



October 23, 2020

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

Dear Ms. Rhodes:

Enclosed is the proposed 2021 operating budget for the Ohio Public Employees Retirement System (OPERS). The proposed operating budget of \$109.5 million reflects a 4.8% decrease in expenses from the prior year's budget of \$115.0 million. The 4.8% decrease results primarily from: 1) a continued reduction in workforce, 2) the completion of the implementation of an investment accounting system, 3) a decline in investment master recordkeeping fees, and 4) a reduction in printing and postage associated with 2020 member education of health care changes. These reductions are reflected in the \$1.6 million decrease in the personnel expense category, the \$1.9 million decrease in the computer technology expense category, the \$1.2 million decrease in the professional services category, and the \$0.7 decrease in communications expenses. Partially offsetting these decreases is a \$0.4 million increase in the personnel category related to employee health insurance and a \$0.7 million increase in custodial banking fees related to a change in the international custodian for investments. The remaining expense category fluctuations are less significant and offset each other.

This budget reflects the elimination of 44 positions. Like many other organizations, OPERS has proactively invested in technology designed to yield long-term staff savings. Accordingly, OPERS carefully manages staff turnover, often electing to defer hiring especially in areas expected to be impacted by technology. As a result, all but 14 of the 44 eliminated positions were vacant positions. The remaining 14 positions reflect a combination of retirements and layoffs in areas that staff turnover did not adjust staff capacity adequately to compensate for technology efficiencies or process improvements. Since 2017, OPERS has been able to reduce our overall workforce by 114 positions. Finally, this budget reflects that staff will not receive a merit-based increase this year.

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 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.

The proposed 2021 capital budget reflects a decrease of 24.1% from \$10.8 million in 2020 to \$8.2 million in 2021. The 2021 capital budget includes \$3.6 million of funding for changes to the internal pension and health care systems to support potential plan design changes, legacy system migration and post migration support. The capital budget includes \$4.4 million in estimated



internal labor costs associated with these capital initiatives. Capitalizing internal labor as prescribed per accounting rules reduces the operating budget as the staff costs are included in the capital budget rather than the operating budget while the project is in process. Eventually when the capital project is completed these staff costs will shift back to the operating budget. The proposed 2021 capital budget also includes an additional \$2.8 million for the replacement of the mainframe.

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 2020 fiscal year budget for OPERS and projected expenses for 2020. All key variances have been discussed above.
- Attachment 2 reflects 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 graph of budgeted Retirement Board-related meeting and travel expenses included in the overall organization operating budget.
- Attachment 5 reflects the OPERS budgeted education, training and due diligence travel by divisions on a per-FTE basis.
- Attachment 6 reflects statistical information relative to OPERS members and members per staff (FTE).

We believe this budget provides the necessary support to continue to fund the operations of the complex multi-billion-dollar organization. As OPERS plans for the upcoming changes, we are committed to running an efficient organization that continues to provide superior customer service to our members and support the State of Ohio.

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

Sincerely,

A handwritten signature in black ink that reads "Karen E. Carraher".

Karen E. Carraher
Executive Director

Cc: Kimberly Murnieks, Director, Ohio Office of Budget and Management
The Honorable Bill Coley, Chairman, Ohio Senate Government Oversight & Reform Committee
The Honorable Tim Ginther, Chairman, Ohio House Aging & Long-term Care Committee

**Ohio Public Employees Retirement System
2021 ORSC BUDGET PRESENTATION**

FY 2020 to FY 2021 Operating Budget and Increase (Decrease)

