



Arizona State Retirement System
BOARD OF TRUSTEES

April 24, 2015

Trustee & Director Reviews



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 COMBINED PUBLIC MEETING AND EXECUTIVE SESSION OF THE ARIZONA STATE RETIREMENT SYSTEM BOARD

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

April 24, 2015

Meeting to Commence at 9:30 a.m., or after the 8:30 a.m. ASRS Board Meeting.

Pursuant to A.R.S. § 38-431.02 (F), notice is hereby given to the Trustees of the Arizona State Retirement System (ASRS) Board and to the general public that the ASRS Board will hold a meeting open to the public on Friday, April 24, 2015, at 9:30 a.m., or after the 8:30 a.m. ASRS Board Meeting, in the 14th floor Conference Room of the ASRS offices at 3300 N. Central Avenue, Phoenix, Arizona 85012. Trustees of the Board may attend either in person or by telephone conference call.

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

The Agenda for the meeting is as follows:

1. Call to Order; Roll Call; Opening Remarks.....Mr. Kevin McCarthy
Board Chair
2. Presentation, Discussion and Appropriate Action Regarding the Board Governance Evaluations
.....Mr. Kevin McCarthy
 - a) Trustees' 2014 Self-Evaluation
 - b) Board 2014 Self-Evaluation
 - c) Critical Issues of 2015

Regarding the following agenda item, pursuant to A.R.S. § 38-431.03(A)(1), notice is hereby given to Trustees of the ASRS Board and the general public that the ASRS Board shall vote to go into executive session, which will not be open to the public, for the purpose of the Director's annual review

3. Presentation, Discussion, and Appropriate Action with Regard to the 2014 Review of the Director of the ASRS.....Mr. Kevin McCarthy
4. The next public ASRS Board meeting is scheduled for Friday, May 29, 2015, at 8:30 a.m., at 3300 N. Central Avenue, in the 10th Floor Board room, Phoenix, Arizona.
5. Adjournment of the ASRS Board.

A copy of the agenda background material provided to Board Trustees (with the exception of material relating to possible executive sessions) is available for public inspection at the ASRS offices located at 3300 North Central Avenue, 14th Floor, Phoenix, Arizona and 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona. The agenda is subject to revision up to 24 hours prior to meeting. These materials are also available on the ASRS website (<https://www.azasrs.gov/web/BoardCommittees.do>) approximately 48 hours prior to the meeting.

Persons with a disability may request a reasonable accommodation such as a sign language interpreter or alternate formats of this document by contacting Tracy Darmer, ADA Coordinator at (602) 240-5378 in Phoenix, at (520) 239-3100, ext. 5378 in Tucson, or 1-800-621-3778, ext. 5378 outside metro Phoenix or Tucson. Requests should be made as early as possible to allow time to arrange the accommodations.

Dated April 17, 2015

ARIZONA STATE RETIREMENT SYSTEM

Melanie A. Alexander
Board Administrator

Paul Matson
Director



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. Kevin McCarthy, Chair, Arizona State Retirement System (ASRS) Board

FROM: Mr. Paul Matson, Director

DATE: April 17, 2015

RE: **Agenda Item #2:** Presentation, Discussion and Appropriate Action Regarding Board Governance Evaluations

- a) Trustees' 2014 Self-Evaluation
- b) Board 2014 Self-Evaluation
- c) Focus Areas for 2015

The Board Governance Policy Handbooks states: *"The Board will conduct an annual performance evaluation of its effectiveness and that of its committees as the governing fiduciary body of the ASRS. This will serve as a means of helping ensure that the Board continues to effectively meet its responsibilities and duties."*

Additionally, the Handbook states *"The Board will seek input from the Director with respect to the staff's perception regarding the Board's and Board Committees' performance."*

To assist you with your evaluation, the following documents are included in this packet:

1. Selections from the Handbook:
 - a. Board Performance Evaluation Outline
 - b. Trustee Self-Evaluation Document
 - c. Overall Board Evaluation Document
2. Trustee Evaluation Input Summary
3. Director's Comments on 2014 Board Operations

M. BOARD PERFORMANCE EVALUATION

General

The Board will conduct an annual performance evaluation of its effectiveness and that of its committees as the governing fiduciary body for the ASRS. This will serve as a means of helping ensure that the Board continues to effectively meet its responsibilities and duties.

