

California Public Employees' Retirement System

Fiscal Year 2018-19 Annual Budget Proposal

First Reading
April 17, 2018





GOVERNMENT FINANCE OFFICERS ASSOCIATION

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**California Public Employees' Retirement System
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For the Fiscal Year Beginning

July 1, 2017

Christopher P. Morill

Executive Director

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Strategic Planning and Enterprise Priorities

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 2017-22 Strategic Plan and the 2017-18 Business Plan were approved by the CalPERS Board of Administration in February 2017.

The Fiscal Year (FY) 2018-19 Total Budget is focused on core business needs critical to the California Public Employees' Retirement System's (CalPERS) long-term strategy and on furthering our mission of delivering retirement and health care benefits to members and their beneficiaries. 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 affordable health care programs. The budget focuses on the organization's five strategic goals:

- Fund Sustainability
- Health Care Affordability
- Reduce Complexity
- Risk Management
- Talent Management

The proposed budget provides the annual financial plan for FY 2018-19 and supports the CalPERS 2017-22 Strategic Plan. The CalPERS team has taken steps to consider the impacts of enterprise risks that may threaten the achievement of Strategic Plan Goals throughout the annual budget process. The Strategic Plan and associated enterprise risks have been aligned, and current mitigation measures have been identified and evaluated for effectiveness.

This document compiles the financial data needed to support CalPERS goals, is aligned with the initiatives outlined in the CalPERS 2017-18 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 2018-19 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

Risk Mitigation – Cultivate a Risk-Intelligent Organization

Since the cultivation of a risk-intelligent organization is an iterative process, the organization is presently establishing the Board's risk appetite and tolerances as a next step in maturing the Risk

Management Framework. This will aid in more effectively analyzing how resources should be allocated within the organization in order to improve efficiencies by promoting more informed budgeting decisions in alignment with Board direction. Budgeting discipline will continue to be further advanced through the development of performance metrics in order to monitor progress. Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs) will further refine our processes and leverage the use of data that will continue to drive the advancement of a risk-intelligent organization. The continued enhancement of business processes is intended to ultimately heighten the quality and efficiency of service to our members, employers, and stakeholders while encouraging employee engagement.

Below is the CalPERS Enterprise Risk Management Dashboard presented to the Board in November 2017. This provides the current rating of the top risks, risk categories, and risk statements identified by Board Committee and Executive owners.



ENTERPRISE RISK MANAGEMENT DASHBOARD

RISK CATEGORY / RISK STATEMENT	
High Impact High Probability	INFORMATION SECURITY DEO, OPT Finance & Administration Committee Failure to protect and secure information assets.
	BUSINESS CONTINUITY DEO, OPT Finance & Administration Committee Inability to recover timely and resume business functions following a business interruption event.
High Impact Low Probability	INTERNAL GOVERNANCE AND CONTROL ENVIRONMENT CCO, CFO Risk & Audit Committee Lack of a strong internal control environment could result in loss of authority or reputation, and/or incurred penalties.
	PENSION FUNDING CFO, Chief Actuary, CIO Finance & Administration Committee, Investment Committee Failure to meet benefit obligations to current and future members and beneficiaries.
	HEALTH CARE ADMINISTRATION DEO, BPPP Pension & Health Benefits Committee Inability to offer high quality, accessible, and affordable health care at a competitive price.
	STAKEHOLDER CONFIDENCE DEO, CSR Finance & Administration Committee Inability to maintain stakeholder confidence in CalPERS as a trusted fiduciary.
	TALENT MANAGEMENT DEO, OPT Performance, Compensation, & Talent Management Committee Current workforce is unable to support and execute the core mission and strategic objectives of the Enterprise.
Low Impact Low Probability	BENEFIT ADMINISTRATION DEO, CSS Pension & Health Benefits Committee CalPERS members, retirees, and beneficiaries may not receive timely and/or accurate benefits.

The following is an overview of the Goals and Objectives in the Strategic Plan.



Fund Sustainability – Strengthen the long-term sustainability of the pension fund

- Fund the System through an integrated view of pension assets and liabilities
- Mitigate the risk of significant investment loss
- Deliver target risk-adjusted investment returns
- Educate employers, members, and stakeholders on system risks and mitigation strategies
- Integrate environmental, social, and governance considerations into investment decision making



Health Care Affordability – Transform health care purchasing and delivery to achieve affordability

- Restructure benefit design to promote high-value health care
- Improve the health status of our employees, members and their families, and the communities where they live
- Reduce the overuse of ineffective or unnecessary medical care



Reduce Complexity – Reduce complexity across the enterprise

- Simplify programs to improve service and/or reduce cost
- Streamline operations to gain efficiencies, improve productivity, and reduce costs



Risk Management – Cultivate a risk-intelligent organization

- Enhance compliance and risk functions throughout the enterprise
- Continue to evolve cyber security program



Talent Management – Promote a high-performing and diverse workforce

- Recruit and empower a broad range of talents to meet organization priorities
- Cultivate leadership competencies and develop succession plans across the enterprise

FY 2018-19 Budget Message

The proposed CalPERS Total Budget for FY 2018-19 represents continued process improvements to reach our goals while striving to contain costs. With ongoing fiscal prudence, the organization will continue to make every effort to deliver budget requirements that meet expectations. The CalPERS Total Budget represents the financial resources needed to help achieve our strategic priorities and initiatives, and better serve our members, employer agencies, and stakeholders.

The proposed FY 2018-19 CalPERS Total Budget of \$1,680.6 million, represents an increase of \$4.8 million from the FY 2017-18 Approved Budget of \$1,675.8 million. The budget includes no change in authorized positions, which remains at 2,875.

The FY 2018-19 Proposed Budget highlights include:

- Reductions in Investment External Management Fees (\$10.5 million).
- Reductions in the enterprise's discretionary costs (temporary help and benefits, overtime, and operating expenses & equipment) by \$3.5 million.
- No new positions are proposed as the organization will continue to address resource needs through the redirection of existing positions as a result of an enterprise position pooling concept.
- An enterprise-wide reduction in blanket positions from 347 positions in 2013 to 21 positions in 2018.
- The my|CalPERS Business Optimization Project is scheduled to be completed in FY 2017-18. The maintenance and operation costs for the my|CalPERS system will move to the Operating Budget.
- Continuation of the Actuarial Valuation System (AVS) Redesign project to provide information that meets actuarial practices and supports new Governmental Accounting Standards Board (GASB) reporting requirements.
- Replacement of the current Human Resources Management System with a modern cloud-based system that will meet CalPERS business needs and requirements.
- Transition of the Contact Center platform to a cloud-based platform to reduce the complexity of the current multi-vendor Contact Center application.

The focus of the FY 2018-19 CalPERS Total Budget continues to demonstrate the mission of CalPERS and the priorities of the enterprise and our stakeholders in a transparent manner, while delivering a value-based, managed-risk perspective.

C. Total Proposed Budget Summary

Fiscal Year 2018-19 Annual CalPERS Total Budget

(in thousands)	FY 2017-18 Approved Budget ¹	FY 2017-18 Forecast	FY 2018-19 Proposed Budget	Budget to Budget		FY 2017-18 Budget to Forecast	
				\$	%	\$	%
				Change Incr / (Decr)	Change Incr / (Decr)	Change Incr / (Decr)	Change Incr / (Decr)
Administrative Operating Costs	\$ 468,402	\$ 451,744	\$ 497,557	\$ 29,155	6.2%	(\$16,658)	(3.6%)
<i>Salary & Benefits</i>	350,104	334,397	370,991	20,887	6.0%	(15,706)	(4.5%)
<i>Discretionary</i>	118,298	117,346	114,756	(3,543)	(3.0%)	(952)	(0.8%)
<i>Baseline Admin. FBRs</i>			8,174	8,174			
<i>One-time Admin. FBRs</i>			3,636	3,636			
Investment Operating Costs ²	91,236	91,236	93,421	2,185	2.4%	-	0.0%
Investment External Management Fees	777,518	777,518	767,009	(10,509)	(1.4%)	-	0.0%
Third Party Administrator Fees ³	288,911	288,911	288,686	(225)	(0.1%)	-	0.0%
Total: Operating Costs	\$ 1,626,067	\$ 1,609,409	\$ 1,646,672	\$ 20,606	7.2%	(\$16,658)	(1.0%)
Enterprise Project Costs	22,738	22,179	9,591	(13,147)	(57.8%)	(559)	(2.5%)
Headquarters Building Costs	27,046	27,046	24,372	(2,674)	(9.9%)	-	0.0%
CalPERS Total Budget	\$ 1,675,851	\$ 1,658,633	\$ 1,680,636	\$ 4,785	0.3%	(\$17,218)	(1.0%)
Total Positions	2,875.0	2,875.0	2,875.0	-	0.0%		

¹ FY 2017-18 Mid-Year Budget approved by the CalPERS Board of Administration on December 19, 2017.

² Investment operating expenses are not part of CalPERS Administrative Operating Costs and therefore should not be included in CalPERS pro-rata assessment.

³ The Administrative Services Fees in this report are initial proposals from health insurance carriers and may change, as they are negotiated each year during the health plan rate development process.

Note: Numbers may not add exactly due to rounding of budget detail.

Key changes in the FY 2018-19 CalPERS Total Budget include an overall net increase of \$4.8 million (increase of \$34.8 million offset by a decrease of \$30.0 million) from the FY 2017-18 Approved Budget.

