

California Public Employees' Retirement System										
Enterprise Risk Management - Top Residual Risk Report										
as of December 10, 2012										
Top Risks				Oversight		Management Assurance			Independent Reassurance	
Inherent Risk (Before Mitigations)	FY2012-13 Sept   Nov   Number	Projected Trend	Risk Domain	Domain	Board Committee	Executive Owner	Summary of Additional Planned Mitigation Strategies	Mitigation Status (Time, Budget, Effect)	Reassurance	Reassurance Source
Extremely High		Investment Controls and Systems		33			<ul style="list-style-type: none"> <li>-Implement new equity portfolio construction system and global equity investment book of record The Public Markets Portfolio Management project is in progress with completion targeted for Dec 2012.</li> <li>-Implement operating event measurement and escalation processes INVO established the operating event measurement and escalation processes in Sept 2011.</li> <li>-Develop books of record strategy for private assets and valuation oversight process for private equity INVO has initiated the AIM IBOR project with target completion of Dec 2013. INVO has initiated steps to transition oversight processes currently done thru an external vendor internally.</li> <li>-Establish Investment Office data management function Work stream has been sequenced to begin Jan 2013 and is contingent on the completion of several of the INVO TOM projects.</li> <li>-Continue to push forward enhancements in AREIS, enabling the end to parallel processing AREIS enhancements have been completed and discussions between INVO and FSCD have begun to enable the end to parallel processing.</li> <li>-Develop the ability to record and track investment expenses FINO/INVO Initiative has been initiated with target completion of Sept 2013.</li> <li>-Implement new travel policy, enhance restricted trading policy process, and train staff INVO has established a new travel policy, has drafted and received board approval for new personal trading policy; 100% of INVO staff completed 90 minute live training on June, 2012.</li> <li>-Complete financial reporting project Project has been initiated by FINO.</li> <li>-ICOR to develop investment policy monitoring program ICOR is developing a detailed tracking inventory and testing module for all investment Policies -Inventory completed. Initial policy compliance testing which will be risk based will be completed by December 2012.</li> <li>-Performance measurement and Attribution Initiative deferred for 6 months.</li> <li>-Obtaining and Retaining Key Staff CEM survey conducted.; Conducted employee classification study.; Tracking number of vacancies by area; Ramping up position posting.</li> <li>-TOM refresh initiated. Targeted completion, Dec 2012</li> </ul>			Office of Enterprise Risk Management
Extremely High		Employer Pension Contribution		5			<ul style="list-style-type: none"> <li>-Deliver investment performance that exceeds benchmark results within acceptable risk targets.</li> <li>-Regularly review actuarial policies and update as appropriate (Complete).</li> <li>-Conduct economic study every 4 years (Spring 2013).</li> <li>-Board has adopted actuarial smoothing and an amortization method that strive for a balance between contribution stability and improved funded status over 30 years. Review asset smoothing policy in March 2013 and update as appropriate.</li> <li>-Monitoring of employer accounts receivable and filing of payroll reports.</li> <li>-Developing a risk model for the asset/liability framework to identify risk levels.</li> <li>-Pension Reform Implementation will put downward pressure on contribution rates.</li> </ul>			Office of Enterprise Risk Management
Extremely High		Investment Risk Management		31			<ul style="list-style-type: none"> <li>-Implement new investment risk management system and risk budgeting framework - Barra II implementation complete (June 2012) ; new reporting function being rolled out.</li> <li>- Recruit for key senior management positions in Risk Group</li> </ul>			Office of Enterprise Risk Management
Extremely High		Pension Reform Implementation		21			<ul style="list-style-type: none"> <li>- Planning for implementation of PEPR is complete and execution is now underway</li> <li>- Clean-up legislation is expected to be introduced in early December, with effective dates in the April or May timeframe</li> <li>- CalPERS will introduce its own conforming legislation for PERL, JRL, LRL in March, for an effective date of 1/1/2014</li> <li>- CalPERS will begin the regulation process. Proposed regulations will be presented to the Board in December, February and March.</li> <li>- Updates for employers and other external stakeholders are available via CalPERS website and will be regularly updated</li> <li>- A comprehensive circular letter will be issued for employers by the first week of December.</li> </ul>			Office of Enterprise Risk Management
