

California Public Employees' Retirement System

Fiscal Year 2024-25 Mid-Year Budget

November 19, 2024



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Executive Summary

At mid-year, CalPERS proposes a \$56.5 million, or 2.3% increase to the 2024-25 authorized budget. The majority of the mid-year increase is due to updated estimates for Investment External Management Fees and Third Party Administrator (TPA) Fees. Investment Operating Costs reflect additional funding for a Data and Technology initiative, while Administrative Operating Costs reflect a decrease to the employer retirement rate for CalPERS employees. Total authorized positions remain unchanged at 2,843.

Mid-Year Total Budget

(\$ in thousands)	2024-25 Annual Budget	2024-25 Proposed Mid-Year Budget	Change	
			\$	%
Administrative Operating Costs	\$614,877	\$609,826	(\$5,051)	(0.8%)
Investment Operating Costs	146,735	155,877	9,142	6.2%
Headquarters Building Costs	31,466	31,465	(2)	(0.0%)
Total: Operating Costs	\$793,078	\$797,167	\$4,089	0.5%
Investment External Management Fees	1,428,052	1,454,031	25,979	1.8%
Third Party Administrator Fees	249,023	275,416	26,393	10.6%
Total: Fees	\$1,677,075	\$1,729,448	\$52,373	3.1%
CalPERS Total Budget	\$2,470,153	\$2,526,615	\$56,462	2.3%
Total Positions	2,843.0	2,843.0	-	0.0%

Note: Numbers may not add due to rounding of budget details.

The following pages detail the 2024-25 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 (OE&E). At mid-year, CalPERS proposes a net decrease of \$5 million, or 0.8%, in these expenses. This includes a \$5.1 million decrease in Personal Services expenses, and a \$0.08 million increase in OE&E costs.

The Personal Services decrease is primarily driven by statewide compensation and benefit adjustments which net to \$5.1 million. Collectively bargained salary and health premium changes account for an \$11.2 million increase that is offset by a \$16.3 million decrease in retirement benefit funding. In addition, the adjustment includes a redirection of budget between Personal Services and OE&E, primarily to fund critical or unanticipated resource needs.

As detailed on the following page, there are a number of adjustments to OE&E expense categories that net to an overall increase of \$0.08 million. Adjustments are a result of program areas reviewing their annual budget and identifying where resource needs have changed since the development of annual budgets. This review resulted in additional need for consulting services funds for recruitment and graphic design services. These increases will be offset by anticipated savings in personal services and general expense categories.

Administrative Operating Costs by Object of Expenditure

(\$ in thousands)	2024-25 Annual Budget	2024-25 Proposed Mid-Year Budget	Change	
			\$	%
Salaries & Wages	\$326,262	\$333,397	\$7,135	2.2%
Benefits	160,882	148,613	(12,270)	(7.6%)
Total Personal Services	\$487,145	\$482,010	(\$5,135)	(1.1%)
General Expense	10,898	10,621	(277)	(2.5%)
Software	1,023	1,023	-	0.0%
Printing	168	168	-	0.0%
Postage	2,729	2,729	-	0.0%
Communications	1,464	1,464	-	0.0%
Data Processing Services	23,929	23,929	-	0.0%
Travel	2,966	2,966	-	0.0%
Training	1,351	1,351	-	0.0%
Medical Exam/Disability Travel	2,250	2,250	-	0.0%
Facilities Operations	8,233	8,234	2	0.0%
Central Administrative Services	28,898	28,898	-	0.0%
University Enterprises, Inc.	369	369	-	0.0%
External Legal Counsel	5,863	5,663	(200)	(3.4%)
Professional Services	4,975	4,975	-	0.0%
Consultants	23,387	23,724	337	1.4%
Audit Services	1,455	1,455	-	0.0%
Federal Legislative Rep	439	661	222	50.6%
Admin Hearings	1,402	1,402	-	0.0%
Consolidated Data Centers	427	427	-	0.0%
Equipment (Includes EDP)	5,508	5,508	-	0.0%
Total Operating Expenses & Equipment	\$127,732	\$127,816	\$84	0.1%
Total Administrative Costs	\$614,877	\$609,826	(\$5,051)	(0.8%)

Note: Numbers may not add due to rounding of budget details.

II. Investment Operating Costs

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

At mid-year, CalPERS proposes a net increase of \$9.1 million, or 6.2%, in Investment Operating Costs. The primary driver of this increase is a rise in data, portfolio management system, and consulting needs. These increases are largely attributable to both vendor and consulting costs for the Data and Technology Modernization Initiative, but are also reflective of increased data, analytics, and portfolio management services for standard maintenance and operations.

