

California Public Employees' Retirement System

Fiscal Year 2024-25 Annual Budget Proposal

April 15, 2024



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Executive Summary

CalPERS proposes an increase of \$26.6 million, or 1.1%, over the 2023-24 Mid-Year budget. This increase reflects 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.

Administrative Operating Cost decreases are driven by reductions in software, data processing, and consulting expenses.

Investment Operating Cost decreases are due to reduced consultant, infrastructure, and data service needs within the Investment Office.

Headquarters Building Cost increases are primarily due to the update of audio and visual systems in the CalPERS auditorium and the replacement of fluorescent lighting with LED lighting throughout Lincoln Plaza.

Investment External Management Fee increases are driven by the updated Strategic Asset Allocation's increased focus on active management and increased allocation to private asset classes.

Third Party Administrator Fee (TPA) decreases are a result of Blue Shield changing from flex-funded to fully insured. Fully insured plans do not include a TPA fee.

Total authorized positions remain unchanged at 2,843.

2024-25 Total Budget

| (\$ in thousands) | 2022-23 Actual | 2023-24 Authorized Budget | 2024-25 Proposed Budget | Change | |
|-------------------------------------|--------------------|---------------------------------|-------------------------------|-----------------|-------------|
| | | | | \$ | % |
| Administrative Operating Costs | \$511,944 | \$616,670 | \$614,877 | (\$1,792) | (0.3%) |
| Investment Operating Costs | 93,547 | 150,595 | 146,735 | (3,860) | (2.6%) |
| Headquarters Building Costs | 17,802 | 22,753 | 31,466 | 8,713 | 38.3% |
| Total: Operating Costs | \$623,292 | \$790,018 | \$793,078 | \$3,060 | 0.4% |
| Investment External Management Fees | 898,964 | 1,368,386 | 1,428,052 | 59,666 | 4.4% |
| Third Party Administrator Fees | 306,122 | 285,156 | 249,023 | (36,133) | (12.7%) |
| Total: Fees | \$1,205,086 | \$1,653,542 | \$1,677,075 | \$23,533 | 1.4% |
| CalPERS Total Budget | \$1,828,378 | \$2,443,560 | \$2,470,153 | \$26,594 | 1.1% |
| Total Positions | 2,843.0 | 2,843.0 | 2,843.0 | - | 0.0% |

2023-24 Current Year Update

As of December 31, 2023, CalPERS has expended 40.2% of its total \$2.4 billion authorized budget. Based on fiscal projections, CalPERS estimates that it will end the year with approximately \$99.5 million, or 4.1%, in unexpended funds.

The majority of the forecasted savings are associated with Administrative Operating Costs and driven by vacancies. The remainder of the projected savings within this category are associated with technology and consultant expense reductions.

The Investment Operating Costs category is projected to have savings resulting from technology modernization project schedule changes. The Investment Office continues to reprioritize technology projects, negotiate cost-efficient fee structures, and develop the long-term strategy for technology initiatives.

TPA Fees have a projected savings based on Fall 2023 Open Enrollment, including health plan enrollment changes and migration to plans with lower TPA fees.

2023-24 Current Year Update

| (\$ in thousands) | 2023-24 Authorized Budget | 2023-24 Expenditures and Encumbrances thru 12-31-23 | Percent Expended | Forecast | Savings |
|-------------------------------------|---------------------------|---|------------------|--------------------|-----------------|
| Administrative Operating Costs | \$616,670 | \$245,156 | 39.8% | \$528,387 | \$88,282 |
| Investment Operating Costs | 150,595 | 27,832 | 18.5% | 141,929 | 8,666 |
| Headquarters Building Costs | 22,753 | 10,116 | 44.5% | 22,753 | - |
| Total: Operating Costs | \$790,018 | \$283,105 | 35.8% | \$693,069 | \$96,949 |
| Investment External Management Fees | 1,368,386 | 540,441 | 39.5% | 1,368,386 | - |
| Third Party Administrator Fees | 285,156 | 159,057 | 55.8% | 282,646 | 2,510 |
| Total: Fees | \$1,653,542 | \$699,498 | 42.3% | \$1,651,032 | \$2,510 |
| CalPERS Total Forecast | \$2,443,560 | \$982,603 | 40.2% | \$2,344,101 | \$99,459 |

Social Security Fee Update

For the upcoming 2024-25 fiscal year, CalPERS proposes to resume the Old Age and Survivors' Insurance (OASI) administrative fees charged to employers. On June 30, 2023, the fund's net position was \$2.1 million. Upon review of current and upcoming fiscal year expenditure projections, there will be insufficient funds available to maintain required reserves 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. 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. Pursuant to the CalPERS Budget Policy, 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.

