CALSTRS

Regular Meeting

Item number 14 – Open session

Subject: Proposed 2027–28 Operating Budget – First Reading

Presenter(s): Julie Underwood, Scott Chan and Pritpal Bains

Item type: Action

Date and time: September 24, 2026– 40 minutes

Attachment(s): Attachment 1 – Proposed 2027–28 Operating Budget Resolution

Attachment 2 – Proposed 2027–28 Operating Budget Detail

PowerPoint presentation(s): Proposed 2027–28 Operating Budget Overview

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Item Purpose

This item presents the first reading of CalSTRS' proposed **2027–28 Operating Budget of $551.2 million and 1,655 authorized positions**, the two-year Investment Management Plan for fiscal years 2027–28 and 2028–29 to support CalSTRS' investment portfolio, and additional budget authority for unanticipated expenditures for the board's consideration and approval. The proposed operating budget reflects a disciplined financial plan that aligns resources with CalSTRS' operational and strategic priorities to effectively govern and administer the system in the upcoming fiscal year.[1]

At the July 2026 board meeting, staff engaged the board in a budget strategy discussion that provided a high-level preview of major initiatives and anticipated resource needs for 2027–28. This item builds on that discussion and reflects refined resource estimates informed by updated information and board feedback.

Recommendation

Staff recommends the board approve CalSTRS' proposed 2027–28 Operating Budget of $551.2 million and 1,655 authorized positions, the two-year Investment Management Plan for fiscal years 2027–28 and 2028–29, and additional budget authority for unanticipated expenditures.

If the board does not approve the proposed 2027–28 Operating Budget at the September 2026 meeting, staff will incorporate board feedback and return in November 2026 for a second reading for approval.

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[1] All figures in this agenda and subsequent attachments are rounded for presentation purposes.

Executive Summary

The proposed **2027–28 Operating Budget is $551.2 million**, an increase of **$104.0 million, or 23.3%**, compared with the adopted 2026–27 budget. The proposal also adds **164 authorized positions**, representing an **11.0% increase**.

The table below summarizes actual 2025–26 expenditures, the adopted 2026–27 budget, the proposed 2027–28 budget, and year-over-year changes by budget category.

Three-Year Overview
(dollars in millions)

Budget Category	Actual 2025–26	Adopted 2026–27	Proposed 2027–28	$ Change	% Change
Salaries	$170.9	$203.2	$241.7	$38.5	18.9%
Benefits	84.5	89.0	113.3	24.3	27.3%
Operating Expenses and Equipment	111.1	155.0	196.2	41.2	26.6%
Total	**$366.5**	**$447.2**	**$551.2**	**$104.0**	**23.3%**

The **$104.0 million increase** consists of $85.3 million in **Operating Budget Proposals**, including 164 authorized positions to support strategic priorities and ongoing operations, and **$18.7 million** in **Other Budgetary Changes** primarily for routine annual adjustments.

Operating Budget Proposals – $85.3 million, 164 positions

The proposed 2027–28 Operating Budget includes three major Operating Budget Proposals: **BenefitConnect System Support** to provide ongoing operational support for the new pension administration system; a two-year **Investment Management Plan** to strengthen institutional investment capabilities; and **Enterprise Support** to strengthen information security and compliance capabilities, modernize enterprise technology, and support the 2025–28 Strategic Plan.

The following summarizes the three major proposals. A detailed presentation of CalSTRS' proposed 2027–28 Operating Budget is provided in *Attachment 2*.

BenefitConnect System Support – $46.8 million, 38 positions

The proposed 2027–28 Operating Budget includes $46.8 million and 38 authorized positions within the Technology Services branch, to establish ongoing operational support for BenefitConnect as the system transitions from project implementation to sustained business operations. These resources will maintain system performance and service levels and support evolving member, business, legislative, and regulatory requirements.

Of the $46.8 million, $8.1 million is to establish 38 authorized positions, $4.0 million provides temporary funding for 26 staff as they transition to permanent roles, and $34.7 million, net of legacy system cost savings of $5.3 million, for ongoing system maintenance, enhancements, cloud services, licensing and consulting resources. The proposal also requests an extension of the encumbrance and liquidation periods for existing Pension Solution Project appropriations. The extension provides additional flexibility to complete remaining contractual obligations and transition applicable vendor contracts.

