



Arizona State Retirement System
BOARD OF TRUSTEES

**Ad Hoc
Compensation Committee**

November 12, 2014



Arizona State Retirement
SYSTEM

A COMPONENT UNIT OF THE STATE OF ARIZONA ■ DELIVERING SERVICE WITH PRIDE



ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778
EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

Paul Matson
Director

AGENDA NOTICE OF A PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM BOARD (AD HOC COMPENSATION COMMITTEE)

14th Floor Conference Room
3300 North Central Avenue
Phoenix, AZ 85012

November 12, 2014
9 a.m. Arizona Time

Pursuant to A.R.S. § 38-431.02, notice is hereby given to the Trustees of the Arizona State Retirement System (ASRS) Board Ad Hoc Compensation Committee and to the general public that the ASRS Ad Hoc Compensation Committee will hold a meeting open to the public on Wednesday, November 12, beginning at 9 a.m. Arizona Time in the 14th Floor Conference Room of the ASRS office, 3300 North Central Avenue, Phoenix, AZ 85012. Trustees of the Committee may attend either in person or by telephone conference call.

This is a scheduled meeting of the ASRS Ad Hoc Compensation Committee, however, because the Committee is made up of a quorum of the Board, it is noted this Committee will not be acting as the Board and actions requiring Board authority will be presented to the full Board for final decision at one of their regularly scheduled Board meetings.

The Chair may take public comment during any agenda item. If any member of the public wishes to speak to a particular agenda item, they should complete a Request to Speak Form indicating the item and provide it to the Committee Administrator.

This meeting will NOT be teleconferenced to the ASRS Tucson office conference room at 7660 E. Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

The Agenda for the meeting is as follows:

1. Call to Order; Roll Call; Opening Remarks..... Mr. Tom Manos
Compensation Committee Chair
2. Approval of the Minutes of the October 14, 2014 Public Meeting of the Ad Hoc Compensation Committee..... Mr. Tom Manos
3. Presentation, Discussion and Appropriate Action with Regard to ASRS Budgeting Processes, Authorization Processes, and Governance Structure with Respect to Employee Compensation and Compensation Strategies Mr. Paul Matson
Director
..... Mr. Anthony Guarino
Deputy Director and Chief Operations Officer
..... Ms. Martha Rozen
Chief of Administrative Services

Agenda Item #2



ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778
EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

*Paul Matson
Director*

MINUTES

PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD (AD HOC COMPENSATION COMMITTEE)

**Tuesday, October 14, 2014
3:00 p.m. Arizona Time**

The Arizona State Retirement System (ASRS) Ad Hoc Compensation Committee met in the 14th Floor Conference Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Tom Manos, Chair of the ASRS Committee, called the meeting to order at 3:06 p.m., Arizona Time.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Manos, Chair
Mr. Brian McNeil
Professor Dennis Hoffman
Mr. Kevin McCarthy
Mr. Tom Connelly

A quorum was present for the purpose of conducting business.

The following agenda items were addressed in one discussion and not broken out into separate discussions.

2. Presentation and Discussion and Appropriate Action Regarding the Purpose and Scope of the Compensation Committee

3. Presentation, Discussion and Appropriate Action Regarding Resource Requirements for the Compensation Committee

Mr. Tom Manos, reminded the Committee the discussion of the Investment Compensation Plan scheduled for the September 26, Board meeting was tabled so there could be a broader discussion to include the entire agency. The Ad Hoc Compensation Committee was created for that discussion.

Ms. Martha Rozen was asked to provide a refresher on the requirements of Personnel Reform which was enacted by legislation in 2012. Ms. Rozen discussed Personnel Reform in general, and then focused on the intent of ensuring consistent practices and guidelines for classifications and compensation among state agencies.

Discussion followed on the role of the Ad Hoc Compensation Committee. Also discussed was the agency budget approval process as well as the budget with respect to salary increases.

