Budget	2016 Budget	2015 Budget	2014 Budget	2016 Budget	2015 Budget	2014 Budget
Operating Expense Per Total Member	\$105.91	\$101.02	\$97.09	\$209.06	\$201.27	\$199.12	\$110.52	\$107.76	\$98.06	\$386.77	\$371.03	\$367.56	\$575.66	\$562.66	\$546.36

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
FY 2016 Budget

Budget Periods	2016 Budget	2015 Budget	Increase (Decrease)	% Change	2015 Projected Expenses
Personnel	\$ 66,707,933	\$ 62,313,139	\$ 4,394,794	7.1 %	\$ 64,588,643
Salaries and Wages	51,287,069	48,189,924	3,097,145	6.4	47,818,670
PERS contributions	7,643,477	7,171,331	472,146	6.6	7,084,110
Health Insurance	7,520,742	6,698,854	821,888	12.3	9,492,512
Miscellaneous Expenses	256,645	253,030	3,615	1.4	193,351
Professional Services	26,465,842	24,891,336	1,574,506	6.3	23,806,729
Actuarial	872,731	899,106	(26,375)	-2.9	748,254
Audit	814,160	646,516	167,644	25.9	556,516
Custodial Banking Fees	9,825,000	9,825,000	0	0.0	9,363,519
Investment Consulting	9,128,222	7,522,247	1,605,975	21.3	8,166,339
Other Consulting (Medical Exams, TPA Fees, Professional Consultants)	5,782,729	5,956,467	(173,738)	-2.9	4,930,101
Banking Expense	43,000	42,000	1,000	2.4	42,000
Communications Expense	3,057,350	3,351,420	(294,070)	-8.8	3,469,688
Printing and Postage	2,698,723	2,852,539	(153,816)	-5.4	2,979,305
Telephone	229,327	248,101	(18,774)	-7.6	261,994
Member/Employer Education	129,300	250,780	(121,480)	-48.4	228,389
Other Operating Expense	10,944,573	11,428,409	(483,836)	-4.2	10,067,373
Conferences and Education	473,261	528,751	(55,490)	-10.5	451,454
Travel	713,722	723,595	(9,873)	-1.4	475,803
Computer Technology	8,181,162	8,547,639	(366,477)	-4.3	7,413,393
Other Operating (Fiduciary Insurance, Supplies, Dues & Subscriptions)	1,310,628	1,359,624	(48,996)	-3.6	1,341,223
Ohio Retirement Study Council	257,800	260,800	(3,000)	-1.2	377,500
TOS Warrant Clearing Council	8,000	8,000	0	0.0	8,000
Net Building Expense	3,838,302	3,906,696	(68,394)	-1.8	3,651,396
Total Operating Budget	\$ 111,014,000	\$ 105,891,000	\$ 5,123,000	4.8 %	\$ 105,583,829

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
 Ohio Public Employees Retirement System
 FY 2016 Budget

<u>Budget Periods</u>	<u>2016 Budget</u>	<u>2015 Budget</u>	<u>Increase (Decrease)</u>	<u>% Change</u>	<u>2015 Projected Expenses</u>
Other Items Monitored by OPERS					
Total Capital Budget	\$ 4,819,730	\$ 19,024,449	\$ (14,204,719)	-74.7%	\$ 8,741,303
Depreciation	\$ 11,484,000	\$ 10,852,000	\$ 632,000	5.8%	\$ 10,542,646
Commission Sharing Agreements - Research Costs	\$ 1,422,533	\$ 2,129,429	\$ (706,896)	-33.2%	\$ 2,290,763
Inter-plan Interest	\$ 870,467	\$ 880,571	\$ (10,104)	-1.1%	\$ 880,571

