



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES

PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, October 24, 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. Michael Smarik, Vice-chair of the ASRS Board, called the meeting to order at 8:31 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. Mike Smarik, Vice-chair
Professor Dennis Hoffman
Mr. Jeff Tyne
Mr. Marc Boatwright
Dr. Richard Jacob
Mr. Tom Connelly
Mr. Tom Manos

Absent: Mr. Kevin McCarthy, Chair
Mr. Brian McNeil

A quorum was present for the purpose of conducting business.

Mr. Mike Smarik opened the meeting stating that this was Mr. Marc Boatwright's last Board meeting. Mr. Smarik recognized Mr. Boatwright's for his expertise and service to the Board.

2. Approval of the Minutes of the September 26, 2014 Public Meeting and the Amended Minutes of the June 27, 2014 Public Meeting of the ASRS Board

Motion: Mr. Tom Manos moved to approve the minutes of the September 26, 2014 Public Meeting and the amended minutes of the June 27, 2014 Public Meeting of the ASRS Board. Mr. Jeff Tyne seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

3. Approval, Modification, or Rejection of Recommended Administrative Law Judge's Decision Regarding Mr. Lenny Tasa-Bennett's Appeal for Long Term Disability (LTD) Benefits

Ms. Jothi Beljan said Mr. Tasa-Bennett notified the ASRS he would not be attending the Board meeting, however, he did ask that his appeal be discussed in Executive Session.

Motion: Mr. Jeff Tyne moved to go into Executive Session. Professor Dennis Hoffman seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

The Board convened to Executive Session at 8:34 a.m.

The Board reconvened to Public Session at 8:48 a.m.

Motion: Mr. Tom Manos moved to accept the ruling of the Administrative Law Judge's Recommended Decision with a technical correction to change the typographical errors in Conclusions of Law Nos. 6 and 9 from A.R.S. § 38-979.07(A)(1)(a) to A.R.S. § 38-797.07(A)(1)(a). Professor Dennis Hoffman seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

4. Presentation, Discussion, and Appropriate Action Regarding the Office of the Auditor General's ASRS Sunset Review

Motion: Dr. Richard Jacob moved to go into Executive Session. Mr. Jeff Tyne seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

The Board convened to Executive Session at 8:50 a.m.

The Board reconvened to Public Session at 9:43 a.m.

5. Presentation, Discussion and Appropriate Action with Respect to the Possible Implementation and Timing of the 2014 Actuarial Audit Recommendations

Mr. Paul Matson, Director, provided background information of the hiring of Gabriel Roeder Smith & Company, stating they were hired to conduct an audit of the retained actuary, Buck Consultants. GRS presented the Actuarial Audit at the June 2014 Board meeting. Mr. Matson discussed GRS' recommended changes to the valuation reports and actuarial assumptions as well as the Director and staff recommended follow-up to those recommendations. The discussion was then turned over to Mr. Charlie Chittenden and Mr. David Kershner of Buck Consultants who further discussed the non-financial recommendations and the financial recommendations from the audit.

A detailed discussion occurred, with Trustees asking questions of Mr. Matson and Mr. Chittenden. Mr. Matson concluded by stating he would work with Buck Consultants on a series of pro-forma actuarial analyses to be presented at the December Board meeting.

Motion: Dr. Richard Jacob moved to accept the non-financial Actuarial Audit recommendations, 1 through 10, to the actuarial content of the 2013 valuation reports and the actuarial assumptions. Professor Dennis Hoffman seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

6. Presentation, Discussion and Appropriate Action Regarding an Amendment to the Supplemental Retirement Savings Plan

Mr. Patrick Klein, Assistant Director External Affairs, discussed the background and history of the Supplemental Retirement Savings Plan. Mr. Klein also updated the Board on the plan membership numbers before turning the discussion over to Mr. Nick Ponder, Government Relations Officer, who explained the plan amendment and the need for the revision.

Motion: Professor Dennis Hoffman moved to adopt the Sixth Amended and Restated ASRS Supplemental Retirement Savings Plan;

And,

Authorize and direct the Director of the ASRS to execute such Sixth Amended and Restated Plan and amended Trust Agreement for and on behalf of the Board;

And,

Authorize staff to make necessary technical and conforming changes to either the Plan Statement or the Trust Agreement. Mr. Jeff Tyne seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

Mr. Tom Connelly departed the meeting.

