



October 20, 2017

Ms. Bethany Rhodes, Director and General Counsel  
Ohio Retirement Study Council  
Rhodes State Office Tower  
30 East Broad Street, 2<sup>nd</sup> Floor  
Columbus, OH 43215

Dear Ms. Rhodes:

Enclosed is the proposed 2018 operating budget for the Ohio Public Employees Retirement System (OPERS). The proposed operating budget of \$111.4 million reflects a 3.6% decrease in expenses from the prior year's budget. A significant portion of the proposed operating budget decrease is in the personnel budget category and relates to the elimination of 32 vacant positions and a shift of personnel expenses associated with capitalized labor. Offsetting these decreases are continued increases in employee health care costs.

The elimination of the vacant positions, a decrease of approximately \$2.4 million, is a continued by-product of the investment in technology to control staffing levels as membership increases, coupled with some reorganization of personnel and elimination of vacant positions no longer needed. The 2018 proposed operating budget also includes a shift of approximately \$1.5 million in personnel expenses associated with the capitalized labor from an on-going IT capital project into the capital budget. Accounting rules require that the costs incurred from 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 and are expected to increase in 2018.

The proposed operating budget includes anticipated increases in employee health care costs of approximately \$0.8 million. OPERS is self-insured for employee health care, with budgets based on expected claims for the year, rather than a fully insured premium. These health care expenses fluctuate based on actual experience for the year, especially with unpredictable catastrophic claims. Over the past few years, OPERS claims expenses have increased significantly, thus the proposed 2018 budget reflects an anticipated increase.

The proposed operating budget reflects funding for on-going operations and key initiatives included in OPERS' strategic plan. The strategic plan includes the continued implementation 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 2018 operating budget. The most significant decrease is in the personnel category, discussed previously, and reflects the combination of reducing the

staffing level by 32 positions in 2018, a salary merit increase, the shift in the capitalized labor into the capital budget from the operating and the 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. Additionally, the professional services category shows a significant decrease due to a reduction in custodial and consulting-related expenses.

OPERS' proposed capital budget is \$7.4 million, a 67.6% increase from the prior year budget of \$4.4 million. This budget includes funds for various investment systems upgrades, enhancements and new systems, the development and implementation of an in-house recordkeeping system for health care-related activity, health care system enhancements, and building-related systems and equipment upgrades and replacements.

Attached you will find budget information presented in the format approved by the ORSC for adoption by the five Ohio public retirement systems.

- Attachment 1 is a statement of planned operating expenditures, including comparisons to the 2017 fiscal year budget for OPERS and projected expenses for 2017.
- Attachment 2 is the detailed capital budget.
- Attachment 3 is a two-year historical summary of investment costs and management fees.
- Attachment 4 is a 10-year schedule and bar graph of budgeted Retirement Board-related meeting and travel expenses that are included in the overall organization operating budget.
- Attachment 5 shows the OPERS budgeted education, training and due diligence travel detailed by requested divisions on a per-FTE basis.
- Attachment 6 is statistical information about the number of members in OPERS and the number of members per OPERS staff (FTE) providing benefits and services.

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. 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,



