

California Public Employees' Retirement System

Fiscal Year 2021-22 Annual Budget Proposal

April 19, 2021



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Executive Summary and Highlights

CalPERS' proposed budget identifies the financial resources needed by the organization to achieve strategic priorities and initiatives, meet core business needs, and further the mission of delivering retirement and health care benefits to members and their beneficiaries. The budget supports CalPERS' five strategic goals:

- Fund Sustainability
- Health Care Affordability
- Reduce Complexity
- Risk Management
- Talent Management

The total 2021-22 proposed budget is \$1.888 billion; an increase of \$267.1 million, or 16.5 percent, compared to the 2020-21 authorized budget. This large percentage increase is primarily due to:

- An increase in Administrative Operating Costs driven by the anticipated cancellation of statewide compensation reductions, as well as the restoration of funds for one-time reductions CalPERS made during 2020-21 to limit the fiscal impacts of the COVID-19 pandemic on member agencies.
- An increase in Investment External Management Fees driven by increased Assets Under Management (AUM) and expected, continued portfolio performance.

The budget builds on efficiencies implemented in recent years, such as the position pooling process, and reflects no inappropriate use of seasonal clerks or permanent blanket positions. Total authorized positions remain unchanged at 2,843.

A. Executive Summary and Highlights

2021-22 Total Budget

(\$ in thousands)	2019-20 Actual	2020-21 Authorized Budget	2021-22 Proposed Budget	2020 to 2021 Change	
				\$ Increase / (Decrease)	% Increase / (Decrease)
Administrative Operating Costs	\$480,404	\$477,081	\$536,053	\$58,972	12.4%
Investment Operating Costs	93,260	126,430	130,613	4,182	3.3%
Enterprise Projects Costs	2,656	-	-	-	100.0%
Headquarters Building Costs	21,666	23,003	18,450	(4,553)	(19.8%)
Total: Operating Costs	\$597,986	\$626,514	\$685,115	\$58,601	9.4%
Investment External Management Fees	710,200	692,093	899,648	207,555	30.0%
Third Party Administrator Fees	306,043	302,623	303,517	894	0.3%
Total: Fees	\$1,016,243	\$994,716	\$1,203,165	\$208,449	21.0%
CalPERS Total Budget	\$1,614,229	\$1,621,230	\$1,888,280	\$267,050	16.5%
Total Positions	2,875.0	2,843.0	2,843.0	-	0.0%

2020-21 Current Year Update

CalPERS' 2020-21 total authorized budget is \$1.621 billion, reflecting a reduction of \$72.3 million adopted by the Board in the fall. Of this authorized amount, \$722.8 million, or 44.6 percent, was expended as of December 31, 2020. Based on spending projections, CalPERS estimates that it will end the fiscal year with approximately \$15.7 million, or 1.0 percent, in unexpended funds. Until expended, all budgeted funds remain in the Public Employees' Retirement Fund (PERF) for investment. The projection is on target with the Key Performance Indicator to forecast expenses at or below 10 percent of the budget.

2020-21 Current Year Update

(in thousands)	2020-21 Authorized Budget	2020-21 Expenditures and Encumbrances thru 12-31-20	Percent Expended	Forecast	Savings
Administrative Operating Costs	\$477,081	\$230,209	48.3%	\$466,955	\$10,125
Investment Operating Costs	126,430	23,483	18.6%	126,430	-
Headquarters Building Costs	23,003	7,333	31.9%	21,268	1,735
Total: Operating Costs	\$626,514	\$261,026	41.7%	\$614,654	\$11,860
Investment External Mgmt Fees	692,093	311,933	45.1%	692,093	-
Third Party Administrator Fees	302,623	149,876	49.5%	298,775	3,848
Total: Fees	\$994,716	\$461,809	46.4%	\$990,868	\$3,848
CalPERS Total Forecast	\$1,621,230	\$722,834	44.6%	\$1,605,521	\$15,708

At mid-year, Investment Operating Costs and Headquarters Building Costs are below 50 percent, which is typical of these expense categories. More specifically, investment-related vendor invoices often trail the quarterly cycles. Similarly, Headquarters Building Costs historically lag given the timing of invoices and completion of building improvement projects begun later in the fiscal year.

Of the \$15.7 million forecasted savings, \$10.1 million is in Administrative Operating Costs, with \$8.2 million in Operations Equipment and Expenses (OE&E). This is attributable to less expenses incurred for travel and training due to pandemic restrictions, less than anticipated purchases of information technology hardware and software, and reduced consultant usage. There is also \$1.9 million savings estimated for Personal Services expenses. This amount is substantially less than prior years, and reflects reductions made at mid-year to hold positions vacant and remove related funding from the budget.

CalPERS also estimates a net \$1.7 million surplus in Headquarters Building Costs resulting from a reduction in operating and non-operating costs, offset by an anticipated decline in parking revenue. Further, we estimate a \$3.8 million surplus in Third Party Administrator Fees resulting from the Fall 2020 Open Enrollment period and members migrating to health plans with lower fee structures.

Social Security Fee Update

For the upcoming 2021-22 Fiscal Year, CalPERS proposes to suspend collection of the annual administrative fees charged to employers. This change is based on a review of the Old Age and Survivors' Insurance (OASI) Fund's net position as reported in the 2019-20 Comprehensive Annual Financial Report, as well as collections to date. CalPERS estimates the fund balance will be approximately \$2.6 million at the end of the current fiscal year, which is significantly higher than budgeted expenditures. Given the high balance, CalPERS will suspend the annual fee in 2021-22 to achieve a reduction in the fund balance as required by regulations. In compliance with state law, the Department of Finance must approve the fee modification. The fees charged to establish new or modify existing Social Security agreements will remain unchanged.

