



Finance & Administration Committee

California Public Employees' Retirement System

Consent

Agenda Item 4f

October 20, 2015

ITEM NAME: Year-End Budget and Expenditure Report

PROGRAM: Financial Office

ITEM TYPE: Information Consent

EXECUTIVE SUMMARY

This report presents the CalPERS Year-End Budget and Expenditures for Fiscal Year (FY) 2014-15 and satisfies the 2014 Budget Act (Chapter 25, Statutes of 2014) reporting requirement to submit a final year-end report to the Controller, the Department of Finance, the Joint Legislative Budget Committee, and the fiscal committees of each house of the Legislature; in addition, the report will be submitted to the Legislative Analyst's Office, the Government Operations Agency, and the Office of the Legislative Counsel.

(\$ in Millions)	FY 2014-15				FY 2013-14
	Budget	Actual Expenditures	\$ Under (Over)	Percent Expended	Actual Expenditures
Administrative Operating Cost	\$418.3	\$403.8	\$14.5	96.5%	\$411.6
Investment Operating Costs	80.6	75.3	5.3	93.4%	73.8
Investment External Management Fees	1,016.5	1,333.1	(316.6)	131.1%	1,258.8
Subtotal: Operating Costs	\$1,515.4	\$1,812.2	(\$296.8)	119.6%	\$1,744.3
Enterprise Projects Cost	24.9	22.9	2.0	92.0%	32.7
Headquarters Building Account	32.6	29.3	3.3	89.9%	32.0
Third-Party Administrator Fees	285.3	287.8	(2.5)	100.9%	196.0
Total Budget	\$1,858.2	\$2,152.2	(\$294.0)	115.8%	\$2,005.1

For FY 2014-15, expenditures of \$2,152.2 million exceeded the budget of \$1,858.3 million by \$294.0 million (15.8 percent). The Investment External Management Fees exceeded the budgeted amount by \$316.6 million, primarily due to the requirement for Real Estate performance and management fees to be accrued on real estate assets. In FY 2014-15, several real estate assets increased in value, and the one-year real estate return was 13.5 percent. Third-Party Administrator Fees exceeded the budget by \$2.5 million, or 0.9 percent due to the self-funded program. These overages were offset by savings in the following budget categories:

• Administrative Operating	\$14.5 million
• Investment Operating	5.3 million
• Enterprise Project	2.0 million
• Headquarters Building Account	<u>3.4 million</u>
Total Savings	\$25.2 million

STRATEGIC PLAN

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

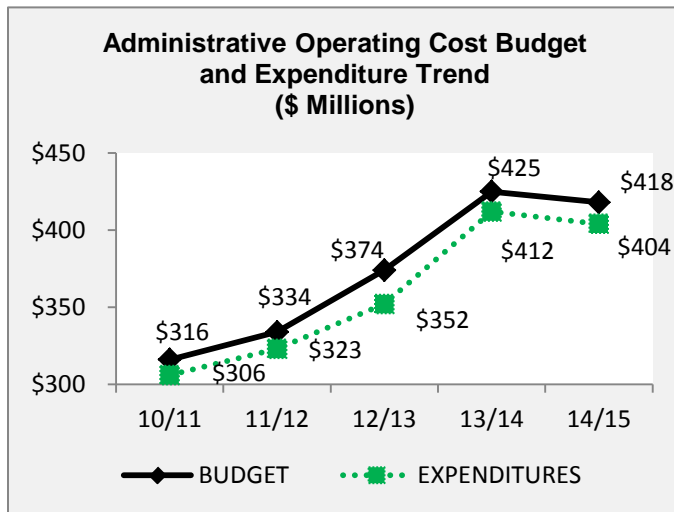
BACKGROUND

The CalPERS Total Budget is comprised of six main areas: Administrative Operating Costs, Investment Operating Costs, Investment External Management Fees, Enterprise Projects, Headquarters Building Account, and Third Party Administrator Fees. The CalPERS Total Budget is reviewed and approved by the CalPERS Board of Administration.

ANALYSIS

Administrative Operating Costs

Of the total \$418.3 million Administrative Operating Costs Budget, CalPERS expended \$403.8 million, which was \$14.5 million or 3.5 percent under budget due mainly to staffing vacancies (\$5.6 million), reduced reliance on consultants (\$5.0 million), and savings in travel and general expenses (\$3.4 million).

