



Ohio Public Employees Retirement System

October 19, 2016

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

Dear Ms. ^{Bethany}Rhodes:

Enclosed is the proposed 2017 operating budget for the Ohio Public Employees Retirement System (OPERS). The proposed operating budget of \$115.6 million reflects a 4.1% increase in expenses from the prior year's budget. A significant portion of the proposed operating budget increase (approximately 56.5%) relates to a shift in expenses previously included in the capital budget or through investment credits. The other portion of the budget increase (37.9%) results from anticipated increases in employee health care costs. The 2017 proposed operating budget excluding these two items would approximate last year's budget level.

The OPERS 2017 proposed operating budget includes a shift of approximately \$1.3 million in personnel expenses associated with the capitalized labor from an on-going IT capital project from 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. Since a portion of the capital project is completed, the staff costs shift back to the operating budget.

Similarly, the proposed operating budget reflects a shift of approximately \$1.3 million in professional services expenses for investment research fees. These costs were previously funded through commission sharing arrangements and reflected in the non-cash items of the administrative budget.

The proposed operating budget includes anticipated increases in employee health care costs of approximately \$1.7 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 couple of years, OPERS claims expenses have increased significantly, thus the proposed 2017 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 the health care plan changes and 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 2017 operating budget. The most significant increase is in the personnel category and reflects the combination of a salary merit increase, the shift in the capitalized labor from the capital budget to the operating discussed previously 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. As a by-product of the investment in technology to control staffing levels as membership increases, OPERS is reducing the staffing level by 13 positions in 2017.

OPERS' proposed capital budget is \$4.4 million, an 8.0% decrease from the prior year budget of \$4.8 million. This budget includes funds for an imaging and workflow system end of life replacement, the implementation of IT system enhancements related to health care changes, other system upgrades, and building-related system and equipment replacements.

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

- Attachment 1 is a statement of planned operating expenditures, including comparisons to the 2016 fiscal year budget for OPERS and projected expenses for 2016.
- 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

Karen E. Carraher
Executive Director

Ohio Public Employees Retirement System
2017 ORSC BUDGET PRESENTATION

FY 2016 to FY 2017 Operating Budget and Increase (Decrease)

Budget Category	2017 Budget	2016 Budget	2016 Estimated Actual	2016-2017 Increase (Decrease)	Percent Change (2016-2017)
Personnel	\$71,023,730	\$66,707,933	\$67,690,152	\$4,315,797	6.5 %
Salaries and Wages	53,550,621	51,287,069	50,456,426	2,263,552	4.4
PERS Contributions	7,976,041	7,643,477	7,388,623	332,564	4.4
Health Insurance	9,241,448	7,520,742	9,595,148	1,720,706	22.9
Miscellaneous Expenses	255,620	256,645	249,955	(1,025)	(0.4)
Professional Services	\$26,279,573	\$26,345,842	\$23,824,896	(\$66,269)	(0.3) %
Actuarial	806,400	872,731	643,444	(66,331)	(7.6)
Audit	588,900	814,160	479,699	(225,260)	(27.7)
Custodial Banking Fees	9,075,000	9,825,000	8,141,939	(750,000)	(7.6)
Investment Consulting	10,872,335	9,978,222	9,838,671	894,113	9.0
Other Consulting	4,893,938	4,812,729	4,678,807	81,209	1.7
Banking Expenses	43,000	43,000	42,336	0	0.0
Communications Expense	\$3,151,731	\$3,057,350	\$2,468,528	\$94,381	3.1 %
Printing and Postage	2,788,695	2,698,723	2,116,653	89,972	3.3
Telecommunications	260,376	229,327	227,922	31,049	13.5
Member/Employer Education	102,660	129,300	123,953	(26,640)	(20.6)
Other Operating Expenses	\$11,261,745	\$11,064,573	\$10,127,060	\$197,172	1.8 %
Conferences and Education	555,876	473,261	436,705	82,615	17.5
Travel	630,981	713,722	504,606	(82,741)	(11.6)
Computer Technology	8,464,666	8,181,162	7,597,787	283,504	3.5
Other Operating	1,194,874	1,310,628	1,200,632	(115,754)	(8.8)
Ohio Retirement Study Council	284,348	257,800	260,618	26,548	10.3
TOS Warrant Clearing Charges	8,000	8,000	6,712	0	0.0
Attorney General Charges	123,000	120,000	120,000	3,000	2.5
Net Building Expense	\$3,843,221	\$3,838,302	\$3,506,964	\$4,919	0.1 %
Total Operating Budget	\$115,560,000	\$111,014,000	\$107,617,600	\$4,546,000	4.1 %
Full-Time Equivalent (FTE) Associates	631		644		
Other Items Monitored by OPERS					
Depreciation	\$12,747,000	\$11,484,000	\$11,264,311	\$1,263,000	11.0 %
Commission Sharing Agreements - Research Costs	\$0	\$1,422,533	\$1,317,568	(\$1,422,533)	(100.0) %
Inter-plan Interest	\$303,000	\$870,467	\$870,467	(\$567,467)	(65.2) %

