

California Public Employees' Retirement System

Fiscal Year 2023-24 Annual Budget Proposal

April 17, 2023



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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' current strategic goals listed below.

- Member Experience
- Pension Sustainability
- Exceptional Health Care
- Stakeholder Engagement
- Organizational Excellence

2023-24 Total Budget

(\$ in thousands)	2021-22 Actual	2022-23 Authorized Budget	2023-24 Proposed Budget	2022-23 to 2023-24 Change	
				\$	%
Administrative Operating Costs	\$512,636	\$577,352	\$585,451	\$8,099	1.4%
Investment Operating Costs	87,919	132,678	150,595	17,917	13.5%
Headquarters Building Costs	15,994	20,823	22,608	1,785	8.6%
Total: Operating Costs	\$616,550	\$730,854	\$758,655	\$27,801	3.8%
Investment External Management Fees	928,634	1,143,544	1,339,444	195,900	17.1%
Third Party Administrator Fees	299,581	310,312	329,781	19,469	6.3%
Total: Fees	\$1,228,215	\$1,453,856	\$1,669,225	\$215,369	14.8%
CalPERS Total Budget	\$1,844,765	\$2,184,709	\$2,427,880	\$243,171	11.1%
Total Positions	2,843.0	2,843.0	2,843.0	-	0.0%

- Administrative Operating Cost increases reflect updates and enhancements of information technology software, the first year of possible long-term incentive payouts, and the continued ramp up of post-pandemic travel and in-person events.
- Investment Operating Cost increases include funding for the Investment Data and Technology Strategy Initiative to improve total fund portfolio management and promote fund sustainability.
- Headquarters Building Cost increases include funds to refresh the auditorium and training room audio and video systems, remedy fire and life safety concerns, prevent water intrusion, and replace uneven walkway pavers.
- Investment External Management Fee increases are a result of the updated strategic asset allocation.

- Third Party Administrator Fee increases are the result of enrollment migration and growth in the Health Program as well as expected contract pricing increases.

Total authorized positions remain unchanged at 2,843.

2022-23 Current Year Update

As of December 31, 2022, CalPERS expended 39.1% of the total \$2.185 billion authorized budget. Based on fiscal projections, CalPERS estimates that it will end the year with approximately \$53.1 million, or 2.4%, in unexpended funds. This projection is on target with the key performance indicator to forecast expenses at or below 10% of the budget.

2022-23 Current Year Update

(\$ in thousands)	2022-23 Authorized Budget	2022-23 Expenditures and Encumbrances thru 12-31-22	Percent Expended	Forecast	Savings
Administrative Operating Costs	\$577,352	\$262,370	45.4%	\$534,870	\$42,482
Investment Operating Costs	132,678	27,421	20.7%	117,748	14,930
Headquarters Building Costs	20,823	7,920	38.0%	20,820	4
Total: Operating Costs	\$730,854	\$297,711	40.7%	\$673,437	\$57,416
Investment External Mgmt Fees	1,143,544	403,826	35.3%	1,143,544	-
Third Party Administrator Fees	310,312	151,928	49.0%	314,624	(4,312)
Total: Fees	\$1,453,856	\$555,754	38.2%	\$1,458,168	(\$4,312)
CalPERS Total Forecast	\$2,184,709	\$853,465	39.1%	\$2,131,605	\$53,104

Nearly all forecasted savings is in Operating Costs, with Administrative Cost savings driven by position vacancies. There are also savings forecast across various Operating Expense and Equipment (OE&E) line items including information technology and consultant expenses.

Investment Operating Costs are projected to have surplus compared to its projected budget, because of slower deployment of consulting and legal activities. However, as CalPERS expands its commitment to private assets and active management under the new strategic asset allocation, it is anticipated these costs will increase. Less than expected investment technology expenses are also contributing to this forecasted surplus and is a result of reprioritization of technology projects and negotiation of more cost-efficient fee structures as the Investment Office works to develop a long-term investment data and technology strategy.

While total Operating Costs reflect anticipated savings, CalPERS projects no material changes in spending from the estimated Headquarters Building Costs.

Finally, based on Fall 2022 Open Enrollment, CalPERS expects a \$4.3 million deficit in Third Party Administrator Fees as a result of health plan enrollment changes and migration to plans with higher third party administrator fees.

Social Security Fee Update

For the upcoming 2023-24 fiscal year, CalPERS proposes the continued suspension of Old Age and Survivors' Insurance (OASI) administrative fees charged to employers. On June 30, 2022, the fund's net position was \$3.0 million. Upon review of current and upcoming fiscal year expenditure projections, there will be sufficient funds available to cover expenses without additional fee revenue. 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 of Administration approval prior to the start of the new fiscal year on July 1st. In contrast, the mid-year review addresses new, critical, and unforeseen resource needs not envisioned when developing the annual proposal. At mid-year, CalPERS also adjusts the budget to reflect statewide compensation and benefit increases negotiated through collective bargaining.

