A non-quorum of the External Affairs Committee (EAC) of the ASRS met in the 14th Floor Conference Room, 3300 North Central Avenue, Phoenix, AZ. Dr. Richard Jacob, Chair of the EAC, called the discussion to order at 10:35 a.m.

This discussion was teleconferenced to the ASRS Tucson office at 4400 East Broadway Boulevard, Suite 200, Tucson, Arizona, 85711.

1. Call to Order; Roll Call; Opening Remarks

Present: Dr. Richard Jacob, Chair – Via Teleconference
Mr. Tom Manos – Via Teleconference

Two vacant positions

When the discussion was called to order, a quorum was not present for the purpose of conducting business. Dr. Richard Jacob, Chair, requested that a discussion and dissemination of materials occur without a quorum.

2. Approval of the September 14, 2016 Public Meeting Minutes

Dr. Jacob accepted the Minutes of the September 14, 2016 Public meeting of the ASRS EAC.

3. Approval of the December 9, 2016 Summary of Discussion by Non-Quorum ASRS EAC Members, ASRS Staff, Presenters and Public

Dr. Jacob accepted the December 9, 2016 Summary of Discussion by Non-Quorum ASRS EAC Members, ASRS Staff, Presenters, and Public, as written.

4. Presentation, Discussion, and Appropriate Action Regarding ASRS Rulemaking

Ms. Jessica Thomas, ASRS Rules Writer, provided an update of the activities on the 2016 and 2017 Regulatory Agendas. She highlighted the initiatives of each agenda, noting the completion of the 2015 appeals rules, which are scheduled to be effective April 2017. The 2017 Regulatory Agenda was accepted by Dr. Jacob with the items listed. Dr. Jacob inquired if services to members or employers are being hindered by incomplete or pending rulemaking processes. Ms. Thomas stated there were none and concluded her discussion item.
5. Presentation, Discussion and Appropriate Action Regarding 2017 Legislative Initiatives and Legislation affecting the ASRS

Mr. Nick Ponder, Government Relations Officer, provided an update of the 2017 legislative initiatives and other legislation that may impact the ASRS.

**HB2166: ASRS; RETURN TO WORK -** Removes the words "in a position ordinarily filled by the employee of the employer" from Arizona Revised Statute (A.R.S.) § 38-766.02. The ASRS believes that by removing this language, it will close a loophole whereby employers were attempting to circumvent the payment of an ACR through minor changes to a position's title or scope.

This bill passed through the Banking and Insurance Committee on January 31, 2017.

Mr. Ponder noted he has offered an amendment to the legislation of H2166 to clarify confusion Representative Eddie Farnsworth had regarding the ACR and the intent of the bill. The determination on whether the amendments will be heard on the floor of the House in order to get a vote in the House Third Read is forthcoming. He further confirmed, regardless of whether it moves forward in legislation, the ASRS does have sufficient rules in place to ensure compliance in terms of the intent of the ACR as it stands now.

**HB2167: ASRS; CONTRIBUTIONS; ADJUSTMENTS -** Clarifies A.R.S. § 38-738 to ensure compliance with Internal Revenue Code (IRC). Under A.R.S. § 38-738(A) modifications are being made to clarify the method in which the ASRS can return monies to employers who have overpaid contributions, in compliance with IRC. Provisions to A.R.S. § 38-738(B) clarify that a correction of prior credited service must be repaid in compliance with the IRC and that members who are retired, inactive, or on long-term disability can only purchase this service using after tax monies. In addition, the Bill ensures that individuals who forfeit their retirement account pursuant to A.R.S. § 38-742 can only request an adjustment in service [§ 38-738(B)] from their most recent membership date forward.

This Bill passed in the House and has moved to the Senate.

**HB2168: ASRS; REINSTATEMENT; CONTRIBUTION AMOUNT -** Proposed to modify the language in A.R.S. § 38-742 to indicate a member reinstating their service must repay the amount the "ASRS paid" rather than the amount received. The Bill clarifies potential confusion in the referenced ASRS statute regarding the purchase of forfeited service. Currently, the statute indicates that a member must repay what was received in a refund, plus interest, in order to receive service credit for that period. However, there is potential for confusion in that under a Domestic Relations Order, an ex-spouse may receive a portion of the member's benefit that was assigned to the ex-spouse. One could argue that the statute only suggests the member repay what the member had received and not the total amount paid. This Bill would clarify any confusion on the repayment amount.

