

California Public Employees' Retirement System

Fiscal Year 2021-22 Year-End Expenditure Report

November 15, 2022



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Executive Summary

In 2021-22, CalPERS expended \$1.845 billion, or 97.2 percent of its total authorized budget, with \$52.4 million unspent at year end. Amounts reported reflect actual expenses through June 30, 2022, as well as encumbrances, which are funds that have been contractually obligated. 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). Unexpended funds remained in the PERF for investment.

2021-22 Total Expenditures

(in thousands)	2021-22 Authorized Budget	2021-22 Expenditures and Encumbrances	Percent Expended	Balance
Administrative Operating Costs	\$555,276	\$512,636	92.3%	\$42,640
Investment Operating Costs	121,393	87,919	72.4%	33,473
Headquarters Building Costs	18,415	15,994	86.9%	2,421
Total: Operating Costs	\$695,084	\$616,550	88.7%	\$78,534
Investment External Mgmt Fees	898,497	928,634	103.4%	(30,137)
Third Party Administrator Fees	303,552	299,581	98.7%	3,971
Total: Fees	\$1,202,050	\$1,228,215	102.2%	(\$26,165)
CalPERS Total Budget to Expenditures	\$1,897,133	\$1,844,765	97.2%	\$52,369

The following pages detail 2021-22 expenditures by budget category.

I. Administrative Operating Costs

Administrative Operating Costs include personal services expenditures (salaries, wages, and benefits) and Operating Expenses and Equipment (OE&E) for general operations. In 2021-22, CalPERS expended \$512.6 million, or 92.3 percent of this budget category.

2021-22 Administrative Operating Costs by Object of Expenditure

(in thousands)	2021-22 Authorized Budget	2021-22 Expenditures and Encumbrances	Percent Expended	Balance
[1] PERSONAL SERVICES				
Salaries & Wages	\$282,776	\$269,487	95.3%	\$13,290
Temporary Help	1,266	1,666	131.6%	(400)
Overtime	1,319	767	58.2%	552
Benefits	140,809	128,891	91.5%	11,918
Total Personal Services	\$426,170	\$400,811	94.0%	\$25,360
[2] OPERATING EXPENSES & EQUIPMENT				
General Expense	\$9,178	\$5,579	60.8%	\$3,599
Software	5,987	4,996	83.5%	991
Printing	744	242	32.5%	502
Postage	2,795	3,041	108.8%	(246)
Communications	1,615	1,338	82.9%	277
Data Processing Services	21,439	16,469	76.8%	4,970
Travel	1,837	280	15.2%	1,557
Training	1,073	576	53.7%	496
Medical Exam/Disability Travel	1,625	1,474	90.7%	151
Facilities Operations	7,508	6,776	90.2%	733
Central Administrative Services	30,924	30,924	100.0%	-
University Enterprises, Inc.	444	399	89.9%	45
External Legal Counsel	6,141	3,090	50.3%	3,051
Professional Services	4,511	4,298	95.3%	214
Consultants	23,103	22,441	97.1%	662
Audit Services	1,607	1,520	94.5%	88
Federal Legislative Rep	552	395	71.5%	158
Admin Hearings	1,402	1,373	97.9%	29
Consolidated Data Centers	310	331	106.9%	(21)
Equipment (Includes EDP)	6,310	6,283	99.6%	27
Total Operating Expenses & Equipment	\$129,106	\$111,825	86.6%	\$17,280
Total Costs	\$555,276	\$512,636	92.3%	\$42,640

At year end, \$42.6 million of budgeted Administrative Operating Costs were unspent. This includes \$25.4 million in personal services expenses driven by position vacancies. Amounts reported in the Temporary Help category include \$0.7 million in unbudgeted salaries and leave balances paid out to retiring team members, which resulted in an overage. However, true temporary help expenses were less than budgeted at \$0.9 million.

Within OE&E, expenses in 2021-22 were lower than budgeted by \$17.3 million, or 13.4 percent. While nearly all OE&E categories had a surplus, the largest dollar variances were for General Expense, Data Processing, Travel, and External Legal Counsel costs as follows:

- General Expense: surplus is driven by the continued remote work environment as well as less expenses for memberships and conferences driven by vacancies and less travel.
- Data Processing: actual expenses were lower than projected due to favorable negotiations for software and service licenses and equipment.
- Travel: actual expenses were lower than budgeted as a result of the continuing pandemic.
- External Legal Counsel: excess funds remain because CalPERS did not need to utilize outside counsel or the Attorney General's Office for as many matters as expected, and other matters resolved without the need for litigation.

