



# Finance and Administration Committee

## Agenda Item 6b

**November 17, 2020**

**Item Name:** 2020-21 Mid-Year Budget Revision

**Program:** Financial Office

**Item Type:** Action

### Recommendation

Approve a \$72.3 million reduction for a total revised 2020-21 Budget of \$1.621 billion.

### Executive Summary

At mid-year, CalPERS proposes a \$72.3 million decrease to its 2020-21 budget. The decrease reflects reductions driven by the COVID-19 pandemic, and CalPERS' commitment to reducing costs to limit fiscal impacts to the Public Employees' Retirement Fund (PERF). As detailed in Attachment 1, \$68.5 million of the decrease is in Operating Costs and includes statewide compensation reductions and CalPERS-directed position and administrative reductions to further lower expenses. With a focus on protecting its core mission, CalPERS analyzed its operations and workload and identified both permanent and one-time reductions to reduce expenses, including the elimination of 32 vacant positions. The Mid-Year Budget also includes a \$3.9 million net decrease in External Investment Management and Third-Party Administrator Fees resulting from revised investment strategies and updated health plan enrollment data.

### 2020-21 Mid-Year Total Budget

(\$ in thousands)	2020-21 Authorized Annual Budget	Mid-Year Adjustments	2020-21 Proposed Mid-Year Budget	% Change From Annual
Administrative Operating Costs	\$545,782	(\$68,701)	\$477,081	(12.6%)
Investment Operating Costs	124,856	1,574	126,430	1.2%
Enterprise Projects Costs	-	-	-	0.0%
Headquarters Building Costs	24,338	(1,335)	23,003	(5.5%)
<b>Total: Operating Costs</b>	<b>\$694,976</b>	<b>(\$68,462)</b>	<b>\$626,514</b>	<b>(9.9%)</b>
Investment External Management Fees	685,906	6,187	692,093	0.9%
Third Party Administrator Fees	312,670	(10,047)	302,623	(3.2%)
<b>Total: Fees</b>	<b>\$998,575</b>	<b>(\$3,860)</b>	<b>\$994,716</b>	<b>(0.4%)</b>
<b>CalPERS Total Budget</b>	<b>\$1,693,551</b>	<b>(\$72,322)</b>	<b>\$1,621,230</b>	<b>(4.3%)</b>
<b>Total Positions</b>	<b>2,875.0</b>	<b>(32.0)</b>	<b>2,843.0</b>	<b>(1.1%)</b>

Attachment 2 provides final expenditures for fiscal year 2019-20, and reveals that CalPERS ended the year with \$283.9 million in unexpended funds, including \$78.7 million in operating costs and \$205.2 million in fees. Within operating costs, there was \$48.4 million unspent in Administrative Costs, largely driven by position vacancies as well as less Operating and Equipment Expenditures (OE&E) due to the impacts of the pandemic. Investment Operating Costs were also underspent by \$27.2 million primarily from the delay or suspension of technology projects and strategies. Further, Investment External Management Fees contributed another \$189.6 million to the surplus due to a reduction in the usage of external investment managers.

### **Strategic Plan**

This agenda item supports CalPERS' 2017-22 Strategic Plan and the 2020-21 Business Plan in that the proposed mid-year reduction supports the long-term sustainability of the pension fund and furthers the mission of delivering retirement and health care benefits to members and their beneficiaries. Additionally, the proposed reductions will bring CalPERS closer to meeting its strategic overhead cost reduction targets.

### **Background**

Each fiscal year, CalPERS engages in two formal budget processes - an annual budget process and a mid-year review. The annual budget process culminates in April with the Board's approval of the budget for the upcoming fiscal year. Subsequently each Fall, CalPERS traditionally presents to the Board a Mid-Year Revision to address new, critical, or unforeseen resource needs. For fiscal year 2020-21, the Mid-Year Revision focuses on reducing expenditures and builds upon the 2020-21 Budget adopted by the Board in April that included no new authorized positions, while further reducing the use of seasonal clerks and overtime.

### **Analysis**

The 2020-21 Mid-Year Budget of \$1.621 billion represents a total decrease of \$72.3 million, or 4.3 percent. This includes a \$68.5 million, or 9.9 percent reduction, in operating costs, and a \$3.9 million, or 0.4 percent decrease, in external fees.

### **Budget and Fiscal Impacts**

This item decreases CalPERS' total 2020-21 Authorized Budget by \$72.3 million. A portion of the reductions represents one-time administrative savings due to operational impacts caused by the pandemic. As such, CalPERS will reevaluate reduction assumptions and the changing business environment as it prepares the 2021-22 Annual Budget to determine the extent to which funding for administrative operations should be restored.

### **Benefits and Risks**

Approval of the reductions proposed in the 2020-21 Mid-Year Budget will signal to stakeholders and employer partners CalPERS' commitment to reducing its operational costs. In addition, the reductions are in line with compensation reductions affecting all State of California employees. Should the Committee choose not to reduce the budget at this time, CalPERS will report significant surpluses next November when it submits the 2020-21 Year-End Expenditure Report.

**Attachments**

Attachment 1 – 2020-21 Mid-Year Budget

Attachment 2 – 2019-20 Year-End Expenditure Report

Attachment 3 – PowerPoint Slides

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