



Proposed Fiscal 2025 Budgets

(July 1, 2024-June 30, 2025)

April 18, 2024

- Overview
- Proposed Fiscal 2025 Operating Budget
- Proposed Fiscal 2025 Capital Budget
- Budget Timeline
- Executive Summary

PRELIMINARY

- **Review proposed budgets for fiscal 2025; no board action required at this meeting**
- **Budget reflects what is necessary to:**
 - Accomplish STRS Ohio's mission to provide Ohio's public educators a foundation for their financial security
 - Fulfill legal, regulatory and other requirements
- **Sound budgeting and financial management practices are applied**

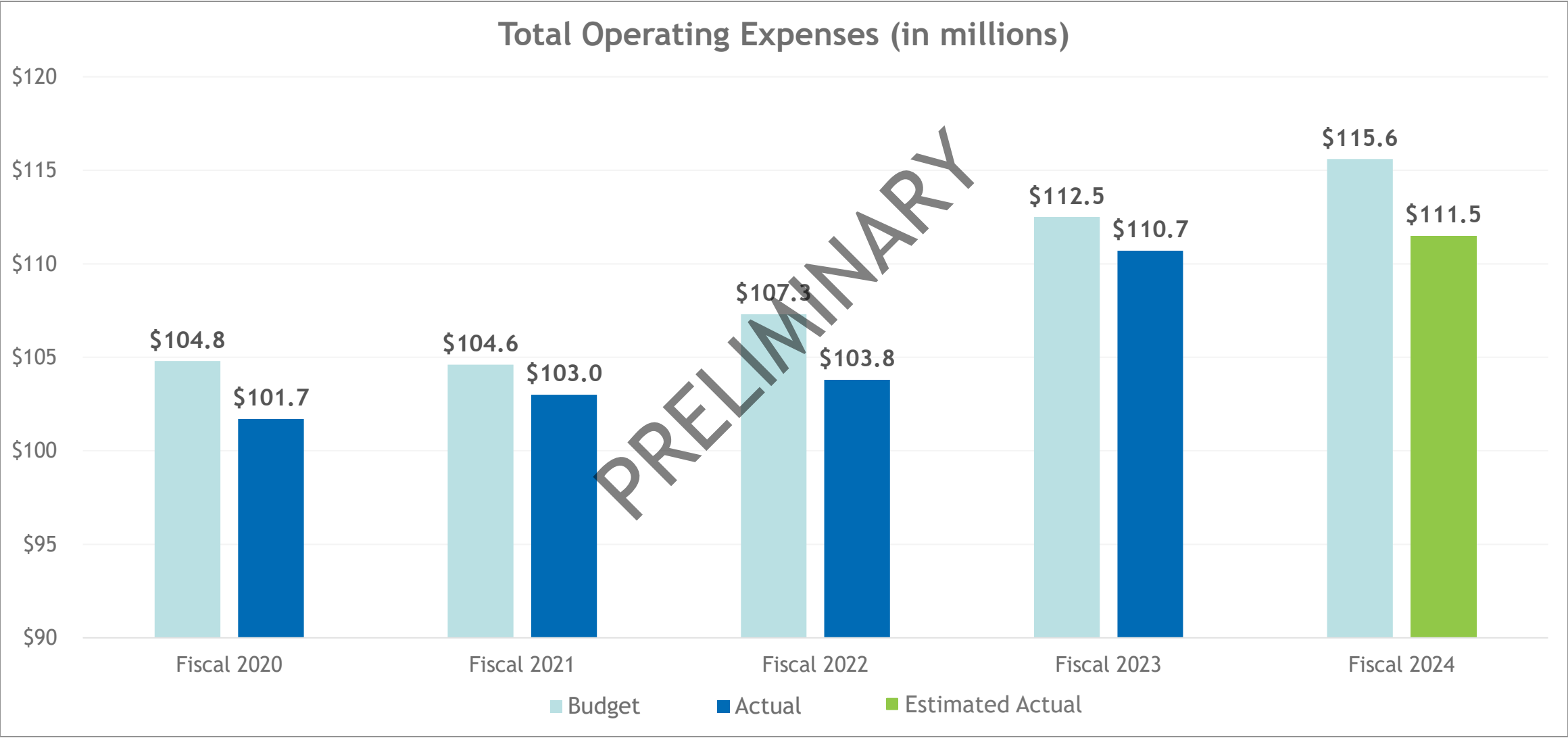
Understanding Expenses in Relation to Other Financial Statement Line Items

