

California Public Employees' Retirement System

Fiscal Year 2022-23 Annual Budget Proposal

April 18, 2022



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Executive Summary and Highlights

CalPERS' proposed budget identifies the financial resources needed by the organization 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. The budget supports CalPERS' current strategic goals listed below, as well as the goals under development for beyond 2022.

- Fund Sustainability
- Health Care Affordability
- Reduce Complexity
- Risk Management
- Talent Management

2022-23 Total Budget

(\$ in thousands)	2020-21 Actual	2021-22 Authorized Budget	2022-23 Proposed Budget	2021 to 2022 Change	
				\$ Increase / (Decrease)	% Increase / (Decrease)
Administrative Operating Costs	\$451,978	\$555,276	\$561,624	\$6,347	1.1%
Investment Operating Costs	81,339	121,393	134,667	13,275	10.9%
Headquarters Building Costs	17,518	18,415	20,832	2,417	13.1%
Total: Operating Costs	\$550,835	\$695,084	\$717,123	\$22,039	3.2%
Investment External Management Fees	723,695	898,497	1,044,098	145,601	16.2%
Third Party Administrator Fees	297,807	303,552	311,429	7,877	2.6%
Total: Fees	\$1,021,502	\$1,202,049	\$1,355,527	\$153,478	12.8%
CalPERS Total Budget	\$1,572,336	\$1,897,133	\$2,072,650	\$175,517	9.3%
Total Positions	2,843.0	2,843.0	2,843.0	-	0.0%

- Administrative Operating Cost increases reflect implementation of new asset allocation strategies, and to improve and enhance health data and analytical capabilities, update information technology hardware and software, hold board elections, and begin returning to pre-pandemic travel.

- Investment Operating Cost increases include funds to implement and layer in new strategic asset allocations with data and technology initiatives.
- Headquarters Building Cost increases reflect a return to pre-pandemic operation levels and to improve building security.
- Third Party Administrator Fee increases are the result of enrollment migration and growth in the Health Program as well as expected contract pricing increases.

Total authorized positions remain unchanged at 2,843.

2021-22 Current Year Update

As of December 31, 2021, CalPERS expended 45.1 percent of the total \$1.897 billion authorized budget. Based on fiscal projections, CalPERS estimates that it will end the year with approximately \$38.7 million (2.0 percent) in unexpended funds. This projection is on target with the key performance indicator to forecast expenses at or below 10 percent of the budget.

2021-22 Current Year Update

(in thousands)	2021-22 Authorized Budget	2021-22 Expenditures and Encumbrances thru 12-31-21	Percent Expended	Forecast	Savings
Administrative Operating Costs	\$555,276	\$260,447	46.9%	\$536,130	\$19,146
Investment Operating Costs	121,393	32,223	26.5%	103,492	17,901
Headquarters Building Costs	18,415	6,730	36.5%	18,884	(469)
Total: Operating Costs	\$695,084	\$299,400	43.1%	\$658,506	\$36,577
Investment External Mgmt Fees	898,497	409,786	45.6%	898,497	-
Third Party Administrator Fees	303,552	146,760	48.3%	301,457	2,094
Total: Fees	\$1,202,049	\$556,546	46.3%	\$1,199,955	\$2,094
CalPERS Total Forecast	\$1,897,133	\$855,946	45.1%	\$1,858,461	\$38,672

Nearly all forecasted savings is in Operating Costs, with Administrative Cost savings driven by position vacancies and less than expected travel and training due to the pandemic. There are also savings forecast across various Operating Expense and Equipment (OE&E) line items including information technology and consultant expenses.

Investment Operating Costs are also projected to have savings because of less than expected usage of external consultants and necessary legal reviews for Private Assets transactions. However, as CalPERS expands its commitment to Private Assets under new investment strategies, we anticipate these costs will increase. Less than expected investment technology expenses are also contributing to this forecast, and are the result of restructuring data and analytics services and changes to investment platforms.

While total Operating Costs reflect anticipated savings, CalPERS projects spending \$0.5 million more than estimated for Headquarters Building Costs resulting from unanticipated plumbing modifications necessary to mitigate water quality issues.

Finally, based on Fall 2021 Open Enrollment, CalPERS expects a \$2.1 million surplus in Third Party Administrator Fees because of member migration between health plans.

Social Security Fee Update

For the upcoming 2022-23 fiscal year, CalPERS proposes the continued suspension of Old Age and Survivors' Insurance (OASI) administrative fees charged to employers. On June 30, 2021, the fund's net position was \$3.7 million. Upon review of current and upcoming fiscal year expenditure projections, there will be sufficient funds available to cover expenses without additional fee revenue. The fees charged to establish new or modify existing Social Security agreements will remain unchanged.

CalPERS' Budget Process

Each fiscal year, CalPERS engages in two formal budget processes; an annual budget proposal and a mid-year review. The annual proposal details the twelve-month budget for board approval prior to the start of the new fiscal year on July 1st. In contrast, the mid-year review addresses new, critical, and unforeseen resource needs not envisioned when developing the annual proposal. At mid-year, CalPERS also adjusts the budget to reflect statewide compensation and benefit increases negotiated through collective bargaining.

