



# CalPERS Budget Policy

## Purpose

This document sets forth the budget policy (Policy) to ensure CalPERS budgeting practices are in accordance with responsible fiscal management for the allocation and utilization of resources to meet the organization’s mission, vision, and values.

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## Introduction

The CalPERS budget is an annual financial plan and its purpose is to promote the long-term economic sustainability and responsible resource allocation to meet CalPERS' mission of providing and maintaining retirement and health security for its members.

As a financial plan, the budget is the tangible translation of CalPERS' mission, vision and values into practical actions and service delivery. The budget is made up of five budgetary funds: Operating, Enterprise Projects, Headquarters Building, Investment External Management Fees, and Third-Party Administrator Fees, that comprises the CalPERS Total Budget.

The annual budget year is for the twelve-month period from July 1st to June 30th.

## Strategic Objective

The objective of this Policy is to set out the budgeting principles for the preparation of the budget, the process for the budget formulation, and the responsibilities in the preparation, approval, and implementation of the total budget.

The budget process consists of activities that encompass the development, implementation, and evaluation of a multi-year financial plan for the provision of services that allocate resources on the basis of identified goals. An effective budget process includes the following principles:

- Incorporates a long-term perspective,
- Establishes linkages to CalPERS' Strategic Plan and its organizational goals,
- Focuses budget decisions on results and outcomes,
- Involves and promotes effective communication throughout the budget process, and
- Maintains fiscal controls over the management of resources and operating efficiencies.

The CalPERS' Total Budget expresses, in terms of dollars, the funded programs and plans for the budget year and the respective trusts necessary to finance these programs and plans. The budget is a primary instrument of fiscal control and accordingly, under the direction of the Chief Financial Officer (CFO), the CalPERS' Financial Office is responsible for the development and monitoring of CalPERS' Total Budget.

## Policy

This document sets forth the fiscal policy for the administration of the budget to ensure that the budgeting practices of the organization maintain a fiscally sustainable balanced budget that recognizes the fiduciary duty owed to its members.

The Finance and Administration Committee (Committee) intends for the Policy to be dynamic document which will be reviewed annually and modified periodically for approval to reflect staff and Committee recommendations for changes to the Policy.

## Criteria

The CalPERS Board of Administration (Board) ensures that the enterprise priorities established through the CalPERS' Strategic Plan are reflected in the annual budget.

Through the budget process, CalPERS staff address efforts to mitigate certain risks throughout the enterprise and align the budget structure with the enterprise's priorities, mission, and objectives.

Criteria used by the organization to prioritize resources for the budget include, but are not limited to:

- Mitigating risk
- Identifying opportunities for cost efficiencies
- Alignment and review with the Strategic Plan and Business Plan
- Direction of the CalPERS Board of Administration
- Deemed to be legally mandated

## Process

The annual budget process is integrated with the short and long-range planning processes of the CalPERS organization. The enterprise will maintain a fiscally sustainable budget that translates the intentions of the CalPERS' Strategic Plan objectives into an itemized, authorized, and systematic plan of operation.

Preparation of the annual operating budget is coordinated through the Financial Office under the direction of the CFO. It is the intent of the enterprise that budget preparations involve staff responsible for program operations to the level of the division/support unit. The Financial Office is available as a resource to provide accurate financial data and participate in division's budget discussions.

## Process, continued

Each division is responsible for submitting budget requests which are presented to the Executives for review and submitted to the Financial Office for analysis. After review and analysis of the preliminary budget data, budget adjustments are made and the budget is prepared for submission to the Committee for review and approval.

Two formal budget processes occur during the fiscal year; an annual budget process and a mid-year review. While the annual budget process is designed to develop the twelve-month budget for approval prior to the start of the fiscal year, the mid-year budget review is to address enterprise critical, unforeseen, and emergency resources not included in the current fiscal year budget. The mid-year budget approvals are effective January 1st of the current fiscal year.

