

**Fiscal Year 2014-15  
Annual Budget Proposal**

**First Reading**  
March 18, 2014

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### Background

The annual budget process for the California Public Employees' Retirement System (CalPERS) is the period for reviewing the organization's existing resources and requests to meet CalPERS mission, strategic plan, and business plan priorities.

The following proposed budget provides the annual financial plan for FY 2014-15 with projections for the FY 2015-16. CalPERS is committed to maintaining efficient and effective administration that is accountable and transparent to its stakeholders. This document compiles the financial data needed to support CalPERS goals, is aligned with the proposed initiatives outlined in the CalPERS 2014-16 Business Plan, and is based on the departmental review of operations.

This budget was built upon five key areas:

- Sound organizational governance
- Alignment of the budget to strategic and business planning
- Realistic cost containment
- Expanded use of technology
- Strong customer focus

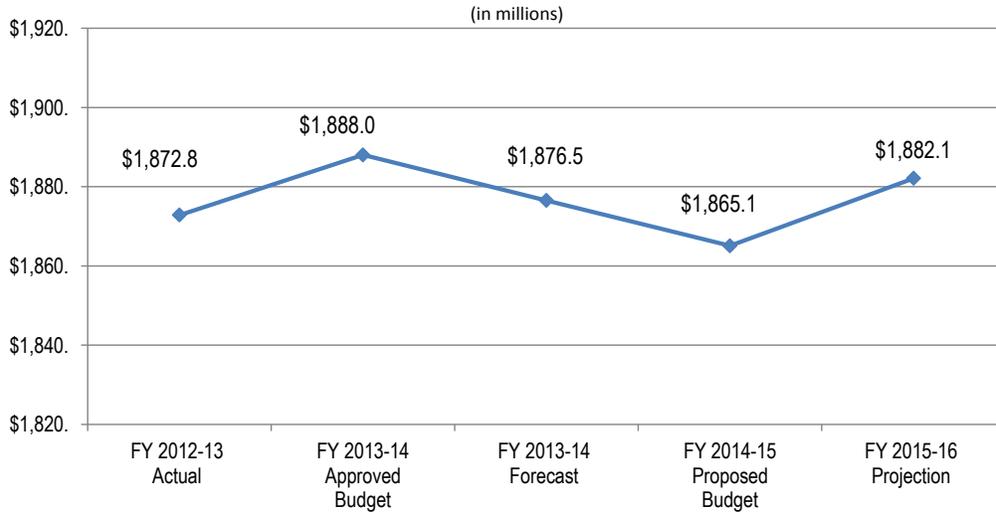
### Budget Highlights

The FY 2014-15 Proposed Budget is estimated to be \$1,876.5 million, a decrease of \$23.0 million or 1.2 percent from the FY 2013-14 Approved Budget of \$1,888.0 million. The results reflect the collaborative effort of CalPERS management and staff who worked to identify efficiencies in the organization, resulting in a decrease in the overall budget costs from the current year budget.

Highlights of the FY 2014-15 Proposed Budget include the following:

- Optimization of the myCalPERS system and ongoing knowledge transfer to realize increased operational efficiencies
- Redesign of the Actuarial Valuation System (AVS) to support GASB reporting requirements
- Resources to develop and implement strategies for the continued growth of the California Employers' Retiree Benefit Trust (CERBT) Program
- Development of an enterprise treasury management function to enhance cash controls, cash integrity, and liquidity management
- Continued development of Business Intelligence tools to leverage data and information to support decision making
- Ongoing cost saving efforts to transition portfolio management activities from investment consultants to State staff
- Continued efforts to support the Long-Term Health Care program and employer wellness partnerships to improve health cost trends and increase the number of covered lives
- Additional lease space for relocation of call center staff to accommodate expanding workspace requirements
- Continuation of Security Roadmap Phase III effort to protect and secure CalPERS technology and information

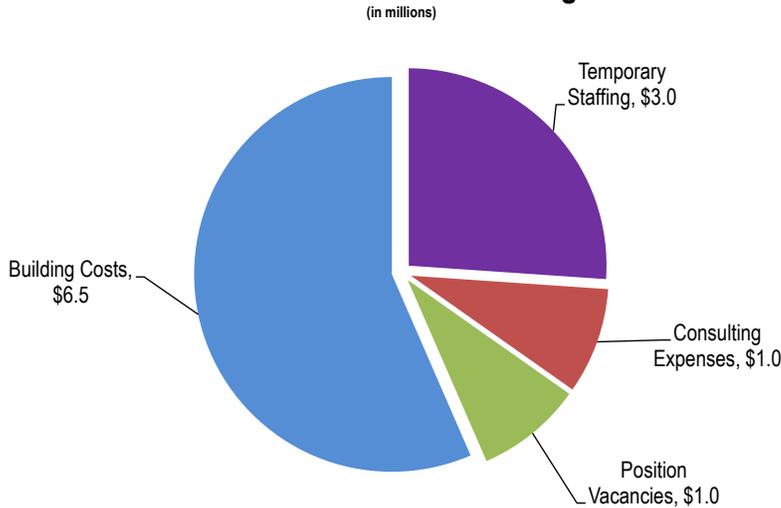
## CalPERS Total Budget Forecast / Projection



### FY 2013-14 Forecast

The FY 2013-14 Forecast is estimated to be \$1,876.5 million, a decrease of \$11.5 million or 1.0 percent from the FY 2013-14 Approved Budget of \$1,888.0 million. Potential budget savings are a result of reductions in temporary staffing (\$3.0 million), less than anticipated consulting expenses (\$1.0 million), position vacancies (\$1.0 million), and lower than anticipated building costs (\$6.5 million). Compared to the FY 2013-14 Forecast of \$1,876.5 million, the FY 2014-15 Proposed Budget of \$1,865.1 million represents a decrease of \$11.4 million or 0.6 percent.

### FY 2013-14 Forecast Savings



### **FY 2015-16 Projection**

The FY 2015-16 Projection<sup>1</sup> anticipates an increase of \$17.0 million or 0.9 percent from the FY 2014-15 Proposed Budget. Increases in Personal Services are due primarily to anticipated Merit Salary Adjustments for CalPERS staff and an increase of 2.0 percent to staff salaries as stated and anticipated in the 2014-15 Governor's Budget. Increases in Operating Expenses have been projected at an inflationary rate of 1.8 percent<sup>2</sup>. It is estimated that the Enterprise Project costs will be \$25.0 million based on the known projects scheduled for the FY 2015-16 Projection. The Investment External Management Fees and Third Party Administrator Fees projections have been displayed with no change from the FY 2014-15 Proposed Budget due to the difficulty in making future projections in these two areas.

<sup>1</sup>The FY 2015-16 Projection is a high level estimate and is intended to be used for informational purposes only

<sup>2</sup> Inflationary rate is based on the Bureau of Labor Statistics Consumer Price Index (CPI)

## Budget Summary

The FY 2014-15 CalPERS Total Budget focuses on CalPERS' strategic goals:

- Improve long-term pension and health benefit sustainability
- Cultivate a high-performing, risk-intelligent and innovative organization
- Engage in state and national policy development to enhance the long-term sustainability and effectiveness of our programs

The proposed FY 2014-15 CalPERS Total Budget is \$1,865.1 million, which represents an overall decrease of approximately \$23.0 million or 1.2 percent from the FY 2013-14 Approved Budget of \$1,888.0 million. Specifically, this is a \$24.2 million (4.2 percent) decrease to the Total Operating Costs, a \$13.5 million (1.3 percent) decrease to the Investment External Management Fees, and a partial offsetting increase of \$14.8 million (5.4 percent) for Third Party Administrator Fees.

## Fiscal Year 2014-15 CalPERS Total Budget

(in millions)

|  | FY 2013-14<br>Approved<br>Budget <sup>1</sup> | FY 2014-15<br>Proposed<br>Budget | \$<br>Change<br>Incr / (Decr) | %<br>Change<br>Incr / (Decr) |
|--|---|----------------------------------|-------------------------------|------------------------------|
| Administrative Operating Costs                         | \$425.2                                       | \$418.2                          | (\$7.0)                       | (1.6%)                       |
| Investment Operating Costs                             | 84.4  | 80.6                             | (\$3.8)                       | (4.5%)                       |
| <b>Total Operating Costs<sup>2</sup></b>               | <b>\$509.6</b>                                | <b>\$498.8</b>                   | <b>(\$10.8)</b>               | <b>(2.1%)</b>                |
| <b>Enterprise Projects</b>                             | <b>33.3</b>                                   | <b>27.9</b>                      | <b>(5.4)</b>                  | <b>(16.2%)</b>               |
| <b>Headquarters Building Costs</b>                     | <b>40.7</b>                                   | <b>32.6</b>                      | <b>(8.1)</b>                  | <b>(19.8%)</b>               |
| <b>Subtotal</b>  | <b>\$583.6</b>                                | <b>\$559.3</b>                   | <b>(\$24.3)</b>               | <b>(4.2%)</b>                |
| <b>Investment External Management Fees<sup>3</sup></b> | <b>\$1,030.0</b>                              | <b>\$1,016.5</b>                 | <b>(\$13.5)</b>               | <b>(1.3%)</b>                |
| <b>Third Party Administrator Fees<sup>4</sup></b>      | <b>\$274.5</b>                                | <b>\$289.3</b>                   | <b>\$14.8</b>                 | <b>(5.4%)</b>                |
| <b>CalPERS Total Budget</b>                            | <b>\$1,888.0</b>                              | <b>\$1,865.1</b>                 | <b>(\$23.0)</b>               | <b>(1.2%)</b>                |
| <b>Total Positions</b>                                 | <b>2,696</b>                                  | <b>2,727</b>                     | <b>31</b>                     | <b>1.1%</b>                  |

<sup>1</sup> FY 2013-14 Midyear budget approved by CalPERS Board of Administration on December 18, 2013

<sup>2</sup> Effective FY 2014-15, investment related expenses are now reflected with all CalPERS Administrative Operating Costs.

