



ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000
4400 EAST BROADWAY BOULEVARD • SUITE 200 • TUCSON, AZ 85711-3554 • PHONE (520) 239-3100
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778
AZASRS.GOV

*Paul Matson
Director*

MINUTES OF A PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM OPERATIONS, AUDIT & LEGISLATIVE COMMITTEE

**Wednesday, October 9, 2019
2:30 p.m., Arizona Time**

A quorum of the Operations, Audit & Legislative Committee (OALC) of the Arizona State Retirement System (ASRS) met in public session in the 14th Floor Conference Room of the ASRS Office, 3300 N. Central Avenue, Phoenix, Arizona 85012.

Mr. Clark Partridge, Chair of the OALC, called the meeting to order at 2:33 p.m.

The meeting was teleconferenced to the ASRS office at 4400 E. Broadway, Tucson, Arizona 85711.

1. Call to Order; Roll Call; Opening Remarks

Mr. Clark Partridge, Chair, welcomed the attendees.

Present: Mr. Clark Partridge, Chair
Mr. Rene Guillen (joined the meeting via teleconference at 2:34 p.m.)

Excused: Mr. Tom Manos, Vice-chair

A quorum of the Committee was present for the purpose of conducting business.

2. Approval of the Minutes of the July 10, 2019 Public Meeting of the OALC

Motion: Mr. Rene Guillen moved to approve the Minutes of the July 10, 2019, Public Meeting of the OALC. Mr. Clark Partridge seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved
Mr. Tom Manos – excused
Mr. Rene Guillen – approved

3. Presentation, Discussion, and Appropriate Action Regarding the 2020 ASRS Legislative Initiatives

Mr. Anthony Guarino turned the presentation over to Ms. Jessica Thomas, Government Relations Officer and Rules Writer. Ms. Thomas advised the Committee, based on staff discussions; there are three recommended statute amendments to be placed on the 2020 ASRS Legislative Agenda. Ms. Thomas reviewed the following recommendations in detail:

- Amend A.R.S. §§ 38-782(A) and 38-783(F) to clarify how the ASRS may implement a self-insurance program by utilizing the HBS fund for reserves as needed.
- Amend A.R.S. § 38-738 to indicate that the Employer must request a credit and return the employee portion to the employee. Also, amend the statute to indicate that a CNW cannot be completed after death of the member.
- Amend A.R.S. § 38-775 to indicate that the ASRS will treat non-retired members who die after the federally mandated Required Minimum Distribution (RMD) date as if they had retired with a straight life annuity on their RMD date and will distribute survivor benefits accordingly.

Motion: Mr. Rene Guillen moved to accept and forward the recommended 2020 ASRS legislative initiatives to the full Board for approval. Mr. Clark Partridge seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved
Mr. Tom Manos – excused
Mr. Rene Guillen – approved

4. Presentation, Discussion, and Appropriate Action Regarding Rulemaking Initiative for R2-8-122, Remittance of Contributions

Ms. Jessica Thomas presented rulemaking language pertaining to Arizona Administrative Code (A.A.C.) R2-8-122, Remittance of Contributions. Ms. Thomas explained that two new subsections were being added to this rule as follows:

- Added language clarifying that contributions must be remitted based on the rate that was in effect on the employer's pay period end date.
- Added language regarding the certification that each employer signs when submitting the file format indicating what contributions are being remitted. This is to certify that the employee that is on the payroll document is in fact their employee and has met the requirement of active membership and all the contributions being remitted are eligible for compensation under statute.

Ms. Thomas responded to questions from the Committee.

Motion: Mr. Rene Guillen moved to approve the draft rulemaking language to be filed with the Secretary of State. Mr. Clark Partridge seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved
Mr. Tom Manos – excused
Mr. Rene Guillen – approved

5. Presentation, Discussion, and Appropriate Action Regarding an Update on Rulemaking Initiatives

Ms. Jessica Thomas reviewed the outstanding rulemaking activities from the 2018 and 2019 Regulatory Agenda with the Committee as follows:

- 2018 Regulatory Agenda
 - 2 A.A.C. 8, Article 5, and 2 A.A.C. 8, Article 7, has been completed and became effective March 18, 2019.
 - 2 A.A.C. 8, Article 1, R2-8-126, the filing has been postponed. Although staff has completed the draft language, the filing has been postponed pending completion of two additional rulemakings on the 2019 Regulatory Agenda that are closely related to this rule. This is to eliminate multiple submissions of the same rule. All recommended amendments will be contained in one submission.
- 2019 Regulatory Agenda
 - 2 A.A.C. 8, Article 1, R2-8-122; 2 A.A.C. 8, Article 1, R2-8-115; and 2 A.A.C. 8, Article 1, R2-8-120 are expected to be completed and filed by the end of the calendar year.