Board Evaluation Policy

1. The Board Chair, working with the Director, will be responsible for coordinating and conducting the Board performance evaluation process.
2. The evaluation will focus on the operations and decision-making processes of the Board as well as the outcome of ASRS actions.
3. The Board Chair will provide to each Trustee the performance evaluation forms approved by the Board. The Trustees are to conduct their evaluation in the first quarter of each calendar year, preceding the Director's evaluation.
4. The Board will seek input from the Director with respect to the staff's perception regarding the Board's and Board Committees' performance.
5. The Board may seek input from the Assistant Attorney General regarding an annual evaluation of the Board's compliance with statutory and governance responsibilities.

Board Performance Evaluation Process and Forms

A way for the Board to maintain excellence in governance is to develop a policy of reviewing its own performance on an annual basis. A two-step evaluation process has been adopted:

Part A: Trustee Self-Evaluation

The purpose of having each individual Trustee evaluate him/herself is to encourage introspection and heighten awareness of the important areas of fiduciary responsibility. Trusteeship carries with it both a personal and collective duty to the members and beneficiaries. The "Trustee Self-evaluation" is an abbreviated outline and periodic reminder of what constitutes "good trusteeship."

It is recommended that this self-evaluation be performed annually, by each individual Trustee before the overall board evaluation is performed. Each year, the Board can choose how to handle the results of the evaluations.

The Trustee Self-evaluation is for the personal use of each Trustee to facilitate the full and frank examination of each Trustee's own performance. The form need not be completed or submitted, but rather each Trustee is asked to review the questions as they contemplate their self-evaluation. The objective is for this annual exercise to be helpful to the ASRS and not embarrassing to any individual.

Part B: Overall Board Evaluation

By discussing and developing an overall board evaluation, the Board demonstrates its intention to establish a process for Trustees to evaluate Board performance with candor, objectivity, and a broad perspective. Such an evaluation process presents special challenges, and it may be difficult for Trustees to speak frankly about the performance of the Board as a whole, especially in situations where there is room for improvement. Notwithstanding this difficulty, the benefits of an annual evaluation will enhance the Board's effectiveness in carrying out the mission of the ASRS.

The "Overall Board Evaluation" form contains elements of "best practices" of public retirement systems and is for the personal use of each Trustee to facilitate the full and frank discussion among the Trustees. The completed form does not need to be submitted to the full Board.

Appendix A – Trustee Self Evaluation

It is not necessary to turn this document in, it is to assist board members in contemplating their evaluation.

Review the following statements in relation to your involvement as a Trustee of the ASRS. Rank answers using the following scale: 5 - always, 4 - almost always, 3 - sometimes, 2 - almost never, 1 - never

	5	4	3	2	1
1. I attend the Board and Committee meetings I am expected to attend.					
2. I contribute to the discussion in a meaningful and helpful way.					
3. I fully understand my fiduciary duties and act for the benefit of all members, not merely for a particular constituency.					
4. I make an effort to be educated on the aspects of the ASRS that I do not understand.					
5. I comply with state laws and Board policies regarding conflicts of interest.					
6. I read the materials distributed before the Board meeting so I can constructively participate and make timely decisions.					
7. I work with the other Trustees and the staff in a collegial way.					
8. I understand that work requests to staff and outside consultants need to be agreed to by the Board or the Director and I act accordingly.					
9. I work with the Director in a way that creates an atmosphere of trust and cooperation.					
10. I understand the Director works for the entire Board and not for individual trustees and I act accordingly.					
11. I communicate Board governance problems to the Board Chair.					
12. As a Trustee of the Board, I have re-read Section L “Board Code of Ethics” and Appendix F “Loyalty Oath,” of the Board Governance Policy Handbook and I reaffirm my understanding of these items.					

I am most concerned about the following issues: _____

Appendix B – Overall Board Evaluation

NAME (OPTIONAL) _____

DATE: _____

This document should be completed and submitted to the Board chair.

