



Finance and Administration Committee

Agenda Item 6a

April 19, 2021

Item Name: 2021-22 Annual Budget Proposal

Program: Financial Office

Item Type: Action

Recommendation

Approve the 2021-22 Annual Budget in the amount of \$1.888 billion and 2,843 positions.

Executive Summary

CalPERS' 2021-22 proposed budget is \$1.888 billion; an increase of \$267.1 million, or 16.5 percent, compared to the 2020-21 authorized budget. The drivers of the year-over-year increase are Investment External Management Fees due to increased Assets Under Management (AUM), asset allocations, and expected portfolio performance, as well as Administrative Operating Costs due to the restoration of funding for one-time reductions taken during 2020-21. The budget holds total authorized positions at 2,843, and it reflects no permanent positions in the blanket or the use of seasonal clerks for non-seasonal workload.

Displayed in the proposed budget is an update on current-year expenditures. CalPERS' 2020-21 total authorized budget is \$1.621 billion. Of this amount, \$722.8 million, or 44.6 percent, was expended as of December 31, 2020. Based on spending forecasts, CalPERS estimates that it will end the 2020-21 fiscal year with approximately \$15.7 million in unexpended funds, or 1.0 percent of the total budget. Until expended, all budgeted funds remain in the Public Employees' Retirement Fund (PERF) for investment.

Strategic Plan

This agenda item supports CalPERS' 2017-22 Strategic Plan and the 2020-21 Business Plan in that the proposed budget represents the financial resources needed to achieve strategic goals and priorities, meet core business needs, and further the mission of delivering retirement and health care benefits to members and their beneficiaries. While reductions made in 2020-21 will bring CalPERS closer to meeting its strategic overhead cost reduction target in that year, proposed budget increases and the restoration of funding will likely result in CalPERS missing the target for 2021-22.

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 necessary 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-driven changes. The mid-year review may also include adjustments for new, critical, and unforeseen resources not envisioned during the annual budget process.

Analysis

In developing the annual budget, Financial Office team members 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 2021-22 proposed budget reflects increases that are either mandated or clearly aligned with strategic goals. This includes investment expenses related to increased AUM and portfolio performance, the restoration of funding for one-time operating cost reductions necessary for CalPERS to meet its core mission, and the anticipated cancellation of statewide employee compensation reductions negotiated through collective bargaining.

Budget and Fiscal Impacts

As detailed in the following table, the proposed 2021-22 budget is \$1.888 billion and reflects an increase of \$267.1 million, or 16.5 percent, compared to the 2020-21 authorized budget.

2021-22 Total Budget

(\$ in thousands)	2019-20 Actual	2020-21 Authorized Budget	2021-22 Proposed Budget	2020 to 2021 Change	
				\$ Increase / (Decrease)	% Increase / (Decrease)
Administrative Operating Costs	\$480,404	\$477,081	\$536,053	\$58,972	12.4%
Investment Operating Costs	93,260	126,430	130,613	4,182	3.3%
Enterprise Projects Costs	2,656	-	-	-	100.0%
Headquarters Building Costs	21,666	23,003	18,450	(4,553)	(19.8%)
Total: Operating Costs	\$597,986	\$626,514	\$685,115	\$58,601	9.4%
Investment External Management Fees	710,200	692,093	899,648	207,555	30.0%
Third Party Administrator Fees	306,043	302,623	303,517	894	0.3%
Total: Fees	\$1,016,243	\$994,716	\$1,203,165	\$208,449	21.0%
CalPERS Total Budget	\$1,614,229	\$1,621,230	\$1,888,280	\$267,050	16.5%
Total Positions	2,875.0	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 result in CalPERS' inability to operate and meet its financial obligations.

Attachments

Attachment 1 – 2021-22 Annual Budget Proposal

Attachment 2 – PowerPoint Slides

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 Chief Financial Officer