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JANUARY 1 - DECEMBER 31, 2012

ANNUAL BUDGET

SECURING THE FUTURE FOR OHIO'S POLICE & FIREFIGHTERS

Ohio
Police
& Fire
Pension
Fund

Ohio Police & Fire Pension Fund

140 East Town Street / Columbus, Ohio 43215-5164 / Tel. (614) 228-2975 / www.op-f.org

December 14, 2011

Members of the Ohio Police & Fire Pension Fund (OP&F) Board of Trustees: I am pleased to submit this proposed Total Plan Assets and Annual Administrative Operating Budget for fiscal year 2012, along with the Capital Outlay Budget covering fiscal years 2012-2014 for your review and approval

We hope that our investments are headed toward another positive year of returns. However, the realities of our economic conditions require us to again examine every corner of our operation to maintain the fiscal responsibility for which we have become known. It is important that our members and the Ohio's elected officials are aware of our conservative spending practices and budget-conscious approach.

The total Administrative Operating Budget for 2012 is \$58.7 million, which represents an increase of 7.7 percent from 2011. Most of this increase can be traced to investment-related fees. Specifically, new strategies being implemented designed to reduce investment risk while enhancing future returns. Management fees associated with positive returns also was a factor in the investment services budget increasing 10.0 percent in 2012. Additionally, the cost of actuarial services will increase 54.5 percent in 2012 due to anticipated studies required from the State of Ohio. The legal services budget will also increase 54 percent and can be attributed to an increase in fees OP&F incurs from the Ohio Attorney General's Office and the inclusion of potential costs related to other administrative legal activities.

OP&F's 2012 operating costs are budgeted for \$19.9 million, representing a increase of 3.5 percent from 2011. While containing costs as much as possible, the increase allows us to continue to improve services to our members and support OP&F's commitment to its mission, vision and core values.

Based on trends observed in recent years and using an actuarial investment rate of return of 8.25 percent, OP&F is budgeting net assets to increase approximately \$310.0 million in 2012. Our Capital Outlay Budget is \$3.4 million for the three-year cycle from 2012-2014.

A trend continues that results in a reduced amount of contributions flowing into the fund. This is a direct result of lower payrolls from our over 900 active employers and from benefit expenses continuing to increase in size over the amount of contributions received. In 2012, OP&F is anticipating a 2.7 percent decrease in total contributions over the 2011 actual forecast. Additionally, OP&F is anticipating benefit payments of \$1.2 billion versus \$626 million in contribution receipts. This trend is expected to continue, which means investment income will be required to balance these payments versus receipts into the future. Contributions currently cover only 50 percent of all benefit payments.

A REVIEW OF 2011

As described within this budget, OP&F again had several significant accomplishments in 2011:

- The Employer and Retirement Efficiency initiative included re-assigning several staff members from the Member Services Department to the Finance Department in order to consolidate employer-related processes. This will be completed in 2012 with the move of our Employer Education Manager from Administration to Finance. The other major aspect of this initiative is to significantly reduce the amount of time it takes to process the retirement of an active member. This part of the initiative is ongoing, with processes being reviewed, updated and new approaches analyzed.
- Since the OP&F website was last re-designed in 2004, several features and large amounts of data have become available online. With the additions of the Member Self-Serve Web and the Employer Self-Serve Web, op-f.org became an even more useful tool for members and other interested parties. In this initiative, the Communications Group, with input from department directors and support from Information Services, redesigned the OP&F website so members can more easily find and access the information that they are most interested in. The new version of the website was launched in December 2011.
- OP&F's original internal posters, featuring the organization's Mission, Vision and Core Values were developed in 2005. After a review of OP&F's mission, vision and core values statements in early 2011, the Communications Group developed three new poster designs that were reviewed by the Executive Director and then presented to focus groups of OP&F employees for feedback. The final designs were completed in September 2011. Posters were printed and given to each department to display in the fall of 2011. Along with new posters, Communications also developed new screen savers using a design that compliments the posters. The posters were printed in-house and used existing frames.
- In 2008, Vitech provided OP&F with a demonstration of the new browser based V3. This new version of V3 includes several important features. The navigation within the browser system is much more intuitive and the functions are grouped together in a logical manner. Overall speed of the system is improved, which will benefit our users and members. There are new features in the system that will help make Member Services, Finance and Information Services departments more efficient. We are currently slightly ahead of schedule for an implementation target of Sept. 2013

LOOKING AHEAD TO 2012

OP&F continues to strive to become the most efficient and dynamic organization possible. In 2012 we will once again undertake a series of initiatives designed to position OP&F for future growth. Examples of 2012 initiatives are:

- Using Federal income tax reporting forms to determine benefit levels for new retirees. This initiative will investigate the feasibility of converting the benefit calculation to a W-2-based formula rather than the current process.

- The Investment Department’s purchase and implementation of a risk management/risk measurement system will assist staff conduct risk analysis and the asset class and portfolio levels. These measurements will be used to assist with portfolio rebalancing decisions.
- Our Communications Group and Records Imaging and Mail Group will embark on fact finding and due diligence to determine the viability of sending member newsletters electronically. The eventual implementation carries the potential of reducing mail and printing costs.

After the impressive investment returns experienced in 2009 and 2010, the OP&F portfolio again will post positive growth in 2011, although we do not anticipate reaching the expected 8.25 percent rate of return. Nonetheless, we estimate a 5.0 percent return on the portfolio. We remain committed to sound investment principles and our team of consultants and staff continue to provide the Board with investment strategies and options in the best interests of our membership. The portfolio value currently stands at approximately \$11.6 billion.

Despite the gains of the past three years, the market downturn from 2008 still hampers OP&F’s efforts to comply with the state’s 30-year funding requirement. Again in 2011, OP&F submitted a plan which would be an effective and prudent path to reach the state’s requirement. While legislation was drafted, the General Assembly did not act our recommendations.

We continue to advocate for legislation to address the long-term funding concerns created by the 30-year requirement. OP&F will continue to work with the Ohio Retirement Study Council, the Ohio General Assembly and with state leaders to answer questions and address concerns as potential legislation is formed.

While we do not meet the 30-year funding requirement, the annual pension actuarial valuation completed by Buck Consultants, shows that a funding ratio as of January 1, 2011, of 69.4 percent based on the actuarial value of assets. The report confirms that we continue to be able to meet our current and future pension obligations.

Additionally, we were pleased to receive additional independent confirmation on the success of our investment strategies during a June 2011 ORSC meeting. Paul Morgan, from the firm Evaluation Associates, stated: “I would be remiss by not complimenting Ohio Police and Fire on an asset class by asset class basis and on a total fund basis. I think Police and Fire is the best managed investment program of all the systems.”

2012 ADMINISTRATIVE OPERATING BUDGET

The proposed budget for 2012 is \$58.7 million, which represents .48 percent of OP&F’s projected assets as of December 31, 2012. As described below, this is a 7.7 percent increase overall from OP&F’s revised 2011 budget.

Operating Costs	\$19,933,744	3.5% increase over 2011
<u>Investment Management</u>	<u>38,744,000</u>	<u>10.0% increase over 2011</u>
Total Budget	\$58,677,744	7.7% increase over 2011

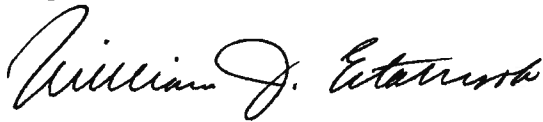
Budgeted Head Count and Organizational Changes

We continue to organize OP&F's departmental structure to increase efficiency and streamline operations. Other significant highlights of our operating budget are as follows:

- Since a formal budget process was put in place in 1998, OP&F has not exceeded its annual budget in actual spending, with the exception of investment management fees during 2010 which was driven by market increases.
- There will be no change in budgeted headcount. However, the Employer Education Manager will move from the Administration Department to Finance in 2012.
- In 2012, investment management fees are budgeted at \$38.7 million, representing a 10.0 percent increase from 2011. As outlined previously, the increase is a result of positive investment returns and the implementation of strategies put in place following the 2010 Asset Allocation Study.

In closing, I wish to again express my appreciation to each of the Department Directors and their staffs for their efforts in the preparation of this budget. It is once again a team effort and has resulted in a budget that I believe will serve as an effective financial and management guide for the coming year. I welcome the opportunity to address any questions that you may have regarding this document.

