

California Public Employees' Retirement System

Fiscal Year 2018-19 Year-End Expenditure Report

November 19, 2019



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Executive Summary

This report presents CalPERS' final year-end expenditures for Fiscal Year 2018-19. Expenditures reflect actual expenses through June 30, 2019, as well as encumbrances, which are funds that have been obligated or reserved through an executed contract or purchase document. While this basis of reporting is consistent with State budgeting practices, it differs from CalPERS' Comprehensive Annual Financial Report (CAFR), which reports expenditures at the fund level using the full accrual basis as required by Generally Accepted Accounting Principles (GAAP).

In total, CalPERS expended \$1.637 billion in 2018-19 for its six budget categories; Administrative Operating Costs, Investment Operating Costs, Investment External Management Fees, Third Party Administrator Fees, Enterprise Projects, and Headquarters Building Costs. This represents 96.4 percent of the total \$1.698 billion authorized budget, which is on target with the Key Performance Indicator to forecast expenditures at or below 10 percent of the budget.

2018-19 Total Budget				
<small>(in thousands)</small>	2018-19 Authorized Budget	2018-19 Expenditures and Encumbrances	Percent Expended	Balance
Administrative Operating Costs	\$498,107	\$469,696	94.3%	\$28,410
Investment Operating Costs	93,421	78,782	84.3%	14,639
Investment External Mgmt Fees	767,009	759,624	99.0%	7,385
Third Party Administrator Fees	305,612	299,874	98.1%	5,739
Total Operating Costs	\$1,664,149	\$1,607,976	96.6%	\$56,172
Enterprise Project Costs	9,591	5,641	58.8%	3,951
Headquarters Building Costs	24,372	23,029	94.5%	1,344
CalPERS Total Budget	\$1,698,112	\$1,636,645	96.4%	\$61,467

The following pages detail the 2018-19 expenditures by budget category.

I. Administrative Operating Costs

Administrative Operating Costs include personal services expenditures (i.e. salaries, wages, and benefits for permanent and temporary staff) and Operating Expenses and Equipment (OE&E) for each branch within CalPERS. In 2018-19, CalPERS expended \$469.7 million, or 94.3 percent, of this budget category, with \$28.4 million remaining in unexpended funds.

2018-19 Administrative Operating Costs by Object of Expenditure

(in thousands)	2018-19 Authorized Mid-Year Budget	2018-19 Expenditures and Encumbrances	Percent Expended	Balance
[1] PERSONAL SERVICES				
Salaries & Wages	\$ 254,581	\$ 236,219	92.8%	\$ 18,362
Temporary Help	7,315	5,770	78.9%	1,545
Overtime	2,100	2,009	95.7%	91
Benefits	137,502	117,576	85.5%	19,926
Total Personal Services	\$ 401,498	\$ 361,574	90.1%	\$ 39,924
Vacancy Savings	(18,738)		0.0%	(18,738)
Revised Total Personal Services	\$ 382,759	\$ 361,574	94.5%	\$ 21,185
[2] OPERATING EXPENSES & EQUIPMENT				
General Expense	\$ 9,552	\$ 8,893	93.1%	\$ 659
Software	2,205	1,701	77.1%	505
Printing	1,963	1,746	88.9%	218
Postage	3,336	2,559	76.7%	777
Communications	1,816	1,694	93.3%	122
Data Processing Services	15,802	14,672	92.8%	1,130
Travel	3,257	2,398	73.6%	859
Training	1,730	1,024	59.2%	706
Medical Exam/Disability Travel	1,916	1,264	66.0%	652
Facilities Operations	5,464	5,619	102.8%	(155)
Central Administrative Services	26,195	26,195	100.0%	-
University Enterprises, Inc.	415	231	55.7%	184
External Legal Counsel	6,007	5,330	88.7%	677
Professional Services	5,993	5,500	91.8%	493
Consultants	21,946	21,781	99.2%	165
Audit Services	695	1,123	161.5%	(428)
Federal Legislative Rep	600	598	99.6%	2
Admin Hearings	1,300	1,211	93.1%	89
Consolidated Data Centers	90	101	112.3%	(11)
Equipment (Includes EDP)	5,064	4,483	88.5%	581
Total Operating Expenses & Equipment	\$ 115,348	\$ 108,123	93.7%	\$ 7,225
Total Costs	\$ 498,107	\$ 469,696	94.3%	\$ 28,410

Of the \$28.4 million unspent, \$21.2 million is attributable to lower personal services expenditures primarily driven by position vacancies. At year end, CalPERS had 197.5 vacant positions, which reflects a 6.9 percent vacancy rate.

