

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

**Friday, October 14, 2022
9:30 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 person in the First Floor Board Room of the ASRS Office, 3300 N. Central Avenue, Phoenix, Arizona 85012.

Ms. Sarah Webber, Chair of the Operations, Audit, and Legislative Committee, called the meeting to order at 9:36 a.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Ms. Sarah Webber, Chair
Mr. Michael Miller, Vice-chair
Mr. Jim Mueller (virtual)

A quorum of the Committee was present to conduct business.

Ms. Melanie Alexander, ASRS Committee Administrator, provided all attendees with the meeting guidelines.

2. Approval of the Minutes of the July 13, 2022, Public Meeting and Executive Session of the OALC

Motion: Mr. Jim Mueller moved to approve the Minutes of the July 13, 2022, Public Meeting and Executive Session of the OALC. Mr. Michael Miller seconded the motion.

By a roll call vote of 3 in favor, 0 opposed, 0 abstentions, 0 excused, and 0 vacancies, the motion was approved. The Trustee votes were as follows:

Ms. Sarah Webber – approved
Mr. Michael Miller – approved
Mr. Jim Mueller – approved

3. Presentation, Discussion, and Appropriate Action Regarding the ASRS Retiree Health Plan

Mr. Paul Matson, ASRS Director, advised the Committee, Mr. Dave King, Assistant Director, Technology Services Division, will be acting on behalf of Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, in his absence and will be introducing today's presenters. Mr. Matson turned the presentation over to Mr. King.

Mr. King introduced Mr. Jeremiah Scott, Assistant Director, Member Services Division, Mr. Russ Levine, the ASRS Health and Disability Plan Administrator, and Mr. Richard Ward, Senior Vice President, Segal Consulting, who will be presenting this topic.

Mr. Levine reviewed the materials with the Committee providing them with background regarding the health insurance program, which consists of two elements - the Group Health Coverage and the Monthly Premium Benefit. Mr. Levine reviewed the current health and dental plan offerings, including the existing enrollment, demographic, and premiums information. Mr. Levine provided examples regarding how the premium benefit subsidizes the dental and medical premiums for the ASRS retirees. He shared that premiums for the medicare advantage plans have remained relatively steady over the past few years, and although negotiations for 2024 are not yet complete, it is expected to be similar to the last few years.

Mr. Jim Mueller asked whether specific providers such as Mayo, Barrow, and Anderson would be covered under the ASRS health insurance plans. Mr. Levine confirmed that Mayo and MD Anderson are available under the PPO plan, with MD Anderson also likely being available “in-network” in some of the HMO plans. Mr. Mueller followed up, asking why the ASRS offers Medicare Advantage plans rather than Medicare Supplement plans. Mr. Levine responded that it allows the ASRS to offer better plans to its members at a reduced rate.

Mr. Levine continued with a review of the group non-Medicare plans. Identifying this group as one that the ASRS is mindful of as the premiums are higher, but the network access is of the most importance to these members. The premiums have remained the same over the last few years, and with the move to a self-insured program, the premiums will stay the same in the upcoming year. Mr. Levine shared that moving to a self-insured program for the non-Medicare plans has prevented approximately a 15% annual increase in premiums for 2022 and 2023.

Mr. Levine concluded his portion of the presentation with a brief summary of the strategic objectives associated with the health plans' performance, noting that in the most recent rating period, the ASRS was within tolerance or exceeded in all areas except for the area of Medicare premiums. Mr. Levine stated this was not too concerning as cost is only one factor to consider when determining overall plan benefit. Mr. Levine turned the discussion over to Mr. Ward to provide more details regarding strategic benchmarking and performance.

