



Risk and Audit Committee

Agenda Item 6d

February 14, 2022

Item Name: Status Report – Enterprise Risk Management

Program: Enterprise Risk Management Division

Item Type: Information Consent

Executive Summary

This is an update of the second quarter activities included in the Enterprise Risk Management Plan (Plan) and Strategic Risk Measures (SRMs) for October 1, 2021 through December 31, 2021.

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 CalPERS Board of Administration through the implementation of an effective enterprise-wide risk management program.

Background

ERMD developed the 2021-22 Plan to communicate priorities in support of CalPERS' Strategic and Business Plans, vision, and mission. In April 2021, ERMD received Committee approval for the Plan, which aligns program initiatives to the strategic plan goals of Fund Sustainability and Risk Management. A mid-year progress status of the Plan activities is set forth in the Plan Dashboard (Attachment 1) and will be more fully discussed as part of Agenda Item 6b.

Analysis

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 second quarter of fiscal year 2021-22 found three SRMs not meeting their respective risk tolerance as set by the Committee that "Require Attention" for

High-Quality Affordable Health Care and Reduce Complexity strategic goals. Additionally, there are two SRMs that “Require Monitoring” for the Fund Sustainability and Reduce Complexity strategic goals. An analysis and root cause of the risk can be found in the SRM detail provided in Attachment 2.

Fund Sustainability:

- Probability of funding levels falling below 50% - Most retirement plans fall between 10%-20% and each plan has a unique probability.
- Employer contribution rate impact - Reflects the 21.3% investment return, the decrease in the discount rate to 6.8% and all other assumption changes adopted by the board in November 2021. Most plans are expected to have a rate change of less than 1% of payroll due to the net impact of these changes.

High-Quality Affordable Health Care:

- Legislation that negatively impacts CalPERS - Senate Bill 510 provides that COVID-19 testing and treatment will be without cost-sharing including employer ongoing/surveillance testing. The employer testing portion of costs being shifted to health plans could be expensive. CalPERS is working with the Department of Managed Health Care to ensure that costs are reasonable.

Reduce Complexity:

- Proposed legislation that would reduce plan designs - As of December 2021, proposed legislation does not exist.
- Externally proposed bills that have the potential to increase the complexity of the plan design - The Board was most recently provided information of these bills during the November 2021 state and federal legislation update.
- Continuous process improvement adoption - Remains unchanged with 61% of team members trained in Lean fundamentals.

Budget and Fiscal Impacts

Not Applicable

Attachments

Attachment 1 – ERMD 2021-22 Mid-Year Plan Update

Attachment 2 – Enterprise Risk Measures Dashboard

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