



Arizona State Retirement System  
**BOARD OF TRUSTEES**

**Ad Hoc  
Compensation Committee**

**March 13, 2015**

A wide-angle photograph of a desert landscape. In the foreground, a calm body of water reflects the sky and the surrounding terrain. The middle ground shows a large, flat-topped mesa with vertical rock formations, characteristic of the Grand Canyon area. The background is a clear, bright blue sky. The overall scene is bathed in the warm, golden light of late afternoon or early morning.

*Arizona State Retirement*  
**SYSTEM**

A COMPONENT UNIT OF THE STATE OF ARIZONA ■ DELIVERING SERVICE WITH PRIDE

# HOW...

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## **ASRS Employees Deliver Service With PRIDE!**

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### **PROFESSIONALISM**

*We promote, strive for and expect individuals, teams, and divisions to possess professional qualities and skills to lead the organization.*

- Displays a friendly, respectful and courteous demeanor even when confronted by adversity
- Has proactive and responsive approach to internal and external customer needs
- Possesses good communication and active listening skills
- Is a trusted contributor (manager, leader, SME, analyst, teammate)
- Takes personal accountability • Has subject matter expertise
- Has critical thinking skills • Has an honest, fair, non-judgmental mind-set
- Is adaptable to beneficial change • Adheres to the ASRS Code of Conduct

### **RESULTS**

*We treasure the achievements of individuals, teams, divisions and the agency that energize the organization.*

- Meets goals and objectives
- Completes projects
- Produces quality work products
- Satisfies customers
- Attains individual accomplishments
- Manages risks successfully

### **IMPROVEMENT**

*We appreciate individuals, teams or divisions who drive the agency forward with new, innovative ideas and solutions.*

- Promotes new ideas
- Enhances outcomes and performance
- Solves problems
- Enhances morale
- Improves relationships
- Increases efficiency, effectiveness or reduces costs

### **DIVERSITY**

*We recognize that utilizing different talents, strengths and points of view, strengthens the agency and helps propel outcomes greater than the sum of individual contributors.*

- Encourages an attitude of openness and a free flow of ideas and opinions
- Treats others with dignity and respect
- Works effectively to accomplish goals with teams comprised of dissimilar individuals
- Recognizes and promotes skills in others attained on and off the job

### **EXCELLENCE**

*We celebrate individuals, teams and divisions who exceed expectations and deliver service with a PRIDE that permeates the organization.*

- Surpasses member, stakeholder and associate expectations
- Demonstrates a willingness to go the extra mile to engender a positive public image
- Embraces change in a manner that inspires others
- Accepts responsibility and challenges with enthusiasm
- Takes a personal interest in promoting teamwork through effective use of communication (verbal, non-verbal, written and technological techniques)
- Creates a motivated, healthy and productive work environment that celebrates and rewards the accomplishments of others



**ARIZONA STATE  
RETIREMENT SYSTEM**



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson*  
Director

## AGENDA NOTICE OF A PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM BOARD AD HOC COMPENSATION COMMITTEE

14<sup>th</sup> Floor Conference Room  
3300 North Central Avenue  
Phoenix, AZ 85012

March 13, 2015  
2:30 p.m. Arizona Time

Pursuant to A.R.S. § 38-431.02, notice is hereby given to the Trustees of the Arizona State Retirement System (ASRS) Board Ad Hoc Compensation Committee and to the general public that the ASRS Ad Hoc Compensation Committee will hold a meeting open to the public on Friday, March 13, 2015 beginning at 2:30 p.m. Arizona Time in the 14th Floor Conference Room of the ASRS office, 3300 North Central Avenue, Phoenix, AZ 85012. Trustees of the Committee may attend either in person or by telephone conference call.

This is a meeting of the Ad Hoc Compensation Committee; however, due to possible attendance by other ASRS Board Trustees, this meeting may technically become a meeting of the Board or one of its committees. Actions taken will be consistent with Board Committee procedures. Actions requiring Board authority will be presented to the full Board for final decision.

The Chair may take public comment during any agenda item. If any member of the public wishes to speak to a particular agenda item, they should complete a Request to Speak Form indicating the item and provide it to the Committee Administrator.

This meeting will NOT be teleconferenced to the ASRS Tucson office conference room at 7660 E. Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

The Agenda for the meeting is as follows:

1. Call to Order; Roll Call; Opening Remarks..... Mr. Tom Manos  
Compensation Committee Chair
2. Approval of the Minutes of the November 12, 2014 Public Meeting of the Ad Hoc Compensation Committee..... Mr. Tom Manos
3. Presentation, Discussion and Appropriate Action Regarding the Review of ASRS Investment Compensation Plan Results for Fiscal Year 2014..... Mr. Paul Matson  
Director  
..... Mr. Anthony Guarino  
Deputy Director and Chief Operations Officer  
..... Ms. Martha Rozen  
Chief of Administrative Services
4. Presentation, Discussion and Appropriate Action with Regard to Compensation and Incentive Strategies in the Investment Management Industry ..... Ms. Martha Rozen

.....Ms. Susan Lemke  
Principal, Mercer Talent  
.....Ms. Kristen Luetto  
Associate, Mercer Talent

5. Presentation, Discussion and Appropriate Action with Regard to the ASRS Compensation Strategies..... Mr. Paul Matson  
..... Mr. Anthony Guarino  
..... Ms. Martha Rozen

6. Call to the Public..... Mr. Tom Manos

Those wishing to address the ASRS Committee are required to complete a Request to Speak Form before the meeting indicating their desire to speak. Request to Speak Forms are available at the sign-in desk and should be given to the Committee Administrator. Trustees of the Committee are prohibited by A.R.S. § 38-431.01(G) from discussing or taking legal action on matters raised during an open call to the public unless the matters are properly noticed for discussion and legal action. As a result of public comment, the Committee Chair may direct staff to study and/or reschedule the matter for discussion and decision at a later date.

7. Adjournment of the Compensation Committee

A copy of the agenda background material provided to the Compensation Committee Trustees (with the exception of material relating to possible executive sessions) is available for public inspection at the ASRS offices located at 3300 North Central Avenue, 14th Floor, Phoenix, Arizona and 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona. The agenda is subject to revision up to 24 hours prior to meeting. These materials are also available on the ASRS website (<https://www.azasrs.gov/web/BoardCommittees.do>) approximately 48 hours prior to the meeting.

Persons(s) with disabilities may request a reasonable accommodation such as a sign language interpreter or alternate formats of this document by contacting Tracy Darmer, ADA Coordinator at (602) 240-5378 in Phoenix, at (520) 239-3100, ext. 5378 in Tucson or 1-800-621-3778, ext. 5378 outside metro Phoenix or Tucson. Requests should be made as early as possible to allow time to arrange the accommodations.

Dated March 6, 2015

ARIZONA STATE RETIREMENT SYSTEM

\_\_\_\_\_  
Melanie A. Alexander  
Committee Administrator

Date

\_\_\_\_\_  
Paul Matson  
Director

Date



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson*  
Director

## MINUTES

### PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD (AD HOC COMPENSATION COMMITTEE)

Wednesday, November 12, 2014  
9 a.m. Arizona Time

The Arizona State Retirement System (ASRS) Ad Hoc Compensation Committee met in the 14th Floor Conference Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Tom Manos, Chair of the ASRS Committee, called the meeting to order at 9:05 a.m., Arizona Time.

