

California Public Employees' Retirement System

Fiscal Year 2019-20 Mid-Year Budget

Second Reading
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Executive Summary

This Mid-Year Budget reflects adjustments to CalPERS' 2019-20 Annual Budget, as approved by the Board of Administration on May 15, 2019. Consistent with CalPERS' Budget Policy, the purpose of the Mid-Year revision is to address new, critical, or unforeseen resource needs that were not included in the Annual Budget. The Mid-Year Budget 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 complete more accurate expenditure projections based on updated data and enrollment projections.

At mid-year, CalPERS proposes a \$0.7 million net increase to its 2019-20 Authorized Budget. This includes a \$1.5 million decrease in Administrative Operating Costs, a \$2.4 million increase in Third Party Administrator Fees, and a \$0.2 million decrease in Enterprise Project Costs. Authorized positions remain unchanged at 2,875.

2019-20 Mid-Year Total Budget

(\$ in thousands)	2019 20 Authorized Annual Budget	Mid Year Adjustments	2019-20 Proposed Mid-Year Budget	% Change From Annual
Administrative Operating Costs	\$530,299	(\$1,499)	\$528,800	(0.3%)
Investment Operating Costs	120,436	-	120,436	0.0%
Investment External Management Fees	899,791	-	899,791	0.0%
Third Party Administrator Fees	319,273	2,388	321,661	0.7%
Subtotal: Operating Costs	\$1,869,798	\$889	\$1,870,687	0.05%
Enterprise Projects Costs	3,352	(236)	3,116	(7.0%)
Headquarters Building Costs	24,374	-	24,374	0.0%
CalPERS Total Budget	\$1,897,524	\$653	\$1,898,176	0.03%
Total Positions	2,875.0		2,875.0	0.0%

The following pages detail the 2019-20 mid-year adjustments by expenditure 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. At mid-year, CalPERS proposes a \$1.5 million decrease in Personal Services expenditures to reflect more accurate calculations of salary and benefit increases negotiated through the State's collective bargaining process. This decrease is 0.4 percent of Personal Services, and 0.3 percent of total Administrative Operating Costs.

