



# 2022-23 ENTERPRISE RISK PROFILES

Enterprise Risk Management Division

## Abstract

The risk profiles provide detailed updated information on each enterprise risk. The profiles are aligned to the CalPERS Strategic Plan for 2022-27 and include the functional objective, risk statement and analysis, risk drivers and associated mitigation measures in place, current residual risk rating, and future mitigation measures, where applicable.

## Benefit Administration Risk Profile

**Executive Oversight:** Deputy Executive Officer, Customer Service and Support

**Board Oversight:** Pension & Health Benefits Committee

**Category:** Strategic

**Strategic Goal(s):** Member Experience - Ensure member satisfaction through accuracy, responsiveness, and respect  
Organizational Excellence - Cultivate a risk-intelligent and innovative culture through our team and processes

**Functional Objective:** To ensure accurate and timely benefits and information to members, retirees, and beneficiaries.

**Risk Statement:** CalPERS members, retirees, and beneficiaries may not receive timely and/or accurate benefits.

**Risk Analysis:** The noted risk analysis is based on an understanding that the complexity of the Benefit Plan Design results in inherent risks that may impact benefit calculations and increase costs. In addition, we are dependent upon the employers to submit and maintain accurate membership and payroll data in a timely manner.

### Residual Risk:

**Rating:** High Impact, Low Probability

**Risk Trend:** ↔ No Change

*The following are high-level entity controls; and is not an exhaustive list of all controls in place.*

### **Risk Driver #1: Untimely and inaccurate employer reporting**

#### **Controls in Place:**

- 1.1 Automated controls to edit and confirm employer data
- 1.2 Tools and reports for employers to identify and fix data issues
- 1.3 Employer training through various mediums
- 1.4 Employer Response Team
- 1.5 Quality assurance reports
- 1.6 Business partner identity account management
- 1.7 Public Agency audits
- 1.8 Automated penalties for employers for untimely and inaccurate reporting
- 1.9 Employer self-service education tools

### **Risk Driver #2: Lack of team member knowledge and awareness of relevant laws, regulations, and policies**

#### **Controls in Place:**

- 2.1 Comprehensive training for CalPERS team members

- 2.2 Team member communication tools
- 2.3 Required second approvals and peer reviews
- 2.4 Documentation and regular updates of desk procedures and process documents
- 2.5 Audits of internal processes
- 2.6 Quality assurance programs
- 2.7 Lean process improvement
- 2.8 Compliance reviews
- 2.9 Enterprise Data Management governance
- 2.10 Continuous refresh of training content based on team member feedback and work outcomes

**Risk Driver #3: Inaccurate benefit and system calculations**

**Controls in Place:**

- 3.1 System testing
- 3.2 Clear procedures and process documents
- 3.3 Audits of internal processes
- 3.4 Quality assurance programs
- 3.5 Documentation of system functionality
- 3.6 System edits and audits
- 3.7 Reconcile Retirement Roll
- 3.8 Identification and correction of data issues
- 3.9 Lean process improvement
- 3.10 Risk-targeted system reports

**Risk Driver #4: Increase to the complexity of the benefit plan design due to external influences**

**Controls in Place:**

- 4.1 Board engagement and influence
- 4.2 Legislative impact analyses
- 4.3 Various employer and stakeholder communication tools
- 4.4 CEM Complexity Score Maintenance

**Risk Driver #5: Inability to implement statutory and regulatory changes**

**Controls in Place:**

- 5.1 Legislative impact analyses
- 5.2 Statutory and regulatory changes and implementation process
- 5.3 Various employer and stakeholder communication tools

**Risk Driver #6: Acts of Fraud**

**Controls in Place:**

- 6.1 Restricted account escalation process
- 6.2 Fraud reports
- 6.3 MSS & Contact Center Authentication
- 6.4 Automated second-approver controls
- 6.5 Semi-annual myCalPERS User Access Rights review

6.6 Benefit verification

6.7 Ethics Helpline

6.8 Fraud Prevention Training

**Future Mitigations:**

- Additional death match vendors
- Fraud Prevention Program

## Climate Change Risk Profile

- Executive Oversight:** Chief Financial Officer  
Chief Investment Officer
- Board Oversight:** Finance & Administration Committee  
Investment Committee
- Category:** Strategic
- Strategic Goal(s):** Pension 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:** Climate change is a source of global, and systemic risk. Climate risk is multifaceted and can impact CalPERS on a long-term and short-term basis. Wildfires, extreme weather, sea-level rise, and drought can affect assets, disrupt portfolio companies' supply chains, and CalPERS' and employers' own operations (climate physical risk). Shifts in the market, policies and technologies can also significantly affect the financial success of existing business models and industries the Fund invests in (climate transition risk).
- CalPERS is partnering 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.
- Residual Risk:**
- Rating:** High Impact, High Probability
- Risk Trend:** ↔ No Change

