

2015 Board Meetings

January	30
February	27
March	27
April	24
May	29
June	26
August	28
September	25
October	30
December	4

Meetings begin at 8:30 a.m. in the ASRS Phoenix Board Room at 3300 N. Central Avenue, 10th Floor, unless otherwise posted. Schedule is subject to change. For Information please visit us at www.azasrs.gov.

Did You Know...



The ASRS has introduced a significant number of online capabilities from 2010—2014. These capabilities generally fell into 4 categories:

- 1) New online Service transaction capabilities
- 2) An updated secure website, coupled with a new, online member statement
- 3) Enhanced communication capabilities, including updated messaging in existing mediums as well as new digital mediums
- 4) Enhanced educational materials and capabilities

ASRS Board of Trustees

As of June 30, 2014



Thomas Manos
Chair
Retirees



Michael Smarik
Vice Chair
State Employees



Thomas Connelly
Public



Dr. Dennis Hoffman
Public



Kevin McCarthy
Public



Brian C. McNeil
Member At Large



Jeff Tyne
Political Subdivisions



Dr. Richard Jacob
Educators



Marc Boatwright
Public

ASRS Board Trustees are appointed to three-year terms by the governor and are confirmed by the Arizona State Senate. Four trustees of the Board must have a minimum of 10 years investment experience and each trustee who represents an ASRS member group shall have no less than five years of administrative management experience. There is no limit to the number of terms a Trustee may serve.

Message from the Director

To Our Members:

I am pleased to present the 2014 Popular Annual Financial Report (PAFR) for the Arizona State Retirement System (ASRS) for the fiscal year ended June 30, 2014. This year's PAFR theme features the interactive, multi-media tool called the Guide to Pre-Retirement Services (GPS), launched in 2014, to assist members with navigating the retirement process and understanding their benefits.

The information presented here is a reader-friendly summary of the more detailed 2014 Comprehensive Annual Financial Report (CAFR), which is prepared and presented in conformity with Generally Accepted Accounting Principles. The PAFR is not intended to supplement the CAFR; rather, it is a concise summary of the financial health, investment performance and key accomplishments of the ASRS throughout fiscal year 2014. I encourage you to visit our website at <https://www.azasrs.gov/content/annual-reports> where you can find the report.

The ASRS is a cost-sharing, multiple-employer, defined benefit pension system that provides benefits to approximately 551,000 state public servants. ASRS Executive Management continues to closely monitor the health and stability of the funds that provide retirement benefits, long-term disability coverage and health insurance programs for our members. I am pleased to report that the viability of our funds remains strong.

In fiscal year 2014, the ASRS paid in excess of \$2.70 billion in benefits to 132,194 retired members, beneficiaries and disabled members.

Among our major initiatives over the past year was a continued review of our Strategic Asset Allocation Policy. This critical document sets the foundation for management of our total investment portfolio, which was \$35.6 billion at fiscal year end. Net investment returns for fiscal year 2014 were 18.6% compared to 13.1% in fiscal year 2013, which were in part a result of strong performance in U.S. and international equities, as well as a conscious overweighting of various investment categories.

The ASRS continues to be engaged in program and policy review and, when appropriate, will continue to seek legislative or other changes to ensure the retirement system operates efficiently and effectively. The ASRS has invested in technology and online solutions to achieve the highest level of service in a cost-efficient environment. We have improved work flows, focused on risk management and collaborated with our employees to nurture staff morale and sustain high levels of member satisfaction.

The ASRS is committed to prudent management of the overall operations and assets of the retirement system for the benefit of our members. At the same time, we are keenly aware of our responsibilities to the State of Arizona, its taxpayers, our members and employer partners.

We appreciate the cooperation extended by the Governor's Office and the State Legislature, which enables and empowers us to meet the challenges we face in today's economic climate.

On behalf of the ASRS staff, we look forward to serving you in the coming years.

Kind regards,

Paul Matson, Executive Director

Executive Staff



Paul Matson
Executive Director



Anthony Guarino
Deputy Director,
Chief Operations Officer



Gary R. Dokes
Chief Investment Officer

Delivering service with...

PRIDE

OUR VISION

For the benefit of our members... the Arizona State Retirement System will be a leading state benefit plan administrator in the areas of:

- Core Member Services
- Investment Performance
- Funded Status
- Operational Effectiveness

This will be accomplished while keeping program benefits and associated costs relatively aligned and maintaining actuarial and fiscal integrity.