Prior to Mr. Ward speaking, the Committee had comments and questions. Ms. Webber stated she appreciated the presentation thus far and looked forward to hearing Mr. Ward's perspective on the value of the ASRS plans versus what the market has to offer. Mr. Miller stated as a recipient of the benefits; he is very pleased with the ASRS offerings. Mr. Mueller asked if the size of network providers is benchmarked compared to other plans and how this is looked at in terms of value. Mr. Ward responded to Mr. Mueller, stating although they don't have access to the list of network providers in the market plans, they look at things such as freedom of choice and service area. Mr. Levine added that during a Request for Proposal, the ASRS would have an opportunity to see the network of other plans for comparison.

Mr. Ward reviewed details of the strategic benchmarking analysis results, which compared ASRS health plans to other market plans. The comparison looked at the benefit value, premium cost, and access of the Medicare Advantage, non-Medicare medical/RX, and dental plans. The results show the ASRS value overall is a significantly better value to its retirees than the market. In conclusion, Mr. Ward stated the ASRS provides affordable quality plans to its retirees. The plans offered are competitive and efficiently constructed and managed. Mr. Ward added that the staff are responsive to what the retirees want and value, incorporating this into the plans being offered.

Ms. Webber thanked Mr. Ward for the information and for confirming her thoughts that the plans are

an excellent benefit to the ASRS retirees. She appreciates that there are choices for the retirees to make with regard to their benefits to suit their needs without compromising access. Ms. Webber looks forward to the planning and information for future years, as this is a significant cost of a retiree's fixed income. Mr. Mueller commended the team for their work on health plan offerings to the ASRS retirees. He questioned whether it has been adequately communicated to the members as there are a few things he learned today that he didn't know before and suggested that staff consider this as Open Enrollment is nearing. Mr. Miller echoed Mr. Mueller's suggestion that more communication may be needed regarding all ASRS retirees' offerings with the available plans.

Mr. Scott closed the presentation by congratulating Mr. Levine and his team for three years of consistent premiums, 12% lower costs compared to other plans, and a larger network, including the Mayo network. Mr. Scott added that members have indicated they want stability in premiums which this team has managed to accomplish.

8. Presentation, Discussion, and Appropriate Action Regarding 2023 Calendar Year OALC Meeting Schedule

Ms. Webber presented the 2023 meeting dates to the Trustees and opened it up for discussion. Mr. Mueller noted he did not have any conflicts at this time. Mr. Miller stated he appreciated the consistency of all Board and Committee meetings being held on Wednesdays as it makes scheduling other appointments around his ASRS business easier. Ms. Webber concurred, stating that as long as virtual attendance was still being provided as an option, she appreciated everyone's flexibility when scheduling changes are needed.

Motion: Mr. Miller moved to approve the 2023 OALC Meeting Schedule as presented. Mr. Mueller seconded the motion.

By a roll call vote of 3 in favor, 0 opposed, 0 abstentions, 0 excused, and 0 vacancies, the motion was approved. The Trustee votes were as follows:

Ms. Sarah Webber – approved
Mr. Michael Miller – approved
Mr. Jim Mueller – approved

4. Presentation, Discussion, and Appropriate Action Regarding the Benefit Estimate Satisfaction Review

Mr. King turned the presentation over to Mr. Scott, who introduced Ms. Jenna Golab, Operations and Analysis Administrator, MSD, and Ms. Rebeca Galaviz, Retirement Specialist Supervisor, MSD, joining him for the discussion of the Benefit Estimate Satisfaction Review.

Ms. Golab summarized the most recent survey results as the results have been less than satisfactory. Through review, it was discovered that the negative scores/comments were primarily from the 65+ inactive member group and, more specifically, those who were only eligible to receive a Lump Sum retirement or refund. Ms. Golab explained that 65+ estimates, and estimates that require Service Audits, contributed to the dissatisfaction, along with members being confused by the purpose of the Request form. The Member Services Division and Financial Services Division collaborated to conduct a review of the processes, prioritize audits and set up new processes that have already been implemented. Ms. Golab added that MSD is in the process of modifying the communications on the Estimate letters that are sent to members so that it is clear what action needs to be taken and that this

is just the first step in the process. A final piece of this will be to work with the Privacy and Security teams to create a new form or process for members as part of the 65+ mailing process.