*The following are high-level entity controls; and is not an exhaustive list of all controls in place.*

### **Risk Driver #1: Climate-related financial risks to the fund**

#### **Controls in Place:**

- 1.1 Co-founded Climate Action 100+ and current steering committee member, co-founded ESG Data Convergence Initiative and current steering committee member, and member of additional global investment networks
- 1.2 Integrating climate risk across investment portfolio strategies
- 1.3 Divested companies (specific to thermal coal companies SB185) that fail to indicate adoption of clean energy initiatives
- 1.4 Integrated climate into Enterprise and INVO strategic and business plans.
- 1.5 Conducted and refreshing carbon footprints across asset classes
- 1.6 Monitoring transition and physical risks and have included climate-related disclosure in CalPERS' Taskforce on Climate-Related Financial Disclosure (TCFD) report.
- 1.7 Voting proxies and leading corporate engagements with portfolio companies

- 1.8 Integrating Environmental, Social, and Governance (ESG) risk analysis at the Total Fund level
- 1.9 Advocating for enhanced and mandatory corporate climate-related disclosure.

**Risk Driver #2: Ineffective advocacy efforts with regulators and standard-setters policy makers**

**Controls in Place:**

- 2.1 Conducting advocacy efforts by engaging and educating policy makers, major companies, and coalitions with international organizations such as the United Nations Net Zero Asset Owner Alliance

**Risk Driver #3: Climate-related financial risks that negatively impact employer's ability to make required contributions**

**Controls in Place:**

- 3.1 Actively participating in organizations to promote Sustainability goals
- 3.2 Communicating the importance of climate risk management to fund sustainability
- 3.3 Providing the Pension Outlook tool that allows employers the ability to perform contribution payment analysis using varied investment return assumptions
- 3.4 Participated as a member of the Climate-Related Risk Disclosure Advisory Group established by the Governor to help with a state-wide strategy that will mitigate risk for employers as well as support CalPERS' fiduciary duty to generate sustainable risk adjusted returns

## Governance and Control Environment Risk Profile

**Executive Oversight:** Chief Compliance Officer  
Chief Financial Officer

**Board Oversight:** Risk and Audit Committee

**Category:** Operational

**Strategic Goal(s):** Organizational Excellence - Cultivate a risk-intelligent and innovative culture through our team and processes

**Functional Objective:** To establish good governance and a strong control environment.

**Risk Statement:** Lack of a strong internal control environment, which includes documentation and testing, could result in increased non-compliance and litigation risk, operational risks due to inefficiency and improper activity, loss of authority or reputation, and/or incurred penalties.

**Risk Analysis:** There is a need to strengthen documentation of CalPERS' standards, processes, and structures to sustain and maintain a strong control environment while promoting the organization's integrity and ethical culture. The lack of understanding of inherent risks associated with a hybrid work environment may impact efforts to promote a culture of integrity and ethics. While the organization has done much to strengthen the internal control environment and culture, enterprise governance continues to mature through an integrated assurance approach.

**Residual Risk:**

**Rating:** High Impact, High Probability

**Risk Trend:**  No Change

*The following are high-level entity controls; and is not an exhaustive list of all controls in place.*

**Risk Driver #1: Lack of strong governance impacts organizational maturity, decision making, and efficiency**

**Controls in Place:**

- 1.1 Policy Management Framework
- 1.2 Board review of committee delegations
- 1.3 Team member delegated authority framework
- 1.4 Formalized committees (Senior Leadership Council, Integrated Assurance Risk Council, and Asset Liability Management Advisory Committee)
- 1.5 Biennial board self-assessment evaluation
- 1.6 Implementation of the Insight tool for streamlined Board oversight
- 1.7 Enterprise Data Management Communication Plan, Information Assets Classification Policy, Information Assets Retention Policy, and Data Glossary
- 1.8 Formalized resource allocation and decision-making

### **Future Mitigations:**

- Board actions to enhance governance of the system
- Implementation of Information Security and Privacy Advisory Committee

### **Risk Driver #2: Lack of Oversight and Monitoring of Controls**

#### **Controls in Place:**

- 2.1 Enhanced roles and responsibilities for Integrated Assurance
- 2.2 State Leadership Accountability Act report
- 2.3 Third-party assurance
- 2.4 Program area quality assurance processes
- 2.5 Embedded Compliance and Risk Liaisons
- 2.6 Operational Risk Event reporting process
- 2.7 Information Security Risk Profile
- 2.8 Telework Program Policy

### **Risk Driver #3: Unclear roles and responsibilities around applicable laws and regulations**

#### **Controls in Place:**

- 3.1 Mandated and business-related training
- 3.2 Annual risk and compliance communication and training plans
- 3.3 Embedded Compliance and Risk Liaisons
- 3.4 Compliance and ethics discussion guides
- 3.5 Operational policies and procedures
- 3.6 Code of Conduct
- 3.7 Equal Employment Opportunity (EEO) Office oversight of EEO related laws and regulations

