

California Public Employees' Retirement System

Fiscal Year 2015-16 Annual Budget Proposal

Second Reading
April 14, 2015

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2015-16 Budget Message

The Total Budget for the California Public Employees' Retirement System's (CalPERS) Fiscal Year (FY) 2015-16 represents continued process improvements and reductions in cost. With continued fiscal prudence, this is the third budget process to deliver budget requirements lower than the previous year.

Reductions in cost were a collaborative effort with all leaders of CalPERS working to identify efficiencies in the organization and improve business process workflows. The CalPERS Total Budget represents the financial resources needed to help us achieve our strategic priorities and initiatives for the organization and to better serve our members.

The FY 2015-16 CalPERS Total Budget is estimated to be \$1,819.7 million, a decrease of \$38.5 million or 2.1 percent from the FY 2014-15 Approved Budget of \$1,858.2 million. The FY 2015-16 CalPERS Total Budget of \$1,819.7 million also represents a \$17.4 million or 1.0 percent decrease from the FY 2014-15 Forecast of \$1,837.1 million.

The following are the FY 2015-16 Proposed Budget highlights:

- Ongoing cost saving efforts to transition investment portfolio management activities from consultants to State staff
- Reduction in investment performance fees due to the removal of the Absolute Return Strategy asset class
- Optimization of the myCalPERS system and ongoing knowledge transfer to realize increased operational efficiencies
- Redesign of the Actuarial Valuation System (AVS) to provide information that meets actuarial practices and supports new Governmental Accounting Standards Board (GASB) reporting requirements
- Continued efforts to support the development of an enterprise treasury management function to enhance cash controls, cash integrity, and liquidity management
- Continued development and efforts for the security and protection of our members' data through the Security Roadmap project
- Establishment of a Data Governance framework to set the foundation of a Business Intelligent organization that will be able to better leverage data and information to support decision making
- Continued program improvements in the Health Program related to increased analysis to develop innovative healthcare models
- Implement efficiencies to increase the number and effectiveness of Public Agency Audit Reviews (PAAR) and resolve associated retirement benefit audit findings requiring resolution

The focus of the FY 2015-16 CalPERS Total Budget continues to demonstrate the mission of CalPERS, priorities of the enterprise, and priorities of our stakeholders in a transparent manner while delivering value-based, managed-risk perspective fiscal management.

Strategic Planning and Enterprise Priorities

The FY 2015-16 Total Budget is focused on core business needs critical to CalPERS long-term strategy and furthering our mission of building retirement and health security for those who serve California. The initiatives comprised in the budget will be implemented to achieve efficiencies, identify and implement cost-saving measures, manage risks, and deliver quality customer service and strong affordable health care programs to effectively deliver retirement and health security for California public workers. The budget focuses on the organization's three strategic goals:

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

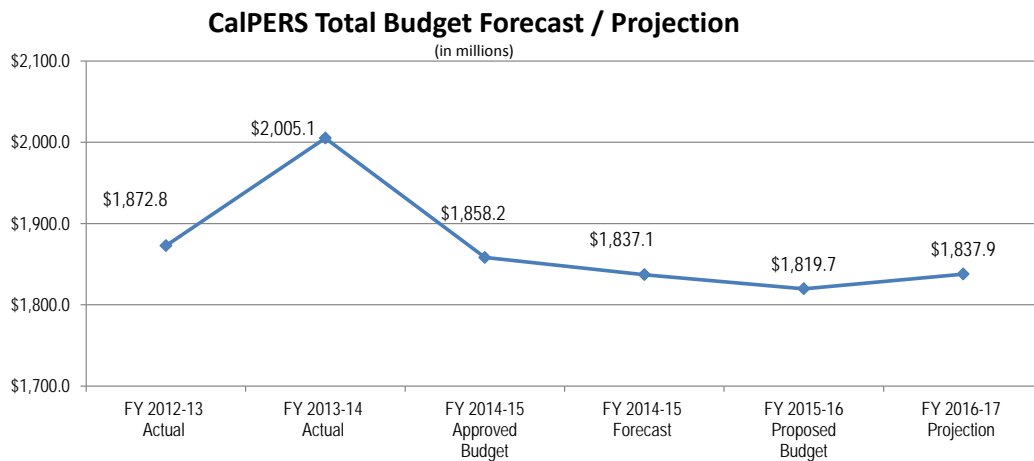
The proposed budget provides the annual financial plan for FY 2015-16 and supports Goal B of the CalPERS 2012-17 Strategic Plan, which is to cultivate a high-performing, risk-intelligent, and innovative organization. Through the annual budget process, CalPERS staff address efforts to mitigate certain risks throughout the enterprise. The end result allows for the enhancement of business processes, ultimately heightening the quality and efficiency of service to our members, employers, and stakeholders.

This document compiles the financial data needed to support CalPERS goals, is aligned with the initiatives outlined in the proposed CalPERS 2015-17 Business Plan, and is based on the departmental review of operations. In alignment with the CalPERS strategic goals and business planning, five key areas of focus were identified for the FY 2015-16 budget:

- Innovative approaches to improve benefit services and continued customer focus
- Effective information technology solutions and strong data governance
- Cost efficiencies and workload capacity
- Effective risk management and compliance
- Sound management practices and leadership development

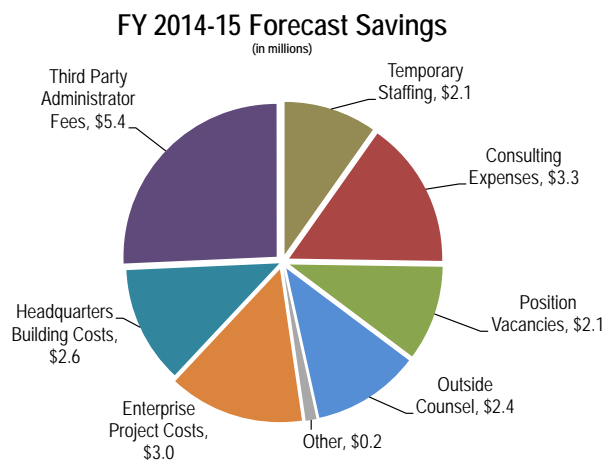
Budget Highlights

The following summarizes the FY 2014-15 Forecast compared to the FY 2014-15 Approved Budget and the FY 2013-14 actual expenses. This is followed by the FY 2015-16 Proposed Budget with a FY 2016-17 Projection.



FY 2014-15 Forecast

The FY 2014-15 Forecast is estimated to be \$1,837.1 million, a projected decrease of \$21.1 million or 1.1 percent from the FY 2014-15 Approved Budget of \$1,858.2 million. Contributing to this decrease are lower administrative and investment operating costs (\$10.1 million), third party administrator fees (\$5.4 million), headquarters building costs (\$2.6 million), and enterprise project costs (\$3.0 million) as illustrated in the following:



The FY 2014-15 Forecast of \$1,837.1 million is \$168.0 million or 8.4 percent lower than the FY 2013-14 actual expenditures of \$2,005.1 million. This is a result of lower investment management fees (\$242.3 million), headquarters building costs (\$2.0 million), and enterprise project costs (\$10.8 million), offset by higher net administrative and investment operating costs (\$3.3 million), and third party administrator fees (\$83.9 million).

FY 2013-14 Actual vs. FY 2014-15 Forecast

(in millions)

	FY 2013-14 Actual	FY 2014-15 Forecast	\$ Change Incr / (Decr)	% Change Incr / (Decr)
Administrative Operating Costs	\$411.6	\$408.2	(\$3.4)	(0.8%)
Investment Operating Costs	73.8	80.6	6.8	9.2%
Investment External Management Fees	1,258.8	1,016.5	(242.3)	(19.3%)
Subtotal: Operating Costs	\$1,744.3	\$1,505.3	(\$239.0)	(13.7%)
Enterprise Projects Costs	32.7	21.9	(10.8)	(33.1%)
Headquarters Building Costs	32.0	30.0	(2.0)	(6.4%)
Third Party Administrator Fees	196.0	279.9	83.9	42.8%
CalPERS Total Budget	<u>\$2,005.1</u>	<u>\$1,837.1</u>	<u>(\$168.0)</u>	<u>(8.4%)</u>

Total Budget Summary

The proposed FY 2015-16 CalPERS Total Budget is \$1,819.7 million, which represents an overall decrease of approximately \$38.5 million (2.1 percent) from the FY 2014-15 Approved Budget of \$1,858.2 million. Specifically, this is a \$58.1 million decrease (3.8 percent) in Operating Costs, which includes \$27.6 million (5.5 percent) increase to the administrative and investment operating costs, and a decrease of \$85.8 million (8.4 percent) to investment external management fees. There is a \$12.6 million (50.6 percent) increase to enterprise project costs, a \$2.3 million (7.0 percent) decrease to headquarters building costs, and an increase of \$9.3 million (3.3 percent) for third party administrator fees.

Fiscal Year 2015-16 CalPERS Total Budget

(in millions)

	FY 2014-15 Approved Budget ¹	FY 2014-15 Forecast	FY 2015-16 Proposed Budget	FY 2016-17 Projection	Budget to Budget	
					\$ Change Incr / (Decr)	% Change Incr / (Decr)
Administrative Operating Costs	\$418.3	\$408.2	\$443.5	\$455.4	\$25.2	6.0%
Investment Operating Costs	80.6	80.6	83.0	83.0	2.4	3.0%
Investment External Management Fees	1,016.5	1,016.5	930.7	930.7	(85.8)	(8.4%)
Subtotal: Operating Costs	\$1,515.4	\$1,505.3	\$1,457.2	\$1,469.1	(\$58.1)	(3.8%)
Enterprise Projects Costs	\$24.9	\$21.9	\$37.5	\$31.2	\$12.6	50.6%
Headquarters Building Costs ²	32.6	30.0	30.3	31.0	(2.3)	(7.0%)
Third Party Administrator Fees	285.3	279.9	294.6	306.6	9.3	3.3%
CalPERS Total Budget	\$1,858.2	\$1,837.1	\$1,819.7	\$1,837.9	(\$38.5)	(2.1%)
Total Positions	2,727.0		2,765.0		38.0	1.4%

¹ FY 2014-15 Mid-Year Budget approved by CalPERS Board of Administration on December 16, 2014

² For FY 2014-15 Approved Budget, the \$32.6M does not include a \$3.2M offset in rental revenue; for FY 2015-16 Proposed Budget, \$3.2M in rental revenue is included

Key changes in the FY 2015-16 CalPERS Total Budget include an overall net decrease of \$38.5 million (decrease of \$88.1 million offset by an increase of \$49.5 million) from the FY 2014-15 Approved Budget.

