



## Risk and Audit Committee

# Agenda Item 8b

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**June 18, 2019**

**Item Name:** Enterprise Risk Management Framework Review

**Program:** Enterprise Risk Management

**Item Type:** Information

### **Executive Summary**

The purpose of this item is to provide the Risk and Audit Committee (Committee) with updates on the Enterprise Risk Management Framework, including the attached initial monitoring reports for the Strategic Risk Measures (SRMs) approved by the Committee in June 2018. This item provides status on the SRMs for the third quarter (January 1, 2019 through March 31, 2019) of fiscal year 2018-19.

### **Strategic Plan**

This agenda item supports the 2017-22 CalPERS Strategic Plan Goal Risk Management: Cultivate a risk-intelligent organization. The Enterprise Risk Management Division (ERMD) provides assurance to the Board of Administration (Board) through the implementation of an effective enterprise-wide risk management program and the continued cultivation of a risk-intelligent organization

### **Background**

Enterprise risk management is a vital function in facilitating risk identification and monitoring activities that promote risk informed decision-making at both the strategic and operational levels across the enterprise. The monitoring and reporting of SRMs play an important role in understanding the relationship between risk and performance by providing the Board and management with advanced warnings of events that may compromise the achievement of strategic and operational goals.

In making strategic decisions regarding risk, boards communicate to the organization their philosophy of risk-taking by establishing risk appetite and tolerances. Risk appetite is the amount of risk an organization is willing to accept in its pursuit of business objectives and is usually reflected by broad qualitative statements developed and approved by a board. Risk tolerance on the other hand, specifically sets the acceptable minimum and maximum variance from the target a board is willing to accept. The SRMs and tolerances provided were reviewed by the Committee in June 2018 and are intended to provide management with clear direction on risk acceptance and trade-offs. The risk tolerances are categorized into three levels: managed appropriately (green), monitoring required (yellow), and attention required (red).

SRMs will be reported quarterly, as follows:

RAC	Reporting Period
November	1 <sup>st</sup> Quarter (July 1 through September 30)
March	2 <sup>nd</sup> Quarter (October 1 through December 31)
June	3 <sup>rd</sup> Quarter (January 1 through March 31)
September	4 <sup>th</sup> Quarter (April 1 through June 30)

## Analysis

There are two SRM reports provided to the Committee in this agenda item. First, the SRM Dashboard summarizes the current status of all the SRMs. Secondly, exception reports are attached that detail the risk performance, root cause analysis, and mitigations identified as next steps to reduce the risk for those SRMs that are performing outside of the board's risk tolerance and require attention (Attachment 1).

A review of third quarter data found three SRMs under the goals of Fund Sustainably and Reduce Complexity that have exceeded the risk tolerance set by the Committee and "Require Attention." An analysis and root cause of the risks can be found in the SRM Detail provided in Attachment 1.

Fund Sustainability:

- Probability of high employer contribution rate (35% for Miscellaneous, 55% for Safety)
- Probability of sharp employer contribution rate increase (3% for Miscellaneous, 5% for Safety)
- The Board was previously made aware of this with the Annual Review of Funding levels and Risks report presented to the Finance and Administration Committee in November 2018

Reduce Complexity:

- Externally proposed bills that have the potential to increase the complexity of the plan design, accounted for quarterly as a point in time metric
- The Board was most recently apprised of these bills during the May 2019 state and federal legislation update

## Budget and Fiscal Impacts

Not Applicable

## Attachments

Attachment 1 – Strategic Risk Measures Dashboard

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Forrest Grimes  
Chief Risk Officer

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Michael Cohen  
Chief Financial Officer