

May 11, 2015

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



**STATE TEACHERS
RETIREMENT SYSTEM
OF OHIO**

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Columbus, OH 43215-3771
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Dear Ms. Rhodes:

In accordance with Section 3307.041, Revised Code, STRS Ohio is submitting its proposed 2015–2016 fiscal year budgets. This was originally submitted to the ORSC in April and has been updated so information from STRS Ohio and SERS is consistently presented. The attached information is composed of three parts in the uniform format adopted by the five Ohio public retirement systems.

- Page 1 is a statement of planned operating and capital expenditures, including comparisons to the 2014–2015 fiscal year budget.
- Page 2 is a three-year historical summary of investment assets and related management costs.
- Page 3 is a schedule of Retirement Board-related budget items for the last 10 years and a 10-year trend chart for the “Total Board Expenses” category, as requested. Anticipated board expenses are included in the overall organization operating budget.

The proposed operating budget total for the fiscal year ended June 30, 2016, is an increase of 3.9% from the current year budget. Along with normal operations, increases are primarily due to salaries and wages and fringe benefits (e.g., OPERS contributions, health care). The number of associates is decreasing due to more automation and online capabilities. The proposed capital budget provides for investment in technology upgrades and facilities maintenance.

STRS Ohio members value the benefits and services provided by their retirement system. A recent independent survey showed that more than eight out of 10 members, both actives and retirees, have positive overall impressions of STRS Ohio. Additionally, an independent benchmarking company rated STRS Ohio service quality as second best for 2014 among 55 participating U.S. and international pension funds. Finally, a recent investment benchmarking study showed that STRS Ohio’s total investment costs were the lowest among the peer group, primarily due to the use of internal investment managers and its five-year total net return was the best in the peer group.

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 16 meeting. Please feel free to contact me if you need additional information.

Sincerely,

A handwritten signature in black ink that reads "Michael J. Nehf".

Michael J. Nehf
Executive Director

Enclosure

RETIREMENT BOARD CHAIR
ROBERT STEIN

RETIREMENT BOARD VICE CHAIR
CAROL CORRETHERS

EXECUTIVE DIRECTOR
MICHAEL J. NEHF

Ohio Retirement System Budget Presentation to ORSC
STRS Ohio 2015–2016 Budget to 2014–2015 Budget and Increase (Decrease)

	<u>7/01/2015- 6/30/2016 2016 Budget</u>	<u>7/01/2014- 6/30/2015 2015 Budget</u>	<u>7/01/2014- 6/30/2015 Projected Actual</u>	<u>2015 Budget- 2016 Budget Increase (Decrease)</u>	<u>2015 Budget- 2016 Budget % Increase/ Decrease</u>
Personnel	\$ 73,238,400	\$ 69,240,300	\$ 68,523,200	\$ 3,998,100	5.77%
Salaries and Wages	57,156,800	54,015,000	53,324,300	3,141,800	5.82%
OPERS Contributions	7,671,600	7,269,400	7,169,400	402,200	5.53%
Health Insurance	7,396,000	6,962,700	7,185,500	433,300	6.22%
Miscellaneous Expenses	1,014,000	993,200	844,000	20,800	2.09%
Professional Services	9,532,800	9,742,500	9,254,000	(209,700)	-2.15%
Actuarial	225,000	235,000	235,000	(10,000)	-4.26%
Audit	316,500	324,500	284,500	(8,000)	-2.47%
Custodial Banking Fees	2,000,000	2,100,000	2,030,000	(100,000)	-4.76%
Investment Consulting	4,868,000	4,968,000	4,962,000	(100,000)	-2.01%
Other Consulting	1,843,300	1,825,000	1,507,500	18,300	1.00%
Banking Expense	280,000	290,000	235,000	(10,000)	-3.45%
Communications Expense	2,267,500	2,486,100	2,320,000	(218,600)	-8.79%
Printing and Postage	1,777,200	1,998,000	1,842,000	(220,800)	-11.05%
Telecommunications	285,800	295,300	286,000	(9,500)	-3.22%
Member/Employer Education	199,000	187,300	192,000	11,700	6.25%
Other Communications	5,500	5,500	0	0	0.00%
Other Operating Expense	8,043,600	8,055,300	7,814,000	(11,700)	-0.15%
Conferences and Education	369,500	378,900	357,500	(9,400)	-2.48%
Travel	719,400	687,800	684,500	31,600	4.59%
Computer Technology	4,668,300	4,644,000	4,501,000	24,300	0.52%
Other Operating	1,921,400	1,979,600	1,906,000	(58,200)	-2.94%
Ohio Retirement Study Council	300,000	300,000	300,000	0	0.00%
Treasury of State Warrant Clearing Charges	5,000	5,000	5,000	0	0.00%
Attorney General Charges	60,000	60,000	60,000	0	0.00%
Net Building Expense	2,322,500	2,323,000	2,346,500	(500)	-0.02%
Total Operating Budget *	\$ 95,404,800	\$ 91,847,200	\$ 90,257,700	\$ 3,557,600	3.87%
Total Capital Budget	\$ 1,541,500	\$ 1,597,500	\$ 1,597,500	\$ (56,000)	-3.51%
Building Improvements	300,000	400,000	400,000		
Building Maintenance Equipment	224,000	146,500	146,500		
Infrastructure and Upgrades	1,017,500	1,051,000	1,051,000		
General Capital	0	0	0		

