California Public Employees' Retirement System

Fiscal Year 2016-17
Annual Budget Proposal

Second Reading
April 19, 2016

CalPERS

GOVERNMENT FINANCE OFFICERS ASSOCIATION

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California Public Employees' Retirement System

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For the Fiscal Year Beginning

July 1, 2015

Executive Director

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Strategic Planning and Enterprise Priorities

The Fiscal Year (FY) 2016-17 Total Budget is focused on core business needs critical to the California Public Employees' Retirement System's (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 2016-17 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 2016-17 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 2016-17 budget:

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

Strategic Goals and Strategies

STRATEGIC GOAL	OBJECTIVES	INITIATIVES
Goal A: Improve long-term pension and health benefit sustainability	Fund the System through an integrated view of pension assets and liabilities	Actively manage and assess funding risk through an asset liability management framework to guide investment strategy and actuarial policy
	Educate employers and other stakeholders to make informed decisions about retirement security and health care	Provide employers and other stakeholders with thorough, risk-based information about the expected course and variability of future pension contribution requirements
		Expand member and employer access to information regarding the cost and quality of health care and ways to impact those trends
		Provide existing and prospective Long-Term Care Program policy holders with premium and other information to improve decision making
	Deliver target risk-adjusted investment returns	Implement programs and initiatives that improve investment performance and ensure effective systems, operations and controls are in place
	Ensure high-quality, accessible, and affordable health benefits	Implement new approaches and expand efforts already proven to reduce health care costs and improve health outcomes, including changing how we contract with health plans
	Create a lifestyle of wellness among members and employers	Establish partnerships that focus on increasing public and private sector focus on wellness
		Develop and administer an independent wellness platform that ensures the active engagement of employees and employers
Goal B: Cultivate a high-performing, risk-intelligent and innovative organization	Use a focused approach to generate, test, refine, and implement new ideas	Adopt methodologies that empower staff to quickly test, vet and refine ideas that improve internal and external performance and services
	Deliver superior end-to-end customer service that is adaptive to customer needs	Promote the use of business intelligence throughout the organization to optimize customer service and delivery
		Enhance business processes to achieve high-quality, timely, effective and efficient customer service delivery to our members and employers
	Recruit, retain, develop, and empower a broad range of talents against organizational priorities	Develop and implement a comprehensive talent management strategy that includes recruitment, knowledge transfer, succession planning, and a methodology to regularly gauge employee satisfaction
	Actively manage business risks with an enterprise-wide view	Develop a robust risk-intelligent culture through enhanced governance, risk assessment and mitigation, and collaboration with stakeholders
Goal C: Engage in State and national policy development to enhance the long-term sustainability and effectiveness of our programs	Clarify and communicate CalPERS perspective on pension, health, and financial markets	Establish principles and beliefs to guide public policy engagement by the System
	Provide education and engagement opportunities to shape policy agenda and expand impact	Develop new strategic partnerships with academic institutions, governmental organizations, non-profits, the financial sector and the California business community
		Develop a series of thought leadership initiatives that promote CalPERS priorities and policies
		Elevate the profile of CalPERS Board of Administration and Executive Leadership through strategic involvement at industry and stakeholder events

B. 2016-17 Budget Message

2016-17 Budget Message

The proposed Total Budget for CalPERS FY 2016-17 represents continued process improvements and reductions in cost. With continued fiscal prudence, this is the third annual budget 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, employer agencies and stakeholders.

The proposed FY 2016-17 CalPERS Total Budget of $1,788.0 million, represents a decrease of $19.6 million or 1.1 percent from the FY 2015-16 Approved Budget of $1,807.6 million. The request also includes an increase of 107 permanent positions (PYs) from 2,765 to 2,872 PYs of which 68 PYs represent a conversion of existing temporary positions to permanent positions. Funding for the 68 PYs currently is reflected in the FY 2015-16 Approved Budget and therefore, does not represent an increase in year-over-year funding.

The FY 2016-17 Proposed Budget highlights include:

- Continued optimization of the myICalPERS system to realize increased operational efficiencies ($23.5 million)
- Redesign of the Actuarial Valuation System (AVS) to provide information that meets actuarial practices and supports new Governmental Accounting Standards Board (GASB) reporting requirements ($4.8 million)
- Continued building of a sound Risk and Compliance Program for CalPERS to enhance internal controls ($1.2 million)
- Ongoing Security Roadmap efforts to protect and secure CalPERS member and employer data ($5.2 million)
- Increased workload in the Customer Services and Support area specific to increased death benefits processing, GASB reporting, and audit responses ($1.5 million)
- Implementation of an in-house Opportunistic Investment Program ($1.3 million)

The focus of the FY 2016-17 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.

Recent Accomplishments (2015-16)

The 2015-17 Business Plan Mid-Year Update presented to the Board in February 2016 provided the status of current business initiatives and upcoming activities. Recent accomplishments were also highlighted and included the following:

- my|CalPERS Optimization improvements, including simplification measures, workflow redesigns, and comprehensive reconciliations
- Completion of the Medicare-Only Health Contracting Alternatives
- Adoption of an Asset Liability Management - Risk Mitigation Policy
- New Treasury Management Program and approved Policy
- Support the growth in the California Employers' Retiree Benefit Trust Fund (CERBT) and improved service to our employers
- Continued enhancement of the Investment Office business effectiveness, resource allocation, and efficiency including the reduction of the Investment External Management Fees.

Future Years Outlook (2017 and Beyond)

CalPERS will be embarking on the development of the new five-year Strategic Plan for 2017-22 which will drive budget proposals in future years. Due to the anticipated large number of baby-boomer retirees over the next few years, not only will the retirement processing workload increase for the organization, but continued focus on the funded status of the system will be a high priority. For the health care program, efforts to identify cost saving programs and measures will continue to be a high priority. In the area of information security, the constant and more sophisticated threats to data require continued investment of cyber-security solutions.

To offset cost increases described above, the organization continues to identify cost savings and efficiencies. The success of the mylCalPERS Optimization efforts assists in this effort by improving the technological infrastructure and workload processing times. Further, as we continue to build a robust in-house investment management group, expensive external manager fees will continue to decrease. Process improvement efforts and monitoring of expenses will ensure further opportunities for ongoing cost savings.

2015-16 Budget Forecast

The FY 2015-16 Forecast of $1,787.2 million is (a) $365.0 million or 17.0 percent lower than the FY 2014-15 actual expenditures of $2,152.2 million, and (b) $20.4 million or 1.1 percent lower than the FY 2015-16 Approved Budget of $1,807.6 million.

FY 2014-15 vs. FY 2015-16

(in millions)	FY 2014-15 Actual	FY 2015-16 Approved Budget	FY 2015-16 Forecast	Actual to Forecast: $ Change Incr / (Decr)	Actual to Forecast: % Change Incr / (Decr)	Budget to Forecast: $ Change Incr / (Decr)	Budget to Forecast: % Change Incr / (Decr)
Administrative Operating Costs	$403.8	$444.7	$431.1	$27.3	6.8%	($13.6)	(3.1%)
Investment Operating Costs	75.3	83.0	83.0	7.6	10.1%	-	-
Subtotal	479.1	527.7	514.1	35.0	7.3%	($13.6)	(2.6%)
Investment External Management Fees	1,333.1	930.7	930.7	(402.4)	(30.2%)	-	-
Total: Operating Costs	$1,812.2	$1,458.4	$1,444.8	($367.5)	(20.3%)	($13.6)	(0.9%)
Enterprise Project Costs	22.9	37.5	35.6	12.7	55.4%	(1.9)	(5.1%)
Headquarters Building Costs *	29.3	30.4	28.3	(1.0)	(3.3%)	(2.0)	(6.6%)
Third Party Administrator Fees	287.8	281.4	278.4	(9.4)	(3.3%)	(2.9)	(1.0%)
CalPERS Total Budget	$2,152.2	$1,807.6	$1,787.2	($365.0)	(17.0%)	($20.4)	(1.1%)

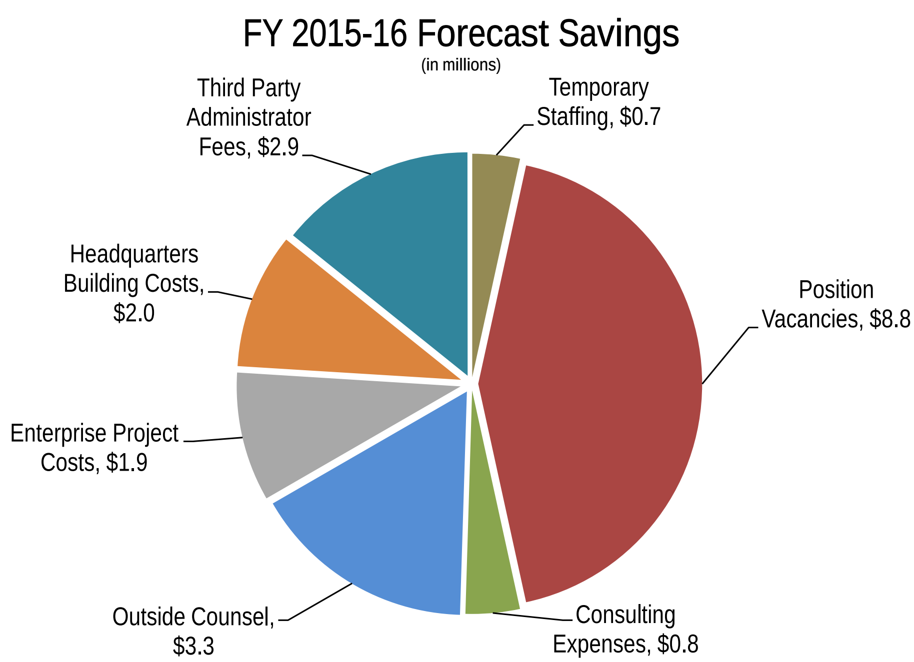
* In FY 2014-15, the net Headquarters Building cost is $25.9 million when offset by rental income.

Comparison of FY 2015-16 Forecast to FY 2014-15 Actual Expenses

The FY 2015-16 Forecast of $1,787.2 million is $365.0 million or 17.0 percent lower than the previous year 2014-15 actual expenditures of $2,152.2 million. This is a result of (a) lower projected investment management fees ($402.4 million) due to a conservative projection in FY 2015-16, (b) lower third party administrator fees ($9.4 million) due to lower than anticipated costs, (c) lower headquarters building costs ($1.0 million) based on lower year-to-date expenditures, (d) higher administrative and investment operating costs ($35.0 million) due to employee compensation increases and further insourcing of investment functions, and (e) higher enterprise project costs ($12.7 million) primarily due to increases for the my|CalPERS Optimization ($5.6 million) and Security Roadmap ($1.8 million) projects as well as the addition of the IT Backup/Restoration/Archiving/Disaster Recovery Project ($4.0 million) in FY 2015-16.