Both the annual and mid-year budget requests go through a formal submission process and are required to meet established criteria for inclusion prior to submission to the Committee and CalPERS Board for approval.

The CalPERS Board has the fiduciary authority to approve enterprise-wide budget and resource allocations for all funds. However, the Contingency Reserve Fund (CRF) portion of the CalPERS Health Program also requires legislative approval for funding and position authority. A budget plan is developed for the CRF each fiscal year and submitted to the Department of Finance for approval and inclusion in the Governor's Budget. The goal is to develop a budget plan to meet the operational needs of the CRF within the authorized budgeted levels and to comply with any restrictions or limitations enacted by the Legislature.

## Financial Forecasting

Financial forecasting is an integral part of the budget process throughout the year and for future years. It is a fiscal management practice that estimates future financial outcomes using historical information, statistical data, and external economic indicators.

Throughout the year, forecasting is used to ensure expenses do not exceed the approved budget. In collaboration with the program areas, the Financial Office prepares quarterly projections for management to analyze and monitor anticipated expenses for the remaining months of the fiscal year. This assists the Committee in identifying efficiencies in the budget and applying cost saving methodologies in an effort to deliver a cost-effective budget to the Board.

## Responsibilities

It is the responsibility of CalPERS' management to maintain an effective formal budget review and approval process with the appropriate system of internal controls that is in compliance with all applicable laws and regulations.

In accordance with the Finance and Administration Committee Delegation Resolution, the Committee is authorized to:

- Oversee the budget process
- Approve enterprise-wide budgets and resource allocations

Upon recommendation by the Committee, the CalPERS Board provides approval of all authorized appropriations and staffing levels.

Divisions are responsible for:

- Developing operating and formal budget requests (FBR) with a long-term perspective and reference to CalPERS' Strategic and Business Plans with measurable performance results.
- Streamlining workflows and identifying efficiencies to ensure activities and resources are allocated to meet the organization's highest priorities.
- Providing information deemed necessary to prepare the budget.
- Reviewing, monitoring, and controlling expenditures such that the rate of expenditures does not exceed the approved budget.
- Preparing and submitting to the Financial Office on a quarterly basis, a forecast of yearly expenditures to date.

The Financial Office is responsible for:

- Gathering, analyzing, and preparing the total budget for review by Executives and the Committee for approval by the CalPERS Board.
- Monitoring the CalPERS' Total Budget.
- Providing monthly management, status reporting, and forecast planning to adapt to changing circumstances and applying appropriate cost allocation methods.
- Providing quarterly projections and forecasting reporting to divisions, which assures the organization is operating within the authorized resources approved by the CalPERS Board.
- Preparing the semi-annual budget report for the Committee on the budget to actual figure results.

## Key Terms/Definitions

Key Term	Definition
Appropriation	Money set aside in the budget for a specific use.
Budget	An itemized forecast of income and expenses expected for a given period and the means to finance or recover the costs.
Expenditures	Amount of an appropriation used for goods and services ordered and received.
Formal Budget Request (FBR)	Document prepared by division to propose and document budget changes to maintain or to change the existing level of service; used in preparing the CalPERS budget.

## Authoritative Sources

CalPERS will administer this policy in compliance with the following legal, regulatory, and policy requirements:

Source	Description
Article XVI, section 17 of the California Constitution	CalPERS Board of Administration authority and fiduciary responsibility.
CalPERS Board Delegation to Finance and Administration Committee (FA-15-01)	CalPERS Board of Administration delegated budget oversight and approval authority.
Government Codes 20172, 20208, 20210	Statutory CalPERS budget authority
Government Code 20199	Statutory CalPERS budget authority

## Policy-related Documents

For additional information, please refer to:

Document	Relevance
Article XVI, section 17 of the California Constitution	CalPERS Board of Administration authority and fiduciary responsibility.
State of California Board of Administration Public Employees' Retirement System Delegation Resolution	CalPERS Board of Administration delegated authority.