### **Future Mitigations:**

- Expanding inventory of operational controls

### **Risk Driver #4: Ineffective controls and monitoring activities to detect or prevent unethical behavior**

#### **Controls in Place:**

- 4.1 Core values and Code of Conduct
- 4.2 Policies, regulations, and ethical behavior standards
- 4.3 Onboarding and guidance for key new hires and promotions
- 4.4 Monitoring of financial and personal disclosures
- 4.5 Personal Trading Regulation
- 4.6 Monitoring regulated employee trading activities
- 4.7 Escalation procedures for Personal Trading Regulation violations
- 4.8 Compliance reviews of complex, cross-branch functions
- 4.9 State Whistleblower Hotline and CalPERS Ethics Helpline
- 4.10 Monitoring of mandated trainings



- 4.11 Monitoring of myCalPERS, accounting and invoice functions, and investment trade settlement
- 4.12 Integrated Assurance interviews
- 4.13 Internal investigation
- 4.14 Compliance Activities Reporting
  - Centralization of fraud reporting and administration

**Future Mitigations:**

- Implement an Enterprise Governance, Risk, and Compliance technology platform for enhanced reporting and monitoring of disclosure and recusals
- Implementation of Fraud Prevention Steering Committee

## Health Care Administration Risk Profile

- Executive Oversight:** Chief Health Director, Health Policy and Benefits Branch
- Board Oversight:** Pension and Health Benefits Committee
- Category:** Strategic
- Strategic Goal(s):** Exceptional Health Care: Ensure our members have access to equitable, high-quality, affordable health care
- Functional Objective:** To provide access to equitable, high-quality, affordable, and sustainable health care.
- Risk Statement:** Inability to provide access to equitable, high-quality, affordable, and sustainable health care at a competitive price.
- Risk Analysis:** There are substantial inherent risks from rising health care and pharmaceutical costs; however, CalPERS is mitigating these risks well and continues to offer high-quality and affordable health care.
- Residual Risk:**
- Rating:** High Impact, Low Probability
- Risk Trend:** ↔ No Change

*The following are high-level entity controls; and is not an exhaustive list of all controls in place.*

### **Risk Driver #1: Inability to ensure high-quality health care benefits for members**

#### **Controls in Place:**

- 1.1 Contract management, audits, and periodic business review corrective action plans
- 1.2 Monitoring member experience through the annual Health Plan Member Survey (HPMS)
- 1.3 Clinical performance measures with financial penalties for plans if targets are not met
- 1.4 Grievance and appeals process for members
- 1.5 Active engagement with other California public purchasers to ensure alignment on clinical quality initiatives

#### **Future Mitigations:**

- In alignment with other health care purchasers, refine clinical quality measures to include high-value measures with increased benchmarks
- Update and align health plan contract requirements and performance measures with other health care purchasers and adjust as needed
- Evaluate and improve health data quality and management
- Evaluate and improve behavioral health access and quality
- Develop and implement additional clinical quality improvement programs

## **Risk Driver #2: Failure to secure members access to care when and where they need it**

### **Controls in Place:**

- 2.1 Grievance and appeals process for members
- 2.2 Monitoring member access through the annual Health Plan Member Survey (HPMS)
- 2.3 Maintain and continue to improve the accuracy of provider directory utility to allow members to easily locate providers through CalPERS health plans

### **Future Mitigations:**

- Update health plan contract performance measures as needed
- Evaluate and improve provider directory data quality and management
- Evaluate and improve behavioral health access and quality
- Assess and implement telehealth access initiatives

## **Risk Driver #3: Failure to provide affordable care**

### **Controls in Place:**

- 3.1 Annual negotiations of Health Plan Premiums (Rate Development Process) completed in July providing agencies the opportunity to plan for the next calendar year well in advance.
- 3.2 Evaluation of health plan choices across public agency regions
- 3.3 Periodic regional geographic assessment
- 3.4 Monetary penalties for health plans that fail to meet professional, facility, ancillary and total cost trend performance measures
- 3.5 Transitioning of eligible enrollees over 65 to Medicare plans
- 3.6 Contractual provisions that promote and maintain healthy lifestyles
- 3.7 Benefit design and plan requirements designed to ensure care is delivered at the most cost-effective site of care
- 3.8 Medical and pharmacy benefit alignment across health plans to close clinical gaps in care, improve shared-decision making, control specialty drug spending, and support preventive care
- 3.9 Annual market check of pharmacy benefits manager (PBM) prescription drug pricing by independent consultant
- 3.10 Active engagement in state and federal legislative and regulatory processes
- 3.11 Actuarially-determined reserves in the Health Care Fund (HCF)
- 3.12 Periodic evaluation and revision, as necessary, of the HCF Reserve Policy
- 3.13 Active engagement with major public purchasers to align on affordability initiatives
- 3.14 Risk mitigation for Basic plans
- 3.15 Competition study to evaluate the portfolio impact of new plan and service area expansion proposals

