

April 20, 2018

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



STATE TEACHERS
RETIREMENT SYSTEM
OF OHIO

275 East Broad Street
Columbus, OH 43215-3771
614-227-4090
www.strsoh.org

Dear Ms. Rhodes:

In accordance with Section 3307.041, Revised Code, STRS Ohio is submitting its proposed 2018–2019 fiscal year budgets. The attached information is composed of the following:

- Page 1 is a statement of planned operating, including comparisons to the 2017–2018 fiscal year budget.
- Page 2 is a statement of capital expenditures, including comparisons to the 2017–2018 fiscal year budget and summary of investment assets and related management costs for fiscal 2017 including comparisons to the 2016 fiscal year.
- Page 3 is a schedule of retirement board-related expenses for the last 10 years and a 10-year trend chart.
- Page 4 is a summary of staff training and travel expenses, including comparisons to the 2017–2018 fiscal year budget.
- Page 5 is supplementary statistical information for fiscal years 2013–2017.

The proposed operating budget total for the fiscal year ended June 30, 2019, is an increase of 2.2% from the current year budget. Along with normal operations, increases are primarily due to associate and investment incentive compensation, medical/hospitalization insurance costs, and investment quotation and analytic services needed for professional investment management. The number of associates is decreasing due primarily to online efficiencies and attrition in benefits administration. The proposed capital budget provides for investment in facilities improvements and technology upgrades.

In an independent pension administration benchmarking report, STRS Ohio recently received the top service level score among 45 participating pension systems. While the service level was at the top, the administrative cost per active member and annuitant decreased. Additionally, a recent investment benchmarking study showed that STRS Ohio's total investment costs were the third lowest among the peer group of 17 U.S. large public funds, primarily due to the use of internal investment managers.

STRS Ohio has again been awarded the Government Finance Officers Association Award for Excellence in Financial Reporting and the Public Pension Coordinating Council Standards Award for Funding and Administration.

Overall, the proposed budgets continue to provide the resources we need to pay timely and accurate pension and health care benefits to members, successfully manage investment assets, and ensure we meet all fiduciary responsibilities and legal requirements. Additionally, the proposed budgets comply with all Retirement Board policies and demonstrate to members that STRS Ohio is managing operating expenses prudently.

These proposed budgets were presented to the Retirement Board at its April 19 meeting. Please feel free to contact me if you need additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael J. Nehf". The signature is written in a cursive style.

Michael J. Nehf
Executive Director

Enclosure

RETIREMENT BOARD CHAIR
MARK HILL

RETIREMENT BOARD VICE CHAIR
ROBERT STEIN

EXECUTIVE DIRECTOR
MICHAEL J. NEHF

State Teachers Retirement System of Ohio
2019 ORSC Budget Presentation

FY2018 to FY2019 Operating Budget and Increases (Decreases)

Budget Category	2018-2019 2019 Budget	2017-2018 2018 Budget	2017-2018 Estimated Actual	2018-2019 Increase (Decrease)	Percent Increase/ Decrease
Personnel	\$ 79,116,500	\$ 77,121,500	\$ 77,826,400	\$ 1,995,000	2.6%
Salaries and Wages	61,836,300	60,533,200	60,989,600	1,303,100	2.2%
OPERS Contributions	8,100,600	7,919,100	8,130,500	181,500	2.3%
Health Insurance	8,107,100	7,645,200	7,653,200	461,900	6.0%
Miscellaneous Expenses	1,072,500	1,024,000	1,053,100	48,500	4.7%
Professional Services	10,715,200	10,494,000	10,043,700	221,200	2.1%
Actuarial	265,000	272,500	222,500	(7,500)	-2.8%
Audit	205,600	299,500	308,700	(93,900)	-31.4%
Custodial Banking Fees	2,400,000	2,512,500	2,388,500	(112,500)	-4.5%
Investment Consulting	5,588,000	5,272,000	5,172,100	316,000	6.0%
Other Consulting	2,126,600	1,921,000	1,812,700	205,600	10.7%
Banking Expense	130,000	216,500	139,200	(86,500)	-40.0%
Communications Expense	2,092,400	2,171,300	1,984,800	(78,900)	-3.6%
Printing and Postage	1,673,200	1,662,200	1,591,400	11,000	0.7%
Telecommunications	281,000	341,900	297,000	(60,900)	-17.8%
Member/Employer Education	138,200	167,200	96,400	(29,000)	-17.3%
Other Operating Expense	7,902,500	7,826,800	7,680,100	75,700	1.0%
Conferences and Education	349,200	358,900	373,300	(9,700)	-2.7%
Travel	715,000	723,900	692,700	(8,900)	-1.2%
Computer Technology	4,650,700	4,574,000	4,597,600	76,700	1.7%
Other Operating	1,824,100	1,806,000	1,652,500	18,100	1.0%
Ohio Retirement Study Council	300,000	300,000	300,000	0	0.0%
Treasury of State Warrant Clearing Charges	3,500	4,000	4,000	(500)	-12.5%
Attorney General Charges	60,000	60,000	60,000	0	0.0%
Net Building Expense	2,283,500	2,306,000	2,159,400	(22,500)	-1.0%
Total Operating Budget*	\$ 102,110,100	\$ 99,919,600	\$ 99,694,400	\$ 2,190,500	2.2%
Full-time Equivalent (FTE) Associates	538	544			