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 new increases. The Financial Office analyzes all budget requests to inform decisions made by senior management and executive leaders. The main criteria used to prioritize budget increases include:

- Mitigating risk
- Identifying opportunities for cost efficiencies
- Aligning with the strategic plan and business plan
- Implementing CalPERS board decisions and directives
- Complying with legal mandates

As both the annual and mid-year budgets are developed, 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 staffing and related budgetary increases, and to focus resources in the areas of highest priority.

2023-24 Proposed Budget

CalPERS' total 2023-24 proposed budget is \$2.428 billion; an increase of \$243.2 million, or 11.1%, compared to the 2022-23 authorized budget. The major driver of the year-over-year increase is in estimated Investment External Management Fees, with additional increases proposed for Operating Costs and Third Party Administrator Fees.

2023-24 Total Budget

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Total Positions	2,843.0	2,843.0	2,843.0	-	0.0%

Based on proposed budget levels, CalPERS' expenses have increased 8.3% annually over the past five years as shown below.

Total Budget 2018-19 through 2023-24

(\$ in thousands)	2018-19 Actual	2019-20 Actual	2020-21 Actual	2021-22 Actual	2022-23 Authorized Budget	2023-24 Proposed Budget	Five-Year Change	Annual Growth (%)
Administrative Operating Costs	\$469,696	\$480,404	\$451,978	\$512,636	\$577,352	\$585,451	\$115,755	4.5%
Investment Operating Costs	78,782	93,260	81,339	87,919	132,678	150,595	71,813	13.8%
Headquarters Building Costs	23,029	21,666	17,518	15,994	20,823	22,608	(420)	(0.4%)
Total Operating Budget	\$571,507	\$595,330	\$550,835	\$616,550	\$730,854	\$758,655	\$187,148	5.8%
Investment External Management Fees	759,624	710,200	723,695	928,634	1,143,544	1,339,444	579,820	12.0%
Third Party Administrator Fees	299,874	306,043	297,807	299,581	310,312	329,781	29,907	1.9%
Total: Fees	\$1,059,498	\$1,016,243	\$1,021,502	\$1,228,215	\$1,453,856	\$1,669,225	\$609,727	9.5%
CalPERS Total Budget	\$1,631,005	\$1,611,573	\$1,572,336	\$1,844,765	\$2,184,709	\$2,427,880	\$796,875	8.3%

The major drivers of cost increases over the past five years include:

- State-negotiated employee compensation and benefit increases and long-term incentives for the Investment Office (Administrative Operating Costs).
- New technologies to implement Total Fund data strategies to modernize and enhance data, analytics, and business operations tools to support internal asset management capabilities (Investment Operating Costs).
- Increased assets under management and increased capital deployment to private asset and active strategies tied to the strategic asset allocation approved by the board (Investment External Management Fees).
- Expanded health plan options, increased enrollment, general contract pricing increases, and new Third Party Administrator contracts (Third Party Administrator Fees).

Over this same timeframe, CalPERS actively engaged in efforts to offset Administrative Operating and Headquarters Building Costs by:

- Implementing a position pooling process to redirect 133.5 vacant positions to address changing workload needs.
- Eliminating 32 vacant positions in fiscal year 2020-21.
- Reducing temporary help and overtime costs by \$5.1 million.
- Transitioning work performed by contractors to CalPERS employees.
- Delaying or phasing building improvement and enterprise projects.

The following pages detail the 2023-24 Proposed Budget by expenditure category.

I. Administrative Operating Costs

Administrative Operating Costs include Personal Services expenditures (salaries, wages, and benefits for permanent and temporary help staff) and Operating Expenses and Equipment (OE&E) for each branch within CalPERS. Personal Services costs comprise approximately 82% of Administrative Operating Costs, excluding statewide pro-rata (Central Administrative Services). In 2023-24, Administrative Operating Costs are proposed to increase \$8.1 million, or 1.4%, over the 2022-23 authorized budget.

