



**Ohio
Retirement
Study
Council**

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MEMORANDUM

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Director/General Counsel

Bethany Rhodes

TO: ORSC Members

FROM: Bethany Rhodes, Director/General Counsel

DATE: May 11, 2015

RE: Proposed Fiscal Year 2016 ORSC Budget

[Redacted box]

Attached for your review is the proposed budget request for the operation of the Ohio Retirement Study Council (ORSC) for the Fiscal Year (FY) 2016 beginning July 1, 2015, and ending June 30, 2016. The budget request for FY 2016 is \$764,250.00 which is a **2.57% increase** from the FY 2015 budget. The total budget request of \$764,250.00 is offset by an estimated ending balance of \$231,467.01 from fiscal year 2015; because of this larger carryover balance from FY 2015, the systems would be required to pay only \$532,782.98 which is a **2.49% decrease** from the FY 2015 payment. This carryover balance varies annually depending upon the previous fiscal year's activity, staff turnover, etc.

The total assets of the five state retirement systems have increased from nearly \$188.340 billion as of January 1, 2014, to nearly \$191.160 billion as of January 1, 2015. This represents a 1.497% increase in assets over the past year. The proposed annual ORSC budget represents only 0.000399796% of the systems' combined total assets. Each pension system is statutorily required to pay a percentage of the annual expenses of the ORSC determined by the ratio of its assets to the total assets of all five state pension funds; the ORSC receives **NO** legislative appropriations to fund its operation.

In order to bring clarity and better reflect the relevant expenditures, ORSC staff proposes adjustments to expense categories (**135 – Office Expenses/Postage**), (**140 – Rent & Utilities**), and (**145 – Contract Services**). Additionally, ORSC staff proposes the renaming of **145 – Contract Services** to **145 - Professional Services** in order to isolate this line as the outside professional services used to analyze the five state retirement systems. Specifically, staff recommends this line to include only the contract with RVK (investment performance) and

PTA/KMS (actuarial services). This would remove from line 145 a contract with Xerox (\$6,000) which would be moved to line 135 – Office Expenses/Postage. It would also remove a contract for parking (\$7,000) which would be moved to line 14 – Rent & Utilities. The net effect is a 0.00% increase in lines 135, 140, and 145. ORSC staff has included a page of the proposed ORSC expense categories with their proposed descriptions as well as a comparison table from the FY2016 budget to the FY 2015 budget had the services been moved last year.

The **2.57%** increase in the budget totals \$19,150. The majority of this increase (\$14,000) occurs in line **115 – Insurance** in order to provide family coverage. Additionally, line **120 – Capital Expenses**, is increased to prepare for the moving expenses ORSC would incur when the lease expires at the current property at 88 East Broad Street in February 2016.

The addition of line **190 – State Treasurer Bank Fees**, is the result of the contracts the State Treasurer’s Office signed with the custodial banks in June 2014. ORSC is not a party to these contracts but is required to pay the fees as R.C. §171.05 specifies the State Treasurer is the custodian of all ORSC funds. ORSC has not been charged banking related fees for the past 10 years; however, in January, ORSC staff received a phone call from the Treasurer’s Office requesting payment of fees accrued in November and December of 2014 (all requests from the bank were being sent directly to the Treasurer rather than ORSC). Since that time, ORSC staff has been attempting to resolve this issue with the Treasurer’s office. In March, the Treasurer’s Office transferred \$2,700 in “credits” to the ORSC’s account to cover the bank fees until the end of the current fiscal year, but moving forward in FY 2016, the ORSC is solely responsible for paying the fees. ORSC staff has been working with the State Treasurer and 5/3rd Bank in an effort to bring about consistency and reduce the fees, but the State Treasurer cannot definitively identify what fees might be reduced or to what degree, nor could they predict when they might know such answers. In the 2015 calendar year, monthly banking fees have ranged from a low of \$142.08 to a high of \$248.75. ORSC staff believes it is prudent to allocate the equivalent of \$250.00 monthly to cover the fees and have budgeted accordingly. ORSC staff is proposing to add the new line item to account for this expense since it is new and so significant.

