2023-24 ENTERPRISE RISK PROFILES

Enterprise Risk Management, Enterprise Compliance Division

Summary

The Enterprise Risk Profiles provide detailed updated information on each enterprise risk. The profiles are aligned to the CalPERS Strategic Plan for 2022-27 and include the functional objective, risk statement and analysis, risk drivers and associated mitigation measures in place, current residual risk rating, and future mitigation measures, where applicable.

Benefit Administration Risk Profile

Executive Oversight: Deputy Executive Officer, Customer Service and Support

Board Oversight: Pension & Health Benefits Committee

Category: Strategic

Strategic Goal(s): Member Experience - Ensure member satisfaction through accuracy, responsiveness, and respect

Organizational Excellence - Cultivate a risk-intelligent and innovative culture through our team and processes

Functional Objective: To ensure accurate and timely benefits and information to members, retirees, and beneficiaries.

Risk Statement: CalPERS members, retirees, and beneficiaries may not receive timely and/or accurate benefits.

Risk Analysis: The noted risk analysis is based on an understanding that the complexity of the Benefit Plan Design results in inherent risks that may impact benefit calculations and increase costs. In addition, we are dependent upon the employers to submit and maintain accurate membership and payroll data in a timely manner.

Residual Risk

Rating: High Impact, Low Probability

Risk Trend: ←→ No Change

The following are high-level entity controls; and is not an exhaustive list of all controls in place.

Risk Driver #1: Untimely and inaccurate employer reporting

Controls in Place:

1.1 Automated controls to edit and confirm employer data
1.2 Tools and reports for employers to identify and fix data issues
1.3 Employer training through various mediums
1.4 Employer Response Team
1.5 Quality assurance reports
1.6 Business partner identity account management
1.7 Public Agency audits
1.8 Automated penalties for employers for untimely and inaccurate reporting
1.9 Employer self-service education tools

Risk Driver #2: Lack of team member knowledge and awareness of relevant laws, regulations, and policies

Controls in Place:

2.1 Comprehensive training for CalPERS team members

2.2   Team member communication tools
2.3   Required second approvals and peer reviews
2.4   Documentation and regular updates of desk procedures and process documents
2.5   Audits of internal processes
2.6   Quality assurance programs
2.7   Lean process improvement
2.8   Compliance reviews
2.9   Enterprise Data Management governance
2.10   Continuous refresh of training content based on team member feedback and work outcomes

Risk Driver #3: Inaccurate benefit and system calculations

Controls in Place:

3.1   System testing
3.2   Clear procedures and process documents
3.3   Audits of internal processes
3.4   Quality assurance programs
3.5   Documentation of system functionality
3.6   System edits and audits
3.7   Reconcile Retirement Roll
3.8   Identification and correction of data issues
3.9   Lean process improvement
3.10   Risk-targeted system reports

Risk Driver #4: Increase to the complexity of the benefit plan design due to external influences

Controls in Place:

4.1   Board engagement and influence
4.2   Legislative impact analyses
4.3   Various employer and stakeholder communication tools
4.4   CEM Complexity Score Maintenance

Risk Driver #5: Inability to implement statutory and regulatory changes

Controls in Place:

5.1   Legislative impact analyses
5.2   Statutory and regulatory changes and implementation process
5.3   Various employer and stakeholder communication tools

Risk Driver #6: Acts of Fraud

Controls in Place:

6.1   Restricted account escalation process
6.2   Fraud reports
6.3   Enhanced MSS, Regional Office, and Contact Center Authentication
6.4   Automated second-approver controls
6.5   Semi-annual myCalPERS User Access Rights review

6.6   Benefit verification

6.7   Ethics Helpline

6.8   Fraud Prevention Training

Future Mitigations:

•   Death Verification Solutions

•   Fraud Prevention Program

•   Automated Contact Center Authentication Solution

Climate Change Risk Profile

Executive Oversight: Chief Financial Officer
Chief Investment Officer

Board Oversight: Finance & Administration Committee
Investment Committee

Category: Strategic

Strategic Goal(s): Pension Sustainability - Strengthen the long-term sustainability of the pension fund

Functional Objective: To ensure CalPERS develops resiliency to mitigate the impacts of climate risk.

Risk Statement: Failure to meet investment returns, employer's inability to pay required contributions, and disruption to CalPERS' operations.

Risk Analysis: Climate change is a source of global, and systemic risk. Climate risk is multifaceted and can impact CalPERS on a long-term and short-term basis. Wildfires, extreme weather, sea-level rise, and drought can affect assets, disrupt portfolio companies' supply chains, and CalPERS' and employers' own operations (climate physical risk). Shifts in the market, policies and technologies can also significantly affect the financial success of existing business models and industries the Fund invests in (climate transition risk).

