

**MINUTES OF A JOINT
PUBLIC MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM BOARD AND THE
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM BOARD**

**HELD
Friday, November 18, 2022
10:30 a.m.**

The Arizona State Retirement System (ASRS) and the Public Safety Personnel Retirement System Boards of Trustees met in person, with some attending virtually, in the First Floor Board Room of the ASRS Office, 3300 N. Central Avenue, Phoenix, Arizona 85012.

Mr. René Guillen, Chair of the ASRS Board, called the meeting to order at 10:51.m.

1. Opening Remarks by the ASRS and PSPRS Chairs and introduction of the ASRS and PSPRS Board Members and Executive Staff

Present: Mr. René Guillen, ASRS Chair
Ms. Michael Miller, ASRS Vice-chair
Mr. Jim Mueller, ASRS Member
Ms. Ashley Ruiz, ASRS Member (Virtual)
Ms. Sarah Webber, ASRS Member
Mr. Scott McCarty, PSPRS Chair
Mr. Harry Papp, PSPRS Vice-chair (left the meeting @ 1:40 p.m.)
Mr. Alan Maguire, PSPRS Member
Mr. Brian Moore, PSPRS Member
Mr. Dean Scheinert, PSPRS Member
Ms. Randie Stein, PSPRS member (left the meeting at 1:45 p.m.)
Mr. Nate Weber, PSPRS Member (joined virtually @ approximately 11:00 a.m.)
Mr. Daren Wunderle, PSPRS Member

Excused: Ms. Diane Landis, ASRS Member
Mr. Kevin McCarthy, ASRS Member
Mr. Michael Lofton, ASRS Member
Mr. Jay Petkunas, ASRS Member
Mr. Chris Hemmen, PSPRS Member

A quorum was present of both the ASRS and PSPRS Board for the purpose of conducting business.

Ms. Melanie Alexander, ASRS Board Administrator, provided all attendees with virtual attendance meeting guidelines and reminders.

The first order of business was the introduction of staff conducted by Mr. Michael Townsend, PSPRS Administrator, and Mr. Paul Matson, ASRS Director.

Mr. Townsend introduced: Mr. Kenny Timms, Chair of the Advisory Committee; Mr. Terry Thompson, Fiduciary Counsel; Mr. John Moorman, Chief Financial Officer; Mr. Christian Palmer, Communications Director; Mr. Robert Ortega, Member Services Director; Mr. Bret Parke, General Counsel, and Assistant Administrator; Ms. Cheryl Cohen and Ms. Claudia Martinez, Executive Assistants; Mr. Mark Steed, Chief Investment Officer; and Mr. Mike Ajamie, Information Technology Director. Mr. Townsend noted that Mr. Mike Smarik, Deputy Director, could not attend due to a prior commitment.

Mr. Guillen acknowledged Mr. Clark Partidge from PSPRS, who was attending virtually as Mr. Patridge was a former ASRS Trustee.

Before introducing the ASRS staff, Mr. Matson took to a moment to recognize PSPRS staff and trustees who were former ASRS trustees. Mr. Clark Patridge, Mr. Michael Townsend, and Mr. Alan Maguire all served as the ASRS Board Chair at some point during their tenure. Mr. Michael Smarik served as the ASRS Board Vice-chair, and Mr. Harry Papp served as the Investment Committee Chair during their tenure. Mr. Matson welcomed them back.

Mr. Matson introduced: Mr. Michael Viteri, Chief Investment Officer; Mr. Anthony Guarino, Deputy Director; Mr. Dave King, Assistant Director, Technology Services Division; Ms. Erin Higbee, Assistant Director, Financial Services Division; Mr. Jeremiah Scott, Assistant Director, Member Services Division; Ms. Martha Rozen, Assistant Director, Administrative Services Division; and Ms. Cassie Adams, Assistant Attorney General.

Mr. Guillen welcomed everyone and thanked PSPRS for the proposal to meet. He believes it would be a great opportunity to continue this in the future and thanked PSPRS for joining the meeting.

Mr. Scott McCarty, Chair of the PSPRS Board, concurred with Mr. Guillen's comments. He stated it makes sense to share information and best practices considering the number of members affected by the decisions the two Boards make.

