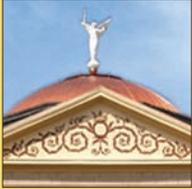




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financial Horizons 2013



ASRS Director's Message *by Paul Matson*

2012 marked the 100th year of statehood for Arizona and prompts a look back at our history and how far we have come. It was in that first year as the nation's 48th state – 1912 – that the first teacher retired with a pension after working more than 30 years. It was set at \$50 a month.

Just as the state has evolved, so too has our retirement system for public servants. Today, the Arizona State Retirement System serves more than a half-million members, including more than 137,000 members in the field of education.

We are proud to oversee a retirement system that provides benefits to our state's public servants. We continue to closely monitor the health and stability of the retirement benefits, long-term disability coverage and retiree health insurance programs. I am pleased to report that while facing challenges in today's economy, the viability

of all our programs remains strong.

In fiscal year 2011-12, the ASRS paid in excess of \$2.45 billion in benefits to more than 112,000 retirees, beneficiaries and disabled members, most of which was then spent in Arizona. While overall membership decreased slightly from the previous year due to the economic contraction, we still serve more than 535,000 members.

Among our major initiatives over the past year was a review and update of our Strategic Asset Allocation Policy, a critical document that sets the foundation for management of our total investment portfolio, which is currently approximately \$30 billion. Although investment returns for fiscal year 2011-12 were 1.3 percent, compared to 24.6 percent in fiscal year 2010-11, we believe our diversified asset allocation will set the stage for returns to outpace our industry benchmarks.

The ASRS continues to be engaged in program and policy review and, when

appropriate, will again be seeking legislative or other changes to ensure the retirement system operates efficiently and effectively. The ASRS has invested in technology and online solutions to achieve the highest level of service in a cost-efficient environment. We have improved work flows, focused on risk management and collaborated with our employees to nurture staff morale and sustain high levels of member satisfaction. The ASRS is committed to prudent management of the overall operations and assets of the retirement system for the benefit of our members. At the same time, we are keenly aware of our responsibilities to the State of Arizona, its taxpayers, our members and employer partners.

I invite you to review the information in this newsletter and visit our website for additional information which may impact our members.

On behalf of the ASRS staff, we look forward to serving you in the coming years. |

Online Retirement Application



In keeping with our efforts to provide more online access to our members and reduce reliance on paper forms, the ASRS is proud to introduce a new online retirement application.

It just takes minutes to navigate through this step-by-step electronic application. But be prepared! We encourage members planning to retire to first take part in one of our Preparing for Retirement and/or our Retire Now meetings. You'll learn how your benefit is calculated, options for selecting your benefit payment, health insurance options and more. See our Member Education information on Page 7, or visit our website to learn more.

If you're ready to submit your retirement application – you can do so up to six months before your desired retirement date – just log in to your secure ASRS homepage. Begin by selecting the Login Here button on the bottom of our website, www.azasrs.gov.

Once logged in, look for the Apply Now feature in the left navigation tab, and

select Retire. The application will guide you through the process and you can see your benefit estimate on each page as you make various selections. The process is easy and informative. Once completed and submitted, you'll receive a confirmation email and regular updates on the progress of your application.

It generally takes up to 90 days to fully process an application, but you may receive an estimated first benefit payment within a week after your designated retirement date and each month thereafter. A permanent monthly benefit takes additional time to set while your account is fully audited and final contributions are received and posted to your account.

In addition to the new retirement application, members may also file electronically if they wish to terminate ASRS membership and withdraw their account balance. Again, look for the Apply Now tab and select Refund. |

ASRS Ranks Favorably Among Peers

The Arizona State Retirement System provides more services to its members at a lower cost when compared with peers, a recent benchmarking study shows.

Since 2001, the ASRS has participated in a study conducted by the firm CEM Benchmarking Inc., which analyzes a variety of pension benefit administration data from like-sized public pension plans. The study showed that, despite having a higher transaction volume – or workload – than its peer group, the average cost per member is \$78, which is \$11 less than the average of 15 public retirement systems of similar size. The ASRS trend for Total Pension Administration Cost has decreased by 3.2 percent over the past four years.

Another positive note is the ASRS' service measure, which takes into consideration service request turnaround times, availability, choices and member satisfaction. The ASRS scored 80 out of 100, which is just above our peer group's average of 79. More significantly, the ASRS' service score was amongst the highest of 50 participants from the United States, Canada and Europe.