CalPERS is partnering with other large institutional investors to address the impacts of climate-risk. Additionally, CalPERS is raising awareness of the importance of addressing climate risk with stakeholders. Research and integration efforts to manage the effects of climate change are ongoing and CalPERS is identifying climate solutions-related investments that that will help transition the economy to a low-carbon world while providing the necessary return profile for CalPERS Total Fund.

Residual Risk

Rating: High Impact, High Probability

Risk Trend: ←→ No Change

The following are high-level entity controls; and is not an exhaustive list of all controls in place.

Risk Driver #1: Climate-related financial risks to the fund

Controls in Place:

1.1   Co-founded Climate Action 100+ and current steering committee member, co-founded ESG Data Convergence Initiative and current steering committee member, and member of additional global investment networks
1.2   Integrating climate risk across investment portfolio strategies
1.3   Divested companies (specific to thermal coal companies SB185) that fail to indicate adoption of clean energy initiatives
1.4   Integrated climate into Enterprise and INVO strategic and business plans.
1.5   Conducted and refreshing carbon footprints across asset classes
1.6   Monitoring transition and physical risks and have included climate-related disclosure in CalPERS' Taskforce on Climate-Related Financial Disclosure (TCFD) report.
1.7   Voting proxies and leading corporate engagements with portfolio companies

1.8   Integrating Environmental, Social, and Governance (ESG) risk analysis at the Total Fund level

1.9   Advocating for enhanced and mandatory corporate climate-related disclosure

1.10   Investing in climate solutions

Risk Driver #2: Ineffective advocacy efforts with regulators and standard-setters policy makers

Controls in Place:

2.1   Conducting advocacy efforts by engaging and educating policy makers, major companies, and coalitions with international organizations such as the United Nations Net Zero Asset Owner Alliance

Risk Driver #3: Climate-related financial risks that negatively impact employer's ability to make required contributions

Controls in Place:

3.1   Actively participating in organizations to promote Sustainability goals

3.2   Communicating the importance of climate risk management to fund sustainability

3.3   Providing the Pension Outlook tool that allows employers the ability to perform contribution payment analysis using varied investment return assumptions

Governance and Control Environment Risk Profile

Executive Oversight: General Counsel

Board Oversight: Risk and Audit Committee

Category: Operational

Strategic Goal(s): Organizational Excellence - Cultivate a risk-intelligent, and innovative culture through our team and processes

Functional Objective: To establish good governance and a strong control environment.

Risk Statement: Lack of a strong internal control environment, which includes documentation and testing, could result in increased non-compliance and litigation risk, operational risks due to inefficiency and improper activity, loss of authority or reputation, and/or incurred penalties.

Risk Analysis: There is a need to strengthen documentation of CalPERS' standards, processes, and structures to sustain and maintain a strong control environment while promoting the organization's integrity and ethical culture. While the organization has done much to strengthen the internal control environment and culture, enterprise governance continues to mature through an integrated assurance approach.

Residual Risk

Rating: High Impact, High Probability

Risk Trend: ←→ No Change

The following are high-level entity controls; and is not an exhaustive list of all controls in place.

Risk Driver #1: Lack of strong governance impacts organizational maturity, decision making, and efficiency

Controls in Place:

1.1 Policy management (Enterprise Data Management Communication Plan, Information Assets Classification Policy, Information Assets Retention Policy, and Data Glossary and other enterprise data management policies), and delegated authority framework
1.2 Board review of committee delegations
1.3 Formalized committees (Senior Leadership Council, Integrated Assurance Risk Council, and Asset Liability Management Advisory Committee, and other enterprise governance committees)
1.4 Biennial board self-assessment evaluation
1.5 Implementation of the Insight tool for streamlined Board oversight
1.6 Formalized resource allocation and decision-making

Future Mitigations:
- Implementation of Information Security and Privacy Advisory Committee

Risk Driver #2: **Lack of Oversight and Monitoring of Controls**

Controls in Place:

2.1   State Leadership Accountability Act report
2.2   Third-party assurance
2.3   Program area quality assurance, and internal and external audit processes
2.4   Embedded Compliance and Risk Liaisons
2.5   Operational Risk Event reporting process
2.6   Information Security Risk Profile

Risk Driver #3: **Unclear roles and responsibilities around applicable laws and regulations**

Controls in Place:

3.1   Mandated and business-related training
3.2   Annual risk and compliance communication and training plans
3.3   Compliance and ethics discussion guides
3.4   Operational policies and procedures
3.5   Code of Conduct
3.6   Equal Employment Opportunity (EEO) Office oversight of EEO related laws and regulations