Cost increases of \$34.8 million are associated with:

- Administrative operating costs
 - Salary & Benefits (\$20.9 million)
 - Baseline Formal Budget Requests (FBRs) (\$8.2 million)
 - One-time FBRs (\$3.6 million)
- Investment operating costs (\$2.1 million)

These cost increases are offset by decreases of \$30.0 million associated with:

- Administrative operating costs
 - Discretionary (temporary help and benefits, overtime, and operating equipment & expenses) (\$3.5 million)
- Investment external management fees (\$10.5 million)
- Enterprise project costs (\$13.1 million)
- Headquarters building costs (\$2.7 million)
- Third party administrator fees (\$0.2 million)

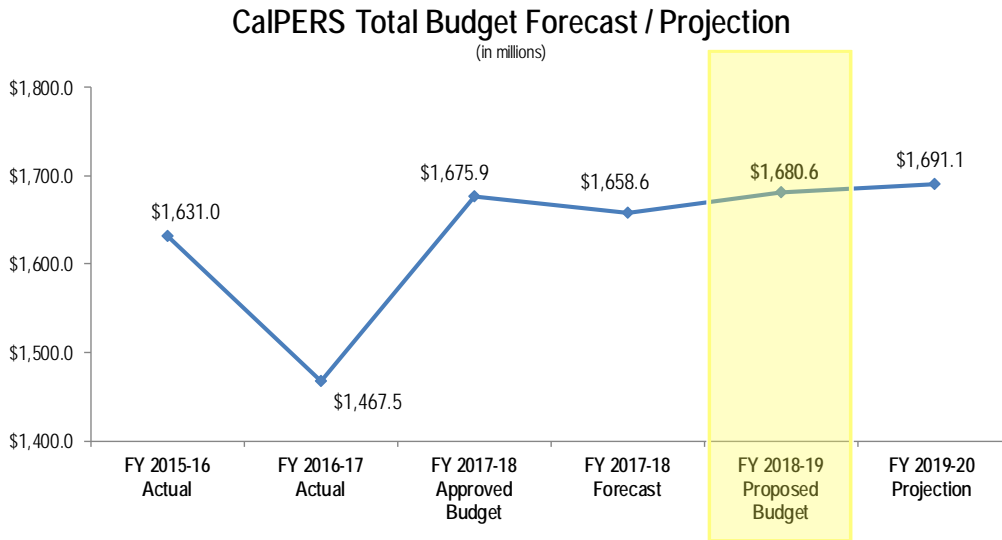
The organization will or has reduce(d) its enterprise wide discretionary spending by \$3.5 million (3.0 percent). Each budget area will be covered separately and in detail to provide analysis of the historical trending and current proposal of the costs.

Incorporated into the FY 2018-19 CalPERS Total Budget are the following assumptions and factors that guided the development of the budget to meet the needs of the organization:

- Includes resources to support the FY 2017-18 business plan initiatives
- Reductions in temporary staffing costs by \$1.7 million
- Includes targeted vacancy factor of 4.0 percent
- Includes increase in the statewide Central Service Agency (Pro-Rata) administrative assessment (\$1.8 million)
- Includes employee compensation increases per collective bargaining unit agreements and estimated adjustments
- Reductions in Investment External Management Fees

Total Proposed Budget Summary

The following chart displays actual expenditures for prior FYs 2015-16 and 2016-17, the FY 2017-18 Approved Budget and Forecast, the FY 2018-19 Proposed Budget, and the FY 2019-20 Projection.



The Proposed FY 2018-19 CalPERS Total Budget is \$1,680.6 million, which represents an overall increase of approximately \$4.8 million (0.3 percent) from the FY 2017-18 Approved Budget of \$1,675.8 million. Specifically, this is an increase of \$31.3 million (5.6 percent) in administrative and investment operating costs, offset by decreases of \$10.5 million (1.4 percent) in investment external management fees, \$0.2 million (0.1 percent) in third party administrator fees, \$13.1 million (57.8 percent) in enterprise project costs, and \$2.7 million (9.9 percent) in headquarters building costs.

Future Years Outlook (FY 2019 and Beyond)

In 2017, the Board approved the CalPERS 2017-22 Strategic Plan. This plan represents the culmination of a comprehensive process, including Board and Executive workshops, environmental scan analysis, external stakeholder engagement, and outreach to CalPERS staff. In the next four years, CalPERS will be committed to building effective investment processes to ensure efficiencies, mitigate risk, and set controls to increase net returns on assets. In the area of health care, efforts to contain health care costs and identify cost savings, and create a culture of good health for our members, will continue to be a priority. Ongoing process reviews will transpire to create efficiencies and reduce complexity across the enterprise, and efforts will take place to advance the cyber security strategy and roadmap to mitigate cyber security risks.

The ownership of the my|CalPERS Optimization project has transitioned to maintenance and operations. In the next two years, utilization of consultants for this project will be reduced to an operating level of 12 consultants. Future budget requests will be submitted as release style projects with well-articulated business outcomes and associated costs.

CalPERS is committed to exploring cost efficiencies and identifying cost savings throughout the organization. The organization continues to build upon its internal investment team and become less reliant on more costly external investment managers. Finally, the CalPERS team is dedicated to working together to reduce complexities, monitor expenses, and maximize existing resources to ensure additional cost savings are realized.

FY 2019-20 and FY 2020-21 Budget Projection

The FY 2019-20 Projection will represent the third year of the five-year 2017-22 Strategic Plan. The FY 2019-20 Projection estimates an increase of \$10.5 million (0.6 percent) from the FY 2018-19 Proposed Budget.

Administrative Operating costs are estimated to increase by \$17.5 million (3.5 percent) and includes estimated collective bargaining, benefit and merit salary increases in personnel services for CalPERS staff. This increase is offset by an anticipated decrease in enterprise project costs of \$7.0 million (72.9 percent). A proposed budget of \$2.6 million in the FY 2019-20 projection is for multi-year projects currently undertaken by the organization.

The FY 2020-21 Projection will represent the fourth year of the five-year 2017-22 Strategic Plan. The FY 2020-21 Projection estimates an increase of \$11.6 million (0.7 percent) from the FY 2019-20 Projection. This increase is due to estimated benefit and merit salary increases in personnel services for CalPERS staff.

No additional positions are included in the FY 2019-20 and FY 2020-21 Projections. The organization is committed to managing vacancies and redirecting positions when, appropriate, through the enterprise position pooling process.

Projections for the Investment External Management Fees are unchanged from the FY 2019-20 and FY 2020-21 Proposed Budget, as are the Investment Operating Costs. These are likely to change, but projections are unavailable. There are no anticipated changes to the Headquarters Building Costs. The Third Party Administrator fees will most likely change based on increases in membership and strong rate negotiations.

FY 2017-18 Budget Forecast

The current FY 2017-18 Forecast of \$1,658.6 million is \$191.1 million (13.0 percent) higher than the FY 2016-17 actual expenditures of \$1,467.5 million, and \$17.2 million (1.0 percent) lower than the FY 2017-18 Approved Budget of \$1,675.8 million.

FY 2016-17 vs. FY 2017-18

(\$ in millions)	FY 2016-17 Actual	FY 2017-18 Approved Budget	FY 2017-18 Forecast	Actual to Forecast		Budget to Forecast	
				\$ Change Incr / (Decr)	% Change Incr / (Decr)	\$ Change Incr / (Decr)	% Change Incr / (Decr)
Administrative Operating Costs	\$437.8	\$468.4	\$451.7	\$13.9	3.2%	(\$16.7)	(3.6%)
Investment Operating Costs	69.5	91.2	91.2	21.7	31.3%	-	0.0%
Investment External Management Fees	613.5	777.5	777.5	164.0	26.7%	-	0.0%
Third Party Administrator Fees	286.4	288.9	288.9	2.5	0.9%	-	0.0%
Total: Operating Costs	\$1,407.2	\$1,626.1	\$1,609.4	\$202.2	14.4%	(\$16.7)	(1.0%)
Enterprise Project Costs	34.1	22.7	22.2	(11.9)	(34.9%)	(0.6)	(2.4%)
Headquarters Building Costs	26.2	27.0	27.0	0.8	3.1%	-	0.0%
CalPERS Total Budget	\$1,467.5	\$1,675.9	\$1,658.6	\$191.1	13.0%	(\$17.2)	(1.0%)

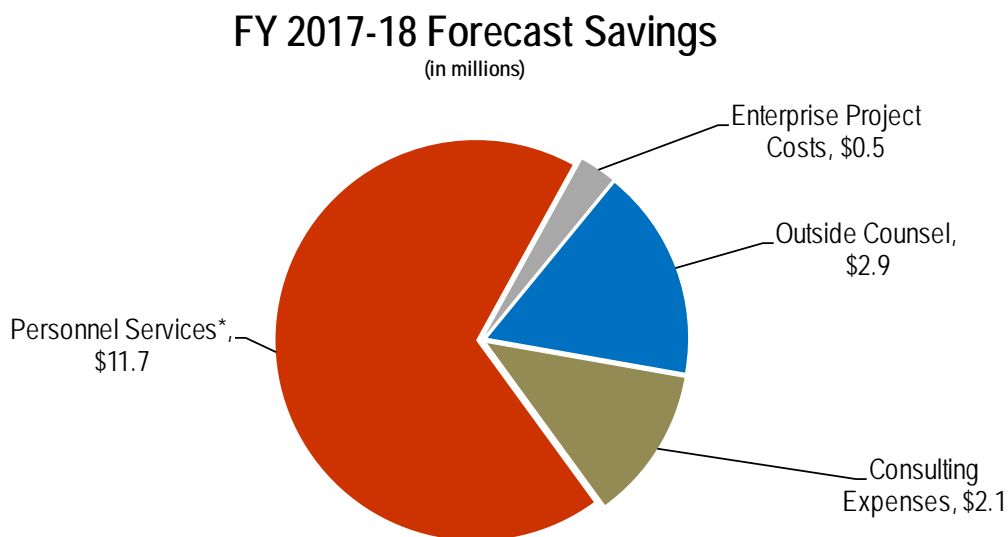
Note: Numbers may not add exactly due to rounding of budget detail.