The ORSC is required by statute to study all changes in the retirement laws proposed to the General Assembly and report on their probable costs, actuarial implications, and desirability as a matter of public policy (R.C. §171.04(C)). As you know, five different bills were recently enacted (Sub. SB 340, Sub. SB 341, Sub. SB 342, Sub. SB 343, and Sub. SB 345) to implement substantial changes in the laws governing the retirement systems in order to ensure all are within the maximum 30-year funding period as required by law. The ORSC has instructed the staff to update all old reports including those regarding the disparity in employer rates; staff expects a large portion of the contract services line will be spent on these measures. Additionally, the ORSC has also instructed the staff to review and make recommendations relevant to disability policies at OP&F, PERS LE, and HPRS. There was a delay last year in awarding the contract to conduct an actuarial audit of the Public Employees Retirement System of Ohio, but it is scheduled to be completed this year. A number of ongoing technical upgrades have been required in the past several years to replace and/or update broken and/or antiquated equipment. Finally, when Senate President Faber was ORSC Chairman, he directed ORSC staff to inquire as to the possibility of moving into a state building when ORSC’s lease ends in February 2016. This request was renewed during the last General Assembly when the ORSC reviewed its current contracts and leases. ORSC staff and the Ohio Department of Administrative Services staff have

been discussing possible available space in both the Riffe Center and the Rhodes Tower. ORSC staff is confident a viable option will be available, and we do believe there would be no increases in rent costs. However, to be clear, no decision on this matter should or will be made without the specific consent of ORSC.

The ORSC is required by statute to have prepared for the General Assembly the following reports:

- Bi-annual review of the investment performance of the five state pension funds pursuant to R.C. §171.04(D);
- Annual review of the adequacy of the OP&F contribution rates pursuant to R.C. §742.331;
- Triennial review of the supplemental contributions payable under the alternative retirement plan for higher education employees pursuant to R.C. §171.07;
- An actuarial audit of the five state pension funds at least once every ten years pursuant to R.C. §171.04(E);
- A fiduciary performance audit of each of the state retirement systems at least once every ten years that is paid for by the audited system pursuant to R.C. §171.04(F).

Moreover, the ORSC prepares various ad hoc reports covering a wide range of retirement issues pursuant to requests and serves as a pension information resource both within and outside of Ohio. Ohio Revised Code §171.03(B) provides that the Council may employ or hire on a consulting basis such actuarial, legal, investment, or other technical services required for the performance of its statutory duties.

Included with the proposed annual budget for fiscal year 2016 is the ORSC budget versus final estimated expenditures for fiscal year 2015. Additionally provided is a list of the current ORSC contracts.

I thank you for your attention to this matter, and please do not hesitate to contact me with any questions.