2024-25 Proposed Budget

CalPERS' total 2024-25 proposed budget is \$2.470 billion, an increase of \$26.6 million, or 1.1%, compared to the 2023-24 budget. The primary increases are in the Headquarters Building Costs and Investment External Management Fees.

2024-25 Total Budget

| (\$ in thousands) | 2022-23 Actual | 2023-24 Authorized Budget | 2024-25 Proposed Budget | Change | |
|-------------------------------------|--------------------|---------------------------|-------------------------|-----------------|-------------|
| | | | | \$ | % |
| Administrative Operating Costs | \$511,944 | \$616,670 | \$614,877 | (\$1,792) | (0.3%) |
| Investment Operating Costs | 93,547 | 150,595 | 146,735 | (3,860) | (2.6%) |
| Headquarters Building Costs | 17,802 | 22,753 | 31,466 | 8,713 | 38.3% |
| Total: Operating Costs | \$623,292 | \$790,018 | \$793,078 | \$3,060 | 0.4% |
| Investment External Management Fees | 898,964 | 1,368,386 | 1,428,052 | 59,666 | 4.4% |
| Third Party Administrator Fees | 306,122 | 285,156 | 249,023 | (36,133) | (12.7%) |
| Total: Fees | \$1,205,086 | \$1,653,542 | \$1,677,075 | \$23,533 | 1.4% |
| CalPERS Total Budget | \$1,828,378 | \$2,443,560 | \$2,470,153 | \$26,594 | 1.1% |
| Total Positions | 2,843.0 | 2,843.0 | 2,843.0 | - | 0.0% |

Based on proposed budget levels, CalPERS' expenses have increased 9.5% annually over the past five years, as shown below.

Total Budget 2020-21 through 2024-25

| (\$ in thousands) | 2020-21 Actual | 2021-22 Actual | 2022-23 Actual | 2023-24 Authorized Budget | 2024-25 Proposed Budget | Five-Year Change | Annual Growth (%) |
|-------------------------------------|--------------------|--------------------|--------------------|---------------------------|-------------------------|------------------|-------------------|
| Administrative Operating Costs | \$451,978 | \$512,636 | \$511,944 | \$616,670 | \$614,877 | \$162,899 | 6.3% |
| Investment Operating Costs | 81,339 | 87,919 | 93,547 | 150,595 | 146,735 | 65,396 | 12.5% |
| Headquarters Building Costs | 17,518 | 15,994 | 17,802 | 22,753 | 31,466 | 13,948 | 12.4% |
| Total Operating Budget | \$550,835 | \$616,550 | \$623,292 | \$790,018 | \$793,078 | \$242,244 | 7.6% |
| Investment External Management Fees | 723,695 | 928,634 | 898,964 | 1,368,386 | 1,428,052 | 704,357 | 14.6% |
| Third Party Administrator Fees | 297,807 | 299,581 | 306,122 | 285,156 | 249,023 | (48,784) | (3.5%) |
| Total: Fees | \$1,021,502 | \$1,228,215 | \$1,205,086 | \$1,653,542 | \$1,677,075 | \$655,573 | 10.4% |
| CalPERS Total Budget | \$1,572,336 | \$1,844,765 | \$1,828,378 | \$2,443,560 | \$2,470,153 | \$897,817 | 9.5% |

D. 2024-25 Proposed Budget

I. Administrative Operating Costs

Administrative Operating Costs include Personal Services expenses (salaries and benefits for permanent and temporary help staff) and Operating Expenses & Equipment (OEE) for each branch within CalPERS. In 2024-25, Administrative Operating Costs are proposed to decrease \$1.8 million, or 0.3%, from the 2023-24 authorized budget.

The primary driver of the decrease in Administrative Operating Costs is a reduction in software, data, and consulting needs. Decreases in software and data processing reflect a reduction in database license costs, along with lower maintenance fees for various contracts. The decrease in consultant costs is a result of lower vendor expenses for the upcoming Member-at-Large Board election and the removal of one-time consulting funding for projects to be completed in fiscal year 2023-24.

While total Administrative Operating Costs are proposed to decrease, the budget includes an additional \$1.1 million for annualized salaries, benefits, and incentives for Investment Office positions received in the 2023-24 Mid-Year Process to implement the Strategic Asset Allocation. Additionally, the proposed budget redirects \$4.1 million of the personal services budget to fund initiatives and implement projects based on business needs. This includes \$0.3 million for an Actuarial Office Experience Study review, \$1.6 million for strategic recruitment services, \$0.3 million for compliance and risk program consulting, \$0.4 million for investment contract and procurement staffing, and \$1.5 million for health program consultants. Furthermore, the IT Services Branch will be leveraging \$0.7 million in existing OE&E funding to support a pilot program for Artificial Intelligence applications within the enterprise.