Rate the following statements in relation to the overall operation of the Board. Rank answers using the following scale: 5 - always, 4 - almost always, 3 - sometimes, 2 - almost never, 1 - never

	5	4	3	2	1
1. The Board maintains an effective oversight role with regard to benefits and investments issues.					
2. The Board knows and understands the ASRS Strategic Plan, and reflects this understanding when addressing key issues throughout the					
3. The Board engages in long-range strategic thinking and planning.					
4. The Board has achieved the business objectives it set out to accomplish this past year.					
5. The Board stays abreast of issues and trends affecting the ASRS, using this information to assess and guide the ASRS over the long term.					
6. The Board conducts a comprehensive evaluation of the Director annually.					
7. The Board ensures that new Trustees receive a prompt, thorough orientation.					
8. Board meetings are conducted in a manner that ensures open communication, meaningful participation, and sound resolution of issues.					
9. The Board meeting agendas are well-balanced, allowing time for the most critical issues.					
10. The Board and Committee meetings are handled efficiently.					
11. The Committees are effective, focusing on pertinent topics and allocating reasonable time.					
12. The Board is well-educated on both benefit and investment issues.					
13. The Board recognizes its policy-making role and reconsiders and revises policies as necessary.					
14. The Board is consistently prepared for meetings.					
15. The Board as a whole, and Trustees as individuals, evaluate their performance on an annual basis.					
16. The Board reviews and adopts a reasonable operating budget that is followed and monitored throughout the year.					
17. The Board periodically monitors investment performance and measures it against relevant benchmarks.					
18. The Board periodically monitors service to members.					
19. The Board comprehends and respects the difference between its policy-making role and the Director's management role.					
20. Board goals, expectations, and concerns are promptly, candidly and effectively communicated to the Director.					
21. The Board anticipates issues and does not often find itself reacting to "crisis" situations.					

Identify the three greatest achievements of the Agency with Board support during the past year.

1. _____
2. _____
3. _____

What critical issues need to be addressed by the Board in the future?

What suggestions do you have for improvement of the conduct of Board and Committee meetings and for Board operation and communication?

Trustee Evaluation Input Summary

5 - always, 4 - almost always, 3 - sometimes, 2 - almost never, 1 - never

	5	4	3	2	1	Avg.
1. The Board maintains an effective oversight role with regard to benefits and investments issues.	3	1				4.8
2. The Board knows and understands the ASRS Strategic Plan, and reflects this understanding when addressing key issues throughout the year.	2	2				4.5
3. The Board engages in long-range strategic thinking and planning.	1	3				4.3
4. The Board has achieved the business objectives it set out to accomplish this past year.	1	3				4.3
5. The Board stays abreast of issues and trends affecting the ASRS, using this information to assess and guide the ASRS over the long term.	2	2				4.5
6. The Board conducts a comprehensive evaluation of the Director annually.	4					5.0
7. The Board ensures that new Trustees receive a prompt, thorough orientation.	4					5.0
8. Board meetings are conducted in a manner that ensures open communication, meaningful participation, and sound resolution of issues.	3	1				4.8
9. The Board meeting agendas are well-balanced, allowing time for the most critical issues.	3	1				4.8
10. The Board and Committee meetings are handled efficiently.	1	3				4.3
11. The Committees are effective, focusing on pertinent topics and allocating reasonable time.	1	3				4.3
12. The Board is well-educated on both benefit and investment issues.	1	2	1			4.0
13. The Board recognizes its policy-making role and reconsiders and revises policies as necessary.	3	1				4.8
14. The Board is consistently prepared for meetings.	1	3				4.3
15. The Board as a whole, and Trustees as individuals, evaluate their performance on an annual basis.	4					5.0
16. The Board reviews and adopts a reasonable operating budget that is followed and monitored throughout the year.	4					5.0
17. The Board periodically monitors investment performance and measures it against relevant benchmarks.	4					5.0
18. The Board periodically monitors service to members.	3	1				4.8
19. The Board comprehends and respects the difference between its policy-making role and the Director's management role.	3	1				4.8
20. Board goals, expectations, and concerns are promptly, candidly and effectively communicated to the Director.	3	1				4.8
21. The Board anticipates issues and does not often find itself reacting to "crisis" situations.	1	3				4.3

Trustee Evaluation Input Summary Comments

Identify the three greatest achievements of the Agency with Board support during the past year.