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
Capital Budget

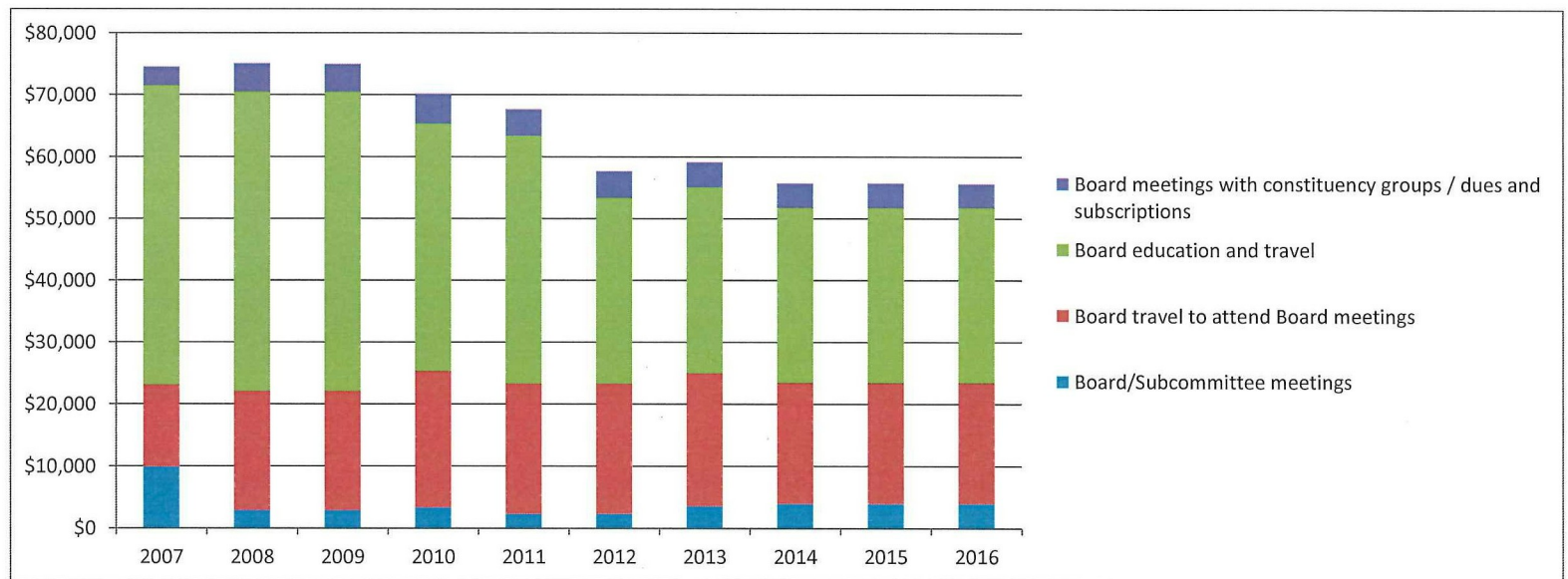
<u>General Capital Items</u>	<u>2016 Total</u>	<u>2015 Total</u>
Building	\$ 924,330	\$ 139,500
Computer Software and Equipment	3,893,000	3,373,349
Total General Capital Items	4,817,330	3,512,849
<u>IT Capital Projects</u>		
Our Way Forward		8,159,000
Health Care Preservation Plan 3.0	2,400	2,852,600
New Investment Accounting System		4,500,000
Total IT Capital Projects	2,400	15,511,600
Total 2016 Capital	\$ 4,819,730	\$ 19,024,449

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
FY 2016 Retirement Board Expense Budgets

	<u>2016</u> <u>Budget</u>	<u>2015</u> <u>Budget</u>	<u>Increase</u> <u>(Decrease)</u>	<u>% Change</u>
Board/Subcommittee meetings	\$ 3,950	\$ 3,950	\$ -	0.0%
Board travel to attend Board meetings	19,500	19,500	-	0.0%
Board education and travel	28,250	28,250	-	0.0%
Board meetings with constituency groups / dues and subscriptions	3,860	3,960	(100)	-2.5%
Travel Expenses	\$ 55,560	\$ 55,660	\$ (100)	-0.2%