Administrative Operating Costs by Object of Expenditure

| (\$ in thousands) | 2022-23 Actual | 2023-24 Authorized Budget | 2024-25 Proposed Budget | Change | |
|---|-------------------|---------------------------------|-------------------------------|------------------|---------------|
| | | | | \$ | % |
| Salaries & Wages | \$263,777 | \$326,969 | \$326,262 | (\$707) | (0.2%) |
| Benefits | 131,322 | 159,100 | 160,882 | 1,782 | 1.1% |
| Total Personal Services | \$395,099 | \$486,070 | \$487,145 | \$1,075 | 0.2% |
| General Expense | \$7,424 | \$10,116 | \$10,898 | \$782 | 7.7% |
| Software | 1,539 | 3,523 | 1,023 | (2,500) | (71.0%) |
| Printing | 194 | 242 | 168 | (73) | (30.3%) |
| Postage | 2,746 | 2,214 | 2,729 | 515 | 23.3% |
| Communications | 1,228 | 1,515 | 1,464 | (51) | (3.4%) |
| Data Processing Services | 20,872 | 24,163 | 23,929 | (234) | (1.0%) |
| Travel | 1,053 | 2,926 | 2,966 | 40 | 1.4% |
| Training | 563 | 1,274 | 1,351 | 78 | 6.1% |
| Medical Exam/Disability Travel | 1,990 | 2,000 | 2,250 | 250 | 12.5% |
| Facilities Operations | 6,889 | 8,169 | 8,233 | 63 | 0.8% |
| Central Administrative Services | 30,895 | 26,527 | 28,898 | 2,371 | 8.9% |
| University Enterprises, Inc. | 459 | 455 | 369 | (86) | (18.8%) |
| External Legal Counsel | 3,301 | 5,941 | 5,863 | (78) | (1.3%) |
| Professional Services | 4,550 | 4,937 | 4,975 | 38 | 0.8% |
| Consultants | 25,398 | 27,486 | 23,387 | (4,099) | (14.9%) |
| Audit Services | 1,516 | 1,546 | 1,455 | (91) | (5.9%) |
| Federal Legislative Rep | 403 | 591 | 439 | (152) | (25.7%) |
| Admin Hearings | 1,358 | 1,402 | 1,402 | - | 0.0% |
| Consolidated Data Centers | 134 | 350 | 427 | 77 | 22.0% |
| Equipment (Includes EDP) | 4,334 | 5,225 | 5,508 | 283 | 5.4% |
| Total Operating Expenses & Equipment | \$116,844 | \$130,600 | \$127,732 | (\$2,868) | (2.2%) |
| Total Administrative Costs | \$511,944 | \$616,670 | \$614,877 | (\$1,792) | (0.3%) |

Staffing Level

The total authorized position count for 2024-25 remains unchanged from the current year. The increase of 3.0 positions within the Operations and Technology area reflects resources redirected from the Position Pool to the Operations Support Services Division to support increases in investment contracting and procurement services.

Authorized Positions by Branch

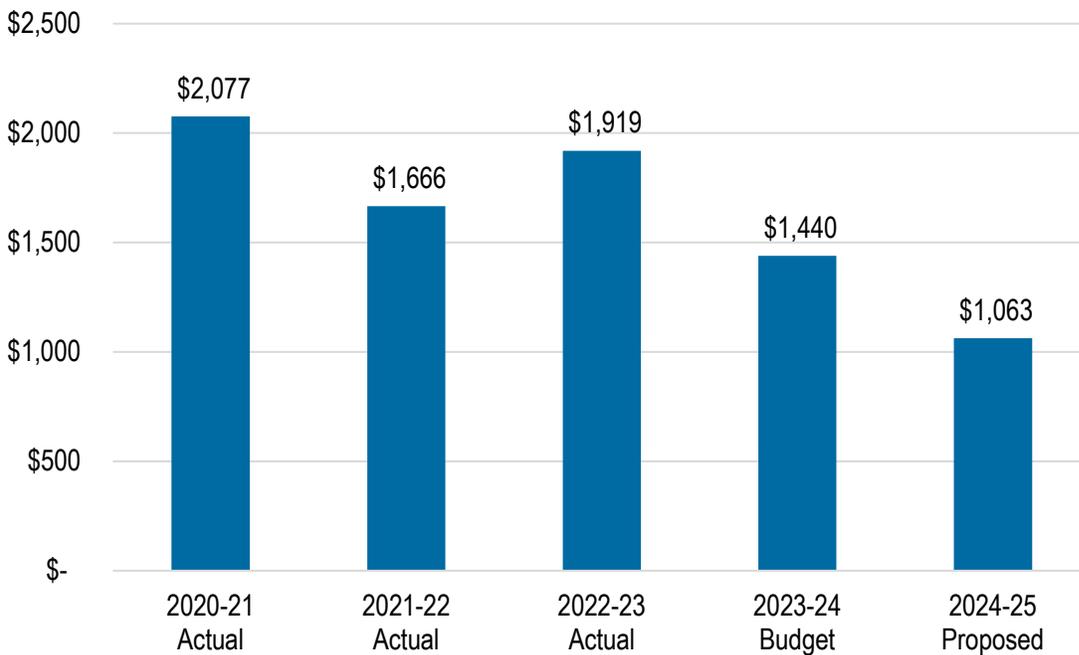
| Positions by Branch | 2023-24 Authorized | 2024-25 Revised | % Change |
|--|--------------------|-----------------|-------------|
| Actuarial Office | 65.0 | 65.0 | 0.0% |
| Communications and Stakeholder Relations | 76.0 | 76.0 | 0.0% |
| Customer Services and Support | 885.5 | 885.5 | 0.0% |
| Executive Office | 17.0 | 17.0 | 0.0% |
| Financial Office | 174.0 | 174.0 | 0.0% |
| General Counsel | 197.0 | 197.0 | 0.0% |
| Health Policy and Benefits | 204.0 | 204.0 | 0.0% |
| Investment Office | 370.0 | 370.0 | 0.0% |
| Operations and Technology | 823.5 | 826.5 | 0.4% |
| Position Pool | 31.0 | 28.0 | (9.7%) |
| Total Authorized Positions | 2,843.0 | 2,843.0 | 0.0% |