CalPERS' Budget Process

Each fiscal year, CalPERS engages in two formal budget processes; an annual budget proposal and a mid-year review. The annual proposal details the twelve-month budget for board approval prior to the start of a new fiscal year on July 1st. In contrast, the purpose of the mid-year review is to address new, critical, and unforeseen resource needs not envisioned when developing the annual proposal. At mid-year, CalPERS also typically revises statewide compensation and benefit adjustments based on collective bargaining and direction from the Department of Finance.

When developing the annual budget, CalPERS' Financial Office reviews existing budget levels for each division and program, and considers requests for additional funds to maintain, improve, or implement services, initiatives, and projects. Financial Office team members work collaboratively with each division to understand their organizational structures and business objectives as a basis for maintaining existing funding levels, and for analyzing and approving increases.

CalPERS utilizes a formal budget request process to consider, prioritize, and approve new resource requests. Pursuant to the CalPERS Budget Policy, the main criteria used to prioritize requests include:

- Mitigating risk
- Identifying opportunities for cost efficiencies
- Aligning with the Strategic Plan and Business Plan
- Implementing CalPERS Board of Administration decisions and directives
- Complying with legal mandates

The Financial Office analyzes all formal budget requests, and senior management and executive leaders review, discuss, and make funding decisions for each.

As it develops both the annual and mid-year budgets, CalPERS utilizes a position pooling process that redirects vacancies to where they are most critically needed within the organization. The objective of this process is to limit unnecessary staffing and related budgetary increases, and to provide resources to divisions with the highest needs. Through this process, CalPERS eliminated 32 authorized positions as part of the 2020-21 mid-year review, and was able to redirect permanent resources to divisions that had previously relied on seasonal clerks for regular, ongoing workload.

2021-22 Proposed Budget

CalPERS' total 2021-22 proposed budget is \$1.888 billion; an increase of \$267.1 million, or 16.5 percent, compared to the 2020-21 authorized budget. The major driver of the year-over-year increase is in Investment External Management Fees based on AUM and anticipated portfolio performance. Administrative Operating Costs are also increasing to reflect the restoration of funding for statewide compensation and other one-time operating cost reductions made during the 2020-21 mid-year review.

2021-22 Total Budget

(\$ in thousands)	2020-21 Annual Budget	2020-21 Authorized Budget	2021-22 Proposed Budget	2020 to 2021 Change	
				\$ Increase / (Decrease)	% Increase / (Decrease)
Administrative Operating Costs	\$545,782	\$477,081	\$536,053	\$58,972	12.4%
Investment Operating Costs	124,856	126,430	130,613	4,182	3.3%
Enterprise Projects Costs	-	-	-	-	100.0%
Headquarters Building Costs	24,338	23,003	18,450	(4,553)	(19.8%)
Total: Operating Costs	\$694,976	\$626,514	\$685,115	\$58,601	9.4%
Investment External Management Fees	685,906	692,093	899,648	207,555	30.0%
Third Party Administrator Fees	312,670	302,623	303,517	894	0.3%
Total: Fees	\$998,575	\$994,716	\$1,203,165	\$208,449	21.0%
CalPERS Total Budget	\$1,693,551	\$1,621,230	\$1,888,280	\$267,050	16.5%
Total Positions	2,875.0	2,843.0	2,843.0	-	0.0%

Since 2016-17, CalPERS' expenses increased \$420.8 million, or 5.2 percent annually, as displayed below.

Total Budget 2016-17 through 2021-22

(in thousands)	2016-17 Actual	2017-18 Actual	2018-19 Actual	2019-20 Actual	2020-21 Authorized Budget	2021-22 Proposed Budget	Five-Year Change	Annual Growth (%)
Administrative Operating Costs	\$437,800	\$444,066	\$469,555	\$480,404	\$477,081	\$536,053	\$98,253	4.1%
Investment Operating Costs	69,486	68,425	78,782	93,260	126,430	130,613	\$61,126	13.5%
Enterprise Projects Costs	34,088	22,366	5,641	2,656	-	-	(\$34,088)	(100.0%)
Headquarters Building Costs	26,230	23,603	23,029	21,666	23,003	18,450	(\$7,779)	(6.8%)
Total: Operating Costs	\$567,604	\$558,461	\$577,006	\$597,986	\$626,514	\$685,115	\$117,511	3.8%
Investment External Management Fees	613,509	727,208	759,624	710,200	692,093	899,648	286,139	8.0%
Third Party Administrator Fees	286,401	288,652	299,874	306,043	302,623	303,517	17,116	1.2%
Total: Fees	\$ 899,911	\$ 1,015,859	\$ 1,059,498	\$ 1,016,243	\$ 994,716	\$ 1,203,165	\$ 303,254	6.0%
CalPERS Total Budget	\$ 1,467,515	\$ 1,574,320	\$ 1,636,504	\$ 1,614,229	\$ 1,621,230	\$ 1,888,280	\$ 420,765	5.2%

The major drivers of cost increases include:

- State-negotiated employee compensation and benefit increases (Administrative Operating Costs).
- New technologies to implement the Total Fund data strategy and modernize and enhance data, analytics, and business operations tools to support internal asset management capabilities (Investment Operating Costs).
- Continued market performance (Investment External Management Fees).
- Expanded health plan options, increased enrollment, general pricing increases, and new Third Party Administrator contracts (Third Party Administrator Fees).

Over this same timeframe, CalPERS actively engaged in efforts to offset and limit operating, project, and building cost increases. This included:

- Implementing a position pooling process to redirect 60 vacant positions to program areas to address workload needs.
- Eliminating 32 permanent authorized positions during the 2020-21 Mid-Year Review.
- Eliminating 59 permanent blanket positions.
- Eliminating 128 seasonal clerk positions used for non seasonal-related workload.
- Reducing temporary help and overtime costs by \$9.5 million.
- Transitioning work performed by contractors to CalPERS employees.
- Delaying or phasing building improvement and enterprise projects.

The following pages detail the 2021-22 Proposed Budget by expenditure category.

