



Agenda Item 5a

October 16, 2012

ITEM NAME: Risk Exposure Reports

PROGRAM: Enterprise

ITEM TYPE: Information

EXECUTIVE SUMMARY

These reports provide an overview of CalPERS risk landscape and management's response to those significant risks that may impact the organization. The most significant risks are identified as Top Risk. Management's responses to these Top Risks are described within the report including mitigation strategies. These reports are designed to promote transparency, increase risk awareness, and improve risk management at CalPERS.

BACKGROUND

The Enterprise Risk Management Dashboard (Attachment 1) provides an overview of the risk CalPERS has identified and is managing to better serve our members, employers, and other stakeholders. The Enterprise Risk Management Dashboard is updated periodically and reviewed by Executive Staff.

In the September reporting period, the risk landscape remained relatively stable. However, Management has modified four of the risks domains within the Dashboard and has noted minor changes in the risk landscape for this period:

- Pension Funding risk domain name has changed to Employer Pension Contribution. Management has agreed this name change better represents the risk universe currently monitored. Going forward Management will monitor the risks associated with employer pension contributions including local government bankruptcy.

Employer Pension Contribution domain changed from moderate to elevated risk exposure with the trend arrow moving upward. Management is closely monitoring and evaluating applicable risk and risk responses associated with the going concern of current contracted employers and their ability to meet pension contribution requirements. The extent of additional bankruptcies is still unknown and Management is watching it.

- Pension Reform has changed to Pension Reform Implementation and moved from the Strategic category to the Operations category. Management determined this name change also better represents the risks universe monitored and that the Operations risk category is most relevant since Pension reform is now being realized. Going forward Management will be

monitoring operational and implementation strategies, risks, and risk responses as established for current pension reform.

Pension Reform Implementation remains steady with elevated risk exposure and the trend arrow moving upward. Management is reviewing current strategies for implementing pension reform and what changes need to be made to further reduce risk to CalPERS now and in the near future.

- Pension Legislation has been added as a new risk domain under the Strategic category. This new domain allows Management to monitor new Pension legislation or changes in current Pension legislation that can strategically impact CalPERS. Reasonable risk responses may need to be determined prior to new Pension legislation being enacted.

Risk exposure for Pension Legislation risk domain is moderate with the trend arrow down.

- mylCalPERS domain has been removed from the Dashboard and consolidated into the Technology/System Management and Customer Service risk domains. Management concluded that mylCalPERS is not a standalone risk domain but an area with interdependencies that best fit within the Technology/System Management and Customer Service risk domains. Going forward technology solutions and customer service risks and risk responses from mylCalPERS will be monitored within these risk domains.
- Technology/Systems Management domain stays steady with the trend arrow moving up. Temporary reduction in staff for the Computer Room graveyard and weekend shifts reduces ITSB's ability to monitor and respond to issues that may disrupt services to participants.
- Customer Service domain changed from elevated to moderate risk exposure with the trend arrow moving downward. Mitigation strategies implemented have reduced backlogs and improved performance indicators. It is anticipated customer satisfaction will continue to improve with adequate resources available for mitigation efforts.
- Human Resources Management risk exposure remains steady with the trend arrow slightly changed to level. Management anticipates a minor impact to human resources based on changes in the reduced availability of student assistants and retired annuitants.
- Investment Risk Management risk remains steady with the trend arrow changed upward. Due to significant vacancies in staffing in the Investment Office Risk Division resulting in only two junior staff members and the Senior Information Officer (SIO) of Global Equity serving as the interim SIO of Risk, there have been delays in the usage of and enhancements to Barra II. The SIO for Investment Office Risk position has been vacant since June 29, 2012.

Executive staff has updated the mitigation strategies in the Top Residual Risk Report (Attachment 2) to reflect current response to risk exposures.

ANALYSIS

The Enterprise Risk Management Dashboard shows CalPERS current risk profile broken down into strategic, operational, financial/reporting, investment, and ethics/legal/compliance categories. Separate risk domains under each category represent sub-categories of underlying specific related risks. The aggregate ratings on the Enterprise Risk Management Dashboard were derived from a risk assessment performed for each specific risk with the domain. Through continuous monitoring of the risks and performance of additional risk assessments, the Dashboard is updated periodically to display the current risk environment. The Executive Staff are assigned ownership of each domain and provide a response to manage the most significant risks. Management provides assurance as to whether the strategies are on track, within budget, and having the desired effect on treating the risk. Independent reassurance of the responses to the Top Risk is provided by the Office of Enterprise Risk Management or Office of Audit Services.

Management has indicated these mitigation strategies remain mostly on track, although, certain areas, such as investment controls and systems, employer pension contribution, investment risk management, and information security have experienced minor impediments in executing some planned strategies.

ATTACHMENTS

Attachment 1 – Enterprise Risk Management Dashboard

- Displays the current risk environment and changes since the last reporting period as well as the expected future trend for 38 risk domains.

Attachment 2 – Top Risk Report

- Describes the most significant risk and provides an overview of the mitigation strategies and status of the measures taken to mitigate or manage the risk.

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