OUR VALUES

Professionalism.

A highly capable workforce will promote a professional and respectful environment and *lead* the organization.

Results.

A results-oriented approach to operations will *energize* the organization.

Improvement.

A climate of continuous quality improvement and enhanced efficiencies will *drive* the organization.

Diversity.

Engagement of diversity by the appreciation, recognition and support for all people will *propel* the organization to ever greater achievement.

Excellence.

A commitment to service excellence will *permeate* the organization.

Significant New Legislation

Legislated Plan Changes Enacted by the 2013 Legislature of the State of Arizona:

- Amortization—The legislation allows the ASRS Board to determine the periods over which to amortize deficits or surpluses.
- Survivor Benefits—The legislation removed the requirement that a survivor's benefit must exceed \$5,000 to qualify for an annuity election. It limits the annuity option for the survivor to the single-life option, provided the annuity amount is greater than an amount selected by the ASRS Board (presently \$100 per month).
The legislation eliminated the present value calculation that was available upon the death of a member who had reached early retirement eligibility or had 15 years of service.
- Permanent Benefit Increase—The legislation eliminates Permanent Benefit Increases for members hired after September 12, 2013.
- Health Insurance Program—The legislation permits the ASRS Board to establish a self-insured health insurance program and an account to administer such a program, provided the self-insured program offers all the benefits required by Title 20.

These changes were taken into account in the most recent actuarial valuation.



Guide To Pre-Retirement Services

Feel like you need a GPS? We have one for you—a **Guide to Pre-Retirement Services** linking you to specific resources that will help navigate your future.

Start your journey at:
www.azasrs.gov



Our History

In 1912, Arizona's first year of statehood, the first teacher retired with an Arizona State teacher's pension. From 1912 until 1943, Arizona teachers were granted pensions by the State Legislature if they had at least 30 years of service in Arizona schools and were 65 years of age or older. All teachers' pensions were \$50 per month; there were no member deposits or survivor benefits.

During the late 1930s and early 1940s, there was intense activity to create a formal retirement plan for Arizona teachers. The Legislature created the Teachers' Retirement System, effective July 1, 1943. All certified, full-time teachers were members, contributing to a retirement plan with a fixed benefit formula. The employer contribution rate varied, but could not exceed 5.03% of the first \$3,600 of teachers' salaries.

In 1953, the Arizona State Retirement System was created to provide retirement and other benefits for state employees, including university faculty and employees of the State's political subdivisions who signed a membership contract. Active teachers voted to join the ASRS in 1954, and transferred to the ASRS on January 1, 1955. The Teachers' Retirement System continued to pay retirement benefits to retired teacher members who were ineligible to join the ASRS.

In 1970, the Legislature agreed to enact the current Arizona State Retirement System Defined Benefit Plan if 70% or more of State employees and teachers voted to transfer to the new plan. More than 80% of eligible members voted for the new plan, which became effective July 1, 1971. Most political subdivisions have subsequently voted to join.

Today, more than a half-million of Arizona's public servants belong to the ASRS, membership is comprised of state employees, the three state universities, community college districts, all 15 counties, most cities and towns, school districts, charter schools and other political subdivisions, such as fire and water districts.

Commitment to Service Excellence

The ASRS continually strives for excellence by participating in Pension Administration Benchmarking. The key advantages of benchmarking are:

- Creates a greater openness about strengths and weaknesses
- Engages and motivates staff as they experience change
- Facilitates teamwork and the willingness to adapt to change
- Opens organizations to new methods, ideas and tools to improve both service and cost effectiveness
- Facilitates learning from others and developing and applying new methods and best practices

2014 Member Statistics

Employee Members

Current Employees—Active	207,556
Retirees (including Beneficiaries)	127,881
Non Active	211,546
Long Term Disability Recipients	4,313
Total	551,296

Did You Know...

As a result of new secure website/member statement conversions, the ASRS saved

- \$100,000 in postage costs in 2012, and \$180,000 in 2013;
- Member call volume also dropped 43% in September, and 39% in October of 2013 versus the same months in 2010 as many of the typical member inquiries/transactions associated with the member statement (address or beneficiary change, request a refund) were conducted online instead of being initiated through the call center. One-on-one counseling during those same months has also dropped 37% and 10%, respectively.