#### 1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Manos, Chair  
Professor Dennis Hoffman  
Mr. Kevin McCarthy  
Mr. Tom Connelly

Absent: Mr. Brian McNeil

A quorum was present for the purpose of conducting business.

#### 2. Approval of the Minutes of the October 14, 2014 Public Meeting of the Ad Hoc Compensation Committee

**Motion:** Mr. Kevin McCarthy moved to approve the minutes of the October 14, 2014 Public Meeting of the Ad Hoc Compensation Committee. Professor Dennis Hoffman seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

#### 3. Presentation, Discussion and Appropriate Action with Regard to ASRS Budgeting Processes, Authorization Processes, and Governance Structure with Respect to Employee Compensation and Compensation Strategies

Mr. Paul Matson, Director provided an overview of the items to be discussed during this agenda item; including budgeting processes, authorization processes and governance structure. Mr. Matson turned the meeting over to Ms. Martha Rozen, Chief of Administrative Services, who presented on the different processes.

Ms. Rozen discussed A.R.S. § 38-611.01 which provides the ASRS with its authority to administer a compensation plan for investment-related personnel, and A.R.S § 41-742 which provides ADOA with its authority to administer the state personnel system. Personnel Reform moved the ASRS under the Department of Administration (ADOA), and the ASRS must now seek approval from ADOA for classifications and compensation changes. Ms. Rozen also provided an overview of the budgeting process which includes presentations to the Operations and Audit Committee and to the full Board for approval, as well as an overview of the agency governance.

**4. Presentation, Discussion and Appropriate Action with Regard to the ASRS Employee Compensation Histories, Levels, Current and Past Strategies and Results, and Comparative Data**

Ms. Rozen led the discussion of this agenda item, reviewing the ADOA history of salary adjustments for the past five years as well as the ASRS history of salary adjustments for the same time period. Also discussed were variable compensation awards to ASRS staff during FY 2013 and FY 2014.

**5. Presentation, Discussion and Appropriate Action Regarding Future Agenda Topics and Meeting Dates**

Mr. Connelly requested the ASRS contract with a consultant to present information on public and private compensation for Investment Professionals. The next meeting date will be determined once a consultant has been procured.

**6. Call to the Public**

No members of the public requested to speak.

**7. Adjournment of the ASRS Ad Hoc Compensation Committee**

Mr. Tom Manos adjourned the November 12, 2014, Committee meeting at 9:45 a.m.

ARIZONA STATE RETIREMENT SYSTEM

\_\_\_\_\_  
Gayle Williams  
Board Administrator

Date

\_\_\_\_\_  
Paul Matson  
Director

Date



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson*  
Director

## MEMORANDUM

**TO:** Mr. Tom Manos, Chair, ASRS Ad Hoc Compensation Committee

**FROM:** Mr. Paul Matson, Director  
Mr. Anthony Guarino, Deputy Director and Chief Operations Officer  
Ms. Martha Rozen, Chief of Administrative Services

**DATE:** March 13, 2015

**RE:** **Agenda Item #3:** Presentation and Discussion Regarding Review of ASRS Investment Compensation Plan Results for Fiscal Year 2014

### Purpose

To review the ASRS Fiscal Year 2014 Incentive Compensation Plan results for Internal ASRS Investment Professionals.

### Background

On November 22, 2013, the ASRS Board of Trustees discussed and approved the ASRS Investment Compensation Plan (ICP) for Internal Investment Professionals. On November 29, 2013, the plan was provided to the Governor, the President of the Senate, the Speaker of the House of Representatives, the Governor's Office of Strategic Planning and Budgeting, the Joint Legislative Budget Committee, and the Department of Administration, as required by statute.

The ASRS investment professionals support the fiduciary responsibilities of the Board of Trustees by recommending, allocating, and investing fund assets to maximize risk-adjusted returns in order to meet long-term retirement liabilities and reduce required contributions. The ASRS ICP was designed to contribute to the ASRS' ability to achieve the following objectives:

- Retain high caliber investment professionals
- Attract high caliber investment professionals
- Incentivize investment performance

Specifically, the ICP provides the opportunity for investment professionals to receive variable incentive-based pay based upon investment performance above various benchmarks. Each year, it is expected the annual costs of the ICP will range from approximately \$0 - \$350,000, depending on performance in various categories, staffing levels, and compensation levels.

### ICP Results in Fiscal Year 2014

In accordance with the ICP, ASRS staff calculated the incentive compensation for the performance period beginning July 1, 2013 and ending June 30, 2014. Preliminary reviews of the calculations were performed by the ASRS Controller and Budget/Procurement Manager, and the process was completed by a Senior Management Analyst (who is not eligible for participation in the ICP) assigned to the Strategic Planning and Analysis unit of the Director's Office. Additionally, the ICP calculations were reviewed by the ASRS Executive Director, also ineligible for participation in the ICP, and the ASRS's independent Investment Consultant, NEPC, who are also ineligible for participation in the ICP.

The calculation of the ICP relied on investment returns calculated by two independent firms. Time Weighted Rates of Return for Public Markets were calculated by NEPC and utilized data provided by the independent custody bank, State Street. Internal Rates of Return for Private Markets were calculated by Grosvenor Capital Management, an independent investment performance and back office service provider for private markets, utilizing data provided by State Street. All returns and relevant benchmarks were calculated to three decimal places to ensure an accurate assessment of excess or under performance in Asset Classes, Internal Portfolios, and the Total Fund.

The level of excess or under performance for each asset class and internal portfolio was weighted by beginning market value to determine the aggregate internal portfolio and asset class performance. The aggregate excess or under performance for the one and three-year periods determined the score applied to each measured category in the ICP.

### Estimated Dollar Impact of Investment Decisions

	<u>1-Year</u>	<u>3-Year</u>
<b>Internally Managed Portfolios*</b>	\$5,337,974	\$20,269,688
<b>Tactical Allocations and Manager Selection**</b>	\$212,473,457	\$347,236,875
<b>Total Fund Compared to Peers***</b>	\$874,620,231	\$1,644,001,129

\*Calculation: Sum of (ASRS Net of Fees Return – Benchmark Net of Fees Return) x Monthly or Quarterly Market Value.

\*\*Calculation: Sum of (ASRS Net of Fees Return – Benchmark Net of Fees Return) x Monthly or Quarterly Market Value.

\*\*\*Calculation: (Annual ASRS Gross of Fees Return – Annual Peer Median Gross of Fees Return) x Beginning Market Value of Assets

Note 1: 'Internally Managed Portfolios' is included in 'Tactical Allocations and Manager Selection' and also in 'Total Fund Compared to Peers'. 'Tactical Allocations and Manager Selection' is included in 'Total Fund Compared to Peers'.

Note 2: Shaded figures are inputs in the ICP; the non-shaded figures are for information only.

