



# ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000  
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100  
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778  
EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

*Paul Matson  
Director*

## MINUTES

### PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

**Friday, August 22, 2014  
8:30 a.m., Arizona Time**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Kevin McCarthy, Chair of the ASRS Board, called the meeting to order at 8:35 a.m., Arizona Time.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

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

Present: Mr. Kevin McCarthy, Chair  
Mr. Mike Smarik, Vice-chair  
Mr. Brian McNeil  
Professor Dennis Hoffman  
Mr. Jeff Tyne (via phone)  
Mr. Marc Boatwright (via phone)  
Dr. Richard Jacob  
Mr. Tom Connelly  
Mr. Tom Manos

Absent: None

A quorum was present for the purpose of conducting business.

#### **2. Presentation Regarding PRIDE Award for Improvement**

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, recognized the following nominees for the 2014 PRIDE Improvement award: Erin Higbee and Lana Menis; Aaron Chandler; Noaman Ahmed; Benefits Accounting Leadership Team (Tracy Rundle, Carrie Waith, Erica Dunphy, Athena Elliston); and MAC Leadership Team (Scott James, Judy Simpson, Leah Wagner, Jenalee Lewis).

All were nominated by staff because they exemplify the following PRIDE qualities of improvement: They drive the agency forward with new and innovative ideas and solutions; they promote new ideas; they solve problems; they enhance outcomes or performance; they improve relationships; they enhance morale and they increase efficiency, effectiveness or reduce costs.

Mr. Guarino presented the PRIDE Award for Improvement to the award winners, Erin Higbee and Lana Menis.

### **3. Presentation Regarding Government Finance Officers Association (GFOA) Financial Reporting Awards**

- A. Comprehensive Annual Financial Report (CAFR) for Fiscal Year (FY) 2013**
- B. Popular Annual Financial Report (PAFR) for FY 2013**

Mr. Guarino announced the ASRS has been recognized by GFOA for 25 consecutive years as recipient of the CAFR award, and in more recent years, the PAFR award. Mr. Guarino presented the 2013 awards to Ms. Nancy Bennett, Chief Financial Officer and Ms. Liz Rozzell, Controller.

The Certificate of Achievement is presented by the GFOA to government units whose annual financial reports are judged to adhere to program standards and it represents the highest award in government financial reporting. The following staff were recognized for having a substantial part in the ASRS receiving the CAFR award: Nancy Bennett, Liz Rozzell, Erin Higbee, Tanya Wright, John Maczko, Tonia Nemecek, Debbie Motta, Rebecca Fox, Kristin Berry, Lisa Dailey, Lupita Breland, Kerry White and Michael Copeland.

The following staff were recognized for having a significant part in the ASRS receiving the PAFR award: Nancy Bennett, Liz Rozzell, Erin Higbee, John Maczko and Rebecca Fox.

### **4. Approval of the Minutes of the June 27, 2014 Public Meeting of the ASRS Board**

**Motion:** Professor Dennis Hoffman moved to approve the Minutes of the June 27, 2014 Public Meeting of the ASRS Board. Mr. Mike Smarik seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

### **5. Appropriate Action Regarding a Member Appeal Request by Ms. Alice Schireman for Review and Reconsideration of a Final Decision**

Mr. Christopher Munns, Assistant Attorney General, Solicitor General Section, was present to provide legal advice to the Board, if requested. Mr. Munns introduced Ms. Schireman, who was attending telephonically, and asked her to present to the Board.

Ms. Schireman addressed the Board and explained that she would like the Board to reconsider the decision they made at the June 27, 2014 Board meeting; that there were no survivor benefits payable to her on member Mr. Alvin Schireman's ASRS account.

