



Finance and Administration Committee

Agenda Item 7b

November 16, 2021

Item Name: 2021-22 Mid-Year Budget Revision

Program: Financial Office

Item Type: Action

Recommendation

Approve an \$8.9 million increase for a revised total authorized budget of \$1.897 billion.

Executive Summary

At mid-year, CalPERS proposes an \$8.9 million (0.5 percent) increase to the 2021-22 authorized budget. The annual budget approved by the board in April continued the permanent operating cost reductions made in the prior year. However, collectively bargained salary and benefit increases and unforeseen costs are driving a mid-year adjustment. There is a \$10.0 million increase in Operating Costs, including a \$19.2 million increase in Administrative Costs offset by a \$9.2 million decrease in Investment Costs. There is also a \$1.1 million decrease in Fees based on revised investment strategies and health plan enrollment projections. Total authorized positions remain unchanged at 2,843.

2021-22 Mid-Year Total Budget

(\$ in thousands)	2021-22 Authorized Annual Budget	Mid-Year Adjustments	2021-22 Proposed Mid-Year Budget	% Change From Annual
Administrative Operating Costs	\$536,053	\$19,224	555,276	3.6%
Investment Operating Costs	130,613	(9,220)	121,393	(7.1%)
Headquarters Building Costs	18,450	(35)	18,415	(0.2%)
Total: Operating Costs	\$685,115	\$9,968	\$695,084	1.5%
Investment External Management Fees	899,648	(1,151)	898,497	(0.1%)
Third Party Administrator Fees	303,517	35	303,552	0.0%
Total: Fees	\$1,203,165	(\$1,116)	\$1,202,049	(0.1%)
CalPERS Total Budget	\$1,888,280	\$8,853	\$1,897,133	0.5%
Total Positions	2,843.0		2,843.0	0.0%

Strategic Plan

This agenda item supports CalPERS' 2017-22 Strategic Plan and the 2021-22 Business Plan in that the budget adjustment provides the resources necessary to deliver retirement and health care benefits to members and their beneficiaries.

Background

Each fiscal year, CalPERS engages in two formal budget processes - an annual budget process and a mid-year review. The annual budget process culminates in April with the board's approval of the budget for the upcoming fiscal year. Subsequently each fall, CalPERS presents to the board a Mid-Year Revision that aligns team member salaries and benefits with the outcomes of collective bargaining, and that addresses new, critical, or unforeseen resource needs. Each fall CalPERS also provides a report on final prior year expenditures.

Analysis

As detailed in Attachment 1, the 2021-22 Mid-Year Budget of \$1.897 billion reflects a total increase of \$8.9 million (0.5 percent). This includes a \$10.0 million (1.5 percent) increase in operating costs, and a \$1.1 million (0.1 percent) decrease in external fees. The net increase is driven by statewide salary and benefit adjustments and unforeseen administrative expenses related to the pandemic, board elections, and supporting long-term teleworking options for team members. There are offsetting decreases resulting from continued scrutiny of operational expenses, investment technology projects, and revised investment strategies. All funds remain in the PERF until expended, and to the extent increases are not needed, remain available for investment.

Attachment 2 provides final expenditures for fiscal year 2020-21, and reports that CalPERS ended the year with a net \$48.9 million in unexpended funds. There was a \$75.7 million surplus in Operating Costs offset by an \$26.8 million overage in Fees resulting from better-than-expected investment returns. The expenditure level is in line with the key performance indicator to spend at or below 10 percent of the authorized budget.

Budget and Fiscal Impacts

This item increases CalPERS' total 2021-22 Authorized Budget by \$8.9 million (0.5 percent).

Benefits and Risks

The increases proposed in the 2021-22 Mid-Year Budget are in line with compensation adjustments affecting all State of California employees and those required to continue necessary or mandated responsibilities. Without approval, CalPERS will be required to terminate team members or drastically reduce operational expenses, which would likely impair its ability to deliver retirement and health care benefits to members and their beneficiaries.

Attachments

Attachment 1 – 2021-22 Mid-Year Budget

Attachment 2 – 2020-21 Year-End Expenditure Report

Attachment 3 – PowerPoint Slides

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