Temporary Help

The Salaries and Wages budget within Administrative Operating Costs includes funding for temporary help, such as Seasonal Clerks, Retired Annuitants, and board members' employer reimbursements. In 2024-25, CalPERS proposes \$1.1 million for temporary help.

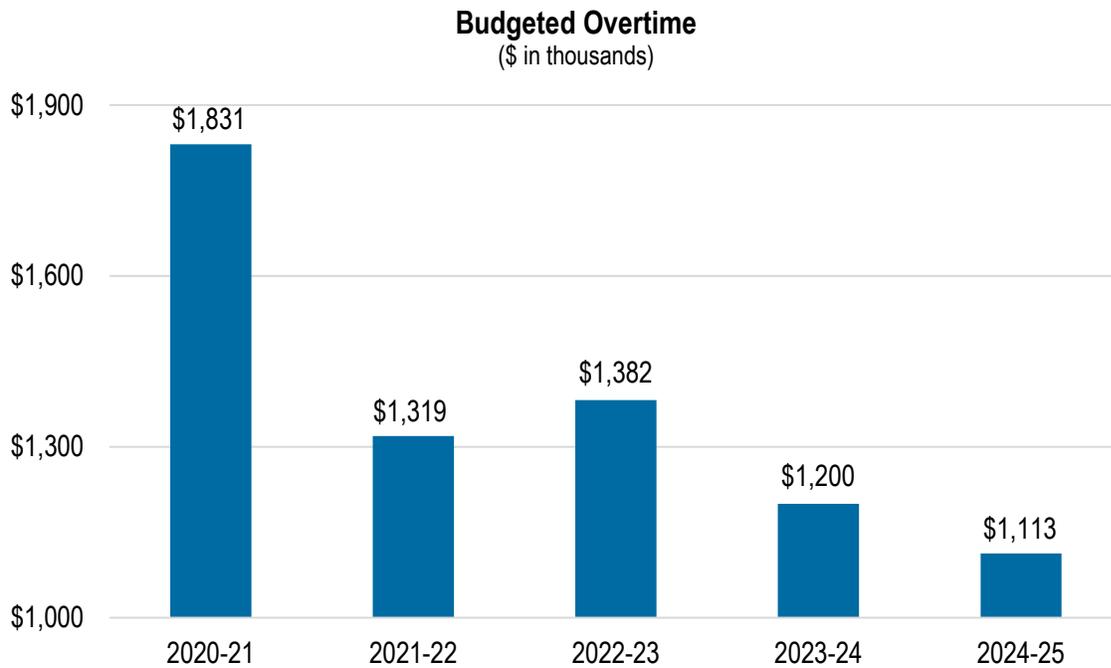
As displayed below, temporary help expenses have decreased significantly over the past five years. This is due to the elimination of permanent positions in blankets, and limitation of seasonal clerks for regular, ongoing work.

Temporary Help Expenditures
(\$ in thousands)



Overtime

The Salaries and Wages budget includes funding for overtime expenses. CalPERS proposes a decrease of \$87,000 in the overtime budget due to less overtime needs in 2024-25. CalPERS maintains a notable budget reduction over the past five years.



