



Pension and Health Benefits Committee

Agenda Item 8

September 20, 2016

Item Name: Risk Profile Review

Program: Benefit Programs Policy and Planning and Customer Services and Support

Item Type: Information

Executive Summary

To further enrich the integrated enterprise assessment and management of risk, committee executives are presenting the revised enterprise risk management framework and the enterprise risks delegated to the respective Board of Administration (Board) Committees for feedback. The objectives of the presentations are to obtain the input and perspectives of the Committees that oversee the first line of defense on those risks, and to use this information to finalize the risk profiles prior to their assessment and the presentation of the risk dashboard to the Risk and Audit Committee (RAC) in November 2016.

Strategic Plan

This agenda item supports the California Public Employees' Retirement System (CalPERS) Strategic Plan B: Cultivate a high-performing, risk-intelligent and innovative organization. To achieve this goal, management across the enterprise continues to contribute to a robust risk management framework that includes consideration of risk in decision-making, planning, and prioritization of business activities to achieve strategic and operational objectives.

Background

Enterprise risk management is a vital function in facilitating risk identification and monitoring activities that inform and support decision-making and resource allocation priorities at both the strategic and operational levels and across the enterprise.

A cross-functional ad hoc working group was convened in Spring 2016, to examine enterprise risks and descriptions included in the Risk Management Dashboard (Dashboard) producing the following findings and recommendations:

- The prior Dashboard did not succinctly state the specific nature of the risks.
- Replacing risk descriptions with risk statements will provide more clarity.
- Focused risks and risk statements will lead to more concise and effective mitigation measures.
- Consolidating risks with significant correlations provides the opportunity to implement mitigation strategies that are synergistic and produce an enterprise-wide impact.
- Mitigation efforts should be aimed at drivers of the risk.

In June 2016, Enterprise Risk Management Division (ERMD) presented a revised risk summary, identifying the proposed enterprise risks, their risk statements, the executive owner, and Board Committee oversight to the RAC (Attachment 1).

Incorporating feedback from the June RAC, staff met with process owners and the Integrated Assurance and Risk Council in the first quarter of 2016-17, to identify risk drivers and associated mitigation measures in place for each enterprise risk.

To ensure risk management is effective and delegated Committees are receiving appropriate, useful information to carry out their delegated authority related to risk management, and to further enhance the assessment and management of enterprise risk, the respective Committees' risk profiles will be presented for discussion and input to the finalized Dashboard.

Analysis

Risks Overseen by the Pension and Health Benefits Committee

The Pension and Health Benefits Committee's (PHBC) oversight responsibilities encompass a broad array of business functions and risks related to plan design and rate setting for pension and health administration. Attachment 2 includes the two risk profiles reported to the PHBC.

Brief overviews of the PHBC enterprise risks are as follows:

- **Health Care Administration:** The risk drivers that impact Health Care Administration focus on CalPERS ability to offer quality, accessible and affordable health care due to rising health care and pharmaceutical costs.
- **Benefit Administration:** CalPERS ability to deliver timely and accurate benefit payments is recognized as a core function of the enterprise and as such is included as an operational risk on the Dashboard.

Next Steps Will Include:

- Incorporate feedback from Committee into Risk Profiles.
- Refine residual risk rating methodology.
- Perform gap analysis in collaboration with the Integrated Assurance Workgroup to assess the effectiveness of current mitigations.
- Conduct risk assessments for the enterprise risks with Executive team, senior leaders, and members of the Integrated Assurance Workgroup.
- Present updated Framework and Dashboard to the RAC at the November 2016, meeting.

Attachments

Attachment 1 – Enterprise Risk Summary

Attachment 2 – Enterprise Risk Management Profiles

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