

California Public Employees' Retirement System

Fiscal Year 2022-23 Year-End Expenditure Report

November 14, 2023



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Executive Summary

In 2022-23, CalPERS expended \$1.828 billion, or 83.7 percent of its \$2.185 billion authorized budget. Amounts reported reflect expenses and contract obligations (encumbrances) through June 30, 2023.

2022-23 Total Expenditures

(\$ in thousands)	2022-23 Authorized Budget	2022-23 Expenditures and Encumbrances	Percent Expended	Balance
Administrative Operating Costs	\$577,352	\$511,944	88.7%	\$65,409
Investment Operating Costs	132,678	93,547	70.5%	39,131
Headquarters Building Costs	20,823	17,802	85.5%	3,022
Total: Operating Costs	\$730,854	\$623,292	85.3%	\$107,561
Investment External Mgmt Fees	1,143,544	898,964	78.6%	244,580
Third Party Administrator Fees	310,312	306,122	98.6%	4,190
Total: Fees	\$1,453,856	\$1,205,085	82.9%	\$248,770
CalPERS Total Budget to Expenditures	\$2,184,709	\$1,828,378	83.7%	\$356,332

Note: While this basis of reporting is consistent with state budgeting practices, it differs from CalPERS' Annual Comprehensive Financial Report, which reports expenditures at the fund level using a full accrual basis as required by Generally Accepted Accounting Principles (GAAP).

The following pages detail 2022-23 expenditures by budget category.

B. 2022-23 Year-End Expenditures

I. Administrative Operating Costs

Administrative Operating Costs include expenditures for salaries, wages, benefits, and Operating Expenses and Equipment (OE&E) for general operations. In 2022-23, CalPERS expended \$511.9 million, or 88.7 percent of this budget category.

2022-23 Administrative Operating Costs by Object of Expenditure

(\$ in thousands)	2022-23 Authorized Budget	2022-23 Expenditures and Encumbrances	Percent Expended	Balance
Salaries & Wages	\$293,301	\$263,777	89.9%	\$29,523
Benefits	151,892	131,322	86.5%	20,570
Total Personal Services	\$445,193	\$395,099	88.7%	\$50,093
General Expense	10,131	7,424	73.3%	2,707
Software	3,069	1,539	50.1%	1,531
Printing	423	194	45.8%	229
Postage	2,750	2,746	99.8%	4
Communications	1,542	1,228	79.7%	314
Data Processing Services	27,778	20,872	75.1%	6,906
Travel	2,599	1,053	40.5%	1,546
Training	1,063	563	52.9%	501
Medical Exam/Disability Travel	2,000	1,990	99.5%	10
Facilities Operations	7,987	6,889	86.3%	1,098
Central Administrative Services	30,895	30,895	100.0%	-
University Enterprises, Inc.	444	459	103.4%	(15)
External Legal Counsel	5,891	3,301	56.0%	2,590
Professional Services	4,746	4,550	95.9%	196
Consultants	21,799	25,398	116.5%	(3,599)
Audit Services	1,516	1,516	100.0%	-
Federal Legislative Rep	403	403	100.0%	-
Admin Hearings	1,402	1,358	96.9%	44
Consolidated Data Centers	350	134	38.4%	216
Equipment (Includes EDP)	5,373	4,334	80.7%	1,039
Total Operating Expenses & Equipment	\$132,160	\$116,844	88.4%	\$15,315
Total Administrative Costs	\$577,352	\$511,944	88.7%	\$65,409

For 2022-23, the Administrative Operating Costs budget has a balance of \$65.4 million. This includes \$50.1 million in salary and benefits savings primarily driven by vacancies.

OE&E expenses in 2022-23 were lower than budgeted by \$15.3 million, or 11.6 percent. The major variances were driven by position vacancies. OE&E surpluses are attributable to the following:

- Software: surplus driven by the delay of the Oracle PeopleSoft Financials upgrade.
- Data Processing: actual expenses were lower than projected due to the Backup Restoration and Disaster Recovery work transitioning to internal staff and favorable negotiations for software and service licenses.
- Facilities Operations: surplus due to decreased building occupancy resulting in lower consumption of utilities and lower common area maintenance costs.
- External Legal Counsel: surplus due to a lower than anticipated need to utilize outside counsel and the Attorney General's Office for litigation or legal matters.
- Consulting expenses exceeded the budgeted amount due to services to migration of the Oracle PeopleSoft Human Capital Management application to a cloud product.

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 2022-23, CalPERS expended \$93.5 million, or 70.5 percent of funds to support investment operations.

