



# ENTERPRISE RISK MANAGEMENT ACCOMPLISHMENTS REPORT

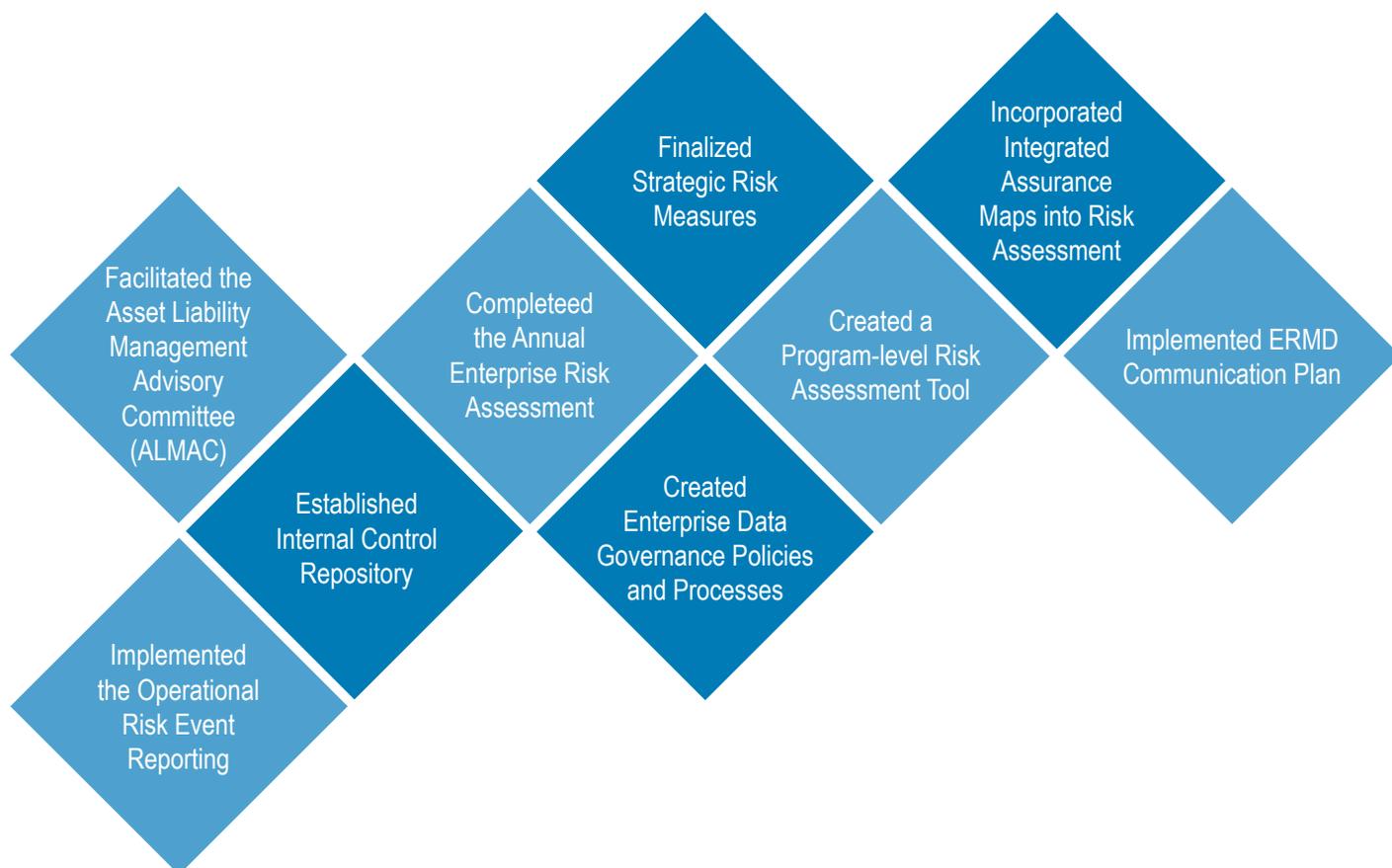
## { YEAR AT A GLANCE } 2018–19

The Enterprise Risk Management Division (ERMD) is pleased to report the accomplishments of the 2018–19 fiscal year Work Plan approved by the Risk & Audit Committee (Committee) in June 2018. These efforts were accomplished in collaboration with our internal business partners throughout the enterprise in pursuit of our Strategic Goal of cultivating a risk intelligent organization.

