

California Public Employees' Retirement System

2017-18 Approved Annual Budget

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A Message from the Chief Executive Officer

The Total Budget for the California Public Employees' Retirement System (CalPERS) for fiscal year (FY) 2017-18 represents continued process improvements and reductions in cost. With continued fiscal prudence, this is the fourth budget process to deliver budget requirements lower than the previous year.

The CalPERS Total Budget is designed to provide significant information about planning processes, annual performance, forecasting, and financial planning. It represents the financial resources needed to help us achieve our strategic priorities and initiatives for the organization and to those who serve California. The budget demonstrates our commitment to reduce and control costs in a collaborative effort that also aligns with our long-term strategies.

The FY 2017-18 Approved Budget of \$1,676.4 million includes the following highlights:

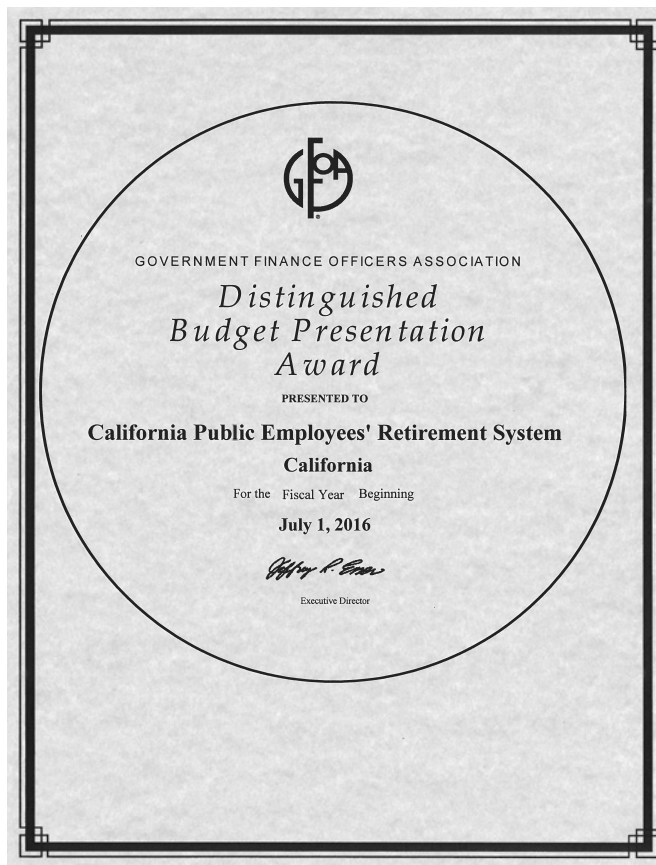
- Reduction of 5.0 limited-term authorized positions approved by the CalPERS Board of Administration in FY 2015-16 for two years (\$0.4 million).
- No new positions proposed as the organization will continue to address resource needs through the realignment of existing positions and the implementation of an enterprise position pooling concept.
- Resources for the final year of the myCalPERS Business Optimization improvements to complete targeted initiatives and increase operational efficiencies (\$8.8 million).

- Continuation of the redesign of the Actuarial Valuation System (AVS) to provide information that meets actuarial practices and supports new Governmental Accounting Standards Board (GASB) reporting requirements (\$3.9 million).
- Ongoing Security Roadmap maintenance and operational efforts to protect and secure CalPERS member and employer data (\$4.2 million).
- Funding to procure a vendor to provide expanded data backup, restoration, and disaster recovery services (\$7.0 million).

The focus of the FY 2017-18 CalPERS Total Budget continues to demonstrate the mission of CalPERS and the priorities of the enterprise and our stakeholders in a transparent manner, while delivering a value-based, managed-risk perspective.

Marcie Frost
Chief Executive Officer

GFOA Distinguished Budget Presentation Award FY 2016-17



The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to CalPERS for its annual budget for the fiscal year beginning July 1, 2016. To receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device. This award is valid for a period of one year.

Introduction & Overview

CalPERS Organization

CalPERS is the largest defined benefit fund in the United States and is dedicated to providing world-class retirement and health benefit services to more than 1.8 million retirement system members, 1.4 million health plan members, and 3,021 public school, local agency, and state employers.

Headquartered in Sacramento, CalPERS also operates eight regional offices located in Fresno, Glendale, Orange, Sacramento, San Diego, San Bernardino, San Jose, and Walnut Creek.

Led by a 13-member Board of Administration (Board) consisting of member-elected, appointed, and ex officio members, CalPERS membership (as of June 2016) consists of 1,210,909 active and inactive members, and 648,645 retirees, beneficiaries, and survivors from state, school, and public agencies.

Established by legislation in 1931, the CalPERS System (System) became operational in 1932 for the purpose of providing a secure retirement to state employees. In 1939, new legislation allowed public agency and classified school employees to join the System for retirement benefits. CalPERS began administering health benefits for state employees in 1962, and five years later, public agencies joined the Health Program on a contract basis. The following page depicts historical CalPERS milestones.

As a defined benefit retirement plan, CalPERS provides benefits based on a member's years of service, age, and compensation, which includes benefits in the event of a member's disability or death. CalPERS also provides health benefits to its active and retired members along with long-term care insurance, deferred compensation programs, and an Other Postemployment Benefits (OPEB) prefunding program.

Serving Those Who Serve California

At CalPERS, we are part of the fabric of California. For more than eight decades, we've built retirement and health security for people who invest their lifework in the state. Their contributions help move all of us forward through services such as education, transportation, safety, and the environment. As stewards of the System, we ensure that their benefits and earned retirements are as enduring as the state they maintain.

To support our employers, members, and their beneficiaries, we also invest in the health and infrastructure of California building portfolios that bolster local business and funding enterprises that directly influence and stimulate our state economy. With an unwavering commitment to retirement security and wellness, we help create equity in the future for generations to come.

We are proud to serve those who serve California.

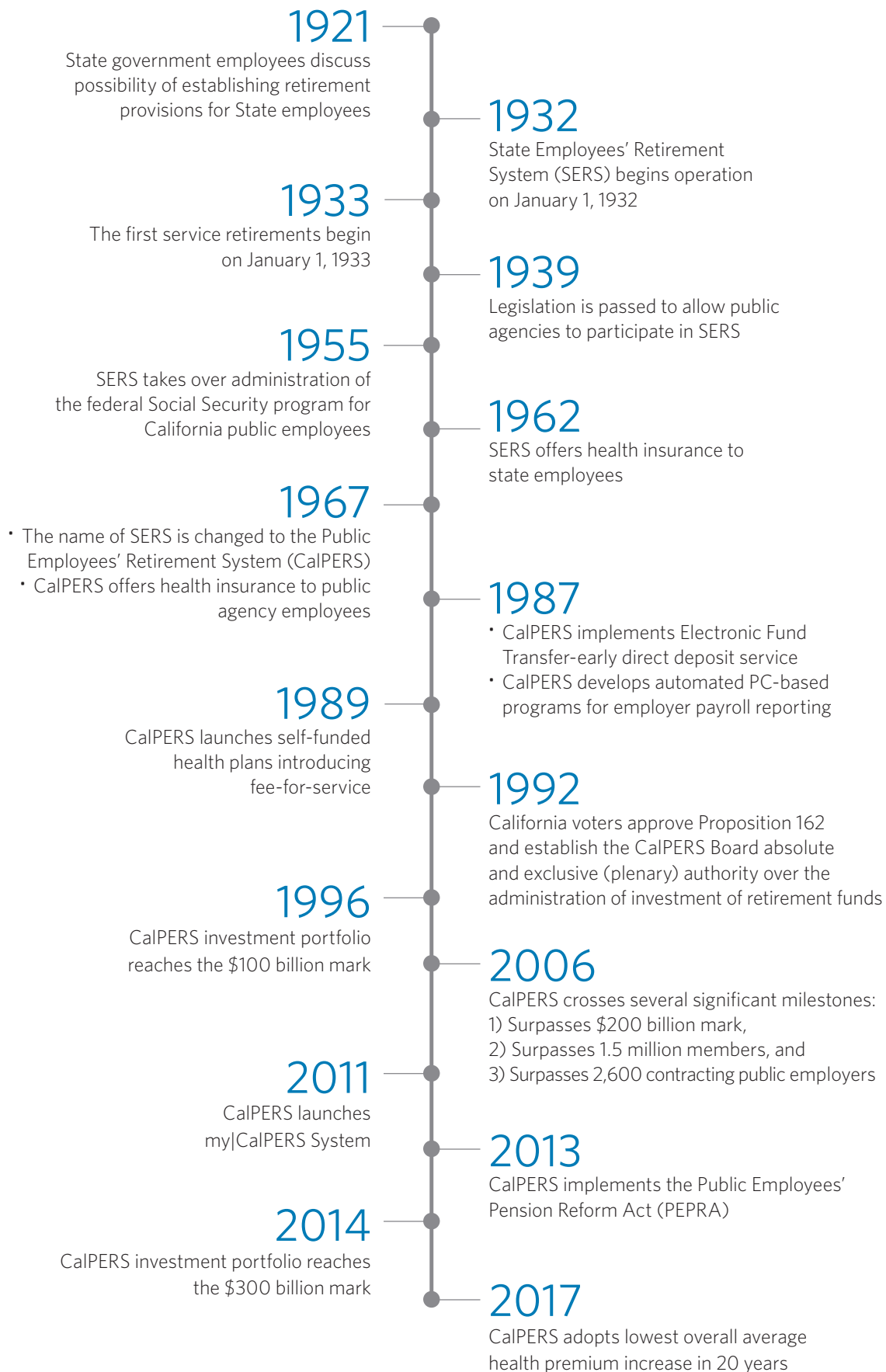
CalPERS Investments

As the nation's largest public pension fund with assets totaling approximately \$302.0 billion (as of June 2016), CalPERS investments span domestic and international markets.

The CalPERS Board has investment authority and sole fiduciary responsibility for the management of CalPERS assets. With the Board's guidance, the CalPERS Investment Committee and Investment Office carry out the daily activities of the investment program.

CalPERS has generated sustainable long-term returns by effectively managing investments to achieve the highest possible return at an acceptable level of risk. The CalPERS portfolio is diversified into several asset classes, so any weakness in one area is offset by gains in another. The Board follows a strategic asset allocation policy that targets the percentage of funds invested in each asset class.

CalPERS Historical Milestones




CalPERS at a Glance

Figures as of June 30, 2016 unless otherwise noted

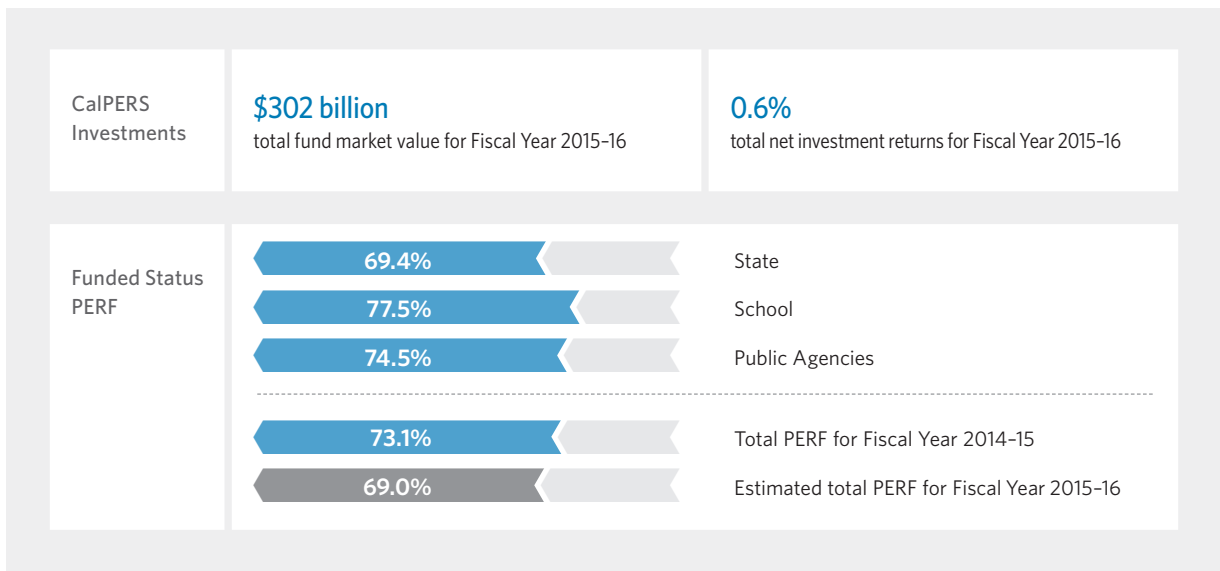
Our Mission: Provide responsible and efficient stewardship of the System to deliver promised retirement and health benefits, while promoting wellness and retirement security for members and beneficiaries.

The information presented in this document provides a statistical outline of our retirement and health programs and a breakdown of our investment profile and Fund performance.

Pension Program

Members PERF ¹	1.8 million members total retirement plan membership	873,026 / 47% active members	648,645 / 35% retirees & beneficiaries	337,883 / 18% inactive members ²
		578,470 / 31% state members	705,946 / 38% school members	575,138 / 31% public agency members
Employers	3,021 employers total employers in retirement program	1 State of California	1,439 School Districts	1,581 Public Agencies
		\$3,353 average monthly service retirement ³	\$1,562 average monthly service retirement ³	\$3,570 average monthly service retirement ³
Economic Impact ⁴	\$20.5 billion in benefits paid ⁵	\$29 billion economic activity generated through California investments	362,500 jobs in private markets supported by CalPERS investments in California	\$27.8 billion invested in California-based companies and projects
Shared Responsibility	Every dollar paid to CalPERS retirees comes from three sources:			

Pension Funding



Health & Other Programs

Health Program	1.4 million total lives covered (employees, retirees, dependents)	6 HMOs + 3 PPOs healthcare providers	
Long-Term Care Program	\$4.3 billion in assets	\$282.4 million annual premiums received	132,274 total active participants
Deferred Compensation Plan	\$1.3 billion in assets	758 contracting agencies	27,210 total participants
CERBT ⁶ Program	\$5.8 billion in assets	493 participating agencies	500% growth in employer participation since inception

¹ Public Employees' Retirement Fund (PERF)

² No longer working for CalPERS employer with service credit on account

³ Averages for service retiree members as of June 30, 2016, excludes beneficiaries and survivors

⁴ Investment figures from CalPERS for California 2015 report

⁵ Benefits paid from PERF, Legislators' Retirement Fund (LRS), Judges' Retirement Fund (JRS), JRS II

⁶ California Employers' Retiree Benefit Trust Fund for post employment retiree benefits

California Public Employees' Retirement System
www.calpers.ca.gov

Produced by CalPERS Communications and
Stakeholder Relations

Strategic and Business Plans

CalPERS' strategic plan contains the mission, vision, and core values of the organization over a five-year period and aligns the enterprise budget structure with the organization's strategic goals. This is done in an effort to provide responsible and efficient stewardship of the System to deliver promised retirement and health benefits, while promoting wellness and retirement security for members and beneficiaries.

Strategic Planning

In 2017, the CalPERS Board adopted the CalPERS 2017-22 Strategic Plan that guides the development of the business plan. This comprehensive business plan supports and helps CalPERS accomplish its strategic goals, which are:

- Strengthen the long-term sustainability of the pension fund
- Transform health care purchasing and delivery to achieve affordability
- Reduce complexity across the enterprise
- Cultivate a risk-intelligent organization
- Promote a high-performing and diverse workforce

Strategic planning is the key to assuring that CalPERS is prepared for the challenges of tomorrow and is an essential first step in the development of a results-based planning process. With a focus on the long-term, the strategic goals and objectives set out in the strategic plan provide a sense of direction and continuity with an opportunity to influence the future.

Business Planning

The 2017-2018 Business Plan, which begins July 1, 2017, outlines the work of the organization in the first year of the new strategic plan. The business plan initiatives are intended to sharpen organizational focus to provide and sustain pension and health programs, enhance customer service, strengthen the internal organization, and advance policy development.

The business plan provides a systematic method to anticipate and adapt to expected changes, set the operational direction, and continue to align the organization's work with the 2017-22 Strategic Plan goals and objectives.

The business plan development process is an organization-wide approach to establishing enterprise priorities and initiatives to focus the organization's efforts. The business plan is reviewed and updated annually and includes assessment of various performance measures for success in meeting established goals.

CalPERS' Core Values of Quality, Respect, Accountability, Integrity, Openness, and Balance guide the work of the CalPERS organization and help direct future planning. Using these values, executive leadership identified specific, achievable, and measurable initiatives that play a fundamental role in accomplishing strategic goals. Ultimately, these goals, objectives, and measures translate into the work of CalPERS through the 2017-18 Business Plan.

The following chart details CalPERS' strategic goals, objectives, and initiatives:

Aligning Strategic, Business and Budget Planning

Strategic Planning

- » Long-term, 5-year plan (2017-22)
- » Foundation for 2017-18 Business Plan

Business Planning

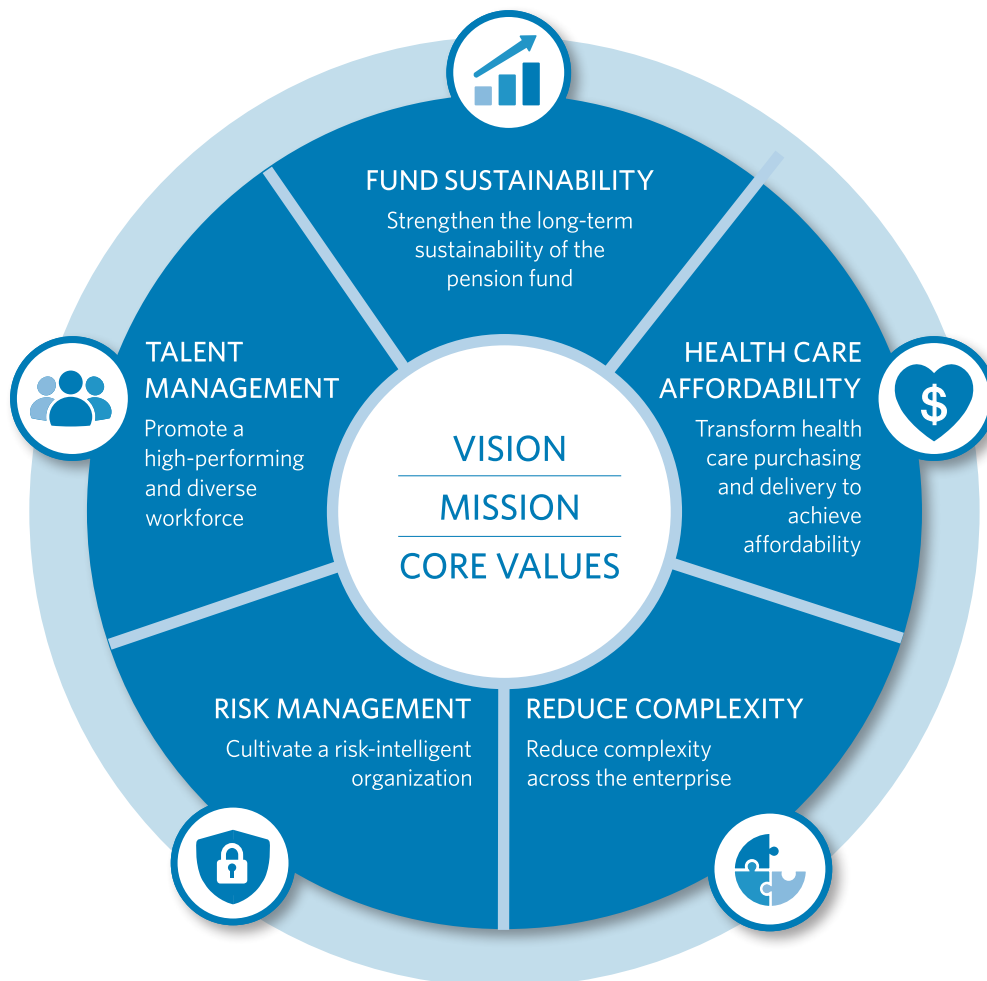
- » 1-year plan
- » Formulation of initiatives
- » Approved by Board

Forecasting/Mid-Year Requests

- » Monthly management and status reporting
- » Quarterly forecasting
- » Budget transfers

Budget Planning

- » Identification of resourcing needs
- » Formulation of formal budget requests



2017-22 Strategy Map

Our Vision

A respected partner, providing a sustainable retirement system and health care program for those who serve California

Our Mission

Deliver retirement and health care benefits to members and their beneficiaries

Our Core Values

Quality
Respect
Accountability
Integrity
Openness
Balance

Strategic Goals and Objectives

Strategic Goal	Objectives	Initiatives
Fund Sustainability Strengthen the long-term sustainability of the pension fund	Fund the System through an integrated view of pension assets and liabilities	<p>Alignment of Asset Liability Management - Incorporates elements of funding risk from both an asset and liability perspective to ensure the sustainability of the fund</p> <p>Employer Contracting and Collection Reporting - Develop and implement a report for identifying agency collection issues and contract terminations</p> <p>*Redesign and Enhance the Actuarial Valuation System - Redesign and enhance the Actuarial Valuation System to increase capabilities, streamline processes, and create more robust valuation systems</p>
	Mitigate the risk of significant investment loss	*Investment Risk Management and Performance Attribution - Build effective investment risk and performance attribution review and decision processes within and across asset classes to ensure risks are fully understood, intended, and compensated
	Deliver target risk-adjusted investment returns	<p>*Enhance Capital Allocation Framework - Enhance the Capital Allocation framework through improved risk factor modeling and greater understanding and ownership of trust-level investment risk and performance</p> <p>*Enhance Investment Platform and Controls - Enhance the investment platform and internal controls environment to achieve optimum efficiency</p>
	Educate employers, members, and stakeholders on system risks and mitigation strategies	Stakeholder Education on System Risks and Mitigation - Identify, develop, and implement training, education, and outreach opportunities to educate employers, members, and stakeholders on system risks, mitigation strategies, and compliance enhancements
	Integrate environmental, social, and governance (ESG) considerations into investment decision making	*Investment Beliefs and ESG Risk Integration - Develop a framework for the integration of CalPERS Investment Beliefs and ESG risk considerations into the investment decision-making process
Healthcare Affordability Transform health care purchasing and delivery to achieve affordability	Restructure benefit design to promote high-value health care	<p>Value-Based Insurance Design: Feasibility - Research and develop health benefit design strategies to improve member health, and value of care, while decreasing costs in PPO plans</p> <p>Site of Care Management - Leverage current Integrated Health Care and Population Health delivery models to contain health care costs in PPO plans for possible expansion to HMOs</p> <p>Pharmacy Benefit Manager Pilot - Develop and implement strategies to align our pharmacy benefit manager with our reference pricing model</p> <p>Reference Pricing Expansion - Leverage existing efforts to reduce health care costs by expanding the use of reference pricing for routine non-emergency procedures with price variation in the PPOs</p>
	Improve the health status of our employees, members and their families, and the communities where they live	<p>Population Health Alignment with Let's Get Healthy California Taskforce Report Dashboard - Provide employers with aggregate health care data to identify major health care costs and enhance Population Health Management (PHM)</p> <p>Partner with Health Plans to Engage in Community Activities - Collaborate with health plans to positively impact the health of our members by engaging in community activities which create a culture of good health</p>
	Reduce the overuse of ineffective or unnecessary medical care	<p>Statewide Collaboration Through Smart Care California - Partner with Covered California and Department of Health Care Services through Smart Care California coalition to promote safe, affordable care in the area of opioid use, Caesarean-sections and spinal/back disorders</p> <p>Review and Update Shared Savings Accountable Care Organizations Cost and Quality Targets - Research, analyze, and update shared savings cost and quality targets and expand the use of evidence-based medicine in improving outcomes while decreasing costs</p> <p>Research and Expand Evidence-Based Medicine - Apply outcome-based medical strategies to provide affordable and high-value care</p>

Reduce Complexity

Reduce complexity across the enterprise

Simplify programs to improve service and/or reduce cost

CEM Complexity Score Reduction – Assess current complexity score and identify target areas of complexity reduction

Customer Satisfaction: Actionable Feedback – Identify actionable feedback from customer satisfaction surveys and implement reasonable improvements that will result in enhanced customer service

Improve Pension Benefit Payments Timeliness – Identify current issues impacting benefit payment timeliness and mitigate constraints to increase service levels more consistently towards the goal or accept the current level of service

* Implement Digital Communication Strategy – Enhance digital communications capabilities to support outreach and communication to members, employers, and other stakeholders

* External Manager Monitoring, Expectations, and Reduction Strategy – Develop enhanced governance and protocols to improve efficiencies and controls in assessing and engaging external managers and migrating additional asset types in-house

Streamline operations to gain efficiencies, improve productivity, and reduce costs

Develop Lean Business Process Improvement Culture – Develop and implement a training program on the Lean methodology of business process improvement to reduce complexity throughout the enterprise

Reduce System Costs and Improve Efficiencies – Identify cost drivers and assess enterprise-wide cost savings for proposed areas of improvement to reduce costs and improve efficiencies to the System

* Enhance Business Effectiveness, Resource Allocation, and Efficiency of Investment Programs – Enhance cost effectiveness, resource allocation, and efficiency of the investment program to increase net returns on assets

* Investment Program Long-Term Planning – Explore long-term planning considerations including private assets business model, talent management, and office locations

Risk Management

Cultivate a risk-intelligent organization

Enhance compliance and risk functions throughout the enterprise

Data Governance Policies and Procedures – Create/enhance policies and processes to strengthen data-driven decisions through accurate and appropriate data, ensure data is appropriately defined and intent of information is understood, and improve the consistency of data use across the enterprise

Increase Enterprise-Wide Risk Awareness – Develop enterprise-wide risk communication and training plans to increase risk awareness, and strengthen and expand risk capabilities

Increase Enterprise-Wide Compliance Awareness – Develop compliance communication and training plans to increase awareness throughout the enterprise

Enhance cyber security programs

Enterprise Business Continuity Plan, Phase II – Design comprehensive and functional business continuity plan that identifies resources and systems, and creates procedures needed for the resumption of all normal critical and non-critical business operations after 30 days post disaster

Information Security Roadmap – Advance the cyber security strategy and roadmap to mitigate cybersecurity risks

* Multi-year initiative(s) continuing from prior business plan

Talent Management

Promote a high-performing and diverse workforce

Recruit and empower a broad range of talents to meet organization priorities

Develop and Implement an Expanded Recruitment Strategy – Develop and implement a plan to increase the number of channels used to broadcast open positions

Develop and Administer Team Member Engagement Surveys – Develop a plan and implement a new engagement survey(s) to continually improve our culture and preserve our reputation as a destination employer

* Expand Diversity Program – Develop and begin implementing a plan to expand the Diversity and Inclusion Program to recruit and empower a broad range of talents to meet organizational priorities

* Emerging Leader Pilot Program – Implement and evaluate a journey-level training program to prepare non-supervisory employees for future leadership roles

Cultivate robust leadership competencies and develop succession plans across the enterprise

Develop 2017-22 Workforce Plan – Develop a plan to implement a phased approach to address workforce planning that includes: recruitment, retention, development, empowerment, and succession planning

Enterprise Competencies – Refresh and adopt competencies for leadership and team members that align with expected behaviors to promote a high-performing work culture

* Multi-year initiative(s) continuing from prior business plan

CalPERS Beliefs

CalPERS Beliefs provide guidance for strategic planning and management of the CalPERS pension fund and investment portfolio.

Investment Beliefs

In September 2013, the CalPERS Board of Administration adopted the set of 10 Investment Beliefs intended to provide a basis for strategic management of the investment portfolio, and to inform organizational priorities.

Investment Belief 1

Liabilities must influence the asset structure.

Investment Belief 2

A long time investment horizon is a responsibility and an advantage.

Investment Belief 3

CalPERS investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries.

Investment Belief 4

Long-term value creation requires effective management of three forms of capital: financial, physical, and human.

Investment Belief 5

CalPERS must articulate its investment goals and performance measures, and ensure clear accountability for their execution.

Investment Belief 6

Strategic asset allocation is the dominant determinant of portfolio risk and return.

Investment Belief 7

CalPERS will take risk only where we have a strong belief we will be rewarded for it.

Investment Belief 8

Costs matter and need to be effectively managed.

Investment Belief 9

Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error.

Investment Belief 10

Strong processes and teamwork, and deep resources are needed to achieve CalPERS goals and objectives.

Pension Beliefs

In May 2014, the CalPERS Board of Administration adopted the set of 11 Pension Beliefs that articulate the pension fund's views on public pension design, funding, and administration.

Pension Belief 1

A retirement system must meet the needs of members and employers to be successful.

Pension Belief 2

Plan design should ensure that lifetime retirement benefits reflect each employee's years of service, age, and earnings, and are adequate for full-career employees.

Pension Belief 3

Inadequate financial preparation for retirement is a growing national concern; therefore, all employees should have effective means to pursue retirement security.

Pension Belief 4

A retirement plan should include a defined benefit component, have professionally managed funds with a long-term horizon, and incorporate pooled investments and pooled risks.

Pension Belief 5

Funding policies should be applied in a fair, consistent manner, accommodate investment return fluctuations, and support rate stability.

Pension Belief 6

Pension benefits are deferred compensation and the responsibility for appropriate funding should be shared between employers and employees.

Pension Belief 7

Retirement system decisions must give precedence to the fiduciary duty owed to members but should also consider the interests of other stakeholders.

Pension Belief 8

Trustees, administrators and all other fiduciaries are accountable for their actions, and must transparently perform their duties to the highest ethical standards.

Pension Belief 9

Sound understanding and deployment of enterprise-wide risk management is essential to the ongoing success of a retirement system.