Administrative Operating Costs by Object of Expenditure

(\$ in thousands)	2021-22 Actual	2022-23 Authorized Budget	2023-24 Proposed Budget	2022-23 to 2023-24 Change	
				\$	%
Salaries & Wages	\$271,920	\$293,301	\$304,768	\$11,468	3.9%
Benefits	128,891	151,892	151,154	(738)	(0.5%)
Total Personal Services	\$400,811	\$445,193	\$455,922	\$10,730	2.4%
General Expense	\$5,579	\$10,131	\$10,446	\$315	3.1%
Software	4,996	3,069	2,571	(498)	(16.2%)
Printing	242	423	242	(181)	(42.9%)
Postage	3,041	2,750	2,214	(536)	(19.5%)
Communications	1,338	1,542	1,515	(27)	(1.7%)
Data Processing Services	16,469	27,778	24,163	(3,614)	(13.0%)
Travel	280	2,599	2,926	326	12.6%
Training	576	1,063	1,274	210	19.8%
Medical Exam/Disability Travel	1,474	2,000	2,000	-	0.0%
Facilities Operations	6,776	7,987	8,314	328	4.1%
Central Administrative Services	30,924	30,895	26,527	(4,368)	(14.1%)
University Enterprises, Inc.	399	444	455	11	2.4%
External Legal Counsel	3,090	5,891	5,941	50	0.8%
Professional Services	4,298	4,746	4,937	191	4.0%
Consultants	22,441	21,799	26,892	5,093	23.4%
Audit Services	1,520	1,516	1,546	30	2.0%
Federal Legislative Rep	395	403	591	188	46.7%
Admin Hearings	1,373	1,402	1,402	-	0.0%
Consolidated Data Centers	331	350	350	-	0.0%
Equipment (Includes EDP)	6,283	5,373	5,225	(147)	(2.7%)
Total Operating Expenses & Equipment	\$111,825	\$132,160	\$129,529	(\$2,630)	(2.0%)
Total Administrative Costs	\$512,636	\$577,352	\$585,451	\$8,099	1.4%

Within the Personal Services budget, the \$10.7 million, or 2.4%, year-over-year increase is driven by the implementation of possible long-term incentives for the Investment Office approved by the board February 2019. The 2023-24 fiscal year is the first year with possible payouts, dependent on investment returns meeting a minimum threshold.

Across the OE&E line items, there are several adjustments that net to an overall \$2.6 million, or 2.0%, decrease. Significant decreases include:

- \$4.4 million due to lower Pro Rata costs for central administrative services that are billed to all state departments
- \$3.3 million due to the elimination of various information technology one-time costs
- \$3.1 million due to information technology backup and disaster recovery outsourcing being brought in-house
- \$1.7 million due to no board member elections scheduled for 2023-24
- \$1.0 million due to lower maintenance and operation costs for various information technology contracts
- \$0.5 million due to the reduction of communication consultants and webinar/webcasts
- \$0.2 million due to a reduction in external publication printing as more work is brought in-house

These decreases are offset by various increases based on operational needs. Significant increases include:

- \$6.1 million for technology upgrades necessitated by operating system updates
- \$2.7 million for technology, equipment, and consultants to enhance information security, compliance requirements, and risk program development
- \$0.9 million to replace outdated and discontinued software
- \$0.7 million for increased travel, training, and CalPERS event cost increases
- \$0.5 million for business and travel insurance increases
- \$0.3 million for customer service technology enhancements
- \$0.2 million for affiliate funds' share of increased facilities expenses
- \$0.2 million for Regional Office tenant cost increases

Staffing Levels

Total authorized positions for 2023-24 remain unchanged from the current year. However, position counts by branch have changed as a result of position pooling.

Authorized Positions by Branch

Positions by Branch	2022-23 Authorized	2023-24 Proposed	% Change
Actuarial Office	64.0	64.0	0.0%
Communications and Stakeholder Relations	77.0	76.0	(1.3%)
Customer Services and Support	901.0	887.5	(1.5%)
Executive Office	17.0	17.0	0.0%
Financial Office	178.0	176.0	(1.1%)
General Counsel	191.0	198.0	3.7%
Health Policy and Benefits	206.0	205.0	(0.5%)
Investment Office	342.0	343.0	0.3%
Operations and Technology	863.0	832.5	(3.5%)
Position Pool	4.0	44.0	1000.0%
Total Authorized Positions	2,843.0	2,843.0	0.0%

The branches above with position reductions are those that assessed their workload and resource needs and determined that vacancies could be redirected as part of CalPERS' position pooling process.