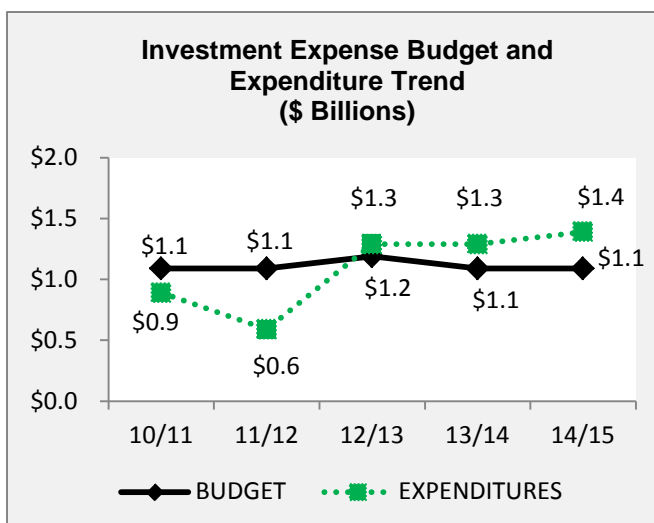


Compared to last year's 2013-14 expenses of \$411.6 million there was a decrease of \$7.8 million resulting primarily from enterprise-wide reductions in temporary help (\$2.1 million); lower data processing costs (\$9.5 million) resulting from successful vendor negotiations and prior year funding; and one-time expenses in FY 2013-14 including the data warehouse re-procurement (\$3.0 million), the Dependent Eligibility Verification project (\$2.0 million), consulting costs (\$3.7 million) and large information technology

equipment purchases (\$5.3 million). These reductions were offset by an increase in staffing costs (\$23.0 million) for new positions approved for FY 2014-15 and the 2.0 percent pay raise effective July 2014.

Investment Expense Budget

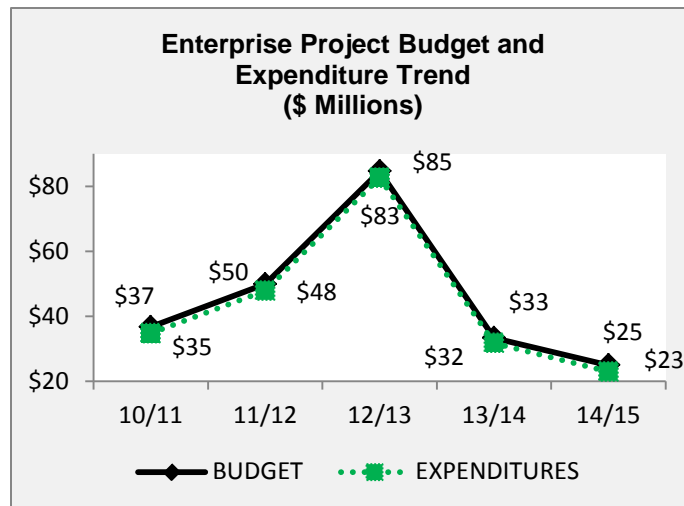
Of the total \$1,097.1 million Investment Expense Budget, CalPERS expended \$1,408.4 million, which was \$311.3 million or 28.4 percent over the budget. This is primarily due to a correction in the inclusion of accrued Real Estate performance and management fees. In FY 2014-15, several real estate assets increased in value, and the one-year real estate return was 13.5 percent.



Compared to last year's 2013-14 expenses of \$1,332.6 million, there was an increase of \$75.8 million primarily due to higher external management fees (\$74.3 million) described above. Consulting costs were lower by \$3.1 million as steps continue to be taken to transfer work in-house and reduce consulting costs.