1. Investment performance.
2. Staff productivity.
3. Great performance overall.
4. Better Board understanding of actuarial/investment assumptions for decision making.
5. Sound investment performance with critical oversight and monitoring.
6. Use of technology to enhance customer service.
7. Online access, service and information on website.
8. Improvements in data security.
9. Fund performance.

What critical issues need to be addressed by the Board in the future?

- Retaining key people.
- Continued discussion on relationship of risk thresholds to investment philosophy.
- Continued assessment of operational risks.
- Further discussion on legal parameters with regard to prospective benefit/contribution changes.
- Public interest in “reforming” pension plans.
- Credibility of ASRS in public eye.
- Actuarial assumptions – constant review.
- Too high contribution rates.

What suggestions do you have for improvement of the conduct of Board and Committee meetings and for Board operation and communication?

- I am very happy with the level of board support by staff. From time to time, the Director offers a personal insight/observation on key policy items. Perhaps consider a protocol for expanding such outreach.
- Committees may be under used. For example, there are likely more issues for the EAC to fare than just legislative actions.

DIRECTOR'S COMMENTS ON 2014 BOARD OPERATIONS

It has been a professional pleasure to have served the ASRS Board and our members during 2014.

Following are the Director's comments/opinions, with executive management input, on 2014 Board operations as required pursuant to the ASRS Board Governance Policy Handbook.

In addition, perspectives looking forward to 2015 have been included. These comments are positive, and are substantially similar to those presented in 2014.

Positive Characteristics

Macro Orientation:

The Board again substantially focused on macro and strategic level issues.

- This strategic focus is critical to the long-term economic viability of ASRS programs and should be an ongoing focus of the agency.

Oversight:

The Board substantially focused on oversight versus management, and supported a well-defined Governance Model.

- This focus on oversight is important with respect to empowering staff to make significant, complex and/or controversial decisions. The Board appears to be committed and informed, thereby providing the requisite oversight and support.

Cordiality:

The Board substantially conducted public and personal dialogue in a cordial and professional manner.

- This is important in ensuring an engaging, open, and supportive forum for Trustees, staff, consultants, members, and members of the public, thereby ensuring that information flows effectively.
- The Board appears respected by one another, staff, members, the public, and the legislative and executive branches. The Director continues to receive multiple external positive comments on the professionalism of the ASRS.

Support:

The Board generally verbalized support, where appropriate, to one another, staff, and consultants on key initiatives.

- This significantly encourages decision-making and action throughout the organization.

Expertise:

There was effective utilization of Trustee expertise.

- The focused utilization of Trustees' specific skills and expertise is often beneficial to the Board, staff and the Trust Fund. This was again most evident in the areas of: Investments, Budget, Operations, and Legislative Initiatives. A balance between Trustee value-added input versus management appears to exist.

Characteristics for Improvement

None at this time.

Director Recommended Agency Focus Areas for 2015

1. Program Sustainability

The ASRS has allocated very significant resources for the past twelve years on pro-forma plan design, liability, funded status, and contribution rate analysis. The financial impacts and enhanced credibility that have resulted from this effort have been highly significant. Although the significant majority of required modifications have been achieved, continued efforts should be maintained in this area. The key plan design areas for 2015 focus are:

- *Legislation to effectively control against liability transfer for potential departing employers.
- *Residual Spiking Issues

New actuarial valuation and contribution rate-setting methods should be reviewed and considered over the next several years in the following context:

- Migration to EAN for liability valuation purposes.
 - Becoming industry standard
 - Enhanced inter-fund comparability
 - Consistent with GASB
- Develop an integrated Funding Policy.
- Potential Implementation of Remaining Actuarial Audit Recommendations.
- Consideration of Open Group contribution rate allocation.
 - Enhanced equity over time

2. Further Enhancements to Operational Effectiveness

- Realign External Affairs Staff and Functions
- Maximize *productivity* through the use of web-based tools and other digital technology.
- Maximize *productivity* through greater employee engagement.
- Modernize technology and business processes to simplify a *member's experience*.
- Energize consistent and outstanding *customer service*, including to employers, should become part of the organizational culture.

3. Efficient Investment Processes, Structure, and Strategies

- Organize, manage, and lead a sophisticated investment management program.
- Efficient implementation of the revised Asset Allocation program.
- Source, diligize, and implement value-added opportunistic investments.
- Integrate risk-management and tactical portfolio positioning.
- Implement investment-wide best execution analysis.