Cost decreases of \$88.1 million are associated with:

- Investment external management fees, (\$85.8 million)
- Headquarters building costs, (\$2.3 million)

These cost decreases were offset by increases of \$49.5 million primarily associated with:

- Salaries and wages, (\$29.2 million)
- Staff benefit costs, (\$7.5 million)
- Third party administrator fees, (\$9.3 million)
- Central administrative services, (\$2.9 million)

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

Incorporated into the FY 2015-16 CalPERS Total Budget are the following assumptions and factors that guided the development of the budget to meet the immediate needs of the organization:

- Reductions in temporary staffing requirements are anticipated to decrease costs by \$2.8 million, from \$20.6 million to \$17.8 million
- Increase in State of California central administrative services (Pro-Rata) costs due to a higher allocation assessed to the CalPERS organization
- Increase in personnel costs of 2.5 percent per a collective bargaining agreement effective July 1, 2015
- Ongoing cost saving efforts to insource investment operating functions by transitioning portfolio management activities from investment consultants to State staff will continue, therefore reducing costs associated with external investment management costs

FY 2016-17 Projection

The FY 2016-17 Projection represents the last of the five-year 2012-17 Strategic Plan and the two-year 2015-17 Business Plan.

The FY 2016-17 Projection estimates an increase of \$18.2 million or 1.0 percent from the FY 2015-16 Proposed Budget. The estimated administrative operating cost increase of \$11.9 million or 2.3 percent represents estimated merit salary increases in personnel services for CalPERS staff. Increases in positions are not included in the FY 2016-17 Projection at this time as the organization is committed to using vacancies and redirecting positions. This will give the organization time to review their program areas and study their staffing requirements based on a long term view of the program areas function. Increases of 1.7 percent in administrative and investment operating expenses were based on the current Consumer Price Index (CPI) figure. Projections for the Investment External Management Fees are unchanged from the FY 2015-16 Proposed Budget as are the Investment Operating Costs. These are likely to change, but projections are unavailable. Costs of \$31.2 million for the multi-year projects reflect those initiatives currently undertaken by the organization. New initiatives identified in the proposed 2015-17 business plan will be resourced internally. Increases in Third Party Administrator Fees are estimated to increase by \$11.9 million based on estimated changes in health plan enrollment and anticipated increases in administrative fees. A slight increase in the Headquarters Building Costs from \$30.3 million to \$31.0 million is an increase of \$0.7 million or 2.3 percent due to inflation as reflected in the cost of goods purchased and annual salary increases of the engineers in addition to reduced rental income anticipated from the Thomas Diggs Building.

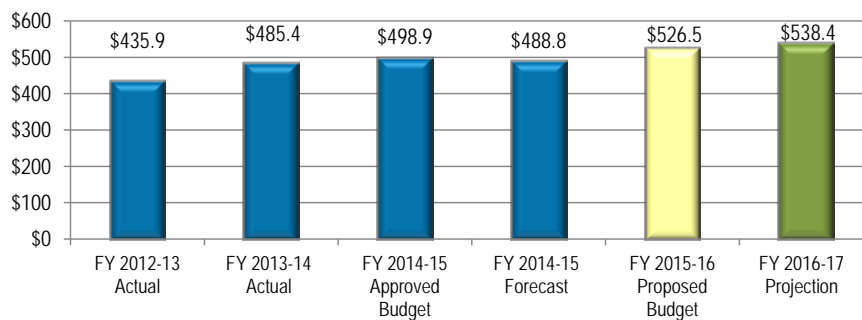
FY 2015-16 CalPERS Total Budget by Area

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 as follows:

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

Administrative and Investment Operating Costs Trend

(in millions)



Note: excludes Investment External Management Fees

Total Administrative and Investment Operating Costs for FY 2015-16 Proposed Budget are \$526.5 million compared to \$498.9 million in the FY 2014-15 Approved Budget, an increase of \$27.6 million (5.5 percent) breaks down as follows:

	\$ in millions	% Change
FY 2014-15 Administrative and Investment Operating Costs	\$498.9	
Cost Increases:		
Personnel Services	22.3	4.5%
Data Analytics	6.2	1.2%
Equipment	6.4	1.2%
Central Administrative Services	2.9	0.6%
Other	2.5	0.6%
Total	40.3	8.1%
Cost Decreases - other:	(12.7)	(2.6%)
Net Increase	27.6	5.5%
FY 2015-16 Administrative and Investment Operating Costs	\$526.5	

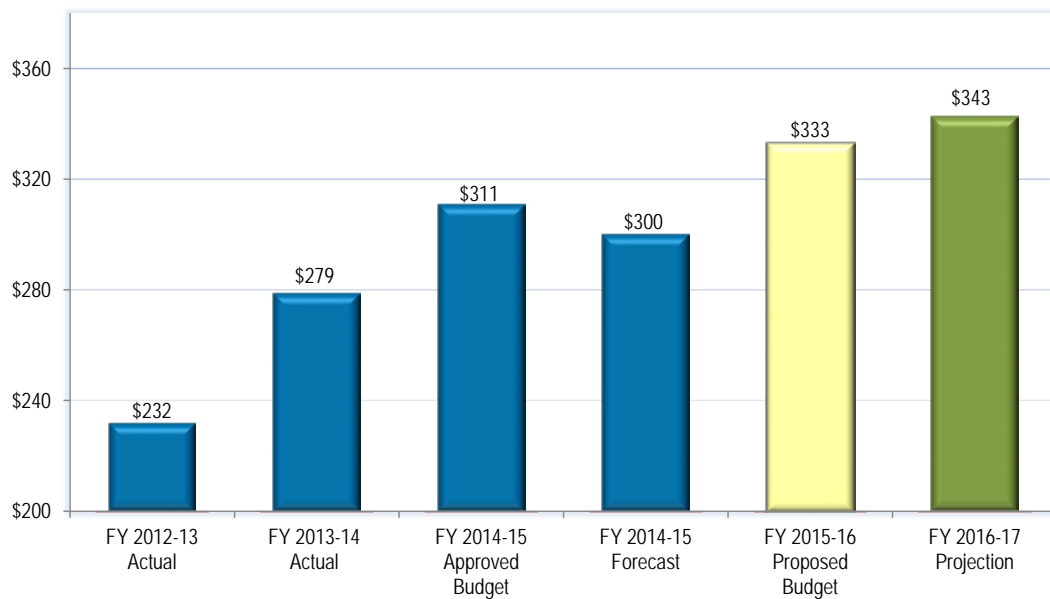
The following pages highlight each notable change for the expense items within the Administrative and Investment Operating Costs.

(in thousands)

	FY 2013-14 Actual	FY 2014-15 Approved Budget	FY 2015-16 Proposed Budget	\$ Change Incr / (Decr)	% Change Incr / (Decr)
Administrative and Investment Operating Costs					
[1] PERSONNEL SERVICES					
Salaries & Wages [1.1]	182,304	\$ 192,753	\$ 221,998	\$ 29,245	15.2%
Temporary Help [1.2]	16,448	14,256	14,424	168	1.2%
Overtime	2,610	2,462	2,660	198	8.0%
Benefits	77,540	101,320	108,826	7,506	7.4%
Total Personnel Services	\$ 278,903	\$ 310,791	\$ 347,908	\$ 37,117	11.9%
Assumed Vacancy Factor			(14,861)	(14,861)	
Revised Total Personnel Services	\$ 278,903	\$ 310,791	\$ 333,047	\$ 22,256	7.2%
[2] OPERATING EXPENSES & EQUIPMENT					
General Expense	\$ 7,293	\$ 9,440	\$ 9,826	\$ 387	4.1%
Fund Admin Services/Subscriptions [2.1]	7,609	5,759	4,156	(1,603)	(27.8%)
Software	3,919	1,714	2,051	337	19.7%
Printing [2.2]	1,560	1,861	1,393	(468)	(25.2%)
Postage [2.3]	4,735	2,528	1,683	(845)	(33.4%)
Communications [2.4]	1,853	4,099	2,260	(1,839)	(44.9%)
Data Processing Services	22,864	9,510	9,728	218	2.3%
Travel [2.5]	2,241	3,628	2,981	(647)	(17.8%)
Training [2.6]	1,112	1,829	1,394	(436)	(23.8%)
Medical Exam/Disability Travel	1,313	1,150	1,150		0.0%
Facilities Operations [2.7]	3,690	4,737	5,428	691	14.6%
Central Administrative Services [2.8]	19,077	22,263	25,155	2,892	13.0%
External Legal Counsel [2.9]	14,263	20,042	18,739	(1,303)	(6.5%)
Professional Services [2.10]	8,108	8,220	7,096	(1,124)	(13.7%)
Consultants [2.11]	50,116	45,526	43,729	(1,797)	(3.9%)
Audit Services [2.12]	1,771	1,528	2,073	545	35.7%
Master Custodian Fees	5,328	5,934	5,970	36	0.6%
Appraisal Fees/Tax Advisory Services	5,864	5,949	6,275	326	5.5%
Federal Legislative Rep	840	900	800	(100)	(11.1%)
Admin Hearings	472	500	500		0.0%
Other Admin & Operating Expenses [2.13]	722	1,310	722	(588)	(44.9%)
Consolidated Data Centers [2.14]	102	777	90	(687)	(88.4%)
Trading & Portfolio Mgmt Systems [2.15]	12,361	14,335	13,315	(1,020)	(7.1%)
Data/Analytics [2.16]	15,451	12,983	19,140	6,157	47.4%
Business Operations Tool/Other Technology [2.17]	548	818	650	(168)	(20.5%)
Equipment (Includes EDP) [2.18]	13,332	743	7,154	6,411	863.1%
Total Operating Expenses & Equipment	\$ 206,545	\$ 188,083	\$ 193,458	\$ 5,375	2.9%
Total Costs	\$ 485,447	\$ 498,874	\$ 526,505	\$ 27,631	5.5%

[1] PERSONNEL SERVICES

Personnel Services Costs Trend
(in millions)



[1.1] Salaries & Wages

Increases in Personnel Services of \$37.1 million are mainly due to higher salaries and wages (\$22.1 million), a 2.5 percent salary increase in FY 2015-16 awarded per bargaining union contract negotiations (\$4.7 million), the proposed addition of 38.0 positions (\$2.3 million), and an increase in total staff benefit costs for existing and new positions (\$7.5 million). To recognize the impact of vacancies on the cost of personnel services, an overall vacancy factor of 5.0 percent has been applied, reducing costs by \$14.9 million (salaries and wages by \$9.9 million and benefits by \$4.9 million). The effect of these increases and decreases represents a net increase of \$22.3 million.

Considerable strides have been made by the organization to reduce the number of vacancies. The current year to date vacancy rate is 6.3 percent. It is anticipated that the vacancy rate will continue to decline, as each division evaluates their existing vacancies and redirects or fills positions as part of their workforce planning.

The FY 2016-17 Projection assumes there will be zero position growth. Staffing requirements will be assessed through workload analysis to identify ongoing needs. Costs for annual merit salary adjustments are included in the projection.

