


# Audit and Risk Committee meeting


<b>Schedule</b>	Thursday, March 9, 2023 10:45 AM — 11:45 AM CST
<b>Venue</b>	6850 Austin Center Blvd., Suite 320, Austin, TX 78731
<b>Organizer</b>	Sarah McCleary

## Agenda




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    - B. Presentation of required auditor communications in conjunction with the financial statement audit
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1. Convene into Executive Session pursuant to Section 551.071, Texas Government Code, Section 1.05, Texas Disciplinary Rules of Professional Conduct, and Section 551.089, Texas Government Code, to consult with legal counsel and deliberate security assessments or deployments relating to information resources technology, network security information described in Section 2059.055, Texas Government Code, and deployment and implementation of security personnel, critical infrastructure, and security devices

2. Reconvene into open session to take action as determined appropriate regarding security assessments or deployments relating to information resources technology, network security information described in Section 2059.055, Texas Government Code, and deployment and implementation of security personnel, critical infrastructure, and security devices

Presented by Amy Kelley

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# **1. Call roll of Committee members**

Presented by Committee Chair Benson



**COMMITTEE MEETING**  
**Agenda Item Information Sheet**

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AGENDA ITEM 1:  
Call roll of Committee members

AGENDA ITEM OBJECTIVE

The objective of the agenda item is to determine for the record which Trustees are present at the start of the meeting.

Each Trustee should respond to the roll call, and it will be noted which Trustees are present in person and which Trustees have joined via video conference.

## 2. Review order of business and meeting objectives

Presented by Committee Chair Benson

**AGENDA ITEM 2:**

Review order of business and establish meeting objectives

**AGENDA ITEM OBJECTIVE**

This agenda item provides Trustees the opportunity to review the order of business and to express a desire to take an agenda item out of order, and to discuss the key objectives of the meeting.

**RELEVANCE TO STRATEGIC PLAN**

This agenda item meets **COAERS Strategic Plan Goal 4: Identify and implement leading practices in board governance, pension administration, and investment management**. It is an industry best practice to establish meeting objectives and review them at the outset of each meeting.

**MEETING OBJECTIVES**

1. The Committee will review the draft Committee 2023 Work Plan.
2. The Committee will receive a report from Staff on the unaudited 12/31/2022 financial statements.
3. The Committee will receive a presentation from the financial statement auditor regarding the 12/31/2022 financial statement audit.
4. The Committee will review the Enterprise Risk Management Report and dashboard and discuss the following four risk categories: funding, market, cyber, and legislative.

# 3. Review 2023 Audit and Risk Committee Work Plan

Presented by Christopher Hanson





## COMMITTEE MEETING Agenda Item Information Sheet

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### AGENDA ITEM 3: Review 2023 Audit and Risk Committee Work Plan

#### AGENDA ITEM OBJECTIVE

This agenda item is for discussion and consideration of the 2023 Committee Work Plan.

#### RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 4: Identify and implement leading practices in board governance, pension administration, and investment management.** It is an industry best practice to establish and review Committee work plans.

#### RECOMMENDATION FOR COMMITTEE ACTION

At the Committee's discretion.

#### ATTACHMENTS

1. Draft 2023 Committee Work Plan
2. 2022 Committee Work Plan (for reference)

## **2023 Audit and Risk Committee Work Plan**

### **Scheduled Quarterly Meetings**

1. March meeting
  - ✓ Required Communications for 12/31/2022 audit
  - ✓ Quarterly review of Enterprise Risk Management program
  - ✓ Review of cybersecurity program
  - ✓ Quarterly Financial Statements
2. June meeting
  - 12/31/2022 financial statement audit presentation
  - Quarterly review of Enterprise Risk Management program
  - Review of cybersecurity program
  - Quarterly Financial Statements
3. August meeting
  - Quarterly review of Enterprise Risk Management program
  - Review of cybersecurity program
  - Annual review of financial audit service provider
  - Quarterly Financial Statements
4. November meeting
  - Annual review of Enterprise Risk Management program
  - Review of cybersecurity program
  - Quarterly Financial Statements
  - Engagement Letter - Auditor
  - 2024 Committee Work Plan

## 2022 Audit and Risk Committee Work Plan

### Scheduled Quarterly Meetings

1. March meeting (3/10/22)
  - ✓ Required Communications for 12/31/2021 audit
  - ✓ Quarterly review of Enterprise Risk Management program
  - ✓ Review of cybersecurity program
  - ✓ Quarterly Financial Statements
  
2. June meeting (6/2/22)
  - ✓ 12/31/2021 financial statement audit presentation
  - ✓ Quarterly review of Enterprise Risk Management program
  - ✓ Review of cybersecurity program
  - ✓ Quarterly Financial Statements
  
3. August meeting (8/25/22)
  - ✓ Quarterly review of Enterprise Risk Management program
  - ✓ Review of cybersecurity program
  - ✓ Annual review of financial audit service provider
  - ✓ Quarterly Financial Statements
  
4. November meeting (11/10/22)
  - ✓ Annual review of Enterprise Risk Management program
  - ✓ Review of cybersecurity program
  - ✓ Quarterly Financial Statements
  - ✓ Engagement Letter - Auditor
  - ✓ 2023 Committee Work Plan

4. Consider approval of the November 10,  
2022 Audit and Risk Committee minutes  
Presented by Committee Chair Benson



## COMMITTEE MEETING Agenda Item Information Sheet

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### AGENDA ITEM 4:

Consider approval of the November 10, 2022 Audit and Risk Committee minutes

#### AGENDA ITEM OBJECTIVE

This standing agenda item seeks approval of the minutes from the prior Audit and Risk Committee meeting.

#### RELEVANCE TO STRATEGIC PLAN

This agenda item meets the core competency established in the **COAERS Strategic Plan** “*Transparency: Complying with open meeting and public information laws to ensure the decision-making process is clear to members and the public.*”

#### RECOMMENDATION FOR COMMITTEE ACTION

Staff recommends approval of the minutes of the November 10, 2022 Audit and Risk Committee meeting.

#### ATTACHMENT

1. Draft minutes of November 10, 2022 Audit and Risk Committee meeting



## MINUTES

### AUDIT AND RISK COMMITTEE

Public Meeting held in-person and telephonically on November 10, 2022 at 9:30 a.m. CT  
Pursuant to Texas Govt. Code 551.127

#### Committee Members Present/(Absent)

Brad Sinclair, Committee  
Chair  
Anthony B. Ross, Sr.  
Diana Thomas  
Michael Granof  
Dick Lavine

#### Guests:

Paige Saenz, General  
Counsel  
Bhakti Patel\*

#### Other Board Trustees Present/(Absent)

Michael Benson  
Kelly Crook  
Amy Hunter†  
(Leslie Pool)  
(Yuejiao Liu)  
Chris Noak

#### Others Present

#### Staff:

Christopher Hanson  
Russell Nash  
Sarah McCleary  
Amy Kelley\*  
Mehrin Rahman\*  
Yun Quintanilla  
Jenni Bonds  
Cathy Edwards\*  
Bertie Corsentino\*  
David Kushner  
Teresa Cantu\*

\*present telephonically

† present videoconference

## 1 Call roll of Committee members

Committee Chair Brad Sinclair called the meeting to order at 9:31 a.m. The following Committee members were present in person: Granof, Lavine, Ross, Sinclair, and Thomas. No Committee members were present via videoconference.

Committee Chair Sinclair asked if there were any members of the public who wished to speak, either now or during an agenda item. There were no comments.

## 2 Review order of business and meeting objectives

Committee Chair Sinclair reviewed the order of business and meeting objectives with the Committee. No changes were made to the order of business.

### **3 Consider approval of the August 25, 2022 Audit and Risk Committee minutes**

Committee Chair Sinclair asked the Committee to review the Audit and Risk Committee minutes. Ms. Diana Thomas moved approval of the August 25, 2022 minutes as presented. Mr. Anthony Ross seconded, and the motion passed unanimously.

### **4 Discuss and consider CliftonLarsonAllen (CLA) statement of work for 12/31/2022 financial statement audit**

Mr. Russell Nash reviewed the timeline that led to CLA's first financial statement audit for COAERS and expressed Staff's satisfaction with the firm. Ms. Bhakti Patel outlined the statement of work planned for the year ended December 31, 2022 including the scope of audit services, objectives, and management's responsibilities.

After a discussion about the standards regarding communicating key audit matters, Ms. Thomas moved to refer the statement of work with CLA for the 12/31/2022 financial statement audit to the Board for approval as presented. Mr. Dick Lavine seconded, and the motion passed unanimously.

### **5 Discuss and consider the COAERS Enterprise Risk Management Program**

Mr. Christopher Hanson presented the proposed Enterprise Risk Management Program for 2023. He noted that the categories had not changed, though the ranking and action items were updated. He discussed with the Committee key strategic and risk management plans for 2023. The Committee provided feedback on the risk management dashboard.

Mr. Michael Granof moved to approve the 2023 Enterprise Risk Management Program as presented. Ms. Thomas seconded, and the motion passed unanimously.

### **6 Receive Staff reports on the following matters:**

#### **A. Third quarter 2022 Unaudited Financial Statements**

Ms. Yun Quintanilla presented the third quarter unaudited financial statements.

#### **B. Cybersecurity update**

Committee Chair Sinclair announced that the Committee would convene into Executive Session pursuant to Section 551.071, Texas Government Code, Section 1.05, Texas Disciplinary Rules of Professional Conduct, and Section 551.089,

Texas Government Code, to consult with legal counsel and deliberate security assessments or deployments relating to information resources technology, network security information described in Section 2059.055, Texas Government Code, and deployment and implementation of security personnel, critical infrastructure, and security devices.

The Committee convened into Executive Session at 10:17 a.m. and reconvened into public session at 10:32 a.m.

**7 Review 2022 Committee Work Plan and discuss development of 2023 Work Plan**

Mr. Hanson noted that the Committee had completed all goals on the 2022 Work Plan. A draft of the 2023 Work Plan was presented.

**8 Review key meeting takeaways and call for future agenda items**

Committee Chair Sinclair summarized the actions taken and information discussed at the meeting and provided an opportunity to add future agenda items.

As there were no other items to address, the meeting adjourned at 10:35 a.m.



5. Receive reports on the December 31, 2022 financial statements including the following:

A. Review of the unaudited 2022 year-end financial statements

B. Presentation of required auditor communications in conjunction with the financial statement audit

## 5A. Review of the unaudited 2022 year-end financial statements

Presented by Yun Quintanilla



## COMMITTEE MEETING Agenda Item Information Sheet

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### AGENDA ITEM 5:

Receive reports on the December 31, 2022 financial statements

A. Review of the unaudited 2022 year-end financial statements

#### AGENDA ITEM OBJECTIVE

This item presents the unaudited December 31, 2022 financial statements which show the net position of the fund and related financial details. These statements will be the subject of the annual financial statement audit currently underway.

#### RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 2: Responsibly manage the risks of the System.**

#### RECOMMENDATION FOR COMMITTEE ACTION

For informational purposes only; no action required.