<sup>3</sup> Investment External Management Fees consist of both Base Fees and Performance Fees

<sup>4</sup> Third Party Administrator Fees for FY 2013-14 include six month projections of \$159.7 million based on fees approved by the board for financial reporting comparisons which are for the newly implemented self funded health plans with an effective start date of January 1, 2014

## D. Total Operating Costs

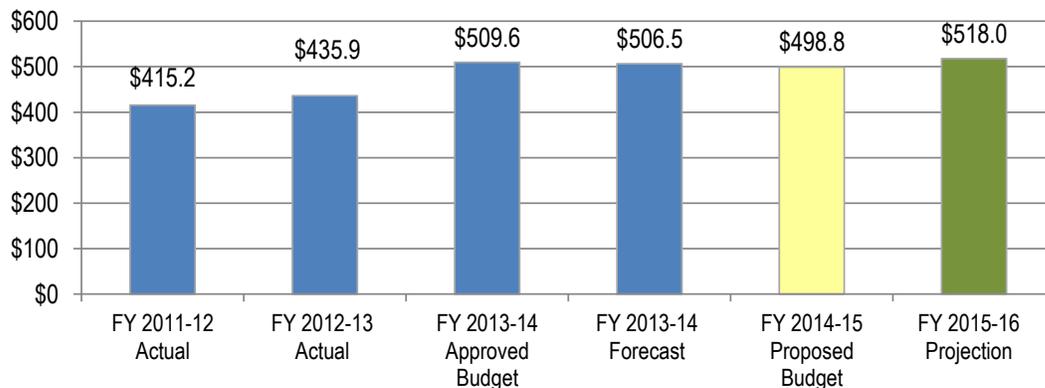
The CalPERS Total Budget is composed of five main areas which are presented on a consolidated basis to increase transparency and provide a holistic perspective. The budget areas are:

- Total Operating Costs
- Enterprise Projects
- Headquarters Building Costs
- Investment External Management Fees
- Third Party Administrator Fees

Each budget area will be covered separately and detailed to provide an analysis of the historical trending and current proposal of the costs.

### Total Operating Costs Trend

(in millions)



Total Operating Costs for FY 2014-15 Proposed Budget are \$498.8 million compared to \$509.6 million in the FY 2013-14 Approved Budget, a decrease of \$10.8 million or 2.1 percent. Of that total, \$310.0 million or over 62 percent of the budget represents Personal Services costs which are projected to increase by \$20.9 million or 7.2 percent over the FY 2013-14 Approved Budget. As an offset, Operating Expenses & Equipment are decreasing by \$31.7 million or 14.4 percent.

The following pages highlight each notable change for the expense items within the Total Operating Budget.

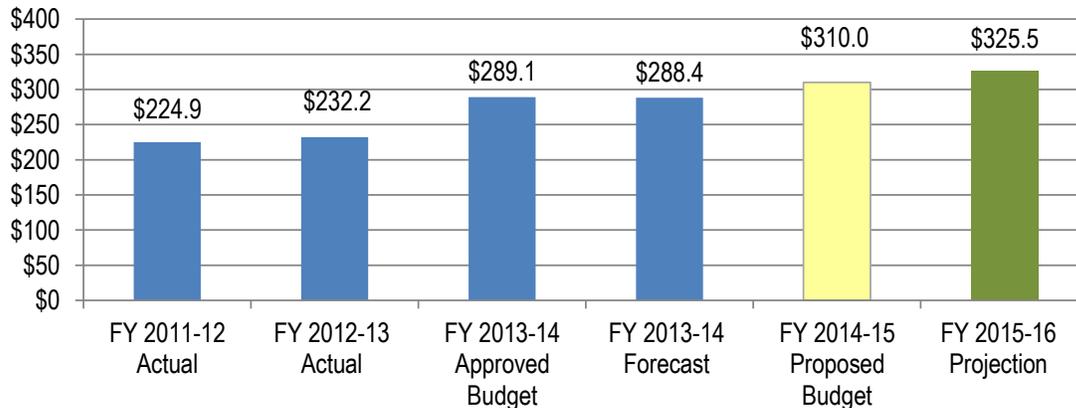
# D. Total Operating Costs

(in thousands)

|   | FY 2012-13<br>Actual | FY 2013-14<br>Approved<br>Budget | FY 2014-15<br>Proposed<br>Budget | \$<br>Change<br>Incr / (Decr) | %<br>Change<br>Incr / (Decr) |
|---|----------------------|----------------------------------|----------------------------------|-------------------------------|------------------------------|
| <b>BUSINESS PLAN OPERATIONS:</b>                |                      |                                  |                                  |                               |                              |
| <b>[1] PERSONAL SERVICES</b>                    |                      |                                  |                                  |                               |                              |
| Salaries & Wages [1.1]                          | \$ 155,470           | \$ 178,502                       | \$ 192,753                       | \$ 14,251                     | 8.0%                         |
| Temporary Help [1.2]                            | 10,147               | 20,600                           | 17,356                           | (3,245)                       | (15.8%)                      |
| Overtime  | 1,490                | 2,224                            | 2,012                            | (212)                         | (9.5%)                       |
| Benefits [1.3]                                  | 65,052               | 87,812                           | 97,911                           | 10,100                        | 11.5%                        |
| <b>Total Personal Services</b>                  | <b>\$ 232,158</b>    | <b>\$ 289,137</b>                | <b>\$ 310,032</b>                | <b>\$ 20,895</b>              | <b>7.2%</b>                  |
| <b>[2] OPERATING EXPENSES &amp; EQUIPMENT *</b> |                      |                                  |                                  |                               |                              |
| General Expense [2.1]                           | \$ 7,471             | \$ 7,645                         | \$ 9,440                         | \$ 1,795                      | 23.5%                        |
| Fund Admin Services/Subscriptions               | 4,464                | 6,478                            | 5,759                            | (719)                         | (11.1%)                      |
| Software  | 4,901                | 1,717                            | 1,714                            | (4)                           | (0.2%)                       |
| Printing  | 1,605                | 1,784                            | 1,861                            | 77                            | 4.3%                         |
| Postage   | 3,050                | 3,439                            | 2,528                            | (910)                         | (26.5%)                      |
| Communications [2.2]                            | 2,241                | 2,757                            | 4,099                            | 1,342                         | 48.7%                        |
| Data Processing Services [2.3]                  | 20,380               | 18,033                           | 9,510                            | (8,523)                       | (47.3%)                      |
| Travel [2.4]                                    | 1,732                | 2,652                            | 3,628                            | 976                           | 36.8%                        |
| Training  | 1,234                | 1,465                            | 1,829                            | 364                           | 24.9%                        |
| Medical Exam/Disability Travel                  | 1,042                | 1,370                            | 1,150                            | (220)                         | (16.1%)                      |
| Facilities Operations [2.5]                     | 3,787                | 3,911                            | 5,387                            | 1,476                         | 37.7%                        |
| Central Administrative Services [2.6]           | 18,026               | 19,078                           | 22,263                           | 3,185                         | 16.7%                        |
| Attorney General Services                       | 133                  | 189                              | 189                              | 0                             | 0.0%                         |
| Consultant & Professional Services [2.7]        | 54,366               | 68,498                           | 53,746                           | (14,751)                      | (21.5%)                      |
| Outside Counsel [2.8]                           | 26,641               | 25,111                           | 19,853                           | (5,258)                       | (20.9%)                      |
| Audit Services                                  | 1,481                | 1,096                            | 1,528                            | 431                           | 39.3%                        |
| Master Custodian Fees                           | 7,528                | 5,867                            | 5,934                            | 66                            | 1.1%                         |
| Appraisal Fees/Tax Advisory Services            | 7,376                | 5,892                            | 5,949                            | 57                            | 1.0%                         |
| Federal Lobbyist                                | 790                  | 800                              | 900                              | 100                           | 12.5%                        |
| Admin Hearings                                  | 472                  | 500                              | 500                              | 0                             | 0.0%                         |
| Other Admin & Operating Expenses                | 522                  | 661                              | 1,310                            | 649                           | 98.2%                        |
| Consolidated Data Centers                       | 191                  | 777                              | 777                              | 0                             | 0.0%                         |
| Trading & Portfolio Mgmt Systems [2.9]          | 9,282                | 11,995                           | 14,335                           | 2,340                         | 19.5%                        |
| Data/Analytics                                  | 11,791               | 12,156                           | 12,983                           | 827                           | 6.8%                         |
| Business Operations Tool/Other Technology       | 757                  | 685                              | 818                              | 133                           | 19.4%                        |
| Equipment (includes EDP) [2.10]                 | 12,519               | 15,902                           | 743                              | (15,159)                      | (95.3%)                      |
| <b>Total Operating Expenses &amp; Equipment</b> | <b>\$ 203,782</b>    | <b>\$ 220,458</b>                | <b>\$ 188,733</b>                | <b>\$ (31,725)</b>            | <b>(14.4%)</b>               |
| <b>GRAND TOTALS</b>                             | <b>\$ 435,940</b>    | <b>\$ 509,596</b>                | <b>\$ 498,765</b>                | <b>\$ (10,831)</b>            | <b>(2.1%)</b>                |

