



October 19, 2018

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 2019 operating budget for the Ohio Public Employees Retirement System (OPERS). The proposed operating budget of \$114.0 million reflects a 2.3% increase in expenses from the prior year's budget. The 2.3% increase relates primarily to the purchase and implementation of new cloud-based systems for investment accounting and Fixed Income analytics. These items are reflected in the \$2.7 million increase in the computer technology expense category. All other expense category increases and decreases are more minor and offsetting. The only other significant fluctuation occurs in the investment consulting category and results from increases in custodial and master recordkeeping fees.

This budget reflects \$1.3 million in savings from the elimination of 18 vacant positions. The continued reduction in staffing has been achieved as a result of technology efficiencies. The proposed budget also includes a 3% merit-based increase using a thorough evaluation process. The 3% increase accounts for \$1.7 million of the budget.

The proposed operating budget includes decreases in employee health care costs of approximately \$0.7 million. OPERS is self-insured for employee health care and expenses fluctuate depending on experience. Over the past year, OPERS claims expenses have decreased and are expected to continue to decrease in 2019 due to changes in the stop loss program.

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 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 2019 operating budget. All key variances have already been described.

OPERS' proposed capital budget is \$11.3 million, a 51.7% increase from the prior year budget of \$7.4 million. This budget includes funds for various upgrades, the most significant being upgrades of core network technology and the employer contribution system, and integration of service retirement accounts and health care activity into the main member benefits system.

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

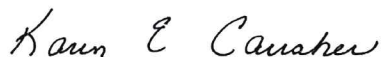
- Attachment 1 is a statement of planned operating expenditures, including comparisons to the 2018 fiscal year budget for OPERS and projected expenses for 2018.
- Attachment 2 is the detailed capital budget.
- Attachment 3 is a two-year historical summary of investment costs and management fees.
- Attachment 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 shows 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
Executive Director

Ohio Public Employees Retirement System
2019 ORSC BUDGET PRESENTATION

FY 2018 to FY 2019 Operating Budget and Increase (Decrease)

Budget Category	2019 Budget	2018 Budget	2018 Estimated Actual	2018-2019 Increase (Decrease)	Percent Change (2018-2019)
Personnel	\$67,793,297	\$68,973,140	\$68,426,282	(\$1,179,843)	(1.7) %
Salaries and Wages	50,681,579	51,028,712	51,403,514	(347,133)	(0.7)
PERS Contributions	7,536,898	7,598,881	7,502,901	(61,983)	(0.8)
Health Insurance	9,373,800	10,080,147	9,345,703	(706,347)	(7.0)
Miscellaneous Expenses	201,020	265,400	174,164	(64,380)	(24.3)
Professional Services	\$25,929,987	\$24,431,793	\$24,806,485	\$1,498,194	6.1 %
Actuarial	783,633	731,036	731,036	52,597	7.2
Audit	446,900	866,900	849,393	(420,000)	(48.4)
Custodial Banking Fees	8,130,000	7,335,000	7,845,975	795,000	10.8
Investment Consulting	12,587,975	11,393,290	11,531,255	1,194,685	10.5
Other Consulting	3,935,479	4,062,567	3,805,826	(127,088)	(3.1)
Banking Expenses	46,000	43,000	43,000	3,000	7.0
Communications Expense	\$2,768,854	\$3,338,542	\$2,914,957	(\$569,688)	(17.1) %
Printing and Postage	2,405,661	2,966,750	2,549,931	(561,089)	(18.9)
Telecommunications	230,933	272,752	238,320	(41,819)	(15.3)
Member/Employer Education	132,260	99,040	126,706	33,220	33.5
Other Operating Expenses	\$13,624,550	\$10,750,855	\$11,307,343	\$2,873,695	26.7 %
Conferences and Education	419,677	453,863	432,676	(34,186)	(7.5)
Travel	485,792	605,462	514,808	(119,670)	(19.8)
Computer Technology	11,057,172	8,089,021	8,746,403	2,968,151	36.7
Other Operating	1,229,655	1,199,360	1,185,935	30,295	2.5
Ohio Retirement Study Council	335,469	311,125	328,697	24,344	7.8
TOS Warrant Clearing Charges	7,000	4,000	10,800	3,000	75.0
Attorney General Charges	89,785	88,024	88,024	1,761	2.0
Net Building Expense	\$3,863,312	\$3,883,670	\$3,854,016	(\$20,358)	(0.5) %
Total Operating Budget	\$113,980,000	\$111,378,000	\$111,309,083	\$2,602,000	2.3 %
Full-Time Equivalent (FTE) Associates	581	581	599		
Other Items Monitored by OPERS					
Depreciation	\$12,343,000	\$12,673,000	\$12,672,016	(\$330,000)	(2.6) %
Commission Sharing Agreements - Research Costs	\$330,000	\$200,000	\$200,000	\$130,000	65.0 %