THE OHIO RETIREMENT STUDY COUNCIL FY 2016 BUDGET REQUEST

EXPENSE CATEGORIES	BUDGET REQUEST FY 2015	ESTIMATED EXPENSES FY 2015	BUDGET REQUEST FY 2016	FY 2015 TO FY 2016 % +/-
101- PERSONNEL	\$272,000.00	\$247,519.34	\$273,000	+0.37%
110- EMPLOYER- PERS	\$38,100.00	\$32,689	\$38,250	+0.39%
115- INSURANCE	\$35,000.00	\$34,605.59	\$49,000	+40.00%
120- CAPITAL EXPENSES	\$15,000.00	\$4,140.00	\$20,000	+33.33%
125- ORSC MEETINGS/TRAVEL	\$7,000.00	\$0.00	\$7,000	0.00%
130- COMMUNICATIONS	\$7,000.00	\$3,714.00	\$7,000	0.00%
135- OFFICE EXPENSES/POSTAGE	\$15,000.00	\$10,700.00	\$21,000	+40.00%
140- RENT & UTILITIES	\$38,500.00	\$28,314.49	\$45,500	+18.18%
145- CONTRACT PROFESSIONAL SERVICES	\$275,000.00	\$131,483.82	\$262,000	(4.73)%
150- PUBLICATIONS	\$21,000.00	\$18,705.90	\$21,000	0.00%
151- ORGANIZATIONAL DUES	\$6,000.00	\$1,060.25	\$2,000	(66.67)%
155- AUDIT (STATE AUDITOR)	\$15,500.00	\$700.60	\$15,500	0.00%
190- STATE TREASURER BANK FEES	NA	NA	\$3,000	100.00%
TOTAL	\$745,100.00	\$513,632.99	\$764,250.00	+2.57%
YEARLY BUDGET REQUEST:	\$745,100.00		\$764,250.00	+2.57%
BALANCE PER FY 2016		\$231,467.01		
\$ AMOUNT DECREASE IN BUDGET REQUEST:			+\$19,150.00	+2.57%
Total Budget Request for FY 2016: \$764,250.00				
Minus Estimated Balance for FY 2015: (\$231,467.01)				
Minus General Journal Adjustments: (\$0.01)				
BUDGET REQUEST FY 2016 FROM ALL FIVE SYSTEMS: \$532,782.98				

FY 2016

FY 2016- Comparison Table- Systems' Proportionate Shares of ORSC Budget

SYSTEM	ASSETS AS OF 1/1/15	% OF BUDGET	FY 2016 TOTAL BUDGET	TOTAL DUE MINUS FY 2015 BALANCES	TOTAL DUE PER QUARTER
PERS	\$91,243,573,561	47.73159%	\$364,788.68	\$254,305.79	\$63,576.45
STRS	\$74,152,325,000	38.79077%	\$296,458.46	\$206,670.62	\$51,667.66
OP&F	\$12,080,591,720	6.31963%	\$48,297.77	\$33,669.91	\$8,417.48
SERS	\$12,857,274,874	6.72593%	\$51,402.92	\$35,834.61	\$8,958.65
HPRS	\$825,971,497	.43208%	\$3,302.17	\$2,302.05	\$575.51
TOTAL	\$191,159,736,652	100.00000%	\$764,250.00	\$532,782.98	\$133,195.75

ORSC'S FY 2016 Budget is .000399796% of Reported Systems' Total Assets.

INCREASE IN SYSTEMS' TOTAL ASSETS FROM FY 2015: 1.49727% (\$2,819,962,900)

EXPENSE CATEGORIES IN FY 2015 AND FY 2016 BASED ON NEW LINE ITEMS

For an easier comparison, below are the FY 2015 and FY 2016 budget requests expressed only under the new expense categories. After the shifting of Xerox contract and parking contracts are included, the net effect on all three line items is a 0.00% change in the FY 2015 to FY 2016 budget.

EXPENSE CATEGORIES	BUDGET REQUEST FY 2015	ESTIMATED EXPENSES FY 2015	BUDGET REQUEST FY 2016	FY 2015 TO FY 2016 % +/-
135- OFFICE EXPENSES/POSTAGE	\$21,000	\$16,700.00	\$21,000	0%
140- RENT & UTILITIES	\$45,500.00	\$35,314.49	\$45,500	0%
145- CONTRACT PROFESSIONAL SERVICES	\$262,000.00	\$131,483.82	\$262,000	0%