At year-end there was also \$7.2 million, or 6.3 percent, in unspent OE&E funds. Actual expenditures were less than budgeted for many line items, including travel, data processing, postage, and training. The surplus reflects CalPERS' continued emphasis on fiscally prudent spending.

II. Investment Operating Costs

Investment Operating Costs include expenditures incurred to support investment activities, such as consultants to inform the Board of investment initiatives or to implement investment technologies and platforms; external audit, legal, and appraisal services related to asset valuations; fund administration and custody; data and analytics software; and maintaining or implementing trading and portfolio management systems. In 2018-19, CalPERS expended \$78.8 million, or 84.3 percent, of its Investment Operating Costs budget, with \$14.6 million unspent.

2018-19 Investment Operating Costs

(in thousands)	2018-19 Authorized Budget	2018-19 Expenditures and Encumbrances	Percent Expended	Balance
Investment Consultants	\$9,300	\$5,339	57.4%	\$3,961
Board Consultants	4,633	5,182	111.8%	(549)
Technology Consultants	5,567	3,626	65.1%	1,941
Total Consultant Expenses	\$19,501	\$14,148	72.6%	\$5,353
Audits	\$705	\$125	17.7%	\$580
Tax Advisory Services	1,200	821	68.4%	379
Master Custodian Fee	7,657	10,107	132.0%	(2,450)
Fund Administration Services / Fees	2,898	4,169	143.9%	(1,271)
External Legal	5,800	3,656	63.0%	2,144
Appraisal Fees	10,000	4,614	46.1%	5,386
Company Expense	890	1,141	128.2%	(251)
Miscellaneous Operating Expense	300	38	12.8%	262
Total Operating Expenses	\$29,450	\$24,672	83.8%	\$4,778
Data	\$6,600	\$6,307	95.6%	\$294
Analytics	11,000	9,421	85.6%	1,579
Trading and Portfolio Management Systems	24,692	22,869	92.6%	1,823
Business Operations Tool	2,000	1,362	68.1%	638
Other Technology Expense	178	5	2.7%	173
Total Technology Expenses	\$44,470	\$39,963	89.9%	\$4,507
Total Investment Operating Expenses	\$93,421	\$78,782	84.3%	\$14,639

Surplus funds remained in each of the Investment Operating Cost expenditure areas, as follows:

- Consultant Expenses: \$5.4 million resulting from a lower-than-estimated number of due diligence opinions required for private asset transactions, and the postponement of new data and technology projects to fiscal year 2019-20.
- Operating Expenses: \$4.8 million driven by reductions in Appraisal Fees and less-than-projected asset valuations, offset by an increase in Master Custodian Fees resulting from new contract terms.
- Technology Expenses: \$4.5 million due to less-than-anticipated costs related to Analytics services, less-than-projected Trading and Portfolio Management Systems costs for lower Assets Under Management (AUM)-based usage, and the postponement of system upgrades to fiscal year 2019-20.

III. Investment External Management Fees

Investment External Management Fees represent amounts that CalPERS pays to external investment advisors with whom it contracts to manage specific active strategies. Of the total \$767.0 million budgeted in 2018-19, CalPERS expended \$759.6 million, or 99.0 percent. Total Base Fees were \$20.1 million higher than budgeted due to the addition of Multi Asset Class managers and associated fees. However, this increase was offset by total Performance Fees, which were \$27.5 million under budget resulting from a decrease in Global Equity Fees driven by a focus on base fee-only structures versus traditional base and performance fee structures. This new structure provided a significant decrease in overall performance fees, which offset higher-than-projected Real Asset performance fees resulting from the continued successful performance of the Infrastructure portfolio.