State Teachers Retirement System of Ohio
2019 ORSC Budget Presentation
FY2018 to FY 2019 Capital Budget

	2018-2019 2019 Budget	2017-2018 2018 Budget	2017-2018 Projected Actual
Total Capital Budget	\$ 4,195,800	\$ 3,306,000	\$ 2,928,900
Building Improvements	2,300,000	320,000	289,900
Building Maintenance Equipment	194,400	162,200	136,400
Infrastructure and Upgrades	1,681,400	2,786,300	2,465,200
General Capital	20,000	37,500	37,400

Investment Expenses

	Fiscal 2017 Actual	Fiscal 2016 Actual	Percent Change 2016 to 2017
Total Investment Assets*	\$ 75,206,912,000	\$ 69,856,500,000	7.7%
Total Internally Managed Assets	\$ 53,641,236,000	\$ 49,287,842,000	8.8%
Total Externally Managed Assets	\$ 21,565,676,000	\$ 20,568,658,000	4.8%
Total Investment Expenses	\$ 280,351,800	\$ 264,716,900	5.9%
Total Internal Investment Expenses	\$ 38,739,400	\$ 35,467,800	9.2%
Total External Investment Expenses	\$ 212,160,100	\$ 199,709,100	6.2%
Investment Consulting	\$ 792,200	\$ 737,300	7.4%
Brokerage/Commissions - Internal	\$ 17,656,400	\$ 18,384,100	-4.0%
Brokerage/Commissions - External	\$ 8,591,500	\$ 8,328,600	3.2%
Custodian Fees	\$ 2,412,200	\$ 2,090,000	15.4%
Total Investment Expenses as a Percent of Total Investment Assets	0.37%	0.38%	-1.6%
Expenses as Percent of Internally Managed	0.52%	0.54%	-2.7%
Expenses as Percent of Externally Managed	1.30%	1.29%	1.0%

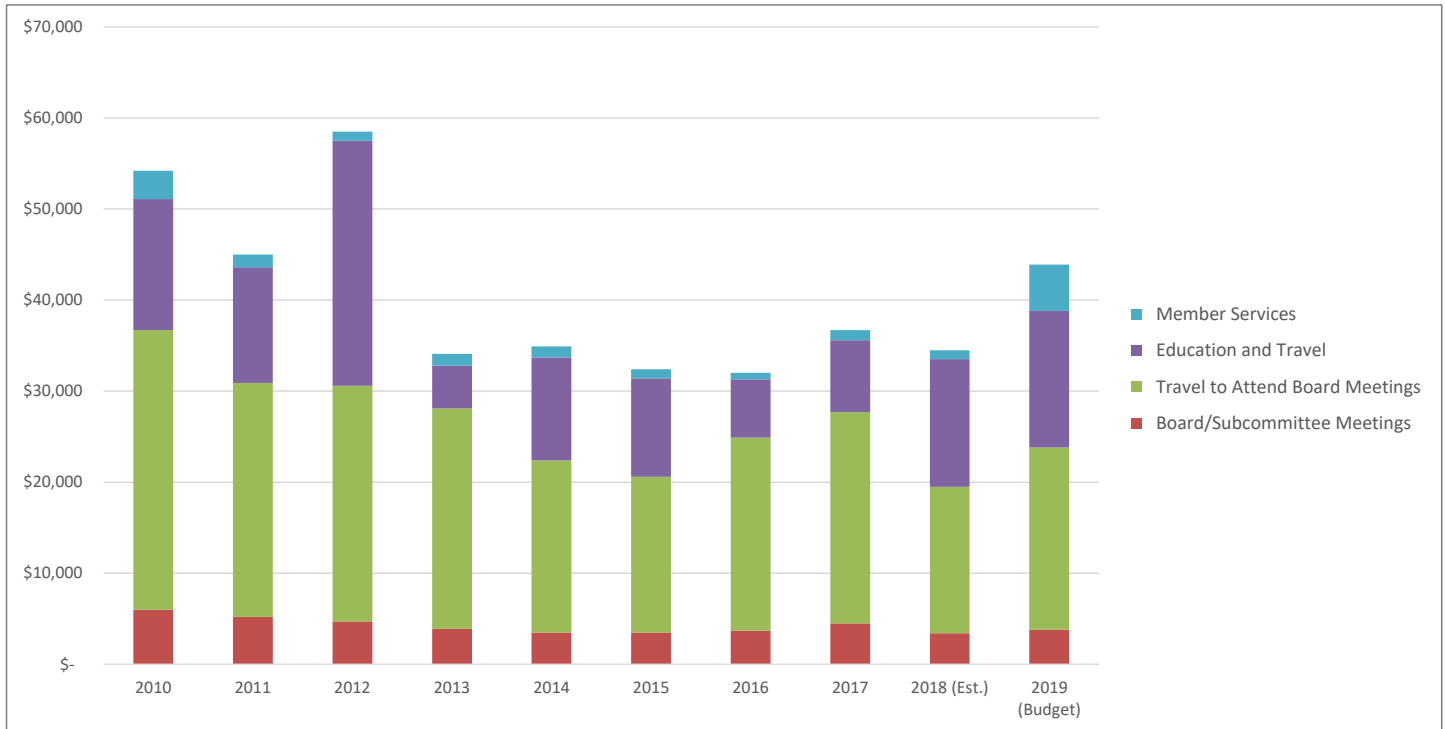
*Investment assets are net of real estate debt.