#### ATTACHMENT

1. COAERS unaudited financial statements for the year ending December 31, 2022, including the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position

**CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM**  
**Statement of Fiduciary Net Position**  
**December 31, 2022**

	Unaudited		Variance
	12/31/2022	12/31/2021	Favorable (Unfavorable)
<b>Assets</b>			
Cash - operating account	\$10,816,741	\$19,242,506	(\$8,425,765)
Receivables:			
Employer contributions receivable	5,911,143	5,096,000	815,143
Employee contributions receivable	2,486,343	2,144,463	341,880
Other receivables	80,737	81,299	(562)
Total receivables	8,478,223	7,321,762	1,156,461
Other current assets	343,578	-	343,578
Investments, at fair value:			
US equities	991,544,324	1,214,039,057	(222,494,733)
Developed Markets Equities	441,380,450	524,373,588	(82,993,138)
Emerging Markets Equities	190,675,942	275,490,703	(84,814,761)
Fixed income	562,472,299	743,457,905	(180,985,606)
Real assets	466,812,054	568,291,309	(101,479,255)
Multi-asset	145,157,059	177,832,874	(32,675,815)
Cash and cash equivalents	143,209,031	35,247,303	107,961,728
Total investments	2,941,251,159	3,538,732,739	(597,481,580)
Capital assets, net	3,403,389	4,125,172	(721,783)
Total assets	2,964,293,090	3,569,422,179	(605,129,089)
<b>Liabilities</b>			
Payables			
Accrued expenses	631,875	603,253	(28,622)
Refunds and death benefits payable	3,865,454	3,659,082	(206,372)
Total liabilities	4,497,329	4,262,335	(234,994)
<b>Net position restricted for pensions</b>	<b>\$2,959,795,761</b>	<b>\$3,565,159,844</b>	<b>(\$605,364,083)</b>

**CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM**  
**Statement of Changes in Fiduciary Net Position**  
**For the Year ended December 31, 2022**

	Unaudited		Variance
	12/31/2022	12/31/2021	Favorable (Unfavorable)
<b>Additions:</b>			
Contributions:			
Employer	\$146,799,396	\$141,417,796	\$5,381,600
Employee	61,463,435	59,127,585	2,335,850
Creditable service purchases	7,725,577	7,692,279	33,298
Total contributions	215,988,408	208,237,660	7,750,748
Investment Income:			
Realized gain/(loss) on investments	(76,668,590)	236,644,654	(313,313,244)
Unrealized gain/(loss) on investments	(515,850,896)	141,573,209	(657,424,105)
Net appreciation (depreciation) in fair value	(592,519,486)	378,217,863	(970,737,349)
Dividends	34,401,663	30,200,042	4,201,621
Interest	13,503,542	9,540,959	3,962,583
Less: Investment expense	(5,599,635)	(6,749,253)	1,149,618
Net Investment appreciation (depreciation)	(550,213,916)	411,209,611	(961,423,527)
Other income	126,935	962	125,973
<b>Total additions</b>	<b>(334,098,573)</b>	<b>619,448,233</b>	<b>(953,546,806)</b>
<b>Deductions:</b>			
Retirement annuities	248,043,103	231,848,624	(16,194,479)
Contributions refunded to terminating employees	5,075,851	4,266,759	(809,092)
DROP disbursements	4,166,660	4,724,045	557,385
Retiree lump-sum annuity	3,253,220	2,715,305	(537,915)
Death benefits	3,963,038	3,771,740	(191,298)
Total benefit payments, including refunds of member contributions	264,501,872	247,326,473	(17,175,399)
General and administrative expenses	6,763,638	6,528,499	(235,139)
<b>Total deductions</b>	<b>271,265,510</b>	<b>253,854,972</b>	<b>(17,410,538)</b>
<b>Net increase (decrease) in net position</b>	<b>(605,364,083)</b>	<b>365,593,261</b>	<b>(970,957,344)</b>
Net position restricted for pensions:			
Beginning of year	3,565,159,844	3,199,566,583	365,593,261
<b>End of year</b>	<b>\$2,959,795,761</b>	<b>\$3,565,159,844</b>	<b>(\$605,364,083)</b>

## 5B. Presentation of required auditor communications in conjunction with the financial statement audit

Presented by Bhakti Patel, CLA



## COMMITTEE MEETING Agenda Item Information Sheet

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### AGENDA ITEM 5:

Receive reports on the December 31, 2021 financial statements

B. Presentation of required auditor communications in conjunction with the financial statement audit

#### AGENDA ITEM OBJECTIVE

Auditors are required to meet with the client prior to a financial statement audit. This agenda item serves this purpose.

#### RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 2: Responsibly manage the risks of the System.**

#### RECOMMENDATION FOR COMMITTEE ACTION

For informational purposes only; no action required.

#### BACKGROUND

Ms. Bhakti Patel, a principal with CliftonLarsonAllen (CLA), will provide the Committee with an overview of the audit approach and brief the Committee on any recent accounting standards pronouncements.

#### ATTACHMENT

1. City of Austin Employees' Retirement System – Financial Statement Audit for the year ended December 31, 2022



*We'll get you there.*

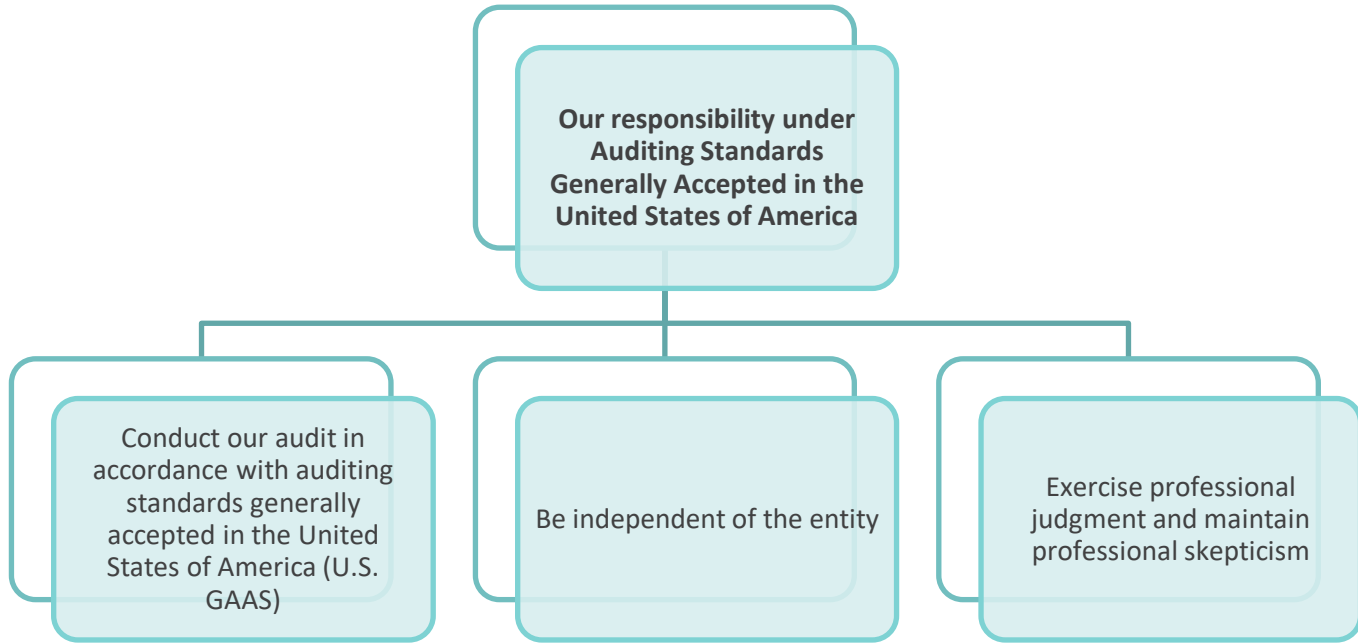
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# City of Austin Employees' Retirement System – Financial Statement Audit for the year- ended December 31, 2022

March 9, 2023



# Required Communications



# Required Communications, cont'd

As part of our audit, we will:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error
- Obtain an understanding of internal control relevant to the audit (we do not express an opinion on internal control)
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates
- Evaluate the overall presentation of the financial statements, including the amounts and disclosures
- Conclude whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time
- Express an opinion about whether the financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America
- Plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement
- Communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process
- Communicate matters required by law, regulation, agreement, or other external requirements
- Communicate circumstances that affect the form and content of the auditors' report

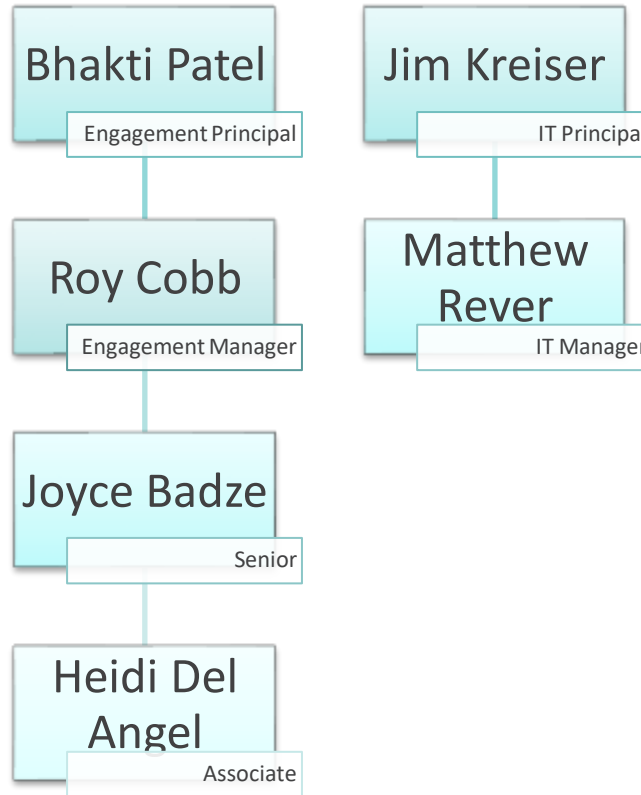


# Summary of Services

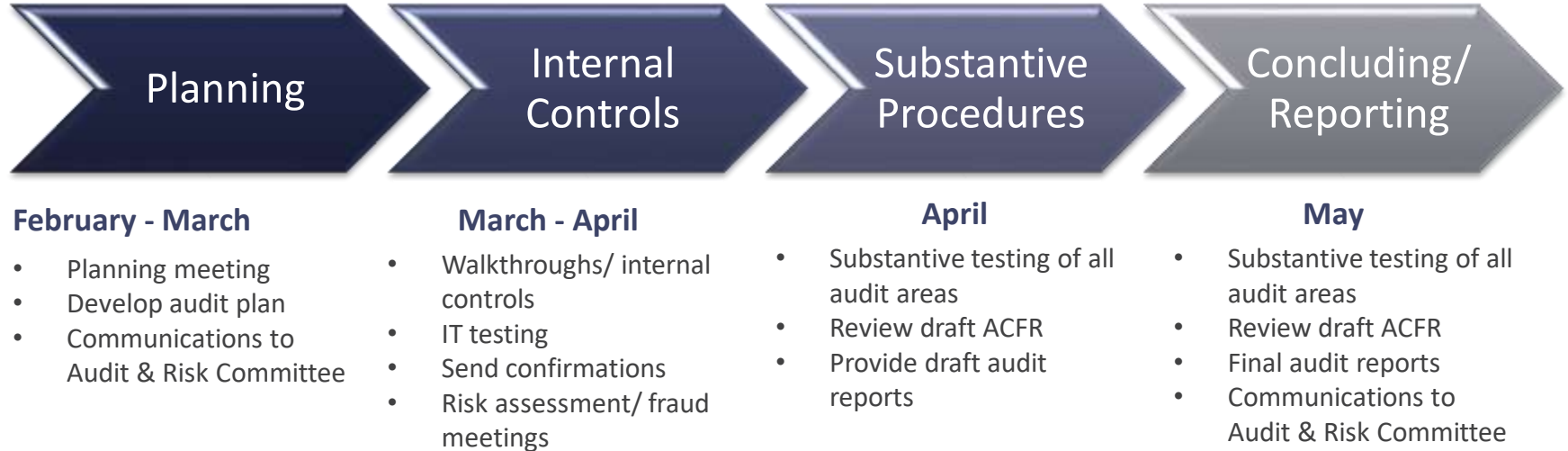
- Independent Auditors' Report on the basic financial statements
- The following Required Supplementary Information will be subjected to certain limited procedures, but will not be audited:
  - Management's Discussion and Analysis
  - Schedule of Changes in Net Pension Liability and Related Ratios
  - Schedule of Employer Contributions
  - Schedule of Investment Returns
- Evaluate and report on the presentation of the following Supplementary Information accompanying the financial statements in relation to the financial statements as a whole:
  - Schedule of Administrative Expenses
  - Schedule of Investment Expenses
  - Schedule of Payments to Consultants
- Independent Auditors' Report on the Schedule of Pension Amounts
- Preparation of the Schedule of Pension Amounts and related notes (nonaudit service)
- Communications with Those Charged with Governance



# CLA Audit Team



# Planned Scope and Timing of the Audit



# Significant Risks of Material Misstatement

Although our audit planning has not been concluded and modifications may be made, we have identified the following significant risks of material misstatements as part of our planning



Management  
override of  
controls

Investments

Investment  
income

Employer  
and  
employee  
contributions



# Other Matters

- We plan to use an auditor's specialist to review the GASB 67 disclosure information prepared by the actuarial firm engaged by you.
- Two-way communication on information you consider relevant to the audit. Topics may include:
  - Matters you believe are relevant to the audit of the financial statements
  - Your understanding of the risks of fraud and the controls in place to prevent and detect fraud
  - Whether you are aware of any noncompliance with laws and regulations, including measures taken to address the noncompliance
  - Attitudes, awareness, and actions of those charged with governance concerning (a) the entity's internal control (b) the detection or the possibility of fraud



# Effective GASB Pronouncements

- For the fiscal year ended December 31, 2022
  - GASB Statement No. 87, *Leases*
  - GASB Statement No. 91, *Conduit Debt Obligations*
  - GASB Statement No. 92, *Omnibus 2020*
  - GASB Statement No. 93, *Replacement of Interbank Offered Rates*
  - GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*
  - GASB Statement No. 99, *Omnibus 2022\**

\*Certain paragraphs only





# Effective GASB Pronouncements, cont'd

- For the fiscal year ended December 31, 2023
  - GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
  - GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*
  - GASB Statement No. 99, *Omnibus 2022\**

\*Paragraphs not already implemented in fiscal year 2022



Questions?