Your Career: Early - Zero To Five Years

The greatest journey starts with good planning.

- ✓ Travel Center: Let us be your trip planner
- ✓ Fueling Station: Get started and fuel up
- ✓ Bank: Open 24/7 for your convenience
- ✓ Library: You don't need a library card to check out these resources!
- ✓ Court House: Resources that will help smooth out bumps for an easier ride

See you at the next highway marker!

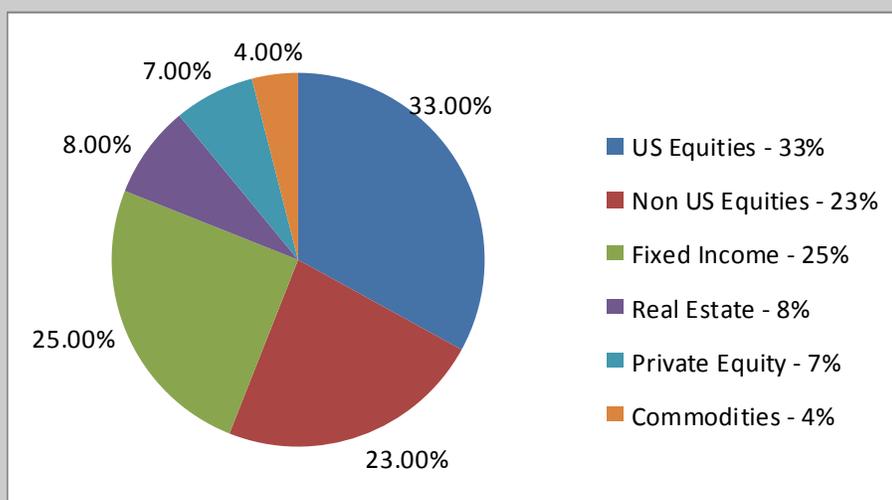
www.azasrs.gov

Investments

Results Summary

During fiscal year 2014, the ASRS investments were broadly diversified in domestic and international equities, domestic fixed income, real estate, private equity, opportunistic, commodities, and cash equivalent instruments.

At June 30, 2014, the ASRS held net investments of \$35.6 billion, an increase of \$4.9 billion from fiscal year 2013. The combined investment portfolio experienced a net return of 18.6% compared to the Interim Total Fund Benchmark return of 17.8%. The increase in net investments from fiscal year 2013 to fiscal year 2014, is primarily a result of strong performance in U.S. and international equities, as well as a conscious overweighting of various investment categories.



Current Market Conditions

The U.S. economy picked up speed throughout fiscal year 2014 notwithstanding the slowdown in the first quarter, which has prompted the Federal Reserve to steadily decrease the Quantitative Easing program. Generally speaking, the global macroeconomic picture has stabilized throughout the year, led by the U.S., as reflected in the double digit gains across equity markets.

The ASRS continues to implement the Strategic Asset Allocation policy and will allocate assets tactically within guidelines as market opportunities present themselves.

Investment Goals

- Maximize Fund Rates of Return for Acceptable Levels of Fund Risk
- Achieve 75th Percentile Rates of Return Compared to Peers
- Achieve Long-term Fund Rates of Return Equal to or Greater than the Actuarial Assumed Interest Rate
- Achieve Long-Term Actuarial Funded Status of 100%
- Mitigate Contribution Rate Volatility

Annualized Time Weighted Rates of Return (After Fees)

(Retirement & Health Benefit Supplement)

	1 Year	3 Year	5 Year	10 Year	Since Inception (June 30, 1975)
ASRS Total Fund	18.6%	10.8%	14.2%	7.5%	10.1%
Benchmark	17.8%	10.4%	13.6%	7.2%	9.8%



Your Career: MID - Five Plus Years

Check out the additional benefits and opportunities for you to explore.

- ✓ Service Center: Time for a tune up and come back at least annually
- ✓ Money Mart: ASRS Investments & Financial Planning

See you at the next highway marker!

www.azasrs.gov



Your Career: Retiring - Within Five Years

Welcome to the Retirement Mall.
Here you will find everything you need to complete your journey.

- ✓ Check out the mall directory to find what you need from the 10 available stores.

Try on some ideas and find out what is best for you.

www.azasrs.gov

FAQs about Retiring

When can I retire?

