

# California Public Employees' Retirement System

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## **Fiscal Year 2022-23 Mid-Year Budget**

November 15, 2022



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**Executive Summary**

At mid-year, CalPERS proposes an increase of \$112.1 million over the 2022-23 authorized budget. The majority of this increase reflects revised estimates for Investment External Management Fees driven by additional capital invested in the Real Assets market. The mid-year budget also includes Administrative Operating increases for collectively bargained salary and benefit adjustments. Total authorized positions remain unchanged at 2,843.

**2022-23 Mid-Year Total Budget**

(\$ in thousands)	2022-23 Authorized Annual Budget	Mid-Year Adjustments	2022-23 Proposed Mid-Year Budget	% Change
Administrative Operating Costs	\$561,624	\$15,729	\$577,352	2.8%
Investment Operating Costs	134,667	(1,989)	132,678	(1.5%)
Headquarters Building Costs	20,832	(9)	20,823	(0.0%)
<b>Total: Operating Costs</b>	<b>\$717,123</b>	<b>\$13,731</b>	<b>\$730,854</b>	<b>1.9%</b>
Investment External Management Fees	1,044,098	99,446	1,143,544	9.5%
Third Party Administrator Fees	311,429	(1,117)	310,312	(0.4%)
<b>Total: Fees</b>	<b>\$1,355,527</b>	<b>\$98,329</b>	<b>\$1,453,856</b>	<b>7.3%</b>
<b>CalPERS Total Budget</b>	<b>\$2,072,650</b>	<b>\$112,059</b>	<b>\$2,184,709</b>	<b>5.4%</b>
<b>Total Positions</b>	<b>2,843.0</b>		<b>2,843.0</b>	<b>0.0%</b>

The following pages detail the 2022-23 Mid-Year adjustments by expenditure category.

### I. Administrative Operating Costs

Administrative Operating Costs include Personal Services expenditures (salaries and benefits for staff) and Operating Expenses and Equipment (OE&E). At mid-year, CalPERS proposes a net \$15.7 million, or 2.8 percent increase for these expenses. This includes a \$17.8 million increase in Personal Services expenses, and a \$2.1 million decrease in OE&E costs.

The Personal Services increase is driven by statewide compensation and benefit adjustments which added \$17.5 million. Collectively bargained salary increases added \$8.9 million, increased retirement benefits added \$7.6 million, and increased health premiums added \$1.0 million. The Salaries and Wages adjustment also includes an increase of \$0.4 million to update executive salary and incentive compensation to board-approved levels, and a \$0.2 million decrease in temporary help costs following a reduction in retired annuitant positions.

As detailed on the following page, there are a number of adjustments to OE&E expense categories that net to an overall reduction of \$2.1 million. The decreases result from all divisions reviewing their budgets to identify areas where resource needs have changed since development of the annual budget. The largest reduction of \$1.5 million shown on the Consultant line is due to the cancellation of weekly Covid screening consistent with the California Department of Public Health's amended Covid policies. The increases in General Expenses and Communications reflect higher costs for insurance and telecom, respectively.

## Administrative Operating Costs by Object of Expenditure

(in thousands)	2022-23 Authorized Annual Budget	Mid-Year Adjustments	2022-23 Proposed Mid-Year Budget	% Change
<b>[1] PERSONAL SERVICES</b>				
Salaries & Wages	\$286,576	\$6,725	\$293,301	2.3%
Benefits	140,776	11,116	151,892	7.9%
<b>Total Personal Services</b>	<b>\$427,352</b>	<b>\$17,840</b>	<b>\$445,193</b>	<b>4.2%</b>
<b>[2] OPERATING EXPENSES &amp; EQUIPMENT</b>				
General Expense	\$10,108	\$23	\$10,131	0.2%
Software	3,069	-	3,069	0.0%
Printing	423	-	423	0.0%
Postage	2,750	-	2,750	0.0%
Communications	1,523	19	1,542	1.2%
Data Processing Services	27,871	(93)	27,778	(0.3%)
Travel	2,663	(63)	2,599	(2.4%)
Training	1,088	(25)	1,063	(2.3%)
Medical Exam/Disability Travel	2,000	-	2,000	0.0%
Facilities Operations	7,978	9	7,987	0.1%
Central Administrative Services	30,895	-	30,895	0.0%
University Enterprises, Inc.	444	-	444	0.0%
External Legal Counsel	5,891	-	5,891	0.0%
Professional Services	4,813	(67)	4,746	(1.4%)
Consultants	23,333	(1,534)	21,799	(6.6%)
Audit Services	1,516	-	1,516	0.0%
Federal Legislative Rep	403	-	403	0.0%
Admin Hearings	1,402	-	1,402	0.0%
Consolidated Data Centers	350	-	350	0.0%
Equipment (Includes EDP)	5,753	(380)	5,373	(6.6%)
<b>Total Operating Expenses &amp; Equipment</b>	<b>\$134,271</b>	<b>(\$2,112)</b>	<b>\$132,160</b>	<b>(1.6%)</b>
<b>Total Costs</b>	<b>\$561,624</b>	<b>\$15,729</b>	<b>\$577,352</b>	<b>2.8%</b>