When developing the annual budget, CalPERS' Financial Office reviews existing budget levels for each division and program, and considers requests for additional funds to maintain, improve, or implement services, initiatives, and projects. Financial Office team members work collaboratively with each division to understand their organizational structures and business objectives as a basis for maintaining existing funding levels, and for analyzing and approving new increases. The Financial Office analyzes all budget requests to inform decisions made by senior management and executive leaders. Pursuant to the CalPERS Budget Policy, the main criteria used to prioritize budget increases include:

- Mitigating risk
- Identifying opportunities for cost efficiencies
- Aligning with the strategic plan and business plan
- Implementing CalPERS Board of Administration decisions and directives
- Complying with legal mandates

As it develops both the annual and mid-year budgets, CalPERS utilizes a position pooling process that redirects vacancies to where they are most critically needed within the organization. The objective of this process is to limit staffing and related budgetary increases, and to focus resources in the areas of highest priority.

2022-23 Proposed Budget

CalPERS' total 2022-23 proposed budget is \$2.073 billion; an increase of \$175.5 million (9.3 percent) compared to the 2021-22 authorized budget. The major driver of the year-over-year increase is in estimated Investment External Management Fees, with additional increases proposed for Operating Costs and Third Party Administrator Fees.

2022-23 Total Budget

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Total: Fees	\$1,021,502	\$1,202,049	\$1,355,527	\$153,478	12.8%
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Total Positions	2,843.0	2,843.0	2,843.0	-	0.0%

Based on proposed budget levels, CalPERS' expenses have increased 5.7 percent annually over the past five years as shown below.

Total Budget 2017-18 through 2022-23

(in thousands)	2017-18 Actual	2018-19 Actual	2019-20 Actual	2020-21 Actual	2021-22 Authorized Budget	2022-23 Proposed Budget	Five-Year Change	Annual Growth (%)
Administrative Operating Costs	\$444,066	\$469,696	\$480,404	\$451,978	\$555,276	\$561,624	\$117,558	4.8%
Investment Operating Costs	68,425	78,782	93,260	81,339	121,393	134,667	66,242	14.5%
Enterprise Projects Costs	22,366	5,641	2,656	-	-	-	(22,366)	(100.0%)
Headquarters Building Costs	23,603	23,029	21,666	17,518	18,415	20,832	(2,771)	(2.5%)
Total: Operating Costs	\$558,461	\$577,148	\$597,986	\$550,835	\$695,084	\$717,123	\$158,662	5.1%
Investment External Management Fees	727,208	759,624	710,200	723,695	898,497	1,044,098	316,890	7.5%
Third Party Administrator Fees	288,652	299,874	306,043	297,807	303,552	311,429	22,778	1.5%
Total: Fees	\$ 1,015,859	\$ 1,059,498	\$ 1,016,243	\$ 1,021,502	\$ 1,202,049	\$ 1,355,527	\$ 339,668	5.9%
CalPERS Total Budget	\$ 1,574,320	\$ 1,636,645	\$ 1,614,229	\$ 1,572,336	\$ 1,897,133	\$ 2,072,650	\$ 498,330	5.7%

The major drivers of cost increases over the past five years include:

- State-negotiated employee compensation and benefit increases (Administrative Operating Costs).
- New technologies to implement Total Fund data strategies to modernize and enhance data, analytics, and business operations tools to support internal asset management capabilities (Investment Operating Costs).
- Continued market performance as well as an increase in allocation and capital deployment in the private markets. (Investment External Management Fees).
- Expanded health plan options, increased enrollment, general contract pricing increases, and new Third Party Administrator contracts (Third Party Administrator Fees).

Over this same timeframe, CalPERS actively engaged in efforts to offset Administrative Operating and Headquarters Building Costs by:

- Implementing a position pooling process to redirect 81 vacant positions to address changing workload needs.
- Eliminating 32 vacant positions.
- Reducing temporary help and overtime costs by \$6.8 million.
- Transitioning work performed by contractors to CalPERS employees.
- Delaying or phasing building improvement and enterprise projects.

The following pages detail the 2022-23 Proposed Budget by expenditure category.

I. Administrative Operating Costs

Administrative Operating Costs include Personal Services expenditures (salaries, wages, and benefits for permanent and temporary help staff) and Operating Expenses and Equipment (OE&E) for each branch within CalPERS. Personal Services costs comprise approximately 80 percent of Administrative Operating Costs, excluding statewide pro-rata (Central Administrative Services). In 2022-23, Administrative Operating Costs are proposed to increase \$6.3 million (1.1) percent over the 2021-22 authorized budget.

