



Finance and Administration Committee

Agenda Item 5a

November 15, 2022

Item Name: 2022-23 Mid-Year Budget Revision

Program: Financial Office

Item Type: Action

Recommendation

Approve a \$112.1 million increase for a revised total budget of \$2.185 billion.

Executive Summary

At mid-year, CalPERS proposes a \$112.1 million, or 5.4 percent increase to the 2022-23 authorized budget. The majority of the increase is driven by revised estimates for Investment External Management Fees for additional capital invested in the Real Assets market. There is also an increase in Administrative Operating costs for expected adjustments to salary and benefits pursuant to collective bargaining. These increases are offset by Investment Operating Cost reductions driven by the deferral of technology projects, as well as Third Party Administrator Fee reductions based on updated health plan and pharmacy benefit enrollment data. Total authorized positions remain unchanged at 2,843.

2022-23 Mid-Year Total Budget

(\$ in thousands)	2022-23 Authorized Annual Budget	Mid-Year Adjustments	2022-23 Proposed Mid-Year Budget	% Change
Administrative Operating Costs	\$561,624	\$15,729	\$577,352	2.8%
Investment Operating Costs	134,667	(1,989)	132,678	(1.5%)
Headquarters Building Costs	20,832	(9)	20,823	(0.0%)
Total: Operating Costs	\$717,123	\$13,731	\$730,854	1.9%
Investment External Management Fees	1,044,098	99,446	1,143,544	9.5%
Third Party Administrator Fees	311,429	(1,117)	310,312	(0.4%)
Total: Fees	\$1,355,527	\$98,329	\$1,453,856	7.3%
CalPERS Total Budget	\$2,072,650	\$112,059	\$2,184,709	5.4%
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 2022-23 Mid-Year Budget of \$2.184 billion reflects a total increase of \$112.1million, or 5.4 percent. Most of the increase is in Investment External Management Fees, specifically in estimated Real Assets base and performance fees resulting from additional capital commitments in infrastructure investments. There are also Operating Cost increases for administrative expenses driven by collective bargaining, as well as updated employer retirement contributions and health premiums based on board actions. Further, there are offsetting decreases resulting from continued scrutiny of operational expenses, investment technology projects, and updated health enrollment projections. The total adjustment reflects reasonable increases that will enable CalPERS to meet its core objectives.

Attachment 2 provides final expenditures for fiscal year 2021-22, and reveals that CalPERS ended the year with a net \$52.4 million in unexpended funds. There was a \$78.5 million surplus in Operating Costs offset by a \$26.2 million overage in Fees. More specifically, Investment External Management Fees were higher than originally estimated due to increased capital deployed in Real Assets and Private Equity in support of the strategic asset allocation.

Budget and Fiscal Impacts

The mid-year revision increases CalPERS' total authorized budget by \$112.1 million, or 5.4 percent. 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. Lack of approval will degrade CalPERS' inability to operate effectively and meet its financial obligations.

Attachments

Attachment 1 – 2022-23 Mid-Year Budget Revision

Attachment 2 – 2021-22 Year End Expenditure Report

Attachment 3 – PowerPoint Slides

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

Michele L. Nix
Acting Chief Financial Officer