



Date: May 8, 2025  
To: PERA Board of Trustees  
From: Doug Anderson, Executive Director  
Subject: Fiscal Year 2026 Budget

Attached is the FY26 Administrative and Capital Expenditure Budget. Tracy Gebhard, Chief Financial Officer, will present the budget and describe key expenditures and variances at the board meeting.

The FY26 budget total is 8.2% higher than the FY25 budget total. There are some significant differences between the two years. This memo will only capture differences at a high level. A more detailed explanation can be found in the budget document.

Key differences are:

- The increase in permanent, full-time staff. PERA requests ten additional full-time staff at an estimated cost of \$1.0 million.
- The execution of two contracts for systems modernization. PERA plans to have contractors begin work early in FY26 at a capacity greater than that estimated for FY25, resulting in an increase of \$1.6 million. In addition, PERA will increase its efforts to implement multi-factor authentication across all external facing systems, resulting in an increase of \$300,000.

The FY26 budget may be impacted by the following:

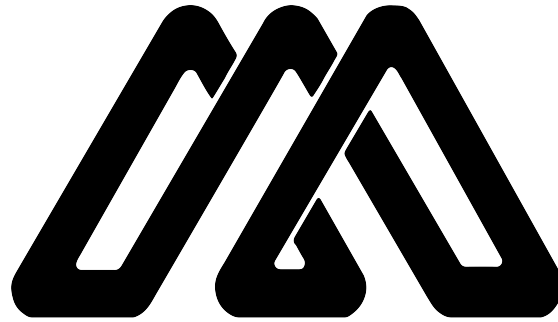
- SBI has not provided its FY26 Investment Fee budget to the retirement systems. While these fees are a nonnegotiable expense that PERA must pay at the amount set by SBI, there may be a budget impact once the information is provided.
- The Governor's change to the state's Telework Policy. Minnesota Management and Budget recently issued new guidance for state agencies. PERA is working diligently to develop a plan to comply with the revised Telework Policy and new guidance. That plan may include an additional budget request for expenses to either reconfigure or expand space.

PERA will present the FY26 SBI Investment Fee budget and any additional budget request related to the revised Telework Policy as soon as that information is available.

The items above along with other items that explain the change in budget from FY25 to FY26 will be discussed at the Board meeting. Staff believes that the amounts requested are appropriate to continue with progress towards our mission to provide services our member's value.

Staff would appreciate the Board taking action to support the FY26 budget as presented.

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PUBLIC EMPLOYEES  
RETIREMENT ASSOCIATION

# Proposed Budget for Fiscal Year 2026

Presented by: Tracy Gebhard  
Date: May 8, 2025

# Budget Statement

Description	Fiscal Year 2026 Budget					
	FY25 Approved Budget	FY25 Projected Expenditures	FY25 Over/Under Variance	FY26 Proposed Budget	% Change Approved FY25 Proposed FY26	\$ Change Approved FY25 Proposed FY26
<b>PERSONNEL SERVICES:</b>						
Full Time Pay	\$ 16,605,030	\$ 13,738,401	\$ (2,866,629)	\$ 18,218,690	9.7 %	\$ 1,613,660
Part-Time/ Temporary Pay	427,870	429,044	1,174	254,008	-40.6 %	(173,862)
Overtime Pay	33,000	81,317	48,317	27,000	-18.2 %	(6,000)
Other Benefits	34,200	120,092	85,892	45,000	31.6 %	10,800
<b>Total Personnel Services:</b>	<b>17,100,100</b>	<b>14,368,854</b>	<b>(2,731,246)</b>	<b>18,544,698</b>	<b>8.4 %</b>	<b>1,444,598</b>
<b>SUPPLIES &amp; SERVICES</b>						
<i>Supplies &amp; Equipment</i>						
Office Supplies & Equipment	56,700	38,983	(17,717)	50,000	-11.8 %	(6,700)
IT Equipment & Hardware	378,000	140,080	(237,920)	323,121	-14.5 %	(54,879)
<i>Total Supplies &amp; Equipment</i>	<i>434,700</i>	<i>179,063</i>	<i>(255,637)</i>	<i>373,121</i>	<i>-14.2 %</i>	<i>(61,579)</i>
<i>Communications</i>						
Mailing & Printing Services	808,000	571,964	(236,036)	613,500	-24.1 %	(194,500)
Telephone & Connectivity	132,000	132,744	744	186,000	40.9 %	54,000
<i>Total Communications</i>	<i>940,000</i>	<i>704,708</i>	<i>(235,292)</i>	<i>799,500</i>	<i>-14.9 %</i>	<i>(140,500)</i>
<i>Professional Services</i>						
SBI Investment Fees	5,782,000	5,781,000	(1,000)	5,782,000	— %	-
Financial & Actuarial Services	898,984	888,982	(10,002)	950,476	5.7 %	51,492
Management Services	576,429	565,220	(11,209)	751,101	30.3 %	174,672
Medical Review Services	898,265	535,820	(362,445)	700,000	-22.1 %	(198,265)
Legal Services	140,000	120,209	(19,791)	106,000	-24.3 %	(34,000)
IT Services	1,902,000	1,195,106	(706,894)	2,377,067	25.0 %	475,067
<i>Total Professional Services</i>	<i>10,197,678</i>	<i>9,086,337</i>	<i>(1,111,341)</i>	<i>10,666,644</i>	<i>4.6 %</i>	<i>468,966</i>



