

# California Public Employees' Retirement System

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## Fiscal Year 2019-20 Year-End Expenditure Report

November 17, 2020



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## Executive Summary

This report presents CalPERS' final year-end expenditures for Fiscal Year 2019-20. Expenditures reflect actual expenses through June 30, 2020, 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 a full accrual basis as required by Generally Accepted Accounting Principles (GAAP).

In total, CalPERS expended \$1.614 billion in 2019-20 across its six budget categories. This represents 85.0 percent of the total \$1.898 billion authorized budget. The related Key Performance Indicator is to spend at or below 10 percent of the authorized budget, and this level is 15 percent below. As more fully explained in the following budget category sections, the underutilization of budgeted funds is largely due to the COVID-19 pandemic and a reduction in external investment manager usage. All budgeted funds remained in the Public Employees' Retirement Fund (PERF) until withdrawn to pay for actual expenses. Therefore, the \$283.9 million in unexpended funds remained in the PERF for investment.

### 2019-20 Total Expenditures

(in thousands)	2019-20 Authorized Budget	2019-20 Expenditures and Encumbrances	Percent Expended	Balance
Administrative Operating Costs	\$528,800	\$480,404	90.8%	\$48,395
Investment Operating Costs	120,436	93,260	77.4%	27,176
Enterprise Project Costs	3,116	2,656	85.3%	459
Headquarters Building Costs	24,374	21,666	88.9%	2,708
<b>Total: Operating Costs</b>	<b>\$676,725</b>	<b>\$597,986</b>	<b>88.4%</b>	<b>\$78,739</b>
Investment External Mgmt Fees	899,791	710,200	78.9%	189,591
Third Party Administrator Fees	321,661	306,043	95.1%	15,617
<b>Total: Fees</b>	<b>\$1,221,451</b>	<b>\$1,016,243</b>	<b>83.2%</b>	<b>\$205,208</b>
<b>CalPERS Total Budget to Expenditures</b>	<b>\$1,898,176</b>	<b>\$1,614,229</b>	<b>85.0%</b>	<b>\$283,947</b>

The following pages detail 2019-20 expenditures by budget category.

## I. Administrative Operating Costs

Administrative Operating Costs include personal services expenditures (salaries, wages, and benefits for permanent and temporary staff) and Operating Expenses and Equipment (OE&E). In 2019-20, CalPERS expended \$480.4 million, or 90.8 percent, of this budget category, with \$48.4 million remaining in unexpended funds.

**2019-20 Administrative Operating Costs by Object of Expenditure<sup>1</sup>**

(in thousands)	2019-20 Authorized Budget	2019-20 Expenditures and Encumbrances	Percent Expended	Balance
<b>[1] PERSONAL SERVICES</b>				
Salaries & Wages	\$ 264,153	\$ 248,407	94.0%	\$ 15,747
Temporary Help	5,138	3,731	72.6%	1,407
Overtime	2,048	1,279	62.4%	770
Benefits	142,811	127,871	89.5%	14,940
<b>Total Personal Services</b>	<b>\$ 414,151</b>	<b>\$ 381,287</b>	<b>92.1%</b>	<b>\$ 32,863</b>
<b>[2] OPERATING EXPENSES &amp; EQUIPMENT</b>				
General Expense	\$ 11,358	\$ 6,502	57.2%	\$ 4,856
Software	1,842	1,653	89.7%	190
Printing	1,990	1,332	66.9%	658
Postage	2,843	2,806	98.7%	37
Communications	1,845	1,449	78.5%	397
Data Processing Services	15,362	15,776	102.7%	(414)
Travel	3,580	1,768	49.4%	1,812
Training	1,732	822	47.5%	910
Medical Exam/Disability Travel	1,451	1,086	74.9%	364
Facilities Operations	5,390	4,762	88.3%	628
Central Administrative Services	25,567	25,567	100.0%	-
University Enterprises, Inc.	521	221	42.4%	300
External Legal Counsel	5,877	3,456	58.8%	2,421
Professional Services	6,075	5,596	92.1%	479
Consultants	20,025	18,217	91.0%	1,809
Audit Services	1,969	1,633	82.9%	337
Federal Legislative Rep	600	578	96.3%	22
Admin Hearings	1,418	1,333	94.0%	85
Consolidated Data Centers	105	340	323.9%	(235)
Equipment (Includes EDP)	5,098	4,222	82.8%	876
<b>Total Operating Expenses &amp; Equipment</b>	<b>\$ 114,649</b>	<b>\$ 99,117</b>	<b>86.5%</b>	<b>\$ 15,532</b>
<b>Total Costs</b>	<b>\$ 528,800</b>	<b>\$ 480,404</b>	<b>90.8%</b>	<b>\$ 48,395</b>

