Finance & Administration Committee

California Public Employees' Retirement System

Agenda Item 6a

September 17, 2013

ITEM NAME: Fiscal Year 2012-13 Year-End Budget and Expenditure Report

PROGRAM: Financial Office

ITEM TYPE: Action

RECOMMENDATION

That the Finance and Administration Committee (Committee) recommend the CalPERS Board of Administration (Board) approve the transmittal letter and submission of the Year-End Budget and Expenditure Report for Fiscal Year (FY) 2012-13 to the Joint Legislative Budget Committee, fiscal committees of the Legislature, State Controller, and Department of Finance, in accordance with the Budget Act of 2012, and to the Legislative Analyst's Office, Government Operations Agency, and the Office of the Legislative Counsel.

EXECUTIVE SUMMARY

The FY 2012-13 year-end expenditures for this report displays a Total Budget of $1,793.4 million of which $1,850.7 million was expended, representing $57.4 million, or 3.2%, over the original budget. This is due to Investment Expenses being higher than projected as a result of greater investment returns. The $57.4 million is offset by lower Total Administrative expenses (approved by the Board of Administration) of $467.0 million compared to $500.3 million, a savings of $33.3 million or 6.7% under budget.

The CalPERS Year-End Budget and Expenditure Report is submitted in accordance with Senate Bill 71, (Chapter 728, Statutes of 2012) to the Legislature no later than October 1, 2013, upon approval by the Finance and Administration Committee and the CalPERS Board of Administration; and the Budget Act of 2012.

STRATEGIC PLAN

CalPERS 2012-2017 Strategic Plan, Goal B supports the agenda item: to cultivate a high-performing, risk intelligent and innovative organization by actively managing business risks with an enterprise-wide view.

ANALYSIS

The CalPERS Total Budget is comprised of three main areas: (1) the Total Administrative Budget, which includes the Administrative, Enterprise Projects, and Headquarters Building Account; (2) the Projected Investment Expenses; and (3) Third Party Administrator Fees. The Total Administrative Budget is reviewed and approved by the CalPERS Board of Administration; the Projected Investment Expenses and Third Party Administrator Fees in accordance with past practice are provided for informational purposes to the Committee.

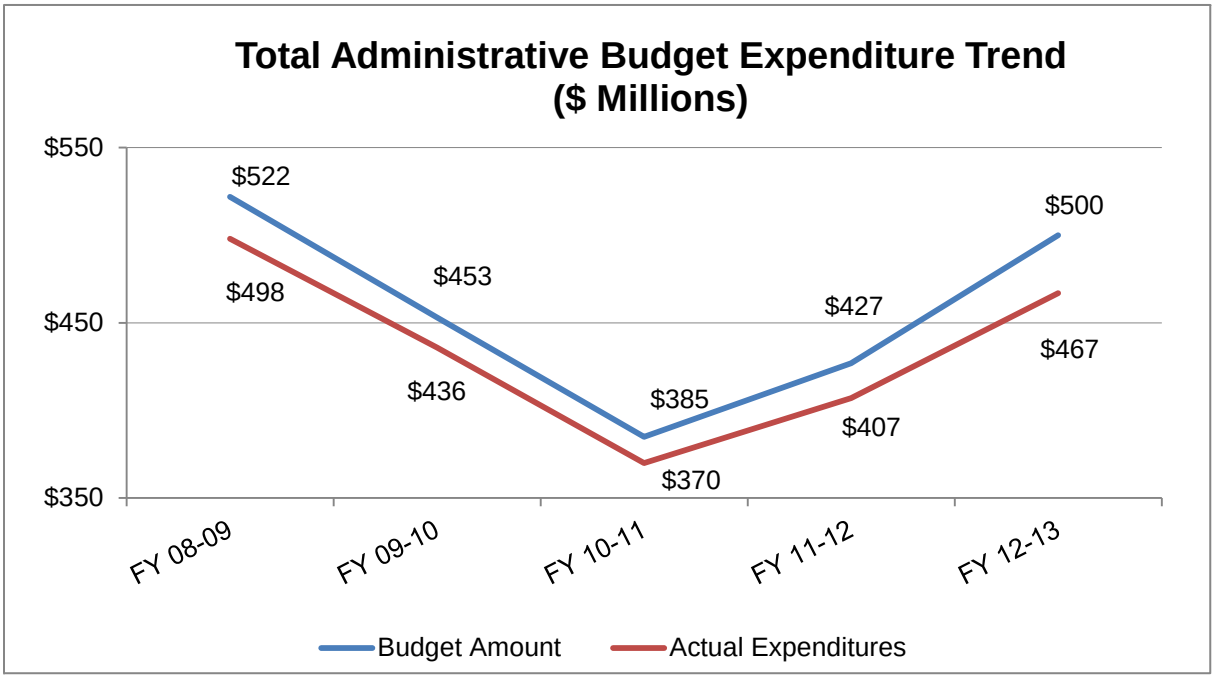
Budget ($ Thousands)	FY 2012-13 Expenditures	FY 2012-13 Mid-year Budget	$ (Over)/ Under	% (Over)/ Under
Administrative	$351,677	$373,892	$22,215	5.9%
Enterprise Project	83,562	84,596	1,034	1.2%
CalPERS Headquarters Building Account	31,720	41,811	10,091	24.1%
Total Administrative	**$466,959**	**$500,299**	**$33,340**	**6.7%**
Investment Expense	$1,278,348	$1,190,037	($88,311)	(7.4)%
- **External Management Fees**	1,186,508	1,093,038	(93,470)	(8.6)%
- **Other Investment Expenses**	91,840	96,999	5,159	5.3%
Third-Party Administrator Fees	105,421	103,031	(2,390)	(2.3)%
Total Budget	**$1,850,728**	**$1,793,367**	**($57,361)**	**(3.2)%**