Respectfully submitted,



William J. Estabrook
Executive Director

Plan Asset Budget

Ohio Police & Fire Pension Fund (OP&F)
Total Plan Assets Budget Summary

BUDGET FUND OR CATEGORY	2012 Budget	2011 Budget	'12 B vs '11 B \$ Variance	'12 B vs '11 B % Variance
Annual Projected Additions:				
Employer Contributions	\$ 397,352,386	\$ 410,675,500	\$ (13,323,114)	-3.2%
Member Contributions	162,542,369	170,951,489	(8,409,120)	-4.9%
State of Ohio - Subsidies	694,900	694,900	-	0.0%
Health Care Contributions	65,136,580	60,862,324	4,274,256	7.0%
Investment Income*	990,000,000	940,500,000	49,500,000	5.3%
Interest on Employers' Liability	1,000,000	1,351,986	(351,986)	-26.0%
Other Income	25,428,362	18,919,909	6,508,453	34.4%
TOTAL ADDITIONS	\$ 1,642,154,597	\$ 1,603,956,108	\$ 38,198,489	2.4%
Annual Projected Deductions:				
Pension Benefits (Service & Disability)	\$ 820,928,012	\$ 803,231,600	\$ 17,696,412	2.2%
DROP Benefits & Interest	239,708,134	236,468,897	3,239,237	1.4%
Health Care Benefits	187,582,884	177,584,102	9,998,782	5.6%
Administrative Expenses	58,677,744	54,483,718	4,194,026	7.7%
Depreciation Expense	2,300,000	2,300,000	-	0.0%
Refunds	22,926,438	19,440,491	3,485,948	17.9%
Other Expenses	40,000	150,000	(110,000)	-73.3%
TOTAL DEDUCTIONS	\$ 1,332,163,212	\$ 1,293,658,808	\$ 38,504,405	3.0%
NET PLAN ASSET INCREASE	\$ 309,991,384	\$ 310,297,300	\$ (305,916)	-0.1%
Net Plan Asset Values				
<i>Pensions</i>	9,978,248,727	9,642,370,293	335,878,434	3.5%
<i>Healthcare</i>	799,396,605	664,873,204	134,523,401	20.2%
Balances Beginning of Year:	\$ 10,777,645,331	\$ 10,307,243,497	\$ 470,401,834	4.6%
<i>Pensions</i>	10,215,300,776	9,884,027,815	331,272,961	3.4%
<i>Healthcare</i>	872,335,940	733,512,982	138,822,958	18.9%
Balances End of Year:	\$ 11,087,636,716	\$ 10,617,540,797	\$ 470,095,918	4.4%

*In 2011 and 2012, investment income is assumed to be 8.25% of expected Beginning of Year Assets.

OHIO POLICE AND FIRE PENSION FUND

TOTAL PLAN ASSETS BUDGET DETAILS

	2012 Budget	2011 Actual Forecast	'12 B vs '11 F \$ Var	'12 B vs '11 F % Var	2011 Budget
CONTRIBUTION INCOME					
Employer Contributions	\$ 397,352,386	\$ 406,188,662	\$ (8,836,276)	-2.2%	\$ 410,675,500
Member Contributions	162,542,369	173,642,819	(11,100,450)	-6.4%	170,951,489
State of Ohio - Subsidies	694,900	639,099	55,801	8.7%	694,900
Health Care Contributions	65,136,580	62,419,705	2,716,875	4.4%	60,862,324
TOTAL CONTRIBUTION INCOME	625,726,235	642,890,284	(17,164,050)	-2.7%	643,184,213
INVESTMENT INCOME *					
Gain (Loss) on Investments	678,200,000	250,646,000	427,554,000	170.6%	641,948,945
Interest Income	198,800,000	187,300,000	11,500,000	6.1%	191,206,205
Dividend Income	91,500,000	106,600,000	(15,100,000)	-14.2%	91,544,850
Allocated Income	16,000,000	23,350,000	(7,350,000)	-31.5%	9,000,000
Other Investment Income	5,500,000	2,104,000	3,396,000	161.4%	6,800,000
TOTAL INVESTMENT INCOME	990,000,000	570,000,000	420,000,000	73.7%	940,500,000
OTHER INCOME					
Interest on Employers' Liability	1,000,000	1,019,789	(19,789)	-1.9%	1,351,986
Other Income	25,428,362	28,039,657	(2,611,295)	-9.3%	18,919,909
TOTAL OTHER INCOME	26,428,362	29,059,446	(2,631,084)	-9.1%	20,271,895
TOTAL ADDITIONS	\$ 1,642,154,597	\$ 1,241,949,730	\$ 400,204,867	32.2%	\$ 1,603,956,108
BENEFIT EXPENDITURES					
Retirement Benefits	\$ 516,300,844	\$ 484,119,757	\$ 32,181,087	6.6%	\$ 503,149,218
Disability Benefits	231,280,689	223,804,377	7,476,312	3.3%	226,500,314
Survivor Benefits	73,346,478	71,307,055	2,039,424	2.9%	73,582,068
DROP Benefits	239,708,134	236,473,866	3,234,268	1.4%	236,468,897
Health Care Benefits	187,582,884	172,813,742	14,769,142	8.5%	177,584,102
TOTAL BENEFIT EXPENDITURES	1,248,219,030	1,188,518,796	59,700,234	5.0%	1,217,284,599
ADMINISTRATIVE EXPENDITURES					
Personnel Services	12,566,465	11,519,248	1,047,217	9.1%	12,264,601
Work Environment	3,501,019	2,915,599	585,420	20.1%	3,354,464
Professional Services	42,610,260	29,974,242	12,636,018	42.2%	38,864,653
ADMIN. EXP. BEFORE DEPR.	58,677,744	44,409,089	14,268,655	32.1%	54,483,718
Depreciation Expense - Capital	2,300,000	1,875,544	424,456	22.6%	2,300,000
TOTAL ADMINISTRATIVE EXP	60,977,744	46,284,633	14,693,111	31.7%	56,783,718
OTHER EXPENDITURES					
Member Refunds	22,926,438	22,699,444	226,994	1.0%	19,440,491
Other Expenses	40,000	31,471	8,529	27.1%	150,000
TOTAL OTHER EXPENDITURES	22,966,438	22,730,915	235,523	1.0%	19,590,491
TOTAL EXPENDITURES	\$ 1,332,163,212	\$ 1,257,534,344	\$ 74,628,869	5.9%	\$ 1,293,658,808
Beg. of Year Plan Net Assets:	\$ 10,777,645,331	\$ 10,793,229,945	\$ (15,584,614)	-0.1%	\$ 10,307,243,497
Pensions	9,978,248,727	10,075,500,004	(97,251,277)	-1.0%	9,642,370,293
Healthcare	799,396,605	717,729,941	81,666,664	11.4%	664,873,204
Current Year Increase (Decrease)	309,991,384	(15,584,614)	325,575,998	-2089.1%	310,297,300
End of Year Plan Net Assets:	11,087,636,716	10,777,645,331	309,991,384	2.9%	10,617,540,798
Pensions	10,215,300,776	9,978,248,727	237,052,049	2.4%	9,884,027,816
Healthcare	872,335,940	799,396,605	72,939,335	9.1%	733,512,982
End of Year Plan Net Assets	\$ 11,087,636,716	\$ 10,777,645,331	\$ 309,991,384	2.9%	\$ 10,617,540,798

* In 2011 and 2012, investment income is budgeted to be 8.25% of expected Beginning of Year Assets.

2012 Total Plan Assets Budget Review

The Total Plan Assets Budget Review is an outline of the recommended total plan assets budget for 2012. This analysis will highlight the formulation of the budget and the variances between the 2012 budget compared to the 2011 actual forecast and the 2011 approved budget. OP&F budgets for all plan additions and deductions using a variety of assumptions including; active and retired membership rolls, observed trends in previous years, known upcoming future impacts on experiences, an investment rate of return in line with the actuarial rate of 8.25 percent, and other known activities. The purpose of this budget is to have a functional financial plan for the primary purpose of analyzing financial statements throughout the year. Having this financial plan allows OP&F to monitor benefit payment and contribution receipt levels and it will help highlight when items fall outside the assumption levels.

OP&F is anticipating a beginning net asset balance of \$10.8 billion which equates to a \$12.0 billion market value of assets as of December 31, 2011. For the 2012 year, OP&F is budgeting for a net assets increase approximately \$310.0 million. The budgeted end of year net plan asset balance of \$11.1 billion equates to a \$12.3 billion market value of assets as of Dec. 31, 2012. These figures are based on the 8.25 percent actuarial return and will vary with the actual direction of the financial markets during the remainder of 2011 and during 2012. This is unlike the other categories in this budget which are more precise and predictable and vary with contribution and benefit experiences beyond what is expected.