**Fiscal Year 2015-16
Positions by Branch**

Branch	FY 2014-15 Authorized Positions (as of 3/16/15)	FY 2015-16 Proposed Positions	Change in Positions	% Change	Division Vacant Positions	Branch Vacant Positions
Actuarial Office	54.0	56.0	2.0	3.7%		3.0
ACTO					3.0	
Senior Pension Actuary and Supervising Actuarial Assistant (GASB)						
Benefit Program Policy and Planning	156.0	159.0	3.0	1.9%		11.0
HPRD					5.0	
Evaluation and Policy Development for Healthcare Provider Contracting			2.0			
RRPD					1.0	
Data Governance Program			1.0			
Customer Services and Support	892.5	907.5	15.0	1.7%		24.5
BNSD					3.5	
Audit Resolution Staff Funding			1.0			
IRC 415(b) Replacement Benefit Plan Staff Funding (two-year limited term)			1.0			
Unclaimed Benefits Workload			1.0			
Workload Processing & Management Funding (2.0 permanent & 2.0 two-year limited term positions)			4.0			
CASD-RAS					6.0	
Employer Response Team			1.0			
Public Agency Audit Review Positions			2.0			
MMS Core Workload & Backlog Elimination (Two-year limited term positions)			2.0			
CSOD					6.0	
Call Center and Support Staffing			3.0			
Executive Office	19.0	19.0	-	0.0%		1.0
External Affairs Office	56.0	56.0	-	0.0%		2.0
Financial Office	207.0	219.0	12.0	5.8%		27.0
FPPB					4.0	
Financial Expertise			4.0			
ECOM					4.0	
Compliance (Program Evaluation & Discovery)			4.0			
ERMD					3.0	
Risk Program Integration			4.0			
General Counsel	130.0	135.0	5.0	3.8%		10.0
OFAS					0.0	
Audit Escalation for Complex and High Profile Reviews			2.0			
Technology Based Analytical Review						
Investment Office	335.0	335.0	-	0.0%		36.0
Operations and Technology	877.5	878.5	1.0	0.1%		56.0
OSSD					4.0	
Sustainability Position			1.0			
Total	2,727.0	2,765.0	38.0	1.4%	39.5	170.5
Vacancy Percent to Total Authorized Positions					1.4%	6.3%

The request for 38.0 positions at a total cost of \$3.5 million, salaries (\$2.3 million) and benefits (\$1.2 million), resulted from an in depth look at each business area's needs. The vacancy rate for divisions requesting positions is 1.4 percent. Staffing requests address several key functions to further advance the strategic objectives of the organization, which includes Public Agency Audit Reviews, risk and compliance infrastructure, Governmental Accounting Standards Board (GASB) regulations, budget analytics, customer service, operating backlogs, and sustainability:

Actuarial Office**[\$278,000 – 2 PYs]**

In order to meet increased workload resulting from the passage of AB 340-Pension Reform, GASB Statement 67 and 68 requirements, and to help streamline the data process between actuarial valuations and financial reporting requirements for the Comprehensive Annual Financial Report, 2.0 positions are required.

In FY 2013-14 the Actuarial Office received 7.0 positions to address these new workload requirements. However, after further assessing the work required, additional staff are needed to adequately address the estimated 4,000 valuations added annually to their workload. Utilizing outside actuarial consultants for these tasks would be more costly than hiring State staff.

Benefit Program Policy and Planning**[\$351,000 – 3 PYs]**

To improve CalPERS annual healthcare negotiations and to implement a CalPERS enterprise-wide Data Governance Program, 3.0 positions are required.

As healthcare costs continue to rise, CalPERS explores ways to develop innovative healthcare models that provide quality care for members and generate cost savings for purchasers. Currently, CalPERS works with contracting health plans to offer the highest quality benefits for our members. 2.0 positions are required to evaluate new healthcare contracts, assess options to control healthcare costs, and measure potential savings generated from these contracts.

Data governance is the process of directing, guiding, and regulating the use of an organization's data assets in order to optimize its value and control associated risks. In order for CalPERS to coordinate, assess and improve our data assets, 1.0 position is needed to support the planning activities required to implement a formal Data Governance Program.

Customer Services and Support

[\$1,143,000 – 15 PYs]

To resolve audit findings generated by increased Public Agency Audit Reviews (PAAR), reduce call center wait times, address increased retirement benefits workload and backlogs, and to operationalize an employer response team to be the single point of contact for employer inquiries, 15.0 positions are required; 10.0 permanent and 5.0 two-year authorized limited term.

The 10.0 positions are needed to support the following Customer Service and Support initiatives:

- PAAR [3.0] – To address increased retirement benefit audit findings requiring resolution, and to comply with the Board's request that audit findings be resolved within twelve months, an additional 3.0 positions are needed in this area. Customer Services and Support has previously received 5.0 positions in the pre-retirement area toward the PAAR effort since FY 2011-12, but additional resources are needed as the number of audits increase.
- Customer Contact Center support [3.0] – In order to meet the goal of reduced call wait times for our members, 3.0 positions are needed to provide quality assurance and support, and to help ensure accurate and consistent service is provided.
- Employer Response Team [1.0] – Stemming from a pilot program that began in November 2013, the Employer Response Team acts as a single point of contact to assist employers with resolving critical, urgent, or pressing customer service matters. 1.0 position is required to address the growing workload related to this effort and to address employer inquiries on a timely basis.
- Uncollected survivor/beneficiary benefits [1.0] – A position is needed to assist in identifying the growing number of survivors / beneficiaries entitled to benefits and the uncollected benefits they are owed in the event of the payee's death.
- Service retirement calculations [2.0] – Service retirement calculations and payroll adjustments workload has steadily increased as the number of retirees continues to increase. 2.0 additional staff will be used to manage the increased ongoing workload.

In addition to the 10.0 permanent positions, there are 5.0 two-year authorized limited term positions needed to address backlogs in completing service retirement calculations and payroll adjustments (2.0 positions), Internal Revenue Code 415(b) determinations which limit the total annual benefit amount that can be paid from a defined benefit plan (1.0 position), and membership and eligibility determinations and membership appeals (2.0 positions).

Financial Office

[\$1,141,000 – 12 PYs]

To build and mature an enterprise-wide risk and compliance oversight function, implement administrative oversight for all CalPERS policies, address an increase in specialized assignments related to budgeting, and maintain the PeopleSoft Financials System, 12.0 positions are needed for the Financial Office.

The 12.0 positions are needed to support the following Financial Office initiatives:

Enterprise Risk Management – As of January 31, 2015, CalPERS realigned certain functions formerly in the Risk Program area to other program areas to achieve improved strategic and operational alignment and accountability. 4.0 positions are needed to support the ongoing strategic risk management, risk assessments, and business continuity within the organization.

CalPERS Compliance Program – 4.0 positions are needed to build and mature the CalPERS Compliance Program and provide necessary enterprise-wide compliance oversight. The staff will mitigate significant and potential risks to CalPERS through implementation of a risk-based compliance program and protocols across program areas in order to promote compliance with laws, regulations and policies. The positions will provide for efficient and effective teams with the appropriate capabilities to review and evaluate the highest risk areas and mitigate significant and potential risks.

Budgeting and Financial Analytics – 4.0 positions are needed to address increased assignments related to calculating and reconciling investment budget and expenditure data, independent financial review and analysis, increase in management financial reports, workload analysis tied to CEM reporting, increased Governor's Budget mandatory drills and reports, and increased requests from various State of California control agencies on critical budget matters. In addition, one of the positions will support the PeopleSoft Financials System with critical systems testing, development of financial reports, and to provide general technical assistance.

General Counsel / Office of Audit Services

[\$488,000 – 5 PYs]

The addition of 5.0 positions are needed in an effort to implement efficiencies that will increase the number and effectiveness of audits completed each year.

Office of Audit Services is on target to completed 90 audits, which is in line with the FY 2014-15 Audit Plan. The addition of 5.0 positions is expected to increase the total number of audits to 100 in FY 2015-16. The number of audits is expected to increase further once the staff are hired and trained.

Audit Escalation Reviews – 2.0 positions are required to create a dedicated unit allowing for more efficient processing and shortening of the audit cycle to address issues. These positions will perform high profile reviews and handle issues requiring extensive research, discussions with employers, program areas, and the Legal Office.

Technology Based Analytics – 3.0 positions are required to create a specialized unit in response to the State Controller's Office audit of CalPERS in August 2014, which required that CalPERS enhance pension spiking monitoring through technology-based analysis. This unit will review specific issues related to pension spiking, membership errors, and payroll reporting to identify high risk agencies for full audit reviews. Developing an audit program of this nature, as well as testing the audit procedures, requires separate resources from those performing traditional audits.

Operations

[\$102,000 – 1 PY]

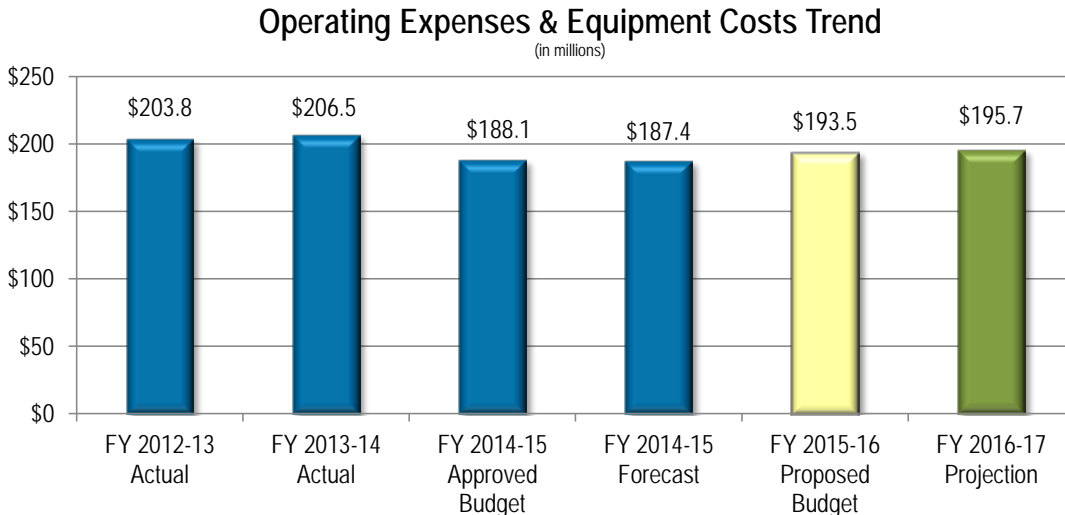
Sustainability – 1.0 position is needed to meet the requirements of Governor Brown's Executive Orders B-18-12 and B-16-12 which require "greening" of all California State buildings, purchases of zero emission vehicles and providing electric vehicle charging stations. This position will conduct research, coordinate, develop, implement, and monitor green building strategies. In addition, this position will manage the Governors Green Building Sustainable Working Group meetings and oversee legislative changes. This request supports CalPERS commitment to renewable energy and waste management and applies to Goal C of CalPERS 2012-17 Strategic Plan by engaging in State and national policy development to enhance the long-term sustainability and effectiveness of CalPERS programs.