Investment Operating Costs

(\$ in thousands)	2024-25 Annual Budget	2024-25 Proposed Mid-Year Budget	Change	
			\$	%
Investment Consultants	\$12,000	\$12,000	\$ -	0.0%
Board Consultants	6,500	6,500	-	0.0%
Technology Consultants	19,800	24,700	4,900	24.7%
Total Consultant Expenses	\$38,300	\$43,200	\$4,900	12.8%
Audits	705	705	-	0.0%
Tax Advisory Services	1,200	1,200	-	0.0%
Master Custodian Fee	12,000	10,610	(1,390)	(11.6%)
Fund Administration Services / Fees	12,000	12,010	10	0.1%
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	\$48,637	\$47,257	(\$1,380)	(2.8%)
Data	10,710	12,300	1,590	14.8%
Analytics	16,744	17,000	256	1.5%
Trading and Portfolio Management Systems	25,467	28,400	2,933	11.5%
Business Operations Tool	6,687	7,500	813	12.2%
Other Technology Expense	190	220	30	15.8%
Total Technology Expenses	\$59,798	\$65,420	\$5,622	9.4%
Total Investment Operating Expenses	\$146,735	\$155,877	\$9,142	6.2%

Note: Numbers may not add due to rounding of budget details.

III. Headquarters Building Costs

Headquarters (HQ) Building expenses include costs to operate and maintain the HQ campus and regional offices, the offsite emergency operations center, the Front Street parking lot, and warehouse space. At mid-year, total HQ Building Costs remain unchanged, however, there is a transfer of funds between Operating and Non-Operating Costs to address an increase in rates for the SMUD greenery program.

Headquarters Building Costs

(\$ in thousands)	2024-25 Annual Budget	2024-25 Proposed Mid-Year Budget	Change	
			\$	%
Utilities	\$2,746	\$2,746	\$ -	0.0%
Engineering Services	4,391	4,391	-	0.0%
Janitorial	3,815	3,815	-	0.0%
Landscaping	809	809	-	0.0%
General Maintenance	1,179	1,179	-	0.0%
Security	3,469	3,469	-	0.0%
Property Mgmt. & Administrative Fees	1,905	1,905	-	0.0%
Café Plaza	388	388	-	0.0%
Offsite Expenses	1,098	1,098	-	0.0%
Emergency Operations Center (EOC)	483	483	-	0.0%
Operating Other	2,307	2,387	80	3.5%
Total Operating Expenses	\$22,591	\$22,671	\$80	0.4%
Owner Improvements	2,216	2,136	(80)	(3.6%)
Building Improvements	11,620	11,620	-	0.0%
Furniture & Fixtures	300	300	-	0.0%
Building Insurance	1,027	1,027	-	0.0%
Total Non-Operating Expenses	\$15,163	\$15,083	(\$80)	(0.5%)
Less: Revenue	(1,394)	(1,394)	-	0.0%
Total Headquarters Building Expenses	\$36,360	\$36,360	\$ -	0.0%
Less: Amount included in Admin. Budget	(4,893)	(4,895)	(2)	0.0%
Total Headquarters Building Budget	\$31,466	\$31,465	\$(2)	(0.0%)

Note: Numbers may not add due to rounding of budget details.

IV. Investment External Management Fees

The Investment External Management Fees budget estimates fees paid to external investment advisor contracts to manage specific portfolios. While CalPERS estimates annual Investment External Management Fees based on market assumptions and estimated deployment of capital to investment diversification strategies, actual fees paid within a fiscal year are subject to market fluctuations.

At mid-year, CalPERS estimates a net increase of \$26 million, or 1.8% over the annual budget amount for external management fees. This estimate captures base fee increases driven by expected market value gains for externally managed assets. Offsetting these adjustments is a reduction in Real Assets base and performance fees to account for decreases in projected valuations and accrual reversals, as well as decreased estimates for anticipated deployment of Private Debt capital.

Investment External Management Fees

(\$ in thousands)	2024-25 Annual Budget	2024-25 Proposed Mid-Year Budget	Change	
			\$	%
Global Equity	\$82,168	\$93,002	\$10,834	13.2%
Fixed Income	78,000	83,500	5,500	7.1%
Real Assets	334,491	321,316	(13,175)	(3.9%)
Private Equity	545,000	656,551	111,551	20.5%
Opportunistic Strategies	3,702	2,230	(1,472)	(39.8%)
Private Debt	127,109	105,300	(21,809)	(17.2%)
External Mgmt - Base Fees	\$1,170,470	\$1,261,899	\$91,429	7.8%
Real Assets	257,582	192,132	(65,450)	(25.4%)
External Mgmt - Performance Fees	\$257,582	\$192,132	(\$65,450)	(25.4%)
Total External Management Fees	\$1,428,052	\$1,454,031	\$25,979	1.8%

Note: Numbers may not add due to rounding of budget details.

V. Third Party Administrator Fees

CalPERS contracts with Third Party Administrators 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 an increase of \$26.4 million, or 10.6% over the annual budget amount for Third Party Administrator fees. Adjustments include a \$19.6 million increase in Health Program fees due primarily to the addition of a new administrator for the Included Health program, and a \$0.4 million decrease in Pharmacy Benefit Manager fees for updated projections of total claims. Additionally, Long-Term Care Program fees are increasing \$7 million for a new administrator of the Aging in Place program, as well as a retroactive adjustment in the Long-Term Care administrator fee. Supplemental Income Plan fees, which are based on Assets Under Management (AUM), are increasing by \$0.2 million due to an increase in AUM.

