

California Public Employees' Retirement System

Fiscal Year 2023-24 Mid-Year Budget

November 14, 2023



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Executive Summary

At mid-year, CalPERS proposes an increase of \$15.7 million over the 2023-24 authorized budget. This increase reflects revised estimates for Investment External Management Fees driven by Global Equity and Private Equity base fee changes as a result of an increase in externally managed assets and commitments related to new partnership agreements. In addition, Third Party Administrator Fees reflect a decrease due to a contractual change and updated projections. The mid-year budget also includes Administrative Operating increases for collectively bargained salary and benefit adjustments, as well as, board-approved salary and incentive compensation adjustments for specific executive and investment classifications. 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%

The following pages detail the 2023-24 Mid-Year adjustments by expenditure category.

I. Administrative Operating Costs

Administrative Operating Costs include Personal Services expenditures (salaries and benefits for staff) and Operating Expenses and Equipment (OE&E). At mid-year, CalPERS proposes a net \$31.2 million, or 5.3 percent increase for these expenses. This includes a \$30.1 million increase in Personal Services expenses, and a \$1.1 million increase in OE&E costs.

The Personal Services increase is primarily driven by statewide compensation and benefit adjustments which total \$14.7 million. Collectively-bargained salary and benefit increases added \$11.5 million and increased health premiums added \$3.2 million. In addition, the Personal Services adjustment includes an increase of \$15.4 million that is comprised of \$5.2 million to appropriately fund positions redirected from the Position Pool to the Investment Office and \$13.9 million to update executive and investment salary and incentive compensation to board-approved levels. Overall, the Personal Services increase is offset by a redirection of \$3.7 million in salary savings to expense categories in OE&E to fund critical or unanticipated resource needs. These redirections include \$0.9 million for Third Party Administrator and Pharmacy Benefit Manager solicitation services, \$0.2 million for new compliance and risk programs, \$0.4 million for information security and risk modules, and \$2.2 million for executive search services.

As detailed on the following page, there are a number of adjustments to OE&E expense categories that net to an overall increase of \$1.1 million. The decreases are a result of all divisions reviewing their budgets to identify areas where resource needs have changed since development of the annual budget. A reduction of \$0.3 million shown on the General Expense line is due to the redirection of funds to the Software line for information security software modules, while an increase of \$0.6 million to the Software line is due to additional program driven software purchases. The reduction in Facilities Operations costs reflects the updated affiliate funds' share of Headquarters Building Costs. The Consultants line displays an increase of \$0.6 million primarily driven by expenses for additional executive search services, Third Party Administrator and Pharmacy Benefit Manager solicitation services, and support for new compliance and risk programs. Consultant line increases are offset by savings from Oracle PeopleSoft Human Capital Management migration funding schedule changes.

Administrative Operating Costs by Object of Expenditure

(\$ in thousands)	2023-24 Authorized Annual Budget	2023-24 Proposed Mid-Year Budget	Change	
			\$	%
Salaries & Wages	\$304,768	\$326,969	\$22,201	7.3%
Benefits	151,154	159,100	7,946	5.3%
Total Personal Services	\$455,922	\$486,070	\$30,147	6.6%
General Expense	10,446	10,116	(330)	(3.2%)
Software	2,571	3,523	952	37.0%
Printing	242	242	-	0.0%
Postage	2,214	2,214	-	0.0%
Communications	1,515	1,515	-	0.0%
Data Processing Services	24,163	24,163	-	0.0%
Travel	2,926	2,926	-	0.0%
Training	1,274	1,274	-	0.0%
Medical Exam/Disability Travel	2,000	2,000	-	0.0%
Facilities Operations	8,314	8,169	(145)	(1.7%)
Central Administrative Services	26,527	26,527	-	0.0%
University Enterprises, Inc.	455	455	-	0.0%
External Legal Counsel	5,941	5,941	-	0.0%
Professional Services	4,937	4,937	-	0.0%
Consultants	26,892	27,486	594	2.2%
Audit Services	1,546	1,546	-	0.0%
Federal Legislative Rep	591	591	-	0.0%
Admin Hearings	1,402	1,402	-	0.0%
Consolidated Data Centers	350	350	-	0.0%
Equipment (Includes EDP)	5,225	5,225	-	0.0%
Total Operating Expenses & Equipment	\$129,529	\$130,600	\$1,071	0.8%
Total Administrative Costs	\$585,451	\$616,670	\$31,218	5.3%