In the subsequent closeout report we provide a review of CalPERS’ successes in risk management such as, advancing our Fund Sustainability Strategic Goal by facilitating cross-program Asset Liability Management efforts, enhancing the Enterprise Risk Management Framework through increased reporting of Strategic Risk

Measures, development of tools to promote a culture of risk intelligence, and reducing risk across the enterprise through advancements in risk awareness training and communications.

The ERMD team is committed to building trust among its stakeholders and cultivating a risk-intelligent organization by promoting risk awareness. We see ourselves continuing enhancement of the enterprise risk management framework and refining the data-driven exception-based reporting in the fiscal year to come, as well as continuing to support the organization in risk management efforts.





## FUND SUSTAINABILITY

### Asset Liability Management



ACTO  
 +  
 CSR  
 +  
 FINO  
 +  
 INVO  
 +  
 LEGO as advisor

#### OBJECTIVE (2017–22 STRATEGIC PLAN)

**Fund the System through an integrated view of pension assets and liabilities by leading facilitation of the asset liability management (ALM) process.**

#### INITIATIVES 1

Facilitate the Asset Liability Management Advisory Committee (ALMAC) to assist the Board in making decisions throughout the ALM cycle.

#### *Key Activities Accomplished*

Continued to advance Asset Liability Management within the enterprise through implementation of strategic asset allocation targets. The Asset Liability

Management Advisory Committee (ALMAC) chaired by the Chief Risk Officer finalized and approved the ALMAC Charter and reviewed the Asset Liability Management (ALM) Policy, delegations, and operating procedures. Additionally, the ALMAC work group documented the ALM process and related internal controls resulting in greater clarity of roles and awareness of each program's risk mitigation processes.



## RISK MANAGEMENT



“I understand how to report an operational risk event.”



# 75%

of respondents agreed or strongly agreed

2019 Compliance and Risk Survey Result

### OBJECTIVE

**Enhance Enterprise Internal Control Framework to advance risk management capabilities and provide the Board with heightened assurance.**

### INITIATIVE 1

Implement Operational Risk Event Reporting, Phase 1 (2018–22)

#### *Key Activities Accomplished*

Continued to implement the Operational Risk Event reporting framework. ERMD collaborated with program areas to offer division-specific trainings to the Enterprise with 45 percent overall attendance. Pre- and post-survey data confirms the training resulted in increased team member knowledge of

internal controls, as well as how to identify and report an operational risk event. ERMD will expand operating risk event education efforts by partnering with the Human Resources Division to develop a web-based, ongoing training offering as well as continue to provide division-specific training to the remainder of CalPERS’ team members. ERMD created resource pages on Inside CalPERS and updated the reporting site for Compliance and Risk Liaisons (CaRLs) to report operating risk events. ERMD will continue to partner with Information Security and Enterprise Compliance to create an online portal to report risk events. The portal provides team members improved access to report risk events, while improving data capture for ERMD and its partners to perform data analysis.



## INITIATIVE 2

Establish internal control repository, including standardized cross-functional process maps to document internal controls for the enterprise-wide functions (2018–22)

### Key Activities Accomplished

Finalized the Internal Control Framework implementation plan and collaborated with the Asset Liability Management (ALM) work group to create a cross-functional process map of the Asset Liability Management policy and document internal controls. The ALM work group identified and documented control ownership of 50 distinct entity-level controls across the Investment, Actuarial, Financial, and Communications & Stakeholder Relations Offices.

