

California Public Employees' Retirement System

Fiscal Year 2020-21 Year-End Expenditure Report

November 16, 2021



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Executive Summary

This report presents CalPERS' final year-end expenditures for Fiscal Year 2020-21. Amounts reported reflect actual expenses through June 30, 2021, as well as encumbrances, which are funds that have been obligated or reserved through an executed contract or purchase document. While this basis of reporting is consistent with state budgeting practices, it differs from CalPERS' Annual Comprehensive Financial Report, which reports expenditures at the fund level using a full accrual basis as required by Generally Accepted Accounting Principles (GAAP).

In 2020-21, CalPERS expended \$1.572 billion across its five budget categories. This represents 97.0 percent of the total \$1.621 billion authorized budget, which includes the \$72.3 million reduction approved by the board last November. Three percent, or \$48.9 million, was unspent at year end, and is on target with the key performance indicator to spend at or below 10 percent of the budget. Unexpended funds remained in the PERF for investment.

2020-21 Total Expenditures

(in thousands)	2020-21 Authorized Budget	2020-21 Expenditures and Encumbrances	Percent Expended	Balance
Administrative Operating Costs	\$477,081	\$451,978	94.7%	\$25,103
Investment Operating Costs	126,430	81,339	64.3%	45,092
Headquarters Building Costs	23,003	17,518	76.2%	5,485
Total: Operating Costs	\$626,515	\$550,835	87.9%	\$75,680
Investment External Mgmt Fees	692,093	723,695	104.6%	(31,602)
Third Party Administrator Fees	302,623	297,807	98.4%	4,815
Total: Fees	\$994,716	\$1,021,502	102.7%	(\$26,786)
CalPERS Total Budget to Expenditures	\$1,621,230	\$1,572,336	97.0%	\$48,894

The following pages detail 2020-21 expenditures by budget category.

I. Administrative Operating Costs

Administrative Operating Costs include personal services expenditures (salaries, wages, and benefits for permanent and temporary team members) and Operating Expenses and Equipment (OE&E). In 2020-21, CalPERS expended \$452.0 million (94.7 percent) of this budget category.

2020-21 Administrative Operating Costs by Object of Expenditure

(in thousands)	2020-21 Authorized Budget	2020-21 Expenditures and Encumbrances	Percent Expended	Balance
[1] PERSONAL SERVICES				
Salaries & Wages	\$ 241,648	\$ 240,144	99.4%	\$ 1,503
Temporary Help	1,452	2,077	143.0%	(625)
Overtime	1,831	685	37.4%	1,146
Benefits	126,479	119,345	94.4%	7,134
Total Personal Services	\$ 371,409	\$ 362,250	97.5%	\$ 9,159
[2] OPERATING EXPENSES & EQUIPMENT				
General Expense	\$ 8,843	\$ 4,952	56.0%	\$ 3,891
Software	2,754	1,817	66.0%	937
Printing	411	224	54.4%	187
Postage	2,106	1,283	60.9%	822
Communications	1,641	1,523	92.8%	118
Data Processing Services	16,621	15,229	91.6%	1,392
Travel	1,526	81	5.3%	1,445
Training	810	370	45.6%	440
Medical Exam/Disability Travel	1,233	1,200	97.3%	33
Facilities Operations	4,726	4,055	85.8%	672
Central Administrative Services	25,765	25,765	100.0%	-
University Enterprises, Inc.	305	338	110.8%	(33)
External Legal Counsel	5,898	4,303	73.0%	1,595
Professional Services	4,810	3,979	82.7%	831
Consultants	17,817	16,225	91.1%	1,592
Audit Services	1,687	2,037	120.7%	(350)
Federal Legislative Rep	600	387	64.5%	213
Admin Hearings	1,402	1,317	94.0%	85
Consolidated Data Centers	250	370	147.8%	(120)
Equipment (Includes EDP)	6,466	4,272	66.1%	2,194
Total Operating Expenses & Equipment	\$ 105,672	\$ 89,728	84.9%	\$ 15,944
Total Costs	\$ 477,081	\$ 451,978	94.7%	\$ 25,103

At year end, \$25.1 million of Administrative Operating Costs were unspent. This includes \$9.2 million in personal services expenses, primarily related to health and dental benefits. These expenses, which are driven by coverage choices and numbers of dependents, were less than the historical per-person averages used to develop the budget. The averages used to develop the 2021-22 Budget were revised based on more current data. Temporary Help expenses exceeded the budget as a result of a higher number of team members running out or being paid accrued leave balances. More specifically, to enable recruitment, hiring, and cross training behind retiring team members, CalPERS may move team members with official retirement dates into temporary blanket positions. Any pay or leave paid out to them until their retirement is then recorded as a temporary help expense. Of the total Temporary Help expenses, \$642,000 was due to retirements.