Extremely High		Information Security		18			<ul style="list-style-type: none"> <li>Reduce security risks and vulnerabilities through improving protection from malicious internet threats, enhancement of data loss prevention technologies, security for mobile devices, and proactive security assessment processes (June 2013).</li> <li>Phase 1 of Security Roadmap Program will address six areas of improvement, which when implemented, will significantly reduce risks and improve information security throughout CalPERS. The six initiatives are outlined below: <ul style="list-style-type: none"> <li>• Non signature-based protection against Malicious Mobile Code (MMC)</li> <li>• United States Government Configuration Baseline (USGCB) Compliance</li> <li>• Mobile Device Management</li> <li>• Develop Procedures for Periodic Security Assessments</li> <li>• Update EPPO Security Practices</li> <li>• Data Loss Prevention.</li> </ul> </li> </ul>			Office of Enterprise Risk Management
High		Customer Service		19			<ul style="list-style-type: none"> <li>-Monitor backlog reduction plan for retiree warrant adjustments. (on-going).</li> <li>-Monitor backlog reduction plan for Death Benefits. Executing and monitoring the plan. (completed).</li> <li>-Monitor backlog reduction plan for Service Credit Purchases. Executing and monitoring the plan. (on-going).</li> <li>-Redirection of staff and overtime usage. (on-going).</li> <li>-Continue to implement releases to address fixes and defects. (on-going).</li> <li>-Re-engineering business to streamline and gain efficiencies. (on-going).</li> <li>-Continue outreach efforts to share information with members on alternatives available to them to process requests (i.e. Retirement Estimate Calculator, Service Credit Costing Estimator, on-line education, etc.). (on-going).</li> <li>-Continue internal and external outreach campaigns to update members, employers, and staff of system status and business process/service level status (on-going)</li> <li>-Participate in additional rapid results teams, as needed, to improve service delivery across program areas (on-going).</li> <li>-Implemented phase one and phase two of Member Self Service to provide enhanced on-line customer service capabilities.</li> <li>-Implemented a new contact center technology platform, that will enable staff to manage and monitor calls more effectively.</li> <li>-Initiated a project to review, analyze and implement changes in the contact center to gain efficiencies and improve customer service.</li> </ul>			Office of Enterprise Risk Management
		MyCalPERS implementation could cause significant impacts to customer service levels and staff workload capacity, exposing CalPERS to complaints, liability claims, litigation, loss of revenues, and administrative or management reputation.			Pension and Health Benefits	Deputy Executive Officer, Customer Services and Support				

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High	▲▲▲	↓	Long Term Care Program	4	Pension and Health Benefits	Deputy Executive Officer, Benefit Programs Policy and Planning	<ul style="list-style-type: none"> <li>- The Program continues to carefully monitor the financial performance of the Fund (Ongoing).</li> <li>- October 2012, the Board approved a proposed premium increase of 79 percent beginning in 2015, or at the policyholder's election, 85 percent levied over a two-year period.</li> <li>- Continuation of Board approved premium increases for the lifetime coverage with built-in inflation protection will continue through 2014 to improve the LTC Fund.</li> <li>- October 2012, the Board approved a 10-year Retained Inflation option as a mitigation strategy for policyholders facing the 2015 premium increase.</li> <li>- September 2012, ACTO recommendation - the Board approves a new lower LTC Fund discount rate of 5.75 percent in-line with INVO's more conservative LTC Fund Investment approach. April, 17, 2012, INVO policy to modify the LTC Fund portfolio asset allocation to reduce volatility.</li> <li>- New Third Party Administration contract with January 1, 2013 effective date undergoing review and approval consideration process - contract not signed.</li> </ul>	●	●	Office of Enterprise Risk Management
High	▲▲▲	→	Health Care Costs	3	Pension and Health Benefits	Deputy Executive Officer, Benefit Programs Policy and Planning	<ul style="list-style-type: none"> <li>- Implement the Board approved Health Benefit Purchasing Review Initiatives (3-5 year strategic plan). Initially focus on the following:                             <ul style="list-style-type: none"> <li>Evidence-based medicine</li> <li>Value-based purchasing</li> <li>Bundled payments</li> <li>Integrated Healthcare</li> <li>Uniform Metrics</li> <li>Shared Decision-Making</li> <li>Transparency</li> <li>Intensive Case Management</li> <li>Reduce Unwarranted Care</li> <li>HMO Procurement</li> <li>Kaiser Contract</li> <li>PPO Procurement</li> <li>Risk Adjustment.</li> </ul> </li> <li>- Focus on the top 3 cost drivers (inpatient hospital, outpatient hospital and specialty drugs) and work with the health plans to develop targeted strategies to address them (Ongoing).</li> <li>- Implement the PPO &amp; HMO procurement RFPs</li> <li>- Implement the Dependent Eligibility Audit (DEA) RFP</li> </ul>	●	●	Office of Enterprise Risk Management