[1.2] Temporary Workload Assistance

The temporary staffing costs for CalPERS including salaries and benefits are anticipated to decrease by \$2.8 million from \$20.6 million to \$17.8 million due to the continued effort to decrease reliance on temporary resources. There will always be a temporary workforce to assist with workload needs throughout the enterprise for various reasons. Examples of temporary workload includes assisting the Customer Contact Center during high call volumes at various times of the year, to assist with clearing backlogs, provide institutional knowledge transfer to permanent staff, and assist with temporary projects.

[2] OPERATING EXPENSES & EQUIPMENT

Operating Expenses and Equipment costs of \$193.5 million represent an increase of \$5.4 million (2.9 percent) from the FY 2014-15 Approved Budget of \$188.1 million.



[2.1] Fund Admin Services/Subscriptions

The fund administration services/subscriptions budget is anticipated to decrease by \$1.6 million primarily due to building the infrastructure necessary to support investment management of assets in-house. This continued effort has led to a decrease in reliance on outside investment management firms and their technology services.

[2.2] Printing

Printing costs are estimated to decrease by \$468,000 due to implementing efficiencies to reduce printing throughout the organization, as well as increasing utilization of an in-house document production unit instead of outsourcing to external vendors.

[2.3] Postage

Postage reductions of \$845,000 are mainly a result of reductions in Board election postage costs for FY 2015-16 and prepayment of postage.

[2.4] Communications

Communications costs are anticipated to decrease by \$1.8 million due to efficiencies identified in the customer outreach communications network and information technology utilization.

[2.5] Travel

Travel cost reductions of \$647,000 are primarily due to lower travel expenses anticipated by the organization based on current travel usage.

[2.6] Training

Training decreases of \$436,000 are primarily due to training classes previously outsourced now being provided in-house by internal CalPERS staff. There is also an increased usage of on-line training tools such as GoLearn, Safari, and SkillSoft.

[2.7] Facilities Operations

The facilities operations costs increase of \$691,000 is due to the full year cost of the new off-site location in West Sacramento for the CalPERS Call Center.

[2.8] Central Administrative Services

The State of California identifies and recovers central administrative services costs such as accounting, computing, and payroll services, from State departments funded from special and non-governmental cost funds (Pro-Rata). The increase of \$2.9 million to the central administrative services budget line is due to a higher allocation assessed to CalPERS.

[2.9] External Legal Counsel

External legal counsel costs are anticipated to decrease by \$1.3 million due to a reduction in bankruptcy and investment related legal costs.

[2.10] Professional Services

Professional Services costs are anticipated to decrease by \$1.1 million due to the reduced number of Board elections in the FY 2015-16 Budget year.

[2.11] Consultants

Consultant costs are estimated to decrease by \$1.8 million due to less reliance on consultants and ongoing efforts to ensure knowledge transfer to State staff.

[2.12] Audit Services

Audit services is estimated to increase by \$545,000 due to new GASB 67 requirements. The external auditing firm utilized by CalPERS requires an augmentation to the existing contract to perform these additional services.

[2.13] Other Administrative & Operating Expenses

Other Administrative and Operating Expenses are estimated to decrease by \$588,000 primarily due to the continued efforts toward the internalization of core, high value functions related to investing that were previously outsourced.

[2.14] Consolidated Data Centers

California Department of Technology data processing services are anticipated to decrease by \$687,000 due to a majority of essential data services such as backup, restoration, archiving, and disaster recovery being managed in-house which utilizes fewer services provided by the Department of Technology.

[2.15] Trading & Portfolio Management Systems

Trading and Portfolio Management Systems costs are anticipated to decrease by \$1.0 million due to the decision to exit the Absolute Return Strategy and a reduced need for related portfolio management systems.

[2.16] Data/Analytics

Data analytics cost increases of \$6.2 million are due to the continued efforts toward internalization of core functions that were previously outsourced. This is a direct result of the Investment Office's continued effort to build infrastructure necessary to support the internal management of assets.

[2.17] Business Operations Tool/Other Technology

Business operations tool/other investment technology costs are anticipated to decrease by \$168,000 due to a decrease in dependence of outside investment management firms and technology services.

[2.18] Equipment (includes EDP)

Equipment costs are estimated to increase by \$6.4 million primarily due to a need to replace old information technology hardware and equipment to mitigate CalPERS business risks. This conforms to the CalPERS Technology Refresh Policy and will provide additional server hardware for existing systems to address failure and weakness, replacement desktops for existing employees, multi-functional printer devices, and replacement email protection software to address increases in malware and phishing attacks.

[3] Investment External Management Fees

The FY 2015-16 Proposed Budget of \$930.7 million is made up of \$748.1 million for External Management Base Fees and \$182.6 million for External Management Performance Fees which is an overall decrease of \$85.8 million or 8.4 percent from the FY 2014-15 Approved Budget. Total External Management Base Fees are decreasing by \$63.3 million or 7.8 percent and total External Management Performance Fees are decreasing by \$22.4 million or 10.9 percent from the previous FY 2014-15 Approved Budget.

	(in thousands)				
	FY 2013-14 Actual	FY 2014-15 Approved Budget ¹	FY 2015-16 Proposed Budget	Budget to Budget	
				\$ Change Incr / (Decr)	% Change Incr / (Decr)
Global Equity [3.1]	\$44,155	\$40,911	\$51,265	\$10,354	25.3%
Fixed Income	7,496	5,329	7,915	2,586	48.5%
Real Assets	206,296	201,944	206,296	4,352	2.2%
Absolute Return Strategy [3.2]	61,499	60,708	2,641	(58,067)	(95.6%)
Private Equity [3.3]	494,167	476,149	440,582	(35,567)	(7.5%)
Activist Funds [3.4]	31,772	26,413	31,772	5,360	20.3%
Multi Asset Class [3.5]			7,650	7,650	100.0%
External Mgmt - Base Fees	\$845,386	\$811,455	\$748,121	(\$63,334)	(7.8%)
Global Equity [3.1]	\$32,096	\$64,689	\$32,096	(\$32,593)	(50.4%)
Fixed Income	4,199	5,698	4,199	(1,499)	(26.3%)
Real Assets	263,792	71,329	89,672	18,343	25.7%
Absolute Return Strategy [3.2]	68,420	55,026	2,938	(52,088)	(94.7%)
Activist Funds [3.4]	44,945	8,288	44,945	36,658	442.3%
Multi Asset Class [3.5]			8,755	8,755	100.0%
External Mgmt - Performance Fees²	\$413,453	\$205,030	\$182,605	(\$22,425)	(10.9%)
Total External Mgmt Fees	\$1,258,838	\$1,016,484	\$930,726	(\$85,758)	(8.4%)

¹ Investment expenses per FY 2014-15 Mid-year Budget approved by CalPERS Board of Administration on December 16, 2014

² Performance fees for private equity are deducted from the net returns earned in that asset class

The following are the main variances from the previous year:

[3.1] Global Equity base fees are projected to increase by \$10.4 million due to an increase in assets under management leading to higher portfolio values, while performance fees are projected to decrease by \$32.6 million due to favorable renegotiated contract terms with outside investment advisors.

[3.2] Absolute Return Strategy base fees are projected to decrease by \$58.1 million, and performance fees are projected to decrease by \$52.1 million due to liquidation of this portfolio.

[3.3] Private Equity base fees are projected to decrease by \$35.6 million or 7.5 percent due to the maturity of the portfolio, reducing the number of managers in the portfolio, better economics on new deals, and the implementation of the co-investment strategy.

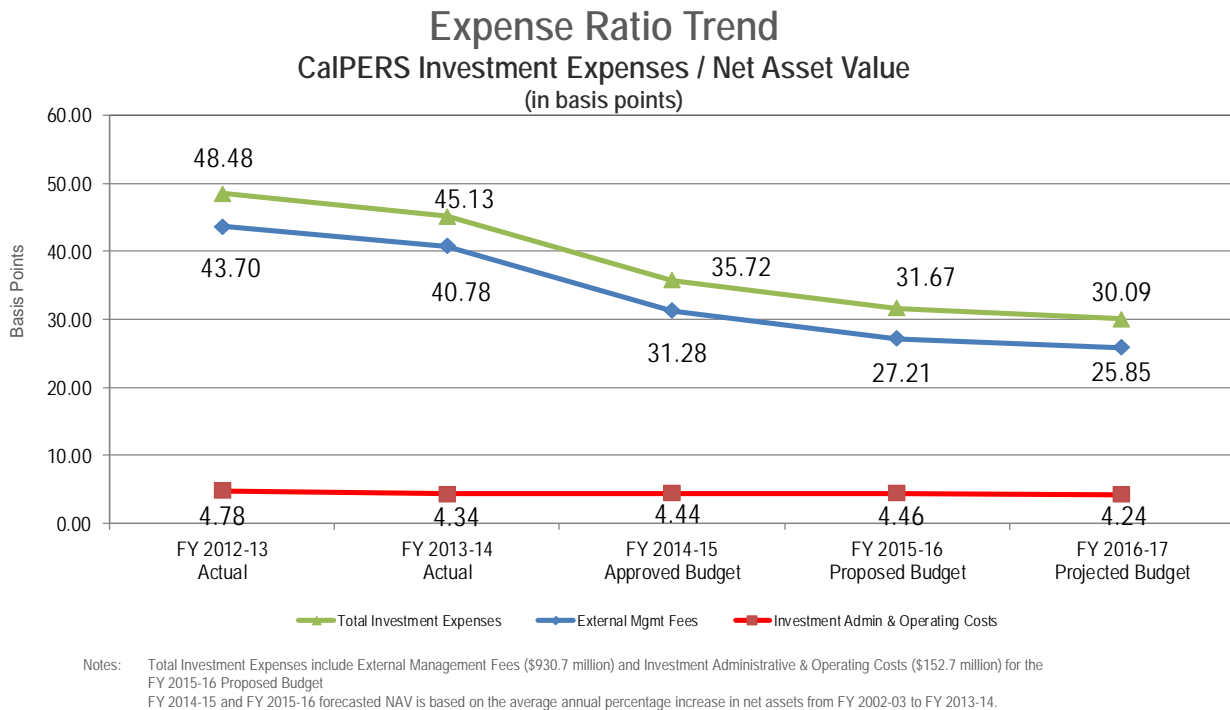
[3.4] Activist Funds (previously Corporate Governance) base fees are projected to increase by \$5.4 million due to an increase in assets under management, and performance fees are projected to increase by \$36.7 million based on more accurate assessments which are based on actual experience data.