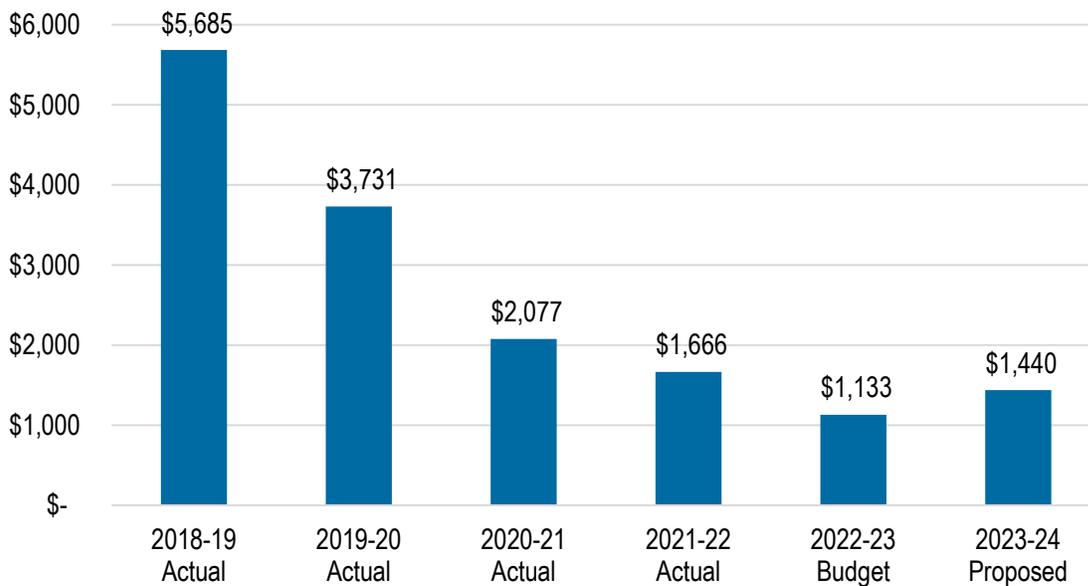
The seven-position increase within the General Counsel Office reflects resources redirected to support the Information Security Office. Additionally, the Investment Office increase is to support CalPERS' Total Fund Governance and Sustainability 5-Year Strategic Plan.

Temporary Help

The Salaries and Wages budget within Administrative Operating Costs includes funds for temporary help, such as Seasonal Clerks, Permanent Intermittent positions, and Retired Annuitants, as well as for board members' employer reimbursements. In 2023-24, CalPERS proposes \$1.4 million for temporary help. This slight increase over 2022-23 will fund seasonal workload and retirement succession planning.

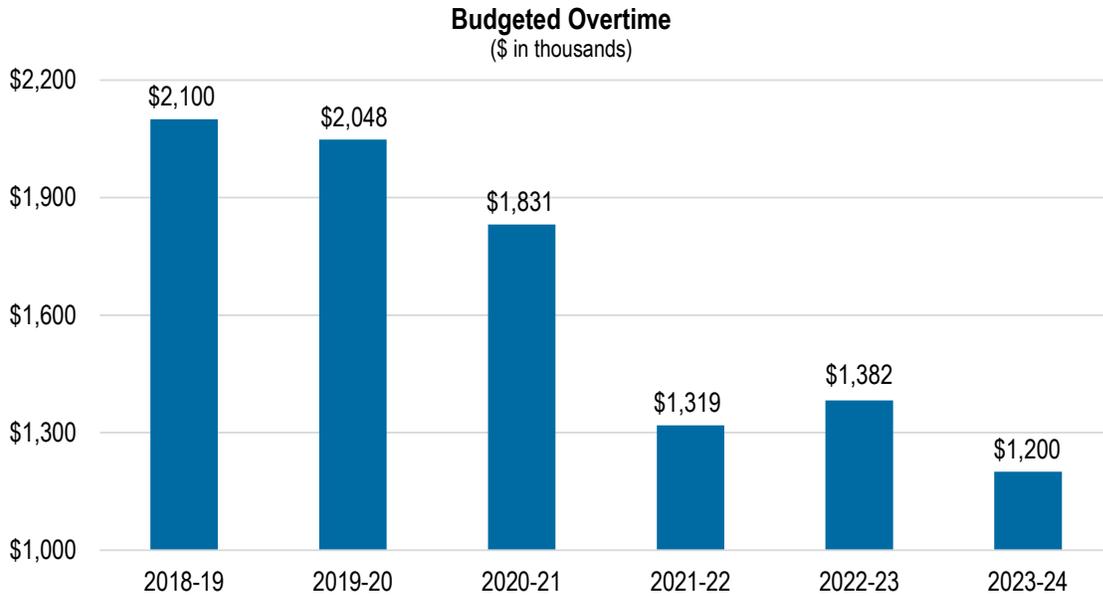
As displayed below, temporary help expenses have decreased significantly over the past five years. This is due to the elimination of permanent positions in the blanket and no longer employing seasonal clerks for regular, ongoing work.

Temporary Help Expenditures
(\$ in thousands)



Overtime

The Salaries and Wages budget also includes funds for overtime expenses. CalPERS proposes a decrease of \$182,000 for overtime costs in 2023-24 due to less overtime needs in the enterprise. CalPERS maintains a notable budget reduction over the past five years.



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, for fund administration and custody, for data and analytics software and services, and for maintaining or enhancing trading and portfolio management systems. Investment Operating Costs in 2023-24 are proposed at \$150.6 million. This is a 13.5% increase over the 2022-23 authorized budget.

