CalPERS

Risk and Audit Committee
Agenda Item 8c

February 18, 2020

Item Name: 2019-20 Enterprise Risk Management Mid-Year Plan Update

Program: Enterprise Risk Management

Item Type: Information

Executive Summary

The purpose of this item is to provide the Risk and Audit Committee (Committee) with the mid-year update of activities in the Enterprise Risk Management Plan for the period July 1, 2019 through December 31, 2019.

Strategic Plan

This agenda item supports the 2017-22 CalPERS Strategic Plan Goal - Risk Management: Cultivate a risk-intelligent organization. Enterprise Risk Management Division (ERMD) provides assurance to the Board's Risk & Audit Committee (Committee) through the implementation of an effective enterprise-wide risk management program.

Background

ERMD developed the 2019-20 Plan to communicate priorities in support of CalPERS' Strategic and Business Plans, vision, and mission. In June 2019, ERMD received Committee approval for the Plan, which aligns program initiatives to the strategic goals of Fund Sustainability and Risk Management. Progress on Plan activities for the first half of Fiscal Year 2019-20 are reported on the Plan Dashboard (Attachment 1).

Fund Sustainability Goal:

Asset Liability Management

ERMD facilitates the Asset Liability Management Advisory Committee (ALMAC) meetings and coordinates efforts with the Financial Office (FINO), Actuarial Office (ACTO), Investment Office (INVO), Legal Office (LEGO), and Communications and Stakeholder Relations Office (CSR) in the Board adoption of the strategic asset allocation mix, actuarial assumptions, and discount rate.

Risk Management Goal:

Enterprise Risk Management Framework

With the Enterprise Risk Management Framework in place, ERMD continues to partner with the program areas to mature risk management at CalPERS by conducting the annual enterprise-wide risk assessment, reporting Strategic Risk Measures (SRM), and administering enterprise-wide internal controls training.

Risk Awareness

To cultivate a risk-intelligent organization, ERMD works with our internal partners to train and educate CalPERS team members on the importance of risk management and personal accountability. The training emphasizes the responsibility of each first line of defense team member to identify and report risks.

Enterprise Data Management

ERMD works with our internal partners to facilitate the enterprise-wide Data Management Business Plan Initiative effort to create governance and structure around information and data assets.

Analysis

ERMD significant activities and accomplishments for the first half of fiscal year 2019-20 include:

Fund Sustainability Goal Activities:

Asset-Liability Management (ALM)

ERMD continued to facilitate ALMAC in the following key accomplishments:

- establishing the Asset Liability Management Advisory Committee's schedule to conduct a mid-cycle strategic asset allocation review and capital markets outlook in June 2020; the next major step in the four-year ALM Process
- Pension Outlook Tool:
  - o a) advancing the review and roll out of the Pension Outlook tool used to project employer contribution requirements and funded status. Pension Outlook was demonstrated for numerous groups, including the Finance & Administration Committee.
  - o b) facilitating integration of the Pension Outlook tool into the Pension Insight Tool, to provide sensitivity analysis for varied return and experience scenarios to allow greater Board and stakeholder planning insight.

Risk Management Goal Activities:

ERMD continued to collaborate with the enterprise to advance the Enterprise Risk Management Framework through the following key accomplishments:

- completing and presenting the 2019 Annual Enterprise Risk Assessment, including updated Risk Profiles and Heat Map.
- updating strategic risk measures with improved short and intermediate term metrics for fund sustainability and refined reporting thresholds for the Health Care Fund actuarial reserve.
- reporting of quarterly updates to the Strategic Risk Measures dashboard.

- presenting the Committee with an overview of the enterprise risk framework, highlighting the use of risk tolerances by the Committee to provide its risk appetite.

ERMD continued to work together with the enterprise on the cultivation of a risk-intelligent organization by:

- collaborating with human resources to design risk management training for all new employees.
- communicating the importance of the first line of defense with team members through internal communication channels.
- collaborating with Enterprise Compliance to organize events during Compliance and Risk Week aimed at helping team members understand how to maintain a strong culture of ethics and risk-intelligence
- communicating the structure and importance of the three lines of defense with team members by participating in the Senor Leadership Brown Bag session in December 2019.

ERMD continued to enhance our internal control framework by:

- continuing to deliver risk management training to new team members at New Employee Orientation sessions.

ERMD continued to create and enhance governance policies and processes to strengthen data-driven decisions by:

- advancing Business Plan initiatives to update/create policies, expand the CalPERS Data Glossary (Glossary), and develop the Data Management Communication Plan to strengthen data-driven decision making and governance.
- finalizing the data management communication plan and proposed implementation dates, establishing working groups for the Information Asset Policy and Data Retention Policy research, and conducting internal workshops to advance Glossary updates .

Attachments

Attachment 1 – ERMD 2019-20 Mid-Year Workplan Update

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Chief Financial Officer