[3.5] Multi Asset Class base fees are projected to be \$7.7 million and performance fees are projected to be \$8.8 million. The multi-asset class is made up of assets outside the asset allocation policy and is intended to provide a total rate of return in excess of the CalPERS target rate of return over a market cycle with lower volatility. This program also facilitates efficient methods of increasing the likelihood of meeting CalPERS investment return goals over the long term.

The following table shows the net decrease in investment costs, comparing the decrease in external management fees offset by the increase in investment administration and data/technology/services costs.

	(in millions)		Budget to Budget	
	FY 2014-15 Approved Budget	FY 2015-16 Proposed Budget	\$ Change Incr / (Decr)	% Change Incr / (Decr)
Investment Costs				
Administrative	\$63.7	\$67.7	\$4.0	6.3%
Data/Technology/Services	80.6	83.0	2.4	3.0%
External Management Fees	1,016.5	930.7	(85.8)	(8.4%)
Total	\$1,160.8	\$1,081.4	(\$79.4)	(6.8%)

Expense Ratio / Basis Point Trend



Basis Points Trend

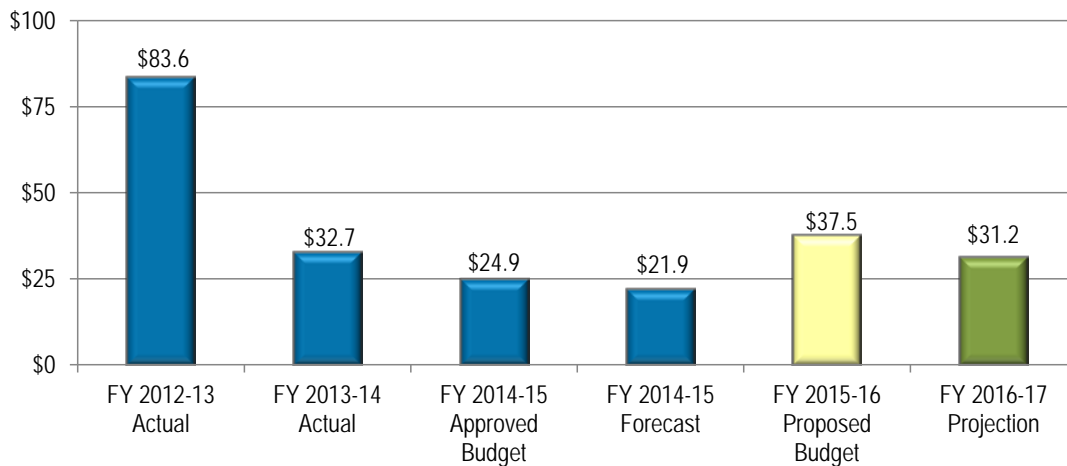
The expense ratio reflects investment expenses against the fluctuating value of the portfolio. The above chart shows the comparison, or ratios, of the External Management Fees and the Investment Administrative and Operating Costs to the net asset value (NAV) of the assets under management by fiscal year.

The decrease in basis points in FY 2013-14 Actual External Management Fees from the previous fiscal year reflects higher increases in NAV in comparison to increases in the base and performance fees expenses which is mainly due to positive growth and strong returns in global equity markets and real assets, including investments related to real estate, forestland, and infrastructure.

The anticipated ratio of the FY 2015-16 Proposed Budget total investment expenses of 31.67 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.

The FY 2015-16 Enterprise Projects Budget Costs of \$37.5 million represent an increase of \$12.6 million or 50.6 percent from the FY 2014-15 Approved Budget of \$24.9 million. Compared to the FY 2014-15 Forecast of \$21.9 million, the FY 2015-16 Proposed Budget represents an increase of \$15.6 million or 71.2 percent.

Enterprise Projects Costs Trend (in millions)



Enterprise Projects (in thousands)	FY 2014-15	FY 2015-16	FY 2016-17	\$ Change Incr / (Decr)	% Change Incr / (Decr)
	Approved Budget	Proposed Budget	Projected Budget		
[1] my CalPERS Business Optimization	\$17,400	23,000	17,100	\$5,600	32.2%
[2] Actuarial Valuation System Redesign	1,700	2,500	5,000	800	47.1%
[3] Security Roadmap	2,608	4,000	5,100	1,392	53.4%
[4] Business Intelligence	1,000	1,000	3,000	-	0.0%
[5] IT Backup/Restoration/Archiving/Disaster Recovery	-	4,000	-	4,000	100.0%
[6] Treasury Management	-	500	400	500	100.0%
[7] Budget Analytics Software	-	500	300	500	100.0%
[8] Compliance Program Infrastructure & Framework	-	500	300	500	100.0%
[9] Data Governance	-	600	-	600	100.0%
[10] Enterprise Content Management Website Accessibility	-	225	-	225	100.0%
[11] Information Security Risk Metrics	-	200	-	200	100.0%
[12] Executive Compensation Project	200	200	-	-	0.0%
[13] CalPERS Education Center Replacement	-	173	-	173	100.0%
[14] Talent Management - Learning Mgmt System Upgrade	-	110	-	110	100.0%
Human Capital Management System	1,000	-	-	(1,000)	(100.0%)
PeopleSoft Financials eProcurement Module	500	-	-	(500)	(100.0%)
Enterprise Migration to SharePoint	500	-	-	(500)	(100.0%)
Total of Enterprise Projects	\$24,908	\$37,508	\$31,200	\$12,600	50.6%

The concentration of projects for FY 2015-16 are centered around the my|CalPERS business optimization component, reengineering of the Actuarial Valuation System, continued reinforcement efforts towards the Security Roadmap Project, Business Intelligence and Enterprise Roadmap initiatives as follows:

[1] my|CalPERS Business Optimization

In September 2013, an effort was launched in both the Information Technology Services Division and across the CalPERS organization to analyze the current state of the my|CalPERS application and establish where the application could be optimized to create greater efficiencies. This project will allow CalPERS to continue to improve performance and functionality, maximize efficiencies, and mature the my|CalPERS system and functionality. Funding is required to evaluate and improve four key areas: improved customer service, reduced financial and business risk, increased operational performance, and streamlined business processes. This funding will provide key optimization opportunities identified to leverage the system and realize increased operational efficiencies. Further enhancement of preparing retirement calculations, death benefit processing, and disability retirement determinations have been identified as areas of optional enhancements. Increased reconciliation capability from the my|CalPERS system to PeopleSoft Financials accounting and budgeting system will ensure data consistency and reporting accuracy.

Project Life Cycle Costs - my CalPERS Business Optimization			
Fiscal Year	Project	Operational	Total
2014-15 Approved Budget	17,400,000	-	17,400,000
2015-16 Proposed Budget	23,000,000	-	23,000,000
2016-17 Projection	17,100,000	-	17,100,000
2017-18 Projection	8,300,000	-	8,300,000
Total	\$ 65,800,000	\$ -	\$ 65,800,000

[2] Actuarial Valuation System

The current Actuarial Valuation System (AVS) has been in existence for over 18 years and will no longer meet evolving actuarial practices including changes for employers to comply with new standards as required by the GASB. The investment to reengineer the AVS system would provide the capabilities needed to keep current with evolving practices and comply with GASB 68 requirements. The Actuarial Office plans on having a project manager and an AVS redesign consultant in place by April 2015. This is year two of a multi-year request requiring funding over a four-year period for an estimated total investment of \$22.8 million.

Project Life Cycle Costs - Actuarial Valuation System

Fiscal Year	Project Budget	Operational Budget	Total
2013-14 Actuals	\$ -	\$ 1,231,124	\$ 1,231,124
2014-15 Approved Budget	1,700,000	415,000	2,115,000
2015-16 Proposed Budget	2,500,000	500,000	3,000,000
2016-17 Projection	5,000,000	500,000	5,500,000
2017-18 Projection	5,000,000	500,000	5,500,000
2018-19 Projection	5,000,000	500,000	5,500,000
2019-20 Projection	-	500,000	500,000
Total	\$ 19,200,000	\$ 4,146,124	\$ 22,846,124

* Program requested funding in the Operational Budget for modification of the current system to meet new GASB 68 requirements bringing the full cost of the project to be approximately \$22.8 million.

[3] Security Roadmap

The Information Technology Services Division has an ongoing commitment to information security through the Security Roadmap Project. The Security Roadmap Project is an ongoing multi-year effort that will ensure CalPERS technology and member data will remain secure against constantly changing threats in the environment. Efforts will be directed towards the Enhanced Enterprise Identity System which will focus on user password management, tighter controls around sensitive administrative accounts and increased and enhanced user experience around cloud services that will eliminate separate user names and passwords for these types of services. The second focus of the Security Roadmap Project will be Security Information and Event Management. This effort will be able to proactively alert CalPERS on possible security breaches and fraudulent activity.

Project Life Cycle Costs - Security Roadmap

Fiscal Year	Project	Operational	Total
2013-14 Actuals	\$ 4,995,614	\$ -	\$ 4,995,614
2014-15 Approved Budget	2,608,000	-	2,608,000
2015-16 Proposed Budget	4,000,000	-	4,000,000
2016-17 Projection	5,100,000	-	5,100,000
2017-18 Projection	1,300,000	-	1,300,000
2018-19 Projection	-	900,000	900,000
Total	\$ 18,003,614	\$ 900,000	\$ 18,903,614

[4] Business Intelligence

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 pension research.

Project Life Cycle Costs - Business Intelligence			
Fiscal Year	Project Budget	Operational Budget	Total
2013-14 Actuals	\$ 2,454,291	\$ -	\$ 2,454,291
2014-15 Approved Budget	1,000,000	-	1,000,000
2015-16 Proposed Budget	1,000,000	-	1,000,000
2016-17 Projection	3,000,000	-	3,000,000
2017-18 Projection	-	2,100,000	2,100,000
Total	\$ 7,454,291	\$ 2,100,000	\$ 9,554,291

[5] IT Backup/Restoration/Archiving/Disaster Recovery

Due to the conclusion of a management services contract for backup and disaster recovery, the Information Technology and Services Division will utilize \$4.0 million to continue the IT Disaster Recovery components of the CalPERS Business Continuity Plan. This contract will assist the CalPERS organization to mitigate the risks associated with a local or regional disaster, such as a building fire, flood, power failures, earthquake, and to meet the requirements mandated by the State of California.

Project Life Cycle Costs - IT Backup/Resoration/Archiving/Disaster Recovery			
Fiscal Year	Project Budget	Operational Budget	Total
2015-16 Proposed Budget	4,000,000	-	\$ 4,000,000
2016-17 Budget	-	2,000,000	\$ 2,000,000
Total	\$ 4,000,000	\$ 2,000,000	\$ 6,000,000

[6] Treasury Management

The Treasury Management Project will design and implement the Treasury Management Program commenced in June 2014, guided by a cross departmental Advisory Committee and Project Team. Treasury Management identifies a process for monitoring and managing the liquidity needs of the organization. A detailed operating model will be completed and the incremental requirements of the Treasury Management Program will be aligned with the CalPERS organization. The implementation of the Treasury Management Program will help ensure the payment of member benefits and organizational expenses without interruption regardless of market conditions and without the sale of long-term assets for short-term cash demands.