2. Call to the Public

No one from the public requested to address the ASRS or PSPRS Board.

3. Review and Discussion Regarding the ASRS and PSPRS System Overviews and Purpose

Mr. Matson provided an executive summary of the ASRS system overview and purpose. First, he provided a brief summary of the ASRS Board of Trustees' makeup, how they are appointed by the Governor, what the minimum requirements for the positions are, and then a quick review of the hierarchy of the ASRS organization. Mr. Matson highlighted the five primary legislative intents that convey the purpose of the ASRS. He talked about the four programs offered by the ASRS; Defined Benefit Pension Plan, Health Insurance Program and Supplement, Long-Term Disability Program, and Supplemental Savings Plans. Mr. Matson reviewed membership statistics, stating the current annual distributions are approximately \$3.7 billion, with the annual contributions being approximately \$2.9 billion, and has had an average net cash flow of approximately approximately -2.2% of assets over the recent past. The ASRS is unique in that the employees and the employers equally share contributions. Mr. Matson reviewed the participants of the ASRS as approximately 51% being public school employees and the other 49% consisting of State government, municipalities, and others. Mr. Matson concluded with a summary of the current contribution rate for the ASRS members.

Mr. Townsend provided an executive summary of the PSPRS system overview and purpose. Mr. Townsend summarized the PSPRS covers law enforcement officers and firefighters as well as the

Corrections Officers Retirement Plan (CORP) and Elected Officials Retirement Plan (EORP). Each of these plans contains multiple tiers based on the employee's hire date. He reviewed membership statistics, stating current membership is approximately 60,000 and the benefit plan options for each plan (PSPRS, CORP, EORP). Mr. Townsend said that because PSPRS is a multiple-employer agent plan, they manage more than 300 plans with individual financial statements and contribution rates. He provided a brief summary of the PSPRS Board of Trustees' makeup, noting that the Governor appoints five, two are appointed by the Senate President, and two are appointed by the Speaker of the House, who makes those nominations, and then a review of the Board/Committee structure. Mr. Townsend noted PSPRS was created in 1968 through legislation to provide a uniform, consistent and equitable statewide program for public safety personnel. Mr. Townsend noted a difference between PSPRS and ASRS is that many PSPRS members do not participate in social security through their public safety positions.

Mr. McCarty asked if the ASRS could share their current assets, offering that the PSPRS' current assets were approximately \$18 billion. Mr. Matson responded with the ASRS' current assets at roughly \$50 billion in pension, health, and LTD, and an additional \$2.5 billion in Defined Contribution assets.

4. Presentation and Discussion of the PSPRS Cancer Insurance Program and the ASRS Health Insurance Programs, Including a Discussion of the Retrospective Rate Agreement (RRA), Current and Future Self-Insurance Initiatives, the Cost and Service Effectiveness of the Plans

Mr. Townsend opened the presentation with a review of the PSPRS' Cancer Insurance Program (CIP). This supplemental benefit was created in 1997 for firefighters, Peace Officers were added in 2007, and Corrections Officers were added in 2014. Mr. Townsend noted this is mandatory coverage for public safety personnel, optional for corrections personnel, and does not apply to EORP membership. The employer pays for Public Safety personnel's coverage, and Corrections Officers who opt for the coverage pay their own premiums. Mr. Townsend reviewed coverage criteria for retirees, recent changes for current members covered under the plan, and the insurance benefits summary.

Mr. McCarty added that the Operations Committee is currently looking into making changes to the level of benefits and how they are administered for better program efficiency. The PSPRS Board is responsible for setting the benefit levels for this program which is unique.

Mr. Brian Moore, PSPRS Board Member, added that this program started as an insurance policy purchased on each member of PSPRS in 1997. The Board at that time noticed the benefits being received were not matching the premiums, which led to becoming a self-funded/self-insured plan in 1999/2000. Mr. Moore wanted to note that this plan only assists in covering some out-of-pocket costs but in no way covers all. Mr. Moore responded to Mr. Guillen's question regarding how reimbursements are handled and explained how some testing is not covered. This led to the recent clarifications Mr. Townsend reviewed in his presentation.