Administrative Operating Costs by Object of Expenditure

(in thousands)	2020-21 Actual	2021-22 Authorized Budget	2022-23 Proposed Budget	2021 to 2022 Change	
				\$ Increase / (Decrease)	% Increase / (Decrease)
[1] PERSONAL SERVICES					
Salaries & Wages	\$242,905	\$285,361	\$286,576	\$1,215	0.4%
Benefits	119,345	140,809	140,776	(33)	(0.0%)
Total Personal Services	\$362,250	\$426,170	\$427,352	\$1,182	0.3%
[2] OPERATING EXPENSES & EQUIPMENT (OE&E)					
General Expense	\$4,952	\$9,178	\$10,108	\$930	10.1%
Software	1,817	5,987	3,069	(2,918)	(48.7%)
Printing	224	744	423	(321)	(43.1%)
Postage	1,283	2,795	2,750	(45)	(1.6%)
Communications	1,523	1,615	1,523	(92)	(5.7%)
Data Processing Services	15,229	21,439	27,871	6,432	30.0%
Travel	81	1,837	2,663	825	44.9%
Training	370	1,073	1,088	16	1.5%
Medical Exam/Disability Travel	1,200	1,625	2,000	375	23.1%
Facilities Operations	4,055	7,508	7,978	469	6.3%
Central Administrative Services	25,765	30,924	30,895	(30)	(0.1%)
University Enterprises, Inc.	338	444	444	-	0.0%
External Legal Counsel	4,303	6,141	5,891	(250)	(4.1%)
Professional Services	3,979	4,511	4,813	302	6.7%
Consultants	16,225	23,103	23,333	230	1.0%
Audit Services	2,037	1,607	1,516	(92)	(5.7%)
Federal Legislative Rep	387	552	403	(150)	(27.1%)
Admin Hearings	1,317	1,402	1,402	-	0.0%
Consolidated Data Centers	370	310	350	40	12.9%
Equipment (Includes EDP)	4,272	6,310	5,753	(557)	(8.8%)
Total OE&E	\$89,728	\$129,106	\$134,271	\$5,166	4.0%
Total Costs	\$ 451,978	\$ 555,276	\$ 561,624	\$ 6,347	1.1%

Within the Personal Services budget, the \$1.2 million (0.3 percent) year-over-year increase is driven by the redirection of vacant positions to the Investment Office to set up three new deal teams to effectuate asset allocation strategies approved by the board in November 2021. Through CalPERS' position pooling process, 11 vacant positions from across the organization were redirected for this purpose, along with four positions reassigned from within the Investment Office. The additional expense reflects salary differences between the vacated positions and investment classifications, including incentive compensation. CalPERS estimates that the new in-house deal teams will save \$287 million in fees that would otherwise be paid to have the assets managed externally.

The 2022-23 proposed budget does not include funding for collectively bargained salary and benefit increases that will be effective in the new fiscal year. The Mid-Year Budget presented to the board in November will include an adjustment for these increases based on calculation instructions from the Department of Finance.

Across the OE&E line items, there are several adjustments that net to an overall \$5.2 million (4.0 percent) increase. Significant increases include:

- \$0.7 million to resume the in-person Ed Forum and Women's Pathways Conferences (General Expense)
- \$2.4 million for software upgrades necessitated by operating system updates
- \$0.8 million for resumed travel
- \$0.4 million reflecting full year impact of medical exams rate increase
- \$0.5 million affiliate funds' share of increased facilities expenses
- \$0.6 million for Covid testing (Consultants)
- \$0.3 million for additional death notification contracts (Consultants)
- \$0.4 million for audio visual and exhibit management for conferences (Consultants)
- \$1.6 million for board elections (Consultants)

These increases are offset by various reductions based on a review of historical expenditure levels, usage, and operational needs.

For Software and Data Processing expenses, it is CalPERS' practice to record the first year of software, application subscriptions, and licensing as Software expenses. In subsequent years for ongoing maintenance and renewal, the costs are recorded as Data Processing expenses. This is done to identify and enable tracking, monitoring, and timing of renewals. The \$2.9 million decrease in Software reflects the shift of ongoing costs to Data Processing, offset by \$2.4 million in new Software upgrades identified above. Within Data Processing, the \$6.4 million increase reflects the shift of ongoing software and licensing costs plus expected cost escalation for ongoing contracted licenses and subscriptions.

Staffing Levels

Total authorized positions for 2022-23 remain unchanged from the current year. However, position counts by branch have changed as a result of position pooling.

Authorized Positions by Branch

Positions by Branch	2021-22 Authorized	2022-23 Proposed	% Change
Actuarial Office	64.0	64.0	0.0%
Communications and Stakeholder Relations	78.0	77.0	(1.3%)
Customer Services and Support	902.0	901.0	(0.1%)
Executive Office	16.0	17.0	6.3%
Financial Office	178.0	178.0	0.0%
General Counsel ¹	191.0	191.0	0.0%
Health Policy and Benefits	205.0	206.0	0.5%
Investment Office	333.0	342.0	2.7%
Operations and Technology	867.0	863.0	(0.5%)
Position Pool	9.0	4.0	(55.6%)
Total Authorized Positions	2,843.0	2,843.0	-

¹ During 2021-22, CalPERS reorganized the 30-member Enterprise Compliance Office team within the General Counsel's Office to blend together risk, compliance, and legal functions. Previous budget documents displayed Enterprise Compliance as a stand alone branch.