		<b>ICP as a Percentage of Base Pay</b>	<b>Calculated ICP</b>	<b>Base Salary + ICP Payment</b>
<u>Title</u>	<u>Base Salary</u>			
Chief Investment Officer	\$194,250.00	19.13%	\$37,164.88	\$231,414.88
Assistant Chief Investment Officer/ Senior Equities Manager	\$157,500.00	13.18%	\$20,762.44	\$178,262.44
Assistant Equity Portfolio Manager	\$92,400.00	13.51%	\$12,485.55	\$104,885.55
Fixed Income Portfolio Manager	\$100,862.00	23.95%	\$24,156.45	\$125,018.45
Fixed Income Portfolio Analyst	\$81,650.00	23.76%	\$19,402.08	\$101,052.08
Fixed Income Investment Analyst	\$70,000.00	22.69%	\$15,883.00	\$85,883.00
Head of Private Markets Investing	\$183,750.00	25.00%	\$45,937.50	\$229,687.50
Private Equity Portfolio Manager	\$105,000.00	25.00%	\$26,250.00	\$131,250.00
Private Markets Asset Manager	\$94,500.00	25.00%	\$23,625.00	\$118,125.00
<b>Averages:</b>	<b>\$119,990.22</b>	<b>21.25%</b>	<b>\$25,074.10</b>	<b>\$145,064.32</b>
<b>Totals:</b>	<b>\$1,079,912.00</b>		<b>\$225,666.90</b>	<b>\$1,305,578.90</b>



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*Paul Matson*  
Director

## MEMORANDUM

**TO:** Mr. Tom Manos, Chair, ASRS Ad Hoc Compensation Committee

**FROM:** Ms. Martha Rozen, Chief of Administrative Services  
Ms. Susan Lemke, Principal, Mercer Talent  
Ms. Kristen Luetto, Principal, Mercer Talent

**DATE:** March 13, 2015

**RE:** **Agenda Item #4:** Presentation, Discussion and Appropriate Action with Regard to Compensation and Incentive Strategies in the Investment Management Industry

### Purpose

To review market trend and best practice information related to compensation and investment strategies in the Investment Management Industry, based on three lenses: public pension funds; educational endowments and foundations; and for-profit financial services organizations.

### Background

It is important for organizations like the ASRS to periodically review market trend and best practice information. This is especially true for Internal Investment Professionals, as individuals in these roles can work in a number of types of organizations with very different approaches to compensation and incentive programs.

### Overview of Market Information

Mercer will present information on the following topics during the meeting:

- Base Salary Movement – average and median base salary increases
- Pay Mix – mix of fixed base salaries and variable incentive compensation
- Incentive Plan Eligibility – eligibility for incentive compensation plans in the market
- Incentive Opportunity – incentive target and maximum opportunities in the market (expressed as a percentage of base salary)
- Performance Measures – most commonly used performance measures seen in the market
- Performance Levels – common threshold, target, and maximum performance levels
- Performance Measurement Period – length of typical performance measurement periods
- Award Determination and Payout – how most recent payouts compared to plan threshold, target, and maximum opportunities
- Deferrals – frequency of deferral requirements, percentage required to be deferred, deferral period, and deferral growth factor

These elements will be examined from three lenses: public pension funds; educational endowments and foundations; and for-profit financial services organizations. In addition, Mercer will be available to discuss other questions regarding compensation and incentive plan market practices for Internal Investment Professionals.

# Arizona State Retirement System Compensation Trends for Investment Professionals

March 13, 2015

Susan Lemke  
Kristen Luetto

# Compensation Trends for Investment Professionals

## Introduction

- Mercer has been engaged to prepare and present an educational presentation for the Board of Trustees on compensation trends for investment professionals. We provide these trends from three market perspectives:
  1. Public Pension Funds
  2. Educational Endowments and Foundations
  3. For-Profit Organizations

# Compensation Trends for Investment Professionals

## Introduction

- Susan Lemke, Principal, Seattle
  - 17 years of experience, including 9 years in Mercer's Talent Practice
  - Susan leads client engagements involving executive & broad-based compensation strategy and program development and performance measurement. Susan works with for profit, tax-exempt, and governmental employers.
  - Susan leads Mercer's *Investment Group Survey for Educational Endowments and Foundations* and Mercer's *Survey of Compensation Design for Public Pension Fund Investment Professionals*
- Kristen Luetto, Associate, San Francisco
  - 3.5 years in Mercer's Talent Practice
  - Kristen has extensive analytics and project management experience. Kristen has worked with for profit and tax-exempt organizations on projects involving executive & broad-based compensation benchmarking, incentive plan design, and performance measurement.
  - Kristen is the project manager for Mercer's *Investment Group Survey for Educational Endowments and Foundations* and Mercer's *Survey of Compensation Design for Public Pension Fund Investment Professionals*

# Compensation Trends for Investment Professionals

## Introduction

- Compensation trends in this presentation include:
  - Base Salary Levels and Movement
  - Pay Mix
  - Incentive Plan Eligibility
  - Incentive Opportunity
  - Performance Measures
  - Performance Levels
  - Performance Measurement Period
  - Award Determination and Payout
  - Deferrals

# Compensation Trends for Investment Professionals

## Contents

- In order to provide trends from each of these market perspectives we have drawn upon our client experiences, as well as the Mercer Surveys described below.

Public Pension Funds	Endowments & Foundations	For Profit Organizations
<p><i>Mercer's 2013 Survey of Compensation Design for Public Pension Fund Investment Professionals</i></p> <ul style="list-style-type: none"> <li>• Participants = 15 US Public Pension Funds <sup>1</sup></li> <li>• Sponsored biennially by the University of California</li> <li>• Median size = \$73.0B AUM</li> </ul>	<p><i>Mercer's 2014 Compensation Survey of Investment Groups within Educational Endowments and Foundations</i></p> <ul style="list-style-type: none"> <li>• Participants = 70 Educational Endowments, Foundations, and Fund-of-Funds</li> <li>• Median size = \$4.2B AUM</li> </ul>	<p><i>Mercer's 2014 Financial Services Suite and 2014 Executive Remuneration Suite</i></p> <p><i>Mercer December 2014 Financial Services Snapshot Survey</i></p>

<sup>1</sup> 2013 participants included: California Public Employees' Retirement System, California State Teachers' Retirement System, Los Angeles County Employees Retirement Association, New York City Retirement Systems, New York State Common Retirement Fund, New York State Teachers' Retirement System, North Carolina Department of State Treasurer, Oregon State Treasury, Pennsylvania Public School Employees; Retirement System, State of New Jersey Division of Investment, State Teachers Retirement System of Ohio, Teachers' Retirement System of New York, Teachers' Retirement System of Georgia, Virginia Retirement System, Washington State Investment Board

## Compensation Trends for Investment Professionals Base Salary Levels

- In the table below, base salary levels are captured for three investment positions:

Category	Public Pension Funds				Endowments & Foundations				For-Profit			
	# Obs	25th %ile	Median	75th %ile	# Obs	25th %ile	Median	75th %ile	# Obs	25th %ile	Median	75th %ile
<b>Chief/Top Investment Executive</b>												
AUM <\$1.5 Billion	--	--	--	--	7	\$441.5	\$441.5	\$476.3	--	--	--	--
AUM \$1.5B-\$3B	--	--	--	--	17	\$481.5	\$481.5	\$550.0	--	--	--	--
AUM \$3B-\$6B	--	--	--	--	22	\$596.0	\$596.0	\$600.0	--	--	--	--
AUM >\$6B	--	--	--	--	23	\$630.0	\$630.0	\$779.2	--	--	--	--
<b>All Organizations</b>	<b>16</b>	<b>\$296.8</b>	<b>\$357.6</b>	<b>\$380.2</b>	<b>69</b>	<b>\$457.4</b>	<b>\$575.0</b>	<b>\$625.0</b>	<b>80</b>	<b>\$238.6</b>	<b>\$303.9</b>	<b>\$383.3</b>
<b>Senior Investment Director/Executive</b>												
AUM <\$1.5 Billion	--	--	--	--	4	--	--	--	--	--	--	--
AUM \$1.5B-\$3B	--	--	--	--	21	\$260.0	\$260.0	\$324.0	--	--	--	--
AUM \$3B-\$6B	--	--	--	--	54	\$306.0	\$306.0	\$344.3	--	--	--	--
AUM >\$6B	--	--	--	--	83	\$329.6	\$329.6	\$388.9	--	--	--	--
<b>All Organizations</b>	<b>57</b>	<b>\$194.4</b>	<b>\$214.2</b>	<b>\$248.6</b>	<b>162</b>	<b>\$255.4</b>	<b>\$312.3</b>	<b>\$365.5</b>	--	--	--	--
<b>Investment Director/Second Level Investment Executive</b>												
AUM <\$1.5 Billion	--	--	--	--	2	--	--	--	--	--	--	--
AUM \$1.5B-\$3B	--	--	--	--	14	\$203.5	\$203.5	\$226.5	--	--	--	--
AUM \$3B-\$6B	--	--	--	--	36	\$175.0	\$175.0	\$203.1	--	--	--	--
AUM >\$6B	--	--	--	--	75	\$210.0	\$210.0	\$253.4	--	--	--	--
<b>All Organizations</b>	<b>77</b>	<b>\$131.0</b>	<b>\$160.0</b>	<b>\$225.5</b>	<b>127</b>	<b>\$165.0</b>	<b>\$197.9</b>	<b>\$230.0</b>	--	--	--	--

## Compensation Trends for Investment Professionals

### Base Salary Movement

Public Pension Funds	Endowments & Foundations	For Profit Organizations <sup>1</sup>
Base Increase – All:		
<ul style="list-style-type: none"><li>• Average: 2.4%</li></ul>	<ul style="list-style-type: none"><li>• Average: 5.7%</li><li>• Median: 3.0%</li></ul>	<ul style="list-style-type: none"><li>• Average: 3.0%</li><li>• Median: 3.0%</li></ul>
Base Increase – Receivers Only:		
<ul style="list-style-type: none"><li>• Average: 5.9%</li></ul>	<ul style="list-style-type: none"><li>• Average: 6.6%</li><li>• Median: 3.6%</li></ul>	<ul style="list-style-type: none"><li>• Average: 3.1%</li><li>• Median: 3.0%</li></ul>
% Received Increases:		
<ul style="list-style-type: none"><li>• 67%</li></ul>	<ul style="list-style-type: none"><li>• 87%</li></ul>	<ul style="list-style-type: none"><li>• 97%</li></ul>

<sup>1</sup> The For Profit Organizations base increase data is for executives in the financial services industry. For asset management positions in investment management firms (excluding banking and finance), the average increase is higher, with projections of 5.1% on average for 2015 (and 86% of these asset management positions received increases).

## Compensation Trends for Investment Professionals Base Salary Movement, continued

- 67% of public pension funds increased base salaries of investment staff from 2012 to 2013, excluding promotional increases.
  - The average increase was 2.5%; when considering only those who received an increase, the average increase was 5.9%.
  - See chart below for average base increases by position:

	Average 2012-2013 Base Increase (%)									
	All Positions	Chief Investment Officer	Senior Investment Director	Investment Director	Investment Manager	Sr. Investment Analyst	Int. Investment Analyst	Jr. Investment Analyst	Investment Operations Director	Investment Operations Manager
All Incs	2.5%	2.8%	1.7%	1.5%	2.8%	2.7%	2.0%	2.2%	6.2%	3.2%
# of Incs	442	13	42	56	109	89	66	36	9	13
Receiving Increase	5.9%	7.3%	5.5%	4.8%	6.5%	6.1%	4.4%	4.9%	11.1%	6.0%
# of Incs Receiving Increases	186	5	13	17	47	40	30	16	5	7

# Compensation Trends for Investment Professionals

## Pay Mix

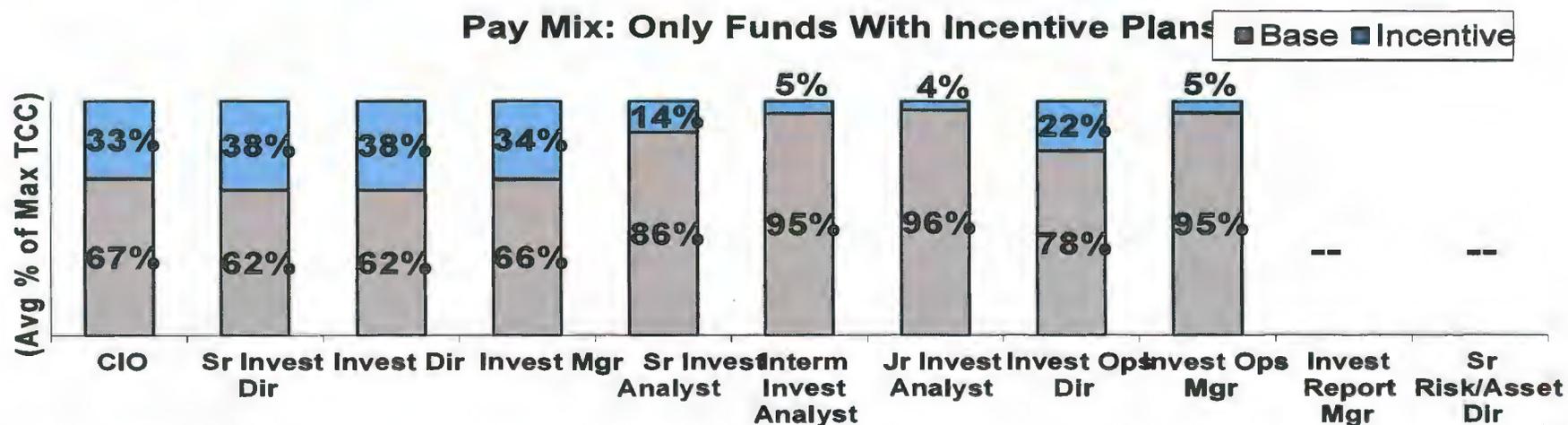
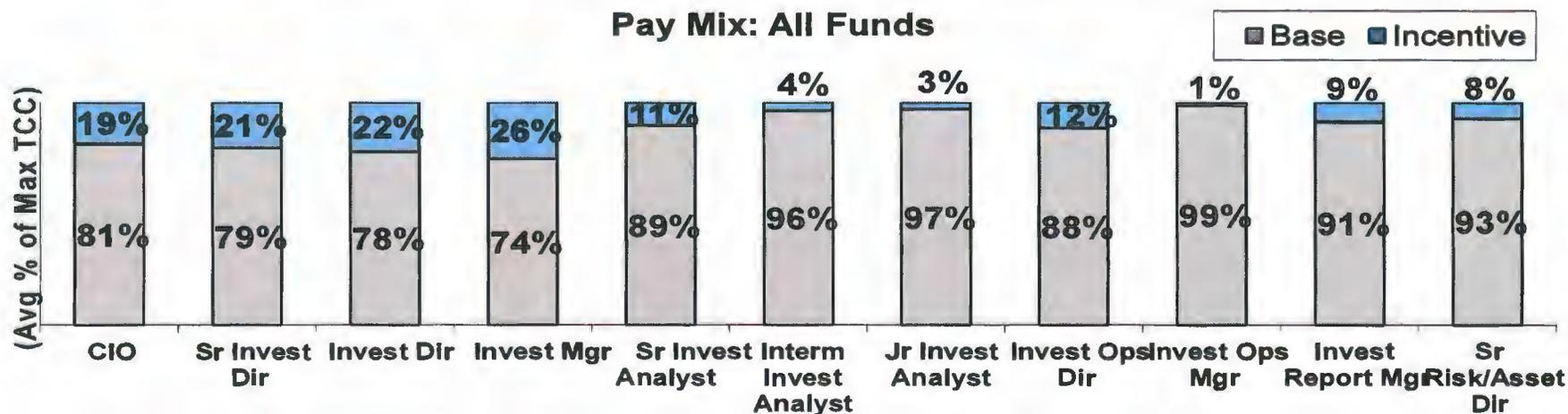
- Pay Mix is captured as:
  - Base % = Base as % of Maximum TCC
  - Incentive % = Maximum Incentives as % of Maximum TCC

