

Paul Matson
Director

ARIZONA STATE RETIREMENT SYSTEM

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September 1, 2016

The Honorable Doug Ducey
Governor, State of Arizona
1700 W. Washington
Phoenix, AZ 85007

Dear Governor Ducey:

The Arizona State Retirement System (ASRS) is pleased to present the budget request for Fiscal Year (FY) 2018. The ASRS FY 2018 appropriated budget request will enable the ASRS to meet established goals and objectives outlined in the Strategic Plan while maintaining an effective operating cost structure and demonstrating a commitment to fiscal prudence.

The ASRS's vision is to be a leading benefit plan administrator, while maintaining actuarial and fiscal integrity and keeping program benefits and associated costs relatively aligned, in the following areas:

- Core Member Services
- Operational Effectiveness
- Investment Performance
- Funded Status

By focusing on its vision and on the achievement of measurable goals and objectives, the ASRS has been able to provide service to members in a more cost effective, productive, timely and reliable manner. In addition, although the ASRS administrative budget is not funded from the state's General Fund Account, the agency continues to be cognizant of any impact administrative may have on contribution rates for participating employers and employees.

Over the past ten years, ASRS strategic initiatives have resulted in many organizational efficiencies and savings. The ASRS has relied, in large part, on the effective development and deployment of technology and process re-engineering as a strategy to control spending and produce better results, such as improved timeliness, increased accessibility and functionality, expanded communications, and high levels of member satisfaction. In keeping with these cost-savings strategies, the ASRS FY 2018 budget request is structured to continue to provide the resources necessary to implement the agency's macro-level strategic priorities, which focus on ensuring the sustainability of the ASRS benefit programs while proactively mitigating risks, further enhancing operational productivity and service, and effectively managing an increasingly complex and sophisticated investment management program.

In particular, the ASRS will continue to:

- Identify and develop enhancements in technology and automated processes to further increase operational efficiencies, which will also reduce ongoing production maintenance and development costs and achieve higher productivity for the business.

For example, one of the priorities in the current technology plan is the Benefit Disbursement Project. Launched in FY 2016, the project includes the development of the necessary platform and processes to move the entire benefit cycle in-house instead of being disbursed by a third-party contractor. When fully implemented in FY 2019, the ASRS projects administrative cost savings of approximately \$500,000 to \$1,000,000 annually. Dollars that are not spent are retained in the ASRS Trust Fund.

- Identify opportunities to reduce administrative costs. For example, in FY 2017, the ASRS contracted with a different third-party administrator to manage the ASRS Long Term Disability (LTD) program. The change in administrator is expected to generate savings of approximately \$300,000 each year. The administrative costs associated with the program are paid from the LTD Program Trust Fund, which is funded by employee and employer contributions. Dollars that are not spent are retained in the LTD Program Trust Fund.
- Make strategic and tactical investments that permit the ASRS to take advantage of opportunities to achieve returns equal to or in excess of investment objectives. The ASRS must continue to evaluate its investment framework and pursue investment strategies to diversify the funds' assets utilizing an appropriate complement of professional personnel to provide expertise, analysis, timely due diligence in the selection process, and critical oversight for success.

ASRS staff has worked with the ASRS Board of Trustees and its Operations and Audit Committee to ensure that this request represents the needs of ASRS members and stakeholders and will engender trust and confidence in the ASRS as a benefit plan administrator. As approved by the Board of Trustees, we believe this request will position the ASRS for continued success in providing high-quality service to our members and ensuring the overall health and long-term viability of the benefit programs managed by the ASRS.

We look forward to working with you, the Arizona State Legislature, and the respective budget offices during the coming budget year.

Sincerely,

Paul Matson
Director