Finance and Administration Committee

Agenda Item 5a

November 17, 2026

Item Name: 2026-27 Mid-Year Budget Revisions

Program: Finance Office

Item Type: Action

Recommendation

Approve a $16.8 million mid-year budget increase for operating costs, resulting in a revised total operating budget of $951.1 million, and a $26.2 million decrease to total fees, for a revised estimate of $2.5 billion.

Executive Summary

At mid-year, CalPERS proposes an increase of $16.8 million, or 1.8% to the 2026-27 authorized operating costs budget. The largest increase is in Investment Operating Costs, driven by higher investment management platform fees that vary based on assets under management. The Administrative Operating Costs adjustment is necessary to provide funding for increased employer retirement, health plan and dental contribution rates, salary adjustments, and the implementation of Senate Bill (SB) 122 tax requirement. Headquarters Building Costs are also projected to increase due to a delay in the LED lighting project schedule. Total authorized positions remain unchanged at 2,843.

CalPERS projects a decrease of $26.2 million, or 1.0%, in the 2026-27 total fees estimate, which remains subject to change based on factors such as market and enrollment data fluctuations. Investment External Management Fees reflect a net decrease, with lower base fee estimates, partially offset by an increase in performance fees. Third Party Administrator Fee estimates are also projected to decrease, largely due to the removal of a health plan and the transition to a new Pharmacy Benefit Manager.

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

Administrative Operating Costs are proposed to increase at mid-year in both Personal Services and Operating Expenses & Equipment (OE&E). The increase in Personal Services reflects employee compensation adjustments, costs for position upgrades, and board-approved executive salary changes. The OE&E adjustment includes anticipated tax requirements related to SB 122, partially offset by the redirection of budget between line items to account for the transition from contracted student services to state student assistants.

The Headquarters Building Cost increase is attributable to an extended LED lighting project schedule caused by permit delays, partially offset by savings from the deferred Elevator Modernization Project, which cannot begin until the lighting project is completed. The increase in Investment Operating Costs is driven by investment management platform fees that are contingent on assets under management, as well as estimated SB 122 tax requirement.

Investment External Management Fees are projected to decrease, reflecting lower base fee estimates driven by reduced Global Equity management fee rates, a lower than projected allocation to external Fixed Income managers, fewer than expected capital calls in Private Debt, and lower than anticipated fees in Real Assets. This reduction is partially offset by higher performance fees in Global Equity, resulting from better-than-expected performance to date and increased allocation to managers with performance-based fee structures. Third Party Administrator Fees also reflect a decrease largely driven by the removal of a health plan.

Budget and Fiscal Impacts

The mid-year revision increases CalPERS' operating budget by $16.8 million, or 1.8%, and decreases the fees budget by $26.2 million, or 1.0%. Until expended, all funds remain invested until actual expenditures are incurred and paid.

These budget adjustments and fee estimates reflect reasonable augmentations that will enable CalPERS to meet its core objectives.

Mid-Year Total Operating Budget

($ in thousands)	2026-27 Annual Budget	2026-27 Proposed Mid-Year Budget	$ Change	% Change
Administrative Operating Costs	$678,900	$682,759	$3,859	0.6%
Investment Operating Costs	224,547	232,434	7,887	3.5%
Headquarters Building Costs	30,830	35,863	5,033	16.3%
CalPERS Total Operating Budget	**$934,277**	**$951,056**	**$16,779**	**1.8%**
Total Positions	**2,843.0**	**2,843.0**	**-**	**0.0%**

Mid-Year Total Fees

($ in thousands)	2026-27 Annual Fees	2026-27 Proposed Mid-Year Fees	$ Change	% Change
Investment External Management Fees	$2,207,980	$2,195,760	($12,220)	(0.6%)
Third Party Administrator Fees	311,272	297,247	(14,025)	(4.5%)
CalPERS Total Fees	**$2,519,252**	**$2,493,007**	**($26,245)**	**(1.0%)**

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 – 2026-27 Mid-Year Budget Revision

Attachment 2 – 2025-26 Year-End Expenditure Report

Attachment 3 – PowerPoint Slides

Jennifer Hamarlund, Chief
Financial Planning, Policy, and Budgeting Division

Michele L. Nix
Chief Financial Officer