Public Pension Funds	Endowments & Foundations	For-Profit Organizations
<p>All Funds with an Incentive Plan:</p> <ul style="list-style-type: none"> <li>• All positions (average):               <ul style="list-style-type: none"> <li>• Base % = 78%</li> <li>• Incentive % = 22%</li> </ul> </li> <li>• CIO (average):               <ul style="list-style-type: none"> <li>• Base % = 67%</li> <li>• Incentive % = 33%</li> </ul> </li> <li>• Detail by position on next slide</li> </ul>	<p>All Endowments and Foundations with an Incentive Plan:</p> <ul style="list-style-type: none"> <li>• All positions (average):               <ul style="list-style-type: none"> <li>• Base % = 55%</li> <li>• Incentive % = 45%</li> </ul> </li> <li>• CIO (average):               <ul style="list-style-type: none"> <li>• Base % = 39%</li> <li>• Incentive % = 61%</li> </ul> </li> </ul>	<p>All For-Profit Organizations with an Incentive Plan:</p> <ul style="list-style-type: none"> <li>• CIO (average):               <ul style="list-style-type: none"> <li>• Base % = 50%</li> <li>• Incentive % = 50%</li> </ul> </li> </ul>

# Compensation Trends for Investment Professionals

## Pay Mix, continued

- Public Pension Funds: Eight of the 15 participating funds provide incentive compensation in addition to base salary. Pay mix by position is shown below:



## Compensation Trends for Investment Professionals Incentive Plan Eligibility

### Public Pension Funds

- 53% of funds offer performance-based incentive compensation (eight of the 15 participating funds).
- Of those offering incentives, eligibility varies by position:

Incentive Eligibility	
Position	Average
Chief Investment Officer	100%
Senior Investment Director	100%
Investment Director	100%
Investment Manager	88%
Investment Analysts	62%

### Endowments & Foundations

- 96% of organizations offer performance-based incentive compensation to investment staff.
  - Of those offering incentives, eligibility varies by position:

Incentive Eligibility	
Position	Average
Top Investment Officer	100%
Senior Investment Executive	100%
Second Level Investment Executives	98%
Investment Analysts	87%

### For-Profit Organizations

- 91% of for-profit organizations offer incentive compensation to their Top Investment Executive position.
- 90% of executives and members of management in the Investment, Trust & Private Banking industry segment participate in performance-based incentive plans.

*Sources: Mercer's 2014 US Executive Remuneration Suite and Mercer's 2014 Financial Services Survey Suite*

## Compensation Trends for Investment Professionals Incentive Opportunity

- Opportunity typically increases with a position's ability to impact overall results.
  - Below, we provide median target and maximum opportunities (expressed as a percentage of base salary) from each market perspective:

### Public Pension Funds

Position	Median Incentive Opportunity (% of Base)	
	Target	Max
Chief Investment Officer	30%	50%
Senior Investment Director	41%	75%
Investment Director	40%	60%
Investment Manager	36%	60%
Senior Investment Analyst	10%	15%
Intermediate Investment Analyst	10%	20%
Junior Investment Analyst	13%	25%
Investment Operations Director	15%	30%
Investment Operations Manager	7%	12%
Investment Reporting Manager	–	–
Sr Risk Mgmt/Asset Allocation Director	–	–

### Endowments & Foundations

Position	Median Incentive Opportunity (% of Base)	
	Target	Max
Top Investment Officer	70%	125%
Portfolio Strategy/Asset Allocation Exec.	50%	100%
Senior Investment Executive	60%	100%
Second Level Investment Executive	45%	90%
Senior Investment Analyst	30%	60%
Intermediate Investment Analyst	20%	35%
Junior Investment Analyst	15%	30%
Senior Investment Operations Executive	40%	75%
Investment Operations Director/Manager	20%	30%
Investment Reporting Manager	20%	40%
Senior Risk Management Executive	50%	100%

### For-Profit Organizations

Position	Median Incentive Opportunity (% of Base)	
	Target	Max
Top Investment Officer	50%	80%

Source: Mercer's 2014 US Executive Remuneration Suite – for profit organizations

## Compensation Trends for Investment Professionals Performance Measures

Public Pension Funds	Endowments & Foundations	For Profit Organizations
<ul style="list-style-type: none"> <li>• Of the funds that offer performance-based incentive compensation (eight of the 15):               <ul style="list-style-type: none"> <li>• Total fund performance is measured relative to the policy portfolio benchmark in seven of the eight funds (and no funds use a peer group or real returns).</li> <li>• Asset class measures are used in six funds for senior director/director level positions.</li> <li>• 75% also include individual performance (with a minority weighting).</li> <li>• One plan is fully discretionary.</li> </ul> </li> <li>• See next slide for actual measures.</li> </ul>	<ul style="list-style-type: none"> <li>• Nearly all organizations (93%) report using a quantitative (formulaic) approach to evaluate performance.</li> <li>• Of those incentive plans that utilize predominantly quantitative measurement, investment performance at the total portfolio level is measured:               <ul style="list-style-type: none"> <li>• Relative to the policy portfolio benchmark in 98% of organizations.</li> <li>• Relative to a peer group in 30% of organizations.</li> <li>• Using absolute / real return in 13% of organizations.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Incentive plan design in for-profit organizations is similar to other sectors, with:               <ul style="list-style-type: none"> <li>• Emphasis on portfolio performance, and</li> <li>• Assessment of individual contribution.</li> </ul> </li> <li>• How plans can differ, however, is that the incentive pool may be funded based on the organization's profit at for-profit organizations.               <ul style="list-style-type: none"> <li>• Some tie compensation to the profits within specific funds, while others look to overall fund performance.</li> </ul> </li> </ul>

## Compensation Trends for Investment Professionals Performance Measures, continued

- There is expected variation in the asset class/strategy benchmarks used to monitor fund performance. The most common asset class/strategy benchmarks are reported are listed below:

Most Common Asset Class Benchmarks				
Fixed Income	Public Equities	Private Equities	Real Estate	Absolute Return
<ul style="list-style-type: none"> <li>• Barclays Universal</li> <li>• Barclays custom benchmark</li> </ul>	<p><u>Domestic</u></p> <ul style="list-style-type: none"> <li>• Russell 3000</li> </ul> <p><u>International</u></p> <ul style="list-style-type: none"> <li>• MSCI ACWI ex US</li> <li>• MSCI EM.</li> </ul>	<ul style="list-style-type: none"> <li>• Russell 3000 + 250-300 basis points.</li> </ul>	<ul style="list-style-type: none"> <li>• NCREIF</li> <li>• Custom benchmark</li> </ul>	<ul style="list-style-type: none"> <li>• No consistent response</li> </ul>

Note: Total fund benchmarks are typically considered “blended” benchmarks because they represent an asset-weighted average of the performance expectations for the various asset classes in the total portfolio.