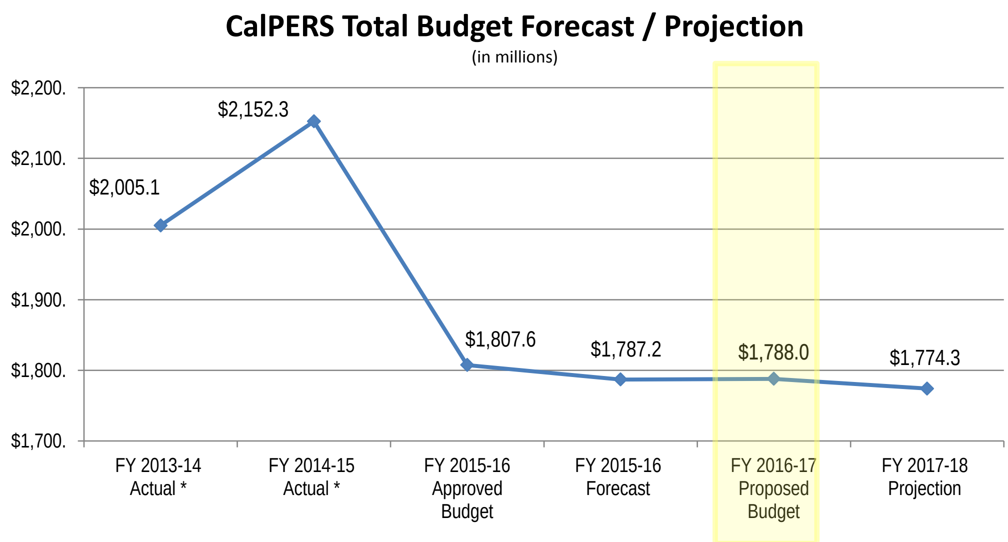
Comparison of FY 2015-16 Forecast to FY 2015-16 Approved Budget

The FY 2015-16 Forecast is estimated to be $1,787.2 million, a decrease of $20.4 million or 1.1 percent from the FY 2015-16 Approved Budget of $1,807.6 million. The $20.4 million decrease is mainly attributed to (a) higher than anticipated position vacancies resulting in salary and benefit savings ($9.5 million), (b) lower than anticipated outside counsel fees ($3.3 million) due to less than anticipated activity, (c) lower third party administrator fees ($2.9 million) due to health open enrollment plan movement and reduced long-term care enrollment, (d) lower headquarters building costs ($2.0 million) due to year-to-date spending trend in operating expenses (utilities/janitorial), (e) enterprise project cost savings ($1.9 million) primarily due to Actuarial Valuation System delays, and (f) consulting expense savings ($0.8 million) due to efficiencies identified in contract negotiations.



Total Proposed Budget Summary

The following chart displays actual expenditures for prior FYs 2013-14 and 2014-15, the FY 2015-16 Approved Budget and Forecast, the FY 2016-17 Proposed Budget, and the FY 2017-18 Projection.



* In FY 2013-14 and FY 2014-15, the actual Investment External Management fees exceeded the budget due to higher than anticipated investment performance.

The proposed FY 2016-17 CalPERS Total Budget is $1,788.0 million, which represents an overall decrease of approximately $19.6 million (1.1 percent) from the FY 2015-16 Approved Budget of $1,807.6 million. Specifically, this is an increase of $18.7 million (3.5 percent) in administrative and investment operating costs; a decrease of $34.0 million (3.7 percent) in investment external management fees; an increase of $3.4 million (9.0 percent) in enterprise project costs; an increase of $0.9 million (3.1 percent) in headquarters building costs; and a decrease of $8.6 million (3.0 percent) in third party administrator fees.

The request for 107.0 new authorized positions (PYs) includes the cost neutral conversion of 68.0 temporary limited-term appointments to permanent positions and would increase the total number of PYs from 2,765 to 2,872, an increase of 3.9 percent. Staffing requests address new workload functionality and several key factors to further advance the strategic objectives of the organization.

D. Total Proposed Budget Summary

Fiscal Year 2016-17 Annual CalPERS Total Budget

(in thousands)	FY 2015-16 Approved Budget[1]	FY 2015-16 Forecast	FY 2016-17 Proposed Budget	FY 2017-18 Projection	Budget to Budget: $ Change Incr / (Decr)	Budget to Budget: % Change Incr / (Decr)
Administrative Operating Costs	$ 444,697	$ 431,094	$ 455,771	$ 465,300	$ 11,075	2.5%
Investment Operating Costs[2]	82,959	82,959	90,538	90,538	7,579	9.1%
Subtotal	$ 527,656	$ 514,053	$ 546,309	$ 555,838	$ 18,653	3.5%
Investment External Management Fees	930,726	930,726	896,705	896,705	(34,021)	(3.7%)
Total: Operating Costs	$ 1,458,382	$ 1,444,779	$ 1,443,014	$ 1,452,543	($15,368)	(1.1%)
Enterprise Project Costs	37,508	35,610	40,882	17,603	3,374	9.0%
Headquarters Building Costs	30,350	28,350	31,295	31,295	946	3.1%
Third Party Administrator Fees	281,360	278,415	272,809	272,809	(8,551)	(3.0%)
CalPERS Total Budget	$ 1,807,600	$ 1,787,155	$ 1,788,000	$ 1,774,250	($19,600)	(1.1%)
Total Positions	2,765.0		2,872.0		107.0	3.9%

[1] FY 2015-16 Mid-Year Budget approved by CalPERS Board of Administration on December 15, 2015.
[2] Investment operating expenses are not part of CalPERS Administrative Operating Costs and therefore should not be included in CalPERS pro-rata assessment.

Key changes in the FY 2016-17 CalPERS Total Budget include an overall net decrease of $19.6 million (decrease of $42.6 million offset by an increase of $23.0 million) from the FY 2015-16 Approved Budget.

Cost decreases of $42.6 million are associated with:

- Investment external management fees ($34.0 million)
- Third party administrator fees ($8.6 million)

These cost decreases were offset by increases of $23.0 million associated with:

- Administrative operating costs ($11.1 million)
- Investment operating costs ($7.6 million)
- Enterprise project costs ($3.4 million)
- Headquarters building costs ($0.9 million)

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

D. Total Proposed Budget Summary

Incorporated into the FY 2016-17 CalPERS Total Budget are the following assumptions and factors that guided the development of the budget to meet the immediate needs of the organization:

- Includes resources to support proposed FY 2016-17 business plan initiatives
- Reductions in temporary staffing requirements are anticipated to reduce costs by $1.5 million.
- Targeted vacancy factor of 5.0 percent
- Reduction in State of California central administrative services (Pro-Rata) costs due to a reduced allocation assessed to the CalPERS organization ($0.4 million)
- The FY 2016-17 proposed budget excludes potential increases for State employees' salary and benefit adjustments. Bargaining unit agreements expire on June 30, 2016, and it is unknown what, if any, salary and benefit adjustments will be forthcoming at this time

E. Total Budget Projection

2017-18 Budget Projection

The FY 2017-18 Projection will represent the first year of the five-year 2017-22 Strategic Plan and the 2017-19 Business Plan.

The FY 2017-18 Projection estimates a decrease of $13.8 million or 0.8 percent from the FY 2016-17 Proposed Budget. The estimated administrative operating cost increase of $9.5 million or 2.1 percent represents estimated merit salary increases in personnel services for CalPERS staff and an inflation adjustment of 2.6 percent for operating expenses (based on the estimated US state and local government implicit deflator provided by the Department of Finance in their 2016-17 Price Letter).

No additional positions are included in the FY 2017-18 Projection. The organization is committed to continuing to manage vacancies and redirect positions when appropriate. Further, this will give the organization time to review program areas and study their staffing requirements based on a long term view of program area functions.

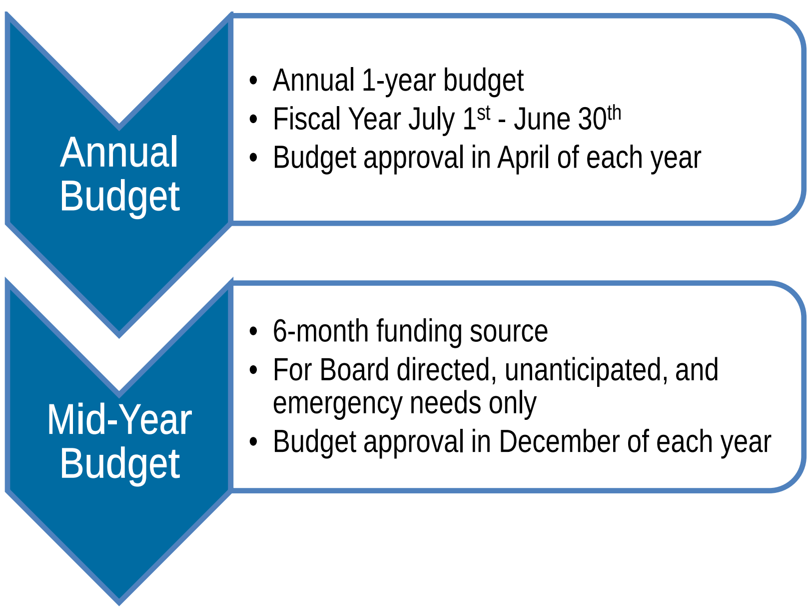
Projections for the Investment External Management Fees are unchanged from the FY 2016-17 Proposed Budget as are the Investment Operating Costs. These are likely to change, but projections are unavailable. Costs of $17.6 million for the multi-year projects reflect those initiatives currently undertaken by the organization. There are no anticipated changes to the Headquarters Building Costs and the Third Party Administrator fees.

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.

Pursuant to the CalPERS Budget Policy (presented to the Board as a second reading this month), 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.



F. CalPERS Budget Process

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 enterprise 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 communication of 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 a thorough analysis of the formal budget requests as part of the technical preparation of the budget. All program areas participate in the budget preparation process, including the development of programs and services consistent with the CalPERS strategic and business plans, development of budget requests specifying resources anticipated to carry out those programs and services while considering strategic planning goals and objectives, cost efficiencies, risks, business planning initiatives, board or legislative mandates, and workload capacity.

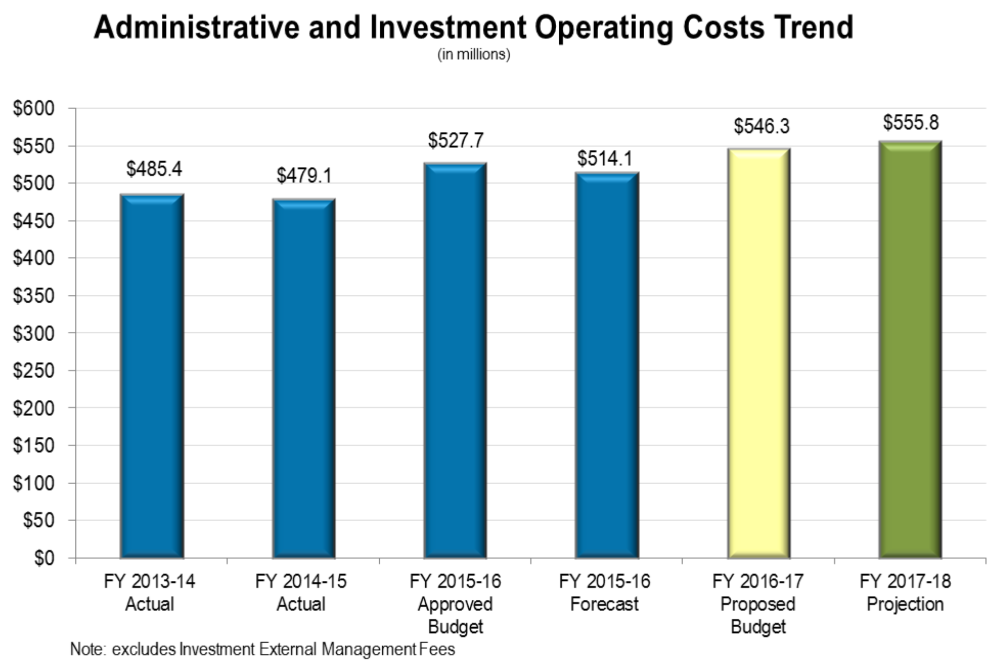
In discussions and collaboration with divisional senior management, all submissions are reviewed and discussed with budget staff, Senior Management and Executive leadership prior to the final proposed budget being submitted to the Finance and Administration Committee (FAC) of the Board for review. The annual budget is submitted to the FAC in March (first reading) and April (second reading) 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 for additional funds if Board-directed, critical, emergency, or unforeseen circumstances 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 November and December with a revised annual budget effective date of January 1st.

FY 2016-17 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 total one budget perspective. The budget areas are as follows:

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



Total Operating Costs (includes administrative and investments) for the FY 2016-17 Proposed Budget are $546.3 million compared to $527.7 million in the FY 2015-16 Approved Budget, an increase of $18.6 million (3.5 percent), mainly due to increases in trading and portfolio management systems ($8.8 million), data processing ($7.4 million), personnel services ($5.5 million), appraisal fees/tax advisory services ($3.2 million), and other costs (includes Master Custodian, investment expenses, independent medical exams, software, and miscellaneous costs) of $4.6 million.