Future Mitigations:

- Expanding inventory of operational controls

Risk Driver #4: **Ineffective controls and monitoring activities to detect or prevent unethical behavior**

Controls in Place:

4.1   Core values and Code of Conduct
4.2   Policies, regulations, and ethical behavior standards
4.3   Onboarding and guidance for key new hires and promotions
4.4   Monitoring of financial and personal disclosures, and regulated employee trading activities
4.5   Personal Trading Regulation and Form 700 monitoring
4.6   State Whistleblower Hotline and CalPERS Ethics Helpline
4.7   Monitoring of mandated trainings
4.8   Monitoring of myCalPERS, accounting and invoice functions, and investment trade settlement
4.9   Integrated Assurance interviews
4.10   Internal investigation

Future Mitigations:

- Implement new technology and tools to enhance monitoring
- Implementation of Fraud Prevention Program

Health Care Administration Risk Profile

Executive Oversight: Chief Health Director, Health Policy and Benefits Branch

Board Oversight: Pension and Health Benefits Committee

Category: Strategic

Strategic Goal(s): Exceptional Health Care: Ensure our members have access to equitable, high-quality, affordable health care

Functional Objective: To provide access to equitable, high-quality, affordable, and sustainable health care.

Risk Statement: Inability to provide access to equitable, high-quality, affordable, and sustainable health care at a competitive price.

Risk Analysis: There are substantial inherent risks from rising health care and pharmaceutical costs; however, CalPERS is mitigating these risks well and continues to offer high-quality and affordable health care.

Residual Risk

Rating: High Impact, Low Probability

Risk Trend: ←→ No Change

The following are high-level entity controls; and is not an exhaustive list of all controls in place.

Risk Driver #1: Inability to ensure high-quality health care benefits for members

Controls in Place:

1.1 Contract management, audits, and periodic business review corrective action plans
1.2 Monitoring member experience through the annual Health Plan Member Survey (HPMS)
1.3 Clinical performance measures with financial penalties for plans if targets are not met
1.4 Grievance and appeals process for members
1.5 Active engagement with other California public purchasers to ensure alignment on clinical quality initiatives for HMO plans

Future Mitigations:

- In alignment with other health care purchasers, refine clinical quality measures to include high-value measures with increased benchmarks for PPO plans
- Update and align health plan contract requirements and performance measures with other health care purchasers and adjust as needed
- Evaluate and improve health data quality and management
- Evaluate and improve behavioral health access and quality
- Develop and implement additional clinical quality improvement programs

Risk Driver #2: Failure to secure members access to care when and where they need it

Controls in Place:

2.1   Grievance and appeals process for members
2.2   Monitoring member access through the annual Health Plan Member Survey (HPMS)
2.3   Maintain and continue to improve the accuracy of provider directory utility to allow members to easily locate providers through CalPERS health plans

Future Mitigations:

- Update health plan contract performance measures as needed
- Evaluate and improve provider directory data quality and management
- Evaluate and improve behavioral health access and quality
- Assess and implement telehealth access initiatives

Risk Driver #3: Failure to provide affordable care

Controls in Place:

3.1   Annual negotiations of Health Plan Premiums (Rate Development Process) completed in July providing agencies the opportunity to plan for the next calendar year well in advance
3.2   Evaluation of health plan choices across public agency regions
3.3   Periodic regional geographic assessment
3.4   Monetary penalties for health plans that fail to meet professional, facility, ancillary and total cost trend performance measures
3.5   Transitioning of eligible enrollees over 65 to Medicare plans
3.6   Contractual provisions that promote and maintain healthy lifestyles
3.7   Benefit design and plan requirements designed to ensure care is delivered at the most cost-effective site of care
3.8   Medical and pharmacy benefit alignment across health plans to close clinical gaps in care, improve shared-decision making, control specialty drug spending, and support preventive care
3.9   Annual market check of pharmacy benefits manager (PBM) prescription drug pricing by independent consultant
3.10   Active engagement in state and federal legislative and regulatory processes
3.11   Actuarially-determined reserves in the Health Care Fund (HCF)
3.12   Periodic evaluation and revision, as necessary, of the HCF Reserve Policy
3.13   Active engagement with major public purchasers to align on affordability initiatives
3.14   Risk mitigation for Basic plans
3.15   Competition study to evaluate the portfolio impact of new plan and service area expansion proposals

Future Mitigations:

- Update health plan contract cost-control performance measures as needed

- Evaluate effectiveness of benefit design changes and update as needed
- Evaluate and improve health data quality and management
- Increase health plan competition in low competition areas
- Develop and implement pharmaceutical strategies that control or reduce costs
- Refine risk mitigation strategies
- Assess efficiency of each health plan network for future changes to the portfolio
- Conduct comprehensive competitive procurement of the PPO plan, and PBM contract to determine the appropriate financial mechanism for CalPERS

