

**MINUTES  
PUBLIC MEETING  
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD  
Friday, July 22, 2022  
8:30 a.m.**

The Arizona State Retirement System (ASRS) Board of Trustees met in person, with some attending virtually, in the First Floor Board Room of the ASRS Office, 3300 N. Central Avenue, Phoenix, Arizona 85012.

Mr. René Guillen, Chair of the ASRS Board, called the meeting to order at 8:31 a.m.

**1. Call to Order; Roll Call; Opening Remarks**

Present: Mr. René Guillen, Chair (Virtual)  
Mr. Mike Miller, Vice-chair  
Ms. Diane Landis (virtual)  
Mr. Michael Lofton (virtual)  
Mr. Jim Mueller (virtual)  
Mr. Jay Petkunas (virtual)  
Ms. Sarah Webber

Excused: Mr. Kevin McCarthy  
Ms. Ashley Ruiz

A quorum was present for the purpose of conducting business.

Ms. Cassie Goodwin, ASRS Board Administrator, provided all attendees with virtual attendance meeting guidelines.

Mr. René Guillen announced that the Board would take the action items first, agenda items numbers 2 and 7, as he needed to drop off the meeting early. He also advised the other Trustees if they need to leave a meeting early in the future to let Ms. Goodwin, Mr. Matson, or himself know so the agenda could be moved around to enable them to participate in the discussion.

**2. Approval of the Minutes of the May 27, 2022 Public Meeting of the ASRS Board**

**Motion:** Mr. Jim Mueller moved to approve the minutes of the May 27, 2022, Public Meeting of the ASRS Board. Mr. Michael Miller seconded the motion.

By a roll call vote of 7 in favor, 0 opposed, 0 opposed, 0 abstentions, and 2 excused, the motion was approved. The Trustee votes were as follows:

Mr. René Guillen – approved  
Ms. Diane Landis – approved  
Mr. Michael Lofton – approved  
Mr. Kevin McCarthy – excused  
Mr. Mike Miller – approved  
Mr. Jim Mueller – approved  
Mr. Jay Petkunas – approved  
Ms. Ashley Ruiz – excused  
Ms. Sarah Webber – approved

- 7. Presentation, Discussion, and Appropriate Action Regarding ASRS Budget-Related Topics, including:**
- a. The ASRS Appropriated and Continuously Appropriated Budget Spending Plans for the Fiscal Year (FY) 2023.**
  - b. The ASRS Appropriated and Continuously Appropriated Budget request and Spending Plans for FY 2024.**

Mr. Paul Matson, Director, turned this item over to Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, and Martha Rozen, Chief of Administrative Services.

Mr. Guarino indicated the ASRS presented its budget and spending plans for Fiscal Years 2023 and 2024 to the Operations, Audit, and Legislative Committee (OALC) last week and would like to do the same at this time for the full Board's consideration. He introduced the ASRS staff presenting to the Board as Ms. Martha Rozen, Chief of Administrative Services; Mr. Christopher Gustafson, Budget and Procurement Manager; and Mr. Jeremy Gunderson, Budget Manager.

Ms. Rozen greeted the Board and introduced Mr. Gustafson and Ms. Lupita Breland, the Investment Operations Manager, attending virtually, who will be speaking on this item. These individuals, along with Mr. Gunderson, prepared the documents and materials for this agenda item. Ms. Rozen described the information contained in the attachments regarding the spending plans for Fiscal Year (FY) 2023 and FY2024. Attachments A and D include both appropriated and continuously appropriated funding/expenditures. Attachment B details estimated costs and spending plans for Investment Management related expenditures, all of which are continuously appropriated funding. Attachment C provides the details for the budget request for FY2024.

Ms. Rozen stated that the FY2023 General Appropriations Act and the 10% salary adjustment for eligible employees are a centerpiece for the spending plan for FY2023 and the FY2024 budget request. The spending plans for FY2023 and FY2024 have been thoughtfully planned and constructed to support the ASRS strategic plan and the Six Strategic Priorities.

