

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

**HELD
Friday, November 18, 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 8:35 a.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. René Guillen, Chair
Mr. Mike Miller, Vice-chair
Mr. Michael Lofton (virtual)
Mr. Jim Mueller
Ms. Ashley Ruiz (virtual)
Ms. Sarah Webber

Excused: Ms. Diane Landis
Mr. Kevin McCarthy
Mr. Jay Petkunas

A quorum was present for the purpose of conducting business.

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

2. Approval of the Minutes of the September 7, 2022 and September 30, 2022 Public Meetings and September 30, 2022 Executive Session of the ASRS Board

Motion: Mr. Mike Miller moved to approve the minutes of the September 7, 2022 and September 30, 2022 Public Meetings and the September 30, 2022 Executive Session of the ASRS Board. Mr. Jim Mueller seconded the motion.

By a roll call vote of 6 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved. The Trustee votes were as follows:

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

3. Presentation, Discussion, and Appropriate Action Regarding Government Finance Officers Association (GFOA) Financial Reporting Awards for Fiscal Year 2021

Mr. Paul Matson, Director, turned this matter over to Ms. Erin Higbee.

Ms. Erin Higbee, Assistant Director and Chief Financial Officer (CFO), Financial Services Division, opened with a brief statement regarding the following two agenda topics, which will cover the agency's financial reports. The ASRS issues three yearly reports; the Annual Comprehensive Financial Report (ACFR), the GASB 68 & 75 Report, and the Popular Annual Financial Report (PAFR).

Two of the three reports are eligible for submission to the Government Finance Officers Association (GFOA) for awards. Ms. Higbee announced that the ASRS received the GFOA Certificate of Achievement for Excellence in Financial Reporting for its June 30, 2021, ACFR for the 33rd consecutive year and the GFOA Award for Outstanding Achievement for the 2021 PAFR. Ms. Higbee pointed out that although the ASRS has a longstanding tradition of excellence in financial reporting, excellence should be expected but not be taken for granted. This effort takes a team of people to facilitate whom she recognized as follows: Ms. Erica Syring, Controller; Ms. Erin Higbee, CFO; Ms. Jessica Tucker, Financial Reporting Manager; Ms. Lupita Breland, Investment Operations Manager; Mr. Michael Viteri, Chief Investment Officer, and Mr. James Samolowicz, Senior Investment Analyst.

Finally, she noted that although the GASB 68 & 75 report does not have an award opportunity, it is noteworthy as it is significant to the ASRS and its employers. Ms. Higbee added that this report is the result of hard work by the external auditors, the internal financial reporting team, and the Internal Audit Division.

Ms. Sarah Webber commended the staff for their dedication and the standard of excellence ASRS has set forth. Mr. Guillen agreed and complimented ASRS on its long history of achievement.

4. Presentation, Discussion, and Appropriate Action Regarding the ASRS' Annual Comprehensive Financial Report (ACFR) for Fiscal Year 2022

Ms. Higbee announced that this topic would cover the June 30, 2022, reports she summarized in the previous agenda. This is the second consecutive year the ASRS has been able to present all

three reports simultaneously, which is impressive, due to complexity and time sensitivity. Ms. Higbee shared that this accomplishment has been a target since issuing the GASB 68 & 75 Schedules. This provides a more holistic look at the ASRS' financial reporting environment by being able to provide all the reports at once. The primary purpose of this topic is for the external auditor to present the June 30, 2022 audit results. Before turning the presentation over to the outside auditors of CliftonLarsonAllen, Ms. Higbee noted that the only two reports the auditors provide an opinion on are the ACFR and the GASB 68 & 75.

Ms. Higbee noted no significant operational changes from the prior year other than the ASRS now self-insures non-Medicare health insurance plans, which is reflected in the financial statement. Second, one audit adjustment was proposed from the account for dividend distributions reported by an investment partner that the custody bank had not received in time for inclusion in their report to the ASRS. The ASRS made the adjustment to properly report the distribution as receivable as of June 30, 2022. Finally, there is no impact on the June 30, 2022, financial statement due to the Contribution Prepayment Program, as the program went live in September.