Enterprise Projects Budget

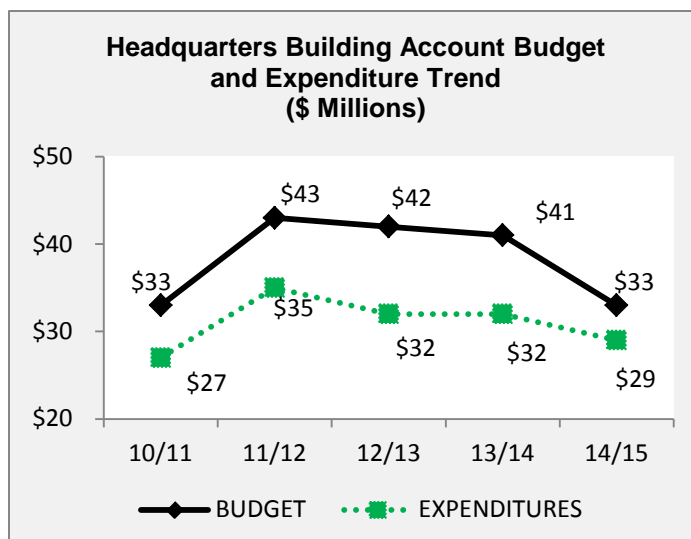
Of the total \$24.9 million Enterprise Projects Budget, CalPERS expended \$22.9 million, which was \$2.0 million or 8.0 percent less than budgeted. This is due to the Actuarial Valuation System Redesign timeline being pushed back and the Security Roadmap Project costs for consultants and hardware/software being lower than anticipated.



Compared to last year's 2013-14 expenses of \$32.7 million, there was a net reduction of \$9.8 million due to the completion of the Pension System Resumption project (\$23.4 million) offset by the addition of new projects including the myCalPERS Optimization (\$17.4 million).

Headquarters Building Account Budget

Of the total \$32.6 million Headquarters Building Account Budget, CalPERS expended \$29.3 million, which was \$3.3 million or 10.4 percent under budget due to lower electricity use, suspension of window washing, lower than expected expenses in wire plant/data and tenant improvements, offset by higher expenses due to the Leadership in Energy and Environmental Design (LEED) improvements and the landscape renovation drought tolerant upgrades.

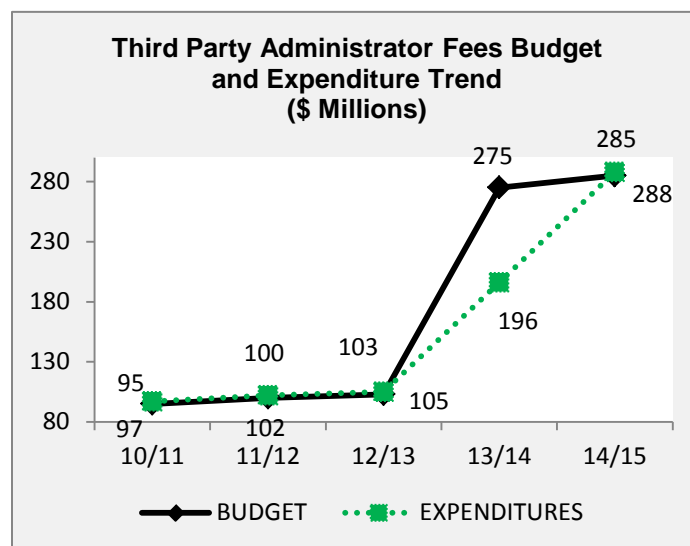


Compared to last year's 2013-14 expenses of \$32.0 million, there was a decrease of \$2.7 million due to lower utility costs, the suspension of window washing, decrease in janitorial and maintenance costs, and the reallocation of the telecommunications budget and expenses to the Administrative Operating Budget.

Third Party Administrator Fees Budget

Of the total \$285.3 million Third Party Administrator Fees Budget, CalPERS expended \$287.8 million, which was \$2.5 million or 0.9 percent over budget. The Self-Funded Health Program cost was 2.1 percent higher than projected for the six Health Benefits Plan Administrators and was offset by a decrease in the cost of the Long Term Care Program due to lower than anticipated enrollment.

	Budget	Actual Expenditures	\$ Under (Over)	Percent Expended
Long Term Care Program	\$23.2	\$20.2	\$3.0	86.9%
Self-Funded Health Program	258.3	263.8	(5.5)	102.1%
Supplemental Income Plan	3.8	3.8	-	100.0%
TOTAL	\$285.3	\$287.8	(\$2.5)	100.9%



Compared to last year's 2013-14 expenses of \$196.0 million, there was an increase of \$91.8 million mainly due to capturing the full year cost for the six Health Benefits Plan Administrators for the Self-Funded Health Program implemented on January 1, 2014.

BUDGET AND FISCAL IMPACTS

There are no costs associated with this item.

BENEFITS/RISKS

Failure to submit the year-end report to respective legislative offices could put CalPERS at risk of noncompliance with the control language in the 2014 Budget Act.

ATTACHMENTS

Attachment 1 – Transmittal Letter to the Joint Legislative Budget Committee

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