



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*

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

**Friday, January 24, 2014
8:30 A.M., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Tom Manos, Chair of the ASRS Board, called the meeting to order at 8:34 A.M., Arizona Time.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Manos, Chair
Mr. Mike Smarik, Vice-chair
Mr. Marc Boatwright
Mr. Tom Connelly
Professor Dennis Hoffman
Dr. Richard Jacob
Mr. Kevin McCarthy
Mr. Brian McNeil
Mr. Jeff Tyne

A quorum was present for the purpose of conducting business.

2. Presentation Regarding PRIDE Award for Excellence

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, recognized the following nominees for the PRIDE Excellence award: Ericka Davidson, Maurah Harrison, Don Crockett, Carrie Rifembark, Sara Orozco, Jeff Hickman and Valerie Burkett (Scrum project), and the P3 Disbursement Team Core Team: Nancy Bennett (project manager), Dave King, Tracy Rundle, Liz Rozzell, Sara Orozco, Meskel Assefa, Lupita Higuera, Carrie Waith, Brian Crockett; and additional P3 Disbursement Team participants: Kristi Zeller, John Mazcko, Valerie Burkett, Jeff Hickman, Ivan Sykes, Brandon Heathcotte, Arthi Perka, Noaman Ahmed, Bruce Pampel, and Molly Mahai.

Mr. Tom Connelly arrived at 8:35 A.M.

The nominees were recognized by their peers as exemplifying the following PRIDE qualities of excellence:

- Surpass member, stakeholder and associate expectations
- Embrace positive changes in a manner which inspires others
- Demonstrate a willingness to go the extra mile to engender a positive public image that solidifies the perception the ASRS is a trusted brand that members, stakeholders and associates will recognize

- Create a motivated, healthy and productive work environment that celebrates and rewards the accomplishments and contributions of others
- Take a personal interest in promoting teamwork through effective use of communication methods within the ASRS to ensure the effective flow of information and knowledge (This includes verbal, non-verbal, written and technological communication techniques)
- Accept personal responsibility and challenges with enthusiasm

Mr. Guarino presented the PRIDE Award for Excellence to the award winners, Jeff Hickman and Valerie Burkett.

3. Approval of the Minutes of the November 22, 2013 Public Meeting of the ASRS Board

Motion: Mr. Kevin McCarthy moved to approve the minutes of the November 22, 2013 Public Meeting of the ASRS Board. Mr. Mike Smarik seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

4. Approval, Modification, or Rejection of Recommended Administrative Law Judge's Decision Regarding Diane Styring's Appeal to Change her Retirement Annuity Option

Ms. Styring was not present, nor was a representative of Ms. Styring present. Ms. Jothi Beljan, Assistant Attorney General, provided a brief overview of the following documentation:

1. ASRS Memo to the Board
2. Recommended Decision by the Administrative Law Judge
3. Notice of Hearing
4. ASRS Exhibits Submitted at Hearing
5. Administrative Hearing Transcript
6. Notification of Expected Appellant/Attorney Meeting Attendance

Ms. Beljan reminded the Board a Solicitor General representative will be present each time there is an appeal, to provide Trustees legal advice. Mr. Chris Munns, Assistant Attorney General, Solicitor General Section, was present.

Ms. Beljan noted Ms. Styring submitted a retirement application to the ASRS and later requested the ASRS change her annuity option. The ASRS denied her request because she failed to request a change of annuity in a timely manner according to the statutory deadline.

Motion: Mr. Brian McNeil moved to accept the ruling of the Administrative Law Judge to uphold the Director's determination that ASRS member Diane Styring is not permitted to change her ASRS retirement annuity option. Professor Dennis Hoffman seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

5. Presentation, Discussion, and Appropriate Action Regarding the 2014 Legislative Session

Mr. Patrick Klein, Assistant Director, External Affairs, introduced Mr. Nicholas Ponder, Government Relations Officer. Mr. Klein and Mr. Ponder presented the Bill Tracker, which summarizes ASRS 2014 legislative initiatives as well as other bills affecting the ASRS.

Mr. Klein discussed HB 2017, which amends the § 38-955 Defined Contribution Plan to require timing limitations regarding enrollment. This bill may not need to proceed if HB 2050, dealing with the elimination of the Social Security Section 218 Agreement for ASRS membership, is enacted this session.

Mr. Ponder discussed HB 2018, which amends §38-764 to establish age 62 as the earliest age a member may retire without terminating employment. Also, § 38-766 is also being amended to add a 30-day break in service before a member may return to work after retiring.

Both HB 2017 and HB 2018 passed out of the House Insurance and Retirement Committee unanimously.