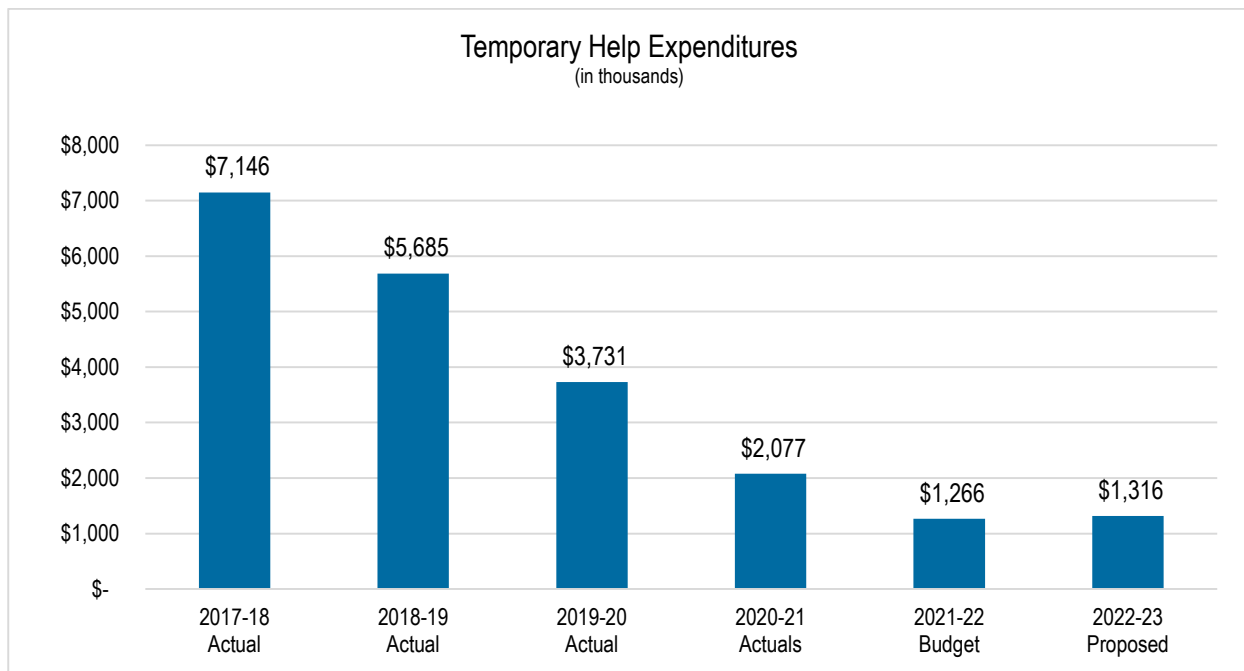
The branches above with position reductions are those that assessed their workload and resource needs and determined that vacancies could be redirected as part of CalPERS' position pooling process.

The one-position increase within the Executive Office reflects resources redirected to support Diversity, Equity, and Inclusion (DEI) implementation and analysis. Additionally, the one-person increase in Health Policy and Benefits reflects a redirection to establish a new Chief Clinical Director responsible for developing and leading medical quality initiatives, conducting the annual review of health benefits, and working collaboratively with other large California government purchasers to align quality metrics.

Temporary Help

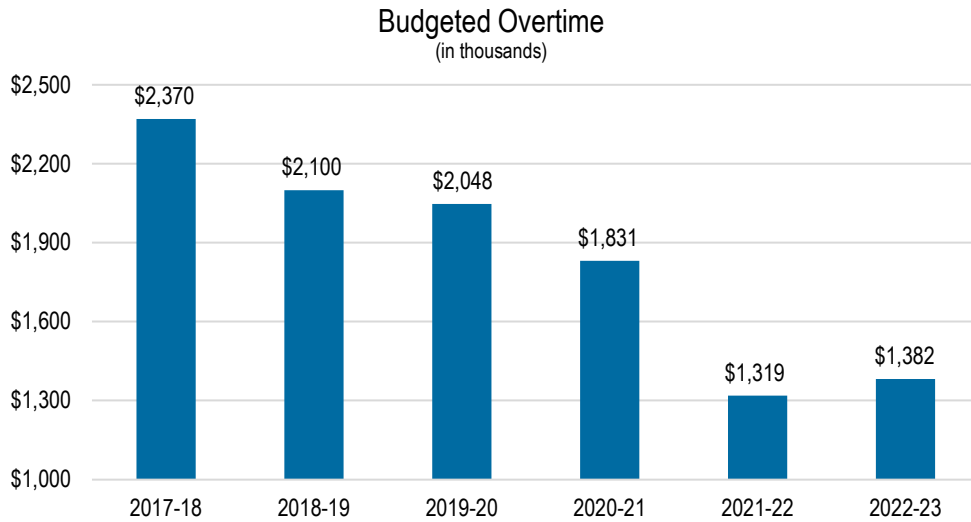
The Salaries and Wages budget within Administrative Operating Costs includes funds for temporary help, such as Seasonal Clerks, Permanent Intermittent positions, and Retired Annuitants, as well as for board members' employer reimbursements. In 2022-23, CalPERS proposes \$1.3 million for temporary help. The slight increase over 2021-22 will fund additional Permanent Intermittent positions in the Call Center to reduce wait times during periods of high call volume.

As displayed below, temporary help expenses have decreased significantly over the past five years. This is due to the elimination of permanent positions in the blanket and no longer employing seasonal clerks for regular, ongoing work.



Overtime

The Salaries and Wages budget also includes funds for overtime expenses. CalPERS proposes an increase of \$63,000 for overtime costs in 2022-23 to help oversee onsite Covid testing setup and monitoring. Despite this increase, CalPERS maintains a notable budget reduction over the past five years.