## [1] PERSONAL SERVICES

**Personal Services Costs Trend**  
(in millions)



### [1.1] Salaries & Wages

Increases in Personal Services of \$20.9 million are mainly due to higher salaries and wages (\$11.3 million), the proposed addition of 31 positions (\$3.6 million), retirement and health benefits (\$9.4 million), offset by reductions in temporary help and overtime (\$3.3 million). To implement immediate savings to the FY 2014-15 CalPERS Total Budget, a salary savings factor of \$18.4 million or 7.2 percent was applied to salaries and benefits to reflect the vacancy savings. Considerable strides have been made by the organization to reduce the number of vacancies. The current vacancy rate of 9.5 percent is 2.8 percent lower than the 12.3 percent vacancy rate at this same time last year. It is anticipated that a vacancy rate, although lower, will still exist.

The request for 31 positions resulted from each business area being asked to evaluate their existing vacancies and redirect or fill as part of their workforce planning. Staffing requests address several key functions to further advance the strategic objectives of the organization, including:

#### **Benefit Program Policy and Planning**

**[\$204,000 – 2 PYs]**

Continued customer focus in Health and Long Term Care Programs with the support of 2 PYs to assist with LTC program contract monitoring, market research and program oversight and the increased workload associated with the flex-funded health plans.

#### **Customer Services and Support**

**[\$491,500 – 5 PYs]**

Ongoing customer service by adding 3 PYs to support Public Agency eligibility verifications and an additional 2 PYs to manage the workload growth in the California Employer Benefit Trust (CERBT) program.

### **Office of External Affairs**

**[\$275,000 – 3 PYs]**

Due to the expansion of technology through social media and increased external communication workload, 3 PYs are requested to support Public Records Act inquiries, social media platforms, and enterprise digital communications.

### **Financial Office**

**[\$804,000 – 7 PYs]**

The development and implementation to address treasury management requires the addition of 4 PYs. An additional 3 PYs are requested to reduce reporting risks and implement new financial reporting requirements for the new Governmental Accounting Standards Board (GASB).

### **General Counsel**

**[\$368,000 – 3 PYs]**

The addition of 3 PYs, including an Assistant Chief Counsel, manager and analyst are requested to provide better coordination and review of professional legal staff and manage outside legal contracts to better manage costs and efficiencies.

### **Investment Office**

**[\$1,060,000 – 7 PYs]**

The continued efforts toward internalization of core, high value functions previously outsourced require the addition of 7 PYs to implement workforce planning efforts for the resource strategy outlined in the Investment Office Roadmap. The resource strategy identifies skill gaps and resource needs for better alignment with industry benchmarks to meet INVO's Target Operating Model.

### **Operations and Human Resources**

**[\$366,500 – 4 PYs]**

To administer an effective Equal Employment Opportunity (EEO) program, an internal investigator position is being requested to assist with follow up to inquiries. Additionally, to manage the growth in workload due to resources being added to the organization, 3 PYs are requested to address recruitment, classification and strategic workforce planning work.

### **[1.2] Temporary Workload Assistance**

Due to enterprise efforts to reduce reliability on temporary resources, the temporary staffing cost for CalPERS is anticipated to decrease by \$3.3 million, from \$20.6 million to \$17.4 million.

### **[1.3] Retirement and Health Benefits**

Retirement and health benefit costs for CalPERS state staff are anticipated to increase by \$9.5 million (\$4.3 million for retirement and \$5.2 million for health).

The table on the following page provides a detail summary on the new position requests.

## D. Total Operating Costs

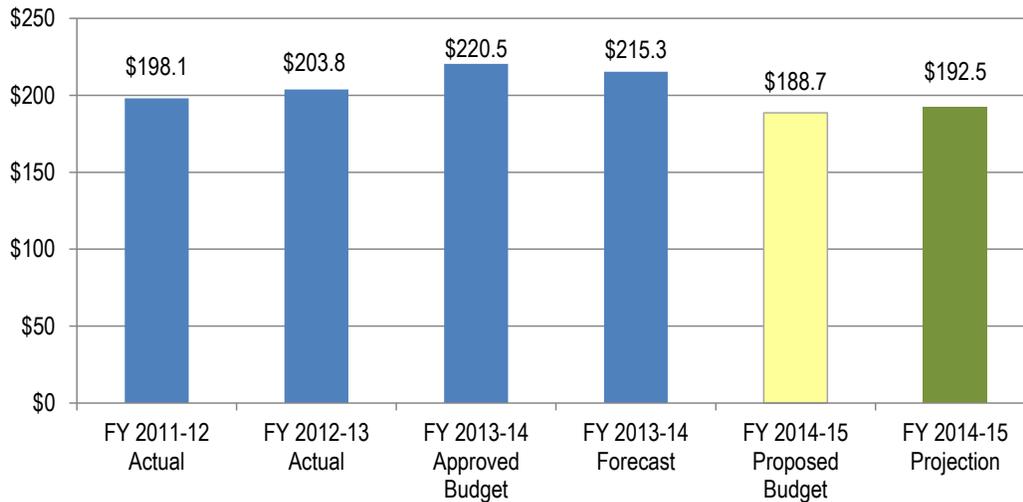
Agenda Item 7a. Attachment 1

| Branch   | FY 2013-14<br>Authorized<br>Positions | FY 2014-15<br>Proposed<br>Positions | Change in<br>Positions | %<br>Change |
|--|---------------------------------------|-------------------------------------|------------------------|-------------|
| <b>Actuarial Office</b>  | 55.0                                  | 55.0                                | -                      | 0.0%        |
| <b>Benefit Program Policy and Planning</b>                             | 133.0                                 | 135.0                               | 2.0                    | 1.5%        |
| 1.0 – Health Maintenance Organization Compliance Workload              |                                       |                                     |                        |             |
| 1.0 – Long Term Care Contract and Market Research for Open Enrollment  |                                       |                                     |                        |             |
| <b>Customer Services and Support</b>                                   | 890.5                                 | 895.5                               | 5.0                    | 0.6%        |
| 2.0 – Public Agency Eligibility  |                                       |                                     |                        |             |
| 1.0 – Business Partner Support Unit                                    |                                       |                                     |                        |             |
| 2.0 – CERBT Program Workload Expansion                                 |                                       |                                     |                        |             |
| <b>Office of External Affairs</b>                                      | 63.0                                  | 66.0                                | 3.0                    | 4.8%        |
| 1.0 – Enterprise Digital Communications Support                        |                                       |                                     |                        |             |
| 1.0 – Strategic Projects Support                                       |                                       |                                     |                        |             |
| 1.0 – Public Records Act Coordinator                                   |                                       |                                     |                        |             |
| <b>Executive Office</b>  | 19.0                                  | 19.0                                | -                      | 0.0%        |
| <b>Financial Office</b>  | 209.0                                 | 216.0                               | 7.0                    | 3.3%        |
| 4.0 – Treasury Management  |                                       |                                     |                        |             |
| 3.0 – Financial Reporting  |                                       |                                     |                        |             |
| <b>General Counsel</b>   | 127.0                                 | 130.0                               | 3.0                    | 2.4%        |
| 2.0 – Legal Administrative Unit  |                                       |                                     |                        |             |
| 1.0 – Legal Assistant Chief Counsel                                    |                                       |                                     |                        |             |
| <b>Investment Office</b>   | 341.0                                 | 348.0                               | 7.0                    | 2.1%        |
| 1.0 – Global Equity Capital Allocation & Risk                          |                                       |                                     |                        |             |
| 1.0 – Quantitative Research  |                                       |                                     |                        |             |
| 1.0 – Global Fixed Income Investment Support                           |                                       |                                     |                        |             |
| 1.0 – Portfolio Manager Real Estate                                    |                                       |                                     |                        |             |
| 1.0 – Asset Allocation Risk Factor                                     |                                       |                                     |                        |             |
| 1.0 – Targeted Investment Program                                      |                                       |                                     |                        |             |
| 1.0 – Infrastructure & Forestland                                      |                                       |                                     |                        |             |
| <b>Operations and Technology</b>                                       | 858.5                                 | 862.5                               | 4.0                    | 0.5%        |
| 1.0 – Investigation in the Diversity Office                            |                                       |                                     |                        |             |
| 2.0 – Human Resources Classification & Consultation                    |                                       |                                     |                        |             |
| 1.0 – Human Resources Personnel Transactions and Health & Safety Units |                                       |                                     |                        |             |
| <b>Total</b>   | <b>2,696.0</b>                        | <b>2,727.0</b>                      | <b>31.0</b>            | <b>1.1%</b> |