Mr. Gustafson began his presentation of information for the budget request and spending plans for FY2024. The Legislature authorized a 10% salary increase for state employees to be enacted in the pay period beginning this week, which the ASRS estimates to be approximately \$1,753,500.

The Technology Services Division (TSD) utilizes external resources when full-time employees (FTE) are unavailable due to salary requirements and market conditions. These external resources do not qualify for the salary increase approved by the Legislature. Research has

shown that current compensation for external resources is insufficient. The ASRS requests \$430,000 in FY2024 to increase external technology specialists/resources compensation.

The ASRS requested \$200,000 in FY2024 for additional Oracle licensing costs to support the agency's information technology applications. In addition, to maintain information security, the ASRS requested \$318,000 to purchase critical security enhancement software and \$57,000 to purchase a product to protect shared administrator accounts. The total cost of the ASRS expected FY2024 request is \$948,000. When including the required salary adjustments, the ASRS asked to adjust the total to an estimated \$2.6 million.

Mr. Miller indicated there was a thorough briefing on this subject at the OALC meeting. Mr. Gustafson has pulled information out of the budget and summarized what has been addressed.

Mr. Guillen asked why the external IT Specialists are seen as external employees and why not make them FTE. Mr. Gustafson explained that some are temporary and work as contract employees who prefer the freedom to move from job to job. Others are on for a short period of time until a specified project is complete.

Hearing no more questions, Mr. Gustafson turned the presentation over to Ms. Breland.

Ms. Breland, Investment Operations Manager, presented information regarding the spending plan for the ASRS Investment Program for FY2023 and FY2024. The Investment Program spending plan for both years includes expenditures that ASRS Management believes are necessary and appropriate to achieve established investment goals and objectives. The most significant portion of the budget is related to the fees associated with the internal and external management of ASRS assets held in both public and private markets. The ASRS Investment Management team continues to be mindful of the actual and proposed costs when it engages the services of external consultants and providers. The group actively works to identify and employ the right complement of resources, data tools, and systems that will allow for efficient management, compliance, and performance reporting.

Hearing no questions for Ms. Breland, Ms. Rozen indicated this item would require a motion from the ASRS Board.

**Motion:** Ms. Sarah Webber moved to approve the proposed updated administrative spending plan of \$37,984,200 for FY2023 with the understanding there will be changes to the total appropriated budget amount due to legislative and executive adjustments and the updated continuously appropriated investment spending plan of \$132,045,100 for FY2023 subject to revised management projections, and to include private markets performance incentives and other fees when identified and paid. Mr. Michael Miller seconded the motion.

By a roll call vote of 7 in favor, 0 opposed, 0 opposed, 0 abstentions, and 2 excused, the motion was approved. The Trustee votes were as follows:

Mr. René Guillen – approved  
Ms. Diane Landis – approved  
Mr. Michael Lofton – approved  
Mr. Kevin McCarthy – excused  
Mr. Mike Miller – approved

Mr. Jim Mueller – approved  
Mr. Jay Petkunas – approved  
Ms. Ashley Ruiz – excused  
Ms. Sarah Webber – approved

**Motion:** Mr. Michael Miller moved to approve an appropriated budget request for FY2024 in the amount of \$28,009,500, with an understanding there will be changes to the total appropriated budget amount due to legislative and executive recommendations; and the proposed administrative spending plan of \$39,304,300 and continuously appropriated investment spending plan of \$135,982,300 for FY2024 subject to revised management projections, and to include private markets performance incentives and other fees when identified and paid. Ms. Diane Landis seconded the motion.

By a roll call vote of 7 in favor, 0 opposed, 0 opposed, 0 abstentions, and 2 excused, the motion was approved. The Trustee votes were as follows:

Mr. René Guillen – approved  
Ms. Diane Landis – approved  
Mr. Michael Lofton – approved  
Mr. Kevin McCarthy – excused  
Mr. Mike Miller – approved  
Mr. Jim Mueller – approved  
Mr. Jay Petkunas – approved  
Ms. Ashley Ruiz – excused  
Ms. Sarah Webber – approved

Mr. Guillen thanked ASRS staff and OALC for reviewing and putting together a very proactive, efficient, and conservative budget. Great work.