Offsetting the $29.5 million in increases are $10.9 million in decreases for a net increase of $18.6 million. Decreases in costs include external counsel fees ($3.2 million), data analytics ($2.7 million), consultant and professional services ($2.0 million), equipment ($1.7 million) and other of $1.3 million.

Operating costs are detailed in the following pages, explaining major changes in each operating line item.

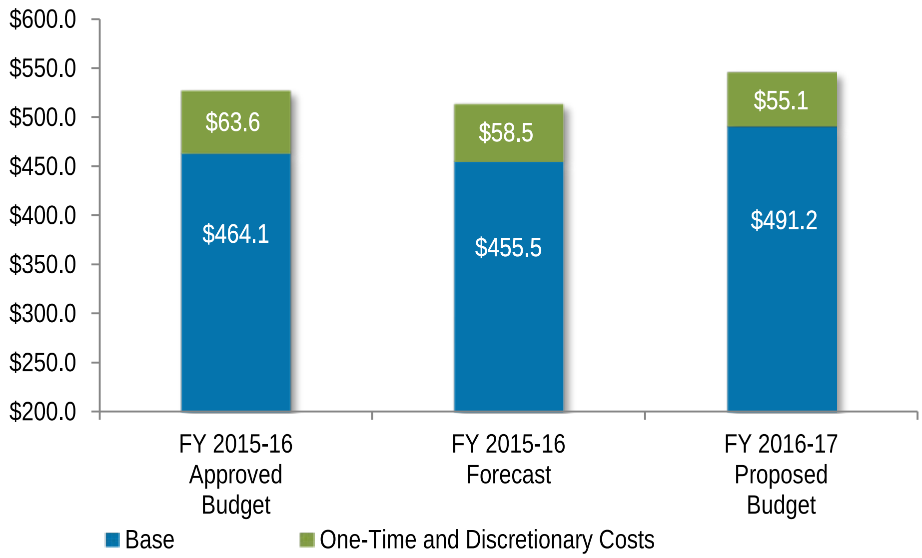
G. Operating Costs

(in thousands)	FY 2014-15 Actual	FY 2015-16 Approved Budget	FY 2016-17 Proposed Budget	Budget to Budget $ Change Incr / (Decr)	Budget to Budget % Change Incr / (Decr)
Administrative and Investment Operating Costs					
[1] PERSONNEL SERVICES					
Salaries & Wages	$ 194,733	$ 222,110	$ 230,026	$ 7,915	3.6%
Temporary Help	14,335	14,424	10,619	(3,805)	(26.4%)
Overtime	2,208	2,660	2,395	(265)	(10.0%)
Benefits	88,739	113,271	114,963	1,692	1.5%
Total Personnel Services	$ 300,014	$ 352,465	$ 358,002	$ 5,537	1.6%
Vacancy Savings		(17,144)	(17,226)	(81)	
Revised Total Personnel Services	$ 300,014	$ 335,321	$ 340,776	$ 5,455	1.6%
[2] OPERATING EXPENSES & EQUIPMENT					
General Expense	$ 7,362	$ 9,826	$ 9,849	$ 22	0.2%
Fund Admin Services/Subscriptions [2.1]	5,700	4,156	3,630	(526)	(12.7%)
Software [2.2]	2,662	2,051	2,724	673	32.8%
Printing [2.3]	1,252	1,393	1,724	331	23.8%
Postage [2.4]	1,240	1,305	1,433	128	9.8%
Communications	1,830	2,260	2,328	68	3.0%
Data Processing Services [2.5]	13,375	9,728	17,094	7,366	75.7%
Travel [2.6]	2,511	2,981	3,134	153	5.1%
Training [2.7]	1,417	1,394	1,746	352	25.3%
Medical Exam/Disability Travel [2.8]	1,795	1,150	1,703	553	48.0%
Facilities Operations	4,217	5,428	5,481	53	1.0%
Central Administrative Services	22,263	25,155	24,710	(445)	(1.8%)
External Legal Counsel [2.9]	12,507	18,739	15,489	(3,250)	(17.3%)
Professional Services	8,056	7,096	6,896	(200)	(2.8%)
Consultants	38,362	42,984	41,159	(1,825)	(4.2%)
Audit Services [2.10]	1,330	2,073	1,799	(273)	(13.2%)
Master Custodian Fees [2.11]	6,757	5,970	6,800	830	13.9%
Appraisal Fees/Tax Advisory Services [2.12]	6,285	6,275	9,453	3,178	50.6%
Federal Legislative Rep [2.13]	659	800	900	100	12.5%
Admin Hearings [2.14]	754	500	760	260	52.0%
Other Admin & Operating Expenses [2.15]	1,546	722	1,546	824	114.1%
Consolidated Data Centers	81	90	90		0.0%
Trading & Portfolio Mgmt Systems [2.16]	15,056	13,315	22,101	8,786	66.0%
Data/Analytics [2.17]	14,979	19,140	16,477	(2,663)	(13.9%)
Business Operations Tool/Other Technology [2.18]	1,041	650	1,060	410	63.1%
Equipment (Includes EDP) [2.19]	6,038	7,154	5,447	(1,708)	(23.9%)
Total Operating Expenses & Equipment	$ 179,075	$ 192,335	$ 205,533	$ 13,198	6.9%
Total Costs	$ 479,089	$ 527,656	$ 546,309	$ 18,653	3.5%

ONE-TIME AND DISCRETIONARY COSTS

Of the total proposed administrative and investment operating budget of $546.3 million, approximately $55.1 million are one-time and discretionary costs. The criteria used to identify these one-time and discretionary costs includes: (a) one-time needs such as equipment and software purchases, (b) non-recurring special reviews and consulting needs, (c) temporary staffing and overtime, (d) discretionary costs such as travel, training, and consulting services, (e) initial assistance to start up projects, and (f) costs that may not occur each year such as board elections, information technology upgrades, and legal expenses. The chart below displays the one-time and discretionary costs identified in the FY 2015-16 Approved Budget, the FY 2015-16 Forecast, and the FY 2016-17 Proposed Budget.

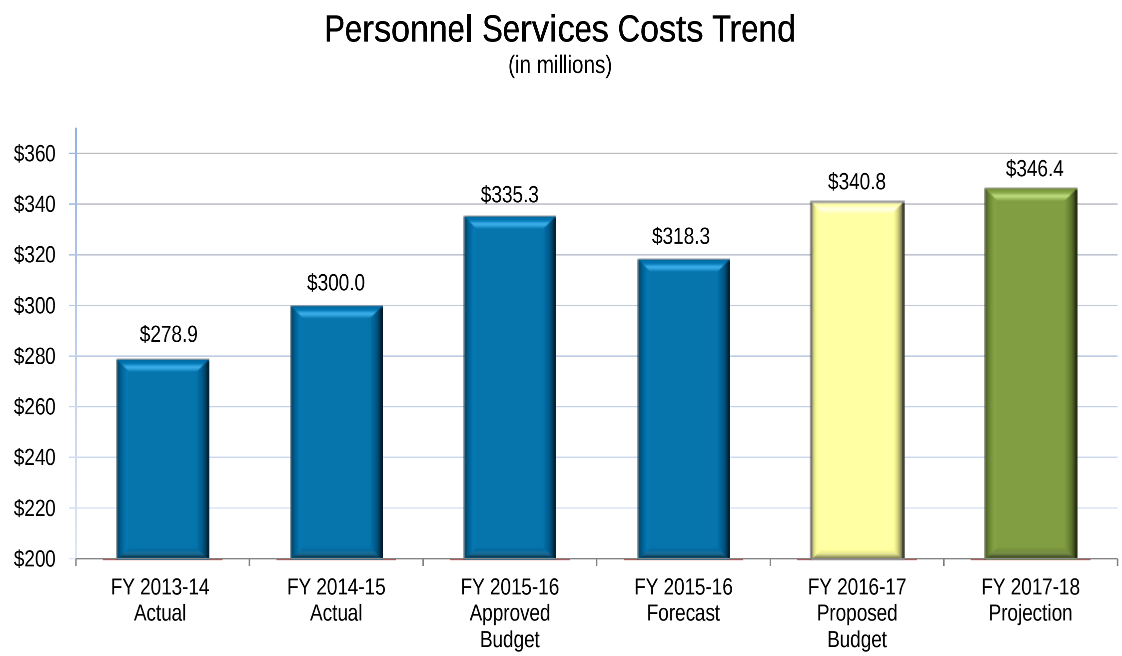
Administrative and Investment Operating
One-Time and Discretionary Costs
(in millions)



The increase in base costs of $27.1 million from the 2015-16 approved budget of $464.1 million to the proposed 2016-17 budget of $491.2 million is due to the following: addition of 39.0 new positions ($5.9 million), merit salary adjustments ($2.5 million), data processing license and maintenance costs ($7.4 million), appraisal fees and tax advisory services due to the increased frequency of real estate appraisals to normalize the schedule of asset valuations ($3.2 million), and trading and portfolio management systems due to the implementation of the ARTEMIS II and PEARS systems in the Investment Office ($8.8 million).

G. Operating Costs

[1] PERSONNEL SERVICES



The $340.8 milllion represents a $5.5 million net increase (1.6 percent) over the FY 2015-16 Approved Budget of $335.3 million, as follows:

- Increase of $5.9 million for 39.0 new positions
- Increase of $2.4 million for anticipated merit salary adjustments
- Decrease of $1.8 million for temporary staffing and overtime reductions
- Decrease of $1.0 million for the delayed hiring of health-funded positions

To recognize the impact of vacancies on the cost of personnel services, an overall vacancy savings target of 5.0 percent has been applied, thus reducing costs by $17.2 million, from $358.0 million to a revised net cost of $340.8 million. The current year-to-date vacancy rate is 6.7 percent. It is anticipated that the vacancy rate will decline, as each division continues to manage their existing vacancies and redirects or fills positions as part of their workforce planning.

The conversion of 68.0 temporary limited-term positions to permanent authorized positions in the Customer Contact Center is cost neutral and is reflected as a shift of $2.3 million from the Temporary Help to Salaries and Wages line item in the budget. This conversion is a workforce planning strategy to retain these critical front-line representatives that service our customers directly (see page 20 for details).

G. Operating Costs

The request for 107.0 new authorized positions (including the cost neutral conversion of 68.0 temporary limited-term appointments to permanent positions) at a total cost of $5.9 million (salaries $4.2 million and benefits $1.7 million), resulted from an in-depth look at each business area's needs. The vacancy rate for divisions requesting positions is 5.9 percent. Staffing requests address new workload functionality and several key factors to further advance the strategic objectives of the organization. The 107.0 new authorized positions are summarized below and details by organizational unit are then provided.

