

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

**Friday, March 26, 2021
8:30 a.m.**

The Arizona State Retirement System (ASRS) Board of Trustees met telephonically, with some attending in-person, in the 10th Floor Board Room of the ASRS Office, 3300 N. Central Avenue, Phoenix, Arizona 85012.

Mr. Clark Partridge, Chair of the ASRS Board, called the meeting to order at 8:30 a.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Clark Partridge, Chair
Mr. René Guillen (via teleconference)
Ms. Diane Landis (via teleconference)
Mr. Michael Lofton (via teleconference)
Mr. Michael Miller (via teleconference)

Excused: Mr. Tom Manos
Mr. Kevin McCarthy
Ms. Ashley Ruiz

One vacant position.

A quorum was present for the purpose of conducting business.

Ms. Joyce Williams, ASRS Board Administrator, provided all attendees with telephonic meeting guidelines.

2. Approval of the Minutes of the January 29, 2021 Public Meeting of the ASRS Board

Motion: Mr. René Guillen moved to approve the minutes of the January 29, 2021 Public Meeting of the ASRS Board. Mr. Michael Miller seconded the motion.

By a roll call vote of 5 in favor, 0 opposed, 0 abstentions, 3 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved
Mr. René Guillen – approved
Ms. Diane Landis – approved
Mr. Michael Lofton – approved
Mr. Tom Manos – excused
Mr. Kevin McCarthy – excused
Mr. Michael Miller – approved
Ms. Ashley Ruiz – excused

3. Presentation, Discussion, and Appropriate Action Regarding the 2021 ASRS Legislative Session

Ms. Jessica Thomas, Government Relations Officer and Rules Writer, presented an update on the status of the ASRS 2021 legislative initiatives. From the 2021 legislative agenda included in the Board materials, the following items have been signed by the Governor and will become effective on the general effective date:

1. Amend A.R.S. §§ 38-782(A) and 38-783(F) regarding the ASRS funding a self-insurance program
2. Amend A.R.S. § 38-738 regarding employer credit
4. Amend A.R.S. § 38-751 regarding non-ASRS participating employers

Ms. Thomas provided the status of the remaining legislative initiatives as follows:

3. Amend A.R.S. § 38-775 regarding Required Minimum Distribution requirements - this will have a third reading in the House as early as next week.
5. Amend A.R.S. § 38-748(A) to clarify language regarding ineligible member contributions - this was sent to the Governor earlier this week and is awaiting his signature.
6. Amend A.R.S. §§ 38-715 and 38-751, as well as repeal A.R.S. §§ 38-871 et seq. a consolidation of the administration of supplemental deferred compensation plans - this will next be heard in the House Rules Committee, also as early as next week.

Ms. Thomas offered to answer any questions from the Trustees, but there were none.

4. Presentation, Discussion, and Appropriate Action Regarding the ASRS 2021 Open Enrollment Results for Retirees

Mr. Russ Levine, Health and Disability Plan Administrator, presented the ASRS 2021 health care open enrollment results for retirees to the Board. The 2021 open enrollment period was November 1-30, 2020. Mr. Levine's presentation included the following topics.

- Statistics for contact points with members included live webinars and teleconferences, on-demand video views and website visits, and calls to the ASRS Call Center and compared them to statistics to the 2021 open enrollment results. Mr. Levine noted that meetings with members were conducted virtually because of the pandemic.
- Two Group Medicare Advantage Plans, HMO and PPO, were offered in 2021. Mr. Levine noted that the three-year comparison of each of these plans revealed that monthly

premiums were reduced nearly 60% over the last three years while simultaneously expanding the benefits package and enriching the members' benefit structure. For 2021, most retirees' monthly premium on the ASRS' Medicare plans was covered in full by the ASRS Monthly Health Benefit Subsidy and ASRS Retrospective Rate Agreement (RRA) funds.

