



FINANCIAL Horizons 2016

An annual publication of the Arizona State Retirement System



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ASRS Director's Message

by Paul Matson

Welcome to the 2016 edition of Financial Horizons, our annual member publication.

We can look back at 2015 as a year marked by plan stability. Although the net investment return on the ASRS total fund was 3.2 percent – lower than our assumed rate of 8 percent – the ASRS pension plan, health insurance supplement plan and long term disability plan remain relatively well funded and sustainable. Our overall funded status rose slightly over the past fiscal year, to 77.53 percent as of June 30, 2015.

You can read more about our financial standing on page five of this newsletter, and you can review our annual reports online.

Although it appears that market returns will be on the lower end this fiscal year, I'm confident our plans are sustainable.

We will keep you informed throughout the

year, providing information on our website. Be sure we have your most current email address so we can provide periodic updates to you through the coming year. (See page eight.)

I would also like to introduce new Board of Trustees members. Learn more on page 3.

Finally, I'd like to give a special thanks to a highly talented staff member who is leaving the ASRS. Our Chief Investment Officer, Gary Dokes, has been with the ASRS more than 18 years and has significantly shaped and guided our investment management division. He will be leaving the ASRS to join a local charity as their first ever Chief Investment Officer. We at the ASRS wish him well.

I have appointed Karl Polen, currently head of private markets at the ASRS, as our new Chief Investment Officer, effective March 1. Mr. Polen has been with the ASRS since September 2010 following a 30-year career in the financial private sector. |

New Tucson Location

Our new ASRS Tucson office opened on Tuesday, February 16. The new location features the same great services for our Southern Arizona members, including on-site benefit advisors and larger space for group meetings.

The 4400 Broadway Building, home of the new Tucson office, is just four miles west of the previous Tucson location. The new address is:

**4400 E Broadway Blvd, Suite 200
Tucson, AZ 85711**

The new location, on the second floor, is also home to the Bank of Tucson, which has a highly visible sign atop the eight-story building.

The ASRS moved its office location in Tucson for the following reasons:

- Better geographic location and amenities for our members, including an on-site cafe

[Tucson, continued page six](#)



ASRS Offers Tax-Deferred Savings Plans

In addition to the ASRS defined benefit retirement plan, many ASRS members are eligible to participate in two different tax-deferred savings plans. Eligible participating employers may adopt either or both plans, and then make them available to their employees. Please note that state employees and employees of the state universities are not eligible, as they have a separate supplemental plan available through the Arizona Department of Administration.

The first is the **Supplemental Retirement Savings Plan (SRSP)**, which allows employees to defer up to 100% of pay or \$53,000 annually, whichever is lower. Because of this plan's high deferral limit, the IRS requires restrictions that include an irrevocable election, a limited window in which to enroll upon becoming

eligible, and a mandate that account balances be distributed upon retirement.

The second is the **Supplemental Salary Deferral Plan (SSDP)**, which allows employees to defer up to \$18,000 annually and, for those employees age 50 and older, an additional annual deferral of \$6,000. There are even higher annual limits under special circumstances. There are no restrictions as to participation, contribution amount, or how often the contribution may change.

The SRSP and the SSDP receive administrative, marketing, and investment services and support from Nationwide Retirement Solutions. Active employees wishing to participate in one or both pro-



grams should ask their employer to adopt these programs. Contact Nationwide for specific information at 888-224-1011 or 602-266-2733.

Having an additional tax-deferred savings plan may be an important part of your overall retirement strategy. *Remember, your ASRS lifelong benefit does not come with any guarantees of a benefit increase after retirement, so having additional income sources in retirement will be important to retirees.*

[More information: Supplement Your Retirement at AzASRS.gov](#) |

ASRS Receives Several Honors

We are very proud to announce the Arizona State Retirement System has been recognized with several awards.



PPCC Professional Standards

For the 11th consecutive year, the ASRS has been awarded the Pension Standards Award for 2014 from the Public Pension Coordinating Council. The award recognizes the ASRS for "meeting professional standards for plan funding and adminis-

tration."

The standards set forth by the PPCC cover such areas as benefits, funded status, plan valuation, investment policies and member communications.

The Public Pension Coordinating Council is a confederation of the National Association of State Retirement Administrators, the National Conference on Public Employee Retirement Systems and the National Council on Teacher Retirement.

GFOA Financial Reporting



For the 26th consecutive year, the ASRS has been awarded the Certificate of Achievement for Excellence in Financial Reporting for its 2014 Comprehensive Annual Financial Report. The award by the Government Finance Officers Association of the United States and Canada (GFOA) recognizes "achievement in the highest standards."

