



3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000
4400 EAST BROADWAY BOULEVARD • SUITE 200 • TUCSON, AZ 85711-3554 • PHONE (520) 239-3100
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778

Paul Matson
Director

**MINUTES OF A PUBLIC MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM
OPERATIONS AND AUDIT COMMITTEE**

**HELD ON
Friday, May 27, 2016
11:00 a.m., Arizona Time**

The Operations and Audit Committee (OAC) of the Arizona State Retirement System (ASRS) met in public session in the 14th Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Jeff Tyne, Chair, called the meeting to order at 11:25 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. Jeff Tyne, Chair
Mr. Clark Partridge, Vice Chair
Dr. Richard Jacob

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

2. Approval of the Minutes of the April 12, 2016 and April 19, 2016 Public Meetings and Executive Sessions of the OAC

Motion: Dr. Richard Jacob moved to approve the minutes of the April 12, 2016 and April 19, 2016 public meetings and executive sessions of the OAC. Mr. Clark Partridge seconded the motion.

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

3. Presentation, Discussion, and Appropriate Actions Regarding the Results of the 2016 ASRS Retiree Survey

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, introduced the topic and noted this was staff's first attempt at conducting a retiree survey. Mr. Guarino added that although it was not without incident, the ASRS was able to retrieve useful data from the survey. Mr. Guarino turned the presentation over to Mr. Jeremiah Scott, Sr. Strategic Planning Analyst.

Mr. Scott provided the Committee with a summary of the issues encountered with the survey. It was determined the cause of the issues was the agency's bandwidth. There were too many retirees attempting to take the survey simultaneously; therefore, management made the decision to close the survey down after three days. It was determined; however, there was enough useable data received. Mr. Scott reviewed the survey results with the Committee.

Throughout the presentation, Mr. Scott, Mr. Guarino and Mr. Paul Matson, Director, responded to questions from the Committee. The Committee members offered suggestions for added information to the survey.

Mr. Scott concluded by advising the Committee another survey will be conducted next year. Adjustments will be made to ensure we don't encounter the same performance issues as this year. In addition, modification to some of the questions will be done to obtain more useable data.

4. Presentation, Discussion, and Appropriate Action Regarding the ASRS Retiree Health Insurance Contract Renewal

Mr. Anthony Guarino introduced the topic and turned the presentation over to Mr. Dave King, Assistant Director, Member Services Division.

Mr. King opened the presentation by giving credit to the representatives from Mercer who assisted throughout the renewal process and to Mr. Pat Klein, Assistant Director, External Affairs Division, who was instrumental in beginning to steer the healthcare in this direction many years ago. Mr. King shared that the primary focus of this year's renewal was affordability of a pre-65 health plan. Research showed that people were choosing outside sources based on cost. Mr. King added that many options were considered, such as the Affordable Care Act Marketplace, seeking bids through an RFP and engaging UnitedHealthCare (UHC) to offer more affordable options for pre-65 retirees at a lower premium. The efforts resulted in UHC offering a number of new plans for pre-65 retirees at a lower premium with varying benefit levels and premium costs.

Mr. King reviewed the costs and benefits of each of the new plans to be offered and responded to questions from the Committee.

5. Presentation, Discussion, and Appropriate Action Regarding the Analysis of ASRS Benefit Estimates Compared to Actual Annuities

Mr. Anthony Guarino introduced this topic. This topic was brought before the Committee based on an appeal heard at the April 29, 2016, Board meeting where the appellant questioned the reliability of the ASRS' benefit estimates versus actual benefits paid. The Board requested that staff conduct an analysis and present the results to the OAC. Mr. Guarino turned the presentation over to Mr. Brian Crockett, Sr. Strategic Planning Analyst.

Mr. Crockett opened the presentation by advising the Committee the benefit estimates used for the analysis were from members applying for retirement online. Although members can obtain benefit estimates online periodically throughout their career, those estimates are generated in real time and the data is not stored; therefore, was not used for this analysis. In this analysis, 5,063 estimates were reviewed with approximately 75% being within 2% of the actual annuity paid. There are a number of assumptions that factor into this, including but not limited to: pay remaining the same until the retirement date, the balance of contract payments for service purchase being paid in its entirety, etc. In reviewing the differences equaling greater than 10%, the circumstances were such that the ASRS would have had no ability to predict, such as a service purchase request being submitted after the benefit estimate was completed.

Mr. Crockett responded to questions from the Committee. The Committee expressed the importance of this not being referred to as "errors" but rather as differences in assumptions. The Committee also feels it is important to present this to the full Board so they have a clear understanding of the process and the differences in the assumptions that cause the differences between the benefit estimates and the actual annuities and requested this topic be placed on the next Board meeting agenda.

6. Review of Recently Conducted Audits

Mr. Bernard Glick reviewed the following audits conducted by the Internal Audit Division (IAD).

- **City of Eloy – Employer Audit**

The IAD had five findings from the City of Eloy audit. The employer agreed with the findings and IAD's recommendations.

- **McNary Elementary School District – Employer Audit**

The IAD had no findings from the McNary Elementary School District audit.

- **Superior Unified School District – Employer Audit**

The IAD had six findings from the Superior Unified School District audit. The employer agreed with the findings and IAD's recommendations.

- **ASRS New Retiree and Survivor Benefits – Internal Processes**

The IAD had no findings from the ASRS New Retiree and Survivor Benefits audit.

- **2015 Agency Compliance Follow-Up**

The IAD presented the Committee with an agency compliance follow-up for 2015. The IAD reviewed four previously conducted audits: Long Term Disability (LTD); Spreadsheet Review; Investment Management Trading System; and Qualifying Domestic Relations Orders (QDROs). Mr. Glick reported all findings were resolved for the LTD, Spreadsheet Review and the Investment Management Trading System. The QDROs audit findings are partially resolved at this time.

7. Request for Future Agenda Items

No requests were made.

8. Call to the Public

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

9. Adjournment of the OAC

Motion: Dr. Richard Jacob moved to adjourn the meeting at 12:22 p.m. Mr. Clark Partridge seconded the motion.

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

Respectfully Submitted,

ARIZONA STATE RETIREMENT SYSTEM

Signed Copy on File

Melanie Alexander
Committee Administrator

Signed Copy on File

Anthony Guarino
Deputy Director and Chief Operations Officer