Investment Operating Costs

(\$ in thousands)	2021-22 Actual	2022-23 Authorized Budget	2023-24 Proposed Budget	2022-23 to 2023-24 Change	
				\$	%
Investment Consultants	\$2,549	\$10,000	\$12,000	\$2,000	20.0%
Board Consultants	5,220	6,017	6,500	483	8.0%
Technology Consultants	3,965	10,034	12,243	2,209	22.0%
Total Consultant Expenses	\$11,734	\$26,051	\$30,743	\$4,692	18.0%
Audits	\$205	\$705	\$705	\$ -	0.0%
Tax Advisory Services	625	1,200	1,200	-	0.0%
Master Custodian Fee	10,065	14,405	14,515	110	0.8%
Fund Administration Services / Fees	3,644	3,848	13,548	9,700	252.1%
External Legal	3,120	5,800	8,000	2,200	37.9%
Appraisal Fees	9,071	11,000	12,500	1,500	13.6%
Company Expense	98	450	450	-	0.0%
Miscellaneous Operating Expense	(356)	300	300	-	0.0%
Total Operating Expenses	\$26,472	\$37,707	\$51,217	\$13,510	35.8%
Data	\$6,944	\$8,920	\$11,600	\$2,680	30.1%
Analytics	14,171	19,871	20,034	163	0.8%
Trading and Portfolio Management Systems	26,354	35,026	32,149	(2,877)	(8.2%)
Business Operations Tool	2,204	4,926	4,675	(251)	(5.1%)
Other Technology Expense	40	178	178	-	0.0%
Total Technology Expenses	\$49,713	\$68,920	\$68,635	(\$285)	(0.4%)
Total Investment Operating Expenses	\$87,919	\$132,678	\$150,595	\$17,917	13.5%

The primary drivers behind the increases are:

- the Investment Data and Technology Strategy Initiative, which requires an implementation of new technology and business tools to improve total fund portfolio management and promote fund sustainability,
- rising costs for technology services,
- and external legal fees to support private asset transactions and active strategies.

In addition, Fund Administration Services/Fees increased as a result of the Private Equity, Private Debt, and Real Assets principal accounting and data services provider costs being realigned from Trading and Portfolio Management Systems. The services are more appropriately considered fund administration costs.

III. 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 of 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 2023-24 are \$27.5 million, which is a 7.8% increase over the 2022-23 authorized budget.

Headquarters Building Costs

(\$ in thousands)	2021-22 Actual	2022-23 Authorized Budget	2023-24 Proposed Budget	2022-23 to 2023-24	
				\$	%
Utilities	\$1,989	\$2,427	\$2,570	\$143	5.9%
Engineering Services	3,598	4,288	4,290	2	0.0%
Janitorial	3,288	3,603	3,550	(53)	(1.5%)
Landscaping	589	697	742	45	6.5%
General Maintenance	688	1,348	1,076	(272)	(20.2%)
Security	2,180	2,714	3,001	287	10.6%
Property Mgmt. & Administrative Fees	1,306	1,492	1,651	159	10.6%
Café Plaza	158	253	288	35	13.8%
Offsite Expenses	697	963	1,015	52	5.4%
Emergency Operations Center (EOC)	374	745	521	(224)	(30.1%)
Operating Other	1,442	2,755	2,099	(657)	(23.8%)
Total Operating Expenses	\$16,309	\$21,285	\$20,803	(\$482)	(2.3%)
Owner Improvements	\$1,346	\$2,060	\$2,192	\$132	6.4%
Building Improvements	1,924	2,623	4,939	2,316	88.3%
Furniture & Fixtures	174	300	300	-	0.0%
Building Insurance	524	610	686	76	12.5%
Total Non-Operating Expenses	\$3,968	\$5,593	\$8,117	\$2,524	45.1%
Less: Revenue	(609)	(1,343)	(1,405)	(62)	4.6%
Total Headquarters Building Expenses	\$19,669	\$25,536	\$27,516	\$1,980	7.8%
Less: Amount included in Admin. Budget	(3,675)	(4,713)	(4,908)	(195)	4.1%
Total Headquarters Building Budget	\$15,994	\$20,823	\$22,608	\$1,785	8.6%

The year-over-year adjustments in the Headquarters Building budget reflect the following:

- \$0.5 million decrease in Operating Expenses primarily driven by contract savings and elimination of one-time costs. This was partially offset by contracted wage and benefit increases for security and administrative staff, and increased utilities costs.
- \$2.5 million increase in Non-Operating Expenses for various building improvement projects to refresh auditorium and training room audio and video systems, remedy fire and life safety concerns, prevent water intrusion, and replace uneven walkway pavers. The increase in building insurance reflects market conditions.