OE&E expenses were also lower than budgeted by \$15.9 million (15.1) percent. General Expenses, Postage, Travel, Training, and Facilities costs were less than estimated as a result of the pandemic's continued effects on operations. Other areas with surpluses, such as Data Processing, reflect savings resulting from renegotiated contracts, while Software, Consultants, and Equipment expenditures reflect scheduling and implementation delays for information technology projects. The overage for University Enterprises, Inc., which is the organization with whom CalPERS contracts to employ student assistants, was due to an overestimation of reductions taken at mid-year. There was also an overage in Audit Services due to a timing difference related to invoices received for the audit work performed on the Annual Comprehensive Financial Report. Further, there was an overage in the Consolidated Data Centers category caused by recording expenses to a different category than where originally budgeted. In the future, CalPERS will budget these expenses on the Consolidated Data Center line to avoid confusion.

II. Investment Operating Costs

Investment Operating Costs include expenditures incurred to support investment activities, such as consultants to inform the board of investment initiatives or to implement investment technologies and platforms; external audit, legal, and appraisal services related to asset valuations and fee payouts; fund administration and custody; data and analytics software; and maintaining or implementing trading and portfolio management systems. In 2020-21, CalPERS expended \$81.3 million (64.3 percent) with \$45.1 million unspent.

2020-21 Investment Operating Costs

(in thousands)	2020-21 Authorized Budget	2020-21 Expenditures and Encumbrances	Percent Expended	Balance
Investment Consultants	\$10,000	\$2,610	26.1%	\$7,390
Board Consultants	5,667	4,568	80.6%	1,099
Technology Consultants	7,892	3,757	47.6%	4,135
Total Consultant Expenses	\$23,559	\$10,935	46.4%	\$12,623
Audits	\$705	\$211	30.0%	\$494
Tax Advisory Services	1,200	638	53.1%	562
Master Custodian Fee	11,435	8,940	78.2%	2,494
Fund Administration Services / Fees	3,848	3,355	87.2%	492
External Legal	5,800	2,200	37.9%	3,600
Appraisal Fees	10,000	7,015	70.1%	2,985
Company Expense	450	710	157.8%	(260)
Miscellaneous Operating Expense	300	379	126.2%	(79)
Total Operating Expenses	\$33,737	\$23,448	69.5%	\$10,289
Data	\$7,600	\$6,922	91.1%	\$678
Analytics	19,581	11,878	60.7%	7,703
Trading and Portfolio Management Systems	38,018	25,607	67.4%	12,412
Business Operations Tool	3,757	2,537	67.5%	1,221
Other Technology Expense	178	12	7.0%	166
Total Technology Expenses	\$69,134	\$46,955	67.9%	\$22,179
Total Investment Operating Expenses	\$126,430	\$81,339	64.3%	\$45,092

Surplus funds remained in each of the Investment Operating Cost expenditure areas, as follows:

- **Consultant Expenses:** \$12.6 million in the three expense areas. Both investment and board consultant costs were less as a result of one-time fee reductions negotiated to limit the pandemic's fiscal effect on pension expenses. These expenses are expected to return to normal levels in 2021-22 and beyond. Technology consultant expenses were less than budgeted due to a reassessment and analysis of options for several technology projects related to Data Strategy, Multi-Asset Trading, and Investment Performance platforms. As shown in the 2021-22 Mid-Year Budget, CalPERS proposes reducing the Trading and Portfolio Management Systems budget based on this reassessment.
- **Operating Expenses:** \$10.3 million driven by External Legal, Appraisal, and Master Custodian Fees, which saw one-time fee reductions similar to Consultant Expenses. Company Expenses, which are CalPERS' share of professional service costs related to overseeing the emerging managers program, were slightly higher than budgeted due to the termination of some external manager relationships and related fund closure activities.
- **Technology Expenses:** \$22.2 million driven by the continued assessment and analysis of project implementations related to Trading and Portfolio Management Systems. Similarly, the assessments drove decisions to utilize existing or lower cost services that resulted in lower expenses for Data, Analytics, and Business Operations Tools.