	Positions	($ millions)
New Workload:		
• Enterprise Compliance	6.0	$0.6
• Opportunistic Investment Program	2.0	$1.3
• Succession Planning	1.0	$0.2
	9.0	$2.1
Increased Workload:		
• Associate Investment Managers	9.0	$1.9
• Audit Resolution	7.0	$0.7
• Death Benefit Processing	7.0	$0.5
• GASB 68	3.0	$0.3
• Communication and Outreach	2.0	$0.2
• Pharmacy Operations	1.0	$0.1
• Long Term Care Actuarial Assistant	1.0	$0.1
	30.0	$3.8
Temporary Limited-Term to Permanent Positions Conversion:		
• Customer Contact Center	68.0	$0 (cost neutral)
Total Authorized Positions Requested	107.0	$5.9

Fiscal Year 2016-17
Positions by Branch

Branch	FY 2015-16 Authorized Positions (as of 01/31/16)	FY 2016-17 Proposed Positions	Change in Positions	% Change	Division Vacant Positions	Branch Vacant Positions
Actuarial Office	**58.0**	**59.0**	**1.0**	**1.7%**		**5.0**
ACTO					5.0	
Long-Term Care Actuary Support			1.0			
Benefit Program Policy and Planning	**158.0**	**159.0**	**1.0**	**0.6%**		**13.0**
HHPB					1.0	
Clinical Pharmacy Oversight Support			1.0			
Communications & Stakeholder Relations	**59.0**	**61.0**	**2.0**	**3.4%**		**4.0**
PAOF					4.0	
Increased Electronic Communication Workload			2.0			
Customer Services and Support	**905.5**	**992.5**	**87.0**	**9.6%**		**34.0**
BNSD					14.0	
Increased Death Benefit Processing Workload			7.0			
BASS					1.0	
Improve Compliance and Reduce Operational Risk			2.0			
EAMD					4.0	
Public Agency Audit Review Workload			2.0			
Address SCO Review on Active Member Accounts			5.0			
Increased GASB 68 Workload			3.0			
CSOD					6.0	
Call Center Staffing - Convert Temporary Staff into Authorized Positions			68.0			
Executive Office	**18.0**	**18.0**	**0.0**	**0.0%**		**1.0**
Financial Office	**217.0**	**219.0**	**2.0**	**0.9%**		**19.0**
ECOM					4.0	
Increased Enterprise Compliance Workload			2.0			
General Counsel	**137.0**	**137.0**	**0.0**	**0.0%**		**14.0**
Investment Office	**335.0**	**346.0**	**11.0**	**3.3%**		**32.0**
INVO					32.0	
New Associate Investment Manager Positions			9.0			
Opportunistic Investment Program			2.0			
Operations and Technology	**877.5**	**880.5**	**3.0**	**0.3%**		**62.0**
OSSD					3.0	
Improve Compliance and Reduce Operational Risk			2.0			
HRSD					7.0	
Increased Succession Planning & Executive Development			1.0			
Total	**2,765.0**	**2,872.0**	**107.0**	**3.9%**	**81.0**	**184.0**
Vacancy Percentage to Total Authorized Positions					2.9%	6.7%

G. Operating Costs

Actuarial Office [$104,000 – 1 PY]

Due to the insourcing and enhancement of the actuarial work on the Long-Term Care Program, a new position is proposed to assist with verifying accuracy of premiums in the system, creating the assumptions for the new Principles Based Valuation model, and performing product pricing rate verifications and analysis.

Benefit Program Policy and Planning [$119,000 – 1 PY]

Due to the increase in the number of members whose pharmacy benefits are managed by CalPERS (from 358,000 to 462,000), this new position will handle day-to-day clinical operations support, member issues, and appeals. This additional position will support the continued effort to reduce pharmacy benefit costs with a particular focus on high-cost specialty drugs and new expensive pipeline brand drugs.

Communications and Stakeholder Relations [$205,000 – 2 PYs]

These positions are proposed to address increases in core workload relating to (a) electronic communications strategies, (b) sales and outreach strategies, and (c) expanded communication support for new CalPERS Business Plan initiatives. These new positions will work to maintain service levels while providing support to the enterprise to address Strategic and Business Plan objectives.

Customer Services and Support [$1,679,000 – 87 PYs]

To address the additional workload due to the increase in the number of member death cases, respond to audit findings generated by increased Public Agency Audit Reviews (PAAR) and the State Controller's Office (SCO) Report on active member compensation, address new workload created by GASB 68, to operationalize a compliance team in the Customer Services and Support branch, and to convert temporary limited-term staff to permanent staff in the customer contact center, 87.0 positions are proposed.

- Benefits Services Division [7.0] – To address the additional workload due to the increase in the number of member death cases in the CalPERS pension system. If this workload is not addressed in a timely manner interest must be paid to the beneficiaries of these accounts; approval of these resources will result in a reduction in interest paid on delayed death benefit payments and reduce the need for overtime.
- PAAR & SCO [7.0] – 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 7.0 positions are needed in these areas. CSS had previously received 7.0 positions in the pre-retirement area toward the PAAR effort since FY 2011-12, but 2.0 additional positions are needed as the number of audits have increased and become more complex to resolve. An additional 5.0 positions are needed to address the findings from an SCO audit of CalPERS processes related to compensation review, retirement analysis and the continued avoidance of pension spiking.
- GASB 68 workload [3.0] – To dedicate resources to GASB 68 workload which includes addressing inquiries from employers regarding the valuations provided in GASB 68 statements.

G. Operating Costs

- CSS Compliance Team [2.0] – To support and strengthen the Board-adopted CalPERS 2015-17 Enterprise Compliance Program, these resources will be embedded in the CSS branch of the organization to expand on protocols and processes for operational control, policy management, and reporting standards. It is anticipated that this embedded compliance effort will be continued in future years for the remaining organizational units.
- Customer Service and Outreach Division (CSOD) [68.0] – To convert 68 temporary limited-term positions to permanent authorized positions to support ongoing core workload. This will enable the Customer Contact Center (CCC) to meet the CalPERS-established service levels for call wait times and electronic inquiry responses as well as sunset the use of temporary resources to perform permanent, ongoing core workload. In 2011, additional temporary positions were provided to the CCC to meet increased call volumes associated with the launch of myICalPERS. In early 2013, the Contact Center Operational Efficiencies effort was initiated to ensure resources, processes and technologies were aligned to produce optimum performance, and a staffing analysis was performed to determine the level of phone agents needed to meet service level targets. Operational improvements were identified and a 15-month Action Plan was developed. It was also determined that the CCC historically had not been staffed according to industry standards to meet the service level targets. The temporary staff and operational efficiencies gained from the completion of the Action Plan allowed the CCC to transform and meet service levels. Cost Effectiveness Measurement ratings, as they pertain to customer service levels, are now above the median of our peer group.

  Of the original temporary positions, nearly half have been eliminated and 70 remain. Based on the staffing analysis mentioned above, it has been determined that 68 of those should be converted to permanent status to meet the current service level targets. As additional operational efficiencies are rolled out, we are confident the remaining two temporary positions will be eliminated. Converting to permanent positions will eliminate the significant challenges related to hiring limited-term employees such as attracting and retaining qualified candidates. Costs for recruiting and training are higher due to the turnover. The increased turnover results in less experienced staff on the phones, which in turn causes an increase in overall call handle times and call wait times.

Financial Office – Compliance [$243,000 – 2 PYs]

To continue to build and mature the compliance oversight function, these positions will continue to mitigate significant and potential risks to CalPERS. This will be accomplished through implementation of a risk-based compliance program and protocols across program areas. The positions will continue to enhance the compliance culture in CalPERS by providing awareness through education and expanding reporting and disclosure processes.

Investment Office [$3,230,000 – 11 PYs]
To address the challenges in recruiting and retaining staff with the full complement of skills and functions necessary to effectively manage a highly complex investment portfolio, in April 2015, CalPERS was successful in obtaining approval for a new Associate Investment Manager (AIM) classification. The Investment Office (INVO) is requesting 9.0 new AIM positions in addition to upgrading 9.0 existing Investment Officer III positions to AIMs. These positions will be allocated across all asset classes and business groups and will (a) provide key investment management and technical expertise necessary to meet investment performance and financial management objectives, (b) effectively manage operational and investment risk, and (c) provide opportunities for staff development and improved retention.

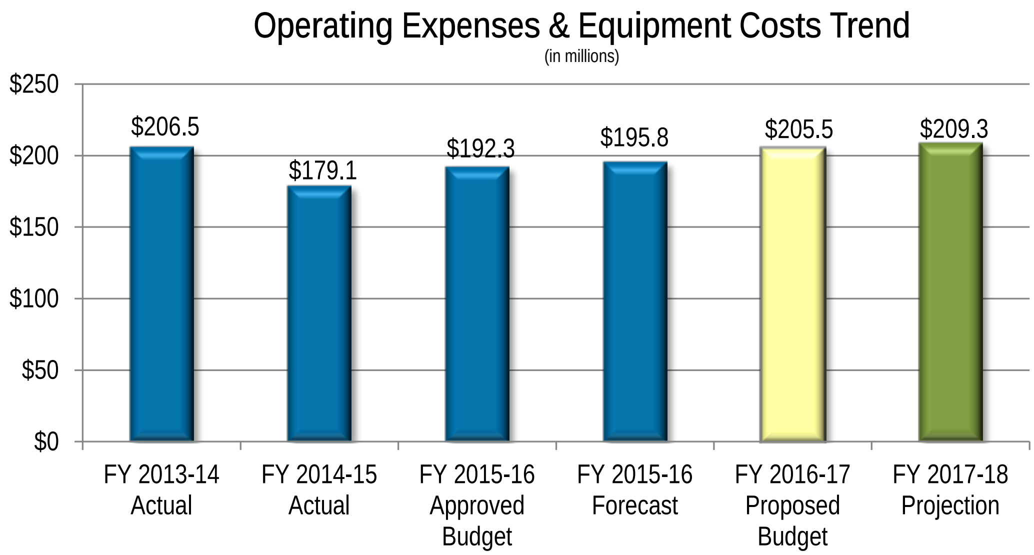
To continue INVO's 2020 Vision around reducing costs and testing new business models within the private asset classes, 2.0 positions are proposed to leverage the existing Opportunistic Investment program. The program enables INVO staff to undertake investment strategies that do not cleanly fit into one of the existing four asset classes. Currently, CalPERS undertakes these investments primarily through external managers in the private equity program. It is expected that this Opportunistic Investment program would help begin reducing dependence on external private equity managers, reducing management fees while taking advantage of CalPERS long term time horizon and investment capacity.

Operations [$325,000 – 3 PYs]
To address new workload to operationalize a compliance team within the Operations and Technology Branch, expand the Succession Planning and Executive Development Program for the enterprise and begin development of an Emerging Leader Program, 3.0 positions are proposed.

- OPT Compliance Team [2.0] – To support and strengthen the Board-adopted CalPERS 2015-17 Enterprise Compliance Program, these resources will be embedded in the Operations Support Services Division to expand on protocols and processes for operational control, policy management, and reporting standards. It is anticipated that this embedded compliance effort will be pushed out to additional organizational units.
- Succession Planning and Executive Development [1.0] – To develop and retain executive and senior leadership, this position will (a) manage and administer the expansion of the Succession Planning Program designed to more systematically onboard new executives and senior leaders and (b) continue to deliver a Board Education Program.

[2] OPERATING EXPENSES & EQUIPMENT

Operating Expenses and Equipment costs of $205.5 million represent an increase of $13.2 million (6.9 percent) from the FY 2015-16 Budget of $192.3 million.



[2.1] Fund Admin Services/Subscriptions
The fund administration services/subscriptions costs are estimated to decrease by $526,000 primarily due to the wind down of the Absolute Return Strategy (ARS) portfolio and the transition to PEARS in Private Equity.

[2.2] Software
Software costs are estimated to increase by $673,000 primarily due to the one-time purchase of eDiscovery Software for the Legal office ($400,000) and ongoing costs for security software in ITSB.

[2.3] Printing
Printing costs are estimated to increase by $331,000. The PERSpective mailing costs are increasing due to larger volume being distributed, increased costs by the Office of State Printing, and using a higher recycled paper percentage.

[2.4] Postage
Postage costs are estimated to increase by $128,000 due to Board election postage costs.

[2.5] Data Processing Services
Data Processing Services costs appear to be increasing by $7.4 million. However, the current year budget has not been updated to reflect anticipated costs that are more in line with FY 2016-17 costs.

G. Operating Costs

[2.6] Travel
Travel costs are estimated to increase by $153,000 primarily due to the increased costs associated with the CalPERS Benefit Education Events and due to more in-house investment staff traveling.

[2.7] Training
Training costs are estimated to increase by $352,000 primarily in the investment and information technology areas. This is due to having in-house staff perform functions previously done by outside consultants. Also, the fast-paced technological environment and high demands for system changes require the continuous learning and enhancement of the skills and knowledge of state staff.

[2.8] Medical Exams/Disability Travel
Medical exams/disability travel costs are estimated to increase by $553,000 compared to the FY 2015-16 Budget. However, the proposed costs are lower than the FY 2014-15 actual expenses due to in-house medical staff who can assist with disability eligibility determinations.

[2.9] External Legal Counsel
External legal counsel costs are estimated to decrease by $3.3 million due to a reduction in bankruptcy and investment related legal costs.

[2.10] Audit Services
Audit services costs are estimated to decrease by $273,000 primarily due to the trend over the past three years related to costs for auditing external managers.

