



Finance and Administration Committee

Agenda Item 7a

April 21, 2020

Item Name: 2020-21 Annual Budget Proposal

Program: Financial Office

Item Type: Action

Recommendation

Approve the 2020-21 Annual Budget in the amount of \$1.694 billion and 2,875 positions.

Executive Summary

CalPERS' 2020-21 proposed budget is \$1.694 billion; a decrease of \$204.6 million, or 10.8 percent, compared to the 2019-20 authorized budget. The major driver of the year-over-year decrease is a reduction in Investment External Management Fees and Third Party Administrator Fees. These are amounts that CalPERS pays to external parties to manage investment portfolios and administer health program and pension services. The fees can fluctuate widely due to external influences beyond CalPERS' control, such as market conditions and member enrollments. In contrast, operating costs subject to CalPERS' control are estimated to increase 2.7 percent.

While total authorized positions budgeted in 2020-21 remain unchanged at 2,875, the number of temporary help positions decreased by 100, largely due to the elimination of 63 seasonal clerk positions.

Displayed in the proposed budget is an update on current-year expenditures. CalPERS' 2019-20 total authorized budget is \$1.898 billion. Of this amount, \$827.7 million, or 43.6 percent, was expended as of December 31, 2019. Based on spending forecasts, CalPERS estimates that it will end the 2019-20 fiscal year with approximately \$44.2 million in unexpended funds, or 2.3 percent of the total budget. However, due to COVID-19, it is likely that actual expenditures may vary from this estimate. For example, travel and employer education events have been cancelled, resulting in additional savings. Until expended, all budgeted funds remain in the Public Employees' Retirement Fund (PERF) for investment.

Strategic Plan

This agenda item supports CalPERS' 2017-22 Strategic Plan and the 2019-20 Business Plan in that the proposed budget represents the financial resources needed to achieve strategic goals and priorities, meet core business needs, and further the mission of delivering retirement and health care benefits to members and their beneficiaries. However, the proposed budget increases rather than decreases expenditures, and as a result CalPERS may not achieve its strategic overhead cost reduction target. The strategic target measures actual expenditures, and is calculated at fiscal year end.

Background

Each fiscal year, CalPERS engages in two formal budget processes; an annual budget proposal and a mid-year review. The annual budget process begins in October each year and includes a review of existing budgeted resources as well as new funding requests to maintain, improve, or implement services, initiatives, and projects. CalPERS presents the annual budget to the Board in April. Once approved by the Board, the budget provides CalPERS with necessary expenditure authority for the upcoming fiscal year beginning July 1st. The mid-year review is presented to the Board each Fall, and typically includes adjustments for State-negotiated compensation and benefit increases as well as health plan enrollment-driven changes. The mid-year review may also include adjustments for new, critical, and unforeseen resources not envisioned during the annual budget process.

Analysis

In developing the annual budget, Financial Office staff worked collaboratively with each division to understand their organizational structures and business objectives as a basis for maintaining existing funding levels and approving requests for new resources. In addition, CalPERS utilized a formal budget request process to consider, prioritize, and approve new resource requests. Pursuant to the CalPERS Budget Policy, the main criteria used to prioritize requests included:

- Mitigating risk
- Identifying opportunities for cost efficiencies
- Aligning with the Strategic Plan and Business Plan
- Implementing CalPERS Board of Administration decisions and directives
- Complying with legal mandates

Overall, the 2020-21 proposed budget reflects prudent increases that are either mandated or clearly aligned with strategic goals. This includes collectively bargained compensation increases, as well as investment-related resources to strengthen and enhance investment capabilities and improve the system's funded status. Operating cost increases were offset by reductions in temporary help resources, reduced salary expenses from the position pooling process, and refined budget estimates.

Budget and Fiscal Impacts

As detailed in the following table, the proposed 2020-21 budget of \$1.694 billion reflects a decrease of \$204.6 million, or 10.8 percent, over the 2019-20 authorized budget.

2020-21 Total Budget

(in thousands)	2018-19 Actual	2019-20 Authorized Budget	2020-21 Proposed Budget	2019 to 2020 Change	
				\$ Increase / (Decrease)	% Increase / (Decrease)
Administrative Operating Costs	\$ 469,696	\$ 528,800	\$ 545,782	\$ 16,982	3.2%
Investment Operating Costs	78,782	120,436	124,856	4,420	3.7%
Enterprise Project Costs	5,641	3,116	-	(3,116)	(100.0%)
Headquarters Building Costs	23,029	24,374	24,338	(36)	(0.1%)
Total: Operating Costs	\$ 577,148	\$ 676,725	\$ 694,976	\$ 18,251	2.7%
Investment External Management Fees	759,624	899,791	685,906	(213,885)	(23.8%)
Third Party Administrator Fees	299,874	321,661	312,670	(8,991)	(2.8%)
Total: Fees	\$ 1,059,498	\$ 1,221,451	\$ 998,575	\$ (222,876)	(18.2%)
CalPERS Total Budget	\$ 1,636,645	\$ 1,898,176	\$ 1,693,551	\$ (204,625)	(10.8%)
Authorized Positions	2,875.0	2,875.0	2,875.0	-	0.0%

Benefits and Risks

An approved budget provides CalPERS with the expenditure authority needed to achieve strategic priorities and initiatives, meet core business needs, and further the mission of delivering retirement and health care benefits to members and their beneficiaries. Lack of approval will result in CalPERS' inability to operate and meet its financial obligations.

Attachments

Attachment 1 – 2020-21 Annual Budget Proposal

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