Project Life Cycle Costs - Treasury Management			
Fiscal Year	Project Budget	Operational Budget	Total
2015-16 Proposed Budget	\$ 500,000	\$ -	\$ 500,000
2016-17 Projection	400,000	-	400,000
Total	\$ 900,000	\$ -	\$ 900,000

[7] Budget Analytics Software

Funds are needed to purchase and implement budget analytics and forecasting software for the Financial Office. The Financial Office has made significant improvements in budget management, forecast and projection analysis. This analytical work can be leveraged through budget and forecasting software. Due to the complex nature of the various budgets throughout the organization, this product will allow the budget staff to utilize this tool to enhance their accounting analytics and financial reporting capabilities.

Project Life Cycle Costs - Budget Analytics Software			
Fiscal Year	Project Budget	Operational Budget	Total
2015-16 Proposed Budget	\$ 500,000	\$ -	\$ 500,000
2016-17 Projection	300,000	-	300,000
Total	\$ 800,000	\$ -	\$ 800,000

[8] Compliance Program Infrastructure and Framework

This project will assess, clarify and begin implementation of the practices needed for a fully integrated compliance assurance program at CalPERS. This will implement recommendations for information barriers that focus directly on applicable legal and regulatory standards related to material, non-public information. An overall governance framework, an oversight model and a transition roadmap are planned to be implemented by the Enterprise Compliance function.

Project Life Cycle Costs - Compliance Program Infrastructure and Framework			
Fiscal Year	Project Budget	Operational Budget	Total
2015-16 Proposed Budget	\$ 500,000	\$ -	\$ 500,000
2016-17 Projection	300,000	-	300,000
Total	\$ 800,000	\$ -	\$ 800,000

[9] Data Governance

The Data Governance Program will provide framework for governing and improving CalPERS data, as well as a staff member to maintain it. The Data Steward will manage the Enterprise Information Management Competency Center (EIMCC) and report progress to the Senior Leadership Committee (SLC) essentially acting as a conduit between CalPERS governance bodies and individual workgroups that are improving CalPERS data. The Data Governance Program applies a systematic approach to ensure data acquisition and integration, usage, quality, persistence, definitions, and security support CalPERS need to provide stakeholders the right data, at the right time. 1.0 position has been identified to support this project as reflected in the operational budget for BPPP.

Project Life Cycle Costs - Data Governance			
Fiscal Year	Project Budget	Operational Budget	Total
2015-16 Proposed Budget	600,000	131,000	\$ 731,000
2016-17 Projection	-	131,000	\$ 131,000
Total	\$ 600,000	\$ 262,000	\$ 862,000

[10] Enterprise Content Management Website Accessibility

This request for one-time funding is for web accessibility testing and validation to be performed by an external entity to ensure an unbiased measure of compliance with CalPERS Web Accessibility Policy and all the associated laws and guidelines. With the implementation of Member Self-Service for my|CalPERS, CalPERS employees are responsible for ensuring that CalPERS public websites are accessible to persons with disabilities. To ensure CalPERS is compliant with established federal and state laws and regulations, testing of the redesigned external and internal websites are necessary and should be conducted by an external entity to maintain an unbiased measure of compliance.

Project Life Cycle Costs - Enterprise Content Management Website Accessibility Compliance Validation			
Fiscal Year	Project Budget	Operational Budget	Total
2015-16 Proposed Budget	225,000		\$ 225,000
Total	\$ 225,000	\$ -	\$ 225,000

[11] Information Security Risk Metrics

CalPERS requires an independent assessment of our information security environment to evaluate strategies and performance reporting mechanisms. The one-time funding for this project will develop improvements to current information technology and security risk metrics along with creating more effective reporting methods.

Project Life Cycle Costs - Information Security Risk Metrics			
Fiscal Year	Project Budget	Operational Budget	Total
2015-16 Proposed Budget	200,000		\$ 200,000
Total	\$ 200,000	\$ -	\$ 200,000

[12] Executive Compensation Project

This initiative is to conduct a comprehensive review of the Executive Compensation Program's components and propose modifications to simplify the program, increase transparency and ensure alignment with CalPERS goals and strategies. The funding will be used to continue engagement of consulting services on the structure and design of the program.

Project Life Cycle Costs - Executive Compensation Project			
Fiscal Year	Project Budget	Operational Budget	Total
2014-15 Approved Budget	200,000	-	200,000
2015-16 Proposed Budget	200,000	-	200,000
Total	\$ 400,000	\$ -	\$ 400,000

[13] CalPERS Education Center Replacement

The Customer Service and Outreach Division needs to research a technical solution to replace the CalPERS Education Center (CEC) software platform. The CEC was developed with the intent to be an effective self-service platform that would allow CalPERS to schedule education and counseling services for members. The initial phase of the project would to bring in an IT consultant to develop alternatives that will serve as the basis for determining the best solution to replacing the CEC.

Project Life Cycle Costs - CalPERS Education Center Replacement			
Fiscal Year	Project Budget	Operational Budget	Total
2015-16 Proposed Budget	173,000	-	\$ 173,000
2016-17 Projection*	-	-	\$ -
Total	\$ 173,000	\$ -	\$ 173,000

*Note: Future projections are unknown and contingent upon findings during exploratory phase 1 of the project.

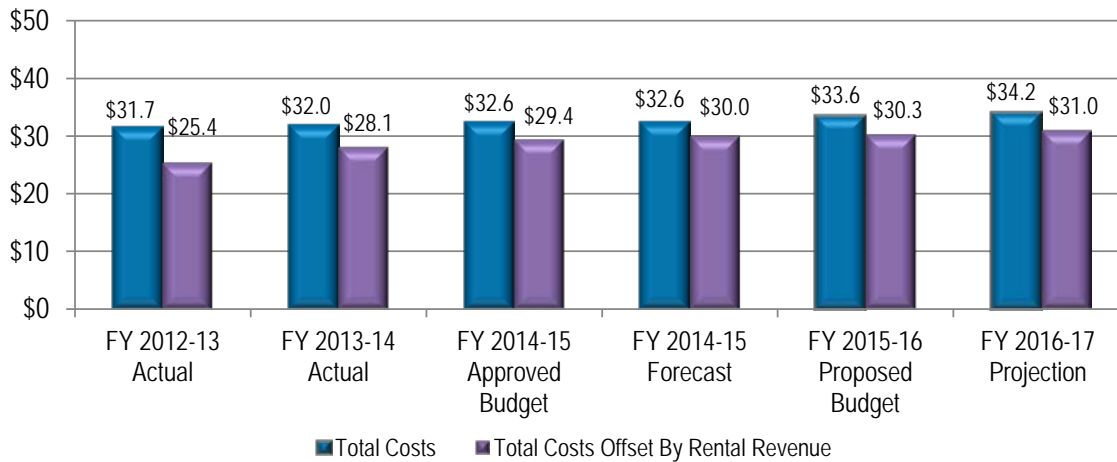
[14] Talent Management – Learning Management System Upgrade

Succession planning is a priority to ensure continuity of critical business and effective transition of the aging workforce. A system upgrade is necessary to expand functionality in support of the Succession Planning Program. Additionally, this upgrade benefits a number of other Learning Management System (LMS) upgrade requests across the organization. Specifically, decentralization of LMS features to support job-specific training efforts in program areas; the development of CalPERS identified learning competencies, and the ability to map competencies to existing learning opportunities; and the creation of a skills assessment tool that will identify learner skills, succession readiness, and knowledge gaps.

Project Life Cycle Costs - Learning Management System Upgrade			
Fiscal Year	Project Budget	Operational Budget	Total
2015-16 Proposed Budget	110,000	-	\$ 110,000
Total	\$ 110,000	\$ -	\$ 110,000

Headquarters Building Costs Trend

(in millions)



The FY 2015-16 Headquarters Building Costs are \$33.6 million, reduced by \$3.2 million in rent revenues, creating a net cost of \$30.3 million. Costs include operating expenses of \$18.6 million (utilities, engineering services, janitorial security, etc.) and non-operating expenses of \$14.9 million (structural improvements, staff moves, insurance, etc.).

Operating expenses in the FY 2015-16 Proposed Budget of \$18.6 million is a \$0.3 million increase from the FY 2014-15 Approved Budget of \$18.3 million. Non-Operating expenses in the FY 2015-16 Proposed Budget of \$14.9 million have increased by \$0.6 million from the FY 2014-15 Approved Budget of \$14.3 million. The increase of \$0.9 million is broken down as follows:

(\$0.5)	Utilities – Reduction due to the elimination of after-hours HVAC requests
(0.5)	Engineering Services – Decrease in salaries and benefits due to reduced service need
0.5	General Maintenance – Increase due to the replacement of legacy computer room air conditioner units and 5-year electrical acceptance testing in data centers
0.4	EOC (Sun Center) – Increase due to 10-year uninterrupted power system battery replacement and cold aisle containment (based on Governor's Order regarding data centers)
0.4	Operating Other - Increases in costs for items such as electrical 5-year power down validation and janitorial contract services due to Union contract wages and benefits increase
1.1	Building Improvements – Drought tolerant landscape installation
(0.9)	Furniture & Fixtures – Decrease in number of workstation conversions and scheduled moves
0.4	Miscellaneous - Net effect of all other changes
\$0.9	Total Change

Headquarters Building Costs

(in thousands)

	FY 2013-14 Actual	FY 2014-15 Approved Budget	FY 2015-16 Proposed Budget	Budget to Budget	
				\$ Change Incr / (Decr)	% Change Incr / (Decr)
Operating:					
Utilities	\$2,860	\$2,765	\$2,258	(\$508)	(18.4%)
Engineering Services	2,615	3,519	3,004	(515)	(14.6%)
Janitorial	2,591	3,096	3,189	93	3.0%
Landscaping	790	814	822	9	1.1%
General Maintenance	1,826	1,560	2,043	484	31.0%
Security	2,119	2,309	2,231	(79)	(3.4%)
Property Mgmt & Administrative Fees	1,103	1,225	1,254	28	2.3%
Café Plaza	340	359	375	15	4.2%
Front St. Parking/Warehouse	421	655	644	(11)	(1.7%)
EOC (Sun Center) ¹	434	487	931	444	91.2%
Operating Other ²	1,652	1,520	1,873	353	23.2%
Total Operating Costs	16,751	18,309	18,623	314	1.7%
Non-Operating:					
Owner Improvements ³	6,850	7,064	7,395	331	4.7%
Building Improvements ⁴	1,567	2,994	4,113	1,119	37.4%
Telecommunications ⁵	2,538	-	-	-	0.0%
Furniture & Fixtures	3,690	3,356	2,451	(905)	(27.0%)
Building Insurance	653	930	976	46	4.9%
Total Non-Operating Costs	15,298	14,343	14,934	591	4.1%
Total Costs	\$32,048	\$32,652	\$33,558	\$906	2.8%
Rent Revenue ⁶	3,961	3,213	3,208	(5)	(0.2%)
Total Headquarters Building Costs	\$28,087	\$29,439	\$30,350	\$911	3.1%