	<u>7/01/2015- 6/30/2016 2016 Budget</u>	<u>7/01/2014- 6/30/2015 2015 Budget</u>
Full-time equivalent (FTE) associates included in proposed budget	572	578



**Ohio Retirement System Budget Presentation to ORSC
STRS Ohio Historical Investment Expenses**

	<u>Fiscal 2014 Actuals</u>	<u>Fiscal 2013 Actuals</u>	<u>Fiscal 2012 Actuals</u>
Investment Assets			
Total Internally Managed Assets	\$ 54,236,954,000	\$ 50,951,710,984	\$ 47,914,733,000
Total Externally Managed Assets	20,621,994,000	17,263,950,016	15,790,034,000
Total Investment Assets *	\$ <u>74,858,948,000</u>	\$ <u>68,215,661,000</u>	\$ <u>63,704,767,000</u>
Investment Expenses			
Total Internal Investment Expenses	\$ 29,835,182	\$ 28,329,154	\$ 28,962,590
Total External Investment Expenses	169,205,273	161,884,390	152,316,396
Investment Consulting	712,467	720,893	839,233
Brokerage/Commissions	14,013,535	15,166,886	14,911,837
Custodian Fees	1,672,657	1,438,460	1,438,378
Total Investment Expenses	\$ <u>215,439,114</u>	\$ <u>207,539,783</u>	\$ <u>198,468,434</u>
Total Investment Expenses as a Percent of Total Investment Assets	0.29%	0.30%	0.31%

* Real estate debt is removed from investment assets.



**Ohio Retirement System Budget Presentation to ORSC
STRS Ohio Board Budget**

	2007 Budget	2008 Budget	2009 Budget	2010 Budget	2011 Budget	2012 Budget	2013 Budget	2014 Budget	2015 Budget	2016 Budget
Board Expenses										
Board Education and Travel	\$ 69,000	\$ 55,000	\$ 48,500	\$ 23,500	\$ 26,000	\$ 25,000	\$ 30,000	\$ 22,000	\$ 18,000	\$ 18,000
Travel to Attend Board Meetings	16,000	15,000	15,000	30,000	27,000	25,000	25,000	23,000	17,500	17,500
Other Board Expense	50,800	20,500	15,000	15,000	14,000	10,000	9,300	10,500	9,700	9,700
Total Board Expense	\$ 135,800	\$ 90,500	\$ 78,500	\$ 68,500	\$ 67,000	\$ 60,000	\$ 64,300	\$ 55,500	\$ 45,200	\$ 45,200