Ms. Jothi Beljan, Assistant Attorney General, explained Mr. Alvin Schireman retired from the ASRS on August 13, 1986, electing a life annuity five-year term certain option. The five-year term certain option provides a member a period certain and life annuity actuarially reduced with payment for five years that are not dependent on the continued lifetime of the member but for whom payments will continue for the member's lifetime beyond the five-year period. The five-year term certain option only provides the member's beneficiary a survivor benefit from a pension if the member passes away within five years of retirement. Any possibility for a survivor benefit to Mr. Schireman's beneficiary ended in August 1991, five years after his retirement date of August 13, 1986. Upon Mr. Schireman's passing on October 30, 2013, there were no survivor benefits remaining, and the ASRS informed Mr. Schireman's estate of this in November 2013.

**Motion:** Mr. Tom Connelly moved to deny Mrs. Schireman's request for review. Professor Dennis Hoffman seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

**6. Presentation, Discussion, and Appropriate Action Regarding the ASRS Retiree Health Insurance (HI) Program Request For Proposal Number ASRS14-00003727**

Mr. Paul Matson, Director, explained the current HI RFP model and that because of the importance of the decision for the ASRS retirees; the decision comes to the Board. He further explained the factors considered by the HI Evaluation Committee which included the network of providers, the benefit structure, the premium cost, and the service level.

Mr. Pat Klein, Assistant Director External Affairs, discussed the responses received for the HI RFP and the items the Evaluation Committee considered prior to making their decision. He said the Evaluation Committee's decision was presented to the Operations and Audit Committee (OAC) for their input at their August 12 meeting. Mr. Jeff Tyne, OAC Chair, stated there was further discussion and input at the OAC meeting which resulted in agreement with the Evaluation Committee's recommendation.

**Motion:** Mr. Jeff Tyne moved to approve a five-year contract for a retiree medical benefit program with UnitedHealthcare, effective January 1, 2015, for the ASRS. Professor Dennis Hoffman seconded the motion.

By a vote of 8 in favor, 0 opposed, 1 abstention, and 0 excused, the motion was approved.

(Mr. Brian McNeil recused himself from the vote because of his position as ADOA Director.)

Mr. Klein followed up with an explanation that the five-year contract has four one-year renewals and at any one of the renewal periods, the ASRS can submit an RFP for a new contract. Mr. Klein also explained the Early Retiree Reinsurance Program (ERRP) money which will be used to mitigate the non-Medicare premium increase for 2015. Mr. Klein responded to Mr. Tom Manos' question and explained that yes, the ERRP money will go away at the end to 2015, but there is also the Retrospective Rate Adjustment Agreement (RRAA) money that possibly could be used for a further rate subsidy after December 2015.

**7. Presentation, Discussion and Appropriate Action Regarding the ASRS Operational Capacity ( A FY 2015 Strategic Topic)**  
**A. Budget Process**  
**B. Staffing Strategies**  
**C. Risks: IT Security, Investment Management, Customer Service**

Mr. Guarino stated that at the May 2014, Board meeting, the Board approved a list of Strategic Topics they would like presented at subsequent Board meetings, and the Operational Capacity presentation is the first of the approved discussions. Operational Capacity involves the ASRS' ability to do work and achieve goals and outcomes.

Ms. Martha Rozen, Chief of Administrative Services, stated some of the ASRS strengths lie in the seasoned ASRS team and the deliberate approach taken in recruitment and retention, tying

together staffing, funding, technology and risk management which are all very interdependent and related. The ASRS also has a commitment to retention and incentive programs.

Ms. Sara Orozco, Manager of Strategic Planning, commented that the ASRS has generally had access to an amount of funding sufficient enough to maintain existing business applications, upgrade technology, and engage in some strategic applications development each year. Each year, the Senior Managers meet and prioritize how the agency will allocate its technology resources for the upcoming fiscal year. Thus far, the agency has been able to ensure systems are upgraded as needed and also continue to invest in business applications that will provide members with the tools they need.

Responses were provided to Trustee questions.