The presentation was handed off to Mr. Russ Levine, ASRS Health and Disability Plan Administrator, who introduced Mr. Richard Ward, Segal Consulting, who would be co-presenting with him for the ASRS. Mr. Levine started with the two major health insurance program components: 1) Group Health Coverage and 2) Monthly Premium Benefit. He expanded on the monthly premium benefit structure, the optional group health coverage, and the current plan offerings to include the advantages and disadvantages of having open plans. Mr. Levine reviewed the current enrollment in the ASRS health insurance programs with dental plans at nearly 100,000 for both the DHMO and PPO plans (ASRS / 90%, PSPRS/CORP/EORP/UORP / 10%), Medicare Advantage medical plans for both HMO and PPO at nearly 50,000 (ASRS / 91%, PSPRS/CORP/EORP/UORP / 9%) and Non-Medicare medical plans at approximately 6,000 (ASRS / 84%, PSPRS/CORP/EORP/UORP / 16%). He reviewed the rate

structure, noting the rates have remained steady over the last few years. The ASRS was successful in negotiating a four-year premium cap. Mr. Levine provided a brief summary of the RRA funds and how they impacted the retirees' premiums. Mr. Levine provided an overview of the medical plans for non-Medicare eligible members. He noted premiums are higher than those who are active members or Medicare eligible and explained why. Mr. Levine stated the premiums for the non-Medicare members had remained the same for the last three years, mainly due to the transition to self-funded for this group.

Mr. Levine responded to questions from Mr. Moore and Mr. Guillen regarding the significance of the single rate premiums being reflected in the presentation vs. family premiums and how the population size of those enrolled affects the premiums.

Mr. Levine continued his presentation regarding the self-insurance initiative, which enabled the ASRS to avoid 15% annual premium increases. The most significant savings seen with this transition was prescription drug rebates. Mr. Levine cited other benefits, such as eliminating taxes and reducing carrier administrative, profit, and risk charges. The ASRS will look into opportunities to self-insure both the Medicare and dental programs in the future. Mr. Levine reviewed cost categories and provided more details about the RRA funds.

Mr. Levine responded to questions from Mr. Dean Scheinert, PSPRS Board Member, and Mr. Moore regarding the RRA funds concept and whether it was an industry-wide trend or something the ASRS was able to negotiate, the ASRS reserves before it became self-insured, and whether the claims versus premiums received was within target range since moving to self-insurance.

Mr. Levine provided an overview of the enrollment demographic for all health insurance plans, along with some historical data.

Mr. Levine responded to questions from Mr. Guillen, Mr. McCarty, Mr. Daren Wunderle, PSPRS Board Member, and Mr. Moore regarding topics ranging from a clarification about employer insurance versus coverage offered by the Arizona Department of Administration, the non-Medicare statistics of PSPRS enrollment and if it is due to their members retiring at an earlier age, how the ASRS makes decisions regarding design changes for the non-Medicare plan, what the intent of the Premium Health Insurance Benefit was and did it affect members decisions when electing coverage, how much of an increase in premiums has the non-Medicare plus one dependent group seen over the last few years, and is there any data regarding the difference in the demographics of an ASRS retiree and the PSPRS retiree.

In response to Mr. Guillen's inquiry about demographic data, Ms. Katie Daigneault, Strategic Planning Manager and former Survey Administrator, noted that the surveys are no longer anonymous but are confidential, allowing the ASRS to collect specific cohort data. The current data collected is age, gender, employer, years of service at time of retirement, and time in retirement. Ms. Daigneault explained this data is being looked at to determine why retirees are not electing the ASRS coverage and where they are going for coverage.

Mr. Moore noted that since approximately March 1986, local government employees hired after that date are paying into Medicare, with a small population of non-Medicare members. Non-Medicare health insurance premiums are an issue for firefighters and police officers as it is physically challenging to reach Medicare age before retiring.

Mr. Richard Ward summarized the benchmarking study conducted with ASRS plans and comparable plans offered in the open marketplace. The comparison looked at the benefit value, premium cost, and access of the Medicare Advantage, non-Medicare medical/RX, and dental plans. The results show that the ASRS value overall is significantly better for its retirees than the market at a lower premium.