2022-23 Investment Operating Costs

(\$ in thousands)	2022-23 Authorized Budget	2022-23 Expenditures and Encumbrances	Percent Expended	Balance
Investment Consultants	\$10,000	\$3,431	34.3%	\$6,569
Board Consultants	6,017	5,520	91.7%	497
Technology Consultants	10,034	6,319	63.0%	3,715
Total Consultant Expenses	\$26,051	\$15,270	58.6%	\$10,780
Audits	705	50	7.1%	655
Tax Advisory Services	1,200	823	68.6%	377
Master Custodian Fee	14,405	10,056	69.8%	4,349
Fund Administration Services / Fees	3,848	3,576	92.9%	272
External Legal	5,800	4,334	74.7%	1,466
Appraisal Fees	11,000	10,173	92.5%	827
Company Expense	450	305	67.7%	145
Miscellaneous Operating Expense	300	360	119.9%	(60)
Total Operating Expenses	\$37,707	\$29,676	78.7%	\$8,031
Data	8,920	6,721	75.4%	2,198
Analytics	19,871	12,885	64.8%	6,986
Trading and Portfolio Management Systems	35,026	26,172	74.7%	8,854
Business Operations Tool	4,926	2,677	54.3%	2,249
Other Technology Expense	178	146	81.9%	32
Total Technology Expenses	\$68,920	\$48,601	70.5%	\$20,319
Total Investment Operating Expenses	\$132,678	\$93,547	70.5%	\$39,131

The \$39.1 million surplus in Investment Operating Costs is attributable to the following:

- **Consultant Expenses:** \$10.8 million in Investment and Technology consulting. The Investment consulting surplus was driven by lower-than-anticipated investment proposals and transactions requiring prudent person opinions and due diligence analyses. Technology consulting costs were less than expected due to projects that were deferred while a comprehensive Technology and Data Strategy is developed.
- **Operating Expenses:** \$8 million driven by lower than anticipated External Legal reviews for new partnership agreements. Additionally, Master Custodian Fees were lower than expected as a result of gradual migration to a new Investment Performance Platform.
- **Technology Expenses:** \$20.3 million as a result of continued assessment and analysis of Strategic Initiatives and project implementations supporting these efforts. The surplus in Data, Analytics, and Business Operations Tool is primarily due to reprioritization of projects and a development of an overarching Technology and Data Strategy.

III. Headquarters Building Costs

Headquarters (HQ) Building expenses are costs incurred to operate, maintain, and improve the Lincoln Plaza Buildings and regional offices, the emergency operations center, Front Street parking, and warehouse space. In 2022-23, CalPERS expended \$21.9 million, or 85.6 percent for these purposes.

Headquarters Building Costs

(\$ in thousands)	2022-23 Authorized Budget	2022-23 Expenditures and Encumbrances	Percent Expended	Balance
Utilities	\$2,427	\$2,068	85.2%	\$359
Engineering Services	4,288	4,007	93.4%	281
Janitorial	3,603	3,246	90.1%	357
Landscaping	697	609	87.4%	88
General Maintenance	1,348	776	57.6%	572
Security	2,714	2,562	94.4%	152
Property Mgmt. & Administrative Fees	1,492	1,328	89.0%	164
Café Plaza	253	302	119.3%	(49)
Offsite Expenses	963	934	97.0%	29
Emergency Operations Center (EOC)	745	564	75.6%	182
Operating Other	2,755	2,496	90.6%	259
Total Operating Expenses	\$21,285	\$18,891	88.8%	\$2,394
Owner Improvements	2,060	1,046	50.8%	1,015
Building Improvements	2,623	2,512	95.8%	111
Furniture & Fixtures	300	223	74.2%	77
Building Insurance	610	602	98.7%	8
Total Non-Operating Expenses	\$5,593	\$4,382	78.3%	\$1,211
Less: Revenue	(1,343)	(1,416)	105.4%	73
Total Headquarters Building Expenses	\$25,536	\$21,858	85.6%	\$3,678
Less: Amount included in Admin. Budget	(4,713)	(4,057)	86.1%	(656)
Total Headquarters Building Budget	\$20,823	\$17,802	85.5%	\$3,022

The \$3.7 million surplus in Headquarters Building Account Costs is attributable to the following:

- Operating Expenses: \$2.4 million surplus due to less utility, maintenance, and supply expenses with team members teleworking for two days a week.
- Non-Operating Expenses: \$1.2 million surplus as a result of favorable competitive bid outcomes for contracted services and a reduction in services, staffing needs, expenses for non-critical building modifications, and team member relocations due to the remote work environment.

