



October 14, 2011

Mr. Aristotle Hutras, Executive Director
Ohio Retirement Study Council
88 East Broad Street, Suite 1175
Columbus, OH 43215

Dear Mr. Hutras:

Enclosed is the proposed 2012 operating budget for the Ohio Public Employees Retirement System (OPERS). The proposed operating budget of \$93.8 million reflects a 2.8% increase in expenses from the prior year's budget. While this is a slight increase from the prior year, it is important to note that the last several years' budgets have reflected decreases and the 2012 proposed budget is still less than the approved 2009 budget. OPERS continues to be able to operate the system at an annual cost of less than \$100 per member.

The proposed operating budget reflects funding for the fourth year of OPERS' five-year strategic plan. The plan will 1) position the system to handle the expected large growth in retirees from the retirement of the baby boom generation, 2) ensure we continue to be well funded over the long term, 3) provide funding to enhance customer service to our almost 1 million members and retirees, and 4) enable OPERS to continue to provide value for the State of Ohio through the distribution of pension and health care benefits. The budget also includes funds to continue the replacement of the core information technology systems that supports the processing of membership enrollment and benefit payments.

The proposed 2012 budget includes a 2% increase in salaries for the staff based upon merit after a thorough evaluation process, the first wage increase in three years. In addition, OPERS health insurance claims are projected to increase approximately \$270,000, a reflection of recent claims experience. Approximately half of the increase in the total budget relates to an increase (\$1.3 million) for additional costs associated with the medical exams on disability benefit applications, which are part of the Board's more rigorous claims management program. The other significant increase in expenses (\$1.0 million) relates to additional license and maintenance expense associated with the technology upgrades to OPERS' core information system infrastructure. Other expense categories have decreased to offset these increases.

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

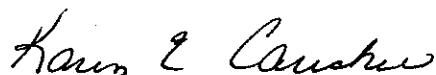
- The first page is the comparative summary for all five retirement systems. This page has been updated to reflect the OPERS 2012 budget currently being submitted to the ORSC.
- Attachment 1 is a statement of planned operating and capital expenditures including comparisons to the 2011 fiscal year budget for OPERS.
- Attachment 2 is the capital budget detail.
- Attachment 3 is a separate schedule of Retirement Board-related budget items that are included in the overall organization operating budget.
- 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 and 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 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 balances the reality of these difficult economic times with the need to continue to fund the operations of a growing and complex multi-billion dollar organization. As OPERS plans for the increased numbers 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,



Karen E. Carraher
Executive Director

**OHIO RETIREMENT SYSTEMS BUDGET PRESENTATION TO ORSC
FY 2012 Budget**

Budget Periods	Ohio Public Employees Retirement System 2012-2011				State Teachers Retirement System				School Employees Retirement System				Ohio Police & Fire Pension Fund				Highway Patrol Retirement System			
	1/1/12-12/31/12 2012 Budget	1/1/11-12/31/11 2011 Budget	Increase (Decrease)	2012-2011 % Change	7/1/11-6/30/12 2012 Budget	7/1/10-6/30/11 2011 Budget	Increase (Decrease)	% Change	7/1/11-6/30/12 2012 Budget	7/1/10-6/30/11 2011 Budget	Increase (Decrease)	% Change	01/01/12- 12/31/12 PROPOSED	01/01/11- 12/31/11 APPROVED	Increase (Decrease)	% Change	1/1/12-12/31/12 2012 Budget	1/1/11-12/31/11 2011 Budget	Increase (Decrease)	2012-2011 % Change
Personnel	55,764,830	54,488,259	1,276,571	2.3%	66,866,000	66,244,000	622,000	0.9%	15,846,642	15,280,480	566,162	3.7%	12,566,464	12,264,600	301,864	2.5%	730,216	718,602	11,614	1.6%
Professional Services	19,065,491	18,288,046	777,445	4.3%	8,393,800	8,498,400	(104,600)	(1.2%)	6,903,609	8,963,515	(2,059,906)	(23.0%)	3,741,960	3,444,227	297,733	8.6%	477,105	398,900	78,205	19.6%
Communications Expense	3,230,419	3,377,913	(147,494)	(4.4%)	3,006,700	3,440,800	(434,100)	(12.6%)	1,214,645	1,243,145	(28,500)	(2.3%)	557,590	537,092	20,498	3.8%	25,920	25,450	(3,530)	(12.0%)
Other Operating Expense	11,759,418	11,189,681	569,737	5.1%	9,178,400	9,258,600	(80,200)	(0.9%)	2,271,431	2,189,611	81,820	3.7%	1,797,169	1,734,514	62,655	3.6%	219,549	424,912	(205,363)	(48.3%)
Net Building Expense	3,979,842	3,917,196	62,646	1.6%	2,612,900	2,663,800	(50,900)	(1.9%)	1,290,040	1,382,767	(92,727)	(6.7%)	1,270,560	1,270,110	450	0.0%	65,923	65,923	0	0.0%
Total Operating Budget	93,800,000	91,261,095	2,538,905	2.8%	90,057,800	90,105,600	(47,800)	(0.1%)	27,526,367	29,059,818	(1,533,151)	(5.3%)	19,933,743	19,250,543	683,200	3.5%	1,518,713	1,637,787	(119,074)	(7.3%)
Depreciation	8,975,700	9,999,700	(1,024,000)	(10.2%)									2,300,000	2,300,000	0	0.0%	4,748	5,259	(511)	(9.7%)
Total Capital Budget	18,232,413	16,449,007	1,783,406	10.8%	2,277,100	2,101,000	176,100	8.4%	229,000	152,500	76,500	50.2%	3,405,810	3,663,411	(257,601)	(7.0%)	0	0	0	0.0%