Ms. Jennifer Cook, Principal and Signing Director of CliftonLarsonAllen (CLA), introduced herself, providing her background, and introduced Ms. Brittany Smith, Engagement Manager with CLA, who also provided her background.

Ms. Cook presented an unmodified Independent Auditor's Opinion for the fiscal year ending June 30, 2022, on the ASRS financial statements that collectively comprise the ASRS' financial statements in the ACFR. Regarding the Independent Auditors' Report on the GASB 68 & 75 Schedules, Ms. Cook reported an unmodified opinion. Regarding the Independent Auditors' Report on Internal Controls concerning the ACFR, Ms. Cook reported no material weaknesses or significant deficiencies identified during the audit. The Independent Auditors' Report on Internal Controls concerning the GASB 68 & 75 Schedules also had no material defects or significant deficiencies identified during the audit.

Ms. Cook turned the presentation over to Ms. Smith. Ms. Smith highlighted the following items in the communication:

- There were no new accounting policies implemented during the year.
- There were no uncorrected misstatements.
- There were no significant unusual transactions.
- There were no past adjustments.
- There were no significant risks.
- There were no disagreements with management throughout the process.
- Alternative investments and actuarial information estimates – key factors and assumptions were evaluated and found to be reasonably stated in relation to the financial statements.

Mr. Guillen and Ms. Smith discussed how ASRS compares to other pension funds and how the board plays into the audit analysis.

Mr. Mueller and Ms. Smith discussed any significant changes regarding the inherent risks and any new risks that may be of concern. Cyber security is of concern and this is part of CLA's audit. Ms. Higbee provided that ASRS is continually looking at these risks and working towards mitigating them. The ASRS engages with CLA, beyond the financial audit, to determine where other risks are and how to address those risks in coordination with the auditors.

Ms. Smith continued, stating that ASRS Management was very cooperative and professional during the audit process. She concluded that there were no difficulties encountered in performing the audit.

Mr. Guillen asked for any comments or questions for CLA. Hearing none, he moved to Agenda Item 5.

5. Presentation, Discussion, and Appropriate Action Regarding the ASRS Actuarial Valuations and Resulting Contribution Rates:

Mr. Matson provided background on the Actuarial Valuations and how contribution rates are determined in order to obtain fully funded status. The actuarial valuation compares the assets versus liabilities of the plan and utilizes smoothing of investment values in order to determine the contribution rates. This investment smoothing approach mitigates the volatility of the contribution rates. He then turned this matter over to GRS (Gabriel, Roeder, Smith, and Company).

Mr. Guillen commented on the upcoming legislative session and the need to explain ASRS' process in determining contribution rates. Mr. Mueller and Mr. Matson discussed the smoothing period ASRS utilizes to determine contribution rates, and how that provides smoother contribution rate changes for active plan members.

a. The Pension Plan and Health Insurance Valuation

Mr. Ryan Falls and Mr. Paul Wood of GRS addressed the Board and summarized the results of the 2022 ASRS valuations. They also presented charts summarizing the contribution rates and the funded status. The resulting Plan contribution rate is 12.14% for each employee and the employer, including pension and health benefit supplement rates. This percentage represents an increase of 0.11% from the fiscal year 2021 contribution rate of 12.03%. The actuarial value of assets funded status of the Plan as of June 30, 2022, is 72.7%. The market value of the assets funded status of the Plan as of June 30, 2022, is 75.1%.

Messrs. Guillen, Matson, and Falls discussed the Board's prior decision to utilize a 20-year amortization period as opposed to 25 years as a way to move towards 100% funding over a closed period.

b. The System Valuation

GRS provided information regarding accrued liabilities, the market value of assets, and the System's funded status. The resulting funded status of the System as of June 30, 2022, is 72.7%.

Mr. Guillen, Mr. Wood, and Ms. Webber discussed the funded risk ratio, comparing the ASRS to other pension funds, and how the ASRS has stability for members' contribution rates and funded status, not dipping into "dangerous" levels, and having a generally upward trajectory.