Budget Category	2021 Budget	2020 Budget	2020 Estimated Actual	2020-2021 Increase (Decrease)	Percent Change (2020-2021)
Personnel	\$66,009,529	\$67,620,760	\$66,182,700	(\$1,611,231)	(2.4) %
Salaries and Wages	48,742,611	50,488,697	50,306,330	(1,746,086)	(3.5)
PERS Contributions	7,265,243	7,541,502	7,324,967	(276,259)	(3.7)
Health Insurance	9,820,660	9,384,821	8,441,747	435,839	4.6
Miscellaneous Expenses	181,015	205,740	109,656	(24,725)	(12.0)
Professional Services	\$23,893,796	\$25,085,661	\$24,690,900	(\$1,191,865)	(4.8) %
Actuarial	717,551	820,285	820,285	(102,734)	(12.5)
Audit	522,180	497,390	496,390	24,790	5.0
Custodial Banking Fees	7,281,000	7,993,000	7,105,000	(712,000)	(8.9)
Investment Consulting	11,690,172	11,967,083	12,809,478	(276,911)	(2.3)
Other Consulting	3,639,893	3,764,903	3,416,747	(125,010)	(3.3)
Banking Expenses	43,000	43,000	43,000	0	0.0
Communications Expense	\$2,990,736	\$3,730,165	\$2,073,640	(\$739,429)	(19.8) %
Printing and Postage	2,461,112	3,264,781	1,795,281	(803,669)	(24.6)
Telecommunications	331,624	242,884	238,148	88,740	36.5
Member/Employer Education	198,000	222,500	40,211	(24,500)	(11.0)
Other Operating Expenses	\$12,671,439	\$14,772,286	\$12,992,483	(\$2,100,847)	(14.2) %
Conferences and Education	375,409	486,006	218,000	(110,597)	(22.8)
Travel	433,143	604,201	153,695	(171,058)	(28.3)
Computer Technology	10,162,999	12,065,610	11,042,455	(1,902,611)	(15.8)
Other Operating	1,290,649	1,215,430	1,183,727	75,219	6.2
Ohio Retirement Study Council	309,000	300,000	296,567	9,000	3.0
TOS Warrant Clearing Charges	4,800	7,000	4,000	(2,200)	(31.4)
Attorney General Charges	95,439	94,039	94,039	1,400	1.5
Net Building Expense	\$3,928,500	\$3,784,128	\$3,470,777	\$144,372	3.8 %
Total Operating Budget	\$109,494,000	\$114,993,000	\$109,410,500	(\$5,499,000)	(4.8) %
Full-Time Equivalent (FTE) Associates	530	574			
Other Items Monitored by OPERS					
Depreciation	\$14,339,000	\$13,676,000	\$13,222,891	\$663,000	4.8 %
Commission Sharing Agreements - Research Costs	\$425,000	\$350,000	\$350,000	\$75,000	21.4 %

**Ohio Public Employees Retirement System
2021 ORSC BUDGET PRESENTATION**

FY 2020 to FY 2021 Capital Budget

	2021 Budget (does not include carryover from previous years)	2020 Budget (does not include carryover from previous years)	2020 Estimate
Total Capital Budget*	\$8,187,680	\$10,795,386	\$7,256,294
Building and Building Equipment	222,000	70,000	83,533
Computer Software, Equipment and Other	4,379,355	2,639,946	2,885,433
IT Capital Projects**	3,586,325	8,085,440	4,287,328

*Includes new capitalizable internal labor budget of \$1.1 million and \$5.0 million in 2021 and 2020, respectively. Due to capital budget carryover, an additional \$3.3 million in capitalizable internal labor is applicable to 2021, not reflected as new capital budget above; therefore, total capitalizable internal labor estimates for 2021 are \$4.4 million.

**In May of 2020, the Board approved capital funding of \$5.0 million for an investment accounting system replacement, which was not included in the original 2020 budget submitted to the ORSC and is excluded from the 2020 budget information above. However, the 2020 Estimate column above includes capital expenditures of \$2.4 million related to this project.

**Ohio Public Employees Retirement System
2021 ORSC BUDGET PRESENTATION**

Investment Expenses

	2019 Actual	2018 Actual	Percent Change (2018 to 2019)
Total Investment Assets	\$106,149,988,459	\$93,822,051,268	13.14 %
Total Internally Managed Assets	47,788,724,804	40,562,640,341	17.81
Total Externally Managed Assets	58,361,263,655	53,259,410,927	9.58

Total Investment Expenses	\$448,358,301	\$469,351,197	(4.47) %
Total Internal Investment Expenses	38,083,254	37,748,650	0.89
Total External Investment Expenses*	397,838,957	418,789,730	(5.00)
Investment Consulting	1,017,524	1,009,000	0.84
Brokerage/Commissions-Internal	2,369,252	2,172,529	9.06
Brokerage/Commissions-External	5,071,867	5,642,977	(10.12)
Custodian Fees	3,977,447	3,988,311	(0.27)