## II. Investment Operating Costs

Investment Operating Costs include expenses incurred to support investment activities, such as consultants to inform the board of investment initiatives and to implement investment technologies; professional services required for due diligence, to value assets, and for fund administration and custody; and technology expenses for data, analytics, and trading and portfolio management systems. At mid-year, CalPERS proposes a net decrease of \$2.0 million, or 1.5 percent in this category driven by a reduction in Technology Costs for expanded services that will be deferred at this time. In contrast, there are increases for consultants and trading and portfolio management systems to assist with the implementation of new investment strategies. Further, there is an increase in Master Custodian Fees for continued services during the transition to a new investment performance platform.

### Investment Operating Costs

(in thousands)	2022-23 Authorized Annual Budget	Mid-Year Adjustments	2022-23 Proposed Mid-Year Budget	% Change
Investment Consultants	\$10,000	\$ -	\$10,000	0.0%
Board Consultants	6,017	-	6,017	0.0%
Technology Consultants	9,718	316	10,034	3.2%
<b>Total Consultant Expenses</b>	<b>\$25,735</b>	<b>\$316</b>	<b>\$26,051</b>	<b>1.2%</b>
Audits	\$705	\$ -	\$705	0.0%
Tax Advisory Services	1,200	-	1,200	0.0%
Master Custodian Fee	14,130	275	14,405	1.9%
Fund Administration Services / Fees	3,848	-	3,848	0.0%
External Legal	5,800	-	5,800	0.0%
Appraisal Fees	11,000	-	11,000	0.0%
Company Expense	450	-	450	0.0%
Miscellaneous Operating Expense	300	-	300	0.0%
<b>Total Operating Expenses</b>	<b>\$37,432</b>	<b>\$275</b>	<b>\$37,707</b>	<b>0.7%</b>
Data	\$9,316	(\$396)	\$8,920	(4.3%)
Analytics	21,851	(1,980)	19,871	(9.1%)
Trading and Portfolio Management Systems	34,650	375	35,026	1.1%
Business Operations Tool	5,504	(578)	4,926	(10.5%)
Other Technology Expense	178	-	178	0.0%
<b>Total Technology Expenses</b>	<b>\$71,500</b>	<b>(\$2,580)</b>	<b>\$68,920</b>	<b>(3.6%)</b>
<b>Total Investment Operating Expenses</b>	<b>\$134,667</b>	<b>(\$1,989)</b>	<b>\$132,678</b>	<b>(1.5%)</b>

## III. Headquarters Building Costs

Headquarters (HQ) Building expenses include costs to operate and maintain the HQ campus and regional offices, the offsite emergency operations center, the Front Street parking lot, and warehouse space. At mid-year, total HQ building costs remain unchanged. However, there is an expected transfer of funds between operating and non-operating costs to address health and safety needs, such as replacing worn floor tiles and water sensors, and installing new stairwell lighting. Although total expenses are the same, the updated allocation of costs to affiliate funds decreases this budget category by \$9,000.

### Headquarters Building Costs

(in thousands)	2022-23 Authorized Annual Budget	Mid-Year Adjustments	2022-23 Proposed Mid-Year Budget	% Change
<b>Operating:</b>				
Utilities	\$2,427	\$ -	\$2,427	0.0%
Engineering Services	4,288	-	4,288	0.0%
Janitorial	3,603	-	3,603	0.0%
Landscaping	697	-	697	0.0%
General Maintenance	1,308	40	1,348	3.1%
Security	2,714	-	2,714	0.0%
Property Mgmt. & Administrative Fees	1,492	-	1,492	0.0%
Café Plaza	253	-	253	0.0%
Offsite Expenses	963	-	963	0.0%
Emergency Operations Center (EOC)	745	-	745	0.0%
Operating Other	2,711	44	2,755	1.6%
<b>Total Operating Expenses</b>	<b>\$21,201</b>	<b>\$84</b>	<b>\$21,285</b>	<b>0.4%</b>
<b>Non-Operating:</b>				
Owner Improvements	2,144	(84)	2,060	(3.9%)
Building Improvements	2,623	-	2,623	0.0%
Furniture & Fixtures	300	-	300	0.0%
Building Insurance	610	-	610	0.0%
<b>Total Non-Operating Expenses</b>	<b>\$5,677</b>	<b>(\$84)</b>	<b>5,593</b>	<b>(1.5%)</b>
<b>Subtotal Expenses</b>	<b>\$26,879</b>	<b>-</b>	<b>\$26,879</b>	<b>0.0%</b>
Less: Revenue	(1,343)	-	(1,343)	0.0%
<b>Total HQ Building Expenses</b>	<b>\$25,536</b>	<b>-</b>	<b>\$25,536</b>	<b>0.0%</b>
Less: Affiliate share in Admin Budget	(4,704)	(9)	(4,713)	0.2%
<b>Total Headquarters Building Budget</b>	<b>\$20,832</b>	<b>(\$9)</b>	<b>\$20,823</b>	<b>(0.0%)</b>