## Compensation Trends for Investment Professionals Performance Levels

### Public Pension Funds

- Of the funds providing data on performance standards for awards based on the total fund benchmark, at the median:
  - Threshold = 0 bps
  - Target = 30 bps
  - Maximum = 55bps

### Endowments & Foundations

- Of the funds providing data on performance standards for awards based on the total fund benchmark, at the median:
  - Threshold = 0 bps
  - Target = 100 bps (Range from 50 bps – 150 bps)
  - Maximum = 200 bps (Range from 100 bps – 300 bps)

## Compensation Trends for Investment Professionals

### Performance Measurement Period

#### Public Pension Funds

- Of the funds that offer performance-based incentive compensation:
  - 67.5% use a three-year period, and
  - 37.5% use multiple performance periods (typically a combination of one-, three- and/or five-year performance).

#### Endowments & Foundations

- Of the funds that offer performance-based incentive compensation:
  - 80% measure performance over a rolling three-year period,
  - 29% use multiple performance periods, and
  - Use of one- or five-year measurement periods alone are far less common.

## Compensation Trends for Investment Professionals Award Determination and Payout

### Public Pension Funds

- The average incentive award earned in 2013 for FY2012 performance was 110% of target.

### Endowments & Foundations

- The average incentive award earned in 2014 for FY2013 performance was 136% of target.
- Of the incumbents who received an award:
  - 30% of awards earned were below target,
  - 51% of awards earned were between target and maximum, and
  - 19% of awards earned were at maximum.

## Compensation Trends for Investment Professionals Deferrals

Public Pension Funds	Endowments & Foundations	For Profit Organizations
<ul style="list-style-type: none"><li>• The majority (63%) of funds pay the incentive award in full at the end of the plan year (as opposed to requiring a portion to be deferred).</li></ul>	<ul style="list-style-type: none"><li>• 51% organizations pay the incentive award in full at the end of the year, while 49% require deferral of a portion of the incentive award earned:<ul style="list-style-type: none"><li>• The most common deferral period is two years, however organizations have reported deferral periods ranging from one to five years;</li><li>• Deferral awards most commonly vest in equal increments each year;</li><li>• The endowment's rate of return is used to determine interest on the deferral in 94% of organizations reporting deferral of incentive compensation.</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Deferral programs are very common in the banking and insurance industries, with nearly all banks and two-thirds of insurance firms reporting programs.</li><li>• Deferral programs are less prevalent outside banking and insurance companies, with approximately 44% of other financial services/ investment management firms having mandatory deferral programs.</li></ul> <p data-bbox="1356 1149 1982 1279"><i>Source: Mercer December 2014 Financial Services Industry Snapshot Survey</i></p>





# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson*  
Director

## MEMORANDUM

**TO:** Mr. Tom Manos, Chair, ASRS Ad Hoc Compensation Committee

**FROM:** Mr. Paul Matson, Director  
Mr. Anthony Guarino, Deputy Director and Chief Operations Officer  
Ms. Martha Rozen, Chief of Administrative Services

**DATE:** March 13, 2015

**RE:** **Agenda Item #5:** Presentation, Discussion, and Appropriate Action with Regard to ASRS Compensation Strategies

### Purpose

To review proposed additional compensation tools and to provide an update on base salary adjustments for Fiscal Year 2015 and the ASRS Compensation Strategies Plan for Fiscal Year 2015.

### Background

The ASRS has enjoyed considerable success working with ADOA-HR to move forward a number of base salary adjustments for ASRS employees during the first half of FY 2015 (see Appendix 1), given the current fiscal environment. We continue to pursue additional requests utilizing the process approvals, as currently provided by ADOA-HR.

In its continued efforts to attract, motivate, retain, and reward a highly professional and capable staff, the ASRS would like to ask ADOA-HR to delegate the approval authority to the ASRS for some of these compensation tools/strategies. We believe this increased authority would provide greater flexibility and efficiency and improve the timeliness with which the transactions are executed.

Prior to Personnel Reform (effective September 29, 2012), the ASRS was exempt from ADOA review and approval of personnel actions. ASRS staff has expressed to ADOA-HR an interest in regaining authority to execute certain limited personnel actions. ADOA-HR indicated a willingness to entertain the proposals that may result from the efforts of the ASRS Ad Hoc Compensation Committee and ASRS Executive Management.

### Evaluation and Processing of Compensation Requests

There are three unique tools/strategies outlined in the ASRS proposal, each of which has specific eligibility requirements and procedures for evaluation and implementation. Appendix 2 shows these strategies in their original, ADOA-administered format with changes made to transfer the approval in-house to the ASRS.

1. **Criteria-Based Adjustment:** The ASRS Human Resources staff will evaluate classifications to assess appropriate salary levels with respect to current labor markets and other external factors.
2. **In-Grade Adjustment:** The ASRS Human Resources staff will review and analyze current compensation structures within the ASRS to determine if adjustments are in order and to

establish appropriate amounts, considering relevant factors such as:

- Specific skills required for each area and differentiation and techniques to assess levels of proficiency.
  - Job responsibilities, positioning in a business unit/division, grade level, etc.
  - Valid market comparisons and growth necessary to keep pace.
3. **Reallocation/Reclassification:** An immediate supervisor, manager, and senior manager, in consultation with the ASRS Human Resources manager, will review position descriptions in order to evaluate the continued accuracy of the position's actual/current requirements and duties. ASRS Human Resources staff will compare the position's classification and description to others in the agency and in the state in order to determine reallocation/reclassification. The ASRS will be limited to reallocations/reclassifications that would change a position by only one grade level. All other reallocations/reclassifications will be submitted to ADOA for review and approval.

### **Approval Process**

All proposed adjustments will be considered within the parameters of the ASRS Budget constraints. After determining the necessity for an adjustment or reallocation/reclassification, the senior manager will complete an ASRS Personnel Action Request (PAR) form, including justification and supporting documentation, and submit for review to the Deputy Director. The ASRS Director and/or Deputy Director will have final authority to approve the proposed adjustment to an employee's base salary, the amount of the adjustment, or a reallocation/reclassification to one higher grade level. The proposed salary may not exceed the maximum of the grade range for the classification.

### **Reporting**

Any and all adjustments to base salaries and reallocations/reclassifications will be determined on or before June 30 of each fiscal year and a report with required details (overview, key information about recipients, total dollar value spent, organizational impact, etc.) will be submitted to ADOA by September 1 each year.

### **ASRS Variable Compensation Strategies – Fiscal Year 2015**

On August 11, 2014, the ASRS submitted to ADOA its Compensation Strategies Plan for Fiscal Year 2015. After several weeks of review, ADOA requested several changes to the plan document. The plan document was adjusted and resubmitted to ADOA on November 15, 2014. The ASRS was notified of the plan's approval by ADOA on November 28, 2014. These compensation strategies will provide ASRS management with tools to more effectively achieve a pragmatic, balanced approach to drive, direct, and motivate performance.

As of February 13, 2015, 202 ASRS employees are eligible (pending 2014 MAP scores) to receive Variable Compensation Awards up to 5% of their base salaries. The ASRS is limited to 2% of its personal services spending (approximately \$252,000) for variable compensation strategies. All variable compensation awards must be reported to ADOA by September 1, 2015.