I. Administrative Operating Costs

Administrative Operating Costs include Personal Services expenditures (i.e. salaries, wages, and benefits for permanent and temporary help) and Operating Expenses and Equipment (OE&E) for each branch within CalPERS. Administrative Operating Costs in 2021-22 are proposed at \$536.1 million. This is an increase of \$59.0 million, or 12.4 percent, compared to the 2020-21 authorized budget.

Administrative Operating Costs by Object of Expenditure

(in thousands)	2019-20 Actual	2020-21 Authorized Budget	2021-22 Proposed Budget	2020 to 2021 Change	
				\$ Increase / (Decrease)	% Increase / (Decrease)
[1] PERSONAL SERVICES					
Salaries & Wages	\$ 248,407	\$ 241,648	\$ 271,830	\$ 30,182	12.5%
Temporary Help	3,731	1,452	1,192	(260)	(17.9%)
Overtime	1,279	1,831	1,360	(471)	(25.7%)
Benefits	127,871	126,479	135,097	8,618	6.8%
Total Personal Services	\$ 381,287	\$ 371,409	\$ 409,479	\$ 38,070	10.3%
[2] OPERATING EXPENSES & EQUIPMENT (OE&E)					
General Expense	\$ 6,502	\$ 8,843	\$ 8,884	41	0.5%
Software	1,653	2,754	5,988	3,234	117.4%
Printing	1,332	411	746	334	81.2%
Postage	2,806	2,106	2,645	539	25.6%
Communications	1,449	1,641	1,615	(26)	(1.6%)
Data Processing Services	15,776	16,621	21,439	4,818	29.0%
Travel	1,768	1,526	1,978	451	29.6%
Training	822	810	1,116	306	37.7%
Medical Exam/Disability Travel	1,086	1,233	1,250	17	1.4%
Facilities Operations	4,762	4,726	7,713	2,986	63.2%
Central Administrative Services	25,567	25,765	30,924	5,159	20.0%
University Enterprises, Inc.	221	305	444	139	45.6%
External Legal Counsel	3,456	5,898	6,141	243	4.1%
Professional Services	5,596	4,810	4,433	(377)	(7.8%)
Consultants	18,217	17,817	21,076	3,260	18.3%
Audit Services	1,633	1,687	1,607	(80)	(4.7%)
Federal Legislative Rep	578	600	552	(48)	(7.9%)
Admin Hearings	1,333	1,402	1,402		0.0%
Consolidated Data Centers	340	250	310	60	24.0%
Equipment (Includes EDP)	4,222	6,466	6,310	(156)	(2.4%)
Total OE&E	\$ 99,117	\$ 105,672	\$ 126,573	\$ 20,901	19.8%
Total Costs	\$ 480,404	\$ 477,081	\$ 536,053	\$ 58,972	12.4%

The year-over-year increase in Administrative Operating Costs is driven by the restoration of funding for Personal Services reductions taken during the current year. As outlined in the Governor's 2021-22 Budget, state employee pay reductions negotiated through collective bargaining may not be necessary in the upcoming fiscal year. Although the decision on this reduction will not be known until after the board approves the Annual Budget, CalPERS included \$32.6 million to identify the fiscal impact of this potential restoration. Any changes to this item, or other collectively bargained salary or benefit adjustments, will be reflected as part of the Mid-Year Budget.

In addition to funds for the eliminated pay reductions, the 2021-22 Administrative Operating Cost budget restores \$9.3 million for positions purposefully held vacant in the current year. These positions were held vacant as part of CalPERS' efforts to reduce expenses during the pandemic. These increases are offset by continued reductions in temporary help and overtime expenses, as well as updated health benefit expenses based on current employee data.

Within OE&E, the \$20.9 million increase is driven by Software, Data Processing, Facilities Operations, Central Administrative Fees, and Consultant expenses. The Software and Data Processing increases reflect funding to improve database functionality and expand network and cloud technologies necessary for CalPERS to stay current with industry trends, particularly as it continues operating in a remote work environment. Facilities Operations increases are the direct result of a refined calculation of Headquarters Building costs charged to affiliate funds. While approximately 80 percent of Headquarters Building Costs will be paid by the PERF, nearly 20 percent will be allocated to affiliate funds and identified as an administrative expense. This amount is displayed on the "Amount included in the Admin. Budget" line of the Headquarters Building Budget on page 17. Central Administrative Costs, also known as "Pro Rata," are increasing based on Department of Finance estimates of statewide operations costs. Finally, Consultant increases are driven by vendor costs for the upcoming Member-at-Large Board Elections.

Meeting the Governor's Administrative Reduction Target

As part of statewide efforts to reduce expenditures in response to the COVID-19 pandemic, the Department of Finance called upon departments to permanently reduce administrative expenses in 2021-22. The reduction target is 5 percent of 2020-21 budgeted OE&E expenses, or \$5 million for CalPERS. This target is based on CalPERS' 2020-21 Annual Budget approved by the Board in April 2020. This past year, CalPERS took significant steps to reduce its Administrative budget as part of the Mid-Year Review, including permanently eliminating 32 positions (\$3.7 million), and permanently reducing temporary help (\$1.2 million). Additionally, as displayed on the following pages, CalPERS has further reduced temporary help by another \$0.3 million, for a total reduction of \$5.2 million.

CalPERS also made a number of additional permanent reductions within OE&E, such as reducing printing and postage costs related to the electronic distribution of the PERSpectives publications. However, one-time increases during 2021-22 related to Board Elections and improving network and cloud infrastructure have resulted in a \$4.3 million overall OE&E budget increase as compared to the original 2020-21 Annual Budget. In contrast, the overall Personal Services budget decreased \$14 million. In total, the 2021-22 Administrative Operating Cost Budget is \$9.7 million less than the original 2020-21 Annual Budget.

Staffing Levels

Total authorized positions for 2021-22 remain unchanged from the current year. However, CalPERS redirected positions between branches based on operational needs following its position pooling process and the 32 permanent positions (one percent) eliminated at mid-year.

