



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, April 29, 2016
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 8:33 a.m., Arizona Time.

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. Kevin McCarthy, Chair
Mr. Jeff Tyne, Vice Chair
Mr. Clark Partridge
Professor Dennis Hoffman
Dr. Richard Jacob (via teleconference)
Mr. Tom Connelly

Absent: Mr. Lorenzo Romero
Mr. Robert Wadsworth
Mr. Tom Manos

A quorum was present for the purpose of conducting business.

2. Approval of the Minutes of the March 25, 2016 Public Meeting and Executive Session of the ASRS Board

Motion: Mr. Jeff Tyne moved to approve the Minutes of the March 25, 2016 Public Meeting and Executive Session of the ASRS Board. Prof. Dennis Hoffman seconded the motion.

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

3. Approval, Modification, or Rejection of Recommended Administrative Law Judge's Decision Regarding Ms. Mary Jo Kuzmick's Appeal Regarding Average Monthly Compensation

Ms. Mary Jo Kuzmick was present via teleconference.

Ms. Jothi Beljan, Assistant Attorney General, provided a summary of the appeal for the Board and the ASRS' position. The issue concerns whether an ASRS benefit estimate is a binding income commitment. Ms. Beljan stated members are only legally entitled to the statutory formula in A.R.S. § 38-757. Based on Ms. Kuzmick's salary history, her highest 36 consecutive months of compensation in the last 120 months of credited service were August 2005 to July 2008. Had Ms. Kuzmick not continued to work in July, 2015, then July, 2008 could have been used in the calculation, resulting in the higher monthly benefit she is requesting the ASRS to honor.

In conclusion, Ms. Beljan referred the Board to A.R.S. § 41-1092.06, regarding informal settlement conferences. Ms. Beljan highlighted a specific point that states any statements made in an informal settlement conference are inadmissible at a hearing. Ms. Beljan explained the reason for pointing this out is that Ms. Kuzmick referenced certain comments made during the informal settlement conference in her statement to the Board. Ms. Kuzmick also attempted to do the same during the administrative hearing to which Ms. Beljan objected. Ms. Beljan requested the Board disregard paragraphs three and four of Ms. Kuzmick's written statement where she inappropriately shared comments made by the ASRS representative during the informal settlement conference and requested the Board uphold the recommended Administrative Law Judge's Decision.

Ms. Kuzmick was provided an opportunity to present her position. Ms. Kuzmick believes she was provided erroneous information in the benefit estimates which she relied on when making the decision to work on July 1, 2015, in order to receive a higher benefit. Ms. Kuzmick requested the Board award her the original benefit calculation which is \$65 more per month.

Prof. Dennis Hoffman asked if the ASRS had data regarding error rates on estimated benefit calculations. Mr. Rex Nowlan, Agency Counsel Section Chief, Attorney General's Office, advised the Board this information is irrelevant to this case but if the Board wishes, this topic can be placed on a future meeting agenda to be presented to the Board.

Prior to making a motion, Mr. Jeff Tyne expressed, while he understands Ms. Kuzmick's concerns and believes the Operations and Audit Committee should review the process for benefit estimates to address the concerns heard, the Board is bound by the laws as it pertains to benefit calculations.

Motion: Mr. Jeff Tyne moved to accept the Administrative Law Judge's Decision. Mr. Tom Connelly seconded the motion.

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

The record should reflect the response of Dr. Richard Jacob, who was attending via teleconference, was momentarily delayed and he has confirmed that his vote was in favor of the motion and is reflected in the above results.

4. Presentation, Discussion, and Appropriate Action Regarding the ASRS Proposed Legislation for the 2016 Legislative Session

Mr. Patrick Klein, Assistant Director, External Affairs Division, and Mr. Nick Ponder, Government Relations Officer, provided a brief update to the Board regarding the 2016 Legislative agenda. Mr. Klein announced the Governor has requested the legislature hold all bills pending the resolution of the State's budget.

Mr. Ponder opened by stating this is the 110th day of the 2016 Legislative Session. Although this is longer in comparison to the 2014 and 2015 sessions, 101 days and 81 days, respectively, the 2013 session did not adjourn until mid-June. Mr. Ponder provided a summary of what he expects to occur over the course of the next week or so. The House Appropriations Committee met late last night and into the early morning hours this morning, passing the budget reconciliation bills. There will be some amendments offered today in the COW. Mr. Ponder expects the K-12 budget reconciliation bill to receive amendments today which are not yet completed. Potentially, the Legislature could adjourn by the end of next week. Mr. Ponder relayed there are currently 196 bills waiting for COW or a third read and 131 bills which have passed through the second chamber with amendments and will now go back to the original chamber for concurrence of those amendments.

The following ASRS bills were discussed:

- **HB2159: ASRS; Rulemaking Exemption** – This bill was dual assigned to the Senate Finance Committee and the Senate Government Committee. It has passed both Committees and passed through the Senate COW with amendments March 15, 2016.
- **HB2160: ASRS; Eligible Rollovers** – This bill was signed by the Governor April 5, 2016.

The following are bills that affect the ASRS but not initiated by the ASRS:

- **SB1257: Misconduct Involving Weapons; Public Places** – There was an amendment offered in the House COW providing the exemption of special healthcare district facilities; therefore, it will need to be brought back to the Senate for concurrence. If the Senate concurs with the amendments this bill move forward to the Governor for signature.

Mr. Ponder concluded with a summary of the Budget reconciliation bills which are not typically included in the bill tracker because there is not a lot of impact on the ASRS other than the budget allocations. HB2703 and SB1534 will require the ASRS, going forward, to include the aggregate private equity fees in the Comprehensive Annual Financial Report.