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 2021-22, CalPERS expended \$87.9 million, or 72.4 percent of funds to support investment operations.

(in thousands)	2021-22 Authorized Budget	2021-22 Expenditures and Encumbrances	Percent Expended	Balance
Investment Consultants	\$10,000	\$2,549	25.5%	\$7,451
Board Consultants	5,717	5,220	91.3%	497
Technology Consultants	7,555	3,965	52.5%	3,590
Total Consultant Expenses	\$23,271	\$11,734	50.4%	\$11,537
Audits	\$705	\$205	29.1%	\$500
Tax Advisory Services	1,200	625	52.1%	575
Master Custodian Fee	12,535	10,065	80.3%	2,469
Fund Administration Services / Fees	3,848	3,644	94.7%	204
External Legal	5,800	3,120	53.8%	2,680
Appraisal Fees	10,000	9,071	90.7%	929
Company Expense	450	98	21.7%	352
Miscellaneous Operating Expense	300	(356)	(118.6%)	656
Total Operating Expenses	\$34,837	\$26,472	76.0%	\$8,365
Data	\$8,151	\$6,944	85.2%	\$1,208
Analytics	18,205	14,171	77.8%	4,034
Trading and Portfolio Management Systems	33,073	26,354	79.7%	6,719
Business Operations Tool	3,676	2,204	60.0%	1,472
Other Technology Expense	178	40	22.4%	138
Total Technology Expenses	\$63,284	\$49,713	78.6%	\$13,570
Total Investment Operating Expenses	\$121,393	\$87,919	72.4%	\$33,473

The \$33.5 million surplus in Investment Operating Costs are as follows:

- Consultant Expenses: \$11.5 million in Investment and Technology consulting costs driven by a lower than anticipated number of new Strategic Asset Allocation proposals and transactions requiring prudent person opinions and due diligence analyses.
- Operating Expenses: \$8.4 million primarily driven by lower than anticipated External Legal reviews required for new partnership agreements. Additionally, Master Custodian Fees were lower than expected because migration to a new Investment Performance Platform has been slower than originally predicted.
- Technology Expenses: \$13.6 million primarily resulting from a reassessment of Strategic Initiatives and the systems supporting these efforts. The surplus in Trading & Portfolio Management Systems reflects the optimization of the current public asset platform rather than changing to a new, more costly platform.

III. Headquarters Building Costs

Headquarters (HQ) Building expenses are costs 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 2021-22, CalPERS expended \$19.7 million, or 86.9 percent for these purposes. Of this, \$3.7 million was charged to affiliate funds through the Administrative Operating Cost budget, and \$16.0 million to the PERF. In total, \$2.9 million in funds budgeted for HQ Building costs were unexpended. This includes \$2.0 million in Operating Costs, and \$0.9 million in Non-Operating Costs, both driven by the pandemic. More specifically, with team members working remotely and meetings held virtually for most of the fiscal year, there were less utility, maintenance, and supply expenses incurred. Additionally, contracted services were lower as a result of favorable competitive bidding outcomes, as well as reduced services and staffing needs because of remote working. Finally, expenses for team member relocations and minor, non-critical building retrofits were also less than expected due to the remote work environment.

Headquarters Building Costs

(in thousands)	2021-22 Authorized Budget	2021-22 Expenditures and Encumbrances	Percent Expended	Balance
Operating:				
Utilities	\$2,402	\$1,989	82.8%	\$413
Engineering Services	3,643	3,598	98.7%	46
Janitorial	3,598	3,288	91.4%	311
Landscaping	689	589	85.5%	100
General Maintenance	1,020	688	67.5%	332
Security	2,291	2,180	95.2%	111
Property Mgmt. & Administrative Fees	1,360	1,306	96.0%	55
Café Plaza	182	158	86.9%	24
Offsite Expenses	801	697	87.1%	104
Emergency Operations Center (EOC)	504	374	74.3%	129
Operating Other	1,791	1,442	80.5%	349
Total Operating Expenses	\$18,282	\$16,309	89.2%	\$1,973
Non-Operating:				
Owner Improvements	2,129	1,346	63.2%	783
Building Improvements	1,844	1,924	104.3%	(80)
Furniture & Fixtures	190	174	91.7%	16
Building Insurance	660	524	79.3%	136
Total Non-Operating Expenses	\$4,824	\$3,968	82.3%	\$855
Subtotal Expenses	\$23,106	\$20,278	87.8%	\$2,828
Less: Revenue	(459)	(609)	132.5%	149
Total HQ Building Expenses	\$22,646	\$19,669	86.9%	\$2,977
Less: Amount included in Admin. Budget	(4,231)	(3,675)	86.9%	(556)
Total Headquarters Building Budget	\$18,415	\$15,994	86.9%	\$2,421

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 2021-22, CalPERS exceeded the \$898.5 million budget by \$30.1 million, or 3.4 percent. Total Base Fees were \$70.1 million higher than estimated as a result of increased deployment of capital for Real Assets and Private Equity in support of the board-approved strategic asset allocation. Total Performance Fees, driven by market fluctuations, came in under budgeted estimates by \$39.9 million.