4. Presentation, Discussion and Appropriate Action Regarding Future Agenda Topics and Meeting Dates

Future discussions requested by the Committee included the ASRS compensation strategies and programs, ASRS compensation history, and the budgeting processes.

Trustees will review their calendars and future meetings dates will be determined at a later time.

5. Call to the Public

No members of the public requested to speak.

6. Adjournment of the ASRS Ad Hoc Compensation Committee

Mr. Tom Manos adjourned the October 14, 2014, Committee meeting at 4:06 p.m.

ARIZONA STATE RETIREMENT SYSTEM

Gayle Williams
Board Administrator

Date

Paul Matson
Director

Date

Agenda Item #3



ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778
EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

Paul Matson
Director

MEMORANDUM

TO: Mr. Tom Manos, Chair, ASRS Ad Hoc Compensation Committee

FROM: Mr. Paul Matson, Director
Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
Ms. Martha Rozen, Chief of Administrative Services

DATE: November 5, 2014

RE: **Agenda Item #3:** Presentation, Discussion and Appropriate Action with Regard to ASRS Budgeting Processes, Authorization Processes, and Governance Structure with Respect to Employee Compensation and Compensation Strategies

Purpose

To review the authorization process for employee compensation and compensation strategies, processes by which the ASRS designated funds to be used in Fiscal Year 2015 for the purpose of compensation, and governance structure with respect to employee compensation and compensation strategies.

Background

A core ASRS Belief is that prudent investment in staff, in the form of a performance-based compensation program and enhanced work environment, should aid in the recruitment, engagement, and retention of the professionals responsible for meeting the agency's strategic priorities, goals, and objectives.

Authorization Processes

ASRS compensation strategies are guided by statute and developed, reviewed, and approved internally by human resources and executive staff. These strategies must be reviewed and in most cases approved by the Department of Administration (ADOA) in accordance with the State Personnel System FY 2015 Compensation Guidelines.

A.R.S. § 38-611.01 (Reference Item #1) state that the ASRS:

1. May administer an incentive compensation plan for investment related personnel established in consultation with the director of the ADOA.
2. Shall not establish any other compensation plans without the approval of the ADOA director.
3. May request, and the ADOA director may adopt, other special pay plans determined necessary for certain classes or groups of ASRS employees.

In addition, A.R.S. § 41-742 (Reference Item #2) provide for ADOA to establish and administer the state personnel system, which includes:

- A classification system and job classes and associated knowledge, skills and abilities for those classes.
- A compensation system, including assigning pay ranges for all job classes and special

pay plans for certain classes or groups of employees considering such factors as occupational patterns, economic conditions, and pay plans common to government, business and industry.

The State Personnel System FY 2015 Compensation Guidelines (Reference Item #3) indicate that various compensation strategies may be used by agencies to address salary and compensation issues within their workforce. Agency compensation plans must adhere to the requirements stated in the Compensation Guidelines and must be submitted to ADOA for approval prior to implementation.

These strategies are outlined in depth and are organized into five “toolboxes,” each of which has strict requirements concerning availability (who may use them), eligibility (who may receive compensation), collective and individual limits (applied wholly to agencies and individually to specific employees), and approval processes (see pages 5-11 of Reference Item #3).

For example, within the Agency Toolbox for Variable Incentives (page 9), the eligibility requirements for a Goal-Based Incentive are as follows:

- Measures and target goals shall be reviewed on an annual basis.
- When goals are achieved and incentive pay is provided, new target goals shall be established.
- The employee must receive an overall rating of “Meets Expectations” or better on his/her most recent performance evaluation.
- The employee has been employed at least six months since his/her date of hire or last promotion or demotion.
- The employee may not participate in another incentive plan authorized by a separate program.
- Incentives are limited to no more than \$3,000 per employee per year.
- All combinations of base salary increases and one-time incentive payments not affecting base salary shall not exceed 5% of an employee’s annual base salary.

Spending associated with this strategy is limited to 2% of the agency’s personal services base, exclusive of ERE, regardless of agency funding.