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Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.

6. Discuss and consider the COAERS Enterprise Risk Management program including the following:

A. Receive report on the following risk categories: funding, market, and legislative

B. Receive report on the cybersecurity risk

6A. Receive report on the following risk categories: funding, market, and legislative

Presented by Christopher Hanson



## COMMITTEE MEETING Agenda Item Information Sheet

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### AGENDA ITEM 6:

Discuss and consider COAERS Enterprise Risk Management program

A. Receive report on the following risk categories: funding, market, and legislative

#### AGENDA ITEM OBJECTIVE

This agenda item is for discussion of three of the risk categories in the Enterprise Risk Management Report.

#### RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 2: Responsibly manage the risks of the System**. The Committee's regular review of COAERS Enterprise Risk Management System is one of the strategic objectives of Goal 2 and a key performance indicator is the successful implementation of all annual risk management activities.

#### RECOMMENDATION FOR COMMITTEE ACTION

At the Committee's discretion.

#### BACKGROUND

The 2023 Enterprise Risk Management Report contains 12 risk categories. Staff will present the full report in a new dashboard format and then conduct a deeper dive on select risk categories. For this agenda item, the categories are funding, market, and legislative.

#### ATTACHMENTS

1. Enterprise Risk Management Report Q1 2023
2. Staff Presentation: "Risks: Funding, Market, and Personnel"



# Enterprise Risk Management Report

	Risk Category	Risk Description	2022 Rank	2023 Rank	Risk Level 2022	Risk Level 2023	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee
1st Quartile Risk	FUNDING	A lack of sound funding for the plan could lead to insufficient assets to pay for long-term benefits and financial obligations.	1	1	High	High	↑	Mitigate	Executive Director	Benefits and Services Committee
	MARKET	Too little or too much exposure to market risk could lead to undesirable investment outcomes.	2	2	High	High	↑	Accept	Chief Investment Officer	Investment Committee
	CYBER	Ineffective cyber security controls could lead to breaches or sabotage of COAERS systems. Unauthorized access of confidential information could result in state or federal law violations and harm the best interests of COAERS.	3	3	High	High	↑	Mitigate	Chief Information Officer	Audit and Risk Committee
2nd Quartile Risk	OPERATIONAL	Event causes a major business interruption	4	4	Medium	Medium	↔	Mitigate	Deputy Executive Director	Audit and Risk Committee
	LEGISLATIVE	Legislative events lead to adverse relations, unfavorable legislation, and restricted funding	6	5	Medium	Medium	↑	Mitigate	Executive Director	Legislative Committee
	COUNTERPARTY	Business partners or entities are unable to fulfill their obligations or do not complete transactions as agreed upon.	8	6	Medium	Medium	↑	Mitigate	Executive Director, Deputy Executive Director, Chief Investment Officer, Chief Financial Officer, Chief Information Officer	Investment Committee, Audit and Risk Committee, Benefits and Services Committee, and Policy Committee
3rd Quartile Risk	MISSION	Inability to make monthly retirement benefit payments	7	7	Medium	Medium	↔	Mitigate	Executive Director and Deputy Executive Director	Audit and Risk Committee, and Investment Committee
	GOVERNANCE	Not following processes and procedures in decision making	5	8	Medium	Medium	↓	Mitigate and Transfer	Board of Trustees	Governance and Human Resources Committee
	PERSONNEL	Ability to attract and retain talented staff; succession planning	9	9	Medium	Medium	↔	Mitigate	Executive Director	Governance and Human Resources Committee, and Board of Trustees
4th Quartile Risk	PHYSICAL	Inadequate facilities management; ineffective space utilization; staff effort to manage issues	10	10	Low	Low	↔	Mitigate	Executive Director and Deputy Executive Director	Board of Trustees
	REPUTATIONAL	Erosion of trust in organization either rapidly or slowly over a period of time	11	11	Low	Low	↔	Mitigate	Executive Director	Board of Trustees
	ADAPTABILITY	Inability to meet the strategic mission and vision of the organization; not achieving best outcomes for the system	12	12	Low	Low	↔	Mitigate	Executive Director	Board of Trustees

Discuss at March A/R Committee

Discuss at March A/R Committee



# Enterprise Risk Management Report

Risk Category	Risk Description	Rank	Risk Level	Risk Level	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee		
			2022	2023						
<b>FUNDING</b>	A lack of sound funding for the plan could lead to insufficient assets to pay for long-term benefits and financial obligations.	1	High	High	↑	Mitigate	Executive Director	Benefits and Services Committee		
<b>Current Status Summary (Trending)</b>	<b>2023 Risk Management Activities</b>								<b>Activity Status</b>	
System funded ratio and amortization period expected to deteriorate due to 2022 market losses.	Seek passage of pension legislation to address long-term financial sustainability							OPEN	CLOSED	
	Conduct 12/31/2022 actuarial valuation and risk sharing valuation study							x		
	Update Funding Policy with City of Austin and continue reporting to Board									
	Inform members and stakeholders on legislative progress and provide notice of bill enactment and effective dates of admin changes								x	
	Host stakeholder meeting on funded status of the System									
	Continue regular cash flow and benefit monitoring.								x	
<b>Notable Risks (Root Causes)</b>			<b>Probability</b>	<b>Impact</b>	<b>Risk Management Strategies and Action Items</b>					
Assets insufficient to fund liabilities			High	High	Annual Actuarial Valuation and Board Funding Policy					
Contribution rates are not sufficient to fund benefits			High	High	Asset/Liability Study					
Sponsor closes DB plan in favor of DC plan			High	Medium	Communication with membership					
Unexpected decline in sponsor payroll			Medium	Medium	Cash flow monitoring and monthly benefit reporting					
Rate of Return assumption too aggressive			Medium	Medium	Actuarial Experience Studies					
Unexpected increase in benefits payroll			Medium	Medium	Cash flow monitoring and monthly benefit reporting					
Actuarial miscalculation			Low	Medium	Actuarial Audit by sponsor					

1st Quartile Risk



# Enterprise Risk Management Report

Risk Category	Risk Description	Rank	Risk Level	Risk Level	Expected Risk Level	Risk Response	Risk Owner	Reporting and Oversight Committee	
			2022	2023	Trend (next 12 months)				
<b>MARKET</b>	Too little or too much exposure to market risk could lead to undesirable investment outcomes.	2	High	High	↑	Accept	Chief Investment Officer	Investment Committee	
<b>Current Status Summary (Trending)</b>	<b>2023 Risk Management Activities</b>							<b>Activity Status</b>	
Large drawdown of -15% as of 12/31/2022 has increased realized volatility on a 5-year basis to near the upper end of the range targeted in policy. Relative outperformance has somewhat dampened the current drawdown in Fund AUM.	Conduct Asset/Liability and Asset Allocation study to evaluate appropriateness of the Strategic Asset Allocation							OPEN	CLOSED
	Update Investment Risk Framework by deploying investment risk management software to enhance risk management capabilities							x	
	Conduct CEM Investment Cost Benchmarking to evaluate value for investment fees paid							x	
<b>Notable Risks (Root Causes)</b>			<b>Probability</b>	<b>Impact</b>	<b>Risk Management Strategies and Action Items</b>				
Large market drawdown			High	High	Investment Risk Framework				
Lower longer-term performance vs. assumed rate			Medium	High	Strategic Asset Allocation Study and Asset/Liability Study				
Failure to adapt diversification strategy			Medium	High	Investment Risk Framework				
Poor investment manager performance			Medium	Medium	Premier List				
Poor implementation of policy leads to underperformance vs. the benchmark			Medium	Medium	Annual review of key policies, regular performance rating				
Poor value for investment fees paid			Low	Medium	Premier List and CEM Investment Benchmarking				
Chasing performance			Low	Medium	Strategic Asset Allocation Reviews (annual)				

1st Quartile Risk





# Enterprise Risk Management Report

Risk Category	Risk Description	Rank	Risk Level	Risk Level	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee		
			2022	2023						
CYBER	Ineffective cyber security controls could lead to breaches or sabotage of COAERS systems. Unauthorized access of confidential information could result in state or federal law violations and harm the best interests of COAERS.	3	High	High	↑	Mitigate	Chief Information Officer	Audit and Risk Committee		
1st Quartile Risk	<b>Current Status Summary (Trending)</b>	<b>2023 Risk Management Activities</b>							<b>Activity Status</b>	
	Cyber activity continues to increase globally. Breaches and attacks have grown significantly since the outset of the COVID-19 pandemic. While the System has taken significant steps to improve its cybersecurity posture, this activity would indicate this risk trend is increasing.	Continue to develop and build security program utilizing NIST compliance.							OPEN	CLOSED
		Continue build out of best-in class disaster recovery.							x	
		Continue to mature IT security program.							x	
		Implement third-party vendors risk management to key vendors.							x	
		Perform network penetration testing							x	
	<b>Notable Risks (Root Causes)</b>	<b>Probability</b>	<b>Impact</b>	<b>Risk Management Strategies and Action Items</b>						
Cyberattack causes loss of money, data, business disruption, or sponsor to miss contributions	Medium	High	MSSP and IT Security Program; Web Application Firewall; HA Palo Alto; Global Protect VPN and Wildfire subscriptions; SOC							
Phishing attack (ransomware, credential harvesting)	Medium	High	KnowBe4 Security Awareness Training and Phish Tests; HA Palo Alto							
Website attack (DDos, SQL Injection, Cross site scripting, Illegal resource access)	Medium	High	MSSP and IT Security Program; Web Application Firewall; HA Palo Alto							
3rd party data breach	Medium	Medium	Annual 3rd party security reviews; Compliance Manager software; Vendor Risk Mgmt							
Internal COAERS employee attack	Low	High	KnowBe4 Security Awareness Training; Strict financial auditing controls and separation of							
IT disruptions caused by outdated hardware and software	Low	Medium	Asset management/Patch management							
Member Direct user imposter	Low	Medium	LexisNexis; MFA; Membership education on cybersecurity awareness							



# Enterprise Risk Management Report

Risk Category	Risk Description	Rank	Risk Level	Risk Level	Expected	Risk Response	Risk Owner	Reporting and Oversight Committee		
			2022	2023	Risk Level Trend (next 12 months)					
<b>OPERATIONAL</b>	Event causes a major business interruption	4	Medium	Medium	↔	Mitigate	Deputy Executive Director	Audit and Risk Committee		
<b>2nd Quartile Risk</b>	<b>Current Status Summary (Trending)</b>	<b>2023 Risk Management Activities</b>							<b>Activity Status</b>	
	Post pandemic operations have been put in place as the new normal mode of conducting business. Customer survey results are positive and within strategic plan threshold. New audit firm relationship is strong. Policies and procedures update. Financial controls in place.	Conduct 12/31/2022 financial statement audit.							OPEN	CLOSED
		Continue implementation of RSM Rapid Assessment recommendations.							x	
		Continue the development of COAERS IT Roadmap for operational technology upgrades in the future.							x	
		Implement restructure of work teams to mitigate effects of attrition and handle future demand for services.							x	
	<b>Notable Risks (Root Causes)</b>			<b>Probability</b>	<b>Impact</b>	<b>Risk Management Strategies and Action Items</b>				
	Obsolescence of service delivery methods			Medium	Medium	Communication with membership regarding business operations				
	IT disruptions			Medium	Medium	Capital Improvement Plan				
	Pandemic or natural disaster			Medium	Medium	COAERS Workplace Strategy and Guidelines				
	Customer service failures			Medium	Medium	Employee Training/Reviews/Internal Communication				
Accounting and reporting			Low	High	Financial Statement Audit					
Fraud			Low	High	Internal controls, policies, and procedures					
Business Continuity			Low	High	Backup & Disaster Recovery Plan/Testing					
Failure to follow applicable laws, regulations and policies			Low	Medium	Legal reviews by tax and general counsel					
Benefit payment inaccuracies			Low	Medium	Internal controls, policies, and procedures					
Records management			Low	Low	Electronic File & Delivery Systems					



