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**Ohio Public Employees Retirement System**

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**OPERS**

October 12, 2007

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

Dear Mr. Hutras:

Enclosed is the proposed 2008 operating budget for the Ohio Public Employees Retirement System (OPERS). The proposed operating budget reflects a 5.5% increase over the 2007 budget. The majority of the increase (5.2%) relates to increases in personnel expenditures. The following table provides a breakdown of the significant areas of increase and the portion of the overall 5.5% increase they represent.

New Staff in 2008/overtime/partial year salaries for 2007 new staff	1.9%
Overall staff merit increase	2.1%
Health insurance increase	1.0%
Custody fee increase	<u>0.5%</u>
<b>Total Budget Increase</b>	<b>5.5%</b>

The proposed budget includes funds for 14 new fulltime positions. We believe these staff are required to deliver services effectively to a growing number of retirees. Nine of the new positions will be assigned to the benefits and health care area and will address processing of service retirements and answering member calls in the call center, and counseling of members regarding the health care program changes. The remaining five new staff are necessary to support initiatives which will yield either additional revenue or reductions in future expense. These initiatives include the internalization of securities lending, which will yield OPERS approximately \$1 million additional income annually, and supporting the imaging initiative, which is expected to provide significant future savings.

The proposed 2008 operating budget includes a 3.8% merit increase for staff. While actual pay increases for individual staff will be determined based on individual performance, the System's overall salary increase is limited to 3.8%. This increase is based on comparative market analysis to keep OPERS competitive.

The last personnel related increase is in health insurance. OPERS is self-insured for the health insurance for staff, but staff contributes 10% of the total cost. OPERS has experienced several large claims in recent years that have driven up the cost of the insurance.

The last significant increase is in custody fees. These fees are based on the level of assets, thus OPERS' strong growth in assets, while favorable, drives up the custody fees.

Attached you will find budget information presented in the uniform format adopted by the five Ohio public retirement systems with additional detail that has been requested in past years.

- Attachment 1 is a statement of planned operating and capital expenditures including comparisons to the 2007 fiscal year budget and the actual results for the 2006 fiscal year.
- 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 of \$90,524,000.
- 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.
- Attachment 6 shows the administrative costs related to the number of members and retirees.
- Attachment 7 shows OPERS' budgeted education and training detail.

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.

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

Sincerely,

Chris DeRose  
Executive Director

**OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC**  
**Ohio Public Employees Retirement System**  
**FY 2008 Budget**

Budget Periods	1/1/08-12/31/08 <u>2008 Budget</u>	1/01/07 - 12/31/07 <u>2007 Budget</u>	Increase <u>(Decrease)</u>	<u>% Change</u>
<b>Personnel</b>	\$ 55,457,601	\$ 51,105,296	4,352,305	8.5%
Salaries and Wages	42,994,049	39,923,415	3,070,634	7.7%
PERS contributions	6,449,150	5,961,339	487,811	8.2%
Health Insurance	5,605,272	4,824,247	781,025	16.2%
Miscellaneous Expenses	409,130	396,295	12,835	3.2%
<b>Professional Services</b>	\$ 18,328,817	\$ 18,224,485	\$ 104,332	0.6%
Actuarial	663,180	462,092	201,088	43.5%
Audit	503,500	453,000	50,500	11.1%
Custodial Banking Fees	5,810,000	5,238,500	571,500	10.9%
Investment Consulting	4,932,952	5,354,660	(421,708)	(7.9%)
Other Consulting	6,419,185	6,716,233	(297,048)	(4.4%)
Banking Expense				
<b>Communications Expense</b>	\$ 3,897,595	\$ 4,034,056	\$ (136,461)	(3.4%)
Printing and Postage	3,221,588	3,289,945	(68,357)	(2.1%)
Telephone	329,867	320,990	8,877	2.8%
Member/Employer Education	346,140	423,121	(76,981)	(18.2%)
Other Communications				
<b>Other Operating Expense</b>	\$ 8,863,917	\$ 8,665,914	198,003	2.3%
Conferences and Education	628,416	537,997	90,419	16.8%
Travel	719,432	669,855	49,577	7.4%
Computer Technology	5,973,905	5,881,435	92,470	1.6%
Other Operating	1,278,164	1,322,027	(43,863)	(3.3%)
Ohio Retirement Study Council	252,000	242,600	9,400	3.9%
TOS Warrant Clearing Council	12,000	12,000	0	0.0%
<b>Net Building Expense</b>	\$ 3,976,070	\$ 3,778,329	197,741	5.2%
<b>Total Operating Budget</b>	\$ 90,524,000	\$ 85,808,080	4,715,920	5.5%
Depreciation	\$ 11,600,000	\$ 10,187,830	1,412,170	13.9%
<b>Total Capital Budget</b>	\$ 11,370,486	\$ 11,877,456	\$ (506,970)	(4.3%)