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
10-year Trend of Retirement Board Expense Budgets

	<u>2007</u> <u>Budget</u>	<u>2008</u> <u>Budget</u>	<u>2009</u> <u>Budget</u>	<u>2010</u> <u>Budget</u>	<u>2011</u> <u>Budget</u>	<u>2012</u> <u>Budget</u>	<u>2013</u> <u>Budget</u>	<u>2014</u> <u>Budget</u>	<u>2015</u> <u>Budget</u>	<u>2016</u> <u>Budget</u>
Board/Subcommittee meetings	\$ 9,860	\$ 2,856	\$ 2,856	\$ 3,300	\$ 2,300	\$ 2,300	\$ 3,500	\$ 3,950	\$ 3,950	\$ 3,950
Board travel to attend Board meetings	13,200	19,200	19,200	22,000	21,000	21,000	21,500	19,500	19,500	19,500
Board education and travel	48,400	48,400	48,400	40,000	40,000	30,000	30,000	28,250	28,250	28,250
Board meetings with constituency groups / dues and subscriptions	3,060	4,620	4,520	4,860	4,360	4,360	4,160	3,960	3,960	3,860
Board Travel Expenses	\$ 74,520	\$ 75,076	\$ 74,976	\$ 70,160	\$ 67,660	\$ 57,660	\$ 59,160	\$ 55,660	\$ 55,660	\$ 55,560



OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
Investment Expenses

	2014 ACTUALS	2013 ACTUALS	2012 ACTUALS
Investment Assets			
Total Internally Managed Assets	\$ 33,410,965,287	\$ 32,873,846,955	\$ 33,775,835,381
Total Externally Managed Assets	57,230,822,611	55,175,050,054	46,509,012,209
Total Investment Assets	\$ 90,641,787,898	\$ 88,048,897,009	\$ 80,284,847,590
Investment Expenses			
Total Internal Investment Expenses	\$ 27,954,441	\$ 27,369,989	\$ 27,085,847
Total External Investment Expenses	350,266,517	381,021,463	264,875,076
Investment Consulting	819,810	1,066,660	1,153,694
Brokerage/Commissions - Internal	2,698,371	5,465,351	6,864,366
Brokerage/Commissions - External	11,214,454	11,341,845	22,206,518
Custodian Fees	5,827,804	3,353,271	2,747,555
Total Investment Expenses	\$ 398,781,397	\$ 429,618,579	\$ 324,933,056
Total Investment Expenses as a % of Total Investment Assets			
Total Investment Expenses as a % of Internally Managed Assets	1.19%	1.31%	0.96%
Total Investment Expenses as a % of Externally Managed Assets	0.70%	0.78%	0.70%
Total Investment Expenses as a % of Total Investment Assets	0.44%	0.49%	0.40%

Note: Does not include Research Costs paid through Commission Sharing Agreements

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
Statistical Information

	2016	2015	2014	2013	2012
Budget Full-time Equivalencies	644	642	638	632	636

Active Members	*	*	346,509	347,727	348,235
Inactive Members	*	*	498,610	483,521	467,298
Benefit Recipients	*	*	203,112	196,594	190,621
Total Membership	*	*	1,048,231	1,027,842	1,006,154

Total Operating Budget	\$ 111,014,000	\$ 105,891,000	\$ 101,772,000	\$ 98,300,000	\$ 93,800,000
Total Operating Exp / Total Membership	\$ 105.91	\$ 101.02	\$ 97.09	\$ 95.64	\$ 93.23

* Information not available. For purposes of statistical calculation of Total Administrative Expense per Total Membership, the last completed fiscal year was used to approximate Total Membership.