[2.11] Master Custodian Fees
Master Custodian Fees are estimated to increase by $830,000 to align with prior year actual expenses and to reflect added services in the Investment Office for the Emerging Manager portfolio.

[2.12] Appraisal Fees/Tax Advisory Services
Appraisal Fees and Tax Advisory Services are estimated to increase by $3.2 million due to the increased frequency of real estate appraisals to normalize the schedule of asset valuations.

[2.13] Federal Legislative Representative
A recent change from one federal representative for all health, pension, and investment related issues to three individual representatives for each area of focus has increased federal legislative costs by an estimated $100,000 due to moving from one to three firms.

[2.14] Administrative Hearings
Administrative Hearings costs are estimated to increase by $260,000 due to additional member appeal cases that go to the Department of General Services - Office of Administrative Hearings. This is consistent with the FY 2014-15 expenditure level.

G. Operating Costs

[2.15] Other Administrative & Operating Expenses

Other Administrative and Operating Expenses are estimated to increase by $824,000 primarily due to the continued efforts toward the internalization of core, high value functions related to investing that were previously outsourced and the addition of the Emerging Manager portfolio.

[2.16] Trading & Portfolio Management Systems

Trading and Portfolio Management Systems costs are estimated to increase by $8.8 million primarily due to the implementation of the ARTEMIS II and PEARS systems in the Investment Office. In addition, our subscriptions with Blackrock, Charles River, and Capital Analytics are expected to increase as we continue to insource our investment management.

[2.17] Data/Analytics

Data analytics costs are estimated to decrease compared to the FY 2015-16 projection by $2.6 million based on continued INVO cost effectiveness efforts to assess tools needed for internal investment staff. This is a direct result of the Investment Office's continued effort to build infrastructure necessary to support the internal management of assets.

[2.18] Business Operations Tool/Other Technology

Business operations tool/other investment technology costs are estimated to increase by $410,000 to align with prior year actual expenses and to reflect the increase in our trading activity as we more actively manage our cash holdings.

[2.19] Equipment (includes EDP)

Equipment costs are estimated to decrease by $1.7 million primarily due to a reduction in the Hardware Refresh amount in FY 2016-17 (from $5.8 million in FY 2015-16 to $4.2 million in FY 2016-17).

[3] INVESTMENT EXTERNAL MANAGEMENT FEES

The FY 2016-17 Proposed Budget of $896.7 million is made up of $677.5 million for External Management Base Fees and $219.2 million for External Management Performance Fees which is an overall decrease of $34.0 million or 3.7 percent from the FY 2015-16 Approved Budget. Total External Management Base Fees are decreasing by $70.6 million or 9.4 percent and total External Management Performance Fees are increasing by $36.6 million or 20.1 percent from the FY 2015-16 Approved Budget.

(in thousands)	FY 2014-15 Actual	FY 2015-16 Approved Budget	FY 2016-17 Proposed Budget	Budget to Budget $ Change Incr / (Decr)	Budget to Budget % Change Incr / (Decr)
Global Equity [3.0]	$50,457	$51,265	$92,750	$41,485	80.9%
Fixed Income	9,354	7,915	8,797	882	11.1%
Real Assets [3.1]	199,279	206,296	165,378	(40,918)	(19.8%)
Absolute Return Strategy [3.2]	40,260	2,641	4,000	1,359	51.5%
Private Equity	414,137	440,582	391,000	(49,582)	(11.3%)
Activist Funds [3.3]	28,464	31,772	6,185	(25,587)	(80.5%)
Multi Asset Class [1] [3.4]	-	7,650	9,358	1,708	22.3%
External Mgmt - Base Fees	$741,950	$748,121	$677,468	($70,653)	(9.4%)
Global Equity [3.0]	$69,715	$32,096	$72,258	$40,162	125.1%
Fixed Income	2,446	4,199	4,114	(85)	(2.0%)
Real Assets [2] [3.1]	472,688	89,672	142,865	53,193	59.3%
Absolute Return Strategy [3.2]	46,250	2,938	-	(2,938)	(100.0%)
Activist Funds [3.3]	93	44,945	-	(44,945)	(100.0%)
Multi Asset Class [1,3] [3.4]	-	8,755	-	(8,755)	(100.0%)
External Mgmt - Performance Fees [4]	$591,192	$182,605	$219,237	$36,632	20.1%
Total External Mgmt Fees	$1,333,142	$930,726	$896,705	($34,021)	(3.7%)

[1] For FY 2014-15, Multi Asset Class base and performance fees were unavailable.

[2] For budget reporting purposes, in FY 2015-16 and FY 2016-17, performance fees for Real Assets do not include accrued profit-sharing fees. All real asset profit-sharing fees (including accruals) continue to be reported as Management & Performance Fees on the Statement of Changes in Fiduciary Net Position – Fiduciary Funds along with the Other Supplementary Information section of the CAFR.

[3] In FY 2015-16, performance fees for Multi Asset Class include profit-sharing accrual estimates. Beginning in FY 2016-17, for budget reporting purposes, profit-sharing accruals are not included. The profit-sharing accruals continue to be reported as Net Appreciation (Depreciation) in Fair Value of Investments on the Statement of Changes in Fiduciary Net Position – Fiduciary Funds.

[4] Profit-sharing for Private Equity is deducted from the net returns earned in that asset class.

G. Operating Costs

Major variances from the FY 2015-16 budget are described below:

[3.0] Global Equity base fees are projected to increase by $41.5 million as deployment of additional capital for three new Emerging Managers strategies took place in FY 2015-16. Performance fees are anticipated to increase by $40.2 million based on a projection of a slight positive market return and represents a minimal increase of 4.0 percent compared to prior year actuals.

[3.1] Real Assets base fees are projected to decrease by $40.9 million based on INVO's cost effectiveness focus of renegotiating current contracts and external manager feedback based on average net asset value (NAV) and market analysis. Projected paid profit sharing fees show an increase compared to FY 2015-16 projections of $53.2 million based on market analysis and feedback from external managers on asset valuations. FY 2015-16 projections were based on historical paid incentive fees.

[3.2] Absolute Return Strategy (ARS) base fees are projected to increase by $1.4 million based on a blended rate being applied to expected remaining average balances at the end of FY 2015-16. INVO expects any remaining ARS assets will be sold by the end of FY 2016-17. Performance fees are projected to be zero due to the wind down of this portfolio.

[3.3] Activist Funds (previously Corporate Governance) base fees are projected to decrease by $25.6 million and performance fees are projected to be zero as INVO discontinues these relationships and the assets under management (AUM) move to traditional GE managers on a lower base of fees.

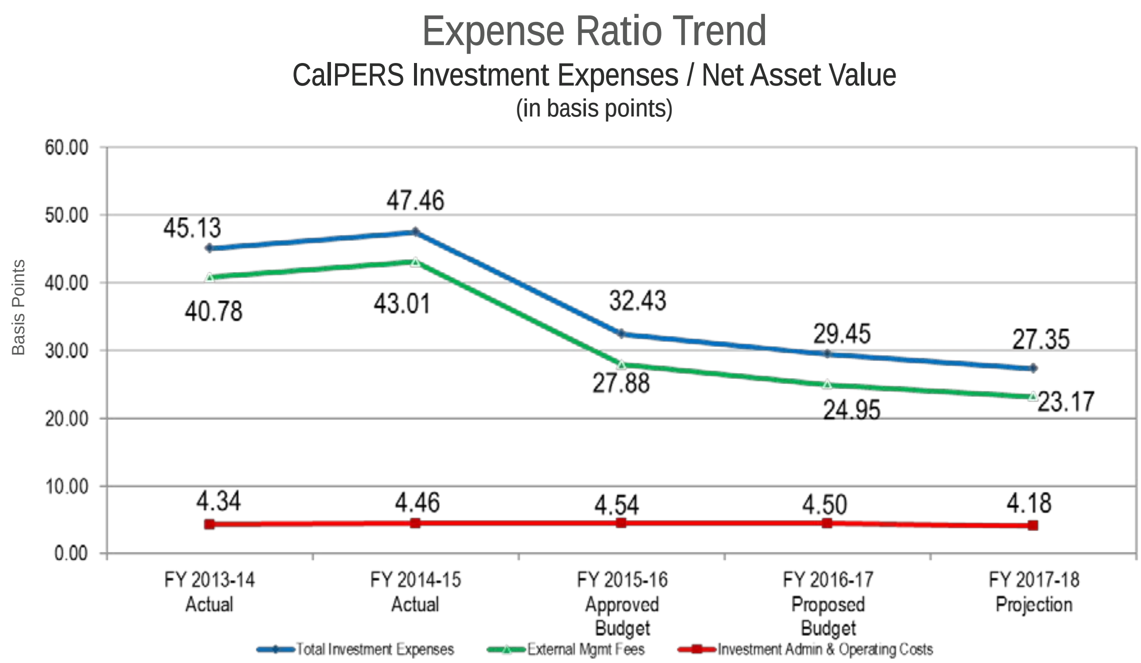
[3.4] Multi Asset Class base fees are projected to increase by $1.7 million based on NAV and contracted basis points, and performance fees are projected to decrease by $8.8 million. No performance fees are anticipated to be paid out in FY 2015-16 and FY 2016-17.

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 operating costs.

(in millions)	FY 2015-16 Budget	FY 2016-17 Proposed Budget	Budget to Budget: $ Change Incr / (Decr)	Budget to Budget: % Change Incr / (Decr)
Administrative	$68.7	$71.3	$2.6	3.8%
Investment Operating Costs	83.0	90.5	7.6	9.1%
External Management Fees	930.7	896.7	(34.0)	(3.7%)
Total	$1,082.3	$1,058.5	($23.8)	(2.2%)

G. Operating Costs

Expense Ratio / Basis Point Trend



Note: FY 2015-16, FY 2016-17 and FY 2017-18 forecasted NAV is based on the average annual percentage increase in net assets from FY 2010-11 to FY 2014-15.

Basis Points Trend

The expense ratio reflects investment expenses in relation to the 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. In summary, there is a positive downward trend for External Management Fees relative to the NAV.

The increase in basis points in FY 2014-15 Actual External Management Fees from FY 2013-14 is due to higher increases in the performance fee expenses in comparison to increases in the NAV.

The expense ratio of the FY 2016-17 Proposed Budget total investment expenses is anticipated to be 29.45 basis points. This assumes a downward trend in the ratio as staff continue to negotiate more favorable portfolio management terms.

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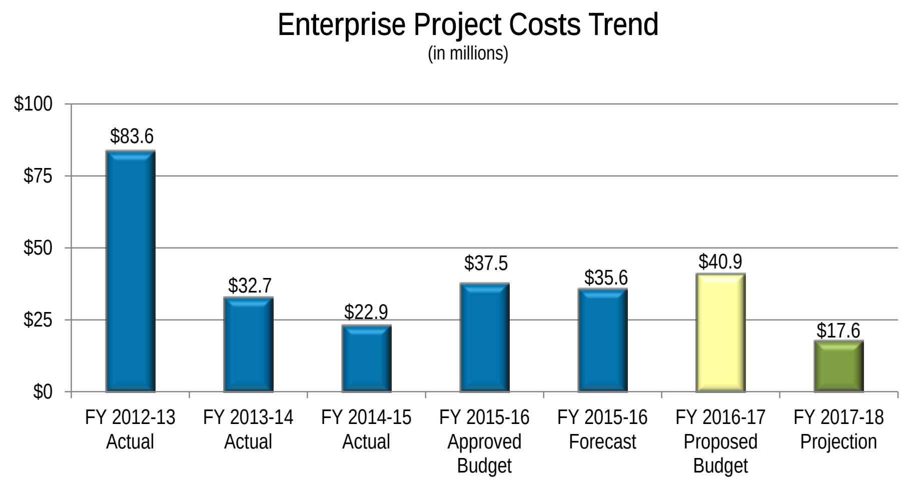
H. Enterprise Projects

The FY 2016-17 Enterprise Project Costs of $40.9 million represent an increase of $3.4 million or 9.0 percent from the FY 2015-16 Approved Budget of $37.5 million driven by increases in system security costs, AVS redesign, and system infrastructure modernization (totaling $7.7 million) offset by disaster recovery one-time cost decrease of $4.0 million. Compared to the FY 2015-16 Forecast of $35.6 million, the FY 2016-17 Proposed Budget represents an increase of $5.3 million or 14.9 percent.