Administrative Operating Costs by Object of Expenditure

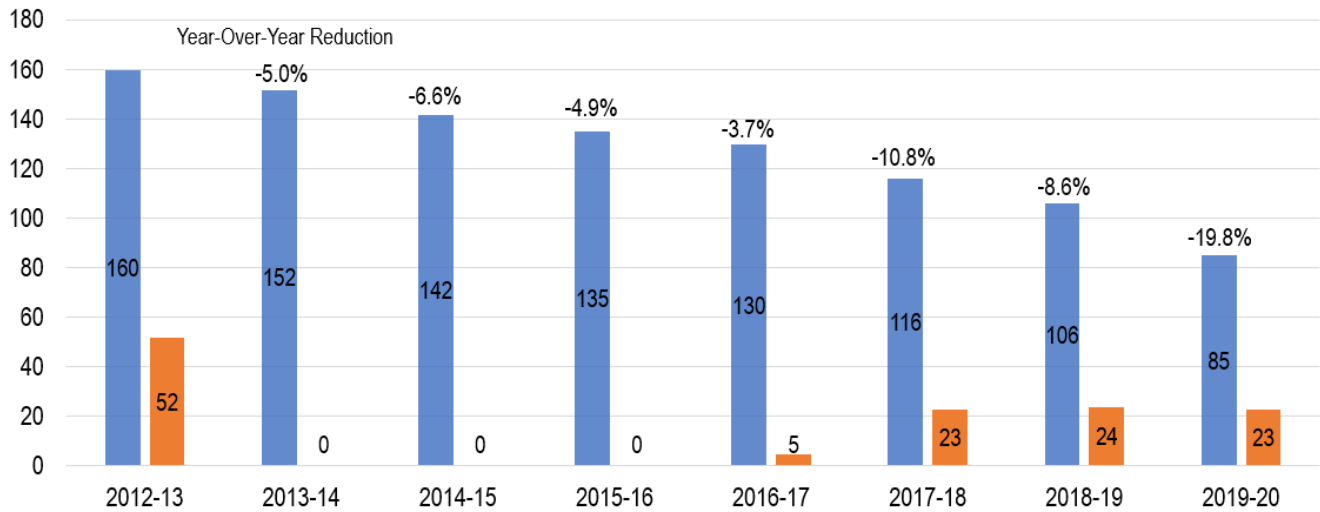
(in thousands)	2019-20 Authorized Annual Budget	2019-20 Proposed Mid-Year Budget	Change From Annual	
			\$ Increase / (Decrease)	% Increase / (Decrease)
[1] PERSONAL SERVICES				
Salaries & Wages	\$ 264,944	\$ 264,153	\$ (791)	(0.3%)
Temporary Help	5,138	5,138		0.0%
Overtime	2,048	2,048		0.0%
Benefits	143,520	142,811	(709)	(0.5%)
Total Personal Services	\$ 415,650	\$ 414,151	\$ (1,499)	(0.4%)
[2] OPERATING EXPENSES & EQUIPMENT				
General Expense	\$ 11,358	\$ 11,358	\$ -	0.0%
Software	1,842	1,842	-	0.0%
Printing	1,990	1,990	-	0.0%
Postage	2,843	2,843	-	0.0%
Communications	1,845	1,845	-	0.0%
Data Processing Services	15,362	15,362	-	0.0%
Travel	3,580	3,580	-	0.0%
Training	1,732	1,732	-	0.0%
Medical Exam/Disability Travel	1,451	1,451	-	0.0%
Facilities Operations	5,390	5,390	-	0.0%
Central Administrative Services	25,567	25,567	-	0.0%
University Enterprises, Inc.	521	521	-	0.0%
External Legal Counsel	5,877	5,877	-	0.0%
Professional Services	6,075	6,075	-	0.0%
Consultants	20,025	20,025	-	0.0%
Audit Services	1,969	1,969	-	0.0%
Federal Legislative Rep	600	600	-	0.0%
Admin Hearings	1,418	1,418	-	0.0%
Consolidated Data Centers	105	105	-	0.0%
Equipment (Includes EDP)	5,098	5,098	-	0.0%
Total Operating Expenses & Equipment	\$ 114,649	\$ 114,649	\$ -	0.0%
Total Costs	\$ 530,299	\$ 528,800	\$ (1,499)	(0.3%)

Included in the Administrative Operating Costs expenditure category is a line item for Temporary Help, which includes Seasonal Clerks and Student Assistants. As displayed below, CalPERS has significantly reduced the number of Seasonal Clerks over the past seven years, from 160 to 85. CalPERS will continue to analyze and monitor Seasonal Clerk usage and include updated figures with the Annual Budget in April 2020.

Seasonal Clerks & Student Assistants

Positions filled as of July 1st of each year

■ Seasonal Clerks ■ Student Assistants



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. There are no adjustments proposed at mid-year.

Investment Operating Costs

(in thousands)	2019 20 Authorized Annual Budget	2019 20 Proposed Mid Year Budget
Investment Consultants	\$9,860	\$9,860
Board Consultants	5,221	5,221
Technology Consultants	7,600	7,600
Total Consultant Expenses	\$22,681	\$22,681
Audits	\$705	\$705
Tax Advisory Services	1,200	1,200
Master Custodian Fee	11,453	11,453
Fund Administration Services / Fees	3,900	3,900
External Legal	5,800	5,800
Appraisal Fees	10,000	10,000
Company Expense	950	950
Miscellaneous Operating Expense	300	300
Total Operating Expenses	\$34,308	\$34,308
Data	\$7,500	\$7,500
Analytics	15,000	15,000
Trading and Portfolio Management Systems	38,769	38,769
Business Operations Tool	2,000	2,000
Other Technology Expense	178	178
Total Technology Expenses	\$63,447	\$63,447
Total Investment Operating Expenses	\$120,436	\$120,436

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 portfolios. There are no adjustments proposed at mid-year.