## [2] OPERATING EXPENSES & EQUIPMENT

Operating Expenses & Equipment costs of \$188.7 million represent a decrease of \$31.8 million or 14.4 percent from the FY 2013-14 Approved Budget, and \$26.6 million or 12.4 percent from the FY 2013-14 Forecast.

**Operating Expenses & Equipment Costs Trend**  
(in millions)



### [2.1] General Expense

Examples of items that post to the General Expense budget line item are general office supplies, subscriptions, membership fees, and conference costs. The \$1.8 million increase for this line item is a cumulative net effect to the enterprise primarily due to cost increases caused by the increase in staffing for the organization.

### [2.2] Communications

The Communications budget is increasing by \$1.3 million primarily due to the transfer of the Telecommunications line item from the Headquarters Building Costs Budget to the Information Technology Services Branch Total Operating Costs Budget.

### [2.3] Data Processing Services

Data Processing Services for the organization are decreasing by \$8.5 million due to larger expenditures in the current FY 2013-14 Approved Budget to fund Oracle hardware and software costs and the maintenance and operations costs that benefit enterprise-wide applications.

### **[2.4] Travel**

The increase of \$1.0 million to the travel budget line item is primarily due to the Investment Office bringing more portfolio management functions in-house, which requires more due diligence traveling. The Customer Service and Support Branch is increasing the number of remote retirement planning fairs in FY 2014-15, increase the opportunities for travel.

### **[2.5] Facilities Operations**

The facilities operations line item is increasing by \$1.5 million due to the Fresno Regional Office acquiring additional square footage and a newly planned off-site location for the CalPERS Call Center of the Customer Service and Outreach Division.

### **[2.6] Central Administrative Services**

The State of California identifies and recovers central administrative services costs such as accounting, computing, payroll services, etc., from State departments funded from special and non-governmental cost funds (Pro Rata). The increase of \$3.2 million to the central administrative services budget line is due to a higher allocation assessed to the CalPERS organization.

### **[2.7] Consulting and Professional Services**

The Consulting and Professional Services budget is anticipated to decrease by \$14.8 million. Over \$9.0 million of these costs are attributable to the Health Program area removing one-time costs from the previous budget year allocation. These costs included one-time marketing and consulting resources to assist with the reopening of the Long Term Care program to new members. In addition, there were one-time costs that also include funding for the reprocurement of the Health Data warehouse. Another \$5.0 million is a reduction from the Investment Office as they continue to make efforts to bring their contracted workload in house to state staff.

### **[2.8] Outside Counsel**

The outside counsel budget is decreasing by \$5.3 million from \$25.1 million to \$19.8 million due to a reduction in public agency bankruptcy litigation (\$3.2 million) and the Investment Office anticipating a reduction in their outside legal counsel expenses (\$2.1 million) based on average historical trend. Of the \$19.8 million, \$10.5 million will be dedicated to investment related legal expenses, \$5.3 million to bankruptcy litigation and \$4.0 million to general outside counsel expenses.

### **[2.9] Trading & Portfolio Management Systems**

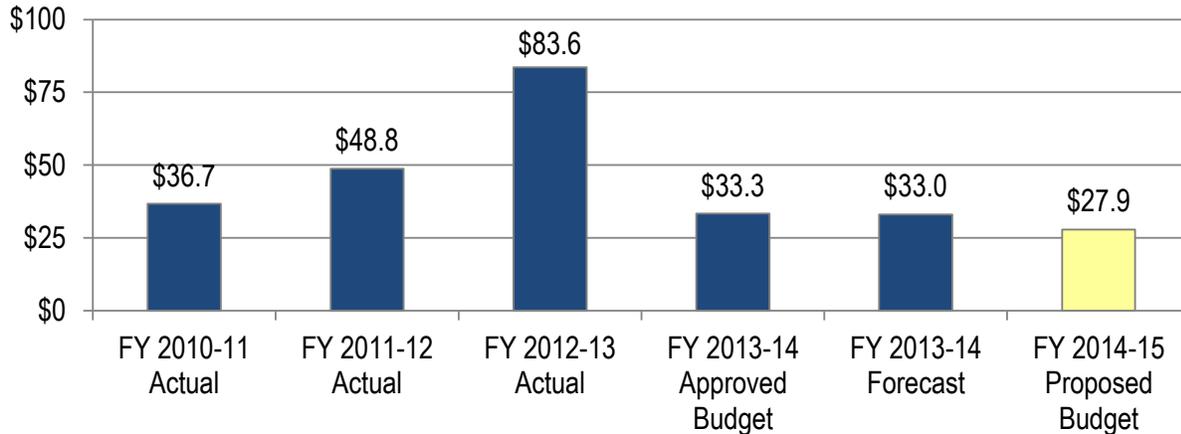
Trading and Portfolio systems are anticipated to be higher in cost by \$2.3 million from \$12.0 million to \$14.3 million due to the Investment Office commitment to building the infrastructure needed to support the investment management of assets that have been brought in-house.

### **[2.10] Equipment (includes EDP)**

Equipment costs are decreasing by \$15.2 million primarily due to information technology hardware upgrades completed in FY 2013-14.

## Enterprise Projects Costs Trend

(in millions)



The FY 2014-15 Enterprise Projects Budget Costs of \$27.9 million represent a decrease of \$5.4 million or 16.2 percent from the FY 2013-14 Approved Budget of \$33.3 million. Compared to the FY 2013-14 Forecast of \$33.0 million, the FY 2014-15 Proposed Budget represents a decrease of \$5.1 million or 15.5 percent. The \$27.9 million FY 2014-15 Proposed Budget is the lowest budget amount in the last five years.

| Enterprise Projects<br>(in thousands)         | FY 2013-14<br>Approved<br>Budget | FY 2014-15<br>Proposed<br>Budget | \$<br>Change<br>Incr / (Decr) | %<br>Change<br>Incr / (Decr) |
|---|----------------------------------|----------------------------------|-------------------------------|------------------------------|
| [1] my CalPERS System                         | \$22,569                         | \$ -                             | (\$22,569)                    | (100.0%)                     |
| [1] my CalPERS Business Optimization          | -                                | \$18,900                         | \$18,900                      | n/a                          |
| [3] Actuarial Valuation System                | -                                | 3,200                            | 3,200                         | n/a                          |
| [4] Security Roadmap Phase III                | 5,979                            | 2,608                            | (3,371)                       | (56.4%)                      |
| [5] Business Intelligence                     | 2,460                            | 1,000                            | (1,460)                       | (59.3%)                      |
| [6] Human Capital Management System           | 1,532                            | 1,200                            | (332)                         | (21.7%)                      |
| [7] PeopleSoft Financials eProcurement Module | -                                | 500                              | 500                           | n/a                          |
| [8] Enterprise Migration to SharePoint        | 748                              | 500                              | (248)                         | (33.2%)                      |
| <b>Total of Enterprise Projects</b>           | <b>\$33,288</b>                  | <b>\$27,908</b>                  | <b>(\$5,380)</b>              | <b>(16.2%)</b>               |

The concentration of the projects for the FY 2014-15 are centered around the my|CalPERS system optimization component, the reengineering of the Actuarial Valuation System, the third phase of the Security Roadmap Project, and finally continued reinforcement efforts towards the Business Intelligence and Enterprise Roadmap initiatives as follows:

### **[1] my|CalPERS Business Optimization**

**\$18.9 million**

The my|CalPERS system has been integrated into the business processes of the organization. This funding will provide key optimization opportunities identified to leverage the system and realize increased operational efficiencies. Specific foundation work has been addressed for continued efforts to stabilize the my|CalPERS system for years to come. The pension area of CalPERS has been identified as a program area that would benefit from system optimization especially in the further enhancement of preparing retirement calculations, death processing, and disability retirement determinations. The Customer Service area would also benefit with special summary pages where most frequently accessed data could be viewed. Additionally, the Financial Office would benefit with increased reconciliation capability from the my|CalPERS system to their specific PeopleSoft Financials accounting and budgeting system.

