



Risk and Audit Committee

Agenda Item 5c

April 21, 2020

Item Name: Quarterly Status Report – Enterprise Risk Management

Program: Enterprise Risk Management

Item Type: Information Consent

Executive Summary

The purpose of this item is to provide the Risk and Audit Committee (Committee) with an update on activities included in the Enterprise Risk Management Plan (Plan) for the period January 1, 2020 through March 31, 2020.

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

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 the Plan activities for the period is reported on the Plan Dashboard (Attachment 1).

Analysis

ERMD significant activities and accomplishments for this period include:

Fund Sustainability Goal Activities:

ERMD continued to advance Asset Liability Management (ALM) within the enterprise by:

- facilitating development of the ALM Timeline to clarify the ALM Cycle interdependent deliverables for team members and to enhance stakeholder communication.

Risk Management Goal Activities:

ERMD continued to collaborate with the enterprise to advance the Enterprise Risk Management Framework by:

- partnering with the Enterprise Compliance and Office of Audit Services teams to explore and capture emerging risks through interviews conducted with executives and senior leaders.
- reporting of quarterly updates to the Strategic Risk Measures dashboard.

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

- collaborating with Enterprise Compliance and the Information Security Office in the development of a single reporting Inside CalPERS landing page to encourage reporting of identified risks by the first line of defense.

ERMD continued to enhance our internal control framework by:

- continuing to deliver risk management training to new team members at New Employee Orientation sessions.
- working with program areas to identify and strengthen controls in key processes.

ERMD continued to enhance risk and compliance functions throughout the enterprise by:

- finalizing the Enterprise Data Management Communication Plan and advancing the Information Asset Classification Policy, Data Retention Policy and CalPERS Data Glossary updates.

Enterprise Risk Measures:

The SRM Dashboard summarizes the status of all risk measures. An exception report, when needed, is attached to the SRM detailing 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 (Attachment 2).

A review of the data reported for the third quarter found three SRMs not meeting their respective risk tolerances as set by the Committee and "Require Attention" for the strategic goals of Fund Sustainability, Health Care Affordability and, Reduce Complexity. An analysis and root cause of the risk can be found in the SRM detail provided in (Attachment 2).

Fund Sustainability – Investment Return:

- As reported in the first quarter, the strategic risk measure monitoring the funded status of the PERF performing below tolerance.
- The data for this measure is refreshed annually and will continue to be reported yellow until new data is presented in November 2020.

Health Care Affordability – Total covered lives:

- The annual increase of total covered lives did not reach its annual target.

- Increased communication with agencies through more frequent Employer Workshops will be available throughout the year.

Reduce Complexity – Internal/Externally proposed bills:

- Internal proposed legislation that would reduce the plan design is currently pending.
- External legislation has been introduced that could potentially increase the complexity of the plan design and would require additional CalPERS resources.

Reduce Complexity – Lean white belt training:

- Lower participation in lean white belt training.
- Cancelled classes due to COVID-19 impacts.

Budget and Fiscal Impacts

Not Applicable

Attachments

Attachment 1 – ERMD 2019-20 Q3 Workplan Update
Attachment 2 – Enterprise Risk Measures Dashboard

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