

Risk Score Report As of June 30, 2022						Risk Status																
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1 Pension Funding Investments						Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change													
Fund performance objectives not achieved as set in the Investment Policy and Management Plan.						25	↑ 3	21	↑ 3													
<p>The overall inherent and residual risk scores for this category increased three points respectively, and in alignment with the medium-risk range (orange band) of the heat map. While staff remain confident in the ongoing mitigation efforts to control this long-term risk, this increase in movement recognizes the potential risks associated with the continued volatility of global financial markets impacted by inflation, rising interest rates, the COVID-19 pandemic and the war in Ukraine.</p>																						
Sub-Risk	Weight	Sub-Risk Statement	Strategic Goal	Strategic Objective	Risk Response	Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change													
A	35%	The fund will not achieve the actuarially expected return over the long term (30 years/absolute return), which may prevent CalSTRS from reaching full funding by 2046.	G1: FG	A, B, C	Reduce	20	→ 0	16	→ 0													
B	45%	CalSTRS will not be able to implement strategies and tools necessary to manage risk associated with a more complex and volatile investment environment, which may hinder Investments Branch ability to capitalize on value added investment opportunities.	G1: FG	A, B, C, D	Reduce	36	↑ 4	32	↑ 4													
C	20%	The fund will not add value above the total fund benchmarks return over the long term (Relative return), which may create stakeholder uncertainty in CalSTRS ability to effectively manage risk and implement investment strategies.	G1: FG	A, B, C	Reduce	12	→ 0	9	→ 0													
2 Pension Funding Actuarial						Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change													
Actuarial methodologies and assumptions vary from experience.						22	→ 0	20	→ 0													
<p>The overall residual risk score for this category remains at 20 and in alignment with the low-risk range (yellow band) of the heat map. One sub-risk that staff is monitoring very closely is the inflation assumption, which is a long-term assumption that includes an expectation that there will be years of high inflation matched by years of low inflation. We have had many years of low inflation but relatively few years of high inflation. Therefore, over the long-term, with many more years of low inflation compared to years of high inflation, the likelihood remains that we will recommend that CalSTRS lowers its inflation assumption, which will be discussed with the board at the next Review of Actuarial Assumptions scheduled for early 2024.</p>																						
Sub-Risk	Weight	Sub-Risk Statement	Strategic Goal	Strategic Objective	Risk Response	Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change													
A	80%	Over the long-term actual experience significantly differs negatively from actuarial assumptions, which could result in the inability to achieve full funding by 2046.	G1: FG	A	Reduce	24	→ 0	24	→ 0													
B	10%	There is a risk that actuarial assumptions negatively differ from actuarial experience, caused by incorrect information underlying the actuarial assumptions, which could result in the inability to achieve full funding.	G1: FG	A	Reduce	18	→ 0	9	→ 0													
C	10%	Inappropriate measures of actuarial obligations and costs, caused by invalid actuarial methodologies, could result in the inability to achieve full funding by 2046.	G1: FG	A	Reduce	9	→ 0	6	→ 0													