In conclusion, Mr. Ward summarized the ASRS plans provide good value, care, access, and affordability to its retirees. He also stated they are efficiently managed.

Mr. Ward responded to Mr. Moore's inquiry regarding the reason for a substantial increase in premiums approximately two years ago. Mr. Ward explained that the rates were too low and needed to be brought up to par with current costs. This also coincided with the depletion of the RRA Funds.

Mr. Ward also responded to questions from Mr. Moore regarding the benchmarking comparisons of the Medicare plans and the difference between group and individual Medicare Advantage plans based on concerns expressed by Mr. Moore.

Mr. McCarty thanked everyone for the information, as it is important to the members. He acknowledged he was unaware of some of the things the ASRS was doing for the members, so the information was valuable. McCarty added it would be beneficial to be involved in the decision-making process on the advisory committee and to assist in the communication with all members.

Mr. Guillen added it would be interesting to see the data reports after the first full year of self-insurance, and PSPRS appears to be interested in the data as well.

Mr. Moore pointed out that he believes that the \$260.00 Premium Benefit for family coverage for non-Medicare coverage needs to be revisited.

Mr. Nate Weber, PSPRS Board Member, joined the meeting at approximately 11:00 a.m.

5. Presentation and Discussion Regarding the ASRS Customer Service Model, Performance Metrics, Cost Effectiveness, and Benchmarking

Mr. Jeremiah Scott, Assistant Director, Member Service Division, presented this topic. Mr. Scott opened with the following statistics from 2019: calls were being answered within 8.5 minutes, calls were being abandoned at a rate of 21%, 64.8 hours was the average email response time, and employee satisfaction in the Member Services Division (MSD) was at 59%. Mr. Scott explained how the ASRS approaches process improvements and noted in developing a new plan; the focus is always on member experience, efficiency, and employee engagement. He reviewed the tier system developed within MSD to provide a career path for the Call Center staff, how performance is rated, and how top performers are recognized. Mr. Scott reviewed the service level scores after 45 days on the improved plan with no changes to the number of staff. Some of the statistics are as follows: phone service level calls answered within 20 seconds was 96%, call answer speed reduced from 318 seconds to 4 seconds, and abandoned calls reduced from 2,000+ to 63. Mr. Scott indicated that the continuous improvement model does not end. Mr. Scott reviewed more current results from the second quarter of 2022, when the staff composition changed. Although staffing was reduced and productivity and measures continued to be met or exceeded, it was determined this would not be sustainable for the long term. Mr. Scott added that during this, teams were combined to provide better services to the members. In conclusion, Mr. Scott noted that the ASRS made improvements, reduced staff, expanded services, and increased employee satisfaction to 88%. Mr. Scott credited his management team for the time and energy they put into these efforts.

Ms. Randie Stein left the physical meeting during this presentation; the time is unknown. Later joining virtually.

6. Presentation and Discussion Regarding Additional Employer Contributions into a Cost-Sharing Multi-Employer Pooled Plan

Ms. Erin Higbee, Assistant Director, Financial Services Division, announced launching of the new Contribution Prepayment Program (CPP) in September 2022. The program enables employers to prepay future contribution obligations. Ms. Higbee explained that the program was in response to employer interest to address a desire and ability to prepay contributions. The prepayment of contributions are going to a cost-sharing multi-employer plan, which is unique from peer pensions. Gabriel, Roeder, Smith, and Co. (GRS), the ASRS Actuary, worked in collaboration with the ASRS staff to ensure the plan was effective and efficient to facilitate, which also required a statute change. Ms. Higbee reviewed the process, the advantages of prepayments, the flexibility of when to offset contributions, and what the prepayment does and does not apply to. Ms. Higbee noted that the ASRS plans to communicate to its employers that this option is available but will not be advocating for employers participate. She reiterated this is a voluntary program and that in order to engage in this program, there is a legal agreement. Multiple staff within the ASRS, external agencies such as the Auditor General's Office, GRS, the external auditor, and the GASB were consulted in setting up the operational aspect of the program. The ASRS underwent a modest system development update to manage this and will determine if more is needed in the future. Ms. Higbee announced that the ASRS has one employer who has contributed under this new program and a couple of others who have expressed interest. Ms. Higbee noted that the ASRS Board recently voted to move forward with legislation to amend the program further.