# Enterprise Risk Management Report

2nd Quartile Risk	Risk Category	Risk Description	Rank	Risk Level 2022	Risk Level 2023	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee	
	LEGISLATIVE	Legislative events lead to adverse relations, unfavorable legislation, and restricted funding	5	Medium	Medium	↑	Mitigate	Executive Director	Legislative Committee	
	<b>Current Status Summary (Trending)</b>	<b>2023 Risk Management Activities</b>							<b>Activity Status</b>	
	The 88th Legislative Session begins in January 2023. COAERS will be seeking the passage of legislation to improve the long-term financial sustainability of the System.	Seek passage of pension legislation.							OPEN	CLOSED
		Engage and educate key stakeholders and policymakers regarding COAERS 88th Legislative Session agenda.							x	
		Develop and adopt COAERS legislative agenda for 88th Session.							x	
		Engage stakeholders regarding legislative agenda and priorities.							x	
	<b>Notable Risks (Root Causes)</b>			<b>Probability</b>	<b>Impact</b>	<b>Risk Management Strategies and Action Items</b>				
	State forces legislative changes to plan			High	High	Engagement with governmental relations firms; development of legislative priorities and agenda; Increase stakeholder engagement on legislative agenda through events and meetings				
	Lack of relationships with key offices			High	High	Communications planning for legislative agenda messaging				
Risks to the COAERS reputation elevated as the legislation grabs the attention of opponents (DB pundits; Members; Groups that oppose our legislation)			High	High	Monitor sentiments; address concerns					
Outside organizations promoting anti-DB policies			High	Medium	Identify potential opposition groups and stakeholders and create unified messaging to combat misinformation					
Negative or inaccurate media content			High	Medium	Develop relationships with industry media; Proactive media outreach; Engage consulting/crisis communications					
Social media comments			High	Low	Social Media Policy					
Unauthorized contact with media			High	Low	Communications Policy					
Lack of alignment with plan sponsor			Low	Medium	Develop and maintain strong communication with appropriate plan sponsor liaisons					



# Enterprise Risk Management Report

Risk Category	Risk Description	Rank	Risk Level	Risk Level	Expected	Risk Response	Risk Owner	Reporting and Oversight Committee		
			2022	2023	Risk Level Trend (next 12 months)					
<b>COUNTERPARTY</b>	Business partners or entities are unable to fulfill their obligations or do not complete transactions as agreed upon.	6	Medium	Medium	↑	Mitigate	Executive Director, Deputy Executive Director, Chief Investment Officer, Chief Financial Officer, Chief Information Officer	Investment Committee, Audit and Risk Committee, Benefits and Services Committee, and Policy Committee		
<b>2nd Quartile Risk</b>	<b>Current Status Summary (Trending)</b>	<b>2023 Risk Management Activities</b>							<b>Activity Status</b>	
	Key vendor relationships are well-established and vendors are generally meeting expectations. Committees review key service providers such as investment consultant, actuary, and legal counsel. Third-party IT vendor compliance budgeted and implementation is planned for 2023. Results could reveal additional risks that would need to be addressed. Facility needs may lead to new vendor relationships.	Continual underwriting of premier list managers.							OPEN	CLOSED
		Issuance of RFP for General Investment Consultant.								
		Comprehensive review of custodial bank relationship							x	
		Annual review to Committees of key service providers.								
		Third-party IT security audits for mission-critical service providers.							x	
<b>Notable Risks (Root Causes)</b>			<b>Probability</b>	<b>Impact</b>	<b>Risk Management Strategies and Action Items</b>					
IT security providers and consultants			Medium	High	Annual 3rd party security reviews; Compliance Manager software; Vendor Risk Management					
City of Austin contribution issues			Low	High	Communication with plan sponsor; cash management program					
Operating bank			Low	Medium	Monitor operating bank counterparty ratings; conduct security assessment; revisit interest credit rates; research alternative vendors					
Actuary			Low	Medium	Actuarial audits					
Legal counsel			Low	Medium	Engagement with specialized counsel					
Investment managers			Low	Medium	Premier List; Due Diligence					
Custodial banks			Low	High	IC Dashboard to monitor counterparty ratings					
Brokers and related vendors			Low	Low	Transaction Cost Analysis					
Medical consultants			Low	Low	Engagement with multiple parties including outsourced medical service provider program					
Investment consultant			Low	Low	Annual review of general investment consultant, issuance of RFP					



# Enterprise Risk Management Report

Risk Category	Risk Description	Rank	Risk Level	Risk Level	Expected	Risk Response	Risk Owner	Reporting and Oversight Committee	
			2022	2023	Risk Level Trend (next 12 months)				
<b>MISSION</b>	Inability to make monthly retirement benefit payments	7	Medium	Medium	↔	Mitigate	Executive Director and Deputy Executive Director	Audit and Risk Committee, Investment Committee	
<b>3rd Quartile Risk</b>	<b>Current Status Summary (Trending)</b>	<b>2023 Risk Management Activities</b>						<b>Activity Status</b>	
	Trust fund liquidity and cash management activities continue to ensure promised benefits are paid. Successful initial tests of new disaster recovery system completed in 2022 along with new policies related to business continuity. Finance and Member Service division staff levels continue to support mission-critical activities in the near future, with long-term staffing assessment underway.	Cash projections and liquidity management.						OPEN	CLOSED
		Penetration testing to ensure systems resiliency and identify any critical weaknesses.						x	
		Continue to develop cross-training.						x	
		Implement team restructuring and professional development.						x	
<b>Notable Risks (Root Causes)</b>			<b>Probability</b>	<b>Impact</b>	<b>Risk Management Strategies and Action Items</b>				
Employee turnover at critical positions			Medium	Medium	Succession planning and cross-training				
Lack of liquidity to make annuity payments			Low	High	Liquidity monitoring				
Failure to transmit bank files for payments			Low	High	Cash management program				
Cyberattack causes loss of money, data, business disruption, or sponsor to miss contributions			Low	High	Managed Service Security Provider/Security Program				
IT system outages			Low	Medium	Business continuity and disaster recovery plans				
Sponsor contribution not made timely			Low	Medium	Communication with plan sponsor				



# Enterprise Risk Management Report

Risk Category	Risk Description	Rank	Risk Level	Risk Level	Expected	Risk Response	Risk Owner	Reporting and Oversight Committee		
			2022	2023	Risk Level					
				Trend (next 12 months)						
<b>GOVERNANCE</b>	Not following processes and procedures in decision making	8	Medium	Medium	↓	Mitigate and Transfer	Board of Trustees	Governance and Human Resources Committee		
<b>3rd Quartile Risk</b>	<b>Current Status Summary (Trending)</b>	<b>2023 Risk Management Activities</b>							<b>Activity Status</b>	
	The implementation of the 2020 Governance Effectiveness Assessment has been completed. Board policy review cycles have been established and are monitored. Recently created policies such as the Board Governance Manual, Diversity Policy, Emergency Succession Policy, and Communications Policy bolster already effective Board governance.	Implementation of personalized Trustee education and professional development plans.							OPEN	CLOSED
		Board Annual Self-Assessment								
		Trustee continuing education and utilization of Board Skills Matrix to expand trustee training options.							x	
		Begin to foster candidates for possible future Board appointment								
		<b>Notable Risks (Root Causes)</b>								
		<b>Probability</b>	<b>Impact</b>	<b>Risk Management Strategies and Action Items</b>						
Ineffective Board leadership		Medium	Medium	Board and Trustee Self-Evaluation						
Policy-making versus administration lines not held		Low	Medium	Training/Policy & Procedure						
Effectiveness of board governance declines		Low	Medium	Board Governance Effectiveness Survey Follow-Up						
Policies and procedures not followed or established		Low	Medium	Regular Policy Review						
Lack of appropriate skills		Low	Medium	Board Skills Matrix and Board Education Policy						
Lack of trust between trustees		Low	Medium	Communication/Board Workshops						



# Enterprise Risk Management Report

Risk Category	Risk Description	Rank	Risk Level	Risk Level	Expected Risk Level	Risk Response	Risk Owner	Reporting and Oversight Committee	
			2022	2023	Trend (next 12 months)				
<b>PERSONNEL</b>	Ability to attract and retain talented staff; succession planning	9	Medium	Medium	↔	Mitigate	Executive Director	Governance and Human Resources Committee, and Board of Trustees	
<b>3rd Quartile Risk</b>	<b>Current Status Summary (Trending)</b>	<b>2023 Risk Management Activities</b>						<b>Activity Status</b>	
	Retirement eligibility of a few mission critical employees will continue through 2026. The red-hot labor market may be showing signs of normalization. While COAERS experienced turnover in 2022, all vacant positions were filled with qualified talent. Member Services restructuring will add capacity and development opportunities.	Implement Member Services team restructure.						OPEN	CLOSED
		Provide training to new hires and professional development for existing staff.						x	
		Implement HR technology for more efficient and employee-friendly HR experience.							
		Continue long-term staffing assessment across all divisions.						x	
	<b>Notable Risks (Root Causes)</b>	<b>Probability</b>	<b>Impact</b>	<b>Risk Management Strategies and Action Items</b>					
Employee burnout	High	Medium	Health insurance; "fit to work"						
Employee retention and turnover	Medium	Medium	Cross-training for each position; Workplace Strategy and Guidelines						
Ability to attract top talent	Medium	Medium	Market compensation studies; Well-articulated compensation philosophy						
Lack of training opportunities	Low	Medium	Professional development and continuing education						
Lack of succession planning	Low	Medium	Succession planning						
Employees performing inadequately in position	Low	Medium	Performance appraisals; Professional development; Training; Personnel Policy and Employee Handbook						
Accidents/Injury/Health	Low	Medium	Workplace Safety Policy						
Employee resistance to culture change	Low	Medium	Management promoting culture statement						



# Enterprise Risk Management Report

Risk Category	Risk Description	Rank	Risk Level	Risk Level	Expected	Risk Response	Risk Owner	Reporting and Oversight Committee		
			2022	2023	Risk Level Trend (next 12 months)					
<b>PHYSICAL</b>	Inadequate facilities management; ineffective space utilization; staff effort to manage issues	10	Low	Low	↔	Mitigate	Executive Director and Deputy Executive Director	Board of Trustees		
<b>Current Status Summary (Trending)</b>	<b>2023 Risk Management Activities</b>								<b>Activity Status</b>	
								OPEN	CLOSED	
Hybrid work environment has mitigated certain physical risks. Long-term facilities decisions could be made at the beginning of 2023. Existing policies, procedures, vendors, and finances will need to be reviewed as long term facilities decisions are completed.	Long-term facility due diligence and planning for future office needs							x		
	Review existing policies and guidelines such as workplace safety in accordance with long-term facility decisions.							x		
<b>Notable Risks (Root Causes)</b>			<b>Probability</b>	<b>Impact</b>	<b>Risk Management Strategies and Action Items</b>					
Global pandemic			Low	Low	Workplace Strategy and Guidelines; Air quality monitoring; PPE where appropriate					
Threats to physical safety of employees			Low	High	RAVE application; Workplace Safety Policy; Fire Drills and Training					
Accidents or injury			Low	Medium	Workplace Safety Policy					
Facility transition			Medium	Medium	Proper planning, communication, adaptability					
Physical risks created by facility management			Low	Medium	Facility management plan					
Public spaces in building			Low	Low	Key card system; Camera system					