- ⇒ Normal retirement is the earliest you may retire with a full benefit as calculated by the ASRS benefit formula. Members should check their myASRS secure page on our website to find their earliest normal retirement date, as it varies based upon your initial membership date. Early retirement is also available to members age 50 and older with 5 or more years of credited service. Your monthly benefit will be reduced, however.

How do I apply for retirement?

- ⇒ The online retirement application makes filling out your retirement paperwork simple, fast and accurate. Just log in to your myASRS secure page and choose Retirement under the Apply Now tab. We encourage members to attend a group meeting and, if needed, schedule an appointment with one of our senior benefit advisors. Learn more by visiting our website and the Retirement and Member Education pages.

How do I know what annuity option to choose?

- ⇒ The ASRS offers a variety of annuity options and selecting one is an individual choice based upon your needs and circumstances at retirement. See the Choosing Beneficiaries page on our website to learn more. You should also discuss your decision with your family and personal financial advisor.

How will I check the status on my retirement?

- ⇒ Once you file your application, you can check the status of your retirement at any time under the "Pending Requests" link in your secure account.

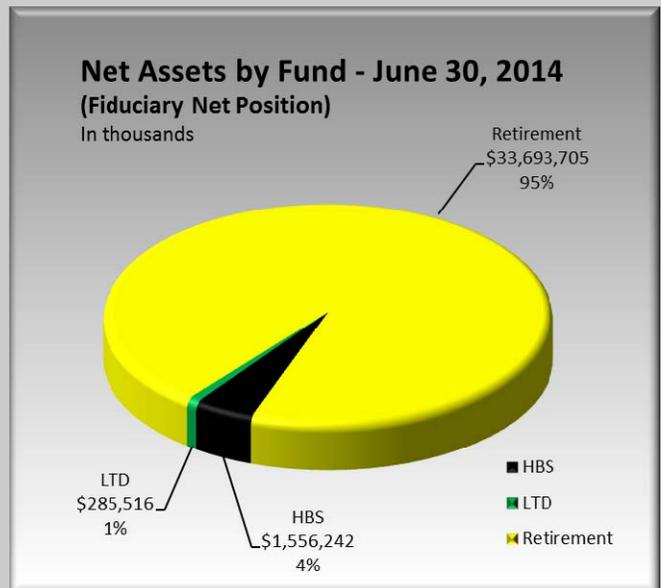
Financial Summary

The ASRS administers retirement, health and long term disability benefits for teachers, state, county and other public municipal employees. ASRS benefits are funded by member and employer contributions and by earnings on investments. The ASRS has three funds, Retirement, Health Benefit Supplement (HBS) and Long Term Disability (LTD), to which the contributions are distributed according to actuarially determined contribution rates.

The ASRS total fiduciary net position held in trust for benefits at June 30, 2014 was \$35.5 billion, a 16.0% increase from \$30.6 billion at June 30, 2013. The retirement fund's fiduciary net position was \$33.7 billion compared to \$29.0 billion last year, a 16.1% increase. The HBS fund net position was \$1.6 billion at year end compared to the same \$1.3 billion at fiscal year 2013, a 16.5% increase. The LTD fund fiduciary net position was \$286 million at year end compared to \$263 million last year, an 8.7% increase. The increase in the ASRS total fiduciary net position and the fiduciary net position of its individual funds is primarily due to investment returns of 18.6% for fiscal year 2014.

For the 2014 fiscal year, contributions totaled \$2.1 billion, compared to the 2013 fiscal year contributions of \$2.0 billion. The increase is due to a 0.4% increase in contribution rates for retirement and HBS from 10.9% in fiscal year 2013 to 11.3% in fiscal year 2014. LTD contribution rates remained the same. For employers, the alternate contribution rate increased from 8.64% in 2013 to 9.20% in 2014.

Deductions from the ASRS net position held in trust for benefits consist primarily of pension, disability, health insurance, survivor benefits, member refunds and administrative expenses. For the 2014 fiscal year, pension, disability, health insurance and survivor benefits totaled \$2.7 billion, an increase of 4.8% over the \$2.6 billion paid during fiscal year 2013. The 4.8% increase is explained by an increase in total retirees from 122,257 in fiscal year 2013, to 127,881 in fiscal year 2014. Refunds and transfers to other plans totaled \$247 million in fiscal year 2014, a 12.7% increase from the \$219 million paid out in fiscal year 2013. In fiscal year 2014, the cost of administering the ASRS benefits totaled \$31 million, a decrease of 24.4% from the \$41 million paid in fiscal year 2013. Investment expenses totaling \$8.2 million are reported under investing activity expense, which were previously included in administrative expense.



