CalPERS | ENTERPRISE RISK MANAGEMENT

FY 2018–19 STRATEGIC RISK MEASURES: OVERVIEW

FUND SUSTAINABILITY

Strategic Goal: Strengthen the long-term sustainability of the pension fund
Enterprise Risk: Pension Funding, Stakeholder Confidence

Strategic Risk Measure	PERF funding levels below 50%	Sharp employer contribution rate increase	High employer contribution rate
Measure Owner	Chief Actuary	Chief Actuary	Chief Actuary
Measure Description	This is a leading indicator for unrecoverable draw downs.	This is a leading indicator of short-term budget impacts to employers due to high annual fluctuations in contribution rates.	This is a leading indicator of the affordability of contribution rates for employers in the future relative to current rates.
Measure Calculation	Probability of PERF falling below 50% funded over the next 30 years	Probability of a sharp single year increase in employer contribution rates by: » 3% for Miscellaneous (previously 5%) » 5% for Safety (previously 7%)	Probability that contribution rates increase beyond the current rate at some point in the next 30 years by: » 10% for Miscellaneous » 15% for Safety
Risk Tolerance			
Attention Required	🟥 > 20%	🟥 > 20%	🟥 > 20%
Monitoring Required	🟨 10%–20%	🟨 10%–20%	🟨 10%–20%
Managed Appropriately	🟩 < 10%	🟩 < 10%	🟩 < 10%
Description of Tolerance Level	A model is used annually to estimate the probability that the funding levels will fall below 50% at some point in the next 30 years.	A model is used annually to estimate the probability that there could be a sharp single year increase in employer contribution rates.	A model is used annually to estimate the probability that employer contribution rates will increase beyond the current rate over the next 30 years.
Current Status			
System of Record	AVS (ACTO)	AVS (ACTO)	AVS (ACTO)
Reporting Frequency	Annual	Annual	Annual

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HEALTH CARE AFFORDABILITY

Strategic Goal: Transform health care purchasing and delivery to achieve affordability

Enterprise Risk: Health Care Administration

Strategic Risk Measure	Percent of contracting agencies retained	Total covered lives (TCLs)	Legislation that negatively impacts CalPERS	Health Care Fund (HCF) required reserve *(Under development—Dec 2018)*
Measure Owner	Chief Health Director	Chief Health Director	Chief Health Director	Chief Health Director
Measure Description	This is a leading indicator as agencies leaving the CalPERS Health Program will drive up cost.	The inability to achieve the target of increasing TCLs by 12,000 lives poses as a risk to the strategic goal, specifically gaining less than 9,000 TCLs could drive up health care costs.	Unfavorable changes in federal/state regulations or legislation that can impact health care cost.	This is a leading measure that indicates if the reserve drops, a surcharge may be added to increase the reserve back to the required level.
Measure Calculation	Percent of public agencies and schools that continue to contract with CalPERS for health benefits	Number of new TCLs gained as a result of resolutions (contracts) submitted to CalPERS from new contracting agencies and existing agencies	**Yes/No:** Have new legislative or regulatory changes been approved or are reasonably expected to be approved that negatively impact CalPERS Health Benefits Program?	
Risk Tolerance				
Attention Required	🟥 ≤ 97.9%	🟥 ≤ 5,999 TCLs	🟥 Legislation exists	
Monitoring Required	🟨 98%–98.9%	🟨 6,000–8,999 TCLs		
Managed Appropriately	🟩 ≥ 99%	🟩 ≥ 9,000 TCLs	🟩 No legislation exists	
Description of Tolerance Level	Thresholds determined using a 5-year average (2013–2017) retention of public agency and school employees.	Thresholds determined using a 5-year average (2013–2017) retention of public agency and school employees.	The risk tolerance levels measure the existence of legislation or regulations that would negatively impact CalPERS. Action is required if legislation that negatively impacts the organization exists.	
Current Status				
System of Record	my|CalPERS	my|CalPERS	LAD	
Reporting Frequency	Annual (February)	Annual (February)	Annual (September)	

