

Finance and Administration Committee

Agenda Item 5a

November 18, 2025

Item Name: 2025-26 Mid-Year Budget Revision

Program: Financial Office

Item Type: Action

Recommendation

Approve a \$237.6 million mid-year budget increase for a revised total budget of \$2.978 billion.

Executive Summary

At mid-year, CalPERS proposes a \$237.6 million, or 8.7% increase to the 2025-26 authorized budget. The majority of the mid-year increase is attributable to updated estimates for Investment External Management Fees. An adjustment to Administrative Operating Costs is necessary to provide funding for increased employer retirement and health plan contribution rates, board-approved salary adjustments, and key classification upgrades. Third Party Administrator (TPA) Fees are projected to increase due to higher administrative fees for a new Pharmacy Benefit Manager. Additional Headquarters Building Costs funding is needed to address higher than anticipated expenses related to the Lincoln Plaza LED lighting project. Total authorized positions remain unchanged at 2,843.

Mid-Year Total Budget

| (\$ in thousands) | 2025-26 Annual Budget | 2025-26 Proposed Mid-Year Budget | Change | |
|-------------------------------------|--------------------------|--|------------------|-------------|
| | | | \$ | % |
| Administrative Operating Costs | \$637,365 | \$648,463 | \$11,098 | 1.7% |
| Investment Operating Costs | 186,417 | 186,417 | - | 0.0% |
| Headquarters Building Costs | 41,378 | 47,088 | 5,709 | 13.8% |
| Total Operating Costs | \$865,160 | \$881,967 | \$16,807 | 1.9% |
| Investment External Management Fees | 1,569,425 | 1,786,961 | 217,536 | 13.9% |
| Third Party Administrator Fees | 305,389 | 308,630 | 3,241 | 1.1% |
| Total Fees | \$1,874,814 | \$2,095,591 | \$220,777 | 11.8% |
| CalPERS Total Budget | \$2,739,974 | \$2,977,558 | \$237,584 | 8.7% |
| Total Positions | 2,843.0 | 2,843.0 | - | 0.0% |

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 culminates in April with the board's approval of the budget for the upcoming fiscal year. Subsequently each fall, CalPERS presents to the board a mid-year revision that aligns team member salaries and benefits with the outcomes of collective bargaining. 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 expenditures.

Analysis

As detailed in Attachment 1, the 2025-26 Mid-Year Budget of \$2.978 billion reflects a total increase of \$237.6 million, or 8.7%. Much of the increase is due to updated estimates for Investment External Management fees to reflect projected active manager performance, market conditions, and greater deployment of capital to new investments. The mid-year budget reflects a net increase of \$11.1 million in Administrative Operating Costs. Of this amount, \$8.5 million is allocated for collectively bargained changes, including adjustments to retirement and health plan contribution rates, general salary increases, the Personal Leave Program, and Other Post Employment Benefit (OPEB) contributions for CalPERS. Additionally, \$1.6 million is requested to support board-approved salary adjustments for executive and Investment Office staff, and \$1 million is designated for key classification upgrades. Headquarter Building Costs are proposed to increase \$5.7 million due to higher-than-anticipated costs for the Lincoln Plaza LED lighting project. TPA fees are estimated to increase \$3.2 million for Pharmacy Benefit Manager provider administrative fees.

Attachment 2 provides final expenditures for fiscal year 2024-25 and indicates that CalPERS concluded the fiscal year with a net \$250.5 million in unexpended funds. This includes a \$96.4 million surplus in Operating Costs primarily attributable to position vacancies and unpaid incentives, as well as savings in Investment Operating Costs due to fewer than expected consultations, external legal engagements, and technology expenses. A \$154 million surplus in Investment External Management and Third Party Administrator Fees is due to a less-than-expected increase in active investment managers, as well as Real Assets market fluctuations.

Budget and Fiscal Impacts

The mid-year revision increases CalPERS' total authorized budget by \$237.6 million, or 8.7%. All funds remain invested until actual expenses are incurred and paid.

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 Mid-Year Budget Revision

Attachment 2 – 2024-25 Year-End Expenditure Report

Attachment 3 – PowerPoint Slides

Will Schaafsma, Chief
Financial Planning, Policy, & Budgeting Division

Michele L. Nix
Chief Financial Officer