



Finance and Administration Committee

Agenda Item 5b

April 14, 2025

Item Name: 2025-26 Annual Budget Proposal

Program: Financial Office

Item Type: Action

Recommendation

Approve the 2025-26 Annual Budget in the amount of \$2.74 billion and 2,843 positions.

Executive Summary

CalPERS proposes an increase of \$213.4 million, or 8.4%, compared to the 2024-25 budget. The largest proposed increase to the 2025-26 budget is for Investment External Management Fees. Administrative Operating Costs are proposed to increase in both Personal Services and Operating Expenses & Equipment (OE&E) budgets. Proposed increases to Investment Operating Costs are due to the Investment Data and Technology Modernization Initiative. Third Party Administrator Fee (TPA) increases recognize a full year of expenditures for the Population Health Management administrator, as well as enrollment and migration changes. Total authorized positions remain unchanged at 2,843 positions.

Displayed in the proposed budget is an update on current year expenditures. As of December 31, 2024, CalPERS expended \$1 billion, or 41%, of the current budget, and projects to end the fiscal year with approximately \$75.1 million, or 3%, in savings. Until expended, all budgeted funds remain in the Public Employees' Retirement Fund for investment.

Strategic Plan

This agenda item aligns with CalPERS' 2022-27 Strategic Plan as the proposed budget increase will provide the financial resources needed to achieve strategic objectives, meet core business needs, and further the mission of delivering retirement and health care benefits to members and their beneficiaries.

Background

Each fiscal year, CalPERS engages in two formal budget processes: an annual budget proposal and a mid-year review. The annual budget process begins in October each year and includes a review of existing budgeted resources as well as new funding requests to maintain, improve, or

implement services, initiatives, and projects. CalPERS presents the annual budget to the board in April. Once approved by the board, the budget provides CalPERS with expenditure authority for the upcoming fiscal year beginning July 1st. Additionally, the mid-year budget updates fee projections for health plan enrollments and addresses new, critical, and unforeseen resource needs not envisioned during the annual budget process. Each fall, CalPERS also provides the board with an update on prior year expenses.

Analysis

Investment External Management Fee increases reflect a focus on active management and increased allocation to private asset classes. Administrative Operating Cost increases reflect updated budgets for salaries and incentives for specific Investment classifications, annualized salary and benefit costs for enterprise-pooled positions redirected to Human Resources, and numerous adjustments in OE&E expense categories. OE&E adjustments are due to increased ProRata assessments, CalPERS Board elections, and new enterprise software and consulting services. Headquarters Building Cost increases are driven by replacement of fluorescent lighting with LED lighting throughout Lincoln Plaza buildings. Investment Operating Costs reflect continued implementation of the Data and Technology Modernization Initiative. TPA Fee increases are due to recognition of a full year of expenditures for the Population Health Management administrator, as well as enrollment and migration changes. Additionally, Pharmacy Benefit Manager TPA fees will revert to normal contracted pricing after a temporary reduction in 2024-25. These adjustments reflect reasonable augmentations that will enable CalPERS to meet its core objectives.

Budget and Fiscal Impacts

As detailed in the following table, the proposed 2025-26 budget is \$2.74 billion and reflects an increase of \$213.4 million, or 8.4%, compared to the 2024-25 budget.

2025-26 Total Budget

(\$ in thousands)	2023-24 Actual	2024-25 Authorized Budget	2025-26 Proposed Budget	Change	
				\$	%
Administrative Operating Costs	\$528,833	\$609,826	\$637,365	\$27,539	4.5%
Investment Operating Costs	101,528	155,877	186,417	30,540	19.6%
Headquarters Building Costs	20,835	31,465	41,378	9,914	31.5%
Total: Operating Costs	\$651,196	\$797,167	\$865,160	\$67,993	8.5%
Investment External Management Fees	1,144,859	1,454,031	1,569,425	115,394	7.9%
Third Party Administrator Fees	281,939	275,416	305,389	29,972	10.9%
Total: Fees	\$1,426,798	\$1,729,448	\$1,874,814	\$145,366	8.4%
CalPERS Total Budget	\$2,077,994	\$2,526,615	\$2,739,974	\$213,359	8.4%
Total Positions	2,843.0	2,843.0	2,843.0	-	0.0%

Benefits and Risks

An approved budget provides CalPERS with the expenditure authority needed 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. Approval will improve CalPERS' ability to operate effectively and meet financial obligations.

Attachments

Attachment 1 – 2025-26 Annual Budget Proposal

Attachment 2 – Presentation

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