This Bill passed in the House and has moved to the Senate.

**SB1052: ASRS; OPTIONAL RETIREMENT BENEFITS; OVERPAYMENT –** Permits the ASRS, for the purposes of retirement, to collect an overpayment from a member's Partial Lump Sum distribution before rolling the remaining monies into a qualified plan. For the purposes of refunds, allows the ASRS to collect an overpayment from a member's refund distribution before rolling the remaining monies into a qualified plan.

This Bill is scheduled for Senate Finance on February 15, 2017.
SB1053: ASRS; BOARD POWERS - Permits the ASRS Board to establish a Committee of the Board for the purposes of making a determination following an administrative hearing for Articles 2.1 and 7 of Title 38, Chapter 5. These articles are related to Long Term Disability and Transfer appeals and were not included in the passing of SB1037, which permitted the ASRS Board to establish a Committee of the Board for agency determinations following administrative hearings. The passage of this Bill would permit the Appeals Committee to hear all appeals under ASRS articles.

This bill is currently waiting to be assigned in the House.

SB1178: ASRS; NONPARTICIPATING EMPLOYERS; LIABILITY - Makes changes to and broadens the definition of a nonparticipating employer, to include scenarios not previously contemplated, for the purposes of charging a liability. The bill also provides clear changes to how the ASRS actuary would calculate a nonparticipating employer's liability and indicates the employer and employee contribution rate would remain the same as the plan contribution rate. However, the nonparticipating employer would be invoiced an additional amount annually to account for their share of the liability.

Mr. Ponder noted the Board of Regents has opted to oppose this bill due to concerns regarding the ASRS’ calculations of nonparticipating employer liabilities and further suggesting the ASRS hire a third party to calculate liability. Negotiations regarding the language of this bill are currently in process.

HB2010: ASRS: POLITICAL SUBDIVISION ENTITIES - States that new employees of political subdivision entities are excluded from membership in the ASRS. Employees who are currently members of the ASRS and become employed with a political subdivision entity or those currently employed with a political subdivision entity will maintain their membership in the ASRS.

The ASRS has determined this Bill will impact 15 employers and the ASRS actuary predicts contributions attributed to paying down the Unfunded Actuarial Accrued Liability will decrease by approximately $32.1 million in present value (over 30 years), which would be paid by the remaining employees and employers of ASRS. This equates to a contribution rate increase of about 0.03 percent in most years. There is a ramping up of the contribution effect from 0.0 percent in FY2017 to the 0.03 percent in FY2025.

This Bill moved to the Bank and Insurance Committee on February 13, 2017.

HB2169: ASRS; STATE RETIREMENT; WAITING PERIOD; REPEAL - Removes the 6-month waiting period for participation in the ASRS for state employees. In the 2011 Legislative Session, and effective July 20, 2011, a 6-month waiting period for participation in ASRS was passed for state employees. This Bill repeals that waiting period going forward. Thus, if passed, on the effective date, any state employee who is within their first 6-months of employment will be immediately required to participate in the ASRS. This change would only apply to state employers, not political subdivisions.

This Bill passed the House Third Read and has moved to the Senate.

HB2508: REDUCTION IN FORCE; STATE AGENCIES - Encourages state employees to reduce their employee base, The ASRS is currently looking into similar processes and would not be affected by this change in legislation.

SB1243: MISCONDUCT INVOLVING WEAPONS; PUBLIC PLACES - Impacts the ASRS as it relates to misconduct involving weapons in public places.
This Bill passed the Senate on February 2, 2017, and will now go to the Committee of the Whole. There is currently no schedule for this Bill to go to the Committee level.

**SB1447: STATE PERSONNEL SYSTEM; COVERED EMPLOYEES** - This bill impacts the ASRS in that instead of offering a Performance Pay Plan for investment staff, the ASRS would instead be required to offer salary increases to those who would have otherwise been eligible for the Performance Pay Plan.

Mr. Ponder noted he does not feel this Bill will get a hearing; however, at this point it has been assigned to Senate Government.

6. **Call to the Public**

There were no requests to speak from the members of the public.

7. **Adjournment of the ASRS External Affairs Committee Meeting.**

Dr. Jacob adjourned the discussion at 11:10 a.m.

Respectfully Submitted by,

Gloria Montiel
External Affairs Committee Administrator
Arizona State Retirement System