



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, May 23, 2014
8:30 a.m., AZ Time**

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 8:31 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. Brian McNeil
Professor Dennis Hoffman
Mr. Jeff Tyne
Mr. Kevin McCarthy
Mr. Marc Boatwright
Dr. Richard Jacob (via teleconference, minimal connection available)
Mr. Tom Connelly (via teleconference)

A quorum was present for the purpose of conducting business.

2. Presentation Regarding PRIDE Award for Results

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, recognized the following nominees for the PRIDE Award for Results: Website and GPS Development Team: (Dave King (Website Project Manager), Julie Lockwood (GPS Project Manager), Pamela Voza, David Cannella, Sara Orozco, Carol English, LaToya Charles, Trent Kendall, Jean Langston, Frances Dyer, Donna McNally; Jean Langston; Erica Dunphy; TSD Unusual Suspects Team (RTW Workflow and Smart Form project): Trent Kendall, Sunitha Surendra, Srinivasa Attaluri with the assistance of consultants Divya Kuchal, Parameshwari Vonteddu, Vignesh Bhaskaran; Joy Fuentes; Member Advisory Center (MAC); and Molly Mahai, Gary Hummel, Sean Stevens, Bruce Pampel. They were nominated by staff who feel they exemplify the following PRIDE qualities of results:

- Meet goals and objectives
- Satisfy customers
- Complete projects
- Attain individual accomplishments
- Produce quality work products
- Successfully manage risks

Mr. Guarino presented the PRIDE Award for Results to the award winners, the Website and GSP Development Team. Members of the team are Dave King, Julie Lockwood, Pamela Vozza, David Cannella, Sara Orozco, Carol English, LaToya Charles, Trent Kendall, Jean Langston, Frances Dyer, and Donna McNally.

3. Approval of the Minutes of the April 25, 2014 Public Meeting of the ASRS Board

Motion: Professor Dennis Hoffman moved to approve the minutes of the April 25, 2014 Public Meeting of the ASRS Board. Mr. Brian McNeil seconded the motion.

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

4. Presentation, Discussion, and Appropriate Action Regarding a Study of Pre-retirement Salary Changes

Mr. Brian Crockett, Senior Management Analyst, presented an analysis of pre-retirement salary changes for ASRS members. The Board previously requested staff to prepare an analysis of actual salary changes of members leading up to retirement to determine; (1) If unusual pre-retirement salary patterns exist, and (2) If actuarial assumptions with respect to salary changes appear reasonable.

Mr. Crockett explained the analysis included all members who retired on or after July 1, 2008, and had a finalized retirement calculation completed prior to April 23, 2014; a cohort of approximately 43,000 retirees. The results of the analysis were grouped by salary change ranges and presented in aggregate as well as by distinct employer type. Mr. Crockett noted the analysis shows that, in general, there are limited increases in salary changes as a member approaches retirement. Mr. Crockett also noted that approximately 25% of the largest salary increases appeared to be related to change in employment status, meaning that members transitioned from part-time to full-time status. Based on the results of the last three 5-year experience studies, the salary scale used to determine future liability accruals and contribution rates appears appropriate for the actual salary changes experienced by members.

Mr. Crockett, Mr. Charlie Chittenden, Actuary, Buck Consultants, and Mr. Paul Matson, Director, responded to several questions from Trustees.

5. Presentation, Discussion, and Appropriate Action Regarding Strategic Topics to be Discussed by the Board During Fiscal Year 2015

Mr. Tom Manos, Chair, noted this topic resulted from Trustee requests to focus more on high-level strategic topics in Board meetings. Mr. Matson presented to the Board a list of potential strategically focused topics for discussion at Board meetings in the upcoming fiscal year. The topics were identified based on dialog at Board and Committee meetings, discussions between the Director and the Board Chair, and discussions between Executive Staff and Board Committee Chairs.

The potential topics presented were as follows, with specific staff to act as project managers, and specific trustees asked to serve as advisors as noted:

1. Fiduciary Role of Trustees (*Mr. Matson and Board Chair*)
 - Role of the Board
 - Strategic Direction and Overseeing Versus Management and Execution
 - Generational Equity Versus Funding Rapidity

2. Board Governance Model (*Mr. Matson and Board Chair*)

- Optimal Reporting Requirements
- Disseminating Consultant Opinions to the Board
- Disseminating Staff Opinions to the Board
- Incorporating Trustee Expertise within the Governance Model

Mr. Marc Boatwright requested “Developing Trustee Expertise” be added to Board Governance Model. Mr. Matson indicated he would add it to the topic.