Comparison of FY 2017-18 Forecast to FY 2016-17 Actual Expenses

The current FY 2017-18 Forecast of \$1,658.6 million is \$191.1 million (13.0 percent) higher than the previous year's 2016-17 actual expenditures of \$1,467.5 million. This is mainly the result of higher estimated investment management fees (\$164.0 million) due to an anticipated increase in assets under management and market analysis; higher administrative and investment operating costs (\$35.6 million) due to employee compensation increases, continued insourcing of investment functions, and increases in investment consultants and external legal fees; higher third party administrator fees (\$2.5 million) due to health program enrollment and pharmacy benefit manager increases; and offset by reductions in enterprise projects (\$11.9 million) concluded in FY 2016-17.

Comparison of FY 2017-18 Forecast to FY 2017-18 Approved Budget

The current FY 2017-18 Forecast is estimated to be \$1,658.6 million, a decrease of \$17.2 million (1.0 percent) from the FY 2017-18 Approved Budget of \$1,675.8 million. The decrease is primarily attributed to (a) higher personnel services savings (\$11.7 million), (b) lower than anticipated outside counsel costs (\$2.9 million), (c) reduced consulting expenses (\$2.1 million), and (d) lower than anticipated enterprise project costs (\$0.5 million), primarily due to savings in the AVS Redesign Project.



*This forecasted savings as of June 30, 2018 is \$11.7 million. This does not reflect the savings of \$7.5 million realized at mid-year.

Recent Accomplishments (FY 2017-18)

The second quarter Enterprise Performance Reporting update presented to the Board in March 2018 provided the status of current business initiatives and upcoming activities. Recent accomplishments were highlighted and included the following:

- Conducted an Asset Liability Management (ALM) Workshop in November 2017, which led to the selection of a Strategic Asset Allocation for the PERF by the Board.
- Finalized the first phase of the AVS redesign and enhancement; established development and test environments, and a new user interface that staff will use to interact with system functionality.
- Developed and implemented webinars to educate stakeholders on system risks, costs, and risk mitigation efforts.
- Advanced an innovative value-based insurance design for the PERS Select basic (non-Medicare) Preferred Provider Organization (PPO) health plan that will encourage members to receive care through a personal physician, provide incentives to improve their health, and reduce their annual deductible costs starting January 1, 2019.
- Established an actuarial amortization policy to eliminate positive or negative unfunded liabilities in a manner that maintains benefit security for the members of the System while minimizing substantial variations in employer contribution rates.

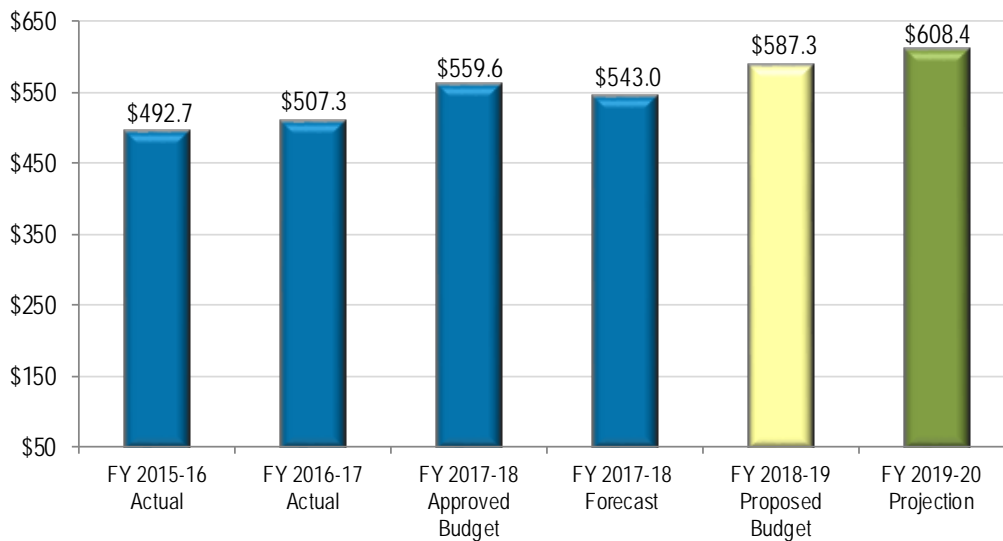
FY 2018-19 CalPERS Total Budget by Area

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

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

Administrative and Investment Operating Costs Trend

(in millions)



Note: excludes Investment External Management Fees

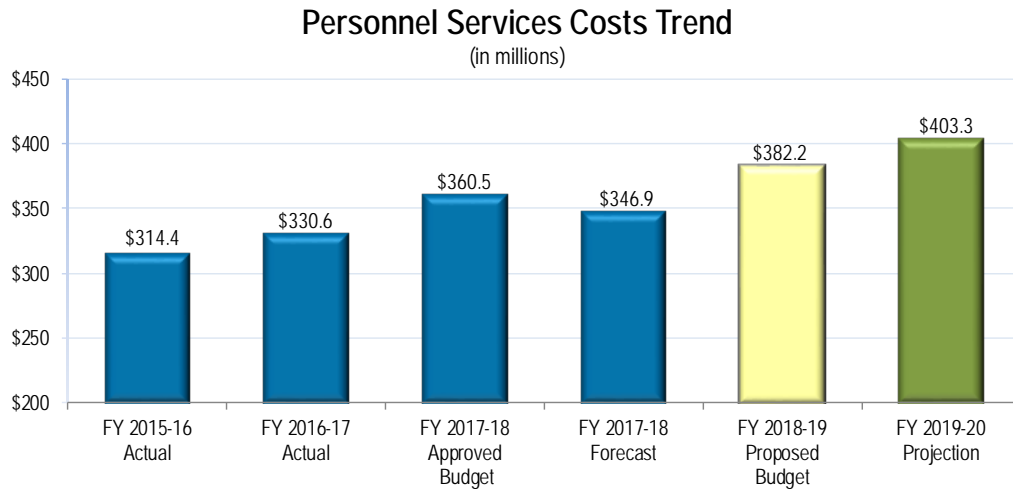
Total Operating Costs (includes administrative and investments costs) for the FY 2018-19 Proposed Budget are \$591.0 million (*the chart above does not reflect one-time FBRs of \$3.6 million that expire at the end of FY 2018-19*) compared with \$559.6 million in the FY 2017-18 Approved Budget, an increase of \$31.3 million (5.6 percent), mainly due to increases in personnel services of \$21.7 million and \$9.7 million in operating expenses.

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

E. Operating Costs

(in thousands)	FY 2016-17 Actual	FY 2017-18 Approved Budget	FY 2018-19 Proposed Budget	Budget to Budget	
				\$ Change Incr / (Decr)	% Change Incr / (Decr)
Administrative and Investment Operating Costs					
[1] PERSONNEL SERVICES					
Salaries & Wages	\$ 216,474	\$ 246,504	\$ 255,546	\$ 9,042	3.7%
Temporary Help	9,939	9,009	7,315	(1,694)	(18.8%)
Overtime	1,960	2,370	2,100	(270)	(11.4%)
Benefits	102,244	129,293	135,987	6,694	5.2%
Total Personnel Services	\$ 330,618	\$ 387,176	\$ 400,948	\$ 13,771	3.6%
Vacancy Savings		(26,627)	(18,738)	7,889	
Revised Total Personnel Services	\$ 330,618	\$ 360,549	\$ 382,209	\$ 21,660	6.0%
[2] OPERATING EXPENSES & EQUIPMENT					
General Expense [2.1]	\$ 6,648	\$ 8,808	\$ 9,552	\$ 744	8.4%
Fund Admin Services/Subscriptions	2,816	3,126	2,898	(228)	(7.3%)
Software [2.2]	905	2,046	2,205	159	7.8%
Printing	1,762	1,951	1,963	12	0.6%
Postage [2.3]	2,613	3,667	3,336	(331)	(9.0%)
Communications	1,742	1,907	1,816	(91)	(4.7%)
Data Processing Services [2.4]	17,648	17,128	15,802	(1,326)	(7.7%)
Travel	2,484	3,393	3,257	(136)	(4.0%)
Training	1,199	1,660	1,730	70	4.2%
Medical Exam/Disability Travel	1,801	1,908	1,916	8	0.4%
Facilities Operations	5,315	5,665	5,464	(201)	(3.5%)
Central Administrative Services [2.5]	24,709	24,411	26,195	1,784	7.3%
University Enterprises, Inc. [2.6]		25	415	390	1560.1%
External Legal Counsel [2.7]	7,912	13,189	11,807	(1,382)	(10.5%)
Professional Services [2.8]	6,809	5,101	5,993	892	17.5%
Consultants [2.9]	18,751	18,261	21,946	3,685	20.2%
Consultants - Investments	11,758	19,501	19,501		0.0%
Audit Services	1,246	1,305	1,400	95	7.3%
Master Custodian Fees [2.10]	5,103	4,490	7,657	3,167	70.5%
Appraisal Fees/Tax Advisory Services [2.11]	9,708	10,781	11,200	419	3.9%
Federal Legislative Rep [2.12]	889	900	600	(300)	(33.3%)
Admin Hearings	1,517	1,300	1,300		0.0%
Other Investment Expenses	1,031	1,164	1,190	26	2.2%
Consolidated Data Centers	66	90	90	-	0.0%
Trading & Portfolio Mgmt Systems	21,540	24,847	24,692	(155)	(0.6%)
Data/Analytics [2.13]	12,049	17,015	17,600	585	3.4%
Business Operations Tool/Other Technology [2.14]	1,531	2,608	2,178	(430)	(16.5%)
Equipment (Includes EDP) [2.15]	7,124	2,841	5,064	2,223	78.3%
Total Operating Expenses & Equipment	\$ 176,677	\$ 199,089	\$ 208,768	\$ 9,679	4.9%
Total Costs	\$ 507,295	\$ 559,638	\$ 590,978	\$ 31,339	5.6%

[1] PERSONNEL SERVICES



In FY 2018-19, the \$382.2 million represents a \$21.7 million net increase (6.0 percent) over the FY 2017-18 Approved Budget of \$360.5 million. This is primarily due to employee compensation increases of \$15.8 million negotiated during the statewide collective bargaining process and anticipated increases for non-represented employees, and a decrease of \$2.0 million in temporary staffing and overtime costs. Further, during FY 2017-18, a one-time reduction of \$7.5 million for additional vacancy savings was approved at mid-year based on the vacancy trend at that time. For FY 2018-19, \$7.9 million is being restored. It is anticipated that our vacancies will decline as divisions continue to manage existing vacancies as part of their workforce planning efforts as result of a position pooling concept.