¹ Emergency Operations Center (EOC) includes utilities, janitorial, security, landscaping, and generator maintenance

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

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

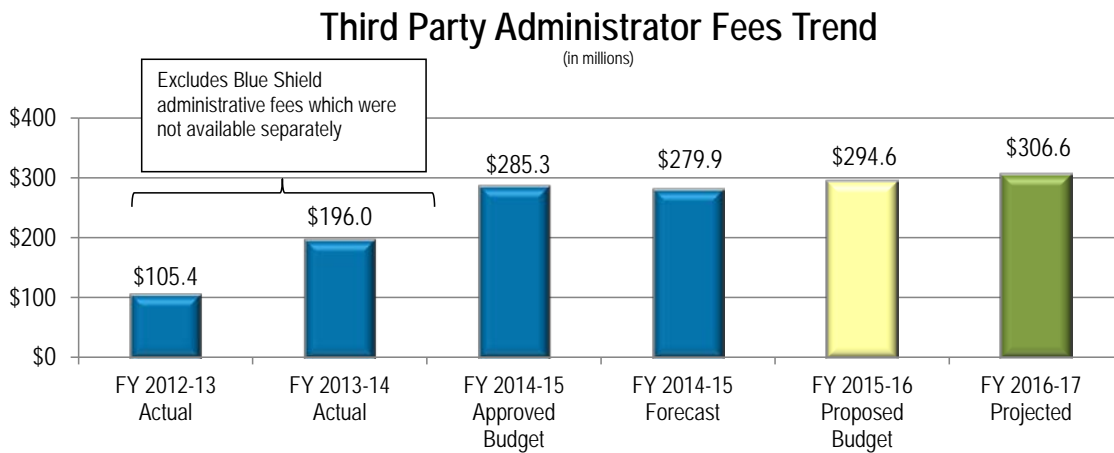
⁴ Non-Operating Building Improvements are improvements made to the building structure or common areas

⁵ Telecommunications budget is now reflected in Information Technology Services Branch operations budget authority

⁶ The Headquarters Building Costs receives rent revenue that is used to offset the annual expenses of the Headquarters Building Account

Third Party Administrator Fees

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



Total Third Party Administrator Fees for the FY 2015-16 Proposed Budget are \$294.6 million, an increase of \$9.3 million or 3.3 percent over the FY 2014-15 Approved Budget of \$285.3 million. The \$9.3 million is comprised of an increase of \$11.3 million, mainly driven by increased fees in the Health Program and is offset with a decrease of \$2.1 million in the Long-Term Care Program. The following details each of the program areas:

	(in millions)			Budget to Budget	
	FY 2013-14 Actual ¹	FY 2014-15 Approved Budget ¹	FY 2015-16 Proposed Budget	\$ Change Incr / (Decr)	% Change Incr / (Decr)
Health Program ^{2,3}	\$ 161.0	\$ 245.6	\$ 256.7	\$ 11.0	4.5%
CVS Caremark Pharmacy	11.9	12.7	13.0	0.3	2.4%
Subtotal Health	172.9	258.3	269.6	11.3	4.4%
Long-Term Care Program - Univita	19.1	23.2	21.1	(2.1)	(9.1%)
Total Health	192.0	281.5	290.7	9.2	3.3%
Supplemental Income Plan - Voya	4.0	3.8	3.9	0.1	1.6%
TOTAL	\$ 196.0	\$ 285.3	\$ 294.6	\$ 9.3	3.3%

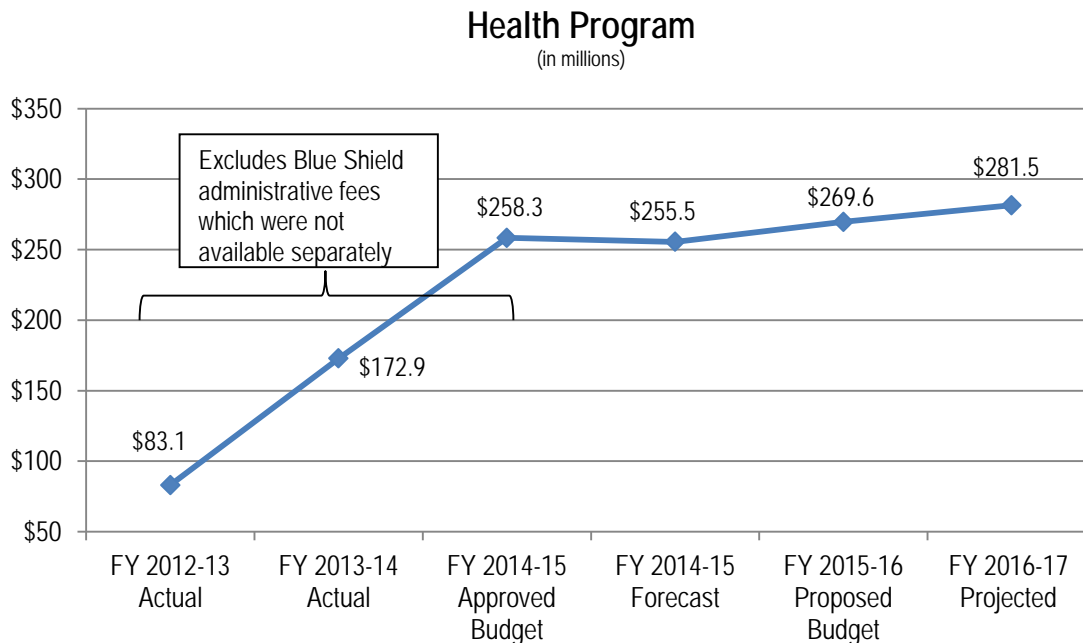
¹ Excludes Blue Shield administrative fees which were not available separately for FY 2013-14 Approved Budget and FY 2012-13 Actual

² Excludes Kaiser global capitation system which does not capture administrative fees separately

³ Includes Anthem Blue Cross, Blue Shield, Health Net, Sharp Health Plan and United Healthcare

Health Program

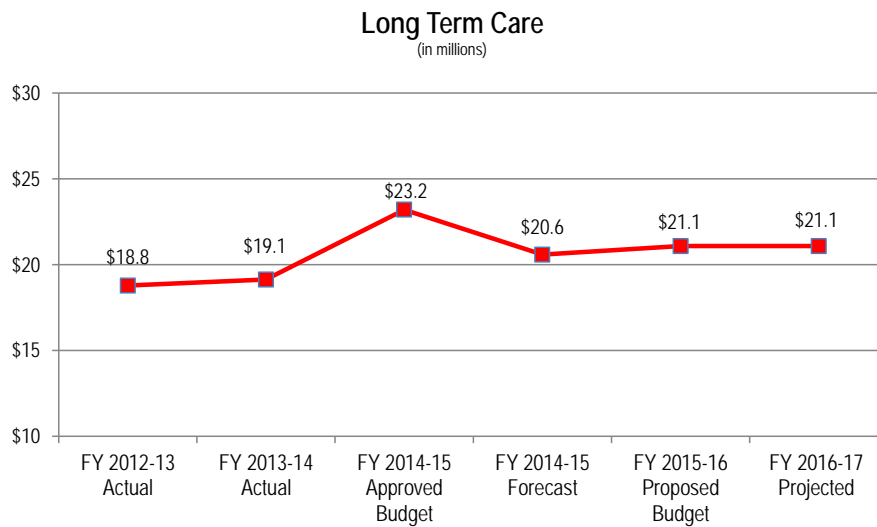
The Health Program provides health coverage to more than 1.3 million members and their families enrolled in CalPERS health plans which include all active and retired California State employees, as well as active and retired employees of local agencies and school districts in California. Effective January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



The FY 2015-16 Proposed Budget of \$269.6 million represents an increase of \$11.3 million or 4.4 percent over the FY 2014-15 Approved Budget mainly driven by changes in health plan enrollment and anticipated increases in administrative fees. The FY 2016-17 Projection is based on the previous year's trend.

Long Term Care

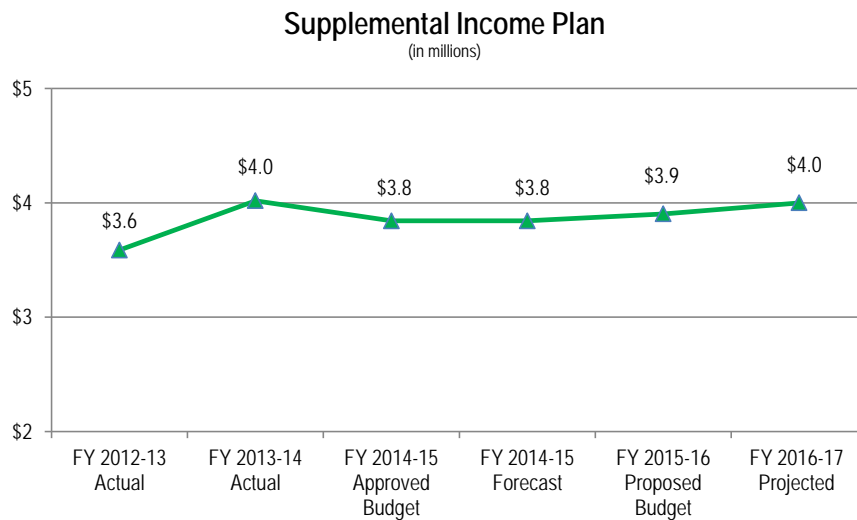
The Long Term Care Program, as administered by Univita, provides comprehensive care personal non-medical assistance, including care at home, adult care centers, assisted living facilities, and nursing homes. Administrator fees include underwriting costs, billing/banking, care advisory services, claims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



The Proposed Budget of \$21.1 million for FY 2015-16 represents a decrease of \$2.1 million or 9.1 percent from the \$23.2 million in the FY 2014-15 Approved Budget. This decrease is attributed to a reduction in projected enrollment and the associated savings in related administrative costs. The FY 2015-16 Proposed Budget reflects this reduction. The FY 2016-17 Projection is estimated to remain the same.

Supplemental Income Plans

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 Voya Group is the third party administrator responsible for providing recordkeeping and administrative services for the SIP Program.



For the FY 2014-15 Forecast, fees are forecasted to stay flat at \$3.8 million. This is due to the termination of one of the plans (State Police Officers and Firefighters) offset by anticipated new enrollees. The FY 2015-16 Proposed Budget of \$3.9 million represents an increase of \$0.1 million or approximately 2.6 percent. The FY 2016-17 Projection assumes the same growth rate as FY 2015-16.