The ASRS aims to be a leading benefit administrator, providing high levels of service in a cost effective manner. The CEM study tells us we're doing more with less and we are very proud of that.

Streamlining operations and focusing on member services has been a priority for the past 10 years, and will continue to be so in the future.

To learn more about our operations see our *Strategic Plan* in the **ASRS Central** section of our website at www.azasrs.gov. |

Log into your secure ASRS account now!

<http://www.azasrs.gov>

ASRS Gets Social Online

As part of our ongoing initiative to provide members with relevant information in a timely, cost-effective manner, the ASRS has expanded its electronic communications initiative to now include social media. Members and other interested persons can now find us on Facebook!

<http://www.facebook.com/azasrs>

The ASRS Facebook page will have the latest updates on issues that interest you, including:

- Public meeting times & locations
- Member education sessions
- Announcements about new services of the ASRS, such as the recently

released educational webcasts

- The latest legislative updates
- Relevant tax & benefits information for retirees

In addition to these service-related updates, ASRS Facebook “friends” can also virtually meet Phoenix and Tucson staff members who are involved in their local communities through the ASRS Cares program.

To make sure you get all the latest Facebook updates from the ASRS, after you click “Like” on our page, be sure to check “Show in News Feed” and “Get Notifications” so you don’t miss a single update! |



Got a Beneficiary?

Why You Need to Choose a Beneficiary

All ASRS members, whether active, inactive or retired, should have a designated beneficiary on file. Yet nearly 20 percent of all members still have not yet elected a beneficiary, including a majority of new members in the past year.

A beneficiary is an individual, institution, trustee or estate which receives, or may become eligible to receive, benefits from a member’s retirement plan annuity or account balance.

Members must designate at least one primary beneficiary. More than one primary

beneficiary may be designated, but the total of the primary beneficiaries’ shares must equal 100 percent.

It is important that you, the member, keep the ASRS informed of any changes related to your beneficiaries, such as address changes, deaths or changes in relationships.

You may set up or change your beneficiary online in a matter of minutes. Just log in to your personal ASRS homepage. See page 8 for login details. |

Register Online

Active members likely know they are part of the Arizona State Retirement System because of contributions being deducted from their paycheck each pay period. But did you know that even though contributions may be coming in to the ASRS, unless you are actually enrolled, it’s difficult to fully recognize your membership?

With the recent introduction of a new online enrollment process for newly hired members, a number of members have yet to complete the process, even though contributions are being deducted from their paychecks.

To ensure proper accounting and to provide access to account data, members are required to complete their enrollment with the ASRS via our quick and easy online process. The process is finalized and online access is available upon enrollment and contributions coming in to your account. Note that there may be a lag in full online access while enrollment is completed and the first contributions are subsequently posted to your account.

Members who have not completed the process should receive a notice from their employer. If you fall into that category, please follow the instructions provided to you from your employer.

Enrolled members have access to their account information and can make online updates to their personal information, such as address updates, and to their beneficiaries. They also will receive E-communications from the ASRS, keeping them informed on their retirement plan.

If you wish to check to be sure you are properly enrolled, log in to the ASRS website. Once logged in, you can see your account information as well as make updates to your personal information as needed. |



2012 Comprehensive Annual Financial Report

Each year, the Arizona State Retirement System produces a Comprehensive Annual Financial Report which details net assets, funding, schedule of investments, rates of return, as well as statistical and demographic data.

The 2012 report is available on the ASRS website under the ASRS Central tab at the top of the homepage at www.azasrs.gov. Select the Publications category to review the annual report and the Popular Annual Financial Report, a reader-friendly summary.

Financial Summary

The ASRS oversees three funds: Retirement, Health Benefit Supplement, and Long Term Disability. ASRS benefits are funded by member and employer contributions and by earnings on investments. Contributions are set according to actuarially determined contribution rates.

The total ASRS net assets held in trust

for benefits at June 30, 2012 were \$27.9 billion, a 1.6 percent decrease over the previous fiscal year. The decrease in net assets is primarily due to a decrease in net cash flow from operations. For the 2012 fiscal year, employer and member contributions totaled \$1.9 billion. The \$200 million increase over fiscal year 2011 is due to an increase in contribution rates, receipt of funds from the Federal Government for reimbursements related to the Early Retiree Reinsurance Program, and a retrospective health insurance rate adjustment. Deductions from the ASRS net assets held in trust for benefits consist primarily of pension, disability, health insurance, survivor benefits, member refunds and administrative expenses.