Of the \$27.5 million total Headquarters Building costs, \$4.9 million is budgeted within the Administrative Operating Costs budget (included in Facilities Operations) and represents amounts charged to affiliate funds for their reasonable share of building costs. The remaining \$22.6 million will be funded from the Public Employees Retirement Fund (PERF).

IV. Investment External Management Fees

Investment External Management Fees represent amounts that CalPERS pays to external investment advisors for the management of specific portfolios. The board approves Investment Advisor Contract extensions on an annual basis. Details on investment fees paid are included in the Annual Comprehensive Financial Report presented to the board each November.

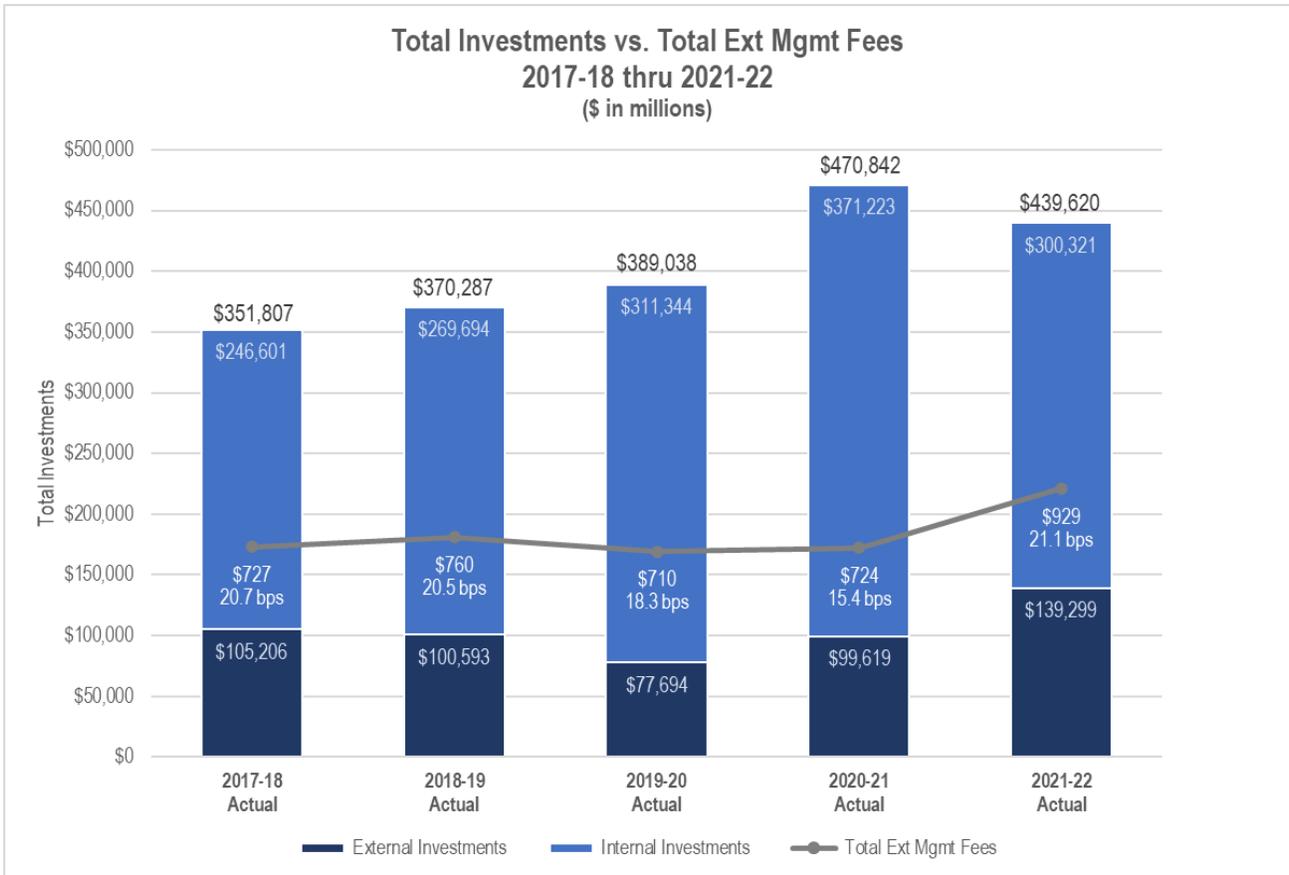
While CalPERS estimates annual Investment External Management Fees based on market assumptions and estimated deployment of capital to investment diversification strategies, actual fees paid within a fiscal year are subject to market fluctuations. Current assumptions estimate total fees in 2023-24 at \$1.3 billion. This is an increase of 17.1% over the 2022-23 authorized budget.