	Enterprise Projects (in thousands)	FY 2015-16 Approved Budget	FY 2016-17 Proposed Budget	FY 2017-18 Projection	$ Change Incr / (Decr)	% Change Incr / (Decr)
[1]	my|CalPERS Business Optimization	$23,000	$23,470	$10,000	$470	2.0%
[2]	Security Roadmap	4,000	5,179	1,340	1,179	29.5%
[3]	Actuarial Valuation System Redesign	2,500	4,797	5,000	2,297	91.9%
[4]	Infrastructure Modernization		4,200	-	4,200	-
[5]	Business Intelligence	1,000	1,000	-	-	0.0%
[6]	Compliance Program Infrastructure, Framework, & eGRC	500	550	500	50	10.0%
[7]	PeopleSoft HCM 9.2 Upgrade	-	525	-	525	-
[8]	Treasury Management	500	400	-	(100)	(20.0%)
[9]	Windows 10 Planning and Migration	-	300	763	300	-
[10]	Succession Planning	-	260	-	260	-
[11]	Executive Compensation Project	200	200	-	-	0.0%
	IT Backup/Restoration/Archiving/Disaster Recovery	4,000	-	-	(4,000)	(100.0%)
	Data Governance	600	-	-	(600)	(100.0%)
	Budget Analytics Software	500	-	-	(500)	(100.0%)
	Enterprise Content Management Website Accessibility	225	-	-	(225)	(100.0%)
	Other Projects (individually less than $200,000)*	483	-	-	(483)	(100.0%)
	Total of Enterprise Projects	$37,508	$40,882	$17,603	$3,374	9.0%

* Includes Information Security Risk Metrics, CalPERS Education Center Replacement, and Talent Management-Learning Management System Upgrade.

H. Enterprise Projects

The concentration of projects for FY 2016-17 is 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 Compliance initiatives as follows:

[1] my|CalPERS Business Optimization

In January 2015, an effort was jointly launched by both the program areas and the Information Technology Services Branch to leverage the my|CalPERS system to realize increased operational efficiencies across the CalPERS organization. The effort outlined initiatives to increase performance and functionality in four major areas: improved customer service; reduced financial and business risk; increased operational performance; and streamlined business processes. In its inaugural year of a three-year program, twenty-one optimization initiatives were implemented. Among the most significant were the simplification of Medicare Service Payers, Disability Retirement Package automation, and comprehensive reconciliation of system, financial, and actuarial activity. Additionally, internal staff workflows were redesigned and streamlined to better serve our members and partners. Funding for the next fiscal year will support further optimizations for maturing retirement services, such as: expanded final compensation automation; simplification of PEPRA program support; process improvements in the service credit purchase program; enhanced State enrollments; interest payment functionality; as well as nearly fifteen additional optimization initiatives. The Optimization project is scheduled to be completed by June of 2018.

Project Life Cycle Costs - my|CalPERS Business Optimization

Fiscal Year	Project Budget	Operational Budget	Total
2014-15 Actuals	$ 17,368,588	$ -	$ 17,368,588
2015-16 Forecast	23,000,000	-	23,000,000
2016-17 Proposed Budget	23,470,000	-	23,470,000
2017-18 Projection	10,000,000	-	10,000,000
Total	$ 73,838,588	$ -	**$ 73,838,588**

[2] Security Roadmap

The Security Roadmap Project (SRP) is a multi-year effort that will ensure CalPERS technology and member data will remain secure against constantly changing threats in the environment. For FY 2016-17, efforts will be directed towards the Enhanced Enterprise Identity System (EIS), Security Information and Event Management (SIEM), Database Encryption, and Two-Factor Authentication.

- EIS will focus on user password management, tighter controls around sensitive administrative accounts, and enhancing the end-user experience by consolidating user names and passwords needed for cloud services.
- SIEM will proactively alert CalPERS of possible security breaches and fraudulent activity.
- Database Encryption will assess and implement multiple methods of personal identification and health-related information data encryption to reduce the risk of data loss.
- Two-Factor Authentication is a type of technology architecture that reduces possible security breaches. Currently CalPERS utilizes Two-Factor Authentication for remote access. This effort will deploy the technology to additional critical systems.

Three of the initiatives will be completed in FY 2016-17. EIS project will continue in FY 2017-18.

Project Life Cycle Costs - Security Roadmap

Fiscal Year	Project Budget	Operational Budget	Total
2013-14 Actuals	$ 4,995,614	$ -	$ 4,995,614
2014-15 Actuals	2,237,195	-	2,237,195
2015-16 Forecast	3,999,320	-	3,999,320
2016-17 Proposed Budget	5,179,410	420,000	5,599,410
2017-18 Projection	1,340,000	420,000	1,760,000
Total	$ 17,751,539	$ 840,000	**$ 18,591,539**

[3] Actuarial Valuation System Redesign

The current Actuarial Valuation System (AVS) has been in existence for over 19 years and will no longer meet evolving actuarial practices, including changes required for employers to comply with new standards implemented by the Governmental Accounting Standards Board (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. This is a multi-year request requiring funding for an estimated total investment of $29.2 million. Phase I of the AVS system is underway to develop a conceptualization of a database model and analyze its feasibility. In the coming year funding will be dedicated to Phase II of this initiative which will configure the new database with the existing AVS system and integrate data sources.

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 Actuals	132,230	361,677	493,907
2015-16 Forecast	796,316	500,000	1,296,316
2016-17 Proposed Budget	4,797,200	780,000	5,577,200
2017-18 Projection	5,000,000	780,000	5,780,000
2018-19 Projection	8,500,000	780,000	9,280,000
2019-20 Projection	4,000,280	780,000	4,780,280
2020-21 Projection	-	780,000	780,000
Total	$ 23,226,026	$ 5,992,801	**$ 29,218,827**

[4] Infrastructure Modernization

CalPERS currently uses the Oracle Engineering System which supports critical business application such as PeopleSoft Financials, Business Intelligence, and the myICalPERS Identity and Access Management. This system is limited and approaching its end of life in June 2016. The Infrastructure Modernization project will be replacing the pre-engineered system with an open architecture standard that is now in use at CalPERS.

Project Life Cycle Costs - Infrastructure Modernization			
Fiscal Year	**Project Budget**	**Operational Budget**	**Total**
2016-17 Proposed Budget	$ 4,200,000	$ -	$ 4,200,000
2017-18 Projection	-	800,000	800,000
Total	$ 4,200,000	$ 800,000	**$ 5,000,000**

[5] Business Intelligence

The Business Intelligence (BI) project is an ongoing multi-year effort that ensures CalPERS technology and information supports an environment where the business can make fact-based decisions using accurate and timely data and information. To date, communication and project management action plans have been developed, deliverables for Human Resources, the Financial Office, Audit Services, and Public Affairs have been completed, and the “CalPERS 2014 Retirement Trend Report” and “CalPERS Economic Impacts in California” reports created using business intelligence have been presented to the Board.

The activities planned for FY 2016-17 include creation of a BI product depository and development of a request for information (RFI) to understand retirement data warehouse and analytics market environment, as well as more self-service BI and reporting capabilities. When the project is complete the business benefits will be:

- Availability of timely and relevant data
- Accurate data to support informed decisions
- Ability of the business to access data directly

Project Life Cycle Costs - Business Intelligence			
Fiscal Year	**Project Budget**	**Operational Budget**	**Total**
2013-14 Actuals	$ 2,454,291	$ -	$ 2,454,291
2014-15 Actuals	1,240,223	-	1,240,223
2015-16 Forecast	889,662	-	889,662
2016-17 Proposed Budget	1,000,000	-	1,000,000
2017-18 Projection	-	1,000,000	1,000,000
Total	$ 5,584,177	$ 1,000,000	**$ 6,584,177**

[6] Compliance Program Infrastructure, Framework, and eGRC

This is the second year of a five-year plan to mature compliance capabilities within CalPERS. The project roles and responsibilities were defined and socialized with management, controls for investment trading were identified, and compliance protocols and educational programs are in development. In the coming year protocols and processes for operational control, policy management, and reporting standards will continue to be developed in conjunction with compliance principles and culture. Technology consulting services are also planned in order to assist with development of compliance components in the CalPERS electronic Governance, Risk, Compliance (eGRC) system. The end goal for the five-year plan will be to roll out the protocols and processes to all program areas throughout the enterprise and develop a process for on-going refinement as the project transitions into maintenance and operations.

Project Life Cycle Costs - Compliance Program Infrastructure, Framework, & eGRC

Fiscal Year	Project Budget	Operational Budget	Total
2015-16 Forecast	$ 500,000	$ -	$ 500,000
2016-17 Proposed Budget	550,000	-	550,000
2017-18 Projection	500,000	-	500,000
2018-19 Projection	500,000	-	500,000
2019-20 Projection	500,000	-	500,000
Total	$ 2,550,000	$ -	**$ 2,550,000**

[7] PeopleSoft HCM 9.2 Update

The Human Resources Division in coordination with Information Technology is requesting funding to upgrade the current PeopleSoft HCM system from version 9.1 to 9.2. The upgraded version of HCM supports automation strategies to recruit, develop and empower CalPERS workforce. Upgrading to version 9.2 will provide several benefits including Oracle's Premier Support services, increased functionality, a reduction in system customizations, and access to a new Product Update Manager that will assist with system patches. The need for the upgrade is urgent as Oracle Extended Support for the current HCM system version ends January 2018. Extended Support includes system troubleshooting, bug fixes, and system patching.

Project Life Cycle Costs - PeopleSoft HCM 9.2 Upgrade

Fiscal Year	Project Budget	Operational Budget	Total
2016-17 Proposed Budget	$ 525,000	$ -	$ 525,000
Total	$ 525,000	$ -	**$ 525,000**

[8] Treasury Management

Funding is proposed for consultants and software to implement the Treasury Management System that aggregates and centralizes treasury and cash management functions performed by the Financial Office and the Investment Office. This software is essential to ensure integrity of the cash forecasting, streamline cash management functions, and allow for robust reporting.

This new system would eliminate the use of over 2,000 spreadsheets annually allowing for increased focus on cash management analysis and tax workload.

Project Life Cycle Costs - Treasury Management

Fiscal Year	Project Budget	Operational Budget	Total
2015-16 Forecast	$ 500,000	$ -	$ 500,000
2016-17 Proposed Budget	400,000	-	400,000
Total	$ 900,000	$ -	**$ 900,000**

[9] Windows 10 Planning

Funds are required to plan for the migration to the Windows 10 Operating System and to upgrade to Office ProPlus for the CalPERS enterprise. Windows 10 offers a more secured desktop while allowing for collaboration and mobile computing.

Project Life Cycle Costs - Windows 10 Planning

Fiscal Year	Project Budget	Operational Budget	Total
2016-17 Proposed Budget	$ 300,000	$ -	$ 300,000
2017-18 Projection	763,000	-	763,000
Total	$ 1,063,000	$ -	**$ 1,063,000**

[10] Succession Planning

The Human Resources Division is requesting funding to create and maintain the necessary structure for a Succession Planning Program in line with CalPERS strategic and business plans. Due to the large segment of the CalPERS workforce nearing retirement age, it is recommended that CalPERS have a succession plan in place. Approval of this request will better position CalPERS to establish an internal talent pipeline from which qualified candidates can be sourced to fill key organizational positions as they become vacant.