Total Investment Expenses as a % of Total Investment Assets	0.42%	0.50%	
Expenses as % of Internally Managed	0.94	1.16	
Expenses as % of Externally Managed	0.77	0.88	

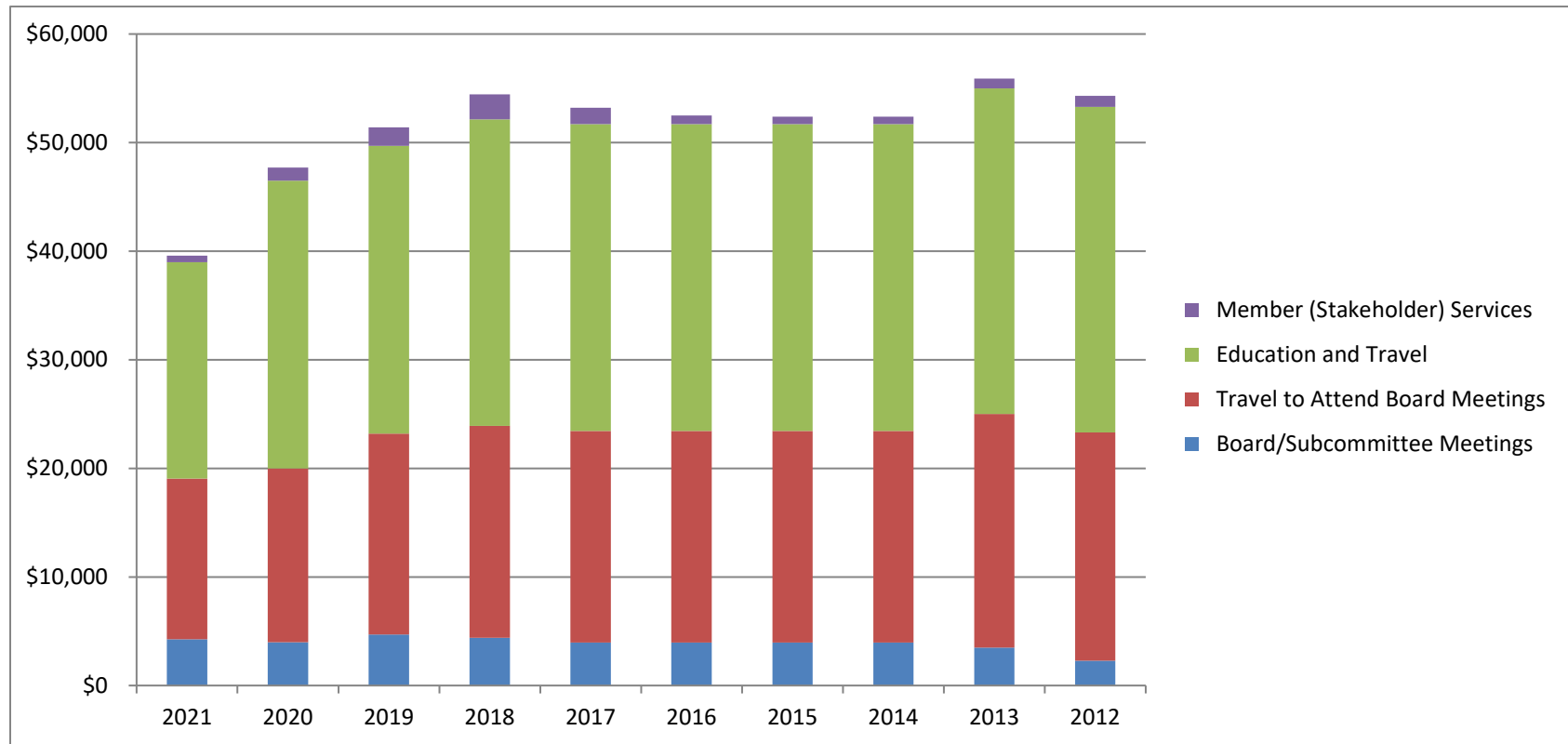
* - Includes net management fees and fund expenses.