II. Investment Operating Costs

Investment Operating Costs include expenditures specifically incurred for investment activities, such as consultants to inform the board of investment initiatives or to support the implementation of investment technologies and platforms. There are also expenses for external audit, legal, and appraisal services related to asset valuations, for fund administration and custody, for data and analytics software and services, and for maintaining or enhancing trading and portfolio management systems. Investment Operating Costs in 2022-23 are proposed at \$134.7 million. This is a \$13.3 million (10.9 percent) increase over the 2021-22 authorized budget.

Investment Operating Costs

(in thousands)	2020-21 Actual	2021-22 Authorized Budget	2022-23 Proposed Budget	2021 to 2022 Change	
				\$ Increase/(Decrease)	% Increase/(Decrease)
Investment Consultants	\$2,610	\$10,000	\$10,000	-	-
Board Consultants	4,568	5,717	6,017	300	5.2%
Technology Consultants	3,757	7,555	9,718	2,164	28.6%
Total Consultant Expenses	\$10,935	\$23,271	\$25,735	\$2,464	10.6%
Audits	\$211	\$705	\$705	-	-
Tax Advisory Services	638	1,200	1,200	-	-
Master Custodian Fee	8,940	12,535	14,130	1,595	12.7%
Fund Administration Services / Fees	3,355	3,848	3,848	-	-
External Legal	2,200	5,800	5,800	-	-
Appraisal Fees	7,015	10,000	11,000	1,000	10.0%
Company Expense	710	450	450	-	-
Miscellaneous Operating Expense	379	300	300	-	-
Total Operating Expenses	\$23,448	\$34,837	\$37,432	\$2,595	7.4%
Data	\$6,922	\$8,151	\$9,316	\$1,165	14.3%
Analytics	11,878	18,205	21,851	3,646	20.0%
Trading and Portfolio Management Systems	25,607	33,073	34,650	1,577	4.8%
Business Operations Tool	2,537	3,676	5,504	1,828	49.7%
Other Technology Expense	12	178	178	-	-
Total Technology Expenses	\$46,955	\$63,284	\$71,500	\$8,216	13.0%
Total Investment Operating Expenses	\$81,339	\$121,393	\$134,667	\$13,275	10.9%

The majority of the increase in this budget category reflects the implementation of the new strategic asset allocation and strategies approved by the board in November 2021. This includes a negotiated, contractual increase for consultants to assist the board with investment decisions, and additional consultants to implement technology initiatives resulting from the increase in new private assets and

the addition of leverage into the Total Fund. The increase in Master Custodian Fees reflects the selection of a new vendor for improved investment accounting and performance analytics services, while the increase in Appraisal Fees is required to support an increased allocation to Real Assets. Within Technology Expenses, the increase is due to an overlap of functionality to provide redundancy while CalPERS transitions its data and analytics platforms and services to support its Total Fund strategy.

III. Headquarters Building Costs

The Headquarters Building budget reflects expenses incurred to operate, maintain, and improve the Lincoln Plaza campus. It also includes funds for security and maintenance of regional offices, the offsite emergency operations center, the Front Street parking lot, and warehouse space. These costs are offset by rent and parking revenues. Total proposed Headquarters Building expenses in 2022-23 are \$25.5 million, which is a 12.8 percent increase over the 2021-22 authorized budget.

Headquarters Building Costs

(in thousands)	2020-21 Actual	2021-22 Authorized Budget	2022-23 Proposed Budget	2021 to 2022 Change	
				\$ Increase/(Decrease)	% Increase/(Decrease)
Operating:					
Utilities	\$1,656	\$2,402	\$2,427	\$25	1.1%
Engineering Services	3,453	3,643	4,288	644	17.7%
Janitorial	3,325	3,598	3,603	5	0.1%
Landscaping	694	689	697	8	1.1%
General Maintenance	489	1,020	1,308	288	28.2%
Security	2,294	2,291	2,714	423	18.4%
Property Mgmt. & Administrative Fees	1,177	1,360	1,492	132	9.7%
Café Plaza	85	182	253	71	38.9%
Offsite Expenses ¹	491	801	963	162	20.2%
Emergency Operations Center (EOC) ²	366	504	745	242	47.9%
Operating Other ³	2,521	1,791	2,711	920	51.4%
Total Operating Expenses	\$16,551	\$18,282	\$21,201	\$2,919	16.0%
Non-Operating:					
Owner Improvements ⁴	\$1,074	\$2,129	\$2,144	\$15	0.7%
Building Improvements ⁵	1,481	1,844	2,623	779	42.2%
Furniture & Fixtures	29	190	300	110	57.9%
Building Insurance	507	660	610	(50)	(7.6%)
Total Non-Operating Expenses	\$3,092	\$4,824	\$5,677	\$854	17.7%
Subtotal Expenses	\$19,643	\$23,106	\$26,879	\$3,773	16.3%
Less: Revenue ⁶	(583)	(459)	(1,343)	(883)	192.4%
Total HQ Building Expenses	\$19,060	\$22,646	\$25,536	\$2,890	12.8%
Less: Amount included in Admin. Budge	(1,542)	(4,231)	(4,704)	(473)	11.2%
Total Headquarters Building Budget	\$17,518	\$18,415	\$20,832	\$2,417	13.1%

¹ Offsite expenses include Front Street parking, warehouse space, and regional office security and maintenance.

