



Finance and Administration Committee

Agenda Item 5a

April 17, 2023

Item Name: 2023-24 Annual Budget Proposal

Program: Financial Office

Item Type: Action

Recommendation

Approve the 2023-24 Annual Budget in the amount of \$2.428 billion and 2,843 positions.

Executive Summary

CalPERS' 2023-24 proposed budget is \$2.428 billion; an increase of \$243.2 million, or 11.1%, compared to the current 2022-23 authorized budget. The major driver of the year-over-year increase is in Investment External Management Fees based on market assumptions and estimated deployment of capital to investment diversification strategies resulting from the board approved Strategic Asset Allocation. The budget also proposes modest Operating Cost increases to implement the Investment Data and Technology Strategy Initiative, possible Investment Office long-term incentives. 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, 2022, CalPERS expended \$853.5 million, or 39.1%, of the current budget, and projects to end the fiscal year with approximately \$53.1 million, or 2.4%, 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' 2022-27 Strategic Plan. 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 2023-24 proposed budget reflects increases that will enable CalPERS to implement new asset allocation strategies, improve data and analytics to support investment program decisions, and support infrastructure and services to meet its core objectives.

Budget and Fiscal Impacts

As detailed in the following table, the proposed 2023-24 budget is \$2.428 billion and reflects an increase of \$243.2 million, or 11.1%, compared to the 2022-23 authorized budget.

2023-24 Total Budget

(\$ in thousands)	2021-22 Actual	2022-23 Authorized Budget	2023-24 Proposed Budget	2022-23 to 2023-24 Change	
				\$	%
Administrative Operating Costs	\$512,636	\$577,352	\$585,451	\$8,099	1.4%
Investment Operating Costs	87,919	132,678	150,595	17,917	13.5%
Headquarters Building Costs	15,994	20,823	22,608	1,785	8.6%
Total: Operating Costs	\$616,550	\$730,854	\$758,655	\$27,801	3.8%
Investment External Management Fees	928,634	1,143,544	1,339,444	195,900	17.1%
Third Party Administrator Fees	299,581	310,312	329,781	19,469	6.3%
Total: Fees	\$1,228,215	\$1,453,856	\$1,669,225	\$215,369	14.8%
CalPERS Total Budget	\$1,844,765	\$2,184,709	\$2,427,880	\$243,171	11.1%
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' ability to operate effectively and meet its financial obligations.

Attachments

Attachment 1 – 2023-24 Annual Budget Proposal

Attachment 2 – PowerPoint Slides

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