Karen E. Carraher  
Executive Director

**Ohio Public Employees Retirement System  
2018 ORSC BUDGET PRESENTATION**

**FY 2017 to FY 2018 Operating Budget and Increase (Decrease)**

<b>Budget Category</b>	<b>2018 Budget</b>	<b>2017 Budget</b>	<b>2017 Estimated Actual</b>	<b>2017-2018 Increase (Decrease)</b>	<b>Percent Change (2017-2018)</b>
<b>Personnel</b>	<b>\$68,973,140</b>	<b>\$71,023,730</b>	<b>\$69,814,803</b>	<b>(\$2,050,590)</b>	<b>(2.9) %</b>
Salaries and Wages	51,028,712	53,550,621	52,525,175	(2,521,909)	(4.7)
PERS Contributions	7,598,881	7,976,041	7,778,703	(377,160)	(4.7)
Health Insurance	10,080,147	9,241,448	9,239,448	838,699	9.1
Miscellaneous Expenses	265,400	255,620	271,477	9,780	3.8
<b>Professional Services</b>	<b>\$24,431,793</b>	<b>\$26,279,573</b>	<b>\$24,898,034</b>	<b>(\$1,847,780)</b>	<b>(7.0) %</b>
Actuarial	731,036	806,400	806,400	(75,364)	(9.3)
Audit	866,900	588,900	587,000	278,000	47.2
Custodial Banking Fees	7,335,000	9,075,000	8,035,000	(1,740,000)	(19.2)
Investment Consulting	11,393,290	10,872,335	11,257,170	520,955	4.8
Other Consulting	4,062,567	4,893,938	4,169,464	(831,371)	(17.0)
Banking Expenses	43,000	43,000	43,000	0	0.0
<b>Communications Expense</b>	<b>\$3,338,542</b>	<b>\$3,151,731</b>	<b>\$3,071,373</b>	<b>\$186,811</b>	<b>5.9 %</b>
Printing and Postage	2,966,750	2,788,695	2,732,695	178,055	6.4
Telecommunications	272,752	260,376	242,520	12,376	4.8
Member/Employer Education	99,040	102,660	96,158	(3,620)	(3.5)
<b>Other Operating Expenses</b>	<b>\$10,750,855</b>	<b>\$11,261,745</b>	<b>\$10,845,624</b>	<b>(\$510,890)</b>	<b>(4.5) %</b>
Conferences and Education	453,863	555,876	516,958	(102,013)	(18.4)
Travel	605,462	630,981	566,712	(25,519)	(4.0)
Computer Technology	8,089,021	8,464,666	7,857,026	(375,645)	(4.4)
Other Operating	1,199,360	1,194,874	1,478,986	4,486	0.4
Ohio Retirement Study Council	311,125	284,348	294,942	26,777	9.4
TOS Warrant Clearing Charges	4,000	8,000	8,000	(4,000)	(50.0)
Attorney General Charges	88,024	123,000	123,000	(34,976)	(28.4)
<b>Net Building Expense</b>	<b>\$3,883,670</b>	<b>\$3,843,221</b>	<b>\$3,769,128</b>	<b>\$40,449</b>	<b>1.1 %</b>
<b>Total Operating Budget</b>	<b>\$111,378,000</b>	<b>\$115,560,000</b>	<b>\$112,398,962</b>	<b>(\$4,182,000)</b>	<b>(3.6) %</b>
<b>Full-Time Equivalent (FTE) Associates</b>	<b>599</b>	<b>631</b>			
<b>Other Items Monitored by OPERS</b>					
Depreciation	\$12,673,000	\$12,747,000	\$12,300,694	(\$74,000)	(0.6) %
Commission Sharing Agreements - Research Costs	\$200,000	\$0	\$227,795	\$200,000	100.0 %
Inter-plan Interest	\$0	\$303,000	\$0	(\$303,000)	(100.0) %

**Ohio Public Employees Retirement System  
2018 ORSC BUDGET PRESENTATION**

**FY2017 to FY2018 Capital Budget**

	<b>2018 Budget (does not include carryover from previous years)</b>	<b>2017 Budget (does not include carryover from previous years)</b>	<b>2017 Estimate</b>
<b>Total Capital Budget</b>	\$7,429,800	\$4,432,308	\$4,395,683
Building and Building Equipment	332,000	350,550	347,653
Furniture, Equipment and Other	4,097,800	4,081,758	4,048,030
IT Capital Projects	3,000,000		

**Ohio Public Employees Retirement System  
2018 ORSC BUDGET PRESENTATION**

**Investment Expenses**

	<b>2016 Actual</b>	<b>2015 Actual</b>	<b>Percent Change (2015 to 2016)</b>
<b>Total Investment Assets</b>	<b>\$89,995,695,267</b>	<b>\$86,637,986,647</b>	<b>3.88 %</b>
Total Internally Managed Assets	34,892,059,594	32,095,493,520	8.71
Total Externally Managed Assets	55,103,635,673	54,542,493,127	1.03

<b>Total Investment Expenses</b>	<b>\$414,679,691</b>	<b>\$450,695,126</b>	<b>(7.99) %</b>
Total Internal Investment Expenses	33,572,885	31,930,214	5.14
Total External Investment Expenses*	366,923,647	402,624,626	(8.87)
Investment Consulting	985,167	983,088	0.21
Brokerage/Commissions-Internal	2,303,923	2,061,962	11.73
Brokerage/Commissions-External	6,312,999	7,892,979	(20.02)
Custodian Fees	4,581,070	5,202,257	(11.94)

