



Finance and Administration Committee

Agenda Item 5b

April 13, 2026

Item Name: 2026-27 Annual Budget Proposal

Program: Financial Office

Item Type: Action

Recommendation

Approve the 2026-27 Annual Budget in the amount of \$3.45 billion and 2,843 positions. This includes \$934.3 million for the Total Operating Budget and \$2.52 billion in estimated Total Fees.

Executive Summary

CalPERS proposes an increase of \$52.3 million, or 5.9%, compared to the 2025-26 Total Operating Budget. The largest proposed increase to the 2026-27 operating budget is for Investment Operating Costs. The increase is driven by the Investment Data and Technology Modernization Initiative. Administrative Operating Costs are proposed to increase in both Personal Services and Operating Expenses & Equipment (OE&E) budgets. The increases are offset by a decrease in Headquarters Building Costs. Total authorized positions remain unchanged at 2,843 positions.

CalPERS proposes an increase of \$423.7 million, or 20.2%, over the 2025-26 total fees estimate. Investment External Management Fees are the primary driver of the increase.

Displayed in the proposed budget is an update on current year expenditures. As of December 31, 2025, CalPERS expended \$327.7 million, or 37.2%, of the current operating budget and projects to end the fiscal year with approximately \$34.5 million, or 3.9%, in savings. Of the estimated fees budget, CalPERS has expended \$834.8 million, or 39.8%, and projects to end the fiscal year with expenditures exceeding 2025-26 estimates by 1.4%.

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 anticipated during the annual budget process. Each fall, CalPERS also provides the board with an update on prior year expenses.

Analysis

Administrative Operating Costs are proposed to increase in both Personal Services and OE&E. Personal Services adjustments are due to a change in budgeting methodology to align position salaries and benefits more closely to their actual pay rate and to provide funding for incentives. The OE&E increase is driven by Pro Rata costs (CalPERS' share of statewide administrative services as well as annuitant healthcare and dental costs), and IT hardware refresh. Additionally, the proposed budget redirects anticipated savings in OE&E to fund information security enhancements and fiscal system consulting services.

The Headquarters Building Cost decrease is attributable to the attrition of one-time funding for the Lincoln Plaza LED lighting replacement project currently underway. This decrease is partially offset by an increase in funding for replacement flooring inventory to support projected needs over the next five to seven years. Investment Operating Costs reflect continued implementation of the Data and Technology Modernization Initiative. The remainder of the increase is related to the maintenance and operations of existing systems and services.

Investment External Management Fee increases are a result of greater private asset allocation and more active management in accordance with the Board approved investment plan for 2026-27. The primary drivers for the increase reside within Private Equity Base Fees due to anticipated new partnerships and associated capital deployments, and Global Equity Performance Fees because of a transition to performance-based external management fee structures. The Third Party Administrator (TPA) Fees are estimated to increase due to administrative fees for a new Pharmacy Benefit Manager. This increase is offset by a decrease in the Health Program as a result of enrollment and migration changes. Decreasing Long Term Care Program fees reflect enrollment cancellations and the continued suspension of new enrollments, while all other TPA fees are expected to remain flat.

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 2026-27 Total Operating Budget is \$934.3 million and reflects an increase of 5.9%. The subsequent table shows the proposed 2026-27 Total Fees estimate at \$2.52 billion, reflecting an increase of 20.2%.

2026-27 Total Operating Budget

(\$ in thousands)	2024-25 Actual	2025-26 Authorized Budget	2026-27 Proposed Budget	\$ Change	% Change
Administrative Operating Costs	\$551,594	\$648,463	\$678,900	\$30,438	4.7%
Investment Operating Costs	119,834	186,417	224,547	38,130	20.5%
Headquarters Building Costs	29,301	47,088	30,830	(16,258)	(34.5%)
CalPERS Total Operating Budget	\$700,729	\$881,967	\$934,277	\$52,310	5.9%
Total Positions	2,843.0	2,843.0	2,843.0	-	0.0%

2026-27 Total Fees

(\$ in thousands)	2024-25 Actual	2025-26 Authorized Budget	2026-27 Proposed Budget	\$ Change	% Change
Investment External Management Fees	\$1,303,031	\$1,786,961	\$2,207,980	\$421,019	23.6%
Third Party Administrator Fees	273,194	308,630	311,272	2,642	0.9%
CalPERS Total Fees	\$1,576,225	\$2,095,591	\$2,519,252	\$423,661	20.2%

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 – 2026-27 Annual Budget Proposal

Attachment 2 – 2026-27 Annual Budget Presentation

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