Third Party Administrator Fees

(\$ in thousands)	2024-25 Annual Budget	2024-25 Proposed Mid-Year Budget	Change	
			\$	%
Health Program	\$211,298	\$230,945	\$19,647	9.3%
Pharmacy Benefit Manager	17,551	17,131	(421)	(2.4%)
Total, Health	\$228,849	\$248,075	\$19,226	8.4%
Long-Term Care Program	16,651	23,633	6,982	41.9%
Supplemental Income Plan	3,415	3,600	185	5.4%
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	\$249,023	\$275,416	\$26,393	10.6%

Note: Numbers may not add due to rounding of budget details.

I. Administrative Operating Costs by Branch

The following chart details Administrative Operating Costs (salaries and OE&E) by branch. The adjustments below are primarily driven by statewide compensation and benefit adjustments impacting each branch.

Administrative Operating Costs by Branch

(\$ in thousands)	2024-25 Annual Budget	2024-25 Proposed Mid-Year Budget	Change	
			\$	%
Actuarial Office	\$14,736	\$14,629	(\$107)	(0.7%)
Communications and Stakeholder Relations	14,512	15,019	508	3.5%
Customer Services and Support	115,194	114,610	(584)	(0.5%)
Executive Office	11,205	11,203	(2)	(0.0%)
Financial Office	27,624	27,447	(177)	(0.6%)
General Counsel	47,847	47,233	(613)	(1.3%)
Health Policy and Benefits Branch	34,816	34,409	(408)	(1.2%)
Investment Office	139,867	137,409	(2,458)	(1.8%)
Operations and Technology	170,985	170,251	(734)	(0.4%)
Enterprise	9,193	8,718	(475)	(5.2%)
Pro-Rata Assessment	28,898	28,898	-	0.0%
Total Administrative Operating Costs	\$614,877	\$609,826	(\$5,051)	(0.8%)

Note: Numbers may not add due to rounding of budget details.

II. Administrative Operating Costs by Fund

The following allocation establishes the 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)	2024-25 Annual Budget	2024-25 Proposed Mid-Year Budget	Change	
			\$	%
Public Employees' Retirement Fund (PERF)	\$492,734	\$488,367	(\$4,367)	(0.9%)
Public Employees' Contingency Reserve Fund (CRF)	37,378	37,186	(192)	(0.5%)
Public Employees' Health Care Fund (HCF)	53,858	53,626	(232)	(0.4%)
Long-Term Care Fund (LTCF)	8,417	8,365	(52)	(0.6%)
Annuitants' Health Care Coverage Fund (CERBT)	8,992	8,894	(98)	(1.1%)
Deferred Compensation Fund (IRC 457)	2,555	2,533	(22)	(0.9%)
Supplemental Contributions Program Fund (SCP)	251	248	(3)	(1.3%)
Judges' Retirement Fund (JRF)	2,333	2,323	(10)	(0.4%)
Judges' Retirement Fund II (JRF II)	3,099	3,071	(27)	(0.9%)
Legislators' Retirement Fund (LRF)	751	746	(6)	(0.7%)
Replacement Benefit Custodial Fund (RBF)	638	634	(4)	(0.6%)
California Employers' Pension Prefunding Trust (CEPPT)	303	298	(5)	(1.5%)
Old-Age & Survivors Insurance Fund (OASI)	1,209	1,202	(7)	(0.6%)
Reimbursements	2,357	2,330	(27)	(1.1%)
Total Administrative Operating Costs	\$614,877	\$609,826	(\$5,051)	(0.8%)
<i>Statewide Pro-Rata Assessment</i>	\$28,898	\$28,898	\$ -	0.0%
<i>CalPERS Administrative Costs</i>	\$585,980	\$580,928	(\$5,051)	(0.9%)

Note: Numbers may not add due to rounding of budget details.

III. 2025-26 Operating Costs Projection

As part of the budget process, CalPERS monitors the out-year impact of fiscal decisions to estimate future operating cost expenses.

For Administrative Operating Costs, CalPERS estimates a \$10.6 million increase for anticipated collective bargaining adjustments to salaries and benefits.

Within Investment Operating Costs, CalPERS estimates a \$49.6 million increase due to the continued implementation of the Data and Technology Modernization Initiative and inflationary pressures.

Headquarters Building Expenses are anticipated to increase by \$10.6 million primarily driven by building improvements related to the replacement of ceiling tiles and to continue replacement of fluorescent lighting with LED lighting throughout the Lincoln Plaza North Building.

During the development of the 2025-26 Annual Budget, CalPERS will analyze all operating costs and make funding recommendations based on updated data, assumptions, and priorities.

2025-26 Projection

(\$ in thousands)	2024-25 Proposed Mid-Year Budget	2025-26 Projected Budget	Change	
			\$	%
Administrative Operating Costs	\$609,824	\$620,422	\$10,598	1.7%
Investment Operating Costs	155,877	205,452	49,575	31.8%
Headquarters Building Costs	31,466	42,102	10,635	33.8%
Total Projection	\$797,167	\$867,975	\$70,808	8.9%
Authorized Positions	2,843.0	2,843.0	-	0.0%

Note: Numbers may not add due to rounding of budget details.