### **Future Mitigations:**

- Update health plan contract cost-control performance measures as needed

- Evaluate effectiveness of benefit design changes and update as needed
- Evaluate and improve health data quality and management
- Increase health plan competition in low competition areas
- Develop and implement pharmaceutical strategies that control or reduce costs
- Refine risk mitigation strategies
- Assess efficiency of each health plan network for future changes to the portfolio
- Conduct comprehensive competitive procurement of the Health Maintenance Organization (HMO) plan, Preferred Provider Organization (PPO) plan, and PBM contracts to determine the appropriate financial mechanism for CalPERS
- Conduct strategic alignment of the PPO plans to control cost drivers, utilization levers, and improve clinical outcomes

#### **Risk Driver #4: Failure to provide equitable care**

##### **Controls in Place:**

- 4.1 Health Demographic Profiles (HDP) in myCalPERS
- 4.2 Contractual provisions that promote health demographic collection
- 4.3 Partnerships with large public purchasers and engagement with Department of Managed Health Care on statewide disparities reduction targets
- 4.4 Primary care provider (PCP) matching activities in HMO plans

##### **Future Mitigations:**

- Evaluate and improve health data quality and collection of HDPs
- Develop health plan performance measures related to disparities reduction and demographic data collection
- Require health plans to achieve national standards of excellence related to health equity
- Require PCP matching across all health programs

## Information Security Risk Profile

**Executive Oversight:** General Counsel, Legal Office

**Board Oversight:** Board of Administration

**Category:** Operational

**Strategic Goal(s):** Organizational Excellence - Cultivate a risk-intelligent and innovative culture through our team and processes


**Functional Objective:** To ensure CalPERS information assets are safeguarded.

**Risk Statement:** Failure to protect and secure information assets.

**Risk Analysis:** Due to a constant changing environment, there are substantial inherent risks associated with information security. CalPERS is actively managing this risk; however, the ever-changing environment requires the identification of developing risks and continual refinement of mitigations and controls in response to those risks.

**Residual Risk:**

**Rating:** High Impact, High Probability

**Risk Trend:**  No Change

*The following are high-level entity controls; and is not an exhaustive list of all controls in place.*

**Risk Driver #1: Inability to identify and protect all business systems, applications, and information assets**

### Controls in Place:

- 1.1 Information Systems Security and Confidentiality Acknowledgement Agreement (ISSCA)
- 1.2 Sending Electronic Information Agreement (SEIA)
- 1.3 Information Security Control Standards (SAM, SIMM, NIST)
- 1.4 Privacy impact assessments
- 1.5 Annual HIPAA risk assessment
- 1.6 Integrated Assurance Workgroup
- 1.7 Business relationship meetings
- 1.8 Internal governance committees (Integrated Assurance Risk Council, Senior Leadership Council, Enterprise Data Council, etc.)
- 1.9 Information security education and awareness
- 1.10 ISOF participation in internal governance committees' decisions
- 1.11 Physical Security Policy
- 1.12 Enhanced campus security efforts
- 1.13 Badge Card Policy
- 1.14 Two-factor authentication requirements in confidential areas
- 1.15 Enhanced practices for protected health information
- 1.16 Member Self Service information security controls

- 1.17 All data storage capable devices are encrypted and either sanitized (wiped) or destroyed
- 1.18 Certified confidential document destruction bins
- 1.19 Enterprise-wide badge access reviews
- 1.20 Perform third-party audit and internal audits
- 1.21 Third-party risk assessments
- 1.22 Business Associate Agreements (BAA)
- 1.23 Information Security Addendum (ISA)
- 1.24 Contractor security awareness training requirement
- 1.25 External security assessments and audits
- 1.26 Risk transfer strategies
- 1.27 Contracts include security provisions that protect CalPERS data
- 1.28 Enterprise data management policies and procedures
- 1.29 Security awareness and training

#### **Future Mitigations:**

- Implement FY 2020-25 information security strategic initiatives
- Information Security Advisory Committee

#### **Risk Driver #2: Failure to timely detect an information security event**

##### **Controls in Place:**

- 2.1 Annual mandatory information security and privacy training
- 2.2 24x7 Security Operations Center
- 2.3 Role-based security training
- 2.4 Receive and analyze cyber intelligence reports
- 2.5 Third party threat hunting
- 2.6 Third party web and application penetration testing
- 2.7 Security Incident and Event Management (SIEM) procedures