### **[2] Actuarial Valuation System**

**\$3.2 million**

The current Actuarial Valuation System (AVS) has been existence for over eighteen years and will no longer meet evolving actuarial practices including changes required for employers to comply with new standards as required by the Governmental Accounting Standards Board (GASB). The investment to reengineer the AVS system would provide the capabilities needed to keep current with evolving practice and comply with GASB Statement Number 68 scheduled to be effective June 2015. A request for proposal for a vendor is planned for October 2014. The Actuarial Office plans on having a project manager and an AVS redesign consultant in place by December 2014. This is year one of a multi-year request requiring funding over a four year period for an estimated total investment of \$22.0 million.

### **[3] Security Roadmap Phase III**

**\$2.6 million**

The Office of Enterprise Risk Management and the Information Technology Services Division are continuing work efforts tied to the Security Roadmap Project. The Security Roadmap is an ongoing multi-year effort that will ensure CalPERS technology and information will remain secure against constantly changing landscapes of threats. This project includes prioritized yearly initiatives and deliverables focused on implementing the latest preventative measures. For the FY 2014-15, the \$2.6 million related to phase III of the project would include the cost of two project managers and consulting hours to oversee and complete the Enhanced Enterprise Identity System. The project would also provide consultant program management support services to the two priorities for the coming year which are Data Loss Prevention and Security Information and Event Management controls.

### **[4] Business Intelligence**

**\$1.0 million**

Funds are required to support the Business Intelligence program which leverages data and information to support decision making. With new information technology resources, CalPERS will be able to deliver certain Business Intelligence results, such as data integration between sources, data warehousing, and business-focused analytics. The funding will establish the base infrastructure and formal governance of the Business Intelligence Program. The Business Intelligence program is focused on making information accessible for better decisions on which CalPERS may act upon with confidence, supporting the ability to use advanced analytics to conduct health and other planning research.

### **[5] Human Capital Management System (HCMS)**

**\$1.2 million**

Funding for the HCM system supports the e-performance and e-compensation functions within the Human Resources branch. This funding will automate many of the processes utilized by both Human Resources and the Financial Office to provide an integrated payroll and position control database information and streamline reporting.

### **[6] PeopleSoft Financials eProcurement Module**

**\$500,000**

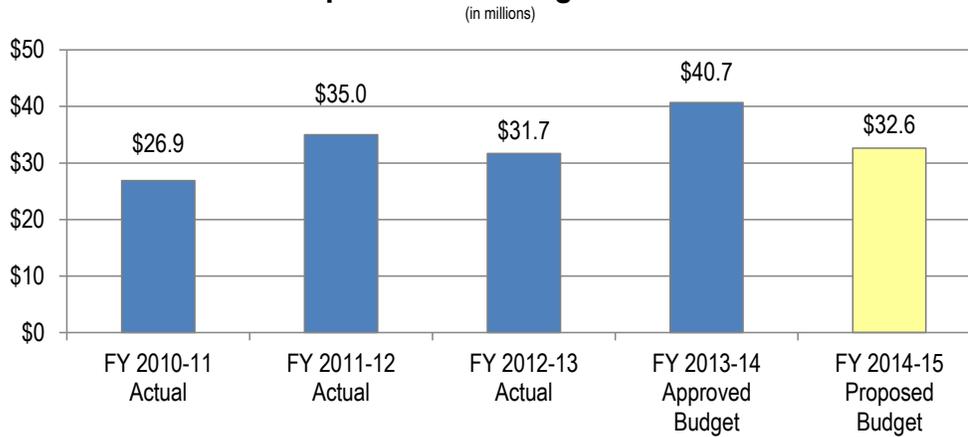
Funding is required to support the recent integration of the current CalPERS procurement system called WeBuy into the PeopleSoft Financials system e-Procurement module. This recent integration requires one year of support for two PeopleSoft Financials consultants who will provide knowledge transfer to existing staff on the maintenance and operations in the new systems platform.

### **[7] Enterprise Migration to SharePoint**

**\$500,000**

SharePoint is a content and document management program utilized to support the Business Plan objective to implement an Enterprise Content Management system to centralize data content and improve content structure in addition to establishing a governance process to improve Internet usability. Funding is requested to augment staff resources to complete the migration to the new SharePoint platform for the remaining program areas in the CalPERS organization. Funding will also be utilized for training on the new technologies deployment as well as advanced web content management skills.

## Headquarters Building Costs Trend



The Headquarters Building Costs Budget of \$32.6 million consists of operating expenses (utilities, engineering services, janitorial security, etc.), and non-operating expenses (structural improvements, staff moves, insurance, etc.).

Operating expenses in the FY 2014-15 Proposed Budget of \$18.3 million are relatively unchanged from FY 2013-14 Approved Budget.

Non-Operating expenses include owner improvements of \$7.1 million for data wiring improvements (\$2.5 million), electric underfloor distribution (\$1.5 million), master space plan with tenant improvements (\$1.6 million), and other miscellaneous improvements. Building Improvements of \$3.0 million include a remodel in the Lincoln Plaza North break room (\$0.8 million), radio and emergency response repeater replacement (\$0.5 million), and waterproofing (\$0.3 million) and other standard building maintenance costs. Furniture and fixtures of \$3.4 million include furniture, cubicle walls and labor for staff moves. Non-Operating expenses in FY 2014-15 of \$14.3 million have decreased by \$8.0 million from the FY 2013-14 Approved Budget as reconciled below:

|                |  |
|----------------|--|
| <b>(\$3.1)</b> | <b>Owner Improvements</b> - Savings due to 1800 3rd Street renovations postponed.  |
| <b>(2.7)</b>   | <b>Telecommunications</b> - Funding being moved from Headquarters Building Costs Budget to Information Technology Services Branch's Operational Budget   |
| <b>(2.6)</b>   | <b>Building Improvements</b> – Completion in FY 2013-14 of Americans with Disabilities Act (ADA) federally required restroom modernization and Leadership in Energy and Environmental Design (LEED) improvements needed for recertification. |
| <b>0.7</b>     | <b>Engineering Services</b> - Increase to Colliers engineering staff salaries.   |
| <b>(0.7)</b>   | <b>Operating Other</b> - Various decreases in cost for items such as waste removal, electrical, on-site child care center, and general maintenance   |
| <b>0.4</b>     | <b>Miscellaneous</b> - Net effect of all other changes   |
| <b>(\$8.0)</b> | <b>Total Change</b>  |

# F. Headquarters Building Costs

(in thousands)

|                                     | FY 2012-13<br>Actual | FY 2013-14<br>Approved<br>Budget | FY 2014-15<br>Proposed<br>Budget | Budget to Budget              |                              |
|-------------------------------------|----------------------|----------------------------------|----------------------------------|-------------------------------|------------------------------|
|                                     |                      |                                  |                                  | \$<br>Change<br>Incr / (Decr) | %<br>Change<br>Incr / (Decr) |
| <b>Operating:</b>                   |                      |                                  |                                  |                               |                              |
| Utilities                           | \$2,940              | \$2,936                          | \$2,765                          | (\$171)                       | (5.8%)                       |
| Engineering Services                | 2,454                | 2,772                            | 3,519                            | 746                           | 26.9%                        |
| Janitorial                          | 2,984                | 3,063                            | 3,096                            | 33                            | 1.1%                         |
| Landscaping                         | 789                  | 815                              | 814                              | (1)                           | (0.2%)                       |
| General Maintenance                 | 2,076                | 1,554                            | 1,560                            | 6                             | 0.4%                         |
| Security                            | 2,084                | 2,302                            | 2,309                            | 8                             | 0.3%                         |
| Property Mgmt & Administrative Fees | 1,030                | 1,152                            | 1,225                            | 73                            | 6.3%                         |
| Café Plaza                          | 459                  | 359                              | 359                              | -                             | 0.0%                         |
| Front St. Parking/Warehouse         | 401                  | 404                              | 655                              | 251                           | 62.1%                        |
| EOC (Sun Center) <sup>1</sup>       | 501                  | 354                              | 487                              | 132                           | 37.4%                        |
| Operating Other <sup>2</sup>        | 1,458                | 2,245                            | 1,500                            | (745)                         | (33.2%)                      |
| <b>Total Operating</b>              | <b>17,177</b>        | <b>17,957</b>                    | <b>18,289</b>                    | <b>332</b>                    | <b>1.8%</b>                  |
| <b>Non-Operating:</b>               |                      |                                  |                                  |                               |                              |
| Owner Improvements <sup>3</sup>     | 7,023                | 10,145                           | 7,064                            | (3,081)                       | (30.4%)                      |
| Building Improvements <sup>4</sup>  | 2,867                | 5,625                            | 2,994                            | (2,631)                       | (46.8%)                      |
| Telecommunications <sup>5</sup>     | 2,435                | 2,708                            | -                                | (2,708)                       | (100.0%)                     |
| Furniture & Fixtures                | 1,545                | 3,356                            | 3,356                            | -                             | (0.0%)                       |
| Building Insurance                  | 674                  | 886                              | 930                              | 44                            | 4.9%                         |
| <b>Total Non-Operating</b>          | <b>14,543</b>        | <b>22,719</b>                    | <b>14,343</b>                    | <b>(8,376)</b>                | <b>(36.9%)</b>               |
| <b>Total Expenses</b>               | <b>\$31,721</b>      | <b>\$40,676</b>                  | <b>\$32,632</b>                  | <b>(\$8,044)</b>              | <b>(19.8%)</b>               |