	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010
Budget Full-time Equivalent	641.5	641.5	628.5	576	576		175.5	175.5	175.5	144	144	144	8	8	8
Actual Full-time Equivalent			584.0			574		170.5	173.5						

	2010 Actuals		2010 Actuals		2010 Actuals		2010 Actual		2011 Actual		2010 Actual	
Active Members		356,734		183,765		126,015		28,479		1,494		1,537
Inactive Members		438,434		153,098		101,703		2,477		6		3
Benefit Recipients		179,565		133,103		66,124		25,712		1,456		1,524
Re-employed Retirees		Included Above		Included Above		Included Above		141				
Total Membership		974,733		469,966		293,842		56,809		2,956		3,064

	2012 Budget	2011 Budget	2010 Budget	2012 Budget	2011 Budget	2010 Budget	2012 Budget	2011 Budget	2010 Budget	2012 Budget	2011 Budget	2010 Budget	2012 Budget	2011 Actual	2010 Budget
Operating Expense Per Total Member	\$96.23	\$93.63	\$93.89	\$ 191.63	\$ 191.73	\$ 187.95	\$ 93.68	\$ 98.90	\$ 99.24	\$ 350.89	\$ 338.86	\$ 362.48	\$ 513.77	\$ 554.06	\$ 494.41

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
FY 2012 Budget

<u>Budget Periods</u>	<u>2012 Budget</u>	<u>2011 Budget</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Personnel	\$ 55,764,830	\$ 54,488,259	\$ 1,276,571	2.3%
Salaries and Wages	42,534,099	41,631,200	902,899	2.2%
PERS contributions	6,408,346	6,249,500	158,846	2.5%
Health Insurance	6,472,000	6,248,171	223,829	3.6%
Miscellaneous Expenses	350,385	359,388	(9,003)	(2.5%)
Professional Services	\$ 19,065,491	\$ 18,288,046	\$ 777,445	4.3%
Actuarial	1,203,660	867,787	335,873	38.7%
Audit	530,000	1,637,289	(1,107,289)	(67.6%)
Custodial Banking Fees	4,175,000	3,993,355	181,645	4.5%
Investment Consulting	6,048,449	6,181,850	(133,401)	(2.2%)
Other Consulting (Medical Exams, TPA Fees, Professional Consultants)	7,012,382	5,511,765	1,500,617	27.2%
Banking Expense	96,000	96,000	0	0.0%
Communications Expense	\$ 3,230,419	\$ 3,377,913	\$ (147,494)	(4.4%)
Printing and Postage	2,741,539	2,633,738	107,801	4.1%
Telephone	253,878	290,950	(37,072)	(12.7%)
Member/Employer Education	235,002	453,225	(218,223)	(48.1%)
Other Operating Expense	\$ 11,759,418	\$ 11,189,681	\$ 569,737	5.1%
Conferences and Education	521,528	572,854	(51,326)	(9.0%)
Travel	715,611	758,325	(42,714)	(5.6%)
Computer Technology	8,700,639	8,102,716	597,923	7.4%
Other Operating (Fiduciary Insurance, Supplies, Dues & Subscriptions)	1,415,640	1,475,786	(60,146)	(4.1%)
Ohio Retirement Study Council	398,000	272,000	126,000	46.3%
TOS Warrant Clearing Council	8,000	8,000	0	0.0%
Net Building Expense	\$ 3,979,842	\$ 3,917,196	\$ 62,646	1.6%
Total Operating Budget	\$ 93,800,000	\$ 91,261,095	2,538,905	2.8%
Depreciation	\$ 8,975,700	9,999,700	(1,024,000)	(10.2%)
Total Capital Budget	\$ 18,232,413	16,449,007	1,783,406	10.8%