## APPENDIX 1

### ASRS Historical Base Salary Adjustments

The table below shows the ASRS-initiated base salary adjustments from FY 2010 to present.

Information in black font was provided to the committee on November 4, 2014; Blue font indicates additional information provided as of March 13, 2015.

#### ASRS History of Salary Adjustments

Fiscal Year	Average Number of Filled Positions	Number of Base Salary Increases	Average Amount of Increases	Average % of Increases	Dollar Amount of Increases as % of Agency EE Salary Total
2010	217	3	\$6,860	11.00%	0.191%
2011	221	6	\$6,037	7.73%	0.388%
2012	230	212	\$2,441	4.63%	4.459%
2013	220	9	\$7,475	8.81%	0.551%
2014	233	14	\$8,928	7.96%	0.945%
2015 (completed as of 1/31/2015)	232	12	\$7,155	14.33%	0.619%
Pending approval in 2015 (submitted to ADOA in February)	232	16	\$5,603	8.75%	0.646%
Under ASRS evaluation for 2015	232	17	\$7,637	10.26%	0.936%

#### Affected Positions

##### FY 2010

Member Advocate – Member Services  
 Program Managers (2) – Member Services

##### FY 2011

Tucson Team Lead – Member Services  
 Call Coach – Member Services  
 Benefit Advisor – Member Services  
 Chief Investment Officer – Investment Management  
 Assistant CIO – Investment Management  
 Portfolio Analyst – Investment Management

##### FY 2012

During the time period that the ASRS was exempt from the State Personnel System, classifications and compensation were reviewed internally and the ASRS implemented an agency-wide motivation and retention plan that resulted in increases to base salaries in FY 2012.

FY 2013

Assistant Director – Member Services  
Assistant Portfolio Manager – Investment Management  
Portfolio Manager (2) – Investment Management  
Executive Director  
Strategic Planning and Analysis Manager – Director’s Office  
Administrative Project Coordinator – Management Support Services  
Communications Specialist/Digital Communications Officer – External Affairs  
Network Information System Manager – Technology Services

FY 2014

Assistant Director – Member Services  
Assistant Director – Financial Services  
Assistant Director – Administrative Services  
Executive Director  
Deputy Director  
Assistant Director – External Affairs  
Assistant Director – Technology Services  
Technical Lead (4) – Technology Services  
Project Manager (2) – Technology Services  
Database Administrator – Technology Services

Completed in FY 2015

Network Manager (2) – Technology Services  
Accountant – Financial Services  
Personnel Analyst III (2) – Administrative Services  
Network Specialist II – Technology Services  
Benefit Advisor (2) – Member Services  
Member Education – Member Services  
Project Manager/Business Analyst – Technology Services  
Retirement Advisor Supervisor (2) – Member Services

Pending ADOA Approval in FY 2015

Accounting Supervisor (6) – Financial Services  
Management Analyst IV – Financial Services  
Accountant – Financial Services  
Retirement Advisor Supervisor (4) – Member Services  
Assistant Director – Member Services  
Assistant Director – Financial Services  
Assistant Director – Administrative Services  
Assistant Director – External Affairs

Evaluating for Submission to ADOA in FY 2015

Accounting Administrator (4) – Financial Services  
Administrative Services Officer – Management Services  
Management Analyst (2) – Director’s Office  
Member Services Administrator (3) – Member Services  
Policy Analyst – Director’s Office  
Program Manager – Director’s Office  
Program Manager (3) – Administrative Services  
Program Manager – External Affairs  
Technical Analyst – Administrative Services

## **APPENDIX 2**

### **Compensation Strategies Toolbox Items**

## Red-lined Version of ADOA Toolbox Items

### ADOA Human Resources Division ASRS Toolbox

The strategies in this “toolbox” will be ~~available to agencies after consultation with ASRS Human Resources and agency management the ADOA Human Resources Division and discussions about the business needs of the agency. Working collaboratively, the appropriate strategy will be chosen to best meet the State’s and the agency’s needs.~~ used to support the agency’s strategic direction, with the approval of the ASRS Director and the ASRS Board of Trustees. All strategies are subject to available funding and will be managed within the ASRS budget. In consultation with the ASRS director and/or deputy director, the ASRS Administrative Services Division and Human Resources will serve as a central point of contact to monitor, document, and track proposed and actual implementation of these compensation strategies. The ASRS shall submit a report to ADOA by September 1<sup>st</sup> of each year detailing any adjustments made to base salaries for the prior fiscal year.

Option	Description	Criteria	Eligibility	Amount
<b>Criteria-Based Adjustment</b> (Salary Plans)	Base salary adjustment awarded to employees who meet established criteria	<ul style="list-style-type: none"> <li>• <del>ADOA Class/Comp works with</del> The agency <del>to</del> will evaluate the classification <del>or class series</del> to assess appropriate salary levels compared to labor market and other external factors</li> <li>• The criteria that differentiate salary levels must be based on more factors than length of service or years of experience</li> <li>• Salary cannot exceed the maximum of the salary range for the classification</li> </ul>	<ul style="list-style-type: none"> <li>• <del>Uncovered and covered</del></li> <li>• Be considered in “good standing.” The employee must not be subject to current or pending corrective action and must not have been involuntarily demoted or suspended during the fiscal year</li> <li>• Received an overall rating of “Meets Expectations” or better on their most recent performance evaluation using MAP, or when appropriate to consider, has significantly improved performance</li> </ul>	<ul style="list-style-type: none"> <li>• <del>Amount of increase at each level of the plan varies by plan</del></li> <li>• Plans currently in use will be allowed to continue, but may be reviewed on a periodic basis to assess consistency with the labor market and other external factors</li> </ul>

### Agency Toolbox – Individual Actions

The strategies in this “toolbox” are available to agencies in order to address compensation issues of employees on a case-by-case basis. ~~The agency shall document salary adjustments and justifications and shall submit a report to ADOA by September 1<sup>st</sup> of each year for the prior fiscal year.~~

Option	Description	Criteria	Eligibility	Amount
<b>In Grade Adjustment</b>	Base pay increase to provide career progression or to resolve specific salary issues	<ul style="list-style-type: none"> <li>• <del>Agencies must request approval from ADOA to provide an in-grade adjustment on a case-by-case basis for:</del></li> <li>• Change in Duties: Employees who assume higher level duties and responsibilities in a position that is critical to the operations of an agency <del>(requires an updated Position Description and a review by ADOA to ensure a reallocation of the position is not warranted),</del> but the changes do not warrant a reallocation of the position</li> <li>• Professional Development: Employees who apply new knowledge and skills that benefit the <del>agency</del> ASRS and that have been acquired through job-related training, education, certification, and/or licensure, that is recognized in the industry as having market value</li> <li>• Retention: High performing employees in critical positions, not easily replaced <del>and are at risk of leaving the organization</del></li> </ul>	<ul style="list-style-type: none"> <li>• <del>Uncovered</del></li> <li>• Be considered in “good standing.” The employee must not be subject to current or pending corrective action and must not have been involuntarily demoted or suspended during the fiscal year.</li> <li>• <del>Employee must receive</del> Received an overall rating of “Exceeds Meets Expectations” (MAP rating 2.5 or greater) or better on their most recent performance evaluation using MAP, or when appropriate to consider, has significantly improved performance <del>unless the Agency Director documents, in writing, justification for waiving the performance requirement</del></li> <li>• An employee in a position whose job content, grade level, and/or classification is analyzed to verify internal and/or statewide equity or market value</li> </ul>	<ul style="list-style-type: none"> <li>• <del>Shall not exceed 5% per fiscal year per employee, unless an exception is granted by the ADOA HR Director</del></li> <li>• <del>Considerations for an exception may include such factors as education, experience, skills, prior performance, current salary, as well as the current salaries of employees in the same classification or work unit within the agency and the relative experience and performance of those employees</del></li> <li>• Salary cannot exceed the maximum of the salary range for the classification</li> <li>• The adjustment will be instituted on the first day of the pay period following the conclusion of the evaluation and approval process</li> <li>• No adjustment will be made that does not align with the ASRS budget</li> </ul>

## Changes in Assignment/Special Assignment

The guidelines provided below address base pay when employees change assignments or change positions, subject to applicable rules. Any salary adjustments received as a result of a change in assignment shall not be considered as part of the limitations for other salary strategies.