<sup>1</sup> Emergency Operations Center (EOC) includes utilities, janitorial, security, landscaping, generator maintenance

<sup>2</sup> Includes ongoing expense categories that individually equal less than \$300K annually such as electrical, HVAC, plumbing, general maintenance, waste removal, property taxes, child care center, parking garage

<sup>3</sup> Non-Operating Owner Improvements include CalPERS operational enhancements and support for the movement of divisions, units, and/or staff within

<sup>4</sup> Non-Operating Building Improvements are improvements made to the building structure or common areas

<sup>5</sup> Telecommunications budget is now reflected in Information Technology Services Branch operations budget authority

# G. Investment External Management Fees

(in thousands)

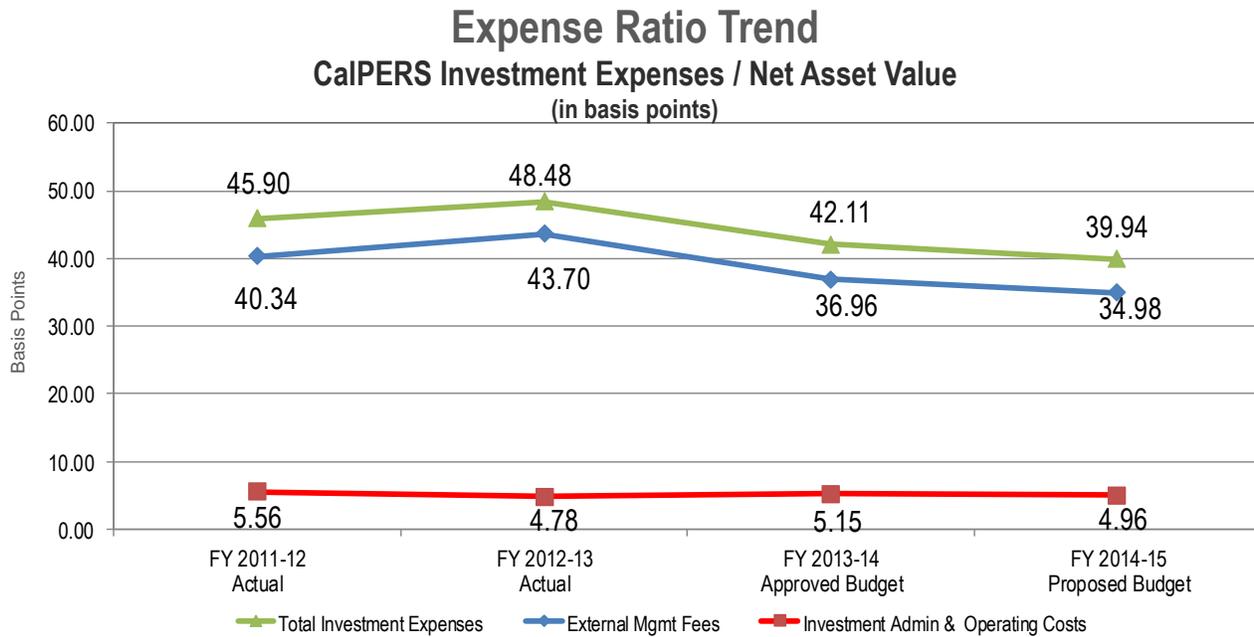
|   | FY 2012-13<br>Actual | FY 2013-14<br>Approved<br>Budget <sup>1</sup> | FY 2014-15<br>Proposed<br>Budget | Budget to Budget Change |               |
|---|----------------------|---|----------------------------------|-------------------------|---------------|
|   |                      |   |                                  | \$                      | %             |
|   |                      |   |                                  | Incr / (Decr)           | Incr / (Decr) |
| Global Equity                           | \$36,303             | \$35,099                                      | \$40,911                         | \$5,812                 | 16.6%         |
| Fixed Income                            | 7,043                | 7,200   | 5,329                            | (1,871)                 | (26.0%)       |
| Real Assets                             | 201,944              | 194,871                                       | 201,944                          | 7,073                   | 3.6%          |
| Absolute Return Strategy                | 60,708               | 68,000  | 60,708                           | (7,292)                 | (10.7%)       |
| Private Equity                          | 476,150              | 494,167                                       | 476,149                          | (18,018)                | (3.6%)        |
| Corporate Governance                    | 38,382               | 39,174  | 26,413                           | (12,762)                | (32.6%)       |
| <b>External Mgmt - Base Fees</b>        | <b>\$820,530</b>     | <b>\$838,511</b>                              | <b>\$811,455</b>                 | <b>(\$27,056)</b>       | <b>(3.2%)</b> |
| Global Equity                           | \$46,217             | \$48,300                                      | \$64,689                         | \$16,389                | 33.9%         |
| Fixed Income                            | 5,698                | 4,500   | 5,698                            | 1,198                   | 26.6%         |
| Real Assets                             | 270,624              | 65,017  | 71,329                           | 6,312                   | 9.7%          |
| Absolute Return Strategy                | 55,026               | 64,000  | 55,026                           | (8,974)                 | (14.0%)       |
| Corporate Governance                    | 18,095               | 9,642   | 8,288                            | (1,355)                 | (14.0%)       |
| <b>External Mgmt - Performance Fees</b> | <b>\$395,660</b>     | <b>\$191,458</b>                              | <b>\$205,030</b>                 | <b>\$13,571</b>         | <b>7.1%</b>   |
| <b>Total External Mgmt Fees</b>         | <b>\$1,216,190</b>   | <b>\$1,029,969</b>                            | <b>\$1,016,484</b>               | <b>(\$13,485)</b>       | <b>(1.3%)</b> |

<sup>1</sup> Investment expenses per FY 2013-14 Midyear Budget approved by CalPERS Board of Administration on December 18, 2013

The FY 2014-15 Proposed Budget of \$1,016.5 million is made up of \$811.5 million for External Management Base Fees and \$205.0 million for External Management Performance Fees which is an overall decrease of \$13.5 million or 1.3 percent from the FY 2013-14 Approved Budget. Total External Management Base Fees are decreasing by \$27.1 million or 3.2 percent from the previous FY 2013-14 Approved Budget. Global Equity costs are projected to increase due to higher portfolio values. Fixed Income and Private Equity costs are being projected to decrease due to CalPERS Investment Office insourcing of analytics efforts and the negotiating of more favorable contract terms. Corporate Governance portfolio management fees are expected to decrease due to a shifting of assets toward more cost effective Global Equity assets.

External Management Performance Fees of \$205.0 million for FY 2014-15 Proposed Budget is expected to increase by \$13.6 million or 7.1 percent over the FY 2013-14 Approved Budget of \$191.5 million. This expectation in higher performance fees is anticipated to be higher Global Equity and Real Asset returns offset by decreases in Absolute Return Strategy and Corporate Governance.

## [1] Expense Ratio / Basis Point Trend



Notes: Total Investment Expenses include External Management Fees (\$1,016.5 million) and Investment Administrative & Operating Costs (\$144.3 million) for the FY 2014-15 Proposed Budget

FY 2013-14 and FY 2014-15 forecasted NAV is based on the average annual percentage increase in net assets from FY 2001-02 to FY 2012-13.

### Basis Points Trend

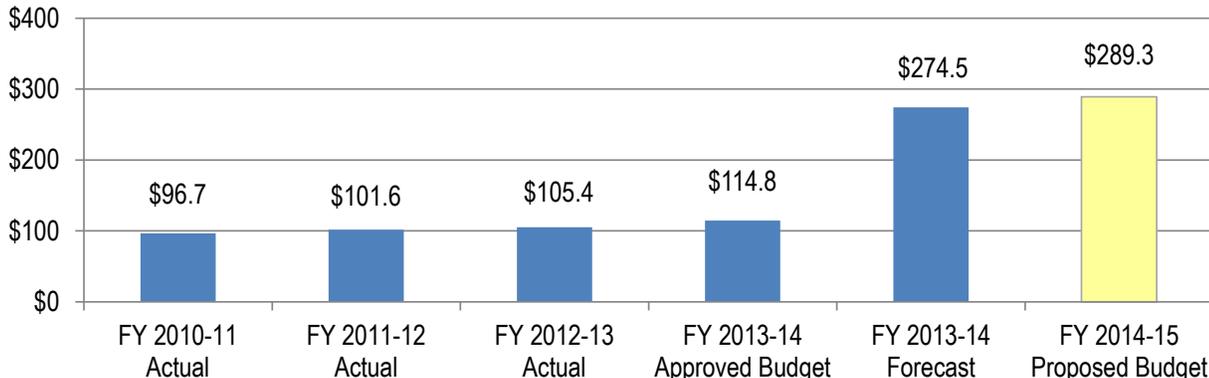
The expense ratio measures the cost to maintain the funds and is determined by dividing the investment expenses by the dollar value of the assets under management (AUM). The ratio reflects investment expenses against the fluctuating value of the portfolio. The above chart shows the comparison, or ratios, of the External Management Fees and the Investment Administrative and Operating Costs to the net asset value (NAV) of the AUM by fiscal year.