Mr. Mueller asked if there was any reason why the ASRS could not add an option on the form for a member to select that if the benefit is less than \$100 and needs to be paid out, please mail a check to simplify the process. Ms. Golab explained that until the Service Audit is complete, the ASRS will not know if the benefit is less than \$100 and not something the ASRS has looked into but can consider that as the form is being reviewed. Mr. Miller thanked staff for their continuous review for improvement. Ms. Webber echoed the Trustees' responses regarding continuous review for improvement and commended staff monitoring member satisfaction and their proactiveness.

5. Presentation, Discussion, and Appropriate Action Regarding the System Adjustment to Membership Dates

Mr. King turned the presentation over to Mr. Scott, who introduced Mr. Ryan Guerra, Member Advocate, MSD.

Mr. Guerra provided background to the Committee regarding this topic that resulted from a recent appeal heard at the August 9, 2022, Appeals Committee (AC) meeting for which staff was asked to provide a follow-up to the OALC. The appeal was related to a system limitation regarding membership dates, specifically for members who terminated or forfeited their membership and then returned to ASRS membership at a later date after a law change, which impacted those benefits. The AC was notified that the ASRS had corrected all known membership dates for members who fell into this category through May 2022; however, the Committee wanted an update on how the ASRS planned to continue to correct this going forward. Mr. Guerra turned to Mr. King to provide information on the continued effort.

Mr. King advised that a small Service Request was recently approved to update the system to detect members who fall into this category, so their membership date will auto-adjust in the system to the correct date. Mr. King explained that although this item has been on the list of updates for some time, other things took priority as this did not impact a large number of members.

6. Presentation, Discussion, and Appropriate Action Regarding the 2023 ASRS Legislative Initiatives

Mr. King introduced Ms. Jessica Thomas, Government Relations Officer/Rules Writer.

Ms. Thomas identified three initiatives the ASRS would like to pursue for the 2023 Legislative session as follows:

- New Employer Legislation: Amend A.R.S. § 38-781 – to clarify that a political subdivision may join the ASRS to allow their employees to participate in the supplemental deferred compensation plan but not the ASRS defined benefit program.
- Retirement Cancellation Legislation: Amend A.R.S. § 38-764(H) – to update/extend the timeframe in which a member may cancel or make changes to their retirement application.
- Possible changes to the Contribution Prepayment Program – consider removing the requirement that an employer must begin to amortize the prepaid contributions if their net pension liability becomes negative and to allow a short-term or other fixed return investment to be used by an employer, particularly during the last year of amortization; and any other modification that may be beneficial to members while also being beneficial to the system.

Mr. Matson provided some additional background regarding the first initiative. He has had

opportunities to meet with members of small municipalities who would like to participate in the supplemental plans ASRS has to offer, as the fees are lower than what their employers can provide due to their employer's size and fiscal constraints. Mr. Matson added that once the eligible employer joined, they could fully join at a later date to be eligible to participate in the defined benefit program and the supplement plans.

Mr. Mueller asked if there was a risk that employers would back out of the defined benefit plan if they were to be offered a defined contribution plan only. Mr. Matson responded that when an employer joins the ASRS's defined benefit plan, that decision is irrevocable by statute. This legislation would be written to ensure it applies to new employers.

Ms. Webber asked for further explanation regarding the second initiative; extending the date for retirement cancellation, the circumstances in which these changes are made, and how the ASRS concluded 60 days would be sufficient. Mr. King stated the statute does not allow a member to change their benefit election once a member has filed for retirement. The ASRS has allowed 30-days due to the complexity, but there is currently no provision.

Motion: Mr. Miller moved to approve the proposed 2023 ASRS Legislative Initiatives as presented. Mr. Mueller seconded the motion.