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
2012 Capital Budget

<u>General Capital Items</u>	<u>Total</u>
Building	\$ 684,000
Computer Software and Equipment	2,688,028
Office Equipment & Furniture	103,887
Transportation Equipment	0
Total General Capital Items	\$ 3,475,915
<u>Capital Projects (Strategic Plan)</u>	
Our Way Forward	\$ 14,711,498
Our Way Forward - Reporting	45,000
Total IT Capital Project	\$ 14,756,498
Total 2012 Capital	\$ 18,232,413

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
FY 2012 Retirement Board Expense Budgets

	<u>2012</u> <u>Budget</u>	<u>2011</u> <u>Budget</u>	<u>Increase</u> <u>(Decrease)</u>	<u>% Change</u>
Board/Subcommittee meetings	\$ 2,300	\$ 2,300	\$ -	0.00%
Board travel to attend Board meetings	21,000	21,000	-	0.00%
Board education and travel	30,000	40,000	(10,000)	-25.00%
Board meetings with constituency groups / dues and subscriptions	4,360	4,360	-	0.00%
Travel Expenses	\$ 57,660	\$ 67,660	\$ (10,000)	-14.78%

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

	2010 ACTUALS	2009 ACTUALS	2008	ACTUALS
Investment Assets				
Total Internally Managed Assets	\$ 42,341,258,099	\$ 41,168,786,650	\$	35,958,246,756
Total Externally Managed Assets	33,882,725,662	27,364,855,259		22,687,307,256
Total Investment Assets	\$ 76,223,983,761	\$ 68,533,641,909	\$	58,645,554,012
Investment Expenses				
Total Internal Investment Expenses	\$ 20,466,548	\$ 16,198,456	\$	17,067,082
Total External Investment Expense	128,798,818	115,407,803		116,365,895
Investment Consulting	1,494,726	1,632,529		2,027,004
Brokerage/Commissions - Internal	12,163,924	12,420,736		17,758,226
Brokerage/Commissions - External	15,059,475	14,688,601		12,531,150
Custodian Fees	4,032,465	4,207,732		2,277,363
Total Investment Expenses	\$ 182,015,956	\$ 164,555,857	\$	168,026,720
Total Investment Expenses as a % of Total Investment Assets				
Total Investment Exp % of Internally Managed Assets	0.43%	0.40%		0.47%
Total Investment Exp % of Externally Managed Assets	0.54%	0.60%		0.74%
Total Investment Exp % of Total Investment Assets	0.24%	0.24%		0.29%

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Statistical Information

	2012	2011	2010	2009	2008
Budget Full-time Equivalencies	636	641.5	628.5	631.5	616

Active Members	*	*	356,734	365,229	374,002
Inactive Members	*	*	438,434	416,548	395,445
Benefit Recipients	*	*	179,565	171,955	166,516
Total Membership	*	*	974,733	953,732	935,963

Total Operating Budget	\$93,800,000	\$91,261,095	\$91,520,000	\$94,348,400	\$90,524,000
Total Operating Exp / Total Membersh	\$96.23	\$93.63	\$93.89	\$98.93	\$96.72

* 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
2012 Training & Travel Budget