For the 2012 fiscal year, pension, disability, health insurance and survivor benefits totaled \$2.49 billion, a 6 percent increase over fiscal year 2011, due to an increase in the number of retirees.

Investment Summary

During fiscal year 2012, ASRS investments were broadly diversified in domestic and international equities, domestic fixed income, real estate, private equity, opportunistic, commodities, and cash equivalent instruments.

The ASRS portfolio was comprised of \$12.6 billion in domestic equities, \$4.7 billion in international equities, \$5.4 billion in domestic fixed income securities, \$1.4 billion in real estate assets, \$1.3 billion in private equity investments, \$700 million in opportunistic funds, and \$1.5 billion in temporary investments.

For the fiscal year ended June 30, 2012, the ASRS rate of return on investments was 1.3 percent, compared to 24.6 percent for fiscal year 2011. The decrease in the rate of return reflects weak conditions in the global securities market during fiscal year 2012. |

Check Out Your Member Statement! **What's in your ASRS account?**



Want to know what your retirement benefit may be, or the earliest date you can retire? Visit our website and log in to your personal ASRS homepage. You'll find an up-to-date Member Statement waiting for you!

Each year, the ASRS has mailed individual member statements to nearly a half-million members. With a continued emphasis on providing more timely information to our members, going green and saving costs, the ASRS has made available new and improved individual member statements online.

Actively contributing ASRS members and inactive members can log in to their ASRS

secure homepage to view an up-to-date account statement. Unlike past years when the ASRS mailed a statement to member homes with data that was months behind actual account information, the new online statements are updated each pay period, reflecting member account balances, service credit and providing projections for retirement benefits, including future retirement dates, monthly annuity benefit projections and more.

A great time to log in could be your birthday! Each year, you're closer to retirement, so make a point to check your statement and see where you're at on your road to retirement! |



Plan Ahead: Rules & Legislative Updates for 2013

Members, take note of these upcoming changes which take effect July 1, 2013:

- New contribution rates take effect. Contribution rates for both members and employers will increase from the current 11.14 percent to 11.54 percent. See page 6 for details.
- Spousal Consent law related to naming a beneficiary and selecting an annuity takes effect. A member of the ASRS who is married and not retired will be required to name their current spouse as a beneficiary to receive at least 50 percent of the member's ac-

count, and at retirement, the member is required to elect a joint-and-survivor annuity with the spouse as a contingent annuitant (beneficiary). The spouse may waive this right in writing.

- The Level Income Alternative at retirement is eliminated as an option. This rarely-selected option allows a member to receive a larger monthly benefit until they reach Social Security eligibility, and then the benefit is reduced by the amount of the Social Security benefit.

- Interest accrued on account balances for purpose of withdrawal only is reduced from 4 percent to 2 percent for contributions and account balances accrued after July 1, 2013. This applies to members who terminate ASRS membership and withdraw their account balance.
- The rate used to calculate Actuarial Present Value – the cost paid by the member – for Service Purchase is reduced from 8 percent to 6 percent. |

Bills Under Consideration This Legislative Session

Several bills that may affect ASRS members are being considered during the current session of the State Legislature.

The ASRS will provide updates during the legislative session on these and other retirement-related bills. You can follow along with our ASRS Bill Tracker, updated daily on our website.

House Bills 2057, 2058, 2059 and Senate Bill 1170 are the main ASRS-related bills and each contains a number of plan design amendments. Among them:

- Benefit increases to pension checks, also known as Permanent Benefit Increase, would continue to apply only to members whose membership date begins before the effective date of the legislation. New members with a membership date after the effective date of the legislation would be entitled to benefit increases only upon direction of the state legislature.
- A surviving beneficiary with a straight

life annuity would be eligible to participate in the ASRS group health insurance program, but would not be entitled to the Health Benefit Supplement.

- The ASRS would be permitted to establish a self-insured health insurance program. Implementation would be considered if it would be less expensive and at least as effective as a fully insured plan, taking into consideration risks and costs.
- The requirement that a survivor's benefit must exceed \$5,000 in order to elect an annuity option would be eliminated.
- Sets in statute the type of personal member information that the ASRS may release for public inspection. Information to be released includes member's name and membership status; employer; benefit amount, including factors used to determine the benefit; retirement date; LTD ben-

efit amount and service purchase details. Prohibited for release would be personal identifying information such as address, phone and email; Social Security number and banking information; medical and health insurance information; beneficiary and survivor information; disability information or any other information protected by state or federal law.