II. Investment Operating Costs

Investment Operating Costs include expenses specifically incurred to sustain and optimize investment portfolio management activities. These costs are essential for managing assets effectively and maximizing returns. Key categories include operating expenses for external audit, legal, and appraisal services (for asset valuations), as well as costs for fund administration, custody, portfolio management systems, and market data and analytic services. These expenses also include consultants to assist the board and team members with strategic guidance and expertise related to investment activities, strategies, and systems. The total proposed Investment Operating Costs in 2024-25 are \$146.7 million, which is a \$3.9 million or 2.6% decrease compared to the 2023-24 budget.

The proposed decrease in Investment Operating Costs is due to reduced technology consultant services and related systems, infrastructure, and data costs for within the Investment Office. The decrease in technology costs is partially offset by an increase in appraisal fees as a result of greater volume and complexity of appraisals to support additional real estate investments.

Investment Operating Costs

| (\$ in thousands) | 2022-23 Actual | 2023-24 Authorized Budget | 2024-25 Proposed Budget | Change | |
|--|-------------------|---------------------------------|-------------------------------|------------------|---------------|
| | | | | \$ | % |
| Investment Consultants | \$3,431 | \$12,000 | \$12,000 | \$ - | 0.0% |
| Board Consultants | 5,520 | 6,500 | 6,500 | - | 0.0% |
| Technology Consultants | 6,319 | 21,830 | 19,800 | (2,030) | (9.3%) |
| Total Consultant Expenses | \$15,270 | \$40,330 | \$38,300 | (\$2,030) | (5.0%) |
| Audits | \$50 | \$705 | \$705 | \$ - | 0.0% |
| Tax Advisory Services | 823 | 1,200 | 1,200 | - | 0.0% |
| Master Custodian Fee | 10,056 | 12,000 | 12,000 | - | 0.0% |
| Fund Administration Services / Fees | 3,576 | 12,979 | 12,000 | (979) | (7.5%) |
| External Legal | 4,334 | 8,000 | 8,000 | - | 0.0% |
| Appraisal Fees | 10,173 | 12,500 | 14,000 | 1,500 | 12.0% |
| Company Expense | 305 | 450 | 336 | (114) | (25.3%) |
| Miscellaneous Operating Expense | 360 | 300 | 396 | 96 | 32.0% |
| Total Operating Expenses | \$29,676 | \$48,134 | \$48,637 | \$503 | 1.0% |
| Data | \$6,721 | \$9,900 | \$10,710 | \$810 | 8.2% |
| Analytics | 12,885 | 17,900 | 16,744 | (1,156) | (6.5%) |
| Trading and Portfolio Management Systems | 26,172 | 30,450 | 25,467 | (4,983) | (16.4%) |
| Business Operations Tool | 2,677 | 3,500 | 6,687 | 3,187 | 91.1% |
| Other Technology Expense | 146 | 381 | 190 | (191) | (50.2%) |
| Total Technology Expenses | \$48,601 | \$62,131 | \$59,798 | (\$2,333) | (3.8%) |
| Total Investment Operating Expenses | \$93,547 | \$150,595 | \$146,735 | (\$3,860) | (2.6%) |

III. Headquarters Building Costs

The Headquarters Building Costs reflect expenses incurred to operate, maintain, and improve the Lincoln Plaza campus. It includes funding for security and maintenance of regional offices, the offsite emergency operations center, the Front Street parking lot, and warehouse space. Revenues in parking and rent offset these expenses. The total proposed Headquarters Building Costs in 2024-25 are \$36.4 million, which is an \$8.8 million or 32.1% increase over the 2023-24 budget.

The proposed increase in the Headquarters Building Costs is primarily due to building improvement projects to update audio and visual systems in the CalPERS auditorium and the replacement of fluorescent lighting with LED lighting throughout the buildings. Increases are also expected for utility rates and contracted service rates.

Of the \$36.4 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.

