



## Risk and Audit Committee

# Agenda Item 5d

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**November 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 first quarter activities included in the Enterprise Risk Management Plan (Plan) and Strategic Risk Measures (SRM) updates for the period July 1, 2020 through September 30, 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 2020-21 Plan to communicate priorities in support of CalPERS' Strategic and Business Plans, vision, and mission. In April 2020, 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 first quarter are reported on the Plan Dashboard (Attachment 1).

### **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:

- coordinating planning sessions to prepare for the next ALM cycle that will kick off in 2021.

- facilitating ALMAC discussions about the agency termination process and opportunities to ease the potential difficulty some employers may have paying their contribution obligations.
- preparing membership modifications in the ALMAC Policy subsequently approved at the September 2020 Board meeting.

#### Risk Management Goal Activities:

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

- advancing the 2020 Annual Enterprise Risk Assessment
- developing new Enterprise Risk Profiles (Profiles) for Climate Risk and Long-Term Care.
- updating the Enterprise Risk Dashboard (Dashboard), Profiles, and Enterprise Heatmap (Heatmap) by facilitating discussions with subject matter experts to review risk drivers and mitigations.
- expanding enterprise risk management framework to include developing risks

ERMD continued to enhance the Enterprise Internal Control Framework by:

- communicating the importance of preventing risks through the Notice Something, Say Something campaign to promote first line of defense reporting across the enterprise.
- implementing a new intranet website to consolidate and streamline access to available reporting resources for all CalPERS' team members.

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

- delivering internal control training to new team members at New Employee Orientation sessions.
- communicating the importance of risk awareness with team members through various communication channels.
- leading the Enterprise Data Management Business Plan Initiative to advance governance of CalPERS' information assets.

#### Enterprise Risk Measures:

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 2).

A review of the data reported for the first quarter of fiscal year 2020-21 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:

- Investment return was 4.7%, which is below the expected return rate of 7% and tolerance due to severe market volatility related to COVID-19 impacts.

- While less than the target, the 4.7% return topped the fiscal year total fund benchmark of 4.33% and significantly outperformed peer group results.

Health Care Affordability –Total Covered Lives:

- The annual increase of total covered lives did not reach the annual target.
- New agencies brought to the system were small.

Reduce Complexity – Lean white belt training:

- Lower participation in lean white belt training.
- Cancelled in-person classes due to COVID-19 impacts.
- Increased eLearning participation was offset by continued turnover of previously trained team members.

**Budget and Fiscal Impacts**

Not Applicable

**Attachments**

Attachment 1 – ERMD 2020-21 Q1 Workplan Update

Attachment 2 – Enterprise Risk Measures Dashboard

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Chief Risk Officer

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Michael Cohen  
Chief Financial Officer