4th Quartile Risk





# Enterprise Risk Management Report

Risk Category	Risk Description	Rank	Risk Level	Risk Level	Expected	Risk Response	Risk Owner	Reporting and Oversight Committee		
			2022	2023	Risk Level Trend (next 12 months)					
<b>REPUTATIONAL</b>	Erosion of trust in organization either rapidly or slowly over a period of time	11	Low	Low	↔	Mitigate	Executive Director	Board of Trustees		
<b>Current Status Summary (Trending)</b>	<b>2023 Risk Management Activities</b>							<b>Activity Status</b>		
Organizational outreach and communication regarding funding and legislative proposal provided transparency about challenges and solutions. Stakeholder comments have been received, reviewed, and to the extent possible addressed. COAERS leadership is engaged with stakeholders, the City, legislative contingent, and PRB.	Continue promoting COAERS value proposition to members including launch of new Financial Wellness event.							OPEN	CLOSED	
	Maintain contacts with industry media.							x		
	Respond rapidly and effectively as situations develop.							x		
	Keep stakeholders and membership informed and educated on key organization matters such as pension legislation.							x		
	<b>Notable Risks (Root Causes)</b>							<b>Probability</b>	<b>Impact</b>	<b>Risk Management Strategies and Action Items</b>
Negative or inaccurate media content			Medium	Medium	Develop relationships with industry media; Proactive media outreach; Engage consulting/crisis communications					
Social media comments			Medium	Low	Social Media Policy					
Unauthorized release of confidential information			Low	High	Control procedures and processes/financial audit					
Illegal/Unethical behavior			Low	High	Code of Ethics, Whistleblower Policy; Personnel Policy					
Poor outcomes for organization			Low	Medium	Customer service training; Engaging with stakeholders; Transparency					
Unauthorized contact with media			Low	Low	Communications Policy					

4th Quartile Risk



# Enterprise Risk Management Report

4th Quartile Risk	Risk Category	Risk Description	Rank	Risk Level 2022	Risk Level 2023	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee	
	ADAPTABILITY	Inability to meet the strategic mission and vision of the organization; not achieving best outcomes for the system	12	Low	Low	↔	Mitigate	Executive Director	Board of Trustees	
	<b>Current Status Summary (Trending)</b>	<b>2023 Risk Management Activities</b>							<b>Activity Status</b>	
	Strategic activities deployed in 2022 including the creation of an internal Innovation Committee. Strong engagement with staff led to several innovation submissions for review and implementation. Completed review of organizational strengths, challenges, threats, and opportunities at the Board and staff level.	Strategic KPIs for innovation.							OPEN	CLOSED
		Engagement with NACD, NCPERS, NASRA.							x	
		Develop and implement plans to build on key organizational strengths and address challenges.							x	
		Continue to promote culture statement internally and assess effectiveness through survey.							x	
	<b>Notable Risks (Root Causes)</b>		<b>Probability</b>	<b>Impact</b>	<b>Risk Management Strategies and Action Items</b>					
	Inability to innovate	Low	Medium	Implement technology and industry best practices; Professional development; Promote innovation internally						
	Inability to use analytics and data	Low	Medium	Utilize data and analytics						
Complacency and "we've always done it this way"	Low	Medium	Challenge traditional thinking; Engaging industry leading organizations; Executive Leadership							
Employee resistance to culture change	Low	Medium	Culture statement; Executive Leadership							



# Risks: Funding, Market, and Legislative

Audit and Risk Committee

March 9, 2023

# 2023 Enterprise Risk Management Report

	Risk Category	Risk Description	Rank	Risk Level 2022	Risk Level 2023	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee
1st Quartile Risk	FUNDING	A lack of sound funding for the plan could lead to insufficient assets to pay for long-term benefits and financial obligations.	1	High	High	↑	Mitigate	Executive Director	Benefits and Services Committee
	MARKET	Too little or too much exposure to market risk could lead to undesirable investment outcomes.	2	High	High	↑	Accept	Chief Investment Officer	Investment Committee
	CYBER	Ineffective cyber security controls could lead to breaches or sabotage of COAERS systems. Unauthorized access of confidential information could result in state or federal law violations and harm the best interests of COAERS.	3	High	High	↑	Mitigate	Chief Information Officer	Audit and Risk Committee
2nd Quartile Risk	OPERATIONAL	Event causes a major business interruption	4	Medium	Medium	↔	Mitigate	Deputy Executive Director	Audit and Risk Committee
	LEGISLATIVE	Legislative events lead to adverse relations, unfavorable legislation, and restricted funding	5	Medium	Medium	↑	Mitigate	Executive Director	Legislative Committee
	COUNTERPARTY	Business partners or entities are unable to fulfill their obligations or do not complete transactions as agreed upon.	6	Medium	Medium	↑	Mitigate	Executive Director, Deputy Executive Director, Chief Investment Officer, Chief Financial Officer, Chief Information Officer	Investment Committee, Audit and Risk Committee, Benefits and Services Committee, and Policy Committee
3rd Quartile Risk	MISSION	Inability to make monthly retirement benefit payments	7	Medium	Medium	↔	Mitigate	Executive Director and Deputy Executive Director	Audit and Risk Committee, and Investment Committee
	GOVERNANCE	Not following processes and procedures in decision making	8	Medium	Medium	↓	Mitigate and Transfer	Board of Trustees	Governance and Human Resources Committee
	PERSONNEL	Ability to attract and retain talented staff; succession planning	9	Medium	Medium	↔	Mitigate	Executive Director	Governance and Human Resources Committee, and Board of Trustees
4th Quartile Risk	PHYSICAL	Inadequate facilities management; ineffective space utilization; staff effort to manage issues	10	Low	Low	↔	Mitigate	Executive Director and Deputy Executive Director	Board of Trustees
	REPUTATIONAL	Erosion of trust in organization either rapidly or slowly over a period of time	11	Low	Low	↔	Mitigate	Executive Director	Board of Trustees
	ADAPTABILITY	Inability to meet the strategic mission and vision of the organization; not achieving best outcomes for the system	12	Low	Low	↔	Mitigate	Executive Director	Board of Trustees



# Funding Risks

# Meeting the System's Obligations: Providing Promised Benefits

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- The Board of Trustees has a fiduciary duty to monitor the funded status of the System.
- The mission statement of COAERS: Provide our members their promised benefits.
- COAERS Strategic Plan Goal #1: Achieve and maintain a funding level that ensures the long-term sustainability of the retirement system.



# Reporting of Actuarial and System Funding

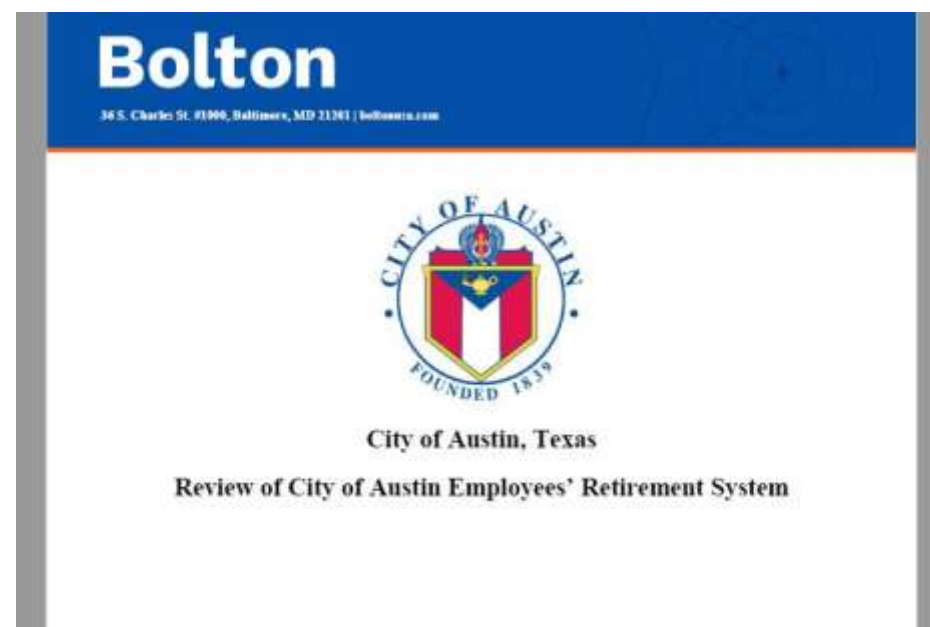
- The Board receives regular actuarial and system funding reports to monitor the ability of the System to meet its obligations:

City of Austin Employees' Retirement System  
Actuarial Valuation Report  
for the Year Ending December 31, 2020

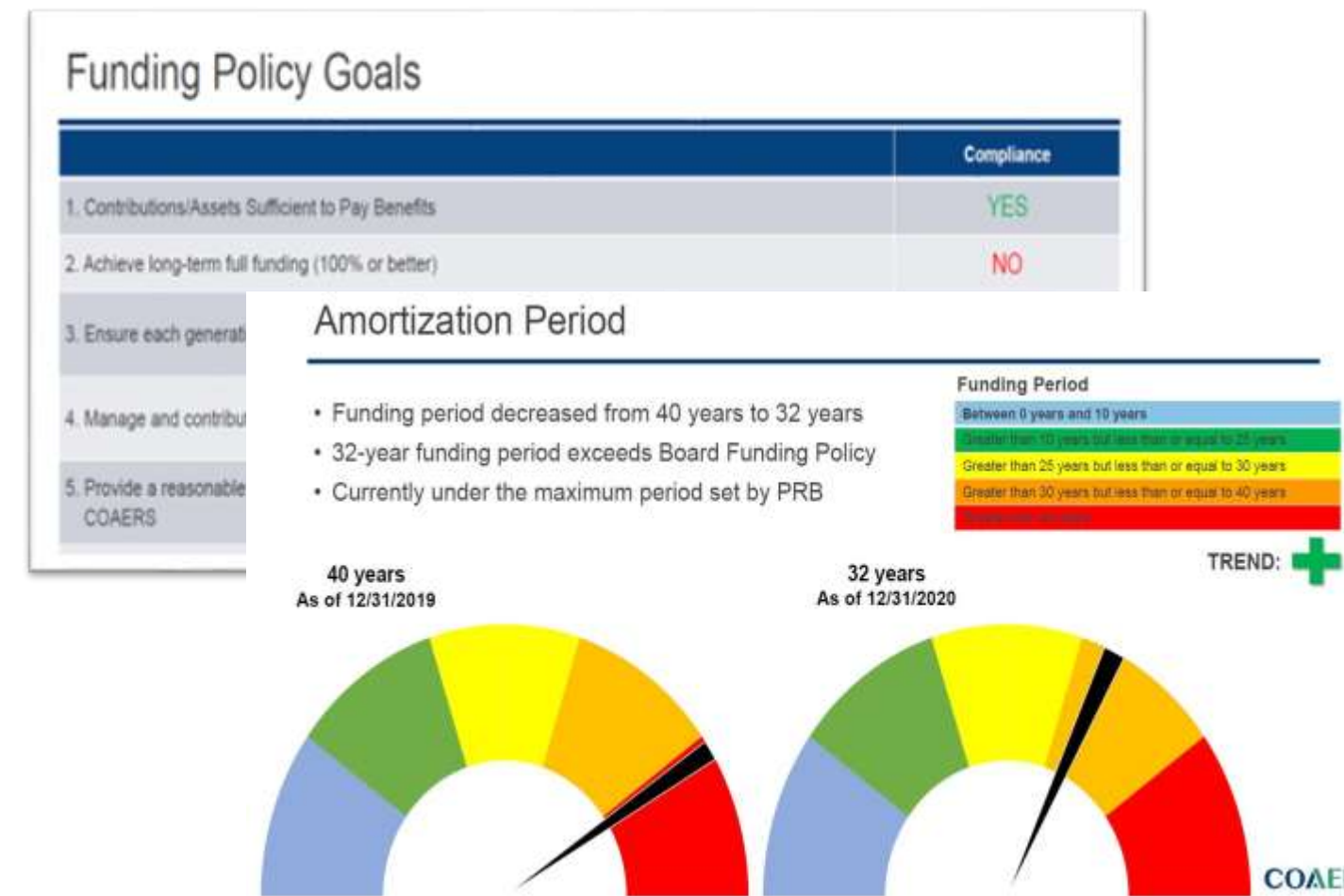
City of Austin Employees' Retirement System  
Actuarial Experience Study  
As of December 31, 2018