Authorized Positions by Branch

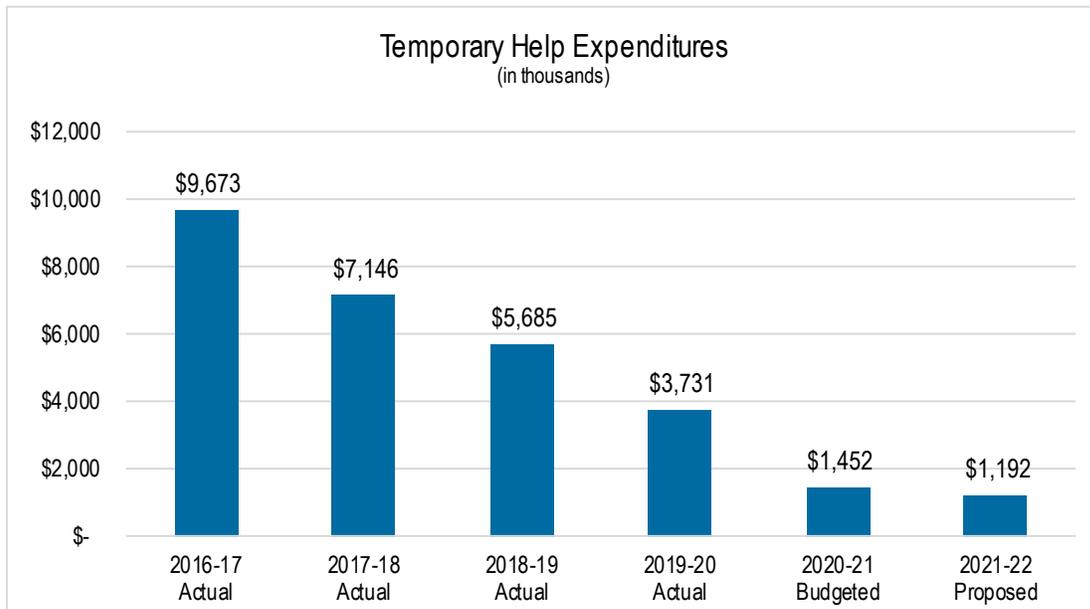
Positions by Branch	2020-21 Authorized	2021-22 Proposed	% Change
Actuarial Office	64.0	64.0	-
Communications and Stakeholder Relations	79.0	78.0	(1.3%)
Customer Services and Support	887.0	902.0	1.7%
Enterprise Compliance Office	24.0	30.0	25.0%
Executive Office	16.0	16.0	-
Financial Office	190.0	178.0	(6.3%)
General Counsel	161.0	161.0	-
Health Policy and Benefits	206.0	205.0	(0.5%)
Investment Office	339.0	333.0	(1.8%)
Operations and Technology	875.0	867.0	(0.9%)
Position Pool	2.0	9.0	350.0%
Total Authorized Positions	2,843.0	2,843.0	

In general, branches with position reductions assessed their workload and resource needs and determined that vacancies could be given to the position pool or redirected within the organization. The largest year-over-year changes include:

- Customer Services and Support received 15 positions from the pool to improve Call Center wait times and reduce its reliance on Seasonal Clerks.
- Enterprise Compliance positions increased due to the reorganization and consolidation with the Enterprise Risk Management Division, formally organized in the Financial Office. This consolidation will leverage compatible responsibilities and enable CalPERS to focus on the highest risk and compliance priorities within the organization.
- Financial Office positions decreased due to the transfer of positions to the pool and the reorganization of the Enterprise Risk Management Division with Compliance.

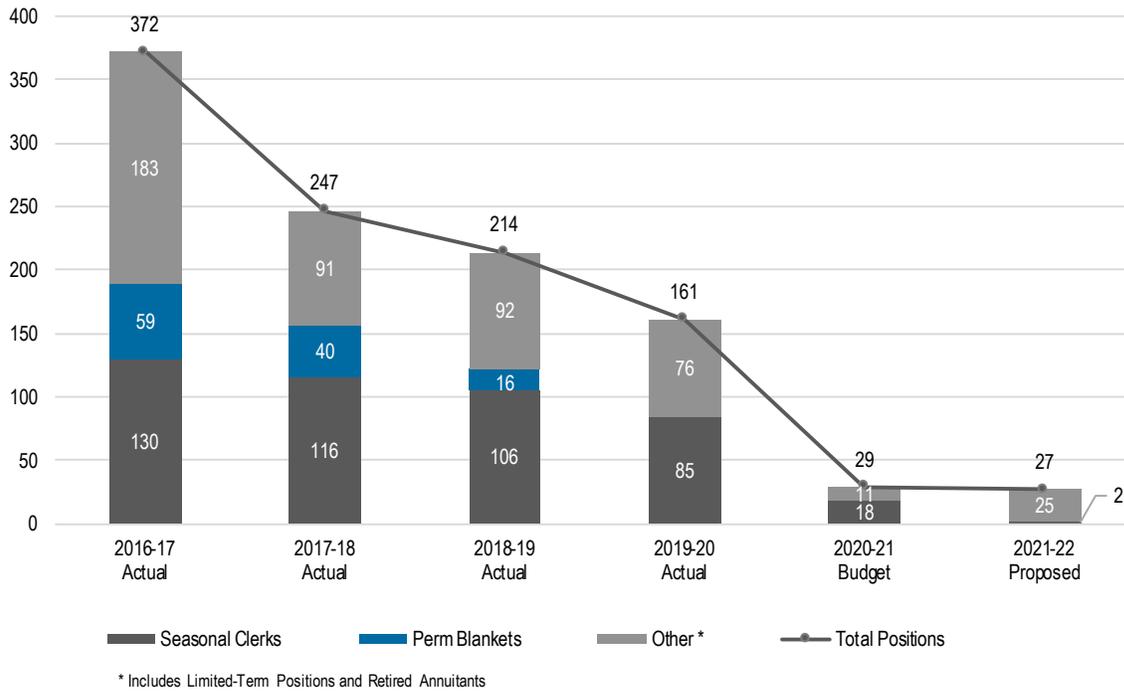
Temporary Help

Included in the Administrative Operating Budget are funds for temporary help, which includes seasonal clerks, retired annuitants, and limited-term positions. As displayed below, CalPERS reduced funding for temporary help resources by \$8.5 million since 2016-17.