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REDUCE COMPLEXITY

Strategic Goal: Reduce complexity across the enterprise

Enterprise Risk: Benefit Administration

Strategic Risk Measure	Board sponsored legislation	Externally proposed bills that have the potential to increase the complexity of the plan design	Lean white belt training
Measure Owner	Deputy Executive Officer, Communications & Stakeholder Relations	Deputy Executive Officer, Communications & Stakeholder Relations	Deputy Executive Officer, Operations & Technology
Measure Description	In order to reduce the CEM complexity score, a reduction in plan design options is required through legislation.		This measures the organization's ability to provide a foundation for a culture shift; (i.e., a culture that fosters behavior that supports change and efficiencies).
Measure Calculation	**Yes/No:** Is there Board sponsored legislation that is authored and reduces complexity of the plan design?	**Yes/No:** Have new external legislative or regulatory changes been proposed that negatively impact the complexity of the plan design?	Percent of team members that participated in Lean White Belt training per quarter
Risk Tolerance Attention Required Monitoring Required Managed Appropriately	🟥 No legislation exists 🟩 Legislation exists	🟥 Legislation exists 🟩 No legislation exists	🟥 0% increase in participation 🟨 1%–4% increase 🟩 5% increase
Description of Tolerance Level	The risk tolerance levels measure the existence of proposed legislation that would reduce plan design options. Action is required if no legislation exists.	The risk tolerance levels measure the existence of proposed legislation or regulations that would negatively impact the plan design. Action is required if legislation or regulations exist.	An increase of 4% or less in participation per quarter would require monitoring as it indicates a potential risk in the organization's ability to have the majority of all team members participate in Lean training by 2020.
Current Status			
System of Record	LAD	LAD	PRDA / GoLearn
Reporting Frequency	Annually	Quarterly	Quarterly

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RISK MANAGEMENT

Strategic Goal: Cultivate a risk-intelligent organization

Enterprise Risk: Information Security, Business Continuity, Governance & Control Environment

Strategic Risk Measure	Enterprise Risk Training Index	Percent of policies, delegations, and charters up-to-date and current *(Under development)*
Measure Owner	Chief Financial Officer	Chief Compliance Officer
Measure Description	This leading measure indicates a shift in CalPERS' foundational structure of risk awareness by using the average-timely completion of enterprise trainings that influence risk awareness. To collect data for this measure, participant sign-in sheets will be utilized and logged into GoLearn for each participant after they complete the training.	This measure will indicate if CalPERS policies, delegations, and/or charters are up-to-date and in compliance with current laws and regulations.
Measure Calculation	Percent of participants completing each risk awareness training timely / Number of trainings in the index	
Risk Tolerance		
Attention Required	🟥 ≤ 84%	
Monitoring Required	🟨 85%–94%	
Managed Appropriately	🟩 ≥ 95%	
Description of Tolerance Level	A risk tolerance of 95% ensures that the majority of team members receive training on risk elements which are mostly mandatory to reinforce the foundation of CalPERS risk culture.	
Current Status		
System of Record	GoLearn (ECOM, HRSD, ERMD, ISOF)	ECOM
Reporting Frequency	Annual	

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TALENT MANAGEMENT

Strategic Goal: Promote a high-performing and diverse workforce

Enterprise Risk: Talent Management

Strategic Risk Measure	Employee Engagement Survey – Diversity and Inclusion (D&I)	Employer Brand
Measure Owner	Deputy Executive Officer, Communications & Stakeholder Relations	Deputy Executive Officer, Operations & Technology
Measure Description	The Employee Engagement survey includes three D&I questions. The proposed risk measure is one of three questions. It was chosen for its focus at the enterprise-level. **Survey question:** CalPERS fosters a work environment that values individual differences and contributions.	This is a leading indicator of potential changes in team members' level of engagement. The pulse survey will be emailed to all team members within a four-week cycle and the question will be the same for all team members. **Survey question:** How likely would you be to recommend this organization to others as a great place to work?
Measure Calculation	Percent of respondents who agree CalPERS fosters a work environment that values individual differences and contributions	Percent of supporters (individuals who answered 9-10) subtracted from the percent of detractors (individuals who answered 0-6)
Risk Tolerance		
Attention Required	🟥 ≤ 44% agree	🟥 ≤ -11
Monitoring Required	🟨 45%–59% agree	🟨 -10–20
Managed Appropriately	🟩 ≥ 60% agree	🟩 ≥ 21
Description of Tolerance Level	The tolerance levels are aligned with McLean & Co's driver calculations, which considers 59% or higher as high performing (current 2017-2018 Employee Engagement survey score is 66%).	The tolerance levels are based on the Employee Experience Monitor score with a range of -100 to 100, as set by McLean & Co's proprietary algorithm. Research shows that a normal range is between -10 and 20 with anything above 20 being excellent.
Current Status		
System of Record	Employee Engagement Survey (HRSD)	Employee Engagement Survey – pulse survey (HRSD)
Reporting Frequency	Annual	Quarterly