Pension Belief 10

A retirement system should offer innovative and flexible financial education that meets the needs of members and employers.

Pension Belief 11

As a leader, CalPERS should advocate for retirement security for America's workers and for the value of defined benefit plans.

Short-Term Organizational Factors

The objective of the budget process is to address the immediate needs of the organization, such as preserving the current level of service to CalPERS members while making progress towards the implementation of CalPERS' long-term goals.

Incorporated into the FY 2017-18 CalPERS Total Budget are the following assumptions and factors that guided the development of the budget to meet the needs of the organization:

- Includes resources to support the CalPERS strategic goals and initiatives
- Reductions in temporary staffing costs by \$1.6 million
- Includes a targeted vacancy factor of 5.0 percent
- Reduction in State of California central administrative services (Pro Rata) costs due to a reduced allocation assessed to the CalPERS organization (\$0.3 million)
- Includes increases for state employees' salary and benefit adjustments per bargaining unit agreements and estimated adjustments

Enterprise Priorities and Risks

The FY 2017-18 Total Budget is focused on core business needs critical to CalPERS' long-term strategy and furthering the mission of building retirement and health security for those who serve California. The initiatives comprised in the budget will be

implemented to achieve efficiencies, identify and implement cost-saving measures, manage risks, and deliver quality customer service and strong affordable health care programs to effectively deliver retirement and health security for CalPERS members.

The approved budget provides the annual financial plan for FY 2017-18 and supports the CalPERS 2017-22 Strategic Plan. The CalPERS team has taken steps to consider the impacts of enterprise risks that may threaten the achievement of strategic plan goals throughout the annual budget process. The strategic plan and associated enterprise risks have been aligned, and current mitigation measures have been identified and evaluated for effectiveness.

This document compiles the financial data needed to support CalPERS goals and is based on the departmental review of operations. In alignment with the CalPERS strategic goals and initiatives in the 2017-18 Business Plan, five key areas of focus were identified for the FY 2017-18 Budget:

- Innovative approaches to improve benefit services and continued customer focus
- Effective information technology solutions
- Cost efficiencies and workload capacity
- Effective risk management and compliance
- Sound management practices and leadership development

Budget Highlights

These five key areas of focus were used to identify the budgetary need for the fiscal year. Some of the major highlights of the FY 2017-18 Total Budget include:

- Reduction of 5.0 limited-term authorized positions approved by the Board in FY 2015-16 for two years (\$0.4 million).
- No new positions proposed as the organization will continue to address resource needs through the realignment of existing positions and the implementation of an enterprise position pooling concept.
- Resources for the final year of the mylCalPERS Business Optimization improvements to complete targeted initiatives and increase operational efficiencies (\$8.8 million).
- Continuation of the redesign of the Actuarial Valuation System to provide information that meets actuarial practices and supports new Governmental Accounting Standards Board (GASB) reporting requirements (\$3.9 million).
- Ongoing Security Roadmap maintenance and operational efforts to protect and secure CalPERS member and employer data (\$4.2 million).
- Funding to procure a vendor to provide expanded data backup, restoration, and disaster recovery services (\$7.0 million).

In the previous FY 2016-17 Budget, key priorities of the organization that were met include:

- Completion of Pilot to Improve Long-Term Care Hospital Transition Care for Senior Members — Assess the specialized hospital transition care management program to improve quality and reduce hospital readmissions from Preferred Provider Organization Health Plan members with Long-Term Care policies.
- Provide Health Costs Education and Outreach — Provide employees with aggregate views of health data to identify major health care costs and assess impacts.
- Master Enterprise Business Continuity Plan — Update master Business Continuity Program that accounts for enterprise priorities and can be executed post a major disruption.

Budget Overview

The CalPERS Total Budget focuses on the organization's five strategic goals:

- Strengthen the long-term sustainability of the pension fund
- Transform health care purchasing and delivery to achieve affordability
- Reduce complexity across the enterprise
- Cultivate a risk-intelligent organization
- Promote a high-performing and diverse workforce

Total Budget Summary

The approved FY 2017-18 CalPERS Total Budget is \$1,676.4 million, which represents an overall decrease of approximately \$110.5 million (6.2 percent) from the FY 2016-17 Approved Budget of \$1,786.9 million. Specifically, this is an increase of \$17.3 million (3.2 percent) in administrative and investment operating costs, an increase of \$10.1 million (3.7 percent) in third-party administrator fees offset by a decrease of \$119.2 million (13.3 percent) in investment external management fees¹, a decrease of \$14.4 million (38.2 percent) in enterprise project costs, and a decrease of \$4.2 million (13.6 percent) in headquarters building costs.

FY 2017-18 CalPERS Total Budget (in thousands)

	FY 2016-17 Approved Budget ²	FY 2016-17 Forecast	FY 2017-18 Approved Budget	FY 2018-19 Projection	Budget to Budget	
					\$ Change increase/ (decrease)	% Change increase/ (decrease)
Administrative Operating Costs	\$458,790	\$445,476	\$474,441	\$495,600	\$15,650	3.4%
Investment Operating Costs ³	89,538	89,538	91,236	91,236	1,699	1.9%
Investment External Management Fees ¹	896,705	896,705	777,518	777,518	(119,187)	(13.3%)
Third-Party Administrator Fees	272,809	272,809	282,860	282,860	10,051	3.7%
TOTAL: OPERATING COSTS	\$1,717,842	\$1,704,528	\$1,626,055	\$1,647,214	(\$91,787)	(5.3%)
Enterprise Project Costs	37,736	36,189	23,302	5,140	(14,434)	(38.2%)
Headquarters Building Costs	31,295	29,295	27,046	27,046	(4,249)	(13.6%)
CalPERS Total Budget	\$1,786,873	\$1,770,012	\$1,676,403	\$1,679,401	(\$110,470)	(6.2%)
TOTAL POSITIONS	\$2,880.0		(5.0)		\$2,875.0	(0.2%)

¹ The budgeted projection for the private equity investment external management fees includes base management fees, net of expected fee offsets and waivers. Note that this amount excludes partnership expenses and fund of funds fees that were commingled with CalPERS private equity management fee estimates in previous years. The current year approach is in alignment with Government Accounting Standards Board and the Comprehensive Annual Financial Report (CAFR) methodology for 2017-2018.

² FY 2016-17 Mid-Year Budget approved by CalPERS Board of Administration on December 20, 2016.

³ Investment operating expenses are not part of CalPERS Administrative Operating Costs and therefore should not be included in CalPERS pro rata assessment.

Key changes in the FY 2017-18 CalPERS Total Budget include an overall net decrease of \$110.5 million (decrease of \$137.8 million offset by an increase of \$27.4 million) from the FY 2016-17 Approved Budget.

Cost decreases of \$137.8 million are associated with:

Cost decreases (in millions)

Investment external management fees ¹	(\$119.2)
Enterprise project costs	(\$14.4)
Headquarters building costs	(\$4.2)

¹ See page 15, footnote 1.

These cost decreases were offset by increases of \$27.4 million associated with:

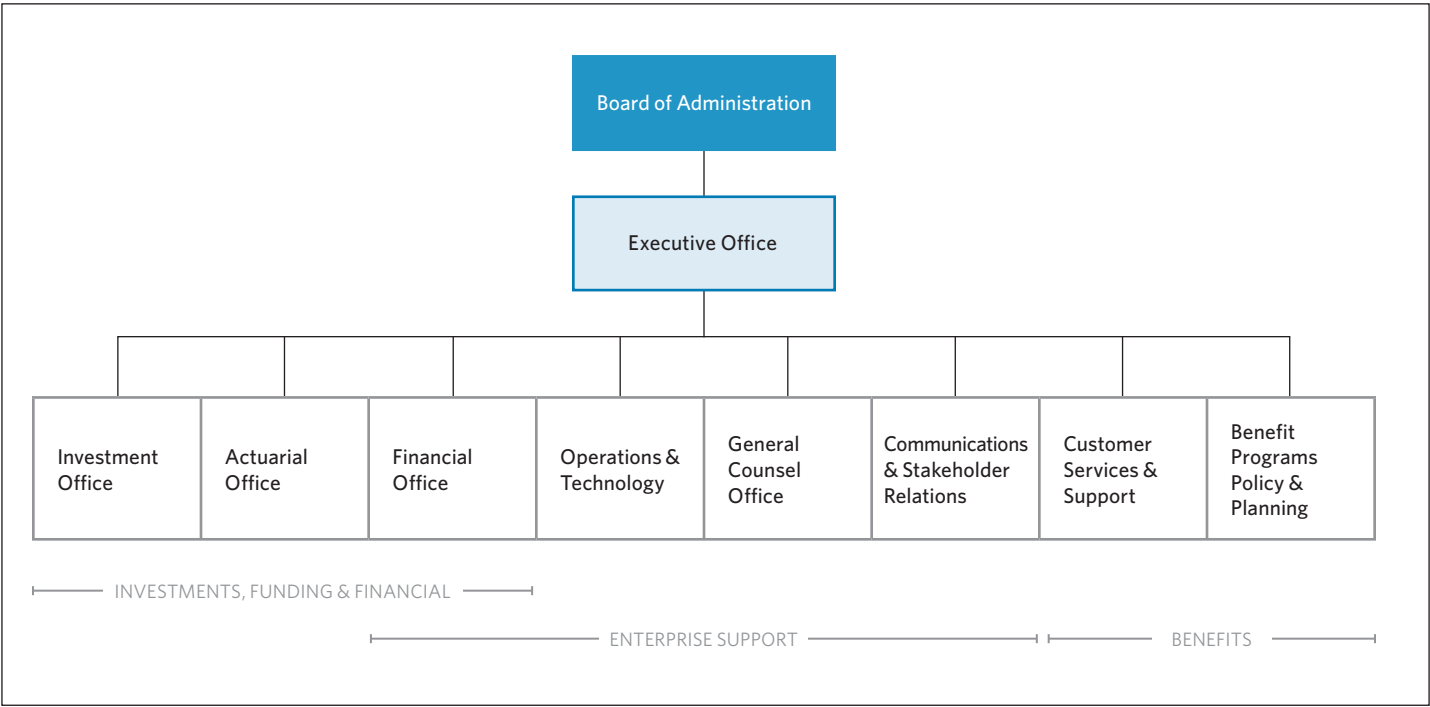
Cost increases (in millions)

Administrative operating costs	\$15.6
Investment operating costs	\$1.7
Third-party administrator fees	\$10.1

Each budget area will be covered separately and detailed to provide analysis of the historical trending and current proposal of the costs.

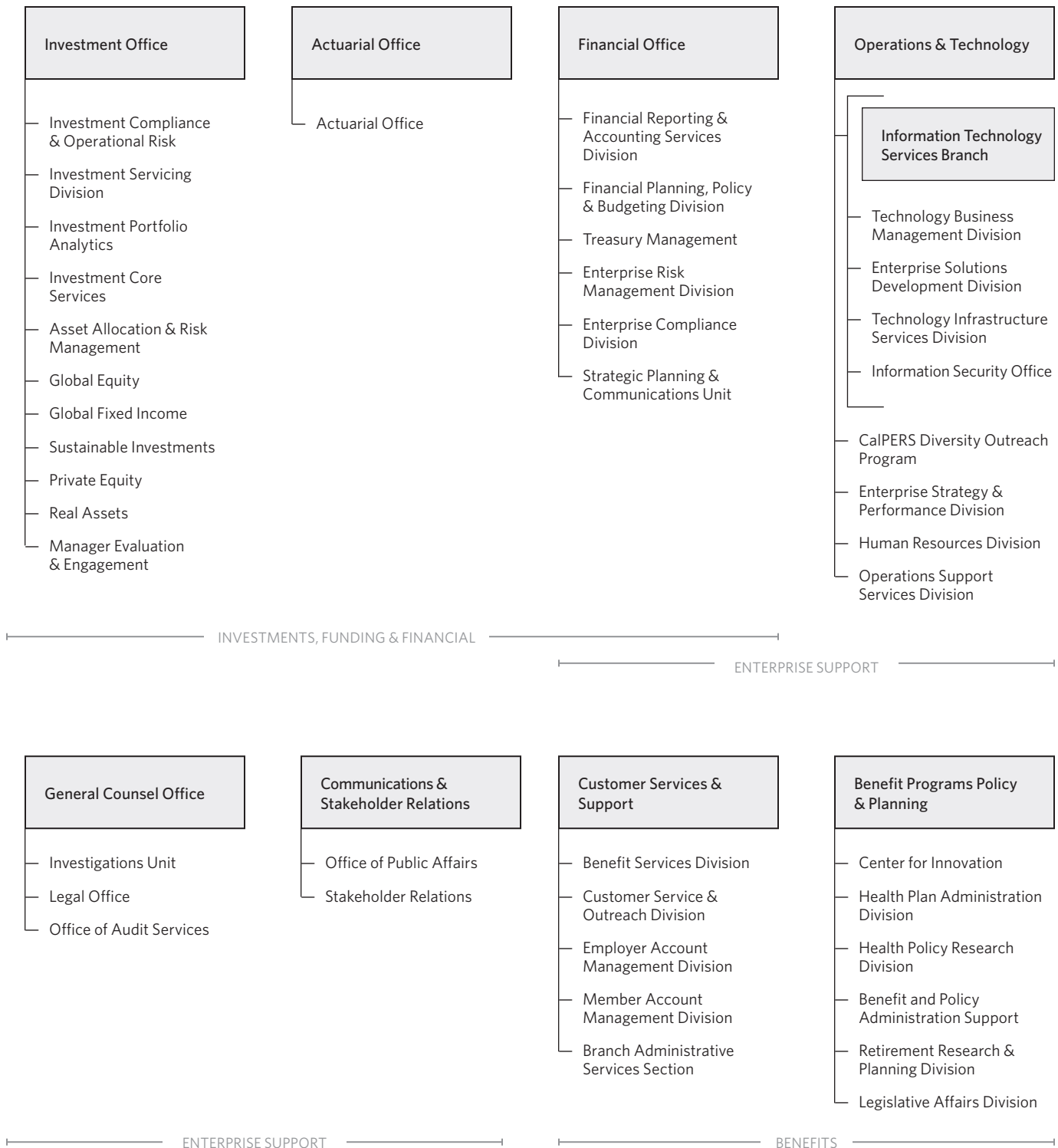
Financial Structure, Policy, and Process

CalPERS Organizational Chart*



* Organizational changes approved subsequent to the Board's approval of the FY 2017-18 Budget are not reflected here. The view above is in line with the approved budget.

Expanded Organizational Chart*



* Organizational changes approved subsequent to the Board's approval of the FY 2017-18 Budget are not reflected here. The view above is in line with the approved CalPERS FY 2017-18 Annual Budget.

Fund Description and Structure

CalPERS has five budgetary funds which are approved by the CalPERS Board and funded at the beginning of each new fiscal year.

The CalPERS fiscal year is a 12-month period beginning every July 1 and ending June 30. The Board approves fund balances for purposes specific to that fund. Any appropriated and allotted funds that are not used over the course of the 12-month fiscal year are no longer accessible after fiscal year end. The five budgetary funds are independent of each other and appropriations cannot be commingled or transferred among the various budgetary funds. Authority for these budgetary funds are based on internal CalPERS policies or statutorily appropriated by the State of California Government Code.

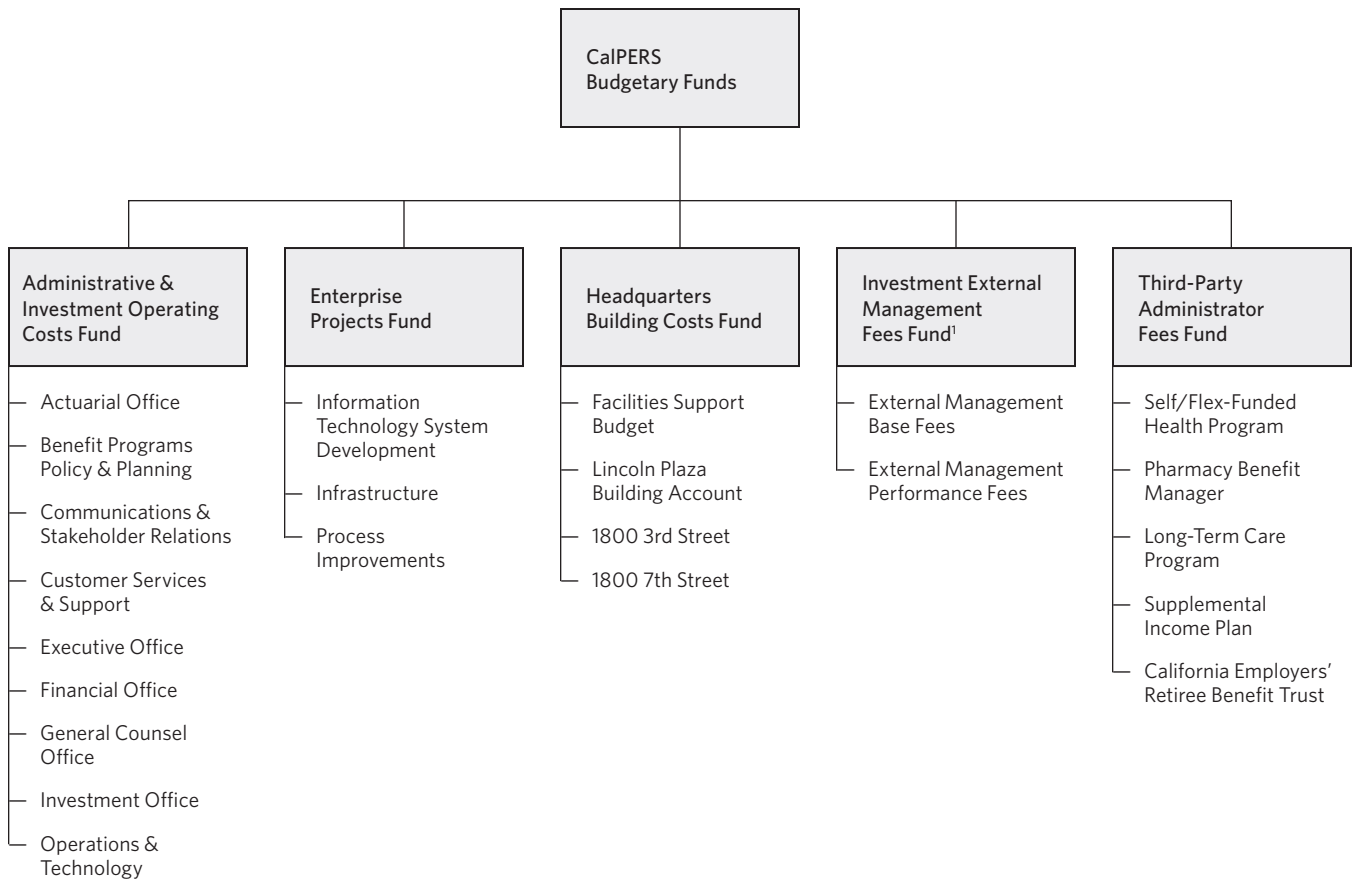
CalPERS Budgetary Funds

1. **Administrative & Investment Operating Costs Fund** — The Administrative and Investment Operating Costs Fund is statutorily authorized per Article XVI, Section 17 of the California Constitution. It allows for the budget to fund all functional cost centers within the CalPERS enterprise.
2. **Enterprise Projects Fund** — The Enterprise Projects Fund is statutorily authorized per Article XVI, Section 17 of the California Constitution. It allows for the budget to fund special projects that are temporary in nature.
3. **Headquarters Building Costs Fund** — The CalPERS Headquarters Building Costs Fund is statutorily appropriated in California State law per Government Code §20199. It provides for the purchase and maintenance of facilities that CalPERS owns and manages.
4. **Investment External Management Fees Fund** — The CalPERS Investment External Management Fees Fund is statutorily appropriated in California State law per Government Code §20172, 20208, and 20210. The Investment External Management Fees Fund provides for expenditures related to external investment advisors and other investment related expenses.
5. **Third-Party Administrator Fees Fund** — The Third-Party Administrator Fees Fund is statutorily authorized per Article XVI, Section 17 of the California Constitution. This budget tracks expenses for programs that provide benefits to members of CalPERS including: CalPERS Self-Funded Health Program, Long-Term Care Program, and Supplemental Income Plan.

Department/Fund Relationship

Budget Fund Structure

The diagram below provides a breakdown of CalPERS departments within each of the budget fund structures.



¹ See page 15, footnote 1.

Administrative & Investment Operating Costs Fund

The Administrative and Investment Operating Costs Fund is the primary operating fund for departments within the enterprise and is used to account for financial transactions and resources of the organization. Costs are covered by revenues derived from the trust funds per Board approval of the annual budget. The operations and expense centers included in the Administrative and Investment Operating Costs Fund include:

- Actuarial Office
- Benefit Programs, Policy & Planning
- Communications & Stakeholder Relations
- Customer Services & Support
- Executive Office
- Financial Office
- General Counsel Office
- Investment Office
- Operations & Technology

Expense types for these areas include:

- Personnel services, which is broken out into base salaries and wages, benefits, temporary help, overtime, and incentive compensation.
- Operating expenses include office supplies, subscriptions, software, printing, postage, travel, training, consulting and professional services, audit services, communications, data processing, equipment, and other general operating expenses.
- Investment operating costs primarily include technology expenses for data, analytics, trading or portfolio management systems, and business operations tools; investment consultant and system consulting fees; portfolio management services and subscriptions; and legal, appraisal, and tax advisory services.

Enterprise Projects Fund

The Enterprise Projects Fund accounts for special projects (predominately technology related) and one-time operations deemed temporary in nature. The projects may be completed in one budget cycle, or may need to be funded over multiple budget cycles. Expenses are primarily related to temporary staff, training, consulting and professional services, hardware, and software. Costs are covered by revenues derived from the trust funds per Board approval of the annual budget. At the conclusion of a special project, the ongoing maintenance and operational costs, if any, are transitioned over to the Administrative and Investment Operating Costs Fund.

Headquarters Building Costs Fund

The Headquarters Building Costs Fund provides for the purchase and maintenance of facilities that CalPERS owns and manages, and accounts for costs to maintain CalPERS' main campus, an emergency operations center, and two outlying properties at 1800 3rd Street and 1800 7th Street, Sacramento, California.

Costs consist of operating expenses related to:

- Building support for expenditures on items such as insurance, maintenance, and improvements.
- Lincoln Plaza Building costs maintain the buildings that house CalPERS staff and provide support services such as utilities, security, landscaping, janitorial, maintenance, and engineering.
- The 1800 3rd Street costs maintain the properties and parking garage, which are available for tenant occupancy.
- The 1800 7th Street costs maintain the properties which are available for tenant occupancy.

Headquarters building costs are partially funded by outside rental income, and the remaining costs are covered by revenues derived from the trust funds per Board approval of the annual budget.

Investment External Management Fees Fund¹

The Investment External Management Fees Fund accounts for costs related to external management of CalPERS investment portfolios, including base fees and performance fees. Costs are covered by revenues derived from the trust fund appropriations set by the Board in the formal budget process.

Third-Party Administrator Fees Fund

The Third-Party Administrator Fees Fund accounts for fees paid to third-party administrators that manage programs providing health care and benefits to the members of CalPERS, including the self-funded health care programs, pharmacy benefit management, the Long-Term Care Program, supplemental income plans for two defined contribution programs, and the California Employers' Retiree Benefit Trust Fund Program. By contracting with health maintenance organizations to manage health benefits, the program allows CalPERS members ease of use, and inherent cost savings for these benefits. Recent increases in the number of health providers allows for more choice and thus, additional member participation in the program.

Costs are covered by revenues derived from the trust fund appropriations set by the Board in the formal budget process.

Basis of Accounting and Budgeting

The term "basis of accounting" is used to describe the timing of recognition, that is, when the effects of transactions or events should be recognized. The basis of accounting used for purposes of financial reporting in accordance with Generally Accepted Accounting Principles (GAAP) is not necessarily the same basis used in preparing the budget document. Explaining the major differences between the basis of accounting used in the budget document and the basis of accounting used in the GAAP financial statements helps stakeholders better understand and interpret the numbers presented in both documents.

The Governmental Accounting Standards Board (GASB) establishes GAAP used in the United States. GASB has jurisdiction over accounting and financial reporting by governmental entities and seeks to ensure that government organizations provide accurate and reliable information to end users who are typically tax-paying citizens who want information about financial transactions made by the government.

Accounting

The CalPERS accounting and financial reports are managed and prepared in accordance with the guidelines of GASB. In government, the basic objective is service to the public and not the realization of net profit. However, under the GASB's authoritative guidance, governmental financial statements are to be presented using the full accrual method to help users assess the finances of government, including the year's operating results, in a manner similar to private sector (for profit) company reports.

The full accrual method allows the performance of an organization to be measured by recognizing revenues when the activity that generates them occurs, not necessarily when actual payments are received. Expenses are also recognized at the time they are incurred, not necessarily after actual payments are made. This generates financial statements that more accurately describe the current financial situation of the organization.

Budgeting

At CalPERS, the basis of budgeting differs from the basis of accounting because the basis of accounting is the full accrual method and the basis of budgeting is the modified accrual method.

The modified accrual method reflects revenues when payments are actually received, unlike the full accrual method. Expenses, however, are recorded using the full accrual method and are recognized at the time they are incurred, not necessarily when actual payments are made.

¹ See page 15, footnote 1.

Financial Policies

The following policies reflect the overall framework that CalPERS uses. These policies are reviewed annually and updated as required, and are adopted by the Board or approved by senior executives.

Governance Policies

- **Global Governance Policy** — Provides CalPERS with a system of policies and structure by which the long-term goals and strategic plans are guided. The global governance structure specifies the distribution of authority and accountability among different levels of the organization. It details best practices and guiding principles for making decisions throughout the organization and provides a mechanism for accountability. Good governance ensures that CalPERS' funds are used for the sole benefit of its members to produce the long-term, risk-adjusted returns that pay pensions.
- **Regulations Analysis Policy** — Allows CalPERS to advocate for its members and stakeholders by providing information and in-depth policy analyses to state and federal governmental entities; educating CalPERS about relevant changes in state and federal laws; and works with members and stakeholders to ensure the integrity of the CalPERS Trust Funds.

General Policies

- **Authorized Position Policy** — Defines CalPERS' internal controls and staff roles and responsibilities when establishing, tracking, and approving new authorized positions for the organization. All proposals are presented to the Board, whose authority it is to review and approve the proposals to begin the process of establishing new positions. Position control resides with the Financial Office.
- **Bill Analysis Policy** — Provides analysis of legislative bills or the effects of proposed measures or amendments and the fiscal impact affecting the organization. The purpose of bill analysis is to provide the organization with information concerning the probable programmatic and fiscal effects of pending legislation. CalPERS puts forth a position when the organization supports or rejects proposed legislation that creates an impact to CalPERS.

- **Contract and Amendments Policy** — Provides transparency and ensures there is awareness of significant contracts; gives the executive team the opportunity to participate in significant contract decisions before being finalized; assists in monitoring responsibilities regarding contract decisions. Certain contracts and purchases that exceed a threshold of \$1 million or more will be reported on a prospective basis to the Board.
- **Pro Rata Policy** — Defines CalPERS' established guidelines determined by the California Department of Finance to identify statewide central administrative service costs paid from the General Fund that are chargeable to, and can be recovered from, special funds. CalPERS has control processes in place to ensure the pro rata assessment charges are allowable and reasonable.

Fiscal Control and Operating Budget Policies

- **Accounting Policy** — Requires CalPERS to establish and maintain its accounting systems according to GAAP and standards promulgated by the GFOA, GASB, and the Financial Accounting Standards Board (FASB).
- **Administrative Budget Policy** — Allows CalPERS to develop the administrative budget plan for the upcoming fiscal year and submit the plan to the Department of Finance for inclusion in the Governor's Budget. The primary purpose is to develop a plan to operate within authorized budgeted levels and to comply with any restrictions or limitations enacted by the Legislature.
- **Annual and Mid-Year Budget Development Policy** — Defines how the annual and mid-year operating plans and budgets are developed within timeframes for review by the Board. In conducting these formal budgeting processes, CalPERS ensures the timely distribution of the annual budget for the operation of the organization and provides a means for modification in the mid-year when projections reflect potential pressures or new opportunities.
- **Budget Policy** — Ensures CalPERS' budgeting practices are in accordance with responsible fiscal management for the allocation and utilization of resources to meet the organization's mission, vision, and values. The policy

sets out the budgeting principles for the preparation of the budget, the process for the budget formulation, and the responsibilities in the preparation, approval, and implementation of a total balanced budget.