Upon responding to questions from the Committee, Ms. Thomas proceeded to review the proposed 2020 Regulatory Agenda of which will require a full Board approval in November. Five rulemakings have been identified, most of which correspond with legislation passed this year as follows:

- 2 A.A.C. 8, Article 9 (Compensation) – may consider resurrecting some of the rules that were expired in 2018 to now correspond with the new definition of compensation
- 2 A.A.C. 8, Article 1, R2-8-121 (new rule) – Non-participating Employer Invoices
- 2 A.A.C. 8, Article 1, R2-8-116 – Alternate Rate Contribution Rate Credits
- 2 A.A.C. 8, Article 3, (Long Term Disability) – codify in rule how the ASRS is applying the new statutory definition going forward
- 2 A.A.C. 8, Article 1, R2-8-119 (new rule) – Liability invoices under A.R.S. § 38-748

Ms. Thomas also advised the Committee that agencies are required to complete a five year rule report and the ASRS is scheduled for this review during 2020 of the following Articles: 2 A.A.C. 8, Articles 1, 2, 4, and 5.

Motion: Mr. Rene Guillen moved to accept and forward the recommended 2020 ASRS Regulatory Agenda to the full Board for approval. Mr. Clark Partridge seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved
Mr. Tom Manos – excused
Mr. Rene Guillen – approved

6. Presentation, Discussion, and Appropriate Action Regarding the ASRS Internal Audit Division Strategy and Fiscal Years 2020 and 2021 Biennial Audit Plan

Mr. Anthony Guarino introduced the topic indicating the Internal Audit Division (IAD) has been working on reconstituting the internal audit program for several months to better align with some of the agency's strategic interests such as risk management and operational effectiveness. Mr. Guarino turned the presentation over to Mr. Harold Mackey, Chief Internal Auditor.

Mr. Mackey referenced the two documents included in the meeting materials stating that the Strategy Document is intended for review and consumption and would not be discussed in great detail. The Biennial Audit Plan would be reviewed in detail prior to forwarding to the full Board for approval in November.

Mr. Mackey provided highlights of the following contained in the Strategy Document:

- Changes in collaboration with the ASRS operations
- Alignment of the IAD with ASRS strategic priorities
- Setting foundations to move forward as an organization
- Focus on the agency's risks

Mr. Mackey responded to questions from the Committee prior to moving on to the review of the Biennial Audit Plan. Mr. Mackey summarized the approach IAD took in developing the Biennial Audit Plan and indicated the IAD will be performing more follow-up monitoring to ensure noted deficiencies are corrected. Mr. Mackey concluded the presentation by indicating once the plan is approved; the IAD will work with the Strategic Planning and Analysis Team to assign the appropriate risk tolerances to be included in the strategic priorities.

Motion: Mr. Rene Guillen moved to accept the proposed Biennial Audit Plan and forward it to the full Board for approval. Mr. Clark Partridge seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved
Mr. Tom Manos – excused
Mr. Rene Guillen – approved

7. Presentation, Discussion, and Appropriate Action Regarding the Internal Audit Quarterly Update

Mr. Harold Mackey reviewed the quarterly audit report with the Committee and provided the status of projects IAD is currently working on. Mr. Mackey noted the items in the "Follow-up Monitoring" were primarily the high risks identified in the CliftonLarsenAllen assessment completed a couple of years ago. Moving forward, the IAD will be confirming the assessment findings have been implemented and that there is sufficient evidence for future assessments. Mr. Mackey briefly touched base on the additional items on the "Follow-up Monitoring" slides in addition to reviewing the "Legislation Implementation", "Fraud Monitoring" and "Budget/Hours Allocation" slides. With regard to the "Budget/Hour Allocation" slide, Mr. Partridge suggested adding a targeted completion date.

Mr. Mackey responded to questions from the Committee.

8. Presentation, Discussion, and Appropriate Action Regarding the ASRS Strategic Communications Initiatives

Mr. Anthony Guarino introduced the topic indicating the agency has been freshening up the Communications Program and introduced Ms. Pam Foust, Strategic Communications Manager who will be sharing the results of the recent brand review.

Ms. Foust shared that in late 2017 the Strategic Communications team discussed with executive management the opportunity to reassess the agency's brand. Ms. Foust stated that it has been a

number of years since the brand was reviewed and the communications climate has changed since that time. Ms. Foust shared that the ASRS does well with communicating with its members but it's on a larger scale and the ASRS needs to move toward more targeted communications. The last brand review in 2009 is when the PRIDE Values were established; however, the PRIDE Values have become an internal brand rather than an external brand. We are currently using the ASRS seal which is outdated and indistinguishable from the State seal and does not make the ASRS visually memorable. Ms. Foust added that there have been some inconsistencies in communication as this responsibility has been shared with other divisions/units while the Communications team was expanding. Now was the time to take a deeper look into our capabilities of delivering communications effectively as well as update the ASRS visuals.