Risk Driver #4: Failure to provide equitable care

Controls in Place:

4.1 Health Demographic Profiles (HDP) in myCalPERS
4.2 Contractual provisions that include performance measures to promote health demographic collection for HMO plans
4.3 Partnerships with large public purchasers and engagement with Department of Managed Health Care on statewide disparities reduction targets
4.4 Primary care provider (PCP) matching activities in HMO plans

Future Mitigations:
- Evaluate and improve health data quality and collection of HDPs
- Develop health plan performance measures related to disparities reduction and demographic data collection for PPO plans
- Require health plans to achieve national standards of excellence related to health equity
- Require plans to share health demographic data with CalPERS

Information Security Risk Profile

Executive Oversight: General Counsel, Legal Office

Board Oversight: Board of Administration

Category: Operational

Strategic Goal(s): Organizational Excellence - Cultivate a risk-intelligent and innovative culture through our team and processes

Functional Objective: To ensure CalPERS information assets are safeguarded.

Risk Statement: Failure to protect and secure information assets.

Risk Analysis: Due to a constant changing environment, there are substantial inherent risks associated with information security. CalPERS is actively managing this risk; however, the ever-changing environment requires the identification of developing risks and continual refinement of mitigations and controls in response to those risks.

Residual Risk

Rating: High Impact, High Probability

Risk Trend: ←→ No Change

The following are high-level entity controls; and is not an exhaustive list of all controls in place.

Risk Driver #1: Inability to identify and protect all business systems, applications, and information assets

Controls in Place:

1.1   Information Systems Security and Confidentiality Acknowledgement Agreement (ISSCA)
1.2   Sending Electronic Information Agreement (SEIA)
1.3   Information Security Control Standards (SAM, SIMM, NIST)
1.4   Privacy impact assessments
1.5   Annual HIPAA risk assessment
1.6   Business relationship meetings
1.7   Internal governance committees (Integrated Assurance Risk Council, Senior Leadership Council, Enterprise Data Council, etc.)
1.8   Information security education and awareness
1.9   ISOF participation in internal governance committees' decisions
1.10 Physical Security Policy
1.11 Enhanced campus security efforts
1.12 Badge Card Policy
1.13 Two-factor authentication requirements in confidential areas
1.14 Enhanced practices for protected health information
1.15 Member Self Service information security controls

1.16   All data storage capable devices are encrypted and either sanitized (wiped) or destroyed

1.17   Certified confidential document destruction bins

1.18   Enterprise-wide badge access reviews

1.19   Perform third-party audit and internal audits

1.20   Third-party risk assessments

1.21   Business Associate Agreements (BAA)

1.22   Non-Disclosure Agreements (NDA)

1.23   Information Security Addendum (ISA)

1.24   Contractor security awareness training requirement

1.25   External security assessments and audits

1.26   Risk transfer strategies

1.27   Contracts include security provisions that protect CalPERS data

1.28   Enterprise data management policies and procedures

1.29   Information Security and Privacy Advisory Committee

Future Mitigations:

- Implement FY 2020-25 information security strategic initiatives

Risk Driver #2: Failure to timely detect an information security event

Controls in Place:

2.1   Annual mandatory information security and privacy training

2.2   24x7 Security Operations Center

2.3   Role-based security training

2.4   Receive and analyze cyber intelligence reports

2.5   Third party threat hunting

2.6   Third party web and application penetration testing

2.7   Security Incident and Event Management (SIEM) procedures

Future Mitigations:

- Implement FY 2020-25 information security strategic initiatives

Risk Driver #3: Inability to contain, respond, and recover from an information security incident

Controls in Place:

3.1   Require third parties to have specified insurance

3.2   All applicable contracts include Business Continuity language

3.3   HIPPA Practice Manual

3.4   2020-22 Information Security Strategies

3.5   Incident Response Plan that outlines roles and responsibilities

3.6   Security Incident and Event Management (SIEM) procedures

Future Mitigations:

- Implement FY 2022-25 information security strategic initiatives

Risk Driver #4: Failure to communicate an information security event to the appropriate parties

Controls in Place:

4.1   Chief Information Security and privacy officer
4.2   Building safety and security communications
4.3   Information security and privacy awareness communications
4.4   Fraud Prevention Steering Committee
4.5   Incident Response Plan includes internal and external reporting
4.6   Security Incident and Event Management (SIEM) procedures

Future Mitigations:

- Implement FY 2022-25 information security strategic initiatives

Long-Term Care Risk Profile

Executive Oversight: Chief Health Director

Board Oversight: Pension and Health Benefits Committee
Finance and Administration Committee
Investment Committee

Category: Strategic

Strategic Goal(s): Exceptional Health Care: Ensure our members have access to equitable, high-quality, affordable health care

Functional Objective: To ensure the sustainability of the long-term care program at a price point that is affordable to policy holders.