Mr. Ponder responded to questions from the Board.

5. Presentation Regarding PRIDE Award for Professionalism

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, recognized the following nominees for the PRIDE Award for Professionalism: Krystal Mungia-Olivarez; Lisa King; Marcia Kumamoto; Jennifer Chang; Leticia Dominguez, Megha Choudhari; Business Intelligence Conversion Project Team-Brian Crockett, Edennes Montanez, and Marcia Kumamoto; NIS Team-Michelle Roshto, Nick Dalmolin, Robert Virgil, Sean Stevens, Andrew Bruner, Michael Zych, Brandon Wilson, Thomas Neith, and John Davis. They were nominated by staff who feel they exemplify the following PRIDE qualities of professionalism:

- Displays a positive demeanor (friendly, responsive, courteous) even when confronted by adversity
- Has subject matter expertise
- Possesses good communication and active listening skills
- Is a trusted contributor (manager, leader, SME, analyst, teammate)
- Takes personal accountability
- Has a proactive and responsive approach to internal and external customer needs
- Has critical thinking skills
- Has an honest, fair and non-judgmental mindset

- Is adaptable to change that benefits members, associates and stakeholders
- Adheres to the ASRS Code of Conduct

Mr. Guarino presented the PRIDE Award for Professionalism to the award winner, Megha Choudhari.

6. Presentation, Discussion, and Appropriate Action Regarding the ASRS Long Term Disability Program Administration Contract Award

Mr. Clark Partridge opened the discussion stating the Operations and Audit Committee thoroughly reviewed the information presented by the Evaluation Committee and believe a favorable recommendation has been brought forward.

Mr. Paul Matson, Director, provided background to the Board regarding the Request for Proposal (RFP) which yielded three vendor responses for the Long Term Disability (LTD) contract. Mr. Matson added that historically, the ASRS has paid approximately \$2-\$2.6 million to the LTD vendor annually to carry out the various responsibilities of the contract. The LTD program impacts approximately 2% of the workforce. Mr. Matson opened up the discussion to any general questions from the Board, indicating that if there were any specific details requested, those would need to be addressed in executive session. No specific details were requested.

Motion: Mr. Clark Partridge moved to accept the recommendation of the Evaluation Committee and the Operations and Audit Committee on the ASRS Long Term Disability Program Administration contract Award. Mr. Jeff Tyne seconded the motion.

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

The record should reflect the response of Dr. Richard Jacob, who was attending via teleconference, was momentarily delayed and he has confirmed that his vote was in favor of the motion and is reflected in the above results.

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

Mr. Paul Matson addressed a potential error discovered in the calculation of the benchmark returns by the ASRS custodial bank which is reflected in the Investment Report. Once the ASRS receives confirmation of this, an amended report will be issued to the Board, if necessary.

Mr. Matson also addressed an error discovered in the footnotes on page two of the Operations Report regarding the One-on-One Timeliness which should have not reflected only walk-ins.

Mr. Matson responded to Prof. Dennis Hoffman's request to provide an update on the fiscal year-to-date investment returns.

8. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Committee Meetings

a. Operations and Audit Committee (OAC)

Mr. Jeff Tyne announced the next OAC meeting will be held on June 14, 2016 at 10:30 a.m. in the 14th floor conference room to discuss internal audits, the internal audit peer review report, retiree medical and dental insurance renewals and the annual retiree survey results. In addition, Mr. Tyne will reach out to staff to place on a future agenda the topic regarding error rates in benefit estimates.

b. External Affairs Committee (EAC)

Dr. Richard Jacob announced the next EAC meeting will be held on May 13, 2016 at 10:30 a.m. in the 14th floor conference room to discuss updates on legislation and rule making.

c. Investment Committee (IC)

Mr. Tom Connelly announced the next IC meeting will be held on June 20, 2016 at 2:30 p.m. in the 14th floor conference room to discuss the first quarter performance, risk profile, house views, investment positions, review of the fixed income asset class, including both private and public investments, and equity performance measurements.

9. Board Requests for Agenda Items

No requests were made.

10. Call to the Public

No one from the public requested to speak.

11. The next regular ASRS Board meeting is scheduled for Friday, May 27, 2016, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board Room, Phoenix, Arizona.

Prior to moving the meeting to the 14th floor conference room, the following motion was made to move the final three agenda items to executive session.

12. Presentation, Discussion, and Appropriate Action Regarding *Mary Wade and Marla Paddock v. Arizona State Retirement System* Arizona Court of Appeals Opinion

13. Presentation, Discussion, and Appropriate Action Regarding Arizona State University's Notice of Appeal to the Arizona Court of Appeals on the Interest Rate Applied to the Judgment in *Arizona State University v. Arizona State Retirement System*

14. Presentation, Discussion, and Appropriate Action Regarding ASRS Actuarial Services

Motion: Mr. Clark Partridge moved to go into executive session for the purpose of discussion and consultation for legal advice with the attorney of the public law. Prof. Dennis Hoffman seconded the motion.

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

The executive session moved to the 14th floor conference room.

The Board convened to Executive Session at 9:12 a.m.

Prof. Dennis Hoffman left the meeting at 10:30 a.m.

15. Adjournment of the ASRS Board

Mr. McCarthy adjourned the public meeting and executive session at 10:44 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Signed Copy on File

Melanie A. Alexander
Board Administrator

Signed Copy on File

Paul Matson
Director