Reports from GRS Consulting



Actuarial Audit of GRS Actuary



Funding Dashboard

1st Quartile Risk

Risk Category	Risk Description	Rank	Risk Level 2022	Risk Level 2023	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee	
<b>FUNDING</b>	A lack of sound funding for the plan could lead to insufficient assets to pay for long-term benefits and financial obligations.	1	High	High	↑	Mitigate	Executive Director	Benefits and Services Committee	
<b>Current Status Summary (Trending)</b>	<b>2023 Risk Management Activities</b>							<b>Activity Status</b>	
								OPEN	CLOSED
System funded ratio and amortization period expected to deteriorate due to 2022 market losses.	Seek passage of pension legislation to address long-term financial sustainability							x	
	Conduct 12/31/2022 actuarial valuation and risk sharing valuation study							x	
	Update Funding Policy with City of Austin and continue reporting to Board								
	Inform members and stakeholders on legislative progress and provide notice of bill enactment and effective dates of admin changes							x	
	Host stakeholder meeting on funded status of the System								
	Continue regular cash flow and benefit monitoring.							x	
<b>Notable Risks (Root Causes)</b>			<b>Probability</b>	<b>Impact</b>	<b>Risk Management Strategies and Action Items</b>				
Assets insufficient to fund liabilities			High	High	Annual Actuarial Valuation and Board Funding Policy				
Contribution rates are not sufficient to fund benefits			High	High	Asset/Liability Study				
Sponsor closes DB plan in favor of DC plan			High	Medium	Communication with membership				
Unexpected decline in sponsor payroll			Medium	Medium	Cash flow monitoring and monthly benefit reporting				
Rate of Return assumption too aggressive			Medium	Medium	Actuarial Experience Studies				
Unexpected increase in benefits payroll			Medium	Medium	Cash flow monitoring and monthly benefit reporting				
Actuarial miscalculation			Low	Medium	Actuarial Audit by sponsor				



# Reporting of Actuarial and System Funding

2023 RECAP				
	2023 - CONSERVATIVE FORECAST	2023 PROJECTED MONTHLY NET CASH FLOW	2023 FORECASTED TRANSFERS from CUSTODIAL ACCOUNT	2023 FORECASTED EOM BALANCE
1/1/2023				10,500,000
JANUARY		(7,175,800)	5,000,000	8,324,200
FEBRUARY		(36,115,399) *	36,500,000 *	8,708,801
MARCH		2,422,704	0	11,131,505
APRIL		(7,038,407)	5,000,000	9,093,098
MAY		(6,328,948)	6,000,000	8,764,151
JUNE		(6,658,283)	6,500,000	8,605,868
JULY		(6,714,242)	6,500,000	8,391,626
AUGUST		(6,637,979)	6,500,000	8,253,647
SEPTEMBER		2,215,425	0	10,469,072
OCTOBER		(6,610,833)	5,000,000	8,858,238
NOVEMBER		(6,239,208)	6,000,000	8,619,030
DECEMBER		(5,885,879)	6,000,000	8,733,151
		(90,766,849)	89,000,000 *	8,733,151
			59,000,000 OPERATING NEEDS	
			30,000,000 BLDG PURCHASE	

2023 Cash Flow Projections

By: Zaffirini, Eckhardt S.B. No. 1444

A BILL TO BE ENTITLED  
AN ACT

relating to the public retirement systems for employees of certain municipalities.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Section 2, Chapter 451, Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas Civil Statutes), is amended by adding Subdivisions (2A), (3A), (5A), (5B), (10A), (10B), (13A), (13B), (13C), (19A), (19B), (19C), (20A), (26A), (26B), (26C), (26D), (26E), (29A), (31A), (31B), (33A), (33B), (35A), (44A), and (44B) to read as follows:

(2A) "Actuarial accrued liability" means the portion of the actuarial present value of projected benefits of the retirement system attributed to past periods of member service based on the cost method used in the risk sharing valuation study under Section 10B or 10C of this Act, as applicable.

(3A) "Actuarial value of assets" means the value of the retirement system's assets as calculated using the asset smoothing method used in the risk sharing valuation study under Section 10B or 10C of this Act, as applicable.

(5A) "Amortization period" means:

(A) the period necessary to fully pay a liability layer; or

Legislation

City of Austin Employees' Retirement System  
Actuarial Valuation Report  
for the Year Ending December 31, 2022



Reports from GRS Consulting



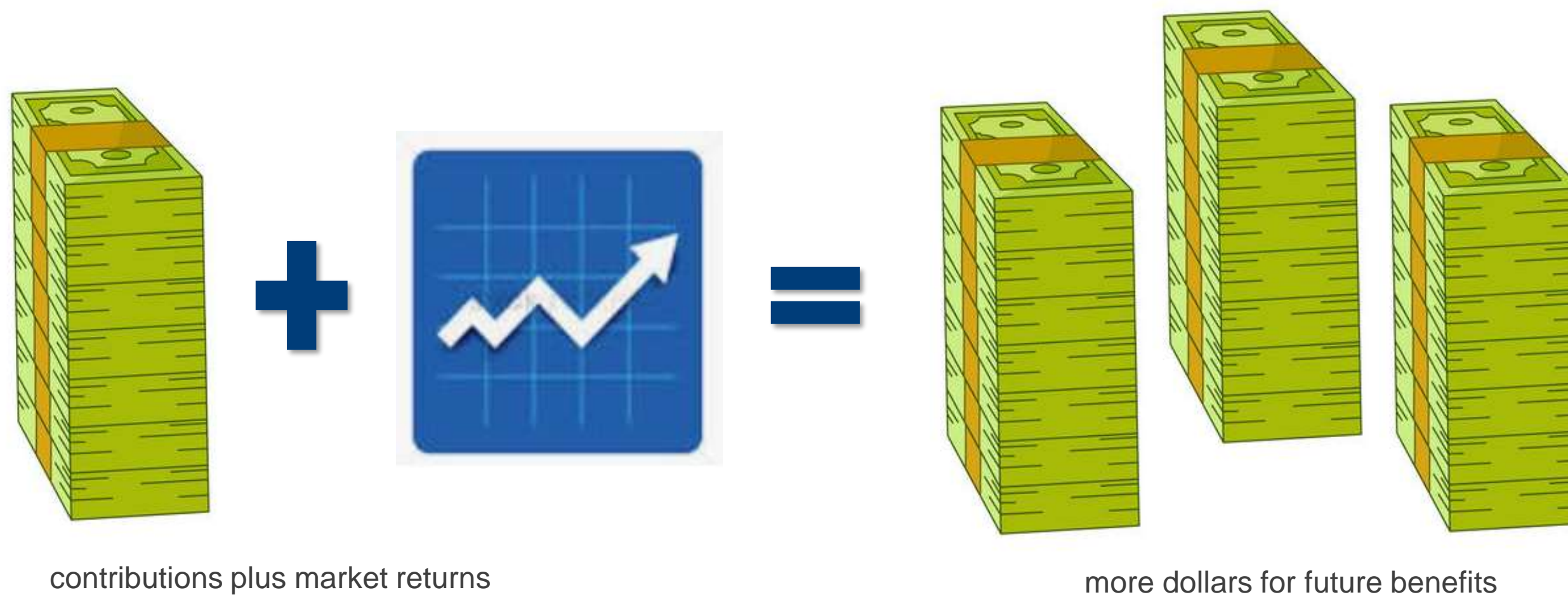
# Market Risks

# Purpose of the Fund

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*“The sole purpose of the Fund is to accumulate the financial reserves necessary to provide benefits to eligible members of the System and their beneficiaries.”*

- COAERS Investment Policy Statement



# Better Returns = Sustainable Benefits

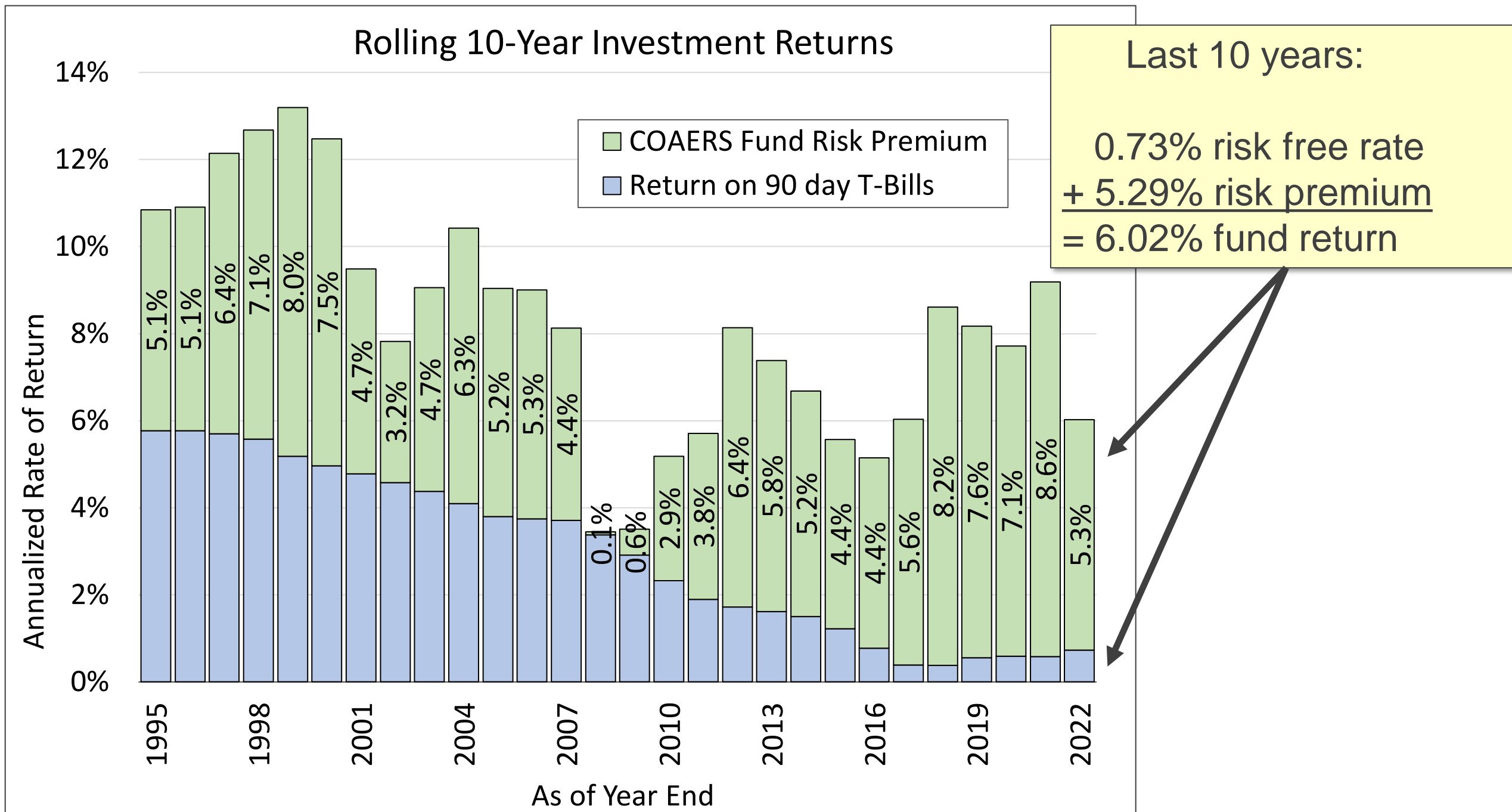


**50-60%** of future retirement benefits are funded by future investment returns

**80-90%** of long-term investment returns are determined by asset allocation

# Earning the Market Risk Premium

- Returns for the COAERS Fund have averaged 5.3% above the risk-free rate on rolling ten-year horizons over the last 25 years
- This extra return represents realized compensation for bearing investment risk, which is often referred to as the **“market risk premium”**