As a result of the board approved strategic asset allocation, this increase corresponds to the expected change in the fees paid to external managers. Much of the increase in base fees is for Real Assets and Private Debt, with additional but smaller increases anticipated for Fixed Income, Private Equity and Global Equity. A projected increase in Real Assets performance fees is driven primarily by infrastructure investments.

Investment External Management Fees

(\$ in thousands)	2021-22 Actual	2022-23 Authorized Budget	2023-24 Proposed Budget	2022-23 to 2023-24 Change	
				\$	%
Global Equity	\$27,722	\$25,890	\$47,087	\$21,197	81.9%
Fixed Income	15,798	40,000	72,500	32,500	81.3%
Real Assets	274,049	317,813	390,736	72,923	22.9%
Private Equity	396,387	395,000	415,000	20,000	5.1%
Opportunistic Strategies	26,111	-	3,100	3,100	0.0%
Private Debt	-	65,399	102,000	36,601	56.0%
Absolute Return Strategy / Multi Asset Class	1	-	-	-	0.0%
External Management - Base Fees	\$740,068	\$844,102	\$1,030,423	\$186,321	22.1%
Global Equity	\$12,426	\$ -	\$ -	\$ -	0.0%
Real Assets	176,105	299,442	309,021	9,579	3.2%
Absolute Return Strategy	35	-	-	-	0.0%
External Management - Performance Fees	\$188,566	\$299,442	\$309,021	\$9,579	3.2%
Total External Management Fees	\$928,634	\$1,143,544	\$1,339,444	\$195,900	17.1%

As displayed below, CalPERS' total assets under management (AUM) has increased \$87.8 billion since 2017-18. Over this same time, the amount of fees paid to external investment managers increased from \$727 million to \$929 million. In terms of basis points (bps), external management fees to total investments have increased slightly from 20.7 bps to 21.1 bps over the same time horizon.



V. 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:

- Health Benefits
- Long Term Care
- Supplemental Income Plan
- California Employers' Retiree Benefit Trust Fund
- California Employers' Pension Prefunding Trust

When preparing the Annual Budget, CalPERS estimates Third Party Administrator Fees based on enrollment data following the Fall Open Enrollment period. However, actual enrollment fluctuates throughout the fiscal year and can impact actual expenses. Based on enrollment through January 2023, the estimated Third Party Administrator Fees for 2023-24 are \$329.8 million. This is an increase of \$19.5 million or 6.3% over the current year.

Third Party Administrator Fees

(\$ in thousands)	2021-22 Actual	2022-23 Authorized Budget	2023-24 Proposed Budget	2022-23 to 2023-24 Change	
				\$	%
Health Program	\$260,482	\$269,900	\$288,103	\$18,203	6.7%
Pharmacy Benefit Manager	16,459	18,119	20,502	2,383	13.2%
Total, Health	\$276,941	\$288,019	\$308,605	\$20,586	7.1%
Long Term Care Program	19,065	18,660	17,668	(992)	(5.3%)
Supplemental Income Plan	3,467	3,525	3,400	(125)	(3.5%)
California Employers' Retiree Benefit Trust	90	90	90	-	0.0%
California Employers' Pension Prefunding Trust	18	18	18	-	0.0%
Total Third Party Administrator Fees	\$299,581	\$310,312	\$329,781	\$19,469	6.3%

The year-over-year increase in Third Party Administrator Fees for the Health Program are driven by administrative service fee price increases, enrollment migration to plans with higher fees, and a general estimated increase in total program enrollment. In addition, the Pharmacy Benefit Manager fees are increasing due to a projected increase in total claims and full year realization of fees for certain Basic plans. The decrease in Long Term Care fees reflects projected enrollment declines and a continued suspension of new enrollments. Supplemental Income Plan fees are projected to decrease due to a decline in assets under management.

I. Administrative Operating Costs by Branch

Presented below is the allocation of proposed Administrative Operating Costs to the CalPERS branches. The year-over-year changes reflect a methodology to align Administrative expenses with fund level appropriations. CalPERS budgets positions at the mid-step of salary ranges consistent with state budgeting practices. Vacancy savings from some divisions are redirected to cover the cost of other divisions whose team members are paid at the top step of salary bands. Due to the cost allocation process, CalPERS annually reviews historical division vacancy rates and actual expenditure levels to more accurately budget Personal Services expenditures proportionally to the divisions and trust funds.