Budgeting Processes - Funding

The State Personnel System FY 2015 Compensation Guidelines indicate that “All compensation strategies are subject to the availability of funding, and must be managed within the agency’s appropriation” and “Agencies intending to implement any strategies are required to submit a compensation plan to ADOA prior to implementation.” It is important to note that “Neither the availability of these strategies nor receiving the approval to use them shall obviate the need for agencies to manage within their budget.”

In preparation for submission of various compensation strategies to ADOA, ASRS staff presented the following information to the Operations and Audit Committee (OAC) at the August 12, 2014 meeting as part of the ASRS spending plan for FY 2015:

- Use of appropriated funding for a compensation plan focused on rewarding non-investment staff for performance in achieving established goals, adding to plan assets and/or reducing plan liabilities, reducing risk and costs, improving efficiency, productivity, customer service, and the member experience, and migrating members to self-service options, as well as addressing salary levels that are behind the market when compared

to other peer organizations (\$750,000¹ approximate amount of budget reserved).

- Use of appropriated funding for the ASRS Incentive Compensation Plan (ICP) for Internal Investment Professionals. Incentives earned for FY 2014 performance will be paid during FY 2015 (\$350,000² approximate amount of budget reserved).

The spending plan was approved by the OAC on August 12, 2014 and was presented to and approved by the ASRS Board on August 22, 2014.

Governance Structure

In accordance with the ASRS Board Charter (Reference Item #5), the ASRS Board:

- Was established to govern and administer the ASRS.
- Has delegated the leadership, management and administrative functions to the ASRS Director and staff subject to ongoing monitoring and oversight.
- Does not engage in regular day-to-day management functions of the ASRS.

The ASRS Director:

- Is responsible for managing the regular operations of the ASRS.
- May make prudent delegation of responsibilities to other ASRS staff.
- Is responsible for the recruitment, hiring, and day-to-day management of employees.
- Develops and recommends to the Board an appropriated operating budget; manages and monitors expenditures within the budget; and provides reports to the OAC or Board as necessary.

Governance over ASRS compensation strategies is currently bifurcated between the ASRS and ADOA, governance over the Investment program being the notable exception. In all other cases, while the ASRS may allocate funding as it sees fit for compensation strategies, it is ADOA that sets limits to spending and controls the type of programs that may be employed.

Conclusion

A cornerstone of the ASRS strategic model has been that making a purposeful investment in retaining the right complement of qualified professionals and providing a positive work environment leads to greater achievement. The strategic goal is to ensure consistent, high performance by supporting an effective operating structure and a workforce that reflects agency values. In order to attract and retain qualified individuals, management utilizes a variety of compensation strategies – approved variable pay incentive plans as well as base pay adjustments – to remain a competitive and attractive employer. Although ASRS management reviews position classification and compensation levels and anticipates adjustments necessary to achieve business objectives and/or retain key staff with invaluable historical knowledge of ASRS programs and systems, it is AODA that directs and approves most compensation activity at the ASRS.

¹ From the page Schedule A3 of the ASRS Administrative and Investment Spending Plan Fiscal Year 2015 (Reference Item #4), this total is comprised of the amount listed for Variable Compensation Strategies (\$305,000) as well as amounts imbedded in PS (approximately \$356,000) and ERE (approximately \$89,000).

² From page Schedule A3 of the ASRS Administrative and Investment Spending Plan Fiscal Year 2015 (Reference Item #4), this is the amount listed for Investment Incentive Compensation Plan.

Agenda Item #4



ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778
EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

Paul Matson
Director

MEMORANDUM

TO: Mr. Tom Manos, Chair, ASRS Ad Hoc Compensation Committee

FROM: Mr. Paul Matson, Director
Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
Ms. Martha Rozen, Chief of Administrative Services

DATE: November 4, 2014

RE: **Agenda Item #4:** Presentation, Discussion and Appropriate Action with Regard to the ASRS Employee Compensation Histories, Levels, Current and Past Strategies and Results, and Comparative Data

Purpose

To review the State of Arizona's compensation history; the recent history of ASRS employee compensation, strategies, and results; the incentive compensation plan for investment-related personnel; and the challenges faced by the ASRS in the areas of employee recruitment and retention.