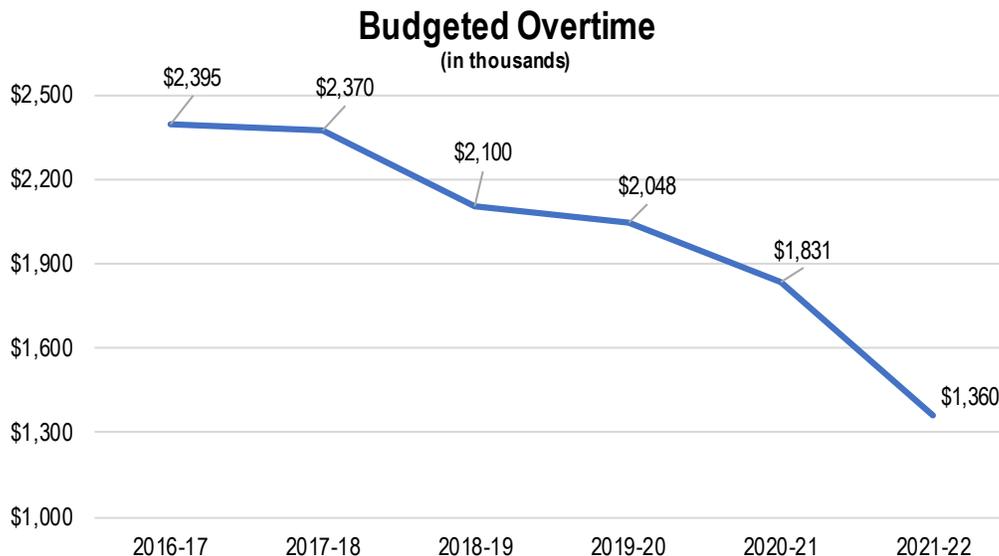
These reductions are driven by the elimination of all permanent blanket positions, and the elimination of seasonal clerks for non-seasonal work. The chart on the next page displays temporary help position reductions since 2016-17, as well as proposed temporary help positions for 2021-22. The two seasonal clerk positions identified will be utilized for seasonal workload spikes within the Actuarial Office to assist with compiling and distributing employer valuations. The increase in retired annuitants is within the Customer Service and Support Branch to assist the Call Center reduce call wait times during periods of high call volume.

Temporary Help Positions Filled as of July 1st of each year



Overtime

In addition to reductions in temporary help, CalPERS has steadily decreased overtime expenditures. Through resource and workload management, the overtime budget decreased by \$1.0 million, or 43 percent, since 2016-17.



II. Investment Operating Costs

Investment Operating Costs include expenditures specifically incurred for investment activities, such as consultants to inform the board of investment initiatives or to support the implementation of investment technologies and platforms. There are also expenses for external audit, legal, and appraisal services related to asset valuations, fund administration and custody, data and analytics software and services, and maintaining or enhancing trading and portfolio management systems. Investment Operating Costs in 2021-22 are proposed at \$130.6 million. This is a \$4.2 million increase, or 3.3 percent, compared to the 2020-21 authorized budget.

Investment Operating Costs					
(in thousands)	2019-20 Actuals	2020-21 Authorized Budget	2021-22 Proposed Budget	2020 to 2021 Change	
				\$ Increase/(Decrease)	% Increase/(Decrease)
Investment Consultants	\$4,772	\$10,000	\$10,000	-	-
Board Consultants	5,362	5,667	5,717	50	0.9%
Technology Consultants	3,990	7,892	7,775	(117)	(1.5%)
Total Consultant Expenses	\$14,124	\$23,559	\$23,491	(\$67)	(0.3%)
Audits	\$129	\$705	\$705	-	-
Tax Advisory Services	737	1,200	1,200	-	-
Master Custodian Fee	10,623	11,435	12,535	1,100	9.6%
Fund Administration Services / Fees	4,053	3,848	3,848	-	-
External Legal	3,073	5,800	5,800	-	-
Appraisal Fees	11,153	10,000	10,000	-	-
Company Expense	1,524	450	450	-	-
Miscellaneous Operating Expense	334	300	300	-	-
Total Operating Expenses	\$31,626	\$33,737	\$34,837	\$1,100	3.3%
Data	\$6,962	\$7,600	\$7,451	(\$149)	(2.0%)
Analytics	13,727	19,581	20,505	924	4.7%
Trading and Portfolio Management Systems	24,083	38,018	39,473	1,455	3.8%
Business Operations Tool	2,656	3,757	4,676	919	24.5%
Other Technology Expense	81	178	178	-	-
Total Technology Expenses	\$47,509	\$69,134	\$72,284	\$3,149	4.6%
Total Investment Operating Expenses	\$93,260	\$126,430	\$130,613	\$4,182	3.3%

The primary drivers of the increase include \$1.1 million for usage-based Master Custodian Fees resulting from increased access requests related to technology projects and investment initiatives. There is also a \$3.1 million increase in Technology expenses driven by Analytics and Business Operations Tools to support the Investment Office's Data Strategy and Business Plan initiatives.

III. Enterprise Project Costs

In years past, CalPERS has undertaken enterprise-wide projects to improve operations, enhance services to members, and stay current with industry trends and practices. There are no enterprise projects proposed in 2021-22.

IV. Headquarters Building Costs

The Headquarters Building Budget reflects expenses incurred to operate, maintain, and improve the Lincoln Plaza campus. It also includes funds for security and maintenance for regional offices, the offsite emergency operations center, the Front Street parking lot, and warehouse space. These costs are offset by rent and parking revenues. Total proposed Headquarters Building expenses in 2021-22 are \$22.9 million, which is a 6.8 percent decrease compared to the 2020-21 authorized budget.

