



Finance and Administration Committee

Agenda Item 6a

April 18, 2022

Item Name: 2022-23 Annual Budget Proposal

Program: Financial Office

Item Type: Action

Recommendation

Approve the 2022-23 Annual Budget in the amount of \$2.073 billion and 2,843 positions.

Executive Summary

CalPERS' 2022-23 proposed budget is \$2.073 billion; an increase of \$175.5 million (9.3 percent) compared to the current 2021-22 authorized budget. The major driver of the year-over-year increase is in estimated Investment External Management Fees for the expected deployment of capital in Real Assets and Private Equity investments. If realized, payment of these fees will signal positive investment returns. The budget also proposes modest Operating Cost increases to implement new investment strategies, improve and enhance investment and health program data and analytics, update information technology hardware and software, hold board elections, and for the return to pre-pandemic operations. Further, there is a slight increase in Third Party Administrator fees driven by changes in health plan enrollments. Total authorized positions remain unchanged at 2,843 positions.

Displayed in the proposed budget is an update on current-year expenditures. As of December 31, 2021, CalPERS expended \$855.9 million (45.1 percent) of the current budget, and projects to end the fiscal year with approximately \$38.7 million (2 percent) in savings. Until expended, all budgeted funds remain in the Public Employees' Retirement Fund (PERF) for investment.

Strategic Plan

This agenda item aligns with CalPERS' 2017-22 Strategic Plan as well as the strategic goals under development for beyond 2022. More specifically, the proposed expenditure levels represent the financial resources needed to achieve strategic objectives, meet core business needs, and further the mission of delivering retirement and health care benefits to members and their beneficiaries.

Background

Each fiscal year, CalPERS engages in two formal budget processes: an annual budget proposal and a mid-year review. The annual budget process begins in October each year and includes a review of existing budgeted resources as well as new funding requests to maintain, improve, or implement services, initiatives, and projects. CalPERS presents the annual budget to the board in April. Once approved by the board, the budget provides CalPERS with expenditure authority for the upcoming fiscal year beginning July 1st. The mid-year review is presented to the board each fall, and typically includes adjustments for State-negotiated compensation and benefit increases as well as health plan enrollment changes. The mid-year review may also include adjustments for new, critical, and unforeseen resource needs not envisioned during the annual budget process.

Analysis

In developing the annual budget, the Financial Office team worked collaboratively with each division to understand their organizational structures and business objectives as a basis for maintaining existing funding levels and approving requests for new resources. In addition, CalPERS utilized a formal budget request process to consider, prioritize, and approve new resource requests. Pursuant to the CalPERS Budget Policy, the main criteria used to prioritize requests included:

- Mitigating risk
- Identifying opportunities for cost efficiencies
- Aligning with the strategic plan and business plan
- Implementing CalPERS Board of Administration decisions and directives
- Complying with legal mandates

Overall, the 2022-23 proposed budget reflects increases that will enable CalPERS to implement new asset allocation strategies, improve data and analytics to support both investment and health program decisions, and support infrastructure and services to meet its core objectives.

Budget and Fiscal Impacts

As detailed in the following table, the proposed 2022-23 budget is \$2.073 billion and reflects an increase of \$175.5 million (9.3 percent) compared to the 2021-22 authorized budget.

2022-23 Total Budget

(\$ in thousands)	2020-21 Actual	2021-22 Authorized Budget	2022-23 Proposed Budget	2021 to 2022 Change	
				\$ Increase / (Decrease)	% Increase / (Decrease)
Administrative Operating Costs	\$451,978	\$555,276	\$561,624	\$6,347	1.1%
Investment Operating Costs	81,339	121,393	134,667	13,275	10.9%
Headquarters Building Costs	17,518	18,415	20,832	2,417	13.1%
Total: Operating Costs	\$550,835	\$695,084	\$717,123	\$22,039	3.2%
Investment External Management Fees	723,695	898,497	1,044,098	145,601	16.2%
Third Party Administrator Fees	297,807	303,552	311,429	7,877	2.6%
Total: Fees	\$1,021,502	\$1,202,049	\$1,355,527	\$153,478	12.8%
CalPERS Total Budget	\$1,572,336	\$1,897,133	\$2,072,650	\$175,517	9.3%
Total Positions	2,843.0	2,843.0	2,843.0	-	0.0%

Benefits and Risks

An approved budget provides CalPERS with the expenditure authority needed to achieve strategic priorities and initiatives, meet core business needs, and further the mission of delivering retirement and health care benefits to members and their beneficiaries. Lack of approval will degrade CalPERS' inability to operate effectively and meet its financial obligations.

Attachments

Attachment 1 – 2022-23 Annual Budget Proposal
Attachment 2 – PowerPoint Slides

Jennifer Harris, Chief
Financial Planning, Policy and Budgeting Division

Michael Cohen
Chief Financial Officer