- Review the performance-based Incentive Compensation Plan.

4. *Risk Management*

Enhance the techniques and processes to both better understand and mitigate risks in areas including data security, investment management, succession planning, and operational effectiveness.

5. *Dissemination of Data, Information and Knowledge*

Continue to disseminate factual data, information, and knowledge to policy-makers, members, the public, and other interested parties should be a continued agency focus.



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. Kevin McCarthy, Chair, Arizona State Retirement System (ASRS) Board

FROM: Ms. Martha Rozen, Assistant Director of Administrative Support Services

DATE: April 17, 2015

RE: **Agenda Item #3:** Presentation, Discussion, and Appropriate Action with Regard to the 2014 Review of the Director of the ASRS

Please note that as part of the Board's evaluation of the Director, the attached Executive Performance Feedback Form has been developed in order to facilitate the reverse evaluation of the Director. The results are attached.

The survey was conducted in a voluntary and anonymous fashion among seven Senior and Executive staff members. The list of participants this year is as follows:

- Deputy Director - Operations
- Assistant Director - External Affairs
- Chief Investment Officer
- Chief of Administrative Services
- Manager of Human Resources
- Manager of Management Support Services
- Assistant Attorney General Representative

Please note feedback was received from four individuals.

N. DIRECTOR EVALUATION PROCESS

General

The Board has delegated the responsibility of administering the ASRS to the Director and, therefore, understands that an evaluation of the performance of the Director's performance is important. The Board may conduct more frequent performance evaluations of the Director as it deems necessary.

Objectives

The evaluation of the performance of the Director is intended to:

1. Assist the Board in establishing and communicating clear, meaningful goals and performance targets for the Director.
2. Enable the Board to hold the Director accountable for performance.
3. Allow the Director to receive objective and timely feedback to help the Director perform at expected levels.

Evaluation Procedure and Criteria

1. In the first quarter of each calendar year, the Board, working with the Director, will adopt a set of performance goals and evaluation criteria to be used in evaluating the performance of the Director for the upcoming calendar year.
2. The evaluation of the performance of the Director will take place in the first quarter of each calendar year after the Board's self-evaluation is completed and will cover the preceding calendar year.
3. The subject matter addressed in the performance evaluation will include:
 - a. Leadership
 - b. Management/Administration/Budgeting
 - c. Communication
 - d. Policy matters
 - e. Staff development
 - f. Progress toward achieving performance business objectives previously established by the Board for the year
 - g. Other matters identified by the Board
4. The Director will prepare a written summary report of accomplishments and performance for the Board to use in their discussions of his/her performance.
5. The ASRS Human Resource Department will conduct a reverse evaluation of the Director, the results of which will be presented to the Board. Participation in the reverse evaluation is voluntary and anonymous and will include the following staff:
 - a. Deputy Director - Operations
 - b. Assistant Director - External Affairs
 - c. Chief Investment Officer
 - d. Chief of Administrative Services
 - e. Manager of Human Resources
 - f. Manager of Management Support Services
 - g. Assistant Attorney General Representative
6. The Board will reach consensus and provide a report of the Director's performance, and identify areas for improvement, if necessary.
7. The Board will meet with the Director to present and discuss the Board's evaluation of the Director's performance.

Appendix C – Director Evaluation

ASRS - Director Performance Evaluation

Name: Paul Matson

Title: Director

This form is to help you evaluate the performance of the Director of the ASRS. In each of the following rating categories, bullet points have been provided to assist you with your evaluation. Please rate the Director using the following scale and place the number on the "Rating" line in each category.



 5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Leadership: Rating _____

- Establishes and maintains effective and credible relationships affecting the ASRS.
- Projects a positive image as the Director of the ASRS.
- Recognizes the needs and desires of others; treats others with regard, courtesy and respect.
- Maintains a "big picture" outlook and is aware of industry issues.
- Forecasts trends, responds to change and invites innovation.
- Solicits and acts upon ideas of others when needed.
- Stresses the importance of high quality customer service.
- Maintains a well-functioning management team.
- Participates in relevant and worthwhile professional organizations.