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<b>3 Pension Funding Contribution Rate</b>						Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change																	
Insufficient contribution rates to amortize unfunded actuarial liability.						20	→ 0	15	→ 0																	
<p>The overall residual risk score for this category remains at 15 and in alignment with the low-risk range (yellow band) of the heat map. Based on current assumptions, the funding plan is still expected to allow the board to adopt the contribution rates needed for the employers and the state to eliminate their share of CalSTRS' unfunded actuarial obligation by 2046. Formal assessments of contribution rates, funding levels and risks are provided to the board. The next Review of Funding Levels and Risks report will be provided to the board in November 2022 and the board recently approved contribution rates at the May 2022 board meeting.</p>																										
Sub-Risk	Weight	Sub-Risk Statement	Strategic Goal	Strategic Objective	Risk Response																					
A	70%	The board's limited authority to change contribution rates per AB 1469 could result in insufficient contributions to reach full funding by 2046.	G1: FG	A	Reduce	24	→ 0	20	→ 0																	
B	30%	Failure of the board to exercise their authority to adequately fund the Defined Benefit Program to its fullest extent could result in insufficient contributions to reach full funding by 2046.	G1: FG	A, E	Reduce	12	→ 0	6	→ 0																	
<b>4 Pension Administration</b>						Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change																	
Untimely and/or inaccurate delivery of benefits and services due to failure of or inadequate: processes, technology systems, staff actions or data.						35	→ 0	25	→ 0																	
<p>The overall residual risk score for this category remains at 25 and in alignment with the medium-risk range (orange band) of the heat map. Staff continue to assess potential impacts of the Pension Solution Project delay in relation to extending the maintenance timeframe of the current legacy system, START. Technology Services remains proactive in the identification and monitoring of potential challenges in retaining or recruiting resources with the necessary technical skills to extend the lifespan of the legacy system.</p>																										
Sub-Risk	Weight	Sub-Risk Statement	Strategic Goal	Strategic Objective	Risk Response																					
A	30%	CalSTRS is unable to ensure accurate and timely benefits due to the aged pension administration system's (START) failure to pay benefits timely.	G2: DT	A	Reduce	45	→ 0	32	→ 0																	
B	30%	During the transition period, the loss of mainframe knowledgeable staff may result in the inability to continuously maintain START and properly service members until the new pension administration system is fully operational.	G4: OS	D	Reduce	45	→ 0	32	→ 0																	
C	20%	Inability to deliver timely benefits and services due to incomplete, inaccurate and late employer reporting.	G3: ME	C	Reduce	21	→ 0	15	→ 0																	
D	20%	Inaccurate benefit payments caused by current system limitations, manual processes and unknown system defects.	G2: DT	A	Reduce	24	→ 0	16	→ 0																	

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<b>5</b>	<b>Financial Reporting</b>					Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change																	
<p>Incomplete or inaccurate financial information; weaknesses in internal control jeopardize an unqualified/unmodified audit opinion or result in significant non-compliance with standards.</p>						20	→ 0	8	→ 0																	
<p>The overall residual risk score for this category remains at 8 and in alignment with the very low risk range (blue band) of the heat map. The score reflects staff's confidence in the ongoing effectiveness of CalSTRS internal controls over financial reporting and considers that there were no significant accounting standards of a material nature implemented in the last year.</p>																										
Sub-Risk	Weight	Sub-Risk Statement	Strategic Goal	Strategic Objective	Risk Response	Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change																	
A	100%	Information received from subsidiary systems is recorded incorrectly in the general ledger, which could result in the financial statements being materially misstated and the external auditors issuing a modified opinion.	G3: ME	C	Reduce	20	→ 0	8	→ 0																	
<b>6</b>	<b>Information Security</b>					Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change																	
<p>Loss of information security or compliance violations as a result of unauthorized or unintentional breaches.</p>						49	→ 0	38	→ 0																	
<p>The overall residual risk score for this category remains at 38 and in alignment with the high-risk range (red band) of the heat map. Staff does not anticipate a future decrease in residual scoring due to the current climate of data breaches and highly persistent cyber criminals. Over the last reporting period, staff added a new sub-risk to recognize that the highly volatile cyber security landscape and resource constraints may increase the risk of a security breach. However, Information Security remains a constant focus for the organization and staff remain confident in the mitigation efforts to control this risk, including ongoing monitoring of CalSTRS systems and staff education in the blended work environment. The Annual Independent Cybersecurity Assessment was completed as of December 2021 and presented at the March 2022 closed session board meeting.</p>																										
Sub-Risk	Weight	Sub-Risk Statement	Strategic Goal	Strategic Objective	Risk Response	Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change																	
A	88%	A highly volatile cyber-risk landscape and a limited number of staff could result in an information security breach or incident at CalSTRS.	G2: DT	B	Reduce	50	→ 0	40	→ 0																	
B	4%	The absence of proper Information Security Program management and oversight could result in an information security breach or incident at CalSTRS.	G2: DT	B	Reduce	36	→ 0	24	→ 0																	
C	4%	A lack of employee security awareness could result in an information security breach or incident at CalSTRS.	G2: DT	B	Reduce	40	→ 0	24	→ 0																	
D	4%	A highly volatile cyber-risk landscape and insufficient resources could result in increased cyber-fraud risk as it relates to a security breach or incident at CalSTRS.	G2: DT	B	Reduce	40	NEW	27	NEW																	