Background

The ASRS has approximately 247 full time-equivalent positions. The establishment of classification and compensation for these positions relies upon the Arizona Department of Administration (ADOA) in combination with ASRS Human Resources' efforts to perform continuous review and comparison with market conditions. When the ASRS has a position to fill, the detailed job description is reviewed and updated accordingly. If it appears that the responsibilities of the job are such that a different classification may be appropriate, ASRS Human Resources works closely with the ASRS manager to update and then, ultimately, forward to ADOA for review/approval before the recruitment process may begin.

In order to compete for qualified and high caliber staffing resources, the ASRS takes into account the comparative salaries of equivalent employees of public pension plan systems in other cities and states (while bearing in mind the relative costs of living in areas outside of Arizona), in other agencies throughout the State, as well as in Arizona's private sector. While it is generally understood that salaries within the public sector are lower compared to those in private industry and in Arizona in general, the ASRS still must work toward attracting qualified and highly competent professionals in order to maintain its high performance.

Base Salary Adjustment History – Statewide and ASRS-Initiated

Currently, the ASRS does not have authority to implement across-the-board adjustments to the base salaries of its employees. That authority resides with the State Legislature, which has made (technically) one increase and one decrease the last five years. The following chart is an excerpt from the State of Arizona Advisory Recommendation 2014 on State Employees' Salaries with a minor change to reflect the actual "base salary adjustments" that were made. (Reference Item #6).

ADOA History of Salary Adjustments

Fiscal Year	General Salary Adjustments	Comment/Explanation
2010	-0-	
2011	-1.92%	Represents 5 furlough days except for certain exempted positions
2012	-0-	
2013	-0-	<i>One-time retention payment of 5% for 19 pay periods in FY 2013 (not added to base salary)</i>
2014	5%	<i>Increase of 5% to base salary for employees receiving the retention payments in FY 2013</i>

The one-time critical retention payment of 5% made in 2013 was converted to a base salary increase in 2014 for only those employees who received the payment in 2013. Over the last five years, base increases to salary for state employees total 5% (but only for those individuals who received the critical retention payment in 2013).

From September 2009 (FY 2010) through September 2012 (FY 2013), the ASRS was exempt from the State Personnel System as a result of legislation enacted during the 2009 Legislative session.

Effective with Personnel Reform legislation on September 29, 2012, the ASRS is subject to ADOA approval for any base salary adjustments for most positions. The only exclusions are the agency Director, Deputy Director, or equivalent positions (at the ASRS, this includes the Chief Investment Officer), and all requests must adhere to the classifications and salary ranges determined by the ADOA.

The table below shows the ASRS-initiated base salary adjustments from FY 2010 to present:

ASRS History of Salary Adjustments

Fiscal Year	Average Number of Filled Positions	Number of Base Salary Increases	Average Amount of Increases	Average % of Increases	Dollar Amount of Increases as % of Agency EE Salary Total
2010	217	3	\$6860	11.00%	0.191%
2011	221	6	\$6037	7.73%	0.388%
2012	230	212	\$2441	4.63%	4.459%
2013	220	9	\$7475	8.81%	0.551%
2014	233	14	\$8928	7.96%	0.945%
2015*	237	3	\$8631	18.18%	0.190%

*To date as of 7/31/2014

Affected Positions

FY 2010

Member Advocate – Member Services
Program Managers (2) – Member Services

FY 2011

Tucson Team Lead – Member Services
Call Coach – Member Services
Benefit Advisor – Member Services
Chief Investment Officer – Investment Management
Assistant CIO – Investment Management
Portfolio Analyst – Investment Management

FY 2012

During the time period that the ASRS was exempt from the State Personnel System, classifications and compensation were reviewed internally and the ASRS implemented an agency-wide motivation and retention plan that resulted in increases to base salaries in FY 2012.