III. Headquarters Building Costs

Headquarters Building expenses are those incurred to operate, maintain, and improve the Lincoln Plaza Buildings and regional offices, as well as the emergency operations center, Front Street parking lot, and warehouse space. In 2020-21, CalPERS expended \$17.5 million (76.2 percent) of the Headquarters Building Budget. At year-end, there was \$4.0 million in unexpended Operating Costs, and \$1.9 million unexpended in Non-Operating Costs. Both categories' surpluses were driven by the pandemic. More specifically, with team members working remotely and meetings held virtually, there were less security, janitorial, maintenance, supply, and utility expenses incurred during the year. Similarly, there were less expenses for team member relocations and for minor, non-critical building retrofits which were delayed due to weather and the unavailability of products and materials. These savings were partially offset by \$0.4 million in lower-than-estimated parking revenues, as well as the March 2021 termination of a City of Sacramento parking lease for the Front Street parking lot.

Headquarters Building Costs

(in thousands)	2020-21 Authorized Budget	2020-21 Expenditures and Encumbrances	Percent Expended	Balance
Operating:				
Utilities	\$2,403	\$1,656	68.9%	\$747
Engineering Services	4,017	3,453	86.0%	564
Janitorial	3,533	3,325	94.1%	208
Landscaping	871	694	79.7%	177
General Maintenance	1,175	489	41.6%	686
Security	2,721	2,294	84.3%	427
Property Mgmt. & Administrative Fees	1,418	1,177	83.0%	241
Café Plaza	249	85	34.1%	164
Offsite Expenses ¹	833	491	58.9%	342
Emergency Operations Center (EOC) ²	459	366	79.8%	93
Operating Other ³	2,908	2,521	86.7%	387
Total Operating Expenses	20,587	16,551	80.4%	4,036
Non-Operating:				
Owner Improvements ⁴	2,181	1,074	49.2%	1,107
Building Improvements ⁵	1,944	1,481	76.2%	462
Furniture & Fixtures	289	29	10.0%	260
Building Insurance	571	507	88.8%	64
Total Non-Operating Expenses	4,985	3,092	62.0%	1,893
Subtotal Expenses	\$25,572	\$19,643	76.8%	\$5,929
Less: Revenue ⁶	(1,028)	(583)	56.7%	(445)
Total HQ Building Expenses	\$24,545	\$19,060	77.7%	\$5,484
Less: Amount included in Admin. Budget	(1,542)	(1,542)	100.0%	-
Total Headquarters Building Budget	\$23,003	\$17,518	76.2%	\$5,485

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

² EOC expenses include leasing costs, utilities, janitorial, security, landscaping, and general 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 Revenue from parking and onsite leases.

IV. Investment External Management Fees

Investment External Management Fees represent amounts that CalPERS pays to external investment advisors with whom it contracts to manage specific active strategies. In 2020-21, CalPERS exceeded the \$692.1 million budget by \$31.6 million (4.6 percent). Total Base Fees were \$16.4 million higher than estimated primarily due to the deployment of capital in new Private Equity investments, while total Performance Fees were over budget by \$15.2 million driven by better than expected Global Equity performance.

2020-21 Investment External Management Fees

(in thousands)	2020-21 Authorized Budget	2020-21 Expenditures and Encumbrances	Percent Expended	Balance
Global Equity	\$33,438	\$23,903	71.5%	\$9,535
Fixed Income	13,439	17,217	128.1%	(3,778)
Real Assets	223,566	219,007	98.0%	4,559
Absolute Return Strategy	300	40	13.4%	260
Private Equity	300,000	334,887	111.6%	(34,887)
Multi Asset Class	1,500	917	61.1%	583
Opportunistic Strategies	11,600	4,257	36.7%	7,343
External Mgmt - Base Fees	\$583,843	\$600,227	102.8%	(\$16,384)
Global Equity	\$4,043	\$16,875	417.4%	(\$12,833)
Fixed Income	2,879	435	15.1%	2,444
Real Assets	101,329	106,156	104.8%	(4,827)
External Mgmt - Performance Fees	\$108,250	\$123,467	114.1%	(\$15,217)
Total External Mgmt Fees	\$692,093	\$723,695	104.6%	(\$31,602)