Risk Statement: Inability to fund future obligations of the Long-Term Care (LTC) Program in a manner that is affordable to policy holders.

Risk Analysis: Due to investment return volatility, higher than expected claims' experience, and pending class action litigation, the LTC Program's ability to fund future obligations is at risk. To mitigate this risk, CalPERS has performed extensive analysis on actual and projected claims experiences, varied investment return scenarios, and actuarial assumptions. CalPERS has also completed work that included examination of options to improve investment returns, premium increases, and optional benefit reductions to address affordability and ensure sustainability of the Long-Term Care Program. This work resulted in the board approving a new investment asset allocation for the LTC Fund in March 2021 and engaging an investment manager specializing in LTC.

Residual Risk

Rating: High Impact, High Probability

Risk Trend: ←→ No Change

The following are high-level entity controls; and is not an exhaustive list of all controls in place.

Risk Driver #1: Investments underperform the assumed rate of return on a long-term basis

Controls in Place:

1.1   Annual valuation of the LTC Program
1.2   Comprehensive Asset Liability Management (ALM) cycle review every four years
1.3   Annual review of ALM assumptions to ensure they are still valid
1.4   Quarterly ALM updates via standard investor reporting package
1.5   With Board approval, ability to modify benefit design and premium based on actual experience

Risk Driver #2: Actual experience deviates significantly from the actuarial assumptions

Controls in Place:

2.1   External Audits evaluate the Long-Term Care financial status annually

2.2   Actuarial Experience Study
2.3   Continue review of pricing assumptions with internal and external actuaries
2.4   Annual review of actuarial assumptions

Future Mitigations:

- Annual review of LTC program to determine continued sustainability and affordability options.

Risk Driver #3: **Increased premiums become unaffordable for policy holders**

Controls in Place:

3.1   Continue review of pricing assumptions with internal and external actuaries.
3.2   Optional benefit modifications to address affordability issues
3.3   Implementation of new asset allocation

Future Mitigations:

- Implementation of an aging in place program

Risk Driver #4: **Long term effects of COVID-19 could add costs to healthcare potentially if there are long term health issues.**

Controls in Place:

4.1   Actuarial review of claims data
4.2   Annual review of actuarial assumptions

Future Mitigations:

- Actuarial valuation of the CalPERS 22/23 LTC experience with COVID impacts
- Monitor claims and policyholder data for possible COVID impact

Pension Funding Risk Profile

Executive Oversight: Chief Financial Officer

Chief Actuary

Chief Investment Officer

Board Oversight: Finance and Administration Committee

Investment Committee

Category: Strategic

Strategic Goal(s): Pension Sustainability - Strengthen the long-term sustainability of the pension fund.

Functional Objective: To ensure the sustainability of the pension system to deliver retirement benefits

Risk Statement: Failure to meet pension benefit obligations.

Risk Analysis: Pension Funding risk drivers are complex and interconnected. While the long-term objective is to be 100% funded with less volatility, higher returning investment strategies tend to increase volatility, and actual market performance is outside the control of CalPERS. Adopting a more conservative portfolio allocation, on the other hand, though likely to reduce volatility and lessen the impact to the Fund of a severe drawdown, would typically also mean lower returns, which may in turn lead to higher contribution requirements from employers. It is worth noting that the purpose of the controls/mitigations enumerated below is less about prevention and more about positioning the Fund to weather these events as/when they occur. Current mitigations are strong, but our ability to fully and effectively mitigate the effects of these risk drivers remains uncertain.

Residual Risk

Rating: High Impact, High Probability

Risk Trend: ←→ No Change

The following are high-level entity controls; and is not an exhaustive list of all controls in place.