Mr. Wood continued and summarized four stress tests he prepared on the ASRS system for a ten-year period, explaining the volatility and returns. The 20-year compound annual average return was 7% in all scenarios. Mr. Guillen and Mr. Matson discussed possible situations where contribution rates could climb and what the Board could do to seek solutions or opportunities to

improve and to discuss the pros and cons of making any changes. The Board has provided one solution, the Contribution Prepayment Plan (CPP).

Mr. Falls and Mr. Matson discussed the valuation of the “Closed Prior System” and discussed that while no new funds are going into this System, a prior formal Attorney General’s Opinion concluded that the overall Plan would be utilized to continue System retirement payments.

c. The Long Term Disability (LTD) Valuation

GRS addressed the Board regarding the ASRS LTD Valuation. The resulting contribution rate is 0.15% for each employee and the employer, which results in a 0.01% increase from the fiscal year 2021 contribution rate of 0.14%. The actuarial value of the LTD Plan’s assets funded status as of June 30, 2022, is 91.5%.

Mr. Matson pointed out that the 2022 the actuarial funded status of the LTD is 91.5%; however, in approximately 1996, it was approximately 17% funded. This shows that if you plan and come up with a funding policy and invest the assets long-term with a good understanding of risk, you can go from very low to very high funded status over a moderate period of time.

Mr. Wood explained the actuarial standards of practice, specifically number 4 in dealing with pensions and low-default risk obligation measures. GRS will be adding a new disclosure measure to calculate the liabilities based on a low default risk index.

d. Actuary’s Recommendation Regarding 13th Checks for Retired System Members

Based on the results, GRS recommended that there will be no addition to the 13th check or supplemental credit balances.

Mr. Guillen asked if there were any further questions for GRS. Hearing none, he thanked GRS and asked for some motions regarding the contribution rates.

Motion: Mr. Mike Miller moved to accept the Actuarial Valuation of the Plan and Health Benefit Supplement program as presented for the period ending June 30, 2022, and the resulting contribution rate of 12.14% for each active employee and each employer, with 0.11% of the employer’s contribution allocated towards the 401(h) account, effective for the 2024 fiscal year. Ms. Sarah Webber seconded the motion.

By a roll call vote of 6 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved. The Trustee votes were as follows:

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

Mr. Guillen called for a motion on the Alternate Contribution Rate.

Motion: Mr. Mike Miller move to accept an aggregate Alternate Contribution Rate of 9.99%, consisting of 9.94% for the Plan, 0.0% for the Health Benefit Supplement program and 0.05% for the Long-Term Disability program, effective for the 2024 fiscal year. Mr. Michael Lofton seconded the motion.

By a roll call vote of 6 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved. The Trustee votes were as follows:

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

Mr. Guillen called for a motion on the Long-Term Disability (LTD) Valuation.

Motion: Mr. Mike Miller moved to accept the Actuarial Valuation of the Long-Term Disability Program as presented for the period ending June 30, 2022, and the resulting contribution rate of 0.15% for each employee and each employer, effective for the 2024 fiscal year. Mr. Jim Mueller seconded the motion.

By a roll call vote of 6 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved. The Trustee votes were as follows:

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

Mr. Guillen called for a motion on the System Valuation.

Motion: Mr. Mike Miller moved to accept the Actuarial Valuation of the System as presented. Ms. Sarah Webber seconded the motion.

By a roll call vote of 6 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved. The Trustee votes were as follows:

Mr. René Guillen – approved
Ms. Diane Landis – excused
Mr. Michael Lofton – approved

Mr. Kevin McCarthy – excused
Mr. Mike Miller – approved
Mr. Jim Mueller – approved
Mr. Jay Petkunas – excused
Ms. Ashley Ruiz – approved
Ms. Sarah Webber – approved

Mr. Guillen called for a motion on the 13th Checks for Retired System Members.

Motion: Mr. Mike Miller moved to approve that, based on the current funded status and cash flow position of the system, no increases to 13th checks for Retired System members and no additions to the Supplemental Credit balances of non-retired System members be made. Ms. Sarah Webber seconded the motion.