Contributions for employers and members are based primarily on the Total Annual Membership Payroll for all of OP&F's estimated 903 multiple employers. OP&F is projecting \$1.842 billion in annual payroll compared to \$1.904 or a 3.2 percent decrease from the 2011 budget. This is calculated by taking the estimated 27,222 membership times the \$67,671.48 average annual member salary which equates to the \$1,842,152,925 in projected payroll.

Membership is expected to decrease to 27,222 from 28,073 and the average annual salary is expected to increase by 1.7 percent for the 2012 budget year. This budget will subsequently reflect a 3.2 percent decrease in employer contributions budget and a 4.9 percent decrease in member contributions. Member contributions are set to decrease by the 3.2 percentage due to payroll and an additional 11.5 percent on the impact of DROP member contributions, these combine to reflect a 4.9 percent decrease in overall member contributions.

Plan Additions

1) Employer Contributions – Employers share of contributions – 19.5 percent for Police / 24 percent for Fire

OP&F is budgeting for employer contributions to decrease in 2012. A decrease of 2.2 percent or \$397.4 million in the employer share of contributions category over the 2011 actual forecast of \$406.2 million is being budgeted. The 2012 budget equates to a 3.2 percent decrease over the 2011 budget is attributed to a 3 percent reduction in active membership and a 1.7 percent increase in the average annual salary for active members. The experience study for 2011 reflected a 1.4 percent decrease in membership, a 3.8 percent increase in the average annual salary, and a 1.4 percent decrease in the total annual payroll as a result.

Employer contributions have fluctuated from a high of 9.1 percent growth rate in 2000 to a decrease of 1.9 percent forecasted for 2011. The five year average growth rate decreased from 2.8 percent to 1.7 percent last year alone. OP&F anticipated a decrease due to the 2010 experience study and the variety of economic factors that have impacted payroll levels the Ohio police and fire employers.

2) Member Contributions – Members share of contributions – 10 percent for both Police and Fire

A decrease of 6.4 percent to \$162.50 million in 2012 over a 2011 actual forecast of \$173.6 million is being budgeted. This is based upon lower membership counts, anticipating slower payroll growth than observed in prior years, lower than average salary growth for members and the expected positive continued rate of DROP enrollment. The DROP program allows the member to keep their contributions in a separate account, thus decreasing the total member contributions maintained by the fund. The 2012 budget is 4.9 percent lower than the 2011 budget.

This category also includes \$10.2 million in estimated member purchases of prior service credit and transferring in from other Ohio retirement systems.

Member contributions have fluctuated from a high of 11 percent growth rate in 2002 to a negative low of 2.6 percent forecasted for 2010. The five year average growth rate is .8 percent.

3) State of Ohio – Subsidies – State contributions to fund certain legislated increases in benefits

For 2012 we have budgeted \$694,900 for state subsidies, the same as 2011 as we established this amount for two years. This is based on a declining membership population for which OP&F receives subsidized contributions from the State of Ohio.

4) Health Care Contributions – Benefit recipients’ contributions/premiums to the cost of their health care

Benefit recipients are expected to pay \$65.1 million towards the cost of their health care in 2012. This reflects a 4.4 percent increase from 2011 actual forecasted data. This increase takes into consideration the addition of new benefit recipients as well as members terminating from DROP. Calculations were based on Buck Consultant’s health care solvency review and data analyzed by internal staff.

Premiums charged to benefit recipients have fluctuated from an all time high increase of 223.5 percent in 2004 when major cost and design changes were implemented by the Board of Trustees as part of the overall efforts to maintain health coverage, to a negative of 4.3 percent in 2007 when experience levels dropped.

Below is a table showing trends in Contribution Income components with the percentage change from prior year. (Shown in Thousands)

Contribution Income	2012 Budget		2011 Actual Forecast*		2010 Actual		2009 Actual		2008 Actual	
Employer Contributions	\$397,352	-2.2%	\$406,189	-1.9%	\$414,027	2.4%	\$404,334	-0.4%	\$405,903	1.5%
Member Contributions	\$162,542	-6.4%	\$173,643	-1.0%	\$175,477	4.2%	\$168,405	-2.4%	\$172,522	4.5%
State of Ohio - Subsidies	\$695	8.7%	\$639	-7.8%	\$693	-11.4%	\$782	-8.6%	\$856	-11.6%
Health Care Premiums	\$65,137	4.4%	\$62,419	5.9%	\$58,923	-0.4%	\$59,149	3.9%	\$56,949	1.6%
Total Contributions	\$625,726	-2.7%	\$642,890	-1.0%	\$649,120	2.6%	\$632,670	-0.6%	\$636,230	2.3%

*2011 Actual forecast is based upon the most recent actuarial valuation, actual data thru Sept. 30, 2011 and scheduled revenue receipts.

5) Investment Income – Represents realized and unrealized gains and losses on the sale of investments, unrealized appreciation and depreciation on investments held, interest, dividends and allocated income, as well as other investment income which includes securities lending.

As of Oct. 2011, OP&F is estimating a 5.0 percent rate of return on investments for 2011. For purposes of this budget, investment income is estimated based on the actuarial rate of return of 8.25 percent. This equates to a budget of approximately \$990.0 million in 2012 for the investment income category. This assumption is based upon an estimated beginning plan asset balance of \$10.8 billion and an estimated beginning plan market value of \$12.0 billion on Jan. 1, 2012.

Due to volatility in the financial markets and changes in the allocation of the Fund’s assets, these numbers can fluctuate over time. Please see the analysis below for additional information related to investment income trends.

The past 5 years has shown actual rates of return between our low of negative 28.06 percent in 2008 to an estimated high of positive 20.73 percent in 2010. The 21 year annualized return equates to 8.53 percent based on the actual experiences. OP&F will continue to target the 8.25 percent actuarial rate for purposes of budgeting until such a time as that rate is changed by the Board of Trustees. This allows staff to report and monitor results that vary from that target.

YEAR	ROR	YEAR	ROR	YEAR	ROR	YEAR	ROR
2005	9.07%	2000	-1.10%	1995	25.10%	1990	4.72%
2006	16.15%	2001	-3.88%	1996	13.85%	1991	22.12%
2007	10.47%	2002	-9.90%	1997	17.16%	1992	7.95%
2008	-28.06%	2003	24.96%	1998	13.77%	1993	11.30%
2009	20.73%	2004	13.13%	1999	13.82%	1994	-1.74%
2010	15.83%						

2011 estimated return 5.00%

Gain (Loss) on Investments – This reflects the realized gains and losses and unrealized appreciation and depreciation on our investments. Realized gains and losses are specifically tied to general market forces and investment performance. In addition, they are related to manager transitions and other specific buy and sell transactions. The unrealized portion of our investment income is also tied to general market forces and investment performance. However, this category is the gain or loss on securities that OP&F is currently holding in our investment portfolio. OP&F is budgeting for a \$672.0 million net gain on investments in 2012. OP&F takes a steady approach in predicting asset growth at the actuarial rate of 8.25 percent. This is done in an effort to manage our overall fiscal plan compared to the actuarial rate of return and not attempt to predict future market returns.

Interest and Dividend Income – This category typically runs consistent with historical trends and is tied to the mix of investments between equities and fixed income products. Accordingly we have budgeted figures for 2012 to be consistent with trends observed as well as future trends in asset allocation.

Allocated Income – This line item contains income from our commingled real estate, venture capital, and commercial mortgage investment holdings. We are planning for allocated income to increase in 2012 compared with the 2011 actual forecast.

Other Investment Income – This category includes securities lending income, interest on commercial paper and international cash equivalents as well as miscellaneous income from security litigation settlements and other miscellaneous investment transactions.

Below is a table showing trends in Investment Income. (Shown in Thousands)

Investment Income	2012 Budget @ 8.25%	2011 Actual Forecast @ 5.00%	2010 Actual @ 15.83%	2009 Actual @ 20.73%	2008 Actual @ -28.06%
Gain (Loss) on Investments	\$678,200	\$250,646	\$1,444,222	\$1,704,211	(\$4,088,992)
Fixed Income Interest	\$198,800	\$187,300	\$126,467	\$113,125	\$133,544
Dividend Income	\$91,500	\$106,600	\$89,213	\$87,765	\$105,644
Allocated Income	\$16,000	\$23,350	\$20,313	\$8,696	\$27,953
Other Interest Income	\$5,500	\$2,104	\$4,925	\$8,053	\$18,621
Total Invest. Income	\$990,000	\$570,000	\$1,685,140	\$1,921,850	(\$3,803,230)

*2011 Actual forecast is based upon actual data thru Sept. 30, 2011, projected through Dec. 31, 2011 and will vary heavily on year-end financial market results.

