

April 21, 2017

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

Dear Ms. Rhodes:

In accordance with Section 3307.041, Revised Code, STRS Ohio is submitting its proposed 2017–2018 fiscal year budgets. The attached information is composed of the following:

- Page 1 is a statement of planned operating expenditures, including comparisons to the 2016–2017 fiscal year budget.
- Page 2 is a statement of planned capital expenditures and a summary of investment assets and related management costs for fiscal 2016 including comparisons to the 2015 fiscal year.
- Page 3 is a schedule of retirement board-related expenses for the last 10 years and a 10-year trend chart.
- Page 4 is a summary of staff training and travel expenses, including comparisons to the 2016–2017 fiscal year budget.
- Page 5 is supplementary statistical information for fiscal years 2012–2016.

The proposed operating budget total for the fiscal year ended June 30, 2018, is an increase of 2.8% from the current year budget. Along with normal operations, increases are primarily due to investment incentive compensation and custodial banking fees. The number of associates is decreasing due primarily to attrition in benefits administration. The proposed capital budget provides for investment in technology upgrades and facilities maintenance.

In an independent pension administration benchmarking report, STRS Ohio recently received the top service level score among 52 participating pension systems. While the service level was at the top, the administrative cost per active member and annuitant decreased. Additionally, a recent investment benchmarking study showed that STRS Ohio's total investment costs were the second lowest among the peer group of 17 U.S. large public funds, primarily due to the use of internal investment managers.

STRS Ohio has again been awarded the Government Finance Officers Association Award for Excellence in Financial Reporting and the Public Pension Coordinating Council Standards Award for Funding and Administration.

Overall, the proposed budgets continue to provide the resources we need to pay timely and accurate pension and health care benefits to members, successfully manage investment assets, and ensure we meet all fiduciary responsibilities and legal requirements. Additionally, the proposed budgets comply with all Retirement Board policies and demonstrate to members that STRS Ohio is managing operating expenses prudently.

These proposed budgets were presented to the Retirement Board at its April 20 meeting. Please feel free to contact me if you need additional information.

Sincerely,



Michael J. Nehf
Executive Director

Enclosure



STATE TEACHERS
RETIREMENT SYSTEM
OF OHIO

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ROBERT STEIN

RETIREMENT BOARD VICE CHAIR
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EXECUTIVE DIRECTOR
MICHAEL J. NEHF

State Teachers Retirement System of Ohio
2018 ORSC Budget Presentation

FY2017 to FY2018 Operating Budget and Increases (Decreases)

Budget Category	2017-2018 2018 Budget	2016-2017 2017 Budget	2016-2017 Estimated Actual	2017-2018 Increase (Decrease)	Percent Increase/ Decrease
Personnel	\$ 77,121,500	\$ 74,787,500	\$ 74,761,200	\$ 2,334,000	3.1%
Salaries and Wages	60,533,200	58,312,300	58,304,700	2,220,900	3.8%
OPERS Contributions	7,919,100	7,804,600	7,797,500	114,500	1.5%
Health Insurance	7,645,200	7,650,200	7,640,700	(5,000)	-0.1%
Miscellaneous Expenses	1,024,000	1,020,400	1,018,300	3,600	0.4%
Professional Services	10,494,000	9,911,100	10,014,900	582,900	5.9%
Actuarial	272,500	300,000	400,000	(27,500)	-9.2%
Audit	299,500	275,000	245,000	24,500	8.9%
Custodial Banking Fees	2,512,500	2,100,000	2,550,000	412,500	19.6%
Investment Consulting	5,272,000	5,062,000	5,012,000	210,000	4.1%
Other Consulting	1,921,000	1,892,600	1,578,200	28,400	1.5%
Banking Expense	216,500	281,500	229,700	(65,000)	-23.1%
Communications Expense	2,171,300	2,258,100	2,160,700	(86,800)	-3.8%
Printing and Postage	1,662,200	1,732,700	1,695,300	(70,500)	-4.1%
Telecommunications	341,900	342,000	297,000	(100)	0.0%
Member/Employer Education	167,200	183,400	168,400	(16,200)	-8.8%
Other Operating Expense	7,826,800	7,876,800	7,660,200	(50,000)	-0.6%
Conferences and Education	358,900	374,500	316,900	(15,600)	-4.2%
Travel	723,900	702,500	687,500	21,400	3.0%
Computer Technology	4,574,000	4,536,900	4,481,400	37,100	0.8%
Other Operating	1,806,000	1,898,900	1,810,400	(92,900)	-4.9%
Ohio Retirement Study Council	300,000	300,000	300,000	0	0.0%
Treasury of State Warrant Clearing Charges	4,000	4,000	4,000	0	0.0%
Attorney General Charges	60,000	60,000	60,000	0	0.0%
Net Building Expense	2,306,000	2,411,000	2,477,600	(105,000)	-4.4%
Total Operating Budget*	\$ 99,919,600	\$ 97,244,500	\$ 97,074,600	\$ 2,675,100	2.8%
Full-time Equivalent (FTE) Associates	544	556			

