



Arizona State Retirement System

# EXTERNAL AFFAIRS COMMITTEE

February 12, 2016



*Arizona State Retirement*  
**SYSTEM**

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# 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 PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM EXTERNAL AFFAIRS COMMITTEE

3300 North Central Avenue, 14<sup>th</sup> Floor Conference Room  
Phoenix, AZ 85012

February 12, 2016  
10:30 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) External Affairs Committee (EAC) and to the general public that the ASRS External Affairs Committee will meet on February 12, beginning at 10:30 a.m. in the 14<sup>th</sup> Floor Conference Room of the ASRS office, 3300 North Central Avenue, Phoenix, AZ, 85012. Trustees of the Board Committee may attend either in person or by telephone conference call.

This is a scheduled meeting of the EAC; however, due to possible attendance by other ASRS Board Trustees, this meeting may technically become a meeting of the ASRS Board or one of its committees. Actions taken will be consistent with EAC governance procedures, and no business of the Board will be transacted. Actions requiring Board authority will be presented to the full Board for final decision.

The Chair may take public comment during any agenda item. If a member of the public wishes to speak to a particular agenda item, he or she should complete a Request to Speak form indicating the item and provide it to the Committee administrator.

This meeting will be teleconferenced to the ASRS Tucson office at 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710. The conference call to Tucson will be disconnected after 15 minutes if there are no attendees in the Tucson audience.

The Agenda for the meeting is as follows:

1. Call to Order; Roll Call; Opening Remarks ..... Dr. Richard Jacob  
Chair, External Affairs Committee
2. Approval of the Minutes of the November 13, 2015 Public Meeting of the EAC .. Dr. Richard Jacob

*Regarding the following agenda item, notice is hereby given to Trustees of the ASRS External Affairs Committee and the general public that the ASRS Committee may vote to go into executive session pursuant to A.R.S. § 38-431.03(A)(3) for discussion or consultation for legal advice with the attorney(s) of the public body, which will not be open to the public.*

3. Presentation, Discussion, and Appropriate Action Regarding 2016 Legislative Initiatives and Legislation affecting the ASRS ..... Mr. Nick Ponder  
Government Relations Officer

4. Call to the Public ..... Dr. Richard Jacob

Those wishing to address the ASRS Committee are required to complete a Request to Speak form before the meeting indicating their desire to speak. Request to Speak forms are available at the sign-in desk and should be given to the Committee Administrator. Trustees of the Committee are prohibited by A.R.S. § 38-431.01(H) from discussing or taking legal action on matters raised during an open call to the public unless the matters are properly noticed for discussion and legal action. As a result of public comment, the Committee Chair may direct staff to study and/or reschedule the matter for discussion and decision at a later date.

5. Adjournment of the ASRS External Affairs Committee

A copy of the agenda background material provided to Committee 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(s) with disabilities 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 February 09, 2016

ARIZONA STATE RETIREMENT SYSTEM

\_\_\_\_\_  
Alicia Guzman  
Committee Administrator

Date

\_\_\_\_\_  
Paul Matson  
Director

Date



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Director

## SUMMARY OF A PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM EXTERNAL AFFAIRS COMMITTEE

HELD ON  
November 13, 2015  
10:30 a.m., Arizona Time

The External Affairs Committee (EAC) of the Arizona State Retirement System (ASRS) met in the 14th Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, AZ, 85012. Dr. Richard Jacob, Chair, called the meeting to order at 10:30 a.m., Arizona Time.

This meeting was teleconferenced to the ASRS Tucson office at 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona, 85710.

### 1. Call to Order; Roll Call; Opening Remarks

Present: Dr. Richard Jacob, Chair  
Mr. Kevin McCarthy – Via Teleconference  
Mr. Tom Manos – Via Teleconference

A quorum was present for the purpose of conducting business.

### 2. Approval of the Public Session and Executive Session Meeting Minutes of the September 11, 2015 EAC Meeting

**Motion:** Mr. Kevin McCarthy moved to approve the Public Session and Executive Session minutes of the September 11, 2015 EAC meeting. Mr. Tom Manos seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstained, 0 excused the minutes were approved.

### 3. Presentation, Discussion, and Appropriate Action Regarding ASRS Rulemaking and the 2015 Regulatory Agenda

Mr. Nick Ponder, Government Relations Officer, gave an introduction for the Regulatory Agenda and introduced Ms. Jessica Ross, Rule Writer. Ms. Ross provided a brief update of the rulemaking activities listed on the 2015 Regulatory Agenda and provided an overview of each proposed rulemaking on the 2016 Regulatory Agenda.

**Motion:** Mr. Kevin McCarthy moved to approve the proposed Regulatory Agenda as presented for 2016. Mr. Tom Manos seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstained, 0 excused the motion was approved.

#### **4. Presentation, Discussion, and Appropriate Action Regarding 2016 Legislative Initiatives**

Mr. Ponder presented the ASRS 2016 legislative initiatives and provided an update regarding the status of each.