6) Interest on Employers' Liability – Represents the long-term employer unfunded accrued liability to be paid off based on pre-determined amortization periods scheduled through the year 2035.

A budget of \$1.0 million in 2012 is estimated for the interest on employer's liability based on the current accrued liability amortization schedules. This line item will continue to decline over time as the scheduled interest payments for employer's that have a long-term accrued liability continue to decrease with the principal amount due. In 2011, OP&F sent letters to all employers who had a liability balance to disclose how much interest could be saved if a payoff was received in 2011. Several employers took advantage of this future savings by paying off their balances.

7) Other Income – Represents the interest and employer contributions for members transferring into OP&F, recoveries, rebates and Medicare Part D reimbursements for health care costs, fines for late filing of pre-employment physical documentation and other miscellaneous income

In 2012 we are budgeting approximately \$26.4 million for other income related to the items listed above. This includes \$9.2 million for members interest on transferring into OP&F, and \$15.4 million for healthcare recoveries, rebates and Medicare Part D reimbursements.

Below is a table showing trends in Interest on Employers' Liability and Other Income with the percentage change from previous year.

(Shown in Thousands)

Other Income	2012 Budget		2011 Actual Forecast*		2010 Actual		2009 Actual		2008 Actual	
Interest on Employer's Liability	\$1,000	-1.9%	\$1,020	-26.0%	\$1,379	-2.3%	\$1,412	-2.3%	\$1,445	-2.4%
Other Income	\$25,428	-9.3%	\$28,039	17.9%	\$23,777	7.6%	\$22,090	-7.0%	\$23,760	19.3%
Other Income	\$26,428	-9.1%	\$29,059	15.5%	\$25,156	7.0%	\$23,502	-6.8%	\$25,205	17.8%

*2011 Actual forecast is based upon actual data thru Sept. 30, 2011 divided by 9 and multiplied by 12, unless otherwise fixed.

Plan Deductions

8) Pension Benefits – Service, Disability and Survivor benefits paid to members and survivors

Benefits for retirees and survivors are expected to increase to \$821.0 million in 2012 over 2011 actual forecast of \$779.2 million. This is a 5.4 percent increase from the 2011 actual forecast and a 2.2 percent increase over the 2011 budget. In 2011, the first group of DROP members terminated the program due

to the 8 year maximum requirement. This will add approximately 700 additional members to the normal service retirement benefit expenses. Additionally, there is a 3 percent cost-of-living adjustment for those eligible.

Below is a table showing trends in Pension Benefits and the percentage change from previous year.

Benefits	2012 Budget	2011 Actual Forecast*	2010 Actual	2009 Actual	2008 Actual
Service	\$516,301 6.6%	\$484,120 8.9%	\$444,386 4.9%	\$423,682 4.0%	\$407,442 4.1%
Disability	\$231,281 3.3%	\$232,980 2.7%	\$217,843 3.2%	\$211,061 4.4%	\$202,148 5.4%
Survivor	\$73,346 2.9%	\$71,307 3.3%	\$69,053 4.5%	\$66,081 4.7%	\$63,132 4.2%
Total Benefits	\$820,928 5.4%	\$779,231 6.6%	\$731,282 4.3%	\$700,824 4.2%	\$672,722 4.5%

(Shown in Thousands)

*2011 Actual forecast is based upon the most recent actuarial valuation, actual data thru Sept. 30, 2011 and scheduled cost-of-living adjustments.

9) DROP Benefits & Interest – Benefits for participants in the Deferred Retirement Option Plan (DROP) including pension, COLA and interest

In 2012, we are anticipating expenditures for DROP liabilities incurred to the DROP accrual accounts to begin to stabilize for the first time. This is because of the program maturity and having some stable experiences by which to analyze. DROP for the year 2012 is expected to rise by 1.4 percent to \$239.7 million compared to the 2011 actual forecast. Members in this program who achieved their 8 year maximum number of years can either leave their money at OP&F or withdrawal it, no new benefits or contributions will accrue in the account, only interest. DROP members not reaching their 8 year maximum will continue to receive benefits accrued in their accounts, member contributions based on the number of years of participation, and interest.

Member contributions for members in DROP accrue at the following rate schedule:

- 4th year participants keep 100 percent of their member contributions to their DROP account
- 3rd year participants keep 75 percent
- 1st and 2nd year participants keep 50 percent

Below is a table showing trends in DROP Benefits with the percentage change from previous year.
(Shown in Thousands)

Benefits	2012 Budget	2011 Actual Forecast*	2010 Actual	2009 Actual	2008 Actual
DROP Benefits	\$239,708 1.4%	\$236,474 -1.9%	\$240,955 11.9%	\$215,412 10.5%	\$194,898 13.3%

*2011 Actual forecast is based upon the most recent actuarial valuation, actual data thru Sept. 30, 2011, plan benefit arrangements and scheduled cost-of-living adjustments.

10) Health Care Benefits – Health Care coverage provided to members, dependents and survivors

Health care benefit payments are expected to be \$187.6 million in 2012, up from an actual forecast of \$172.8 million in 2011. Benefits in this area will grow due to DROP members coming out of the deferred program and actually retiring. *Please see the last chart of this write up for the entire health care stabilization fund budget.*

Below is a table showing trends in Health Care Benefits with the percentage change from previous year.
(Shown in Thousands)

Benefits	2012 Budget		2011 Actual Forecast*		2010 Actual		2009 Actual		2008 Actual	
Health Care	\$187,583	8.5%	\$172,814	8.1%	\$159,914	-5.2%	\$168,744	10.0%	\$153,421	2.8%

*2011 Actual forecast is based upon actual data thru Aug. 31, 2011 and adjusted for known plan changes.

11) **Administrative Expenses** – See separate narrative regarding the Administrative Operating Budget.

12) **Depreciation Expense** – Non-cash line item to recognize previously capitalized expenses

Depreciation expenditures are budgeted at \$2.3 million in 2012 for an increase of \$424,456 over 2011 actual forecast. This is based on prior year trends as well as future capital purchases through the capital budget.

Depreciation	2012 Budget		2011 Actual Forecast*		2010 Actual		2009 Actual		2008 Actual	
Depreciation	\$2,300	22.6%	\$1,876	-0.3%	\$1,882	-17.1%	\$2,270	9.2%	\$2,079	4.7%

*2011 Actual forecast is based upon actual data thru Sept. 30, 2011 divided by 9 and multiplied by 12.

13) **Member Refunds** – Refund of member contributions due to the members withdrawal from OP&F

This category is an estimate of the amount of refunds OP&F expects to pay out to members in 2012. In 2012, OP&F is budgeting \$22.9 million in member refunds, which is a 1 percent increase over the 2011 actual forecast of approximately \$22.7 million. The 5 year average increase is 6.8 percent.

14) **Other Expense** – Miscellaneous expenses associated with plan administration

We are estimating \$40,000 for 2012 in other expenses based upon trends observed.

Below is a table showing trends in Member Refunds and Other Expenses with the percentage change from previous year.

(Shown in Thousands)

Other Expenditures	2012 Budget		2011 Actual Forecast*		2010 Actual		2009 Actual		2008 Actual	
Member Refunds	\$22,926	1.0%	\$22,699	43.8%	\$15,789	0.4%	\$15,720	-11.0%	\$17,657	17.0%
Other Expense	\$40	27.1%	\$31	40.9%	\$22	84.6%	\$143	476566.7%	\$0	99.5%
Other Expenditures	\$22,966	1.0%	\$22,730	43.8%	\$15,811	-0.3%	\$15,863	-10.2%	\$17,657	17.0%

*2011 Actual forecast is based upon actual data thru Sept. 30, 2011 divided by 9 and multiplied by 12, unless otherwise fixed.

Health Care Stabilization Fund (HCSF) Balances as of Dec. 31

The below table is displayed for informational purposes only. As part of the budget process the health care stabilization fund is also budgeted. Components of this fund are budgeted based on experiences with enrollment, past cost histories, projected cost trends and other components are based on the employer contributions received and the investment earnings of the plan.