2018-19 Investment External Management Fees

(in thousands)	2018-19 Authorized Budget	2018-19 Expenditures and Encumbrances	Percent Expended	Balance
Global Equity	\$93,000	\$96,330	103.6%	(\$3,330)
Fixed Income	10,003	11,646	116.4%	(1,643)
Real Assets	185,201	188,102	101.6%	(2,902)
Absolute Return Strategy	332	292	88.0%	40
Private Equity	258,000	261,338	101.3%	(3,338)
Multi Asset Class	30,900	39,839	128.9%	(8,939)
External Mgmt - Base Fees	\$577,436	\$597,548	103.5%	(\$20,112)
Global Equity	\$84,896	\$33,843	39.9%	\$51,053
Fixed Income	2,908	2,356	81.0%	552
Real Assets	100,969	125,576	124.4%	(24,607)
Absolute Return Strategy	800	300	37.5%	500
External Mgmt - Performance Fees	\$189,573	\$162,076	85.5%	\$27,497
Total External Mgmt Fees	\$767,009	\$759,624	99.0%	\$7,385

IV. Third Party Administrator Fees

CalPERS contracts with Third Party Administrators to support the delivery of health and pension services. The fees cover administration, recordkeeping, and communication with participants. Final expenditures reflect actual participant enrollment, which may fluctuate throughout the fiscal year.

Of the \$305.6 million budgeted for Third Party Administrator Fees, CalPERS expended \$299.9 million, or 98.1 percent.

2018 Third Party Administrator Fees

(in thousands)	2018-19 Authorized Mid-Year Budget	2018-19 Expenditures and Encumbrances	Percent Expended	Balance
Health Program	\$ 259,495	\$ 253,366	97.6%	\$ 6,129
Pharmacy Benefit Manager	21,682	21,532	99.3%	150
Total, Health	\$ 281,178	\$ 274,899	97.8%	\$ 6,279
Long Term Care Program	20,732	21,385	103.2%	(654)
Supplemental Income Plan	3,585	3,499	97.6%	86
California Employers' Retiree Benefit Trust (CERBT)	118	91	76.9%	27
Total Third Party Administrator Fees	\$305,612	\$299,874	98.1%	\$5,739

V. Enterprise Project Costs

In 2018-19, CalPERS' budget included \$9.6 million for four information technology projects, of which \$5.6 million was expended. At year-end, \$4.0 million was unspent, and is primarily attributable to the cancellation of the Human Resources Management Solution project. CalPERS was unable to successfully negotiate a contract for this project and is currently re-analyzing alternatives for a long-term solution. There was also \$0.3 million in unspent funds for the Actuarial Valuation System Redesign/Advanced Analytics Integration project. Although this project is continuing into 2019-20, the full level of funding estimated for 2018-19 activities was not needed. Further, there was \$0.2 million unspent for the Information Security Technology Solutions project which realized some savings related to equipment and consulting needs.

2018-19 Enterprise Project Costs

(in thousands)	2018-19 Authorized Budget	2018-19 Expenditures and Encumbrances	Percent Expended	Balance
Actuarial Valuation System Redesign / AAI	\$5,108	\$4,774	93.5%	\$334
Information Security Technology Solutions	576	365	63.3%	211
Contact Center Applications - Migration to Cloud	517	502	97.1%	15
Human Resources Management Solution (HRMS)	3,390	-	0.0%	3,390
Total Enterprise Projects	\$9,591	\$5,641	58.8%	\$3,951

VI. Headquarters Building Costs

Headquarters Building expenses include amounts incurred to operate, maintain, and improve the Lincoln Plaza Buildings and regional offices, as well as the emergency operations center, Front Street parking lot, and warehouse space. In 2018-19, CalPERS expended \$23.0 million, or 94.5 percent, of the Headquarters Building Budget. At year-end, \$1.3 million was unspent, primarily driven by owner improvements that were less than originally estimated.