## IV. Investment External Management Fees

The Investment External Management Fees budget includes amounts that CalPERS estimates will be paid to external investment advisors with whom it contracts to manage specific portfolios. Estimates are driven by assets under management (AUM), deployment of capital for private asset investments, contract terms, and market conditions.

Within this category, CalPERS estimates a net increase of \$99.4 million, or 9.5 percent. The increase is predominantly driven by estimated Real Assets base and performance fees resulting from increased capital commitments in infrastructure investments. Increased AUM for new investment strategies to support the strategic asset allocation is also driving estimated base fee increases for Fixed Income, as well as additional capital commitments to Private Debt. Offsetting these estimated increases are anticipated reductions in Global Equity base and performance fees resulting from the market decline.

### Investment External Management Fees

(in thousands)	2022-23 Authorized Annual Budget	Mid-Year Adjustments	2022-23 Proposed Mid-Year Budget	% Change
Global Equity	\$32,125	(\$6,235)	\$25,890	(19.4%)
Fixed Income	28,701	11,299	40,000	39.4%
Real Assets	271,655	46,158	317,813	17.0%
Private Equity	395,000	-	395,000	0.0%
Private Debt	59,817	5,582	65,399	9.3%
<b>External Mgmt - Base Fees</b>	<b>\$787,299</b>	<b>\$56,803</b>	<b>\$844,102</b>	<b>7.2%</b>
Global Equity	\$10,716	(\$10,716)	\$ -	(100.0%)
Real Assets	246,084	53,359	299,442	21.7%
<b>External Mgmt - Performance Fees</b>	<b>\$256,799</b>	<b>\$42,643</b>	<b>\$299,442</b>	<b>16.6%</b>
<b>Total External Mgmt Fees</b>	<b>\$1,044,098</b>	<b>\$99,446</b>	<b>\$1,143,544</b>	<b>9.5%</b>



**V. Third Party Administrator Fees**

Third Party Administrator Fees include amounts CalPERS pays to external entities for health and pension service administration, recordkeeping, and participant communication. At mid-year, CalPERS proposes a decrease of \$1.1 million, or 0.4 percent. Adjustments include a \$1.3 million decrease in Health Program fees based on updated enrollment projections, and a \$0.7 million decrease in Pharmacy Benefit Manager fees reflecting revised contract terms and updated enrollment. In contrast, Long-Term Care Program fees are increasing \$0.8 million driven by a contracted rate increase.

**Third Party Administrator Fees**

(\$ in thousands)	2022-23 Authorized Annual Budget	Mid-Year Adjustments	2022-23 Proposed Mid-Year Budget	% Change
Health Program	\$271,193	(\$1,292)	\$269,900	(0.5%)
Pharmacy Benefit Manager	18,779	(660)	18,119	(3.5%)
<b>Total, Health</b>	<b>\$289,972</b>	<b>(\$1,952)</b>	<b>\$288,019</b>	<b>(0.7%)</b>
<b>Long Term Care Program</b>	<b>17,825</b>	<b>835</b>	<b>18,660</b>	<b>4.7%</b>
<b>Supplemental Income Plan</b>	<b>3,525</b>	<b>-</b>	<b>3,525</b>	<b>0.0%</b>
<b>California Employers' Retiree Benefit Trust (CERBT)</b>	<b>90</b>	<b>-</b>	<b>90</b>	<b>0.0%</b>
<b>California Employers' Pension Prefunding Trust (CEPPT)</b>	<b>18</b>	<b>-</b>	<b>18</b>	<b>0.0%</b>
<b>Total Third Party Administrator Fees</b>	<b>\$311,429</b>	<b>(\$1,117)</b>	<b>\$310,312</b>	<b>(0.4%)</b>

**I. Administrative Operating Costs by Branch**

The following chart details Administrative Operating Costs (salaries and OE&E) by branch. In addition to statewide compensation and benefit adjustments impacting each branch, other changes are a result of:

- Actuarial Office: increase for collectively bargained actuary class consolidation
- Communications and Stakeholder Relations: offset of salary and benefit increases due to a reduction in temporary help resources, webcast services, and consultant usage
- Executive Office: increase to update board approved salaries and incentive compensation
- Operations and Technology: offset of salary and benefit increases due to the cancellation of weekly Covid screening
- Enterprise: increase in vacancies and related funding directed to the position pool