To recognize the impact of vacancies on the cost of personnel services, an overall vacancy savings target of 4.0 percent has been applied in FY 2018-19, thus reducing costs by \$18.7 million, from \$400.9 million to a revised net cost of \$382.2 million. FY 2018-19 proposed positions of 2,875 remain unchanged from FY 2017-18.

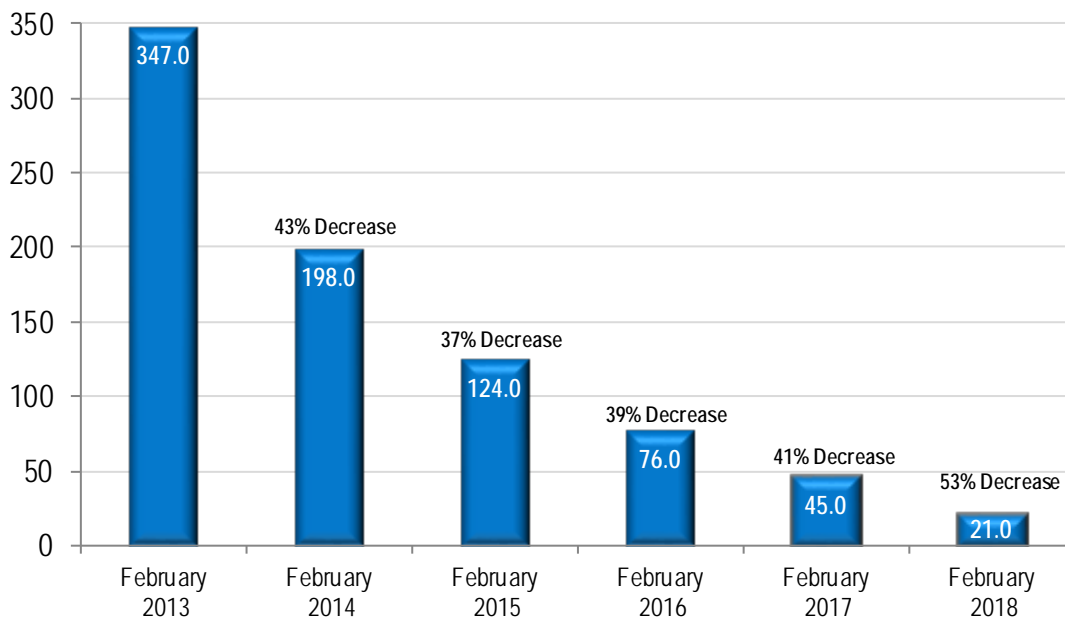
Fiscal Year 2018-19
Positions by Branch

Branch	FY 2017-18 Authorized Positions (as of 02/28/18)	FY 2018-19 Authorized Positions	% Change
Actuarial Office	58.0	58.0	-
Communications & Stakeholder Relations	79.0	79.0	-
Customer Services and Support	865.5	865.5	-
Enterprise Compliance	26.0	26.0	-
Executive Office	16.0	16.0	-
Financial Office	218.0	218.0	-
General Counsel	140.0	140.0	-
Health Policy and Benefits	211.0	211.0	-
Investment Office	350.0	350.0	-
Operations and Technology	911.5	911.5	-
Total	2,875.0	2,875.0	0.0%

Reduction of Blanket Positions

With the implementation of the my|CalPERS system through the end of 2011, blanket positions were used to assist with the organizational transition to the new system. After this transitional period, the organization began an enterprise-wide effort to reduce reliance on blanket positions and formally implemented a blanket policy to assist the organization with this endeavor. The success of this effort is shown in the decline of blanket positions. In February 2013, 347.0 blanket positions existed. As of February 2018, this number has decreased to 21.0; a decrease of 326.0 positions (93.9 percent) over a period of five years.

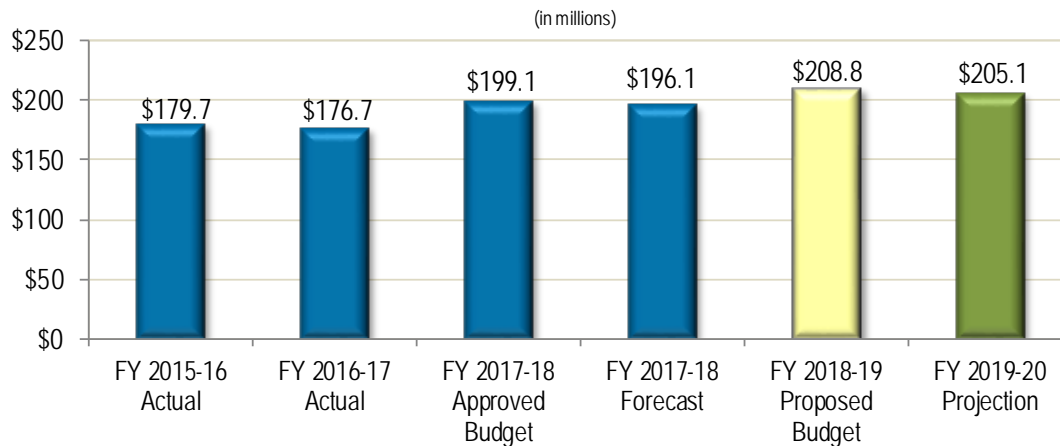
Reduction of Blanket Positions
From February 2013 to February 2018 (5 years)



[2] OPERATING EXPENSES & EQUIPMENT

In FY 2018-19 Operating Expenses and Equipment costs of \$208.8 million represent an increase of \$9.7 million (4.9 percent) from the FY 2017-18 Approved Budget of \$199.1 million.

Operating Expenses & Equipment Costs Trend



[2.1] General Expense

General Expense costs are estimated to increase by \$0.7 million, primarily due to various executive recruitment subscription services.

[2.2] Software

Software costs are estimated to increase by \$0.2 million primarily due to software costs for the new Human Resources Management Solution project that will replace the current system (\$0.7 million), and offset by reductions of eDiscovery legal software costs (\$0.3 million) and various software purchases that have shifted to Data Processing Services (\$0.2 million).

[2.3] Postage

Postage costs are estimated to decrease by \$0.3 million due to an increase in utilization of internet resources to disseminate information.

[2.4] Data Processing Services

Data Processing costs are estimated to decrease by \$1.3 million due to the ongoing management and negotiation of maintenance contracts.

[2.5] Central Administrative Services (Pro-Rata)

Central Administrative Services are expected to increase by \$1.8 million due to increased assessments by Central Service Agencies.

[2.6] University Enterprises, Inc. (formerly Hornet Students)

University Enterprises, Inc (UEI). costs are estimated to increase by \$0.4 million as costs have shifted from Temporary Help to the UEI line item for FY 2018-19 related to our internship program including the Sacramento Thousand Strong Internship program.

[2.7] External Legal Counsel

External Legal Counsel is anticipated to decrease by \$1.4 million based on a three-year average projection.

[2.8] Professional Services

Professional Services costs are estimated to increase by \$0.9 million due to the number of training courses and State Controller's Office warrants processed.

[2.9] Consultants

Consultant costs are estimated to increase by \$3.7 million primarily due to my|CalPERS maintenance and operation expenses shifting from the Enterprise Project Budget to the Operating Budget (\$4.3 million).

[2.10] Master Custodian Fees

Master Custodian Fees are projected to increase by \$3.2 million due to a newly negotiated contract which increases services provided. Scope of work to include updates for compliance services, integration with the Artemis project, and Short-Term Investment Fund (STIF) project. This contract will be effective July 2018.

[2.11] Appraisal Fees/Tax Advisory Services

Appraisal Fees are estimated to increase by \$0.4 million due to more trading in Emerging and International markets.

[2.12] Federal Legislative Representative

Federal legislative costs are estimated to decrease by \$0.3 million due to a reduction in reliance on Federal Lobbyists and work being completed in-house.

[2.13] Data/Analytics

Data analytics costs are estimated to increase by \$0.6 million due to increased data needs for internally managed portfolios.

[2.14] Business Operations Tool/Other Technology

Technology costs are estimated to decrease by \$0.4 million based on current purchase orders and additional initiatives.

[2.15] Equipment (includes EDP)

Equipment costs are estimated to have a net increase of \$2.2 million primarily due to hardware refresh funding of \$3.9 million to replace hardware reaching the end of its useful life.

[3] INVESTMENT EXTERNAL MANAGEMENT FEES

The FY 2018-19 Proposed Budget of \$767.0 million is made up of \$577.4 million for External Management Base Fees and \$189.6 million for External Management Performance Fees and is an overall decrease of \$10.5 million (1.4 percent) from the FY 2017-18 Approved Budget. Total External Management Base Fees are increasing by \$20.1 million (3.6 percent) and total External Management Performance Fees are decreasing by \$30.6 million (13.9 percent) from the FY 2017-18 Approved Budget.