Note: 2020 Investment Expenses not available. Does not include research costs paid through Commission Sharing Agreements.

**Ohio Public Employees Retirement System
2021 ORSC BUDGET PRESENTATION**

Board Member Expenses

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Total Board Expenses	\$39,587	\$47,700	\$51,400	\$54,450	\$53,200	\$52,500	\$52,400	\$52,400	\$55,900	\$54,300
Board/Subcommittee Meetings	\$4,250	\$4,000	\$4,700	\$4,400	\$3,950	\$3,950	\$3,950	\$3,950	\$3,500	\$2,300
Travel to Attend Board Meetings	\$14,800	\$16,000	\$18,500	\$19,500	\$19,500	\$19,500	\$19,500	\$19,500	\$21,500	\$21,000
Education and Travel	\$19,937	\$26,500	\$26,500	\$28,250	\$28,250	\$28,250	\$28,250	\$28,250	\$30,000	\$30,000
Member (Stakeholder) Services	\$600	\$1,200	\$1,700	\$2,300	\$1,500	\$800	\$700	\$700	\$900	\$1,000



**Ohio Public Employees Retirement System
2021 ORSC BUDGET PRESENTATION**

Staff Training and Travel

	FY 2021	FY 2020	Increase (Decrease)	% Increase (Decrease)
Administration				
Conferences & Seminars	\$234,494	\$312,544	(\$78,050)	(25.0) %
In-House Training	\$13,222	\$13,857	(\$635)	(4.6)
#FTE	69	73	(4)	(5.5)
Training Expense per FTE	\$3,590	\$4,471	(\$881)	(19.7)

	FY 2021	FY 2020	Increase (Decrease)	% Increase (Decrease)
Finance and Benefits				
Conferences & Seminars	\$79,010	\$112,755	(\$33,745)	(29.9) %
In-House Training	\$8,499	\$12,665	(\$4,166)	(32.9)
#FTE	128	159	(31)	(19.5)
Training Expense per FTE	\$684	\$789	(\$105)	(13.3)

	FY 2021	FY 2020	Increase (Decrease)	% Increase (Decrease)
Investments				
Conferences & Seminars	\$140,501	\$197,460	(\$56,959)	(28.8) %
In-House Training			\$0	-
#FTE	64	67	(3)	(4.5)
Training Expense per FTE	\$2,195	\$2,947	(\$752)	(25.5)

	FY 2021	FY 2020	Increase (Decrease)	% Increase (Decrease)
Information Technology/Information Services				
Conferences & Seminars	\$89,425	\$114,696	(\$25,271)	(22.0) %
In-House Training	\$107,296	\$116,992	(\$9,696)	(8.3)
#FTE	151	153	(2)	(1.3)
Training Expense per FTE	\$1,303	\$1,514	(\$211)	(13.9)

	FY 2021	FY 2020	Increase (Decrease)	% Increase (Decrease)
Member Services				
Conferences & Seminars	\$21,895	\$26,290	(\$4,395)	(16.7) %
In-House Training	\$4,748	\$3,398	\$1,350	39.7
#FTE	118	122	(4)	(3.3)
Training Expense per FTE	\$226	\$243	(\$17)	(7.0)

**Ohio Public Employees Retirement System
2021 ORSC BUDGET PRESENTATION**

Supplementary Statistical Information

	2020^a	2019	2018^b	2017	2016
Active Members	304,446	304,446	303,920	347,730	346,959
Inactive Members	653,659	653,659	628,091	559,587	537,309
Benefit Recipient (Age, Dis., Survivor)	214,985	214,985	212,953	210,882	208,381
Re-employed Retirees	Included Above	Included Above	Included Above	Included Above	Included Above
Total Membership	1,173,090	1,173,090	1,144,964	1,118,199	1,092,649
Members Per FTE	2,044	2,019	1,911	1,772	1,697

^aMember counts for year-end 2020 not available; reflects 2019 counts for calculation purposes.

^bIn 2018, the data aggregation methodology was modified for Active and Inactive counts after system reconfigurations. Restated data for years prior to 2018 is not available.