General Comments or Examples: (You need not address each point separately.)



 5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Management/Administration/Budgeting: Rating _____

- Manages all ASRS business functions and activities in accordance with all relevant laws, Board policies and goals
- Develops reasonable budgets, communicates them to the Board, and operates within budgetary limits
- Ensures the efficient and effective functioning of the ASRS through delegation
- Follows up on Board directives to ensure proper implementation

General Comments or Examples: (You need not address each point separately.)

5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Communication: Rating _____

- Keeps the Board and staff informed and communicates effectively with them
- Organizes ideas and information logically
- Speaks clearly and concisely, using understandable terminology
- Effectively and politely communicates with the members
- Professionally communicates with entities affecting the ASRS

General Comments or Examples: (You need not address each point separately.)

5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Policy Matters: Rating _____

- Periodically reviews policies and makes recommendations for changes to the Board
- Accurately interprets Board policies and concerns, and develops a consistent direction for the staff to follow
- Initiates changes in day-to-day operations to conform to established Board policies
- Acts creatively to evaluate and recommend new initiatives or policies

General Comments or Examples: (You need not address each point separately.)

5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Staff Development: Rating _____

- Creates an atmosphere that fosters teamwork, creativity and participation
- Communicates clear standards of performance for the executive staff
- Keeps informed and follows state personnel policies and procedures
- Encourages professional development of staff
- Addresses succession planning for key positions within the ASRS

General Comments or Examples: (You need not address each point separately.)

5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Progress Toward Achieving Business Objectives: Rating _____

[Previously and mutually identified goals and objectives listed here.]

1. _____
2. _____
3. _____
4. _____
5. _____

General Comments or Examples: (You need not address each point separately.)

Significant Overall Accomplishments:

Areas Needing Improvement:

OVERALL RATING: _____

Confidential materials
were provided to the
Trustees and were
not included in this
packet.

ASRS Cost Savings Initiatives
Estimated as of June 30, 2013, in Millions of Dollars