Of the \$48.4 million unspent, \$32.9 million is from lower Personal Services expenditures driven by position vacancies, less health benefit expenditures than estimated, and a reduction in temporary help usage. On June 30, 2020, CalPERS had 218.0 vacant positions, which reflects a 7.6 percent vacancy rate. Comparatively, there was a 6.9 percent vacancy rate at the end of 2018-19. The higher vacancy rate at the end of 2019-20 is due to the pandemic. Not only did the sudden shift to a remote working environment delay recruitment efforts during the last quarter of the year, but CalPERS purposefully held positions vacant while it analyzed workload and the need to fill vacancies. As more fully discussed in the 2020-21 Mid-Year Budget, CalPERS proposes to eliminate some vacant positions determined to be no longer necessary, and to continue holding other positions vacant to achieve savings.

At year-end there was also \$15.5 million, or 13.5 percent, in unspent OE&E funds. This is twice the OE&E surplus as compared to the prior year. Actual expenses were less than budgeted for nearly all line items, most significantly in General Expenses, Travel, and Training; areas specifically impacted by the pandemic in the last quarter of the fiscal year. Not only did CalPERS limit purchases to only those critically necessary, but certain activities like travel and training were affected by shelter-in-place orders. Data Processing expenses exceeded the budgeted amount because of a mid-year change that coded copy machine support and maintenance as Data Processing rather than a General Expense. This change was made to achieve consistency with how other software and equipment maintenance costs are coded. Consolidated Data Center expenses exceeded the budgeted amount due to unanticipated California Department of Technology assessments for new network and security services.

### 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 and fee payouts; fund administration and custody; data and analytics software; and maintaining or implementing trading and portfolio management systems. In 2019-20, CalPERS expended \$93.3 million, or 77.4 percent, with \$27.2 million unspent.

#### 2019-20 Investment Operating Costs

(in thousands)	2019-20 Authorized Budget	2019-20 Expenditures and Encumbrances	Percent Expended	Balance
Investment Consultants	\$9,860	\$4,772	48.4%	\$5,088
Board Consultants	5,221	5,362	102.7%	(141)
Technology Consultants	7,600	3,990	52.5%	3,610
<b>Total Consultant Expenses</b>	<b>\$22,681</b>	<b>\$14,124</b>	<b>62.3%</b>	<b>\$8,557</b>
Audits	\$705	\$129	18.2%	\$576
Tax Advisory Services	1,200	737	61.4%	463
Master Custodian Fee	11,453	10,623	92.8%	830
Fund Administration Services / Fees	3,900	4,053	103.9%	(153)
External Legal	5,800	3,073	53.0%	2,727
Appraisal Fees	10,000	11,153	111.5%	(1,153)
Company Expense	950	1,524	160.4%	(574)
Miscellaneous Operating Expense	300	334	111.4%	(34)
<b>Total Operating Expenses</b>	<b>\$34,308</b>	<b>\$31,626</b>	<b>92.2%</b>	<b>\$2,682</b>
Data	\$7,500	\$6,962	92.8%	\$538
Analytics	15,000	13,727	91.5%	1,273
Trading and Portfolio Management Systems	38,769	24,083	62.1%	14,686
Business Operations Tool	2,000	2,656	132.8%	(656)
Other Technology Expense	178	81	45.8%	97
<b>Total Technology Expenses</b>	<b>\$63,447</b>	<b>\$47,509</b>	<b>74.9%</b>	<b>\$15,937</b>
<b>Total Investment Operating Expenses</b>	<b>\$120,436</b>	<b>\$93,260</b>	<b>77.4%</b>	<b>\$27,176</b>

