






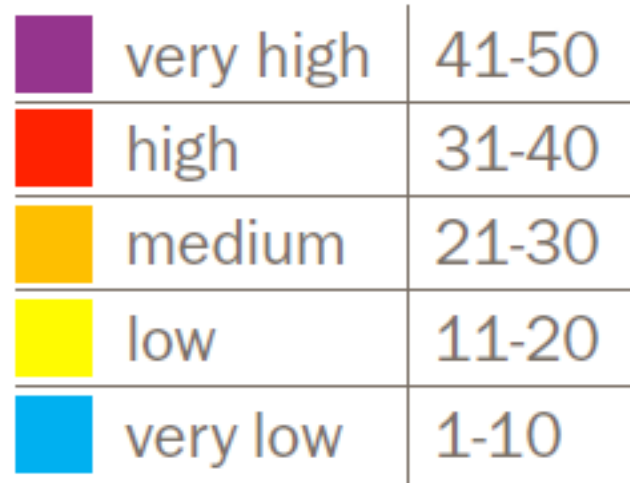


Risk Score Report - As of December 31, 2022						Risk Status			
<p>Organizations thrive by taking risks, but falter when risks are not managed effectively. Risks are inherently present in the work we do at CalSTRS, which is why we implement internal controls, to mitigate these inherent risks. However, the possibility of residual risk, after all actions are taken to mitigate risk, does exist.</p> <p>This Risk Score Report identifies the inherent risks and residual risks in each of the risk categories at CalSTRS and any corresponding changes since the last reporting period, June 30, 2022.</p>			<p>Inherent Risk Risk without any actions or controls in place to reduce likelihood or impact.</p>			 very high	41-50		
			<p>Residual Risk Risk remaining after implementing actions and controls to remove or manage risk.</p>			 high	31-40		
			 medium	21-30					
			 low	11-20					
			 very low	1-10					
Strategic Goals	Goal 1: Trusted stewards (G1: TS)		Strategic Objectives	A, B, C, D, E		Risk Responses	Avoid		
	Goal 2: Leading innovation and managing change (G2: LI)			A, B, C, D, E, F			Reduce		
	Goal 3: Sustainable organization (G3: SO)			A, B, C, D			Share		
				Accept					
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	No Change	21	No Change
<p>The overall residual risk scores for this category did not see any change in scoring and remains in the medium-risk range (orange band) of the heat map. From a mitigation standpoint, the CalSTRS team is in the process of implementing a tool to enhance monitoring and oversight of portfolio performance. Staff is also working to develop an implementation strategy for an enhanced Regulatory Oversight Program within the Investments Branch. Staff continues to advance these efforts and is exploring opportunities to enhance regulatory oversight and reporting functions within the Investments Branch.</p> <p>In November 2022, the Investments Branch presented the annual Investment Cost Report and the Collaborative Model Savings Report to the board as part of the Pillars Project. The Cost Report is based on 2021 calendar year information and found that CalSTRS continues to manage the portfolio at a lesser comparable cost than peers. Furthermore, CalSTRS successfully concluded the Pillars Project in support of the Collaborative Model.</p>									
Sub-Risk	Weight	Sub-Risk Statement	Strategic Goal	Strategic Objective	Risk Response				
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: TS	A, B, C	Reduce	20	No Change	16	No Change
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: TS	A, B, C, D	Reduce	36	No Change	32	No Change
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: TS	A, B, C	Reduce	12	No Change	9	No Change
2 Pension Funding - Actuarial						Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change
Actuarial methodologies and assumptions vary from experience.						22	No Change	20	No Change
<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. At the November 2022 board meeting, staff presented the 2022 Review of Funding Levels and Risks Report. As indicated in the valuation, investment losses experienced by CalSTRS in 2021-22, funding levels are now projected to be lower than anticipated in the June 30, 2021, however full funding is still expected to occur by 2046. The report showed that despite recent investment volatility, rising inflation and lingering effects of the COVID-19 pandemic, CalSTRS remains in a favorable position to withstand a future recession and keep the funding plan on track. The next review of funding levels is currently under way and will be presented to the board in the spring of 2023 with the annual actuarial valuation report.</p>									
Sub-Risk	Weight	Sub-Risk Statement	Strategic Goal	Strategic Objective	Risk Response				
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: TS	A	Reduce	24	No Change	24	No Change
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: TS	A	Reduce	18	No Change	9	No Change
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: TS	A	Reduce	9	No Change	6	No Change