Action	Calendar Year Proposed	Calendar Year Adopted	Reduction in Total Contribution Rate*	Annual Reduction in Total Contribution Amount	Present Value of Savings on Closed Group Basis		Present Value of Savings on Open Group (No Growth**) Basis		
					Past	Future	Past	Future	
Cost Savings Initiatives Contained in Current Valuation & Reflected in Lower Current Contribution Rate¹						Past	Future	Past	Future
1 Change basis for service purchases from normal cost to actuarial present value (APV)	2003	2004	0.60%	\$52.51	\$667.40	\$366.18	\$667.40	\$1,141.52	
2 Correction of Permanent Benefit Increase (PBI) reserve	2003	2004	0.04%	\$3.50	\$44.30	\$24.41	\$44.30	\$24.41	
3 Decrease interest credited on withdrawn contributions from 8% to 4%	2004	2004	0.27%	\$23.63	\$349.95	\$164.79	\$349.95	\$513.70	
4 Decrease interest credited on withdrawn contributions from 4% to 2%	2012	2012	0.44%	\$38.51	\$40.58	\$268.55	\$40.58	\$837.17	
5 Redesign non-retired survivor benefits***	2013	2013	0.02%	\$1.75	\$1.84	\$12.20	\$1.84	\$38.04	
sub-total, past and future			1.37%	\$119.90	\$1,104.07	\$836.13	\$1,104.07	\$2,554.84	
sub-total, savings in current valuation			1.37%	\$119.90	\$1,940.20		\$3,658.91		
Cost Savings Initiatives Contained in Future Experience²						Past	Future	Past	Future
6 Long Term Disability (LTD) program design changes	2003	2004	0.02%	\$1.75	\$26.52	\$12.20	\$26.52	\$38.04	
7 Reimbursements for early retirement incentives	2003	2004	0.18%	\$15.75	\$233.08	\$109.83	\$233.08	\$342.39	
8 Increase interest rate on payroll deduction agreements (PDAs) from 0% to 8%	2004	2004	0.16%	\$14.00	\$207.62	\$97.63	\$207.62	\$304.35	
9 Pop-up restrictions	2005	2006	0.41%	\$37.51	\$415.67	\$261.58	\$415.67	\$815.43	
10 Rescinding modified Deferred Retirement Option Plan (mDROP)	2005	2006	0.50%	\$43.72	\$499.68	\$304.89	\$499.68	\$950.43	
11 LTD changes to offsets and pre-existing condition period	2005	2007	0.15%	\$13.13	\$128.03	\$91.56	\$128.03	\$285.43	
12 Recapture of unclaimed monies	2007	2008	0.01%	\$0.56	\$5.59	\$3.91	\$5.59	\$12.17	
13 Eliminate 80% cap on retirement benefits	2008	2009	0.04%	\$3.50	\$18.13	\$24.41	\$18.13	\$76.09	
14 Require 20/20 Rule for dual employment situations	2009	2009	0.04%	\$3.25	\$16.77	\$22.66	\$16.77	\$70.65	
15 Eliminate enhanced refunds****	2005	2010	0.16%	\$14.07	\$31.19	\$98.12	\$31.19	\$305.87	
16 Replace Rule of 80 with Rule of 85****	2006	2010	0.30%	\$26.38	\$58.47	\$183.96	\$58.47	\$573.48	
17 Replace 36-month average salary with 60-month average****	2006	2010	0.25%	\$21.99	\$48.73	\$153.35	\$48.73	\$478.04	
18 Apply Alternative Contribution Rate (ACR) to return-to-work****	2011	2011	0.25%	\$21.99	\$48.73	\$153.35	\$48.73	\$478.04	
19 Compute service purchases with 6% discount rate	2012	2012	0.08%	\$7.08	\$7.46	\$49.37	\$7.46	\$153.91	
20 Eliminate service purchases through partial lump sums	2012	2012	0.07%	\$5.74	\$6.05	\$40.03	\$6.05	\$124.78	
21 Eliminate Permanent Benefit Increases for future members	2013	2013	0.11%	\$9.63	\$10.15	\$67.16	\$10.15	\$209.35	
Non-ASRS Initiatives						Past	Future	Past	Future
22 Replace Rule of 85 with 55&30 or 60&25****	2011	2011	0.00%	\$0.60	\$1.30	\$4.18	\$1.30	\$13.04	
23 Change pre-retirement death benefit to sum of employee and employer balances (ASRS Initiative)	2011	2011	0.04%	\$3.22	\$7.13	\$22.45	\$7.13	\$70.00	
24 Adopt 6-month delay in contributions from state members****	2011	2011	-0.13%	\$0.00		\$0.00		\$0.00	
25 Prospective cost-shift of 6-month delay (not included in totals)****	2011	2011	N/A	(\$11.63)	(\$25.48)	(\$81.08)	(\$25.48)	(\$252.74)	
sub-total, past and future			2.64%	\$243.87	\$1,770.30	\$1,700.64	\$1,770.30	\$5,301.49	
sub-total, savings emerging in experience			2.64%	\$243.87	\$3,470.94		\$7,071.79		
GRAND TOTAL			4.01%	\$363.77	\$5,411.14		\$10,730.70		

*These changes to the total contribution rate are multiplied by current payroll to give annual savings amounts in the next column. The annual savings amounts are then converted to the present values shown in the last two columns. These values include both accumulated past savings and estimated future savings. The savings from basing service purchases on actuarial present value is a reduction in future service liabilities. For the reduction in the interest crediting rate and the changes to LTD offsets and pre-existing condition period, the savings arise from reductions in future service and past service liabilities. Other Actuarial Valuation Basis savings are reductions to past service liabilities, i.e., capitalizations of the annual savings amounts over 30 years. Recapture of unclaimed monies will occur every year, but the numbers above are converted to a level annual savings amount.

** No growth scenario means that the projection maintains the size and age distribution characteristics of the current active population.

*** Redesign includes removal of \$5,000 requirement to elect an annuity and elimination of the present value calculation.

**** Savings will increase each year, from zero to the open-group amount, as new hires become subject to the new provisions.

*****6-month delay will eliminate contributions for members with less than 6 months of service at the valuation date, but will transfer costs to other members and employers.

Cost will increase each year, from zero to the open-group amount as new hires are subject to the new rules.

Costs above give the combined effect of each bill -- if a bill changes three plan provisions, the cost of each reflects the adoption of the other two provisions.