2018-19 Headquarters Building Account Budget

(in thousands)	2018-19 Authorized Budget	2018-19 Expenditures and Encumbrances	Percent Expended	Balance
Operating:				
Utilities	\$2,291	\$2,222	97.0%	\$69
Engineering Services	3,372	3,263	96.8%	109
Janitorial	3,288	3,446	104.8%	(158)
Landscaping	855	801	93.6%	55
General Maintenance	1,447	1,182	81.7%	264
Security	2,598	2,601	100.1%	(3)
Property Mgmt. & Administrative Fees	1,509	1,829	121.2%	(320)
Café Plaza	176	213	121.1%	(37)
Offsite Expenses ¹	642	633	98.6%	9
Emergency Operations Center (EOC) ²	455	387	85.0%	68
Operating Other ³	1,860	1,972	106.0%	(112)
Total Operating Expenses	18,493	18,548	100.3%	(55)
Non-Operating:				
Owner Improvements ⁴	3,919	2,912	74.3%	1,007
Building Improvements ⁵	3,338	3,433	102.8%	(95)
Furniture & Fixtures	563	560	99.6%	2
Building Insurance	610	285	46.7%	325
Total Non-Operating Expenses	8,429	7,190	85.3%	1,239
Subtotal Expenses	\$26,923	\$25,738	95.6%	\$1,185
Less: Revenue ⁶	(1,404)	(1,564)	111.3%	159
Total HQ Building Expenses	\$25,519	\$24,175	94.7%	\$1,344
Less: Amount included in Admin. Budget	(1,146)	(1,146)	100.0%	-
Total Headquarters Building Budget	\$24,372	\$23,029	94.5%	\$1,344

¹ Offsite expenses include Front Street parking, warehouse space, and regional office maintenance.

² EOC expenses include leasing costs, utilities, janitorial, security, landscaping, and generator maintenance.

³ Other Operating expenses includes specialized maintenance, permitting, and testing of building electrical and HVAC systems, and green building initiatives.

⁴ Owner Improvements include enhancements made to support operations and the movement of divisions, units, and/or staff within CalPERS.

⁵ Building Improvements include structural alterations and repairs, and related project management.

⁶ Revenue from parking, Subway, Chocolate Fish, and Montessori daycare leases.

VII. Administrative Operating Costs by Fund

Following is the allocation of Administrative Operating Costs to each trust fund.

2018-19 Administrative Operating Costs by Fund

(\$ in thousands)	2018-19 Authorized Budget	2018-19 Expenditures and Encumbrances	Percent Expended	Balance
Administrative Operating Costs				
Public Employees' Retirement Fund (PERF)	\$ 397,317	\$ 376,323	94.7%	\$ 20,994
Public Employees' Contingency Reserve Fund (CRF)	32,088	29,837	93.0%	2,251
Public Employees' Health Care Fund (HCF)	47,109	42,961	91.2%	4,149
Long-Term Care Fund (LTCF)	6,036	5,650	93.6%	386
Annuitants' Health Care Coverage Fund (AHCCF)	4,807	4,470	93.0%	337
Deferred Compensation Fund (IRC 457)	1,884	1,829	97.1%	55
Supplemental Contributions Program Fund (SCP)	140	136	97.1%	4
Judges' Retirement Fund (JRF)	2,546	2,445	96.0%	101
Judges' Retirement Fund II (JRF II)	2,841	2,730	96.1%	111
Legislators' Retirement Fund (LRF)	578	555	96.1%	22
Replacement Benefit Custodial Fund (RBF)	450	450	100.0%	-
Reimbursements ¹	2,310	2,310	100.0%	-
Total Administrative Operating Costs	\$ 498,107	\$ 469,696	94.3%	\$ 28,410
<i>Statewide Pro-Rata Assessment</i>	\$ 26,195	\$ 26,195	100.0%	-
<i>CalPERS Administrative Costs</i>	\$ 471,912	\$ 443,501	94.0%	\$ 28,410

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.