By a roll call vote of 6 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved. The Trustee votes were as follows:

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

6. Presentation, Discussion, and Appropriate Action Regarding the ASRS 2023 Proposed Regulatory Agenda and Update on ASRS Rulemaking Activities

Ms. Jessica Thomas, Government Relations Officer, explained that state agencies are required to post its agenda for the coming calendar year of legislative rulemaking. The ASRS anticipates promulgating two items during the 2023 calendar year and staff is currently completing each rulemaking on the 2023 Regulatory Agenda as follows:

- Long-Term Disability – Make changes that are consistent with the 2022 Five-Year Rule Review.
- Collection of Overpayments – Make changes that are consistent with the 2022 Five-Year Rule Review.

Ms. Thomas opened the floor up to questions from the Board.

Mr. Guillen asked if any of the Trustees had questions concerning this matter and, hearing none called for a motion.

Motion: Mr. Mike Miller moved to approve the 2023 Proposed Regulatory Agenda as discussed. Mr. Jim Mueller seconded the motion.

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

The Trustee votes were as follows:

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

7. Presentation, Discussion, and Appropriate Action Regarding the ASRS Proposed Legislative Initiatives

Ms. Thomas explained that the 2023 Legislative Session begins on January 9, 2023, and the ASRS has three initiatives for this session.

The first initiative is a bill that would allow political subdivisions and political subdivision entities to join the ASRS only for the purpose of allowing employees to participate in the ASRS supplemental deferred compensation (DC) plans.

The second initiative would extend members' time to cancel or change their retirement applications.

The third initiative would change the Contribution Prepayment Program (CPP) to remove the requirement that employers begin amortizing their prepaid contributions when their net pension liability becomes negative and include a possible short-term rate of return.

Mr. Miller asked for clarification concerning the second initiative. ASRS is allowing members a 30-day window to make corrections. Ms. Thomas explained that the ASRS allows an additional 30 days, for a total of 60 days, to make changes to a retirement application. It would be a one-time change.

Mr. Miller sought clarification on the first initiative. Mr. Matson explained that this would allow an employer to ask to join the ASRS for the sole purpose of participating in a defined contribution plan. An employee cannot currently access an ASRS-defined contribution plan if their employer is not a member of the ASRS. Any matching contributions decisions would be between the employer and employee, and the ASRS would not get involved in that dialogue. There are two different types of plans the employer could enroll in. One is the 403(b), typically for K-12 or non-profit employees, and the other is the 457(b), usually a state employee plan. These plans are referred to as the SSDP plans.

Mr. Guillen commented on the approval of the first initiative, especially for smaller communities, districts, and charters, that there is a real potential for a creative, innovative idea. He and Mr. Matson discussed the next steps for implementing the CPP. Ms. Webber indicated that the OALC committee reviewed these issues and believes they are well-thought-out recommendations for the Legislature.

Mr. Guillen asked if there were any questions. Hearing none, he called for a motion.

Motion: Mr. Mike Miller moved to accept the Operations, Audit, and Legislative Committee and Staff's recommendations and approve the 2023 Proposed Legislative Initiatives as discussed. Mr. Jim Mueller seconded the motion.

By a roll call vote of 6 in favor, 0 opposed, 0 abstentions, and 3 excused, the motion was approved. The Trustee votes were as follows:

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

8. Presentation, Discussion, and Appropriate Action Regarding Board Self Evaluation Material Distribution

Mr. Guillen informed the Trustees of the process and indicated this would be on the January 2023 meeting agenda for discussion.

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

Mr. Matson welcomed Mr. Jay Petkunas to the Investment Committee and hopes that everyone will join us for the Joint Board meeting following this meeting with the Public Safety Personnel Retirement System. He had no additional comments but offered to answer any questions the Trustees had.

10. 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. Guillen closed the call to the public and moved to the next item.

11. Board Requests for Future Agenda Items

No requests were made.

12. The next regular public ASRS Board meeting is scheduled for Wednesday, January 25, 2023, at 8:30 a.m.

Mr. Guillen, Chair, announced the next public ASRS Board meeting is scheduled to begin at 8:30 a.m. on Wednesday, January 25, 2023.

13. Adjournment of the ASRS Board

Mr. Guillen adjourned the November 18, 2022, ASRS Board meeting at 10:32 a.m.

Respectfully Submitted by:

Cassie Goodwin
Board Administrator
ARIZONA STATE RETIREMENT SYSTEM