Assets: Risk Drivers

1a: Financial markets suffer a severe downturn

1b: Investments underperform the assumed rate of return on a long-term basis increasing employer contribution rates

1c: Low funded status along with benefit payments exceeding contributions limit investment options

1d: Government constraints and regulations reduce portfolio diversification

1e: Employer ability to pay contributions is strained by the financial effects of business disruption such as a health, natural disaster, and/or market volatility event that negatively impacts their revenue and budget

1f: Portfolio size and complexity challenges efficient investment processes and limits investment universe

1g: More portfolio risk to achieve the same rate of return in the future

Controls in Place:

1a, 1b, 1c, and 1f.	Strategic Asset Allocation Targets and Ranges
1a, 1b, and 1c.	Investment Office Total Fund Management Committee focused on governance, portfolio allocation, trust level review, risk and attribution, and sustainability
1a, 1b, and 1c.	Integrated trust-level processes, including Trust-Level Portfolio Management and Investment Risk and Performance, which bring trust-level perspective, transparency, and accountability
1a, 1b, and 1c.	Trust-level processes designed to manage liquidity and leverage throughout the business cycle
1a, 1b, and 1c.	Cost-effective trust-level risk mitigation strategies
1b, 1f, and 1g.	Asset Liability Management (ALM) process ensures cyclical and strategic review of assets, liabilities, and long-term capital market assumptions to recalibrate discount rate and asset mix as needed
1a. and 1b.	CalPERS Board reporting controls in place, including monthly investment performance and risk reporting, and biannual CalPERS Trust-Level Review
1f and 1g.	ALM Policy and cross-enterprise Asset Liability Management Advisory Committee to facilitate strategic decision making
1a.	Funding Risk Mitigation Policy
1b.	Actuarial Amortization Policy
1b.	Contribution Allocation Policy
1c.	Communicating value of pre-paying pension obligations to strengthen the Fund and reduce individual employer costs in the future
1d.	Monitoring and evaluating proposed legislation to assess potential impacts
1d.	Legislative and stakeholder outreach to clear obstacles and constraints
1e.	Employer contract termination process
1e.	Outreach to employers and associations to educate them on Unfunded Actuarial Liabilities pay down strategies
1e.	Extension under Actuarial Amortization Policy due to a severe financial hardship
1f.	INVO Operating Model
1f.	Investment Office Operating and Administration Committee focused on processes, compliance, and operational efficiency
1f.	INVO Investment Underwriting Committee provides oversight of larger transactions and focus on reducing fees paid whenever possible
1f.	Disciplined investment processes and teamwork to focus efforts on repeatable, predictable, and scalable portfolios and practices

1f.   Expanding private equity investments, creation of private debt asset class, and expansion of fixed income into emerging markets leading to improved diversification

Future Mitigations:

- Integrated approach to managing plan risks

- Implementation of risk budgeting and dollar value add framework to help ensure risk taking is adequately compensated

Liabilities: Risk Drivers

2a.   Actual experience deviates significantly from the actuarial assumptions

2b.   Benefit design enhancements or member contribution reduction

2c.   Employer contribution rate increases insufficient to reduce unfunded liabilities over time

Controls in Place:

2a.   Actuarial Assumption Policy

2a.   Experience Study & Review of Actuarial Assumptions

2a.   Funding Level and Risk Report

2b.   Outreach and education to employers, labor leaders, and legislators regarding cost impacts of enhanced benefit design and value of pre-paying pension obligations

2c.   Actuarial Cost Method Policy, Actuarial Amortization Policy

2c.   Increased employer education

2c.   ALM Process

Additional Risk Drivers

3a.   Pension reform legislation or referendums that reduce employer obligation to honor pension contracts

3b.   Judicial decisions that alter benefits or contributions

3c.   Changes to actuarial standards

Controls in Place:

3a.   Engagement with member, retiree, and employer associations

3b.   Engagement with legislative leaders and consultants

3c.   Development and promotion of support materials demonstrating the sustainability and value of the System

3d.   Provide technical expertise and industry thought-leadership to ensure sound decision-making

Stakeholder Confidence Risk Profile

Executive Oversight: Deputy Executive Officer, Communications and Stakeholder Relations

Board Oversight: Finance and Administration Committee

Category: Strategic

Strategic Goal(s): Pension Sustainability - Strengthen the long-term sustainability of the pension fund.

Functional Objective: To ensure CalPERS is recognized as a respected and trusted steward of the system and fiduciary in delivering retirement benefits.

Risk Statement: Inability to maintain stakeholder confidence in CalPERS as a trusted fiduciary.

Risk Analysis: The inherent risk surrounding Stakeholder Confidence remains elevated with the perception that the probability side of the risk equation has increased when compared with the prior year's report. Stakeholder confidence is closely correlated to pension sustainability inputs such as investment returns and global influences including geopolitical and financial uncertainties. Although CalPERS has developed a mature engagement strategy that effectively addresses unbalanced reporting and public perception, some risk continues due to the external factors beyond CalPERS control, as well as mixed public opinion of public defined benefit plans.

Residual Risk

Rating: High Impact, Low Probability

Risk Trend: ↑ Increasing

The following are high-level entity controls; and is not an exhaustive list of all controls in place.

