



Risk and Audit Committee

Agenda Item 4d

November 15, 2023

Item Name: Status Report – Enterprise Risk Management

Program: Enterprise Risk Management Division

Item Type: Information Consent

Executive Summary

This is an update of the first quarter Strategic Risk Indicators (SRIs) for July 1, 2023, through September 30, 2023. The SRIs provide a framework and metrics to ensure that the organization operates and manages risk in alignment with the CalPERS Board of Administration risk appetite (Attachment 1).

Strategic Plan

This agenda item supports the 2022-27 CalPERS Strategic Plan Goal – Operational Excellence: Cultivate a diverse, risk-intelligent, and innovative culture through our team and processes. 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

The monitoring and reporting of SRIs play an important role in understanding the relationship between risk and performance by providing the board and management with advanced warnings of events that may compromise the achievement of strategic and operational goals. ERMD began working with the Enterprise Strategy and Performance Division (ESPD) during the 2021-22 fiscal year to include risk management concepts into strategic planning with the culmination of this work resulting in the integration of the SRIs into Enterprise Performance Management (EPM) reporting for the 2022-27 strategic plan cycle. The advantage of including SRIs within EPM reporting provides the board the ability to simultaneously review performance and risk information to contemplate whether any additional actions or decisions are warranted and if the current course is still within the board's risk appetite and tolerances as discussed below. The SRIs are leading indicators that can provide the board with early warnings of potential issues in advance of lagging performance indicators turning from positive to negative. This may provide the opportunity to make corrections to get performance back on track in advance of performance downgrades.

In making strategic decisions regarding risk, boards communicate to the organization their philosophy of risk-taking by establishing risk appetite and tolerances. Risk appetite is the amount of risk an organization is willing to undertake on the basis of risk-return trade-offs in pursuit of objectives and is usually reflected by broad qualitative statements developed and approved by a board. Risk tolerance on the other hand, is the amount of uncertainty the organization is prepared to accept reflected as quantitative minimum and maximum variances from the board's desired target. The risk tolerances are categorized into three levels: no attention/monitoring needed (green), requires monitoring (yellow), and requires attention (red).

Analysis

The Strategic Risk Indicators Dashboard summarizes the status of the CalPERS SRIs originally approved by the Committee in June 2018 and updated in June 2022 to align with CalPERS' 2022-27 Strategic Plan. For those SRIs performing outside the board's risk tolerances summary sheets are attached detailing the risk indicator description, intent, status, tolerances, root cause analysis, and mitigations identified as action items (Attachment 1). A review of the data reported for the first quarter of fiscal year 2023-24 found one SRI tied to two strategic goals not meeting its respective risk tolerance as set by the Risk & Audit Committee that "Requires Monitoring or Attention."

Pension Sustainability & Stakeholder Engagement:

- Five investment return scenarios from 4.8 percent to 8.8 percent are shown to illustrate the resulting estimated PERF funded status over a ten-year period. For example, if the target rate of 6.8 percent is achieved the resulting funded status would be 90.2 percent. Similarly, if the investment return is 4.8, 5.8, 7.8, or 8.8 percent each year over the next ten years, the estimated funded status is identified.

The current reporting process will fully transition to the board's Insight tool once the system is updated to incorporate viewing of the SRI information within the EPM reporting platform. The use of Insight provides board members on-demand access to the SRI information and furthers the goal of integrating comprehensive performance and risk reporting through a central information system.

Budget and Fiscal Impacts

Not Applicable

Attachments

Attachment 1 – Strategic Risk Indicators Dashboard

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