The following Senate bills passed out of the Senate Finance Committee:

- SB 1082, Background Checks – allows criminal and credit background checks on current and prospective ASRS employees.
- SB 1083 Applicable Interest Rate – IRS technical change, conforming legislation.
- SB 1084, LTD Compensation Definition – amending to conform to current practice.
- SB 1085, LTD Plan Design Modification – reducing the disability benefit from 66 2/3% to 60% upon reaching the any occupation threshold.

The following are bills that affect the ASRS but not initiated by the ASRS:

- HB 2049, sponsored by Rep. Allen, removes overtime pay and other compensation from inclusion in pensionable earnings. Though heard in the House, the bill failed to advance.

The Board discussed A.R.S. §38-714 D regarding the ability of the Board to advocate for or against legislation providing for benefit modifications. The Assistant Attorney General for the ASRS affirmed that the Board does have the latitude to provide technical and administrative information regarding the impact of benefit modification legislation.

- HB 2056, sponsored by Rep. Allen, removes the opportunity to retire and return to work for an ASRS employer. The bill has not been scheduled for a hearing.
- HB 2058, sponsored by Rep. Kavanagh, places a cap of \$150,000 on compensation used for collecting contributions and for benefit calculations for prospective employees only. The bill passed out of the House Committee.
- HB 2069, sponsored by Rep. Ugenti, removes ASRS membership from employees of political subdivision entities. The bill has not been scheduled for a hearing.
- HB 2090, sponsored by Rep. Lovas, allows new employees of an ASRS employer to opt out of the defined benefit plan and opt in to a defined contribution plan. The bill has not been scheduled for a hearing.
- HB 2122, sponsored by Rep. Lovas, requires a state elected official who was elected or appointed before December 31, 2103, and who is a member of the ASRS to remain in the ASRS without the necessity of a written election. Retroactive to January 1, 2104. The bill passed out of the House Committee.
- HB 2212, sponsored by Rep. McCune-Davis, amends §38-749 to lower the compensation increase from 30% to 15%. The bill passed out of the House Committee.
- HCR 2001, sponsored by Rep. Kavanagh, seeks to modify Article XXIX of the Arizona Constitution to allow changes to the contribution rate for active members as well as allow reduction in pension benefits for retired members, if doing so is consistent with generally accepted actuarial standards. Mr. Charlie Chittenden, Actuary, Buck Consultants, expressed concern regarding the effect the bill may have as the language is very broad and vague.

- HB 2203, sponsored by Rep. Lovas, proposes changes to the make-up of the ASRS and PSPRS Boards. A discussion of the bill by the Board ensued about the appropriateness of ASRS inclusion in this legislation, resulting in a motion.

Mr. Jeff Tyne recused himself.

Motion: Dr. Richard Jacob moved to authorize the Director to oppose HB 2203.

Member of the public, Mr. Steve Ramos, AEA-Retired, expressed concern about the inclusion of the ASRS Board in this legislation and requested that ASRS be removed from this legislation.

Professor Dennis Hoffman seconded the motion.

By a vote of 8 in favor, 0 opposed, 1 abstention, and 0 excused, the motion was approved.

Mr. Brian McNeil asked that HB 2018, dealing with the age 62 and 30-day break in service modifications be discussed at the next External Affairs Committee meeting.

Mr. Tom Manos, Chair, reordered the agenda, due to Trustees' schedules, to cover the governance agenda item prior to the informational P3 Disbursement presentation.

6. Presentation, Discussion, and Appropriate Action Regarding Staff Recommended Updates to the Board Governance Policy Handbook

Mr. Matson addressed the Board regarding staff recommended updates to the Board Governance Policy Handbook. Mr. Matson explained that, in contrast to the past, the Board decided in 2013 to review the Board Governance Policy Handbook triennially, with staff performing a technical review annually. Mr. Matson provided an overview of the recommended technical changes. Language would be added to clarify that the Director appoints the state Social Security Representative. Dr. Jacob asked if this would be modified if the Legislature enacts proposed legislation, eliminating the requirement for ASRS members to participate in Social Security. Mr. Matson indicated, in that event, this would be revisited to see if it still makes sense for the agency to house the state Social Security Representative. Mr. Matson noted the verbiage regarding the Investment Committee reviewing asset class performance benchmarks, with subsequent Board approval, is a clarification of current practice, not an operational change.

Mr. Brian McNeil requested the suggested language be clarified regarding Board approval of external service providers. After some discussion, it was determined to maintain the current language at this time and bring back revised proposed language for review at an upcoming Board meeting.