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			<p>Residual Risk Risk remaining after implementing actions and controls to remove or manage risk.</p>			 high	31-40				
<p>Strategic Goals</p>		<p>Goal 1: Trusted stewards (G1: TS)</p> <p>Goal 2: Leading innovation and managing change (G2: LI)</p> <p>Goal 3: Sustainable organization (G3: SO)</p>	<p>Strategic Objectives</p>		<p>A, B, C, D, E</p> <p>A, B, C, D, E, F</p> <p>A, B, C, D</p>	<p>Risk Responses</p>		<p>Avoid</p> <p>Reduce</p> <p>Share</p> <p>Accept</p>			
3 Pension Funding - Contribution Rate						Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change		
Insufficient contribution rates to amortize unfunded actuarial obligation.						20	No Change	15	No Change		
<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. At the November 2022 board meeting, staff presented the 2022 Review of Funding Levels and Risks Report. Despite recent investment losses the contribution rates for the state and employers are not anticipated to increase in fiscal year 2023-24 to allow both the state and employers to eliminate their share of the CalSTRS unfunded actuarial obligation by 2046. Several factors could put pressure on CalSTRS ability to collect sufficient contributions to reach full funding: investment volatility is the most significant pressure and despite the large increase in the number of active teachers CalSTRS experienced in the past year, continued declines in enrollment in K-12 public schools could impact the ongoing appropriateness of CalSTRS 3.5% payroll growth assumption. The next review of the sufficiency of contribution rates is currently under way and will be presented to the board in the spring of 2023 with the annual actuarial valuation report.</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	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: TS	A	Reduce	24	No Change	20	No Change		
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: TS	A, D	Reduce	12	No Change	6	No Change		
4 Pension Administration						Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change		
Untimely or inaccurate delivery of benefits and services due to inadequate or failure of processes, technology systems, staff actions or data.						35	No Change	25	No Change		
<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. Over the next three quarters, staff is monitoring and tracking the workload of resources who support legislated enhancements related to AB1667 and SB868 during the current moratorium of START enhancements.</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	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: LI	A, C	Reduce	45	No Change	32	No Change		
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.	G2: LI	A	Reduce	45	No Change	32	No Change		
C	20%	Inability to deliver timely benefits and services due to incomplete, inaccurate and late employer reporting.	G2: LI	A	Reduce	21	No Change	15	No Change		
D	20%	Inaccurate benefit payments caused by current system limitations, manual processes and unknown system defects.	G2: LI	A	Reduce	24	No Change	16	No Change		






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Strategic Goals	Goal 1: Trusted stewards (G1: TS)		Strategic Objectives	A, B, C, D, E		Risk Responses	Avoid		
	Goal 2: Leading innovation and managing change (G2: LI)			A, B, C, D, E, F			Reduce		
	Goal 3: Sustainable organization (G3: SO)			A, B, C, D			Share		
				Accept					
5 Financial Reporting						Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change
Incomplete or inaccurate financial information; weaknesses in internal control jeopardize an unqualified/unmodified audit opinion or result in significant non-compliance with standards.						20	No Change	8	No Change
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.									
Sub-Risk	Weight	Sub-Risk Statement	Strategic Goal	Strategic Objective	Risk Response				
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.	G2: LI	A, C	Reduce	20	No Change	8	No Change
6 Information Security						Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change
Loss of information security or compliance violations as a result of unauthorized or unintentional breaches.						49	No Change	38	No Change
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. Information Security remains the highest residual score in our risk matrix, signifying the real and credible threat of the highly volatile cyber security landscape. 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 2022 and will be presented at the March 2023 board meeting in closed session.									
Sub-Risk	Weight	Sub-Risk Statement	Strategic Goal	Strategic Objective	Risk Response				
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.	G3: SO	D	Reduce	50	No Change	40	No Change
B	4%	The absence of proper Information Security Program management and oversight could result in an information security breach or incident at CalSTRS.	G3: SO	D	Reduce	36	No Change	24	No Change
C	4%	A lack of employee security awareness could result in an information security breach or incident at CalSTRS.	G3: SO	D	Reduce	40	No Change	24	No Change
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.	G3: SO	D	Reduce	40	No Change	27	No Change