Also recognized was our 2014 Popular Annual Financial Report, a reader-friendly summary of the full report.

[More information: Annual Reports at AzASRS.gov](#) |

ASRS Ranks Favorably Among Nationwide Peers



A recent benchmarking study shows the ASRS provides a higher level of service to its members at a lower cost compared with its peers.

Since 2001, the ASRS has participated in a study conducted by the firm CEM Benchmarking Inc., which analyzes a variety of pension benefit administration data from like-sized public pension plans. The study showed that, despite having a similar transaction volume (workload) than our peer group, the average cost per member is \$83, which is \$15 less than the average of 15 public retirement systems of similar size. Our total pension administration cost has remained relatively stable over the past five years.

One particularly positive note is the ASRS' service measure, which takes into consideration such things as turnaround time for member requests, availability and choice of services, and member satisfaction. The ASRS scored 87 out of 100 on this measure, which is above our peer group's median score of 80.

The ASRS aims to be a leading benefit administrator, providing high levels of service in a cost effective manner. This study tells us we're doing more with less and we are very proud of that.

Our move toward streamlining operations and focusing on member services has been a priority over the past decade, and will continue to be in the future.

I invite you to learn more about our operations by visiting our website.

[More information: Strategic Plan](#) in the **About Us** section at [AzASRS.gov](#) | **Financial Horizons 2016**

ASRS Board of Trustees

The Arizona State Retirement System is governed by a nine-member Board of Trustees, appointed by the Governor and confirmed by the state Senate.

The Board generally meets on the last Friday of the month in a public meeting at the ASRS Phoenix office. Issues discussed by the Board include legislative updates, investment presentations and approval of various policies, procedures and reports. There is time in each meeting for calls to the public during which anyone may address the Board.

In addition to the Board of Trustees, there are three committees: the Investment Committee, External Affairs Committee and Operations and Audit Committee. Each meets separately and report to the full Board.

Meeting schedules, agendas and minutes of past meetings are available on the ASRS website.

Three new trustees were recently appointed to the Board. They are:

Clark Partridge, representing State Employees. Mr. Partridge has been with the State of Arizona since 1989 and currently serves as State Comptroller with the Arizona Department of Administration, a position he's held since 2002. He began his career with the General Accounting Office in 1989 and has served as



New trustee
Clark Partridge



New trustee
Lorenzo Romero



New trustee
Robert Wadsworth

[Board of Trustees, continued page six](#)

ASRS Legislative Updates

The 52nd Legislature – Second Regular Session opened on Jan. 11 and the ASRS has a total of seven bills introduced, with four having minor impacts to ASRS members.

House Bill 2104 – Retention of Credited Service

This bill states that an employee who is employed with an ASRS employer in a position that was exempt from ASRS membership because the position was not included Social Security coverage, but on whose behalf the employer has remitted ASRS contributions, will retain credited service for the period of employment for the contributions made by the employer.

House Bill 2159 – Rulemaking Exemption

This bill would allow the ASRS an

exemption from the Administrative Procedures Act (rulemaking) for the following processes: actuarial assumptions and calculations; investment strategy and decisions; certain accounting methodologies.

House Bill 2160 – Eligible Rollovers

This bill would allow the ASRS to no longer accept "indirect rollovers" for payment of service purchases made by members. Payments for service purchase can continue to be made through "direct rollovers" that is, funds transferred directly from a qualified tax plan or through a personal check. Service purchase payments through indirect rollovers are rare for members and can be confusing and potentially result in double taxation.

[Legislative, continued page six](#)

ASRS Passes Sunset Review

The state Office of the Auditor General recently conducted a Performance Audit and Sunset Review of the Arizona State Retirement System (ASRS), a review that takes place periodically for state agencies.

These audits are designed to determine whether an agency is achieving the objectives established by the Legislature and whether it is managing its resources in an effective, economical, and efficient manner.

The report states although the ASRS plan is not fully funded, steps have been taken to improve its long-term sustainability. It also adds that adopting investment strategies have led to increased funding and appear prudent.

Last November, the Senate Finance and House Government and Higher Education Committee of Reference for the Sunset Review of the ASRS heard presentations on the Auditor General report and voted to continue the ASRS for an eight-year period, when another audit review would be due.

The Committee's recommendation is contained in Senate Bill 1151 this session, the progress of which can be followed through the ASRS Bill Tracker.

