



October 17, 2014

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

Dear Ms. Rhodes:

Enclosed is the proposed 2015 operating budget for the Ohio Public Employees Retirement System (OPERS). The proposed operating budget of \$105.9 million reflects a 4.0% increase in expenses from the prior year's budget. However, a significant portion of the proposed budget increase relates to fee increases stemming from the change in custodian. The OPERS 2015 proposed budget includes an increase of approximately \$2.7 million in additional fees caused by the unbundling of services associated with the custodian contract. The proposed 2015 budget increase excluding the custodial related fees reflects only a 1.4% increase from the prior year budget. The 1.4% increase in the operating budget represents the expenses within OPERS' control.

The proposed operating budget reflects funding for on-going operations and key initiatives included in OPERS' strategic plan. The strategic plan key initiatives include the implementation of the health care plan changes and the continued implementation of a number 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. The budget includes approximately \$1.6 million to enhance communications to our membership and employers, which is especially important given the need to help our membership understand the impact of the health care changes in evaluating their retirement options, and to help our employers understand the impact of the new GASB standards for pension and health care.

The proposed budget includes a 3% merit increase based upon a thorough evaluation process, which represents \$1.6 million of the budget. While OPERS leverages our investment in technology to the extent possible to avoid significant increases in staffing levels as membership increases, OPERS is increasing staff levels slightly in 2015. As noted above, another significant portion of the budget increase occurred in the custodial banking and related expenses, with an additional \$2.7 million in investment master record-keeping fees resulting from the re-bid of custodial services. This is in addition to the \$2.3 million increase in 2013 and \$0.5 million increase in 2014.

OPERS' proposed capital budget is \$19.0 million. This budget includes funds for the continued implementation of major information system technology upgrades. The capital budget also includes a \$4.5 million expense for the replacement of the investment accounting system.

Attached you will find budget information presented in the uniform format adopted by the five Ohio public retirement systems.

- The first page is the comparative summary for all five retirement systems. This page has been updated to reflect the OPERS 2015 budget currently being submitted to the ORSC.
- Attachment 1 is a statement of planned operating and capital expenditures, including comparisons to the 2014 fiscal year budget for OPERS. At the request of the ORSC, a column was added to this attachment that reflects projected actual expenses for the current year.
- Attachment 2 is the detailed capital budget.
- Attachment 3 is a schedule of Retirement Board-related budget expenses that are included in the overall organization operating budget. At the request of the ORSC, a 10-year trend bar graph for the Retirement Board-related budget items was added to this attachment.
- 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, the number of staff providing benefits and services and the corresponding cost per participant.
- Attachment 6 shows the OPERS budgeted education and training and due diligence travel detailed by division on a per-FTE basis.

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 balances the reality of costs outside of our control, such as custodial related costs, with the need to continue to fund the operations of a growing and complex multi-billion dollar organization. Further, it recognizes the unique expenses associated with the continued implementation and communication of the pension and health care changes and new GASB standards. As OPERS plans for the increased numbers 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 RETIREMENT SYSTEMS BUDGET PRESENTATION TO ORSC
FY 2015 Budget