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
2016 Training & Travel Budget

	<u>2016</u> <u>Budget</u>	<u>2015</u> <u>Budget</u>	<u>Increase</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
Benefits				
Conference Registrations	\$ 22,697	\$ 21,697	\$ 1,000	4.6%
Staff Travel	\$ 27,782	\$ 25,355	\$ 2,427	9.6%
Approved FTE's	213	215	(2)	-0.9%
Expense Per FTE	\$ 237	\$ 219	\$ 18	8.2%
Health Care				
Conference Registrations	\$ 17,525	\$ 18,750	\$ (1,225)	-6.5%
Staff Travel	\$ 57,140	\$ 62,920	\$ (5,780)	-9.2%
Approved FTE's	31	31	0	0.0%
Expense Per FTE	\$ 2,409	\$ 2,635	\$ (226)	-8.6%
Finance				
Conference Registrations	\$ 46,705	\$ 44,173	\$ 2,532	5.7%
Staff Travel	\$ 58,800	\$ 51,740	\$ 7,060	13.6%
Approved FTE's	104	103	1	1.0%
Expense Per FTE	\$ 1,014	\$ 931	\$ 83	8.9%
Information Technology				
Conference Registrations	\$ 209,562	\$ 208,167	\$ 1,395	0.7%
Staff Travel	\$ 74,630	\$ 106,230	\$ (31,600)	-29.7%
Approved FTE's	160	159	1	0.6%
Expense Per FTE	\$ 1,776	\$ 1,977	\$ (201)	-10.2%
Investments				
Conference Registrations	\$ 18,800	\$ 17,800	\$ 1,000	5.6%
Staff Travel	\$ 288,500	\$ 285,500	\$ 3,000	1.1%
Approved FTE's	66	63	3	4.8%
Expense Per FTE	\$ 4,656	\$ 4,814	\$ (158)	-3.3%
Executive				
Conference Registrations	\$ 15,868	\$ 16,980	\$ (1,112)	-6.5%
Staff Travel	\$ 22,100	\$ 27,220	\$ (5,120)	-18.8%
Approved FTE's	6	7	(1)	-14.3%
Expense Per FTE	\$ 6,328	\$ 6,314	\$ 14	0.2%
Enterprise Risk Management				
Conference Registrations	\$ 5,400	\$ 6,400	\$ (1,000)	-15.6%
Staff Travel	\$ 13,580	\$ 14,430	\$ (850)	-5.9%
Approved FTE's	13	14	(1)	-7.1%
Expense Per FTE	\$ 1,460	\$ 1,488	\$ (28)	-1.9%
External Relations				
Conference Registrations	\$ 7,280	\$ 4,490	\$ 2,790	62.1%
Staff Travel	\$ 46,250	\$ 33,500	\$ 12,750	38.1%
Approved FTE's	10	10	0	0.0%
Expense Per FTE	\$ 5,353	\$ 3,799	\$ 1,554	40.9%

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
2016 Training & Travel Budget

	<u>2016</u> <u>Budget</u>	<u>2015</u> <u>Budget</u>	<u>Increase</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
General Counsel				
Conference Registrations	\$ 15,200	\$ 14,700	\$ 500	3.4%
Staff Travel	\$ 20,900	\$ 20,900	\$ -	0.0%
Approved FTE's	23	22	1	4.5%
Expense Per FTE	\$ 1,570	\$ 1,618	\$ (48)	-2.9%
Human Resources				
Conference Registrations	\$ 12,640	\$ 12,897	\$ (257)	-2.0%
Staff Travel	\$ 18,400	\$ 20,400	\$ (2,000)	-9.8%
Approved FTE's	10	10	0	0.0%
Expense Per FTE	\$ 3,104	\$ 3,330	\$ (226)	-6.8%
Internal Audit				
Conference Registrations	\$ 19,550	\$ 28,350	\$ (8,800)	-31.0%
Staff Travel	\$ 40,000	\$ 28,000	\$ 12,000	42.9%
Approved FTE's	8	8	0	0.0%
Expense Per FTE	\$ 7,444	\$ 7,044	\$ 400	5.7%

Note: Excludes Board Travel included in Attachment 3