Ms. Randie Stein rejoined the meeting virtually at 1:17 p.m.

Mr. Guillen commended PSPRS for their education with their employers, which he believes has led to ASRS employers seeking ways to improve their working relationship with the ASRS with respect to unfunded liabilities, which in large part led to this idea. He also commended ASRS staff for the solution they have come up with to address these issues.

Mr. McCarty concurred with Mr. Guillen and stated PSPRS hoped to use this same program concept with the EORP once they have the technology in place. He also said he would be the ASRS' advocate for this program. This is a program that could benefit any employer.

Ms. Higbee responded to Mr. Townsend's inquiry by indicating that the ASRS' first employer to participate in the CPP was Coconino County.

7. Presentation and Discussion Regarding the ASRS Migration of an External Employer Audit Model to an Employer Education Model

Mr. Harold Mackey, Chief Internal Auditor, opened the presentation by providing the rationale of the employer compliance program before the migration to the employer education model. Mr. Mackey then reviewed the top five issues typically found through an IA audit: eligibility, ineligibility, compensation, return-to-work (RTW), and health insurance. He discussed the method of those reviews, the length of time it took, and whether those reviews added value. Mr. Mackey stated that with the time involved in conducting the external reviews, there was no time left to conduct internal reviews to ensure the effectiveness of processes and compliance. In a coordinated effort, it was determined the best approach was to continue with IA completing GASB testing, fraud investigations, ad hoc employer audits, and requests from the Director and Trustees and move employer compliance to the Member Services Division, Employer Relations Program. Mr. Mackey concluded with the IA taking the role of monitoring this activity to provide technical support and assurance to the program.

Mr. Harry Papp left the meeting at 1:40 p.m.

Mr. Scott stated, the focus of the Member Services Division Employer Compliance team was to reduce the timeframe of notifying employers of compliance issues for correction so it is less burdensome and turn it into an educational opportunity. Mr. Scott turned the presentation over to Ms. Jeniffer Gomez-Pabon, Employer Relations and Outreach Manager, and Ms. Genevieve McBride, Employer Relations Supervisor.

Ms. Gomez-Pabon noted the seven compliance items reviewed each year: termination incentive program (TIP), health insurance premium benefit, membership, contribution, compensation, RTW, and alternate contribution rate (ACR). Ms. Gomez-Pabon reviewed the seven compliance items in more detail with the Boards and discussed how queries are run. The plan is for continuous improvement and to strengthen the partnership with employers, and the goal is that employers will use the ASRS as a retention tool.

Mr. Guillen commented that the more that can be done on the front end helps the employers and the members before they get to retirement. He commended the staff for all the work put into the effort. Mr. McCarty concurred from an employer standpoint.

Mr. Scott added this effort had changed the way they offer training to employers. The ASRS now offers more job-specific training than a conference that touches on every topic.

Ms. Randie Stein left the meeting at 1:45 p.m.

8. Presentation and Discussion Regarding Options for Future Collaboration of Shared Services, Resources, and Information

Mr. Guillen noted today's presentations were informative, providing him with details he had not been previously aware of. His greatest takeaway was the healthcare topic and healthcare for non-Medicare eligible retirees. Healthcare is an area for both Boards that requires more collaboration and communication. Mr. Guillen thanked the PSPRS staff and Trustees for joining today's meeting.

Mr. McCarty thanked the Trustees from both systems and staff, and although the meeting extended over its expected time, valuable information was shared. He noted another takeaway from the meeting: a need to analyze the health insurance premium benefit. Mr. McCarty closed by stating he looks forward to having more meetings such as this in the future.

Mr. Alan Maguire thanked staff for their work in the presentations and said it was a great opportunity for both systems to learn from each other.

9. Adjournment

Mr. René Guillen adjourned the November 18, 2022, Joint ASRS/PSPRS Board meeting at 2:02 p.m.

Respectfully Submitted by:

Melanie Alexander
Board Administrator
ARIZONA STATE RETIREMENT SYSTEM