Headquarters Building Costs

(in thousands)	2019-20 Actual	2020-21 Authorized Budget	2021-22 Proposed Budget	2020 to 2021 Change	
				\$ Increase/(Decrease)	% Increase/(Decrease)
Operating:					
Utilities	\$2,159	\$2,403	\$2,402	(\$2)	(0.1%)
Engineering Services	3,778	4,017	3,978	(38)	(1.0%)
Janitorial	3,399	3,533	3,598	66	1.9%
Landscaping	834	871	689	(182)	(20.9%)
General Maintenance	969	1,175	1,089	(87)	(7.4%)
Security	2,664	2,721	2,546	(176)	(6.5%)
Property Mgmt. & Administrative Fees	1,306	1,418	1,360	(58)	(4.1%)
Café Plaza	243	249	253	4	1.4%
Offsite Expenses ¹	665	833	891	59	7.0%
Emergency Operations Center (EOC) ²	371	459	504	45	9.8%
Operating Other ³	2,089	2,908	1,881	(1,027)	(35.3%)
Total Operating Expenses	\$18,478	\$20,587	\$19,190	(\$1,397)	(6.8%)
Non-Operating:					
Owner Improvements ⁴	\$2,020	\$2,181	2,129	(52)	(2.4%)
Building Improvements ⁵	3,576	1,944	1,583	(361)	(18.6%)
Furniture & Fixtures	286	289	190	(99)	(34.1%)
Building Insurance	374	571	660	89	15.6%
Total Non-Operating Expenses	\$6,256	\$4,985	\$4,562	(\$422)	(8.5%)
Subtotal Expenses	\$24,734	\$25,572	\$23,753	(\$1,819)	(7.1%)
Less: Revenue ⁶	(1,609)	(1,028)	(867)	161	(15.6%)
Total HQ Building Expenses	\$23,125	\$24,545	\$22,886	(\$1,659)	(6.8%)
Less: Amount included in Admin. Budget	(1,459)	(1,542)	(4,435)	(2,893)	187.6%
Total Headquarters Building Budget	\$21,666	\$23,003	\$18,450	(\$4,552)	(19.8%)

¹ Offsite expenses include Front Street parking, warehouse space, and regional office security and maintenance.

² EOC expenses include leasing costs, utilities, janitorial, security, landscaping, and generator maintenance.

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

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

⁵ Building Improvements include structural alterations and repairs and related project management.

⁶ Estimated revenue from parking and the Subway and Montessori day care leases.

The year-over-year decrease in total building expenses reflect the following:

- \$1.4 million decrease in Operating Expenses driven by reduced landscaping services, lower costs for security staff, and the removal of one-time electrical testing expenses funded in 2020-21.
- \$0.4 million decrease in Non-Operating Expenses resulting from less building improvement projects and a decline in furniture and fixture expenses. These decreases are offset by anticipated market-driven insurance cost increases.
- \$0.2 million decrease in Revenue resulting from less parking income. Given uncertainty in the return-to-work timeline and numbers of team members who may continue to telework full time, CalPERS is estimating that parking revenue will be half of what it collected during the 2019-20 fiscal year. CalPERS will re-assess this estimate at Mid-Year.

Of the \$22.9 million total Headquarters Building costs, \$4.4 million is budgeted within the Administrative Operating Costs budget and represents amounts charged to affiliate funds for their reasonable share of building expenses. While total proposed building expenses are \$22.9 million, the amount included within the Headquarters Building budget is \$18.5 million, and represents the expenses funded from the PERF.

V. Investment External Management Fees

Investment External Management Fees represent amounts that CalPERS pays to external investment advisors with whom it contracts to manage specific portfolios. The board approves Investment Advisor Contract extensions on an annual basis, and the contracts typically range from seven to twelve years. Details on investment fees paid are included in the Comprehensive Annual Financial Report.

While CalPERS estimates annual Investment External Management Fees based on market assumptions and investment diversification strategies, actual fees paid within a fiscal year are subject to market fluctuations. Current assumptions estimate total fees in 2021-22 at \$899.6 million. This is an increase of \$207.6 million, or 30.0 percent, as compared to the 2020-21 authorized budget.