### **3. Presentation, Discussion, and Appropriate Action Regarding the ASRS 2022 Legislative Session**

Ms. Jessica Thomas, Government Relations Officer and Rules Writer, provided an update regarding the ASRS 2022 Legislative Session. Ms. Thomas reported that the 2022 Legislative Session began on January 10, 2022, and the Legislature adjourned sine die on June 25, 2022. The 2022 Omnibus bill (Senate Bill 1083) and the 2022 Prefunding bill (Senate Bill 1082) have been signed into law. The Omnibus bill will become effective on the general effective date of September 24, 2022. The Prefunding bill contained an emergency clause and became effective on June 28, 2022.

In addition, the ASRS monitored several other bills which may impact the ASRS; however, the following were the only ones passed and signed into law:

HB2146 Data Security Breach; Notification (Sponsor: Bolick) – *PASSED & SIGNED*  
Makes changes to A.R.S. § 18-552 to require data breaches to be reported to the Director of the Arizona Department of Homeland Security in addition to the Attorney General.  
*Effective Date: September 24, 2022*

HB2371 COVID Vaccine Mandates; Prohibition (Sponsor: Bolick) – *PASSED & SIGNED*

Prohibits a governmental entity from requiring any type of COVID vaccine for minors without parental consent. Governmental entity is defined as the state or a political subdivision of the state that receives and uses tax revenues.

*Effective Date: September 24, 2022*

Ms. Thomas asked if there were any questions.

Mr. Guillen thanked Ms. Thomas and Mr. Matson for their work that goes into the legislative process.

#### **4. Presentation, Discussion, and Appropriate Action Regarding an ASRS Contribution Prefunding Program**

Mr. Paul Matson, Director, stated there would not be any Board action on this item today. The Board has received two prior draft policies; however, the ASRS will not roll out the program until the Board reviews the final policy, which is being worked on. A possibility the ASRS is considering is not having a fixed long-term amortization schedule for employers when they utilize their contribution rates but the ASRS wants to hear from some of the employers. Mr. Matson provided a summary of the Contribution Prefunding Program for the ASRS' newest Trustee. He explained some reasons why giving employers the option to prefund retirement contributions could be a sound investment, as well as the process the ASRS is taking to get input from, and information out to, employers regarding the program. He will be seeking an ad hoc Board meeting in late August to look at the documents associated with the prefunding program and obtain the Board's approval.

Ms. Sarah Webber and Mr. Matson discussed the methods of communication Mr. Matson was using to present this program to the employers. Mr. Matson indicated it would likely be to proactively inform our membership through the website and, more importantly, through interacting with our employers.

Mr. Guillen indicated that he and Mr. Matson are slated to present an informative presentation and help get the word out about the program at the Government Finance Officers of Arizona conference in August. The attendees are the budget and financial officers of various municipal, county, fire districts, and K-12 across the state

Ms. Webber asked about the emergency clause attached to the bill. Mr. Matson responded that the emergency clause was initially included due to the both the very low interest rates existing earlier in the calendar year should an employer wish to finance the prepayments, and also to enable early prepayments of excess cash balances of employers.

Mr. Guillen asked for any other questions or comments. Hearing none, he thanked Mr. Matson for the update and looked forward to the ad hoc meeting in a couple of weeks so the Board could review the policy and approve it.

## **5. Presentation, Discussion, and Appropriate Action Regarding the 2022 ADOA/ASRS Employee Engagement Survey results**

Mr. Guarino, Deputy Director and Chief Operations Officer, stated the last time the Board met, the most recent Engagement Survey conducted by the State indicates the ASRS staff continues to be highly engaged. This is a good thing if you want to retain a high-performing, productive staff. He introduced Ms. Katie Daigneault, Survey Administrator/Senior Strategic Planner, who will breakdown the findings in greater detail of what the ASRS has learned from the staff about their experience working at the ASRS.

Ms. Daigneault briefly described the annual 2022 Arizona Department of Administration (ADOA) Employee Engagement Survey, explaining the difference between this survey and the ASRS' surveys. The ADOA survey is proctored by ADOA, which controls how it is calculated, when it happens, and the questions asked. Each agency can add additional agency-specific questions, and the ASRS added 13 additional questions relating to leadership, communications, PRIDE Values (Professionalism, Results, Improvement, Diversity, and Excellence).