² EOC expenses include leasing costs, utilities, janitorial, security, landscaping, and generator maintenance.

³ Other Operating expenses includes specialized maintenance, permitting, and testing of building electrical and HVAC systems, and green building initiatives.

⁴ Owner Improvements include enhancements made to support operations and the movement of divisions, units, and/or staff within CalPERS.

⁵ Building Improvements include structural alterations and repairs and related project management.

⁶ Estimated revenue from parking and onsite leases.

The year-over-year adjustments in the Headquarters Building budget reflect the following:

- \$2.9 million increase in Operating Expenses primarily driven by contracted wage and benefit increases for security and engineering staff, as well as the return to pre-pandemic operations. There are also additional funds identified to replace end-of-life fire alarm systems and security components, and to perform electrical testing at the emergency operations center.
- \$0.9 million increase in Non-Operating Expenses for a variety of building improvement projects to remedy fire and life safety concerns, improve security, and prevent water intrusion. The increase in furniture & fixtures reflects return to office and pre-pandemic expenditure levels.
- \$0.9 million increase in Revenue due to team members and visitors returning to campus and related collection of parking fees. Parking and lease revenue offset total expenses.

Of the \$25.5 million total Headquarters Building costs, \$4.7 million is budgeted within the Administrative Operating Costs budget (included in Facilities Operations) and represents amounts charged to affiliate funds for their reasonable share of building costs. The remaining \$20.8 million will be funded from the PERF.

IV. Investment External Management Fees

Investment External Management Fees represent amounts that CalPERS pays to external investment advisors for the management of specific portfolios. The board approves Investment Advisor Contract extensions on an annual basis, and the contracts typically range from seven to twelve years. Details on investment fees paid are included in the Annual Comprehensive Financial Report presented to the board each November.

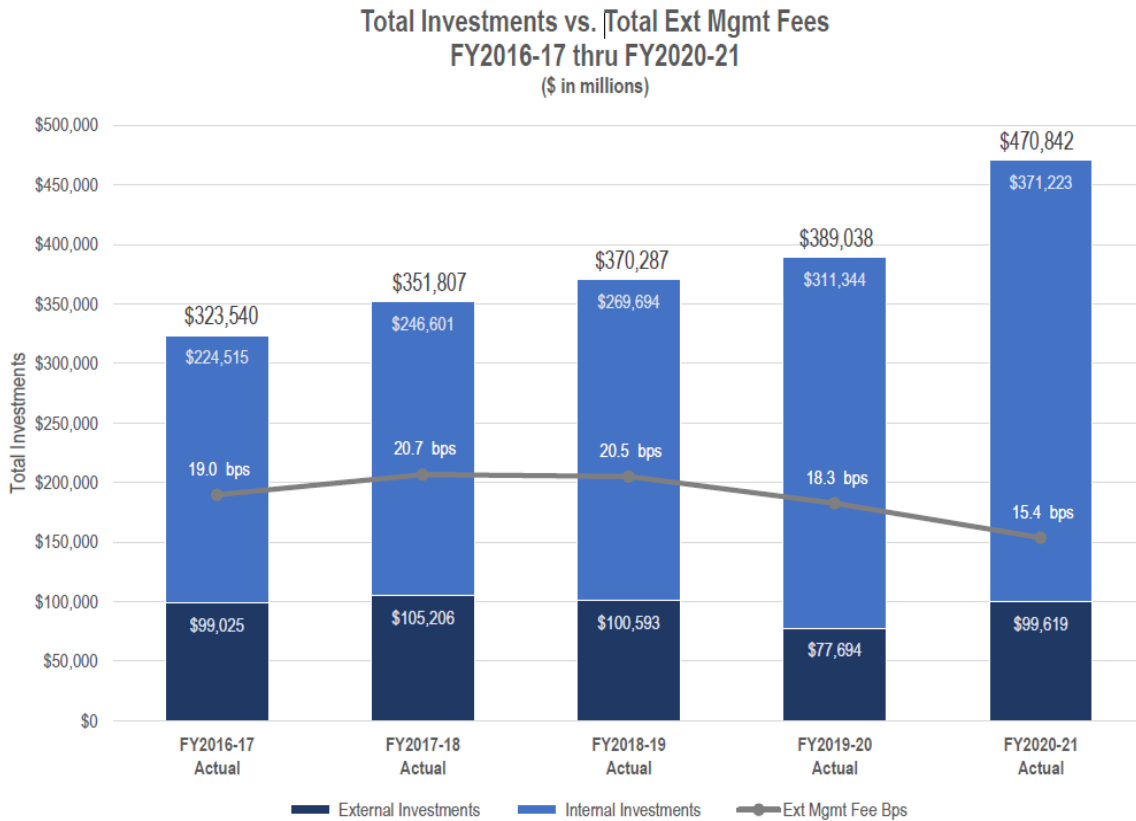
While CalPERS estimates annual Investment External Management Fees based on market assumptions and investment diversification strategies, actual fees paid within a fiscal year are subject to market fluctuations. Current assumptions estimate total fees in 2022-23 at \$1.04 billion. This is an increase of \$145.6 million (16.2 percent) over the 2021-22 authorized budget and if realized will signal positive investment returns.