	<i>In Billions</i>				
	Actual Fiscal 2021	Actual Fiscal 2022	Actual Fiscal 2023	Estimated Actual Fiscal 2024	Proposed Budget Fiscal 2025
Total Contributions	\$3.9	\$3.9	\$4.0	\$4.1	\$4.2 ²
Investment Income (Loss)	22.6	(5.0)	7.7	8.3 ¹	6.8 ³
Benefit Payments	(7.8)	(7.6)	(7.9)	(8.2)	(8.4)
External Management Fees	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Administrative and Internal Investment Expenses	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Expenses as a Percent to Contributions	2.6%	2.6%	2.5%	2.4%	2.4%

¹Projected FY 2024 investment income based on total fund return of 8.9% through March 31, 2024

²Projected FY 2025 payroll growth of 3%

³Projected FY 2025 investment income based on assumed return of 7%



Proposed Fiscal 2025 Operating Budget

	Proposed Budget Fiscal 2025	Budget Fiscal 2024	Estimated Actual Fiscal 2024	\$ Change From Budget	% Change From Budget
Total Compensation	\$ 70,922,300	\$ 69,361,200	\$ 68,374,300	\$ 1,561,100	2.3%
Benefits	20,837,800	20,392,000	19,579,000	445,800	2.2%
Professional and Technical Services	14,014,500	13,106,500	11,572,900	908,000	6.9%
All Other Operating Expenses	12,535,300	12,750,200	11,966,400	(214,900)	-1.7%
Total Operating	<u><u>\$118,309,900</u></u>	<u><u>\$115,609,900</u></u>	<u><u>\$111,492,600</u></u>	<u><u>\$2,700,000</u></u>	<u><u>2.3%</u></u>

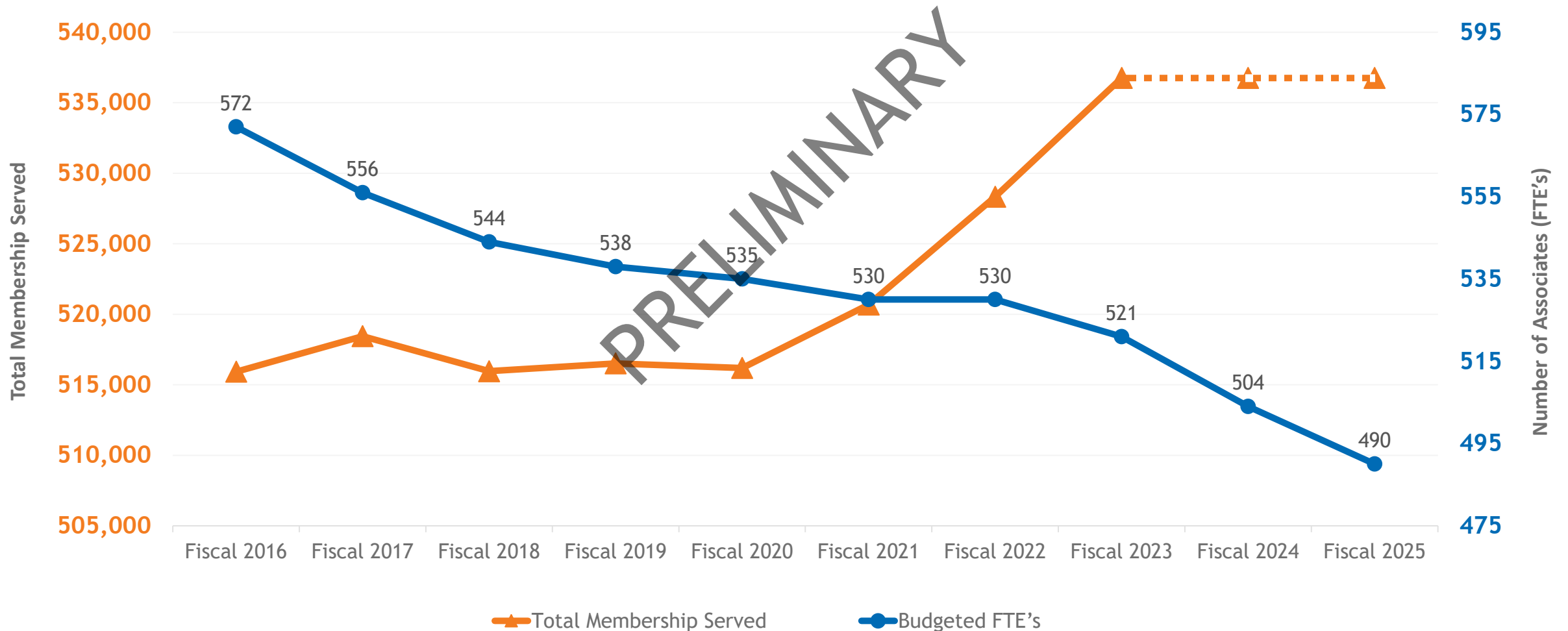
Compensation and Benefits Are a Modest 2.2% Increase