Description	Fiscal Year 2026 Budget					
	FY25 Approved Budget	FY25 Projected Expenditures	FY25 Over/Under Variance	FY26 Proposed Budget	% Change Approved FY25 Proposed FY26	\$ Change Approved FY25 Proposed FY26
<i>Other Costs</i>						
Training & Development	140,500	95,000	(45,500)	148,155	5.4 %	7,655
Travel	123,300	70,000	(53,300)	109,770	-11.0 %	(13,530)
Operating Costs	28,000	18,470	(9,530)	21,000	-25.0 %	(7,000)
<i>Total Other Costs</i>	<i>291,800</i>	<i>183,470</i>	<i>(108,330)</i>	<i>278,925</i>	<i>-4.4 %</i>	<i>(12,875)</i>
<b>Total Supplies &amp; Services</b>	<b>\$11,864,178</b>	<b>\$10,153,578</b>	<b>\$(1,710,600)</b>	<b>\$12,118,190</b>	<b>2.1 %</b>	<b>\$254,012</b>
<b>BUILDING COSTS</b>						
Bond Principal and Interest	379,600	379,600	-	-	n/a	(379,600)
Building Operating Costs	909,611	746,990	(162,621)	563,865	-38.0 %	(345,746)
<b>Total Building Costs</b>	<b>\$1,289,211</b>	<b>\$1,126,590</b>	<b>\$(162,621)</b>	<b>\$563,865</b>	<b>-56.3 %</b>	<b>\$(725,346)</b>
<b>MODERNIZATION COSTS</b>						
Systems Modernization	4,015,000	183,977	(3,831,023)	5,844,600	45.6 %	1,829,600
<b>Total Modernization Costs</b>	<b>4,015,000</b>	<b>183,977</b>	<b>(3,831,023)</b>	<b>5,844,600</b>	<b>45.6 %</b>	<b>1,829,600</b>
<b>TOTAL</b>	<b>\$34,268,489</b>	<b>\$25,832,999</b>	<b>\$(8,435,490)</b>	<b>\$37,071,353</b>	<b>8.2 %</b>	<b>\$2,802,864</b>
<b>Contingency of 1%</b>	<b>\$342,685</b>	<b>\$—</b>	<b>\$(342,685)</b>	<b>\$370,714</b>	<b>8.2 %</b>	<b>\$28,029</b>
<b>Grand Total</b>	<b>\$34,611,174</b>	<b>\$25,832,999</b>	<b>\$(8,778,175)</b>	<b>\$37,442,067</b>	<b>8.2 %</b>	<b>\$2,830,893</b>

## Budget Overview

Board policy requires that staff, under the direction of the executive director, prepare an Administrative and Capital Expenditure Budget annually for approval by the Board of Trustees. The budget includes administrative expenditures, including staff salaries, supplies and services, and capital expenditures, including building and equipment costs. The budget does not include benefit payments or revenues, such as contributions from employers and members and investment earnings. PERA prepares the budget and recognizes costs using the full accrual basis of accounting. PERA

budgets for and recognizes the costs of goods and services when received, not when paid. The budget also includes a contingency amount equal to 1% of the baseline budget.