Headquarters Building Costs

| (\$ in thousands) | 2022-23 Actual | 2023-24 Authorized Budget | 2024-25 Proposed Budget | Change | |
|---|-------------------|---------------------------------|-------------------------------|----------------|---------------|
| | | | | \$ | % |
| Utilities | \$2,068 | \$2,570 | \$2,746 | \$175 | 6.8% |
| Engineering Services | 4,007 | 4,290 | 4,391 | 102 | 2.4% |
| Janitorial | 3,246 | 3,550 | 3,815 | 265 | 7.5% |
| Landscaping | 609 | 742 | 809 | 68 | 9.1% |
| General Maintenance | 776 | 1,076 | 1,179 | 103 | 9.6% |
| Security | 2,562 | 3,001 | 3,469 | 468 | 15.6% |
| Property Mgmt. & Administrative Fees | 1,328 | 1,651 | 1,905 | 254 | 15.4% |
| Café Plaza | 302 | 384 | 388 | 3 | 0.9% |
| Offsite Expenses | 934 | 1,015 | 1,098 | 83 | 8.2% |
| Emergency Operations Center (EOC) | 564 | 521 | 483 | (38) | (7.3%) |
| Operating Other | 2,496 | 2,561 | 2,307 | (254) | (9.9%) |
| Total Operating Expenses | \$18,891 | \$21,361 | \$22,591 | \$1,229 | 5.8% |
| Owner Improvements | \$1,046 | \$1,884 | \$2,216 | \$333 | 17.7% |
| Building Improvements | 2,512 | 4,539 | 11,620 | 7,081 | 156.0% |
| Furniture & Fixtures | 223 | 300 | 300 | - | 0.0% |
| Building Insurance | 602 | 837 | 1,027 | 190 | 22.7% |
| Total Non-Operating Expenses | \$4,382 | \$7,559 | \$15,163 | \$7,604 | 100.6% |
| Less: Revenue | (1,416) | (1,405) | (1,394) | 11 | (0.8%) |
| Total Headquarters Building Expenses | \$21,858 | \$27,516 | \$36,360 | \$8,844 | 32.1% |
| Less: Amount included in Admin. Budget | (4,057) | (4,762) | (4,893) | (131) | 2.7% |
| Total Headquarters Building Budget | \$17,802 | \$22,753 | \$31,466 | \$8,713 | 38.3% |

IV. Investment External Management Fees

Investment External Management Fees are paid to external investment managers and advisors for management of specific portfolios. The board approves investment manager and 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 2024-25 at \$1.4 billion, which is a \$59.7 million increase of 4.4% over the 2023-24 budget.

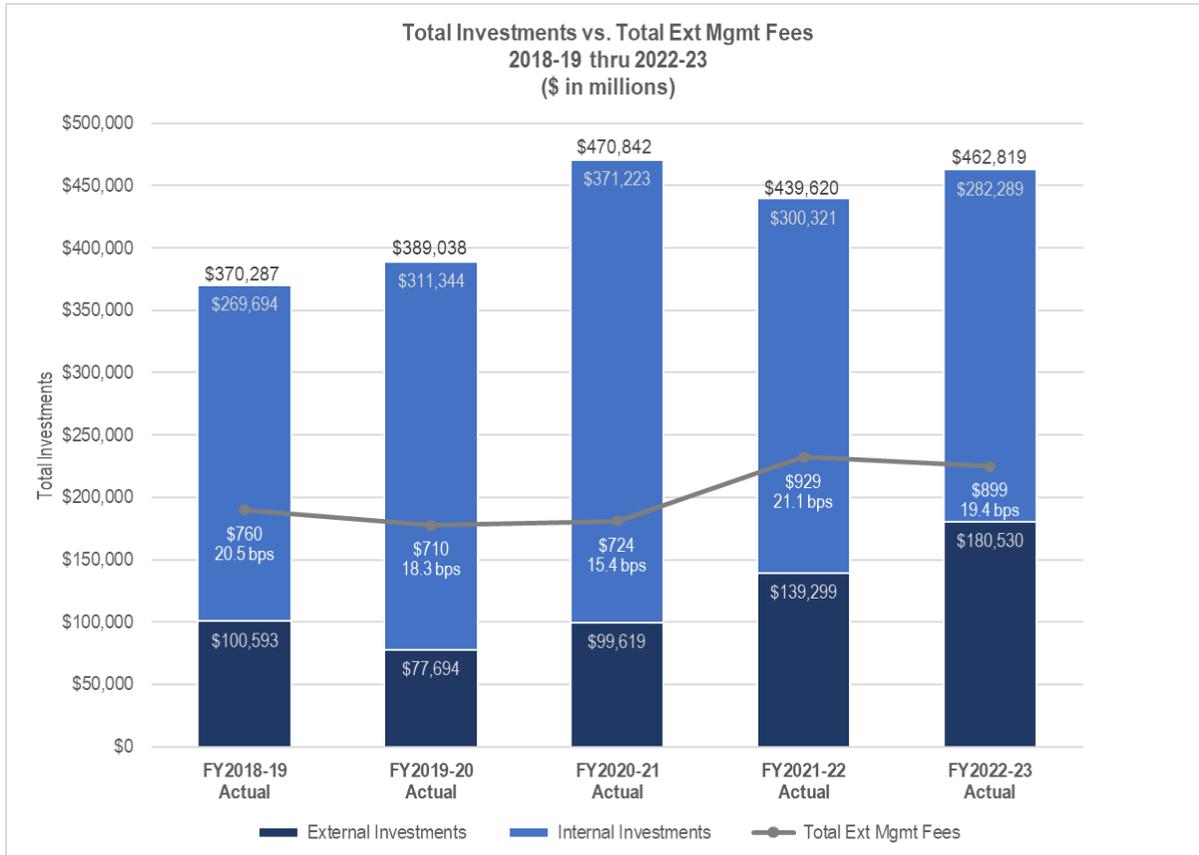
The board-approved Strategic Asset Allocation includes more active management and increased allocation to private asset classes. The increase in base fees for public asset classes relates to external active management. The growth in base fees for private asset classes is due to increased commitments and capital deployment, while the decrease in performance fees reflects projected market conditions which may lead to lower-than-expected returns.

