



Finance and Administration Committee

Agenda Item 5a

November 14, 2023

Item Name: 2023-24 Mid-Year Budget Revision

Program: Financial Office

Item Type: Action

Recommendation

Approve a \$15.7 million increase for a revised total budget of \$2.444 billion.

Executive Summary

At mid-year, CalPERS proposes a \$15.7 million, or 0.6 percent increase to the 2023-24 authorized budget. The major driver of the increase within the Administrative Operating Costs budget is expected adjustments to salary and benefits pursuant to collective bargaining and board-approved salary and incentive compensation adjustments for specific executive and investment classifications. Increases to operating budget categories for critical and unanticipated needs are offset by redirection of salary savings. In addition, estimates for Investment External Management Fees have been updated to reflect an increase in Global Equity and Private Equity base fee changes for externally managed assets and commitments. Third Party Administrator (TPA) Fee estimates reflect a reduction due to updated contractual arrangements with Blue Shield and updated projections of pharmacy benefit claim data. Total authorized positions remain unchanged at 2,843.

2023-24 Mid-Year Total Budget

| (\$ in thousands) | 2023-24 Authorized Annual Budget | 2023-24 Proposed Mid-Year Budget | Change | |
|-------------------------------------|--|--|-------------------|---------------|
| | | | \$ | % |
| Administrative Operating Costs | \$585,451 | \$616,670 | \$31,218 | 5.3% |
| Investment Operating Costs | 150,595 | 150,595 | - | 0.0% |
| Headquarters Building Costs | 22,608 | 22,753 | 145 | 0.6% |
| Total: Operating Costs | \$758,655 | \$790,018 | \$31,363 | 4.1% |
| Investment External Management Fees | 1,339,444 | 1,368,386 | 28,942 | 2.2% |
| Third Party Administrator Fees | 329,781 | 285,156 | (44,625) | (13.5%) |
| Total: Fees | \$1,669,225 | \$1,653,542 | (\$15,684) | (0.9%) |
| CalPERS Total Budget | \$2,427,880 | \$2,443,560 | \$15,680 | 0.6% |
| Total Positions | 2,843.0 | 2,843.0 | - | 0.0% |

Strategic Plan

This agenda item aligns with CalPERS' 2022-27 Strategic Plan as the proposed budget increase will provide the financial resources needed to achieve strategic objectives, meet core business needs, and further the mission of delivering retirement and health care benefits to members and their beneficiaries.

Background

Each fiscal year, CalPERS engages in two formal budget processes: an annual budget proposal 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 presents to the board a mid-year revision that aligns team member salaries and benefits with the outcomes of collective bargaining. Additionally, the mid-year budget updates fee projections for health plan enrollments, and addresses new, critical, and unforeseen resource needs not envisioned during the annual budget process. Each fall, CalPERS also provides the board with an update on prior year expenditures.

Analysis

As detailed in Attachment 1, the 2023-24 Mid-Year Budget of \$2.444 billion reflects a total increase of \$15.7 million, or 0.6 percent. Most of the increases are in the Administrative Operating Costs, driven by collective bargaining, as well as salary and incentive compensation adjustments pursuant to board actions. Additionally, there is a reduction of salary savings within the Administrative Operating Costs budget to fund executive searches, new information security software needs, TPA and pharmacy benefit manager (PBM) solicitation services, and support for new compliance and risk programs. Within Investment External Management Fees, specifically in estimated Global Equity and Private Equity base fees, there is an increase in

externally managed assets and commitments, as well as a small increase in Real Assets performance fees resulting from better-than-expected performance in infrastructure investments. Within TPA fees, there is a decrease resulting from a contractual change with Blue Shield which negates the need for a TPA, and updated PBM fee projections. The total adjustment reflects reasonable increases that will enable CalPERS to meet its core objectives.

Attachment 2 provides final expenditures for fiscal year 2022-23 and indicates that CalPERS concluded the fiscal year with a net \$356.3 million in unexpended funds, including a \$107.6 million surplus in Operating Costs primarily attributable to position vacancies and a \$248.8 million surplus in fees mainly due to Real Assets market fluctuations.

Budget and Fiscal Impacts

The mid-year revision increases CalPERS' total authorized budget by \$15.7 million, or 0.6 percent. All funds remain invested until actual expenses are incurred and paid.

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. Approval will improve CalPERS' ability to operate effectively and meet financial obligations.

Attachments

Attachment 1 – 2023-24 Mid-Year Budget Revision
Attachment 2 – 2022-23 Year End Expenditure Report
Attachment 3 – PowerPoint Slides

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