Combined Statements of Fiduciary Net Position

Retirement, Health Benefit Supplement and Long Term Disability Funds Combined

The ASRS Combined Statements of Fiduciary Net Position reflects the resources available to pay benefits to members and beneficiaries at the end of the fiscal year. The Combined Statements of Fiduciary Net Position is presented with a more detailed analysis in the complete ASRS Comprehensive Annual Financial Report.

Combined Statements of Fiduciary Net Position

2014

ASSETS

Cash, Receivables and Prepaids	\$661,021
Investments at Fair Value	35,636,475
Security Lending*	<u>15,427</u>
Total Assets	36,312,923

LIABILITIES

Payables and Other Liabilities	762,033
Securities Lending*	<u>15,427</u>
Total Liabilities	777,460

FIDUCIARY NET POSITION **35,535,463**

NOTE: All numbers presented in thousands of dollars.

*The ASRS' custodial bank enters into agreements with borrowers to loan securities and have the same securities redelivered at a later date. Security lending assets represent the cash collateral received from the borrowers that the ASRS has reinvested. Security lending liabilities represent the cash collateral that the ASRS must return to the borrowers upon expiration of the loan. The ASRS receives a spread for its lending activities.

Largest Participating Employers

<u>Participating Employer</u>	<u>Covered Employees</u>
Department of Administration	26,457
Maricopa County	9,005
Mesa Unified School District 4	8,400
University of Arizona	6,875
Maricopa County Community College District	6,310
Tucson Unified School District	6,267
Arizona State University	5,258
Pima County	4,912
Gilbert Unified School District 41	4,648
Chandler Unified School District 80	4,154
All Other	125,270
Total	207,556

<u>Employer Units</u>	<u>Number</u>
School Districts	242
Charter Schools	141
Cities and Towns	78
Counties	15
Special Districts	95
Community College Districts	10
Universities	3
State Government	1
Total	585

Did You Know...

To keep members engaged and interested in using various online tools that were in place, the ASRS enhanced its communication delivery channels through:

- ⇒ Active social media presence to engage members.
- ⇒ A quarterly e-newsletter.
- ⇒ The capability to send targeted emails to members.

The annual postcard reminder regarding member statements have been replaced with “Happy Birthday” emails. The emails are also a reminder to members that their birthday is a good time to go online and check their account balance and benefit estimates.

This email also has the effect of spreading out the notifications, and any transactions that resulted from those notifications, over 365 days, rather than concentrating it all in one month, as had been done historically.



Road To Retirement

Your Journey Destination

Taking an alternate route?
ASRS is here to help you.

- ✓ Leaving ASRS
- ✓ Long Term Disability
- ✓ Early Retirement
- ✓ Retirement

Navigate Your Future at:
www.azasrs.gov

Combined Statements of Changes in Fiduciary Net Position

Retirement, Health Benefit Supplement and Long Term Disability Funds Combined

The ASRS Combined Statements of Changes in Fiduciary Net Position reflects the financial activity of the agency for the fiscal year ended June 30, 2014. The statement presents information to illustrate how the ASRS fiduciary net position changed during the fiscal year as a result of the financial activity (i.e., contributions, investing activity, expenses). This is a summarized version of the data presented and analyzed in the ASRS Comprehensive Annual Financial Report.

	2014
ADDITIONS	
Member Contributions	\$1,016,435
Employer Contributions	1,041,002
Other Income	29,848
Service Credit Purchase and Transfers In	33,485
Investment and Security Lending Income	5,949,616
Investment and Security Lending Expenses	<u>(149,882)</u>
Total Additions	7,920,504
DEDUCTIONS	
Retirement and Disability Benefits	2,690,828
Survivor Benefits	39,334
Refunds and Transfers	247,116
Administration and Other	<u>31,147</u>
Total Deductions	3,008,425
NET CHANGE	4,912,079
Fiduciary net position beginning of year	30,623,384
Fiduciary net position end of year	\$35,535,463

NOTE: All numbers presented in thousands of dollars.