Investment External Management Fees

| (\$ in thousands) | 2023-24 Authorized Budget | 2024-25 Proposed Budget | Change | |
|--|---------------------------------|-------------------------------|-----------------|-------------|
| | | | \$ | % |
| Global Equity | \$65,333 | \$82,168 | \$16,835 | 25.8% |
| Fixed Income | 66,000 | 78,000 | 12,000 | 18.2% |
| Real Assets | 327,000 | 334,491 | 7,491 | 2.3% |
| Private Equity | 490,000 | 545,000 | 55,000 | 11.2% |
| Opportunistic Strategies | 2,409 | 3,702 | 1,293 | 53.7% |
| Private Debt | 82,645 | 127,109 | 44,464 | 53.8% |
| External Management - Base Fees | \$1,033,386 | \$1,170,470 | \$137,084 | 13.3% |
| Real Assets | 335,000 | 257,582 | (77,418) | (23.1%) |
| External Management - Performance Fees | \$335,000 | \$257,582 | (\$77,418) | (23.1%) |
| Total External Management Fees | \$1,368,386 | \$1,428,052 | \$59,666 | 4.4% |

D. 2024-25 Proposed Budget

As displayed below, CalPERS' total assets under management (AUM) has increased \$92.5 billion since 2018-19. Over the same time horizon, the amount of fees paid to external investment managers has increased from \$760 million to \$899 million. In terms of basis points (bps), external management fees as compared to total investments have decreased slightly from 20.5 bps to 19.4 bps.



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. TPAs provide administration, recordkeeping, and participant communication services for Health Benefits, Long Term Care, the Supplemental Income Plans, the California Employers' Retiree Benefit Trust Fund, and the California Employers' Pension Prefunding Trust.

When preparing the annual budget, CalPERS estimates TPA Fees based on enrollment data after the Fall Open Enrollment process. However, actual enrollment fluctuates throughout the fiscal year and can impact expenses. Based on enrollment through January 2024, estimated TPA Fees for 2024-25 are \$249 million, which is a 12.7% decrease compared to the 2023-24 budget.

The year-over-year decrease in TPA Fees for the Health Program is primarily due to Blue Shield changing from flex-funded to fully insured. Fully insured plans do not include a TPA fee. The Pharmacy Benefit Manager TPA fees are decreasing due to contractual pricing adjustments in calendar year 2024. While the decrease in Long Term Care Program fees reflects projected enrollment declines and a continued suspension of new enrollments.

Third Party Administrator Fees

| (\$ in thousands) | 2022-23 Actual | 2023-24 Authorized Budget | 2024-25 Proposed Budget | Change | |
|--|-------------------|---------------------------------|-------------------------------|-------------------|----------------|
| | | | | \$ | % |
| Health Program | \$270,445 | \$244,700 | \$211,298 | (\$33,402) | (13.7%) |
| Pharmacy Benefit Manager | 13,581 | 19,190 | 17,551 | (1,639) | (8.5%) |
| Total, Health | \$284,026 | \$263,890 | \$228,849 | (\$35,041) | (13.3%) |
| Long Term Care Program | 18,627 | 17,758 | 16,651 | (1,107) | (6.2%) |
| Supplemental Income Plan | 3,361 | 3,400 | 3,415 | 15 | 0.4% |
| 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 | \$306,122 | \$285,156 | \$249,023 | (\$36,133) | (12.7%) |

I. Administrative Operating Costs by Branch

Presented below is the proposed Administrative Operating Costs by CalPERS branch. The year-over-year changes reflect updates in the administrative expenses for each branch. CalPERS budgets positions at the mid-step of salary ranges consistent with state budgeting practices.