Ohio Public Employees Retirement System
2019 ORSC BUDGET PRESENTATION

FY2018 to FY2019 Capital Budget

	2019 Budget (does not include carryover from previous years)	2018 Budget (does not include carryover from previous years)	2018 Estimate
Total Capital Budget	\$11,269,700	\$7,429,800	\$4,417,136
Building and Building Equipment	130,000	332,000	281,000
Computer Software & Equipment and Other	4,639,700	4,097,800	4,136,136
IT Capital Projects	6,500,000	3,000,000	

**Ohio Public Employees Retirement System
2019 ORSC BUDGET PRESENTATION**

Investment Expenses

	2017 Actual	2016 Actual	Percent Change (2016 to 2017)
Total Investment Assets	\$100,876,725,701	\$89,995,695,267	12.09 %
Total Internally Managed Assets	40,002,517,929	34,892,059,594	14.65
Total Externally Managed Assets	60,874,207,772	55,103,635,673	10.47
Total Investment Expenses	\$458,143,068	\$414,679,691	10.48 %
Total Internal Investment Expenses	33,939,627	33,572,885	1.09
Total External Investment Expenses*	410,779,090	366,923,647	11.95
Investment Consulting	1,074,026	985,167	9.02
Brokerage/Commissions-Internal	1,774,334	2,303,923	(22.99)
Brokerage/Commissions-External	6,723,986	6,312,999	6.51
Custodian Fees	3,852,005	4,581,070	(15.91)
Total Investment Expenses as a % of Total Investment Assets	0.45%	0.46%	
Expenses as % of Internally Managed	1.15	1.19	
Expenses as % of Externally Managed	0.75	0.75	

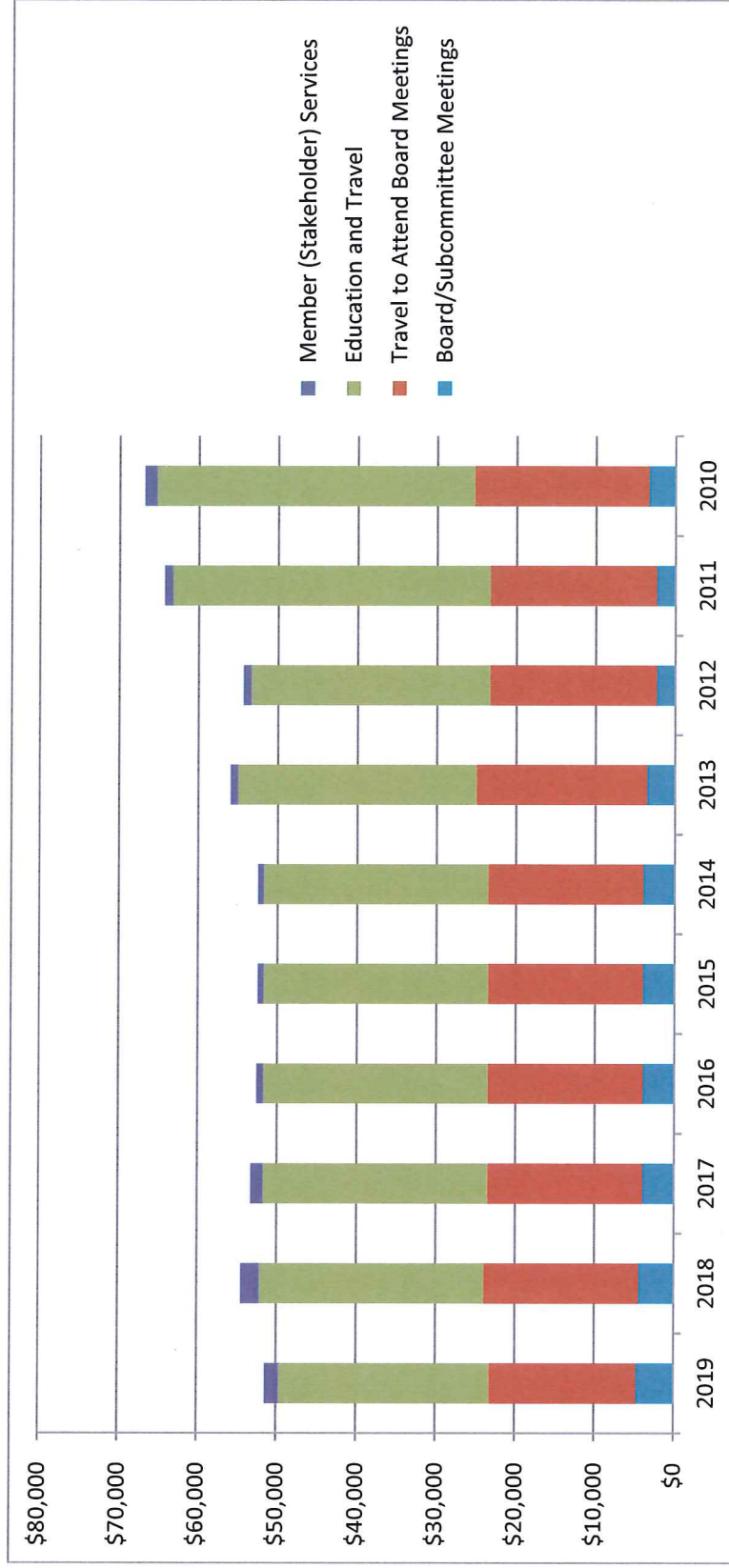
* - Includes net management fees and partnership expenses.