#### **Future Mitigations:**

- Implement FY 2020-25 information security strategic initiatives

#### **Risk Driver #3: Inability to contain, respond, and recover from an information security incident**

##### **Controls in Place:**

- 3.1 Require third parties to have specified insurance
- 3.2 All applicable contracts include Business Continuity language
- 3.3 HIPPA Practice Manual
- 3.4 5-year Information Security Strategy
- 3.5 Incident Response Plan that outlines roles and responsibilities
- 3.6 Security Incident and Event Management (SIEM) procedures
- 3.7 Badge Card Access Procedure

**Future Mitigations:**

- Implement FY 2020-25 information security strategic initiatives

**Risk Driver #4: Failure to communicate an information security event to the appropriate parties**


**Controls in Place:**

- 4.1 HIPAA and privacy officer
- 4.2 Building safety and security communications
- 4.3 Information security and privacy awareness communications
- 4.4 Fraud Management reporting procedures
- 4.5 Incident Response Plan includes internal and external reporting
- 4.6 Security Incident and Event Management (SIEM) procedures

**Future Mitigations:**

- Implement FY 2020-25 information security strategic initiatives

## Long-Term Care Risk Profile

- Executive Oversight:** Chief Health Director
- Board Oversight:** Pension and Health Benefits Committee  
Finance and Administration Committee  
Investment Committee
- Category:** Strategic
- Strategic Goal(s):** Exceptional Health Care: Ensure our members have access to equitable, high-quality, affordable health care
- 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 (LTC) Program in a manner that is affordable to policy holders.
- Risk Analysis:** Due to investment return volatility, higher than expected claims' experience, and pending class action litigation, the LTC Program's ability to fund future obligations is at risk. To mitigate this risk, CalPERS has performed extensive analysis on actual and projected claims experiences, varied investment return scenarios, and actuarial assumptions. CalPERS has also completed work that included 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 work resulted in the board approving a new investment asset allocation for the LTC Fund in November 2020.
- Residual Risk:**
- Rating:** High Impact, High Probability
- Risk Trend:**  No Change

*The following are high-level entity controls; and is not an exhaustive list of all controls in place.*

### **Risk Driver #1: Investments underperform the assumed rate of return on a long-term basis**

#### **Controls in Place:**

- 1.1 Annual valuation of the LTC Program
- 1.2 Comprehensive Asset Liability Management (ALM) cycle review every four years
- 1.3 Annual review of ALM assumptions to ensure they are still valid
- 1.4 Quarterly ALM updates via standard investor reporting package
- 1.5 2021 and 2022 rate increases

### **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
- 2.4 Annual review of actuarial assumptions

**Future Mitigations:**

- 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.
- 3.2 Optional benefit modifications to address affordability issues
- 3.3 Implementation of new asset allocation
- 3.4 Request for Proposal for a future aging in place/managed care option

**Future Mitigations:**

- Potential implementation of an aging in place/managed care option

**Risk Driver #4: Long term effects of COVID-19 could add costs to healthcare potentially if there are long term health issues.****Controls in Place:**

- 4.1 Actuarial review of claims data
- 4.2 Annual review of actuarial assumptions

**Future Mitigations:**

- Actuarial valuation of the CalPERS 21/22 LTC experience with COVID impacts
- Monitor claims and policyholder data for possible COVID impacts

## Pension Funding Risk Profile

- Executive Oversight:** Chief Financial Officer  
Chief Actuary  
Chief Investment Officer
- Board Oversight:** Finance and Administration Committee  
Investment Committee
- Category:** Strategic
- Strategic Goal(s):** Pension Sustainability - Strengthen the long-term sustainability of the pension fund.
- Functional Objective:** To ensure the sustainability of the pension system to deliver retirement benefits
- Risk Statement:** Failure to meet pension benefit obligations.
- Risk Analysis:** Pension Funding risk drivers are complex and interconnected. While the long-term objective is to be 100% funded with less volatility, higher returning investment strategies tend to increase volatility, and actual market performance is outside the control of CalPERS. Adopting a more conservative portfolio allocation, on the other hand, though likely to reduce volatility and lessen the impact to the Fund of a severe drawdown, would typically also mean lower returns, which may in turn lead to higher contribution requirements from employers. It is worth noting that the purpose of the controls/mitigations enumerated below is less about prevention and more about positioning the Fund to weather these events as/when they occur. Current mitigations are strong, but our ability to fully and effectively mitigate the effects of these risk drivers remains uncertain.