- **Budget Change Proposal Policy** — Budget change proposals are traditional decision documents which propose a change to the existing budget level and are submitted to the California Department of Finance for review and analysis. This policy ensures consistency, provides guidelines when proposing a change to the level of service or funding sources for activities authorized by the California State Legislature to establish a new program that is not currently authorized, or to delete an existing program.
- **Budget Check Error Policy** — Verifies funding and appropriation availability in the accounting system when expenditures are posted against funding sources or an established encumbrance. Daily checks implement the control and notification of funds and encumbrance availability in a timely manner to both the accounting and budget staff. This policy assures a balanced budget within the authorized budget funds.
- **Budget-to-Actual Reconciliation Policy** — The budget reconciliation process serves as a control to confirm transactions were authorized, accurate, and complete. The authorization and approval processes for transactions serve as initial components of the budget reconciliation.
- **Budget Transfer Policy** — Establishes roles, responsibilities, and guidelines to request and approve budget transfers between a division's budget line items, from one division's budget to another, and to and from the Unallocated Reserve Account to cover unanticipated business needs.
- **Cost Allocation Policy** — Identifies allowable direct and indirect organizational costs and communicates the methodology used to participants and stakeholders.
- **Legislative Budget Hearings Policy** — Defines roles and responsibilities in attending the California State Legislature's policy and fiscal committee. The majority of measures and proposed programmatic or public policy changes are sent to the policy committee for review. Measures that could have a fiscal impact on the state are also sent to a fiscal committee to measure financial implications.
- **Position Pooling Policy** — This policy is currently in the approval process; however, once approved, it will allow CalPERS to reallocate vacant positions (that meet specific criteria) to other areas in need of resources. Additionally, this policy will assist the organization in its efforts to reduce temporary blanket positions.
- **Quarterly Projections Policy** — Explains the comparison of quarterly expenditure projections using actuals against budget, and identifies the methodology used and the total amount of anticipated expenditures. The remaining months of the fiscal year are used to identify divisions' spending, if they fall under, over, or on budget, and to identify specific budget item concerns.
- **Quarterly Reporting Policy** — Details requirements so data is captured quarterly to develop reports displaying projected and actual expenditure activity and investment information to present to the CalPERS Board.
- **Relocation Expense Reimbursement Policy** — Provides a comprehensive overview of all relocation expense reimbursement-related policies and guidelines established by CalPERS. This policy defines which new or current employees, under specific circumstances, will meet the California Code of Regulations (CCR) requirements or fall under applicable bargaining unit contracts, and are allowed to be reimbursed for relocation expenses incurred as a result of accepting or maintaining employment with CalPERS. This policy also allows CalPERS the ability to recruit and retain qualified employees and to recruit for "hard-to-fill" positions that fall under this policy. Each reimbursement request is assessed on a case-by-case basis.
- **Revenue and Expenditure Analysis Policy** — Compares revenue and expenditure projections against actuals to identify fiscal year surpluses and/or deficits within the organization. Ensures divisional funding is adequate and funding sources do not exceed the appropriation levels.
- **Transferring Investment Expenses Policy** — Maintains consistent reporting of investment costs to the Joint Legislative Budget Committee and the Legislative Analyst's Office. Identifies investment-related expenses in the Total Operating Costs Budget that should be more appropriately charged to the Investment External Management Fees Budget.

- **Treasury Management Policy** — Defines CalPERS' responsibilities, structure, and approach for the Treasury Management (TM) Program. The policy ensures the payment of member benefits and organizational obligations without interruption, provides an integrated oversight structure, maintains the appropriate coverage and reserve levels for programs and the enterprise, and manages enterprise liquidity risk.
- **Treasury Management Reserve Policy** — The TM Program will establish and manage TM reserves to ensure the payment of member benefits and other obligations without interruption while optimizing the use of fund assets.

CalPERS Budget Process

The CalPERS budget is a financial plan for the spending and allocation of resources needed to meet the organization's mission, vision, and values necessary to build and maintain retirement and health security for members that serve the State of California, in accordance with the California Constitution, Article XVI, Section 17. The budget reflects CalPERS Core Values and priorities and is the basis in determining how resources will be used and the estimated expenditures for the approved period.

Prior to building the budget, enterprise priorities are determined through a business planning process. The five-year strategic plan and the 2017-18 Business Plan are approved by the CalPERS Board. The strategic goals of the enterprise, the mission of CalPERS, and the

priorities of stakeholders are incorporated into the budget process.

CalPERS has two budget processes during the fiscal year — the annual and mid-year budget processes.

Annual Budget Process

The annual budget process is for review of the organization's existing resources and requests for new resources required to meet the CalPERS mission, strategic plan, and business plan priorities. The process begins in October of each year with submission of the Financial Office's annual call letter to enterprise management. The memo provides a universal message detailing instructions, budget policy direction, communication of expectations, and objectives for the budget process.

In the annual budget process, divisions' operational budgets are reviewed to determine core operational budget needs to maintain current service levels. Additionally, divisions requiring additional resources for new services, initiatives, and projects submit detailed formal budget request documents for review and prioritization during the budget process. Executive management and the Financial Office work collaboratively with divisions through this process and in the recommended allocation of funding based on enterprise priorities.

The proposed budget is reviewed by the CalPERS Board in an open public forum in April and May, with a first and second reading. The Board approves and adopts the annual budget in May with an annual budget effective date of July 1 of the new fiscal year.

CalPERS Budget Process

Annual Budget

- » One-year funding source
- » Board approval in May of each year
- » Budget approval effective July 1–June 30

Mid-Year Budget

- » 6-month funding source for Board-directed, unanticipated, and emergency needs only
- » Board approval in December of each year
- » Budget approval effective January 1–June 30 of each year, if needed

Mid-Year Budget Process

The purpose of the mid-year budget process is to amend the approved annual budget with up to six months of funding for Board-directed, critical, emergency, or unforeseen circumstances that arise after the start of the new fiscal year needing to be addressed and funded in the current year. The process begins in late August and the proposed mid-year budget is reviewed by the Board in an open public forum in November and December, as first and second readings, respectively. The Board approves and adopts the mid-year budget in December with an annual budget effective date of January 1 in the current fiscal year.

State Budget Process

In addition to the CalPERS budget process, CalPERS is required to go through the State of California budget process for resource needs related to the Health Benefits Program. Resource requests for programs funded from the Contingency Reserve Fund require approval through the annual state budget process.

- The state budget cycle begins in June with the development of Budget Change Proposal (BCP) Concepts. Concepts are submitted to the Financial Office for consideration in May.
- All submissions are reviewed and discussed with budget staff, senior management, and executive leadership prior to submitting to the Government Operations Agency (GOA), CalPERS' parent agency, for review and approval.
- Concepts approved by GOA in June can be developed into BCPs and submitted to the GOA for signature in August, and to the Department of Finance (DOF) for review and approval in September.
- BCPs approved by DOF are included in the governor's proposed annual budget along with the budget bill.
- Once the governor's proposed annual budget is released in January, legislative budget hearings are held to discuss and consider BCPs.
- BCPs approved by the legislature are included in the budget bill, then signed by the governor and become effective July 1 of the new fiscal year.

Annual Budget Process Key Milestones



As part of provisional budget language included in the 2016 Budget Act, CalPERS, in conjunction with DOF, was required to conduct a zero-based budget exercise as part of the 2017-18 Governor's Budget development. This exercise, conducted in the summer and fall of 2016, examined the CalPERS Health Benefits Program as it relates specifically to the administrative expenses. DOF led the examination and reviewed direct and indirect expenses, program objectives, workload metrics, cost allocation methodologies, reserve levels, personnel services, and operating expenses and equipment.

As a result of the examination, DOF recommends the following:

- Streamline the Health Benefits Program cost recovery model by consolidating the administrative revenues and expenditures into a single fund to improve transparency.
- Continue working with CalPERS to refine workload metrics for assigning indirect costs to the health program.
- Continue working with CalPERS regarding IT project processes.
- Continue working with CalPERS to identify administrative efficiencies.
- Reduce the reserve for administrative expenses from three months to one month, if the funds are consolidated.

Annual Timeline

Enterprise Risk Assessment, Strategic Resource Planning & Budget Development

Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.		
Risk (Future Year) Risk Assessment to DEOs and DCs — March Presentation to Risk and Audit Committee — November																		
Technology Planning (ITPPP) (Future Year) Call Letter - IT Project Planning Proposals — March Enterprise Prioritization and Recommendation — September																		
						Business Planning (Future Year) Call Letter to Develop Initiatives — September Second Reading — April												
							Annual Budget Process (Future Year) Annual Budget Call Letter — October Second Reading — May											
					Mid-Year Budget Process (Current Year) Mid-Year Budget Call Letter — August Process Memo — June/July Second Reading — December													
State Budget Process (Future Year) Budget Change Proposal Concepts — June/July May Revision — April/May Governor's Budget Enactment (Budget Act) — July																		

Financial Summaries

FY 2017-18 Annual Financial Plan

The following budget provides the annual financial plan for FY 2017-18. CalPERS is committed to maintaining efficient and effective administration that is accountable and transparent to its stakeholders. This document compiles the financial data needed to support CalPERS goals as outlined in the 2017-22 CalPERS Strategic Plan, and is based on the departmental review of operations.

The FY 2017-18 CalPERS Total Budget of \$1,676.4 million consists of five budgetary funds:

- Administrative and Investment Operating Costs
- Investment External Management Fees¹
- Third-Party Administrator Fees
- Enterprise Projects Budget
- Headquarters Building Costs

FY 2017-18 CalPERS Total Budget (in thousands)

	FY 2016-17 Approved Budget ²	FY 2016-17 Forecast	FY 2017-18 Approved Budget	FY 2018-19 Projection	Budget to Budget	
					\$ Change increase/ (decrease)	% Change increase/ (decrease)
Administrative Operating Costs	\$458,790	\$445,476	\$474,441	\$495,600	\$15,650	3.4%
Investment Operating Costs ³	89,538	89,538	91,236	91,236	1,699	1.9%
Investment External Management Fees ¹	896,705	896,705	777,518	777,518	(119,187)	(13.3%)
Third-Party Administrator Fees	272,809	272,809	282,860	282,860	10,051	3.7%
TOTAL: OPERATING COSTS	\$1,717,842	\$1,704,528	\$1,626,055	\$1,647,214	(\$91,787)	(5.3%)
Enterprise Project Costs	37,736	36,189	23,302	5,140	(14,434)	(38.2%)
Headquarters Building Costs	31,295	29,295	27,046	27,046	(4,249)	(13.6%)
CalPERS Total Budget	\$1,786,873	\$1,770,012	\$1,676,403	\$1,679,401	(\$110,470)	(6.2%)
TOTAL POSITIONS	\$2,880.0		(5.0)		\$2,875.0	(0.2%)

¹ See page 15, footnote 1.

² FY 2016-17 Mid-Year Budget approved by CalPERS Board of Administration on December 20, 2016.

³ Investment operating expenses are not part of CalPERS Administrative Operating Costs and therefore should not be included in CalPERS pro rata assessment.

CalPERS Total Budget

The approved FY 2017-18 CalPERS Total Budget is \$1,676.4 million, which represents an overall decrease of approximately \$110.5 million (6.2 percent) from the FY 2016-17 Approved Budget of \$1,786.9 million. Specifically, this is an increase of \$17.3 million (3.2 percent) in administrative and investment operating costs, and an increase of \$10.1 million (3.7 percent) in third-party administrator fees offset by a decrease of \$119.2 million (13.3 percent) in investment external management fees¹, a decrease of \$14.4 million (38.2 percent) in enterprise project costs, and a decrease of \$4.2 million (13.6 percent) in headquarters building costs.

CalPERS FY 2017-18 Budget by Branch (in thousands)

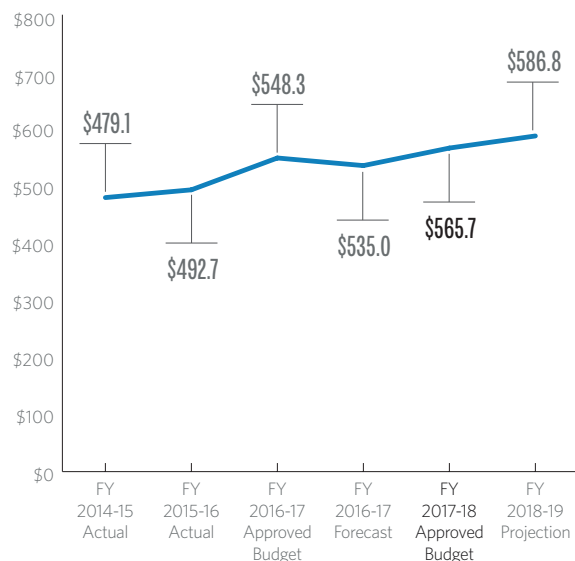
	FY 2016-17 Approved Budget	FY 2017-18 Approved Budget	Budget to Budget	
			\$ Change increase/ (decrease)	% Change increase/ (decrease)
ADMINISTRATIVE & INVESTMENT OPERATING COSTS				
Actuarial Office	\$9,538	\$10,241	\$703	\$7.4%
Benefit Programs Policy & Planning	26,115	27,177	1,061	4.1%
Communications & Stakeholder Relations	10,498	12,220	1,723	16.4%
Customer Services & Support	109,049	109,298	248	0.2%
Executive Office	7,001	6,691	(310)	(4.4%)
Financial Office	30,391	34,209	3,818	12.6%
General Counsel	25,733	27,525	1,792	7.0%
Investment Office	160,772	164,969	4,197	2.6%
Operations & Technology	144,521	148,936	4,415	3.1%
Pro Rata Assessment	24,710	24,411	(299)	(1.2%)
SUBTOTAL	\$548,328	\$565,677	\$17,349	3.2%
Investment External Management Fees ¹	896,705	777,518	(119,187)	(13.3%)
Third-Party Administrator Fees	272,809	282,860	10,051	3.7%
Enterprise Projects Budget	37,736	23,302	(14,434)	(38.2%)
Headquarters Building Costs	31,295	27,046	(4,249)	(13.6%)
CalPERS TOTAL BUDGET	\$1,786,873	\$1,676,403	(\$110,470)	(6.2%)

¹ See page 15, footnote 1.

Administrative & Investment Operating Costs

Total Administrative and Investment Operating Costs for the FY 2017-18 Approved Budget are \$565.7 million, compared to \$548.3 million in the FY 2016-17 Approved Budget, representing an increase of \$17.3 million (3.2 percent), as detailed below:

Total Administrative & Investment Operating Costs Trend (in millions)



	\$ Change (in millions)	% Change
FY 2016-17 Administrative & Investment Operating Costs	\$548.3	
Cost Increases:		
Personnel Services	22.2	4.0%
Trading & Portfolio Management Systems	2.7	0.5%
Postage	2.2	0.4%
Business Operations Tools/Other Technology	1.5	0.3%
Appraisal Fees/Tax Advisory Services	1.3	0.2%
Other	2.1	0.4%
TOTAL	\$32.0	5.8%
Cost Decreases:		
Consultants & Professional Services	(\$5.6)	(1.0%)
Equipment & Software	(3.3)	(0.6%)
Master Custodian Fees	(2.3)	(0.4%)
General Expense & Communications	(1.5)	(0.3%)
Other	(2.0)	(0.4%)
TOTAL	(\$14.7)	(2.7%)
Net Increase	\$17.3	3.2%
FY 2017-18 ADMINISTRATIVE & INVESTMENT OPERATING COSTS	<u>\$565.7</u>	

Line Items of Expense (Financial Schedule)

The following pages highlight each notable change for the expense items within the Administrative and Investment Operating Costs.

Line Item Expense (in thousands)

	FY 2015-16 Actual	FY 2016-17 Approved Budget	FY 2017-18 Approved Budget	Budget to Budget	
				\$ Change increase/ (decrease)	% Change increase/ (decrease)
Administrative & Investment Operating Costs					
[1] PERSONNEL SERVICES					
Salaries & Wages	\$203,845	\$236,186	\$246,962	\$10,776	4.6%
Temporary Help	12,768	10,619	9,009	(1,609)	(15.2%)
Overtime	2,155	2,395	2,370	(25)	(1.1%)
Benefits	95,645	120,408	127,374	6,966	5.8%
TOTAL PERSONNEL SERVICES	\$314,412	\$369,608	\$385,715	\$16,107	4.4%
Vacancy Savings	—	(25,226)	(19,127)	6,099	—
REVISED TOTAL PERSONNEL SERVICES	\$314,412	\$344,382	\$366,588	\$22,206	6.4%
[2] OPERATING EXPENSES & EQUIPMENT					
General Expense [2.1]	\$7,766	\$9,857	\$8,808	(\$1,049)	(10.6%)
Fund Administration Services/Subscriptions [2.2]	4,005	3,630	3,126	(504)	(13.9%)
Software [2.3]	1,384	2,724	2,046	(678)	(24.9%)
Printing [2.4]	1,623	1,728	1,951	223	12.9%
Postage [2.5]	3,224	1,433	3,667	2,234	155.9%
Communications [2.6]	1,877	2,332	1,907	(425)	(18.2%)
Data Processing Services	16,087	17,094	17,128	34	0.2%
Travel [2.7]	2,247	3,134	3,393	259	8.3%
Training	952	1,750	1,660	(89)	(5.1%)
Medical Exam/Disability Travel [2.8]	1,764	1,703	1,908	206	12.1%
Facilities Operations	3,668	5,481	5,665	184	3.4%
Central Administrative Services	25,154	24,710	24,411	(299)	(1.2%)
External Legal Counsel	10,151	13,489	13,189	(300)	(2.2%)
Professional Services [2.9]	7,886	6,896	5,126	(1,769)	(25.7%)
Consultants [2.10]	16,784	21,349	18,261	(3,087)	(14.5%)
Consultants - Investments [2.11]	13,649	20,204	19,501	(703)	(3.5%)
Audit Services [2.12]	1,129	1,799	1,305	(494)	(27.5%)
Master Custodian Fees [2.13]	4,592	6,800	4,490	(2,310)	(34.0%)
Appraisal Fees/Tax Advisory Services [2.14]	9,450	9,453	10,781	1,328	14.0%
Federal Legislative Rep	882	900	900	—	0.0%
Admin Hearings [2.15]	1,149	760	1,300	540	71.1%
Other Investment Expenses [2.16]	849	1,546	1,164	(382)	(24.7%)
Consolidated Data Centers	66	90	90	—	0.0%
Trading & Portfolio Management Systems [2.17]	19,320	22,101	24,847	2,746	12.4%
Data/Analytics [2.18]	14,746	16,477	17,015	538	3.3%
Business Operations Tool/Other Technology [2.19]	1,121	1,060	2,608	1,548	146.0%
Equipment [2.20]	6,726	5,447	2,841	(2,606)	(47.8%)
TOTAL OPERATING EXPENSES & EQUIPMENT	\$178,251	\$203,946	\$199,089	(\$4,857)	(2.4%)
TOTAL COSTS	\$492,663	\$548,328	\$565,677	\$17,349	3.2%

[1] Personnel Services

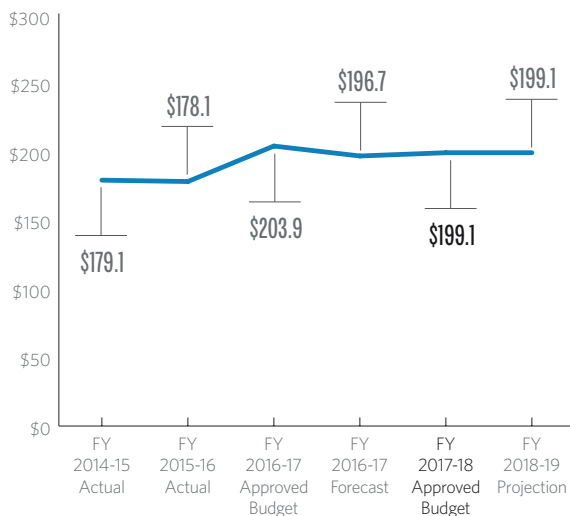
Information provided in the Position Summary Schedule page 62.

[2] Operating Expenses & Equipment

Operating Expenses and Equipment costs of \$199.1 million represent a decrease of \$4.9 million (2.4 percent) from the FY 2016-17 Approved Budget of \$203.9 million.

Operating Expenses & Equipment

Costs Trend (in millions)



[2.1] General Expense

General Expense costs are estimated to decrease by \$1.0 million as the organization continues to reduce purchases of office supplies and consolidate subscriptions and membership purchases.

[2.2] Fund Administration Services/Subscriptions

Fund Administration Services fees are estimated to decrease by \$0.5 million due to the reduction of the Investment Book of Record annual fee and the elimination of Activist portfolio fund admin fees as this program is winding down.

[2.3] Software

Software costs are estimated to decrease by \$0.7 million due to one-time purchases in FY 2016-17 and a reduction in the number of virtual desktop license purchases.

[2.4] Printing

Printing costs are estimated to increase by \$0.2 million due to the higher cost for recycled paper and growth in enterprise printing requests.

[2.5] Postage

Postage costs are increasing by \$2.2 million when comparing FY 2016-17 to FY 2017-18. However, FY 2016-17 was lower because the postage meter was funded at the end of FY 2015-16, thereby reducing the expenditures in FY 2016-17. Further, an increase of \$0.5 million is proposed for the second half of the 2017 member-at-large election which includes mailing 1.45 million ballot booklets and return ballots to members. While the 2017 member-at-large election will include internet and phone voting options, the mail-outs will continue through the next election cycle. Postage savings are expected to substantially materialize by 2021 and the savings amount will depend upon the success of voters using the internet and phone voting options.

[2.6] Communications

Communication costs are estimated to decrease by \$0.4 million to align with FY 2015-16 actual expenditures.

[2.7] Travel

Travel costs are estimated to increase by \$0.3 million due to additional administrative hearings, public agency audits, and information technology training needs that require staff to travel.

[2.8] Medical Exams/Disability Travel

Medical exams/disability travel is anticipated to increase by \$0.2 million which is in alignment with the FY 2016-17 forecasted expenditures.

[2.9] Professional Services

Professional Services are estimated to decrease by \$1.8 million primarily due to a reduction in the State Controller's Office billings for issuing retirement warrants; a review of recent billings identified overcharges that are now being offset.

[2.10] Consultants

Consultant costs are estimated to decrease by \$3.1 million due to a reduction of various contracts including consulting actuaries (\$1.4 million), streamlining the Comprehensive Annual Financial Report (\$0.3 million), information technology service consultants (\$0.4 million), video/graphic design services (\$0.2 million), strategic plan development (\$0.1 million), and other miscellaneous services. This continues the organization's efforts to reduce reliance on consultants and provide knowledge transfer to state staff.

[2.11] Consultants - Investments

Investment Consultant costs are estimated to decrease by \$0.7 million based on current projections.

[2.12] Audit Services

Audit Services are estimated to decrease by \$0.5 million primarily due to the renewal of the Financial Statement audit and Governmental Accounting Standards Board (GASB) 67 service contracts which will be awarded through a competitive bidding process.

[2.13] Master Custodian Fees

Master Custodian Fees are projected to decrease by \$2.3 million due to available settlement credits that can be applied to FY 2017-18 services.

[2.14] Appraisal Fees/Tax Advisory Services

Appraisal Fees are estimated to increase by \$1.3 million due to a projection of assets to be appraised provided by the Investment Office.

[2.15] Administrative Hearings

Administrative Hearings are estimated to increase by \$0.5 million to align with actual expenditures resulting from an increase in the number of hearings for disability and compensation review cases.

[2.16] Other Investment Expenses

Other Investment Expenses are estimated to decrease by \$0.4 million based on prior year expenditure trends. These expenses include payments to emerging manager advisors for a portion of legal, tax, and audit fees the advisors pay that CalPERS has agreed to reimburse.

[2.17] Trading & Portfolio Management Systems

Trading and Portfolio Management Systems costs are estimated to increase by \$2.7 million due to increased assumptions in assets under management, potential resource needs for the development of the new Opportunistic Strategies program, and exploring the potential migration of the Real Assets accounting and support model to the same model used for Private Equity, which provides scale, efficiencies, and an improved control environment.

[2.18] Data/Analytics

Data/Analytics costs are estimated to increase by \$0.5 million compared to FY 2016-17 due to the implementation of the Investment Office's Roadmap Initiatives.

[2.19] Business Operations Tool/Other Technology

Business Operations Tool/Other Technology costs are estimated to increase by \$1.5 million due to implementation of the Investment Office's Roadmap Initiatives.

[2.20] Equipment

Equipment costs are estimated to decrease by \$2.6 million due to a reduction in hardware refresh funding (from \$4.2 million in FY 2016-17 to \$1.5 million in FY 2017-18). This reduction is a result of the efforts undertaken by the Information Technology Services Branch and the Financial Office in the latter part of 2016 to provide a comprehensive and updated hardware inventory and an updated hardware refresh policy.

Investment External Management Fees Fund¹

The FY 2017-18 Investment External Management Fees Fund of \$777.5 million is made up of \$557.3 million for External Management Base Fees and \$220.2 million for External Management Performance Fees, an overall decrease of \$119.2 million (13.3 percent) from the FY 2016-17 Approved Budget. Total External Management Base Fees are decreasing by \$120.1 million (17.7 percent) and total External Management Performance Fees are increasing by \$0.9 million (0.4 percent) from the FY 2016-17 Approved Budget.

Investment Expenses Budget (in thousands)

	FY 2015-16 Actual	FY 2016-17 Approved Budget	FY 2017-18 Approved Budget	Budget to Budget	
				\$ Change increase/ (decrease)	% Change increase/ (decrease)
Global Equity	\$70,054	\$92,750	\$87,974	(\$4,776)	(5.1%)
Fixed Income	10,206	8,797	10,003	1,206	13.7%
Real Assets ² [3.0]	178,583	165,378	184,742	19,365	11.7%
Absolute Return Strategy [3.1]	6,229	4,000	800	(3,200)	(80.0%)
Private Equity ¹ [3.2]	353,338	391,000	260,000	(131,000)	(33.5%)
Activist Funds	19,803	6,185	5,362	(823)	(13.3%)
Multi-Asset Class	8,115	9,358	8,467	(891)	(9.5%)
EXTERNAL MGMT — BASE FEES	\$646,328	\$677,468	\$557,349	(\$120,119)	(17.7%)
Global Equity	\$50,250	\$72,258	\$71,071	(\$1,186)	(1.6%)
Fixed Income	3,363	4,114	3,336	(778)	(18.9%)
Real Assets ²	82,875	142,865	142,865	—	0.0%
Absolute Return Strategy	(781)	—	—	—	0.0%
Activist Funds	12,451	—	—	—	0.0%
Multi-Asset Class [3.3]	—	—	2,896	2,896	100.0%
EXTERNAL MGMT — PERFORMANCE FEES	\$148,158	\$219,237	\$220,169	\$932	0.4%
TOTAL EXTERNAL MANAGEMENT FEES	\$794,486	\$896,705	\$777,518	(\$119,187)	(13.3%)

¹ See page 15, footnote 1.

² Real Assets include Forestland/Infrastructure.

The following are the main variances from the previous year:

[3.0] Real Assets base fees are estimated to increase by \$19.4 million based on projections, increased estimations in the average net asset value, and market analysis from the external managers.

[3.1] Absolute Return Strategy (ARS) base fees are estimated to decrease by \$3.2 million due to market assumptions and the continued wind-down of this portfolio.

[3.2] Private Equity¹ base fees are estimated to decrease by \$131.0 million due to market assumptions and the effectiveness of the Private Equity Accounting and Reporting System (PEARS) which allows for more accurate capturing and reporting of fees.

[3.3] Multi-Asset Class performance fees are estimated to increase by \$2.9 million compared to a projection of \$0 from the previous year. This increase is based on the asset class assumption of having a slight increase in these funds and the assumption that they will perform moderately well in FY 2017-18.

The following table shows the net decrease in investment costs, comparing the decrease in external management fees offset by the increase in investment administrative and operating costs.

Net Decrease in Investment Costs (in millions)

	FY 2015-16 Actual	FY 2016-17 Budget	FY 2017-18 Approved Budget	Budget to Budget	
				\$ Change increase/ (decrease)	% Change increase/ (decrease)
INVESTMENT COSTS					
Administrative	\$64.5	\$71.2	\$73.7	\$2.5	3.5%
Investment Operating Costs	72.6	89.5	91.2	1.7	1.9%
External Management Fees ¹	794.5	896.7	777.5	(119.2)	(13.3%)
TOTAL	\$931.6	\$1,057.5	\$942.5	(\$115.0)	(10.9%)

¹ See page 15, footnote 1.

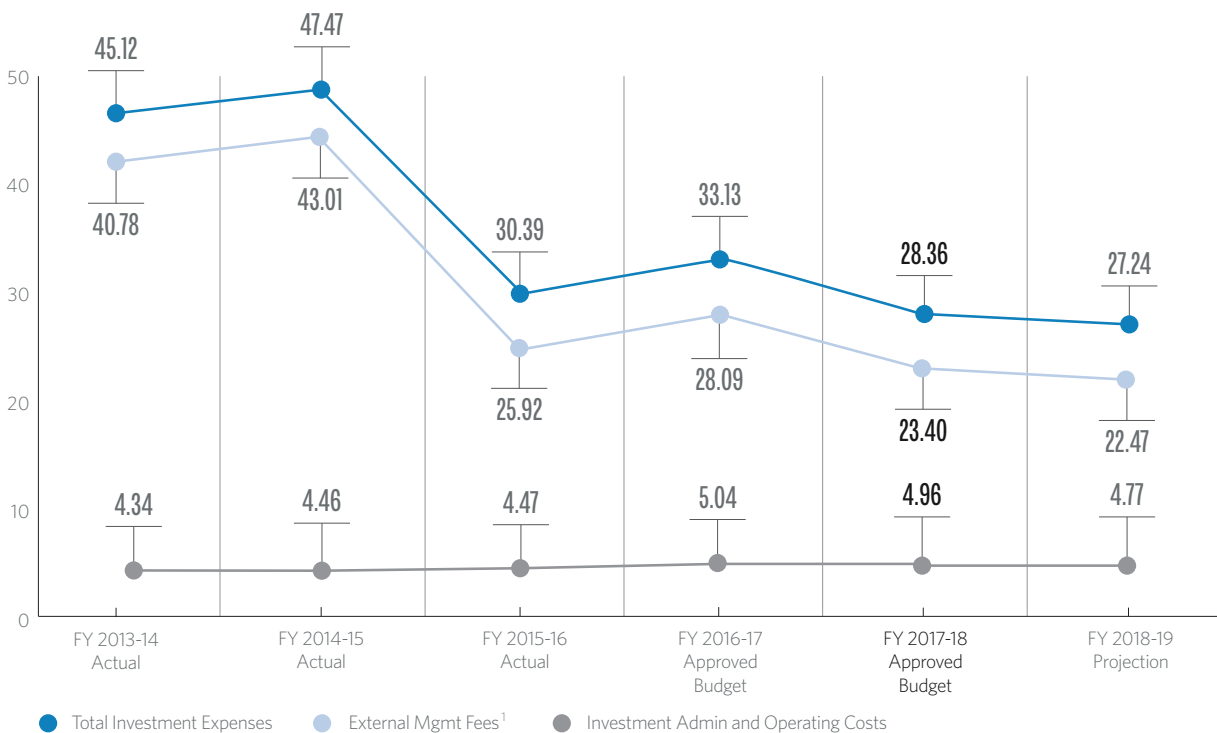
Basis Points Trend¹

The expense ratio reflects investment expenses in relation to the value of the portfolio also known as the net position. The following chart displays External Management Fees and Investment Administrative and Operating Costs in relation to the net position of assets under management. In summary, there is a downward trend in expenses relative to the net position in each year displayed.