Ms. Daigneault described the methodology. ADOA moved from engagement ratio to an engagement percentage, calculating the "favorable" or positive, neutral, and "unfavorable" or negative response. The findings are calculated using Qualtrics as their administrative tool. ADOA calculates engagement and participation scores for the state overall and each agency. The ASRS strategic plan includes targets and risk tolerances for "favorable" or positive and "unfavorable" or negative responses. The ADOA statewide survey resulted in 75% engagement and participation. ASRS results are excellent, with 87% engagement and 96% participation.

Ms. Daigneault stated the key findings indicate the ASRS continues to have a highly engaged workforce that knows their work is critical to the ASRS achieving agency goals; has a great understanding of what is expected of them; and agrees that their team, supervisor, and program manager display PRIDE Values. This survey has shown opportunities for improvement in that the ASRS has seen a larger than ideal decrease in favorable responses in the areas of recognition and feedback, which could be the result of the prolonged and increased telework paradigm. The management team may want to take a deeper look at how recognition and feedback are approached in this new normal.

Ms. Daigneault noted that the ASRS realizes these results do not come from happenstance; they are due to the direct and deliberate actions of the management team and front-line staff. The ASRS has a systematic and repeatable process for analyzing our results, which looks for any areas of disengagement for root cause analysis and areas of high engagement to share best practices, and the ASRS is happy and excited about these scores as they continue to be high through an ever-changing work environment. The ASRS has a reciprocal relationship with its approach to CEM Benchmarking and its strategic plan. In closing, these results show that the ASRS has a highly engaged workforce that knows their work is critical to the agency achieving its goals. The ASRS looks forward to seeing similar results in the future.

Mr. Guillen asked for any questions or comments from the Board.

Mr. Mueller commends the ASRS for these terrific scores. It is remarkable and very impressive and a great sign of wonderful teamwork.

Ms. Webber agreed. She looked at all cabinet-level agencies, this is above the state-wide average, and the participation rate is really high, which is important. She appreciates the ASRS leadership team and how they focus on making sure the staff is engaged, which is critical. The timeline of when this survey was administered was earlier in the spring, so it will be interesting to see those results next year; to pay attention to those trendlines and make sure the dip this year was an anomaly and not a downward trend.

Mr. Guillen thanked Ms. Daigneault for her report.

## **6. Presentation Discussion and Appropriate Action Regarding Operational Performance of the ASRS as Measured by the CEM Pension Administration Benchmarking Survey for the Period Ending June 30, 2021**

Mr. Guarino provided some background information on ASRS' association with CEM and their independent benchmarking services. He stated the comparative data and analysis ASRS has received over the years, including the contacts made with other pension funds, has been extremely useful. It has given the ASRS the opportunity to learn from the experiences of others in the pension industry looking to excel, and the ASRS has been able to set ambitious targets that the ASRS knows are achievable based on what has been tried and accomplished by peers. The ASRS looks forward to co-hosting the CEM annual conference this year in November and meeting with colleagues to find out how other funds have been coping during these turbulent times. Mr. Guarino introduced Mr. Mike Heale, Head of Business Development for CEM Benchmarking, Inc., who presented an executive summary of the FY2021 results for the ASRS.

(Mr. Guillen left the meeting at 9:30 AM. Mr. Michael Miller continued the meeting as Acting Chairman.)

Mr. Heale gave information on what CEM Benchmarking does and the services it provides. He then proceeded to summarize ASRS' FY2021 benchmarking results, focusing on how ASRS' member services and costs compared to its peers. He provided an overview comparison of member contacts, website, 1-on-1 counseling/member presentations, pension inception, and member statements. The ASRS spends \$71 per member and annuitant, which is \$36 below the peer average of \$107. Additionally, the ASRS service score improved from 86 to 90 between 2014 and 2021 and ranked third among its peers in FY2021. The fiscal year 2021 report demonstrates the ASRS has a productive, low-cost, and cost-effective operation that provides high levels of service. He concluded his presentation by providing a summarization of key global trends.

