MINUTES OF A PUBLIC MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM
OPERATIONS, AUDIT & LEGISLATIVE COMMITTEE

Wednesday, October 4, 2017
10:30 a.m., Arizona Time

A quorum of the Operations, Audit & Legislative Committee (OALC) of the Arizona State Retirement System (ASRS) met in public session in the 14th Floor Conference Room of the ASRS Office, 3300 N. Central Avenue, Phoenix, Arizona 85012.

Mr. Clark Partridge, Chair, called the meeting to order at 10:31 a.m.

The meeting was teleconferenced to the ASRS office at 4400 E. Broadway, Tucson, Arizona 85711.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Clark Partridge, Chair
Mr. Jim Hillyard, Vice-chair
Mr. Rene Guillen (arrived via teleconference at 10:36 a.m.)

A quorum of the Committee was present for the purpose of conducting business.

2. Approval of the Minutes of the July 26, 2017 Public Meeting of the OALC

Motion: Mr. Jim Hillyard moved to approve the Minutes of the July 26, 2017, Public Meeting of the OALC. Mr. Clark Partridge seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

3. Presentation, Discussion, and Appropriate Action Regarding 2018 ASRS Legislative Initiatives

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, introduced Ms. Jessica Thomas, Government Relations Officer and Rules Writer and turned the presentation over to her. Ms. Thomas provided a summary of the legislative initiatives for the 2018 Legislative Session as follows:

A.R.S. § 38-718: Amend to exempt all investment related services from the procurement code. This will allow the ASRS to:

a. contract for investment related services outside of the Procurement Code;
b. contract for investment related services much more simply and quickly which is necessary in a dynamic industry;
c. contract for more expert services such as due diligence on ad hoc investments; and
d. contract with necessary companies and individuals such as large investment firms and industry experts that might otherwise be unavailable.
A.R.S. § 38-701(6): Amend to remove the ASRS as the State agency responsible for social security administration. This will:
   a. free up more ASRS staff resources for administering the Plan;
   b. allow the Governor’s Office more flexibility in assigning the Social Security administrator duties;
   c. allow other State agencies who are better suited to carry out these duties; and
   d. the ASRS no longer requires 218 agreements.

A.R.S. § 38-751: Amend to include information about how the Non-Participating Employer Liability is calculated and charged and to whom it is assessed. This will allow the ASRS to:
   a. determine whether an Employer is no longer participating;
   b. calculate an unfunded liability for an Employer; and
   c. manage asset fund accounts established for the unfunded liability of Employers.

A.R.S. § 38-871: Amend to reorganize Deferred Compensation Committee members and responsibilities. Mr. Matson, Director, is a Deferred Compensation Committee member by statute and recommended amendments to:
   a. change the Board composition to allow for more members with expert experience;
   b. change the Board composition to allow for more members with a vested interest; and
   c. clarify the duties of the Committee.

Mr. Rene Guillen arrived at the meeting at 10:36 a.m.

Motion: Mr. Jim Hillyard moved to approve the proposed 2018 legislative initiatives as discussed and forward to the full Board for approval. Mr. Rene Guillen seconded the motion.

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

4. Presentation, Discussion, and Appropriate Action Regarding ASRS Retiree Health Insurance Including:
   a. Goals
   b. Cost Allocation and Pricing Methodology Options
   c. Retrospective Rate Agreement and Distribution Methodology Options

Mr. Paul Matson provided background to the Committee and reviewed the following three components:

a. Goals – The current philosophy for health insurance is combined with LTD and supplemental defined contribution programs. Mr. Matson’s suggestion is to extract health insurance from the current philosophy and create its own and update the terms used. Mr. Matson provided the following suggestions:
   i. Change affordable to cost competitive because the agency does not have control over the costs in the market place.
   ii. Change reliable to strong customer service to ensure members receive great customer service from the vendor in addition to the ASRS receiving great customer service from the vendor as well.
   iii. Keep accessible as it pertains to enrollment and the provider network.
   iv. Keep efficient as it pertains to enrollment and in-plan navigation.
b. Cost Allocation and Pricing Methodology Options – Mr. Matson reviewed the options considered. Mr. Matson indicated an internal policy will be prepared for presentation to the Board at its October 27 Board meeting.

