

2021-22 Annual Budget

Finance and Administration Committee

April 19, 2021

2020-21 Current Year Update

- As of December 31, 2020, CalPERS expended \$722.8 million (44.6%) of the total \$1.621 billion budget approved by the board in November 2020.
- CalPERS estimates it may end the 2020-21 fiscal year with \$15.7 million in unexpended funds.
 - \$11.9 million in unexpended Administrative Operating Costs, primarily in OE&E
 - \$1.7 million unexpended in Headquarters Building Costs
 - \$3.8 million in unexpended Third Party Administrator Fees

2021-22 Proposed Budget Overview

- Total 2021-22 Budget is \$1.888 billion (\$267.1 million increase)
 - \$58.6 million (9.4%) increase in Operating Costs
 - \$208.4 million (21%) increase in External Fees
- Operating Cost increases are driven by the anticipated cancellation of statewide compensation reductions and the restoration of funds for one-time reductions made at mid-year.
- External Investment Management fees are increasing due to increased AUM, revised asset allocations, and expected, continued portfolio performance.
- There are 2,843 authorized positions; no permanent positions in the blanket or seasonal clerks for non-seasonal workload.

Total Proposed Budget

(\$ in thousands)	2020-21 Annual Budget	2020-21 Authorized Budget	2021-22 Proposed Budget	2020 to 2021 Change	
				\$ Increase / (Decrease)	% Increase / (Decrease)
Administrative Operating Costs	\$545,782	\$477,081	\$536,053	\$58,972	12.4%
Investment Operating Costs	124,856	126,430	130,613	4,182	3.3%
Enterprise Projects Costs	-	-	-	-	100.0%
Headquarters Building Costs	24,338	23,003	18,450	(4,553)	(19.8%)
Total: Operating Costs	\$694,976	\$626,514	\$685,115	\$58,601	9.4%
Investment External Management Fees	685,906	692,093	899,648	207,555	30.0%
Third Party Administrator Fees	312,670	302,623	303,517	894	0.3%
Total: Fees	\$998,575	\$994,716	\$1,203,165	\$208,449	21.0%
CalPERS Total Budget	\$1,693,551	\$1,621,230	\$1,888,280	\$267,050	16.5%
Total Positions	2,875.0	2,843.0	2,843.0	-	0.0%

Operating Costs

- \$59 million (12.4%) increase in Administrative Operating Costs
 - \$38.1 million (10.3%) increase in Personal Service Expenditures
 - \$20.9 million (19.8%) increase in OE&E
- The net Personal Services increase reflects:
 - An increase of \$32.6 million to restore funds for cancelled statewide compensation reductions
 - An increase of \$9.3 million to restore funding for positions held vacant to achieve savings during the current year
 - A decrease of \$3.8 million for reduced temporary help and overtime costs and revised health benefit calculations

Operating Costs (continued)

- OE&E increases are driven by:
 - Software and data processing expenses to improve IT functionality
 - More facilities expenses allocated to affiliate funds
 - Statewide Pro Rata assessments estimated by the Department of Finance
 - Vendor expenses for upcoming board elections

- The 2021-22 Administrative Operating Cost Budget is \$9.7 million less than the original 2020-21 budget, therefore exceeding the Governor's \$5 million reduction target.

Operating Costs (continued)

- \$4.2 million (3.3%) net increase in Investment Operating Costs
 - \$1.1 million increase in usage-based Master Custodian Fees
 - \$3.1 million increase in technology expenses for Analytics, Business Operations Tools, and Trading and Portfolio Management Systems to support Business Plan Initiatives

- \$4.5 million (19.8%) decrease in HQ Building Budget
 - \$1.4 million reduction in Operating expenses
 - \$0.4 million reduction in Non-Operating Costs
 - \$0.2 million decrease in parking revenue (offsets reductions)
 - \$2.9 million decrease for expenses allocated to affiliate funds

External Fees

- Estimated \$207.5 million increase in Investment External Management Fees driven by AUM, performance, and asset allocations primarily related to:
 - Global Equity (base)
 - Private Equity (base)
 - Opportunistic Strategies (base)
 - Real Assets (performance)
- \$0.9 million (0.3%) net increase in Third Party Administrator Fees driven by:
 - Updated health plan enrollment (\$3.1 million increase)
 - Full-year impact of revised Pharmacy Benefit contract reductions (\$1.5 million decrease)
 - Long Term Care program enrollment declines (\$0.7 million decrease)