

California Public Employees' Retirement System

Fiscal Year 2018-19 Mid-Year Budget

Second Reading
December 18, 2018



A. Total CalPERS Budget..... 3

B. FY 2018-19 Mid-Year Budget Revisions.....5

C. Budget Detail by Branch.....7

D. Administrative Operating Costs by Fund Source.....8

Background

The Total CalPERS Budget is comprised of Administrative Operating Costs, Investment Operating Costs, Investment External Management Fees, Third Party Administrator Fees, Enterprise Project Costs, and Headquarters Building Costs.

The purpose of the Mid-Year Budget process is to address enterprise critical, unforeseen, and emergency resources not included in the Fiscal Year (FY) 2018-19 Annual Budget. The Mid-Year Budget process may also address new legislative mandates, compliance with new laws or regulations, or new Board initiatives. Further, the Mid-Year Budget process provides an opportunity to review current financial information and adjust the authorized budget based on a more accurate 2018-19 forecast for the remainder of the fiscal year.

Summary

The FY 2018-19 Mid-Year Total Budget of \$1.7 billion proposes an overall increase of \$17.5 million (1.0 percent) from the FY 2018-19 Annual Total Budget. More specifically, the Mid-Year Budget includes a \$16.9 million increase in Third Party Administrator Fees and a \$0.6 million increase in Administrative Operating Costs. The authorized positions remain the same at 2,875.

Fiscal Year 2018-19 Mid-Year CalPERS Total Budget

(\$ in thousands)	FY 2018-19 Annual Budget	Mid-Year Adjustments	FY 2018-19 Proposed Mid-Year Budget	% Change From Annual
Administrative Operating Costs	\$497,557	\$550	\$498,107	0.1%
Investment Operating Costs ¹	93,421		93,421	0.0%
Investment External Management Fees ²	767,009		767,009	0.0%
Third Party Administrator Fees	288,686	16,926	305,612	5.9%
Subtotal: Operating Costs	\$1,646,672	\$17,476	\$1,664,149	1.1%
Enterprise Projects Costs	9,591		9,591	0.0%
Headquarters Building Costs	24,372		24,372	0.0%
CalPERS Total Budget	\$1,680,636	\$17,476	\$1,698,112	1.0%
Total Positions	2,875.0		2,875.0	0.0%

¹ Investment operating expenses are not part of CalPERS Administrative Operating Costs and therefore should not be included in CalPERS pro-rata assessment.

² Investment External Management Fees consist of both Base Fees and Performance Fees.

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

Position Management

The CalPERS organization has made significant strides in reducing the number of vacancies as a result of program areas actively managing and repurposing positions through a strategic workforce planning effort. The CalPERS vacancy rate has decreased by 5.3 percent over the past five years, from 11.5 percent to 6.2 percent. CalPERS has also made significant strides in reducing the number of temporary positions by over 96 percent in the last five years. The new CalPERS 2017-22 Strategic Plan will highlight the continued promotion of talent management and the managing of our internal resources and workforce in a strategic, effective, and resourceful manner.

Major Highlights

The FY 2018-19 Mid-Year Budget of \$1.7 billion includes the following major highlights:

- Increase of \$16.9 million in Third Party Administrator Fees mainly for the Health Program.
- Increase of \$0.6 million for statewide salary increases along with employee benefit rate adjustments (retirement, health, and dental).

The table below details the proposed FY 2018-19 Mid-Year Budget revisions, followed with further information for each adjustment.

Mid-Year Budget Changes	Dollars (\$ in thousands)	Positions
Approved FY 2018-19 Annual Budget	\$1,680,636	2,875
Additions to FY 2018-19 Annual Budget:		
Statewide Salary and Staff Benefit Adjustments	\$550	
Third Party Administrator Fees		
Health Program	16,563	
Pharmacy Benefit Manager	358	
CERBT	6	
Total Third Party Administrator Fees	16,926	
Total Additions	17,476,400	
Proposed FY 2018-19 Mid-Year Budget	\$ 1,698,112	2,875
Percent Change	1.0%	

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

Statewide Salary and Staff Benefit Increases (\$0.6 million increase)

The FY 2018-19 Mid-Year Budget includes technical adjustments of \$0.6 million for statewide salary increases pursuant to collective bargaining agreements, and employee benefit rate adjustments for retirement, health, and dental. The 2018-19 Authorized Budget included an estimate for various collective bargaining salary increases. The \$0.6 million increase represents the difference between the initial estimated amount compared to the amount calculated based on recent employee compensation budget letters issued by the Department of Finance.

Third Party Administrator Fees (\$16.9 million increase)

The Mid-Year Budget proposes a \$16.9 million increase in Third Party Administrator Fees, primarily driven by Health Program fees (\$16.5 million increase) related to higher health enrollments and finalized contract negotiations. Details on the following page identify the increases related to Health Program fees, Pharmacy Benefit Manager costs, and the California Employers' Retiree Benefit Trust (CERBT).