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Strategic Goals	Goal 1: Trusted stewards (G1: TS)		Strategic Objectives	A, B, C, D, E		Risk Responses	Avoid			
	Goal 2: Leading innovation and managing change (G2: LI)			A, B, C, D, E, F			Reduce			
	Goal 3: Sustainable organization (G3: SO)			A, B, C, D			Share			
							Accept			
7 Operational						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, or loss of critical staff knowledge.						31	No Change	19	↓ -2	
<p>The overall residual risk score for the category decreased by two points to 19, which is in alignment with the low-risk range (yellow band) of the heat map. This decrease reflects the organizations successful transition to a hybrid work environment as it exits the Covid-19 pandemic emergency. The transition to hybrid Quarterly Recognition Events, Leadership Forums, the ability for CalSTRS to provide in-person learning, as well as new hybrid working tools has led to this reduction. Although the sub-risk associated with the HQE expansion also saw a risk rating decrease after the HQE executive steering committee approved a March 28, 2023. Note: staff is monitoring this sub-risk due to the schedule risks provided in the CEO report at the January 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	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.	G3: SO	A, D	Reduce	36	No Change	24	No Change	
B	15%	Solutions are not in place to mitigate a major technology system outage or partial building outage without bringing down all HQ systems.	G3: SO	D	Reduce	32	No Change	24	No Change	
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 costs.	G1:TS G3: SO	C, D D	Reduce	28	No Change	15	No Change	
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: LI G3: SO	D A, D	Reduce	36	No Change	15	↓ -6	
E	5%	CalSTRS lacks the ability to meet critical business functions due to recruitment challenges.	G3: SO	A	Reduce	28	No Change	18	No Change	
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.	G3: SO	A	Reduce	32	No Change	24	No Change	
G	10%	Staff and leadership turnover could result in loss of long-term business stability and sustainability.	G3: SO	A	Reduce	24	No Change	18	No Change	
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.	G1: TS	E	Reduce	36	No Change	15	No Change	
I	5%	CalSTRS may not establish or maintain the proper health and safety strategies, measures, training, etc., resulting in compromised employee health and safety.	G3: SO	A	Reduce	32	No Change	21	No Change	
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.	G3: SO	C	Reduce	24	No Change	15	↓ -6	

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Strategic Goals	Goal 1: Trusted stewards (G1: TS)	Strategic Objectives	A, B, C, D, E	Risk Responses	Avoid
	Goal 2: Leading innovation and managing change (G2: LI)		A, B, C, D, E, F		Reduce
	Goal 3: Sustainable organization (G3: SO)		A, B, C, D		Share
					Accept

