CalPERS

Risk and Audit Committee
Agenda Item 6d

February 17, 2021

Item Name: Status Report – Enterprise Risk Management

Program: Enterprise Risk Management

Item Type: Information Consent

Executive Summary

The purpose of this item is to provide the Risk and Audit Committee (Committee) with an update on the second quarter activities included in the 2020-21 Enterprise Risk Management Plan (Plan) and Strategic Risk Measures (SRMs) updates for the October 1, 2020, through December 31, 2020 period.

Strategic Plan

This agenda item supports the 2017-22 CalPERS Strategic Plan Goal - Risk Management: Cultivate a risk-intelligent organization. The Enterprise Risk Management Division (ERMD) provides assurance to the Board of Administration (Board) through the implementation of an effective enterprise-wide risk management program and the continued cultivation of a risk-intelligent organization.

Background

ERMD developed the 2020-21 Plan to communicate priorities in support of CalPERS' Strategic and Business Plans, vision, and mission. In April 2020, ERMD received Committee approval for the Plan, which aligns program initiatives to the strategic goals of Fund Sustainability and Risk Management. Progress on the Plan activities for the second quarter are reported on the Plan Dashboard (Attachment 1). Attachment 1 also appears in agenda item 8b.

The monitoring and reporting of SRMs plays an essential role in providing the Committee with assurance that CalPERS enterprise risks are being adequately managed. SRMs are intended to help bridge the relationship between risk and performance reporting by providing the Committee and management team with advance warnings of events that may compromise the achievement of organizational goals.

The SRMs and tolerances provided were last reviewed by the Committee in November 2020 and are designed to provide the management team with ongoing direction on Committee and board risk appetite and tolerance (excluding investment risk). The status of the risk tolerances are categorized into three levels: managed appropriately (green), monitoring required (yellow),

and attention required (red). Exception reports are provided to the Committee if any of the tolerances are in yellow or red status.

Analysis

Enterprise Risk Management Plan (Plan):

ERMD's significant activities and accomplishments for the second quarter of the fiscal year 2020-21 are included below. The first and second quarter activities are combined in the item 8b Mid-Year Plan Update.

Fund Sustainability Goal Activities:

ERMD continued to advance Asset Liability Management within the enterprise by:

- continuing to coordinate Asset Liability Management Advisory Committee (ALMAC) meetings and planning sessions to prepare for the current ALM cycle.
- facilitated development of material for the ALM/Investment information session for January 2021 Stakeholder Forum.

Risk Management Goal Activities:

ERMD continued to collaborate with the enterprise to advance the Enterprise Risk Management Framework by:

- completing the 2020 Annual Enterprise Risk Assessment
- developing new Enterprise Risk Profiles (Profiles) for Climate Change and Long-Term Care.
- updating the Enterprise Risk Dashboard (Dashboard), Profiles, and Enterprise Heatmap (Heatmap) by facilitating discussions with subject matter experts to review risk drivers and mitigations and facilitating risk scoring and prioritization with senior leaders.
- expanding enterprise risk management framework to include developing risks
- reporting of quarterly updates to the Strategic Risk Measures dashboard.

ERMD continued to collaborate with the enterprise on the cultivation of a risk-intelligent organization by:

- collaborating with Enterprise Compliance to organize virtual communication during Compliance and Risk Week aimed at helping team members understand how to maintain a strong culture of ethics and risk-intelligence.

ERMD continued to enhance the Enterprise Internal Control Framework by:

- continuing to deliver risk management training to new team members at New Employee Orientation sessions and introduced new What is Risk? webinar for team members.
- establishing the framework to document program level internal controls.

ERMD continued to enhance risk and compliance functions throughout the enterprise by:

- communicating the importance of risk awareness with team members through various communication channels.
- completing prioritization process and designing the approval process for the enterprise data glossary.
- gathering program area information to align with State retention requirements to begin drafting the Information Assets Retention policy.

Enterprise Risk Measures:

The Enterprise Risk Measures (ERM) Dashboard summarizes the status of all risk measures. Exception reports are attached detailing the risk performance, root cause analysis, and mitigations identified as next steps to reduce the risk for those SRMs that are performing outside of the board's risk tolerance (Attachment 2).

A review of the data reported for the second quarter of fiscal year 2020-21 found two SRMs not meeting their respective risk tolerances as set by the Committee and "Require Attention" for the strategic goals of Fund Sustainability and Health Care Affordability. An analysis and root cause of the risk can be found in the SRM detail provided in (Attachment 2).

Fund Sustainability – Investment Return:

- Investment return was 4.7%, which is below the expected return rate of 7% and tolerance due to severe market volatility related to COVID-19 impacts.
- While less than the target, the 4.7% return topped the fiscal year total fund benchmark of 4.33% and significantly outperformed peer group results.

Health Care Affordability –Total Covered Lives:

- The annual increase of total covered lives did not reach the annual target.
- New agencies brought to the system were small.

Budget and Fiscal Impacts

Not Applicable

Attachments

Attachment 1 – ERMD 2020-21 Mid-Year Workplan Update

Attachment 2 – Enterprise Risk Measures Dashboard

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