The majority of the increase is base fees for Real Assets and Private Equity, with additional but smaller increases anticipated for Fixed Income and Opportunistic Strategies. These fees are influenced by increased allocations and expected deployment of capital invested in these asset classes. Projected performance with Real Assets will also drive an increase in the associated fees.

Investment External Management Fees

(in thousands)	2020-21 Actual	2021-22 Authorized Budget	2022-23 Proposed Budget	2021 to 2022 Change	
				\$ Increase/(Decrease)	% Increase/(Decrease)
Global Equity	\$23,903	\$36,799	\$32,125	(\$4,674)	(12.7%)
Fixed Income	17,217	18,985	28,701	9,716	51.2%
Real Assets	219,007	236,288	271,655	35,367	15.0%
Private Equity	334,887	340,000	395,000	55,000	16.2%
Opportunistic Strategies	4,257	37,895	59,817	21,922	57.9%
Absolute Return Strategy / Multi Asset Class	957	25	-	(25)	(100.0%)
External Mgmt - Base Fees	\$600,227	\$669,992	\$787,299	\$117,306	17.5%
Global Equity	\$16,875	\$8,085	\$10,716	\$2,631	32.5%
Fixed Income	435	-	-	-	0.0%
Real Assets	106,156	220,420	246,084	25,663	11.6%
Absolute Return Strategy	1	-	-	-	0.0%
External Mgmt - Performance Fees	\$123,467	\$228,505	\$256,799	\$28,294	12.4%
Total External Mgmt Fees	\$723,695	\$898,497	\$1,044,098	\$145,601	16.2%

As displayed below, CalPERS' total AUM has increased \$147.3 billion since 2016-17. Over this same time, the amount of fees paid to external investment managers increased from \$614 million to \$724 million. In terms of basis points (bps), external management fees to total investments have decreased from 19 bps to 15 bps over the same time horizon.



*Fee bps are based on Total Ext Mgmt Base and Performance Fees in relation to Total Investments

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. Third Party Administrators provide administration, recordkeeping, and participant communication services for the following programs:

- Health Benefits
- Long Term Care
- Supplemental Income Plan
- California Employers' Retiree Benefit Trust Fund
- California Employers' Pension Prefunding Trust

When preparing the Annual Budget, CalPERS estimates Third Party Administrator Fees based on enrollment data following the fall open enrollment period. However, actual enrollment fluctuates throughout the fiscal year and can impact actual expenses. Based on enrollment through January 2022, the estimated Third Party Administrator Fees for 2022-23 are \$311.4 million. This is an increase of \$7.9 million (2.6 percent) over the current year.

Third Party Administrator Fees

(in thousands)	2020-21 Actual	2021-22 Authorized Budget	2022-23 Proposed Budget	2021 to 2022 Change	
				\$ Increase/(Decrease)	% Increase/(Decrease)
Health Program	\$255,653	\$263,958	\$271,193	\$7,235	2.7%
Pharmacy Benefit Manager	19,024	17,102	18,779	1,677	9.8%
Total, Health	\$274,678	\$281,060	289,972	\$8,912	3.2%
Long Term Care Program	19,791	18,985	17,825	(1,160)	(6.1%)
Supplemental Income Plan	3,230	3,400	3,525	125	3.7%
California Employers' Retiree Benefit Trust	90	90	90	-	0.0%
California Employers' Pension Prefunding Trust	18	18	18	-	0.0%
Total Third Party Administrator Fees	\$297,807	\$303,552	\$311,429	\$7,877	2.6%

The year-over-year increase in Third Party Administrator Fees is driven by health plan enrollment increases, migration between plans, and expected contract price escalation. Similarly, Pharmacy Benefit Manager fees are projected to increase due to contract escalation as well as enrollment

migration. The decrease in Long-Term Care Program fees reflects projected enrollment declines and a continued suspension of new enrollments. Supplemental Income Plan fees, which are determined as basis points for assets under management, are projected to increase as assets under management increase.

I. Administrative Operating Costs by Branch

Presented below is the allocation of proposed Administrative Operating Costs to the CalPERS branches. The year-over-year changes reflect a revised methodology to align Administrative expenses with fund level appropriations. Beginning in 2019-20, CalPERS budgets positions at the mid-step of salary ranges consistent with state budgeting practices. This achieved efficiencies in the budget office and resulted in comparable reductions previously made for organization-wide salary savings. In practice, vacancy savings from some divisions are redirected to cover the cost of other divisions whose team members who are paid at the top step of salary bands. However, because not all divisions' costs are allocated to the same funds, analysis revealed that this resulted in a misalignment between trust level appropriations and actual expenditures. For example, Investment Office salaries are largely allocated to the PERF, whereas the salaries for team members in Operations and Technology are allocated to the PERF and all affiliate funds. If savings from Investment Office vacancies are redirected to cover top step salaries in Operations and Technology, affiliate funds will realize additional expenses that were not budgeted at the appropriation level. To remedy this misallocation, CalPERS reviewed historical division vacancy rates and actual expenditure levels to allocate budgeted Personal Services expenditures proportionally to the divisions, and thereby the funds, where actual expenses will be charged.