Funding Status and Contribution Rate

Funding Status

Actuarial valuations of the ASRS assets and benefits obligations for the retirement and health benefit supplement funds combined are performed annually. The most recent actuarial valuation available is as of June 30, 2013. The actuarial value of total plan assets (pension and health benefit supplement) was \$31.4 billion and the actuarial accrued liability was \$41.4 billion. The unfunded actuarial accrued liability of \$10.0 billion results in an actuarial funding ratio of 75.9% for the total plan, which is a slight increase from 75.7% at June 30, 2012 .

Contribution Rate

The contribution rate, as determined by the annual actuarial valuation, is designed to ensure that the ASRS fund remains adequate to meet current and future obligations to members. The Arizona Revised Statutes provide statutory authority for determining employee and employer contribution amounts as a percentage of covered payroll. Employee contributions are applied toward the Retirement and Long Term Disability Plans. Employer contributions are applied toward the Retirement Plan, Health Insurance Premium Supplement Plan and the LTD Plan. There is no legal or contractual maximum contribution rate for employees or employers.

The statutory contribution rate and the actuarially determined contribution rate for the year ended June 30, 2014 was 11.54% for both the employee and employer portion. Employees paid 11.30% retirement and .24% long term disability. Employers paid 10.70% for retirement, .60% for the health insurance premium supplement and .24% for long term disability.

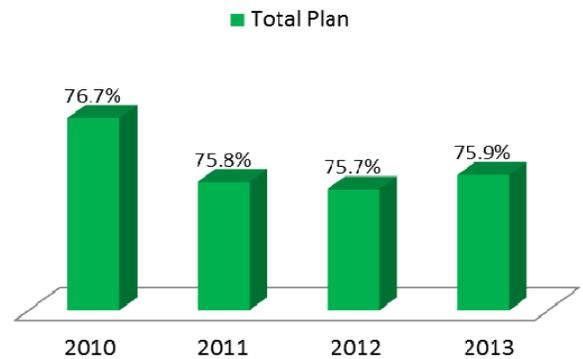
	<u>2014</u>	<u>2013</u>
Retirement Contribution Rates		
Member	11.30	10.90
Employer	10.70	10.25
HBS Contribution Rates		
Employer	0.60	0.65
LTD Contribution Rates		
Member	0.24	0.24
Employer	0.24	0.24

Cost Savings

The ASRS has been engaged in significant program and policy review in an effort to reduce costs. While this is an ongoing process, program, policy and legislative initiatives that have been implemented are estimated to have reduced total contributions to the ASRS by approximately \$364 million per year. This is equivalent to approximately \$10.7 billion in liability savings for the group of all current and future employees.

Over the long term, these very significant savings will reduce future increases in contribution rates to both employees and employers by an average of approximately 4.01% in total each year.

