



Ohio Public Employees Retirement System

October 18, 2013

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

Dear Ms. Rhodes:

Enclosed is the proposed 2014 operating budget for the Ohio Public Employees Retirement System (OPERS). The proposed operating budget of \$101.8 million reflects a 3.53% increase in expenses from the prior year's budget. However, the proposed operating budget increase excluding the cumulative custodial increase included in 2013 and 2014 budgets of \$2.8 million, \$2.3 million included in 2013 and an additional \$0.5 million in 2014, reflects only a 3.10% increase from the prior year budget. The 3.10% increase in the operating budget reflects the expenses within OPERS control. OPERS is able to operate the system at an annual cost of approximately \$100 per member.

The proposed operating budget reflects funding for the first year of OPERS' newly proposed three year strategic plan. The proposed strategic plan includes funding to implement the new health care plan changes and to communicate more extensively with members during this transition. This budget also continues to include a number of significant technology initiatives which will 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 approximately 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 \$1.2 million to communicate to our membership and employers, which is especially important given the need to help our membership understand the continuing impact of the pension and health care changes and to help our employers understand the impact of the new GASB standards. The proposed budget also includes funds for continued modifications to our information systems associated with implementing the pension and health care changes.

The proposed budget includes a 3% merit increase based upon a thorough evaluation process which added \$1.5 million to the budget. While OPERS has continued to leverage our investment in technology to maintain current staffing levels, the composition of our staff continues to shift within areas. As noted above, another significant increase occurred in the custodial banking expense with an additional \$0.5 million increase in 2014 (in addition to the \$2.3 million increase in 2013) resulting from the re-bid of custodial services.

OPERS' proposed capital budget is \$20.3 million. This budget includes funds for the continued implementation of the major information system technology upgrade. The capital budget also includes a \$3 million placeholder attributable to a potential new building need for disaster recovery and business continuity purposes.

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 2014 budget currently being submitted to the ORSC.
- Attachment 1 is a statement of planned operating and capital expenditures including comparisons to the 2013 fiscal year budget for OPERS.
- Attachment 2 is the capital budget detail.
- Attachment 3 is a separate schedule of Retirement Board-related budget items that are included in the overall organization operating budget.
- 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 and 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 these difficult economic times with the need to continue to fund the operations of a growing and complex multi-billion dollar organization and 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 2014 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			
	11/14-12/1/14 2014 Budget	11/13-12/31/13 2013 Budget	Increase (Decrease)	% Change	7/1/13-6/30/14 2014 Budget	7/1/12-6/30/13 2013 Budget	Increase (Decrease)	% Change	7/1/13-6/30/14 2014 Budget	7/1/12-6/30/13 2013 Budget	Increase (Decrease)	% Change	01/01/14- 12/31/14 2014 Budget	01/01/13- 12/31/13 2013 Budget	Increase (Decrease)	% Change	1/1/14-12/31/14 2014 Budget	1/1/13-12/31/13 2013 Budget	Increase (Decrease)	% Change
Personnel	60,701,383	58,610,380	2,191,013	3.7%	66,676,100	68,116,400	460,700	0.7%	17,401,628	16,141,342	1,260,184	7.8%	13,068,786	12,783,445	285,380	2.2%	950,460	936,978	13,474	1.4%
Professional Services	21,611,711	20,788,818	862,893	4.1%	7,887,900	6,180,200	(292,300)	(3.6%)	6,388,812	6,483,456	(103,643)	(1.6%)	4,821,770	4,439,868	185,114	4.2%	529,600	476,600	52,900	11.1%
Communications Expense	3,421,110	3,383,871	37,239	1.1%	2,554,200	2,694,300	(140,100)	(5.2%)	1,206,010	1,232,818	(27,808)	(2.3%)	686,386	689,925	16,460	2.9%	21,000	22,600	(1,600)	(8.7%)
Other Operating Expense	11,985,507	11,611,288	474,239	4.1%	9,523,800	9,376,000	147,800	1.6%	2,636,692	2,690,002	(53,310)	(2.0%)	2,005,078	1,908,784	96,294	5.0%	199,500	192,000	7,500	3.9%
Net Building Expense	4,052,279	4,136,683	(83,304)	(2.0%)	2,327,600	2,471,500	(143,900)	(5.8%)	1,193,405	1,282,817	(89,412)	(6.5%)	1,286,500	1,285,100	1,400	0.1%	65,923	66,923	0	0.0%
Total Operating Budget	101,772,000	98,300,000	3,472,000	3.5%	90,869,600	90,837,400	32,200	0.0%	28,826,445	27,820,434	1,006,011	3.6%	21,668,628	20,963,910	684,618	2.8%	1,766,373	1,693,989	72,374	4.3%
Depreciation	10,841,000	9,144,000	1,697,000	18.6%					384,350	154,000	210,350	138.6%	2,300,000	2,300,000	0	0.0%	4,629	4,287	342	8.0%
Total Capital Budget	20,277,541	18,997,281	1,280,260	6.7%	1,694,300	1,848,700	(161,400)	(8.7%)					2,820,320	3,364,800	(544,480)	(16.2%)	10,000	10,000	0	0.0%