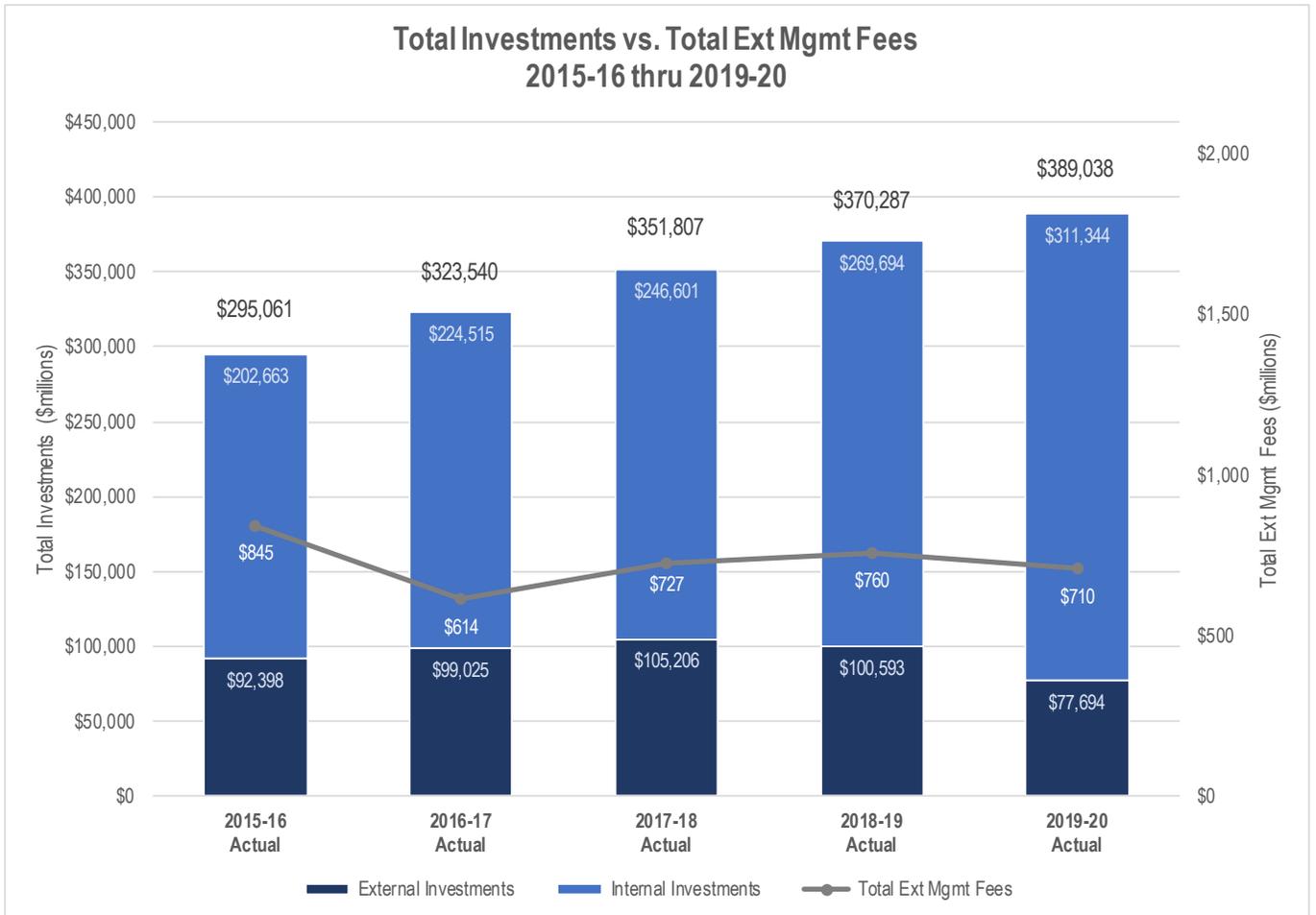
The drivers of estimated increases are in four areas: Global Equity, Private Equity, and Opportunistic Strategies base fees, as well as in Real Assets performance fees. Global Equity fee increases are based on market-driven assumptions of increased AUM and portfolio performance. In contrast, Private Equity fees are expected to increase due to anticipated scaling up of this program. For Opportunistic Strategies, the fees are increasing because of an increase in the asset allocation.

The main driver of performance fee increases is in Real Assets and reflects projected portfolio performance and current market data.

Investment External Management Fees

(in thousands)	2019-20 Actuals	2020-21 Authorized Budget	2021-22 Proposed Budget	2020 to 2021 Change	
				\$ Increase/(Decrease)	% Increase/(Decrease)
Global Equity	\$39,404	\$33,438	\$43,729	\$10,291	30.8%
Fixed Income	12,216	13,439	14,925	1,487	11.1%
Real Assets	215,200	223,566	224,088	522	0.2%
Absolute Return Strategy	222	300	25	(275)	(91.7%)
Private Equity	272,984	300,000	340,000	40,000	13.3%
Multi Asset Class	26,053	1,500	-	(1,500)	(100.0%)
Opportunistic Strategies	500	11,600	48,375	36,775	317.0%
External Mgmt - Base Fees	\$566,579	\$583,843	\$671,143	\$87,300	15.0%
Global Equity	10,836	\$4,043	\$8,085	\$4,043	100.0%
Fixed Income	2,839	2,879	-	(2,879)	(100.0%)
Real Assets	129,916	101,329	220,420	119,091	117.5%
Absolute Return Strategy	30	-	-	-	0.0%
External Mgmt - Performance Fees	\$143,621	\$108,250	\$228,505	\$120,255	111.1%
Total External Mgmt Fees	\$710,200	\$692,093	\$899,648	\$207,555	30.0%

As displayed below, CalPERS' total AUM has increased \$94 billion since 2015-16. While total AUM increased, the relative percentage of external AUM decreased from 31 percent in 2015-16, to 20 percent in 2019-20. Over this same time, the amount of fees paid to external investment managers significantly decreased from a high of \$845 million to \$710 million.



VI. Third Party Administrator Fees

CalPERS contracts with Third Party Administrators to support the delivery of health and pension services with a focus on strengthening and improving long-term sustainability for members. The board approves Third Party contracts with terms that typically extend five years and include annual fee increases. Third Party Administrators provide administration, recordkeeping, and participant communication services for the following programs:

- CalPERS Health Benefits Program
- Long Term Care Program
- Supplemental Income Plan Program
- California Employers' Retiree Benefit Trust Fund Program (CERBT)
- California Employers' Pension Prefunding Trust Program (CEPPT)

CalPERS estimates Third Party Administrator Fees based on current enrollment data, which typically fluctuates throughout the fiscal year. Based on enrollment through January 2021, the estimated Third Party Administrator Fees for 2021-22 are \$303.5 million. This is an increase of \$0.9 million, or 0.3 percent over the current year.

Third Party Administrator Fees

(in thousands)	2019-20 Actual	Authorized Budget	Proposed Budget	Change	
				\$ Increase / (Decrease)	% Increase / (Decrease)
Health Program	259,106	261,084	264,216	\$ 3,131	1.2%
Pharmacy Benefit Manager	22,826	18,588	17,102	(1,486)	(8.0%)
Total, Health	281,932	279,672	281,318	\$ 1,646	0.6%
Long Term Care Program	20,490	19,392	18,691	(701)	(3.6%)
Supplemental Income Plan	3,516	3,450	3,400	(50)	(1.4%)
California Employers' Retiree Benefit Trust (CERBT)	90	90	90	-	-
California Employers' Pension Prefunding Trust (CEPPT)	15	18	18	-	-
Total Third Party Administrator Fees	\$306,043	\$302,623	\$303,517	\$894	0.3%

The year-over-year increase in Third Party Administrator Fees is primarily within the Health Program, and is driven by enrollment migration. The increase is offset by a reduction in Pharmacy Benefit Manager fees resulting from recent contract changes. The decrease in Long Term Care Program fees is due to projected enrollment declines and a suspension of new enrollments, while the decrease for the Supplemental Income Plan reflects estimates based on updated expenditure data.