The decrease in basis points from FY 2014-15 Actual Total Investment Expenses to FY 2015-16 is due to the decrease in External Management Fees in comparison to the net position. This is due to a lower payout in performance fees.

The expense ratio of the FY 2017-18 Approved Budget is anticipated to be 28.36 basis points. This assumes a downward trend in the ratio as staff continues to negotiate more favorable portfolio management terms, and the Investment Office continues to bring assets to be managed internally.

CalPERS Investment Expenses/Net Position (in basis points)



Note: For fiscal years 2016-17, 2017-18 and 2018-19, the forecasted net positions are based on the average assets under management from the past five years.

¹ See page 15, footnote 1.

Enterprise Projects Fund

The FY 2017-18 Enterprise Project Costs of \$23.3 million represent a decrease of \$14.4 million (38.2 percent) from the FY 2016-17 Approved Budget of \$37.7 million. Compared to the FY 2016-17 Forecast of \$36.2 million, the FY 2017-18 Approved Budget represents a decrease of \$12.9 million (35.6 percent).

The Enterprise Projects are detailed further in the Capital Expenditures Section on page 53.

Enterprise Projects (in thousands)

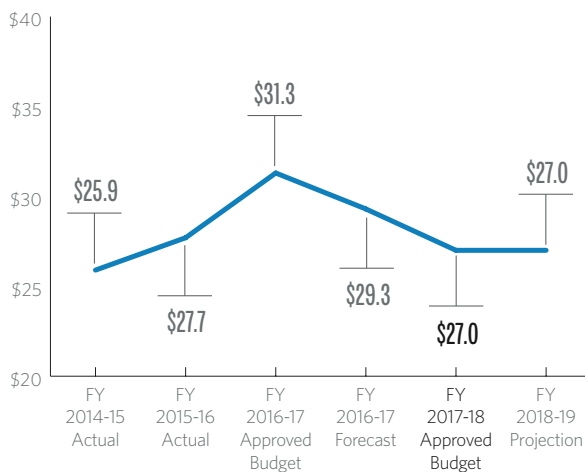
	FY 2016-17 Approved Budget	FY 2016-17 Forecast	FY 2017-18 Approved Budget	FY 2018-19 Projection	Budget to Budget	
					\$ Change increase/ (decrease)	% Change increase/ (decrease)
CURRENT PROJECTS						
[1] my CalPERS Business Optimization	\$23,470	\$23,470	\$8,775	\$ —	(\$14,695)	(62.6%)
[2] Actuarial Valuation System Redesign	2,797	2,686	3,931	4,128	1,134	40.5%
[3] Business Intelligence	1,000	992	585	—	(415)	(41.5%)
[4] Data Backup, Restoration, & Disaster Recovery	—	—	7,000	—	7,000	100.0%
[5] Long-Term Care Third-Party Administrator	—	—	1,424	627	1,424	100.0%
[6] Business Continuity	—	—	250	385	250	100.0%
[7] CalPERS Education Center Replacement	—	—	1,337	—	1,337	100.0%
[8] Security Roadmap	4,243	4,041	—	—	(4,243)	(100.0%)
PeopleSoft HCM 9.2 Upgrade	365	326	—	—	(365)	(100.0%)
Infrastructure Modernization	4,200	3,363	—	—	(4,200)	(100.0%)
Compliance Program Infrastructure, Framework, & eGRC	550	550	—	—	(550)	(100.0%)
Treasury Management	100	89	—	—	(100)	(100.0%)
Windows 10 Planning & Migration	300	300	—	—	(300)	(100.0%)
Succession Planning	260	171	—	—	(260)	(100.0%)
Executive Compensation Project	200	200	—	—	(200)	(100.0%)
Tobacco Divestment	250	—	—	—	(250)	(100.0%)
TOTAL OF ENTERPRISE PROJECTS	\$37,736	\$36,189	\$23,302	\$5,140	(\$14,434)	(38.2%)

Headquarters Building Costs Fund

The FY 2017-18 Headquarters Building Costs are \$30.1 million, reduced by \$3.1 million in rent revenues, creating a net cost of \$27.0 million. Costs include operating expenses of \$19.4 million (utilities, engineering services, janitorial, security, etc.) and non-operating expenses of \$10.7 million (structural improvements, staff moves, insurance, etc.).

Operating expenses in the FY 2017-18 Approved Budget are \$19.4 million, an increase of \$0.5 million from the FY 2016-17 Approved Budget of \$18.9 million. Non-operating expenses in the FY 2017-18 Approved Budget are \$10.7 million, a reduction of \$4.7 million from the FY 2016-17 Approved Budget of \$15.4 million.

Headquarters Building Costs Trend (in millions)



The net reduction in total costs of \$4.2 million is broken down as follows (in millions):

Janitorial — reduction due to new contract rates	(\$0.2)
General Maintenance — reduction for one-time Data Center enhancements	(0.6)
Security — increase for card readers, camera install, and computer aided dispatch system (911 and panic buttons)	0.3
Operating Other — increase for sewage pump repairs, HVAC, and building energy recommissioning/audits	0.6
Owner Improvements — reduction in tenant improvements	(2.7)
Building Improvements — reduction in building improvement projects	(2.1)
Net impact of other changes	0.5
Total	<u>(\$4.20)</u>

Headquarters Building Costs by Category (in thousands)

	FY 2015-16 Actual	FY 2016-17 Approved Budget	FY 2017-18 Approved Budget	Budget to Budget	
				\$ Change increase/ (decrease)	% Change increase/ (decrease)
OPERATING:					
Utilities	\$2,390	\$2,455	\$2,534	\$78	3.2%
Engineering Services	2,761	3,085	3,110	25	0.8%
Janitorial	2,719	3,202	3,030	(172)	(5.4%)
Landscaping	806	840	858	18	2.1%
General Maintenance	2,269	2,218	1,620	(598)	(27.0%)
Security	2,417	2,454	2,756	302	12.3%
Property Mgmt & Administrative Fees	1,095	1,227	1,354	127	10.3%
Café Plaza	353	376	382	6	1.6%
Front St. Parking/Warehouse	615	660	726	66	10.0%
EOC ¹	564	414	512	98	23.6%
Operating Other ²	1,794	1,979	2,575	596	30.1%
TOTAL OPERATING COSTS	\$17,782	\$18,911	\$19,456	\$544	2.9%
NON-OPERATING:					
Owner Improvements ³	5,210	7,158	4,472	(2,686)	(37.5%)
Building Improvements ⁴	5,205	5,170	3,028	(2,142)	(41.4%)
Furniture & Fixtures	2,348	2,511	2,598	87	3.4%
Building Insurance	468	610	610	—	0.0%
TOTAL NON-OPERATING COSTS	\$13,231	\$15,449	\$10,707	(\$4,742)	(30.7%)
TOTAL COSTS	<u>\$31,013</u>	<u>\$34,360</u>	<u>\$30,163</u>	<u>(\$4,197)</u>	<u>(12.2%)</u>
Rent Revenue Offset ⁵	(3,331)	(3,065)	(3,117)	(52)	(1.7%)
TOTAL HEADQUARTERS BUILDING COSTS	<u>\$27,682</u>	<u>\$31,295</u>	<u>\$27,046</u>	<u>(\$4,249)</u>	<u>(13.6%)</u>

¹ Emergency Operations Center (EOC) includes utilities, janitorial, security, landscaping, generator maintenance.

² Includes ongoing expense categories that each individually equal less than \$300K annually such as electrical, HVAC, plumbing, general maintenance, waste removal, property taxes, child care center, parking garage.

³ Non-Operating Owner Improvements include CalPERS operational enhancements and support for the movement of divisions, units, and/or staff within CalPERS.

⁴ Non-Operating Building Improvements are improvements made to the building structure or common areas.

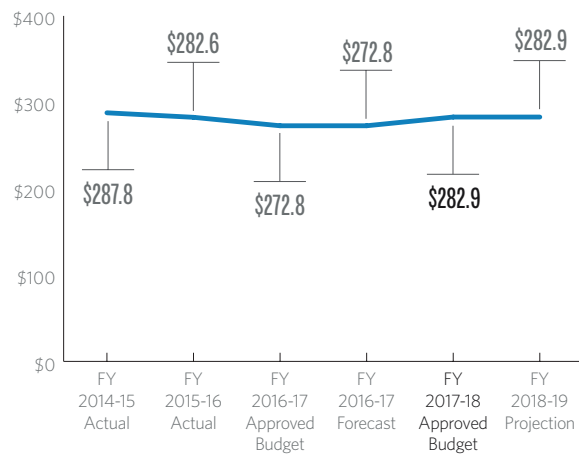
⁵ The Headquarters Building Account receives rent revenue that is used to offset the annual expenses of the Headquarters Building Account.

Third-Party Administrator Fees Fund

Third-Party Administrator Fees cover administration, recordkeeping, and participant communication services for the CalPERS Health Program, Long-Term Care Program, the Supplemental Income Plan Program, and the California Employers' Retiree Benefit Trust Fund Program. Establishing strong partnerships to support delivery of health and pension services continues to strengthen focus on improving long-term health and pension benefit sustainability for its members.

Total Third-Party Administrator Fees for the FY 2017-18 Approved Budget are \$282.9 million, an increase of \$10.1 million (3.7 percent) from the FY 2016-17 Approved Budget of \$272.8 million. The \$10.1 million increase is mainly driven by increased fees in the Health Program and the Pharmacy Benefit Manager. The following details each of the program areas:

Third-Party Administrator Fees Trend (in millions)



Third-Party Administrator Fees (in thousands)

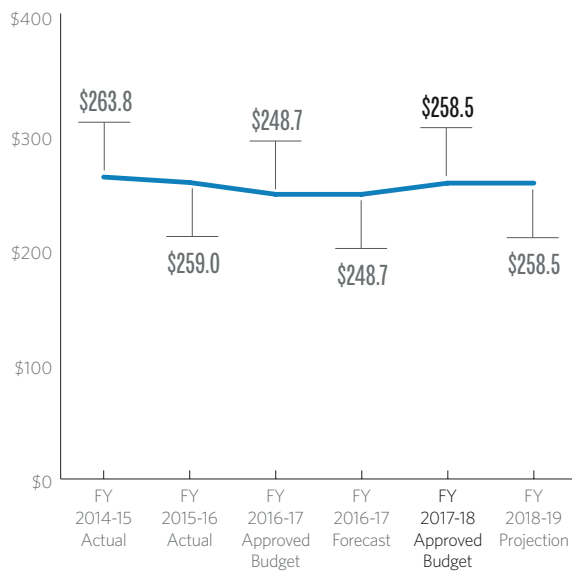
	FY 2015-16 Actual	FY 2016-17 Approved Budget	FY 2017-18 Approved Budget	Budget to Budget	
				\$ Change increase/ (decrease)	% Change increase/ (decrease)
Health Program	\$244,818	\$229,310	\$236,830	\$7,520	3.3%
Health Program - State Controller's Office	—	900	900	—	0.0%
SUBTOTAL HEALTH	\$244,818	\$230,210	\$237,730	\$7,520	3.3%
Pharmacy Benefit Manager					
CVS Caremark	14,197	7,513	—	(7,513)	(100.0%)
OptumRx - PPO/HMO ¹	—	10,978	20,805	9,826	89.5%
SUBTOTAL, PHARMACY BENEFIT MANAGER	\$14,197	\$18,491	\$20,805	\$2,313	12.5%
Long-Term Care Program — LTCG, Inc.	19,886	20,210	20,903	693	3.4%
Supplemental Income Plan — Voya	3,683	3,899	3,326	(573)	(14.7%)
California Employers' Retiree Benefit Trust - (CERBT)	—	—	97	97	100.0%
Northeast Retirement Services (NRS) ²					
TOTAL FEES	\$282,584	\$272,809	\$282,860	\$10,051	3.7%

¹ Effective January 1, 2017, the CalPERS pharmacy benefit manager changed from CVS/Caremark to OptumRx.

² Third-party administrative fees for the CERBT program are now being captured separately and displayed in the budget.

Health Program

Health Program Fees Trend (in millions)



The Health Program provides health coverage to more than 1.4 million members and their families enrolled in CalPERS health plans which include all active and retired California State employees, as well as active and retired employees of local agencies and school districts in California. Health coverage providers whose third-party administration (TPA) fees are calculated separate from premiums include Anthem Blue Cross, Blue Shield of California, Health Net, Sharp, UnitedHealthcare, and Western Health Advantage.

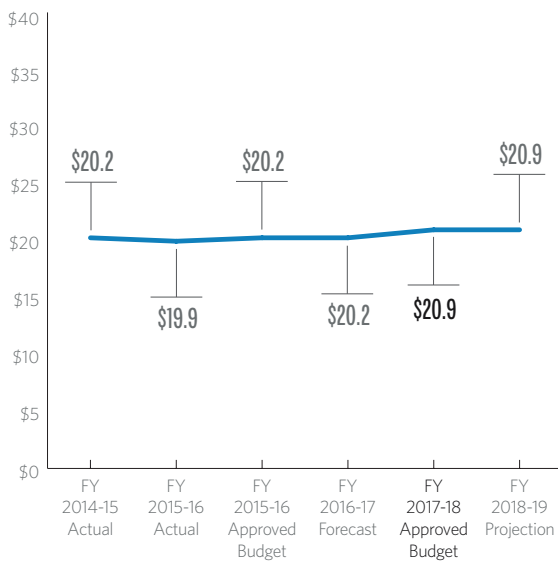
The FY 2017-18 Approved Budget of \$258.5 million for the CalPERS Health Program represents a net increase of \$9.8 million (3.9 percent) from the FY 2016-17 Approved Budget mainly driven by:

- A \$7.5 million increase to self-funded and flex-funded health plan administration due to 2018 TPA fees and the elimination of the Blue Shield NetValue plan which caused mandatory plan migration for over 78,000 lives; nearly half of those lives migrated to the Blue Shield Access+ plan with more expensive TPA fees.
- A \$2.3 million increase is related to the new Pharmacy Benefit Manager, OptumRx, effective January 2017. The new contract includes customer service enhancements and increased coordination between OptumRx and the Centers for Medicare and Medicaid Services due to increased participation in a federal prescription drug plan that provides cost savings to employers (Employer Group Waiver Plan). Administrative service fees on a per-member, per-month basis will remain static over the five-year contract term.

The FY 2018-19 Projection is estimated to be the same as the FY 2017-18 Approved Budget due to continued efficiencies identified in the 2017-22 Health Initiatives presented to the Board in March 2017, which could offset any increases in fees and membership.

Long-Term Care Program

Long-Term Care Program Fees Trend (in millions)

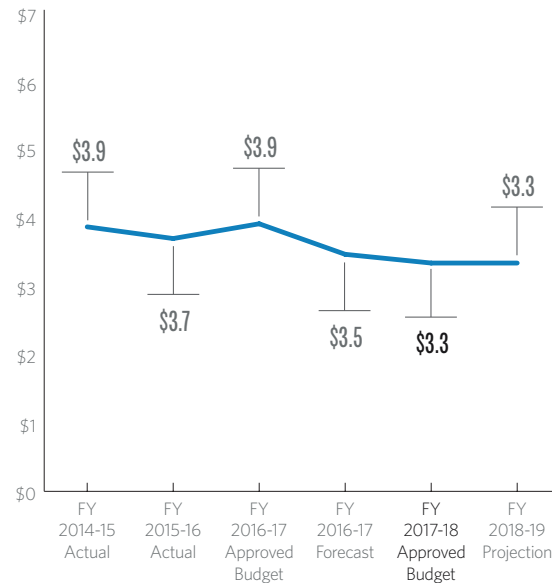


The Long-Term Care Program, as administered by the Long Term Care Group, Inc., provides comprehensive personal non-medical assistance, including care at home, adult care centers, assisted living facilities, and nursing homes to its members. Administrator fees include underwriting costs, billing/banking, care advisory services, claims administration, reports, and customer service.

The FY 2017-18 Approved Budget of \$20.9 million represents an increase of \$0.7 million (3.4 percent) from the FY 2016-17 Approved Budget. This increase is attributed to system modifications related to the expansion of applicants eligible to apply for the program, and program enhancements such as expanded access to each participant's own online evidence of coverage information. The FY 2016-17 Forecast is estimated to be the same as the FY 2016-17 Approved Budget. The FY 2018-19 Projection is estimated to be the same as the FY 2017-18 Approved Budget.

Supplemental Income Plan

Supplemental Income Plan Fees Trend (in millions)



The Supplemental Income Plans (SIP) program provides deferred compensation and defined contribution plans for employees of participating public agencies, schools, and the State of California. The Voya Group is the third-party administrator responsible for providing recordkeeping and administrative services for the SIP program.

The FY 2017-18 Approved Budget of \$3.3 million represents a decrease of \$0.6 million (14.7 percent) from the FY 2016-17 Approved Budget due to the renegotiation of the Voya Group contract and the incorporation of one field representative into the assumed 20.25 basis points fees, which resulted in a net savings.

Consolidated Financial Schedule

FY 2017-18 Consolidated Financial Schedule (in thousands)

	Administrative & Investment Operating Costs Fund	Enterprise Projects Fund	HQ Building Costs Fund	Investment External Mgmt Fees Fund	Third-Party Administrator Fees Fund	Total for FY 2017-18
REVENUES¹	\$565,677	\$23,302	\$27,046	\$777,518	\$282,860	\$1,676,403
EXPENDITURES						
Personnel	\$355,209	\$ —	\$ —	\$ —	\$ —	\$355,209
Temporary Help & Overtime	11,379	—	—	—	—	11,379
General Expense	8,808	—	—	—	—	8,808
Communications	1,907	—	—	—	—	1,907
Data Processing Services	17,128	—	—	—	—	17,128
Facilities Operations	5,665	—	—	—	—	5,665
Travel & Training	5,053	—	—	—	—	5,053
Central Administrative Services	24,411	—	—	—	—	24,411
Professional Services	5,126	—	—	—	—	5,126
Consultants	37,762	—	—	—	—	37,762
External Legal Counsel & Audit Services	14,494	—	—	—	—	14,494
Trading & Portfolio Mgmt Systems	24,847	—	—	—	—	24,847
Data/Analytics	17,015	—	—	—	—	17,015
Other Investment Operating Costs	22,169	—	—	—	—	22,169
Other Administrative Costs	11,862	—	—	—	—	11,862
Equipment	2,841	—	—	—	—	2,841
my CalPERS Business Optimization	—	8,775	—	—	—	8,775
Data Backup, Restoration, & Disaster Recovery	—	7,000	—	—	—	7,000
Actuarial Valuation System	—	3,931	—	—	—	3,931
Long-Term Care Third-Party Administrator	—	1,424	—	—	—	1,424
CalPERS Education Center Replacement	—	1,337	—	—	—	1,337
Business Intelligence	—	585	—	—	—	585
Business Continuity	—	250	—	—	—	250
Headquarters Building Costs	—	—	27,046	—	—	27,046
External Management - Base Fees	—	—	—	557,349	—	557,349
External Management - Performance Fees ²	—	—	—	220,169	—	220,169
Health Program Administrative Fees	—	—	—	—	237,730	237,730
Pharmacy Services	—	—	—	—	20,805	20,805
Long-Term Care Program	—	—	—	—	20,903	20,903
Supplemental Income Plan	—	—	—	—	3,326	3,326
California Employers' Retiree Benefit Trust (CERBT)	—	—	—	—	97	97
TOTAL EXPENDITURES	\$565,677	\$23,302	\$27,046	\$777,518	\$282,860	\$1,676,403

¹ The CalPERS program receives revenue for expenditures through allocation from the Trust Funds.

² See page 15, footnote 1.

Three-Year Consolidated & Fund Financial Schedules

Three-Year Consolidated Financial Sources & Uses (in thousands)

	FY 2015-16 Actual	FY 2016-17 Approved Budget	FY 2017-18 Approved Budget
REVENUES			
Administrative & Investment Operating Costs Fund	\$494,135	\$548,328	\$565,677
Enterprise Projects Fund	32,074	37,736	23,302
Headquarters Building Costs Fund	27,682	31,295	27,046
Investment External Management Fees Fund ¹	794,486	896,705	777,518
Third-Party Administrator Fees Fund	282,584	272,809	282,860
TOTAL REVENUES	<u>\$1,630,961</u>	<u>\$1,786,873</u>	<u>\$1,676,403</u>
EXPENDITURES			
Personnel	\$314,412	\$344,382	\$366,588
Data Processing Services	16,087	17,094	17,128
Central Administrative Services	25,154	24,710	24,411
Consultant & Professional Services	38,318	48,448	42,888
External Legal Counsel & Audit Services	11,270	15,288	14,494
Equipment	6,726	5,447	2,841
Other Administrative Operating Costs	28,224	31,892	33,295
Investment Operating Costs	53,942	61,067	64,031
my CalPERS System	24,160	23,470	8,775
Actuarial Valuation System	589	2,797	3,931
Business Intelligence	992	1,000	585
Data Backup, Restoration, & Disaster Recovery	—	—	7,000
Long-Term Care Third-Party Administrator	—	—	1,424
Business Continuity	—	—	250
CalPERS Education Center Replacement	923	—	1,337
Security Roadmap	3,083	4,243	—
Human Capital Management System	95	365	—
Infrastructure Modernization	—	4,200	—
Compliance Program Infrastructure & Framework	500	550	—
Treasury Management	477	100	—
Windows 10 Planning & Migration	—	300	—
Succession Planning	—	260	—
Executive Compensation Project	401	200	—
Tobacco Divestment Study & Outreach	—	250	—
Budget Analytics Software	431	—	—
Enterprise Content Management Website Accessibility	225	—	—
Information Security Risk Metrics	200	—	—
Headquarters Building Costs	27,682	31,295	27,046
External Management - Base Fees	646,328	677,468	557,349
External Management - Performance Fees ¹	148,158	219,237	220,169
Health Program Administrative Fees	244,818	230,210	237,730
Pharmacy Services	14,197	18,491	20,805
Long-Term Care Program	19,886	20,210	20,903
Supplemental Income Plan	3,683	3,899	3,326
California Employers' Retiree Benefit Trust (CERBT)	—	—	97
TOTAL EXPENDITURES	<u>\$1,630,961</u>	<u>\$1,786,873</u>	<u>\$1,676,403</u>

¹ See page 15, footnote 1.

Trust Fund Balances

In accordance with the California Constitution, Article XVI, Section 17 "The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the System."

Fund condition statements for the CalPERS Trust Funds are presented below and include beginning balances, revenues, expenditures, and ending balances for three years. Changes from year to year are described in the footnotes for each fund and are primarily based on membership/enrollment forecasts and investment return estimates. The Administrative Expenses identified in each fund are comprised of administrative and investment operating costs, investment external management fees, enterprise project costs, headquarters building costs, and third-party administrator fees, as applicable.

Annuitants' Health Care Coverage Fund (AHCCF)

(in thousands)

	Actual 2015-16	Estimate 2016-17	Estimate 2017-18
Beginning Balance	\$4,470,554	\$5,120,925	\$6,415,741
Prior Year Adjustment	\$21,109	\$ —	\$ —
Adjusted Beginning Balance	\$4,491,663	\$5,120,925	\$6,415,741
REVENUES			
Investment Income*	\$79,183	\$360,383	\$437,992
Contributions**	\$636,611	\$1,030,660	\$1,240,502
TOTAL REVENUES	\$715,794	\$1,391,043	\$1,678,494
EXPENDITURES			
Employer Health Reimbursement Expenses for Retirees	\$82,728	\$91,001	\$100,101
Administrative Expenses	\$3,804	\$5,226	\$5,335
TOTAL EXPENDITURES	\$86,532	\$96,227	\$105,436
ENDING BALANCE	\$5,120,925	\$6,415,741	\$7,988,799

* 2016-17 and 2017-18 estimates are based on projected rate of return.

** 2016-17 and 2017-18 estimates are based on percentage of salaries.

Public Employees' Contingency Reserve Fund (CRF)

(in thousands)

	Actual 2015-16	Estimate 2016-17	Estimate 2017-18
Beginning Balance	\$8,280	\$10,595	\$11,079
Prior Year Adjustment	\$439	—	—
Adjusted Beginning Balance	\$8,719	\$10,595	\$11,079
REVENUES			
Investment Income*	\$1,233	\$1,371	\$1,439
Contributions**	\$27,598	\$27,381	\$68,263
Retiree Drug Subsidy***	\$4,600	\$4,600	\$4,600
TOTAL REVENUES	\$33,431	\$33,352	\$74,302
EXPENDITURES			
Retiree Drug Subsidy Payments	\$4,600	\$4,600	\$4,600
Administrative Expenses	\$26,955	\$28,268	\$71,114
TOTAL EXPENDITURES	\$31,555	\$32,868	\$75,714
ENDING BALANCE	\$10,595	\$11,079	\$9,667

* 2016-17 and 2017-18 estimates are based on prior year return percentage.

** 2016-17 and 2017-18 estimates are based on annual health premiums multiplied by the administrative rate.

***Pass-through subsidy from Centers for Medicare and Medicaid Services; based on eligible enrollees.

Public Employees' Health Care Fund (HCF)

(in thousands)

	Actual 2015-16	Estimate 2016-17	Estimate 2017-18
Beginning Balance	\$344,443	\$44,629	\$213,975
Prior Year Adjustment	(\$48,132)	\$ —	\$ —
Adjusted Beginning Balance	\$296,311	\$44,629	\$213,975
REVENUES			
Investment Income*	\$27,168	\$28,527	\$29,953
Contributions**	\$4,242,133	\$4,398,868	\$5,097,037
TOTAL REVENUES	\$4,269,301	\$4,427,395	\$5,126,990
EXPENDITURES			
Benefit Payments**	\$4,229,115	\$3,968,277	\$4,286,345
Administrative Expenses	\$291,868	\$289,772	\$258,596
TOTAL EXPENDITURES	\$4,520,983	\$4,258,049	\$4,544,941
ENDING BALANCE	\$44,629	\$213,975	\$796,024

* 2016-17 and 2017-18 estimates are based on a 5 percent increase over prior year.

** 2016-17 and 2017-18 estimates are based on projected enrollment counts.

Judges' Retirement Fund (JRF)

(in thousands)

	Actual 2015-16	Estimate 2016-17	Estimate 2017-18
Beginning Balance	\$41,788	\$39,793	\$46,456
Prior Year Adjustment	\$3	\$ —	\$ —
Adjusted Beginning Balance	\$41,791	\$39,793	\$46,456
REVENUES			
Investment Income	\$195	\$185	\$216
Contributions*	\$198,414	\$210,162	\$204,808
Contribution Refunds	(\$78)	(\$74)	(\$74)
TOTAL REVENUES	\$198,531	\$210,273	\$204,950
EXPENDITURES			
Pension Benefit Payments**	\$199,271	\$201,862	\$209,625
Administrative Expenses	\$1,258	\$1,748	\$1,849
TOTAL EXPENDITURES	\$200,529	\$203,610	\$211,474
ENDING BALANCE	\$39,793	\$46,456	\$39,932

* 2016-17 and 2017-18 estimates are based on a rolling three-year average.

** 2016-17 and 2017-18 estimates are based on projected annual pension benefit payouts.

Judges' Retirement Fund II (JRF II)

(in thousands)

	Actual 2015-16	Estimate 2016-17	Estimate 2017-18
Beginning Balance	\$1,084,302	\$1,172,787	\$1,270,097
Prior Year Adjustment	(\$116)	\$ —	\$ —
Adjusted Beginning Balance	\$1,084,186	\$1,172,787	\$1,270,097
REVENUES			
Investment Income	\$21,423	\$23,176	\$25,103
Contributions*	\$90,437	\$88,729	\$89,558
Contribution Refunds	(\$155)	(\$85)	(\$85)
TOTAL REVENUES	\$111,705	\$111,820	\$114,576
EXPENDITURES			
Pension Benefit Payments**	\$21,549	\$12,328	\$14,500
Administrative Expenses	\$1,555	\$2,182	\$2,481
TOTAL EXPENDITURES	\$23,104	\$14,510	\$16,981
ENDING BALANCE	\$1,172,787	\$1,270,097	\$1,367,692

* 2016-17 and 2017-18 estimates are based on a rolling three-year average.