FY 2013

Assistant Director – Member Services
Assistant Portfolio Manager – Investment Management
Portfolio Manager (2) – Investment Management
Executive Director
Strategic Planning and Analysis Manager – Director's Office
Administrative Project Coordinator – Management Support Services
Communications Specialist/Digital Communications Officer – External Affairs
Network Information System Manager – Technology Services

FY 2014

Assistant Director – Member Services
Assistant Director – Financial Services
Assistant Director – Administrative Services
Executive Director (per contract)
Deputy Director
Assistant Director – External Affairs
Assistant Director – Technology Services
Technical Lead (4) – Technology Services
Project Manager (2) – Technology Services
Database Administrator – Technology Services

FY 2015

Personnel Analyst III (2) – Administrative Services
Network Manager – Technology Services

Variable Payment History in the ASRS

In accordance with the guidelines set forth by ADOA, the variable compensation strategies used by the ASRS in FY 2013 and FY 2014 included goal-based incentives, spot incentives, and meritorious service leave awards. These strategies did not result in changes to employees' base salaries, but rather, were one-time payments. The strategies employed are defined below:

- **Spot Incentives** were awarded in recognition of *extraordinary* achievements that go beyond the everyday work approach and that result in efficiencies, cost savings, or improved productivity. This investment in ASRS staff has been shown to provide motivation for innovative thinking and to enhance employee satisfaction and engagement.
- **Goal-Based Incentives** (awarded in FY 2014 only) have given ASRS management the opportunity to recognize and reward employees based on their contributions to the achievement of the priorities, goals, and objectives outlined in the ASRS Five-Year Strategic Plan and Operational Goals and Objectives.
- **Meritorious Service Leave Awards** were used to acknowledge an employee for exemplary service and performance. The *ASRS Employee PRIDE Rewards and Recognition Program* is used to guide the implementation of this incentive and to motivate the workforce.

ASRS Variable Payment Results

Fiscal Year	Average Number of Filled Positions	Number of Employees Receiving Spot Incentives	Average Amount of Spot Incentives per Employee	Number of Employees Receiving Goal-Based Incentives	Average Amount of Goal-Based Incentives per Employee	Number of Employees Receiving Meritorious Service Leave Awards	Average Amount of Meritorious Service Leave Awards (in hours) per Employee
2013	224	192	\$601	N/A	N/A	6	8
2014	229	91	\$465	180	\$1112	18	7.8

Incentive Compensation Plan for Investment Professionals

A.R.S. § 38-611.01 provide that the ASRS, in consultation with the ADOA Director, may establish and administer an incentive compensation plan for investment-related personnel. On November 22, 2013, the ASRS Board of Trustees discussed and approved the ASRS Investment Compensation Plan (ICP) for Internal Investment Professions.

The ICP was designed to contribute to the ASRS' ability to achieve the following objectives:

1. Retain high caliber investment professionals
2. Attract high caliber investment professionals
3. Incentivize investment performance

The ICP was developed to have the following characteristics:

- Result in enhanced investment performance
- Be controlled or influenced by participants
- Remain fair, achievable, and measurable
- Be flexible for the agency

Specifically, the ICP provides the opportunity for investment professionals to receive variable incentive-based pay based upon investment performance while reinforcing the Fund's investment objectives.

The ICP provides for a maximum incentive compensation opportunity of 25% of the base salary for each participant

Challenges Faced in Recruitment and Retention

The ASRS Strategic Plan includes the objective of completing the recruitment process for open positions in 60 days or less. To date in calendar year 2014, filling positions in the Technology Services Division (TSD) has required a significantly longer amount of time (133 days on average) than positions outside of the TSD (46 days on average). This is due, as expected, to the more specialized skills required for this category of employment. In the extreme case of two still-unfilled openings for software engineers, additional funding has been used to market the availability of these positions, yet there remain a limited number of qualified candidates.