II. Investment Operating Costs

Investment Operating Costs are comprised of expenses incurred to support investment activities. This includes consultants to inform the board of investment initiatives and to implement investment technologies; professional services required for due diligence, asset valuation, and fund administration and custody; and technology expenses for data, analytics, and trading and portfolio management systems. At mid-year, total Investment Operating Costs remain unchanged at \$150.6 million. Projected costs will transfer between expense line items to better allocate funding to Technology Consultants as progress is made on the Investment Data and Technology Strategy Initiative.

Investment Operating Costs

(\$ in thousands)	2023-24 Authorized Annual Budget	2023-24 Proposed Mid-Year Budget	Change	
			\$	%
Investment Consultants	\$12,000	\$12,000	\$ -	0.0%
Board Consultants	6,500	6,500	-	0.0%
Technology Consultants	12,243	21,830	9,587	78.3%
Total Consultant Expenses	\$30,743	\$40,330	\$9,587	31.2%
Audits	705	705	-	0.0%
Tax Advisory Services	1,200	1,200	-	0.0%
Master Custodian Fee	14,515	12,000	(2,515)	(17.3%)
Fund Administration Services / Fees	13,548	12,979	(569)	(4.2%)
External Legal	8,000	8,000	-	0.0%
Appraisal Fees	12,500	12,500	-	0.0%
Company Expense	450	450	-	0.0%
Miscellaneous Operating Expense	300	300	-	0.0%
Total Operating Expenses	\$51,217	\$48,134	(\$3,083)	(6.0%)
Data	11,600	9,900	(1,700)	(14.7%)
Analytics	20,034	17,900	(2,134)	(10.7%)
Trading and Portfolio Management Systems	32,149	30,450	(1,699)	(5.3%)
Business Operations Tool	4,675	3,500	(1,175)	(25.1%)
Other Technology Expense	178	381	203	114.2%
Total Technology Expenses	\$68,635	\$62,131	(\$6,504)	(9.5%)
Total Investment Operating Expenses	\$150,595	\$150,595	\$ -	0.0%

III. Headquarters Building Costs

Headquarters (HQ) Building expenses include costs to operate and maintain the HQ campus and regional offices, the offsite emergency operations center, the Front Street parking lot, and warehouse space. At mid-year, total HQ Building Costs remain unchanged, however, there is a transfer of funds between operating and Non-Operating Costs to address critical, health, safety, and sustainability needs. This includes items such as replacing dated elevator and building management control systems; and updating costs for the café and building insurance. Although total expenses are the same, updated allocation of costs to affiliate funds increases this budget category by \$0.1 million.

Headquarters Building Costs

(\$ in thousands)	2023-24 Authorized Annual Budget	2023-24 Proposed Mid-Year Budget	Change	
			\$	%
Utilities	\$2,570	\$2,570	\$ -	0.0%
Engineering Services	4,290	4,290	-	0.0%
Janitorial	3,550	3,550	-	0.0%
Landscaping	742	742	-	0.0%
General Maintenance	1,076	1,076	-	0.0%
Security	3,001	3,001	-	0.0%
Property Mgmt. & Administrative Fees	1,651	1,651	-	0.0%
Café Plaza	288	384	96	33.3%
Offsite Expenses	1,015	1,015	-	0.0%
Emergency Operations Center (EOC)	521	521	-	0.0%
Operating Other	2,099	2,561	462	22.0%
Total Operating Expenses	\$20,803	\$21,361	\$558	2.7%
Owner Improvements	2,192	1,884	(309)	(14.1%)
Building Improvements	4,939	4,539	(400)	(8.1%)
Furniture & Fixtures	300	300	-	0.0%
Building Insurance	686	837	151	22.0%
Total Non-Operating Expenses	\$8,117	\$7,559	(\$558)	(6.9%)
Less: Revenue	(1,405)	(1,405)	-	0.0%
Total Headquarters Building Expenses	\$27,516	\$27,516	\$ -	0.0%
Less: Amount included in Admin. Budget	(4,908)	(4,762)	145	(3.0%)
Total Headquarters Building Budget	\$22,608	\$22,753	\$145	0.6%