(in thousands)	FY 2016-17 Actual	FY 2017-18 Approved Budget	FY 2018-19 Proposed Budget	Budget to Budget	
				\$ Change Incr / (Decr)	% Change Incr / (Decr)
Global Equity [3.0]	\$80,546	\$87,974	\$93,000	\$5,026	5.7%
Fixed Income	10,781	10,003	10,003		0.0%
Real Assets ¹	187,068	184,742	185,201	458	0.2%
Absolute Return Strategy	675	800	332	(468)	(58.5%)
Private Equity ²	234,494	260,000	258,000	(2,000)	(0.8%)
Activist Funds [3.2]	6,513	5,362	-	(5,362)	(100.0%)
Multi Asset Class [3.3]	8,194	8,467	30,900	22,433	264.9%
External Mgmt - Base Fees	\$528,270	\$557,349	\$577,436	\$20,087	3.6%
Global Equity [3.0]	\$23,043	\$71,071	\$84,896	\$13,824	19.5%
Fixed Income	2,915	3,336	2,908	(428)	(12.8%)
Real Assets ¹ [3.1]	56,592	142,865	100,969	(41,896)	(29.3%)
Absolute Return Strategy	2,689	-	800	800	100.0%
Activist Funds	-	-	-	-	0.0%
Multi Asset Class [3.3]	-	2,896	-	(2,896)	(100.0%)
External Mgmt - Performance Fees²	\$85,239	\$220,169	\$189,573	(\$30,596)	(13.9%)
Total External Mgmt Fees	\$613,509	\$777,518	\$767,009	(\$10,509)	(1.4%)

¹ Real Assets include Forestland/Infrastructure.

² Profit sharing for Private Equity is deducted from the net returns earned in that asset class.

Note: Numbers may not add exactly due to budget details.

Major variances from the FY 2017-18 budget are described below:

[3.0] Global Equity base fees are estimated to increase by \$5.0 million as the remaining activist fund manager is now included in the international portfolio and the Global Equity external manager base fee line item. Performance fees are estimated to increase by \$13.8 million due to projected performance payouts based on average market value and increased portfolio fund size.

[3.1] Real Assets Performance fees estimated to decrease by \$41.9 million due to market analysis from the external managers and projected payments being netted from prior year accruals.

[3.2] Activist Funds base fees are no longer estimated under activist funds. The remaining external manager is included in Global Equity as this strategy no longer exists.

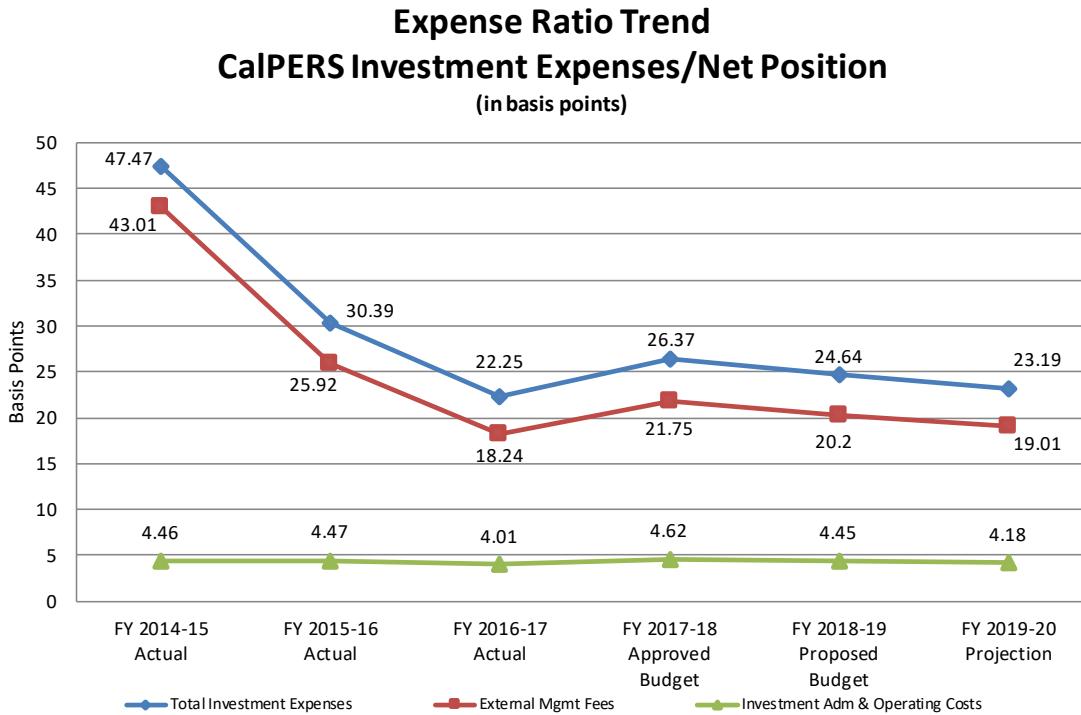
[3.3] Multi Asset Class (MAC) base fees are estimated to increase by \$22.4 million. This asset class received Board approval for additional managers. Last year, only two managers existed for MAC funds. A total of six managers are projected for FY 2018-19.

The following table shows the total projected costs for investment administrative costs, operating costs, and external management fees.

(in millions)	FY 2016-17 Actual	FY 2017-18 Approved Budget	FY 2018-19 Proposed Budget	Budget to Budget	
				\$ Change Incr / (Decr)	% Change Incr / (Decr)
Administrative	\$65.4	\$73.7	\$75.4	\$1.7	2.3%
Investment Operating Costs	69.5	91.2	93.4	2.2	2.4%
External Management Fees (Base and Performance)	613.5	777.5	767.0	(10.5)	(1.4%)
Total	\$748.4	\$942.5	\$935.9	(\$6.6)	(0.7%)

Note: Numbers may not add exactly due to rounding of budget detail.

Expense Ratio / Basis Points Trend



Note: For FY 2017-18, FY 2018-19 and FY 2019-20, the forecasted net positions are based on the average assets under management from the past five years.

Basis Points Trend

The expense ratio reflects investment expenses in relation to the total value of the portfolio also known as net position. The above chart displays External Management Fees, Investment Administrative, and Operating Costs in relation to the net position of assets under management. In summary, there has been a decrease in expenses relative to the net position from FY 2014-15.

The decrease in basis points from FY 2015-16 Actual Total Investment Expenses to FY 2016-17 is due to the decrease in Total External Management Fees in relation to an increased net position, and lower payouts in both base and performance fees.

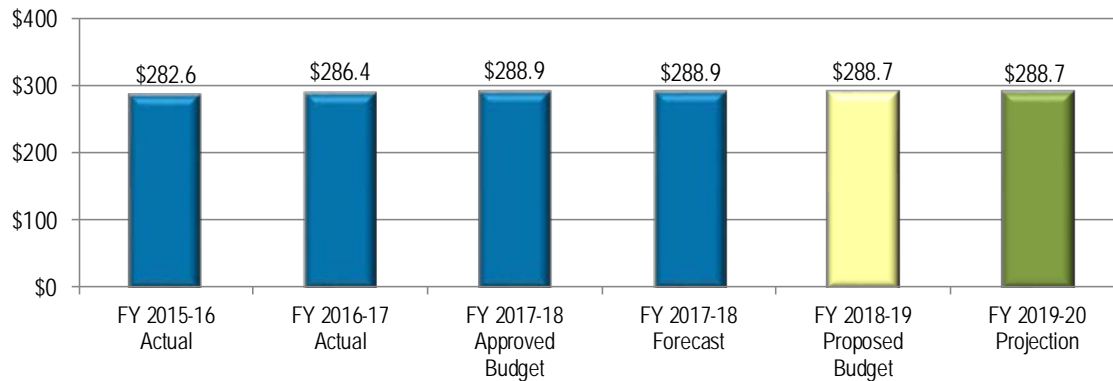
The expense ratio of the FY 2018-19 Proposed Budget is anticipated to be 24.64 basis points. This assumes a downward trend as staff continues to negotiate more favorable portfolio management terms, and the Investment Office continues to allocate assets to be managed in-house.

Third Party Administrator Fees

Third Party Administrator Fees cover administration, recordkeeping, and participant communication services for the CalPERS Health Program, Long-Term Care Program, the Supplemental Income Plan Program, and the California Employers' Retiree Benefit Trust Fund 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.

Third Party Administrator Fees Trend

(in millions)



Total Third Party Administrator Fees for the FY 2018-19 Proposed Budget are \$288.7 million, a decrease of \$0.2 million (0.1 percent) from the FY 2017-18 Approved Budget of \$288.9 million. The following details each of the program areas:

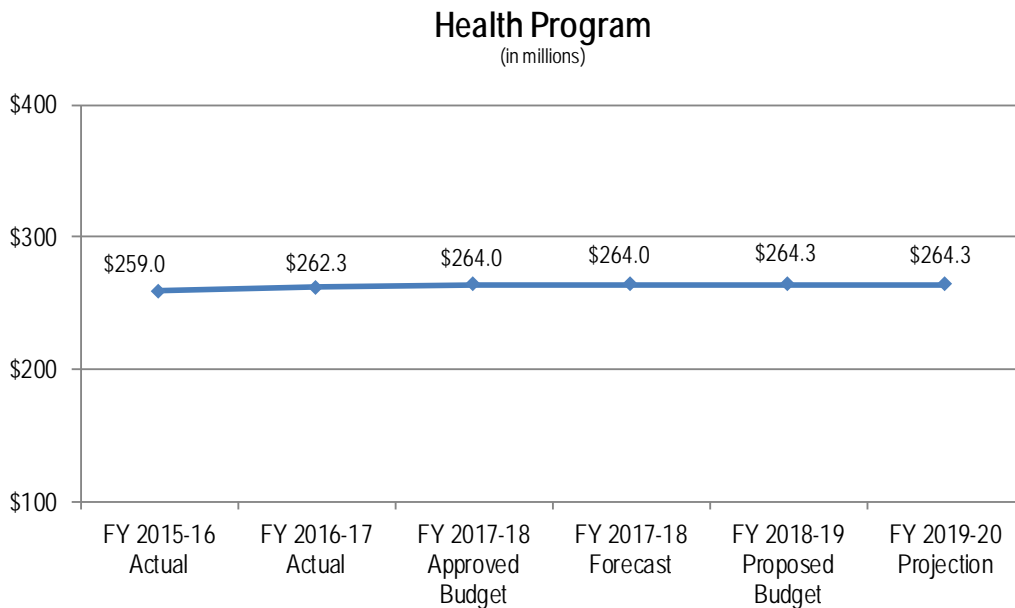
(\$ in thousands)	FY 2016-17 Actual	FY 2017-18 Approved Budget	FY 2018-19 Proposed Budget	Budget to Budget	
				\$ Change Incr / (Decr)	% Change Incr / (Decr)
Health Program ¹	\$ 240,361	\$ 239,991	\$ 239,991	-	0.0%
Health Program - State Controllers' Office	4,233	2,800	2,941	141	5.0%
Subtotal, Health	\$ 244,595	\$ 242,791	\$ 242,933	\$ 141	0.1%
Pharmacy Benefit Manager	17,696	21,213	21,325	112	0.5%
Total, Health	\$ 262,290	\$ 264,004	\$ 264,257	\$ 253	0.1%
Long Term Care Program - LTCC	20,814	21,479	20,732	(748)	(3.5%)
Supplemental Income Plan - Voya	3,297	3,326	3,585	259	7.8%
California Employers' Retiree Benefit Trust (CERBT) - Northeast Retirement Services (NRS)	-	101	112	11	10.8%
Total Third Party Administrator Fees	\$286,401	\$288,911	\$288,686	(\$225)	(0.1%)

¹The Administrative Services Fees in this report are initial proposals from health insurance carriers and may change, as they are negotiated each year during the health plan rate development process.