Below is a table shows the balance of the health care trust fund.
(Shown in Thousands)

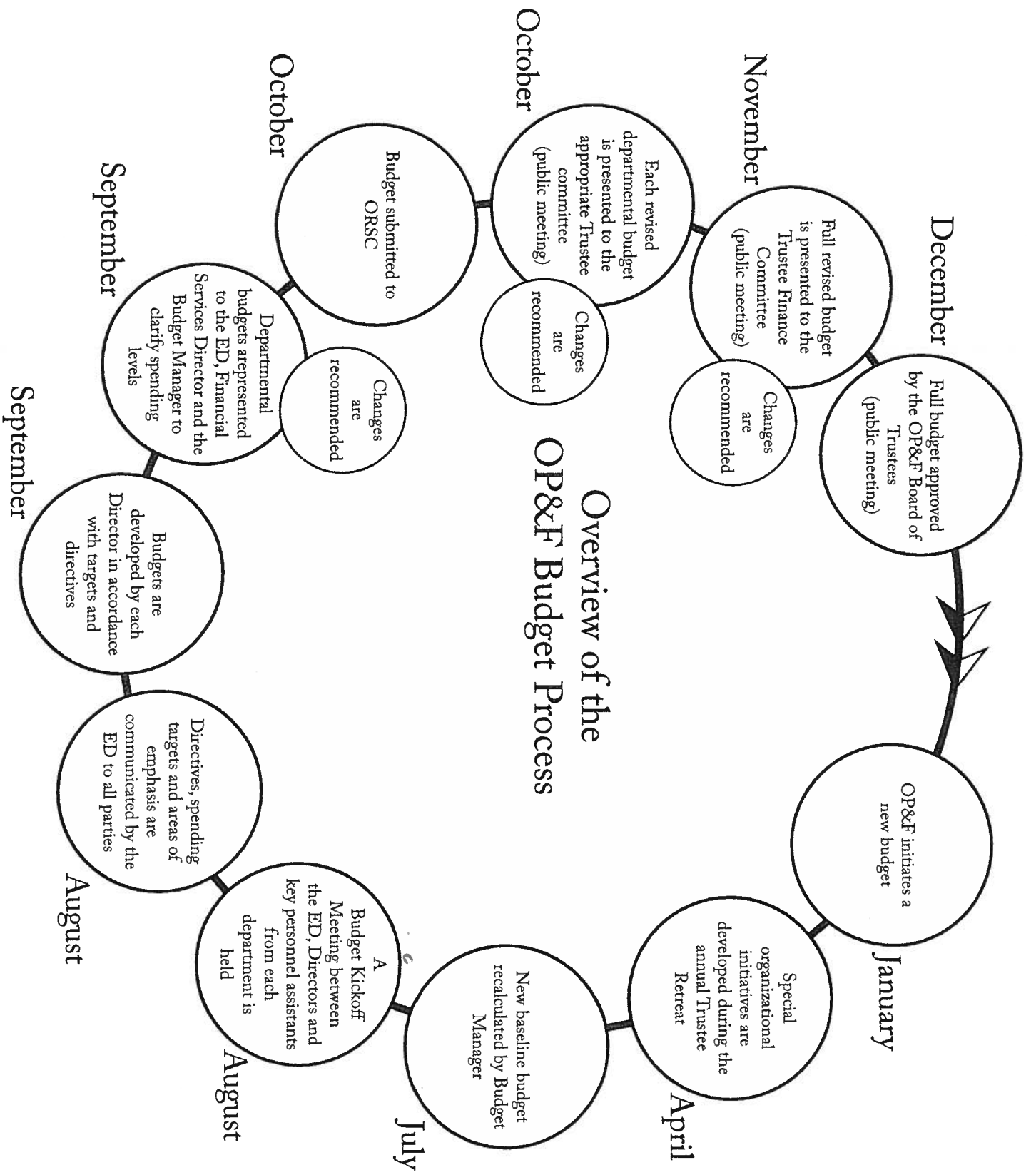
Health Care Stabilization Fund Fund Balance Rollforward and Analysis

(Shown in Thousands)

Projected Health Care Stabilization Fund Balance Rollforward at December 31st

	2012 Budget	2011 Actual Forecast	2010 Actual	2009 Actual	2008 Actual
Beginning Balance on January 1	\$799,397	\$717,730	\$573,399	\$438,658	\$526,999
Retiree Health Care Costs	(187,583)	(172,455)	(159,913)	(168,744)	(153,421)
Retiree Premium Contributions	65,137	62,569	58,923	59,149	56,949
Rebates and Recoveries	11,028	18,445	10,268	7,955	7,500
Medicare Part D Subsidies	7,500	9,847	6,441	6,821	7,812
Employer Payroll Contributions	108,870	126,402	128,775	126,650	129,544
Investment Return Allocation	68,667	37,540	100,525	103,601	(135,783)
Administrative Expense Allocation	(680)	(680)	(688)	(690)	(941)
Projected Ending Balance as of Dec. 31	\$872,336	\$799,397	\$717,730	\$573,399	\$438,658

Operating Budget



**OHIO POLICE & FIRE PENSION FUND
EXECUTIVE SUMMARY**

**FUND-WIDE ADMINISTRATIVE OPERATING BUDGET
2012 BUDGET PROPOSAL REVIEW**

2012 Budget Summary:

Total Operating Budget	\$58,677,744	7.7% increase over 2011
Operating Costs	\$19,933,744	3.5% increase over 2011
Investment Mgt. Fees	38,744,000	10.0% increase over 2011
Total Budget	\$58,677,744	7.7% increase over 2011

2012 – 2014 3-Year Capital Budget Summary:

Total Budget	\$3,405,810	3-Year Capital Budget
Office Building	\$342,500	10.1% of overall capital budget
Furniture & Equipment	\$90,000	2.6% of overall capital budget
V3 Costs –Software	\$1,850,000	54.3% of overall capital budget
Computer Hardware	\$875,400	25.7% of overall capital budget
Computer Software	\$248,360	7.3% of overall capital budget
Total Budget	\$3,405,810	100% of 3-Year Capital Budget

Operating Budget Highlights:

- 1) **Investment Management Fees:** \$38,744,000 represents an increase of 10.0 percent from the 2011 budget of \$35,233,174. This increase is driven by the shifting of assets from lower cost strategies such as passive equity and core fixed income into more expensive high yield, timber and international small-cap equity as well as incurring a full year of the higher fees associated with the Bridgewater levered global inflation protected securities strategy, which includes a significantly larger investment in Bridgewater’s Pure Alpha hedge fund product. Also adding to our fee increase is the use of a higher asset base to project 2012 management fees thanks to the upturn in the markets from this time last year.
- 2) **Custodial Fees:** The \$500,000 budgeted amount represents a decrease of 14.4 percent from the 2011 budget. These fees represent costs associated with the custody of our portfolio accounts and are generally based on the market value of the underlying securities and/or the level of account activity. We project international custody fees of \$200,000 for State Street Bank, and domestic custody fees of \$300,000 for Huntington National Bank.
- 3) **Total Recovery Plan:** The increase of \$105,000 in 2012 is attributable to \$100,000 for Executive Director’s Contingency and \$5,000 increase in Off-Site Storage Fees. The \$100,000 contingency was fully allocated in 2012 and needs to be restored for budget purposes.
- 4) **Acturaial Services:** Services in this area are budgeted at 70.9 percent higher than the 2011 actual forecast due to the 5-year experience study and costs expected from Ohio’s pension reform activities.

- 5) **Professional Services:** The 2011 budget calls for an increase of 32.0 percent in Professional Services \$35,105 because of two additional Board of Trustee elections.
- 6) **Legal Services:** The increase of 54.0 percent in legal services to \$519,000 for 2012 is attributable to an increase in the Assistant Attorney General fees, the addition of a deductible for the director and officer liability insurance and an initiative to study moving toward W-2 reporting for employers. There are also minor increases for routine business needs in this category.

Initiative Highlight:

- 1) **Using Federal income reporting forms to determine average annual salary:** \$50,000 is being requested in legal services to study possible conversion to a W-2 based salary reporting system for determining the calculation of member benefits. OP&F will retain the tax and pension benefits firm Ice Miller to study the desirability and/or feasibility of converting OP&F to a W-2-based reporting system in order to gain efficiencies, streamline our process and provide members with a more stable and predictable benefit calculation formula.

Capital Budget Highlight:

- 1) **V3 Browser Version Upgrade:** \$1,100,000 - Divided over the remaining years in the project at \$400,000 for the second year and \$700,000 the third. The third year contains most of the budget monies due to the necessary hardware and software changes needed to run the new browser version.

Personnel Highlights:

- 1) **Personnel Services:** \$12,566,465 is budgeted and represents an increase of 2.5 percent increase from 2011. There is no change in the full-time headcount. The full-time equivalents are 144 and no part-time. There are increases expected in this category for buyback programs for existing staff and an average 2.5 percent merit increase with a 3 percent cap for eligible staff. Health care costs are expected to rise 4.4 percent. There was a cut in this category related to holiday events that will not be occurring in 2012 due to the state of the overall economy.