Motion: Mr. Jeff Tyne moved to accept the technical revisions to the Board Governance Policy Handbook as presented, except to strike out the suggested changes regarding Board approval of external service providers. Mr. Tom Connelly seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

7. Presentation, Discussion, and Appropriate Action Regarding the Board Governance Policy Handbook Annual Responsibilities Review

Mr. Matson addressed the Board regarding the Board Governance Policy Handbook annual

responsibilities, noting portions of the report which pertained to the Board, Committees, and the Director, as well as supplemental items. He highlighted some of the most substantive responsibilities conducted in order to comply with the Handbook. Mr. Matson explained the Handbook was modified at the October 2013 Board meeting with respect to a more active role for Trustees in the strategic planning process. Mr. Matson said an independent third-party audit of the actuarial funding of ASRS benefits is to be conducted in the coming year. This audit is to be completed every five years.

8. Presentation and Discussion Regarding Update on *Kenneth Fields vs. Elected Officials' Retirement Plan Decision* (if Decision available at time of meeting)

The *Kenneth Fields vs. Elected Officials' Retirement Plan Decision* was not yet available. No discussion occurred.

9. Informational Presentation and Discussion Regarding an Analysis of the Potential Cost Savings, Potential Customer Service Flexibility, and Modified Risk Profile of Moving the ASRS to an In-house Disbursement Process

Mr. Matson addressed the Board, noting a recent initiative to determine possible ways to reduce operational costs with respect to retiree pension disbursements. His goal is for the agency to deliver top quartile services, while being in the bottom quartile for costs of those services. Mr. Guarino introduced Ms. Nancy Bennett, Chief Financial Officer, who gave a presentation regarding staff analysis of potential cost savings, potential customer service flexibility, and modified risk profile of moving the ASRS to an in-house disbursement process. Ms. Bennett noted the ASRS performed the benefit disbursement process in-house prior to 1999. She said due to concern about possible Y2K issues at the time, as well as a high volume of checks and significant cost of manual processes, the ASRS outsourced the process. She noted the most recent CEM benchmarking report showed ASRS costs to be higher than similar sized peers for the particular service. She said the main reason for the cost difference is the ASRS currently relies on an external party to:

- Deposit benefits, print and mail paper checks and remittance advices,
- Make payment deductions on behalf of members to third party vendors,
- Remit federal and state payroll taxes and tax documents to the appropriate taxing authorities.

Ms. Bennett noted processes have become much more automated now making it feasible to bring the process back in-house. She outlined areas analyzed, including the business process, risk mitigation, technology requirements, and staffing requirements. It was determined if the ASRS brings the benefit disbursement process in-house, the savings would likely be approximately \$1 million annually. Ms. Bennett said there would be an initial cost of approximately \$1-2 million for development, but a return on investment is still anticipated within three years. She fielded questions from Trustees regarding costs and potential risks.

Member of the public, Mr. Uwe Fink, expressed his concern regarding possible security risk to data, especially in light of recent national data breaches. Mr. Brian McNeil wanted staff to ensure this concern was addressed before moving forward. Ms. Bennett noted the custody bank is provided data which is already retained by the ASRS, so risk may actually be increased by having a custody bank process the transactions.

Mr. McCarthy departed the meeting at 11:08 A.M.

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

Mr. Manos noted the Director's Report was included in the Board materials. The Director had no comments and there was no discussion.

11. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Committee Meetings

a. External Affairs Committee (EAC)

Mr. Manos noted Mr. McCarthy left a note that the next EAC meeting will be held on February 14, 2014.

b. Operations and Audit Committee (OAC)

Mr. Jeff Tyne, Chair, said the next OAC meeting will be held on February 11, 2014. Cost, service, Continuity of Operations, and audits will be discussed. Mr. Tyne noted staff did a great job presenting the new scrum process and the P3 Disbursement analysis results to the OAC.

c. Investment Committee (IC)

Mr. Tom Connelly, Chair, said the next IC meeting will be held on February 24, 2014. Mr. Gary Dokes, Chief Investment Officer, noted the 4Q Total Fund, asset classes, tactical changes to investment program, private markets review, and 2014 implementation and pacing plan will be discussed. He said the Total Fund rate of return for calendar year 2013 was about 17 percent, and the fiscal year to date rate of return is approximately 10 percent.

12. Board Requests for Agenda Items

No requests were made.

13. Call to the Public

No additional members of the public requested to speak.

14. The next ASRS Board meeting is scheduled for Friday, February 28, 2014, at 8:30 A.M., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

15. Adjournment of the ASRS Board

Mr. Tom Manos adjourned the January 24, 2014 Board meeting at 11:17 A.M.

ARIZONA STATE RETIREMENT SYSTEM

Lisa Maddox Date

Paul Matson Date

Board Administrator

Director