Note: Numbers may not add exactly due to rounding of budget detail.

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.

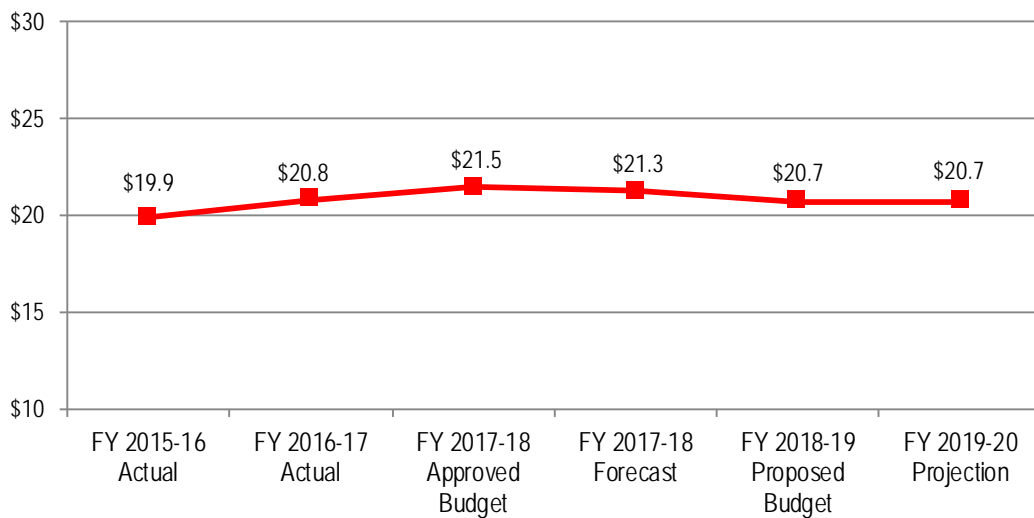


The FY 2018-19 Proposed Budget of \$264.3 million for the CalPERS Health Program represents a net increase of \$0.3 million (0.1 percent) from the FY 2017-18 Approved Budget. The Administrative Services Fees (ASF) in this report are initial proposals from health insurance carriers. These ASFs may change, as they are negotiated each year during the Health Benefits Program's health plan rate development process. The FY 2017-18 Forecast is estimated to be the same as the FY 2017-18 Approved Budget.

Long-Term Care

The Long-Term Care Program, as administered by Long Term Care Group, 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.

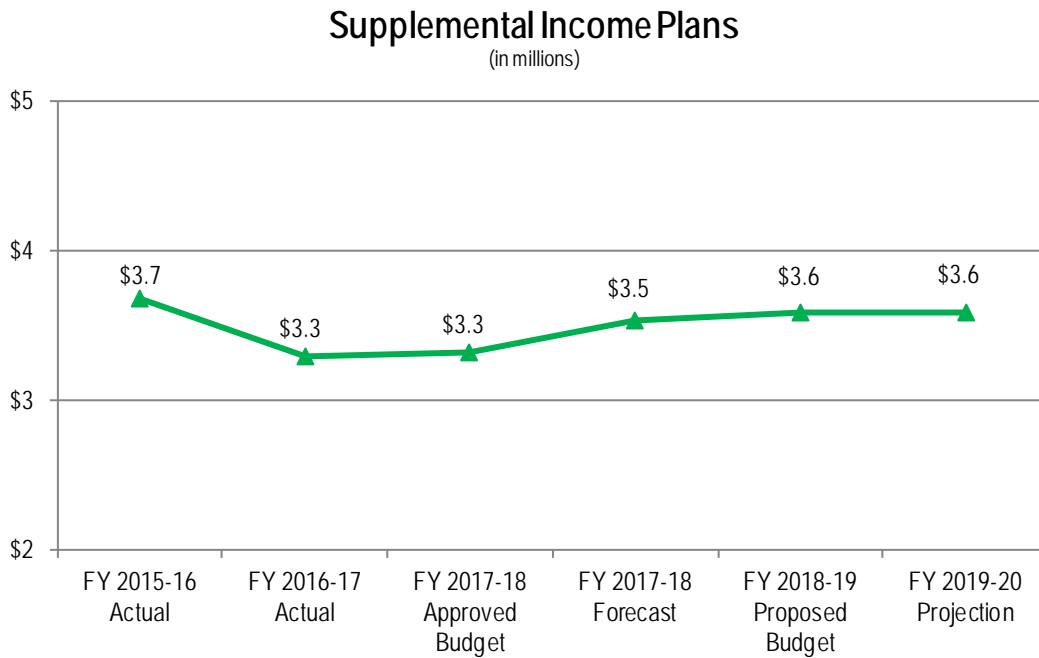
Long-Term Care
(in millions)



The FY 2018-19 Proposed Budget of \$20.7 million represents a decrease of \$0.7 million (3.5 percent) from the FY 2017-18 Approved Budget. This decrease is attributed to a continued decline in program membership. The FY 2017-18 Forecast is estimated to be \$0.2 million lower than the FY 2017-18 Approved Budget due to a decrease in program participants. The program lost a net of 1,751 participants in the first half of FY 2017-18, primarily due to the death of participants. The FY 2019-20 Projection is estimated to be the same as the FY 2018-19 Proposed Budget.

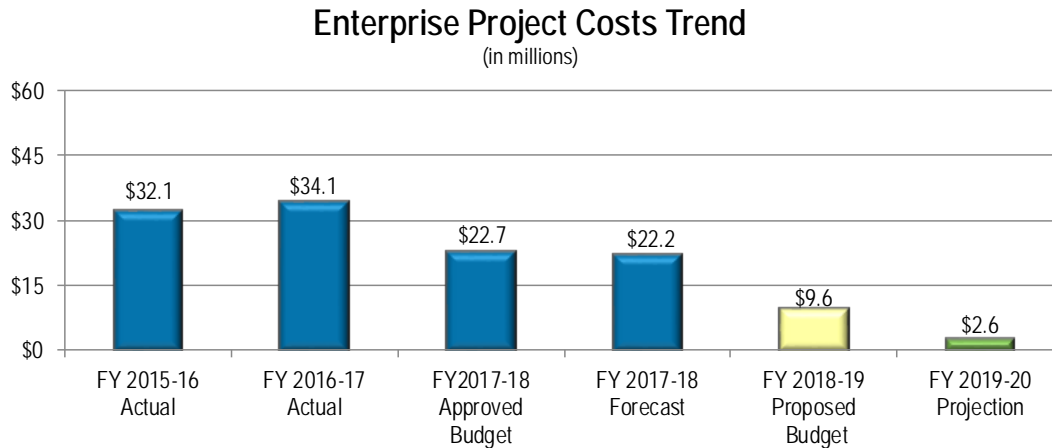
Supplemental Income Plans

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 2018-19 Proposed Budget of \$3.6 million represents an increase of \$0.3 million (7.8 percent) from the FY 2017-18 Approved Budget. This increase is due to the market value performance as the administrative fees are asset-based driven.

The FY 2018-19 Proposed Enterprise Project Costs of \$9.6 million represent a decrease of \$13.1 million (57.8 percent) from the FY 2017-18 Approved Budget of \$22.7 million. Compared with the FY 2017-18 Forecast of \$22.2 million, the FY 2018-19 Proposed Budget of \$9.6 million represents a decrease of \$12.6 million (56.8 percent).



The concentration of projects for FY 2018-19 is centered around continuing the redesign of the Actuarial Valuation System, replacement of the current system with a modern cloud-based system, newer technology to address security risks and replace obsolete technology that is no longer providing adequate protection, and transitioning the Contact Center platform to the cloud to enable full disaster recovery for Contact Center applications.

Contact Center Applications – Migration to Cloud

CalPERS Contact Center technology, in place for 15 years, is a multi-vendor solution that has been tightly integrated and highly complex. Funding is requested for new technology that will deliver a more stable Contact Center platform, reduce technology systems support costs, and enable full disaster recovery for the Contact Center applications with a zero-hour recovery time objective.

Information Security Technology Solutions

In support of the organizations strategic objectives, CalPERS is investing in new solutions to secure our members' data and mitigate ever-changing threats to the data security landscape. Funding for this project will be allocated across three different areas; software, new equipment, and consulting and professional services.