State Teachers Retirement System of Ohio
2019 ORSC Budget Presentation

Board Member Expenses

	2010	2011	2012	2013	2014	2015	2016	2017	2018 (Est.)	2019 (Budget)
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Total Board Expenses	\$ 54,200	\$ 45,000	\$ 58,500	\$ 34,100	\$ 34,900	\$ 32,400	\$ 32,000	\$ 36,700	\$ 34,500	\$ 43,900
Board/Subcommittee Meetings	\$ 6,000	\$ 5,200	\$ 4,700	\$ 3,900	\$ 3,500	\$ 3,500	\$ 3,700	\$ 4,500	\$ 3,400	\$ 3,800
Travel to Attend Board Meetings	\$ 30,700	\$ 25,700	\$ 25,900	\$ 24,200	\$ 18,900	\$ 17,100	\$ 21,200	\$ 23,200	\$ 16,100	\$ 20,000
Education and Travel	\$ 14,400	\$ 12,700	\$ 26,900	\$ 4,700	\$ 11,300	\$ 10,800	\$ 6,400	\$ 7,900	\$ 14,000	\$ 15,000
Member Services	\$ 3,100	\$ 1,400	\$ 1,000	\$ 1,300	\$ 1,200	\$ 1,000	\$ 700	\$ 1,100	\$ 1,000	\$ 5,100



State Teachers Retirement System of Ohio
2019 ORSC Budget Presentation

Staff Training and Travel

	2019 Budget	2018 Budget	Increase (Decrease)	% Increase (Decrease)
Administration				
Conferences, Seminars and Travel	\$ 53,800	\$ 50,200	\$ 3,600	7.2%
In-House Training	\$ 15,600	\$ 18,700	\$ (3,100)	-16.6%
# FTE	67	66		
Expense per FTE	\$ 1,042	\$ 1,050		

	2019 Budget	2018 Budget	Increase (Decrease)	% Increase (Decrease)
Finance				
Conferences, Seminars and Travel	\$ 21,500	\$ 21,800	\$ (300)	-1.4%
In-House Training	\$ 7,700	\$ 9,200	\$ (1,500)	-16.3%
# FTE	105	105		
Expense per FTE	\$ 278	\$ 295		

	2019 Budget	2018 Budget	Increase (Decrease)	% Increase (Decrease)
Investments				
Conferences, Seminars and Travel	\$ 484,000	\$ 494,000	\$ (10,000)	-2.0%
In-House Training	\$ -	\$ -	\$ -	0.0%
# FTE	121	122		
Expense per FTE	\$ 4,013	\$ 4,063		

	2019 Budget	2018 Budget	Increase (Decrease)	% Increase (Decrease)
Information Technology Services				
Conferences, Seminars and Travel	\$ 92,000	\$ 72,000	\$ 20,000	27.8%
In-House Training	\$ 99,300	\$ 110,000	\$ (10,700)	-9.7%
# FTE	123	122		
Expense per FTE	\$ 1,550	\$ 1,487		

	2019 Budget	2018 Budget	Increase (Decrease)	% Increase (Decrease)
Member Benefits				
Conferences, Seminars and Travel	\$ 109,300	\$ 117,800	\$ (8,500)	-7.2%
In-House Training	\$ 5,400	\$ 6,100	\$ (700)	-11.5%
# FTE	122	129		
Expense per FTE	\$ 939	\$ 959		

State Teachers Retirement System of Ohio
 2019 ORSC Budget Presentation
Supplementary Statistical Information

	2013	2014	2015	2016	2017
Active Members	178,142	177,778	173,720	178,394	177,462
Inactive Members	153,186	151,880	152,668	153,365	157,936
Benefit Recipients (Age, Disability, Survivor)	149,221	152,208	158,116	157,938	158,039
Reemployed Retirees	24,228	25,156	24,806	26,228	25,009
Total Membership	504,777	507,022	509,310	515,925	518,446
Members per FTE	900	910	923	950	975

Please note: Fiscal year 2018 information is not yet available. Fiscal year 2013 information is included for five-year comparison.