IV. Investment External Management Fees

The Investment External Management Fees budget includes amounts that CalPERS estimates will be paid to external investment advisors with whom it contracts to manage specific portfolios. Estimates are driven by assets under management, deployment of capital for private asset investments, contract terms, and market conditions.

Within this category, CalPERS estimates a net increase of \$28.9 million, or 2.2 percent. This increase is primarily driven by Global Equity and Private Equity base fee changes that are as a result of an increase in externally managed assets and commitments related to new partnership agreements. Offsetting these estimated increases are reductions in the base fees of all other asset classes due to renegotiated fees and fewer than anticipated new partnerships. Performance fees for Real Assets reflect a small increase as a result of better-than-expected performance in Infrastructure.

Investment External Management Fees

(\$ in thousands)	2023-24 Authorized Annual Budget	2023-24 Proposed Mid-Year Budget	Change	
			\$	%
Global Equity	\$47,087	\$65,333	\$18,246	38.7%
Fixed Income	72,500	66,000	(6,500)	(9.0%)
Real Assets	390,736	327,000	(63,736)	(16.3%)
Private Equity	415,000	490,000	75,000	18.1%
Opportunistic Strategies	3,100	2,409	(691)	(22.3%)
Private Debt	102,000	82,645	(19,355)	(19.0%)
External Mgmt - Base Fees	\$1,030,423	\$1,033,386	\$2,963	0.3%
Real Assets	309,021	335,000	25,979	8.4%
External Mgmt - Performance Fees	\$309,021	\$335,000	\$25,979	8.4%
Total External Management Fees	\$1,339,444	\$1,368,386	\$28,942	2.2%

V. Third Party Administrator Fees

Third Party Administrator Fees include amounts CalPERS pays to external entities for health and pension service administration, recordkeeping, and participant communication. At mid-year, CalPERS proposes a decrease of \$44.6 million, or 13.5 percent. Adjustments include a \$43.4 million decrease in Health Program fees primarily due to Blue Shield changing their contractual arrangement from flex-funded to fully insured, which does not include a third party administrator fee, and a \$1.3 million decrease in Pharmacy Benefit Manager fees reflecting updated projections of total claims. In contrast, Long-Term Care Program fees are increasing \$0.09 million driven by updated enrollment estimates.

Third Party Administrator Fees

(\$ in thousands)	2023-24 Authorized Annual Budget	2023-24 Proposed Mid-Year Budget	Change	
			\$	%
Health Program	\$288,103	\$244,700	(\$43,403)	(15.1%)
Pharmacy Benefit Manager	20,502	19,190	(1,312)	(6.4%)
Total, Health	\$308,605	\$263,890	(\$44,715)	(14.5%)
Long Term Care Program	17,668	17,758	90	0.5%
Supplemental Income Plan	3,400	3,400	-	0.0%
California Employers' Retiree Benefit Trust (CERBT)	90	90	-	0.0%
California Employers' Pension Prefunding Trust (CEPPT)	18	18	-	0.0%
Total Third Party Administrator Fees	\$329,781	\$285,156	(\$44,625)	(13.5%)

I. Administrative Operating Costs by Branch

The following chart details Administrative Operating Costs (salaries and OE&E) by branch. The adjustments below are primarily driven by statewide compensation and benefit adjustments impacting each branch; and board-approved salary and incentive compensation adjustments for executive and investment classifications; and redirection of funds as a result of program area budget updates.