**Administrative Operating Costs by Branch**

(\$ in thousands)	2022-23 Authorized Annual Budget	Mid-Year Adjustments	2022-23 Proposed Mid-Year Budget	% Change
Actuarial Office	\$12,827	\$836	\$13,663	6.5%
Communications and Stakeholder Relations	14,544	42	14,586	0.3%
Customer Services and Support	112,643	4,456	117,099	4.0%
Executive Office	9,019	545	9,564	6.0%
Financial Office	25,810	962	26,772	3.7%
General Counsel	43,401	1,252	44,653	2.9%
Health Policy and Benefits Branch	33,671	886	34,557	2.6%
Investment Office	92,990	2,284	95,274	2.5%
Operations and Technology	177,193	1,007	178,200	0.6%
Enterprise	8,631	3,458	12,089	40.1%
Pro-Rata Assessment	30,895	-	30,895	0.0%
<b>Total Administrative Operating Costs</b>	<b>\$561,624</b>	<b>\$15,729</b>	<b>\$577,352</b>	<b>2.8%</b>

## II. Administrative Operating Costs by Fund

The following allocation establishes the fund authority for Administrative Operating Costs. Upon board approval of the mid-year budget, CalPERS will provide this table to the State Controller's Office to effectuate payment of administrative expenses for the remainder of the fiscal year.

### Administrative Operating Costs by Fund

(\$ in thousands)	2022-23 Authorized Annual Budget	Mid-Year Adjustments	2022-23 Proposed Mid-Year Budget	% Change
<b>Administrative Operating Costs</b>				
Public Employees' Retirement Fund (PERF)	\$447,340	\$12,191	\$459,532	2.7%
Public Employees' Contingency Reserve Fund (CRF)	35,349	1,093	36,442	3.1%
Public Employees' Health Care Fund (HCF)	50,917	1,576	52,493	3.1%
Long-Term Care Fund (LTCF)	9,379	336	9,715	3.6%
Annuitants' Health Care Coverage Fund (AHCCF)	6,566	178	6,744	2.7%
Deferred Compensation Fund (IRC 457)	2,082	77	2,159	3.7%
Supplemental Contributions Program Fund (SCP)	140	7	146	4.8%
Judges' Retirement Fund (JRF)	2,281	86	2,367	3.8%
Judges' Retirement Fund II (JRF II)	2,556	95	2,651	3.7%
Legislators' Retirement Fund (LRF)	619	29	648	4.7%
Replacement Benefit Custodial Fund (RBF)	649	21	671	3.3%
California Employers' Pension Prefunding Trust (CEPPT)	77	5	82	6.0%
Old-Age & Survivors Insurance Fund (OASI)	1,148	34	1,182	3.0%
Reimbursements	2,520	-	2,520	0.0%
<b>Total Administrative Operating Costs</b>	<b>\$561,624</b>	<b>\$15,729</b>	<b>\$577,352</b>	<b>2.8%</b>
<i>Statewide Pro-Rata Assessment</i>	\$30,895	-	\$30,895	0.0%
<i>CalPERS Administrative Costs</i>	\$530,729	\$15,729	\$546,458	3.0%

### III. 2023-24 Operating Costs Projection

As part of its budget process, CalPERS monitors the out-year impact of fiscal decisions to estimate future operating cost expenses.

For Administrative Operating Costs, CalPERS estimates a net \$2.0 million decrease in 2023-24. Although there is an expected increase for the first long-term incentives paid to investment positions, there will be offsets resulting from the sunsetting of monthly health benefit stipends. In addition, funding for one-time increases in the current year, such as board elections and information technology upgrades, will be removed.

Within Investment Operating Costs, CalPERS estimates a \$5.4 million increase driven by anticipated inflationary increases in technology contracts.

Headquarters Building Expenses are anticipated to increase by \$1.4 million driven by inflation and anticipated health and safety related building improvements.

During the development of the 2023-34 Annual Budget, CalPERS will analyze all operating costs and make funding recommendations based on updated data, assumptions, and priorities.

#### 2023-24 Projection

(in thousands)	2022-23 Proposed Mid-Year Budget	Proposed 2023-24 Adjustments	2023-24 Projected Budget	% Change
Administrative Operating Costs	\$577,352	(\$1,993)	\$575,359	(0.3%)
Investment Operating Costs	132,678	5,360	138,039	4.0%
Headquarters Building Costs	20,823	1,410	22,233	6.8%
<b>Total Projection</b>	<b>\$730,854</b>	<b>\$4,778</b>	<b>\$735,631</b>	<b>0.7%</b>
<b>Authorized Positions</b>	<b>2,843.0</b>	<b>-</b>	<b>2,843.0</b>	<b>0.0%</b>