Budget Periods	Ohio Public Employees Retirement System				State Teachers Retirement System				School Employees Retirement System				Ohio Police & Fire Pension Fund				Highway Patrol Retirement System			
	1/1/15-12/31/15 2015 Budget	1/1/14-12/31/14 2014 Budget	Increase (Decrease)	% Change	7/1/14-6/30/15 2015 Budget	7/1/13-6/30/14 2014 Budget	Increase (Decrease)	% Change	7/1/14-6/30/15 2015 Budget	7/1/13-6/30/14 2014 Budget	Increase (Decrease)	% Change	01/01/15-12/31/15 2015 Budget	01/01/14-12/31/14 2014 Budget	Increase (Decrease)	% Change	1/1/15-12/31/15 2015 Budget	1/1/14-12/31/14 2014 Budget	Increase (Decrease)	% Change
Personnel	\$ 62,313,139	\$ 60,701,393	\$ 1,611,746	2.7%	\$ 69,240,300	\$ 68,576,100	\$ 664,200	1.0%	\$ 18,774,186	\$ 17,401,526	\$ 1,372,630	7.9%	\$ 13,359,746	\$ 13,068,795	\$ 290,951	2.2%	\$ 844,635	\$ 950,450	\$ (105,815)	(11.1%)
Professional Services	24,891,336	21,611,711	3,279,625	15.2%	9,742,500	9,507,900	234,600	2.5%	6,871,424	6,389,812	481,612	7.5%	4,549,040	4,672,170	(123,130)	(2.6%)	661,600	529,500	132,100	24.9%
Communications Expense	3,351,420	3,421,110	(69,690)	(2.0%)	2,486,100	2,554,200	(68,100)	(2.7%)	1,171,956	1,205,010	(33,054)	(2.7%)	572,890	586,385	(13,495)	(2.3%)	22,500	21,000	1,500	7.1%
Other Operating Expense	11,428,409	11,985,507	(557,098)	(4.6%)	8,055,300	7,903,800	151,500	1.9%	3,319,659	2,636,692	682,967	25.9%	2,094,014	2,042,179	51,835	2.5%	190,330	199,500	(9,170)	(4.6%)
Net Building Expense	3,906,696	4,052,279	(145,583)	(3.6%)	2,323,000	2,327,600	(4,600)	(0.2%)	1,543,206	1,193,405	349,801	29.3%	1,285,000	1,286,500	(1,500)	(0.1%)	100,000	65,923	34,077	51.7%
Total Operating Budget	\$ 105,891,000	\$ 101,772,000	\$ 4,119,000	4.0%	\$ 91,847,200	\$ 90,869,600	\$ 977,600	1.1%	\$ 31,680,401	\$ 28,826,445	\$ 2,853,956	9.9%	\$ 21,860,690	\$ 21,656,029	\$ 204,661	0.9%	\$ 1,819,065	\$ 1,766,373	\$ 52,692	3.0%
Depreciation	\$ 10,852,000	\$ 10,841,000	\$ 11,000	0.1%									\$ 2,300,000	\$ 2,300,000	\$ -	0.0%	\$ 13,400	\$ 4,629	\$ 8,771	189.5%
Total Capital Budget	\$ 19,024,449	\$ 20,277,541	\$ (1,253,092)	(6.2%)	\$ 1,597,500	\$ 1,684,300	\$ (86,800)	(5.2%)	\$ 131,000	\$ 364,350	\$ (233,350)	(64.0%)	\$ 2,982,195	\$ 2,820,320	\$ 161,875	5.7%	\$ 50,000	\$ 10,000	\$ 40,000	400.0%
Budget Full-time Equivalent	642	638	632		578	585	579		179	177.0	175.5		143	142	141		8	10	10	
Actual Full-time Equivalent																				
Active Members			347,727				169,945													1,613
Inactive Members			483,521				136,105													8
Benefit Recipients			196,594				149,221													1,513
Re-employed Retirees			Included Above				Included Above													3,134
Total Membership			1,027,842				455,271													
Operating Expense Per Total Member	\$103.02	\$99.02	\$95.64		\$201.74	\$199.59	\$199.52		\$106.16	\$96.59	\$91.71		\$379.74	\$376.18	\$376.19		\$580.43	\$563.62	\$540.52	