Administrative Operating Costs by Branch

| (\$ in thousands) | 2022-23 Actual | 2023-24 Authorized Budget | 2024-25 Proposed Budget | Change | |
|---|-------------------|---------------------------------|-------------------------------|------------------|---------------|
| | | | | \$ | % |
| Actuarial Office | \$13,289 | \$14,577 | \$14,736 | \$160 | 1.1% |
| Communications and Stakeholder Relations | 13,211 | 15,535 | 14,512 | (1,024) | (6.6%) |
| Customer Services and Support | 106,292 | 120,921 | 115,194 | (5,727) | (4.7%) |
| Executive Office | 8,123 | 12,275 | 11,205 | (1,070) | (8.7%) |
| Financial Office | 24,094 | 28,072 | 27,624 | (448) | (1.6%) |
| General Counsel | 35,535 | 45,568 | 47,847 | 2,279 | 5.0% |
| Health Policy and Benefits Branch | 30,220 | 35,533 | 34,816 | (716) | (2.0%) |
| Investment Office | 81,640 | 123,804 | 139,867 | 16,064 | 13.0% |
| Operations and Technology | 161,229 | 181,560 | 170,985 | (10,575) | (5.8%) |
| Enterprise | 7,417 | 12,299 | 9,193 | (3,106) | (25.3%) |
| Pro-Rata Assessment | 30,895 | 26,527 | 28,898 | 2,371 | 8.9% |
| Total Administrative Operating Costs | \$511,944 | \$616,670 | \$614,877 | (\$1,792) | (0.3%) |

II. Administrative Operating Costs by Trust Fund

Funds for Administrative Operating costs are appropriated annually and are 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 expenses for most trusts and funds, appropriations for administrative costs from the Public Employees' Contingency Reserve Fund, Public Employees' Health Care Fund, and Old-Age & Survivors Insurance 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) | 2023-24 Authorized Budget | 2024-25 Proposed Budget | Change | |
|--|---------------------------------|-------------------------------|------------------|---------------|
| | | | \$ | % |
| Public Employees' Retirement Fund (PERF) | \$492,643 | \$492,734 | \$91 | 0.0% |
| Public Employees' Contingency Reserve Fund (CRF) | 37,162 | 37,378 | 216 | 0.6% |
| Public Employees' Health Care Fund (HCF) | 53,547 | 53,858 | 311 | 0.6% |
| Long-Term Care Fund (LTCF) | 11,014 | 8,417 | (2,597) | (23.6%) |
| Annuitants' Health Care Coverage Fund (AHCCF) | 8,419 | 8,992 | 574 | 6.8% |
| Deferred Compensation Fund (IRC 457) | 2,451 | 2,555 | 104 | 4.2% |
| Supplemental Contributions Program Fund (SCP) | 312 | 251 | (60) | (19.4%) |
| Judges' Retirement Fund (JRF) | 2,579 | 2,333 | (245) | (9.5%) |
| Judges' Retirement Fund II (JRF II) | 3,236 | 3,099 | (137) | (4.2%) |
| Legislators' Retirement Fund (LRF) | 820 | 751 | (69) | (8.4%) |
| Replacement Benefit Custodial Fund (RBF) | 692 | 638 | (54) | (7.8%) |
| California Employers' Pension Prefunding Trust (CEPPT) | 176 | 303 | 127 | 72.3% |
| Old-Age & Survivors Insurance Fund (OASI) | 1,202 | 1,209 | 8 | 0.7% |
| Reimbursements | 2,418 | 2,357 | (61) | (2.5%) |
| Total Administrative Operating Costs | \$616,670 | \$614,877 | (\$1,792) | (0.3%) |
| <i>Statewide Pro-Rata Assessment</i> | \$26,527 | \$28,898 | 2,371 | 8.9% |
| <i>CalPERS Administrative Costs</i> | \$590,143 | \$585,980 | (\$4,164) | (0.7%) |

III. 2025-26 Projection

As part of the budget process, CalPERS considers and monitors the multi-year impact of fiscal decisions to estimate future operating expenses. Based on current information and known factors, CalPERS projects a future operating cost increase of \$74.6 million, or 9.4%, in 2025-26. For Administrative Operating Costs, this is driven by statewide compensation and benefit increases negotiated through collective bargaining. The Investment Operating Costs increase is primarily due to consulting services and data and technology expenses. The Headquarters Building Costs are expected to increase due to inflation and building improvement projects.

2025-26 Projection

| (\$ in thousands) | 2024-25 Proposed Budget | 2025-26 Projected Budget | Change | |
|--------------------------------|-------------------------------|--------------------------------|-----------------|-------------|
| | | | \$ | % |
| Administrative Operating Costs | \$614,877 | \$626,777 | \$11,900 | 1.9% |
| Investment Operating Costs | 146,735 | 208,562 | 61,827 | 42.1% |
| Headquarters Building Costs | 31,466 | 32,358 | 892 | 2.8% |
| Total Projection | \$793,078 | \$867,697 | \$74,619 | 9.4% |
| Authorized Positions | 2,843.0 | 2,843.0 | - | 0.0% |