Administrative Operating Costs by Branch

(in thousands)	2020-21 Actual	2021-22 Authorized Budget	2022-23 Proposed Budget	2021 to 2022 Change	
				\$ Increase / (Decrease)	% Increase / (Decrease)
Actuarial Office	\$11,119	\$12,949	\$12,827	(122)	(0.9%)
Communications and Stakeholder Relations	11,525	13,183	14,544	1,361	10.3%
Customer Services and Support	93,868	109,963	112,643	2,680	2.4%
Executive Office	6,472	8,775	9,019	244	2.8%
Financial Office	24,268	26,445	25,810	(635)	(2.4%)
General Counsel ¹	34,392	43,957	43,401	(556)	(1.3%)
Health Policy and Benefits Branch	27,466	32,448	33,671	1,223	3.8%
Investment Office	73,737	93,767	92,990	(777)	(0.8%)
Operations and Technology	141,642	173,918	177,193	3,275	1.9%
Enterprise	1,725	8,948	8,631	(317)	(3.5%)
Pro-Rata Assessment	25,765	30,924	30,895	(30)	(0.1%)
Total Administrative Operating Costs	\$451,978	\$555,276	\$561,624	\$6,347	1.1%

¹ During 2021-22, CalPERS reorganized the 30-member Enterprise Compliance Office team within the General Counsel's Office to blend together risk, compliance, and legal functions. Previous budget documents displayed Enterprise Compliance as a stand alone branch.

II. Administrative Operating Costs by Trust Fund

Funds for Administrative Operating costs are appropriated annually and available for encumbrance or expenditure for one fiscal year. The culmination of each annual and mid-year budget cycle is the distribution, or allocation, of administrative expenses to the trusts and state funds. This is done through a process designed to match expenses to the funds that receive the related benefit. While the board has authority to set the budget and expenditures for most trusts and funds, appropriations for administrative costs from the Public Employees' Contingency Reserve Fund (CRF), Public Employees' Health Care Fund (HCF), and Old-Age & Survivors Insurance (OASI) Fund are authorized by the Legislature. The following allocation establishes the expenditure authority for Administrative Operating Costs and will be provided to the State Controller's Office to effectuate the transfer and payment of funds for administrative expenses in fiscal year 2022-23.

Administrative Operating Costs by Fund

(\$ in thousands)	2020-21 Actual	2021-22 Authorized Budget	2022-23 Proposed Budget	Change from Annual	
				\$ Increase / (Decrease)	% Increase / (Decrease)
Administrative Operating Costs					
Public Employees' Retirement Fund (PERF)	\$ 363,676	\$ 443,169	\$ 447,340	\$ 4,172	0.9%
Public Employees' Contingency Reserve Fund (CRF)	27,742	35,241	35,349	108	0.3%
Public Employees' Health Care Fund (HCF)	39,435	50,762	50,917	155	0.3%
Long-Term Care Fund (LTCF)	6,873	7,468	9,379	1,911	25.6%
Annuitants' Health Care Coverage Fund (AHCCF)	5,596	7,285	6,566	(719)	(9.9%)
Deferred Compensation Fund (IRC 457)	1,654	1,837	2,082	245	13.3%
Supplemental Contributions Program Fund (SCP)	103	109	140	31	28.5%
Judges' Retirement Fund (JRF)	1,649	2,138	2,281	143	6.7%
Judges' Retirement Fund II (JRF II)	1,923	2,641	2,556	(86)	(3.3%)
Legislators' Retirement Fund (LRF)	423	561	619	58	10.3%
Replacement Benefit Custodial Fund (RBF)	609	623	649	26	4.2%
California Employers' Pension Prefunding Trust (CEPPT)	4	39	77	39	100.5%
Old-Age & Survivors Insurance Fund (OASI)	761	1,145	1,148	3	0.3%
Reimbursements	1,531	2,259	2,520	261	11.5%
Total Administrative Operating Costs	\$ 451,978	\$ 555,276	\$ 561,624	\$ 6,347	1.1%
<i>Statewide Pro-Rata Assessment</i>	\$ 25,765	\$ 30,924	\$ 30,895	\$(30)	(0.1%)
<i>CalPERS Administrative Costs</i>	\$ 426,213	\$ 524,352	\$ 530,729	\$ 6,377	1.2%

III. 2023-24 Projection

As part of its budget process, CalPERS considers and monitors the multi-year impact of fiscal decisions to estimate future operating cost expenses. Based on current information and known factors, CalPERS projects an Operating Cost increase of \$9.6 million in 2023-24 due to the following:

- A net \$9.1 million increase in Administrative Operating Costs driven by collectively bargained salary and benefit increases and the first-year payment of long-term investment incentives that the board approved in 2019. Increases will be offset by various reductions for one-time increases such as board elections, information technology initiatives, and the sunset of collectively bargained supplemental health care payments.
- \$0.5 million increase in Headquarters Building Costs for anticipated inflation.

2023-24 Projection

(in thousands)	2022-23 Proposed Budget	2023-24 Projected Budget	2022 to 2023 Change	
			\$ Increase / (Decrease)	% Increase / (Decrease)
Administrative Operating Costs	\$561,624	\$570,691	\$9,067	1.6%
Investment Operating Costs	134,667	134,667	-	0.0%
Headquarters Building Costs	20,832	21,358	526	2.5%
Total Projection	\$717,123	\$726,716	\$9,593	1.3%
Authorized Positions	2,843.0	2,843.0	-	0.0%