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
FY 2015 Budget

<u>Budget Periods</u>	<u>2015 Budget</u>	<u>2014 Budget</u>	<u>Increase (Decrease)</u>	<u>% Change</u>	<u>2014 Projected Expenses</u>
Personnel	\$ 62,313,139	\$ 60,701,393	\$ 1,611,746	2.7%	\$ 58,387,325
Salaries and Wages	48,189,924	46,813,314	1,376,610	2.9%	45,019,146
PERS contributions	7,171,331	6,930,074	241,257	3.5%	6,410,229
Health Insurance	6,698,854	6,675,325	23,529	0.4%	6,675,329
Miscellaneous Expenses	253,030	282,680	(29,650)	-10.5%	282,621
Professional Services	24,891,336	21,611,711	3,279,625	15.2%	23,009,751
Actuarial	899,106	817,262	81,844	10.0%	924,262
Audit	646,516	543,500	103,016	19.0%	523,658
Custodial Banking Fees	9,825,000	7,114,000	2,711,000	38.1%	7,989,471
Investment Consulting	7,522,247	7,010,550	511,697	7.3%	7,118,900
Other Consulting (Medical Exams, TPA Fees, Professional Consultants)	5,956,467	6,084,399	(127,932)	-2.1%	6,411,460
Banking Expense	42,000	42,000	0	0.0%	42,000
Communications Expense	3,351,420	3,421,110	(69,690)	-2.0%	3,330,427
Printing and Postage	2,852,539	2,925,299	(72,760)	-2.5%	2,862,463
Telephone	248,101	265,071	(16,970)	-6.4%	280,246
Member/Employer Education	250,780	230,740	20,040	8.7%	187,718
Other Operating Expense	11,428,409	11,985,507	(557,098)	-4.6%	11,628,083
Conferences and Education	528,751	556,962	(28,211)	-5.1%	581,846
Travel	723,595	693,518	30,077	4.3%	518,360
Computer Technology	8,547,639	8,970,426	(422,787)	-4.7%	8,783,928
Other Operating (Fiduciary Insurance, Supplies, Dues & Subscriptions)	1,359,624	1,487,607	(127,983)	-8.6%	1,466,955
Ohio Retirement Study Council	260,800	268,994	(8,194)	-3.0%	268,994
Treasurer of State Warrant Clearing Council	8,000	8,000	0	0.0%	8,000
Net Building Expense	3,906,696	4,052,279	(145,583)	-3.6%	3,943,242
Total Operating Budget	\$ 105,891,000	\$ 101,772,000	\$ 4,119,000	4.0%	\$ 100,298,828

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
FY 2015 Budget

Other Items Monitored by OPERS

<u>Budget Periods</u>	<u>2015 Budget</u>	<u>2014 Budget</u>	<u>Increase (Decrease)</u>	<u>% Change</u>	<u>2014 Projected Expenses</u>
Total Capital Budget	\$ 19,024,449	\$ 20,277,541	\$ (1,253,092)	-6.2%	\$ 11,658,395
Depreciation	\$ 10,852,000	\$ 10,841,000	\$ 11,000	0.1%	\$ 10,114,244
Commission Sharing Agreements - Research Costs	\$ 2,129,429	\$ 2,918,577	\$ (789,148)	-27.0%	\$ 2,276,862
Inter-plan Interest	\$ 880,571	\$ 1,307,423	\$ (426,852)	-32.6%	\$ 1,307,423