#### **8. Presentation, Discussion and Appropriate Action Regarding the ASRS Budget Related Topics Including:**

- A. Presentation of the ASRS Appropriated Budget and the Estimated Administrative and Investment Spending Plan for FY 2015.**
- B. Presentation of the ASRS Appropriated Budget Request and Estimated ASRS Administrative and Investment Spending Plans for FY 2016 and FY 2017**

Ms. Rozen explained the budget materials included in the packet and discussed highlights of the FY 2015 budget request. She stated the top item is data security which includes budget requests for equipment, FTEs and external resources. Ms. Rozen responded to Trustee questions regarding the budget.

**Motion:** Dr. Richard Jacob moved to approve the appropriated budget request for FY 2016 in the amount of \$28,106,200 with an estimated administrative and total expenditure plan as presented. Mr. Jeff Tyne seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

**Motion:** Dr. Richard Jacob moved to approve the appropriated budget request for FY 2017 in the amount of \$27,659,200 with an estimated administrative and total expenditure plan as presented. Mr. Jeff Tyne seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

#### **9. Presentation, Discussion, and Appropriate Action Regarding ASRS Investment Program Updates**

Mr. Gary Dokes, Chief Investment Officer, addressed the Board regarding ASRS investment program updates for the period ending July 31, 2014, highlighting specific areas of interest and concern. Mr. Dokes presented information on the following items: ASRS Fund Positioning, IMD Investment House Views – July 2014, Asset Class Committee Activities, Tactical Portfolio Positioning, Strategic Asset Allocation (SAA) Policy Implementation, IMD Projects, and Research and Initiatives. Also included was the State Street risk report for June 30, 2014.

**10. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring, and Oversight of the ASRS Investment Program Q2/2014**

Mr. Allan Martin, Consultant, NEPC, addressed the Board regarding NEPC's independent reporting, monitoring, and oversight of the ASRS Investment Program including Total Fund performance through June 30, 2014.

The Total Fund Performance for the period ending June 30, 2014 is:

	Quarter	1 Year	3 Years	5 Years	10 Years	Since Inception
<b>Total Fund</b>	3.9%	<b>18.6%</b>	<b>10.8%</b>	14.2%	7.5%	10.1%
<b>Interim SAA Policy*</b>	3.5%	<b>17.8%</b>	<b>10.4%</b>	13.6%	7.2%	9.8%
<b>Excess Return</b>	0.4%	<b>0.8%</b>	<b>0.4%</b>	0.6%	0.3%	0.3%

\*Interim SAA Policy: 25% S&P 500/5% S&P 400/5% S&P 600/14% MSCI EAFE/3% MSCI EAFE Small Cap/6% MSCI, Emerging Markets/6% Russell 2000 (lagged one quarter)/14% Barclays Capital Aggregate/5% Barclays Capital High Yield/4% JP Morgan GBI-EM Global Diversified/3% S&P/LSTA Levered Loan Index + 250 basis points (lagged one quarter)/6% NCREIF ODCE (lagged one quarter)/4% Dow Jones/UBS Commodities Index

Note: Interim SAA Policy includes a proration of 1% Private Equity and 2% Real Estate, which are unfunded. Private Equity was prorated to domestic equity; Real Estate was prorated to domestic equity and fixed income. Recently approved Strategic Asset Allocation Policy effective July 1, 2012.

**11. Presentation, Discussion, and Appropriate Action Regarding the Director's Report as well as Current Events**

Mr. Matson had no additional comments regarding the Director's Report.

**12. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Committee Meetings**

**a. Operations and Audit Committee (OAC)**

Mr. Jeff Tyne, said the next OAC meeting will be held on October 7, 2014.

**b. External Affairs Committee (EAC)**

Mr. Brian McNeil said the next EAC meeting will be held on October 10, 2014.

**c. Investment Committee (IC)**

Mr. Tom Connelly, Chair, said the next IC meeting, held on October 20, 2014.

**13. Board Requests for Agenda Items**

No requests were made.