Project Life Cycle Costs - Succession Planning

Fiscal Year	Project Budget	Operational Budget	Total
2016-17 Proposed Budget	$ 260,000	$ -	$ 260,000
Total	$ 260,000	$ -	**$ 260,000**

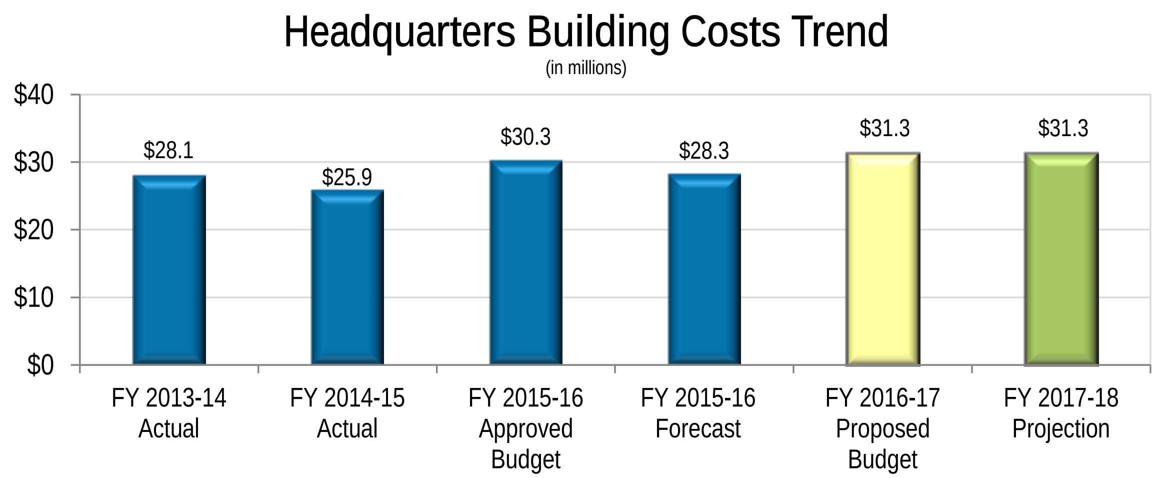
[11] Executive Compensation Project

The Human Resources Division requests funding to continue 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. In earlier stages of the project, an external vendor was engaged to administer a biennial salary survey. In the coming year, external consultants will advise on improvements to the existing compensation program structure and design, schedules and benchmarks for investment executives' annual performance awards, and the compensation for delegated executive staff.

Project Life Cycle Costs - Executive Compensation Project

Fiscal Year	Project Budget	Operational Budget	Total
2014-15 Actuals	$ 139,580	$ -	$ 139,580
2015-16 Forecast	133,000	-	133,000
2016-17 Proposed Budget	200,000	-	200,000
Total	$ 472,580	$ -	**$ 472,580**

I. Headquarters Building Costs



The FY 2016-17 Headquarters Building Costs are $34.4 million, reduced by $3.1 million in rent revenues, creating a net cost of $31.3 million. Costs include operating expenses of $18.9 million (utilities, engineering services, janitorial security, etc.) and non-operating expenses of $15.5 million (structural improvements, staff moves, insurance, etc.).

Operating expenses in the FY 2016-17 Proposed Budget of $18.9 million is a $0.3 million increase from the FY 2015-16 Approved Budget of $18.6 million. Non-Operating expenses in the FY 2016-17 Proposed Budget of $15.4 million have increased by $0.5 million from the FY 2015-16 Approved Budget of $14.9 million. The increase in costs of $0.8 million is broken down as follows:

	$ in millions	
Utilities (2.5% SMUD increase) and Stairwell Maintenance	$	0.4
Security – Increased salaries due to Government Code compliance		0.2
EOC (Sun Center) – Removal of 10-year uninterrupted power system battery replacement and cold aisle containment project from previous year		(0.5)
Owner Improvements – Decrease in tenant improvements project expenses		(0.2)
Building Improvements – Garage door conversion, dimming system replacement, emergency services replacements, drought tolerance supplies, concrete repairs, and lighting upgrades		1.1
Building Insurance – Decrease based on current market and decrease in trending premiums		(0.4)
Miscellaneous - Net effect of all other changes		0.2
Total Change in Costs	$	0.8
Rent Revenue Offset		0.2
Budget Increase from FY 2015-16 to FY 2016-17	$	1.0

Headquarters Building Costs

(in thousands)	FY 2014-15 Actual	FY 2015-16 Approved Budget	FY 2016-17 Proposed Budget	Budget to Budget: $ Change Incr / (Decr)	Budget to Budget: % Change Incr / (Decr)
Operating:					
Utilities	$2,456	$2,258	$2,455	$198	8.8%
Engineering Services	2,572	3,004	3,085	81	2.7%
Janitorial	2,465	3,189	3,202	13	0.4%
Landscaping	753	822	840	18	2.2%
General Maintenance	1,826	2,043	2,218	175	8.6%
Security	2,164	2,231	2,454	223	10.0%
Property Mgmt & Administrative Fees	1,124	1,254	1,227	(27)	(2.1%)
Café Plaza	402	375	376	1	0.3%
Front St. Parking/Warehouse	473	644	660	16	2.5%
EOC (Sun Center) [1]	508	931	414	(517)	(55.5%)
Operating Other [2]	1,795	1,873	1,979	106	5.6%
Total Operating Costs	16,537	18,623	18,911	288	1.5%
Non-Operating:					
Owner Improvements [3]	5,748	7,395	7,158	(237)	(3.2%)
Building Improvements [4]	3,689	4,113	5,170	1,057	25.7%
Furniture & Fixtures	2,880	2,451	2,511	60	2.5%
Building Insurance	475	976	610	(366)	(37.5%)
Total Non-Operating Costs	12,793	14,934	15,449	515	3.4%
Total Costs	$29,330	$33,558	$34,360	$803	2.4%
Rent Revenue Offset [5]	(3,385)	(3,208)	(3,065)	143	(4.5%)
Total Headquarters Building Costs	$25,944	$30,350	$31,295	$946	3.1%

[1] Emergency Operations Center (EOC) includes utilities, janitorial, security, landscaping, 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.

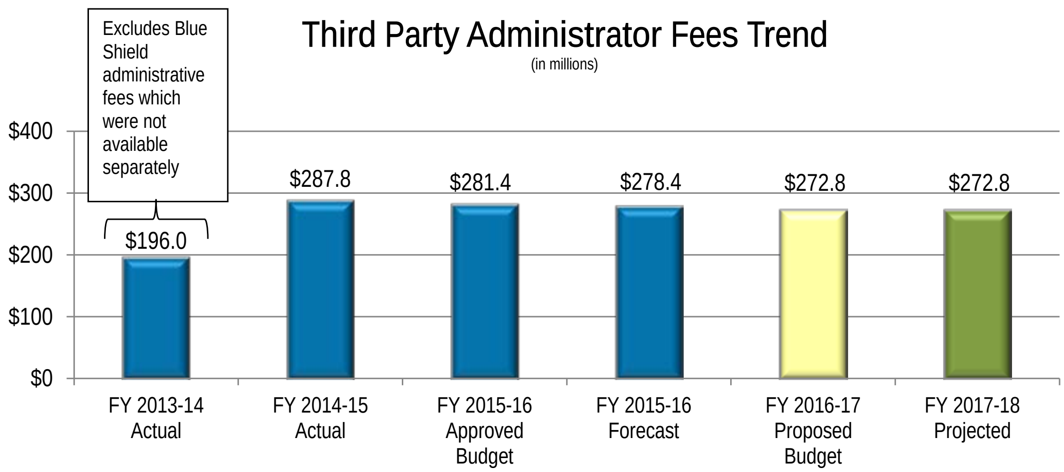
[4] Non-Operating Building Improvements are improvements made to the building structure or common areas.

[5] The Headquarters Building Account receives rent revenue that is used to offset the annual expenses of the Headquarters Building Account.

J. Third Party Administrator Fees

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.



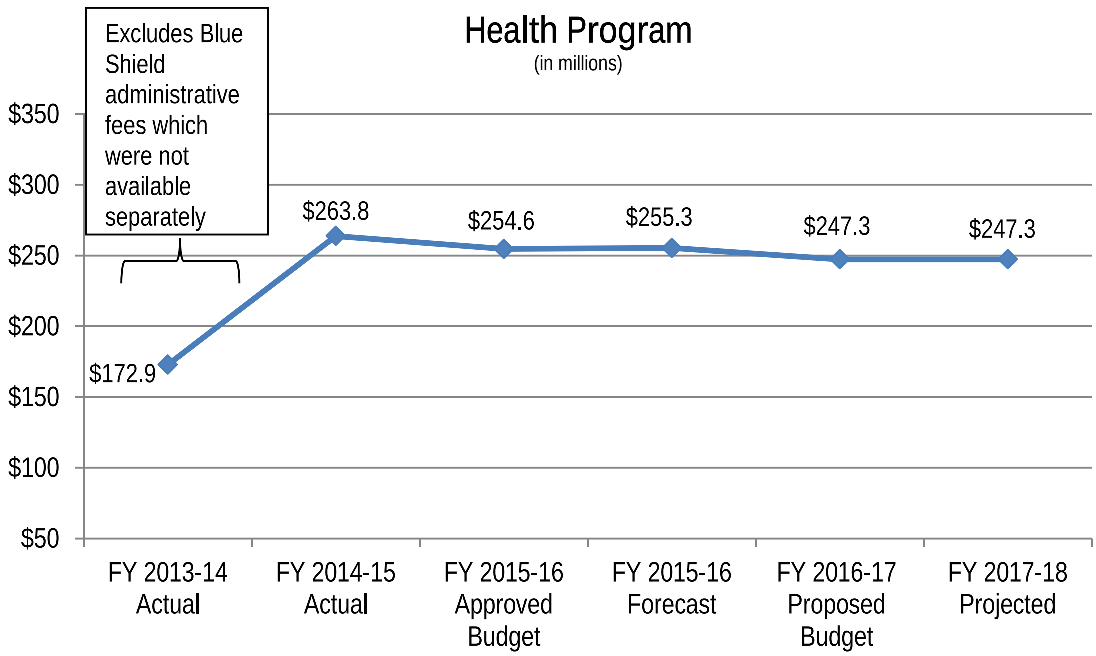
Total Third Party Administrator Fees for the FY 2016-17 Proposed Budget are $272.8 million, a decrease of $8.6 million or 3.0 percent from the FY 2015-16 Approved Budget of $281.4 million. The $8.6 million decrease is mainly driven by decreased fees in the Health Program and a decrease in fees in the Long-Term Care Program. The following details each of the program areas:

(in thousands)		FY 2015-16 Approved Budget	FY 2016-17 Proposed Budget	Budget to Budget: $ Change Incr / (Decr)	Budget to Budget: % Change Inc / (Decr)
Health Program[1,2]	$ 251,560	$ 242,477	$ 234,401	($8,076)	(3.3%)
CVS Caremark Pharmacy[3]	12,274	12,158	12,158	-	0.0%
Health Program - State Controllers' Office			780	780	0.0%
Subtotal Health	$ 263,834	$ 254,635	$ 247,339	($7,296)	(2.9%)
Long-Term Care Program - Univita	20,162	22,822	21,572	(1,250)	(5.5%)
Total Health	$ 283,996	$ 277,457	$ 268,911	($8,546)	(3.1%)
Supplemental Income Plan - Voya	3,853	3,903	3,899	(5)	(0.1%)
TOTAL	$ 287,849	$ 281,360	$ 272,809	($8,551)	(3.0%)

[1] Excludes Kaiser global capitation system which does not capture administrative fees separately.
[2] Includes Anthem Blue Cross, Blue Shield, Health Net, Sharp Health Plan and United Healthcare.
[3] Competitive solicitation planned for 2017.

Health Program

The Health Program provides health coverage to more than 1.4 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.