- Members had their choice of three Group non-Medicare plans, replacing the seven plans offered in previous years. These monthly premium costs have been less stable over the prior three years, and historically, have increased annually.
 - Mr. Levine addressed the cost differential between the Medicare and non-Medicare monthly premiums, focusing on two factors. Federal Medicare rate caps that don't apply to private insurance higher costs, and federal and employer subsidies not available for non-Medicare plans account for most cost differences.
 - The ASRS has been exploring self-insuring the non-Medicare program, which could reduce premium costs by 5-8%, possibly as early as the 2022 plan year.
- RRA funds. Over the three-year planned distribution during plan years 2019, 2020, and 2021, RRA funds are projected to reduce premiums paid by approximately \$127 million.
- Over the prior three years, enrollment in the ASRS Dental Plan has grown by approximately 10%. Additionally, the ASRS changed the Plan carriers from SunLife Financial to two new carriers, Delta Dental of Arizona and Cigna Dental. Member feedback regarding the carrier changes and benefit enhancements has been very positive.
- Mr. Levine went on to give the Trustees details about the ASRS Medicare Plan enrollment results. In the prior three years, enrollment has grown approximately 18%, with nearly 5% of that growth occurring in the 2021 plan year, and the PPO has grown more than 80%. The HMO has seen a decline in that period, resulting primarily from members moving from the HMO to the PPO plan.
- Finally, Mr. Levine spoke about the ASRS non-Medicare Plan enrollment results. Over the prior three years, enrollment has declined about 19%. While enrollment declined from January 2020 to January 2021, enrollment remained flat during this open enrollment period.
- Member satisfaction survey scores on members' coverage, benefits, network access, and customer service are regularly 90% and above.
- The ACA Marketplace with enhanced Federal subsidies will continue to be an option available to retirees through August 15, 2021.

Mr. Partridge thanked Mr. Levine and his staff for being responsive to ASRS members' needs. Mr. Levine and Mr. Paul Matson, Director, responded to questions from the Trustees.

5. Presentation, Discussion, and Appropriate Action Regarding the ASRS Investment Program

Mr. Samer Ghaddar, Deputy Chief Investment Officer, reviewed the CIO Report, beginning with house views on the current state of global markets. The global economy is experiencing synchronized recovery, from the G7 countries to emerging markets, except for some countries which dealt with more difficulty controlling the pandemic. Leading the global recovery is the US economy, which is experiencing a decent recovery with solid growth. This recovery is being fueled by the fiscal stimulus package of \$1.9 trillion passed earlier in March. Mr. Ghaddar then spoke about asset prices, noting that November and December saw a rally in global equities. Although the US experienced negative growth in November and December, late December saw a decent economic recovery in the US. The new stimulus package led to a better-than-expected

performance. The most critical factor will be how the Federal Reserve, combined with the US Treasury and central banks worldwide, will deal with this expanded global recovery. Commodity prices are on the rise, and some inflation will be expected and seen as positive since the Fed changed its fiscal policy to allow for higher average inflation levels.

Mr. Ghaddar reported that the fund's total asset value is estimated through February 28, 2021, at around \$46 billion, and fiscal year-to-date total fund returns are approximately 15.8%.

Highlights of ASRS performance as of December 31, 2020, are as follows:

- Fiscal year-to-date total fund returns through December 31, 2020 are approximately 13.8% against the benchmark of 16.13%.
- Total equity is about 54% of the portfolio, remained slightly overweight, and performed better than other asset classes.
- Fixed income (Interest Rate Sensitive) is underweight by about 2% but outperforming by 0.02%.
- Performance for the three months ending on December 31, 2020, shows outperformance in almost all asset classes.
- Private equity total exposure is about 10% of total fund, and fiscal year-to-date performance is 15.74%.
- Real estate returns for the three months ending December 31, 2020, are at 2.39%, with an excess performance of 2.12%, and fiscal year-to-date performance is 2.34%.
- Total credit returns for the three months ending December 31, 2020, are 3.10% and 6.37% for the fiscal year-to-date.
- Total Portfolio Value-At-Risk as of December 31, 2020, was 25.69%.