Health Program fees are increasing by \$16.5 million as follows:

- \$8.6 million increase to Blue Shield due to a 4 percent projected enrollment increase, and a 24 percent increase in administrative service fees.
- \$8.5 million increase to UnitedHealthcare due to a 5 percent projected enrollment increase, and a 16 percent increase in administrative service fees.
- \$4.0 million increase to Anthem Blue Cross due to a 15 percent projected enrollment increase and a 3 percent increase in administrative service fees.
- \$6.0 million decrease to Health Net due to a 3 percent projected enrollment decrease.
- \$1.4 million increase in all other health plans' administrative fees.

Pharmacy Benefit Manager costs are increasing by \$0.4 million due to higher enrollment in Preferred Provider Organization plans.

CERBT costs are increasing by \$6,000 due to revised projections resulting in a slight increase in anticipated expenses for the current fiscal year.

Third Party Administrator Fees

(\$ in thousands)	FY 2018-19 Annual Budget	Mid-Year Adjustments	FY 2018-19 Proposed Mid-Year Budget
Health Program	\$ 242,933	\$ 16,563	\$ 259,495
Pharmacy Benefit Manager	21,325	358	21,682
Total, Health	264,257	16,920	281,178
Long Term Care Program - LTCG	20,732	-	20,732
Supplemental Income Plan - Voya	3,585	-	3,585
California Employers' Retiree Benefit Trust (CERBT) - Northeast Retirement Services (NRS)	112	6	118
Total Third Party Administrator Fees	\$288,686	\$16,926	\$305,612

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

Total Budget by Branch

(\$ in thousands)	FY 2018-19 Annual Budget	Mid-Year Adjustments	FY 2018-19 Proposed Mid-Year Budget	% Incr/(Decr) From Annual
Administrative and Investment Operating Costs				
Actuarial Office	\$ 11,352	\$ 2	\$ 11,353	0.0%
Communications and Stakeholder Relations	15,467	21	15,489	0.1%
Customer Services and Support	103,783	240	104,023	0.2%
Enterprise Compliance Office	3,185	6	3,191	0.2%
Executive Office	6,575	(5)	6,570	(0.1%)
Financial Office	31,817	47	31,863	0.1%
General Counsel	28,532	20	28,552	0.1%
Health Policy and Benefits Branch	32,350	49	32,398	0.2%
Investment Office	168,852	(10)	168,842	(0.0%)
Operations and Technology	162,870	181	163,051	0.1%
Pro-Rata Assessment	26,195	-	26,195	0.0%
Subtotal	\$ 590,978	\$ 550	\$ 591,528	0.1%
Investment External Management Fees	767,009	-	767,009	0.0%
Third Party Administrator Fees	288,686	16,926	305,612	5.9%
Enterprise Projects Costs	9,591	-	9,591	0.0%
Headquarters Building Costs	24,372	-	24,372	0.0%
CalPERS Total Budget	\$ 1,680,636	\$ 17,476	\$ 1,698,112	1.0%

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

Administrative Operating Costs by Fund Source

(\$ in thousands)	FY 2017-18 Actual Expenditures	FY 2018-19 Approved Budget	FY 2018-19 Proposed Mid-Year Budget	Change from Annual	
				\$ Change Incr / (Decr)	% Change Incr / (Decr)
Administrative Operating Costs					
Public Employees' Retirement Fund (PERF)	\$ 358,893	\$ 398,693	\$ 397,317	\$ (1,376)	(0.3%)
Public Employees' Contingency Reserve Fund (CRF)	28,665	32,160	32,088	(72)	(0.2%)
Public Employees' Health Care Fund (HCF)	39,907	46,248	47,109	861	1.9%
Long-Term Care Fund (LTCF)	5,163	5,504	6,036	532	9.7%
Annuitants' Health Care Coverage Fund (AHCCF)	3,434	4,575	4,808	233	5.1%
Deferred Compensation Fund (IRC 457)	1,598	1,624	1,884	260	16.0%
Supplemental Contributions Program Fund (SCP)	137	121	140	19	15.7%
Judges' Retirement Fund (JRF)	1,680	2,547	2,546	(1)	(0.0%)
Judges' Retirement Fund II (JRF II)	2,082	2,984	2,841	(143)	(4.8%)
Legislators' Retirement Fund (LRF)	556	591	578	(13)	(2.2%)
Replacement Benefit Custodial Fund (RBF)	450	450	450	-	0.0%
Reimbursements ¹	1,500	2,060	2,310	250	12.1%
Total Administrative Operating Costs	\$ 444,065	\$ 497,557	\$ 498,107	\$ 550	0.1%
<i>Statewide Pro-Rata Assessment</i>	<i>\$ 24,411</i>	<i>\$ 26,195</i>	<i>\$ 26,195</i>	<i>\$ -</i>	<i>0.0%</i>
<i>CalPERS Administrative Costs</i>	<i>\$ 419,654</i>	<i>\$ 471,362</i>	<i>\$ 471,912</i>	<i>\$ 550</i>	<i>0.1%</i>

¹ Amounts received by CalPERS for services rendered. Reimbursements include 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.