**HB2050: Regarding employees who were not covered under the state Social Security Administration Section 218 Agreement-** The ASRS identified four (4) groups impacted by HB 2050 (2014), but one of the groups needed additional regulatory approval. As a result, the ASRS submitted a Voluntary Correction Program (VCP) to the Internal Revenue Service (IRS) for those individuals who were, potentially, inappropriately enrolled in the ASRS, and whose accounts remain in the system because the legislature requested a moratorium on removing them. The ASRS received approval from the IRS and must get the approval language in session law to grandfather this group into the ASRS.

**A.R.S. § 38-797.10: LTD Disability Program, exempt from “bad faith” claims as it relates to Long Term Disability (LTD)-** The ASRS would like similar protection from “bad faith” claims to ERISA plans. The initial language proposed provided greater protection than for private ERISA plans. Because this was not the intent, the ASRS has modified its proposed language. A concern was raised from legislative staff that this modification would violate the anti-abrogation clause in the Arizona Constitution (Article 18, Section 6). In response to that concern, the ASRS sought analysis from an outside attorney who concluded it does not violate the anti-abrogation clause in the Arizona Constitution. The analysis was provided to legislative council who concurred with the outside attorney’s analysis.

**A.R.S. § 41-1005 Exemptions from Rulemaking-** Historically, the ASRS has acted with the understanding that the ASRS has been exempt when acting on certain financial, actuarial or investment decisions which is not properly addressed in the rulemaking process. The ASRS would like to pursue language codified in statute to clarify that.

**A.R.S. § 38-738(A): Relating to Employer Credits-** The ASRS would like to codify in statute current practice as it relates to employer credits and interest charged on these credits under A.R.S. § 38-738.

**A.R.S. § 38-738(B): Clarify the purchase of Contributions Not Withheld (CNW) service by members who are inactive, retired, or on Long Term Disability (LTD)-** Currently, the statute refers to “members” as one group and suggests they can purchase service pursuant to A.R.S. § 38-747, which would include rollovers and payroll deduction agreements. The ASRS would like to propose added language to distinguish between those members who are active verses those who are inactive, retired, or on LTD to conform to federal requirements.

**A.R.S. § 38-742(B): Purchase of Forfeited Service-** Currently, the statute indicates a member must repay what was received in a refund, plus interest, in order to receive service credit for that period. It does not address the situation where, under a Domestic Relations Order (DRO), an ex-spouse may receive a portion of the member's benefit that was assigned to the ex-spouse. The ASRS would like to propose language to clarify that the member must repay the total amount in order to receive the full amount of service credit, not only the portion received by the member.

**A.R.S. § 38-714(E): Modifications to the ASRS Appeals Process-** The ASRS would like to propose modifications to the appeal process to enhance the process for the ASRS Board and the Appellant. The following three options were proposed:

- A. Establish an Appeals Board that would hear appeal cases separate from the full Board.
- B. Eliminate the administrative appeal process and Board participation.
- C. Establish a Committee of the board with authority granted in statute to take legal action on appeals.

## **5. Presentation, Discussion, and Appropriate Action Regarding Approval for Additional 2016 Legislative Initiatives**

Mr. Ponder presented two additional 2016 Legislative Initiatives for approval:

**A.R.S. § 38-747(H): Purchase of credited service; payment; limitations; definitions-** When a rollover of qualified money is used, the ASRS would like to limit the purchase of credited service to only direct rollovers from a qualifying plan. Currently, the ASRS allows for an indirect rollover; however, allowing indirect rollovers creates the potential for the participant to be double taxed. The ASRS is undergoing technology upgrades to the service purchase process, and indirect rollovers are rarely utilized. For those reasons the proposal was made to remove indirect rollovers as an option.

**A.R.S. § 38-738(B): Adjustment and refund-** The ASRS would like to clarify in law that a person who has forfeited membership in the ASRS but who returns to work for an ASRS employer cannot request a Contributions Not Withheld for any period of employment prior to the members most recent date of membership.

**Motion:** Mr. Kevin McCarthy moved to approve the additional 2016 Legislative Initiatives as presented by staff. Mr. Tom Manos seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstained, 0 excused the motion was approved.

## **6. Presentation, Discussion, and Appropriate Action Regarding 2016 EAC Meeting Calendar**

Dr. Richard Jacob introduced the item regarding the approval for the 2016 External Affairs Committee Meeting dates.

February 12, 2016, Friday, 10:30 a.m.





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*Paul Matson  
Director*

**TO:** The Arizona State Retirement System (ASRS) External Affairs Committee (EAC)

**FROM:** Mr. Paul Matson, Director  
Mr. Patrick M. Klein, Assistant Director, External Affairs Division  
Mr. Nick Ponder, Government Relations Officer

**DATE:** February 8, 2016

**RE:** **AGENDA ITEM NO. 3:** Presentation, Discussion and Appropriate Action with Respect to Legislative Initiatives

**Purpose:**

To discuss the ASRS 2016 legislative initiatives and other legislation that may impact the ASRS.

**Recommendation:**

Information only; no action required.

**Background:**

The 2016 ASRS Legislative Initiative will be discussed as will other Legislation that may impact the ASRS. A copy of the most recent Bill Tracker will be provided at the meeting or may be accessed through this link: <https://www.azasrs.gov/content/legislation>