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

- **Consultant Expenses:** \$8.6 million in Investment and Technology consulting costs due to delaying or suspending multiple projects involving Data Strategy, Multi-Asset Trading, and Risk & Total Fund platforms due to the COVID-19 pandemic. CalPERS continues to analyze the projects in light of changing business needs and the remote working environment.
- **Operating Expenses:** \$2.7 million driven by a reduction in External Legal and Audit services, and reduced transaction-driven Master Custodian Fees. Surpluses in these areas were somewhat offset by overages in Fund Administration Fees, Appraisal Fees, and Company Expenses. More specifically, the slight overage in Fund Administration fees was caused by fluctuations in market conditions and resulting strategy changes, as well as total assets under management (AUM) that significantly fluctuated along with market volatility. Appraisal Fee expenses were higher than expected because of contract negotiations late in 2018-19 that delayed invoicing and payments until 2019-20. Company Expenses, which are CalPERS' share of professional service costs related to overseeing the emerging managers program, were higher than budgeted due to additional advising related to fund closures resulting from manager reductions and terminations. Timing of payments also contributed to the overage because terminated managers submitted all pending invoices for final payment.
- **Technology Expenses:** \$16.0 million mainly due to CalPERS delaying or suspending Trading and Portfolio Management Systems projects because of the pandemic. The overage in Business Operations Tool costs resulted from additional functionality added to the Salesforce platform.

### III. Enterprise Project Costs

In 2019-20, CalPERS budgeted \$3.1 million for two information technology projects, of which \$2.7 million was expended. At year-end, more than \$0.4 million was unspent, and is primarily attributable to less than estimated expenses for the Actuarial Valuation System Redesign/Advance Analytics Integration (AAI) project. This included savings resulting from the inability to recruit a limited-term actuary to assist with core workload during system design, and less software, consulting, and equipment expenses than anticipated. The project is complete and operational. The Member Electronic Payment System project had a surplus due to an overestimation of required licensing and certification fees. This project is also complete.

#### 2019-20 Enterprise Project Costs

(in thousands)	2019-20 Authorized Budget	2019-20 Expenditures and Encumbrances	Percent Expended	Balance
Actuarial Valuation System Redesign / AAI	\$2,942	\$2,524	85.8%	\$417
Member Electronic Payment	174	132	75.8%	42
<b>Total Enterprise Projects</b>	<b>\$3,116</b>	<b>\$2,656</b>	<b>85.3%</b>	<b>\$459</b>



### IV. 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 2019-20, CalPERS expended \$21.7 million, or 88.9 percent, of the Headquarters Building Budget. At year-end, there was \$1.5 million unexpended in Operating Costs largely driven by the pandemic. With team members working remotely and meetings held virtually, there were less security, janitorial, maintenance, supply, and electricity expenses incurred during the last quarter of the fiscal year. There was also \$1.2 million unspent in Non-Operating costs driven by less owner improvements. This included less data wire, voice, and furniture installations for team member relocations that were cancelled because of COVID-19, as well as the cancellation of minor, non-critical building retrofits.