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, or loss of critical staff knowledge.		31	No Change	22	↑ 2
<p>The overall residual risk score for this category increased by two points to 22, which is in alignment with the medium-risk range (orange band) of the heat map. Staff revised the sub-risk statement associated with accurate reporting of CalSTRS data to better reflect the current risk environment. This resulted in an increase of this sub-risk's risk scores. In addition, staff agreed that the pension abuse sub-risk no longer rose to enterprise level reporting due to its successful implementation of multiple internal controls. Staff will continue to monitor this risk going forward. The weight associated with this sub-risk was reallocated to the accurate reporting sub-risk (D), which resulted in a two-point increase for the Reputational risk category.</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.	G3: SO	D, E	Avoid	28	No Change	24	No Change
B	25%	CalSTRS is unable to implement transformational efforts, which could impact stakeholders, members, staff and public confidence.	G2: LI	A	Reduce	40	No Change	24	No Change
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: TS G2: LI	A, B, D A	Reduce	30	No Change	24	No Change
D	15%	There is a risk that CalSTRS may need to correct inaccurate reporting of business and financial information which may result in a loss of public trust and harm to our reputation.	G1: TS G2: LI	A, B, D	Reduce	30	↑ 3	16	↑ 7
E	10%	CalSTRS is unable to meet member service expectations due to resource constraints resulting from competing priorities.	G2: LI	A	Reduce	21	No Change	12	No Change
F	0%	Perceived pension abuses may result in negative news articles and the perception that CalSTRS is not upholding its fiduciary responsibility.	G2: LI	C	Reduce	21	No Change	12	No Change
G	5%	CalSTRS hires an individual whose qualifications are misinterpreted or misrepresented during the hiring process resulting in reputational damage.	G3: SO	B	Reduce	32	No Change	18	No Change

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<p>This Risk Score Report identifies the inherent risks and residual risks in each of the risk categories at CalSTRS and any corresponding changes since the last reporting period, June 30, 2022.</p>		<p>Residual Risk Risk remaining after implementing actions and controls to remove or manage risk.</p>		 high	31-40
<p>Goal 1: Trusted stewards (G1: TS)</p>		<p>A, B, C, D, E</p>		 medium	21-30
<p>Goal 2: Leading innovation and managing change (G2: LI)</p>		<p>A, B, C, D, E, F</p>		 low	11-20
<p>Goal 3: Sustainable organization (G3: SO)</p>		<p>A, B, C, D</p>		 very low	1-10
<p>Strategic Goals</p>		<p>Strategic Objectives</p>		<p>Risk Responses</p>	
				<p>Avoid</p>	
				<p>Reduce</p>	
				<p>Share</p>	
				<p>Accept</p>	

9	Transformational Change	Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change
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CalSTRS is unable to accomplish major transformational change initiatives.		39	No Change	33	No Change
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The overall residual risk score remains at 33, which is also in alignment with the high-risk range (red band) of the heat map. The organization's highest rated residual sub-risk is in this risk category, sub-risk A, which relates to the delay in successfully implementing a new pension administration system. All but a few key CGI team members rolled off the project in June 2022 as planned. CalSTRS engaged assistance from the California Department of Technology and a project advisor for guidance during the system integrator procurement process. A 'Request for Information (RFI)' was developed, issued, and responses are under review. The RFI will help determine the best procurement approach to utilize while securing services needed to complete the project. Sagitech successfully onboarded key staff by December 2022, which was one of the key mitigations needed to reduce the probability of the risk being realized.

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: LI	A	Reduce	45	No Change	41	No Change
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: LI	A	Reduce	36	No Change	32	↓ -4
C	15%	Loss of CalSTRS subject matter experts and challenges associated with replacing them may result in the inability to successfully implement Pension Solution.	G2: LI	A	Reduce	36	No Change	21	No Change
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: LI	A	Reduce	41	No Change	36	No Change
E	5%	Lack of cohesive project governance and communication practices within business areas could result in uninformed decision-making on transformational efforts.	G2: LI	A	Reduce	24	No Change	21	No Change
F	5%	Inability of the Pension Solution Project to achieve desired results due to lack of readiness to the transformed business processes.	G2: LI	A, C, F	Reduce	28	No Change	15	No Change

10	Third Parties	Inherent Risk Score	Inherent Period Change	Residual Risk Score	Residual Period Change
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CalSTRS failure to appropriately manage risks associated with third parties, resulting in operational disruption, financial loss, reputational damage, compliance violations or failure to reach strategic goals.		32	No Change	21	No Change
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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 Enterprise Risk Management 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.

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.	G1: TS G2: LI	E E	Reduce	32	No Change	21	No Change
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).	G1: TS G2: LI	E E	Reduce	24	No Change	18	No Change