The full report, a summary report and the ASRS response are all available for public review on the Office of the Auditor General's website – AzAuditor.gov |

Popular Annual Financial Report 2015

A reader-friendly summary of the financial health, investment performance, and key accomplishments of the ASRS.



Access the Popular Annual Financial Report from AzASRS.gov by going to the *About Us* page and clicking on the *Annual Reports* section

2015 Comprehensive Annual Financial Report

The ASRS administers retirement, health and long term disability benefits for teachers, state, county and other public municipal employees. ASRS benefits are funded by member and employer contributions and by earnings on investments. The ASRS has three funds, Retirement, Health Benefit Supplement (HBS) and Long Term Disability (LTD), to which the contributions are distributed according to actuarially determined contribution rates.

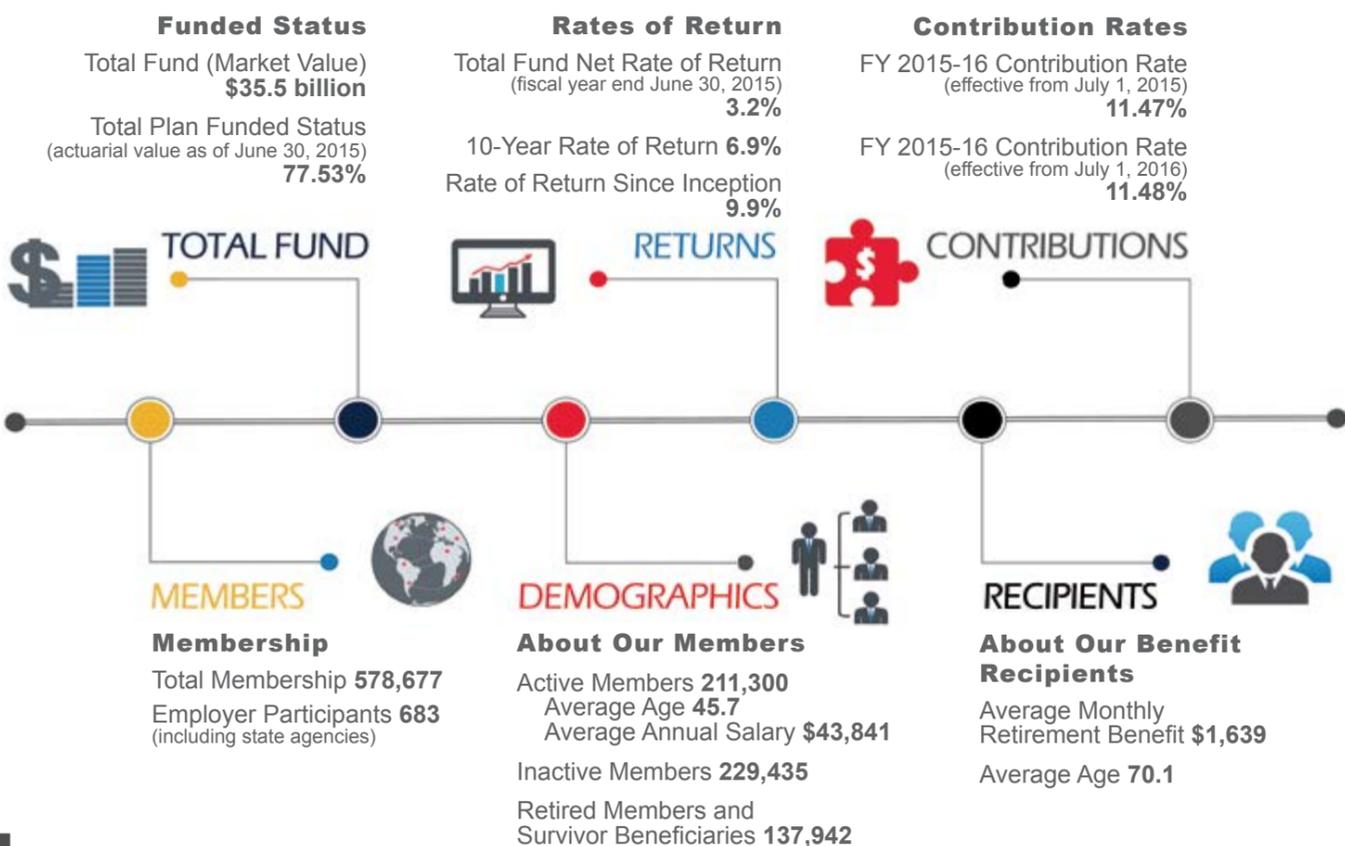
The ASRS total fiduciary net position held in trust for benefits at June 30, 2015 was \$35.46 billion, a 0.2% decrease from the previous fiscal year's \$35.53 billion at June 30, 2014. The retirement fund's fiduciary net position was \$33.6 billion compared to \$33.7 billion last year, a 0.1% decrease. The HBS fund net position was \$1.57 billion at year end compared to \$1.56 billion at fiscal year

2014, a 1.1% increase. The LTD fund fiduciary net position was \$247 million at year end compared to \$286 million last year, a 13.4% decrease. The decrease in the ASRS total fiduciary net position and the fiduciary net position of its individual funds is primarily due to lower investment earnings and increased benefit payments compared to fiscal year 2014.