7. Presentation, Discussion and Appropriate Action Regarding ASRS Proposed Legislation for the 2015 Legislative Session

Mr. Klein explained that in July of this year the External Affairs Division pursued legislative suggestions from staff, the Board, and interested constituents. Staff then vetted the suggestions and in October presented them to the External Affairs Committee. Mr. Klein turned the discussion over to Mr. Ponder who reviewed each six ASRS legislative initiatives:

38-797.07. LTD program benefits; limitations; definitions

PROPOSAL: Remove the word "total" from our long term disability statutes when written prior to the term disability. The statutory definition only refers to the inability of a member to do his or her own occupation initially, then any occupation subsequently.

15-1451. Optional retirement plans

PROPOSAL: Currently the statute suggests that if an ASRS member becomes an employee of a community college district and elects to join the district's Optional Retirement Plan (ORP), the ASRS must transfer all contributions from the ASRS account to the ORP. The ASRS is seeking to add language to the statute that restricts the ASRS to only transfer the account balance for active, inactive and disable members (excluding retired members). If a member is on LTD and joins the ORP of a community college district, under the proposed language, the member will be dropped from the ASRS LTD program.

38-737. Employer contributions

PROPOSAL: The ASRS is requesting the ability, but not requirement, to change its actuarial valuation method. Reasons to execute this change would include: to obtain consistency with GASB 67; to obtain great consistency with other states; the ability to maintain the aforementioned consistencies if appropriate.

**38-703. Plans for coverage of employees of eligible political subdivisions; payroll audits
38-755. Information as to member's status; beneficiary designation; spousal consent; confidentiality**

PROPOSAL: Remove the terms "provided in rules" and "subject to rules prescribed by the board" in both of these statutes.

38-797.10. Assurances and liabilities

PROPOSAL: Exempt the ASRS from "bad faith" claims as they relate to the ASRS LTD program. ERISA plans are protected from bad faith claims and because the ASRS uses ERISA as guidance for the ASRS plan in many circumstances the ASRS would like a similar protection.

Motion: Mr. Marc Boatwright moved to approve and support the 2015 legislative initiatives presented by staff. Permit staff to make all language changes and negotiate as necessary to obtain the most effective and efficient legislative provisions within the construct of today's discussion. Professor Dennis Hoffman seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved.

8. Presentation, Discussion and Appropriate Action Regarding the 2015 Board Meeting Calendar

Mr. Smarik presented the two meeting calendar options; Version 1 would keep the meetings on the fourth Friday of the month, Version 2 would change the meeting to the last Friday of every month.

Motion: Dr. Richard Jacob moved to approve Version 2 (last Friday of the month) of the Board schedule for 2015. Mr. Jeff Tyne seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved.

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

Mr. Matson provided the current fund market update of -2.8%.

Mr. Matson also provided positive comments of outgoing Trustee, Mr. Boatwright from the staff perspective. Mr. Matson stated that Mr. Boatwright has been a pleasure to work with and that staff have appreciated Mr. Boatwright's industry expertise and found his overall industry knowledge valuable and very helpful.

Mr. Boatwright expressed his pleasure to be on the Board and to work with Mr. Matson.

Professor Hoffman echoed Mr. Matson's positive comments of Mr. Boatwright.

10. 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 December 9, 2014 at 10:30 a.m. in the 14th floor conference room.

b. External Affairs Committee (EAC)

Mr. Pat Klein explained the EAC meetings will be postponed until the Legislative Session is underway and there are activities to report.

c. Investment Committee (IC)

Professor Dennis Hoffman said the next IC meeting will be held on December 1, 2014 at 2:30 p.m. in the 14th floor conference room.

11. Board Requests for Agenda Items

No requests were made.

12. Call to the Public

No members of the public requested to speak.

13. The next ASRS Board meeting is scheduled for Friday, December 5, 2014, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

14. Presentation and Discussion Regarding Trustee Fiduciary Education

The Fiduciary Education presentation was tabled until a future meeting.

15. Adjournment of the ASRS Board

Mr. Michael Smarik adjourned the October 24, 2014, Board meeting at 10:55 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Gayle Williams Date
Board Administrator

Paul Matson Date
Director