Investment External Management Fees

(in thousands)	2019-20 Authorized Annual Budget	2019-20 Proposed Mid-Year Budget
Global Equity	\$126,719	\$126,719
Fixed Income	13,793	13,793
Real Assets	188,213	188,213
Absolute Return Strategy	305	305
Private Equity	295,000	295,000
Activist Funds	-	-
Multi Asset Class	40,800	40,800
Opportunistic Strategies	1,500	1,500
External Mgmt - Base Fees	\$666,331	\$666,331
Global Equity	\$52,224	\$52,224
Fixed Income	3,214	3,214
Real Assets	176,021	176,021
Absolute Return Strategy	-	-
Multi Asset Class	2,000	2,000
External Mgmt - Performance Fees	\$233,460	\$233,460
Total External Mgmt Fees	\$899,791	\$899,791

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. At mid-year, CalPERS proposes an increase of \$2.4 million, or 0.7 percent, in Third Party Administrator Fees. This includes a \$1.8 million increase in Health and Pharmacy fees based on updated enrollment projections, and a \$0.6 million increase for the Long Term Care Program for added special investigation services, and to fund a fall prevention program. These increases are slightly offset by a reduction in fees for the California Employers' Retiree Benefit Trust (CERBT) and California Employers Pension Prefunding Trust (CEPPT) programs.

Third Party Administrator Fees

(\$ in thousands)	2019 20 Authorized Annual Budget	Mid Year Adjustments	2019-20 Proposed Mid-Year Budget	From Annual % Increase/(Decrease)
Health Program	\$ 272,613	\$ 1,568	\$ 274,181	0.6%
Pharmacy Benefit Manager	22,451	268	22,720	1.2%
Total, Health	295,064	1,837	296,901	0.6%
Long Term Care Program - LTCG	20,151	578	20,729	2.9%
Supplemental Income Plan - Voya	3,922	-	3,922	0.0%
California Employers' Retiree Benefit Trust (CERBT)	115	(25)	90	(21.7%)
California Employers' Pension Prefunding Trust (CEPPT)	20	(2)	18	(10.0%)
Total Third Party Administrator Fees	\$319,273	\$2,388	\$321,661	0.7%

V. Enterprise Project Costs

Enterprise Project Costs include information technology projects to improve operations, enhance services to members, and stay current with industry trends and practices. At mid-year, Enterprise Project Costs are decreasing by \$0.2 million due to the cancellation of the Human Resources Management Solutions project. CalPERS cancelled the project in 2018-19 because it was unable to successfully negotiate a contract, and is currently re-analyzing alternatives for a long-term solution.

Enterprise Project Costs

(in thousands)	2019-20 Authorized Annual Budget	Mid-Year Adjustments	2019-20 Proposed Mid-Year Budget	From Annual % Increase/(Decrease)
Actuarial Valuation System Redesign / AAI	\$2,942	-	\$2,942	0.0%
Human Resources Management Solution (HRMS)	236	(236)	-	(100.0%)
Member Electronic Payment System	174	-	174	0.0%
Total Enterprise Projects	\$3,352	(\$236)	\$3,116	(7.0%)

VI. Headquarters Building Costs

Headquarters Building expenses include amounts necessary 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. There are no adjustments proposed at mid-year.

Headquarters Building Costs

(in thousands)	2019 20 Authorized Annual Budget	2019 20 Proposed Mid-Year Budget
Operating:		
Utilities	\$2,365	\$2,365
Engineering Services	4,038	4,038
Janitorial	3,439	3,439
Landscaping	865	865
General Maintenance	1,215	1,215
Security	2,911	2,911
Property Mgmt. & Administrative Fees	1,512	1,512
Café Plaza	247	247
Offsite Expenses ¹	961	961
Emergency Operations Center (EOC) ²	451	451
Operating Other ³	2,022	2,022
Total Operating Expenses	\$20,026	\$20,026
Non-Operating:		
Owner Improvements ⁴	3,187	3,187
Building Improvements ⁵	3,614	3,614
Furniture & Fixtures	300	300
Building Insurance	360	360
Total Non-Operating Expenses	7,461	7,461
Subtotal Expenses	\$27,487	\$27,487
Less: Revenue ⁶	(1,655)	(1,655)
Total HQ Building Expenses	\$25,833	\$25,833
Less: Amount included in Admin. Budget	(1,459)	(1,459)
Total Headquarters Building Budget	\$24,374	\$24,374

¹ Offsite expenses include Front Street parking, warehouse space, and regional office security and 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 Estimated revenue from parking and the Subway, Chocolate Fish, and Montessori day care leases.