EXPENSE CATEGORIES	DESCRIPTION
101- PERSONNEL	Federal, state, city, school district income taxes, Medicare withholdings; PERS employee contribution; Deferred Compensation; Credit Union; Net Pay
110- EMPLOYER- PERS	Statutorily required employer contribution
115- INSURANCE	Unemployment, Workers' Compensation, health, dental, life insurances
120- CAPITAL EXPENSES	Individual items costing \$500 or more, one-time moving expenses estimated at \$5,000 with additional at-site expenses of \$8,000
125- ORSC MEETINGS/TRAVEL	Council member meeting reimbursements, conferences, and business meetings
130- COMMUNICATIONS	Local, long distance, internet
135- OFFICE EXPENSES/POSTAGE	Postage, office expenses (including paper and office supplies), Xerox contract
140- RENT & UTILITIES	Parking (\$7,000)
145- CONTRACT PROFESSIONAL SERVICES	Legislative reports required of ORSC; actuarial services, RVK, PTA/KMS, parking, Xerox contract ;
150- PUBLICATIONS	
151- ORGANIZATIONAL DUES	Ohio Ethics Commission, Joint Legislative Ethics Commission, Supreme Court, American Bar Association, Ohio Bar Association, International Foundation of Employee Benefit Plans
155- AUDITS	Audits conducted by State Auditor's office
190- STATE TREASURER BANK FEES	Fees associated with contracts entered into between State Treasurer Mandel and the custodial banks. ORSC is not a party to these contracts but is required to pay the fees agreed to by Treasurer Mandel.

CURRENT ORSC CONTRACTS

(As of 5-6-15)

Vendor	Contracted Service	Cost	Expiration Date	Notes
Broad-Third Partners, LLC	Office Space	<u>Base Rental Cost in Graduated Lease:</u> 11/1/10-11/30/2011 was \$2,328.00 12/1/11-12/31/12 was \$2,425.00 1/1/13-1/31/14 is \$2,522.00 2/1/14-2/28/15 is \$2,619.00 3/1/15-2/29/16 is \$2,716.00	February 29, 2016	<u>Contract Term:</u> 64 months, effective 11/1/10 through 2/29/2016 Contract awarded 4 months of abated rent: November 2011; December 2012; January 2014; February 2015. The cost of usage bills and property taxes are required under the lease- those are separate and vary.
Pitney Bowes	Postage Meter (Equipment only- does not include actual postage cost, which varies)	\$44.00 Monthly	May 31, 2015	<u>Contract Term:</u> 6/18/2010 through 5/31/2015 This monthly payment is billed quarterly- ORSC pays \$132 four times per year. TO BE CANCELLED UPON EXPIRATION
Xerox	Copy Machine	\$507.75 Monthly (cost of Machine only, excluding taxes; does not include cost of individual copies or any other materials) ORSC is also billed \$.0890 per color page and \$.0060 per black and white page.	November 30, 2015	<u>Contract Term:</u> 60 months, effective 12/20/10 through 11/30/15

RVK	Investment Consulting	\$150,000.00 (maximum, including travel to 2 meetings per year) \$7,500.00 additional per any other reports/meetings than the 2 included above.	August 14, 2018	<u>Contract Term:</u> 8/14/2014 through 8/14/2018 Billed Quarterly
PTA/KMS	Actuarial Consulting	<u>Hourly Rates:</u> <ul style="list-style-type: none"> Flick Forna: \$430.00 Linda Bournival: \$300.00 <u>Fees for reports which the Hourly Rate does not apply:</u> <ul style="list-style-type: none"> Review of OP&F Contribution Rates: \$18,635.00 (maximum) Actuarial Study of Employer Supplemental Contributions under ARPs: \$19,955.00 (maximum) <u>Travel Costs:</u> \$1,250.00 per consultant per trip to Columbus \$1,340.00 Annually	August 14, 2018	<u>Contract Term:</u> 8/14/2014 through 8/14/2018 Billed Monthly
Wells Fargo	Liability and Property Insurance	\$135.00 for 7/1/14-6/30/15 \$115.00 For 7/1/15-6/30/16	March 31, 2016	<u>Policy Year:</u> 3/31/15 through 3/31/16
Ohio Farm Bureau	Workers' Compensation Insurance		June 30, 2016	<u>Policy Year(s):</u> 7/1/14 - 6/30/15; 7/1/15 - 6/30/15