





Enterprise Risk Profile | November 2020

Climate Change Enterprise Risk Profile					
Enterprise Risk	Executive Oversight		Board Oversight		Category
Climate Change	Chief Financial Officer Chief Investment Officer		Finance & Administration Committee Investment Committee		Strategic
Strategic Plan Goal		Fund Sustainability: Strengthen the long-term sustainability of the pension fund.			
Functional Objective	To ensure CalPERS develops resiliency to mitigate the impacts of climate risk.				
Risk Statement	Failure to meet investment returns, employer's inability to pay required contributions, and disruption to CalPERS' operations.				
Risk Analysis:					
There is an inherent risk that climate change can affect fund assets and disrupt operations for CalPERS and employers. Climate risk is multifaceted and includes elements that could impact CalPERS on a long-term and short-term basis such as drought, wildfires, heat, and sea level rise. CalPERS has united with other large institutional investors to address the impacts of climate-risk. Additionally, CalPERS is raising awareness of the importance of addressing climate risk with stakeholders. Research and efforts to manage the effects of climate change are ongoing.					
<i>The following are high-level entity controls; and is not an exhaustive list of all controls in place.</i>					
Residual Risk	Probability	Impact	Velocity	Rating	Risk  
	Possible	Major	High	High Impact High Probability	
Risk Driver #1: Climate-related financial risks to the fund					
Controls in Place:					
1.1 Coalition co-founder of Climate Action 100+ and member of global investment networks 1.2 Integration of climate risk across investment portfolio 1.3 Divestments in companies (specific to thermal coal companies SB185) that fail to indicate adoption of clean energy initiatives 1.4 Five-year Strategic Plan (2018-2021) with investment managers to integrate sustainability measures 1.5 All asset classes are being evaluated to map carbon footprint 1.6 Monitor transition and physical risks to include in reporting framework (as developed by the Taskforce on Climate-Related Financial Disclosure) 1.7 Proxy voting 1.8 Integration of Environmental, Social, and Governance (ESG) risk analysis at the Total Fund level					
Risk Driver #2: Ineffective advocacy efforts with regulators and standard-setters policy makers					
Controls in Place:					
2.1 Advocacy efforts with policy makers, major companies, and coalitions with international organizations such as the United Nations (Net Zero Alliance)					
Risk Driver #3: Climate-related financial risks that negatively impact employer's ability to make required contributions					
Controls in Place:					
3.1 Active participant in organizations to promote ESG goals 3.2 Communicate the importance of climate risk management to fund sustainability 3.3 Pension Outlook tool provides employers the ability to perform contribution payment analysis using varied investment return assumptions					

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Long-Term Care Enterprise Risk Profile					
Enterprise Risk	Executive Oversight		Board Oversight		Category
Long-Term Care	Chief Health Director		Pension & Health Benefits Finance & Administration Committee Investment Committee		Strategic
Strategic Plan Goal		High-Quality Affordable Health Care: Improve health care quality, cost, and affordability			
Functional Objective	To ensure the sustainability of the long-term care program at a price point that is affordable to policy holders.				
Risk Statement	Inability to fund future obligations of the long-term care program in a manner that is affordable to policy holders.				
Risk Analysis:					
CalPERS has performed extensive analysis on actual and projected claims experiences, varied investment return scenarios, and actuarial assumptions. Ongoing work is being completed that includes examination of options to improve investment returns, premium increases, and optional benefit reductions to address affordability and ensure sustainability of the Long-Term Care Program. This will require further analysis and dialogue with the Board.					
<i>The following are high-level entity controls; and is not an exhaustive list of all controls in place.</i>					
Residual Risk	Probability	Impact	Velocity	Rating	Risk ↑ / ↓
	Unlikely	Moderate	Low	High Impact High Probability	
Risk Driver #1: Investments underperform the assumed rate of return on a long-term basis					
Controls in Place:					
1.1 Annual valuation of long-term care program 1.2 Asset Liability Management cycle					
Future mitigations					
<ul style="list-style-type: none">• INVO Request for proposal selecting asset manager to help implement an asset allocation designed to improve investment returns• Optional benefit modifications to address affordability concerns• Request for information for a future managed care option					
Risk Driver #2: Actual experience deviates significantly from the actuarial assumptions					
Controls in Place:					
2.1 External Audits evaluate the Long-Term Care financial status annually 2.2 Actuarial Experience Study 2.3 Continue review of pricing assumptions with internal and external actuaries					
Future Mitigations:					
<ul style="list-style-type: none">• Annual review of LTC program to determine continued sustainability and affordability options.					
Risk Driver #3: Increased premiums become unaffordable for policy holders					
Controls in Place:					
3.1 Continue review of pricing assumptions with internal and external actuaries.					
Future Mitigations:					
<ul style="list-style-type: none">• Examine asset allocation to ensure the portfolio is the best fit the program• Optional benefit modifications to reduce policy holder premiums					