V. Third Party Administrator Fees

CalPERS contracts with Third Party Administrators to support the delivery of health and pension services. The fees cover administration, recordkeeping, and communication with participants. Final expenditures reflect actual participant enrollment, which typically fluctuates throughout the fiscal year.

Of the \$302.6 million budgeted for Third Party Administrator Fees, CalPERS expended \$297.8 million (98.4 percent). Nearly all unexpended funds are related to Health Program fees which were driven by members migrating to lower-fee health plans during the Fall 2020 Open Enrollment period. Pharmacy Benefit Manager costs were slightly higher than estimated for the new OptumRx contract that began in 2020-21. The new contract has a different cost calculation than previous years' contracts, and lacks historical data against which to compare and benchmark expenditure estimates. CalPERS will adjust its future calculations as more recent cost data becomes available. Long Term Care expenses were higher than expected due to a budget error that omitted bank and payment processing fees. CalPERS corrected estimation worksheets to include these costs in future budgets.

2020-21 Third Party Administrator Fees

(in thousands)	2020-21 Authorized Budget	2020-21 Expenditures and Encumbrances	Percent Expended	Balance
Health Program	\$ 261,084	\$ 255,653	97.9%	\$ 5,431
Pharmacy Benefit Manager	18,588	19,024	102.3%	(436)
Total, Health	\$ 279,672	\$ 274,678	98.2%	\$ 4,995
Long Term Care Program	19,392	19,791	102.1%	(399)
Supplemental Income Plan	3,450	3,230	93.6%	220
California Employers' Retiree Benefit Trust (CERBT)	90	90	100.0%	-
California Employers' Pension Prefunding Trust (CEPPT)	18	18	100.0%	-
Total Third Party Administrator Fees	\$302,623	\$297,807	98.4%	\$4,815

VI. Administrative Operating Costs by Fund

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

2020-21 Administrative Operating Costs by Fund

(\$ in thousands)	2020-21 Authorized Budget	2020-21 Expenditures and Encumbrances	Percent Expended	Balance
Administrative Operating Costs				
Public Employees' Retirement Fund (PERF)	\$ 376,782	\$ 363,676	96.5%	\$ 13,106
Public Employees' Contingency Reserve Fund (CRF)	31,630	27,742	87.7%	3,888
Public Employees' Health Care Fund (HCF)	45,497	39,435	86.7%	6,062
Long-Term Care Fund (LTCF)	7,872	6,873	87.3%	1,000
Annuitants' Health Care Coverage Fund (AHCCF)	5,758	5,596	97.2%	162
Deferred Compensation Fund (IRC 457)	1,672	1,654	98.9%	18
Supplemental Contributions Program Fund (SCP)	105	103	98.9%	1
Judges' Retirement Fund (JRF)	1,713	1,649	96.2%	65
Judges' Retirement Fund II (JRF II)	1,986	1,923	96.8%	64
Legislators' Retirement Fund (LRF)	438	423	96.6%	15
Replacement Benefit Custodial Fund (RBF)	625	609	97.5%	15
California Employers' Pension Prefunding Trust (CEPPT)	4	4	97.3%	-
Old-Age & Survivors Insurance Fund (OASI)	954	761	79.7%	193
Reimbursements ¹	2,044	1,531	74.9%	513
Total Administrative Operating Costs	\$ 477,081	\$ 451,978	94.7%	\$ 25,103
<i>Statewide Pro-Rata Assessment</i>	\$ 25,765	\$ 25,765	100.0%	-
<i>CalPERS Administrative Costs</i>	\$ 451,316	\$ 426,213	94.4%	\$ 25,103

¹ Reimbursements include specialized actuarial valuations prepared for public agencies, cost of photocopies/postage related to the Public Records Act requests, annual employer conferences, and administrative assessments for employers' delinquent payroll.