California Public Employees' Retirement System

Fiscal Year 2026-27

Mid-Year Budget Proposal

November 17, 2026

CalPERS

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Executive Summary

As part of the mid-year budget process, CalPERS proposes an increase of $16.8 million, or 1.8%, over the 2026-27 operating costs budget to support strategic priorities, core business needs, and its mission of delivering retirement and health care benefits, while also proposing a decrease of $26.2 million, or 1.0%, over the 2026-27 total fees estimate, which is subject to change based on factors such as market and enrollment data fluctuations.

Administrative Operating Costs are increasing due to employee compensation adjustments, position upgrades, board-approved executive salary changes, and anticipated tax requirements related to Senate Bill (SB) 122. Total authorized positions remain unchanged at 2,843.

Investment Operating Costs are increasing for investment management platform fees tied to assets under management, as well as estimated SB 122 sales and use taxes. Headquarters Building Costs are increasing due to permit delays that have extended the lighting project schedule.

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%**

Investment External Management Fee estimates are lower due to reduced base fee rates, updated investment allocation estimates, and fewer expected capital calls. These decreases are partially offset by a projected increase in performance fees. Third Party Administrator Fee estimates are also lower due to the removal of a health plan and the transition to a new Pharmacy Benefit Manager.

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%)**

The following pages detail the 2026-27 Mid-Year adjustments by expenditure category.

I. Administrative Operating Costs

Administrative Operating Costs include Personal Services expenses (salaries and benefits for staff) and Operating Expenses and Equipment. At mid-year, CalPERS proposes a net increase of $3.9 million, or 0.6%, for Administrative Operating Costs, primarily in Personal Services. Of this amount, $1.9 million is for collectively bargained changes, such as adjustments to retirement, health, and dental plan contribution rates. In addition, $0.2 million is requested to support board-approved salary adjustments for executives, and $0.8 million is designated for position classification upgrades.

As detailed on the following page, the Operating Expenses and Equipment increase includes $1 million for SB 122 software sales and use tax to be implemented January 1, 2027. This is partially offset by a $0.5 million reallocation to Temporary Help for the transition from contracted student services to state student assistants.

Administrative Operating Costs by Object of Expenditure

($ in thousands)	2026-27 Annual Budget	2026-27 Proposed Mid-Year Budget	$ Change	% Change
Salaries & Wages	$360,426	$361,675	$1,248	0.3%
Benefits	164,995	167,078	2,082	1.3%
Total Personal Services	$525,422	$528,753	$3,331	0.6%
General Expense	11,523	11,523	-	0.0%
Software	605	1,605	1,000	165.3%
Printing	162	162	-	0.0%
Postage	3,990	3,990	-	0.0%
Communications	1,370	1,370	-	0.0%
Data Processing Services	27,315	27,315	-	0.0%
Travel	3,191	3,191	-	0.0%
Training	1,648	1,648	-	0.0%
Medical Exam/Disability Travel	2,275	2,275	-	0.0%
Facilities Operations	9,120	9,129	10	0.1%
Central Administrative Services	41,022	41,022	-	0.0%
University Enterprises, Inc.	481	-	(481)	(100.0%)
External Legal Counsel	5,898	5,898	-	0.0%
Professional Services	6,451	6,451	-	0.0%
Consultants	27,887	27,887	-	0.0%
Audit Services	1,809	1,809	-	0.0%
Federal Legislative Rep	462	462	-	0.0%
Admin Hearings	1,300	1,300	-	0.0%
Consolidated Data Centers	469	469	-	0.0%
Equipment (Includes EDP)	6,501	6,501	-	0.0%
Total Operating Expenses & Equipment	$153,478	$154,007	$529	0.0%
Total Administrative Costs	**$678,900**	**$682,759**	**$3,859**	**0.6%**

II. Investment Operating Costs

Investment Operating Costs budget the expenses incurred to support investment activities. This includes consultants to assist the CalPERS Board and team members with strategic guidance and expertise related to investment strategies, activities, systems, and strategic initiatives. Additional expense categories include professional services required for due diligence, asset valuation, fund administration and custody, as well as technology expenses for data and analytics services, trading and portfolio management systems, and business operations tools.