### Residual Risk:

**Rating:** High Impact, High Probability

**Risk Trend:**  No Change

*The following are high-level entity controls; and is not an exhaustive list of all controls in place.*

### Assets: Risk Drivers

- 1a: Financial markets suffer a severe downturn
- 1b: Investments underperform the assumed rate of return on a long-term basis
- 1c: Low funded status along with benefit payments exceeding contributions limit investment options
- 1d: Government constraints and regulations reduce portfolio diversification
- 1e: Employer ability to pay contributions is strained by the financial effects of business disruption from health, natural disaster, and/or market volatility that negatively impacts their revenue and budget
- 1f: Portfolio size and complexity challenges efficient investment processes and limits investment universe
- 1g: More portfolio risk to achieve the same rate of return in the future

**Controls in Place:**

- 1a, 1b, 1c, and 1f. Strategic Asset Allocation Targets and Ranges
- 1a, 1b, and 1c. Investment Office Total Fund Management Committee focused on governance, portfolio allocation, trust level review, risk and attribution, and sustainability
- 1a, 1b, and 1c. Integrated trust-level processes, including Trust-Level Portfolio Management and Investment Risk and Performance, which bring trust-level perspective, transparency, and accountability
- 1a, 1b, and 1c. Trust-level processes designed to manage liquidity and leverage throughout the business cycle
- 1a, 1b, and 1c. Cost-effective trust-level risk mitigation strategies
- 1b, 1f, and 1g. Asset Liability Management (ALM) process ensures cyclical and strategic review of assets, liabilities, and long-term capital market assumptions to recalibrate discount rate and asset mix as needed
- 1a. and 1b. CalPERS Board reporting controls in place, including monthly investment performance and risk reporting, and biannual CalPERS Trust-Level Review
- 1f and 1g. ALM Policy and cross-enterprise Asset Liability Management Advisory Committee to facilitate strategic decision making
- 1a. Funding Risk Mitigation Policy
- 1b. Actuarial Amortization Policy
- 1b. Contribution Allocation Policy
- 1c. Communicating value of pre-paying pension obligations to strengthen the Fund and reduce individual employer costs in the future
- 1d. Monitoring and evaluating proposed legislation to assess potential impacts
- 1d. Legislative and stakeholder outreach to clear obstacles and constraints
- 1e. Enhanced employer contracting process
- 1e. Employer contract termination process
- 1e. Outreach to employers and associations to educate them on Unfunded Actuarial Liabilities pay down strategies
- 1e. Extension under Actuarial Amortization Policy due to a severe financial hardship
- 1f. INVO Operating Model
- 1f. Investment Office Operating and Administration Committee focused on processes, compliance, and operational efficiency
- 1f. INVO Investment Underwriting Committee provides oversight of larger transactions
- 1f. Disciplined investment processes and teamwork to focus efforts on repeatable, predictable, and scalable portfolios and practices

- 1f. Expanding private equity external managers may lead to improved diversification

**Future Mitigations:**

- Integrated approach to managing plan risks

**Liabilities: Risk Drivers**

- 2a. Actual experience deviates significantly from the actuarial assumptions
- 2b. Benefit design enhancements or member contribution reduction
- 2c. Employer contribution rate increases insufficient to reduce unfunded liabilities over time

**Controls in Place:**

- 2a. Actuarial Assumption Policy
- 2a. Experience Study & Review of Actuarial Assumptions
- 2a. Funding Level and Risk Report
- 2b. Outreach and education to employers, labor leaders, and legislators regarding cost impacts of enhanced benefit design and value of pre-paying pension obligations
- 2b. and 2c. Actuarial Cost Method Policy, Actuarial Amortization Policy
- 2c. Increased employer education
- 2c. ALM Process

**Additional Risk Drivers**

- 3a. Pension reform legislation or referendums that reduce employer obligation to honor pension contracts
- 3b. Judicial decisions that alter benefits or contributions
- 3c. Changes to actuarial standards

**Controls in Place:**

- 3a. Engagement with member, retiree, and employer associations
- 3b. Engagement with legislative leaders and consultants
- 3c. Development and promotion of support materials demonstrating the sustainability and value of the System
- 3d. Provide technical expertise and industry thought-leadership to ensure sound decision-making

## Stakeholder Confidence Risk Profile

- Executive Oversight:** Deputy Executive Officer, Communications and Stakeholder Relations
- Board Oversight:** Finance and Administration Committee
- Category:** Strategic
- Strategic Goal(s):** Pension Sustainability - Strengthen the long-term sustainability of the pension fund.
- Functional Objective:** To ensure CalPERS is recognized as a respected and trusted steward of the system and fiduciary in delivering retirement benefits.
- Risk Statement:** Inability to maintain stakeholder confidence in CalPERS as a trusted fiduciary.
- Risk Analysis:** The risk analysis notes an elevation to the inherent risk surrounding Stakeholder Confidence due to system sustainability decisions. Stakeholder confidence is closely correlated to pension sustainability inputs such as discount rate modifications, amortization schedule changes, and investment returns. Although CalPERS has developed a mature engagement strategy that effectively addresses unbalanced reporting and public perception, some risk continues due to the present external environment, as well as public opinion of public defined benefit plans.