By a roll call vote of 3 in favor, 0 opposed, 0 abstentions, 0 excused, and 0 vacancies, the motion was approved. The Trustee votes were as follows:

Ms. Sarah Webber – approved
Mr. Michael Miller – approved
Mr. Jim Mueller – approved

7. Presentation, Discussion, and Appropriate Action Regarding Internal Audit-Related Topics, including:

- a. Internal Audit Quarterly Report**
- b. Internal Audit Annual Report**
- c. Internal Audit Annual Affirmations and Disclosures**

Mr. King introduced Mr. Harold Mackey, Chief Internal Auditor.

Mr. Mackey began his presentation of information and materials regarding the Q1 Internal Audit (IA) Report. This quarterly audit report covers the following activities that the Internal Audit Division (IAD) supports including:

- Advisory activities included: audit-related activities that support audit activities, such as an introspective review of the IA Quality Assurance and Improvement Program, implementation of the IA management tool, and review of Employer Compliance reports
- Monitoring activities included: key investment management-related issues, Combined Asset Class Committee meetings, in-house disbursement risks & controls monitoring, and others
- Work plan updates:
 - Accuracy of Data Audit is being reworked, and observations are being aligned with the original audit objectives.
 - Employer Relations Assessment is in its final review to ensure the observations align with primary audit objectives.

- Pension/Long-term Disability, Death Reporting, Enterprise Information System Staffing, and Custody Bank Transition Audit Reports are complete and ready to be reviewed by the Senior Management Team.
- Appeals Process Audit has completed testing and assessed observations and will be ready to go upon the auditor's return from vacation and then presented to the Senior Management Team.
- Preplanning activities for upcoming audits.
- Summary of hours and budget update.
- Administrative activities include key areas of focus such as developing an assurance map for improved audit and assessment coverage, reviewing fraud reporting, and monitoring where gaps have been identified and IA risk evaluation practices.

Mr. Mueller asked for an expected completion date for some of the reports and audits identified by Mr. Mackey. Mr. Mackey stated that all are expected to be completed by the end of the calendar year 2022; however, the fraud monitoring and enhancement will be ongoing. Mr. Mackey also stated that the assurance mapping would continue to change as the agency does and will be evaluated annually. Mr. Mackey confirmed, at Mr. Mueller's request, that the OALC would have a report in January on the statuses. Mr. Mueller also asked that the Committee receive a report on fraud; what risks the agency has or may be exposed to, even though this is an ongoing process.

Mr. Mackey provided a brief summary regarding the IA Annual Audit Report for Fiscal Year 2022 as this will provide a backward look at the entire year of all IA activities for the Committee. This report assists the IAD in planning for the future and taking corrective action where needed.

Mr. Mackey reviewed his final document, which is an annual affirmation and disclosure required by the Institute of Internal Auditors' Standards and should be provided to the Committee and ASRS annually. The affirmation and disclosure certify IAD's independence in performing their work. Mr. Mackey noted that the Institute of Internal Auditors' Standards is undergoing some changes, and as such, the IAD Charter may also need to be updated in the near future.

Ms. Webber requested a summary of the Executive Summary of the findings in the Annual Audit Report. Mr. Mackey explained this is a high-level view of the IAD successes and opportunities for improvement and reviewed them briefly with the Committee.

Mr. Jim Mueller left the meeting at 11:33 a.m.

Ms. Webber thanked Mr. Mackey for the update and is looking forward to the upcoming reports on progress and focus on strategic risk and timeliness in January.

9. Call to the Public

No members of the public requested to speak.

10. Requests for Future Agenda Items

As previously noted under the respective agenda item, the Committee has requested an IAD report on fraud, to include what risks the agency has or may be exposed to at the January 11, 2023, meeting.

11. The next regular public OALC meeting is tentatively scheduled for Wednesday, January 11, 2023, at 9:30 a.m.

Ms. Webber noted the next OALC meeting is scheduled for Wednesday, January 11, 2023, at 9:30 a.m.

12. Adjournment of the OALC

Ms. Webber adjourned the meeting at 11:35 a.m.

Respectfully Submitted,

Melanie Alexander
Committee Administrator
ARIZONA STATE RETIREMENT SYSTEM