At mid-year, CalPERS proposes a net increase of $7.9 million, or 3.5%, in Investment Operating Costs. This increase is primarily driven by higher investment management platform fees, which are tied to CalPERS' assets under management, as well as anticipated tax requirements related to SB 122. The mid-year budget also includes offsetting adjustments across budget lines that reflect updates in maintenance & operations service costs and revised project timelines for the Data and Technology Modernization Initiative. Overall, total initiative costs for the fiscal year remain unchanged.

Investment Operating Costs

($ in thousands)	2026-27 Annual Budget	2026-27 Proposed Mid-Year Budget	$ Change	% Change
Investment Consultants	$12,000	$12,000	$ -	0.0%
Board Consultants	5,600	5,600	-	0.0%
Technology Consultants	67,000	62,952	(4,048)	(6.0%)
Total Consultant Expenses	$84,600	$80,552	($4,048)	(4.8%)
Audits	705	705	-	0.0%
Tax Advisory Services	1,320	1,320	-	0.0%
Master Custodian Fee	10,610	10,602	(8)	(0.1%)
Fund Administration Services / Fees	14,140	14,113	(27)	(0.2%)
External Legal	8,000	8,000	-	0.0%
Appraisal Fees	14,000	14,000	-	0.0%
Company Expense	336	336	-	0.0%
Miscellaneous Operating Expense	396	396	-	0.0%
Total Operating Expenses	$49,507	$49,472	($35)	(0.1%)
Data	16,500	16,284	(216)	(1.3%)
Analytics	18,470	17,991	(479)	(2.6%)
Trading and Portfolio Management Systems	48,100	59,005	10,905	22.7%
Business Operations Tool	7,100	8,856	1,756	24.7%
Other Technology Expense	270	275	5	1.8%
Total Technology Expenses	$90,440	$102,410	$11,970	13.2%
Total Investment Operating Costs	**$224,547**	**$232,434**	**$7,887**	**3.5%**

III. Headquarters Building Costs

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.

At mid-year, CalPERS is proposing a net increase of $5 million, or 16.3%, in Headquarters Building Costs for the LED lighting project, reflecting permit delays that have extended the schedule. This increase is partially offset by savings from the Elevator Modernization Project. Because all elevators must be operational to complete the LED lighting project, elevator modernization work has been deferred until the lighting project is finished.

Headquarters Building Costs

($ in thousands)	2026-27 Annual Budget	2026-27 Proposed Mid-Year Budget	$ Change	% Change
Utilities	$3,046	$3,046	$ -	0.0%
Engineering Services	5,152	5,152	-	0.0%
Janitorial	4,359	4,359	-	0.0%
Landscaping	877	877	-	0.0%
General Maintenance	2,147	2,147	-	0.0%
Security	3,725	3,725	-	0.0%
Property Mgmt. & Administrative Fees	2,371	2,371	-	0.0%
Café Plaza	399	399	-	0.0%
Offsite Expenses	1,037	1,037	-	0.0%
Emergency Operations Center (EOC)	568	568	-	0.0%
Operating Other	3,923	3,923	-	0.0%
Total Operating Expenses	$27,603	$27,603	$ -	0.0%
Owner Improvements	2,216	2,216	-	0.0%
Building Improvements	6,720	11,762	5,043	75.0%
Furniture & Fixtures	420	420	-	0.0%
Building Insurance	1,027	1,027	-	0.0%
Total Non-Operating Expenses	$10,383	$15,425	$5,043	48.6%
Less: Revenue	(1,465)	(1,465)	-	0.0%
Total Headquarters Building Expenses	**$36,521**	**$41,563**	**$5,043**	13.8%
Less: Amount included in Admin. Budget	(5,691)	(5,700)	(10)	0.2%
Total Headquarters Building Budget	**$30,830**	**$35,863**	**$5,033**	**16.3%**

IV. Investment External Management Fees

The Investment External Management Fees estimate the fees paid to external investment managers and advisors to manage specific portfolios. While CalPERS estimates annual Investment External Management Fees based on market assumptions and estimated deployment of capital, actual fees paid within a fiscal year are subject to final performance outcomes and market fluctuations.