	<u>2012</u> <u>Budget</u>	<u>2011</u> <u>Budget</u>	<u>Increase</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
Benefits				
Conference Registrations	\$ 14,830	\$ 16,944	\$ (2,114)	-12.5%
Staff Travel	\$ 27,875	\$ 40,705	\$ (12,830)	-31.5%
Approved FTE's	219	224	\$ (5)	-2.2%
Expense Per FTE	\$ 195	\$ 257	\$ (62)	-24.2%
Health Care				
Conference Registrations	\$ 10,000	\$ 9,000	\$ 1,000	11.1%
Staff Travel	\$ 10,300	\$ 10,800	\$ (500)	-4.6%
Approved FTE's	34	32	\$ 2	6.3%
Expense Per FTE	\$ 597	\$ 619	\$ (22)	-3.5%
Finance				
Conference Registrations	\$ 43,653	\$ 47,915	\$ (4,262)	-8.9%
Staff Travel	\$ 60,006	\$ 62,400	\$ (2,394)	-3.8%
Approved FTE's	119	127	\$ (8)	-6.3%
Expense Per FTE	\$ 871	\$ 869	\$ 2	0.3%
Information Technology				
Conference Registrations	\$ 201,265	\$ 171,505	\$ 29,760	17.4%
Staff Travel	\$ 87,980	\$ 93,290	\$ (5,310)	-5.7%
Approved FTE's	144	138	\$ 6	4.3%
Expense Per FTE	\$ 2,009	\$ 1,919	\$ 90	4.7%
Investments				
Conference Registrations	\$ 34,200	\$ 39,200	\$ (5,000)	-12.8%
Staff Travel	\$ 376,500	\$ 391,500	\$ (15,000)	-3.8%
Approved FTE's	60	60	\$ -	0.0%
Expense Per FTE	\$ 6,845	\$ 7,178	\$ (333)	-4.6%
Executive				
Conference Registrations	\$ 7,400	\$ 7,400	\$ -	0.0%
Staff Travel	\$ 15,500	\$ 15,500	\$ -	0.0%
Approved FTE's	3	3	\$ -	0.0%
Expense Per FTE	\$ 7,633	\$ 7,633	\$ -	0.0%
Investment Compliance				
Conference Registrations	\$ 2,000	\$ 2,000	\$ -	0.0%
Staff Travel	\$ 2,000	\$ 2,500	\$ (500)	-20.0%
Approved FTE's	3	3	\$ -	0.0%
Expense Per FTE	\$ 1,333	\$ 1,500	\$ (167)	-11.1%
Project Management Office				
Conference Registrations	\$ 5,000	\$ 4,000	\$ 1,000	25.0%
Staff Travel	\$ 4,000	\$ 2,000	\$ 2,000	100.0%
Approved FTE's	3	3	\$ -	0.0%
Expense Per FTE	\$ 3,000	\$ 2,000	\$ 1,000	50.0%
External Affairs				
Conference Registrations	\$ 7,050	\$ 10,880	\$ (3,830)	-35.2%
Staff Travel	\$ 32,050	\$ 32,830	\$ (780)	-2.4%
Approved FTE's	19	19	\$ -	0.0%
Expense Per FTE	\$ 2,058	\$ 2,301	\$ (243)	-10.5%
General Counsel				
Conference Registrations	\$ 3,975	\$ 3,500	\$ 475	13.6%

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
2012 Training & Travel Budget

	<u>2012</u> <u>Budget</u>	<u>2011</u> <u>Budget</u>	<u>Increase</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
Staff Travel	\$ 11,100	\$ 10,000	\$ 1,100	11.0%
Approved FTE's	9.0	7.5	\$ 2	20.0%
Expense Per FTE	\$ 1,675	\$ 1,800	\$ (125)	-6.9%
Human Resources				
Conference Registrations	\$ 12,700	\$ 8,000	\$ 4,700	58.8%
Staff Travel	\$ 16,000	\$ 16,000	\$ -	0.0%
Approved FTE's	10	10	\$ -	0.0%
Expense Per FTE	\$ 2,870	\$ 2,400	\$ 470	19.6%
Internal Audit				
Conference Registrations	\$ 7,500	\$ 5,800	\$ 1,700	29.3%
Staff Travel	\$ 22,000	\$ 18,500	\$ 3,500	18.9%
Approved FTE's	6	6	\$ -	0.0%
Expense Per FTE	\$ 4,917	\$ 4,050	\$ 867	21.4%
Strategic Planning				
Conference Registrations	\$ 5,850	\$ 15,900	\$ (10,050)	-63.2%
Staff Travel	\$ 1,500	\$ 3,500	\$ (2,000)	-57.1%
Approved FTE's	7	9	\$ (2)	-22.2%
Expense Per FTE	\$ 1,050	\$ 2,156	\$ (1,106)	-51.3%

Excludes Board Travel included in Attachment 3