High	▲▲▲	↓	Governance / Leadership	7	Board Governance Committee	Chief Executive Officer	<ul style="list-style-type: none"> <li>-CEO is sponsoring a staff work group, including the General Counsel, to work closely with the Board President and Board to implement actions approved by the Board in August and September of 2011</li> <li>-Regular reporting to the Governance Committee is in place.</li> <li>-The new Board committee structure was implemented in February 2012.</li> <li>- Executive Liaisons continue iteratively work with Chairs to improve Committee processes and communication between Board/Committees and staff. An element was included in the current year performance plans to reinforce this activity.</li> <li>-In February 2012, the Board adopted a new Governance Policy that incorporates the approved principles and recommendations.</li> <li>-Webcasting of the Board and Committee was introduced in March 2012.</li> <li>-The Board approved a gift policy in April 2012, and a travel policy in June 2012.</li> <li>-The Board self assessment process began in June 2012. The assessment was conducted during summer and fall of 2012, with follow up activity underway.</li> <li>-Board Fiduciary and Lack of Undue Influence Certifications processes have been established; staff reported to the Board on these processes in June 2012.</li> <li>-Board adopted a new 5 year Strategic Plan in August 2012. An implementation plan, as well as performance measures, are under development.</li> <li>-Succession Planning was included in the Business Plan for 2012-14. The CEO has launched the effort for the CEO and CIO positions, and plans for remaining executive positions underway.</li> <li>-Committee chair training was completed in Oct 2012.</li> <li>-A Confidentiality policy is under review and scheduled for a second reading in November 2012.</li> <li>-Plans to further formalize the Board and Committee education process are underway.</li> <li>- Regular reporting to the Governance Committee is in place and ongoing.</li> </ul>	●	●	Office of Enterprise Risk Management
High	▲▲▲	→	Stakeholder Perception	9	Risk and Audit Committee	Deputy Executive Officer, External Affairs	<ul style="list-style-type: none"> <li>- Conduct Stakeholder Relations risk assessment. (Baseline completed June 2011; Follow-up assessment plan being developed for the next three years 2012-2015).</li> <li>- Develop a unified strategy that strengthens product and service marketing of all programs (June 2012). (Branding initiative currently underway, will be presented to the Board in July 2012 and will be implemented over the next year. Have developed several tactics to unify our marketing and outreach efforts, including:                             <ul style="list-style-type: none"> <li>- Reviewing and analyzing the survey responses that were collected from the marketing and outreach representatives</li> <li>- Reviewing current marketing and outreach materials</li> <li>- Conducting best practice marketing research and developing a Marketing Strategy document that applies to CalPERS</li> <li>- Presenting recommendations to the Executive Sponsor's based on the findings).</li> <li>- Proactively inform Legislative leaders, key committee chairs and vice chairs, and consultants about issues that could impact CalPERS reputation. (This is an ongoing initiative, being conducted by the Office of Government Affairs on a regular basis).</li> <li>- Develop and implement communications strategy to increase visibility and public presence of CalPERS leadership, ethics, governance, and accountability in the media and among stakeholders. (This is included in the Stakeholder Relations Plan and Business Plan 2012-2014, implementation underway).</li> <li>- Develop a social media strategy that targets growth, engagement, education, and awareness of CalPERS online community. (Complete- set growth target for 100% on Facebook. We started on July 1, 2011, with 1,657 Likes and tonight at approximately 8 p.m., met and then surpassed our 3,314 target.; we have also increased the number of twitter followers to 4454).</li> <li>- Enhance the social media strategy by raising our voice in the electronic conversation through monitoring and engaging with our stakeholder groups via their social media channels. The Office of Stakeholder Relations will lead this effort with consultation from PAOF Web and the Brand Management Team.</li> <li>- Build a database of publicly accessible pension data and make it available on CalPERS On-line (in progress with launch anticipated in February 2013). We currently provide the data to the media and public via their Public Records Act (PRA) requests. By launching our own database we can control the integrity of the data and better manage the messaging around the numbers.</li> </ul> </li> </ul>	●	●	Office of Enterprise Risk Management

Residual Risk - Considering risk responses and the remaining risk exposure.	Trend - Considering risk management plans and environmental factors, the residual risk trend over the next 3-6 months.
● Minimal	↓ Decrease
▲ Moderate	→ Remain constant
■ Elevated	↑ Increase
● High	

Mitigation Status - Considering system and staff readiness, workload impacts, and mitigation strategies.
● On-track
▲ At-risk
● Off-track