Attachment 2

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
2015 Capital Budget

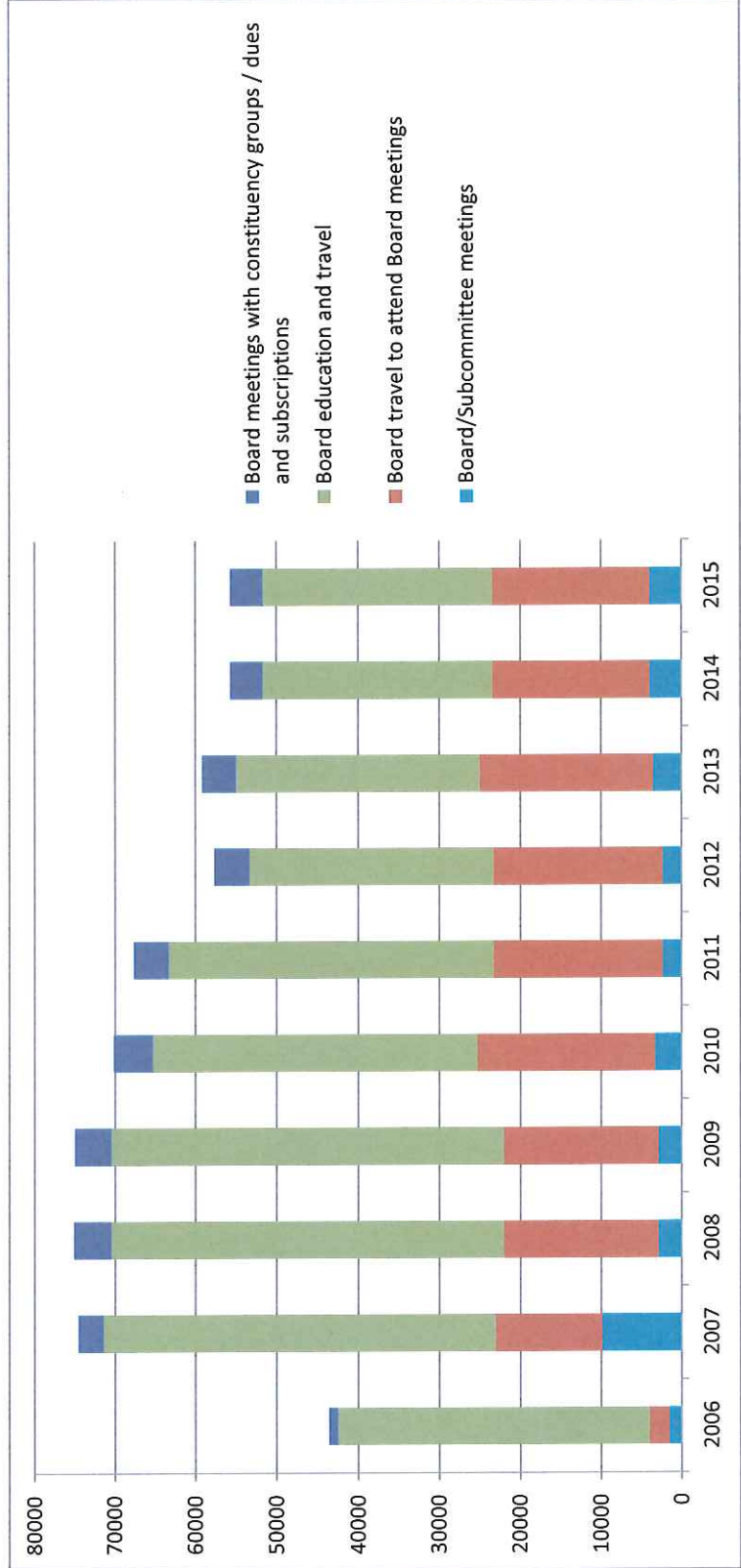
<u>General Capital Items</u>	<u>Total</u>
Building	\$ 139,500
Computer Software and Equipment	3,373,349
Total General Capital Items	3,512,849
<u>IT Capital Projects</u>	
Our Way Forward	8,159,000
Health Care Preservation Plan 3.0	2,852,600
New Investment Accounting System	4,500,000
Total IT Capital Projects	15,511,600
Total 2015 Capital	\$ 19,024,449

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
FY 2015 Retirement Board Expense Budgets

	<u>2015</u>	<u>2014</u>	<u>Increase</u>	<u>% Change</u>
	<u>Budget</u>	<u>Budget</u>	<u>(Decrease)</u>	
Board/Subcommittee meetings	\$ 3,950	\$ 3,950	\$ -	0.00%
Board travel to attend Board meetings	19,500	19,500	-	0.00%
Board education and travel	28,250	28,250	-	0.00%
Board meetings with constituency groups / dues and subscriptions	3,960	3,960	-	0.00%
Travel Expenses	\$ 55,660	\$ 55,660	\$ -	0.00%