Risk Driver #1: Negative, inaccurate, or unbalanced information reporting

Controls in Place:

1.1 Proactive, positive narrative of CalPERS actions and policies through all communications channels

1.2 Monitor and report on the reputation of CalPERS in the media and on social media to identify opportunities and challenges

1.3 Respond to and correct inaccurate or unbalanced reporting

1.4 Develop and maintain good working relationships with media outlets

1.5 Author messaging on key CalPERS actions, views, or policy changes

1.6 Stakeholder confidence governance structure that includes committees and policies to ensure accuracy of disseminated information and security of CalPERS information assets

1.7 Engagement with key leaders in the private sector

Risk Driver #2: Negative public perception of CalPERS and/or public defined benefit plans

Controls in Place:

2.1 Accurate narrative of CalPERS actions and policies through all communication channels

2.2   Leverage communications through active member, retiree and employer associations

2.3   Timely fulfillment of Public Record Act requests

2.4   Build and nurture relationships with stakeholders

2.5   Involvement in national public pension associations

2.6   Inform stakeholders and policymakers about the importance of the defined benefit plan approach to retirement security

2.7   Close involvement in the Asset Liability Management process with proactive strategies to engage and educate stakeholder audiences

2.8   Develop relationship with California allies across various industries and sectors

2.9   Report economic impact of CalPERS pension benefits

Risk Driver #3: CalPERS failure to engage, educate, and inform CalPERS stakeholders

Controls in Place:

3.1   Framework of recurring stakeholder meetings

3.2   Direct member email communication plans, driving member engagement with the CalPERS website

3.3   Ad hoc stakeholder outreach meetings as needed

3.4   Digital communications

3.5   Host and participate in employer education and dialogue events

3.6   Member information and education events

3.7   Live webcasts of board meetings and transcripts of those meetings

3.8   Webinars and webcasts, including Board education workshops

3.9   Social media channels

3.10   Survey stakeholder segments to gauge sentiment and orient messaging and efforts

3.11   Share information with all team members to empower them to provide accurate information to their circle of influence.

3.12   Host Stakeholder Forum as part of annual Board meeting schedule

3.13   Utilize virtual web-conferencing technology to engage with stakeholders and provide uninterrupted services to members and employers

3.14   Expand opportunity for public comments and engagement at Board meetings

Risk Driver #4: Inability to inform, shape, or implement state and federal policy

Controls in Place:

4.1   Engage with California legislative members and staff, the Governor's Office, and other state agencies on relevant state policy proposals

4.2   Engage with congressional members and staff, the White House, and regulators on relevant federal policy proposals

4.3   Build alignment and leverage relationships with active member, retiree and employer associations, coalition groups, and membership organizations

4.4   Develop and nurture relationships with key state and federal policymakers

4.5   Develop legislative and congressional briefing packets, as needed

4.6   Hold periodic briefings to educate legislative members or staff on CalPERS issues concerning their constituents

4.7   Monitor, assess, and advocate on proposed legislation and proposed rules

4.8   Provide technical expertise and cost analysis for proposed legislation

4.9   Spearhead Board efforts to inform, sponsor, or take position on legislation

Talent Management Risk Profile

Executive Oversight: Chief Operating Officer

Board Oversight: Performance, Compensation, and Talent Management Committee

Category: Operational

Strategic Goal(s): Organizational Excellence - Cultivate a risk-intelligent and innovative culture through our team and processes

Functional Objective: To successfully attract, engage, develop, and retain a diverse, and qualified workforce.

Risk Statement: Inability to recruit and retain a diverse and qualified workforce compromises the ability to meet business objectives.

Risk Analysis: At the end of FY 22-23, CalPERS' organizational turnover rate was 16.2 percent which is an increase of just over four percent year-over-year. Team members transferring to other state departments, leaving state service and retirements continue to drive this risk, with the loss of institutional knowledge as the primary risk. Team leaders need continuous support so they can understand various recruitment strategies to improve their chances of getting a broader, more diverse candidate pool from which they can hire. They need ongoing assistance to support their ability to retain these team members. CalPERS is actively investing in team members' professional growth to maintain continuity in the workforce and mitigate talent risks, including ongoing knowledge transfer activities that support retention and employee development. The lack of an end-to-end or otherwise integrated human resources (HR) system creates manual workload and data gaps between existing solutions and workforce data sets. Although these gaps and lack of automation have been identified and are being addressed through a system upgrade project, they represent risk to the organization due to the lag in reporting for timely decision-making related to all aspects of the CalPERS workforce and ongoing operational inefficiencies in routine HR work.

Residual Risk

Rating: High Impact, High Probability

Risk Trend: ↓ Decreasing

The following are high-level entity controls; and is not an exhaustive list of all controls in place.