Ohio Public Employees Retirement System
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FY2016 to FY2017 Capital Budget

	2017 Budget (does not include carryover from previous years)	2016 Budget (does not include carryover from previous years)	2016 Estimate
Total Capital Budget	\$4,432,308	\$4,819,730	\$4,744,139
Building and Building Equipment	350,550	924,330	909,833
Furniture, Equipment and Other	4,081,758	3,893,000	3,831,944
IT Capital Projects		2,400	2,362

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Investment Expenses

	2015 Actual	2014 Actual	Percent Change (2014 to 2015)
Total Investment Assets	\$86,637,986,647	\$90,641,787,898	(4.42) %
Total Internally Managed Assets	32,095,493,520	33,410,965,287	(3.94)
Total Externally Managed Assets	54,542,493,127	57,230,822,611	(4.70)

Total Investment Expenses	\$476,299,887	\$398,781,397	19.44 %
Total Internal Investment Expenses	31,930,214	27,954,441	14.22
Total External Investment Expenses	428,229,387	350,266,517	22.26
Investment Consulting	983,088	819,810	19.92
Brokerage/Commissions-Internal	2,061,962	2,698,371	(23.58)
Brokerage/Commissions-External	7,892,979	11,214,454	(29.62)
Custodian Fees	5,202,257	5,827,804	(10.73)

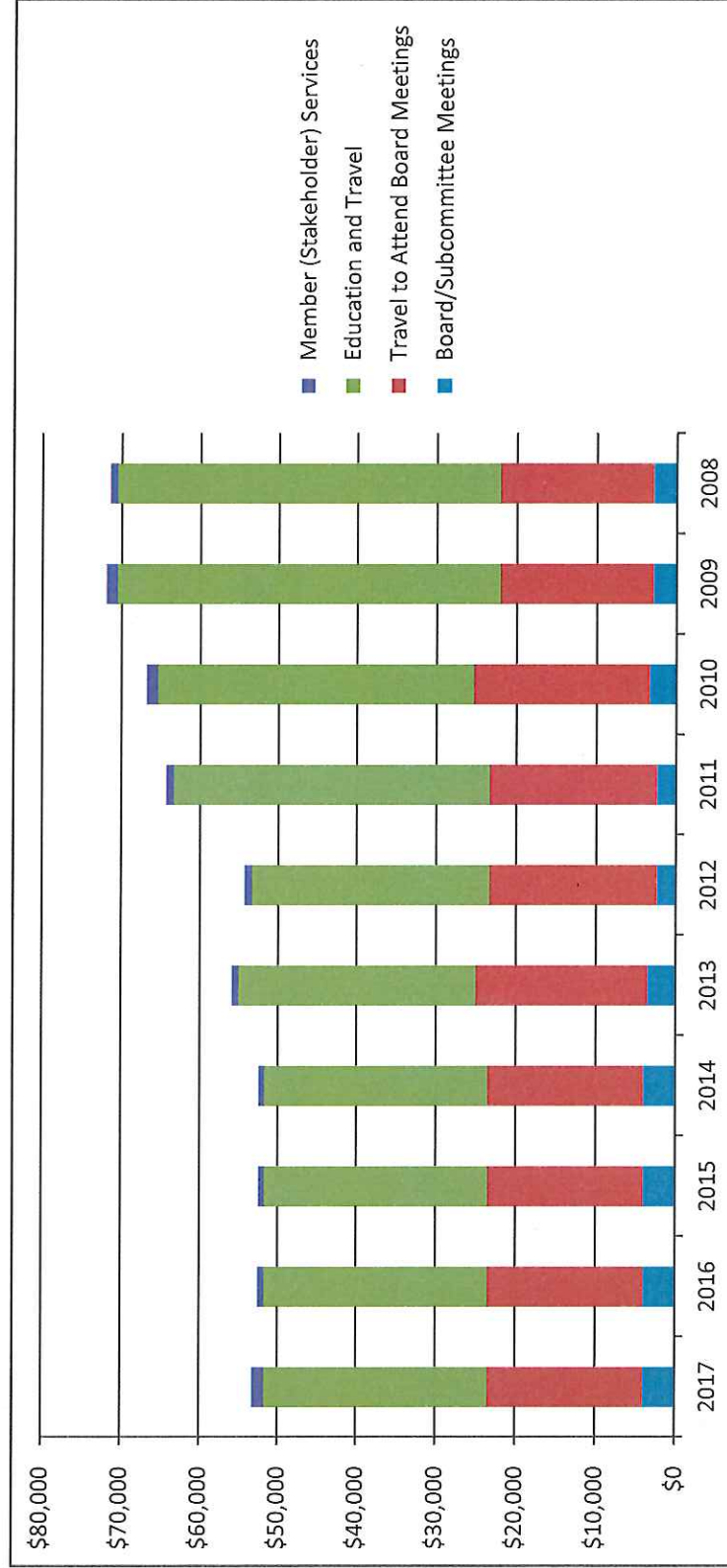
Total Investment Expenses as a % of Total Investment Assets	0.55%	0.44%
Expenses as % of Internally Managed	1.48	1.19
Expenses as % of Externally Managed	0.87	0.70