<b>Total Investment Expenses as a % of Total Investment Assets</b>	<b>0.46%</b>	<b>0.52%</b>	
Expenses as % of Internally Managed	1.19	1.40	
Expenses as % of Externally Managed	0.75	0.83	

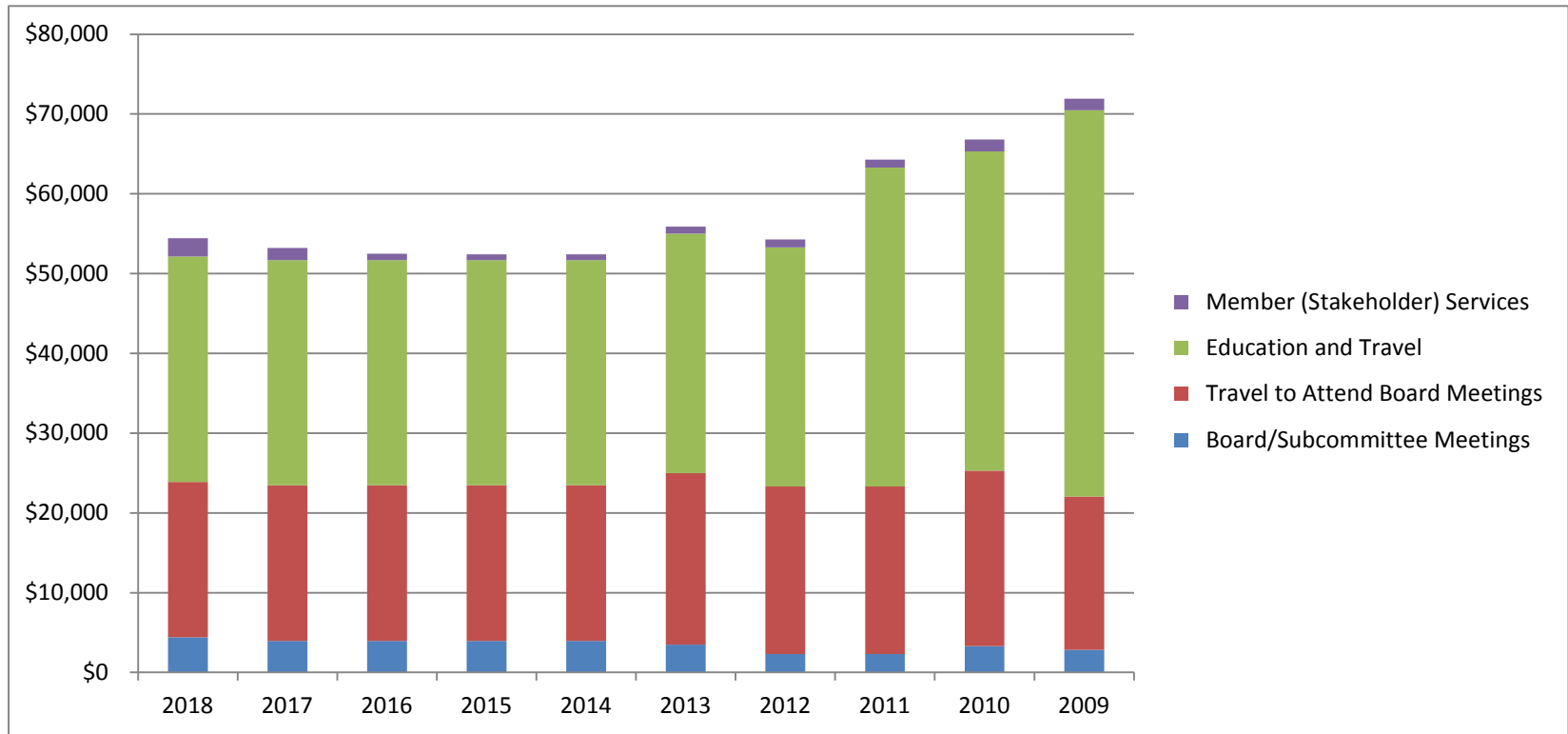
\* - Includes net management fees and partnership expenses.