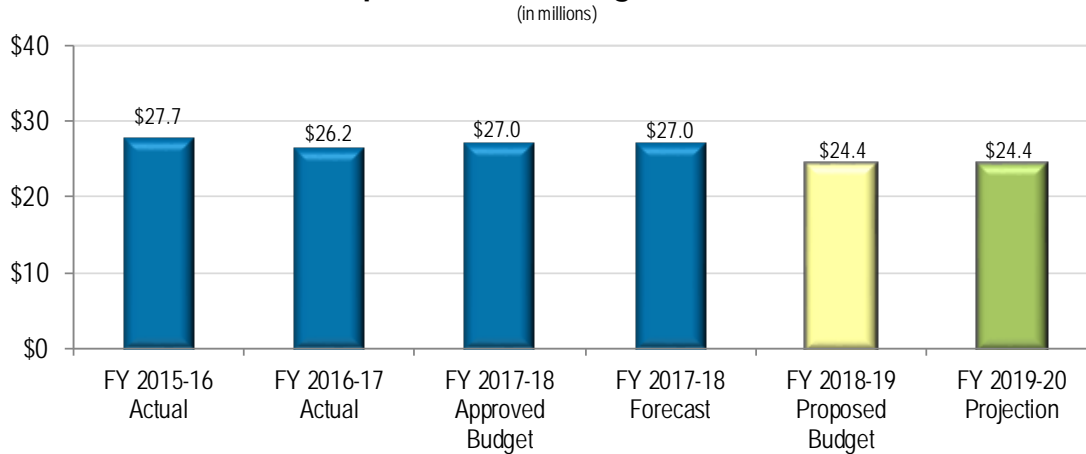
Actuarial Valuation System Redesign

The current Actuarial Valuation System (AVS) has been in existence for over 20 years and no longer meets evolving actuarial practices, including changes required for employers to comply with new standards implemented by the Governmental Accounting Standards Board (GASB). The investment to redesign the AVS system will provide the capabilities needed to keep current with evolving practices and comply with GASB. This is a multi-year project. Phase 1 was completed and identified business process requirements to develop a concept for the new database model. Phase 2 is on schedule and is due to be completed in October 2018, which includes developing a logical data model while implementing the physical data model, as the new AVS application is integrated to the new AVS database. The next steps in FY 2018-19 are to write and implement AVS features such as Data Analytics, Document Management, Reporting, Financing, and Workflow. In addition, application hardware and software will be procured, system configuration and data integration will continue, user acceptance testing and training will be performed, and primary support functions will begin transitioning from project consultants to State staff. This project is expected to be completed in FY 2019-20.

Human Resources Management Solutions (HRMS)

The current system is hosted in-house and maintained by CalPERS staff with ongoing consulting support. It poses numerous challenges including high costs to maintain and enhance, and difficult to interface with other systems. Also, skilled staff are in high demand and often difficult to attract and retain. One-time funding will be used to replace the current system with a modern cloud-based system that will meet CalPERS business needs and requirements.

Headquarters Building Costs Trend



The FY 2018-19 Proposed Headquarters Building Costs are \$26.9 million, reduced by \$2.6 million in rent revenues, creating a net cost of \$24.4 million. Costs include operating expenses of \$18.5 million (utilities, engineering services, janitorial, security, etc.) and non-operating expenses of \$8.4 million (structural improvements, staff moves, insurance, etc.).

Operating expenses in the FY 2018-19 Proposed Budget of \$18.5 million are reduced by \$1.0 million from the FY 2017-18 Approved Budget of \$19.5 million. Non-operating expenses in the FY 2018-19 Proposed Budget of \$8.4 million are reduced by \$2.3 million from the FY 2017-18 Approved Budget of \$10.7 million. The major variances between the two fiscal year budgets are the reductions in furniture and fixtures, owner improvements, operating costs from the recent sale of the Thomson-Diggs and Ramos Buildings, and rent revenue. The decrease in costs of \$2.6 million is detailed as follows:

Description	\$ in millions
Utilities - reduction due to new SMUD SolarShares agreement	\$(0.2)
Engineering Services - increase due to new union contract	0.3
Janitorial - increase based on new contract rates	0.3
General Maintenance - reduction in outside services, painting & decorating, and door/hardware repairs	(0.2)
Property Mgmt. & Administrative Fees - increase due to added Contracts Administrator position and increased salaries and benefits	0.2
Café Plaza - reduction due to contract renegotiation	(0.2)
Operating Other - reduction in HVAC, sewage pump repairs, and cost of Green Energy Program	(0.7)
Owner Improvements - reduction in cable installation salaries, wire plant/voice, wire plant/data, and warehouse storage	(0.6)
Building Improvements - increase in building improvement projects	0.3
Furniture & Fixtures - reduction due to less funding needed for workstation conversions and ancillary furniture for the Master Space Plan restack	(2.0)
Miscellaneous - Net impact of other changes	(0.4)
Total Change in Costs	\$(3.2)
Rent Revenue Offset	0.6
Budget Decrease from FY 17-18 to FY 18-19	\$(2.6)

Note: Numbers may not add exactly due to rounding of budget detail.

Headquarters Building Costs

(in thousands)	FY 2016-17 Actual	FY 2017-18 Approved Budget	FY 2018-19 Proposed Budget	Budget to Budget	
				\$ Change Incr / (Decr)	% Change Incr / (Decr)
Operating:					
Utilities	\$2,374	\$2,534	\$2,291	(\$242)	(9.6%)
Engineering Services	2,698	3,110	3,372	262	8.4%
Janitorial	2,942	3,030	3,288	258	8.5%
Landscaping	815	858	855	(3)	(0.3%)
General Maintenance	2,326	1,620	1,447	(173)	(10.7%)
Security	2,154	2,756	2,598	(159)	(5.8%)
Property Mgmt. & Administrative Fees	1,594	1,354	1,509	155	11.4%
Café Plaza	326	382	176	(206)	(53.9%)
Front St. Parking/Warehouse	582	726	642	(84)	(11.6%)
EOC (Sun Center) ¹	528	512	455	(57)	(11.1%)
Operating Other ²	2,261	2,575	1,860	(715)	(27.7%)
Total Operating Costs	18,600	19,456	18,493	(962)	(4.9%)
Non-Operating:					
Owner Improvements ³	5,203	4,472	3,919	(553)	(12.4%)
Building Improvements ⁴	4,014	3,028	3,338	310	10.2%
Furniture & Fixtures	1,062	2,598	563	(2,035)	(78.3%)
Building Insurance	397	610	610	-	0.0%
Total Non-Operating Costs	10,676	10,707	8,429	(2,278)	(21.3%)
Total Costs	\$29,275	\$30,163	\$26,923	(\$3,240)	(10.7%)
Rent Revenue Offset ⁵	(3,046)	(3,117)	(2,550)	566	(18.2%)
Total Headquarters Building Costs	\$26,230	\$27,046	\$24,372	(\$2,674)	(9.9%)

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

² Includes ongoing expense categories such as electrical, HVAC, plumbing, waste removal, property taxes, child care center, and 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.

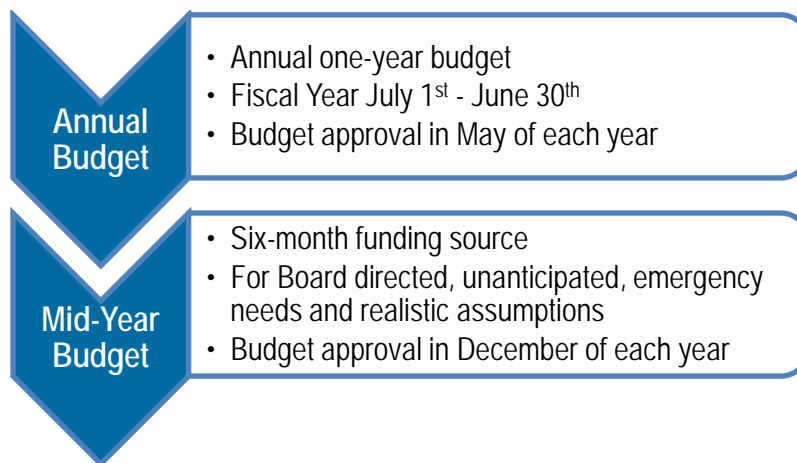
Note: Numbers may not add exactly due to rounding of budget detail.

[1] CalPERS Budget Process

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, 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 rigorous budget process is an ongoing budget planning activity that considers the priorities of the enterprise as well as CalPERS values and mission as the basis for determining how and where to use resources.

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



The annual budget process is designed to review the organization’s existing operational resource needs to maintain current service levels, as well as prioritize resource requests for new services, initiatives and projects required to meet CalPERS mission, strategic goals, and business plan priorities. The enterprise budget process begins in October of each year with the release of the Financial Office’s annual budget kick-off 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 Board's Finance and Administration Committee (FAC) for review. The annual budget is submitted to the FAC in April (first reading) and May (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 budget to reduce funds needed or request additional funds if Board-directed, critical, emergency, unforeseen circumstances, or an assumption becomes more realistic arise, after the start of the new fiscal year requiring funding in the current year. The Board reviews for approval of the mid-year budget in November and December with a revised annual budget effective date of January 1st. Occasionally it may be necessary to present to the Board a budgetary technical adjustment or true-up outside of the annual and mid-year cycle. This may be necessary to reflect statewide budget adjustments (i.e. salary negotiations) occurring late in the fiscal year.

State Budget Process

In addition to the CalPERS Budget Process, CalPERS is required to go through the state budget process for resource needs related to the Health Benefits Program. Resource requests for programs funded from the Contingency Reserve Fund and the Health Care Fund require approval through the annual state budget process.

- The State budget cycle begins in June with the development of Budget Change Proposal (BCP) Concepts. Concepts are submitted to the Financial Office for consideration in May.
- All submissions are reviewed and discussed with budget staff, senior management, and executive leadership prior to submitting to the Government Operations Agency (GOA) for review and approval.
- Concepts approved by GOA in June can be developed into BCPs and submitted to the GOA for signature in August, and to the Department of Finance (DOF) for review and approval in September.
- BCPs approved by DOF are included in the Governor's proposed annual budget, along with the budget bill.
- Once the Governor's proposed annual budget is released in January, Legislative budget hearings are held to discuss and consider BCPs.
- BCPs approved by the Legislature are included in the budget bill, then signed by the Governor and become effective July 1st of the new fiscal year.