Mr. Miller thanked Mr. Heale for his presentation and the thorough information provided. He asked if any other Trustees had questions for Mr. Heale.

Mr. Mueller acknowledged this was an enormous achievement by the ASRS and commended ASRS. He stated that these scores and emphasis on high-quality interactions speak enormously high of the ASRS staff that provide services to members and pension recipients. The Mr. Mueller thanked CEM for the fine work they have done and showing the board how good ASRS staff is.

Ms. Webber stated this was really helpful to understand the global context and how the ASRS operates. It is clear the ASRS is in the upper quadrant, and it took a lot of hard work and diligence to be there. She and Mr. Heale discussed if there is anything that the ASRS should be

doing that it currently is not in order to drive these scores higher. Mr. Heale indicated it takes hard work just to stay even because the world is changing all of the time. Staying current and keeping up is important, and there is detailed information in the report that provides guidance on how to raise the service score to 100 if the ASRS decides it wants to get there. However, this is a business, and there are trade-offs in some of these areas between higher costs and improving a service score. The ASRS should consider what is really important to members in terms of those decisions.

Mr. Guarino touched on journey mapping as he envisions the ASRS having a greater focus on member and employer experience. He introduced Mr. Jeremiah Scott, Assistant Director of Member Services.

Mr. Scott stated that the ASRS has started the journey with Strategic Planning and Communications and has plans to be more proactive and attach the journey map where ASRS members see difficult challenges in terms of survivor benefits when they lose a loved one, long-term disability and service purchase. The ASRS wants to have a proactive relationship right from the start so the ASRS can create a strong relationship with the member to ensure they have a positive journey.

Ms. Webber thanked Mr. Scott and said she appreciated the staff's time and commitment to excellence through whatever the future holds.

There was further discussion between Messrs Guarino, Miller, and Mueller regarding high service and low costs scores. All agree that the ASRS should be more proactive but expressed concern with lower costs and the number of full-time employees (FTE). The ASRS was commended on what has been done with fewer FTEs but it was noted the ASRS should always choose high service because that is what "we" are all here for, to provide the services and make sure the pension recipients are well cared for.

Ms. Landis concurred with everybody and stated her appreciation for what the ASRS has done.

Mr. Scott stated the ASRS is not just focused on lowering costs; the ASRS has found ways to be more efficient. Mr. Scott contributes this to the LEAN culture and staff examining ways that the ASRS can be better. He further stated, employees are not working harder; they are working smarter. That is why the engagement scores have gone up. Employees enjoy working more in a very efficient environment. Mr. Scott agrees with the comments made by the Trustees, and it is a balancing act. ASRS prides itself on efficiency.

Mr. Miller said the staff engagement shows, no matter whom you are working with at the ASRS, staff engagement comes from the leadership teams and working with the rest of the staff. Mr. Miller commended not only the leadership teams but also all staff because of that engagement and thanked everyone.

## **8. LLPresentation Discussion and Appropriate Action Regarding the Director's Report as well as Current Events**

Mr. Matson had no additional comments but offered to answer any questions the Trustees had.



Mr. Miller asked if any of the Trustees had any questions or comments for Mr. Matson. Hearing none, he moved to the next item.

### **9. Call to the Public**

No one from the public requested to address the Board.

Ms. Goodwin advised no one signed in to speak or submitted an email comment.

Mr. Miller closed the call to the public and moved to the next item.

### **10. Board Requests for Future Agenda Items**

No requests were made.

### **11. The next regular public ASRS Board meeting is scheduled for Friday, September 30, 2022, at 8:30 a.m.**

Mr. Miller announced the next public ASRS Board meeting is scheduled to begin at 8:30 a.m. on Friday, September 30, 2022.

### **12. Adjournment of the ASRS Board**

Mr. Michael Miller adjourned the July 22, 2022, ASRS Board meeting at 10:05 a.m.

Respectfully Submitted by:

Cassie Goodwin  
Board Administrator  
ARIZONA STATE RETIREMENT SYSTEM