Overall Budget:

BUDGET Category	Revised Budget 2010	Revised Budget 2011	Budget 2012	Budget % Change 2011-2012	% Overall Budget
Personnel Services	\$12,201,180	\$12,264,601	\$12,566,465	2.5%	21.4%
Work Environment	\$3,455,911	\$3,415,916	\$3,501,019	2.5%	6.0%
Outside Services	\$29,909,763	\$38,803,201	\$42,610,260	9.8%	72.6%
TOTAL	\$45,566,854	\$54,483,717	\$58,677,744	7.7%	100.0%

OHIO POLICE & FIRE PENSION FUND

Total Operating Budget vs. Actual Comparison All Departments (Rounded to the Nearest Thousand)*

BUDGET CATEGORY	2012 Budget	2011 Forecast	Variance 2011 Forecast	% Variance 2011 Forecast	2011 Budget	Variance 2011 Budget	% Variance 2011 Budget	2010 Actual
Personnel Services								
Salaries	\$ 8,573	\$ 8,196	\$ 376	4.6%	\$ 8,387	\$ 185	2.2%	\$ 8,027
Employee Benefits	2,574	2,425	149	6.2%	2,480	93	3.8%	2,157
Employer Payroll Expense	1,420	1,337	83	6.2%	1,397	23	1.7%	1,347
SUB-TOTAL	\$ 12,567	\$ 11,958	\$ 608	5.1%	\$ 12,265	\$ 302	2.5%	\$ 11,531
Work Environment								
Office Rent	\$ 1,230	\$ 1,257	\$ (27)	-2.1%	\$ 1,230	\$ -	0.0%	\$ 1,167
Maintenance & Repairs	909	1,122	(213)	-19.0%	904	5	0.6%	749
Legislative Expenses	-	-	-	-	1	(1)	-100.0%	-
Mailing Expense	241	291	(50)	-17.0%	241	-	0.0%	188
Printing & Publications	110	52	58	113.1%	94	16	17.3%	46
Office Supplies	114	71	43	61.4%	114	-	0.0%	106
Office Equipment	90	69	21	30.5%	91	(1)	-1.1%	68
Insurance Administrative	210	184	25	13.7%	218	(8)	-3.6%	126
Recovery Plan & Contingency	146	43	103	236.4%	41	105	256.7%	35
OP&F Sponsored Seminars	9	-	9	-	9	(0)	-1.1%	9
Business Travel	84	50	34	67.1%	93	(9)	-9.9%	42
Business Expense	58	46	12	26.6%	59	(0)	-0.5%	42
Trustee Training	9	5	4	91.1%	9	(0)	-4.7%	4
Employee Training	99	50	49	96.8%	118	(20)	-16.7%	117
Telephone Services	75	74	2	2.3%	71	5	6.4%	74
Dues & Subscriptions	88	87	0	0.4%	92	(4)	-4.7%	71
Miscellaneous Exp	29	28	2	6.2%	31	(2)	-5.5%	21
SUB-TOTAL	\$ 3,501	\$ 3,428	\$ 73	2.1%	\$ 3,416	\$ 85	2.5%	\$ 2,863
Outside Services								
Investment Services	\$ 39,928	\$ 36,163	\$ 3,765	10.4%	\$ 36,387	\$ 3,541	9.7%	\$ 29,105
Bank Custody Fees	500	495	5	1.0%	584	(84)	-14.4%	1,440
Actuarial Services	511	299	212	70.9%	331	180	54.5%	245
Audit Services	103	95	8	8.0%	95	7	7.8%	92
Legal Services	519	67	452	668.9%	337	182	54.0%	207
Disability Medical Service	663	629	34	5.4%	694	(31)	-4.5%	664
Public Relation Consultants	10	1	8	590.1%	18	(8)	-46.7%	10
Bank Charges	82	55	27	49.4%	73	9	12.2%	61
Ohio Retirement Study Comm	40	49	(9)	-19.2%	40	-	0.0%	39
Legislative Consultants	84	84	-	0.0%	84	-	0.0%	80
Personnel Recruitment	7	3	4	122.5%	6	1	9.2%	4
Temporary Employees	-	-	-	-	-	-	-	-
Contract Staffing	-	25	25	100.0%	29	(29)	-100.0%	18
Health Care Consultants	-	0	(0)	-100.0%	-	-	-	94
Other Professional Service	165	76	89	117.6%	125	40	32.0%	83
SUB-TOTAL	\$ 42,610	\$ 38,042	\$ 4,618	12.1%	\$ 38,803	\$ 3,807	9.8%	\$ 32,141
TOTAL OPERATING	\$ 58,678	\$ 53,429	\$ 5,249	9.8%	\$ 54,484	\$ 4,194	7.7%	\$ 46,535

*Figures may not add due to rounding dollars to the nearest thousand.

2012 Total Administrative Operating Budget Review

Total Administrative Operating Budget

This review will outline the recommended administrative operating budget for 2012. This analysis will highlight the formulation of the budget and the variances between the 2012 budget against the 2011 actual forecast and 2011 approved budget.

The **2011 Actual forecast** column represents the anticipated *actual* expenditures for 2011. The **2012 Budget** column includes new activities for 2012 and items that are anticipated or estimated to be spent in 2012, regardless of the spending level in 2011. Both comparisons must be shown to explain the entire set budget variances and changes. The actual forecast is calculated one of two ways; 1) by the department reviewing and calculating what is projected to be spent by the end of the year *or* 2) for routine operating categories the first seven months actual was divided by seven and multiplied by twelve to obtain an annualized calculation.

There is a 7.7 percent budget increase in the Administrative Operating Budget in 2012 to \$58.7 million compared to \$54.5 million in 2011 or \$4.2 million increase. Operating costs are budgeted at a 3.5 percent increase or by \$683.2 thousand and investment management fees are budgeted to increase 10.0 percent or by \$3.5 million in 2012.

By category the changes can be broken down as 2.5 percent increase in personnel services, 2.5 percent increase related to work environment, and 10.0 percent increase in outside/professional services. OP&F is anticipating a 9.8 percent increase in the overall operating costs compared to the 2011 actual forecast.

- 1) **Salaries** – Each year the Human Resources Manager calculates the salary and wage spending for the budget. This process begins in August by calculating the base wage spending level as of a pay date (Sept. 1, 2011 was used for 2012 budget) for all filled positions. This figure is then adjusted for vacant positions that are *not* going to be eliminated in the following budget cycle. An amount is then calculated for the wage spending levels for merit, on-call pay, promotions, overtime, attrition, vacation and sick termination payouts and an amount for equity adjustments based on the Executive Directors direction. These items are as follows for the 2012 budget:

\$ Estimate
\$8,287,196

2011 Base Wage Spending Level

Wage Spending Level as of Sept. 2, 2011 (144 full-time positions)

\$ 248,616
\$ 2,600
\$ 10,664
\$ (124,308)
\$ 137,983
\$ 10,000
\$ 285,555
\$8,572,751

2012 Additional Adjustments to Wage Spending Level

3% Merit Budget
On-call pay for Information Services support
Overtime estimate based on 2011 figures, plus 25 percent
Attrition savings for timing of open positions in 2012 and turnover
Longevity (\$100 per year of OP&F service, per staff member)
2012 Equity budget for compensation studies
Total 2012 Additional Adjustments to Wage Spending Level
Total 2012 Salary & Wage Spending Level

The 2011 actual forecast salaries are reflecting a 4.6 percent increase, which reflects the wage spending level for open positions throughout the year being filled by 2012.

- 2) **Employee Benefits** – An increase of 6.2 percent is anticipated from the 2011 year-end actual forecast related to the health care costs and increases in buyback program levels for existing staff.