	Proposed Budget Fiscal 2025	Budget Fiscal 2024	Estimated Actual Fiscal 2024	\$ Change From Budget	% Change From Budget
Total Compensation	\$ 70,922,300	\$ 69,361,200	\$ 68,374,300	\$ 1,561,100	2.3%
Benefits	20,837,800	20,392,000	19,579,000	445,800	2.2%
Total	<u><u>\$91,760,100</u></u>	<u><u>\$89,753,200</u></u>	<u><u>\$87,953,300</u></u>	<u><u>\$2,006,900</u></u>	<u><u>2.2%</u></u>

- 3% is budgeted for merit increases compared to the national average of 3.85%, OPERS at 6.5% and SERS at 4%
- 14 positions have been eliminated in the proposed budget, primarily due to the child care center closure and not replacing open positions due to associate separations and retirements
- All open positions are evaluated, and duties repurposed among existing associates when possible, reducing number of associates
- Careful balance required; ability of recruiting replacements and retaining professional staff proves challenging in current tight labor market and STRS Ohio-specific conditions
- Associate health insurance is relatively flat due to plan experience

Reduction in Number of Associates; Down 14 Positions

- STRS Ohio has reduced 250 positions since 2002
- Reduction in number of associates cannot continue in perpetuity



Internal Investment Expenses in Relation to Value Added

	<i>In Millions</i>						
	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Budget Fiscal 2024	Proposed Budget Fiscal 2025
Salary/Wages and Benefits	\$25.1	\$25.8	\$26.1	\$26.4	\$27.1	\$26.2	\$30.0
Incentive Compensation	7.8	7.3	6.7	9.7	8.6	11.1	8.5
Other Investment Operating Expenses	8.2	8.4	8.6	9.0	8.6	8.8	8.9
Total Internal Investment Expenses	\$41.1	\$41.5	\$41.4	\$45.1	\$44.3	\$46.1	\$47.4

	Five-Year Fiscal 2023 (in millions)	Five-Year Fiscal 2024 (in millions)
Five-Year Internal Investment Expenses	\$ 213.4	\$ 218.4
Five-Year Relative Value Added, Net of Fees	\$2,286.8	\$2,478.2*
Value Added/Internal Expenses	10.7x	11.3x

*As of FYTD Feb. 29, 2024

Incentive Compensation Reductions

- Incentive compensation budget decreased \$2.6 million
- Five-year historical incentive achievement was used to develop the proposed incentive budget
- Board-approved changes in August 2023 to Performance-Based Incentive (PBI) Program for eligible investment staff
 - More than 30 positions removed from the PBI Program
 - Maximum incentive percentages were reduced
 - A 10% reduction to PBI payments in any year where the board's actuary determines there is not sufficient funding to change member benefits
 - Board changes in August 2023 shifted a portion of the PBI budget into Salary and Wages