2021-22 Investment External Management Fees

(in thousands)	2021-22 Authorized Budget	2021-22 Expenditures and Encumbrances	Percent Expended	Balance
Global Equity	\$36,799	\$27,722	75.3%	\$9,077
Fixed Income	18,985	15,798	83.2%	3,187
Real Assets	236,288	274,049	116.0%	(37,760)
Absolute Return Strategy	25	1	5.9%	24
Private Equity	340,000	396,387	116.6%	(56,387)
Opportunistic Strategies	37,895	26,111	68.9%	11,783
External Mgmt - Base Fees	\$669,992	\$740,068	110.5%	(\$70,076)
Global Equity	\$8,085	\$12,426	153.7%	(\$4,341)
Real Assets	220,420	176,105	79.9%	44,316
Absolute Return Strategy	-	35	0.0%	(35)
External Mgmt - Performance Fees	\$228,505	\$188,566	82.5%	\$39,940
Total External Mgmt Fees	\$898,497	\$928,634	103.4%	(\$30,137)

V. Third Party Administrator Fees

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

Of the \$303.6 million budgeted for Third Party Administrator Fees, CalPERS expended \$299.6 million, or 98.7 percent. Nearly all unexpended funds in this category are due to enrollment changes impacting Health Program and Pharmacy Benefit Manager fees. The variance is the result of members migrating to lower-fee health plans as well as total enrollment changes. In contrast, Long Term Care expenses exceeded the budget due to a contract fee increase caused by an inflation-driven Employer Cost Index. Supplemental Income Plan fees, which are based on assets under management, exceeded the budget because assets under management increased to a higher level than originally estimated.

2021-22 Third Party Administrator Fees

(in thousands)	2021-22 Authorized Budget	2021-22 Expenditures and Encumbrances	Percent Expended	Balance
Health Program	\$263,958	\$260,482	98.7%	\$3,476
Pharmacy Benefit Manager	17,102	16,459	96.2%	642
Total, Health	\$281,060	\$276,941	98.5%	\$4,118
Long Term Care Program	18,985	19,065	100.4%	(81)
Supplemental Income Plan	3,400	3,467	102.0%	(67)
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	\$303,552	\$299,581	98.7%	\$3,971

VI. Administrative Operating Costs by Fund

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

2021-22 Administrative Operating Costs by Fund

(\$ in thousands)	2021-22 Authorized Budget	2021-22 Expenditures and Encumbrances	Percent Expended	Balance
Administrative Operating Costs				
Public Employees' Retirement Fund (PERF)	\$443,169	\$410,315	92.6%	\$32,854
Public Employees' Contingency Reserve Fund (CRF)	35,241	31,658	89.8%	3,583
Public Employees' Health Care Fund (HCF)	50,762	46,611	91.8%	4,151
Long-Term Care Fund (LTCF)	7,468	7,035	94.2%	433
Annuitants' Health Care Coverage Fund (AHCCF)	7,285	6,490	89.1%	795
Deferred Compensation Fund (IRC 457)	1,837	1,756	95.6%	80
Supplemental Contributions Program Fund (SCP)	109	105	96.4%	4
Judges' Retirement Fund (JRF)	2,138	2,017	94.3%	121
Judges' Retirement Fund II (JRF II)	2,641	2,415	91.4%	226
Legislators' Retirement Fund (LRF)	561	528	94.0%	34
Replacement Benefit Custodial Fund (RBF)	623	578	92.7%	45
California Employers' Pension Prefunding Trust (CEPPT)	39	34	89.4%	4
Old-Age & Survivors Insurance Fund (OASI)	1,145	961	83.9%	185
Reimbursements	2,259	2,134	94.4%	125
Total Administrative Operating Costs	\$555,276	\$512,636	92.3%	\$42,640
<i>Statewide Pro-Rata Assessment</i>	\$30,924	\$30,924	100.0%	-
<i>CalPERS Administrative Costs</i>	\$524,352	\$481,712	91.9%	\$42,640