

# Budget Policy

## Purpose

This policy documents the general framework for the development of CalPERS' annual and mid-year budgets.

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## Background

The CalPERS budget is an annual financial plan approved by the Board of Administration (board) that sets the funding levels available to CalPERS to meet operational needs for the delivery of retirement and health care benefits to members and their beneficiaries. The Financial Planning, Policy, and Budgeting Division (FPPB), under direction of the Chief Financial Officer (CFO), is responsible for developing CalPERS' budget and monitoring expenditures.

Each April, CalPERS proposes to the board an annual budget detailing the fiscal resources needed for the fiscal year running July 1 through June 30. Subsequently each November, CalPERS proposes a mid-year revision that adjusts funding levels as necessary to meet new, critical, or unforeseen needs, to reflect collectively bargained compensation and benefit changes, and to update enrollment-driven expenditures. The board approves CalPERS' budget as authorized by Finance and Administration Committee Delegation Resolution Number FA-19-01.

The budget includes six expenditure categories: Administrative Operating Costs, Investment Operating Costs, Enterprise Projects, Headquarters Building Costs, Investment External Management Fees, and Third-Party Administrator Fees. Administrative Operating Costs are allocated to the Public Employees' Retirement Fund (PERF) and twelve affiliate funds pursuant to a methodology that matches expenses to the funds that receive the benefit. The allocation sets CalPERS' one-year appropriation authority for administrative expenses and is provided to the State Controllers' Office to effectuate the payment and transfer of funds to pay administrative expenses.

## Strategic Objective

It is CalPERS' objective that its budget and resource requests align with and support Strategic Goals, Business Plan Initiatives, and Core Values.

## Policy

It is CalPERS' policy to develop and seek Board approval of an annual budget that:

- Maintains fiscal controls over the management of resources and operating efficiencies
- Links resource requests to Strategic Goals and Business Plan Initiatives
- Utilizes sound data to support and inform expenditure levels
- Involves and promotes collaboration and communication across the organization

## Key Terms / Definitions

For the purposes of this document, the following terms and definitions apply.

<b>Key Term</b>	<b>Definition</b>
Administrative Operating Costs	Personal services expenditures (i.e. salaries, wages, and benefits for permanent and temporary staff) and Operating Expenses and Equipment (OE&E) for each branch within CalPERS
Investment Operating Costs	Expenditures incurred to support investment activities, such as consultants, external audit, legal, and appraisal services, fund administration and custody, data and analytics software, and trading and portfolio management systems
Enterprise Projects	Large-scale, organization-wide information technology projects to improve operations, enhance services to members, and stay current with industry trends and practices
Headquarters Building Costs	Expenditures necessary to operate, maintain, and improve the Lincoln Plaza Buildings and regional offices, as well as the emergency operations center, Front Street parking lot, and warehouse space
Investment External Management Fees	Amounts that CalPERS pays to external investment advisors with whom it contracts to manage specific active portfolios
Third Party Administrator Fees	Fees paid to external partners to cover administration, recordkeeping, and communication with participants in support of health and pension services
Budget Change Proposal	A formal, written proposal submitted via the Department of Finance to the Legislature requesting to change the level of service or funding for activities and funds authorized by the Legislature

## Roles and Responsibilities

### Executive Team

- Establish and communicate annual budget priorities
- Review and approve the proposed annual and mid-year budgets

### FPPB

- Communicate budget-related deliverables and timelines to divisions for both the annual and mid-year budget development cycles
- Gather, analyze, and validate division expenditure requests
- Prepare the annual and mid-year budget documents and related board agendas and materials
- Coordinate the development and submission of Budget Change Proposals to the Department of Finance for funds subject to legislative appropriation
- Respond to Department of Finance, Legislative Analyst's Office, and Legislative requests for CalPERS' budget information
- Attend Legislative budget subcommittee hearings to support CalPERS' budget
- Prepare quarterly projections to forecast and monitor total expenditures against approved funding levels
- Track and monitor the multi-year impact of budget decisions

### CalPERS Divisions

- Prepare and submit operating budgets and resource requests in accordance with timelines
- Utilize and provide data to justify and support expenditure requests
- Submit quarterly OE&E projections to FPPB
- Communicate personal services expenditure pressures to FPPB

## Authoritative Sources

CalPERS will administer this policy in compliance with the following legal, regulatory, and policy requirements:

Source	Description
Article XVI, Section 17, of the California Constitution	CalPERS Board of Administration authority and fiduciary responsibility
Board Delegation to the Finance and Administration Committee (FA-19-01)	Authority delegated to the Finance and Administration Committee to approve CalPERS' enterprise-wide budgets and resource allocations

Annual State Budget Act	Legislation passed by the Legislature and approved by the Governor that appropriates funds to CalPERS and specifies fiscal reporting requirements
Government Code (GC) Section 13340	Legislators' Retirement Fund (LRS) expenditure authority
GC Section 20172	Public Employees' Retirement Fund (PERF) expenditure authority
GC Section 21664	Public Employees' Long-Term Care Fund (LTC) expenditure authority
GC Section 21676	Public Employees' Deferred Compensation Fund (DCF aka IRC 457) expenditure authority
GC Section 21711	California Employers' Pension Prefunding Trust Fund (CEPPT) expenditure authority
GC Section 21758	Replacement Benefit Custodial Fund (RBF) expenditure authority
GC Section 22600	Old Age and Survivors Insurance Revolving Fund (OASI) expenditure authority  Authority to expend funds for administrative expenses is subject to annual Legislative appropriation via the State Budget Act.
GC Sections 22840.2 and 22911	Public Employees' Health Care Fund (HCF)  Authority to expend funds for administrative expenses is subject to annual Legislative appropriation via the State Budget Act.
GC Section 22910	Public Employees' Contingency Reserve Fund (CRF) expenditure authority  Authority to expend funds for administrative expenses is subject to annual Legislative appropriation via the State Budget Act.
GC Section 22940	Annuitant Health Care Coverage Fund (AHCCF aka CERBT) expenditure authority
GC Section 22970.43	Supplemental Contributions Program Fund (SCP) expenditure authority
GC Section 75100	Judges' Retirement Fund (JRS) expenditure authority

GC Section 75600	Judges' Retirement System II Fund (JRS II) expenditure authority
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## Related Documents

Document	Relevance
Finance Budget Letters	Budget and accounting policies issued periodically by the California Department of Finance

## Revision History

The following revisions have been made to this policy:

Version	Modification Date	Summary of Changes
	11.15.22	Updates to differentiate policy from process, clarify roles and responsibilities, identify authority for affiliate funds, and define the types of expenses included in the budget categories.