Budget Periods	2014		2013		2012		2012 Actuals
	633	632	633	632	636	630	
Budget Full-time Equivalent	833	832	833	832	836	830	
Actual Full-time Equivalent			585	279	586	670	
Active Members					173,044		2012 Actuals
Inactive Members					134,874		1,651
Benefit Recipients					143,266		9
Re-employed Retirees					Included Above		1,494
Total Membership					451,274		3,154
Operating Expense Per Total Member	\$101.15	\$97.70	\$93.23	\$93.23	\$101.86	\$98.29	\$102.67
	\$580.04	\$537.10	\$486.61	\$537.10	\$580.04	\$537.10	\$486.61

* Data not available per SERS

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
FY 2014 Budget

Budget Periods	2014 Budget	2013 Budget	Increase (Decrease)	% Change
Personnel	\$ 60,701,393	\$ 58,510,380	\$ 2,191,013	3.7%
Salaries and Wages	46,813,314	44,952,558	1,860,756	4.1%
PERS contributions	6,930,074	6,691,762	238,312	3.6%
Health Insurance	6,675,325	6,545,350	129,975	2.0%
Miscellaneous Expenses	282,680	320,710	(38,030)	(11.9%)
Professional Services	\$ 21,611,711	\$ 20,758,818	\$ 852,893	4.1%
Actuarial	817,262	845,994	(28,732)	(3.4%)
Audit	543,500	535,000	8,500	1.6%
Custodial Banking Fees	7,114,000	6,506,000	608,000	9.3%
Investment Consulting	7,010,550	6,429,445	581,105	9.0%
Other Consulting (Medical Exams, TPA Fees, Professional Consultants)	6,084,399	6,406,379	(321,980)	(5.0%)
Banking Expense	42,000	36,000	6,000	16.7%
Communications Expense	\$ 3,421,110	\$ 3,383,871	\$ 37,239	1.1%
Printing and Postage	2,925,299	2,881,144	44,155	1.5%
Telephone	265,071	231,487	33,584	14.5%
Member/Employer Education	230,740	271,240	(40,500)	(14.9%)
Other Operating Expense	\$ 11,985,507	\$ 11,511,268	\$ 474,239	4.1%
Conferences and Education	556,962	557,939	(977)	(0.2%)
Travel	693,518	682,708	10,810	1.6%
Computer Technology	8,970,426	8,513,599	456,827	5.4%
Other Operating (Fiduciary Insurance, Supplies, Dues & Subscriptions)	1,487,607	1,399,022	88,585	6.3%
Ohio Retirement Study Council	268,994	350,000	(81,006)	(23.1%)
TOS Warrant Clearing Council	8,000	8,000	0	0.0%
Net Building Expense	\$ 4,052,279	\$ 4,135,663	\$ (83,384)	-2.0%
Total Operating Budget	\$ 101,772,000	\$ 98,300,000	3,472,000	3.5%

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
FY 2014 Budget

Other Items Monitored by OPERS

	<u>2014 Budget</u>	<u>2013 Budget</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Total Capital Budget	\$ 20,277,541	\$ 18,997,281	\$ 1,280,260	6.7%
Depreciation	\$ 10,841,000	\$ 9,144,000	\$ 1,697,000	18.6%
Commission Sharing Arrangements - Research Costs	\$ 2,917,817			
Inter-plan Interest	\$ 1,307,423			