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<b>7 Operational</b>						Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change
Inability to achieve business objectives due to lack of compliance with internal controls, lack of accessibility to technology systems, and/or loss of critical staff knowledge.						31	→ 0	21	↑ 1
The overall residual risk score for the category increased by one point to 21, which is in alignment with the medium risk range (orange band) of the heat map. This increase reflects the removal of the sub-risk related to the organization's transition to a new CEO. CalSTRS recognizes the CEO performance is actively managed by the board. In addition, the weighting from this sub-risk was shifted to two sub-risks covering the loss of resources and CalSTRS ability to recruit because of an increase in turnover. This increase represents a 75% increase over the previous fiscal year and when examining the last 4 fiscal years appears to indicate a trend. Staff increased the residual probability scores to recognize the increased likelihood that the organization may experience a loss of subject matter expertise.									
Sub-Risk	Weight	Sub-Risk Statement	Strategic Goal	Strategic Objective	Risk Response	Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change
A	15%	In the event of a disaster or disruption CalSTRS may not be able to provide mission critical business processes to our members due to inaccessibility to technology systems.	G2: DT	C	Reduce	36	→ 0	24	→ 0
B	15%	Solutions are not in place to mitigate a major technology system outage or partial building outage without bringing down all HQ systems.	G2: DT	C	Reduce	32	→ 0	24	→ 0
C	15%	CalSTRS may not be able to effectively support the Collaborative Model due to the inability to provide resources needed to fully execute the Pillars Project, which could result in missed opportunities to reduce investment management	G1:FG G4:OS	A B, D	Reduce	28	→ 0	15	→ 0
D	15%	There is a risk that the transition to a blended working model may result in disruptions to operational, enterprise initiatives, and business goals due to a potential adverse shift in CalSTRS' culture caused by changes to how we communicate and collaborate.	G2: DT G4: OS	C, D D	Reduce	36	→ 0	21	→ 0
E	5%	CalSTRS lacks the ability to meet critical business functions due to recruitment challenges.	G4: OS	D	Reduce	28	→ 0	18	→ 0
F	10%	CalSTRS is unable to meet critical business functions or maintain service levels due to potential loss of subject matter experts and lack of CalSTRS knowledge transfer.	G4: OS	B	Reduce	32	→ 0	24	↑ 3
G	10%	Staff and leadership turnover could result in loss of long-term business stability and sustainability.	G4: OS	D	Reduce	24	→ 0	18	↑ 3
H	5%	CalSTRS may fail to identify risks caused by staff not being fully engaged for various reasons including competing priorities, which could result in CalSTRS being unprepared for future risks.	G4: OS	D	Reduce	36	→ 0	15	→ 0
I	5%	CalSTRS may not establish or maintain the proper health and safety strategies, measures, training, etc., resulting in compromised employee health and safety.	G4: OS	D	Reduce	32	→ 0	21	→ 0
J	5%	CalSTRS is unable to complete the Headquarters Expansion Project within the established scope, schedule and budget due to delays with construction (i.e. inspections, approvals or materials) and the additional costs/timeframes associated with those delays.	G4: OS	D	Reduce	24	→ 0	21	→ 0

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8	Reputational	Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change
Inability to achieve business objectives due to lack of compliance with internal controls, lack of accessibility to technology systems, and/or loss of critical staff knowledge.		31	↑ 2	20	→ 0
<p>The overall inherent risk score for this category increased by two points to 31, which is in alignment with the high-risk range (red band) of the heat map. However, the overall residual risk score for this category remains at 20 and in alignment with the low-risk range (yellow band) of the heat map. The change to the inherent risk score reflects the increased reputational risks relative to schedule delays in transformational efforts, such as the Pension Solution and the Headquarters Expansion projects. Staff remains confident that ongoing mitigation efforts effectively control this risk.</p>					

Sub-Risk	Weight	Sub-Risk Statement	Strategic Goal	Strategic Objective	Risk Response	Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change
A	25%	A board or staff member engages in unethical behavior resulting in reputational damage.	G4: OS	A	Avoid	28	→ 0	24	→ 0
B	25%	CalSTRS is unable to implement transformational efforts, such as the Pension Solution, could impact stakeholders, members, staff and public confidence.	G4: OS	B, C	Reduce	40	↑ 8	24	→ 0
C	20%	Investments may be perceived as conducting business in an imprudent and unethical manner due to a lack of transparency in CalSTRS ESG focused investment efforts, resulting in a loss of public trust.	G1: FG	E	Reduce	30	→ 0	24	→ 0
D	10%	Inaccurate external reporting of long-term financial assumptions could result in misperceptions of CalSTRS actuarial-calculated funding status and loss of trust within CalSTRS member base.	G4: OS	A	Reduce	27	→ 0	9	→ 0
E	10%	CalSTRS is unable to meet member service expectations due to resource constraints resulting from competing priorities.	G4: OS	A	Reduce	21	→ 0	12	→ 0
F	5%	Perceived pension abuses (i.e., spiking) may result in negative news articles and the perception that CalSTRS is not upholding its fiduciary responsibility.	G3: ME	B	Reduce	21	→ 0	12	→ 0
G	5%	CalSTRS hires an individual whose qualifications are misinterpreted or misrepresented during the hiring process resulting in reputational damage.	G4: OS	D	Reduce	32	→ 0	18	→ 0