In May, staff present the budget for the upcoming fiscal year to the Board. If modifications are required, staff will present a revised budget in June.

## Amending the Budget

Board policy allows the executive director to transfer funds within the three broad categories: (1) Personnel; (2) Supplies and Services, which includes modernization; and (3) Building. The Board must pre-approve any transfers made by the executive director between the three categories, and a transfer of funds within or between the categories must not alter the total budget amount approved by the Board. In addition, Board policy allows the executive director to spend up to \$5,000 (not including a series of payments) of the contingency fund for emergency items without prior Board approval. However, approval by the Board is required after-the-fact for affirmation.

The Board may amend the budget originally approved for a specific administrative purpose or an acquisition if amending the budget is approved by a majority vote of the Trustees present at a meeting.

## Fiscal Year 2025 Budget Review

PERA requested and the Board approved a fiscal year 2025 (FY25) budget of \$34,611,174. Projected FY25 expenses total \$25,832,999, which is \$8,778,175 or 25.4% under the FY25 budget.

PERA highlights any FY25 projected expense that is over or under the FY25 budget by at least \$100,000 by category in the table below.

## Fiscal Year 2025 Highlights

Explanations for Variance from Approved Budget to Projected Expenses		
Budget Category:	Over/(Under) FY25 Budget Amount	Explanation for FY25 Projected Expense Increase/Decrease
<b>PERSONNEL SERVICES:</b>		
Full Time Pay	(2,866,629)	As of the end of April, PERA has 20 vacant positions. PERA estimates that, at any given time, approximately 10 to 13 positions will be vacant due to expected turnover and length of time to complete the hiring process. To address the number of vacant positions, PERA hired two additional Human Resources staff members in FY25, for a team of three. In addition, PERA has developed a process to prioritize hiring needs for its Human Resources team.
<b>SUPPLIES &amp; SERVICES</b>		
<i>Supplies &amp; Equipment</i>		
IT Equipment & Hardware	(237,920)	<p>The variance is a result of the following:</p> <ul style="list-style-type: none"> <li>\$134,000 one-time cost for SimpliVity nodes which PERA did not purchase. The vendor hired to evaluate PERA's disaster recovery site determined that this purchase was not necessary.</li> <li>\$122,000 one-time cost for Cisco phone service hardware upgrade which is no longer needed. Instead, PERA will utilize Amazon Connect for its call center phone service.</li> </ul>
<i>Communications</i>		
Mailing & Printing Services	(236,036)	<p>In FY25, PERA changed its method of communication with employers and members. PERA produced more electronic newsletters and reduced the number of newsletters printed and mail from bi-annually to annually. As a result, PERA saved:</p> <ul style="list-style-type: none"> <li>\$85,000 for mailing costs. PERA budgeted \$645,000 in on-going costs and is forecasted to spend \$560,000.</li> <li>\$50,000 for printing costs. PERA budgeted \$100,000 in on-going costs and is forecasted to spend \$50,000.</li> <li>\$20,000 for postage costs. PERA budgeted \$30,000 in on-going costs and is forecasted to spend \$10,000.</li> </ul>



Explanations for Variance from Approved Budget to Projected Expenses (Continued)