At mid-year, CalPERS estimates a net decrease of $12.2 million, or 0.6%, in external management fees. This estimate captures a decrease in external manager base fees of $41.6 million and an increase in external manager performance fees of $29.4 million.

The reduction in base fees is driven by lower than projected Global Equity management fee rates, lower than projected allocation to Fixed Income external managers, less than expected capital calls in Private Debt, and lower than anticipated fees in Real Assets.

The increase in performance fees is primarily in Global Equity, driven by better-than-expected current external manager performance, and an increase in projected allocation to investment managers with performance-based fee structures. These increases were partially offset by a decrease in performance fees in Real Assets.

Investment External Management Fees

($ in thousands)	2026-27 Annual Fees	2026-27 Proposed Mid-Year Fees	$ Change	% Change
Global Equity	$125,369	$119,561	($5,809)	(4.6%)
Fixed Income	133,000	110,000	(23,000)	(17.3%)
Real Assets	419,135	413,859	(5,276)	(1.3%)
Private Equity	968,000	968,000	-	0.0%
Opportunistic Strategies	940	836	(104)	(11.1%)
Private Debt	196,689	189,248	(7,442)	(3.8%)
Total External Management - Base Fees	$1,843,134	$1,801,503	($41,631)	(2.3%)
Global Equity	111,947	173,247	61,300	54.8%
Real Assets	252,898	221,010	(31,889)	(12.6%)
Total External Management - Performance Fees	$364,845	$394,257	$29,411	8.1%
Total External Management Fees	**$2,207,980**	**$2,195,760**	**($12,220)**	**(0.6%)**

V. Third Party Administrator Fees

CalPERS contracts with Third Party Administrators (TPA) 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.

At mid-year, CalPERS estimates a decrease of $14 million, or 4.5%, compared to the annual projected amount for TPA fees. This adjustment reflects a decrease in Health Program and Pharmacy Benefit Manager fees primarily due to the removal of a health plan at the end of 2026 with population migration creating overall cost savings. There was also a slight decrease in projected Long Term Care fees due to performance metric results.

Third Party Administrator Fees

($ in thousands)	2026-27 Annual Fees	2026-27 Proposed Mid-Year Fees	$ Change	% Change
Health Program	$256,306	$246,092	($10,214)	(4.0%)
Pharmacy Benefit Manager	34,698	32,616	(2,082)	(6.0%)
Total Health	$291,004	$278,709	($12,295)	(4.2%)
Long Term Care Program	16,260	14,530	(1,730)	(10.6%)
Supplemental Income Plan	3,900	3,900	-	0.0%
California Employers' Retiree Benefit Trust (CERBT)	90	90	-	0.0%
California Employers' Pension Prefunding Trust (CEPPT)	18	18	-	0.0%
Total Third Party Administrator Fees	**$311,272**	**$297,247**	**($14,025)**	**(4.5%)**

VI. Administrative Operating Costs by Branch

The following chart details Administrative Operating Costs by branch. The adjustments below are primarily driven by statewide compensation and benefit adjustments impacting each branch.