[1] Total CalPERS Budget by Branch

(in thousands)				
	FY 2014-15 Approved Budget	FY 2015-16 Proposed Budget	\$ Change Incr / (Decr)	% Change Incr / (Decr)
Administrative and Investment Operating Costs				
Actuarial Office	7,636	8,248	612	8.0%
Benefit Programs Policy and Planning	25,928	29,646	3,719	14.3%
Customer Services and Support	94,647	102,081	7,434	7.9%
Executive Office	4,693	4,706	14	0.3%
Financial Office	23,469	26,191	2,722	11.6%
General Counsel	25,177	27,610	2,433	9.7%
Investment Office	144,262	150,721	6,459	4.5%
Office of External Affairs	12,663	9,984	(2,678)	(21.2%)
Operations and Technology	125,607	137,020	11,412	9.1%
Other	34,794	30,298	(4,496)	(12.9%)
Subtotal	\$ 498,874	\$ 526,505	\$ 27,631	5.5%
Investment External Management Fees	1,016,484	930,726	(85,758)	(8.4%)
Enterprise Projects Budget	24,908	37,508	12,600	50.6%
Headquarters Building Costs	32,652	30,350	(2,302)	(7.1%)
Third Party Administrator Fees¹	285,333	294,632	9,299	3.3%
CalPERS Total Budget	\$ 1,858,251	\$ 1,819,721	\$ (38,531)	(2.1%)

¹ Includes Health Program Fees, Long-Term Care Fees, and Supplemental Income Management and Custodial Fees

The following are the main variances for the CalPERS Program areas from the previous year:

Actuarial Office (ACTO) – [\$612K] Costs are increasing mainly due to higher personnel costs for merit salary adjustments and a bargaining unit salary increase (\$97.5K), as well as the addition of 2.0 new positions in the FY 2015-16 Proposed Budget (\$278.0K), and increased consulting costs to support the existing Actuarial Valuation System (\$250.0K).

Benefit Programs Policy and Planning (BPPP) – [\$3.7 million] Costs are increasing mainly due to the redirection of the Legislative Affairs Division to BPPP (\$2.1 million) and for State Controller's Office professional fees (\$780.0K). Budget increases are also mainly attributable to the addition of 3.0 new positions in the FY 2015-16 Proposed Budget (\$351.0K) and an increase in the FY 2015-16 Pro-Rata assessment by the State of California to the Health Care Fund (\$476.0K).

Customer Services and Support (CSS) – [\$7.4 million] Costs are increasing mainly due to higher personnel costs for merit salary adjustments and a bargaining unit salary increase (\$4.5 million), increased benefit costs (\$1.5 million), the addition of 15.0 new positions in the FY 2015-16 Proposed Budget (\$1.1 million), a larger postage budget for annuitant and beneficiary tax form mailings (\$190.6K), an increase in the FY 2015-16 Pro-Rata assessment by the State of California to the Health Care Fund (\$47.2K), and a larger travel budget due to increased CalPERS Benefit Education Events (\$32.8K).

Financial Office (FINO) – [\$2.7 million] Costs are increasing mainly due to higher personnel costs for merit salary adjustments and a bargaining unit salary increase (\$1.6 million), as well as 12.0 new positions in the FY 2015-16 Proposed Budget (\$1.1 million).

General Counsel (GCO) – [\$2.4 million] Costs are increasing mainly due to higher personnel costs for merit salary adjustments and a bargaining unit salary increase (\$1.6 million) and the addition of 5.0 new positions in the FY 2015-16 Proposed Budget (\$488.0K). The increase is also attributable an augmentation in the GASB 67 contract (\$350.0K).

Investment Office (INVO) – [\$6.5 million] Costs are increasing mainly due to higher personnel costs for merit salary adjustments and a bargaining unit salary increase (\$3.5 million), and increases for investment analytics (\$5.6 million) for supporting functions performed by analytics systems and tools used for investment decision making. Offsetting these increases are reductions to fund administration services/fees (-\$1.6 million) for services associated with administration of assets under management, as well as reductions to trading and portfolio management systems (-\$1.0 million).

Office of External Affairs (EXAB) – [-\$2.7 million] Costs are decreasing mainly due to the redirection of the Legislative Affairs Division to BPPP (-\$2.1 million), a reduction in postage costs (-\$400.0K), and reduced printing costs (-\$311.0K).

Operations and Technology (OPT) – [\$11.4 million] Costs are increasing mainly due to higher personnel costs for merit salary adjustments and a bargaining unit salary increase (\$6.2 million), as well as an increase for a planned information technology hardware refresh (\$6.0 million) in the FY 2015-16 Proposed Budget. These increases are partially offset by a reduction in the training (-\$426.K) and consulting (-\$150.0K) costs.

Other – [-\$4.5 million] Other costs include pension-related Pro-Rata assessed by the State of California. The decrease of \$4.5 million from the FY 2014-15 Approved Budget is a result of the removal of increased dental and health premium assumptions being reflected in FY 2014-15.

[2] Administrative Budget by Trust Fund

The proposed FY 2015-16 Administrative Budget is allocated to the following trust funds:

Fund	FY 2013-14 Actual	FY 2014-15 Approved Budget	FY 2015-16 Proposed Budget	Budget to Budget	
				\$ Change Incr / (Decr)	% Change Incr / (Decr)
Administrative Budget					
Public Employees' Retirement Fund (PERF)	\$ 348,805	\$ 353,514	\$ 369,288	\$ 15,774	4.5%
Public Employees' Contingency Reserve Fund (CRF)	28,606	27,554	27,564	10	0.0%
Public Employees' Health Care Fund (HCF)	22,959	24,166	33,630	9,464	39.2%
Long-Term Care Fund (LTCF)	3,290	4,422	4,249	(173)	(3.9%)
Annuitants' Health Care Coverage Fund (AHCCF)	1,745	2,309	2,527	218	9.4%
Deferred Compensation Fund (DCF)	1,846	1,834	1,681	(153)	(8.3%)
Judges' Retirement Fund (JRF)	1,058	1,191	1,250	59	5.0%
Judges' Retirement Fund II (JRF II)	879	1,289	1,367	78	6.1%
Legislators' Retirement Fund (LRF)	350	417	482	65	15.6%
Replacement Benefit Custodial Fund (RBF)	9	7	7	-	0.0%
Subtotal	\$ 409,547	\$ 416,703	\$ 442,045	\$ 25,342	6.1%
Reimbursements ¹	2,086	1,604	1,500	(104)	(6.5%)
Total CalPERS	\$ 411,633	\$ 418,307	\$ 443,545	\$ 25,238	6.0%

¹ 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

The following are the main variances for the CalPERS Administrative Budget by Trust Fund:

Public Employees' Retirement Fund (PERF) – Costs are increasing mainly related to the increase in the administrative operating expenses due to higher personnel costs and increases in the Enterprise Projects Budget.

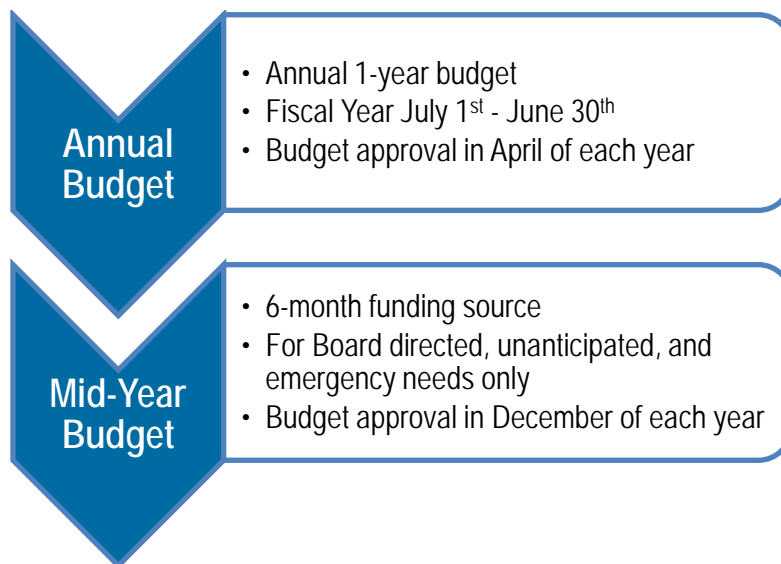
Health Care Fund (HCF) – Costs are increasing mainly due to the updated workload statistics received from the organization reflecting higher administrative costs attributed to the Health Program especially as they relate to the CalPERS Customer Contact Center.

[3] CalPERS Budget Process

For more than eight decades, CalPERS has built retirement and health security for those who serve California. As stewards of the System, we are committed to retirement security and wellness to ensure that their benefits and earned retirements are protected. CalPERS enterprise priorities are determined through a business planning process. The five-year strategic plan and the two-year business plan are approved by the CalPERS Board of Administration (Board). In 2012, the Board adopted the CalPERS 2012-17 Strategic Plan that guides the development of our business plans. The annual budget process is the period for reviewing the organization’s existing resources and requests needed to meet CalPERS mission, strategic plan, and business plan priorities. The strategic goals of the enterprise, the mission of CalPERS, and the priorities of our stakeholders are incorporated into the budget process.

The CalPERS budget is a financial plan for the spending and allocation of resources needed to meet the organization’s mission, vision and values necessary to build and maintain retirement and health security for members that serve the state of California. The budget process is an ongoing and robust budget planning activity that considers the priorities of the enterprise as well as CalPERS values and mission as the basis in determining how and where to use resources.

CalPERS has two formal budget processes during the fiscal year; the annual and mid-year budget processes.



The annual budget process is designed to review the organization's existing operational resource needs to maintain current service levels, as well as prioritize resource requests for new services, initiatives and projects required to meet CalPERS mission, strategic goals, and business plan priorities. The budget process begins in October of each year with submission of the Financial Office's annual budget memo to enterprise management that provides a universal message detailing instructions, budget policy direction, and communicates expectations and objectives.

The Financial Office works collaboratively with divisions through this process to analyze the operational needs of the organization while ensuring alignment with CalPERS strategic goals and business plan. Programs requesting resources related to new services, initiatives and projects submit detailed formal budget request documents. The Financial Office budget staff conduct thorough analysis of the requests and, in collaboration with senior management, rank the requests through a prioritization exercise which uses criteria related to workload capacity, business plan initiatives, board or legislative mandates, and risk mitigation to CalPERS.

The resource request analysis and prioritization is presented to executive management for review, and in February, an executive review panel allows program management the opportunity to present their requests prior to executives finalizing the allocation of funding and proposed budget for submittal to the Board. The Board reviews for approval the annual budget in April with an annual budget effective date of July 1st of the new fiscal year.

The purpose of the mid-year budget process is to amend the approved annual budget with up to six months of funding for Board-directed, critical, emergency, or unforeseen circumstances that arise after the start of the new fiscal year requiring funding in the current year. The Board reviews for approval the mid-year budget in December with a revised annual budget effective date of January 1st in the following month.