Budget Category:	Over/(Under) FY25 Budget Amount	Explanation for FY25 Projected Expense Increase/Decrease
<i>Professional Services</i>		
Medical Review Services	(362,445)	<p>PERA saw a decrease in the number of new disability applicants and reapplications in FY25. The FY25 budget was based an estimate of 398 new applicants and 200 reapplicants. As of April 7, 2025, PERA received 210 new applicants and 120 reapplicants.</p>
IT Services	(706,894)	<p>PERA saved:</p> <ul style="list-style-type: none"><li>• \$295,000 for on-going costs to migrate and host DocuWare in the cloud. The FY25 budget was an estimate of the three year cost. PERA paid three months in FY25.</li><li>• \$175,000 for its disaster recovery program. The vendor hired to evaluate PERA's disaster recovery site did not identify any additional costs.</li></ul> <p>In addition, PERA did not procure the following one-time costs the board approved in its FY25 budget:</p> <ul style="list-style-type: none"><li>• \$45,000 for security and management of personal devices. PERA did not have the capacity to procure these services in FY25 and has included this cost in its FY26 budget proposal.</li><li>• \$44,000 for encryption of data at rest. Once PERA started the project, staff determined the services could be provided by another vendor at a much lower cost when packaged with other services PERA currently procures.</li><li>• \$40,000 for migration of data and capabilities to Office 365 in the cloud. PERA did not have the capacity to procure these services in FY25 and has included this cost in its FY26 budget proposal.</li><li>• \$31,000 for managed detection and response. PERA determined it could procure the service at no cost.</li><li>• \$25,000 for incident response. PERA determined it could procure the service at no cost.</li></ul>





Explanations for Variance from Approved Budget to Projected Expenses (Continued)

Budget Category:	Over/(Under) FY25 Budget Amount	Explanation for FY25 Projected Expense Increase/Decrease
<b>BUILDING COSTS</b>		
<i>Bond Principal and Interest</i>		
Building Operating Costs	(162,621)	Annually, PERA budgets \$200,000 for remodel and repair to its office and is projected to spend \$38,000 for some repairs and planning for future remodel.
<b>MODERNIZATION COSTS</b>		
Systems Modernization	(3,831,023)	<p>PERA did not procure the following costs the board approved in the FY25 budget:</p> <ul style="list-style-type: none"><li>• \$3.25 million for contractors. Currently, PERA is interviewing finalists for IT contractors to create automated test scripts and perform test execution. PERA is also negotiating contract terms for contractors to assist with gathering and documenting business, requirements and manage the project. PERA anticipates both contracts will be executed before July 1, 2025.</li><li>• \$290,000 for software licenses and services. The licenses and services are for the contract workers and are needed once the contract is fully executed.</li><li>• \$118,000 for Omni Channel licenses and consulting services. Currently, PERA is working with MNIT to determine the implementation date.</li><li>• \$100,000 for software development framework support that is no longer needed.</li></ul>

# Upcoming Fiscal Year 2026 Budget

PERA staff proposes a fiscal year 2026 (FY26) Administrative and Capital Expenditure Budget of \$37,442,067, which is a decrease of \$(2,830,893), or (8.2)% from the approved FY25 budget.

## Nonnegotiable Expenses

Annually, PERA must budget for certain costs that are not negotiable. PERA must pay these costs at the amount set by another entity. Nonnegotiable costs include personnel costs, such as employee wage increases and increases in employer paid taxes and health insurance premiums, SBI investment fees, statewide indirect costs, and facilities management fees. PERA uses the most current, available data from these other entities in its budget. These costs are expected to increase by about \$0.50 million in the FY26 budget when compared to the FY25 budget.

Budget Category	Approved FY25 Budget		Proposed FY26 Budget		FY26 Budget Variance (\$)	FY26 Budget Variance (%)
Personnel Services:	\$	16,680,189	\$	17,523,876	\$ 843,687	5.1 %
SBI Investment Fees		5,782,000		5,782,000	—	— %
Facilities Management Fees		705,911		360,865	(345,046)	(48.9)%
<b>Total</b>	<b>\$</b>	<b>23,168,100</b>	<b>\$</b>	<b>23,666,741</b>	<b>\$ 498,641</b>	<b>2.2 %</b>

Personnel Services only includes positions approved in the FY25 budget. SBI Investment Fees proposed FY26 budget is not yet available from SBI. Facilities Management Fees only includes the budgets approved by the Facilities Management Committee.

## Fiscal Year 2026 Highlights

PERA highlights any FY26 budget proposal increase or decrease of at least \$100,000 from the FY25 approved budget by category in the table below.