*Note: 2017 Investment Expenses not available. Does not include research costs paid through Commission Sharing Agreements.*

**Ohio Public Employees Retirement System  
2018 ORSC BUDGET PRESENTATION**

**Board Member Expenses**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>Total Board Expenses</b>	<b>\$54,450</b>	<b>\$53,200</b>	<b>\$52,500</b>	<b>\$52,400</b>	<b>\$52,400</b>	<b>\$55,900</b>	<b>\$54,300</b>	<b>\$64,300</b>	<b>\$66,800</b>	<b>\$71,916</b>
Board/Subcommittee Meetings	\$4,400	\$3,950	\$3,950	\$3,950	\$3,950	\$3,500	\$2,300	\$2,300	\$3,300	\$2,856
Travel to Attend Board Meetings	\$19,500	\$19,500	\$19,500	\$19,500	\$19,500	\$21,500	\$21,000	\$21,000	\$22,000	\$19,200
Education and Travel	\$28,250	\$28,250	\$28,250	\$28,250	\$28,250	\$30,000	\$30,000	\$40,000	\$40,000	\$48,400
Member (Stakeholder) Services	\$2,300	\$1,500	\$800	\$700	\$700	\$900	\$1,000	\$1,000	\$1,500	\$1,460



**Ohio Public Employees Retirement System  
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**Staff Training and Travel**

	<b>FY2018</b>	<b>FY2017</b>	<b>Increase (Decrease)</b>	<b>% Increase (Decrease)</b>
<b>Administration</b>				
Conferences & Seminars	\$196,974	\$258,909	(\$61,935)	(23.9) %
In-House Training	\$4,079	\$6,072	(\$1,993)	(32.8)
#FTE	73	105	(32)	(30.5)
Training Expense per FTE	\$2,754	\$2,524	\$230	9.1

	<b>FY2018</b>	<b>FY2017</b>	<b>Increase (Decrease)</b>	<b>% Increase (Decrease)</b>
<b>Finance and Benefits</b>				
Conferences & Seminars	\$126,225	\$114,444	\$11,781	10.3 %
In-House Training	\$11,725	\$14,775	(\$3,050)	(20.6)
#FTE	180	179	1	0.6
Training Expense per FTE	\$766	\$722	\$44	6.1

	<b>FY2018</b>	<b>FY2017</b>	<b>Increase (Decrease)</b>	<b>% Increase (Decrease)</b>
<b>Investments</b>				
Conferences & Seminars	\$155,145	\$258,685	(\$103,540)	(40.0) %
In-House Training			\$0	-
#FTE	67	68	(1)	(1.5)
Training Expense per FTE	\$2,316	\$3,804	(\$1,488)	(39.1)

	<b>FY2018</b>	<b>FY2017</b>	<b>Increase (Decrease)</b>	<b>% Increase (Decrease)</b>
<b>Information Technology/Information Services</b>				
Conferences & Seminars	\$180,850	\$184,045	(\$3,195)	(1.7) %
In-House Training	\$101,800	\$97,400	\$4,400	4.5
#FTE	156	156	0	-
Training Expense per FTE	\$1,812	\$1,804	\$8	0.4

	<b>FY2018</b>	<b>FY2017</b>	<b>Increase (Decrease)</b>	<b>% Increase (Decrease)</b>
<b>Member Services</b>				
Conferences & Seminars	\$20,195	\$18,745	\$1,450	7.7 %
In-House Training	\$8,032	\$11,432	(\$3,400)	(29.7)
#FTE	123	123	0	-
Training Expense per FTE	\$229	\$245	(\$16)	(6.5)

**Ohio Public Employees Retirement System  
2018 ORSC BUDGET PRESENTATION**

**Supplementary Statistical Information**

	<b>2017*</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Active Members	346,959	346,959	345,622	346,509	347,727
Inactive Members	537,309	537,309	516,049	498,610	483,521
Benefit Recipient (Age, Dis., Survivor)	208,381	208,381	205,601	203,112	196,594
Re-employed Retirees	Included Above	Included Above	Included Above	Included Above	Included Above
<b>Total Membership</b>	1,092,649	1,092,649	1,067,272	1,048,231	1,027,842
<b>Members Per FTE</b>	1,732	1,697	1,662	1,643	1,626

\*Member counts for year-end 2017 not available, reflects 2016 counts for calculation purpose.