Assets are Managed by Internal Staff at a Lower Cost Than External Management

	<i>In Millions</i>				
	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023
Internal Management Expenses	\$41.1	\$41.5	\$41.4	\$45.1	\$44.3
Internally Managed Assets	\$56,748	\$54,270	\$66,408	\$57,756	\$60,289
Basis Points	7.2	7.6	6.2	7.8	7.4
External Management Expenses	\$233.0	\$235.0	\$250.2	\$254.8	\$256.2
Externally Managed Assets	\$22,282	\$23,444	\$29,625	\$28,906	\$30,092
Basis Points	104.6	100.2	84.5	88.1	85.1

Professional and Technical Services Increasing

	Proposed Budget Fiscal 2025	Budget Fiscal 2024	Estimated Actual Fiscal 2024	\$ Change From Budget	% Change From Budget
Professional and Technical Services	\$14,014,500	\$13,106,500	\$11,572,900	\$908,000	6.9%

- **Quotation and Analytics increasing \$644,100**
 - Increased Bloomberg data usage with implementation of SimCorp Dimension
- **Investment Consultant decreasing \$252,900**
 - Lower fees are projected due to favorable request for proposal negotiations with the new board consultant in late fiscal 2023
- **Contract Services increasing \$101,500**
 - New monitoring service for system security threats

All Other Operating Expenses Down 1.7%

	Proposed Budget Fiscal 2025	Budget Fiscal 2024	Estimated Actual Fiscal 2024	\$ Change From Budget	% Change From Budget
All Other Operating Expenses	\$12,535,300	\$12,750,200	\$11,966,400	\$(214,900)	-1.7%

- **Repairs and Maintenance decreasing \$133,600**
 - Lower lease obligation with move to a smaller disaster recovery site
- **Communications decreasing \$82,600**
 - Costs incurred in fiscal 2024 for technology to support migration to cloud-based business platforms
- **Ohio Retirement Study Council (ORSC) and Ohio Attorney General costs increasing \$40,000**

Proposed Fiscal 2025 Capital Budget

	Proposed Budget Fiscal 2025	Budget Fiscal 2024	Estimated Actual Fiscal 2024	\$ Change From Budget	% Change From Budget
Information processing and computer software	\$ 7,198,600	\$ 7,263,400	\$ 6,145,600	\$ (64,800)	-0.9%
Building improvements and maintenance	1,279,300	1,040,100	824,500	239,300	23.0%
Office	0	30,000	0	(30,000)	(100%)
Total Capital	<u>\$8,477,900</u>	<u>\$8,333,500</u>	<u>\$6,970,199</u>	<u>\$144,400</u>	<u>1.7%</u>

- **Capital Carryover**

- Unspent capital of \$916,300 from fiscal 2024 budget for the replacement financial management and accounting system

Information Processing and Computer Software

	Proposed Budget Fiscal 2025	Budget Fiscal 2024	Estimated Actual Fiscal 2024	\$ Change From Budget	% Change From Budget
Information processing and computer software	\$7,198,600	\$7,263,400	\$6,145,600	\$(64,800)	-0.9%

- Replace Member Services Call Center hardware with a cloud-based solution
- Virtualization of multi-year technology projects
- Replace financial management and accounting system with cloud-based technology
- Next phase of enhancements to the investment portfolio system recently implemented

Building Improvements, Maintenance and Office

	Proposed Budget Fiscal 2025	Budget Fiscal 2024	Estimated Actual Fiscal 2024	\$ Change From Budget	% Change From Budget
Building improvements, maintenance and office	\$1,279,300	\$1,040,100	\$824,500	\$239,300	23.0%

- Replace building security access control system originally installed in 1998
- Replace server engines for the building automation system and fire system sprinkler heads
- Repair storm water drain pipes

Three-Year Forecasted Capital Plan

- **Improved functionality of member and employer websites and self-serve experience through cloud-based benefits administration software**
- **SimCorp Dimension next phases**
 - Includes new functionality for alternative investments, collateral management and compliance management
- **Workday Financials implementation**
 - Cloud-based software designed around best practices to streamline and improve efficiencies in financial reporting, budgeting and accounting; reduce complexity; and enhance transparency
 - Recommendation from the fiduciary audit

- **Feb/March: Departments develop and meet with controller and CFO on proposed budgets**
- **March/April: Consolidated budgets presented internally**
- **April 18: Proposed budgets presented to the board**
- **April 19: Proposed budgets submitted to Ohio Retirement Study Council (ORSC)**
- **May 9: Proposed budgets presented to ORSC**
- **May 16: Board action on fiscal 2025 budgets for adoption July 1, 2024**