3. Asset Allocation (*Mr. Matson, Mr. Dokes, Investment Committee Chair, and General Investment Consultant*)

- Issues to Consider: Liabilities, Monetary Intervention, Diversification, Equity Allocations, Risks, Volatility, etc.
- Current Objectives, Beliefs, etc.
- Best / Most Appropriate Fit
- Expected Long Term Rate-of-Return
- Impacts of Changing the Long Term Rate-of-Return
- Impacts of Not Meeting the Long Term Rate-of-Return
- Peer & Non-Peer Comparative Implications (Corporate, Other States, Endowments)
- Compared to Assumed Rate
- Financial Implications for Funded Status
- Financial Implications for Contribution Rates: Magnitude and Timing

Mr. Jeff Tyne requested adding a topic regarding generational equity as it relates to Trustees’ roles as fiduciaries. Mr. Matson indicated he would add this idea to one of the strategic topics, possibly the asset allocation topic.

4. Operational Capacity (*Mr. Guarino and Operations and Audit Committee Chair*)

- Budget Process
- Staffing Strategies
- Risks: IT Security, Investment Management, Customer Service

5. Member Service Paradigm (*Mr. Guarino and Operations and Audit Committee Chair*)

- Current Services Offered
- Current Challenges
- Current Paradigm
- Future Service Development
- Communications
- Compliance

6. Employer Service Paradigm (*Mr. Klein, Mr. Guarino and External Affairs Committee Chair*)

- Current Services Offered
- Current Challenges
- Current Paradigm
- Future Service Development
- Communications
- Compliance

7. Membership Rules (*Mr. Klein and External Affairs and Operations and Audit Committee Chairs*)

- Current Definitions
- Current Issues
- Consideration of Possible Modifications

8. Health Care: Implications of Federal Legislation, Market Place Dynamics, and Key Economic Components of the ASRS Paradigm (*Mr. Matson, Mr. Klein, External Affairs and Operations and Audit Committee Chairs*)
- Status Quo
 - Possible Direction of ASRS Health Insurance Programs
 - Impact of Exchanges on ASRS HI Programs
 - Retrospective Rate Adjustment and Converted Funds
 - Whole Case Underwriting

Trustees gave approval of the topics presented.

6. Notification of Upcoming Board Elections to Occur at the June 27, 2014 Board Meeting

Mr. Tom Manos, Chair, addressed the Board regarding upcoming Board elections to occur at the June 27, 2014 Board Meeting. Pursuant to the ASRS Board Governance Policy Handbook, the ASRS Board is to elect a Board Chair and Vice-chair for Fiscal Year 2014/2015. The new Chair and Vice-chair positions will become effective July 1, 2014, and will continue through June 30, 2015.

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

Mr. Matson presented the Director's Report, stating the Total Fund fiscal year to date rate of return is approximately 15 percent.

Mr. Matson noted responses to the RFP for the Retiree Health Insurance program have been received and a recommendation by the evaluation committee may be presented at the June 27 Board meeting.

8. 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 June 10, 2014. Topics to be discussed are internal information technology security risk management and the FY16/17 budget.

b. External Affairs Committee (EAC)

Mr. Kevin McCarthy said the next EAC meeting will be held on September 12. Topics to be discussed are legislation for the next session and the strategic topic, "employer service paradigm."

c. Investment Committee (IC)

Mr. Tom Connelly, Chair, said the next IC meeting will be held on June 23, 2014. Total Fund 1Q review will be discussed. Tentative arrangements have been made for four external parties to dialog with the IC at the August 18 IC meeting on topics critical to asset allocation and smart beta. Mr. Connelly welcomed the Board and public to attend.

9. Board Requests for Agenda Items

No requests were made.

10. Call to the Public

Mr. Adam Lang, attorney for Ms. Bonnie Pendergast requested to speak. Mr. Lang addressed the Board giving a procedural history of the *Pendergast v. Arizona State Retirement System* case and encouraged the Board not to appeal.

11. Presentation, Discussion, and Appropriate Action Regarding *Pendergast v. Arizona State Retirement System* and possible Petition for Review to the Arizona Supreme Court

Motion: Professor Dennis Hoffman moved to go into executive session. Mr. Kevin McCarthy seconded the motion.

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

The Board convened into executive session at 9:40 a.m.

The Board reconvened into public session at 10:31 a.m.

Motion: Mr. Kevin McCarthy moved to direct counsel to proceed to file Petition for Review to the Arizona Supreme Court before June 2. Professor Dennis Hoffman seconded the motion.

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

12. The next ASRS Board meeting is scheduled for Friday, June 27, 2014, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

13. Adjournment of the ASRS Board

Mr. Tom Manos adjourned the May 23, 2014 Board meeting at 10:38 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Lisa Maddox
Board Administrator

Date

Paul Matson
Director

Date