



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson*  
Director

## MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, December 5, 2014  
8:30 A.M., MST

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 8:38 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  
Professor Dennis Hoffman  
Dr. Richard Jacob  
Mr. Tom Manos (arrived at 9:44 a.m.)  
Mr. Jeff Tyne

Absent: Mr. Mike Smarik, Vice-chair  
Mr. Tom Connelly  
Mr. Brian McNeil

When the meeting was called to order, a quorum was not present for the purpose of conducting business; therefore, the order of the agenda was modified until such time that a quorum was present and the Board was able to consider action items.

### 2. Presentation Regarding PRIDE Award for Diversity

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, recognized the following nominees for the PRIDE Diversity award: John Mathine, Nicie Montanez, Jenna Orozco, Gary Rodriguez, Kristi Zeller, Brian Crockett, Mark Muraoka and Lisa Dailey.

The nominees were recognized by their peers as exemplifying the following PRIDE qualities of diversity:

- An attitude of openness to encourage a free flow of ideas and opinions
- Working effectively to accomplish goals with teams comprised of dissimilar individuals or groups
- Recognizing and promoting new skills in others attained on and off the job to achieve desirable results
- Treating others different from you with dignity and respect

Mr. Guarino presented the PRIDE Award for Diversity to the award winner, Jenna Orozco.

### **3. Presentation, Discussion and Appropriate Action with Regard to 2015 ASRS Legislative Initiatives and Legislative committee Assignments**

*This agenda item was taken out of order due to the lack of a quorum of the Board and was formerly listed as agenda item #5.*

Mr. Pat Klein, Assistant Director, External Affairs, and Mr. Nicholas Ponder, Government Relations Officer, addressed the Board regarding the 2015 Legislative Session and the ASRS Legislative initiatives. Mr. Ponder advised the Board that sponsors for the six initiatives approved at the October 24, 2014 meeting were obtained but due to the changes in the Committees' makeup, the ASRS will need to secure sponsorship of the bills through the new leaders. The ASRS is currently working with the Legislators to secure their sponsorship of the bills. The bills will continue to go through the Senate Finance Committee as they have in past years. The House will likely put the bills through the Government and Higher Education Committee and some may go through the Insurance Committee.

Mr. Ponder provided the Board with a breakdown of the bills circulating through the Senate and House Committees. The three bills planned to go through the Senate committee are; the education bill, the actuarial funding bill, and the technical changes proposed by outside counsel. The House Committee bills are two Long Term Disability bills and a bill related to rules.

### **4. Presentation, Discussion, and Appropriate Action Regarding the ASRS Membership (A FY 2015 Strategic Topic)**

*This item was listed as item #6 on the agenda.*

Mr. Klein and Ms. Sara Orozco addressed the Board regarding the ASRS Membership. The presentation covered the membership requirements and the various laws that affect members, the effort put forth by the ASRS to educate its employers, the challenges the ASRS and its partner employers face, and possible future variations that could be considered.

Mr. Klein and Ms. Orozco responded to questions from the Board.

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

*This item was listed as item #8 on the agenda.*

Mr. Gary Dokes, Chief Investment Officer, addressed the Board regarding the ASRS Investment Program Updates, highlighting specific areas of interest and concern. Mr. Dokes discussed the Investment Management Division's (IMD) Investment House Views and provided an update on recent IMD activities.

*Mr. Tom Manos arrived at 9:44 a.m. and Mr. McCarthy noted that since a quorum was present, the Board would proceed with the original order of the agenda.*

### **6. Approval of the Minutes of the October 24, 2014 Public Meeting and Executive Sessions of the ASRS Board**

*This item was listed as item #3 on the agenda.*

**Motion:** Prof. Dennis Hoffman moved to approve the Minutes of the October 25, 2014 Public Meeting of the ASRS Board. Mr. Jeff Tyne seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved.

*Due to the motion including an incorrect meeting date (by staff), which was not discovered until after the meeting was adjourned, this item will be placed on the January 30, 2015, Board agenda for an amended motion of approval. The amended motion will also include the Executive Session Minutes which were not included in the motion.*

## **7. Presentation, Discussion, and Appropriate Action Regarding the Arizona State Retirement System's Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2014**

*This item was listed as item #4 on the agenda.*

Mr. Jason Ostrosky was present and spoke on behalf of CliftonLarsonAllen, LLP, the ASRS' external auditor. Mr. Ostrosky presented an unmodified Independent Auditor's opinion for the fiscal year ending June 30, 2014, on the ASRS financial statements that collectively comprise the ASRS' financial statements in the Comprehensive Annual Financial Report (CAFR). Mr. Ostrosky pointed out that there were significant changes to the accounting policies this year because implementation of Government Accounting Standards Board (GASB) Statement 67 took place this year. Mr. Ostrosky expressed appreciation for the cooperation of Ms. Nancy Bennett, Chief Financial Officer, and ASRS staff, noting the process went smoothly, which was a testament to the ASRS. Mr. McCarthy commended Ms. Bennett and her staff for their fine work supporting this effort.