### Residual Risk:

**Rating:** High Impact, Low Probability

**Risk Trend:** ↔ No Change

*The following are high-level entity controls; and is not an exhaustive list of all controls in place.*

### **Risk Driver #1: Negative, inaccurate, or unbalanced information reporting**

#### **Controls in Place:**

- 1.1 Proactive, positive narrative of CalPERS actions and policies through all communications channels
- 1.2 Monitor and report on the reputation of CalPERS in the media and on social media to identify opportunities and challenges
- 1.3 Respond to and correct inaccurate or unbalanced reporting
- 1.4 Develop and maintain good working relationships with media outlets
- 1.5 Author messaging on key CalPERS actions, views, or policy changes
- 1.6 Enterprise Data Management governance structure
- 1.7 Enterprise Data Management Work Plan
- 1.8 Engagement with key leaders in the private sector

### **Risk Driver #2: Negative public perception of CalPERS and/or public defined benefit plans**

#### **Controls in Place:**

- 2.1 Accurate narrative of CalPERS actions and policies through all communication channels

- 2.2 Leverage communications through active member, retiree and employer associations
- 2.3 Timely fulfillment of Public Record Act requests
- 2.4 Build and nurture relationships with stakeholders
- 2.5 Involvement in national public pension associations
- 2.6 Inform stakeholders and policymakers about the importance of the defined benefit plan approach to retirement security
- 2.7 Close involvement in the Asset Liability Management process with proactive strategies to engage and educate stakeholder audiences
- 2.8 Develop relationship with California allies across various industries and sectors
- 2.9 Report economic impact of CalPERS pension benefits

**Risk Driver #3: CalPERS failure to engage, educate, and inform members, employers, stakeholders, and the CalPERS team**

**Controls in Place:**

- 3.1 Framework of recurring stakeholder meetings
- 3.2 Direct member email communication plans, driving member engagement with the CalPERS blog
- 3.3 Ad hoc stakeholder outreach meetings as needed
- 3.4 Digital communications
- 3.5 Host and participate in employer education and dialogue events
- 3.6 Member information and education events
- 3.7 Live webcasts of board meetings and transcripts of those meetings
- 3.8 Webinars and webcasts, including Board education workshops
- 3.9 Social media channels
- 3.10 Survey stakeholder segments to gauge sentiment and orient messaging and efforts
- 3.11 Share information with all team members to empower them to provide accurate information to their circle of influence.
- 3.12 Host Stakeholder Forum as part of annual Board meeting schedule
- 3.13 Utilize virtual web-conferencing technology to engage with stakeholders and provide uninterrupted services to members and employers
- 3.14 Expand opportunity for public comments and engagement at Board meetings

**Risk Driver #4: Inability to inform, shape, or implement state and federal policy**

**Controls in Place:**

- 4.1 Engage with California legislative members and staff, the Governor's Office, and other state agencies on relevant state policy proposals
- 4.2 Engage with congressional members and staff, the White House, and regulators on relevant federal policy proposals
- 4.3 Build alignment and leverage relationships with active member, retiree and employer associations, coalition groups, and membership organizations
- 4.4 Develop and nurture relationships with key state and federal policymakers

- 4.5 Develop legislative and congressional briefing packets, as needed
- 4.6 Hold periodic briefings to educate legislative members or staff on CalPERS issues concerning their constituents
- 4.7 Monitor, assess, and advocate on proposed legislation and proposed rules
- 4.8 Provide technical expertise and cost analysis for proposed legislation
- 4.9 Spearhead Board efforts to inform, sponsor, or take position on legislation

## Talent Management Risk Profile

- Executive Oversight:** Chief Operating Officer
- Board Oversight:** Performance, Compensation, and Talent Management Committee
- Category:** Operational
- Strategic Goal(s):** Organizational Excellence - Cultivate a risk-intelligent and innovative culture through our team and processes
- Functional Objective:** To successfully attract, engage, develop, and retain a diverse, and qualified workforce.
- Risk Statement:** Inability to recruit and retain a diverse and qualified workforce compromises the ability to meet business objectives.
- Risk Analysis:** At the end of FY 21-22, CalPERS' organizational turnover rate was 12.5 percent which is an increase of just over three percent year-over-year. Team members transferring to other state departments, leaving state service and retirements continue to drive this risk, with the loss of institutional knowledge as the primary risk at this time. CalPERS is actively investing in team members' professional growth to maintain continuity in the workforce and mitigate talent risks, including ongoing knowledge transfer activities that support retention and employee development. The lack of an end-to-end or otherwise integrated human resources (HR) system creates manual workload and data gaps between existing solutions and workforce data sets. Although these gaps and lack of automation have been identified and are being addressed, they represent risk to the organization due to the lag in reporting for timely decision-making related to all aspects of the CalPERS workforce and ongoing operational inefficiencies in routine HR work.
- Residual Risk:**
- Rating:** High Impact, High Probability
- Risk Trend:** ↑ Increasing