Mr. Partridge thanked Mr. Ghaddar for his presentation, noting that this year compares favorably to last year.

6. Presentation, Discussion, and Appropriate Action Regarding Appointment of Board Committee Officers and Membership

Mr. Clark Partridge thanked the Board members for accepting their Committee assignments this year, as follows:

Appeals Committee (AC)

Chair: Michael Miller
Vice-chair: Diane Landis
Member: Ashley Ruiz

Investment Committee (IC)

Chair: Michael Lofton
Vice-chair: Kevin McCarthy
Member: Diane Landis

Operations, Audit, and Legislative Committee (OALC)

Chair: René Guillen
Vice-chair: Ashley Ruiz
Member: Tom Manos

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

Mr. Paul Matson began his comments to the Board by discussing the experience study currently being conducted by the external actuary for the ASRS Board, Gabriel, Roeder, Smith, and Company (GRS). The experience study will include a review of three critical sets of information: the discount rate, assumptions used to estimate the liabilities, and the various methods utilized. The conclusion of this study will directly impact what the ASRS's funded status is measured to be and what future contribution rates will be. GRS will make a preliminary presentation in May and a final presentation in July when the Board will make decisions about potential recommended changes on assumptions and the discount rate.

Next, Mr. Matson talked about the current analysis underway for the agency to self-insure non-Medicare health and prescription drug programs, as mentioned previously by Mr. Levine. Pending discussion among the executive management team, staff will likely tentatively determine the direction for self-insurance over the next week. The effective date for possible implementation will be January 1, 2022.

Mr. Matson continued with information about modifications to the agency's strategic plan. Mr. Matson plans to email Trustees a modified strategic plan detailing these modifications and requesting feedback, and also plan to have it added to a future Board agenda for comments from the Board.

Mr. Matson ended by informing the Board that the staff is in the final stages of deciding to possibly move the conference room used for Board meetings to the ground floor. The area that currently houses the call center would become a presentation hall suitable for Board meetings and member meetings, and also possibly an amenity for tenants of 3300 N. Central. It is expected that the move would have multiple benefits, key of which are to enable better customer service by allowing members to attend group meetings on the ground floor rather than having to go up to the 10th floor, and also better allow the ASRS to vacate an entire floor at some future date.

8. Presentation and Discussion Regarding Informational Updates from Prior and Upcoming Committee Meetings

a. Operations, Audit and Legislative Committee (OALC)

Mr. René Guillen announced that the next OALC meeting is to be held on April 14, 2021.

b. Investment Committee (IC)

Mr. Michael Lofton announced that the next IC meeting is to be held on June 21, 2021.

c. Board Appeals Committee (AC)

Mr. Michael Miller announced the next Board AC meeting is scheduled to be held on June 8, 2021.

9. Board Requests for Future Agenda Items

No requests were made.

10. Call to the Public

No members of the public requested to speak.

11. Presentation, Discussion, and Appropriate Action Regarding the 2020 Review and the Employment Agreement of the Director of the ASRS

Mr. Partridge tabled this agenda item until the next meeting of the ASRS Board.

12. The next regular ASRS Board meeting is scheduled for Friday, May 28, 2021, at 8:30 a.m.

Mr. Clark Partridge noted the next Board meeting is scheduled for Friday, May 28, 2021, at 8:30 a.m.

13. Adjournment of the ASRS Board

Motion: Mr. René Guillen moved to adjourn the March 26, 2021, ASRS Board meeting at 9:26 a.m. Mr. Michael Lofton seconded the motion.

By a roll call vote of 5 in favor, 0 opposed, 0 abstentions, 3 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved
Mr. René Guillen – approved
Ms. Diane Landis – approved
Mr. Michael Lofton – approved
Mr. Tom Manos – excused
Mr. Kevin McCarthy – excused
Mr. Michael Miller – approved
Ms. Ashley Ruiz – excused

Respectfully Submitted by:

Joyce Williams
Board Administrator
ARIZONA STATE RETIREMENT SYSTEM