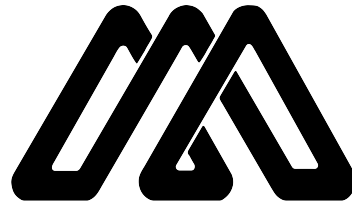


Explanations for Variance Between Current and Prior Year Budgets		
Budget Category:	Over/(Under) FY26 Budget Amount	Explanation for FY26 Budget Increase/Decrease
<b>PERSONNEL SERVICES:</b>		
Full Time Pay	1,613,660	The budget proposal includes: <ul style="list-style-type: none"> <li>\$1.02 million for on-going costs for ten additional FTEs in PERA's Operations and IT Divisions along with it's Executive Team.</li> <li>\$592,839 for nonnegotiable wage and fringe benefit increases.</li> </ul>
Part-Time/ Temporary Pay	(173,862)	PERA hired six staff members on post-retirement agreements. Of those six staff members, five have agreements that end in FY25 and will not be extended. The other staff member will end their post-retirement agreement in the Fall of 2025.
<b>SUPPLIES &amp; SERVICES</b>		
<i>Communications</i>		
Mailing & Printing Services	(194,500)	In FY25, PERA changed its method of communication with employers and members. PERA will produce more electronic newsletters and reduce the number of newsletters printed and mail from bi-annually to annually. As a result, PERA reduced its budget as follows: <ul style="list-style-type: none"> <li>\$105,000 reduction in on-going costs for mailing. PERA budgeted \$540,000 in FY26 compared with \$645,000 in FY25.</li> <li>\$40,000 reduction in on-going costs for printing. PERA budgeted \$60,000 in FY26 compared with \$100,000 in FY25.</li> <li>\$20,000 reduction in on-going costs for postage. PERA budgeted \$10,000 in FY26 compared with \$30,000 in FY25.</li> </ul>
<i>Professional Services</i>		
Management Services	174,672	The budget proposal includes the following: <ul style="list-style-type: none"> <li>\$100,000 in one-time costs for a technical writer to document standard operating procedures.</li> <li>\$40,000 in one-time costs for a contractor to scan the remaining microfiche. The board previously approved \$100,000 for this purpose; however, there is more microfiche than originally anticipated.</li> <li>\$30,000 increase in on-going statewide indirect costs.</li> </ul>
Medical Review Services	(198,265)	In FY24 and FY25, PERA has experienced a decrease in the number of disability applicants along with the number of existing disability applicants requiring a periodic review. As a result, PERA adjusted it budget accordingly.



Explanations for Variance Between Current and Prior Year Budgets (Continued)

Budget Category:	Over/(Under) FY26 Budget Amount	Explanation for FY26 Budget Increase/Decrease
IT Services	475,067	<p>The budget proposal includes:</p> <ul style="list-style-type: none"> <li>• \$900,000 in costs for Delphi contractors to increase our capacity to complete compliance and regulatory development. PERA will incur this cost annually as it continues to modernize its pension system.</li> <li>• \$28,000 in on-going costs for a risk management tool.</li> </ul> <p>These proposed costs are offset by the following:</p> <ul style="list-style-type: none"> <li>• \$237,000 reduction in costs budgeted for DocuWare in the cloud.</li> <li>• \$140,000 reduction in costs budgeted for PERA's disaster recovery program.</li> <li>• \$45,000 reduction in costs budgeted for security and management of personal devices.</li> <li>• \$40,000 reduction in costs budgeted for migration of data and capabilities to Office 365 in the cloud.</li> </ul>
<b>BUILDING COSTS</b>		
Bond Principal and Interest	(379,600)	In April, PERA made the final bond payment.
Building Operating Costs	(345,746)	<p>PERA experienced a cost savings due to the following:</p> <ul style="list-style-type: none"> <li>• The facilities budget included \$1.2 million more in a cash infusion and \$100,000 more in lease income which was offset slightly by an increase of \$130,000 in expenses. As a result, the net loss was \$1.2 million less in FY26 compared to FY25.</li> <li>• A change in PERA's administrative interest from 36.5% to 28.9% which represents the percentage of the retirement systems building currently occupied by PERA.</li> </ul>
<b>MODERNIZATION COSTS</b>		
Systems Modernization	1,829,600	<p>The budget proposal includes the following:</p> <ul style="list-style-type: none"> <li>• \$1.2 million increase one-time costs for IT contract workers,</li> <li>• \$418,000 increase in one-time costs for project management and product owner contract workers,</li> <li>• \$300,000 increase in on-going costs for multi-factor authentication.</li> </ul>



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