*The following are high-level entity controls; and is not an exhaustive list of all controls in place.*

**Risk Driver #1: Skills and competencies of all team members not keeping pace with evolving technology, member, and system needs**

### Controls in Place:

- 1.1 CalPERS 2022-27 Workforce Plan in development FY 22-23
- 1.2 Employee Performance and Development process: EPADs available electronically
- 1.3 CalPERS Informal Mentoring Program
- 1.4 Educational, developmental, and training opportunities
- 1.5 CalPERS Succession Planning Program



- 1.6 CalPERS competencies: Includes team members and leadership
- 1.7 Unit-level workforce assessments: Flight risk, retirement risk, and critical risks are being measured and reported in the Workforce Planning Dashboard
- 1.8 CalPERS Emerging Leader program
- 1.9 Administer team member engagement survey annually, analyze results, and conduct follow-up activities
- 1.10 CalPERS Upward Mobility Program

#### **Future Mitigations:**

- Separation of the Development Plan from the EPAD
- Ongoing system improvements and technology projects are collaboratively managed by HRSD/ITSB

#### **Risk Driver #2: Loss of institutional knowledge**

##### **Controls in Place:**

- 2.1 CalPERS Emerging Leader program
- 2.2 CalPERS Upward Mobility program
- 2.3 CalPERS Student Internships
- 2.4 Knowledge transfer stipulation for multi-year consultant contracts
- 2.5 illuminet
- 2.6 CalPERS Informal Mentoring Program
- 2.7 CalPERS Succession Planning Program
- 2.8 Lean training across the enterprise and on demand
- 2.9 Knowledge Transfer Workshops and online resources
- 2.10 CalPERS Competency based courses

#### **Future Mitigations:**

- Implement PRDA recommendations, where possible to streamline data collection and reporting.
- Create the CalPERS Workforce Plan (FY 2023-2027)

#### **Risk Driver #3: Inability to recruit, select, and retain team members**

##### **Controls in Place:**

- 3.1 Recruitment Lifecycle Tool Kit
- 3.2 Recruitment calendar
- 3.3 Strengthened selection process controls
- 3.4 Continue to develop targeted recruitment strategies and activities for hard to fill positions with critical positions overlay
- 3.5 Utilization of skilled, in-house recruiters and external search firms
- 3.6 Career fairs and advertising in non-traditional mediums
- 3.7 Salary survey of comparable positions

- 3.8 Examination and Certification Online System
- 3.9 Market CalPERS as a destination employer
- 3.10 Incentive compensation programs and policies
- 3.11 Utilization of Student Assistants / Graduate Students
- 3.12 CalPERS Student Internship Program
- 3.13 Statewide IT Apprenticeship Program
- 3.14 CalPERS competencies
- 3.15 Validate HR Workforce Metrics Program

**Future Mitigations:**

- Diversity, Equity & Inclusion: Assess use of approved recruitment, screening, and selections tools/techniques on the job.

**Risk Driver #4: Inconsistent levels of support for engagement across the enterprise**

**Controls in Place:**

- 4.1 Enterprise Enrichment programs
- 4.2 New employee onboarding including customized onboarding plans for senior leaders and executives
- 4.3 Onboarding Survey
- 4.4 Exit Survey
- 4.5 Diversity and inclusion events
- 4.6 Employee Resource Groups
- 4.7 Innovation platforms (Idea Factory and other Enterprise platforms/forums)
- 4.8 Annual Employee Engagement Survey
- 4.9 CalPERS Emerging Leader program
- 4.10 Career Development Day
- 4.11 Upward Mobility Program

**Risk Driver #5: Antiquated HRMS**

**Controls in Place:**

- 5.1 Data mapping and data clean-up of HCM and SCO systems
- 5.2 Position history and reconciliation with Budget Office
- 5.3 HCM PeopleSoft Role mapping
- 5.4 Ongoing HCM PeopleSoft system updates with ESDD

**Future Mitigations:**

- Work with ITSB to identify alternative solutions to bridge the gap with the antiquated HRMS (FY 2022-23)

**Risk Driver #6: Inability to sustain CalPERS' talent management functional objectives due to prolonged impacts of telework.**

**Controls in Place:**

- 6.1 CEO weekly web-chat/FAQs
- 6.2 Return to Office Plan
- 6.3 Telework Program Policy
- 6.4 Virtual trainings and programs
- 6.5 Virtual Wellness Programs
- 6.6 Virtual ACE, APEX and SPARK recognition programs
- 6.7 COVID-19 SharePoint site
- 6.8 Continue to provide core HR supportive services virtually