<u>\$ Estimate</u>	<u>Benefit Description</u>
\$2,152,982	Health Insurance
\$ 43,200	Group Life Insurance
\$ 228,090	Sick Leave Buyback Program
\$ 93,011	Vacation Buyback Program
\$ 4,560	Parking/Bus Passes
-	Bonus
\$ 40,000	Tuition Reimbursement
\$ 11,770	Employee Activity Expense
<u>\$2,573,613</u>	Total Employee Benefits

- 3) **Employer Payroll Expense** – There is a 6.2 percent increase from the year-end forecast reflected due to increases in buyback program levels for existing staff.
- 4) **Office Rent** – Includes an allowance for common area maintenance, plus additional amounts expected for end-of-year true up of building work orders and an additional amount to ensure increases in operating expenses (based on tenant occupancy rate) and utilities costs are covered if needed. The budget remains flat in this category.
- 5) **Maintenance & Repairs** – This category is budgeted to increase by .6 percent compared to the 2011 budget. OP&F worked with existing vendors to maintain or reduce agreement costs for 2011 and 2012. The additional budget is for maintenance and repairs that were budgeted to occur in 2011, that may not necessarily have occurred. The goal is to pay for maintenance agreements and only pay for repairs as a last resort. In addition, the budget contains maintenance agreements for new capital purchases that will be covered for the first time.
- 6) **Legislative Expense** – No money is being budgeted for legislative receptions or mailings.
- 7) **Mailing Expense** – Mailing expenses are showing a 17.0 percent decrease from the 2011 actual forecast. The budget represents a 0.0 percent change from the 2011 budget reflecting the overall efforts to reduce physical mailings and replace with electronic notifications whenever possible.
- 8) **Printing & Publications** – Printing fees are expected to increase by 113.1 percent from the actual forecast for 2011. This is due to the expected changes from pension legislation that will be decided upon that will create changes to our publications. There is a 17.3 percent increase in the budget from 2011.
- 9) **Office Supplies** – A 61.4 percent increase over our 2011 actual forecast. This is due to actual spending/ordering levels in 2011 being better than expected. There is no change in the budget due to centralizing supply inventory use and ordering.
- 10) **Office Equipment** – The 30.5 percent increase over our 2011 actual forecast variance reflects the fact that equipment is not purchased unless needed or broken. Areas will budget for various equipment need under their management, however, purchases are not incurred unless necessary.
- 11) **Insurance Administrative** – A 13.7 percent increase from the 2011 actual forecast. In 2011 a decision was made to cancel insurance that was not deemed necessary and for requesting our broker make minor changes to the contract as a result of reduced coverage. Since that time however, all insurance coverage was reinstated with minor changes. This caused a budget transfer to be necessary for 2011 and caused our broker fee to increase back to the original level.

- 12) **Recovery Plan & Contingency** – The \$100,000 contingency is being budgeted.
- 13) **OP&F Sponsored Seminars** – Seminars are estimated each year based upon expected training and site locations.
- 14) **Business Travel** – The amount of travel is limited in 2012 and is expected to decrease 9.9 percent over 2011. There is a thorough approval process before any travel commitments are made for staff.
- 15) **Business Expense** – Business expenses are estimated so that funds are available based upon needs for the upcoming year. There is a .5 percent projected decrease in the budget lines.
- 16) **Trustee Training** – Estimates are used to ensure that money is available when trips are approved. There is an increase of 91.1 percent over the 2011 actual forecast because more registration fees are expected to be paid in 2012. Overall registration is budgeted to be down 4.7 percent.
- 17) **Employee Training** – Education, certification and conference travel were held to a minimum in the past several years. The amount of training travel is limited in 2012, but is expected to increase over 2011 actual forecast by 96.8 percent. There is a 16.7 percent decrease from the 2011 budget due to the EMI classes being fulfilled successfully and continual reductions in the number of training events planned.
- 18) **Telephone Services** – Telephone services are budgeted based upon averages for local, long-distance and dial-up services. This expense line is being increased by 2.3 percent based on the 2011 actual forecast being more accurate recent reflection of usage.
- 19) **Dues & Subscriptions** – Expected to be .4 percent higher than the 2011 actual forecast.
- 20) **Miscellaneous Expense** – Estimated based upon the number of member/retiree guest visits and other miscellaneous items as necessary.
- 21) **Investment Services** – The 10.4 percent increase between the 2012 budget and the actual forecast is related to the new investment products and the fact that current markets will dictate potentially higher management fees in 2012. Each investment category was carefully reviewed to establish the 2012 budget.
- 22) **Bank Custody** – There is a 1.0 percent increase in fees compared to the 2011 actual forecast due to the estimated banking activity in 2012.
- 23) **Actuarial Services** – Services in this area are budgeted at 70.9 percent higher than the 2011 actual forecast due to the 5-year experience study and costs expected from Ohio's pension reform activities.
- 24) **Audit Services** – Audit services are expected to increase by 8.0 percent over the 2011 forecast due to the step increase in the contract.
- 25) **Legal Services** – This category reflects a 668.9 percent increase over the actual forecast due to the items that were identified by the legal area that could occur in 2012 and new items related to an initiative for employer payroll reporting. There are also more investment deals and deductibles for employment needs budgeted for the first time.
- 26) **Disability Medical Services** – This item is based on the number of members sent for exams and the consulting done by outside doctors.
- 27) **Public Relations Consultants** – The budget for our outside consultant will drop by 46.7% from the 2011 budget due to hiring a new firm.
- 28) **Bank Charges** – Commercial banking services are estimated based upon the prior year's averages and changes predicted in banking transactions. OP&F is expecting a 49.4 percent increase from the 2011 actual forecast due to more ACH volumes due to the direct deposit initiative and lower earnings allowances paid on our account balances.
- 29) **Ohio Retirement Study Council** – ORSC fees based on the percentage of OP&F's plan assets compared to the total of the other Ohio Retirement Systems total plan assets.
- 30) **Legislative Consultants** – Retainer services are not expected to change over the 2011 level.

- 31) **Personnel Recruitment** – This account is used for advertising job vacancies in local newspapers and reference check services. We estimate each year the number of advertisements that may be needed based on historical turnover.
- 32) **Health Care Consultants** – Related to outside services required for health care data. There are no consultants planned in 2012.
- 33) **Other Professional Services** – An increase of 117.6 percent in the actual forecast in this area is being reflected due to three elections for 2012. Other professional services also contain items for survey participation, software consulting, records retention, and other outside service provider fees.

OHIO POLICE & FIRE PENSION FUND
2012-2010 PERSONNEL POSITION CHANGES (Full-Time Only)

Year	Department	Budgeted Position	# of Positions
2012		No Position Changes	0
		<i>2012 Position Changes</i>	0
2011		No Position Changes	0
		<i>2011 Position Changes</i>	0
2010	Member Services	Membership Specialist	-1
2010	Member Services	Pension Contributions Specialist	-1
2010	Member Services	Payroll Contributions Specialist	-1
2010	Member Services	Health Care Manager	-1
2010	Member Services	Contract Specailist/HIPAA	-1
2010	Investment	Quantative Investment Analyst	1
2010	Administration	Records and Imaging Specialist	-1
		<i>2010 Position Changes</i>	-5

Position Summary by Department

Department	2012	2011	2010
Administration	45	46	46
Finance	22	21	13
Investments	15	15	15
Information Services	24	24	24
Member Services	38	38	46
Total Full-Time Positions	144	144	144

**OHIO POLICE & FIRE PENSION FUND
EXECUTIVE SUMMARY**

**CAPITAL OUTLAY BUDGET
2012-2014 BUDGET PROPOSAL REVIEW**

2012 – 2014 3-Year Capital Budget Summary:

<u>Total Budget</u>	<u>\$3,405,810</u>	<u>3-Year Capital Budget</u>
Office Building	\$342,500	10.1% of overall capital budget
Furniture & Equipment	\$90,000	2.6% of overall capital budget
V3 Costs –Software	\$1,850,000	54.3% of overall capital budget
Computer Hardware	\$875,400	25.7% of overall capital budget
Computer Software	\$248,360	7.3% of overall capital budget
 Total Budget	 \$3,405,810	 100% of 3-Year Capital Budget

General Highlights:

- 1) **Carpet for all OP&F floors:** \$342,500 – Carried over from 2011 for replacing worn out carpet over a 3-year period as needed.
- 2) **Office Furniture & Equipment Replacement:** \$90,000 – To allow for periodic furniture and equipment replacement as departmental needs arise over a 3-year period at \$30,000, per year and with the approval of the Executive Director.
- 3) **Computer Hardware Replacement Cycle:** \$875,400 – This recurring budget item represents capital computer hardware related to PC, servers, scanners, network replacements, notebook computers and switch replacements. Amounts per year are as follows: 2012 - \$680,600 2013 - \$100,500 and 2014 - \$94,300 = Total \$875,400
- 4) **V3 Contingency for Change Orders:** \$750,000 - Divided over the next two years at \$250,000 the first year and \$250,000 for the second and \$250,000 for the third. This contingency is for legislative changes and change orders.