## Headquarters Building Costs

(in thousands)	2019-20 Authorized Budget	2019-20 Expenditures and Encumbrances	Percent Expended	Balance
<b>Operating:</b>				
Utilities	\$2,365	\$2,159	91.3%	\$206
Engineering Services	4,038	3,778	93.6%	260
Janitorial	3,439	3,399	98.9%	40
Landscaping	865	834	96.4%	31
General Maintenance	1,215	969	79.8%	246
Security	2,911	2,664	91.5%	246
Property Mgmt. & Administrative Fees	1,512	1,306	86.4%	206
Café Plaza	247	243	98.3%	4
Offsite Expenses <sup>1</sup>	961	665	69.2%	296
Emergency Operations Center (EOC) <sup>2</sup>	451	371	82.1%	81
Operating Other <sup>3</sup>	2,022	2,089	103.3%	(67)
<b>Total Operating Expenses</b>	<b>20,026</b>	<b>18,478</b>	<b>92.3%</b>	<b>1,548</b>
<b>Non-Operating:</b>				
Owner Improvements <sup>4</sup>	3,187	2,020	63.4%	1,167
Building Improvements <sup>5</sup>	3,614	3,576	99.0%	38
Furniture & Fixtures	300	286	95.3%	14
Building Insurance	360	374	103.8%	(14)
<b>Total Non-Operating Expenses</b>	<b>7,461</b>	<b>6,256</b>	<b>83.8%</b>	<b>1,205</b>
<b>Subtotal Expenses</b>	<b>\$27,487</b>	<b>\$24,734</b>	<b>90.0%</b>	<b>\$2,754</b>
Less: Revenue <sup>6</sup>	(1,655)	(1,609)	97.2%	(46)
<b>Total HQ Building Expenses</b>	<b>\$25,833</b>	<b>\$23,125</b>	<b>89.5%</b>	<b>\$2,708</b>
Less: Amount included in Admin. Budget	(1,459)	(1,459)	100.0%	-
<b>Total Headquarters Building Budget</b>	<b>\$24,374</b>	<b>\$21,666</b>	<b>88.9%</b>	<b>\$2,708</b>

<sup>1</sup> Offsite expenses include Front Street parking, warehouse space, and regional office maintenance.

<sup>2</sup> EOC expenses include leasing costs, utilities, janitorial, security, landscaping, and generator maintenance.

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

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

<sup>5</sup> Building Improvements include structural alterations and repairs, and related project management.

<sup>6</sup> Revenue from parking, Subway, Chocolate Fish, and Montessori daycare leases.

## V. 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 \$899.8 million budgeted in 2019-20, CalPERS expended \$710.2 million, or 78.9 percent. Total Base Fees were \$99.8 million lower than estimated primarily due to a substantial decrease in the number of external managers under contract. The overage of \$27 million in Real Assets fees is related to additional acquisitions not previously estimated. Total Performance Fees were under budget by \$89.8 million, also due to the reduction in external managers. The decrease in overall Investment Management fees continues into 2020-21, the budget for which identifies a significant year-over-year reduction.

### 2019-20 Investment External Management Fees

(in thousands)	2019-20 Authorized Budget	2019-20 Expenditures and Encumbrances	Percent Expended	Balance
Global Equity	\$126,719	\$39,404	31.1%	\$87,316
Fixed Income	13,793	12,216	88.6%	1,578
Real Assets	188,213	215,200	114.3%	(26,987)
Absolute Return Strategy	305	222	72.8%	83
Private Equity	295,000	272,984	92.5%	22,016
Multi Asset Class	40,800	26,053	63.9%	14,747
Opportunistic Strategies	1,500	500	33.3%	1,000
<b>External Mgmt - Base Fees</b>	<b>\$666,331</b>	<b>\$566,579</b>	<b>85.0%</b>	<b>\$99,752</b>
Global Equity	\$52,224	\$10,836	20.7%	\$41,389
Fixed Income	3,214	2,839	88.3%	375
Real Assets	176,021	129,916	73.8%	46,105
Multi Asset Class	2,000	-	0.0%	2,000
Absolute Return Strategy	-	30	0.0%	(30)
<b>External Mgmt - Performance Fees</b>	<b>\$233,460</b>	<b>\$143,621</b>	<b>61.5%</b>	<b>\$89,839</b>
<b>Total External Mgmt Fees</b>	<b>\$899,791</b>	<b>\$710,200</b>	<b>78.9%</b>	<b>\$189,591</b>