Mr. Ostrosky responded to questions from the Board.

## **8. Presentation, Discussion, and Appropriate Action Regarding ASRS Valuations, including Potential Implementation of Actuarial Audit Recommendations**

*This item was listed as item #7 on the agenda.*

Mr. Charlie Chittenden, Actuary, Buck Consultants, Mr. David Kershner, Actuary, Buck Consultants, and Mr. David Driscoll, Actuary, Buck Consultants, summarized the ASRS valuations.

### **a. The ASRS System Valuation and Actuary's Recommendation Regarding 13<sup>th</sup> Checks for Retired System Members**

The Actuaries provided information regarding the non-retired census data, retiree census data, liabilities and funded status for the System. The funded status for the System as of June 30, 2014, was reported as 86.32%, an increase from 2013 which is due to gains on the assets. By prior Rule, the Board does not increase benefit levels when funded status is below 105%; therefore, no additional 13<sup>th</sup> checks or additions to current 13<sup>th</sup> checks are recommended this year. All current 13<sup>th</sup> checks will continue to be paid.

### **b. The ASRS Pension Plan and Health Insurance Valuation**

### **c. The ASRS Long Term Disability (LTD) Valuation**

Mr. Chittenden, Mr. Kershner, and Mr. Driscoll addressed the Board regarding the ASRS Pension Plan and Health Insurance and the LTD Valuation. The actuaries also presented their

pro-forma analysis of implementing recommendations resulting from the Actuarial Audit performed by Gabriel Roeder Smith & Company (GRS) (presented to the Board June 27, 2014).

The following valuation scenarios were presented to the Board.

1. Baseline June 30, 2014 Valuation Results
2. Baseline Valuation Results Incorporating:
  - a. Historical Pay
  - b. New Entrants in Normal Cost
  - c. 5-Year Amortization of Contribution Lag
3. Baseline Valuation Results Incorporating:
  - a. Historical Pay
  - b. Phasing in New Entrants in Normal Cost over 3 years
  - c. 5-Year Amortization of Contribution Lag
4. Baseline Valuation Results Incorporating:
  - a. Historical Pay
  - b. New Entrants in Normal Cost
  - c. 5-Year Amortization of Contribution Lag
  - d. Large Benefit Adjustment in Mortality Rates for all Active and Deferred Vested Members

The option results are listed below:

	(1) 6/30/2014 Valuation Results	(2) Include Historical Pay, New Entrants in Normal Cost, and 5 Year Amortization of Contribution Lag	(3) Include Historical Pay, Phasing in New Entrants in Normal Cost over 3 years, and 5 Year Amortization of Contribution Lag	(4) Scenario (2) including Large Benefit Adjustment in Mortality Rates for all Actives and DV's
<b>Total Plan and LTD Contribution Rate</b>	22.94%	23.47%	23.16%	24.17%
<b>Total Plan and LTD Alternate Contribution Rate</b>	9.36%	9.47%	9.41%	9.94%
<b>Total Plan Funded Status – Actuarial Value of Assets</b>	76.87%	76.75%	76.75%	76.14%
<b>Total Plan Funded Status – Market Value of Assets</b>	82.10%	81.97%	81.97%	81.32%

**d. The ASRS Alternate Contribution Rate (ACR)**

Mr. Chittenden, Mr. Kershner, and Mr. Driscoll addressed the Board regarding the ASRS aggregate results and Alternate Contribution Rate (ACR) which is the amount employers pay when they rehire retired ASRS members. The recalculated baseline (option 1) ACR is 9.36%.

**Motion:** Prof. Dennis Hoffman moved to accept the System actuarial valuation as presented. Mr. Jeff Tyne seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved.

**Motion:** Dr. Richard Jacob moved to accept the actuarial valuation report of the Plan with the resulting contribution rates as presented with the current actuarial assumptions (option 1). Prof. Dennis Hoffman seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved.

**Motion:** Prof. Dennis Hoffman moved to accept the actuarial valuation report of the LTD program with the resulting contribution rates as presented with the current actuarial assumptions (option 1). Mr. Jeff Tyne seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, and 3 excused the motion was approved.

**Motion:** Prof. Dennis Hoffman moved to accept the Alternate Contribution Rate as presented with the current actuarial assumptions (option 1). Mr. Jeff Tyne seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, and 3 excused the motion was approved.

## **9. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring, and Oversight of the ASRS Investment Program**

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 September 2014.

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

	Quarter	1 Year	3 Years	5 Years	10 Years	Since Inception (6/30/75)
Total Fund	-1.3%	10.8%	14.2%	11.1%	7.4%	9.9%
Interim SAA Policy	-1.9%	9.6%	13.7%	10.5%	7.0%	9.7%
Excess Return	0.6%	1.2%	0.5%	0.6%	0.4%	0.2%

\*\*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)/15% 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

## **10. Presentation and Discussion Regarding the Board Self-Evaluation Material Distribution**

Mr. McCarthy addressed the Board regarding the Board self-evaluation material, noting Trustees should submit their Board performance evaluation forms to him prior to the January Board meeting.

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