## OBJECTIVE

**Collaborate with the programs in the identification, assessment, and monitoring of risk within the Board's appetite.**

## INITIATIVE 1

Complete the Annual Enterprise Risk Assessment

### Key Activities Accomplished

Completed the 2018–19 annual enterprise risk assessment cycle, working cross-functionally with senior leaders to identify and assess enterprise risk. The annual enterprise risk assessment allows for CalPERS Senior Leaders to communicate and collaborate on the assessment of the current state of risks and devise cross-functional opportunities to help mitigate risk at all levels of the organization. The Enterprise Risk Dashboard and Heat Map for fiscal year 2018–19 were updated to reflect the current rating of the top enterprise risks and appropriate risk response. The annual enterprise risk assessment supports the CalPERS Board and executive team to help them make data-driven risk informed decisions on new projects and resource allocations.



TOLERANCES		FREQ	Q1	Q2	Q3	Q4	FYD*	COMMENTS
<b>FUND SUSTAINABILITY</b>   Strengthen the long-term sustainability of the pension fund								
Probability of PERP funding levels below 50%	<ul style="list-style-type: none"> <li>&gt; 20%</li> <li>10%–20%</li> <li>&lt; 10%</li> </ul>	Annually				2%		
Owner: Chief Actuary								
Probability of high employer contribution rate (25% for Miscellaneous, 20% for Safety)	<ul style="list-style-type: none"> <li>&gt; 20%</li> <li>10%–20%</li> <li>&lt; 10%</li> </ul>	Annually				Misc: 30% Probability Safety: 77% Probability		The risk measure detail is provided in the attached documents.
Owner: Chief Actuary								
Probability of sharp employer contribution rate increase (2% for Miscellaneous, 0% for Safety)	<ul style="list-style-type: none"> <li>&gt; 20%</li> <li>10%–20%</li> <li>&lt; 10%</li> </ul>	Annually				Misc: 45% Probability Safety: 54% Probability		The risk measure detail is provided in the attached documents.
Owner: Chief Actuary								
<b>HEALTH CARE AFFORDABILITY</b>   Transform health care purchasing and delivery to achieve affordability								
Percent of contracting agencies retained	<ul style="list-style-type: none"> <li>≤ 97.9%</li> <li>98%–98.9%</li> <li>≥ 99%</li> </ul>	Annually				99.23%		
Owner: Chief Health Director								
Number of Total covered lives (TCLs) to increase by	<ul style="list-style-type: none"> <li>≤ 5,999 TCLs</li> <li>6,000–9,999 TCLs</li> <li>≥ 10,000 TCLs</li> </ul>	Annually				9,992		
Owner: Chief Health Director								
Legislation that negatively impacts CalPERS	<ul style="list-style-type: none"> <li>Legislation exists</li> <li>No legislation exists</li> </ul>	Quarterly						
Owner: Chief Health Director								
Maintain Health Care Fund required reserve	<ul style="list-style-type: none"> <li>+/- 10% reserve</li> <li>+/- 5% reserve</li> <li>Reserve (100%)</li> </ul>	Annually						Data will be available in July 2019
Owner: Chief Health Director								
<b>REDUCE COMPLEXITY</b>   Reduce complexity across the enterprise								
Proposed legislation that would reduce plan designs	<ul style="list-style-type: none"> <li>No Legislation exists</li> <li>Legislation exists</li> </ul>	Quarterly / Point in time						AB 672, SB 782
Owners: Deputy Executive Officer, Communications & Stakeholder Relations								

\* FYD = Fiscal Year to Date

## INITIATIVE 2

Finalize Strategic Risk Measures that reflect the Board's appetite for risk

### Key Activities Accomplished

Finalized and implemented the initial Strategic Risk Measures (SRMs) to serve as indicators by monitoring when a risk poses a threat to the achievement of strategic goals. The 14 reported SRMs serve as a communication and reporting tool in support of enterprise risk management by indicating potential deviations from the Board's risk appetite. ERMD will continue to work with the Risk and Audit Committee and the CalPERS team to refine these metrics in an iterative process.



