



Finance and Administration Committee

Agenda Item 5a

April 15, 2024

Item Name: 2024-25 Annual Budget Proposal

Program: Financial Office

Item Type: Action

Recommendation

Approve the 2024-25 Annual Budget in the amount of \$2.47 billion and 2,843 positions.

Executive Summary

CalPERS proposes an increase of \$26.6 million, or 1.1%, compared to the 2023-24 budget. The primary increase to the 2024-25 budget is within Investment External Management Fees, which is driven by updates to Strategic Asset Allocation. Headquarters Building Costs are proposed to increase to accommodate an update to audio and visual systems in the CalPERS auditorium and the replacement of fluorescent lighting with LED lighting. Administrative Operating Costs will decrease due to reduced costs in software, data processing, and consulting expenses. Investment Operating Cost will decrease due to reduced consultant, infrastructure, and data service needs. Furthermore, there is a decrease in Third Party Administrator Fees (TPA) driven by Blue Shield changing from flex-funded to fully insured, which no longer includes a TPA fee. Total authorized positions remain unchanged at 2,843 positions.

Displayed in the proposed budget is an update on current-year expenditures. As of December 31, 2023, CalPERS expended \$982.6 million, or 40.2%, of the current budget, and projects to end the fiscal year with approximately \$99.5 million, or 4.1%, in savings. Until expended, all budgeted funds remain in the Public Employees' Retirement Fund (PERF) 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 envisioned during the annual budget process. Each fall, CalPERS also provides the board with an update on prior year expenses.

Analysis

As detailed in Attachment 1, the 2024-25 Proposed Budget of \$2.47 billion reflects a total increase of \$26.6 million, or 1.1%. The primary increases are in Investment External Management Fees, driven by the updated Strategic Asset Allocation's increased focus on active management and increased allocation to private asset classes. Headquarters Building Cost are increasing due to the update of audio and visual systems in the CalPERS auditorium and the replacement of fluorescent lighting with LED lighting throughout the buildings. Administrative Operating Costs are decreasing due to reductions in software, data processing, and consulting expenses. Investment Operating Cost will decrease due to decreased consultant, infrastructure, and data service needs. TPA Fees will decrease due to Blue Shield changing from flex-funded to fully insured. The total adjustment reflects reasonable increases that will enable CalPERS to meet its core objectives.

Budget and Fiscal Impacts

As detailed in the following table, the proposed 2024-25 budget is \$2.47 billion and reflects an increase of \$26.6 million, or 1.1%, compared to the 2023-24 budget.

2024-25 Total Budget

(\$ in thousands)	2022-23 Actual	2023-24 Authorized Budget	2024-25 Proposed Budget	Change	
				\$	%
Administrative Operating Costs	\$511,944	\$616,670	\$614,877	(\$1,792)	(0.3%)
Investment Operating Costs	93,547	150,595	146,735	(3,860)	(2.6%)
Headquarters Building Costs	17,802	22,753	31,466	8,713	38.3%
Total: Operating Costs	\$623,292	\$790,018	\$793,078	\$3,060	0.4%
Investment External Management Fees	898,964	1,368,386	1,428,052	59,666	4.4%
Third Party Administrator Fees	306,122	285,156	249,023	(36,133)	(12.7%)
Total: Fees	\$1,205,086	\$1,653,542	\$1,677,075	\$23,533	1.4%
CalPERS Total Budget	\$1,828,378	\$2,443,560	\$2,470,153	\$26,594	1.1%
Total Positions	2,843.0	2,843.0	2,843.0	-	0.0%

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 – 2024-25 Annual Budget Proposal

Attachment 2 – PowerPoint Slides

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