Of the FY 2012-13 Total Budget of $1,793.4 million, $1,850.7 million was expended. This represents $57.4 million, or 3.2%, over the original budget, due to Investment Expenses being higher than projected as a result of greater investment returns, but is offset by lower Total Administrative expenses related to savings from the Personal Leave Program, travel reduction and salary savings due to delays in hiring.

Total Administrative Budget

The Total Administrative Budget encompasses the Administrative, Enterprise Projects and Building Account budgets. In December 2012, the Board approved the FY 2012-13 Mid-Year budget of $500.3 million. By the close of the fiscal year on June 30, 2013, the Total Administrative Budget expenditure amount of $467 million was $33.3 million, or 6.7%, below budget.

The Total Administrative Budgets for FY 2008-09 through FY 2012-13 is displayed in the following chart.



Numerous factors contributed to the actual expenses being under budget, including:

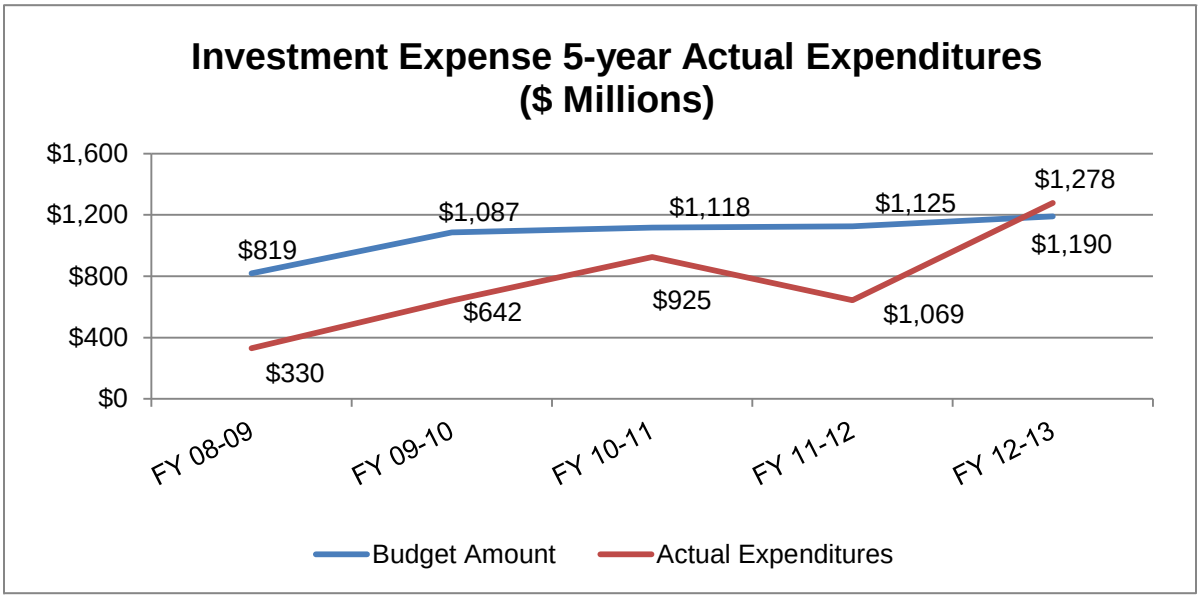
- The Administrative Budget was $22.2 million, or 5.9%, under expended in FY 2012-13 due mainly to the Personal Leave Program, travel reduction and salary savings due to delays in hiring.

