



Finance and Administration Committee

Agenda Item 5b

November 19, 2024

Item Name: 2024-25 Mid-Year Budget Revision

Program: Financial office

Item Type: Action

Recommendation

Approve a \$56.5 million increase for a revised total budget of \$2.527 billion.

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.

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 2024-25 Mid-Year Budget of \$2.527 billion reflects a total increase of \$56.5 million, or 2.3%. Most of the increase is due to updated estimates for TPA and Investment External Management fees. TPA fees are estimated to increase for a new population health management administrator for the Included Health program. Additionally, Investment External Management Fees reflect an increase in Private Equity assets. The mid-year budget also includes a net reduction in Administrative Operating Costs resulting from collectively bargained salary and benefit adjustments, specifically a reduction of the employer retirement rate. This reduction is partially offset by general salary and health premium increases.

Attachment 2 provides final expenditures for fiscal year 2023-24 and indicates that CalPERS concluded the fiscal year with a net \$379.6 million in unexpended funds, including a \$138.8 million surplus in Operating Costs primarily attributable to position vacancies and a \$240.8 million surplus in fees mainly due to Real Assets market fluctuations.

Budget and Fiscal Impacts

The mid-year revision increases CalPERS' total authorized budget by \$56.5 million, or 2.3%. 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. Approval will improve CalPERS' ability to operate effectively and meet financial obligations.

Attachments

Attachment 1 – 2024-25 Mid-Year Budget Revision

Attachment 2 – 2023-24 Year-End Expenditure Report

Attachment 3 – PowerPoint Presentation

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