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
 Ohio Public Employees Retirement System
 10-year Trend of Retirement Board Expense Budgets

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Board/Subcommittee meetings	\$ 1,500	\$ 9,860	\$ 2,856	\$ 2,856	\$ 3,300	\$ 2,300	\$ 2,300	\$ 3,500	\$ 3,950	\$ 3,950
Board travel to attend Board meetings	2,500	13,200	19,200	19,200	22,000	21,000	21,000	21,500	19,500	19,500
Board education and travel	38,500	48,400	48,400	48,400	40,000	40,000	30,000	30,000	28,250	28,250
Board meetings with constituency groups / dues and subscriptions	1,115	3,060	4,620	4,520	4,860	4,360	4,360	4,160	3,960	3,960
Board Travel Expenses	\$ 43,615	\$ 74,520	\$ 75,076	\$ 74,976	\$ 70,160	\$ 67,660	\$ 57,660	\$ 59,160	\$ 55,660	\$ 55,660



OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
Investment Expenses

	2013 ACTUALS	2012 ACTUALS	2011 ACTUALS
Investment Assets			
Total Internally Managed Assets	\$ 32,873,846,955	\$ 33,775,835,381	\$ 34,042,738,730
Total Externally Managed Assets	\$ 55,175,050,054	\$ 46,509,012,209	\$ 39,899,055,107
Total Investment Assets	\$ 88,048,897,009	\$ 80,284,847,590	\$ 73,941,793,837
Investment Expenses			
Total Internal Investment Expenses	\$ 27,369,989	\$ 27,085,847	\$ 23,237,007
Total External Investment Expense	\$ 381,021,463	\$ 264,875,076	\$ 193,035,930
Investment Consulting	1,066,660	1,153,694	1,485,199
Brokerage/Commissions - Internal	5,465,351	6,864,366	16,544,222
Brokerage/Commissions - External	11,341,845	22,206,518	17,130,111
Custodian Fees	3,353,271	2,747,555	1,830,827
Total Investment Expenses	\$ 429,618,579	\$ 324,933,056	\$ 253,263,296
Total Investment Expenses as a % of Total Investment Assets	1.31%	0.96%	0.74%
Total Investment Expenses as a % of Internally Managed Assets	0.78%	0.70%	0.63%
Total Investment Expenses as a % of Total Investment Assets	0.49%	0.40%	0.34%

Total Investment Expenses as a % of Total Investment Assets
 Total Investment Expenses as a % of Internally Managed Assets
 Total Investment Expenses as a % of Externally Managed Assets
Total Investment Expenses as a % of Total Investment Assets

Note: Does not include Research Costs paid through Commission Sharing Agreements - Research Costs

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Statistical Information

	2015	2014	2013	2012	2011
Budget Full-time Equivalencies	642.0	638.0	632.0	636.0	641.5

Active Members	*	*	347,727	348,235	349,189
Inactive Members	*	*	483,521	467,298	452,718
Benefit Recipients	*	*	196,594	190,621	184,965
Total Membership	*	*	1,027,842	1,006,154	986,872

Total Operating Budget	\$105,891,000	\$101,772,000	\$98,300,000	\$93,800,000	\$91,261,095
Total Operating Exp / Total Membership	\$103.02	\$99.02	\$95.64	\$93.23	\$92.48

* Information not available. For purposes of statistical calculation of Total Administrative Expense per Total Membership, the last completed fiscal year was used to approximate Total Membership.