** 2016-17 and 2017-18 estimates are based on projected annual pension benefit payouts.

Public Employees' Retirement Fund (PERF)

(in thousands)

	Actual 2015-16	Estimate 2016-17	Estimate 2017-18
Beginning Balance	\$302,892,380	\$298,647,559	\$296,729,006
Prior Year Adjustment	(\$1,779,415)	\$ —	\$ —
Adjusted Beginning Balance	\$301,112,965	\$298,647,559	\$296,729,006
REVENUES			
Investment Income*	\$4,232,025	\$5,111,500	\$6,173,743
Contributions**	\$14,908,243	\$16,176,982	\$16,176,982
Contribution Refunds	(\$238,822)	(\$243,726)	(\$248,730)
TOTAL REVENUES	\$18,901,446	\$21,044,756	\$22,101,995
EXPENDITURES			
Pension Benefit Payments**	\$20,093,933	\$21,539,390	\$23,088,826
Administrative Expenses	\$1,272,919	\$1,423,919	\$1,300,333
TOTAL EXPENDITURES	\$21,366,852	\$22,963,309	\$24,389,159
ENDING BALANCE	\$298,647,559	\$296,729,006	\$294,441,842

* 2016-17 and 2017-18 estimates are based on the projected fund balance and actuarial rates.

** 2016-17 and 2017-18 estimates are based on the historical trend of annual percentage increases.

Legislators' Retirement Fund (LRF)

(in thousands)

	Actual 2015-16	Estimate 2016-17	Estimate 2017-18
Beginning Balance	\$121,658	\$119,034	\$114,791
Prior Year Adjustment	\$18	\$ —	\$ —
Adjusted Beginning Balance	\$121,676	\$119,034	\$114,791
REVENUES			
Investment Income*	\$4,608	\$4,509	\$4,375
Contributions**	\$646	\$485	\$608
Contribution Refunds	(\$379)	(\$691)	(\$921)
TOTAL REVENUES	\$4,875	\$4,303	\$4,062
EXPENDITURES			
Pension Benefit Payments	\$7,028	\$7,925	\$7,887
Administrative Expenses	\$489	\$621	\$626
TOTAL EXPENDITURES	\$7,517	\$8,546	\$8,513
ENDING BALANCE	\$119,034	\$114,791	\$110,340

* 2016-17 and 2017-18 estimates assume a 5.75 percent rate of return.

** 2016-17 and 2017-18 estimates are based on a rolling three year average.

Long-Term Care Fund (LTCF)

(in thousands)

	Actual 2015-16	Estimate 2016-17	Estimate 2017-18
Beginning Balance	\$4,077,741	\$4,288,346	\$4,341,171
Prior Year Adjustment	(\$1,758)	\$ —	\$ —
Adjusted Beginning Balance	\$4,075,983	\$4,288,346	\$4,341,171
REVENUES			
Investment Income*	\$226,526	\$67,373	\$146,950
Contributions*	\$282,426	\$281,137	\$281,782
TOTAL REVENUES	\$508,952	\$348,510	\$428,731
EXPENDITURES			
Benefit Payments*	\$271,742	\$268,099	\$269,921
Administrative Expenses	\$24,847	\$27,586	\$28,616
TOTAL EXPENDITURES	\$296,589	\$295,685	\$298,537
ENDING BALANCE	\$4,288,346	\$4,341,171	\$4,471,366

* 2016-17 estimates are based on preliminary trial balance reports, and 2017-18 estimates are based on prior year averages.

Deferred Compensation Fund (DCF)

(in thousands)

	Actual 2015-16	Estimate 2016-17	Estimate 2017-18
Beginning Balance	\$1,335,517	\$1,290,407	\$1,444,543
Prior Year Adjustment	\$7,875	\$ —	\$ —
Adjusted Beginning Balance	\$1,343,392	\$1,290,407	\$1,444,543
REVENUES			
Investment Income *	\$13,416	\$137,930	\$75,673
Contributions *	\$187,883	\$206,578	\$197,231
Contribution Refunds	(\$245,324)	(\$182,156)	(\$213,740)
TOTAL REVENUES	(\$44,025)	\$162,352	\$59,164
EXPENDITURES			
Benefit Payments*	\$3,407	\$2,640	\$3,024
Administrative Expenses	\$5,553	\$5,576	\$5,070
TOTAL EXPENDITURES	\$8,960	\$8,216	\$8,094
ENDING BALANCE	\$1,290,407	\$1,444,543	\$1,495,613

* 2016-17 estimates are based on preliminary trial balance reports, and 2017-18 estimates are based on prior year averages.

Replacement Benefit Custodial Fund (RBF)

(in thousands)

	Actual 2015-16	Estimate 2016-17	Estimate 2017-18
Beginning Balance	\$ —	\$ —	\$ —
REVENUES			
Investment Income*	\$293	\$374	\$334
Contributions*	\$10,148	\$11,633	\$10,891
TOTAL REVENUES	\$10,441	\$12,007	\$11,224
EXPENDITURES			
Benefit Payments*	\$10,434	\$11,992	\$10,774
Administrative Expenses	\$7	\$15	\$450
TOTAL EXPENDITURES	\$10,441	\$12,007	\$11,224
ENDING BALANCE	\$ —	\$ —	\$ —

* 2016-17 estimates are based on preliminary trial balance reports, and 2017-18 estimates are based on prior year averages.

Supplemental Contributions Program Fund (SCPF)

(in thousands)

	Actual 2015-16	Estimate 2016-17	Estimate 2017-18
Beginning Balance	\$139,210	\$124,354	\$120,738
Prior Year Adjustment	\$328	\$ —	\$ —
Adjusted Beginning Balance	\$139,538	\$124,354	\$120,738
REVENUES			
Investment Income *	\$1,128	\$7,512	\$4,320
Contributions *	\$269	\$231	\$250
Contribution Refunds	(\$16,130)	(\$10,765)	(\$13,448)
TOTAL REVENUES	(\$14,733)	(\$3,022)	(\$8,878)
EXPENDITURES			
Benefit Payments*	\$243	\$85	\$164
Administrative Expenses	\$208	\$509	\$434
TOTAL EXPENDITURES	\$451	\$594	\$598
ENDING BALANCE	\$124,354	\$120,738	\$111,263

* 2016-17 estimates are based on preliminary trial balance reports, and 2017-18 estimates are based on prior year averages.

Revenues

CalPERS has 11 trust funds that provide 100 percent funding of the budget needs for the enterprise and does not incur debt to fund system costs. The Board has authority under the California Constitution, Article XVI, Section 17, which states, "the retirement board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of moneys and administration of the System...".

The Contingency Reserve Fund and the Health Care Fund are exceptions to the above-described authority. The mechanism to secure funding for administration of the health benefits program is through the annual California state budget process.

Consolidated Financial Schedule (in thousands)

	FY 2015-16 Actual	FY 2016-17 Approved Budget	FY 2017-18 Approved Budget	Budget to Budget	
				\$ Change increase/ (decrease)	% Change increase/ (decrease)
BUDGET BY FUND					
Public Employees' Retirement Fund (PERF)	\$1,272,919	\$1,423,919	\$1,300,333	(\$123,586)	(8.7%)
Public Employees' Contingency Reserve Fund (CRF)	26,955	28,268	71,114	42,846)	151.6%
Public Employees' Health Care Fund (HCF)	291,868	289,772	258,596	(31,176)	(10.8%)
Long-Term Care Fund (LTCF)	24,847	27,586	28,616	1,030	3.7%
Annuitants' Health Care Coverage Fund (AHCCF)	3,804	5,226	5,335	109	2.1%
Deferred Compensation Fund (DCF)	5,553	5,576	5,070	(506)	(9.1%)
Supplemental Contributions Program	208	509	434	(75)	(14.7%)
Judges' Retirement Fund (JRF)	1,258	1,748	1,849	101	5.8%
Judges' Retirement Fund II (JRF II)	1,555	2,182	2,481	299	13.7%
Legislators' Retirement Fund (LRF)	489	621	626	5	0.8%
Replacement Benefit Custodial Fund (RBF)	7	15	450	435	2900.0%
SUBTOTAL	\$1,629,463	\$1,785,422	\$1,674,904	(\$110,518)	(6.2%)
Reimbursements ¹	1,500	1,450	1,500	50	3.4%
CalPERS TOTAL	<u>\$1,630,963</u>	<u>\$1,786,872</u>	<u>\$1,676,404</u>	<u>(\$110,468)</u>	<u>(6.2%)</u> ²

¹ Amounts received by CalPERS for services rendered. These reimbursements are from actuarial valuations prepared for public agencies that qualify for reimbursement, the cost of photocopies/postage related to the Public Records Act requests, annual employer conferences costs, and administrative assessments for employers' delinquent payroll.

² See page 15, footnote 1.

CalPERS Revenue Sources and Allocation by Fund

PERF	Public Employees' Retirement Fund	81.1%
CRF*	Contingency Reserve Fund	15.0%
HCF*	Health Care Fund	0.0%
LTCF	Long-Term Care Fund	1.3%
AHCCF	Annuity Health Care Coverage Fund	0.8%
DCF	Deferred Compensation Fund	0.3%
SCP	Supplemental Contributions Program Fund	0.0%
JRF	Judges' Retirement Fund	0.4%
JRF II	Judges' Retirement Fund II	0.5%
LRF	Legislators' Retirement Fund	0.1%
RBF	Replacement Benefit Custodial Fund	0.1%
REIMB	Reimbursements	0.4%
		100%

* Does not reflect action taken by the California Legislators to keep Health Program funding in both the CRF and HCF.

The 11 trust funds that provide revenue sources for the CalPERS Budget are described as follows:

- **Public Employees' Retirement Fund (PERF)** is the main trust fund from which nearly all CalPERS retirement benefits are paid to State of California and other California public agency employees. The PERF benefits are funded by member contributions, employer contributions, and investment income.
- **Public Employees' Health Care Fund (HCF)** accounts for the activities of the CalPERS self-insured health care programs. Health premiums are collected from employers and members, and funding is used to directly pay for medical services and pharmaceutical usage. The HCF is funded by premium revenues. In addition, HCF receives Employer Group Waiver Plan (EGWP) subsidies. Under the EGWP, CalPERS contracts with federal prescription drug programs through the Pharmacy Benefit Manager (PBM) as the EGWP administrator, and the PBM manages all federal interaction. Investments of the HCF are a non-operational use of reserves until needed for claims.

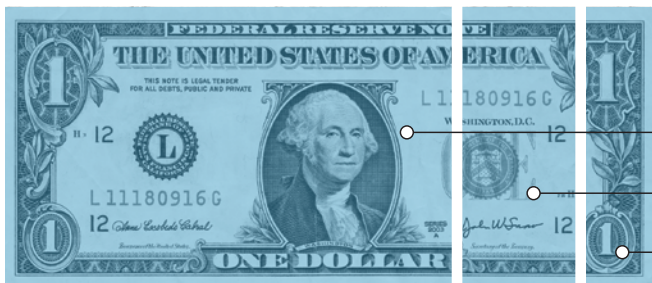
- **Public Employees' Contingency Reserve Fund (CRF)** was established to fund administrative costs related to the CalPERS health care programs and to provide a contingency reserve for potential increases in future health care premium rates or health care benefit costs. The CRF is funded by administrative fees. The administrative fees that are collected are a composite of three items; enrollment, premium rates, and public agency health payments and remittances to contracted health care providers. Investments of the CRF include only liquid, short-term securities, as investment balances are used to fund operating cash flows.
- **Public Employees' Long-Term Care Fund (LTCF)** provides long-term care insurance to participating members and is funded through premium revenues and investment income.
- **Annuity Health Care Coverage Fund (AHCCF)** is referred to as the California Employers' Retiree Benefit Trust Fund (CERBTF). It is an Other Postemployment Benefit (OPEB) fund for the pre-funding by employers of health, dental, and other non-pension benefits promised to employees when they retire. Funding to the CERBTF includes employer contributions and investment income.
- **Deferred Compensation Fund** provides CalPERS members with two defined contribution plans to help save for retirement:
 - » The Board is the trustee for public agency participant assets in the **Public Agency Deferred Compensation Plan (Internal Revenue Code [IRC] 457)**. Funding to the IRC 457 Plan consists of member contributions and investment income. The CalPERS Supplemental Income 457 Plan (457 Deferred Compensation Plan) is available to employees of public agencies and school districts within the State of California. Plan participation is voluntary to employees of contracting public agencies and school districts. Members may contribute up to IRC limits.

- » The **Supplemental Contributions Plan** was established effective January 1, 2000 to provide supplemental retirement benefits to State of California employees who are members of CalPERS. Program participation is voluntary and consists of member contributions and investment income. In March 2015, as directed by statute, the State Peace Officers' & Firefighters' Supplemental Plan (SCP-POFF), an employer-provided benefit for state peace officers and firefighters in certain bargaining units, was terminated. Funds remaining in the plan after termination were rolled over into the Supplemental Contributions Plan as pretax SCP-POFF rollover accounts.
- **Judges' Retirement Fund (JRF)** provides retirement benefits to California Supreme and Appellate Court Justices and Superior Court Judges appointed or elected before November 9, 1994. Funding to the JRF includes employer contributions, member contributions, investment income, and State of California "balancing contributions" pursuant to state statute.
- **Judges' Retirement Fund II (JRF II)** provides retirement benefits to California Supreme and Appellate Court Justices and Superior Court Judges first appointed or elected on or after November 9, 1994. Funding to the JRF II includes employer contributions, member contributions, and investment income.
- **Legislators' Retirement Fund (LRF)** provides retirement benefits to California Legislators elected to office before November 7, 1990, and to constitutional, legislative, and statutory officers elected or appointed prior to January 1, 2013. The Public Employees' Pension Reform Act of 2013 (PEPRA) closed enrollment for new participants to the Legislators' Retirement Fund. The number of LRF members has been declining in the last decade as eligible incumbent Legislators leave office and are replaced by those ineligible to participate in the LRF. Actuarially determined contributions will continue to be made by the State of California to supplement the existing assets until all benefit obligations have been fulfilled.
- **Replacement Benefit Fund (RBF)** provides benefits to members of the PERF, LRF, JRF and JRF II whose retirement allowances exceed the Internal Revenue Code Section 415(b) limits. IRC Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The RBF is funded on a "pay-as-you-go" basis. That is, the employer is invoiced for amounts payable to its former employees in the calendar year, and upon receipt of payment by the employers, CalPERS remits the replacement benefit to the retirees.

CalPERS Pension Buck

The CalPERS Pension Buck illustrates the sources of income that fund public employee pensions. Pension fund income over the last 20 years (as of June 2016) shows that investment earnings account for 62 cents of each dollar paid in pensions, 25 cents from employers and 13 cents from employees.

Pensions are jointly funded by employer and employee contributions, which are invested so that pension fund dollars grow over time. Workers contribute up to 15.25 percent of their paycheck to help fund their own pensions.



Every dollar paid to CalPERS retirees comes from three sources:

- 62¢ Investment Earnings
- 25¢ CalPERS Employers
- 13¢ CalPERS Members

Source: CalPERS, Income over the last 20 years as of June 2016. Figures are updated following the close of each fiscal year.

Debt

CalPERS has 11 trust funds that provide 100 percent recovery of the costs for the enterprise and does not incur debt to fund the budget. There is no borrowed principal and/or related interest payments for any budget year. Expenditures are initially paid from the Public Employees' Retirement Fund and from the remaining 10 funds (as described on pages 46 and 47) that are appropriated by the Board; therefore, there are no formally established debt limits.

Long-Term Financial Plans

CalPERS will continue through its five-year 2017-22 Strategic Plan, which will drive budget proposals in future years. Due to the anticipated large number of baby-boomer retirees over the next few years, not only will the retirement processing workload increase for the organization, but continued focus on the funded status of the system will be a high priority. For the health care program, efforts to identify cost saving programs and measures will continue to be a high priority. In the area of information security, the constant and more sophisticated threats to data require continued investment of cybersecurity solutions.

To offset cost increases described above, the organization continues to identify cost savings and efficiencies. The success of the myCalPERS Optimization efforts assists in this effort by improving the technological infrastructure and workload processing times. Further, as CalPERS continues to build a robust in-house investment management group, expensive external manager fees will continue to decrease. Process improvement efforts and monitoring of expenses will ensure further opportunities for ongoing cost savings.

In December 2016, the Board voted to lower the discount rate, also known as the assumed rate of return, from 7.5 percent to 7.0 percent over the next three fiscal years. This vote came after an extensive review by the Board on the current funded status of the Fund, projected investment return rates over the next decade, an overview of CalPERS assets and liabilities, and

discussions with stakeholders. Although lowering the discount rate will increase employers' normal costs and unfunded actuarial liabilities, it's a crucial step to ensuring the long-term sustainability of the fund. By lowering the discount rate incrementally over three fiscal years, employers will have more time to prepare for the changes in their contribution costs. This reduction in the discount rate will result in an average employer rate increase of about 1.0 to 3.0 percent of normal cost as a percent of payroll for most miscellaneous retirement plans, and a 2.0 to 5.0 percent increase for most safety plans.

FY 2018-19 Budget Projection

The FY 2018-19 projection will represent the second year of the five-year 2017-22 Strategic Plan. The FY 2018-19 projection estimates an increase of \$3.0 million (0.2 percent) from the FY 2017-18 Approved Budget.

The Administrative Operating Costs are anticipated to increase by \$21.2 million (4.5 percent) and include estimated collective bargaining, benefit, and merit salary increases in personnel services for CalPERS staff. No increase is included for operating expenses as any inflationary increases are anticipated to be offset by operational efficiencies and an overall reduction in operating costs. This Administrative Operating Cost increase is offset by an anticipated decrease in Enterprise Project Costs of \$18.2 million (77.9 percent). A proposed budget of \$5.1 million in the FY 2018-19 projection includes multi-year projects currently undertaken by the organization.

No additional positions are included in the FY 2018-19 projection. The organization is committed to continuing to manage vacancies and redirect positions when appropriate through the enterprise position pooling process. Projections for the Investment External Management Fees¹ are unchanged for FY 2018-19 as are the Investment Operating Costs. These are likely to change, but projections are unavailable. There are no anticipated changes to the Headquarters Building Costs and Third-Party Administrator Fees.

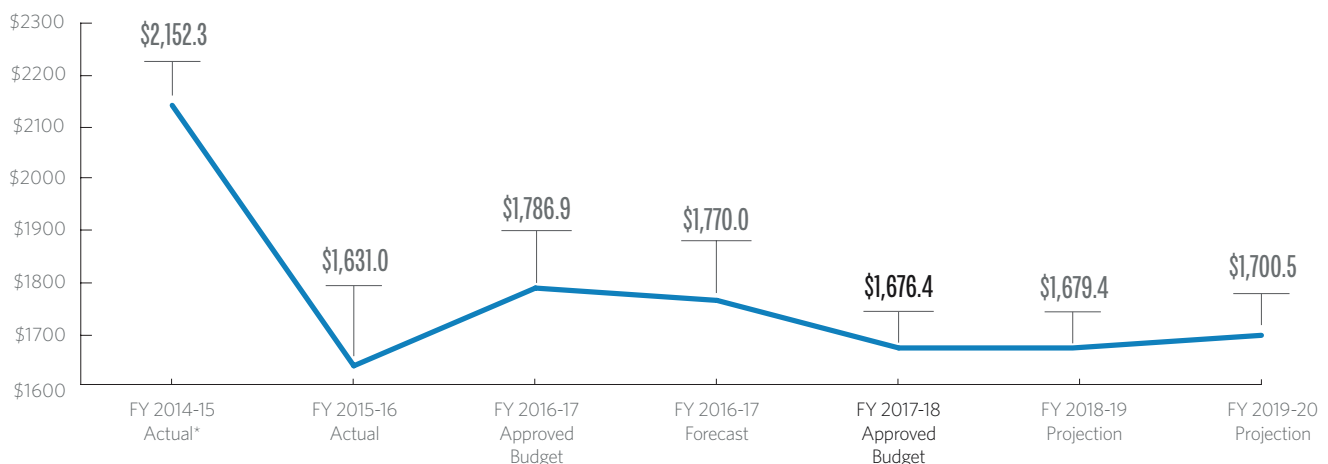
¹ See page 15, footnote 1.

FY 2019-20 Budget Projection

The FY 2019-20 projection will represent the third year of the five-year 2017-22 Strategic Plan and assumes CalPERS' overall strategic direction will remain the same. The FY 2019-20 projection estimates an increase of \$21.1 million (1.3 percent) from the FY 2018-19 Projection, and includes the following:

- Increase of \$20.4 million (5.3 percent) for merit salary adjustments, collective bargaining salary increases, and benefit adjustments for existing staff
- No changes in operating expenses and equipment costs as inflationary increases are expected to be offset by operational efficiencies
- No changes to the FY 2019-20 projection for the Investment External Management Fees¹ and the Investment Operating Costs; while both are likely to change, projections are unavailable
- No changes to the FY 2019-20 projection for Third-Party Administrator Fees; while it is likely to change, projections are unavailable
- Increase of \$0.7 million (2.5 percent) in Headquarters Building Costs due to inflation as reflected in the cost of goods purchased and annual salary increases for engineers
- No change in multi-year project costs

Total Budget Forecast/Projection (in millions)



*In FY 2014-15, the actual Investment External Management fees¹ exceeded the budget due to higher than anticipated investment performance.

¹ See page 15, footnote 1.

Capital Expenditures and Enterprise Projects

Capital Expenditures

Capital expenditures are incurred when capital assets purchased exceed an initial individual cost of \$5,000 or more, or \$1 million or more for intangible assets, and have an estimated useful life in excess of one year.

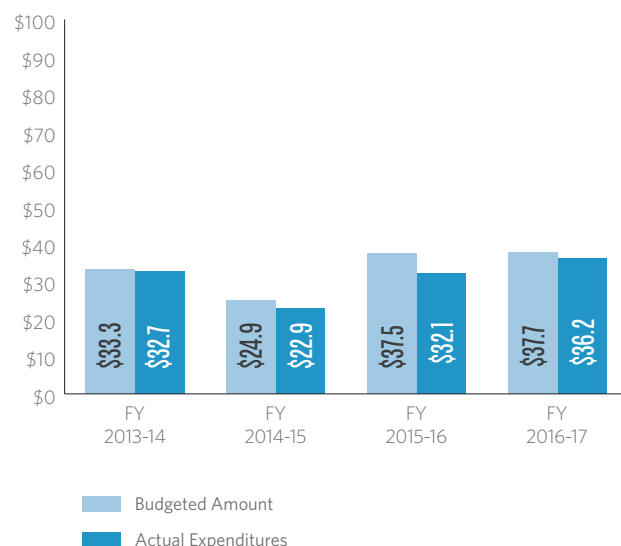
Enterprise Projects

Capital expenditures are budgeted and captured in the Enterprise Projects Fund. The FY 2017-18 Enterprise Project Costs of \$23.3 million represent a decrease of \$14.4 million (38.2 percent) from the FY 2016-17 Approved Budget of \$37.7 million. Compared to the FY 2016-17 Forecast of \$36.2 million, the FY 2017-18 Approved Budget represents a decrease of \$12.9 million (35.6 percent).

The concentration of projects for FY 2017-18 are centered around the my|CalPERS business optimization component, reengineering of the Actuarial Valuation System, continued reinforcement efforts toward the Security Roadmap Project, Business Intelligence, and Business Continuity initiatives.

Enterprise Project Budget and Expenditure Trend

(in millions)



Impact of Capital Expenditures in Enterprise Projects Budget on Administrative Operating Budget

The one-time and ongoing costs associated with capital expenditures in the Enterprise Projects Fund are analyzed for their return on investment, savings to the organization, improved business processes leveraged through technology, and cost-benefit analysis to determine if the project is a prudent investment of fund resources.

Anticipated operating costs associated with significant non-recurring capital investments are addressed during the operational budget planning phase as part of the process to build the annual budget. Forecasting helps determine the expected operational needs to migrate costs from the Enterprise Projects Fund to the Total Operating Costs Fund.

Potential ongoing operational needs are assessed when a Formal Budget Request proposes a new project and reassessed annually when a new Formal Budget Request is submitted.

Projects previously budgeted through the Enterprise Projects Fund are re-evaluated annually for adjustments of anticipated maintenance or staffing costs related to the move in scope from a project cost to an ongoing operational cost.

The ongoing costs to maintain these projects are identified in the life cycle costs.

Enterprise Projects (in thousands)

	FY 2016-17 Approved Budget	FY 2016-17 Forecast	FY 2017-18 Approved Budget	FY 2018-19 Projection	Budget to Budget	
					\$ Change increase/ (decrease)	% Change increase/ (decrease)
CURRENT PROJECTS						
[1] my CalPERS Business Optimization	\$23,470	\$23,470	\$8,775	\$ —	(\$14,695)	(62.6%)
[2] Actuarial Valuation System Redesign	2,797	2,686	3,931	4,128	1,134	40.5%
[3] Business Intelligence	1,000	992	585	—	(415)	(41.5%)
[4] Data Backup, Restoration, and Disaster Recovery Services	—	—	7,000	—	7,000	100.0%
[5] Long-Term Care Third-Party Administrator Transition	—	—	1,424	627	1,424	100.0%
[6] Business Continuity	—	—	250	385	250	100.0%
[7] CalPERS Education Center Replacement	—	—	1,337	—	1,337	100.0%
[8] Security Roadmap	4,243	4,041	—	—	(4,243)	(100.0%)
PRIOR YEAR PROJECTS						
PeopleSoft HCM 9.2 Upgrade	365	326	—	—	(365)	(100.0%)
Infrastructure Modernization	4,200	3,363	—	—	(4,200)	(100.0%)
Compliance Program Infrastructure, Framework, & eGRC	550	550	—	—	(550)	(100.0%)
Treasury Management	100	89	—	—	(100)	(100.0%)
Windows 10 Planning & Migration	300	300	—	—	(300)	(100.0%)
Succession Planning	260	171	—	—	(260)	(100.0%)
Executive Compensation Project	200	200	—	—	(200)	(100.0%)
Tobacco Divestment	250	—	—	—	(250)	(100.0%)
TOTAL ENTERPRISE PROJECTS	\$37,736	\$36,189	\$23,302	\$5,140	(\$14,434)	(38.2%)

Capital Expenditure Projects

[1] my|CalPERS Business Optimization

In January 2015, the program areas and the Information Technology Services Branch launched a joint effort to leverage the my|CalPERS system for increased operational efficiencies across the CalPERS organization. The effort outlined performance and functionality goals in four major areas: improved customer service, reduced financial and business risk, increased operational performance, and streamlined business processes.

Since its inception, approximately 53 optimization initiatives have been implemented. Some of the most significant for FY 2014-15 and FY 2015-16 include:

- Simplification of Medicare service payers and disability retirement package automation
- Comprehensive system reconciliation for financial and actuarial activities
- Redesigned and streamlined internal staff workflows to better serve members and partners
- Online Health Plan Statements and enhanced online calculators
- Optimization of final compensation reviews
- Faster resolution of warrant returns and Business Partner payment gaps

Current FY 2016-17 funding continues to maintain planned levels for completing high-priority functional and technical initiatives needed to optimize the my|CalPERS application and CalPERS' operations.

These initiatives include:

- Process improvements in the service credit purchase program
- Enhanced state enrollments
- Improved interest payment functionality
- Modifications to online beneficiary option self-services
- Contribution and planning tools for Business Partners
- Efficiencies in technical areas related to system and database performance improvements, application testing, and production reporting
- Data integrity enhancements
- Simplified online retirement estimates and options

FY 2017-18 is the final year of the my|CalPERS Business Optimization project. Funding will be used to complete targeted initiatives to increase operational efficiencies, performance, and functionality. These initiatives include:

- Internal simplification of member applications and retirement elections workflow
- Service credit purchase maintenance reductions
- Accounts receivable tracking enhancements
- Contract provisioning and Agency Social Security compliance streamlining (per section 218 of the Social Security Act)
- System data maintainability
- Public Employees' Pension Reform Act (PEPRA) program simplification

The optimization project is on target to complete by June 2018, as reported in the FY 2016-17 Annual Budget review.

Project Life Cycle Costs – my CalPERS Business Optimization	Project Budget	Operational Budget	Total
2014-15 Actual	\$17,399,603	\$ —	\$17,399,603
2015-16 Actual	24,159,800	—	24,159,800
2016-17 Forecast	23,470,000	—	23,470,000
2017-18 Approved Budget	8,775,000	—	8,775,000
2018-19 Projection	—	—	—
TOTAL	\$73,804,403	—	\$73,804,403

[2] Actuarial Valuation System Redesign

The current Actuarial Valuation System (AVS) has been in existence for over 20 years and no longer meets evolving actuarial practices, including changes required for employers to comply with new standards implemented by the Governmental Accounting Standards Board (GASB). The investment to redesign the AVS will provide the capabilities needed to keep current with evolving practices and comply with GASB. This is a multi-year project with an estimated total project cost of \$13.0 million. This is \$10 million less than what had been projected last year; now that the project has moved from the conceptual phase to the design and implementation phases, a more precise cost estimate is available.

Phase 1 is completed and identifies business process requirements to develop a concept for the new database model. Phase II began in FY 2016-17 and includes configuring the new database model, integrating data from the existing AVS, and validating data integrity.

In FY 2017-18, Phase II activities will continue.

In addition, other activities include:

- Procurement of application hardware and software
- Continued system configuration and data integration
- User acceptance testing and training
- Transition of primary support functions from project consultants to state staff

Funding proposed in FY 2017-18 totals \$3.9 million and includes:

Project Consultants	\$2.5 million
Backfill Resources*	0.9 million
Hardware/Software/Training	0.5 million
TOTAL	\$3.9 MILLION

* Temporary backfill resources perform core workload while existing state resources are assigned to the project to provide expertise in designing the new system and to learn the new system functionality.