For the 2015 fiscal year, contributions totaled \$2.11 billion, compared to the 2014 fiscal year contributions of \$2.06 billion. The increase is due to a 1.59% increase in contribution rates for retirement and HBS from 11.30% in fiscal year 2014 to 11.48% in fiscal year 2015. LTD contribution rates were reduced by 50% from 0.24% to 0.12% in fiscal 2015. For employers, the alternate contribution rate increased from 9.20% in 2014 to 9.57% in 2015.

Deductions from the ASRS net position held in trust for benefits consist primarily of pension, disability, health insurance, survivor benefits, member refunds and administrative expenses. For the 2015 fiscal year, pension, disability, health insurance and survivor benefits totaled \$2.8 billion, an increase of 4.0% over the \$2.7 billion paid during fiscal year 2014. The 4.0% increase is explained by an increase in total member or beneficiaries receiving benefits from 127,881 in fiscal year 2014 to 137,942 in fiscal 2015.

Refunds and transfers to other plans totaled \$256 million in fiscal year 2015, a 3.7% increase from the \$247 million paid out in fiscal year 2014. In fiscal year 2015, the cost of administering the ASRS benefits totaled \$30.6 million, a decrease of 1.8% from the \$31.1 million paid in fiscal year 2014, which is attributed to the ASRS' cost reduction initiatives. |



2016-17 Contribution Rates

New contribution rates for ASRS members for fiscal year 2016-17, which take effect July 1, 2016, will be largely unchanged.

Despite a down year of market returns, the total contribution rate for

the defined benefit plan, health insurance supplement and long term disability plan will be 11.48 percent for both employer and employee, up just slightly from the current rate of 11.47 percent.

"We are pleased the rate has remained

relatively stable," ASRS Director Paul Matson said, noting that the overall funded status of the ASRS plan increased from 76.87 percent to 77.53 percent from last fiscal year.

[More information: Contribution Rates at AzASRS.gov](http://AzASRS.gov) |

	Retirement Pension & Health Insurance Benefit	LTD Income Plan	TOTAL
FISCAL 2015-16 (Effective July 1, 2015)			
Employee	11.35%	0.12%	11.47%
Employer	11.35%	0.12%	11.47%
FISCAL 2016-17 (Effective July 1, 2016)			
Employee	11.34%	0.14%	11.48%
Employer	11.34%	0.14%	11.48%

ASRS Funding Policy available for review

An ASRS Funding Policy, a formal document outlining the strategies and goals for assuring the long-term sustainability of the ASRS plans, is now available for review under the ASRS Policies page on our website. The six-page document outlines the formal methodology for financing the pension, health insurance and long-term disability plan obligations. Each plan is sustainable with current assets, plus future contributions from employees and employers, plus investment earnings. Discussed in the document are actuarial methods and funded statuses, benefit costing perspectives, inter-generational

equity perspectives, investment approaches, transparency and governance.

[More information:](#) View the Funding Policy under the ASRS Policies page. |



Legislation, Statutes and Rules

Be sure to visit our website to see the latest legislative proposals, state statutes and administrative rules related to the ASRS and public retirement plans.

- Follow Legislative sessions on ASRS' *Bill Tracker*.
- Link to *Arizona Revised Statutes*.
- Check ASRS administrative *Rules*.

Look for the [Legislation & Rules](#) section on our homepage, [AzASRS.gov](#), for details and links. |

Learn at your own pace with Member eLearning!

Learn About:

- Retirement Annuity Options
- Retiree Health Insurance
- Returning to Work
- GPS: Guide to Pre-retirement Services
- Route 2: Map Your Progress

Learn more at [AzASRS.gov](#) in the Member eLearning section, located in the Media tab

The Road to Retirement Takes Planning

Member education is for everyone! It is *never* too early to plan for your retirement and we have more opportunities than ever for our members to learn. Wherever you are on the road to retirement – early career, mid-career or your next exit is retirement – there's an educational opportunity for you! What's your learning style? Online? Group meetings? We've got them both!