State Teachers Retirement System of Ohio
2018 ORSC Budget Presentation
FY2017 to FY 2018 Capital Budget

	2017-2018 2018 Budget	2016-2017 2017 Budget	2016-2017 Projected Actual
Total Capital Budget	\$ 3,306,000	\$ 3,250,100	\$ 2,985,400
Building Improvements	320,000	397,000	210,400
Building Maintenance Equipment	162,200	240,000	183,000
Infrastructure and Upgrades	2,786,300	2,560,600	2,560,600
General Capital	37,500	52,500	31,400

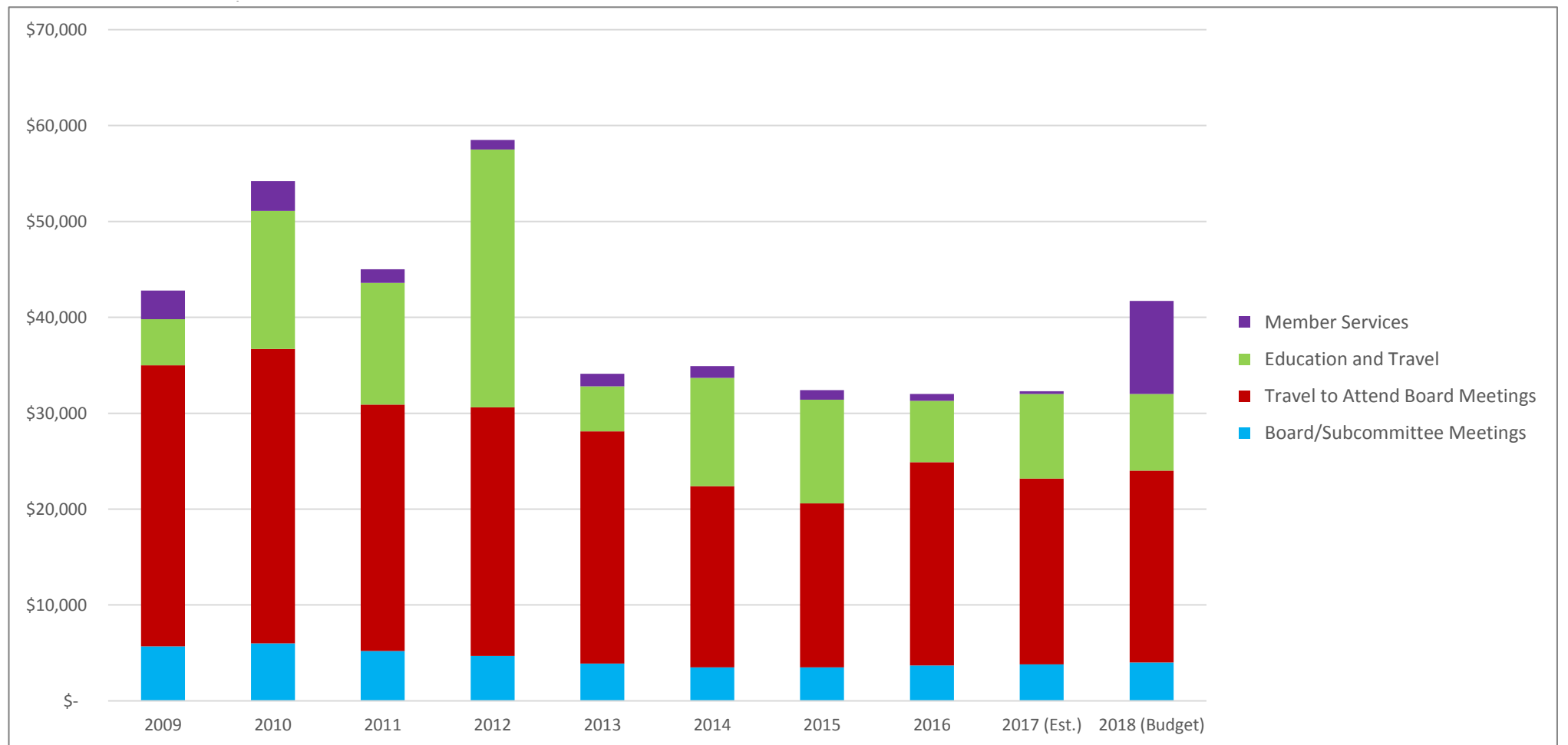
Investment Expenses

	Fiscal 2016 Actual	Fiscal 2015 Actual	Percent Change 2015 to 2016
Total Investment Assets*	\$ 69,856,500,000	\$ 74,433,210,000	-6.1%
Total Internally Managed Assets	\$ 49,287,842,000	\$ 53,396,673,000	-7.7%
Total Externally Managed Assets	\$ 20,568,658,000	\$ 21,036,537,000	-2.2%
Total Investment Expenses	\$ 264,716,900	\$ 251,011,700	5.5%
Total Internal Investment Expenses	\$ 35,467,800	\$ 35,922,500	-1.3%
Total External Investment Expenses	\$ 199,709,100	\$ 182,365,600	9.5%
Investment Consulting	\$ 737,300	\$ 740,300	-0.4%
Brokerage/Commissions - Internal	\$ 18,384,100	\$ 20,104,500	-8.6%
Brokerage/Commissions - External	\$ 8,328,600	\$ 9,728,900	-14.4%
Custodian Fees	\$ 2,090,000	\$ 2,149,900	-2.8%
Total Investment Expenses as a Percent of Total Investment Assets	0.38%	0.34%	12.4%
Expenses as Percent of Internally Managed	0.54%	0.47%	14.3%
Expenses as Percent of Externally Managed	1.29%	1.19%	7.9%

*Real estate debt is removed from investment assets.

State Teachers Retirement System of Ohio
2018 ORSC Budget Presentation
Board Member Expenses

	2009	2010	2011	2012	2013	2014	2015	2016	2017 (Est.)	2018 (Budget)
Total Board Expenses	\$ 42,800	\$ 54,200	\$ 45,000	\$ 58,500	\$ 34,100	\$ 34,900	\$ 32,400	\$ 32,000	\$ 32,300	\$ 41,700
Board/Subcommittee Meetings	\$ 5,700	\$ 6,000	\$ 5,200	\$ 4,700	\$ 3,900	\$ 3,500	\$ 3,500	\$ 3,700	\$ 3,800	\$ 4,000
Travel to Attend Board Meetings	\$ 29,300	\$ 30,700	\$ 25,700	\$ 25,900	\$ 24,200	\$ 18,900	\$ 17,100	\$ 21,200	\$ 19,400	\$ 20,000
Education and Travel	\$ 4,800	\$ 14,400	\$ 12,700	\$ 26,900	\$ 4,700	\$ 11,300	\$ 10,800	\$ 6,400	\$ 8,800	\$ 8,000
