



Risk and Audit Committee

Agenda Item 5d

June 17, 2020

Item Name: 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) through April 30, 2020. Prior Plan updates were presented at the April 20, 2020 Committee meeting and there are no changes since that period to the Plan Dashboard (Attachment 2) or Enterprise Risk Measures Dashboard (Attachment 3).

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 2).

Analysis

ERMD 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. ERMD also initiated development of the 20/21 ALM Business Plan Initiative.

Risk Management Goal Activities:

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

- publishing the approved 2019 State Leadership Accountability Act Report (Attachment 1) certifying that CalPERS internal control systems and monitoring systems are adequate to address current risks.

As in our April report the following Enterprise Risk Measures are currently reported as yellow or red:

The Enterprise Risk Measures (ERM) Dashboard summarizes the status of all risk measures. Exception reports are attached 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 3).

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 3).

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 and will be updated when 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.
- Add eLearning classes to increase participation.

Budget and Fiscal Impacts

Not Applicable

Attachments

Attachment 1 – 2019 State Leadership Accountability Act Report
Attachment 2 – 2019-20 Enterprise Risk Management Plan Dashboard

Attachment 3 – Enterprise Risk Measures Dashboard

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Chief Risk Officer

Michael Cohen
Chief Financial Officer