Initiative Highlights:

- 1) **V3 Browser Version Upgrade:** \$1,100,000 - Divided over the remaining years in the project at \$400,000 for the second year and \$700,000 the third. The third year contains most of the budget monies due to the necessary hardware and software changes needed to run the new browser version.
- 2) **Network Device Management Software (Carried over from 2011):** \$4,000 – Software will provide the ability to utilize tools to automate the configuration, administration, and backup of OP&F’s Cisco networking assets. These tools will provide enhanced troubleshooting and problem management capabilities as well as configuration management that will assist in recovery situations and increase the overall security stature of OP&F’s internal and external networking devices

- 3) **Cisco Network Switch Replacements:** *\$98,000 - Cisco announced that the 3550 switches we have deployed in our network would reach End of Life / End of Support in May 2011. The request is to purchase new switches to replace the nearly nine-year-old switches currently in use. Implementation of the new switches will allow us to continue to have a reliable and supportable network infrastructure. **These dollars are already allocated in Server/Network Replacement three year capital.*

- 4) **Replace Identity Finder:** \$9,000 – Perform a search for a new product to replace Identity Finder. Identity Finder is the software currently used to verify files sent via our Secure Online System to outside associates do not contain SSNs. The newer products on the market do a better job of finding SSNs within a document or file and provide less false positives (the software thinks the file has an SSN in it but it does not). We would also be looking for a product that could identify if the file contains other personnel information like addresses and members names.

- 5) **Partitioning Option for Oracle Database:** \$ 77,930 (three year total) - Oracle partitioning licenses for use with current Oracle database software. The partitioning option allows for more efficient access to data in large tables, especially where data can be easily broken up into smaller parts; i.e. by date range. For example, it is much less time and resource intensive to query against one month or year, (a single partition) of disbursement data than querying against a whole table where most of the data might not be of interest for a given task. Some organizations use the Oracle partitioning option to allow them to maintain normal user response times without having to separate historical data into a separate data warehouse as the data grows. This saves money that would be needed for additional software, hardware and time in managing a separate data warehouse, not to mention complexity for reports that would have to look at both current and historical data.

- 6) **Required Third Party Software for V3 Browser Project:** \$28,000 – The list below contains the necessary software required by Vitech for the V3 browser project. This software will need to be purchased over the next 3 years of the project so that it is available for use as necessary.
 - Adobe Acrobat Pro version 9 complete package -Includes 1st Year Upgrades & Support
 - Qoppa Software jPDFWriter Licenses
 - Qoppa Software jPDFW 1 Year -Upgrades & Support
 - Daeja ViewONE Pro Licenses
 - Daeja ViewONE Pro Annotations Module
 - Daeja ViewONE Pro PDF Module
 - Daeja ViewONE Pro Maintenance & Support

- 7) **Upgrade Adobe Acrobat Professional v8 to v10:** \$10,250 - Currently, OP&F utilizes 41 copies of Adobe Professional with the majority of users running version 8 and a few on version 9. Version 8 is six years old and has known issues that were corrected in version 10. This upgrade will provide the most up to date release as well as version consistency throughout OP&F.

- 8) **Upgrade SCCM to Version 2007 R3:** \$16,000 - Purchase System Center Configuration Manager (SCCM) 2007 R3. This will be an upgrade from the current version, R1.Allows

fully-automated deployment of operating systems, applications, and custom task sequences for intricate software installations. Built-in features for transitioning of users from Windows XP to Windows 7, along with components that can reduce manual steps for monthly server maintenance. SCCM will eliminate the excess time and effort required to maintain multiple images for different departments and/or workstation types as there will be only one image. Lastly, the reporting features allow accurate information from the PCs to be gathered quickly, rather than referencing outdated documentation or manually verifying info from each computer.

- 9) **Purchase Protocol Analyzer: \$10,000** - Purchase a commercial protocol analyzer to replace WireShark for troubleshooting and monitoring the network. The protocol analyzer will provide the Systems and Network Group the ability to analyze network traffic for troubleshooting and monitoring purposes.

- 10) **Purchase Oracle Diagnostics Pack: \$24,400** - Purchase Oracle Diagnostics Pack software for use in production. Oracle Diagnostics Pack licensing allows use of diagnostics information in Oracle to help discover the causes of performance problems. This information can be used to track down exact software being executed, who is executing it, how often it has been executed, what kind of load it placed upon the database server, etc. It keeps track of both Oracle and server parameters.

- 11) **Upgrades for Telephony System: \$86,000** - Upgrade various aspects of the telephony system as specified by our telecommunications vendor, AT&T including, the PBX (physical phone switch), CallPilot (voicemail system), Telephony Manager (TM), Version 3.1 is the application used to make moves, additions and changes in the PBX and also provide call detail reports, Symposium Express Call Center (call center reporting), and CallParrot (call recording). Upgrading will enable us to retain needed functionality on vendor supported applications.

- 12) **Replace Staff Locator System (Scotland Yard): \$5,000** – To find and purchase a best in class product to replace our current staff tracking system. Scotland Yard has been used for many years and we are starting to encounter technical issues with it because of its age. The new product will allow staff to know the whereabouts of other staff while allowing for the automation of logins and provide reporting customizations as required.

- 13) **Problem Tracking Software Replacement: \$15,000** – The request is to find and purchase a best in class problem tracking software application. HelpSTAR has made changes to their product over the last three versions that make the software more difficult to utilize, and requires staff to relearn processes for entering, updating and searching requests each time there is an upgrade. The new product will increase staff efficiencies.

**CAPITAL OUTLAY BUDGET
2012 - 2014**

	2011 Revised Budget	2011 Projected Actual	2012 - 2014 Budget Requested					
			Prior Year	1st Year	2nd Year	3rd Year	3-Year	
			Carry Over	2012	2013	2014	Total	
Office Building								
Carpet replacement	\$ 353,081	\$ -	\$ 342,050					\$ 342,050
Sub-Total	\$ 353,081	\$ -	\$ 342,050	\$ -	\$ -	\$ -	\$ -	\$ 342,050
Furniture/Equipment								
Office Furniture Replacement (OFR)	\$ 30,000	\$ 53,260	\$ -	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 90,000
Sub-Total	\$ 30,000	\$ 53,260	\$ -	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 90,000
Computer Hardware								
PC Replacements	\$ 243,798	\$ 10,000	\$ 213,000	\$ 2,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 275,000
Server/Network Replacements (Cisco)	\$ 391,195	\$ 15,000	\$ 368,700	\$ 52,500	\$ 52,500	\$ 51,300	\$ 51,300	\$ 525,000
Notebook Computers	\$ -	\$ -	\$ -	\$ 26,400	\$ -	\$ -	\$ -	\$ 26,400
Network Printers	\$ 8,000	\$ -	\$ 8,000	\$ -	\$ 8,000	\$ 8,000	\$ 8,000	\$ 24,000
Scanners for Imaging	\$ 5,000	\$ -	\$ 5,000	\$ 5,000	\$ 10,000	\$ 5,000	\$ 5,000	\$ 25,000
Sub-Total	\$ 647,993	\$ 25,000	\$ 594,700	\$ 85,900	\$ 100,500	\$ 94,300	\$ 94,300	\$ 875,400
Computer Software								
V3 Change Orders	\$ 350,000	\$ 70,000	\$ 100,000	\$ 150,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 750,000
V3 Browser Version Upgrade	\$ 350,000	\$ 350,000	\$ -	\$ 400,000	\$ 700,000			\$ 1,100,000
CODA Financial & Procurement Upgrade	\$ 11,000	\$ -	\$ -					\$ -
Network Device Management Software	\$ 4,000	\$ -	\$ 4,000					\$ 4,000
Identity Finder Replacement	\$ 9,000	\$ -	\$ 9,000					\$ 9,000
Contract Logix Software	\$ 15,000	\$ 15,000	\$ -					\$ -
Partitioning Option for Oracle Database	\$ 33,399	\$ 29,040	\$ 4,360		\$ 44,550			\$ 48,910
Required 3rd Party Software - V3 Browser Project	\$ 8,200	\$ 8,200	\$ -	\$ 1,300	\$ 18,500			\$ 19,800
Upgrade Adobe Acrobat Professional V8 to V10				\$ 10,250				\$ 10,250
Upgrade SCCM to Version 2007 R3				\$ 16,000				\$ 16,000
Purchase Protocol Analyzer				\$ 10,000				\$ 10,000
Purchase Oracle Diagnostics Pak				\$ 24,400				\$ 24,400
Replace Staff Locator System				\$ 5,000				\$ 5,000
Problem Tracking Software				\$ 15,000				\$ 15,000
Upgrades for Telephony system				\$ 86,000				\$ 86,000
Sub-Total	\$ 780,599	\$ 472,240	\$ 117,360	\$ 717,950	\$ 1,013,050	\$ 250,000	\$ 250,000	\$ 2,098,360
TOTALS	\$ 1,811,673	\$ 550,500	\$ 1,054,110	\$ 833,850	\$ 1,143,550	\$ 374,300	\$ 374,300	\$ 3,405,810