Project Life Cycle Costs – Actuarial Valuation System	Project Budget	Operational Budget	Total
2014-15 Actual	\$132,230	\$ —	\$132,230
2015-16 Actual	588,823	—	588,823
2016-17 Forecast	2,686,032	—	2,686,032
2017-18 Approved Budget	3,931,000	—	3,931,000
2018-19 Projection	4,128,000	—	4,128,000
2019-20 Projection	1,000,000	—	1,000,000
2020-21 Projection	500,000	—	500,000
TOTAL	\$12,966,085	—	\$12,966,085

[3] Business Intelligence

The Business Intelligence (BI) project is an ongoing multi-year effort that ensures CalPERS technology and information supports a business environment of fact-based decision-making using accurate and timely data. Since its inception in FY 2013-14, accomplishments include:

- Development of communication and project management action plans
- Completed deliverables for the Human Resources and Public Affairs Divisions, the Financial Office, and Audit Services
- Development of the CalPERS 2014 Retirement Trend Report and the CalPERS Economic Impacts in California Report

In FY 2016-17, funding is being used to:

- Maintain the current BI data environments
- Create a BI product depository
- Develop a self-service environment that will allow for better access to the data
- Provide a better understanding of the retirement data warehouse
- Continue system development

The BI program has gradually reduced reliance on consulting resources and continues knowledge transfer to state staff. Funding in FY 2017-18 will fund consulting resources to assist staff with enhancements of the BI environment related to data extraction, report and dashboard development, and expansion of the self-service environment, including:

- Expansion of pension data in the BI data warehouse for the Financial Office to utilize for the Comprehensive Annual Financial Report (CAFR) statistical section
- Establishment of the Human Resources Division's Workforce Planning dashboards by extracting data from the PeopleSoft Human Capital Management System to integrate with myCalPERS data
- Development of a self-service solution that provides data for the Office of Audit Services to support a new risk assessment program
- Expansion of the data warehouse to support health enrollment data initiatives for the Health Policy and Research Division
- Training needed to replace BI database administrator consultants with state staff

Project Life Cycle Costs - Business Intelligence	Project Budget	Operational Budget	Total
2013-14 Actual	\$2,456,795	\$ —	\$2,456,795
2014-15 Actual	1,240,223	—	1,240,223
2015-16 Actual	991,714	—	991,714
2016-17 Forecast	992,305	—	992,305
2017-18 Approved Budget ¹	585,300	1,546,000	2,131,300
2018-19 Projection	—	1,546,000	1,546,000
TOTAL	<u>\$6,266,337</u>	<u>\$3,092,000</u>	<u>\$9,358,337</u>

¹ In addition to the project budget costs, the operational budget includes 9.0 staff (\$1.3 million) and \$246,000 for consulting services.

[4] Data Backup, Restoration, and Disaster Recovery Services

CalPERS' current contract for data backup, restoration, and disaster recovery services expires in June 2017. A service provider will be procured to design, develop, and implement a new and expanded disaster recovery data backup system to support CalPERS Business Continuity Plans (BCP) and Technical Recovery Plan.

The expanded system will allow CalPERS to mitigate risk of data loss and service disruption associated with an unanticipated local or regional disaster, as required for business continuity by the California State Administration Manual. The 2016 Business Impact Analysis and BCP now require data applications to be available and include recovery objectives for up to 30 days for disaster recovery; CalPERS' traditional timeframe has been 96 hours. The system will also be

designed to correct operational deficiencies discovered in data recovery testing and improve other expanded recovery capabilities for all CalPERS mission critical applications. The expansion of business resumption service items and length of time required for data recovery backup will impact the cost of service. Funding for FY 2017-18 includes the following components:

- One-time funding related to infrastructure hardware, software, telecommunication circuits, and professional services for implementing a new solution at CalPERS and at a remote site (\$4.5 million).
- Ongoing funding for the first year of service for backup, restoration, and disaster recovery solutions. This includes the continuation of existing disaster recovery services while transitioning to a new managed service solution contract that meets CalPERS needs (\$2.5 million).

Project Life Cycle Costs - Data Backup, Restoration, and Disaster Recovery Services	Project Budget	Operational Budget	Total
2017-18 Approved Budget	\$7,000,000	\$ —	\$7,000,000
2018-19 Projection	—	2,500,000	2,500,000
2019-20 Projection	—	2,500,000	2,500,000
2020-21 Projection	—	2,500,000	2,500,000
2021-22 Projection	—	2,500,000	2,500,000
TOTAL	<u>\$7,000,000</u>	<u>\$10,000,000</u>	<u>\$17,000,000</u>

¹ The current operational budget includes \$1.2 million for the existing data backup, restoration, and disaster recovery services vendor. This amount will offset the \$2.5 million annual ongoing support costs of the new system, so the net increase to the operational budget will be \$1.3 million.

[5] Long-Term Care Third-Party Administrator Transition

The current contract to provide third-party administrator services for CalPERS' Long-Term Care (LTC) Program expires in December 2017. One-time funding is proposed to provide project management and administration services for the potential transition to a new LTC third-party administrator. This funding is needed if the board of administration selects and approves a new vendor, which would transition the LTC program to a new third-party administrator for the first time.

Due to the complexity and magnitude of this effort, a specialized LTC transition vendor would be needed to assist with the administrative services necessary to provide a transition plan, which includes:

- Project communication, change management, and project execution
- Business process overview and configuration strategy
- Integration plan and data migration and testing plan

The potential transition would require data conversion and system interface between the two vendors for the transfer of historical information related to policy holders, membership policies, evidence of coverage, premium payment and banking records, open claims, and in-process applications. In addition, benefit review audits would need to be performed.

Project Life Cycle Costs - Long-Term Care Third-Party Administrator Transition	Project Budget	Operational Budget	Total
2017-18 Approved Budget	\$1,423,500	\$ —	\$1,423,500
2018-19 Projection	627,050	—	627,050
TOTAL	\$2,050,550	—	\$2,050,550

[6] CalPERS Business Continuity

One-time funding is needed to update the Master Enterprise Business Continuity Program to minimize risk in the recovery of CalPERS' critical business functions in case of a cyberdisaster.

During FY 2016-17, an enterprise-wide business impact analysis was conducted to identify and prioritize critical business functions and determine the recovery time objectives for up to 30 days post-disaster. In addition, an information technology analysis was conducted, business continuity plans for 30 divisions were updated, and a Master Enterprise Business Continuity Plan was submitted to the California Office of Emergency

Services (Cal OES) and the California Information Security Office (CISO).

In FY 2017-18, funding is proposed to execute the Master Enterprise Business Continuity Plan scheduled to begin in July 2017. This phase of the project is to identify the essential software systems and business functions that need to be restored after the 30 days post-disaster period for 31, 60 and 90 days to full business resumption. Consultant funding will provide the necessary business continuity expertise to assist key division personnel in identifying essential business functions to be restored, and allow CalPERS to remain in compliance with Cal OES and the CISO requirements.

Project Life Cycle Costs - CalPERS Business Continuity	Project Budget	Operational Budget	Total
2017-18 Approved Budget	\$250,000	\$ —	\$250,000
TOTAL	\$250,000	—	\$250,000

[7] CalPERS Education Center Replacement

The Customer Service and Outreach Division (CSOD) is the main point of contact for employer and member services. The CalPERS Education Center (CEC) software platform was originally developed in-house ten years ago to be a self-service education tool providing better customer service by reaching more CalPERS members. Due to my|CalPERS priorities, many fixes related to appointments and calendars, as well as enhancements to increase system efficiency were deferred. This resulted in configurability and functionality limitations, causing potential security issues and lack of integration with my|CalPERS.

This project addresses these issues by redesigning and modernizing the current CEC system. In FY 2015-16, CSOD partnered with the Information Technology Services Division to gather business requirements and develop a proof of concept for the new system. In FY 2017-18, the technical solution will be implemented which will:

- Increase education delivery efficiencies for the Regional Offices
- Streamline the scheduling and appointment process for customers
- Improve data integrity with my|CalPERS
- Refine reporting quality
- Enhance the CalPERS Benefit Education Event registration process

Project Life Cycle Costs - CalPERS Education Center Replacement	Project Budget	Operational Budget	Total
2015-16 Actual	\$940,392	\$ —	\$940,392
2016-17 Forecast	—	—	—
2017-18 Approved Budget	1,337,000	—	1,337,000
2018-19 Projection	—	25,000	25,000
TOTAL	<u>\$2,277,392</u>	<u>\$25,000</u>	<u>\$2,302,392</u>

[8] Security Roadmap

The Security Roadmap Project (SRP) will ensure CalPERS technology and member data remains secure against continuously changing threats in the environment.

Beginning in FY 2017-18, funding for security activities transitions to the operational budget and includes costs for the purchase and maintenance of various security software products (\$1.7 million) and 21.0 team members (\$2.5 million). Efforts will be directed towards further improvements to ensure CalPERS' technology and member data remain secure against the constantly changing threat environment. These efforts include the following activities:

- Develop and implement an identity lifecycle methodology with the identity access management program
- Deploy multi-factor authentication to remaining privileged account users
- Migrate the IronPoint anti-spam system to the cloud and shutdown the physical hardware appliances located in the data center
- Identify cloud and non-cloud applications and systems that require additional security and implement the existing CalPERS advanced multi-factor authentication solution
- Continue to mature and unify the incident response process to complete strong and repeatable incident response plans for IT and the business
- Design and create additional my|CalPERS reports and associated dashboards using the enterprise logging system
- Procure an enterprise threat intelligence solution to strengthen IT security and provide additional security monitoring processes to detect warning of potential risks through cloud based automation
- Explore the value and application for a behavior analysis solution for detecting anomalies in the environment indicative of malicious activity detectable by traditional security solutions
- Implement additional capabilities to increase the protection of the my|CalPERS database, i.e., discovery and classification of sensitive data and vulnerability assessments

Project Life Cycle Costs - Security Roadmap	Project Budget	Operational Budget	Total
2013-14 Actual	\$4,903,326	\$ —	\$4,903,326
2014-15 Actual	2,019,330	—	2,019,330
2015-16 Actual	3,082,613	—	3,082,613
2016-17 Forecast	4,041,416	—	4,041,416
2017-18 Approved Budget	—	4,200,000	4,200,000
TOTAL	<u>\$14,046,685</u>	<u>\$4,200,000</u>	<u>\$18,246,685</u>

Department Information

Position Summary

FY 2017-18 Positions by Branch

	FY 2016-17 Authorized Positions (as of 2/28/17)	Position Reductions	FY 2017-18 Authorized Positions	% Change	Vacant Positions
ACTUARIAL OFFICE	58.0	—	58.0	—	6.0
BENEFIT PROGRAMS POLICY & PLANNING	160.0	—	160.0	—	17.0
COMMUNICATIONS & STAKEHOLDER RELATIONS	63.0	—	63.0	—	6.0
CUSTOMER SERVICES & SUPPORT	964.5	(5.0)	959.5	(0.5%)	60.0
BNSD					
Retirement Calculation/Payroll Adjustment Backlog		(2.0)			
IRC 415(b) Replacement Benefit Plan Backlog		(1.0)			
EAMD					
Membership Eligibility Determinations & Appeals Backlog		(2.0)			
EXECUTIVE OFFICE	16.0	—	16.0	—	2.0
FINANCIAL OFFICE	245.0	—	245.0	—	23.0
GENERAL COUNSEL	137.0	—	137.0	—	13.0
INVESTMENT OFFICE	352.0	—	352.0	—	56.0
OPERATIONS & TECHNOLOGY	884.5	—	884.5	—	55.5
TOTAL	<u>2,880.0</u>	<u>(5.0)</u>	<u>2,875.0</u>	<u>(0.2%)</u>	<u>238.5</u>
Vacancy % to Total Authorized Positions					8.3%

Salaries and Wages

The \$366.6 million for FY 2017-18 represents a \$22.2 million net increase (6.4 percent) over the FY 2016-17 Approved Budget of \$344.4 million, as follows:

- Increased salaries and benefits negotiated during the statewide collective bargaining process, as well as anticipated increases for non-represented employees (\$18.1 million)
- Reduction of 5.0 limited-term positions (-\$0.4 million)
- Decrease in temporary staffing and overtime costs (-\$1.6 million)
- Restored funding of \$6.1 million for anticipated declines in vacancies as divisions continue to manage existing vacancies through workforce planning efforts and as the enterprise implements a position pooling concept. This restores funding from a one-time reduction of \$8.0 million that was approved during the FY 2016-17 Mid-Year Budget Process for additional vacancies and based on the vacancy trend at that time.

An overall vacancy savings target of 5.0 percent for FY 2017-18 recognizes the impact of vacancies on the cost of personnel services. This savings reduces costs by \$19.1 million, decreasing the net cost of \$385.7 million to \$366.6 million. The current year-to-date vacancy rate is 8.3 percent.

Reduction in Authorized Positions

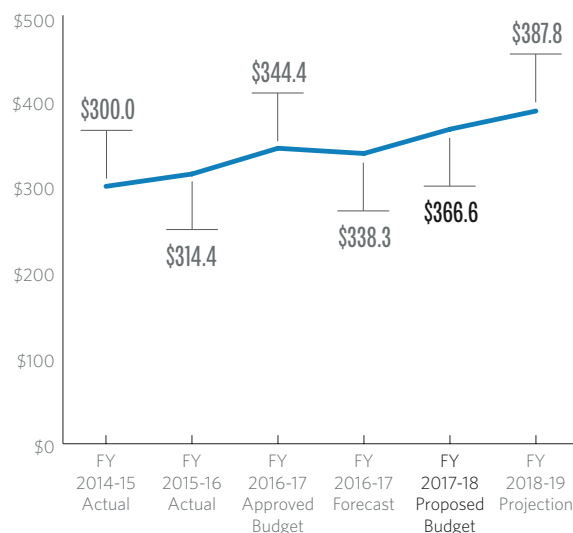
The CalPERS authorized position count is decreasing by 5.0, from 2,880 in FY 2016-17 to 2,875 in FY 2017-18.

In FY 2015-16, 5.0 positions were approved for a two-year term within the Customer Services and Support Branch. These positions were created to address backlogs in the completion of:

- Service retirement calculations and payroll adjustments (2.0 positions)
- Internal Revenue Code 415(b) determinations which limit the total annual benefit amount that can be paid from a defined benefit plan (1.0 position)
- Membership and eligibility determinations and membership appeals (2.0 positions)

The backlogs within these program areas have been reduced to manageable levels. These positions expire at the end of FY 2016-17 and have been removed from the FY 2017-18 total position count.

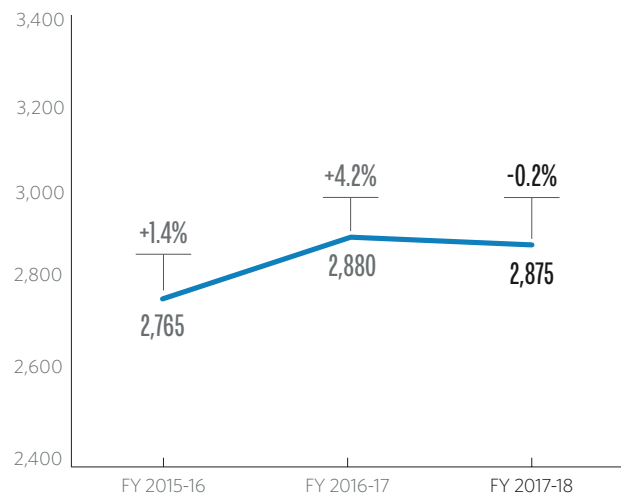
Personnel Services Cost Trend (in millions)



Position History

Over the three-year period through FY 2017-18, authorized positions grew from 2,727 at the end of FY 2014-15 to 2,875 with an increase of 148 positions (5.4 percent).

Position History



Three-Year Position History

Position History Per Fiscal Year - By Branch

	Annual Position Changes				FY 2017-18 Total Positions	Three-Year % Increase to FY 2017-18 Position Total
	FY 2015-16	FY 2016-17	FY 2017-18	Three-Year Total		
Actuarial Office	2.0	1.0	0.0	3.0	58.0	5.5%
Benefit Programs Policy & Planning	3.0	1.0	0.0	4.0	160.0	2.6%
Communications & Stakeholder Relations	0.0	2.0	0.0	2.0	63.0	3.3%
Customer Services & Support	15.0	87.0	(5.0)	97.0	959.5	11.2%
Executive Office	0.0	0.0	0.0	0.0	16.0	0.0%
Financial Office	12.0	2.0	0.0	14.0	245.0	6.1%
General Counsel	5.0	0.0	0.0	5.0	137.0	3.8%
Investment Office	0.0	19.0	0.0	19.0	352.0	5.7%
Operations & Technology	1.0	3.0	0.0	4.0	884.5	0.5%
CalPERS TOTAL POSITIONS	38.0	115.0	(5.0)	148.0	2,875.0	5.4%

Performance Measures

Strategic performance measures build a framework that enables CalPERS to evaluate progress in meeting the goals of the strategic plan, and provide the linkage from business strategy to execution.

The CalPERS Board of Administration approved the CalPERS 2017-22 Strategic Plan in February 2017. The new strategic plan is the result of a year-long collaborative process between the Board and executive team that gives a fresh look at the next five years. The goal was to build a thoughtful and relevant plan for the future that begins on July 1, 2017. The Strategic Measures project continues to use an iterative approach to develop the measures.

In developing the five goals within this plan, CalPERS went through an extensive process to gain an understanding of the major risks and opportunities facing the organization. The team gathered valuable information and feedback from a variety of internal and external stakeholders. After analyzing this input, the organization assessed where it was and where it needed to go. The end result was five goals – each with their own set of objectives and performance measures for success – that will guide CalPERS for the next half-decade. The strategic plan is not meant to be a detailed roadmap, but a guide to steer CalPERS over the next several years.

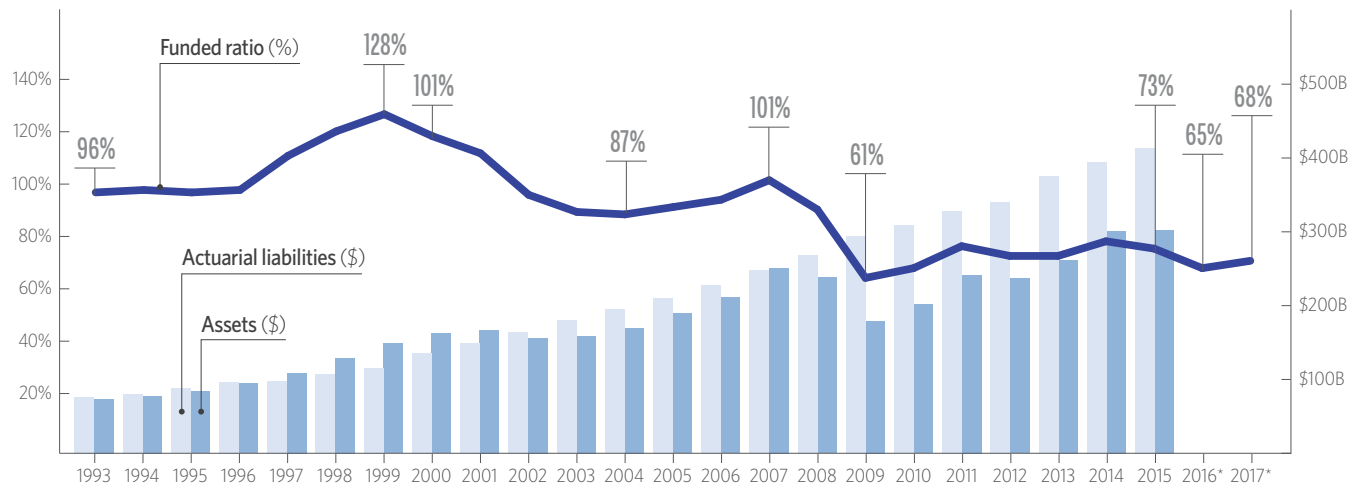
CalPERS is developing and evaluating the corporate performance measures listed on the following page. Over the past year, measurements have begun to be captured and analyzed. Some measurements are still in progress, so data is not yet available.

Corporate Performance Measures for each Strategic Goal

Goal A: Fund Sustainability	
	Probability of PERF falling below 50 percent funded over the next 30 years
	Probability of sharp increase in employer contribution rates
	Probability of high employer contribution rates
A1	Funded status
	Projected funded status
	1-Year total expected fund volatility
A2	Annualized (5-Year) excess investment returns relative to policy benchmark
	Stakeholder assessment survey
	Investment managers' policies and procedures for ESG factor integration
Goal B: Healthcare Affordability	
B1	Overall quality composite
B2	Access to primary and specialty care
B3	Total health care cost per member
B4	Proportion of adults who are obese
B5	Prevalence of diagnosed diabetes per 100 adults
B6	Diabetes self-management
	Mental health and well-being
	Overall health status reported to be good, very good, or excellent
	Opioid prescription volume
	C-section rate
	Preventable hospitalizations per 100,000

Goal C: Reduce Complexity	
C1	CEM - pension complexity score
C2	Benefit payment timeliness
C3	Customer satisfaction
C4	External investment manager reduction strategy
C5	CEM - cost per member
	Total overhead cost
C6	5-Year Net Value added
Goal D: Risk Management	
D1	Stakeholder assessment survey
	Employee survey
	Benchmark survey of risk and compliance program maturity
	Cybersecurity risk rating
D2	Percentage of legislative bills enacted or defeated
D3	CalPERS perception in the media
Goal E: Talent Management	
	Increase recruitment channels
E1	Workforce diversity and inclusion
	Engagement survey
	Leadership proficiency assessments
	Participation in succession planning program
	Active development plans for succession planning program participants

CalPERS Funded Status



* Estimated funding levels for FY 2016-17 are based on a 7.0 percent discount rate.

The following are examples of some of CalPERS' key performance measures:

A1) Measure: Funded status

A key aspect of sustainability is the funded status of the pension fund; therefore, the ratio of assets to accrued liabilities is an important measure to monitor. The funded status is impacted by the change in the fair market value of the fund's assets. The current estimated funded status of 68 percent reflects CalPERS' preliminary fiscal year investment return of 11.2 percent, as of June 30, 2017. This shows an increase from the previous estimated funded status of 65 percent, based on an investment return of 0.6 percent for the fiscal year ending June 30, 2016.

CalPERS achieved the positive net return despite volatile financial markets and challenging global economic conditions. Key to the return was a globally diversified portfolio, which performed well across most asset classes, with the strongest return coming from CalPERS Public Equity Program. Despite these strong returns, financial experts expect a lower rate of return on the CalPERS investment portfolio over the next decade. The Board took an important step in 2016 to strengthen the pension fund when it lowered CalPERS' expected rate of return on its investments from 7.5 percent to 7.0 percent over a three-year phase-in period.

The CalPERS team continues to examine the portfolio and asset allocation, and will use the Asset Liability Management process, started in early 2017, to ensure that the System is best positioned for the future market climate.

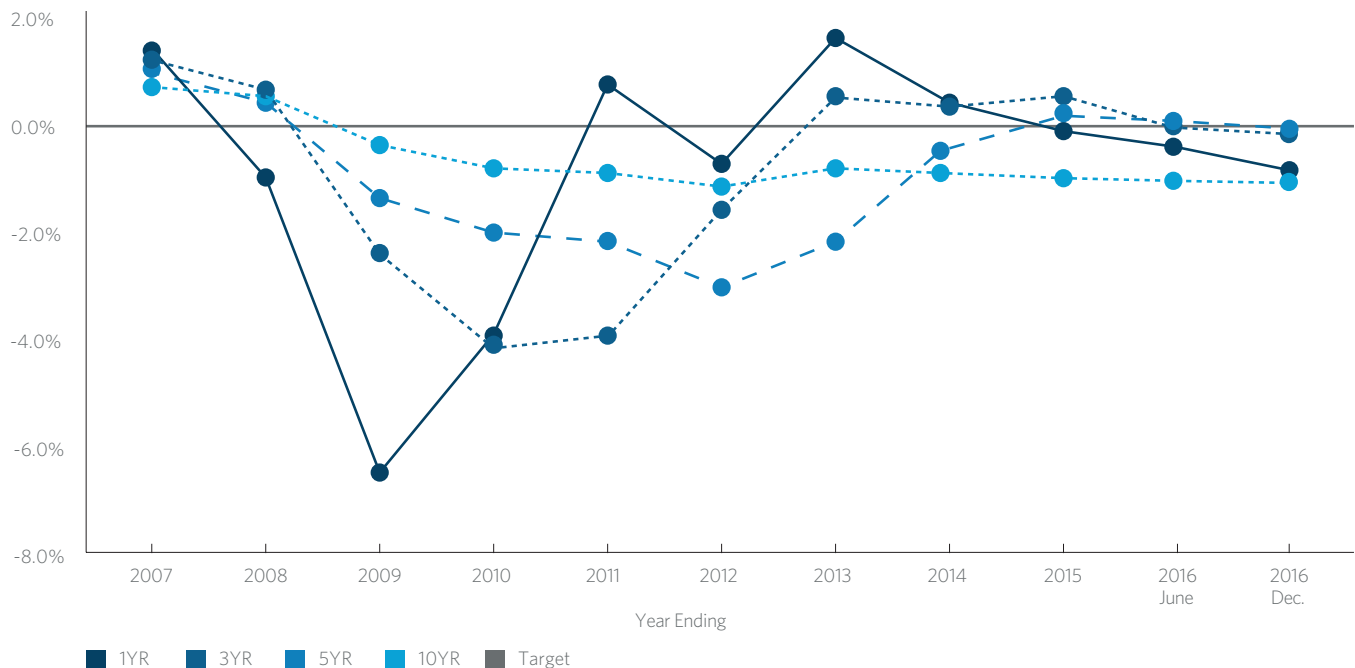
A2) Measure: Annualized (five-year) excess investment returns relative to policy benchmark

This measure evaluates CalPERS' ability to achieve superior investment performance relative to relevant targets, and targets the effectiveness in meeting the objective of achieving superior investment returns when compared against the policy benchmark.

The total fund underperformed the policy benchmark for the calendar year, generating -0.8 percent excess return. The total fund also underperformed the policy by -0.2 percent, -0.1 percent, and -1.2 percent over the three-year, five-year, and 10-year periods, respectively.

Annualized Excess Return vs. Policy Benchmark

Type of Return	Return Period	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 June	2016 Dec.
Excess Return (above/below the benchmark)	1 year	1.2%	(0.9%)	(6.5%)	(4.0%)	0.6%	(0.6%)	1.5%	0.4%	(0.1%)	(0.4%)	(0.8%)
	3 year	1.0%	0.3%	(2.6%)	(4.1%)	(3.9%)	(1.4%)	0.5%	0.4%	0.6%	0.0%	(0.2%)
	5 year	0.8%	0.6%	(1.3%)	(2.2%)	(2.3%)	(2.6%)	(2.2%)	(0.4%)	0.3%	0.1%	(0.1%)
	10 year	0.7%	0.5%	(0.3%)	(0.8%)	(0.9%)	(1.0%)	(0.8%)	(0.9%)	(1.0%)	(1.1%)	(1.2%)



A3) Measure: Stakeholder assessment survey

This measure evaluates the objective of enhancing compliance and risk functions throughout the enterprise.

This performance measure was developed in response to the new 2017-22 Strategic Plan. The stakeholder perception survey effectively identifies areas of satisfaction and concern from CalPERS stakeholders. Review and evaluation of the data allows CalPERS leadership to develop initiatives that positively impact CalPERS' reputation among stakeholders, as well as generate confidence in the system and its services and operations. The survey also provides baseline data for two strategic measures in the areas of risk and compliance. The baseline statuses as of May 2017 are reflected in the accompanying tables.

The measurement scale used was from 1 to 7, with 7 being "strong agreement" with the stakeholder perception statement. The current mean scores fall in the "somewhat agree" range and show a need for improvement. Any changes in perception will be evaluated next year when additional data is available.

Strategic Measure Perception Statement #1

"CalPERS has effective functions and programs to address compliance and risk."

Segment	Mean
Active Members	5.05
Retired Members	5.39
Employer All Levels	5.24
Employer Senior Leaders	4.92
Inactive	4.82
Stakeholder Leaders	5.15
TOTAL	5.16

Strategic Measure Perception Statement #2

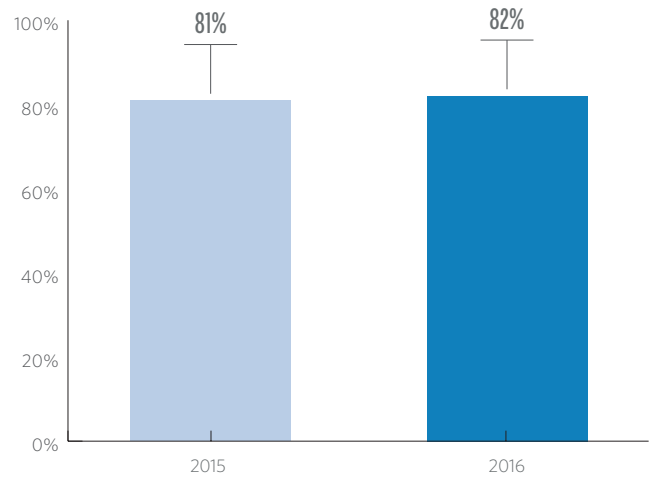
"I understand the risks inherent in the System and I am confident that CalPERS is taking steps to reduce the risks."

Segment	Mean
Active Members	5.01
Employer All Levels	5.29
Retired Members	5.48
Employer Leaders	4.86
Inactive	4.82
Stakeholder Leaders	4.93
TOTAL	5.17

B1) Measure: Overall quality composite

This performance measure was developed in response to the new 2017-22 Strategic Plan and provides a method to evaluate the objective of restructuring benefit design to promote high-value health care. It combines several indicators into a single composite score that reflects quality of care across a variety of domains with a single metric. Members answered the question, "Using any number from 0 to 10, where 0 is the worst health care possible and 10 is the best health care possible, what number would you use to rate your health care in the last 12 months?" The target is a score of 8 or higher by CalPERS healthcare membership. In 2015 that score was reached in 81 percent of the responses; in 2016, that increased to 82 percent.