- ASRS members who have a disability that begins prior to Jan. 1, 2014 under the ASRS LTD program would be entitled to benefits equal to two-thirds of average monthly compensation at the time the disability begins. Disability benefits for those who have a disability that begins Jan. 1, 2014 or after would be entitled to LTD benefits equal to up to 60 percent of the member's average monthly compensation based upon the average of the highest 36 consecutive months in the last 120 months. |



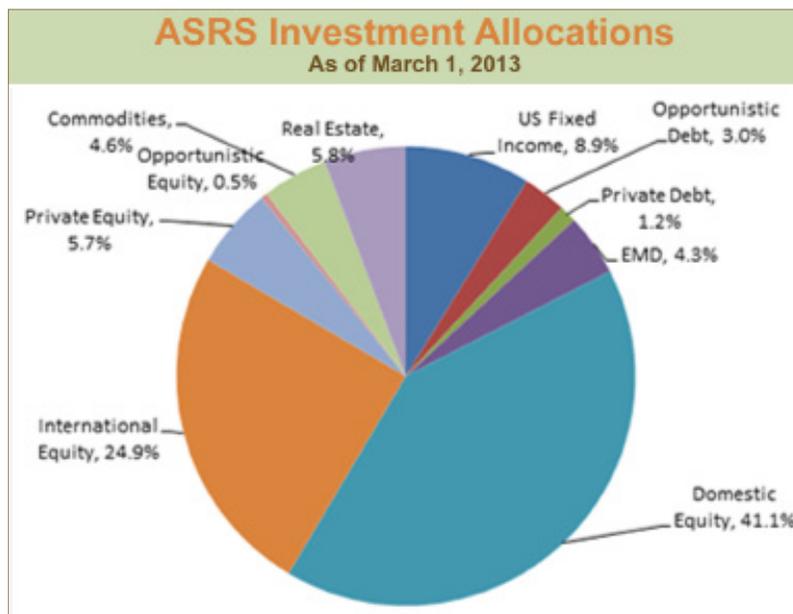
A Look at ASRS Investments

The financial health of the ASRS significantly depends on our ability to generate attractive long-term returns from our investments while moderating risk. This helps to assure the security of retirement and member benefits while also keeping down the ongoing contribution rates for our active members and employers.

Our investment division oversees a total fund portfolio of approximately \$30 billion. To achieve attractive returns while moderating risk, a carefully constructed asset allocation policy is utilized. That is, it's not so much the particular individual investments that are key – say holding one stock over another – as it is how the investments are distributed across a broad range of investment categories. This asset allocation policy is then combined with particular opportunistic investment strategies as well as tactical over-weights and under-weights in order to achieve enhanced returns.

A look at the big picture of ASRS investments will show that the majority of funds

are invested in equities – or stocks – with the largest allocation to U.S. equities (41%), followed by international equities (25%). Within each of those broad asset classes are a number of smaller classes,



such as Large, Mid and Small Cap funds for U.S. equities, and developed and emerging markets for non-U.S. equities.

In addition to investing in equities, the ASRS invests in bonds, mortgages, real estate, commodities, and other alternative investment opportunities.

In each of our investment classes, we look to multiple industry benchmarks to deter-

mine how our investments are performing. We use a mix of internal staff and external investment firms to manage the various investments. In general, the ASRS directly manages about one third of our portfolio with internal staff, while hiring external investment managers to manage the remaining investments. Internal investment management has resulted in direct excess returns of approximately \$80 million since the program was initiated in 1996, in addition to enabling more advantageous and refined investment strategies and significantly greater oversight.

The ASRS Investment Committee – a subgroup of the ASRS Board of Trustees – meets regularly to review

performance and investment strategy. In addition, the Board of Trustees receives regular updates and presentations on our investments and strategies.

I invite you to learn more about ASRS investments. We post a number of annual and quarterly performance reports on our website, in addition to details on our investment staff, goals and plans. |

Contribution Rates through Fiscal Year 2013-14

Contribution rates are actuarially determined and approved by the ASRS Board of Trustees. Rates are adjusted to ensure fiscal soundness and to meet current and future obligations. The ASRS is a match plan, meaning the contribution rate applies to employees and employers. Contribution rates are made up of two components – the pre-tax Retirement Pension & Health Insurance Benefit, and the post-tax Long Term Disability Income Plan. |

FISCAL 2012-13 (Effective July 1, 2012)

	Retirement Pension & Health Insurance Benefit	Long Term Disability Income Plan	TOTAL
Employee	10.90%	0.24%	11.14%
Employer	10.90%	0.24%	11.14%

FISCAL 2013-14 (Effective July 1, 2013)

	Retirement Pension & Health Insurance Benefit	Long Term Disability Income Plan	TOTAL
Employee	11.30%	0.24%	11.54%
Employer	11.30%	0.24%	11.54%

Attended Member Education & Still Have Questions?