### INITIATIVE 3

Incorporate Integrated Assurance Maps into the annual Enterprise Risk Assessment (2018–19)

#### *Key Activities Accomplished*

Incorporated integrated assurance map information into the 2018 Enterprise Risk Assessment by evaluating the adequacy of the controls and oversight functions across the organization's three lines of defense to better assess residual risk.

### INITIATIVE 4

Adapt the current Risk Management Framework for program-level risk assessment in collaboration with the Enterprise Compliance team (2018–19)

#### *Key Activities Accomplished*

Developed program-level tools to enhance identification and assessment for risks and controls while supporting risk-informed decision making. ERMD developed a program-level risk assessment worksheet with Enterprise Compliance to identify and plan for risks associated with an initiative or project through risk and control identification, risk assessment, and risk response. ERMD also developed a risk-informed decision tool form to assist program areas to evaluate significant business decisions. The form documents the analysis and rationale behind a decision and creates a historical record for future reference. Together these tools provide a consistent framework for program areas to evaluate and document risks to their business initiatives, projects, and policies to enhance risk-adjusted decision making.

Division Risk Assessment Worksheet			
Project Overview	Project Title	Owner	Oversight
	Insert Text Here	Insert Text Here	Insert Text Here
	Strategic Goal	Functional Objective	Risk Statement
	*Select from drop down	Example: To retain current customers and attract new customers through healthy food options.	Example: Inability to enhance customers experiences to retain and attract new customers.
<b>Drivers and Controls</b>			
	Risk Driver 1	Insert Text Here Example: Lack of healthy food options	
Controls in Place:			
	Example:	1.1. Develop and implement a risk management plan.	



**“I am aware of CalPERS’  
Risk program and  
incorporate risk functions  
into my daily work.”**

*2019 Compliance and Risk Survey Result*



### **OBJECTIVE (2017–22 CALPERS STRATEGIC PLAN)**

**Enhance compliance and risk functions throughout the enterprise.**

#### **INITIATIVE 1**

Educate CalPERS' team members and stakeholders on the importance of a risk-intelligent organization through the implementation of the ERMD Communication Plan (2018–22)

##### *Key Activities Accomplished*

Presented CalPERS' Enterprise Risk Management Framework at Education Forum in October 2018 to inform stakeholders how CalPERS actively manages risk within the organization. Participated in quarterly forums as a member of the Governance, Risk Management, and Compliance Council sharing risk management best practices, tools, and models of operation with other state agencies. Published InCalPERS, PERSpective, CalPERS Employer News, and News Bulletin articles to increase risk awareness across the enterprise and with external stakeholders. ERMD conducted the 2019 CalPERS Compliance and Risk Annual Employee Survey of CalPERS' team members in collaboration with CalPERS' Enterprise Compliance team to measure enterprise knowledge of risk and compliance functions and programs. Survey results indicated 89 percent of participants are

"aware of CalPERS' Risk program and incorporate risk functions into their daily work," compared to 78 percent of participants last year.

#### **INITIATIVE 2**

Enterprise Data Governance: Create/enhance policies and processes to strengthen appropriately defined data-driven decisions, ensure intent is understood, and improve the consistency of data use across the enterprise which includes people, process, technology and culture dimensions (2018–22)

##### *Key Activities Accomplished*

Established the governance structure for data management through research and development of the Enterprise Data Management Policy Manual in collaboration with the Enterprise Data Council. This umbrella policy provides the governance framework over all other data management policies for the Enterprise. ERMD continued to build strong relationships with cross-functional program partners in the establishment of charters for the Enterprise Data Council and Enterprise Data Stewards. In the coming fiscal year, ERMD will work with our internal partners to revise and develop new data classification and retention policies, enhance the enterprise data glossary, and educate team members on the importance and purpose of data management.