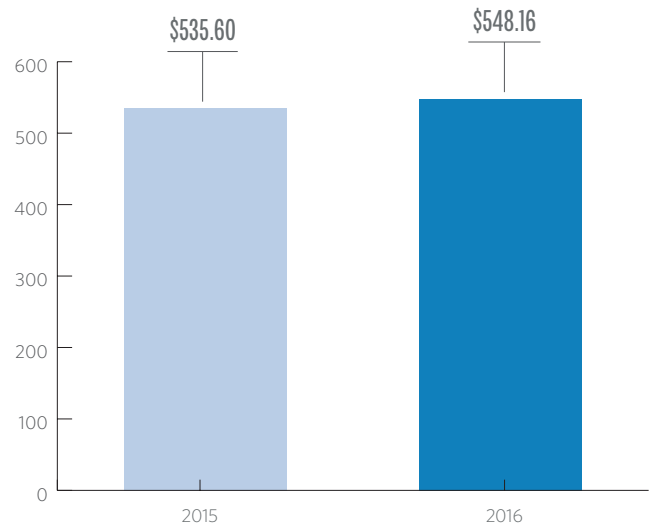
Overall Quality Composite



B2) Measure: Total health care cost per member

This measure provides a method to evaluate the objective of restructuring benefit design to promote high-value health care. The total cost of care per member per month indicates the average risk-adjusted costs borne by health plans and their members. Costs have increased by \$12.56 (2.3 percent) from 2015 to 2016.

Total Health Care Cost Per Member



B3) Measure: Proportion of adults who are obese and perform diabetes self-management

This measure evaluates the objective of improving the health status of CalPERS employees, members, and their families, and the communities where they live. The CalPERS Health Plan Member Survey gathers data related to the wellness of CalPERS membership.

Obesity Prevalence

Nearly 29 percent of members have a Body Mass Index (BMI) greater than or equal to 30.0. BMI is a screening tool commonly used for population assessment of overweight and obesity levels. The proportion of members considered obese has changed only marginally since 2013. CalPERS continues to explore options for wellness platforms and programs in order to improve this metric.

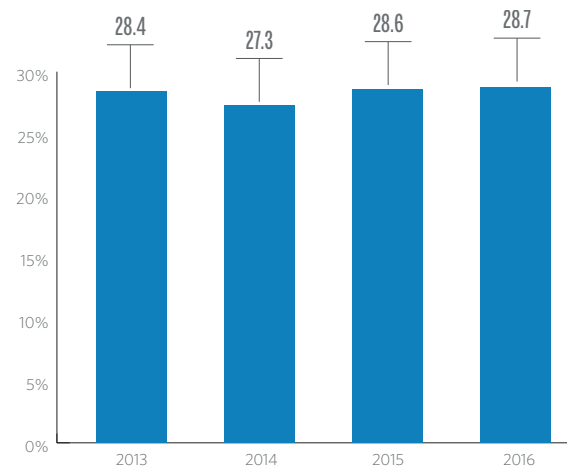
Diabetes Prevalence

56 percent of members with diabetes report they perform daily self-monitoring of blood glucose levels. This number has lowered slightly from 2015. For individuals with diabetes, daily self-monitoring of blood glucose levels is one of multiple important preventative care practices that help reduce diabetes related complications. CalPERS continues to work with employers and health plans to provide diabetes education programs.

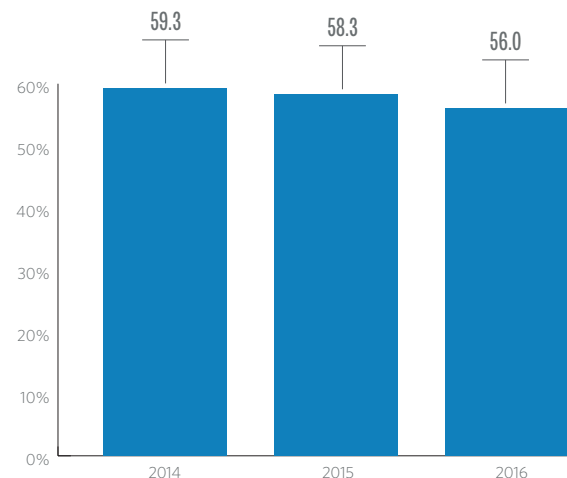
B4) Measure: Overall health status reported to be good, very good, or excellent

This score represents the percentage of CalPERS members who rated their overall health as good, very good, or excellent as measured by the CalPERS Health Plan Survey. An extensive body of international research demonstrates that this single question measure is significantly and independently associated with specific health problems, use of health services, changes in functional status, recovery from episodes of ill health, mortality, and sociodemographic characteristics. The score only decreased half a percentage point from 2015 to 2016.

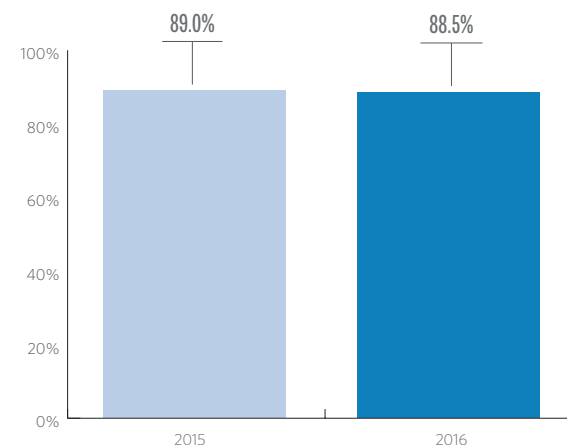
Percentage of Adults with Body Mass Index (BMI) \geq 30.0, 2013-2014



Percentage of Adults Performing Daily Self-Monitoring of Blood Glucose



Overall Health Status



C1) Measure: Cost Effectiveness Measurement (CEM) survey — pension complexity score

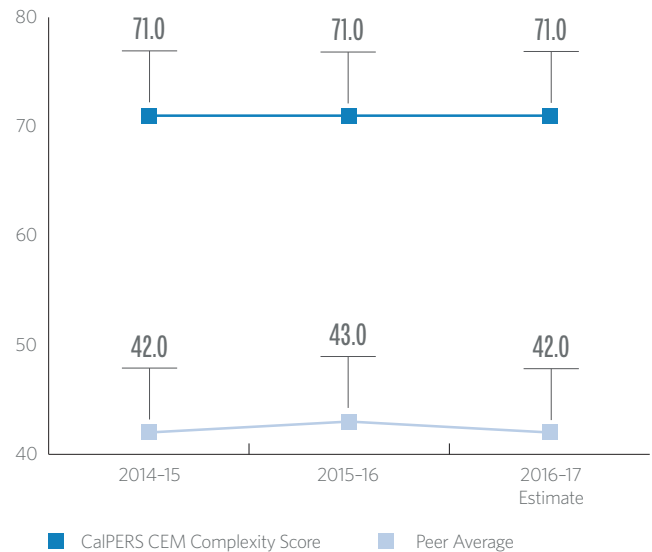
This measure evaluates the objective of simplifying programs to improve service and/or reduce cost. The target for this measure is to reduce the weighted average CEM complexity score by 3 percent.

This performance measure was developed in response to the new 2017-22 Strategic Plan. CEM Benchmarking, Inc., is a respected international entity in the field of retirement system benchmarking. CalPERS and other participating public pension systems completed an extensive questionnaire for pension activities and costs. CEM provides statistics and analysis designed to provide individual data, benchmarks, and comparisons. Each system must determine its own threshold based on the best interests of its membership.

CEM scores organizations on multiple aspects of their pension program, and then uses this data to determine the scaled weighted average complexity score. The CalPERS organization is considered most complex when compared to its peers, as shown in the accompanying chart. The complexity of a system adversely impacts costs.

CalPERS is committed to analyzing complexity and continuing to find ways to simplify processes, but even with these efforts in place, the organization will remain the most complex pension system within the CEM Global Universe of Participants. Therefore, it is not surprising that CalPERS incurs higher than average costs among the peer group. As of January 1, 2018, CalPERS retirement options will become less complex through the Retirement Options Simplification initiative. Simplifying retirement options will achieve cost efficiencies as well as improve the customer experience by reducing the chance of any misunderstanding of retirement choices.

CEM Pension Complexity Score



C2) Measure: Benefit payment timeliness

This measure captures the timeliness of four essential customer benefit payment streams:

- Service Retirement
- Refunds
- Disability Retirement
- Survivor Benefits

Timely payments are essential to a positive customer experience. The CalPERS team focuses heavily on benefit payments in performance management to ensure customers receive timely payments.

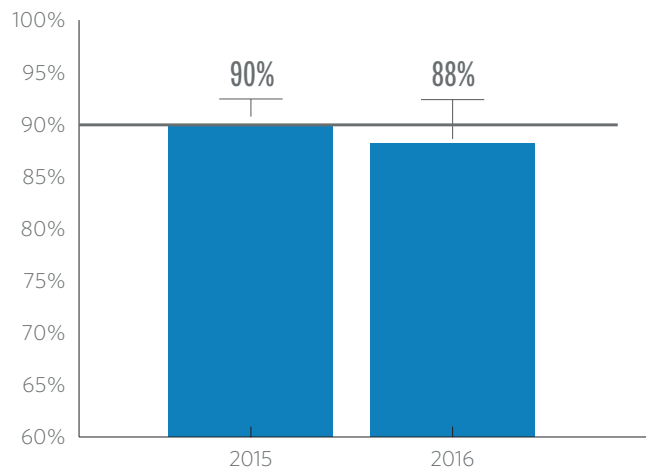
In FY 2016-17, CalPERS' overall score for benefit payment timeliness was 88 percent, below the threshold of 90 percent. Processing for the majority of benefit payments remained strong, with service retirement, disability retirement, and refund payments exceeding the target. The timeliness of survivor benefit payments fell below the strategic measure threshold due to the accelerated volume of deaths reported over the last year. The organization has reprioritized workloads and redirected and reallocated resources to assist with the increased volume. It is expected that the survivor benefit payments metrics will trend upward as staffing levels continue to increase with vacant positions filled and as training increases the proficiency of new team members.

C3) Measure: Customer satisfaction

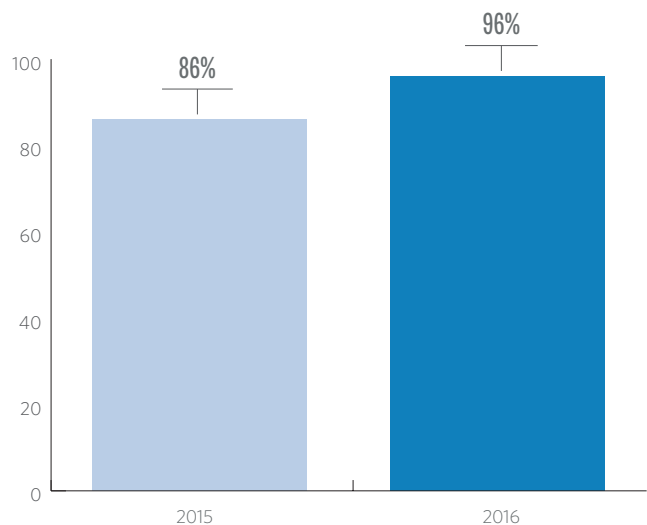
The Customer Services and Support Branch administers an extensive range of surveys measuring overall satisfaction with the services offered by CalPERS. These surveys are delivered online, by mail, in person, and through email. Collecting satisfaction data through surveys allows the branch to identify customers' preferences, and increases flexibility and responsiveness to customer needs.

In FY 2016-17, the overall standardized satisfaction score was 96 percent, surpassing the target of 95 percent, and indicating high satisfaction across CalPERS service areas

Overall Benefit Payment Results



Customer Satisfaction Survey Results



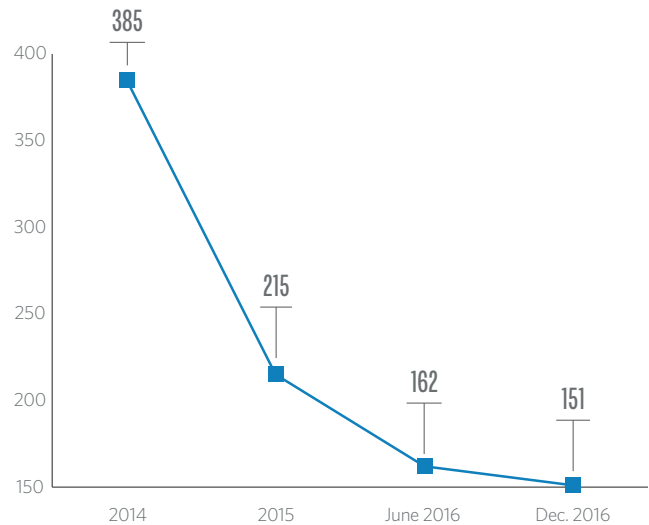
and customer interactions. The team continues to carefully monitor performance for individual business process surveys and has expanded its capability in utilizing the feedback received. An initiative developing a systematic approach to address input from customer surveys allows CalPERS to gain a greater understanding of effectiveness of its business processes, as well as customers' experiences. Taking action on satisfaction data enables CalPERS to utilize the full value of customer feedback and increases flexibility and responsiveness to their needs.

C4) Measure: External investment manager reduction strategy

This measure evaluates the objective of simplifying programs to improve service and/or reduce cost. Through an annual evaluation of the number of external managers, this metric examines the total population of external managers retained to manage assets on behalf of CalPERS.

The performance indicator focuses on reducing management fees and complexity, enhancing governance and manager expectations, and moving to fewer, but more strategic partnerships. Since 2014, the number has decreased from 385 to 151, an overall reduction of 60.8 percent.

CalPERS External Manager Count



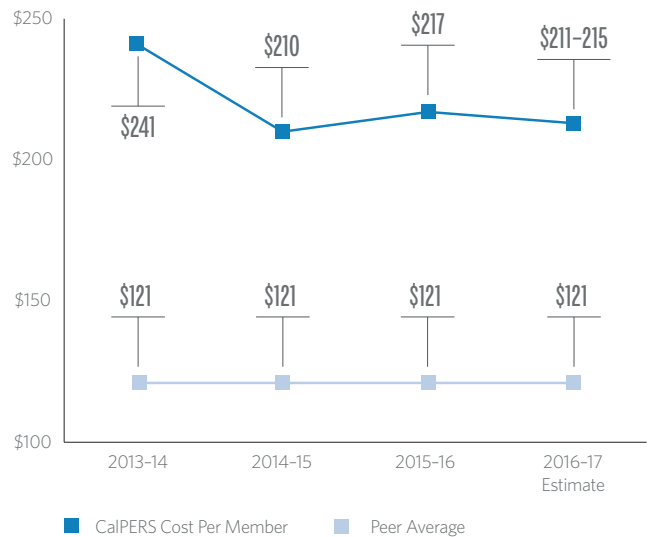
C5) Measure: Cost Effectiveness Measurement (CEM) survey — Cost per member

This measure provides a method to evaluate the objective of streamlining operations to gain efficiencies, improve productivity, and reduce costs. The target for this measure is to reduce the cost per member by two percent annually.

This performance measure was developed in response to the new 2017-22 Strategic Plan. CEM Benchmarking, Inc., is a respected international entity in the field of retirement system benchmarking. CalPERS and other participating public pension systems completed an extensive questionnaire for pension activities and costs. CEM provides statistics and analysis designed to provide individual data, benchmarks, and comparisons. Each system must determine its own threshold based on the best interests of its membership. CalPERS' costs are higher than the peer group due to complexity of the pension system, fewer transactions per full-time equivalent (FTE), and higher operating costs.

To influence the cost per member metric, CalPERS is committed to meeting the 2017-22 Strategic Plan performance measure related to the reduction of total overhead cost, and to increasing the number of transactions per FTE by initiating a Lean Six Sigma project to streamline workload processes.

CEM Cost Per Member (Active and Annuitant)

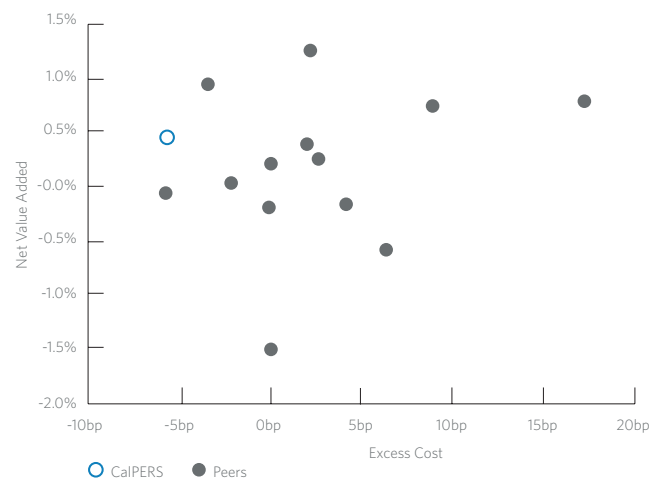


C6) Measure: Five-year net value added

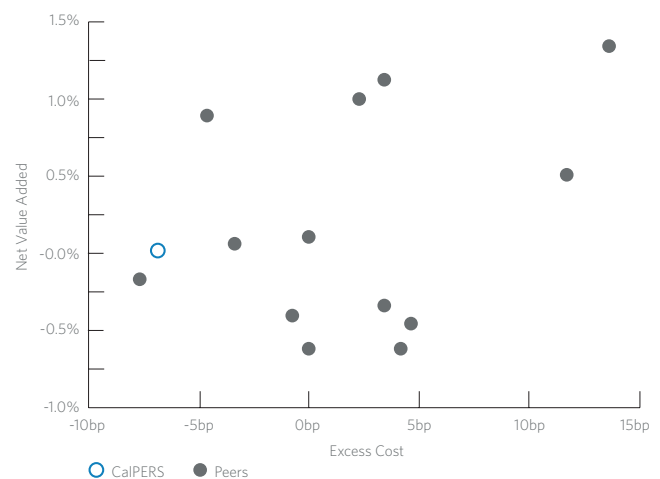
This measure evaluates the objective of streamlining operations to gain efficiencies, improve productivity, and reduce costs. It reflects net value-added relative to an appropriate peer universe median return adjusted for composition of asset allocation and after expenses. The desired outcome is to appear in the upper left quadrant, indicating CalPERS as low cost and high value added, relative to its peer universe.

CalPERS' five-year, three-year and one-year performance placement is in the positive value added, low cost quadrant. This is the desired outcome for this strategic measure in the Investment Office as CalPERS investment cost of 32.5 bps was below its benchmark cost of 41.6 bps. Staff continues to work to improve CalPERS standing among peers by restructuring portfolios to improve returns, re-negotiating existing terms with current managers, and investing in risk management and control capabilities.

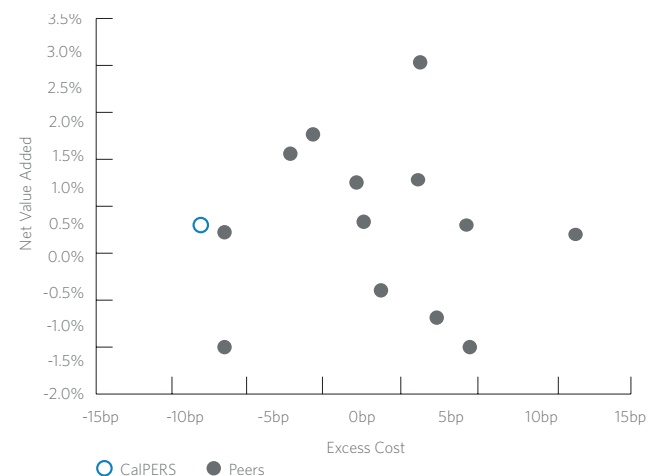
Five-year Net Value Added Versus Excess Cost



Three-year Net Value Added Versus Excess Cost



2015 Net Value Added Versus Excess Cost

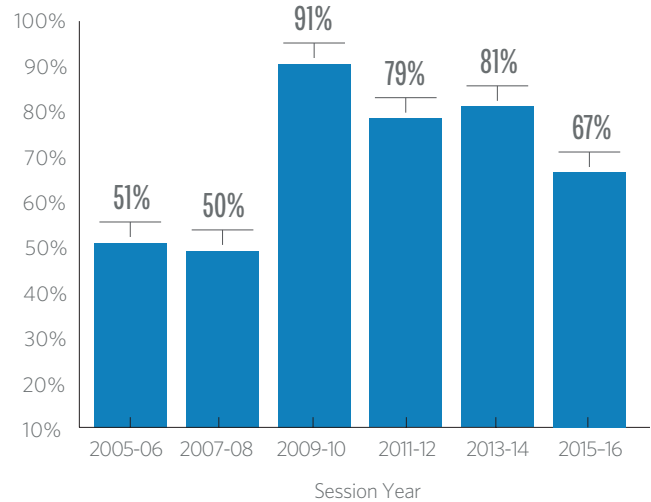


D1) Measure: Percentage of legislative bills enacted or defeated

This measure reflects the percentage of California state legislation enacted or defeated consistent with positions taken by the Board.

This is a biennial measure, reflecting the California Legislature's two-year cycle. CalPERS tracks hundreds of individual bills going through the legislature. Numerous internal and external factors influence which bills are presented to the Board for positions, whether the Board will take a position regarding each bill, and whether each bill will be chaptered into law. For the 2015-16 legislative year, 100 percent of CalPERS Board-sponsored measures were signed into law. CalPERS maintains a strong presence at the capitol to advocate for CalPERS members and stakeholders.

Legislative Board Position Success Rate



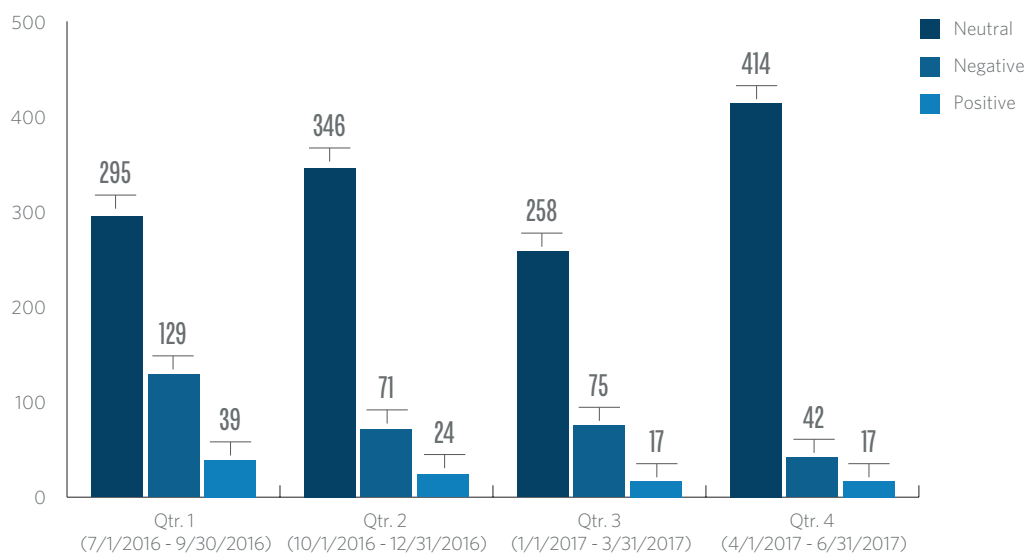
D2) Measure: CalPERS perception in the media

This measure identifies key topics for CalPERS and how they are being framed in the media related to CalPERS' strategic messages, policies, programs, and beliefs, and ranks the favorability of CalPERS media coverage.

This measure tracks the number of positive, negative, and neutral CalPERS media mentions for FY 2016-17.

Overall, the media sentiment tone was neutral. However, there were increases in negative media coverage leading up to, and following the Board's vote to lower the discount rate from 7.5 percent to 7.0 percent over the next three years. The discount rate is also known as the assumed rate of return because it is what CalPERS expects its investments to earn during the fiscal year. This discount rate is the long-term interest rate used to fund future pension benefits.

CalPERS Perception in the Media (Dated by Quarter: FY 2016-17)



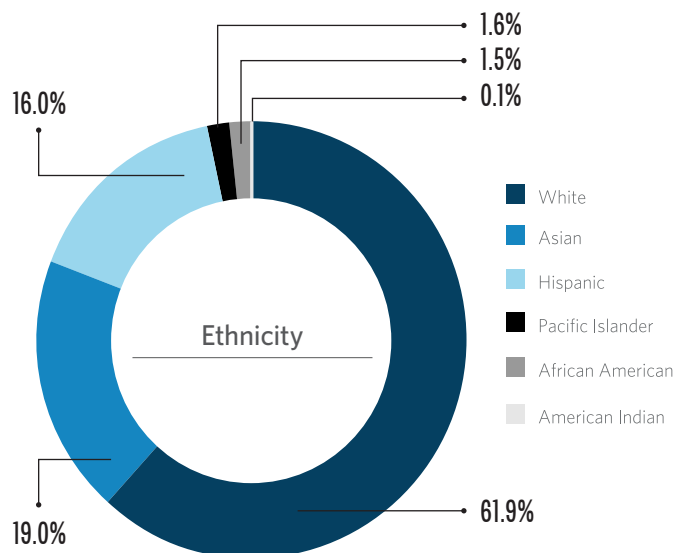
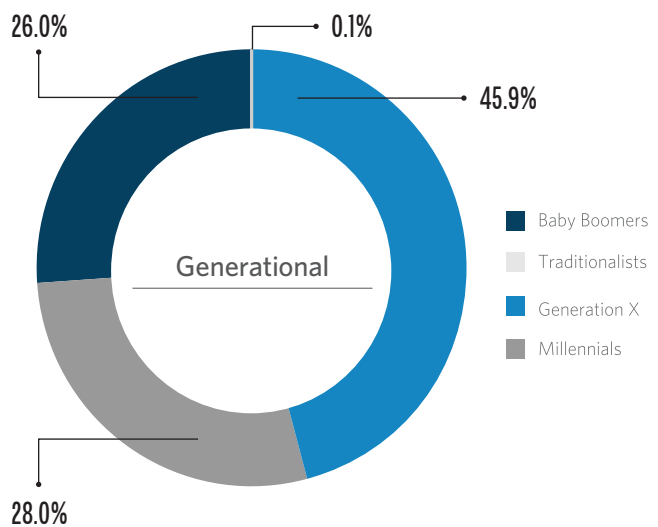
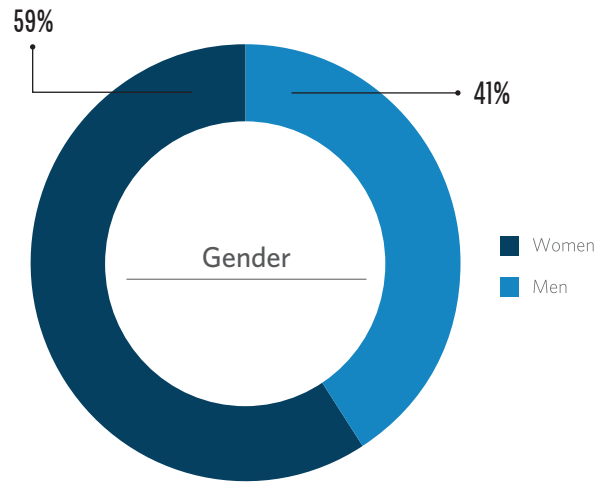
E1) Measure: Workforce diversity and inclusion

This measure evaluates demographics which reflect diversity and inclusion within the CalPERS workforce.

Diversity and inclusion are organizational imperatives that have the commitment of the CalPERS Board of Administration and executive leadership. These imperatives are vital to align with members, engage communities, and attract and retain talented individuals to maintain the organization's success. Operating in a state known for its ethnic and cultural diversity, the combined experiences, perspectives, and talents of CalPERS employees and stakeholders strengthen its high-performance work culture and organization.

One of CalPERS greatest strengths is its team, with men and women of many nationalities, backgrounds, and generations working together to create a diverse and inclusive workforce and workplace as reflected below:

- **Gender** — 59 percent of CalPERS employees are women; 41 percent are men.
- **Generational Demographics** — Nearly 46 percent of employees were born in the time period described as Generation X (birth year 1965 to 1980). Millennials (birth year 1981 to 1987) account for 28 percent, Baby Boomers (birth year 1946 to 1964) 26 percent, and Traditionalists (birth year 1900 to 1945) only 0.1 percent.
- **Race/Ethnicity** — While nearly 62 percent of our staff are White, more than 19 percent are Asian, 16 percent Hispanic, 1.6 percent Pacific Islander, 1.5 percent African-American, and 0.1 percent are American Indian.
- **Language** — More than 100 employees are multilingual. The CalPERS team speaks 33 different languages in all, including American Sign Language. To ensure access to our services and information for non-English and limited-English speakers, CalPERS recruits employee volunteers annually to maintain an updated list of volunteer translators.



Department Descriptions, Unit Goals, and Objectives

The following charts are enterprise-wide measures that include the percentage of expenses to budget, program staffing levels and percentages of vacant positions. This section also expands on each program area's purpose and individual objectives that have been achieved for past years and anticipated for 2017-18.