In 2018 a team was created to take on the ten-month long brand project consisting of: Ms. Melanie Alexander, Director's Officer; Ms. Jana George, Human Resources; Mr. Jeremy Pond, Financial Services; Ms. Wendy Tobin, Employer Relations; Mr. Ben Robinson, Member Education (now Strategic Communications); Mr. Aaron Chandler, Training and Development (now Strategic Communications); Mr. Nate Brengle, Strategic Communications; and Ms. Pam Foust, Strategic Communications. The Brand Team also worked with an outside consultant, Accenture, to assist with focus groups, survey tools, assessing our processes and capabilities, etc.

The visual brand is the outcome of all of the data received from our surveys and focus groups. The most important ASRS traits to our members, in order are:

- Trusted (well-managed, honest, efficient, secure, knowledgeable, intelligent)
- Caring (human, responsive, engaging, educational)
- Stable (sustainable, responsible, low cost, lean)
- Valuable (value-added, beneficial, personal value)
- Forward-Thinking (progressive, growth-minded)

The traits were then used to create the visual mark and brand positioning statement for the ASRS. Ms. Foust stated this past summer there was a soft rollout of the new recommended brand logo and positioning statement with a wider roll-out planned this year which will be included in ASRS member videos and communication. Ms. Foust introduced Mr. Nate Brengle, Creative Director, and the designer of the new ASRS logo, to share the meaning of the visuals. Mr. Brengle stated that similar to the brand positioning statement the goal for the logo was to create something that will stand the test of time that can be used for many years but also represent our members, our core values, and speaks to who we are and what we do. The logo represents the Arizona sun, created from people representing the growth of our members.

Next, based on the feedback and survey results, is targeted communications. During this project member personas were identified and the survey results assisted in gathering information pertaining to their messaging needs. The five personas identified are as follows:

1. New Member – been a member less than five years, digitally savvy, knows very little about the ASRS
2. Member Nearing Retirement – retiring within 5 years, on social media but not ASRS social media, eager to retire but overwhelmed about where to start
3. New Retiree – wonders “what’s next”, worried they haven’t saved or planned enough, the high cost of insurance and looking for ongoing retirement education
4. Long-Term Retiree – retired 10+ years, worries about the security of their pension, high cost of health insurance, what happens when they die and they prefer traditional communication

5. Inactive Member – we have no current location (address/email address) on many of these and those we have contacted don't realize they have funds on account or what their options are for disbursement

Ms. Foust further stated we not only need to gear communications appropriately but also by the method in which these personas indicate they prefer in order to reach a larger audience. The ASRS will be exploring methods such as text messaging to steer members to the ASRS social media. As needed, additional personas may be developed.

Ms. Foust reviewed the planned Communication Initiatives for Fiscal Years 2020-2022 as follows:

1. Visual Brand Implementation – across all communication channels
2. Enhance Maturity – implement clear, consistent processes across all communication channels
3. Persona Implementation – begin transition to targeted communications
4. Member Email Addresses – improve use/handling of email addresses
5. Social Media – expand use of social media, used widely by each of our member groups
6. Text Messaging – explore use of real-time notifications via text messaging
7. Directors Messaging – implement quarterly video series to communicate important messages

Ms. Foust concluded by briefly reviewing possible future initiatives.

9. Presentation, Discussion, and Appropriate Action Regarding the 2020 OALC Meeting Schedule

Mr. Clark Partridge reviewed the proposed 2020 meeting schedule as follows:

- January 8, 2020 @ 2:30 p.m.
- April 8, 2020 @ 2:30 p.m.
- July 8, 2020 @ 2:30 p.m.
- October 14, 2020 @ 2:30 p.m.

Motion: Mr. Rene Guillen moved to approve the proposed 2020 OALC meeting schedule. Mr. Clark Partridge seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved
Mr. Tom Manos – excused
Mr. Rene Guillen – approved

10. Presentation, Discussion, and Appropriate Action Regarding the ASRS Information Security Program

Motion: Mr. Rene Guillen moved to go into executive session pursuant to A.R.S. § 38-431.03(A)(2) for the purpose of discussion or consideration of records exempt by law from public inspection. Mr. Clark Partridge seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved
Mr. Tom Manos – excused
Mr. Rene Guillen – approved

The Committee convened to Executive Session at 3:51 p.m.

The Committee reconvened to Public Session at 5:18 p.m.

11. Requests for Future Agenda Items

None were requested.

12. Call to the Public

No members of the public requested to speak.

13. The next regular public OALC meeting is scheduled for Wednesday, January 8, 2020, at 2:30 p.m., at 3300 N. Central Avenue, in the 14th Floor Conference room, Phoenix, Arizona.

Mr. Clark Partridge noted the next OALC meeting is scheduled for Wednesday, January 8, 2020 at 2:30 p.m.

14. Adjournment of the OALC

Motion: Mr. Rene Guillen moved to adjourn the meeting at 5:19 p.m. Mr. Clark Partridge seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved
Mr. Tom Manos – excused
Mr. Rene Guillen – approved

Respectfully Submitted,

Melanie A. Alexander
Committee Administrator
ARIZONA STATE RETIREMENT SYSTEM