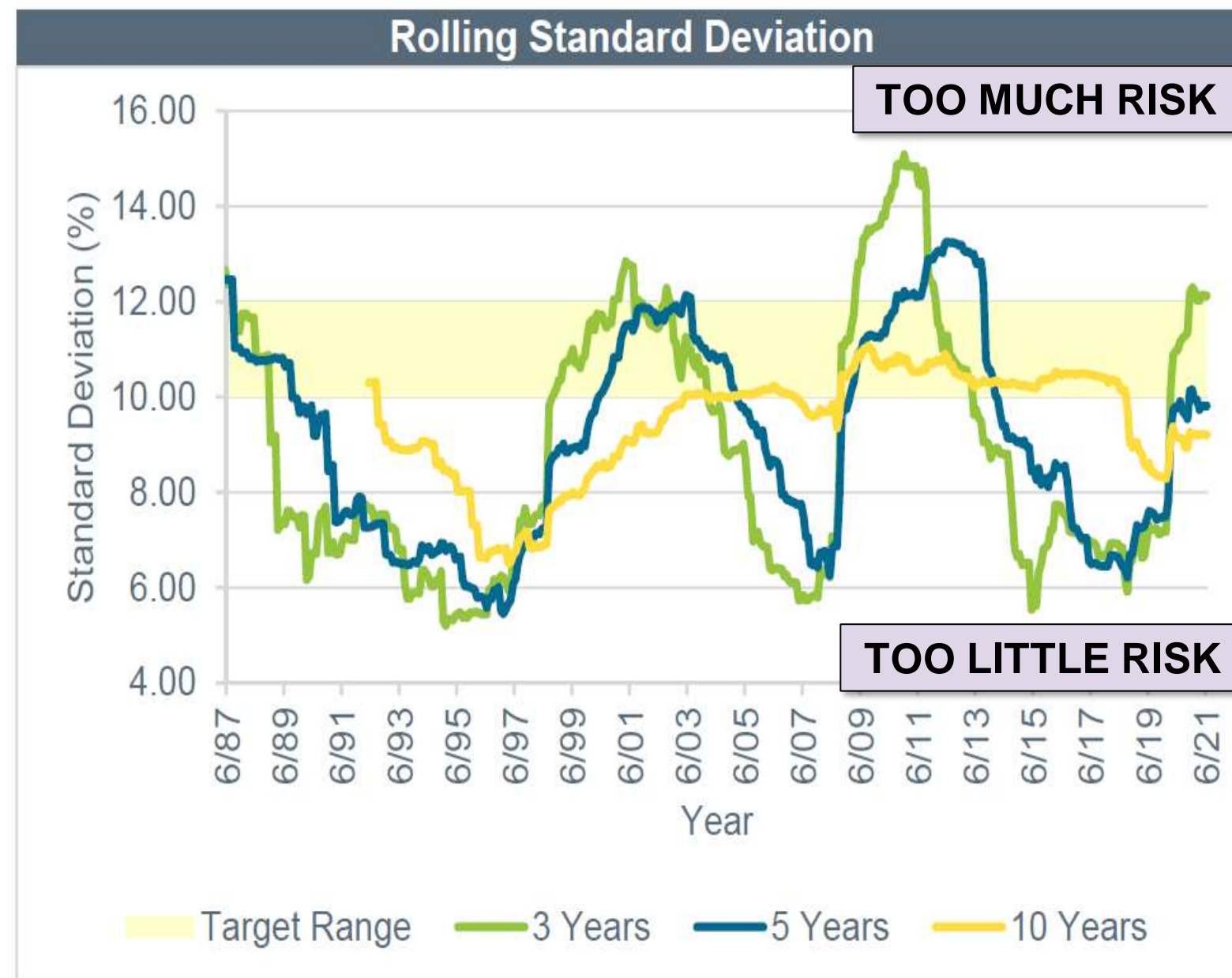


Source: Staff analysis of RVK data



# Effective Risk Management Is Critical

- Over time the risk of the COAERS fund has varied significantly from the long-term expected range in the IPS, both on the upside and downside
- Highly variable risk hurts compound returns by incurring unnecessary losses in volatile environments and underearning in more placid states



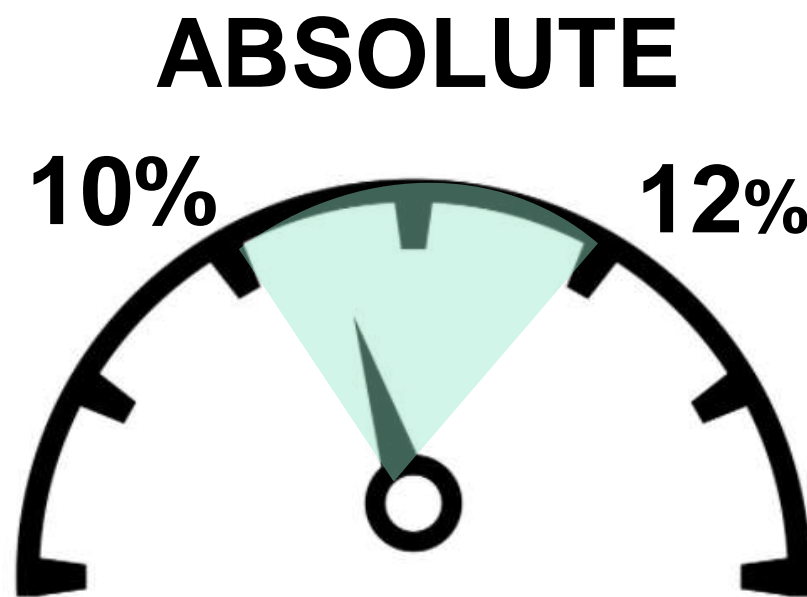
Hold cash in high-risk periods to help preserve capital

+

Add leverage in low-risk periods to help earn returns

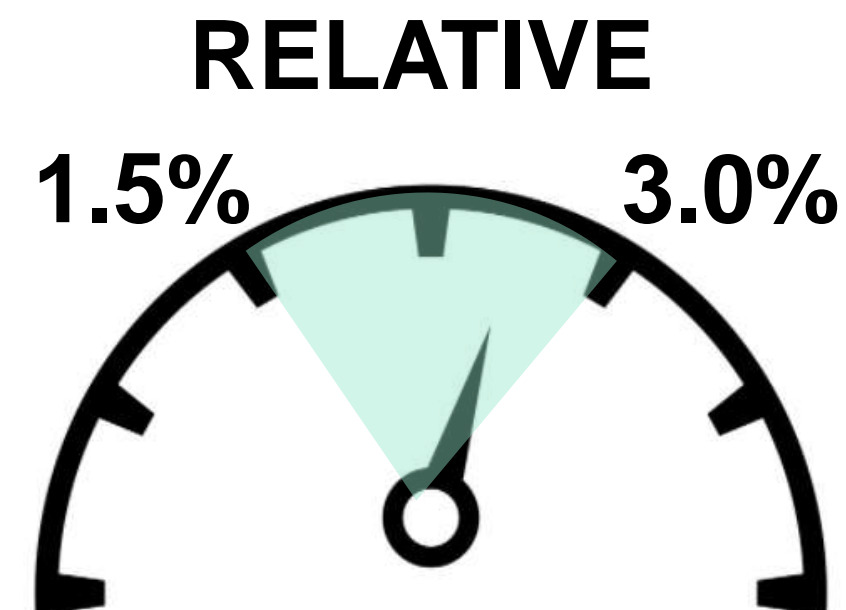
Source: Staff analysis of data from RVK

# Risk is Central to the Investment Process



**TARGET VOLATILITY**

Sharpe ratio of **0.4** on **10-12%** volatility implies a **4-5%** passive market risk premium



**TARGET TRACKING ERROR**

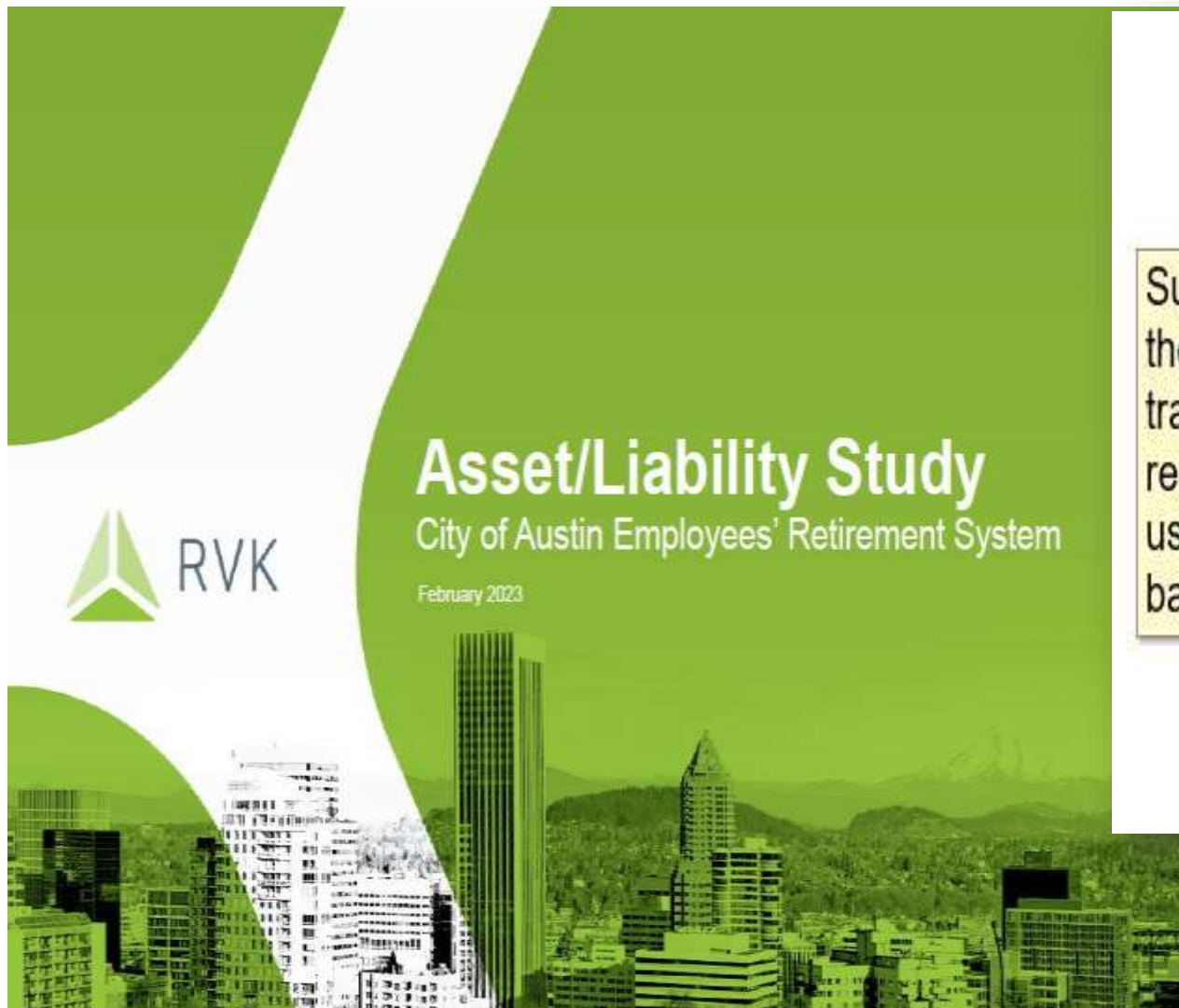
Information ratio of **0.5** on **1.5-3.0%** tracking error implies a **0.75-1.50%** excess return