Measure: Percentage of Budget Expended

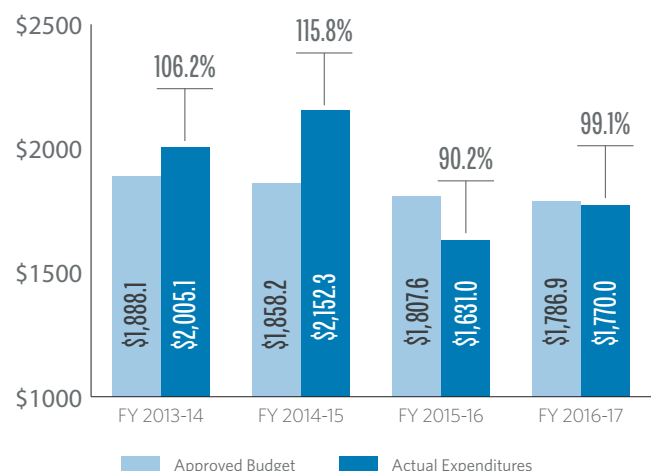
Target: 100 percent or less

Budget Funds (in millions)

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17*
ADMINISTRATIVE & INVESTMENT OPERATING COSTS				
Approved Budget	\$509.6	\$498.9	\$527.7	\$548.3
Expenditures	\$485.4	\$479.1	\$494.1	\$535.0
Percentage Expended	95.3%	96.0%	93.6%	97.6%
ENTERPRISE PROJECTS				
Approved Budget	\$33.3	\$24.9	\$37.5	\$37.7
Expenditures	\$32.7	\$22.9	\$32.1	\$36.2
Percentage Expended	98.4%	92.0%	85.5%	95.9%
HEADQUARTERS BUILDING COSTS				
Approved Budget	\$40.7	\$32.7	\$30.3	\$31.3
Expenditures	\$32.0	\$29.3	\$27.7	\$29.3
Percentage Expended	78.8%	89.8%	91.2%	93.6%
INVESTMENT EXTERNAL MANAGEMENT FEES				
Approved Budget	\$1,030.0	\$1,016.5	\$930.7	\$896.7
Expenditures	\$1,258.8	\$1,333.1	\$794.5	\$896.7
Percentage Expended	122.2%	131.2%	85.4%	100.0%
THIRD-PARTY ADMINISTRATOR FEES				
Approved Budget	\$274.5	\$285.3	\$281.4	\$272.8
Expenditures	\$196.0	\$287.8	\$282.6	\$272.8
Percentage Expended	71.4%	100.9%	100.4%	100.0%
TOTAL BUDGET				
Approved Budget	\$1,888.1	\$1,858.2	\$1,807.6	\$1,786.9
Expenditures	\$2,005.1	\$2,152.3	\$1,631.0	\$1,770.0
Percentage Expended	106.2%	115.8%	90.2%	99.1%

* Expenditures based on recent projections. Fiscal year-end close data not yet available.

The percentage of budget expended in FY 2016-17 is 99.1 percent and represents an estimate since year-end is not finalized. This is just below the benchmark of 100 percent. In FY 2015-16, the 90.2 percent expended was below the benchmark of 100 percent. Improved forecasting and budget processes, as well as tighter spending controls, ensure that budgets are a more accurate reflection of actual expenditures.



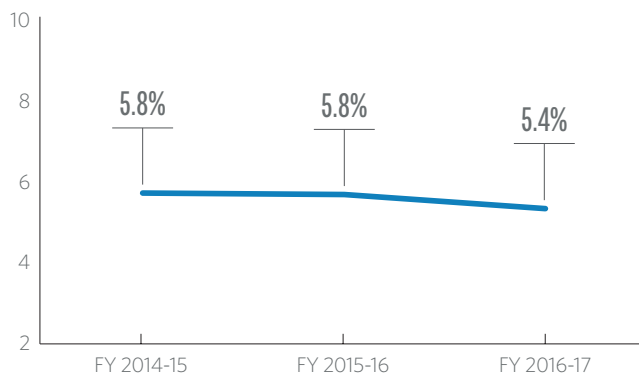
Measure: Vacancies as a percent of total personnel years

Target: 5 percent

CalPERS Performance Tracking & Reporting	Benchmark	2014-15	2015-16	2016-17	Average
Authorized Positions – Enterprise-wide	—	2,727.0	2,765.0	2,880.0	2,790.7
% of Position Vacancy	5%	5.8%	5.8%	5.4%	5.7%

The CalPERS vacancy rate decreased from 5.8 percent in 2014-15 to 5.4 percent in 2016-17. The number of specialized positions within the financial, legal, actuarial, and investment offices contributes to the vacancy rate as there may be difficulties recruiting qualified candidates to fill positions. We anticipate the vacancy rate to continue decreasing as we implement the CalPERS Position Pooling Policy. However, there will always be a certain number of vacancies in an organization this large with diverse business lines.

Vacancy Rate by Year



Actuarial Office

CalPERS actuaries in the Actuarial Office (ACTO) prepare actuarial valuations for the State of California, school employers, and contracting public agencies (cities, counties, municipalities, etc.). The valuations are based on the benefits adopted, actuarial methods and assumptions set by the Board, and the membership and financial data for each plan. The contribution rates employers pay to fund their employees' retirements are based on these actuarial valuations.

Recent Accomplishments:

- Produced over 3,900 public agency valuation reports, helping these employers establish the contribution requirements necessary to properly fund benefits.
- Developed the application model solution approach for the Actuarial Valuation System Redesign and Enhancement Project that will replace the current actuarial valuation system.
- Implemented the December 2016 board-approved discount rate reduction from 7.5 percent to 7.0 percent among all plans.

Measure	Strategic Goal	2017-18	2016-17	2015-16	2014-15
Authorized Positions	—	58.0	58.0	58.0	54.0
Vacant Positions	—	3.0*	4.0	2.0	2.0
Percentage of Vacant Positions	—	5%*	8.6%	3.4%	3.7%
Approved Budget (in thousands)	D	\$10,241	\$9,652	\$8,248	\$7,684
Expenditures (in thousands)	D	\$10,241*	\$8,959	\$7,958	\$7,647
Percentage of Budget Expended	—	100%*	92.8%	96.5%	99.5%
Retirement Plan Employer Contribution Rate Valuation Reports Requested	A	—	3,821	3,642	3,163
Retirement Plan Employer Contribution Rate Valuation Reports Completed	A	—	3,821	3,642	3,163
Percentage of Reports Completed	—	100%*	100.0%	100.0%	100.0%

Goal A: Strengthen the long-term sustainability of the pension fund

Goal D: Cultivate a risk-intelligent organization

* Target

Benefit Programs, Policy & Planning

The Benefit Programs, Policy and Planning Branch (BPPP) manages research, design, implementation and maintenance of innovative products, services, and programs related to sustainable health and retirement offerings for CalPERS members. BPPP monitors health and retirement industry trends, raises the visibility of CalPERS within the health and retirement fields to impact policy, ensures competitive benefit programs are provided, and develops improvements to health benefit design. BPPP is also responsible for monitoring and representing CalPERS on state and federal issues that may impact stakeholders, and providing policy research and education to support retirement security.

Recent Accomplishments:

- Successfully negotiated 2018 health care premium increases in a challenging environment, maintaining a 2.33 percent overall average increase among all plans.
- Completed the first Health Benefits Program Annual Report designed to assist employers and other stakeholders in making informed decisions by providing a comprehensive look at health care cost trends, health cost drivers, population health, and overall health program design.
- Implemented a new Pharmacy Benefit Manager contract designed to save at least \$63 million on prescription drug costs in its first year while covering more than 500,000 CalPERS non-Kaiser members.

Measure	Strategic Goal	2017-18	2016-17	2015-16	2014-15
Authorized Positions	—	160.0	160.0	157.0	156.0
Vacant Positions	—	8.0*	11.0	10.0	16.0
Percentage of Vacant Positions	—	5%*	6.9%	6.4%	10.3%
Approved Budget (in thousands)	D	\$27,177	\$25,941	\$26,460	\$25,341
Expenditures (in thousands)	D	\$27,177*	\$23,683	\$23,372	\$22,639
Percentage of Budget Expended	—	100%*	91.3%	88.3%	89.3%

Goal D: Cultivate a risk-intelligent organization

* Target

Communications & Stakeholder Relations

The Communications & Stakeholder Relations (CSR) Branch is responsible for monitoring and communicating CalPERS' position on issues that may impact its stakeholders. CSR directs and supports internal and external communications, including the overall communications strategy for the www.calpers.ca.gov and my.calpers.ca.gov websites. CSR also maintains and fosters relationships with key stakeholders and oversees state and federal legislation.

Recent Accomplishments:

- Partnered with the Investment Office to host the Third Annual Emerging, Transition, and Diverse Manager Day, providing an opportunity for emerging and transition managers to meet with senior asset class staff and investment advisers, and to introduce their firm.
- Partnered with Customer Services and Support to host the 17th Annual Educational Forum, bringing together more than 900 attendees representing 350 unique public employer agencies.
- Issued 64 news releases, executed 48 webinars and webcasts, and reached a milestone of 15,000 Twitter followers.

Measure	Strategic Goal	2017-18	2016-17	2015-16	2014-15
Authorized Positions	—	63.0	63.0	60.0	59.0
Vacant Positions	—	3.0*	4.0	4.0	4.0
Percentage of Vacant Positions	—	5%*	6.3%	6.7%	6.8%
Approved Budget (in thousands)	D	\$12,220	\$11,585	\$11,430	\$10,571
Expenditures (in thousands)	D	\$12,220*	\$10,486	\$11,116	\$9,573
Percentage of Budget Expended	—	100%*	90.5%	97.3%	90.6%
Total CalPERS Facebook Followers	D	—	14,483	12,606	10,719
Total CalPERS Social Media Followers	D	5%**	40,301	30,232	29,798

Goal D: Cultivate a risk-intelligent organization

* Target

** Increase

Customer Services & Support

Customer Services and Support (CSS) provides the first point of contact for CalPERS employers and members at eight Regional Offices throughout the State of California and the main customer contact center. CSS handles health and retirement account management for employers and members, calculates and manages benefit payments to members, retirees, and beneficiaries, as well as provides employer and member education.

Recent Accomplishments:

- Assisted more than 105,000 members and their families with adding or changing health plans during Open Enrollment.
- Partnered with CSR to host the 17th Annual Educational Forum, bringing together more than 900 attendees representing 350 unique public employer agencies.
- Provided retirement planning, health, and program education with 1,736 classes to 60,322 members.

Measure	Strategic Goal	2017-18	2016-17	2015-16	2014-15
Authorized Positions	—	960.5	965.5	907.5	892.5
Vacant Positions	—	48.0*	22.0	41.5	25.5
Percentage of Vacant Positions	—	5%*	2.3%	4.6%	2.9%
Approved Budget (in thousands)	D	\$109,298	\$105,489	\$103,888	\$97,858
Expenditures (in thousands)	D	\$109,298*	\$102,178	\$100,383	\$96,534
Percentage of Budget Expended	—	100%*	96.9%	96.6%	98.6%
Members Added to Service Retirement Roll	C, D	—	32,492	30,844	33,832
Service Retirements Paid (within 45 days of retirement date or application receipt)	C, D	98%*	96.6%	96.8%	90.0%
Members Added to Disability Retirement Roll	C, D	—	1,232	1,324	1,602
Disability Retirements Paid (within 45 days of retirement or disability approval date)	C, D	98%*	94.7%	95.8%	90.0%
Death Benefit Cases Completed	C, D	—	13,162	14,876	16,675
Death Benefit Cases Paid (within 45 days of documentation receipt)	C, D	98%*	61.2%	87.3%	87.6%
Call Wait Time (in minutes) - Target	C, D	1 or less*	1 or less	1 or less	1 or less
Call Wait Time (in minutes) - Actual	C, D	—	1.3	1.5	2

Goal C: Reduce complexity across the enterprise

Goal D: Cultivate a risk-intelligent organization.

* Target

Executive Office

The Executive Office (EXEO) provides stewardship of the System to deliver promised retirement and health benefits, while promoting wellness and retirement security for members and beneficiaries. The EXEO staff are responsible for managing and executing all of CalPERS ongoing programs and services.

Recent Accomplishments:

- Approved regulations that guard against pension spiking by providing clarity to employers that may mistakenly count incorrect types of compensation toward pension calculation.
- Conducted a Board workshop to seek guidance on the appropriate level of appetite, or tolerance, for enterprise risks. This accomplishes part of the strategic goal to cultivate a risk-intelligent organization.
- CalPERS Chief Executive Officer, Marcie Frost, authored opinion-editorial piece "CalPERS' Action on Discount Rate was a Prudent, Smart Decision".

Measure	Strategic Goal	2017-18	2016-17	2015-16	2014-15
Authorized Positions	—	15.0	15.0	18.0	18.0
Vacant Positions	—	1.0*	1.0	1.0	0.0
Percentage of Vacant Positions	—	5%*	6.7%	5.6%	0.0%
Approved Budget (in thousands)	D	\$6,691	\$7,450	\$5,112	\$4,894
Expenditures (in thousands)	D	\$6,691*	\$6,535	\$4,149	\$3,999
Percentage of Budget Expended	—	100%*	87.7%	81.2%	81.7%

Goal D: Cultivate a risk-intelligent organization

* Target

Financial Office

The Financial Office (FINO) is responsible for CalPERS financial management through coordination and centralization of all CalPERS finance activities. This includes managing and directing all accounting and budgeting activities for each of the funds and programs administered by CalPERS. Risk management, enterprise compliance, treasury management, pension contract management and prefunding programs also fall under the responsibility of FINO.

Recent Accomplishments:

- Reached a major milestone in Other Postemployment Benefits prefunding trust by signing the 500th public agency into the California Employers' Retiree Benefit Trust program.
- Improved the monitoring of public agencies that are experiencing financial hardship, providing them with contract education.
- Coordinated with Customer Services and Support to resolve and close 84 percent of 1,313 employer response team cases within one to three days of receipt.

Measure	Strategic Goal	2017-18	2016-17	2015-16	2014-15
Authorized Positions	—	245.0	245.0	216.0	206.0
Vacant Positions	—	12.0*	17.0	14.0	18.0
Percentage of Vacant Positions	—	5%*	6.9%	6.5%	8.7%
Approved Budget (in thousands)	D	\$34,209	\$28,575	\$24,105	\$22,935
Expenditures (in thousands)	D	\$34,209*	\$26,899	\$22,149	\$22,326
Percentage of Budget Expended	—	100%*	94.1%	91.9%	97.3%
Achieve CAFR Certification of Excellence in Financial Reporting	A, D	Receive GFOA Award*	TBD	Yes	Yes
Achieve Government Finance Officers Association (GFOA) Excellence in Budgeting Award	A, C, D	Receive GFOA Award*	Yes	Yes	Yes
Receive Unqualified or Unmodified (clean) Audit Opinion on the CAFR	A, D	Receive Clean Audit Opinion*	TBD	Yes	Yes

Goal A: Strengthen the long-term sustainability of the pension fund

Goal C: Reduce complexity across the enterprise

Goal D: Cultivate a risk-intelligent organization

* Target

General Counsel Office

The General Counsel Office (GCO) provides legal advice to the Board, Executive Office, and staff. The GCO coordinates the use of external legal counsel, and analyzes and drafts legislation. They represent CalPERS at hearings, appeal boards, court cases, and other legal actions. GCO also manages internal auditing of CalPERS operations and programs in concert with an external auditor engaged by the Board.

Recent Accomplishments:

- Assisted the Investment Office's Private Equity team with the sale of approximately \$600 million of private equity investments as part of a secondary sale.
- Worked with the Financial Office to enhance the management of employer contracts and collection of payments to help ensure the long-term sustainability of the system.
- Prepared for, and attended 289 hearings, made 27 court appearances, and presented over 230 agenda items to the Board.

Measure	Strategic Goal	2017-18	2016-17	2015-16	2014-15
Authorized Positions	—	138.0	138.0	137.0	131.0
Vacant Positions	—	7.0*	8.0	10.0	14.0
Percentage of Vacant Positions	—	5%*	5.7%	7.3%	10.7%
Approved Budget (in thousands)	D	\$27,525	\$26,545	\$26,405	\$24,326
Expenditures (in thousands)	D	\$27,525*	\$24,186	\$24,544	\$23,707
Percentage of Budget Expended	—	100%*	91.1%	93.0%	97.5%
Public Agency Audit Reviews Planned	A, D	240*	240	126	90
Public Agency Audit Reviews Completed	A, D	240*	160	125	105
Percentage of Public Agency Completed Audits	—	100%*	66.7%	99.2%	116.7%
Internal Audits Planned	A, C, D	33*	28	35	53
Internal Audits Completed	A, C, D	33*	27	32	58
Percentage of Internal Completed Audits	—	100%*	96.4%	91.4%	109.4%

Goal A: Strengthen the long-term sustainability of the pension fund

Goal C: Reduce complexity across the enterprise

Goal D: Cultivate a risk-intelligent organization

* Target

Investment Office

Under the general direction of the CalPERS Board, Investment Committee, and the Executive Office, the Investment Office (INVO) is responsible for the successful investment of the CalPERS funds. Individual investment decisions are made by an internal advisory staff as well as external equity managers on behalf of the Board. Trading decisions are governed by policies established by the Investment Committee in accordance with applicable law and are reported to the Investment Committee on a monthly basis.

Recent Accomplishments:

- Adopted the Environmental, Social, and Governance Strategic Plan, making significant progress on proxy access, board diversity, and climate risk reporting.
- Partnered with the Communications & Stakeholder Relations Branch to host the Third Annual Emerging, Transition, and Diverse Manager Day, providing an opportunity for emerging and transition managers to meet with senior asset class staff and investment advisers, and to introduce their firm.
- Reduced total investment related expenses by \$281 million from the prior fiscal year through cost savings efforts. The annual Cost Effectiveness Measurement Benchmark Survey found that CalPERS' investment costs were 9.6 basis points lower than that of other U.S. public pension funds.

Measure	Strategic Goal	2017-18	2016-17	2015-16	2014-15
Authorized Positions	—	352.0	352.0	335.0	334.0
Vacant Positions	—	18.0*	43.0	31.0	27.0
Percentage of Vacant Positions	—	5%*	12.2%	9.3%	8.1%
Approved Budget (in thousands)	D	\$164,969	\$70,618	\$66,701	\$63,272
Expenditures (in thousands)	D	\$164,969*	\$65,446	\$64,538	\$61,760
Percentage of Budget Expended	—	100%*	92.7%	96.8%	97.6%
Net Investment Return as of June 30 (State / Public Agencies)	A	7.375% / 7.5%*	11.2%**	0.6%	2.4%

Goal A: Strengthen the long-term sustainability of the pension fund

Goal D: Cultivate a risk-intelligent organization

* Target

** Estimate

Operations & Technology

The Operations and Technology (OPT) staff perform system analysis, design, programming, testing, implementation, and maintain CalPERS computer systems and databases. OPT also provides technical support and training for personal computers, local area networks, and office automation facilities. In support of innovation, OPT conducts research, evaluation, and development of new information technology services that support the CalPERS mission. In addition OPT has jurisdiction over Human Resources, building maintenance contracts, procurement, strategic planning, diversity inclusion and equal employment opportunity.

Recent Accomplishments:

- Recognized by the Environmental Protection Agency's Climate Registry for reducing greenhouse gas emissions by 75 percent, the highest percentage reduction by any California state agency.
- Created enterprise-wide strategy framework for Diversity & Inclusion at CalPERS. The plan details strategic efforts in three key focus areas: talent management, education, and communication.
- Received the 2016 Best of California Award from the Center for Digital Government, as well as the top award for best Analytics and Business Intelligence project categories, and best Customer Service Dashboard.

Operations:

Measure	Strategic Goal	2017-18	2016-17	2015-16	2014-15
Authorized Positions	—	283.5	283.5	277.5	276.5
Vacant Positions	—	14.0*	12.5	20.0	5.0
Percentage of Vacant Positions	—	5%*	4.5%	7.2%	1.8%
Approved Budget (in thousands)	D	\$43,045	\$41,153	\$38,933	\$36,937
Expenditures (in thousands)	D	\$43,045*	\$39,417	\$36,746	\$35,938
Percentage of Budget Expended	—	100%*	95.8%	94.4%	97.3%
Workflow documents processed within 24 hours	D	100%*	98.0%	98.0%	98.0%

Goal D: Cultivate a risk-intelligent organization

* Target

Technology:

Measure	Strategic Goal	2017-18	2016-17	2015-16	2014-15
Authorized Positions	—	600.0	600.0	599.0	600.0
Vacant Positions	—	30.0*	35.0	26.0	48.0
Percentage of Vacant Positions	—	5%*	5.8%	4.3%	8.0%
Approved Budget (in thousands)	D	\$105,891	\$105,063	\$104,892	\$98,287
Expenditures (in thousands)	D	\$105,891*	\$104,012	\$99,803	\$97,063
Percentage of Budget Expended	—	100%*	99.0%	95.1%	98.8%
Service Availability Uptime for mylCalPERS Application	D	100%*	99.9%	99.9%	99.9%

Goal D: Cultivate a risk-intelligent organization

* Target

Glossary

Allocation

A distribution of funds or costs from one account or appropriation to one or more accounts or appropriations.

Allotment

The approved portion of an amount (usually of an appropriation) to be expended for a particular purpose during a specified time period.

Appropriation

Legal authorization to make expenditures or incur obligations for specific purposes.

Augmentation

An authorized increase to a previously authorized appropriation or allotment.

Baseline Adjustment

A change from the currently authorized budget necessary to maintain the current level of service or activities in the current year or in a future year.

Baseline Budget

The anticipated costs of carrying out the current level of service or activities as authorized by the California Legislature (or CalPERS Board).

Board

The CalPERS Board of Administration is responsible for the management and control of CalPERS. The Board has exclusive control of the administration and investment of CalPERS' funds. The Board is made up of 13 members consisting of member-elected, appointed, and ex officio members.

Budget

A plan of operation expressed in terms of financial or other resource requirements for a specific period of time.

Budget Act

An annual statute authorizing state departments to expend appropriated funds for the purposes stated in the Governor's Budget and amended by the Legislature.

Budget Bill

An annual legislative bill that accompanies the Governor's proposed budget for the next fiscal year. The Budget Bill is prepared by the Department of Finance and submitted to each house of the Legislature by January 10. The California Constitution requires the Legislature to pass the Budget Bill and send it by June 15 each year to the Governor for signature. The Budget Bill becomes the Budget Act upon signature by the Governor, after any line-item vetoes.

Budget Change Proposal

A proposal to change the level of service or funding sources for activities authorized by the California Legislature, to propose new program activities not currently authorized, or to delete existing programs.

Budget Committees/Subcommittee

Assigned Senate and Assembly Budget Committees further divided into Subcommittees to address specific subject areas to discuss the Budget Bill and other fiscal matters.

Budget-To-Actual Reports

A series of reports including a budget-to-actual report (includes the annual budget, month and year-to-date expenses, and encumbrance balance), encumbrance query, voucher expenditures query, and the on-line expense query.

California Department of Finance

A fiscal control agency. The Director of Finance is appointed by the Governor and serves as the chief fiscal policy advisor. The Director also sits as a member of the Governor's cabinet and senior staff.

California Legislative Analyst's Office (LAO)

A nonpartisan government agency that has provided fiscal and policy advice to the California Legislature since 1941. It is known for its fiscal and programmatic expertise and nonpartisan analysis of the state budget. The office serves as the "eyes and ears" for the Legislature to ensure that the executive branch is implementing legislative policy in a cost-efficient and effective manner.

California Public Records Act (PRA)

A law passed by the California State Legislature and signed by the Governor in 1968 requiring inspection and/or disclosure of governmental records to the public upon request, unless exempted by law (Statutes of 1968, Chapter 1473; currently codified as California Government Code §6250 through 6276.48).

Continuous Appropriation

Permanent constitutional or statutory expenditure authorization that is automatically renewed each year without further legislative (or CalPERS Board) action.

Encumbrance

The commitment of part or all of an appropriation by a governmental unit for goods and services not yet received. These commitments are expressed by such documents as purchase orders, contracts, and future salaries, and cease to be encumbrances when they are paid or otherwise canceled.

Emergency Operations Center (EOC)

CalPERS off-site center that houses backup information technology data.

Financial Accounting Standards Board (FASB)

A private, non-profit organization market regulator whose primary purpose is to establish and improve generally accepted accounting principles (GAAP) within the United States in the public's interest. The Securities and Exchange Commission (SEC) designated the FASB as the organization responsible for setting accounting standards for public companies in the U.S.

Fiscal Year (FY)

The period beginning July 1 and continuing through the following year's June 30.

Formal Budget Request (FBR)

A CalPERS proposal to change the level of service or funding sources for activities authorized by the CalPERS Board, to propose new program activities not currently authorized, or to delete existing programs.

Fund

A legal entity that segregates monies or other resources for obligations in accordance with specific restrictions or limitations.

Generally Accepted Accounting Principles (GAAP)

The standard framework of guidelines for financial accounting. They are the common set of accounting principles, standards, and procedures that companies use to compile their financial statements and are the commonly accepted ways of recording and reporting accounting information.

Governmental Accounting Standards Board (GASB)

The source of GAAP used by state and local governments in the United States.

Governor's Budget

The recommendations and estimates for the state's financial operations for the ensuing fiscal year that the Governor presents to the Legislature by January 10 of each year. This document also displays the actual revenues and expenditures of the state for the immediate past year, updates estimates for the current year revenues and expenditures, and projects for the upcoming budget year revenues and expenditures.

Health Maintenance Organization (HMO)

An organization that provides or arranges managed care for health insurance, self-funded health care benefit plans, individuals, and other entities in the United States and acts as a liaison with health care providers (hospitals, doctors, etc.) on a prepaid basis. The Health Maintenance Organization Act of 1973 required employers with 25 or more employees to offer

federally certified HMO options if the employer offers traditional health care options. Unlike traditionally indemnity insurance, an HMO covers care rendered by those doctors and other professionals who have agreed by contract to treat patients in accordance with the HMO's guidelines and restrictions in exchange for a steady stream of customers. HMOs cover emergency care regardless of the health care provider's contracted status.

Indirect Costs (cost allocation)

Costs which cannot be readily associated with a specific organization unit or program, such as general administrative expenses. Indirect costs are prorated to the organizational unit(s) or program(s) which are affected.

May Revision

An annual expenditure and revenue update to the Governor's Budget including revised current and budget fiscal years. Also includes any proposals to adjust expenditures to reflect updated revenue estimates.

Merit Salary Adjustment (MSA)

A cost factor resulting from the periodic increase in salaries paid to personnel occupying authorized positions.

Object of Expenditure (Line Item)

A classification of expenditures based on the type of goods or services received. For example, the budget category of personnel services includes the objects of salaries and wages, and staff benefits.

One-Time Cost

A proposed or actual expenditure that is non-recurring (usually only in one annual budget) and not permanently included in baseline expenditures.

Operating Expenses and Equipment (OE&E)

A category of a support appropriation which includes general expenses, printing, communication, travel, data processing, equipment, and accessories for the equipment.

Other Postemployment Benefits (OPEB)

An accounting concept created by the Governmental Accounting Standards Board (GASB) by pronouncements designed to address expenses that entities may or may not be legally bound to pay, but pay as a moral obligation. GASB pronouncements apply to governmental entities, public benefit entities, public employee retirement systems, and public utilities, hospitals and other healthcare providers, and colleges and universities.

Performance Measures

Indicators which are used to assess how well objectives have been accomplished.

Preferred Provider Organization (PPO)

In health insurance in the United States, a PPO is a managed care organization of medical doctors, hospitals, and other health care providers who have agreed with an insurer or a third-party administrator to provide health care at reduced rates to the insurer's or administrator's clients.

Pro Rata

Represents General Fund recoveries of statewide general administrative costs (i.e., indirect costs incurred by central service agencies) from special funds (California Government Code [GC] sections 11010, and 11270 through 11277). The pro rata process apportions the costs of providing central administrative services to all state departments that benefit from the services. This apportioned amount is further allocated to each state department's funding sources based on the percentage of total expenditures in each fund.

Program

A group of related functions or activities designed to achieve one or more common objectives.

Personnel Services

A category of expenditure which includes payment of salaries and wages, the state's contribution to the Public Employees' Retirement Fund, insurance premiums for workers' compensation, the state's share of employees' health insurance, and the state's share of Social Security.

Personnel Year (PY)

The actual or estimated portion of a position expended for the performance of work. For example, a full-time position that was filled by an employee for half of a year would result in an expenditure of 0.5 Personnel Year. This may also be referred to as a PY equivalent. A PY is currently calculated using 1,776 working hours. Non-working hours related to vacation, sick leave, and holidays have been factored into this number.

Proposition 162

An initiative approved by the voters in 1992. It gives the CalPERS Board absolute and exclusive authority over the administration and investment of pension funds.

Public Agency Audit Reviews (PAAR)

Audits of public agencies that participate in CalPERS.

Public Employees' Pension Reform Act (PEPRA)

Effective January 2013, the California Public Employees' Pension Reform Act (PEPRA) changes the way CalPERS retirement and health benefits are applied, and places compensation limits on members. The greatest impact is felt by new CalPERS members. All members that don't fall into the definition of new members are considered classic members, who will retain the existing benefit levels for future service with the same employer.

Reimbursements

An amount received as a payment for the cost of services performed, or of other expenditures made for, or on behalf of, another entity (reimbursements represent the recovery of an expenditure).

Return on Investment (ROI)

A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments.

Revolving Fund

An agency or office revolving fund (ORF) is not a fund but an advance from an appropriation. Agencies may use the cash advance to disburse ORF checks. The cash account is subsequently replenished by a State Controller's Office warrant which records the expenditure and reduces the balance of the appropriation.

Service Employees International Union (SEIU) Local 1000

A labor union representing 95,000 California state employees with nine different bargaining units. Local 1000 deals with issues such as salaries, benefits, working conditions, and contract negotiations.

Staff Benefits

An object of expenditure representing the state costs of contributions for employees' retirement, state disability insurance, health and welfare benefits, and non-industrial disability leave benefits.

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