In calendar year 2014 and as of October 31, 2014; offers of employment have been made to 58 candidates across all ASRS recruitments. Of the total offers made to date, 20 (34%) were for positions in TSD. Due to the salary levels the ASRS is able to offer for TSD positions, 6 of the 20 offers made to applicants were declined. When candidates decline our offers, this impacts resources as additional time and effort are required to identify new final candidates either by continuing to review applicants or starting a new recruitment if no additional qualified candidates are identified in the original recruitment/pool of candidates.

As for retention, current annualized turnover rates in the ASRS are relatively low at 12.58% overall (ADOA recently reported the state-wide turnover rate for FY 2014 was 15.5%; Reference Item #8). However, in the most recent survey of ASRS employees, 63.6% of respondents indicated that if they could change an aspect of their job, they would change their salary. Likewise, there is a consensus among ASRS senior managers that performance and merit pay is not in alignment with measurable achievement. The State of Arizona Advisory Recommendation indicates that the current market exceeds State employee base salaries by an estimated 18.0%. With continued improvement in the economy, the risk of employees departing from the ASRS to pursue higher compensation is of great concern to the agency. In the TSD realm (current annualized turnover of 17.07%), the business impact of increased turnover is magnified when considering known recruitment difficulties. In 2013, the ASRS had seven departures from TSD and of these, 5 provided information regarding the rate of pay at their new positions as follows:

- Software Engineer: 30% pay increase plus option for 10% bonus
- Network Specialist II: 73% pay increase
- Quality Assurance Engineer: 5% pay increase plus option for 7% bonus
- Quality Assurance Engineer: 8% pay increase
- Oracle Developer: 3% pay increase

The ASRS also experiences a significantly higher rate of turnover, 23.24% (exits from the agency), in the Member Advisory Center (inbound call center). While these departures do impact overall levels of service on a temporary basis, Benefit Advisor positions are generally filled quickly because the ASRS is able to offer salaries that are closer to those offered in the private sector for similar positions.

Challenges Faced in Implementation

Since the implementation of Personnel Reform, the ASRS submits for approval to ADOA matters related to compensation, such as position classification requests, variable pay plans, salary adjustments, and available compensation strategies. The response time to requests has initially presented procedural challenges.

Ongoing Analysis

The Arizona State Retirement System (ASRS) uses a variety of job classifications to effectively achieve the agency strategic objectives. These job classifications are managed by the ADOA HR Classification and Compensation department and are primarily based on the scope of work, complexity of work, and level of authority for which the position is responsible. Once classified, the position is then matched to a pay grade (established by ADOA) that reflects the appropriate compensation range for the position.

The accompanying spreadsheet (Reference Item #7) is a high level representation of ASRS positions combined into groups with generally similar complexity and responsibility that may span different ADOA job classifications and pay grades. Comparable market median salaries (average if median was not listed) from eight salary resources are matched to the ASRS classification groups and noted in the corresponding columns. This compares general pay level information to general pay level information providing a high level view.

Taking a generalized view does *not* identify pressing salary concerns for highly valued, knowledgeable and proficient skill sets. We continue to pursue appropriate salary levels for specific positions, to compensate for these demonstrated qualities and competencies.

Conclusion

As statute and reform have changed and shaped the mechanisms by which compensation is determined and implemented, the ASRS has continued its practice of evaluating its approach and guidelines for salaries and incentives. At this time, the agency is creating variable compensation strategies, using its incentive compensation plan for investment professionals, and continuing the review process for classifications and salaries across all levels in order to ensure that its dedicated and high-caliber staff members are being paid at a level that reflects their proficiency, competency, and subject matter expertise.

We will continue to examine market forces in both the public and private pension plan arenas and move employee salaries where appropriate as well as craft variable compensation strategies that reward performance on an ongoing and permanent basis.

Personnel reform allows for the creation and use of other special pay plans determined necessary for certain classes or groups of ASRS employees if the ASRS chooses to make that a priority.