Administrative Operating Costs by Branch

(\$ in thousands)	2023-24 Authorized Annual Budget	2023-24 Proposed Mid-Year Budget	Change	
			\$	%
Actuarial Office	\$14,118	\$14,577	\$459	3.3%
Communications and Stakeholder Relations	14,964	15,535	572	3.8%
Customer Services and Support	116,624	120,921	4,296	3.7%
Executive Office	10,292	12,275	1,983	19.3%
Financial Office	27,282	28,072	790	2.9%
General Counsel	43,767	45,568	1,800	4.1%
Health Policy and Benefits Branch	34,236	35,533	1,297	3.8%
Investment Office	105,326	123,804	18,478	17.5%
Operations and Technology	178,424	181,560	3,136	1.8%
Enterprise	13,892	12,299	(1,593)	(11.5%)
Pro-Rata Assessment	26,527	26,527	-	0.0%
Total Administrative Operating Costs	\$585,451	\$616,670	\$31,218	5.3%

II. Administrative Operating Costs by Fund

The following allocation establishes the fund authority for Administrative Operating Costs. Upon board approval of the mid-year budget, CalPERS will provide this table to the State Controller's Office to effectuate payment of administrative expenses for the remainder of the fiscal year.

Administrative Operating Costs by Fund

(\$ in thousands)	2023-24 Authorized Budget	2023-24 Proposed Budget	Change	
			\$	%
Public Employees' Retirement Fund (PERF)	\$466,267	\$492,643	\$26,376	5.7%
Public Employees' Contingency Reserve Fund (CRF)	36,134	37,162	1,028	2.8%
Public Employees' Health Care Fund (HCF)	52,050	53,547	1,497	2.9%
Long-Term Care Fund (LTCF)	10,219	11,014	794	7.8%
Annuitants' Health Care Coverage Fund (AHCCF)	7,703	8,419	716	9.3%
Deferred Compensation Fund (IRC 457)	2,238	2,451	213	9.5%
Supplemental Contributions Program Fund (SCP)	238	312	74	31.0%
Judges' Retirement Fund (JRF)	2,563	2,579	16	0.6%
Judges' Retirement Fund II (JRF II)	3,052	3,236	184	6.0%
Legislators' Retirement Fund (LRF)	745	820	75	10.1%
Replacement Benefit Custodial Fund (RBF)	691	692	1	0.1%
California Employers' Pension Prefunding Trust (CEPPT)	136	176	40	29.2%
Old-Age & Survivors Insurance Fund (OASI)	1,171	1,202	31	2.6%
Reimbursements	2,244	2,418	174	7.8%
Total Administrative Operating Costs	\$585,451	\$616,670	\$31,218	5.3%
<i>Statewide Pro-Rata Assessment</i>	\$26,527	\$26,527	\$ -	0.0%
<i>CalPERS Administrative Costs</i>	\$558,925	\$590,143	\$31,218	5.6%

III. 2024-25 Operating Costs Projection

As part of the budget process, CalPERS monitors the out-year impact of fiscal decisions to estimate future operating cost expenses.

For Administrative Operating Costs, CalPERS estimates a net \$5.6 million decrease in 2024-25 driven by reductions of 2023-24 one-time costs for software, business, and equipment updates and enhancements.

Within Investment Operating Costs, CalPERS estimates a \$23.2 million increase due to the continued implementation of the Investment Data and Technology Strategy Initiative, increase in technology services, and inflationary pressures.

Headquarters Building Expenses are anticipated to increase by \$4.1 million driven by inflation, rise in utility cost, and building improvements related to communication, health, and safety.

During the development of the 2024-25 Annual Budget, CalPERS will analyze all operating costs and make funding recommendations based on updated data, assumptions, and priorities.

2024-25 Projection

(\$ in thousands)	2023-24 Proposed Mid-Year Budget	2024-25 Projected Budget	Change	
			\$	%
Administrative Operating Costs	\$616,670	\$611,072	(\$5,597)	(0.9%)
Investment Operating Costs	150,595	173,745	23,150	15.4%
Headquarters Building Costs	22,753	26,816	4,063	17.9%
Total Projection	\$790,018	\$811,634	\$21,616	2.7%
Authorized Positions	2,843.0	2,843.0	-	0.0%