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
2015 Training & Travel Budget

	<u>2015</u> <u>Budget</u>	<u>2014</u> <u>Budget</u>	<u>Increase</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
Benefits				
Conference Registrations	\$ 21,697	\$ 19,275	\$ 2,422	12.6%
Staff Travel	\$ 25,355	\$ 21,350	\$ 4,005	18.8%
Approved FTE's	215	215	-	0.0%
Expense Per FTE	\$ 219	\$ 189	\$ 30	13.5%
Health Care				
Conference Registrations	\$ 18,750	\$ 15,200	\$ 3,550	23.4%
Staff Travel	\$ 62,920	\$ 7,800	\$ 55,120	706.7%
Approved FTE's	31	31	-	0.0%
Expense Per FTE	\$ 2,635	\$ 742	\$ 1,893	255.1%
Finance				
Conference Registrations	\$ 44,173	\$ 41,565	\$ 2,608	6.3%
Staff Travel	\$ 51,740	\$ 60,340	\$ (8,600)	-14.3%
Approved FTE's	103	103	-	0.0%
Expense Per FTE	\$ 931	\$ 989	\$ (58)	-5.9%
Information Technology				
Conference Registrations	\$ 208,167	\$ 264,455	\$ (56,288)	-21.3%
Staff Travel	\$ 106,230	\$ 107,230	\$ (1,000)	-0.9%
Approved FTE's	159	155	4	2.6%
Expense Per FTE	\$ 1,977	\$ 2,398	\$ (421)	-17.5%
Investments				
Conference Registrations	\$ 17,800	\$ 17,800	\$ -	0.0%
Staff Travel	\$ 285,500	\$ 316,500	\$ (31,000)	-9.8%
Approved FTE's	63	61	2	3.3%
Expense Per FTE	\$ 4,814	\$ 5,480	\$ (666)	-12.2%
Executive				
Conference Registrations	\$ 16,980	\$ 17,569	\$ (589)	-3.4%
Staff Travel	\$ 27,220	\$ 21,593	\$ 5,627	26.1%
Approved FTE's	7	7	-	0.0%
Expense Per FTE	\$ 6,314	\$ 5,595	\$ 719	12.9%
Enterprise Risk Management*				
Conference Registrations	\$ 6,400	\$ 6,300	\$ 100	1.6%
Staff Travel	\$ 14,430	\$ 14,200	\$ 230	1.6%
Approved FTE's	14	17	(3)	-17.6%
Expense Per FTE	\$ 1,488	\$ 1,206	\$ 282	23.4%
External Relations				
Conference Registrations	\$ 4,490	\$ 6,690	\$ (2,200)	-32.9%
Staff Travel	\$ 33,500	\$ 35,000	\$ (1,500)	-4.3%
Approved FTE's	10	10	-	0.0%
Expense Per FTE	\$ 3,799	\$ 4,169	\$ (370)	-8.9%

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
2015 Training & Travel Budget

	<u>2015</u> <u>Budget</u>	<u>2014</u> <u>Budget</u>	<u>Increase</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
General Counsel				
Conference Registrations	\$ 14,700	\$ 11,345	\$ 3,355	29.6%
Staff Travel	\$ 20,900	\$ 16,005	\$ 4,895	30.6%
Approved FTE's	22	21	1	4.8%
Expense Per FTE	\$ 1,618	\$ 1,302	\$ 316	24.3%
Human Resources				
Conference Registrations	\$ 12,897	\$ 13,600	\$ (703)	-5.2%
Staff Travel	\$ 20,400	\$ 19,100	\$ 1,300	6.8%
Approved FTE's	10	10	-	0.0%
Expense Per FTE	\$ 3,330	\$ 3,270	\$ 60	1.8%
Internal Audit				
Conference Registrations	\$ 28,350	\$ 16,650	\$ 11,700	70.3%
Staff Travel	\$ 28,000	\$ 27,000	\$ 1,000	3.7%
Approved FTE's	8	8	-	0.0%
Expense Per FTE	\$ 7,044	\$ 5,456	\$ 1,588	29.1%

Note: Excludes Board Travel included in Attachment 3

* Enterprise Risk Management now includes the Office of Process & Change Management