- Operating expense budget is a modest increase of 2.3%
- Money saved by using internal investment management is larger than the total operating budget
- Continued prudent management of system funds and costs
- Budget is carefully monitored; reporting provided monthly

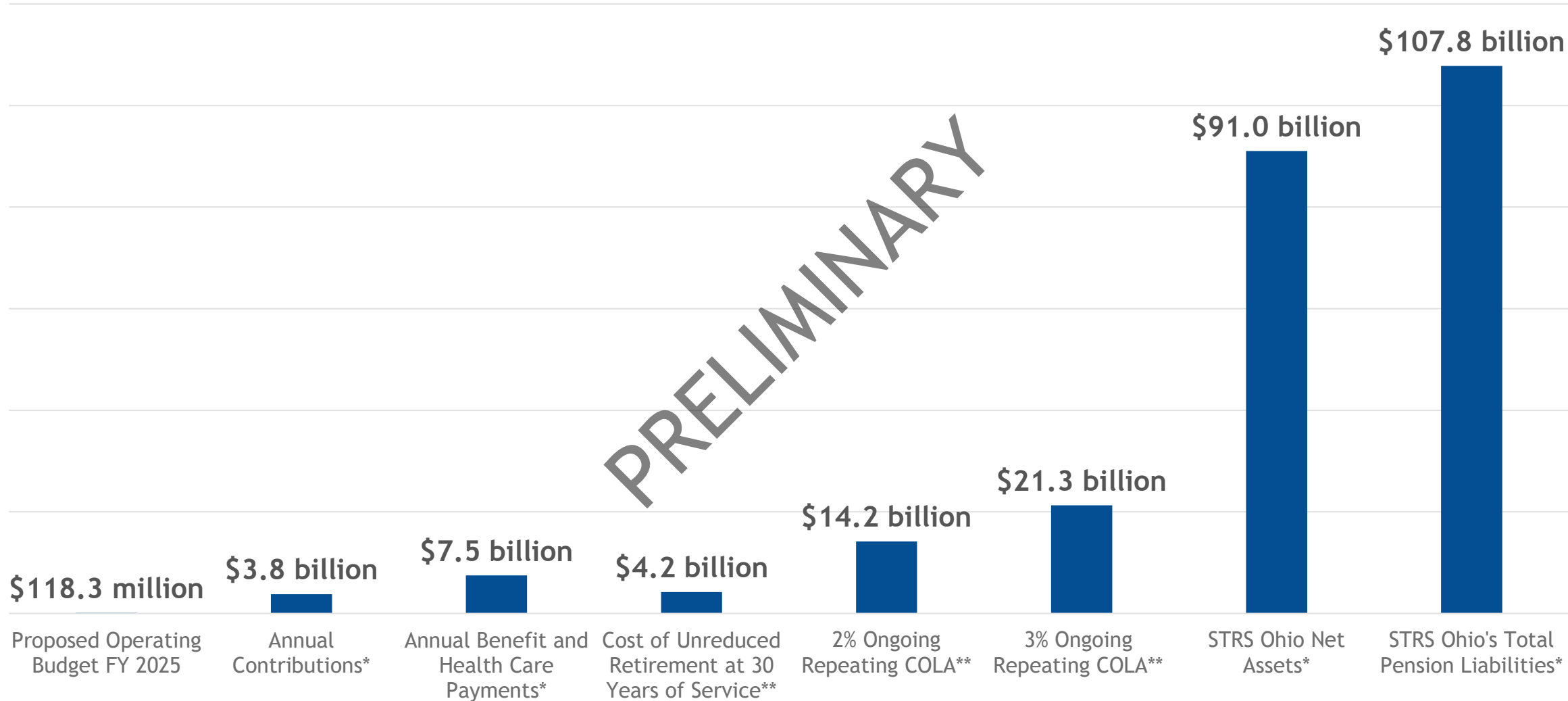
PRELIMINARY

Questions?

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Appendix: Costs In Perspective



*Source: Fiscal 2023 Annual Comprehensive Financial Report

**Source: Cheiron SBEP Analysis, March 2024