The slight increase in basis points in FY 2012-13 Actual External Management Fees from the previous FY 2011-12 Actual reflects an increase in the performance fees as Real Assets outperformed its benchmark. Real Assets include investments related to real estate, forestland, and infrastructure.

The anticipated ratio of the FY 2014-15 Proposed Budget total investment expenses of 39.94 basis points assumes a downward trend in the ratio as staff negotiate more favorable portfolio management terms. There is a positive downward trend for both External Management Fees and Investment Administrative and Operating Costs relative to the NAV.

## Third Party Administrator Fees Trend

(in millions)



Third Party Administrator Fees cover plan administration, recordkeeping, marketing, and participant communication services for the CalPERS Self-Funded Health Program, Long-Term Care Program, and Supplemental Income Plan Program. Establishing strong partnerships to support delivery of health and pension services continues to support our focus on improving long-term health and pension benefit sustainability for our members.

Total Third Party Administrator Fees for the FY 2014-15 Proposed Budget are \$289.3 million, an increase of \$14.8 million or 5.4 percent over the FY 2013-14 Forecast of \$274.5 million. The increase is driven by the Self-Funded Health Program and is offset with \$1.2 million in savings from the CVS Caremark Pharmaceutical provider.

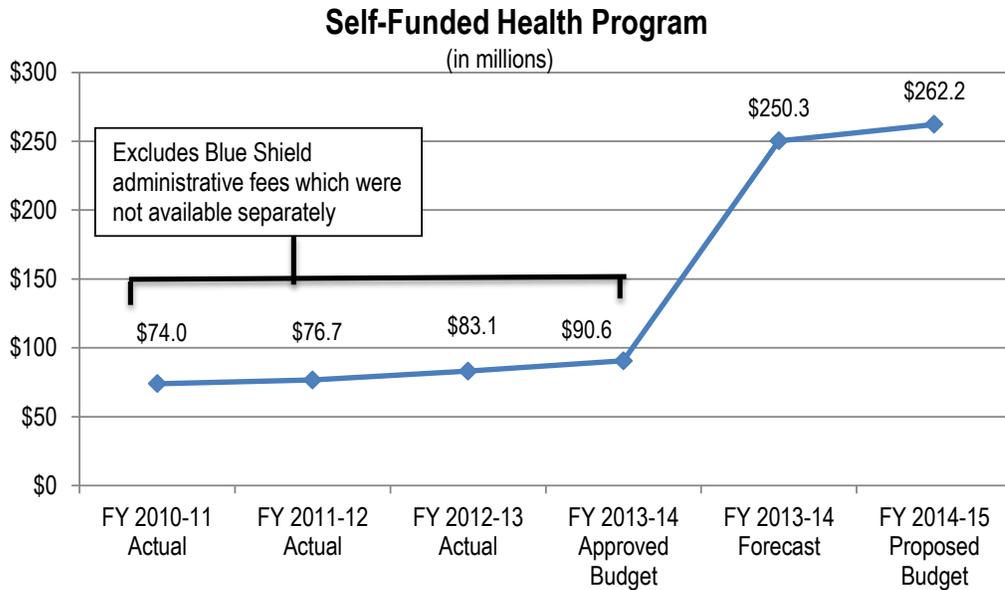
(in millions)

|   | FY 2012-13<br>Actual <sup>1</sup> | FY 2013-14<br>Approved<br>Budget <sup>1</sup> | FY 2013-14<br>Forecast | FY 2014-15<br>Proposed<br>Budget | Forecast to Proposed Budget   |                              |
|---|-----------------------------------|---|------------------------|----------------------------------|-------------------------------|------------------------------|
|   |                                   |   |                        |                                  | \$<br>Change<br>Incr / (Decr) | %<br>Change<br>Incr / (Decr) |
| Self-Funded Health Program <sup>2,3</sup> | \$ 73.2                           | \$ 77.0                                       | \$ 236.7               | \$ 249.9                         | \$ 13.2                       | 5.6%                         |
| CVS Caremark Pharmacy                     | 9.9                               | 13.6  | 13.6                   | 12.4                             | (1.2)                         | (8.8%)                       |
| <b>Subtotal Health</b>                    | <b>83.1</b>                       | <b>90.6</b>                                   | <b>250.3</b>           | <b>262.3</b>                     | <b>12.0</b>                   | <b>4.8%</b>                  |
| Long-Term Care Program - Univita          | 18.8                              | 20.7  | 20.7                   | 23.2                             | 2.5                           | 12.1%                        |
| <b>Total Health</b>                       | <b>101.8</b>                      | <b>111.2</b>                                  | <b>271.0</b>           | <b>285.5</b>                     | <b>14.5</b>                   | <b>5.4%</b>                  |
| Supplemental Income Plan - ING            | 3.6                               | 3.5   | 3.5                    | 3.8                              | 0.3                           | 8.6%                         |
| <b>TOTAL</b>                              | <b>\$ 105.4</b>                   | <b>\$ 114.8</b>                               | <b>\$ 274.5</b>        | <b>\$ 289.3</b>                  | <b>\$ 14.8</b>                | <b>5.4%</b>                  |

<sup>1</sup> Excludes Blue Shield administrative fees which were not available separately for FY 2013-14 Approved Budget and FY 2012-13 Actual

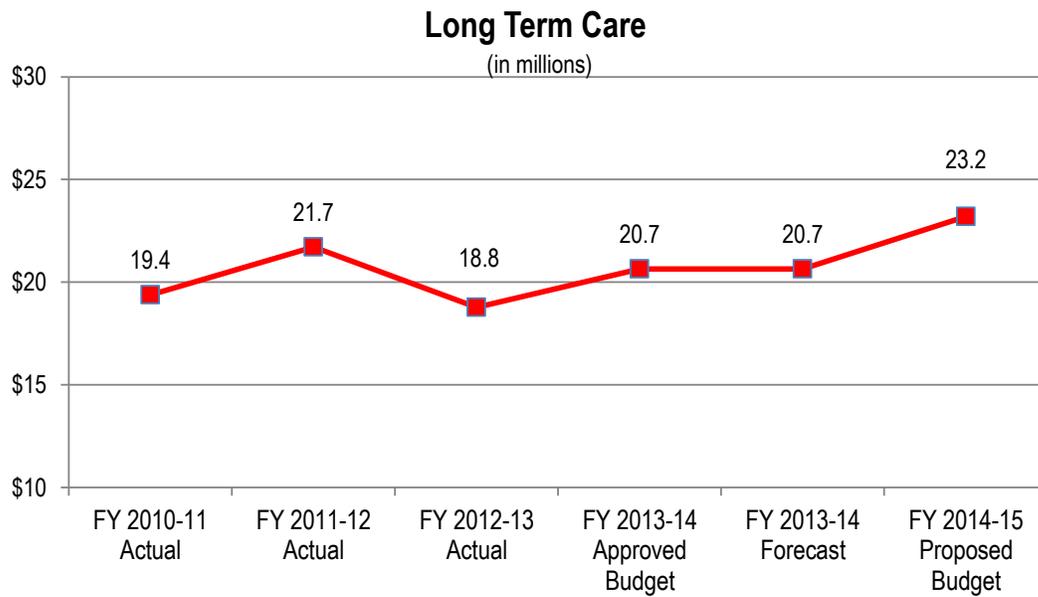
<sup>2</sup> Excludes Kaiser global capitation system which does not capture administrative fees separately

<sup>3</sup> Includes Anthem Blue Cross, Blue Shield, Health Net, Sharp Health Plan and United Healthcare



The Self-Funded Health Program provides health coverage to more than 1.3 million members and their families enrolled in CalPERS health plans which include all active and retired California State employees, as well as active and retired employees of local agencies and school districts. Effective January 1, 2014, health coverage providers were expanded to include Anthem Blue Cross, Blue Shield, Health Net, Sharp Health Plan and United Healthcare.