Option	Description	Criteria	Eligibility	Amount
<b>Reallocation (formerly referred to as a reclassification)</b>	Base salary adjustment provided when an employee's position is reallocated to a different classification and grade or salary range	<ul style="list-style-type: none"> <li>• <del>Salary must be within the range for the classification</del></li> <li>• A substantial change in the duties, responsibilities, or complexity of a position due to:                             <ul style="list-style-type: none"> <li>– A gradual transition of daily functions as a result of the agency's needs and values</li> <li>– Organizational changes and fluctuating requirements</li> <li>– The innovation, knowledge, skills, and abilities of an employee in the position that results in a permanent modification of the functions and expectations for the position</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <del>Uncovered</del></li> <li>• <del>Covered</del></li> <li>• Be considered in "good standing." The employee must not be subject to current or pending corrective action and must not have been involuntarily demoted or suspended during the fiscal year</li> <li>• Received an overall rating of "Meets Expectations" or better on the most recent performance review using MAP, or when appropriate to consider, has significantly improved performance</li> <li>• A position where job duties, breadth and depth of responsibility, as well as the knowledge, skills, and abilities required for the position have significantly and permanently changed</li> </ul>	<ul style="list-style-type: none"> <li>• <del>Employees in a position that is reallocated to a higher grade shall receive a salary increase of up to 2.5%, unless an exception is granted by the ADOA HR Director</del></li> <li>• <del>Considerations for an exception may include such factors as education, experience, skills, prior performance, current or former salary, as well as the current salaries of employees in the new classification within the agency and the relative experience and performance of those employees</del></li> <li>• <del>Reallocations to the same or lower grade shall result in no change to the employee's salary, provided the salary is within the range for the classification. If the employee's salary is less than the minimum or more than the maximum, the employee's salary shall be the minimum or maximum, respectively</del></li> <li>• Reallocation to a classification within the same grade, to one grade higher, or to one grade lower may include an adjustment to salary if warranted</li> <li>• Reallocation will be limited to changes of no more than one grade level</li> <li>• The reallocation will be instituted on the first day of the pay period following the conclusion of the evaluation and approval process</li> </ul>

# Toolbox Updated to Reflect ASRS Authority

## ASRS Toolbox

The strategies in this “toolbox” will be used to support the agency’s strategic direction, with the approval of the ASRS Director and the ASRS Board of Trustees. All strategies are subject to available funding and will be managed within the ASRS budget. In consultation with the ASRS director and/or deputy director, the ASRS Administrative Services Division and Human Resources will serve as a central point of contact to monitor, document, and track proposed and actual implementation of these compensation strategies. The ASRS shall submit a report to ADOA by September 1<sup>st</sup> of each year detailing any adjustments made to base salary for the prior fiscal year.

Option	Description	Criteria	Eligibility	Amount
<b>Criteria-Based Adjustment</b> (Salary Plans)	Base salary adjustment awarded to employees who meet established criteria	<ul style="list-style-type: none"> <li>The agency will evaluate the classification or class series to assess appropriate salary levels compared to labor market and other external factors</li> <li>The criteria that differentiate salary levels must be based on more factors than length of service or years of experience</li> <li>Salary cannot exceed the maximum of the salary range for the classification</li> </ul>	<ul style="list-style-type: none"> <li>Be considered in “good standing.” The employee must not be subject to current or pending corrective action and must not have been involuntarily demoted or suspended during the fiscal year</li> <li>Received an overall rating of “Meets Expectations” or better on their most recent performance evaluation using MAP, if conducted, or when appropriate to consider, has significantly improved performance</li> </ul>	<ul style="list-style-type: none"> <li>Plans currently in use will be allowed to continue, but may be reviewed on a periodic basis to assess consistency with the labor market and other external factors</li> </ul>
<b>In Grade Adjustment</b>	Base pay increase to provide career progression or to resolve specific salary issues	<ul style="list-style-type: none"> <li><b>Change in Duties:</b> Employees who assume higher level duties and responsibilities in a position that is critical to the operations of the agency, but the changes do not warrant a reallocation of the position</li> <li><b>Professional Development:</b> Employees who apply new knowledge and skills that benefit the ASRS and that have been acquired through job-related training, education, and/or licensure that are recognized in the industry as having market value</li> <li><b>Retention:</b> High performing employees in critical positions not easily replaced</li> </ul>	<ul style="list-style-type: none"> <li>Be considered in “good standing.” The employee must not be subject to current or pending corrective action and must not have been involuntarily demoted or suspended during the fiscal year</li> <li>Received an overall rating of “Meets Expectations” or better on their most recent performance evaluation using MAP, or when appropriate to consider, has significantly improved performance</li> <li>An employee in a position whose job content, grade level, and/or classification is analyzed to verify internal and/or statewide equity or market value</li> </ul>	<ul style="list-style-type: none"> <li>Salary cannot exceed the maximum of the salary range for the classification</li> <li>The adjustment will be instituted on the first day of the pay period following the conclusion of the evaluation and approval process.</li> <li>No adjustment will be made that does not align with the ASRS budget approval process</li> </ul>
<b>Reallocation/Reclassification</b>	Base salary adjustment provided when an employee’s position is reallocated to a different classification and grade or salary range	<ul style="list-style-type: none"> <li>A substantial change in the duties, responsibilities, or complexity of a position due to:                             <ul style="list-style-type: none"> <li>A gradual transition of daily functions as a result of the agency’s needs and values</li> <li>Organizational changes and fluctuating requirements</li> <li>The innovation, knowledge, skills, and abilities of an employee in the position that results in a permanent modification of the functions and expectations for the position</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Be considered in “good standing.” The employee must not be subject to current or pending corrective action and must not have been involuntarily demoted or suspended during the fiscal year</li> <li>Received an overall rating of “Meets Expectations” or better on the most recent performance review using MAP, or when appropriate to consider, has significantly improved performance</li> <li>A position where job duties, breadth and depth of responsibility, as well as the knowledge, skills, and abilities required for the position have significantly and permanently changed</li> </ul>	<ul style="list-style-type: none"> <li>Reallocation to a classification within the same grade, to one grade higher, or to one grade lower may include an adjustment to salary if warranted</li> <li>Reallocation will be limited to changes of no more than one grade level</li> <li>The reallocation will be instituted on the first day of the pay period following the conclusion of the evaluation and approval process</li> </ul>