Investment Management Plan
Two-year proposal: $57.8 million, 162 positions

The two-year Investment Management Plan provides phased resources to strengthen CalSTRS' investment capabilities, support portfolio growth and complexity, and advance operational, governance and technology modernization. A two-year plan provides strategic flexibility to phase resources and scale capacity in alignment with continued growth and complexity of the investment portfolio and evolving investment strategies. This extended planning horizon enables specialized recruitment and modernization efforts that are difficult to accomplish within a single-year cycle, while maintaining adaptability as conditions change.

The proposed 2027–28 Operating Budget includes the first year of the plan, $31.0 million and 90 authorized positions. An additional $26.8 million and 72 authorized positions are planned for 2028–29, bringing the two-year plan total to $57.8 million and 162 authorized positions. Of the 162 positions, 139 are within the Investments Branch and 23 are disbursed across five administrative support business areas to implement and sustain the plan. Consistent with the plan, the second-year funding and positions will be incorporated into the 2028–29 baseline Operating Budget.

Enterprise Support – $7.5 million, 36 positions

The proposed 2027–28 Operating Budget includes $7.5 million and 36 authorized positions to strengthen CalSTRS' enterprise-wide capabilities, enhance organizational resilience, and support priorities identified in the 2025–28 Strategic Plan. These resources will advance information security and compliance, modernize enterprise technology, and strengthen the operational capacity needed to support CalSTRS' growing and evolving business needs. Of the $7.5 million, $6.4 million will establish 36 authorized positions across eight business areas, and $1.1 million will support related service contracts.

Other Budgetary Changes – $18.7 million

Other Budgetary Changes represent routine annual adjustments to nondiscretionary administrative costs, primarily driven by employee compensation and the Pro Rata Assessment issued by the Department of Finance.

Employee compensation accounts for an estimated $15.1 million increase, primarily attributable to salary, benefit, and incentive adjustments. The Pro Rata Assessment is projected to increase by approximately $3.6 million, reflecting CalSTRS' share of statewide administrative service costs.

Additional Budget Authority

Additional budget authority for the proposed 2027–28 Operating Budget is requested for unanticipated expenditures, consistent with the annual Operating Budget process. The requested authorities are described below.

Teachers' Retirement Fund Support Appropriation Savings

Pursuant to *Appendix III.1 of the Teachers' Retirement Board Governance Manual*, staff requests the board to authorize the availability of up to 3%, or $14.5 million of the $483.2 million 2027–28 Teachers' Retirement Fund support appropriation from year-end savings. Use of this funding would require further board approval and would be limited to unanticipated costs for member services.

Proposed 2027–28 Operating Budget Revision Authority

If the 2027–28 Operating Budget requires revision by the Administration, staff requests authorization to make necessary adjustments without further board action. In the event the 2027–28 Operating Budget is revised, staff will inform the board, outlining any revisions.

Conclusion

These proposals represent a disciplined investment in CalSTRS' ability to fulfill its fiduciary responsibilities and deliver reliable service to its members. They provide the capacity to sustain BenefitConnect, execute the two-year Investment Management Plan, advance security, compliance and enterprise technology, and maintain critical operations as organizational needs and complexity grow. Collectively, these proposals enhance organizational resilience, protect member information and retirement assets, improve the reliability and quality of service, and position CalSTRS to meet members' needs today and over the long term.

As a follow-up to the discussion at the July 2026 meeting, staff will present an update on the 100 Waterfront Floor Modernization project at the November 2026 meeting for board review and feedback. The modernization project is not included in the proposed 2027–28 Operating Budget; any related funding request will be brought forward following further board discussion.

Strategic Plan linkage: The proposed 2027–28 Operating Budget includes resources required for the execution of the *CalSTRS 2025–28 Strategic Plan*.

Board Policy linkage: Pursuant to *Appendix III.1 of the Teachers' Retirement Board Governance Manual*, board members must ensure that only reasonable and necessary expenses are incurred in the governance and management of the system. This is accomplished through the annual operating budget, which the staff proposes, the board approves and both monitor on a regular basis.