IV. 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. In 2022-23, of the \$1.1 billion budgeted, CalPERS expended \$899 million, or 78.6 percent. Results are attributed to the following:

- Total Base Fees were \$14.9 million higher than estimated as a result of increased deployment of capital for Global Equity and Private Equity in support of the board-approved Strategic Asset Allocation.
- Total Performance Fees were under the budget projection by \$259.5 million driven by Real Assets market fluctuations.

2022-23 Investment External Management Fees

(\$ in thousands)	2022-23 Authorized Budget	2022-23 Expenditures and Encumbrances	Percent Expended	Balance
Global Equity	\$25,890	\$32,429	125.3%	(\$6,539)
Fixed Income	40,000	10,039	25.1%	29,961
Real Assets	317,813	299,196	94.1%	18,617
Private Equity	395,000	463,622	117.4%	(68,622)
Private Debt	65,399	53,762	82.2%	11,637
External Management - Base Fees	\$844,102	\$859,047	101.8%	(\$14,945)
Real Assets	299,442	39,916	13.3%	259,526
External Management - Performance Fees	\$299,442	\$39,916	13.3%	\$259,526
Total External Management Fees	\$1,143,544	\$898,964	78.6%	\$244,580

V. Third Party Administrator Fees

Third Party Administrator fees cover external administration, recordkeeping, and communication with participants of health and pension program services. Budgeted amounts reflect assumptions for participant enrollment and assets under management, both of which fluctuate throughout the year and impact actual expenses.

Of the \$310.3 million budgeted for Third Party Administrator Fees, CalPERS expended \$306.1 million, or 98.6 percent. Nearly all unexpended funds are related to the Pharmacy Benefit Manager fees, which realized a reduction of \$4.5 million driven by enrollment changes along with a one-time reduction due to an update of administrative service fees. The Supplemental Income Plan fees, which are based on assets under management were lower than projected.

2022-23 Third Party Administrator Fees

(\$ in thousands)	2022-23 Authorized Budget	2022-23 Expenditures and Encumbrances	Percent Expended	Balance
Health Program	\$269,900	\$270,445	100.2%	(\$545)
Pharmacy Benefit Manager	18,119	13,581	75.0%	4,538
Total, Health	\$288,019	\$284,026	98.6%	\$3,993
Long Term Care Program	18,660	18,627	99.8%	33
Supplemental Income Plan	3,525	3,361	95.3%	164
California Employers' Retiree Benefit Trust (CERBT)	90	90	100.0%	-
California Employers' Pension Prefunding Trust (CEPPT)	18	18	100.0%	-
Total Third Party Administrator Fees	\$310,312	\$306,122	98.6%	\$4,190

B. 2022-23 Year-End Expenditures

VI. Administrative Operating Costs by Fund

Following is the distribution of actual Administrative Operating Costs to each trust and state fund.

2022-23 Administrative Operating Costs by Fund

(\$ in thousands)	2022-23 Authorized Budget	2022-23 Expenditures and Encumbrances	Percent Expended	Balance
Public Employees' Retirement Fund (PERF)	\$459,532	\$408,370	88.9%	\$51,161
Public Employees' Contingency Reserve Fund (CRF)	36,442	31,527	86.5%	4,915
Public Employees' Health Care Fund (HCF)	52,493	47,020	89.6%	5,474
Long-Term Care Fund (LTCF)	9,715	8,224	84.7%	1,491
Annuitants' Health Care Coverage Fund (AHCCF)	6,744	5,753	85.3%	992
Deferred Compensation Fund (IRC 457)	2,159	1,893	87.7%	266
Supplemental Contributions Program Fund (SCP)	146	127	86.9%	19
Judges' Retirement Fund (JRF)	2,367	2,147	90.7%	220
Judges' Retirement Fund II (JRF II)	2,651	2,388	90.1%	263
Legislators' Retirement Fund (LRF)	648	585	90.2%	63
Replacement Benefit Custodial Fund (RBF)	671	594	88.6%	77
California Employers' Pension Prefunding Trust (CEPPT)	82	70	84.9%	12
Old-Age & Survivors Insurance Fund (OASI)	1,182	1,008	85.2%	175
Reimbursements	2,520	2,238	88.8%	282
Total Administrative Operating Costs	\$577,352	\$511,944	88.7%	\$65,409
<i>Statewide Pro-Rata Assessment</i>	\$30,895	\$30,895	100.0%	\$ -
<i>CalPERS Administrative Costs</i>	\$546,458	\$481,049	88.0%	\$65,409