Member Services	\$ 3,000	\$ 3,100	\$ 1,400	\$ 1,000	\$ 1,300	\$ 1,200	\$ 1,000	\$ 700	\$ 300	\$ 9,700



State Teachers Retirement System of Ohio
2018 ORSC Budget Presentation

Staff Training and Travel

	2018 Budget	2017 Budget	Increase (Decrease)	% Increase (Decrease)
Administration				
Conferences, Seminars and Travel	\$ 50,200	\$ 50,500	\$ (300)	-0.6%
In-House Training	\$ 18,700	\$ 18,200	\$ 500	2.7%
# FTE	66	67		
Expense per FTE	\$ 1,050	\$ 1,025		

	2018 Budget	2017 Budget	Increase (Decrease)	% Increase (Decrease)
Finance and Benefits				
Conferences, Seminars and Travel	\$ 21,800	\$ 21,500	\$ 300	1.4%
In-House Training	\$ 9,200	\$ 9,200	\$ -	0.0%
# FTE	105	104		
Expense per FTE	\$ 295	\$ 295		

	2018 Budget	2017 Budget	Increase (Decrease)	% Increase (Decrease)
Investments				
Conferences, Seminars and Travel	\$ 494,000	\$ 484,000	\$ 10,000	2.1%
In-House Training	\$ -	\$ -	\$ -	-
# FTE	122	119		
Expense per FTE	\$ 4,063	\$ 4,067		

	2018 Budget	2017 Budget	Increase (Decrease)	% Increase (Decrease)
Information Technology Services				
Conferences, Seminars and Travel	\$ 72,000	\$ 71,900	\$ 100	0.1%
In-House Training	\$ 110,000	\$ 110,000	\$ -	0.0%
# FTE	122	123		
Expense per FTE	\$ 1,487	\$ 1,479		

	2018 Budget	2017 Budget	Increase (Decrease)	% Increase (Decrease)
Member Services				
Conferences, Seminars and Travel	\$ 117,800	\$ 109,200	\$ 8,600	7.9%
In-House Training	\$ 6,100	\$ 7,500	\$ (1,400)	-18.7%
# FTE	129	143		
Expense per FTE	\$ 959	\$ 816		

State Teachers Retirement System of Ohio
2018 ORSC Budget Presentation
Supplementary Statistical Information

	2012	2013	2014	2015	2016
Active Members	180,998	178,142	177,778	173,720	178,394
Inactive Members	152,299	153,186	151,880	152,668	153,365
Benefit Recipients (Age, Disability, Survivor)	143,256	149,221	152,208	158,116	157,938
Reemployed Retirees	23,879	24,228	25,156	24,806	26,228
Total Membership	500,432	504,777	507,022	509,310	515,925
Members per FTE	897	900	910	923	950

Please note: Fiscal year 2017 information is not yet available. Fiscal year 2012 information is included for five-year comparison.