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
2014 Capital Budget

<u>General Capital Items</u>	<u>Total</u>
Building	\$ 3,032,500
Computer Software and Equipment	1,694,000
Furniture and Other Equipment	
Total General Capital Items	4,726,500
<u>IT Capital Projects</u>	
Our Way Forward	15,173,741
Software Installation Security (Bit 9 Whitelisting)	87,000
Perimeter Firewall Refresh	20,000
Charles River Trading Platform Upgrade	270,300
Total IT Capital Projects	15,551,041
Total 2014 Capital	\$ 20,277,541

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
FY 2014 Retirement Board Expense Budgets

	<u>2014</u>	<u>2013</u>	<u>Increase</u>	
	<u>Budget</u>	<u>Budget</u>	<u>(Decrease)</u>	<u>% Change</u>
Board/Subcommittee meetings	\$ 3,950	\$ 3,500	\$ 450	12.86%
Board travel to attend Board meetings	19,500	21,500	(2,000)	-9.30%
Board education and travel	28,250	30,000	(1,750)	-5.83%
Board meetings with constituency groups / dues and subscriptions	3,960	4,160	(200)	-4.81%
Travel Expenses	\$ 55,660	\$ 59,160	(3,500)	-5.92%

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

	2012 ACTUALS	2011 ACTUALS	2010 ACTUALS
Investment Assets			
Total Internally Managed Assets	\$ 33,775,835,381	\$ 34,042,738,730	\$ 42,341,258,099
Total Externally Managed Assets	46,509,012,209	39,899,055,107	33,882,725,662
Total Investment Assets	\$ 80,284,847,590	\$ 73,941,793,837	\$ 76,223,983,761
Investment Expenses			
Total Internal Investment Expenses	\$ 27,085,847	\$ 23,237,007	\$ 20,466,548
Total External Investment Expense	264,875,076	193,035,930	128,798,818
Investment Consulting	1,153,694	1,485,199	1,494,726
Brokerage/Commissions - Internal	12,230,121	16,272,974	12,163,924
Brokerage/Commissions - External	16,840,763	17,401,359	15,059,475
Custodian Fees	2,747,555	1,830,827	4,032,465
Total Investment Expenses	\$ 324,933,056	\$ 253,263,296	\$ 182,015,956
Total Investment Expenses as a % of Total Investment Assets	0.96%	0.74%	0.43%
Total Investment Expenses as a % of Internally Managed Assets	0.70%	0.63%	0.54%
Total Investment Expenses as a % of Total Investment Assets	0.40%	0.34%	0.24%

Investment Assets
 Total Internally Managed Assets
 Total Externally Managed Assets
 Total Investment Assets

Investment Expenses
 Total Internal Investment Expenses
 Total External Investment Expense
 Investment Consulting
 Brokerage/Commissions - Internal
 Brokerage/Commissions - External
 Custodian Fees
 Total Investment Expenses

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 Arrangements

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Statistical Information

	2014	2013	2012	2011	2010
Budget Full-time Equivalencies	633.0	632.0	636.0	641.5	628.5

Active Members	*	*	348,235	349,189	356,734
Inactive Members	*	*	467,298	452,718	438,434
Benefit Recipients	*	*	190,621	184,965	179,565
Total Membership	*	*	1,006,154	986,872	974,733

Total Operating Budget	\$101,772,000	\$98,300,000	\$93,800,000	\$91,261,095	\$91,520,000
Total Operating Exp / Total Membership	\$101.15	\$97.70	\$93.23	\$92.48	\$93.89

* 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
2014 Training & Travel Budget