Note: 2018 Investment Expenses not available. Does not include research costs paid through Commission Sharing Agreements.

Ohio Public Employees Retirement System
2019 ORSC BUDGET PRESENTATION

Board Member Expenses

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Total Board Expenses	\$51,400	\$54,450	\$53,200	\$52,500	\$52,400	\$52,400	\$55,900	\$54,300	\$64,300	\$66,800
Board/Subcommittee Meetings	\$4,700	\$4,400	\$3,950	\$3,950	\$3,950	\$3,950	\$3,500	\$2,300	\$2,300	\$3,300
Travel to Attend Board Meetings	\$18,500	\$19,500	\$19,500	\$19,500	\$19,500	\$19,500	\$21,500	\$21,000	\$21,000	\$22,000
Education and Travel	\$26,500	\$28,250	\$28,250	\$28,250	\$28,250	\$28,250	\$30,000	\$30,000	\$40,000	\$40,000
Member (Stakeholder) Services	\$1,700	\$2,300	\$1,500	\$800	\$700	\$700	\$900	\$1,000	\$1,000	\$1,500



**Ohio Public Employees Retirement System
2019 ORSC BUDGET PRESENTATION**

Staff Training and Travel

	FY2019	FY2018	Increase (Decrease)	% Increase (Decrease)
Administration				
Conferences & Seminars	\$222,622	\$196,974	\$25,648	13.0 %
In-House Training	\$11,840	\$4,079	\$7,761	190.3
#FTE	70	73	(3)	(4.1)
Training Expense per FTE	\$3,349	\$2,754	\$595	21.6

	FY2019	FY2018	Increase (Decrease)	% Increase (Decrease)
Finance and Benefits				
Conferences & Seminars	\$113,300	\$126,225	(\$12,925)	(10.2) %
In-House Training	\$13,165	\$11,725	\$1,440	12.3
#FTE	166	180	(14)	(7.8)
Training Expense per FTE	\$762	\$766	(\$4)	(0.5)

	FY2019	FY2018	Increase (Decrease)	% Increase (Decrease)
Investments				
Conferences & Seminars	\$154,461	\$155,145	(\$684)	(0.4) %
In-House Training			\$0	-
#FTE	67	67	0	-
Training Expense per FTE	\$2,305	\$2,316	(\$11)	(0.5)

	FY2019	FY2018	Increase (Decrease)	% Increase (Decrease)
Information Technology/Information Services				
Conferences & Seminars	\$133,990	\$180,850	(\$46,860)	(25.9) %
In-House Training	\$84,750	\$101,800	(\$17,050)	(16.7)
#FTE	155	156	(1)	(0.6)
Training Expense per FTE	\$1,411	\$1,812	(\$401)	(22.1)

	FY2019	FY2018	Increase (Decrease)	% Increase (Decrease)
Member Services				
Conferences & Seminars	\$22,545	\$20,195	\$2,350	11.6 %
In-House Training	\$5,958	\$8,032	(\$2,074)	(25.8)
#FTE	123	123	0	-
Training Expense per FTE	\$232	\$229	\$3	1.3

Ohio Public Employees Retirement System
2019 ORSC BUDGET PRESENTATION

Supplementary Statistical Information

	2018*	2017	2016	2015	2014
Active Members	347,730	347,730	346,959	345,622	346,509
Inactive Members	559,587	559,587	537,309	516,049	498,610
Benefit Recipient (Age, Dis., Survivor)	210,882	210,882	208,381	205,601	203,112
Re-employed Retirees	Included Above	Included Above	Included Above	Included Above	Included Above
Total Membership	1,118,199	1,118,199	1,092,649	1,067,272	1,048,231
Members Per FTE	1,867	1,772	1,697	1,662	1,643

*Member counts for year-end 2018 not available; reflects 2017 counts for calculation purposes.