- The Enterprise Project Budget was $1.0 million, or 1.2%, under expended due to reduction in over-time and salary savings from vacancies.

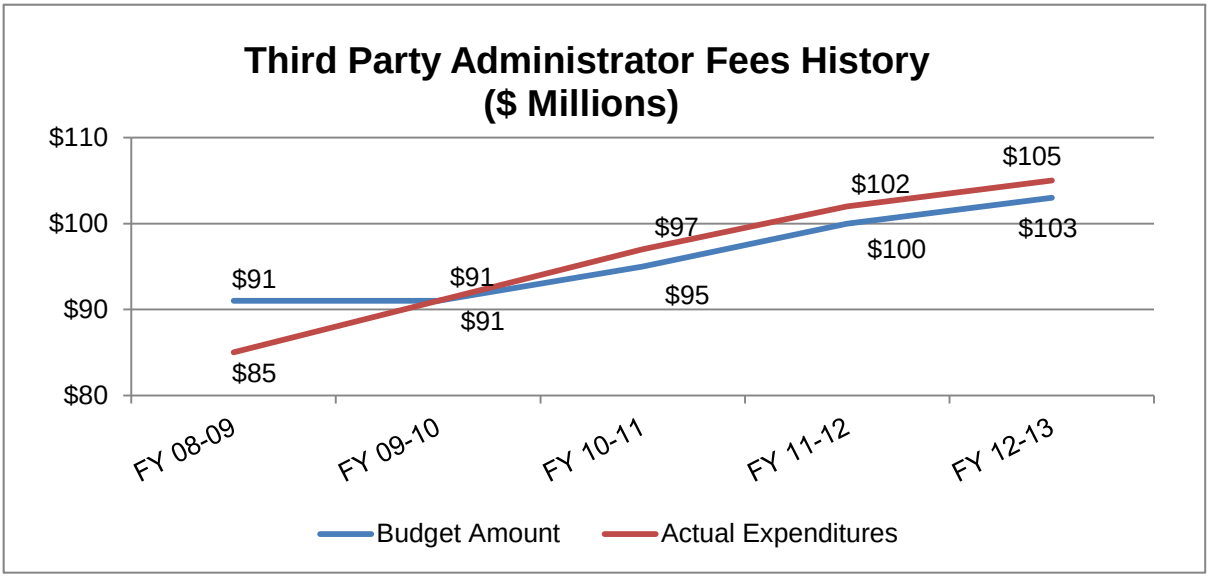
- The Headquarters Building Account Budget was $10.1 million, or 24.1%, under expended compared to prior FY 2011-12, due to changes in the Master Space Plan and reductions in furniture purchases. Postponed building improvements to the 1800 3rd Street Building also contributed to the unexpended funds.

Informational CalPERS Budget

The following two charts display trends in budget and expenditure over a five year period for the informational budgets of Investment and Third Party Administrator Fees for FY 2008-09 through FY 2012-13.



Of the total $1,190.0 million Investment Expense Budget projection, CalPERS expended $1,278.0 million, which was $88.3 million, or 7.4%, over the projection. Investment Expense Management Fees came in higher than projected due to better than anticipated investment returns.



Of the total $103.0 million Third Party Administrator Projection, CalPERS expended $105.4 million, or 2.3%, over expended. This is partially due to the Supplemental Income Plan amended contract with the Third Party Administrator that outsourced all field services; this included the addition of 3.0 full time staff to accommodate territory coverage.

A more comprehensive overview is provided in the Budget and Expenditure Report Detail (Attachment 1).

BUDGET AND FISCAL IMPACTS
There are no costs associated with the approval of this item.

BENEFITS/RISKS
Failure to approve the transmittal letter and submit to the respective legislative offices could put CalPERS at risk of noncompliance with the control language in the Budget Act of 2012.

ATTACHMENTS
Attachment 1 – FY 2012-13 Year-End Budget and Expenditure Report Detail
Attachment 2 – Transmittal Letter to the Joint Legislative Budget Committee

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