	<u>2014</u> <u>Budget</u>	<u>2013</u> <u>Budget</u>	<u>Increase</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
Benefits				
Conference Registrations	\$ 19,275	\$ 21,474	\$ (2,199)	-10.2%
Staff Travel	\$ 21,350	\$ 28,850	\$ (7,500)	-26.0%
Approved FTE's	210	208	2	1.0%
Expense Per FTE	\$ 193	\$ 242	\$ (48)	-20.0%
Health Care				
Conference Registrations	\$ 15,200	\$ 12,700	\$ 2,500	19.7%
Staff Travel	\$ 7,800	\$ 11,800	\$ (4,000)	-33.9%
Approved FTE's	31	32	(1)	-3.1%
Expense Per FTE	\$ 742	\$ 766	\$ (24)	-3.1%
Finance				
Conference Registrations	\$ 41,565	\$ 57,512	\$ (15,947)	-27.7%
Staff Travel	\$ 60,340	\$ 55,068	\$ 5,272	9.6%
Approved FTE's	103	119	(16)	-13.4%
Expense Per FTE	\$ 989	\$ 946	\$ 43	4.6%
Information Technology				
Conference Registrations	\$ 264,455	\$ 265,905	\$ (1,450)	-0.5%
Staff Travel	\$ 107,230	\$ 95,630	\$ 11,600	12.1%
Approved FTE's	155	154	1	0.6%
Expense Per FTE	\$ 2,398	\$ 2,348	\$ 50	2.1%
Investments				
Conference Registrations	\$ 17,800	\$ 18,500	\$ (700)	-3.8%
Staff Travel	\$ 316,500	\$ 322,500	\$ (6,000)	-1.9%
Approved FTE's	61	61	-	0.0%
Expense Per FTE	\$ 5,480	\$ 5,590	\$ (110)	-2.0%
Executive				
Conference Registrations	\$ 17,569	\$ 18,210	\$ (641)	-3.5%
Staff Travel	\$ 21,593	\$ 23,010	\$ (1,417)	-6.2%
Approved FTE's	7	3	4	133.3%
Expense Per FTE	\$ 5,595	\$ 13,740	\$ (8,145)	-59.3%
Enterprise Risk Management				
Conference Registrations	\$ 2,000	\$ 2,000	\$ -	0.0%
Staff Travel	\$ 10,000	\$ 2,000	\$ 8,000	400.0%
Approved FTE's	7	5	2	40.0%
Expense Per FTE	\$ 1,714	\$ 800	\$ 914	114.3%
Office of Process & Change Mgmt.				
Conference Registrations	\$ 4,300	\$ 6,400	\$ (2,100)	-32.8%
Staff Travel	\$ 4,200	\$ 4,250	\$ (50)	-1.2%
Approved FTE's	10	3	7	233.3%
Expense Per FTE	\$ 850	\$ 3,550	\$ (2,700)	-76.1%
External Affairs				
Conference Registrations	\$ 6,690	\$ 3,140	\$ 3,550	113.1%
Staff Travel	\$ 35,000	\$ 29,000	\$ 6,000	20.7%
Approved FTE's	10	9	1	11.1%
Expense Per FTE	\$ 4,169	\$ 3,571	\$ 598	16.7%

OHIO RETIREMENT SYSTEM BUDGET PRESENTATION TO ORSC
Ohio Public Employees Retirement System
2014 Training & Travel Budget

	<u>2014</u> <u>Budget</u>	<u>2013</u> <u>Budget</u>	<u>Increase</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
General Counsel				
Conference Registrations	\$ 11,345	\$ 11,465	\$ (120)	-1.0%
Staff Travel	\$ 16,005	\$ 17,700	\$ (1,695)	-9.6%
Approved FTE's	21	21	-	0.0%
Expense Per FTE	\$ 1,302	\$ 1,389	\$ (86)	-6.2%
Human Resources				
Conference Registrations	\$ 13,600	\$ 13,000	\$ 600	4.6%
Staff Travel	\$ 19,100	\$ 16,600	\$ 2,500	15.1%
Approved FTE's	10	10	-	0.0%
Expense Per FTE	\$ 3,270	\$ 2,960	\$ 310	10.5%
Internal Audit				
Conference Registrations	\$ 16,650	\$ 14,200	\$ 2,450	17.3%
Staff Travel	\$ 27,000	\$ 23,500	\$ 3,500	14.9%
Approved FTE's	8	7	1	14.3%
Expense Per FTE	\$ 5,456	\$ 5,386	\$ 71	1.3%

Excludes Board Travel included in Attachment 3