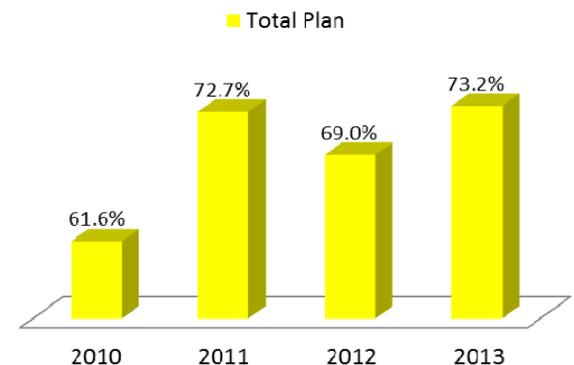
Actuarial Value Funded Status



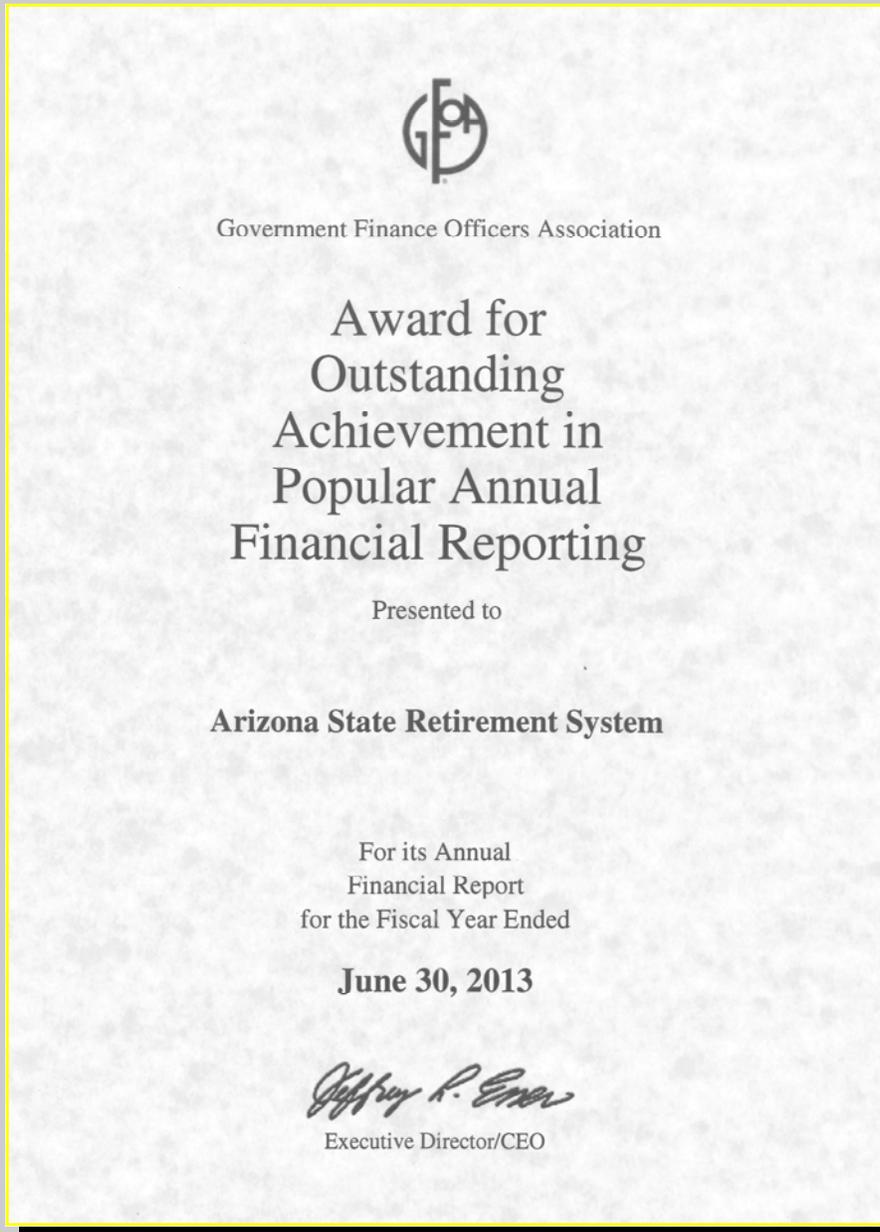
The funded status represents the percentage of future pension benefits covered by the pension plan's assets at each respective fiscal year end.

The actuarial value of assets is equal to the market value of assets, less a ten-year phase-in of the excess/shortfall between expected investment returns and actual income on the market value of assets.

Market Value Funded Status



OUTSTANDING ACHIEVEMENT AWARD



The Government Finance Officers Association (GFOA) established this award to acknowledge state and local governments that create high-quality Popular Annual Financial Reports (PAFR). To do this, information must be extracted from the Comprehensive Annual Financial reports to create a PAFR that is easily understandable to the general public and other interested parties who may not have a background in accounting or finance. The report must also be unique and creative and present appropriate financial information accurately in accordance to Generally Accepted Accounting Principles.

The ASRS PAFR for fiscal year end 2013 received this prestigious award. This PAFR continues to conform to the highest reporting standards and will be submitted to the GFOA Board for consideration and review each year.

DELIVERING SERVICE WITH PRIDE

Visit the ASRS at:
www.azasrs.gov



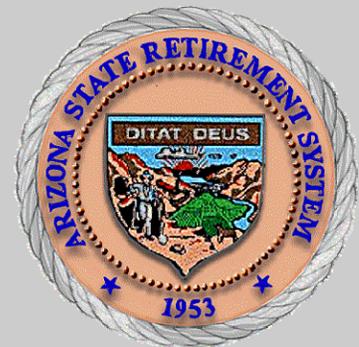
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