c. Retrospective Rate Agreement (RRA) and Distribution Methodology Options – Mr. Matson reviewed the options considered and discussed the pros and cons of each option. Mr. Matson further noted Option #9 is the favored option as it is the best and quickest method to return funds back to eligible members. If approved, the ASRS would plan to provide payouts at a rate of 25 percent per year which could begin as early as December 2017.

The Committee asked questions and provided suggested modifications and guidance which Mr. Matson stated he would incorporate.

**Motion:** Mr. Jim Hillyard moved to approve the presented goals, the method of retiree health insurance premium determination and the method of disbursement of RRA funds as discussed and forward to the full Board for approval.

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

5. Recently Conducted Employer Audits

Mr. Adel Korish and Ms. Rosie Tomforde, ASRS Audit Officer, reviewed the following audits conducted by the Internal Audit Division (IAD).

- **Ajo Unified School District – Employer Audit**
  The IAD had six findings from the Ajo Unified School District audit. The employer agreed with the findings and IAD’s recommendations.

- **Mesa Public Schools – Employer Audit**
  The IAD had seven findings from the Mesa Public Schools District audit. The employer agreed with the findings and IAD recommendations.

- **Peoria Unified School District – Employer Audit**
  The IAD had one finding in the Peoria Unified School District follow-up audit. This was down from the three findings found in last year’s audit. The employer agreed with the findings and IAD recommendations.

6. Presentation, Discussion, and Appropriate Action Regarding the Internal Audit Quarterly Update

Mr. Harold Mackey, Internal Auditor, provided a summary of the IAD Quarterly Audit Report on behalf of Mr. Bernard Glick, Chief Internal Auditor, IAD, to the Committee. Mr. Mackey advised the Committee the report was not for the full quarter due to the deadline for meeting materials. Going forward, rather than providing a quarterly report, the report will be ending the last day of the second month of each quarter in order to meet meeting material deadlines. Mr. Mackey announced the ASRS Management/Administration Fees audit is nearing completion and will be presented at the next OALC meeting. In addition, an audit concerning third parties will be added per Mr. Matson’s request.

Mr. Mackey concluded by noting this is the first year the ASRS has suspended benefits for foreign annuitants. Prior to making the decision, additional attempts were made to contact the remaining 14
annuitants to ensure they are receiving their benefits and obtain a current address. The ASRS received communication from all but three.
7. **Presentation, Discussion, and Appropriate Action Regarding the ASRS Security Program**

**Motion:** Mr. Jim Hillyard moved to go into Executive Session for the purpose of considering or discussing records exempt by law from public inspection. Mr. Rene Guillen seconded the motion.

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

The Committee convened to Executive Session at 11:47 a.m.

*Mr. Rene Guillen left the meeting during Executive Session at 12:03 p.m.*

The Committee reconvened to Public Session at 1:18 p.m.

8. **Request for Future Agenda Items**

- Follow-up discussion regarding the IT Security Plan.

9. **Call to the Public**

There were no members of the public in Phoenix or Tucson requesting to speak.

10. **The next regular public OALC meeting is scheduled for Wednesday, January 3, 2018, at 2:30 p.m., at 3300 N. Central Avenue, in the 14th Floor Conference room, Phoenix, Arizona.**

11. **Adjournment of the OALC**

**Motion:** Mr. Jim Hillyard moved to adjourn the meeting at 1:19 p.m. Mr. Clark Partridge seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

Respectfully Submitted,

Melanie A. Alexander  
Committee Administrator  
ARIZONA STATE RETIREMENT SYSTEM