Note: 2016 Investment Expenses not available. Does not include research costs paid through Commission Sharing Agreements.

Ohio Public Employees Retirement System
2017 ORSC BUDGET PRESENTATION

Board Member Expenses

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total Board Expenses	\$53,200	\$52,500	\$52,400	\$52,400	\$55,900	\$54,300	\$64,300	\$66,800	\$71,916	\$71,416
Board/Subcommittee Meetings	\$3,950	\$3,950	\$3,950	\$3,950	\$3,500	\$2,300	\$2,300	\$3,300	\$2,856	\$2,856
Travel to Attend Board Meetings	\$19,500	\$19,500	\$19,500	\$19,500	\$21,500	\$21,000	\$21,000	\$22,000	\$19,200	\$19,200
Education and Travel	\$28,250	\$28,250	\$28,250	\$28,250	\$30,000	\$30,000	\$40,000	\$40,000	\$48,400	\$48,400
Member (Stakeholder) Services	\$1,500	\$800	\$700	\$700	\$900	\$1,000	\$1,000	\$1,500	\$1,460	\$960



**Ohio Public Employees Retirement System
2017 ORSC BUDGET PRESENTATION**

Staff Training and Travel

	FY2017	FY2016	Increase (Decrease)	% Increase (Decrease)
Administration				
Conferences & Seminars	\$258,909	\$306,845	(\$47,936)	(15.6) %
In-House Training	\$6,072	\$4,988	\$1,084	21.7
#FTE	105	101	4	4.0
Training Expense per FTE	\$2,524	\$3,087	(\$563)	(18.2)

	FY2017	FY2016	Increase (Decrease)	% Increase (Decrease)
Finance and Benefits				
Conferences & Seminars	\$114,444	\$110,937	\$3,507	3.2 %
In-House Training	\$14,775	\$15,575	(\$800)	(5.1)
#FTE	179	189	(10)	(5.3)
Training Expense per FTE	\$722	\$669	\$53	7.9

	FY2017	FY2016	Increase (Decrease)	% Increase (Decrease)
Investments				
Conferences & Seminars	\$258,685	\$307,300	(\$48,615)	(15.8) %
In-House Training			\$0	-
#FTE	68	66	2	3.0
Training Expense per FTE	\$3,804	\$4,656	(\$852)	(18.3)

	FY2017	FY2016	Increase (Decrease)	% Increase (Decrease)
Information Technology/Information Services				
Conferences & Seminars	\$184,045	\$161,122	\$22,923	14.2 %
In-House Training	\$97,400	\$123,070	(\$25,670)	(20.9)
#FTE	156	160	(4)	(2.5)
Training Expense per FTE	\$1,804	\$1,776	\$28	1.6

	FY2017	FY2016	Increase (Decrease)	% Increase (Decrease)
Member Services				
Conferences & Seminars	\$18,745	\$19,140	(\$395)	(2.1) %
In-House Training	\$11,432	\$10,332	\$1,100	10.6
#FTE	123	128	(5)	(3.9)
Training Expense per FTE	\$245	\$230	\$15	6.5

Ohio Public Employees Retirement System
2017 ORSC BUDGET PRESENTATION

Supplementary Statistical Information

	2016*	2015	2014	2013	2012
Active Members	345,622	345,622	346,509	347,727	348,235
Inactive Members	516,049	516,049	498,610	483,521	467,298
Benefit Recipient (Age, Dis., Survivor)	205,601	205,601	203,112	196,594	190,621
Re-employed Retirees	Included Above	Included Above	Included Above	Included Above	Included Above
Total Membership	1,067,272	1,067,272	1,048,231	1,027,842	1,006,154
Members Per FTE	1,657	1,662	1,643	1,626	1,582

*Member counts for year-end 2016 not available, reflects 2015 counts for calculation purpose.