**Processes to manage these risks:  
Investment Risk Framework and Premier List**

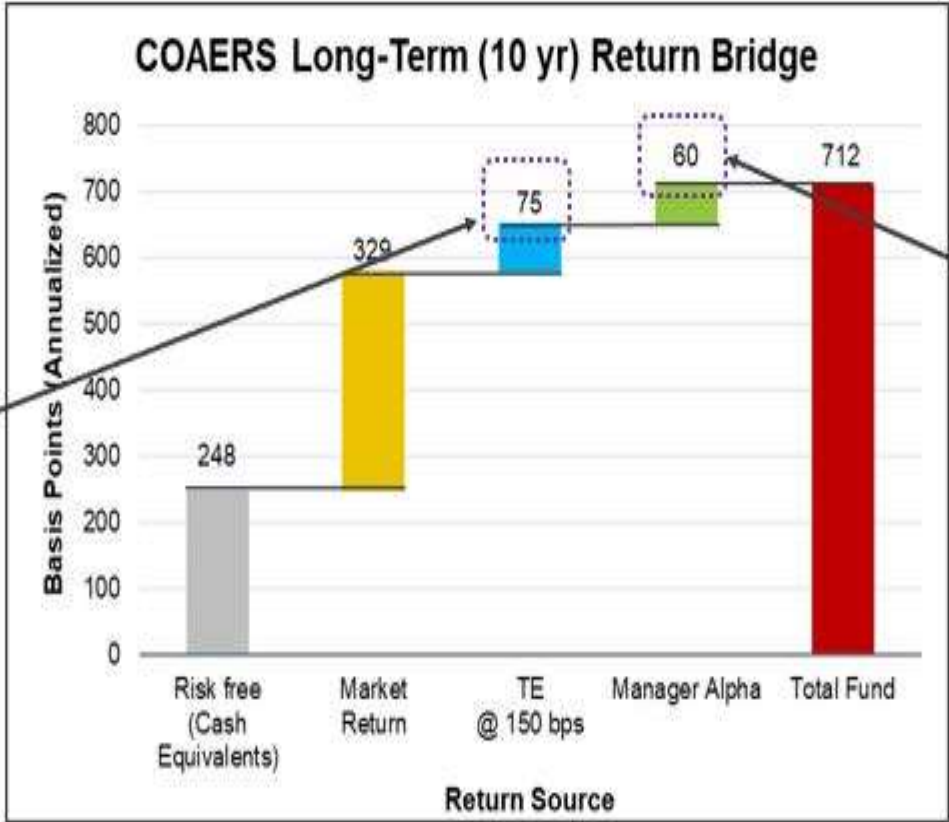
1st Quartile Risk

Risk Category	Risk Description	Rank	Expected Risk Level			Risk Response	Risk Owner	Reporting and Oversight Committee	
			Risk Level 2022	Risk Level 2023	Trend (next 12 months)				
<b>MARKET</b>	Too little or too much exposure to market risk could lead to undesirable investment outcomes.	2	High	High	↑	Accept	Chief Investment Officer	Investment Committee	
<b>Current Status Summary (Trending)</b>	<b>2023 Risk Management Activities</b>							<b>Activity Status</b>	
Large drawdown of -15% as of 12/31/2022 has increased realized volatility on a 5-year basis to near the upper end of the range targeted in policy. Relative outperformance has somewhat dampened the current drawdown in Fund AUM.								OPEN	CLOSED
	Conduct Asset/Liability and Asset Allocation study to evaluate appropriateness of the Strategic Asset Allocation							X	
	Update Investment Risk Framework by deploying investment risk management software to enhance risk management capabilities							X	
	Conduct CEM Investment Cost Benchmarking to evaluate value for investment fees paid							X	
<b>Notable Risks (Root Causes)</b>			<b>Probability</b>	<b>Impact</b>	<b>Risk Management Strategies and Action Items</b>				
Large market drawdown			High	High	Investment Risk Framework				
Lower longer-term performance vs. assumed rate			Medium	High	Strategic Asset Allocation Study and Asset/Liability Study				
Failure to adapt diversification strategy			Medium	High	Investment Risk Framework				
Poor investment manager performance			Medium	Medium	Premier List				
Poor implementation of policy leads to underperformance vs. the benchmark			Medium	Medium	Annual review of key policies, regular performance rating				
Poor value for investment fees paid			Low	Medium	Premier List and CEM Investment Benchmarking				
Chasing performance			Low	Medium	Strategic Asset Allocation Reviews (annual)				





Successful use of the budgeted tracking error requires effective use of the SAA bands



Manager alpha is needed to help bridge the gap but may contribute to additional tracking error

COAERS

**City of Austin Employees' Retirement System  
Standard Operating Procedure**

**INVESTMENT RISK FRAMEWORK**

**Date Implemented:** March 31, 2020

**Date Updated:** February 16, 2023



COAERS



# Legislative Risks

# Ensure the long-term sustainability of the System

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COAERS Strategic Plan  
Goal #1: Achieve and maintain a funding level that ensures the long-term sustainability of the retirement system.



# Legislative Risk Management



Local and national policy groups regularly target public defined benefit systems for adverse policy including closing those systems in favor of defined contribution plans.

COAERS governing statute is codified in State Law. This means changes must be approved by the Texas Legislature.

The Board partners with a governmental relations consultant to help provide expertise and guidance in managing the Texas political landscape.



COAERS and the City of Austin are working together to develop a framework to ensure the long-term financial sustainability of the System which will require legislation to be passed.

Risk Category	Risk Description	Rank	Risk Level 2022	Risk Level 2023	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee
<b>LEGISLATIVE</b>	Legislative events lead to adverse relations, unfavorable legislation, and restricted funding	5	Medium	Medium	↑	Mitigate	Executive Director	Legislative Committee

Current Status Summary (Trending)	2023 Risk Management Activities	Activity Status	
		OPEN	CLOSED
The 88th Legislative Session begins in January 2023. COAERS will be seeking the passage of legislation to improve the long-term financial sustainability of the System.	Seek passage of pension legislation.	x	
	Engage and educate key stakeholders and policymakers regarding COAERS 88th Legislative Session agenda.	x	
	Develop and adopt COAERS legislative agenda for 88th Session.	x	
	Engage stakeholders regarding legislative agenda and priorities.	x	

Notable Risks (Root Causes)	Probability	Impact	Risk Management Strategies and Action Items
State forces legislative changes to plan	High	High	Engagement with governmental relations firms; development of legislative priorities and agenda; Increase stakeholder engagement on legislative agenda through events and meetings
Lack of relationships with key offices	High	High	Communications planning for legislative agenda messaging
Risks to the COAERS reputation elevated as the legislation grabs the attention of opponents (DB pundits; Members; Groups that oppose our legislation)	High	High	Monitor sentiments; address concerns
Outside organizations promoting anti-DB policies	High	Medium	Identify potential opposition groups and stakeholders and create unified messaging to combat misinformation
Negative or inaccurate media content	High	Medium	Develop relationships with industry media; Proactive media outreach; Engage consulting/crisis communications
Social media comments	High	Low	Social Media Policy
Unauthorized contact with media	High	Low	Communications Policy
Lack of alignment with plan sponsor	Low	Medium	Develop and maintain strong communication with appropriate plan sponsor liaisons

# Reporting of Actuarial and System Funding



CITY OF AUSTIN  
EMPLOYEES' RETIREMENT SYSTEM

## Member Submitted Comments on Plan Sustainability Legislative Proposal

### Pathway to Plan Sustainability: Legislative Proposal Update

The COAERS Board received a report relative to pension legislation development for the 88th Legislative Session. During his update to the Board, Executive Director Christopher Hanson shared that the proposed changes to the COAERS governing statute have been submitted to the Legislative Council for review and COAERS is waiting to receive the final draft bill, which will then be finalized and filed. The goal is to have a final bill ready for filing that meets all the agreed to points between COAERS and the City of Austin. The legislative proposal touches on several policy areas, including funding, benefits and contributions, and governance. The key concepts proposed for consideration include:

- Moving to a flexible actuarially determined employer contribution rate, which can increase to keep the plan on a steady path toward full funding;
- Implementing a phased-in payment schedule for the City of Austin to pay off the Unfunded Actuarial Accrued Liability, or "legacy liability," within a 30-year period;
- Increasing employee contributions by 2%, from 8% to 10%, over a two-year phase-in period.
- Modifying benefit policies such as service purchases and sick-leave conversions that will mitigate the risk of future costs to the System

- Converting one elected active member COAERS board position to a City of Austin appointed position; and
- Requiring support from both COAERS and the City of Austin for future cost of living adjustments.

Last fall, COAERS also hosted a member forum to discuss and receive feedback about the legislative proposal and met with the Pension Review Board to present the proposal. For updates and information about the legislative proposal, visit [www.coaers.org/plansustainability](http://www.coaers.org/plansustainability).



Annual Member Statement is

Stakeholder Engagement

By: Zaffirini, Eckhardt

S.B. No. 1444

### A BILL TO BE ENTITLED

### AN ACT

1  
2 relating to the public retirement systems for employees of certain  
3 municipalities.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

5 SECTION 1. Section 2, Chapter 451, Acts of the 72nd  
6 Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas  
7 Civil Statutes), is amended by adding Subdivisions (2A), (3A),  
8 (5A), (5B), (10A), (10B), (13A), (13B), (13C), (19A), (19B), (19C),  
9 (20A), (26A), (26B), (26C), (26D), (26E), (29A), (31A), (31B),  
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12 of the actuarial present value of projected benefits of the  
13 retirement system attributed to past periods of member service  
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15 under Section 10B or 10C of this Act, as applicable.

16 (3A) "Actuarial value of assets" means the value of  
17 the retirement system's assets as calculated using the asset  
18 smoothing method used in the risk sharing valuation study under  
19 Section 10B or 10C of this Act, as applicable.

20 (5A) "Amortization period" means:  
21 (A) the period necessary to fully pay a liability  
22 layer; or

COAERS Legislation

By: Paul

H.B. No. 2068

### A BILL TO BE ENTITLED

### AN ACT

1  
2 relat  
3 and t  
4 vendo  
5  
6  
7 amend  
8  
9 GOVER  
10 DUTY  
11 802.2  
12 admin  
13 quali  
14 this

By: Hughes

S.B. No. 1446

### A BILL TO BE ENTITLED

### AN ACT

1  
2 relating to the fiduciary responsibility of the governing body of  
3 the public retirement systems in this state and the investment  
4 agents acting on behalf of those systems.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

6 SECTION 1. Section 802.001, Government Code, is amended by  
7 adding Subdivisions (1-b), (2-b), (2-c), and (2-d) to read as  
8 follows:

9 (1-b) "Financial factor" means a factor taken into  
10 consideration when making investment decisions that a prudent  
11 investor would expect to have a material effect on the financial  
12 risk or return of an investment based on appropriate investment  
13 horizons and consistent with the objectives of any controlling  
14 investment plan.

Other Legislation



6B. Receive report on the cybersecurity risk

1. Convene into Executive Session pursuant to Section 551.071, Texas Government Code, Section 1.05, Texas Disciplinary Rules of Professional Conduct, and Section 551.089, Texas Government Code, to consult with legal counsel and deliberate security assessments or deployments relating to information resources technology, network security information described in Section 2059.055, Texas Government Code, and deployment and implementation of security personnel, critical infrastructure, and security devices

2. Reconvene into open session to take action as determined appropriate regarding security assessments or deployments relating to information resources technology, network security information described in Section 2059.055, Texas Government Code, and deployment and implementation of security personnel, critical infrastructure, and security devices

Presented by Amy Kelley



## COMMITTEE MEETING Agenda Item Information Sheet

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### AGENDA ITEM 6:

Discuss and consider COAERS Enterprise Risk Management program

B. Receive report on the cybersecurity risk

#### AGENDA ITEM OBJECTIVE

This agenda item is for discussion of the cyber risk category in the Enterprise Risk Management Report.

#### RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 2: Responsibly manage the risks of the System**. The Committee's regular review of COAERS Enterprise Risk Management System is one of the strategic objectives of Goal 2 and a key performance indicator is the successful implementation of all annual risk management activities.

#### RECOMMENDATION FOR COMMITTEE ACTION

At the Committee's discretion.

#### BACKGROUND

The 2022 Enterprise Risk Management Report contains 12 risk categories. For this agenda item, the Committee will review cyber risk.

#### ATTACHMENTS

1. Staff Presentation: "Cybersecurity Program Update"



## 7. Review key meeting takeaways and call for future agenda items

Presented by Committee Chair Benson



## COMMITTEE MEETING Agenda Item Information Sheet

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### AGENDA ITEM 7:

Review key meeting takeaways and call for future agenda items

#### AGENDA ITEM OBJECTIVE

This standing agenda item provides Trustees the opportunity to review the key takeaways from the meeting.

#### RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 4: Identify and implement leading practices in board governance, pension administration, and investment management**. It is an industry best practice to review key meeting takeaways to summarize what was accomplished at the meeting as well as ensure Staff has clear direction on further work and future agenda items.

#### RECOMMENDATION FOR COMMITTEE ACTION

Trustees will review key meeting takeaways and delineate next steps.