Risk Driver #1: Skills and competencies of all team members not keeping pace with evolving technology, member, and system needs

Controls in Place:

1.1   CalPERS 2022-27 Workforce Plan in development FY 23-24

1.2   Employee Performance and Development process

1.3   CalPERS Informal Mentoring Program

1.4   Educational, developmental, and training opportunities

1.5   CalPERS Succession Planning Program

1.6   CalPERS competencies: Includes team members and leadership

1.7   CalPERS Emerging Leader program

1.8   Administer team member engagement survey annually, analyze results, and conduct follow-up activities

1.9   CalPERS Upward Mobility Program

Future Mitigations:

- Use of GoLearn Goals for Team Leaders

- Use of GoLearn Leadership Competency Assessment for Team Leaders

- Upgrade to cloud based Human Capital Management (HCM) system

Risk Driver #2: Loss of institutional knowledge

Controls in Place:

2.1   CalPERS Rapid Recruitment Events (FY 2022-23)

2.2   CalPERS Emerging Leader program

2.3   CalPERS Upward Mobility program

2.4   CalPERS Speen Mentorship events

2.5   CalPERS Student Internships

2.6   Knowledge transfer stipulation for multi-year consultant contracts

2.7   illuminet

2.8   CalPERS Informal Mentoring Program

2.9   CalPERS Succession Planning Program

2.10   Lean training across the enterprise and on demand

2.11   Knowledge Transfer Workshops and online resources

2.12   CalPERS Competency based courses

Future Mitigations:

- Track team leader goals in GoLearn

- Track team leader competency gaps in GoLearn

- Create the CalPERS Workforce Plan (FY 2023-27)

Risk Driver #3: Inability to recruit, select, and retain team members

Controls in Place:

3.1   Recruitment Lifecycle Tool Kit

3.2   Created multiple workforce videos for INVO

3.3   Strengthened selection process controls

3.4   Continue to develop targeted recruitment strategies and activities for hard to fill positions

3.5   Utilization of skilled, in-house recruiters and external search firms

3.6   Career fairs and advertising in non-traditional mediums

3.7   Salary survey of comparable positions

3.8   Examination and Certification Online System

3.9   Market CalPERS as a destination employer

3.10   Incentive compensation programs and policies

3.11   Utilization of Student Assistants / Graduate Students

3.12   CalPERS Student Internship Program

3.13   Statewide IT Apprenticeship Program

3.14   CalPERS competencies

3.15   Validate HR Workforce Metrics Program

3.16   Rapid Recruitment efforts

3.17   Diversity, Equity and Inclusion: Assess use of approved recruitment, screening, and selection tools or techniques on the job

3.18   Diversity, Equity and Inclusion education and awareness programming

Future Mitigations:

- Recruitment calendar to plan all aspects of a hire, reducing organizational time-to-fill

Risk Driver #4: Inconsistent levels of support for engagement across the enterprise

Controls in Place:

4.1   Enterprise Enrichment programs

4.2   New employee onboarding including customized onboarding plans for senior leaders and executives

4.3   Onboarding Survey at 30, 60, and 90-day marks

4.4   Exit Survey

4.5   Diversity and inclusion events

4.6   Employee Resource Groups

4.7   Diversity, Equity and Inclusion education and awareness programming

4.8   Innovation platforms (Idea Factory and other Enterprise platforms/forums)

4.9   Annual Employee Engagement Survey

4.10   CalPERS Emerging Leader program

4.11   Career Development Day

4.12   Upward Mobility Program

Risk Driver #5: Antiquated HRMS

Controls in Place:

5.1   Data mapping and data clean-up of HCM and SCO systems

5.2   Cross division reorganization team and timelines

5.3   Position history and reconciliation with Budget Office

5.4   HCM PeopleSoft Role mapping

5.5   Ongoing HCM PeopleSoft system updates with ESDD

Future Mitigations:

- Complete implementation of cloud based HCM solution

Risk Driver #6: **Challenges managing a hybrid work force, including competition with other state employers for limited candidate pools due to inconsistent statewide application of return to office, hybrid, and telework options**

Controls in Place:

6.1   CEO weekly web-chat/FAQs

6.2   Telework Program Policy

6.3   Virtual and in person trainings and programs

6.4   Virtual and in person Wellness Programs

6.5   Virtual and in person ACE, APEX and SPARK recognition programs

6.6   Online E-Sunspark

6.7   COVID-19 SharePoint site

6.8   Continue to provide core HR supportive services virtually

6.9   Diversity, Equity and Inclusion education and awareness programming

6.10   Action planning and implementation from engagement survey results