Some of these changes will not be reflected in their entirety in the current valuation report, but will be captured in future reports as actuarial gains. For example, the Plan valuation contains no assumption on Payroll Deduction Agreements (PDAs), so the absence of interest charges in the past has been reflected as an actuarial loss. The change to 8% interest charges will end the losses and eventually reduce the total contribution rate by 0.16%.

Explanation of Cost Reduction Initiatives

¹ASRS changed the basis for service purchases from the average normal cost rate to the actuarial present value rate. In this way, members who buy service pay the entire cost of their service purchases, and the purchases have no effect on contribution rates.

¹ASRS reduced the rate of interest credited on members' account balances from 8% to 4% as of July 1, 2005.

¹The 2001 addition to the Permanent Benefit Increase reserve was overstated in that year. ASRS corrected the reserve and thereby reduced the reserve committed to future Permanent Benefit Increase awards.

²Members can enter into Payroll Deduction Agreements to purchase service over time through payroll deduction. ASRS revised the method of calculating payments under these agreements to include 8% annual interest.

²ASRS members have been able to change the form of benefit they elect (e.g., joint & survivor to straight life) after they have begun to receive payments, and to do so as many times as they want whenever they want. By legislative action, this ability will be limited to a one-time election to change to a single life pension.

²Some ASRS employers have offered their employees incentives to retire early. These incentives can increase ASRS liabilities. By legislative action, future incentives will be funded by the employers who offer them.

²By legislative action, the modified Deferred Retirement Option Plan, which would have allowed members to earn as much as six years of service for three years of work, was rescinded.

²The legislature closed certain loopholes in the Long Term Disability program that allowed members to receive benefits for a longer period than intended.

²Legislation increased the offsets for Social Security income to 85% and extended the pre-existing condition period to six months.

²2008 Legislation exempts ASRS from unclaimed property procedures and allows ASRS to recapture assets abandoned after participant's age 73.5.

²2009 Legislation eliminated the 80% cap on benefits that had been in place since 2001.

²2009 Legislation requires a member to meet membership (20/20 Rule) in ASRS before contributing to a second employer, subject to a grandfathering clause.

²Upon withdrawal, members receive 25-100% of employer contributions depending on years of service. 2010 Legislation eliminates the return of employer contributions for members hired on or after July 1, 2011. Since 2010 changes are for prospective members only, we show open-group present values.

²Normal retirement can be achieved when a member's age + years of service equals 80 (points). 2010 Legislation requires members hired on or after July 1, 2011 to reach 85 points for normal

²Retirement benefits are calculated based on an average of the member's highest 36 months of salary in the 10 years prior to retirement. 2010 Legislation substitutes a 60 month average for members hired on or after July 1, 2011.

These rows represent legislative initiatives from non-ASRS sources.

2011 legislation replaced rule of 85 for members hired after 6/30/2011 with age 55 and 30 years of service or age 60 with 25 years of service.

2011 legislation changed the split of member/employer contributions from 50%/50% to 53%/47%, effective 7/1/2011

2011 legislation instituted a 6-month delay in contributions from or on behalf of members with less than 6 months of service, effective 7/1/2011.

ASRS BUDGET SAVINGS REPORT

The Arizona State Retirement System continues to exercise fiscal prudence. Through budget reduction planning, the ASRS has implemented strategies that have achieved more than \$4.4 million in administrative savings. These savings have been retained in the ASRS Trust Fund over the last six fiscal years.

The budget savings strategies that resulted in the savings include:

- Ongoing review of current expenditures to seek less-costly alternatives
- Continuous analysis of processes to eliminate redundancy
- Use of alternative and deliberate methods for staffing in an effort to accumulate savings
- Investment in technology to create enhanced processes and flexibility among staff
- Enhanced software development processes and practices

Our goal is to continue with these strategies and seek further savings.

Year	2009*	2010	2011	2012	2013	2014	Subtotal
Savings By Fiscal Year (FY)	2,017,300	348,800	668,900	500,500	411,600	486,000	4,433,100

*Savings from a non-lapsing appropriation in 2006 were recognized during FY 2009.

The ASRS will continue to review strategies and ideas that can produce further savings, making these and other initiatives a regular step in our budgeting process.

Confidential materials
were provided to the
Trustees and were
not included in this
packet.