## VI. 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 typically fluctuates throughout the fiscal year.

Of the \$321.7 million budgeted for Third Party Administrator Fees, CalPERS expended \$306.0 million, or 95.1 percent. Nearly all unexpended funds are related to Health Program fees which were driven by members migrating to lower-fee health plans during the Fall 2019 Open Enrollment period. This is consistent with the reduction in fees identified in the 2020-21 budget. Similarly, the slight surpluses for the Long Term Care and Supplemental Income Programs is consistent with enrollment declines identified earlier this year and included in the 2020-21 budget.

### 2019-20 Third Party Administrator Fees

(in thousands)	2019-20 Authorized Budget	2019-20 Expenditures and Encumbrances	Percent Expended	Balance
Health Program	\$ 274,181	\$ 259,106	94.5%	\$ 15,076
Pharmacy Benefit Manager	22,720	22,826	100.5%	(107)
<b>Total, Health</b>	<b>\$ 296,901</b>	<b>\$ 281,932</b>	<b>95.0%</b>	<b>\$ 14,969</b>
Long Term Care Program	20,729	20,490	98.8%	239
Supplemental Income Plan	3,922	3,516	89.7%	406
California Employers' Retiree Benefit Trust (CERBT)	90	90	99.7%	-
California Employers' Pension Prefunding Trust (CEPPT)	18	15	83.3%	3
<b>Total Third Party Administrator Fees</b>	<b>\$321,661</b>	<b>\$306,043</b>	<b>95.1%</b>	<b>\$15,617</b>

## VII. Administrative Operating Costs by Fund

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

### 2019-20 Administrative Operating Costs by Fund

(\$ in thousands)	2019-20 Authorized Budget	2019-20 Expenditures and Encumbrances	Percent Expended	Balance
<b>Administrative Operating Costs</b>				
Public Employees' Retirement Fund (PERF)	\$ 423,234	\$ 386,715	91.4%	\$ 36,519
Public Employees' Contingency Reserve Fund (CRF)	33,319	30,802	92.4%	2,517
Public Employees' Health Care Fund (HCF)	48,369	42,504	87.9%	5,865
Long-Term Care Fund (LTCF)	7,573	6,036	79.7%	1,537
Annuitants' Health Care Coverage Fund (AHCCF)	5,477	4,728	86.3%	749
Deferred Compensation Fund (IRC 457)	1,760	1,638	93.1%	122
Supplemental Contributions Program Fund (SCP)	122	114	93.1%	8
Judges' Retirement Fund (JRF)	1,979	1,772	89.5%	208
Judges' Retirement Fund II (JRF II)	2,260	2,024	89.5%	237
Legislators' Retirement Fund (LRF)	505	457	90.4%	48
Replacement Benefit Custodial Fund (RBF)	536	497	92.7%	39
California Employers' Pension Prefunding Trust (CEPPT) <sup>1</sup>	422	347	82.2%	75
Old-Age & Survivors Insurance Fund (OASI)	1,024	792	77.3%	232
Reimbursements <sup>2</sup>	2,219	1,980	89.2%	239
<b>Total Administrative Operating Costs</b>	<b>\$ 528,800</b>	<b>\$ 480,404</b>	<b>90.8%</b>	<b>\$ 48,395</b>
<i>Statewide Pro-Rata Assessment</i>	\$ 25,567	\$ 25,567	100.0%	-
<i>CalPERS Administrative Costs</i>	\$ 503,233	\$ 454,837	90.4%	\$ 48,395

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

<sup>2</sup> 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.