Administrative Operating Costs by Branch

(\$ in thousands)	2021-22 Actual	2022-23 Authorized Budget	2023-24 Proposed Budget	2022-23 to 2023-24 Change	
				\$	%
Actuarial Office	\$12,666	\$13,663	\$14,118	\$454	3.3%
Communications and Stakeholder Relations	12,560	14,586	14,964	377	2.6%
Customer Services and Support	106,787	117,099	116,624	(475)	(0.4%)
Executive Office	7,330	9,564	10,292	728	7.6%
Financial Office	25,196	26,772	27,282	510	1.9%
General Counsel	36,222	44,653	43,767	(885)	(2.0%)
Health Policy and Benefits Branch	31,318	34,557	34,236	(321)	(0.9%)
Investment Office	80,440	95,274	105,326	10,052	10.6%
Operations and Technology	165,399	178,200	178,424	224	0.1%
Enterprise	3,795	12,089	13,892	1,803	14.9%
Pro-Rata Assessment	30,924	30,895	26,527	(4,368)	(14.1%)
Total Administrative Operating Costs	\$512,636	\$577,352	\$585,451	\$8,099	1.4%

II. Administrative Operating Costs by Trust Fund

Funds for Administrative Operating costs are appropriated annually and available for encumbrance or expenditure for one fiscal year. The culmination of each annual and mid-year budget cycle is the distribution, or allocation, of administrative expenses to the trusts and state funds. This is done through a process designed to match expenses to the funds that receive the related benefit. While the board has authority to set the budget and expenditures for most trusts and funds, appropriations for administrative costs from the Public Employees' Contingency Reserve Fund (CRF), Public Employees' Health Care Fund (HCF), and Old-Age & Survivors Insurance (OASI) Fund are authorized by the Legislature. The following allocation establishes the expenditure authority for Administrative Operating Costs and will be provided to the State Controller's Office to effectuate the transfer and payment of funds for administrative expenses.

Administrative Operating Costs by Fund

(\$ in thousands)	2021-22 Actual	2022-23 Authorized Budget	2023-24 Proposed Budget	2022-23 to 2023-24 Change	
				\$	%
Public Employees' Retirement Fund (PERF)	\$410,315	\$459,532	\$466,267	\$6,735	1.5%
Public Employees' Contingency Reserve Fund (CRF)	31,658	36,442	36,134	(307)	(0.8%)
Public Employees' Health Care Fund (HCF)	46,611	52,493	52,050	(443)	(0.8%)
Long-Term Care Fund (LTCF)	7,035	9,715	10,219	505	5.2%
Annuitants' Health Care Coverage Fund (AHCCF)	6,490	6,744	7,703	958	14.2%
Deferred Compensation Fund (IRC 457)	1,756	2,159	2,238	79	3.7%
Supplemental Contributions Program Fund (SCP)	105	146	238	92	62.7%
Judges' Retirement Fund (JRF)	2,017	2,367	2,563	196	8.3%
Judges' Retirement Fund II (JRF II)	2,415	2,651	3,052	401	15.1%
Legislators' Retirement Fund (LRF)	528	648	745	97	15.0%
Replacement Benefit Custodial Fund (RBF)	578	671	691	21	3.1%
California Employers' Pension Prefunding Trust (CEPPT)	34	82	136	54	65.9%
Old-Age & Survivors Insurance Fund (OASI)	961	1,182	1,171	(12)	(1.0%)
Reimbursements	2,134	2,520	2,244	(276)	(11.0%)
Total Administrative Operating Costs	\$512,636	\$577,352	\$585,451	\$8,099	1.4%
<i>Statewide Pro-Rata Assessment</i>	\$30,924	\$30,895	\$26,527	(\$4,368)	(14.1%)
<i>CalPERS Administrative Costs</i>	\$481,712	\$546,458	\$558,925	\$12,467	2.3%

III. 2024-25 Projection

As part of its budget process, CalPERS considers and monitors the multi-year impact of fiscal decisions to estimate future operating cost expenses. Based on current information and known factors, CalPERS projects a future operating cost increase of \$18.1 million or 2.4% in 2024-25 due to the following:

- Net \$7.8 million or (1.3%) decrease in Administrative Operating Costs driven by known reductions of 2023-24 one-time costs for updates and enhancements of information technology software.
- \$23.2 million or 15.4% increase in Investment Operating Costs due to the Data Strategy implementation, increase in technology services, and inflationary pressures.
- \$2.7 million or 12.1% increase in Headquarters Building Costs for anticipated inflation and building improvement projects.

2024-25 Projection

(\$ in thousands)	2023-24 Proposed Budget	2024-25 Projected Budget	2023-24 to 2024-25 Change	
			\$	%
Administrative Operating Costs	\$585,451	\$577,696	(\$7,756)	(1.3%)
Investment Operating Costs	150,595	173,745	23,150	15.4%
Headquarters Building Costs	22,608	25,343	2,735	12.1%
Total Projection	\$758,655	\$776,784	\$18,130	2.4%
Authorized Positions	2,843.0	2,843.0	-	0.0%