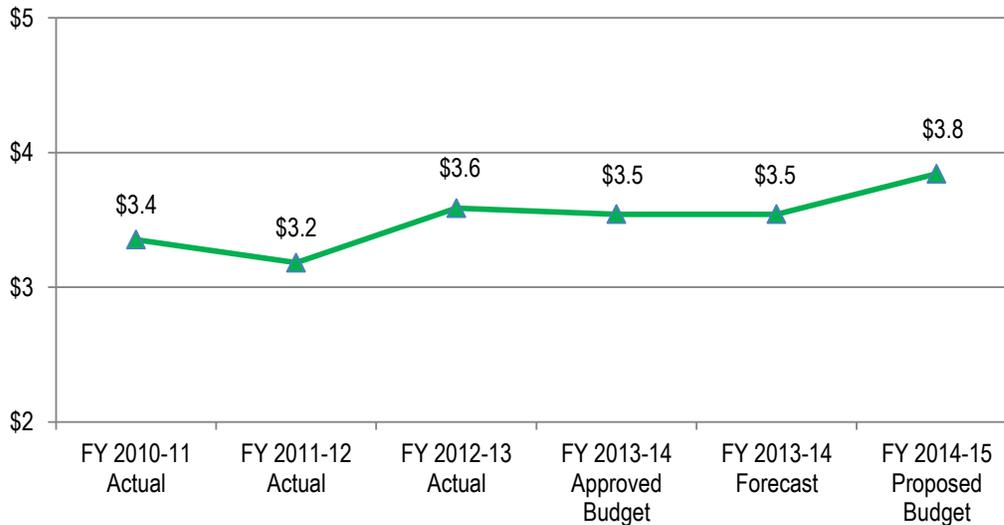
The FY 2014-15 Proposed Budget of \$262.3 million represents an increase of \$11.9 million or 4.8 percent due to anticipated increases in the new number of self-directed health plans for the full 2014 calendar year.



The Long-Term Care Program, as administered by Univita, provides comprehensive long-term care personal non-medical assistance, including care at home, adult care centers, assisted living facilities, and nursing homes. Administrator fees include underwriting costs, billing/banking, care advisory services, claims administration, reports, and customer service.

The Proposed Budget of \$23.2 million for FY 2014-15 represents an anticipated increase of \$2.5 million or 12.1 percent from the \$20.7 million FY 2013-14 Forecast. This is also an increase of \$4.4 million or 23.4 percent from the FY 2012-13 Actual Costs of \$18.8 million. Increases are due to the recent re-opening of enrollment for this program which is anticipated to attract new applicants.

## Supplemental Income Plan (in millions)



The Supplemental Income Plans (SIP) program provides deferred compensation and defined contribution plans for employees of participating public agencies, schools, and the State of California. The ING Group is the third party administrator responsible for providing recordkeeping and administrative services for the SIP Program.

Fees are anticipated to increase by \$0.3 million or 8.6 percent from the FY 2013-14 Approved Budget/Forecast of \$3.5 million to the total FY 2014-15 Proposed Budget of \$3.8 million. The increase is due to increases in the number of ING representatives providing customer service to the plan participants.

# I. Administrative Budget by Fund Source

| Fund   | FY 2012-13<br>Actual | FY 2013-14<br>Approved<br>Budget | FY 2014-15<br>Proposed<br>Budget | Budget to Budget              |                              |
|--|----------------------|----------------------------------|----------------------------------|-------------------------------|------------------------------|
|  |                      |                                  |                                  | \$<br>Change<br>Incr / (Decr) | %<br>Change<br>Incr / (Decr) |
| <b>Administrative Budget</b>                     |                      |                                  |                                  |                               |                              |
| Public Employees' Retirement Fund (PERF)         | \$ 297,661           | \$ 354,196                       | \$ 356,033                       | \$ 1,837                      | 0.5%                         |
| Public Employees' Contingency Reserve Fund (CRF) | 26,230               | 28,947                           | 27,130                           | (1,817)                       | (6.3%)                       |
| Public Employees' Health Care Fund (HCF)         | 16,882               | 28,351                           | 22,984                           | (5,367)                       | (18.9%)                      |
| Long-Term Care Fund (LTCF)                       | 2,011                | 5,012                            | 3,424                            | (1,588)                       | (31.7%)                      |
| Annuitants' Health Care Coverage Fund (AHCCF)    | 1,938                | 2,036                            | 2,100                            | 64                            | 3.1%                         |
| Deferred Compensation Fund (DCF)                 | 1,423                | 2,189                            | 2,218                            | 29                            | 1.3%                         |
| Judges' Retirement Fund (JRF)                    | 1,329                | 1,113                            | 1,159                            | 46                            | 4.1%                         |
| Judges' Retirement Fund II (JRF II)              | 845                  | 905                              | 942                              | 37                            | 4.1%                         |
| Legislators' Retirement Fund (LRF)               | 389                  | 365                              | 374                              | 9                             | 2.5%                         |
| Replacement Benefit Custodial Fund (RBF)         | 8                    | 9                                | 9                                | -                             | 0.0%                         |
| <b>Subtotal</b>                                  | <b>\$ 348,716</b>    | <b>\$ 423,123</b>                | <b>\$ 416,373</b>                | <b>\$ (6,750)</b>             | <b>(1.6%)</b>                |
| Reimbursements <sup>1</sup>                      | 2,961                | 2,086                            | 1,825                            | (261)                         | (12.5%)                      |
| <b>Total CalPERS</b>                             | <b>\$ 351,677</b>    | <b>\$ 425,209</b>                | <b>\$ 418,198</b>                | <b>\$ (7,011)</b>             | <b>(1.6%)</b>                |

<sup>1</sup> Amounts received by CalPERS for services rendered. These reimbursements are actuarial valuations prepared for public agencies that qualify for reimbursement, cost of photocopies/postage related to the Public Records Act requests, annual employer conferences, and administrative assessments for employers' delinquent payroll

# J. Total Operating Costs Summary

| (in thousands)                                    |   |   |  |                                       |
|---|---|---|--|---------------------------------------|
|   | <b>FY 2013-14<br/>Approved<br/>Budget</b> | <b>FY 2014-15<br/>Proposed<br/>Budget</b> | <b>\$<br/>Change<br/>(Decr) / Incr</b> | <b>%<br/>Change<br/>(Decr) / Incr</b> |
| <b>Total Operating Costs</b>                      |   |   |  |                                       |
| Actuarial Office                                  | 7,102                                     | 7,636                                     | 534                                    | 7.5%                                  |
| Benefit Programs Policy and Planning              | 30,794                                    | 25,928                                    | (4,866)                                | (15.8%)                               |
| Customer Services and Support                     | 101,375                                   | 96,633                                    | (4,741)                                | (4.7%)                                |
| Executive Office                                  | 5,913                                     | 4,693                                     | (1,220)                                | (20.6%)                               |
| Financial Office                                  | 25,256                                    | 23,469                                    | (1,787)                                | (7.1%)                                |
| General Counsel                                   | 27,688                                    | 25,177                                    | (2,511)                                | (9.1%)                                |
| Investment Office <sup>1</sup>                    | 143,636                                   | 144,262                                   | 626                                    | 0.4%                                  |
| Office of External Affairs                        | 12,587                                    | 12,663                                    | 76                                     | 0.6%                                  |
| Operations and Technology                         | 134,560                                   | 126,921                                   | (7,639)                                | (5.7%)                                |
| Other <sup>2</sup>                                | 20,674                                    | 31,385                                    | 10,711                                 | 51.8%                                 |
| <b>Subtotal</b>                                   | <b>\$ 509,584</b>                         | <b>\$ 498,765</b>                         | <b>(10,819)</b>                        | <b>(2.1%)</b>                         |
| <b>Enterprise Projects Budget</b>                 | <b>33,288</b>                             | <b>27,908</b>                             | <b>(5,380)</b>                         | <b>(16.2%)</b>                        |
| <b>Headquarters Building Costs</b>                | <b>40,676</b>                             | <b>32,632</b>                             | <b>(8,044)</b>                         | <b>(19.8%)</b>                        |
| <b>Investment External Management Fees</b>        | <b>1,029,969</b>                          | <b>1,016,484</b>                          | <b>(13,485)</b>                        | <b>(1.3%)</b>                         |
| <b>Third Party Administrator Fees<sup>3</sup></b> | <b>274,488</b>                            | <b>289,291</b>                            | <b>14,803</b>                          | <b>5.4%</b>                           |
| <b>CalPERS Total Budget</b>                       | <b>\$ 1,888,006</b>                       | <b>\$ 1,865,080</b>                       | <b>\$ (22,926)</b>                     | <b>(1.2%)</b>                         |

<sup>1</sup> The Investment Office now includes the investment related operation costs previously displayed in the Investment Expense Budget

<sup>2</sup> Includes Central Administrative Services (Pro-Rata ), projected 2 percent Governors Budget increase to salaries, and merit salary adjustments

<sup>3</sup> Includes Self-Funded Health Program Fees, Long-Term Care Fees, and Supplemental Income Management and Custodial Fees