Route 1: Your Journey Begins
Video

New to public service or the ASRS? Do you know what benefits you have as a member? Let's get you on the right road from the start! Welcome to the ASRS—it's going to be a great trip!



Route 2: Map Your Progress
eLearning

Mid-career (over five years of service with more than five years left until you retire)? Regardless of what stage of the journey you're at on the road to retirement, it's okay to ask questions! And we've got answers!



Route 3: Destination in Sight!
Webinar OR Group Meeting

Are you within three years of retirement? Wondering what's next? Before you reach that horizon, let us help you make sure you're ready for the next phase of your journey!



Route 4: Next Exit-Retirement
Webinar OR Group Meeting

Retiring within the next six months? Let us help ensure you've got everything in order before that exit!

Before you reach that destination, you may also want to check out the "Know Your Insurance" group meeting for more detailed information about ASRS retiree group health insurance options.



Know Your Insurance
Group Meeting

If you're retiring in the next year, "Know Your Insurance" will explain your options under the ASRS retiree group health insurance programs and introduce you to our benefit providers. You'll also learn about the ASRS Premium Benefit and how health insurance costs are determined.



Remote Online Counseling
Online

The ASRS provides one-on-one counseling via the internet for members who don't want to drive to an office. Schedule your session on **myASRS** as you would any Member Education program. To participate, you'll need a high-speed internet connection, microphone & speakers.



How To Register:
Log into **myASRS** today!

To register for any of our Member Education programs, log into your secure **myASRS** account.



Learning On-Demand
Video and eLearning

For a complete listing of all ASRS streaming member education programs, click **Media** at [AzASRS.gov](#).

Tucson Office

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- Enhanced physical and electronic security
- By leasing rather than owning the building, ASRS management can be fully-focused on customer service
- By leasing rather than owning the building, dollars can be reinvested in better investment opportunities

Office hours for both the Phoenix and Tucson offices of the ASRS are Monday through Friday, 8 AM - 5 PM. The phone number remains unchanged. For complete information on contacting the ASRS, including phone numbers, location maps and email addresses, see our [Contact Us](#) page. |

Legislative Updates

continued from page three

Senate Bill 1037 – Board Delegation

This bill would permit the ASRS Board of Trustees to delegate the duty and authority to act on the Board's behalf to a Committee of the Board for purposes of determining the rights, benefits or obligations of any person for related administrative hearings. For example, the full Board may choose to allow a Committee of the Board to hear individual appeals of such issues as pension calculations or Long Term Disability determinations rather than having them presented to the full Board.

You can follow the legislative process of these and other bills on our [ASRS Bill Tracker](#), which is updated daily throughout the session. |

Board of Trustees

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Chief Financial Officer for the Department of Commerce and as Deputy State Comptroller.

Lorenzo Romero, appointed as a Member-at-Large. Mr. Romero has served as director of the Governor's Office of Strategic Planning & Budget since May 2015. Prior to that, he served in Governor Doug Ducey's administration as special advisor to the governor for tax, business and regulatory policy.

Robert Wadsworth, representing the Public. Mr. Wadsworth is retired, having spent nearly 50 years in the investment management industry.

[More information:](#) *Board of Trustees* at [AzASRS.gov](#) |



Arizona State Retirement System

Financial Horizons

PO Box 33910

Phoenix AZ 85067-3910

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AzASRS.gov

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myASRS.

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In Phoenix:

602-240-2000

In Tucson:

520-239-3100

Toll-Free:

800-621-3778



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Member Statements on myASRS

Have you accessed your member statement online yet?

Active and inactive members can view and print a copy of their Member Statement online at any time. This real-time statement includes beneficiary information, a summary of service credit, estimated monthly pension amounts, information on refund, survivor and disability benefits.

The ASRS no longer prints and mails these statements to members so it's a good idea to log in at least once a year to review your statement information.

E-Communication

Be sure we have your current email address to ensure you receive our electronic newsletters and notifications as well. Log in to your secure **myASRS** account to update your information.



Want to get social?

- Friend us on **Facebook** (Facebook.com/AzASRS).
- Follow us on **Twitter** (Twitter.com/AzASRS).
- Connect with us on **LinkedIn** (LinkedIn.com/ASRS). |

Comments?



Financial Horizons is published annually and mailed to all members of the Arizona State Retirement System. We welcome comments from our readers!

Financial Horizons, Editor
P.O. Box 33910
Phoenix, AZ 85067-3910

Or email us at:

DigitalCommunications@AzASRS.gov