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9 Transformational Change	Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change
CalSTRS is unable to accomplish major transformational change initiatives.	39	↑ 5	33	↑ 2
<p>The overall inherent risk score increased by five points to 39, which is in alignment with the high-risk range (red band) of the heat map. The overall residual risk score increased by two points to 33, which is also in alignment with the high-risk range (red band) of the heat map. The increases in the scores of sub-risks A, C and D reflect the delay to the Pension Solution Project schedule and increased costs. CGI and CalSTRS reached a mutual agreement for CGI to transition the remaining portion of the project work to another system integrator. CalSTRS will develop a request for proposal for another vendor to complete the remaining tasks and maintenance and operations of the project. To ensure that there is no pause in essential project tasks and progress on the project during the transition, CGI will provide knowledge transfer to an interim system integrator, Sagitec and will continue to provide some essential services to CalSTRS through the end of their contract term. CalSTRS will report back at a later date on the new go-live date for the project.</p>				

Sub-Risk	Weight	Sub-Risk Statement	Strategic Goal	Strategic Objective	Risk Response	Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change
A	40%	CalSTRS is unable to successfully implement a new pension administration system and transform the associated data and business processes within the established scope, schedule and budget due to ongoing delays.	G2: DT	A	Reduce	45	↑ 9	41	↑ 5
B	15%	There is a risk that the vendor's staffing issues and limited pension industry experience may result in schedule delays or cost increases to the Pension Solution project.	G2: DT	A	Reduce	36	→ 0	36	→ 0
C	15%	Loss of CalSTRS subject matter experts and challenges associated with replacing them may result in the inability to successfully implement Pension Solution.	G4: OS	D	Reduce	36	↑ 4	21	→ 0
D	20%	The procured vendor does not follow the agreed upon project-related processes to provide the results and functionality necessary to meet CalSTRS' business needs.	G2: DT	A	Reduce	41	↑ 13	36	↑ 12
E	5%	Lack of cohesive project governance and communication practices within business areas could result in uninformed decision-making on transformational efforts.	G2: DT	A	Reduce	24	→ 0	21	→ 0
F	5%	Inability of the Pension Solution Project to achieve desired results due to lack of readiness to the transformed business processes.	G3: ME	A	Reduce	28	→ 0	15	→ 0

10 Third Parties	Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change
The risk that CalSTRS fails to appropriately manage risks associated with third parties which could result in operational disruption, financial loss, reputational damage, compliance violations or failure to reach strategic goals.	32	→ 0	21	→ 0
<p>The overall residual risk score remains at 21 and in alignment with the medium risk range (orange band) of the heat map. Staff does not expect a decrease in residual risk until the Third-Party Risk Management Program matures further to ensure a consistent, systematic method of governing and controlling third-party risk. The Office of General Counsel continues to collaborate with both ERM and Enterprise Compliance Services to develop a governance process and standards to help strengthen controls for third party risk identification for contract managers. Staff has been working collaboratively across the organization to create a governing policy and has begun work to establish third party risk classification tiers to categorize vendors and ultimately determine the level of monitoring and review required. As a result of these efforts, sub-risk B was added.</p>				

Sub-Risk	Weight	Sub-Risk Statement	Strategic Goal	Strategic Objective	Risk Response	Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change
A	94%	An absence of third-party risk management program governance could result in duplication of efforts or assurance gaps which could result in operational disruption, financial loss, reputational damage, compliance violations or failure to reach strategic goals.	All	All	Reduce	32	→ 0	21	→ 0
B	6%	There is a risk that CalSTRS does not perform adequate due diligence of third parties prior to awarding a contract which could result in failure to identify risks involved in outsourcing a specific service(s).	All	All	Reduce	24	NEW	18	NEW