While most questions can be answered by attending a meeting or visiting the ASRS website, if your situation needs additional help, call to schedule an appointment with a Benefit Advisor today. (See page 8 for contact info).



Member Education for Everyone!

Wherever you are at on the road to retirement - early, mid or end career - there's an educational program for you!

Live, Online!

Webinars

The ASRS offers three online member meetings about the benefits of membership in the Arizona State Retirement System. Each one-hour webinar is hosted by a benefit advisor. Participants will have the opportunity to submit questions.

Know Your Benefits

For new members to the ASRS. You will learn about the many benefits you have as an ASRS member. You will learn how your benefit is calculated and how to maximize future benefits as well as hear about Long Term Disability and Service Purchase programs.

Planning for Retirement

For members planning to retire in the next three years. You'll learn about your pension benefit, how it's calculated, annuity options, information on ASRS health insurance benefit plans and more.

Retire Now

For members planning to retire in the next four months. You will learn about your pension benefit, how it's calculated, options for health insurance & other benefits, return to work options and more. Participants will also receive a personal benefit estimate.

To participate in any **Webinar**, log into the ASRS website, select "Meeting Registration" from the left-hand navigation and follow the prompts to register for the session of your choice.

In-Person!

Group Meetings

Group meetings are offered at the Phoenix and Tucson offices of the ASRS and are hosted by one of our expert benefit advisors. These meetings offer members a chance to learn about our programs and benefits, ask questions and interact with fellow members. Each meeting lasts approximately 90 minutes.

Registration is required.

Planning for Retirement

For members planning to retire in the next three years. You'll learn about your pension benefit, how it's calculated, annuity options, information on ASRS health insurance benefit plans and more.

Know Your Insurance

For members planning to retire in the next four months. Learn about health insurance options, meet benefit providers, hear about the ASRS Premium Benefit and how health insurance costs are determined.

Retire Now

For members planning to retire in the next four months. You will learn about your pension benefit, how it's calculated, options for health insurance & other benefits, return to work options and more. Participants will also receive a personal benefit estimate.

To participate in a **Group Meeting**, log into the ASRS website, select "Meeting Registration" from the left-hand navigation and follow the prompts to register for the session of your choice.

On-Demand!

Webcasts

The ASRS now offers a library of online streaming video webcasts on a variety of helpful topics that members may view on their computer at any time. Current topics include:

- Explanation of 1099-R Tax Form
- How to Read Your Payment Summary
- Overviews of the various health insurance plans available to retirees

New webcasts are regularly being added and are announced on Facebook as well as under "What's New" on the ASRS home page. For a complete listing, visit the "Member Education" section and click "Webcasts".

Remote? No problem!

Online Counseling

The ASRS now provides one-on-one counseling via the internet for our members who live outside Maricopa & Pima counties. Rural members can schedule an online appointment with a Benefit Advisor without having to drive to an ASRS office.

To participate in a personalized online counseling session, members will need a computer with high speed internet connection, microphone and speakers. If you would like your advisor to see you, you will also need a webcam.

To schedule a **Web Counseling** session, log into the ASRS website and select "Webinars & Counseling" from the left-hand navigation.



Arizona State Retirement System

Financial Horizons

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Not Online?

In Phoenix:

(602) 240-2000

In Tucson:

(520) 239-3100

Toll-Free:

(800) 621-3778

Keep In Touch!

The ASRS would like to ensure you receive the latest news and information about services, changes that impact you, and educational opportunities. Please take a moment to go online to **www.azasrs.gov** and verify that the email address we have for you is current. *It's as easy as 1-2-3!*



Step 1 – From the ASRS homepage, click “Login Here”.

Step 2 – If you’ve already registered, enter your ASRS ID and Password.

If you have not yet registered, follow the few short steps listed in *Member Registration* instructions.

Step 3 – Once logged in, you’ll see a link to **Update Email Address**.

If we have an email address on file, check to be sure it’s correct.

If there is no email address on your member profile, please enter one. |

Comments?

ASRS *Financial Horizons* is published annually and mailed to all members of the Arizona State Retirement System.

We welcome letters from our readers:

Financial Horizons, Editor

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