

June 24, 2016

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 adopted 2016–2017 fiscal year budgets as approved by the State Teachers Retirement Board at its June meeting. The attached information is composed of the following three parts:

- Page 1 is a statement of planned operating and capital expenditures, including comparisons to the 2015–2016 fiscal year budget. The 2015–2016 fiscal year budget includes a board-authorized amendment to increase the operating budget by \$900,000. Expense categories that are projected to be over budget include:
 - Salaries and Wages (performance-based incentive payments and unused vacation and sick leave)
 - Custodial Banking Fees
 - Building Maintenance and Equipment
- Page 2 is a three-year historical summary of investment assets and related management costs. During the budgeting process, staff adjusted two numbers in Investment Expenses for fiscal 2015. The total investment expenses did not change.
- 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 adopted operating budget total for the fiscal year ended June 30, 2017, is an increase of 1.0% from the current year budget. Along with normal operations, increases are primarily due to salaries and wages and fringe benefits. The number of associates is decreasing due to attrition in benefits administration. No new positions are budgeted for 2017 and the budget includes filling some vacancies. The adopted capital budget provides for investment in technology upgrades and facilities maintenance.

Overall, the adopted 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 adopted budgets comply with all Retirement Board policies and demonstrate to members that STRS Ohio is managing operating expenses prudently.

Sincerely,

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

Michael J. Nehf
Executive Director

Enclosure

RETIREMENT BOARD CHAIR
CAROL CORRETERS

RETIREMENT BOARD VICE CHAIR
ROBERT STEIN

EXECUTIVE DIRECTOR
MICHAEL J. NEHF

Ohio Retirement System Budget Presentation to ORSC
STRS Ohio 2016–2017 Budget to 2015–2016 Budget and Increase (Decrease)

	<u>7/01/2016- 6/30/2017 2017 Budget</u>	<u>7/01/2015- 6/30/2016 2016 Budget*</u>	<u>7/01/2015- 6/30/2016 Projected Actual</u>	<u>2016 Budget- 2017 Budget Increase (Decrease)</u>	<u>2016 Budget- 2017 Budget % Increase/ Decrease</u>
Personnel	\$ 74,787,500	\$ 74,138,400	\$ 74,627,600	\$ 649,100	0.88%
Salaries and Wages	58,312,300	58,056,800	58,370,400	255,500	0.44%
OPERS Contributions	7,804,600	7,671,600	7,861,600	133,000	1.73%
Health Insurance	7,650,200	7,396,000	7,385,500	254,200	3.44%
Miscellaneous Expenses	1,020,400	1,014,000	1,010,100	6,400	0.63%
Professional Services	9,911,100	9,532,800	9,308,700	378,300	3.97%
Actuarial	300,000	225,000	262,000	75,000	33.33%
Audit	275,000	316,500	300,500	(41,500)	-13.11%
Custodial Banking Fees	2,100,000	2,000,000	2,192,200	100,000	5.00%
Investment Consulting	5,062,000	4,868,000	4,687,000	194,000	3.99%
Other Consulting	1,892,600	1,843,300	1,574,200	49,300	2.67%
Banking Expense	281,500	280,000	292,800	1,500	0.54%
Communications Expense	2,258,100	2,267,500	2,176,200	(9,400)	-0.41%
Printing and Postage	1,727,200	1,777,200	1,717,200	(50,000)	-2.81%
Telecommunications	342,000	285,800	280,000	56,200	19.66%
Member/Employer Education	183,400	199,000	179,000	(15,600)	-7.84%
Other Communications	5,500	5,500	0	0	0.00%
Other Operating Expense	7,876,800	8,043,600	7,753,100	(166,800)	-2.07%
Conferences and Education	374,500	369,500	346,600	5,000	1.35%
Travel	702,500	719,400	719,400	(16,900)	-2.35%
Computer Technology	4,536,900	4,668,300	4,468,300	(131,400)	-2.81%
Other Operating	1,898,900	1,921,400	1,853,800	(22,500)	-1.17%
Ohio Retirement Study Council	300,000	300,000	300,000	0	0.00%
Treasury of State Warrant Clearing Charges	4,000	5,000	5,000	(1,000)	-20.00%
Attorney General Charges	60,000	60,000	60,000	0	0.00%
Net Building Expense	2,411,000	2,322,500	2,418,000	88,500	3.81%
Total Operating Budget**	\$ 97,244,500	\$ 96,304,800	\$ 96,283,600	\$ 939,700	0.98%
Total Capital Budget	\$ 3,250,100	\$ 3,141,500	\$ 1,597,500	\$ 108,600	3.46%
Building Improvements	397,000	300,000	400,000		
Building Maintenance Equipment	240,000	224,000	146,500		
Infrastructure and Upgrades	2,560,600	2,617,500	1,051,000		
General Capital	52,500	0	0		

*FY 2016 budget includes increase of \$900,000.

	<u>7/01/2016- 6/30/2017 2017 Budget</u>	<u>7/01/2015- 6/30/2016 2016 Budget</u>
Full-time equivalent (FTE) associates included in proposed budget	556	572



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

	<u>Fiscal 2015 Actuals</u>	<u>Fiscal 2014 Actuals</u>	<u>Fiscal 2013 Actuals</u>
Investment Assets			
Total Internally Managed Assets	\$ 53,396,673,000	\$ 54,236,954,000	\$ 50,951,710,984
Total Externally Managed Assets	21,036,537,000	20,621,994,000	17,263,950,016
Total Investment Assets *	<u>\$ 74,433,210,000</u>	<u>\$ 74,858,948,000</u>	<u>\$ 68,215,661,000</u>
Investment Expenses			
Total Internal Investment Expenses	\$ 35,922,491	\$ 29,835,182	\$ 28,329,154
Total External Investment Expenses	182,365,649	169,205,273	161,884,390
Investment Consulting	740,308	712,467	720,893
Brokerage/Commissions	13,143,974	14,013,535	15,166,886
Custodian Fees	2,149,928	1,672,657	1,438,460
Total Investment Expenses	<u>\$ 234,322,350</u>	<u>\$ 215,439,114</u>	<u>\$ 207,539,783</u>
Total Investment Expenses as a Percent of Total Investment Assets	0.31%	0.29%	0.30%

*Real estate debt is removed from investment assets.

Ohio Retirement System Budget Presentation to ORSC
STRS Ohio Historical Board Expenses

	2008 Budget	2009 Budget	2010 Budget	2011 Budget	2012 Budget	2013 Budget	2014 Budget	2015 Budget	2016 Budget	2017 Budget
Board Expenses										
Board Education and Travel	\$ 55,000	\$ 48,500	\$ 23,500	\$ 26,000	\$ 25,000	\$ 30,000	\$ 22,000	\$ 18,000	\$ 15,500	\$ 13,500
Travel to Attend Board Meetings	\$ 15,000	\$ 15,000	\$ 30,000	\$ 27,000	\$ 25,000	\$ 25,000	\$ 23,000	\$ 17,500	\$ 16,500	\$ 15,000
Other Board Expense	\$ 20,500	\$ 15,000	\$ 15,000	\$ 14,000	\$ 10,000	\$ 9,300	\$ 10,500	\$ 9,700	\$ 8,400	\$ 8,800
Total Board Expense	\$ 90,500	\$ 78,500	\$ 68,500	\$ 67,000	\$ 60,000	\$ 64,300	\$ 55,500	\$ 45,200	\$ 40,400	\$ 37,300