[2] FY 2018-19 Total Budget With Projection

(in thousands)	FY 2017-18 Approved Budget ¹	FY 2017-18 Forecast	FY 2018-19 Proposed Budget	FY 2019-20 Projection	Budget to Budget	
					\$ Change Incr / (Decr)	% Change Incr / (Decr)
Administrative Operating Costs	\$ 468,402	\$ 451,744	\$ 497,557	\$ 515,021	\$ 29,155	6.2%
<i>Salary & Benefits</i>	350,104	334,397	370,991	392,091	20,887	6.0%
<i>Discretionary</i>	118,298	117,346	114,756	114,756	(3,543)	(3.0%)
<i>Baseline Admin. FBRs</i>			8,174	8,174	8,174	
<i>One-time Admin. FBRs</i>			3,636		3,636	
Investment Operating Costs ²	91,236	91,236	93,421	93,421	2,185	2.4%
Investment External Management Fees	777,518	777,518	767,009	767,009	(10,509)	(1.4%)
Third Party Administrator Fees ³	288,911	288,911	288,686	288,686	(225)	(0.1%)
Total: Operating Costs	\$ 1,626,067	\$ 1,609,409	\$ 1,646,672	\$ 1,664,136	\$ 20,606	1.3%
Enterprise Project Costs	22,738	22,179	9,591	2,579	(13,147)	(57.8%)
Headquarters Building Costs	27,046	27,046	24,372	24,372	(2,674)	(9.9%)
CalPERS Total Budget	\$ 1,675,851	\$ 1,658,633	\$ 1,680,636	\$ 1,691,088	\$ 4,785	0.3%
Total Positions	2,875.0		2,875.0		-	0.0%

¹ FY 2017-18 Mid-Year Budget approved by the CalPERS Board of Administration on December 19, 2017.

² Investment operating expenses are not part of CalPERS Administrative Operating Costs and therefore should not be included in CalPERS pro-rata assessment.

³ The Administrative Services Fees in this report are initial proposals from health insurance carriers and may change, as they are negotiated each year during the health plan rate development process.

Note: Numbers may not add exactly due to rounding of budget detail.

[3] Total CalPERS Budget by Branch

(in thousands)	FY 2017-18 Approved Budget	FY 2018-19 Proposed Budget	Budget to Budget	
			\$ Change Incr / (Decr)	% Change Incr / (Decr)
Administrative and Investment Operating Costs				
Actuarial Office	10,275	11,352	1,077	10.5%
Communications and Stakeholder Relations	15,172	15,467	295	1.9%
Customer Services and Support	97,288	103,783	6,495	6.7%
Enterprise Compliance Office	3,094	3,185	91	2.9%
Executive Office	6,712	6,575	(137)	(2.0%)
Financial Office	31,013	31,817	803	2.6%
General Counsel	27,641	28,532	891	3.2%
Health Policy and Benefits Branch	30,827	32,350	1,522	4.9%
Investment Office	162,492	168,852	6,360	3.9%
Operations and Technology	150,711	162,870	12,159	8.1%
Pro-Rata Assessment	24,411	26,195	1,784	7.3%
Subtotal	\$ 559,638	\$ 590,978	\$ 31,339	5.6%
Investment External Management Fees	777,518	767,009	(10,509)	(1.4%)
Third Party Administrator Fees	288,911	288,686	(225)	(0.1%)
Enterprise Projects Budget	22,738	9,591	(13,147)	(57.8%)
Headquarters Building Costs	27,046	24,372	(2,674)	(9.9%)
CalPERS Total Budget	\$ 1,675,851	\$ 1,680,636	\$ 4,785	0.3%

Note: Numbers may not add exactly due to rounding of budget detail.

The following are the main variances for the CalPERS administrative and investment operating costs from the previous year:

Actuarial Office (ACTO) [+ \$1.1 million] - Costs are increasing due to employee compensation adjustments, and one-time actuarial services related to the First Principles Model.

Communications and Stakeholder Relations (CSR) [+ \$0.3 million] - Costs are primarily increasing due to employee compensation adjustments. These increases are offset by savings due to reduced reliance on Federal Lobbyists.

Customer Services and Support (CSS) [+\$6.5 million] - Costs are increasing due to employee compensation adjustments, and increased postage costs with the Office of State Publishing for the CalPERS Benefit and Education Event survey cards. These increases are offset by a reduction in temporary help staff.

Enterprise Compliance (ECOM) [+\$0.1 million] - Costs are increasing due to employee compensation adjustments.

Executive Office (EXEO) [-\$0.1 million] - Costs are decreasing due to a reduction in CalPERS Board outside counsel services. These decreases are offset by increases due to employee compensation adjustments.

Financial Office (FINO) [+\$0.8 million] - Costs are increasing due to employee compensation adjustments. These increases are offset by a reduction in temporary help staff, reduced costs related to invoice automation and rent.

General Counsel (GCO) [+\$0.9 million] - Costs are increasing due to employee compensation adjustments. These increases are offset by a reduction in temporary help staff.

Health Policy and Benefits Branch (HPBB) [+\$1.5 million] - Costs are increasing due to employee compensation adjustments, and increased temporary help staff. These increases are offset by a reduction in consulting services as existing state staff are leveraged for business needs.

Investment Office (INVO) [+\$6.4 million] - Costs are increasing due to employee compensation adjustments, and continued services for the student internship program. These increases are offset by a reduction in temporary help staff. Costs are also increasing in the investment operating expenses mainly due to a newly negotiated master custodian contract and projected increases in technology/data expenses offset by reductions in external legal costs and analytics costs.

Operations and Technology (OPT) [+\$12.2 million] - Costs are increasing due to employee compensation adjustments and the state's Information Technology classification consolidation. Operating costs are increasing due to the my|CalPERS maintenance and operational expenses shifting from the Enterprise Project Budget to the Operating Budget, Web Accessibility Compliance costs, Cloud Maturity consulting services, and ongoing subscription costs for the Human Resources Management Solution (HRMS) to replace the current system.

[4] Administrative Budget by Trust Fund

The proposed FY 2018-19 Administrative Budget is allocated to the following trust funds:

(\$ in thousands)	FY 2016-17 Actual Expenditures	FY 2017-18 Approved Budget	FY 2018-19 Proposed Budget	Change from Annual	
				\$ Change Incr / (Decr)	% Change Incr / (Decr)
Administrative Operating Costs					
Public Employees' Retirement Fund (PERF)	\$ 355,820	\$ 375,254	\$ 398,693	\$ 23,439	6.2%
Public Employees' Contingency Reserve Fund (CRF) ¹	27,325	30,832	32,160	1,328	4.3%
Public Employees' Health Care Fund (HCF) ¹	38,849	44,337	46,248	1,911	4.3%
Long-Term Care Fund (LTCF)	5,230	5,706	5,504	(202)	(3.5%)
Annuitants' Health Care Coverage Fund (AHCCF)	3,369	3,846	4,575	729	19.0%
Deferred Compensation Fund (IRC 457)	1,522	1,651	1,624	(27)	(1.6%)
Supplemental Contributions Program Fund (SCP)	140	141	121	(20)	(14.2%)
Judges' Retirement Fund (JRF)	1,652	1,838	2,547	709	38.6%
Judges' Retirement Fund II (JRF II)	1,867	2,246	2,984	738	32.9%
Legislators' Retirement Fund (LRF)	570	601	591	(10)	(1.7%)
Replacement Benefit Custodial Fund (RBF)	15	450	450	-	0.0%
Reimbursements ²	1,450	1,500	2,060	560	37.3%
Total Administrative Operating Costs	\$ 437,809	\$ 468,402	\$ 497,557	\$ 29,155	6.2%
<i>Statewide Pro-Rata Assessment</i>	<i>\$ 24,709</i>	<i>\$ 24,411</i>	<i>\$ 26,195</i>	<i>\$ 1,784</i>	<i>7.3%</i>
<i>CalPERS Administrative Costs</i>	<i>\$ 413,100</i>	<i>\$ 443,991</i>	<i>\$ 471,362</i>	<i>\$ 27,371</i>	<i>6.2%</i>

¹These amounts include estimates for statewide employee compensation pending Department of Finance approval.

² 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.

Note: Numbers may not add exactly due to rounding in budget detail.

The variances reflected in the trust fund amounts between FY 2017-18 and FY 2018-19 are mainly attributed to statewide employee compensation increases, system maintenance, and operations costs. Furthermore, workload statistics from the program areas have been updated resulting in cost shifts between the funds.

Other details include:

Public Employees' Retirement Fund (PERF) – The increase of \$23.4 million is mainly related to increases in statewide employee compensation, pro-rata assessment, and system maintenance.

Contingency Reserve Fund (CRF) – The increase of \$1.3 million is due to statewide employee compensation and changes in workload statistics.

Health Care Fund (HCF) – The increase of \$1.9 million is primarily attributed to pro-rata assessment adjustments, statewide employee compensation, and changes on outside counsel workload statistics.

Long Term Care Fund (LTCF) – The net decrease of \$0.2 million is mainly due to a one-time project for the Long Term Care in FY 2017-18 offset by increases related to temporary staffing.

Annuitants' Health Care Coverage Fund (AHCCF) – The increase of \$0.7 million is primarily associated with statewide employee compensation, pro-rata assessment adjustments, and the overall increase of the administrative budget.

Judges' and Legislators' Retirement Funds (JLRF) – The net increase of \$1.4 million is mainly due to changes in outside counsel costs and pro-rata assessment adjustments. Also, due to JLRF's workload statistics, cost shifts occurred between the funds.