Administrative Operating Costs by Branch

($ in thousands)	2026-27 Annual Budget	2026-27 Proposed Mid-Year Budget	$ Change	% Change
Actuarial Office	$14,361	$14,411	$50	0.4%
Communications and Stakeholder Relations	16,520	16,197	(323)	(2.0%)
Customer Services and Support	120,590	121,146	556	0.5%
Executive Office	12,340	12,926	586	4.8%
Financial Office	29,304	29,410	106	0.4%
General Counsel	41,808	41,957	149	0.4%
Health Policy and Benefits Branch	38,565	38,738	172	0.4%
Investment Office	154,841	155,764	924	0.6%
Office of Audit Services	9,704	9,742	38	0.4%
Operations and Technology	189,456	190,041	586	0.3%
Enterprise	10,391	11,405	1,015	9.8%
Pro-Rata Assessment	41,022	41,022	-	0.0%
Total Administrative Operating Costs	**$678,900**	**$682,759**	**$3,859**	**0.6%**

VII. Administrative Operating Costs by Fund

The following allocation establishes fund authority for Administrative Operating Costs. Upon board approval of the mid-year budget, CalPERS will provide this information to the State Controller's Office to effectuate payment of administrative expenses for the remainder of the fiscal year.

Administrative Operating Costs by Fund

($ in thousands)	2026-27 Annual Budget	2026-27 Proposed Mid-Year Budget	$ Change	% Change
Public Employees' Retirement Fund (PERF)	$551,638	$554,949	$3,311	0.6%
Public Employees' Contingency Reserve Fund (CRF)	38,542	38,673	131	0.3%
Public Employees' Health Care Fund (HCF)	55,487	55,662	175	0.3%
Long-Term Care Fund (LTCF)	8,744	8,789	45	0.5%
Annuitants' Health Care Coverage Fund (CERBT)	9,480	9,526	46	0.5%
Deferred Compensation Fund (IRC 457)	3,089	3,104	15	0.5%
Supplemental Contributions Program Fund (SCP)	242	243	1	0.6%
Judges' Retirement Fund (JRF)	2,275	2,286	11	0.5%
Judges' Retirement Fund II (JRF II)	3,519	3,538	19	0.5%
Legislators' Retirement Fund (LRF)	768	772	4	0.5%
Replacement Benefit Custodial Fund (RBF)	731	734	3	0.4%
California Employers' Pension Prefunding Trust (CEPPT)	366	368	2	0.6%
Old-Age & Survivors Insurance Fund (OASI)	1,242	1,246	4	0.3%
Reimbursements	2,777	2,869	92	3.3%
Total Administrative Operating Costs	**$678,900**	**$682,759**	**$3,859**	**0.6%**
Statewide Pro-Rata Assessment	$41,022	$41,022	$ -	0.0%
CalPERS Administrative Costs	$637,878	$641,738	$3,859	0.6%

VIII. 2027-28 Operating Costs 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 $17.8 million, or 1.9%, in 2027-28.

For Administrative Operating Costs, the increase is driven by statewide compensation and benefit increases negotiated through collective bargaining, as well as inflationary increases in operating expenses and equipment costs and the impact of SB 122 sales and use taxes.

The Investment Operating Costs increase is due to projected expenses related to inflationary pressures, continued implementation of the Data and Technology Modernization Initiative, and SB 122 related tax expenses.

Headquarters Building Expenses are expected to decline, mainly as a result of completing building improvement projects. Additionally, utility expenses are expected to decrease following the installation of LED lighting throughout all buildings.

During the development of the 2027-28 Annual Budget, CalPERS will analyze all operating costs and make funding recommendations based on updated data, assumptions, and priorities.

2027-28 Projection

($ in thousands)	2026-27 Proposed Mid-Year Budget	2027-28 Projected Budget	$ Change	% Change
Administrative Operating Costs	$682,759	$698,967	$16,208	2.4%
Investment Operating Costs	232,434	239,988	7,554	3.3%
Headquarters Building Costs	35,863	29,948	(5,915)	(16.5%)
Total Projection	**$951,056**	**$968,903**	**$17,847**	**1.9%**
Authorized Positions	**2,843.0**	**2,843.0**	**-**	**0.0%**