I. Administrative Operating Costs by Branch

Following is the allocation of proposed Administrative Operating Costs to the CalPERS branches. While all branches have an increase resulting from the restoration of funds for reductions made during 2020-21, other changes drive allocation amounts. This includes the reorganization of the Enterprise Risk Management Division from the Financial Office to the Enterprise Compliance Branch; the redirection of positions through the position pooling process; holding virtual Annual Stakeholder Forum and Consumer Benefit Education Events (CBEEs) in the upcoming year; increased expenses for software and data processing; and the Member-at-Large Board Elections.

Administrative Operating Costs by Branch

(in thousands)	2019-20 Actual	2020-21 Authorized Budget	2021-22 Proposed Budget	2020 to 2021 Change	
				Increase / (Decrease)	% Increase / (Decrease)
Actuarial Office	\$ 11,799	\$ 11,291	\$ 12,504	\$ 1,213	10.7%
Communications and Stakeholder Relations	16,123	12,657	12,775	118	0.9%
Customer Services and Support	96,839	96,496	105,044	8,548	8.9%
Enterprise Compliance Office	2,991	2,633	5,606	2,974	113.0%
Executive Office	8,462	7,519	8,725	1,206	16.0%
Financial Office	26,496	32,032	34,221	2,190	6.8%
General Counsel	32,133	35,605	36,957	1,352	3.8%
Health Policy and Benefits Branch	29,628	28,402	31,109	2,707	9.5%
Investment Office	79,091	83,752	92,517	8,764	10.5%
Operations and Technology	151,275	140,931	165,671	24,740	17.6%
Pro-Rata Assessment	25,567	25,765	30,924	5,159	20.0%
Total Administrative Operating Costs	\$ 480,404	\$ 477,081	\$ 536,053	\$ 58,972	12.4%

II. Administrative Operating Costs by Trust Fund

Following is the allocation of proposed Administrative Operating Costs to each trust fund based on a combined direct and indirect methodology. In general, direct expenses specifically attributable to or benefiting a particular fund are allocated to that fund, and indirect expenses are allocated based on the funds' percent of direct costs. Amounts include statewide prorata expenses based on Department of Finance estimates.

Administrative Operating Costs by Fund

(\$ in thousands)	2019-20 Actual	2020-21 Authorized Budget	2021-22 Proposed Budget	Change from Annual	
				\$ Increase / (Decrease)	% Increase / (Decrease)
Administrative Operating Costs					
Public Employees' Retirement Fund (PERF)	\$ 386,715	\$ 376,782	\$ 423,324	\$ 46,542	12.4%
Public Employees' Contingency Reserve Fund (CRF)	30,802	31,630	34,262	2,632	8.3%
Public Employees' Health Care Fund (HCF)	42,504	45,497	49,356	3,859	8.5%
Long-Term Care Fund (LTCF)	6,036	7,872	11,592	3,719	47.2%
Annuitants' Health Care Coverage Fund (AHCCF)	4,728	5,758	6,839	1,081	18.8%
Deferred Compensation Fund (IRC 457)	1,638	1,672	1,728	56	3.3%
Supplemental Contributions Program Fund (SCP)	114	105	103	(1)	(1.3%)
Judges' Retirement Fund (JRF)	1,772	1,713	2,028	314	18.3%
Judges' Retirement Fund II (JRF II)	2,024	1,986	2,444	458	23.0%
Legislators' Retirement Fund (LRF)	457	438	533	95	21.6%
Replacement Benefit Custodial Fund (RBF)	497	625	593	(32)	(5.0%)
California Employers' Pension Prefunding Trust (CEPPT)	347	4	36	32	806.6%
Old-Age & Survivors Insurance Fund (OASI)	792	954	1,115	161	16.9%
Reimbursements	1,980	2,044	2,100	56	2.7%
Total Administrative Operating Costs	\$ 480,404	\$ 477,081	\$ 536,052	\$ 58,971	12.4%
<i>Statewide Pro-Rata Assessment</i>	\$ 25,567	\$ 25,765	\$ 30,924	\$ 5,159	20.0%
<i>CalPERS Administrative Costs</i>	\$ 454,837	\$ 451,316	\$ 505,128	\$ 53,812	11.9%

III. 2022-23 Projection

Each year as part of the annual budget process, CalPERS proposes and analyzes new resource requests that may impact future expenditures. Based on current information and known factors, CalPERS projects an Operating Cost increase of \$12.5 million in 2022-23 due to the following:

- A net \$13.5 million increase in Administrative Operating Costs driven by anticipated general salary increases and benefit changes planned for July 2022, and accounting for various reductions related to one-time increases budgeted in 2021-22 such as board elections and software and data processing initiatives.
- \$0.7 million decrease in Investment Operating Costs based on the current stage of development related to technology implementation projects for the Investment Office's Business Plan Initiatives.
- \$0.3 million decrease in Headquarters Building Costs driven by modest operational increases and anticipated revenue increases.

2022-23 Projection

(in thousands)	2021-22 Proposed Budget	2022-23 Projected Budget	2021 to 2022 Change	
			\$ Increase / (Decrease)	% Increase / (Decrease)
Administrative Operating Costs	\$ 536,053	\$549,510	\$13,457	2.5%
Investment Operating Costs	130,613	129,965	(648)	(0.5%)
Enterprise Projects Costs	-	-	-	-
Headquarters Building Costs	18,450	18,171	(279)	(1.5%)
Total Projection	\$685,115	\$697,646	\$12,530	1.8%
Authorized Positions	2,843.0	2,843.0	-	0.0%