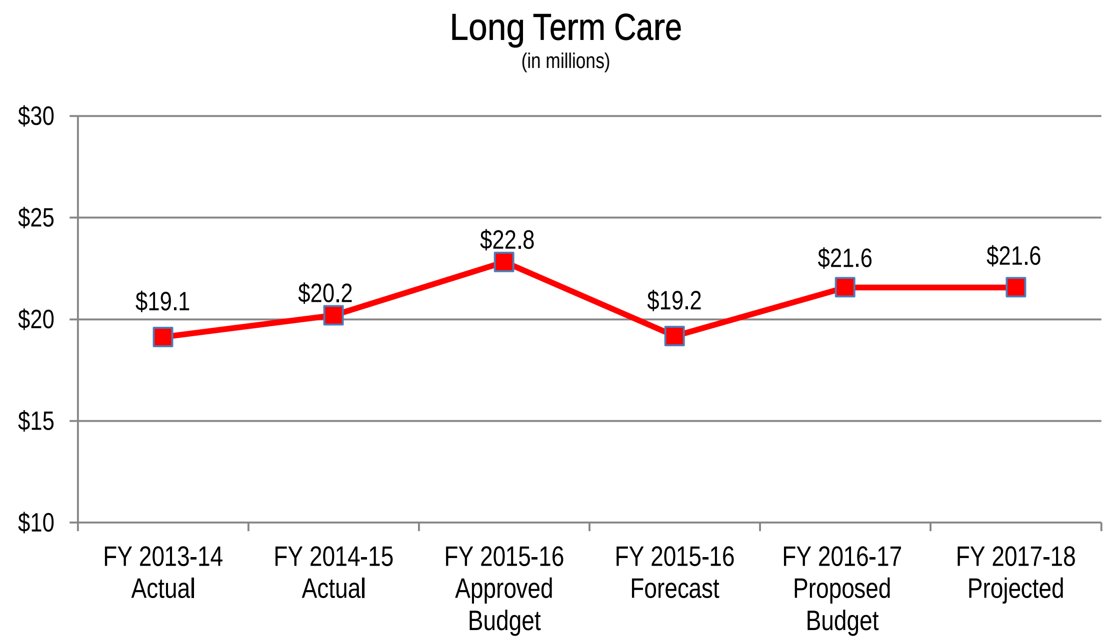


The FY 2016-17 Proposed Budget of $247.3 million represents a net decrease of $7.3 million or 2.9 percent from the FY 2015-16 Approved Budget mainly driven by changes in health plan enrollment of the Blue Shield health plan. The FY 2015-16 Forecast shows a slight increase in costs of $0.7 million in comparison to the FY 2015-16 Budget due to movement in membership amongst the various health plans. The FY 2017-18 Projection is estimated to be the same as the FY 2016-17 Proposed Budget due to continued efficiencies identified in the health program although membership continues to increase.

J. Third Party Administrator Fees

Long Term Care

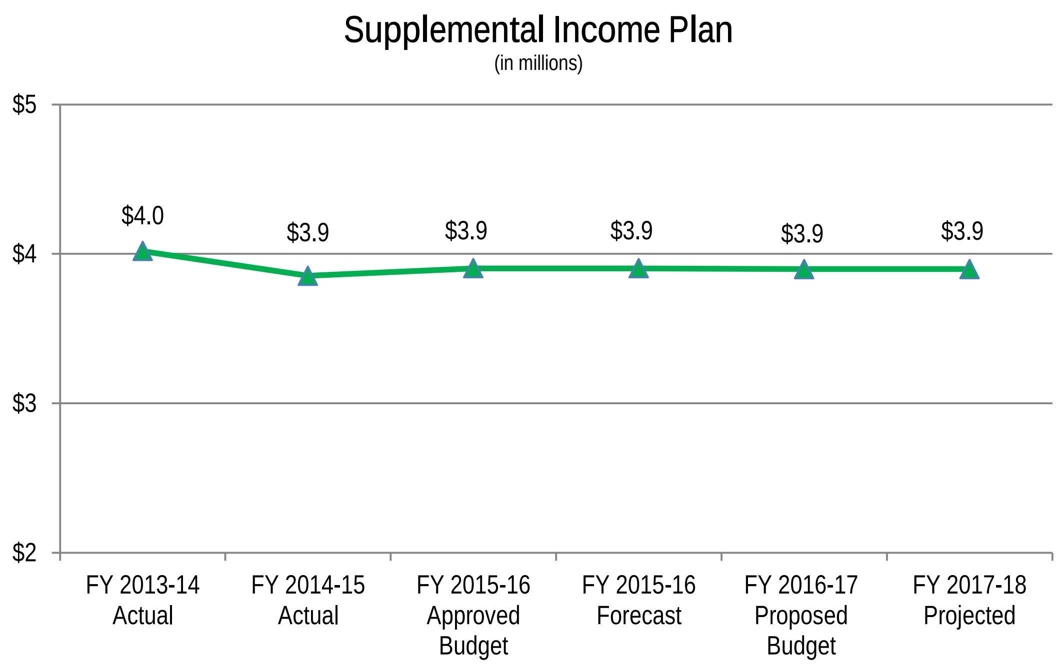
The Long Term Care Program, as administered by Univita, provides comprehensive personal non-medical assistance, including care at home, adult care centers, assisted living facilities, and nursing homes to its members. Administrator fees include underwriting costs, billing/banking, care advisory services,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



The Proposed Budget of $21.6 million for FY 2016-17 represents a decrease of $1.2 million or 5.5 percent from the FY 2015-16 Approved Budget. This decrease is attributed to a reduction in projected enrollment and the associated savings in related administrative costs. The FY 2015-16 Forecast shows a decrease in costs of $3.6 million in comparison to the FY 2015-16 Budget due to a decrease in enrollment. The FY 2017-18 Projection is estimated to be the same as the FY 2016-17 Proposed Budget.

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.



The FY 2016-17 Proposed Budget of $3.9 million is relatively the same as FY 2015-16 approved budget. For the FY 2015-16 Forecast, the program estimates spending the entire budget. The FY 2017-18 Projection is also estimated to be the same as the FY 2016-17 Proposed Budget.

[1] Total CalPERS Budget by Branch

(in thousands)	FY 2015-16 Approved Budget	FY 2016-17 Proposed Budget	Budget to Budget $ Change Incr / (Decr)	Budget to Budget % Change Incr /(Decr)
Administrative and Investment Operating Costs				
Actuarial Office	8,036	9,301	1,265	15.7%
Benefit Programs Policy and Planning	30,088	28,762	(1,326)	(4.4%)
Communications and Stakeholder Relations	10,215	10,560	345	3.4%
Customer Services and Support	103,971	109,434	5,463	5.3%
Executive Office	6,581	6,603	22	0.3%
Financial Office	29,777	29,978	201	0.7%
General Counsel	27,515	26,210	(1,305)	(4.7%)
Investment Office	151,621	161,796	10,176	6.7%
Operations and Technology	138,038	142,015	3,977	2.9%
Pro-Rata Assessment	21,814	21,651	(163)	(0.7%)
Investment External Management Fees	930,726	896,705	(34,021)	(3.7%)
Subtotal	$ 1,458,382	$ 1,443,014	($15,368)	(1.1%)
Enterprise Projects Budget	37,508	40,882	3,374	9.0%
Headquarters Building Costs	30,350	31,295	946	3.1%
Third Party Administrator Fees	281,360	272,809	(8,551)	(3.0%)
CalPERS Total Budget	$ 1,807,600	$ 1,788,000	($19,600)	(1.1%)

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

Actuarial Office (ACTO) – [+$1.3 million] This increase is mainly related to a one-time increase in consultant costs to perform core actuarial workload due to the excess vacancies in ACTO. In addition, one (1.0) new position is proposed for long-term care actuarial work ($104,000).

Benefit Programs Policy and Planning (BPPP) – [-$1.3 million] Costs are decreasing mainly due to transferring State Controller's Office costs for health deductions to the Third Party Administrator budget (-$780,000), an overall reduction in Health Fund consultant costs (-$594,000), a reduction in the FY 2016-17 Pro-Rata assessment by the State of California (-$213,000), and a reduction in temporary help funding (-$80,000). These costs are offset by a one-time increase in consulting costs for solicitation efforts to find a new Long Term Care Administrator ($330,000), and the addition of one (1.0) new position for pharmaceutical benefit work ($119,000).

Communications and Stakeholder Relations (CSR) – [+$0.3 million] Costs are increasing due to the addition of two (2.0) new positions in the FY 2016-17 Proposed Budget ($210,000) and increased costs related to the printing of the PERSpective newsletter ($300,000). These increases are partially offset by reduced temporary help costs and a reduction in consulting due to the completion of the Stakeholder Assessment Project Survey ($-166,000).

Customer Services and Support (CSS) – [+$5.5 million] Costs are increasing due to the addition of nineteen (19.0) new positions in the FY 2016-17 Proposed Budget ($1.7 million), higher disability medical exam costs ($553,000), an increase in professional fees paid to State Controller's Office to issue retirement benefit checks ($300,000), and increased travel costs to provide CalPERS Benefit Education Events ($100,000), salary adjustments ($1.5 million), and a decrease in anticipated salary savings due to a consistently low vacancy rate ($845,000).

Financial Office (FINO) – [+$0.2 million] Costs are increasing due to the addition of two (2.0) new enterprise compliance positions in the FY 2016-17 Proposed Budget ($243,000).

General Counsel (GCO) – [-$1.3 million] Costs are decreasing mainly due to reductions in the outside counsel budget (-$1.8 million). This decrease is offset by increases due to higher personnel costs for salary adjustments ($91,000) and by a one-time increase for the new eDiscovery software ($400,000).

Investment Office (INVO) – [+$10.2 million] Costs are increasing due the addition of eleven (11.0) new positions in the FY 2016-17 Proposed Budget ($3.2 million), increases in costs for trading and portfolio management systems ($8.8 million), and an increase to the master custodian fees ($0.8 million). Offsetting these increases are reductions to Data/Analytics (-$2.7 million) used for supporting functions performed by analytics systems and tools for investment decision making.

Operations and Technology (OPT) – [+$4.0 million] Costs appear to be increasing in data processing services ($7.4 million), however, the current year budget does not reflect actual expenses anticipated of $17.1 million. This increase is offset by reductions in equipment costs for hardware refresh (-$1.7 million), and external consulting costs (-$1.3 million).

[2] Administrative Budget by Trust Fund

The proposed FY 2016-17 Administrative Budget is allocated to the following trust funds:

(in thousands)	FY 2014-15 Actual	FY 2015-16 Approved Budget	FY 2016-17 Proposed Annual Budget	Budget to Budget $ Change Incr / (Decr)	Budget to Budget % Change Incr / (Decr)
Administrative Budget					
Public Employees' Retirement Fund (PERF)	341,720	369,317	369,798	481	0.1%
Public Employees' Contingency Reserve Fund (CRF)	27,168	27,926	28,004	78	0.3%
Public Employees' Health Care Fund (HCF)	22,954	33,886	40,518	6,632	19.6%
Long-Term Care Fund (LTCF)	4,000	4,209	5,738	1,529	36.3%
Annuitants' Health Care Coverage Fund (AHCCF)	2,025	2,744	4,054	1,310	47.7%
Deferred Compensation Fund (DCF)	1,515	1,822	1,848	26	1.4%
Judges' Retirement Fund (JRF)	1,124	1,336	1,765	429	32.1%
Judges' Retirement Fund II (JRF II)	1,242	1,442	1,983	541	37.5%
Legislators' Retirement Fund (LRF)	397	508	599	91	17.9%
Replacement Benefit Custodial Fund (RBF)	7	7	14	7	100.0%
Subtotal	402,152	443,197	454,321	11,124	2.5%
Reimbursements[1]	1,604	1,500	1,450	(50)	(3.3%)
Total CalPERS	403,756	444,697	455,771	11,074	2.5%

[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

K. Appendix

The variances in the trust fund amounts between FY 2015-16 and FY 2016-17 reflect not only budget increases as described earlier in this document, but also refinement of the cost allocation methodology used to allocate administrative costs to the trust funds. The implementation of the my|CalPERS system has led to better workload data being gathered and analyzed; for example, calls and inquiries coming into the Customer Contact Center can be segregated between pension and health activities. Also, workload statistics from the program areas have been updated, and system maintenance and operations costs have been identified to more accurately allocate costs to the trust funds. Details follow:

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 and the Headquarters Building Account budget.

Public Employees' Contingency Reserve Fund (CRF) – The CRF amount of $28.0 million in FY 2016-17 reflects the level approved in the FY 2016-17 Proposed Governor's Budget and includes a minimal increase for statewide employee compensation adjustments.

Public Employees' Health Care Fund (HCF) – Costs are increasing mainly due to updated workload statistics received from the organization reflecting higher administrative costs attributed to the Health Program and membership shifts to health plans supported by the HCF.