



# 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, April 25, 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 8:32 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 (via teleconference)  
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. Approval of the Minutes of the March 28, 2014 Public Meeting and Executive Session of the ASRS Board

**Motion:** Professor Dennis Hoffman moved to approve the minutes of the March 28, 2014 Public Meeting and Executive Session 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.

### 3. Approval, Modification, or Rejection of Administrative Law Judge's Recommended Decision Regarding Mr. Ryan Fetter's Appeal of Long Term Disability Benefits

Mr. Tom Manos, Chair, noted the Board materials indicated Mr. Ryan Fetter did not appear for his hearing before the Administrative Law Judge (ALJ). ALJs have historically taken no action when an Appellant fails to appear, because the Appellant bears the burden of proof. In this matter, the ALJ issued a Recommended Decision that the appeal be denied. Trustees had no questions and there was no discussion. Mr. Fetter was not present. A representative of Mr.

Fetter was not present.

**Motion:** Mr. Jeff Tyne moved to accept the ruling of the Administrative Law Judge to uphold the Director's determination that Mr. Ryan Fetter was no longer disabled and therefore not eligible for ASRS Long Term Disability benefits effective May 15, 2013. Mr. Kevin McCarthy seconded the motion.

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

#### **4. Presentation, Discussion, and Appropriate Action Regarding the Sensitivity of Pension and Health Supplement Contribution Rates and Funded Status to Various Investment Returns**

Mr. Charlie Chittenden, Actuary, Buck Consultants, presented the results of an analysis conducted to analyze the long-term sensitivity of contribution rates and funding status to changes in investment rates-of-return and membership growth. He noted the analysis modelled the effects on the next 30 years of contribution rates and funded status, based upon hypothetical returns on U.S. and Non-U.S. equities (public and private) in fiscal year 2015 of -10% / +10%, -20% / +20%, -30% / +30%, and 0% return on all other asset classes. Mr. Chittenden explained these returns correspond to returns on total assets of -6.3% / +6.3%, -12.6% / +12.6%, and -18.0% / +18.0% respectively. He presented various scenarios outlining the resulting projected contribution rates and funded status. Trustees discussed possible alternative future rate-of-return scenarios, such as sustained low returns over multiple years versus a large loss in only one year. Mr. Chittenden noted one year of very poor returns without subsequent high rates-of-return would likely lead to higher contribution rates for many years because the effect of the loss would be smoothed over many years. Trustees asked about possible strategies to mitigate possible future losses. One strategy could be to introduce greater diversification of the Fund, although there are additional risks with such strategies. Another strategy could be lowering the equity allocation of the fund, although this may result in higher contribution rates of a more permanent nature. The risks related to both higher risk and higher return assets, as well as lower risk and lower return assets were discussed.

The concept, and relevance or non-relevance, of generational equity was also discussed as it related to fiduciary duties and legislative history.

Trustees asked about the possible effect if the assumed rate of return were lowered to, for instance, 7% instead of 8%. Mr. Chittenden noted the contribution rate would immediately increase, but in the long term it could become more certain. Mr. Manos indicated this was a very informative presentation.

#### **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. The Legislature adjourned Regular Session on April 24, 2014. Mr. Ponder said the effective date of all legislation is July 24, 2014, unless noted otherwise.

Mr. Ponder discussed the following bills which passed:

- HB 2039 (Charter schools; Higher education sponsors): The bill allows charter schools which have their charter sponsored by a university to become members of the ASRS. The bill is retroactive to July 1, 2011. The Governor signed this bill.
- HB 2050 (ASRS membership; Section 218 requirements): This bill eliminates the requirement that members must be covered by an employer's Social Security §218 Agreement and does not allow those already contributing to Social Security to opt out of ASRS membership. The bill allows for the closure of the §38-955 Defined Contribution (DC) Plan, because employees who would have been eligible for the DC Plan will now be required to contribute to the ASRS, and the DC Plan becomes unnecessary. The Governor signed this bill.
- HB 2122 (ASRS; Election/ EORP Defined Contribution): The bill requires a state elected official who was elected or appointed prior to December 31, 2013, and who is an ASRS member because he/she previously elected not to participate in the EORP DC Plan, is no longer required to elect to continue or resume participation in the ASRS in writing, and is mandatorily subject to the ASRS without the election. The bill is retroactive to January 1, 2014. The Governor signed this bill.
- HB 2321 (Procurement Code Omnibus): The bill makes various changes to the Procurement Code. State employees who have a significant procurement role are prohibited from accepting a position with or having employment discussions with the successful offeror and their lobbyists during a certain timeframe relating to solicitation and contract award. The Governor signed this bill.
- SB 1082 (ASRS; Employee background checks): The bill would allow the ASRS to perform credit and background checks on current and prospective employees. The bill passed out of the House and is ready for the Governor.
- SB 1083 (ASRS; Applicable Interest Rate; definition): The bill makes technical conforming changes. The Governor signed this bill, which is now awaiting a Chapter number.
- SB 1084 (ASRS; LTD Compensation): The bill clarifies how the ASRS calculates average monthly compensation for LTD benefits. The Governor signed this bill.

Mr. Ponder noted the following bills were dead:

- HB 2017 (ASRS; §38-955 Defined Contribution Plan): The bill would have made technical changes to the DC Plan.
- HB 2018 (ASRS; In-service distributions): The bill would have made changes to ensure employees have at true break in service, of at least 30 days, between the time they retire and the time they return to work for any ASRS employer.
- SB 1085 (ASRS; LTD program): The bill would possibly have changed the income replacement ratio for those on LTD from 66 2/3% to 60% after 24 months of disability.
- HB 2058 (Public Pension; Limit on Compensation): This bill would have implemented a cap of \$150,000 on earnings eligible for contributions affecting employees hired on or after the effective date.

Mr. Manos and Mr. Jeff Tyne thanked staff for their hard work during the legislative session.

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

Mr. Matson presented the Director's Report. He said the Office of the Auditor General is conducting a Sunset Audit of the ASRS, and the focus seems to be on the financial condition of the pension fund, with additional interests in salary spiking, IT security, and contracts.

Mr. Matson noted there is an RFP out for the Retiree Health Insurance program and the evaluation committee will meet after the Board meeting.

Mr. Matson asked Trustees to inform him of any strategic topics they wish the Board to discuss at future Board meetings.

Mr. Matson informed the Board of a possible error for service credit discovered on the ASRS website, where, for instance, a year of service estimate of 20 years may be erroneously shown as 19.99 years.

Mr. Matson also said the agency is working with the custody bank before proceeding with the possibility of bringing pension payroll disbursement in-house. Specifically, the costs of other services that the custody bank provides, such as security lending, need to be decomposed in order to determine the extent internal financial cross-subsidization.

## **7. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Committee Meetings**

### **a. Operations and Audit Committee (OAC)**

Mr. Jeff Tyne, Chair, said the next OAC meeting will be held on April 30, 2014. Topics to be discussed are internal information technology security and recent audits.

### **b. External Affairs Committee (EAC)**

Mr. Kevin McCarthy said the May 9, 2014 meeting has been cancelled because the Legislative Session is over. He commended Mr. Nick Ponder for his professionalism and thanked staff for their hard work.

### **c. Investment Committee (IC)**

Mr. Tom Connelly, Chair, said the next IC meeting will be held on June 23, 2014. ASRS Investment Program Updates, Total Fund 1Q, consultant review, fixed income asset class presentation, and risk parameters will be discussed.

## **8. Board Requests for Agenda Items**

No requests were made. Mr. Manos asked Trustees to contact him or Mr. Matson regarding specific strategic policy topics they would like addressed in a future Board meeting.

**9. Call to the Public**

No members of the public requested to speak.

**10. The next ASRS Board meeting is scheduled for Friday, May 23, 2014, at 8:30 A.M., at 3300 N. Central Avenue, 10<sup>th</sup> Floor Board room, Phoenix, Arizona.**

**11. Adjournment of the ASRS Board**

Mr. Tom Manos adjourned the April 25, 2014 Board meeting at 9:59 A.M.

ARIZONA STATE RETIREMENT SYSTEM

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Lisa Maddox  
Board Administrator

Date

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Paul Matson  
Director

Date