I. Administrative Operating Costs by Branch

Following is the allocation of proposed Administrative Operating Costs by Branch.

Administrative Operating Costs by Branch

(\$ in thousands)	2019 20 Authorized Annual Budget	Mid Year Adjustments ¹	2019-20 Proposed Mid-Year Budget	From Annual % Increase/(Decrease)
Actuarial Office	\$ 12,465	\$ (43)	\$ 12,421	(0.3%)
Communications and Stakeholder Relations	17,046	(40)	17,006	(0.2%)
Customer Services and Support	107,245	(358)	106,887	(0.3%)
Enterprise Compliance Office	3,359	(12)	3,346	(0.4%)
Executive Office	7,719	(27)	7,693	(0.3%)
Financial Office	37,251	(200)	37,051	(0.5%)
General Counsel	31,627	3,202	34,830	10.1%
Health Policy and Benefits Branch	33,908	(97)	33,811	(0.3%)
Investment Office	91,026	(287)	90,739	(0.3%)
Operations and Technology	163,086	(3,637)	159,450	(2.2%)
Pro-Rata Assessment	25,567	-	25,567	0.0%
CalPERS Total Budget	\$ 530,299	(\$1,499)	\$ 528,800	(0.3%)

¹Mid-Year Adjustments include employee compensation adjustments and the redirection of the Information Security Office from Operations and Technology to General Counsel.

II. Administrative Operating Costs by Fund

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

Administrative Operating Costs by Fund

(\$ in thousands)	2019-20 Authorized Annual Budget	2019-20 Proposed Mid-Year Budget	Change from Annual	
			\$ Increase / (Decrease)	% Increase / (Decrease)
Administrative Operating Costs				
Public Employees' Retirement Fund (PERF)	\$ 425,603	\$ 423,234	\$ (2,369)	(0.6%)
Public Employees' Contingency Reserve Fund (CRF)	33,792	33,319	(473)	(1.4%)
Public Employees' Health Care Fund (HCF)	46,963	48,369	1,406	3.0%
Long-Term Care Fund (LTCF)	7,607	7,573	(34)	(0.4%)
Annuitants' Health Care Coverage Fund (AHCCF)	5,493	5,477	(16)	(0.3%)
Deferred Compensation Fund (IRC 457)	1,768	1,760	(8)	(0.5%)
Supplemental Contributions Program Fund (SCP)	123	122	(1)	(0.5%)
Judges' Retirement Fund (JRF)	1,997	1,979	(17)	(0.9%)
Judges' Retirement Fund II (JRF II)	2,277	2,260	(16)	(0.7%)
Legislators' Retirement Fund (LRF)	509	505	(4)	(0.8%)
Replacement Benefit Custodial Fund (RBF)	537	536	(2)	(0.3%)
California Employers' Pension Trust Fund (CEPPT) ¹	423	422	(1)	(0.3%)
Old-Age & Survivors Insurance Fund (OASI)	988	1,024	36	3.6%
Reimbursements ²	2,219	2,219	-	0.0%
Total Administrative Operating Costs	\$ 530,299	\$ 528,800	\$ (1,499)	(0.3%)
<i>Statewide Pro-Rata Assessment</i>	\$ 25,567	\$ 25,567	\$ -	0.0%
<i>CalPERS Administrative Costs</i>	\$ 504,732	\$ 503,233	\$ (1,499)	(0.3%)

¹ Funding in 2019-20 for CEPPT comes from a General Fund appropriation authorized by SB 1413, Chapter 665, Statutes of 2018.

² Reimbursements include specialized actuarial valuations prepared for public agencies, cost of photocopies/postage related to the Public Records Act requests, annual employer conferences, and administrative assessments for employers' delinquent payroll.