



The Strategic Plan

OF THE ARIZONA STATE RETIREMENT SYSTEM

For the period of July 1, 2009 - June 30, 2012

Fiscal Years 2010-2012



table of contents



Introduction to the Strategic Plan **5**

Strategic Planning Process **6**

Statutory Mission **9**

Vision, Values, and Investment Principles **10**

Strategic Goals for Fiscal Years 2010, 2011, and 2012 **11**

Operations Goals and Objectives **12**

Investment Goals and Objectives **20**

Administration Goals and Objectives **23**

Appendix: Investment Principles Description **27**

introduction

The aim of the ASRS Strategic Plan is to institute a dynamic, forward-looking planning environment that facilitates clear thinking and action toward ensuring both the short and long range health of the ASRS.

To that end, the agency recently completed its latest three-year Strategic Plan. Over the three-year term (Calendar Years 2006, 2007 and 2008), the ASRS met nearly three-quarters of its stated objectives, in some cases by wide margins. In other cases, objectives were narrowly missed. The State hiring freeze enacted in 2008 impacted performance, as did a significant number of underperforming investment portfolios.

By and large, however, the Strategic Plan was successful in focusing the agency's efforts on high levels of achievement and as a result, the ASRS's reputation among members and stakeholders is high.

The latest Strategic Plan's final outcomes included many highlights. The ASRS is a top performing pension plan administrator in comparison to peers. The agency is more timely, accessible and reliable than at any time in its history. Members and stakeholders are more satisfied. The agency is more cost efficient and effective. It does more to manage administrative risk and has done a credible job in keeping health care accessible and affordable.

Having a Strategic Plan during the unfolding world-wide economic crisis and the State's fiscal crisis has benefited the ASRS, its members, stakeholders, and the citizens of Arizona. Because of its commitment to setting a forward-looking strategic agenda, the ASRS has acted to make its benefit plan design more cost efficient, saving members and taxpayers nearly \$130 million per year. If current legislative proposals are adopted, long-term savings could surpass \$8 billion.

Because of its strategic actions and forward-looking planning, the ASRS has refined its actuarial methods and assumptions to keep short-term contribution rates stable and mitigate increases over the medium term. Additionally, because it is more cost effective than in previous years, the ASRS was able to demonstrate fiscal constraint and curb operating expenses, with only minor fluctuations in service and performance.

In the new Strategic Plan, the ASRS will address shortfalls, update its goals and objectives and continue the forward momentum it has created toward being a leader in public pension administration. In particular, the ASRS seeks to:

- Make strategic and tactical investments that permit the agency to take advantage of opportunities to achieve returns equal to or in excess of investment objectives.
- Assure member and stakeholder trust and confidence in the ASRS brand of public administration and benefit plan designs.
- Continue to provide timely, accessible and reliable service by expanding service, self-service options and member satisfaction.
- Maintain an effective operating cost structure and budget.
- Maintain and enhance its risk management programs.
- Retain a staff and staffing structure that reflects ASRS's values and an ethos of consistent high performance.
- Be adaptable to changing circumstances and initiate measures necessary to ensure the overall health and long-term viability of the benefit programs managed by the ASRS.

strategic planning process

The strategic planning process utilized by the ASRS has been designed to ensure that the Strategic Plan remains dynamic and forward-looking. The process is unified and self-renewing, helping to facilitate the regular management and oversight of the various challenges confronting the ASRS at any given time.

Currently, the agency utilizes a three-year time period for its strategic planning process. At the conclusion of each Strategic Plan, the agency reviews its performance against the goals and objectives in place and begins to outline its direction and desired outcomes for the next three years.

The Strategic Plan is compiled by:

- Gathering feedback from Trustees, Executive Staff, and Management on the future direction of the agency.
- Reviewing current performance data and discussing future trends.
- Analyzing industry best practices.
- Reviewing member and employer feedback obtained through surveys, outreach programs, or stakeholder networks.

The agency's success is dependent not only on how well it plans for the future, but also on how well it operates in a dynamic environment where action can be affected by outside events, budget constraints and bureaucratic restrictions.

The intent of the strategic planning process is to facilitate and support success in this complex and changing work environment by integrating, documenting, and disseminating critical success factors. There are three essential components to the Strategic Plan:

1. Statutory Mission

Outlines the overall mission of the ASRS as defined in state law, which provides the agency with clarity of purpose.

2. Vision, Values, and Investment Principles

The Vision statement defines the level of achievement that the ASRS is striving to achieve. The Values guide agency behavior and define and shape its professional culture. The Investment Principles define the framework for macro-level decision-making relating to Investment Management.

3. Goals and Objectives

Goals identify specific levels of achievement the ASRS will work toward to ensure it remains a strong and vital public entity. Goals are divided into three sections: Operations, Investment, and Administration.

Objectives define high but realistic standards of performance to measure the agency's progress toward meeting established goals. Objectives are written for each major business function provided by the agency, which are then grouped together under the appropriate goal.

If a considerable amount of the objectives have been achieved within a Goal, then the agency can be reasonably assured that it is meeting the stated Goal. Likewise, if a substantial number of Goals have been achieved, then the agency is likely meeting its Vision.

Taken together, the purpose, vision, values, investment principles, goals, and objectives comprise the ASRS Strategic Plan. However, in order to make the Plan actionable, there are four key activities that must also be in place and occur regularly:

- **Agency Governance**
- **Performance Measurement and Management**
- **Strategic Initiatives**
- **Budgets and Human Resources**

strategic planning process

Agency Governance

The Board supports the Plan through its governance practices that delineate the duties and responsibilities of the Board and Director, and by instituting an oversight structure that ensures accountability.

The Board is responsible for helping to determine the strategic direction of the agency and for reviewing progress toward meeting the goals at the conclusion of each year.

The Board also has organized its three Committees to provide regular oversight of the agency's main functional areas: Operations, Investment Management and External Affairs.

Each of these three Committees is responsible for reviewing the ongoing progress toward achievement of certain goals and objectives and also for identifying other strategic issues facing the agency that need to be addressed.

Performance Measurement and Management

The Director and Staff are responsible for analyzing and reporting on the performance of regular agency operations and progress toward meeting strategic initiatives.

Various types of reports are prepared at every level of management to monitor expected versus actual performance. These include various daily, weekly, monthly, quarterly, annual, and ad hoc reports. Additional reports commenting on ASRS performance are prepared by a variety of outside vendors, independent consultants, actuaries, and internal and external auditors.

Analysis and review take place internally by

managers and executives, including the Director, and publicly with the Board and/or Board Committees at meetings held throughout the year.

Strategic Initiatives

Regular review of daily operations by the Board and its Committees and by the Director and Staff creates an environment of accountability and generates a variety of strategic initiatives designed to meet specific agency objectives or other agency challenges.

In addition, the Director meets with the Board annually to review and agree on the agency's strategic agenda, priorities, initiatives, timelines and expected outcomes.

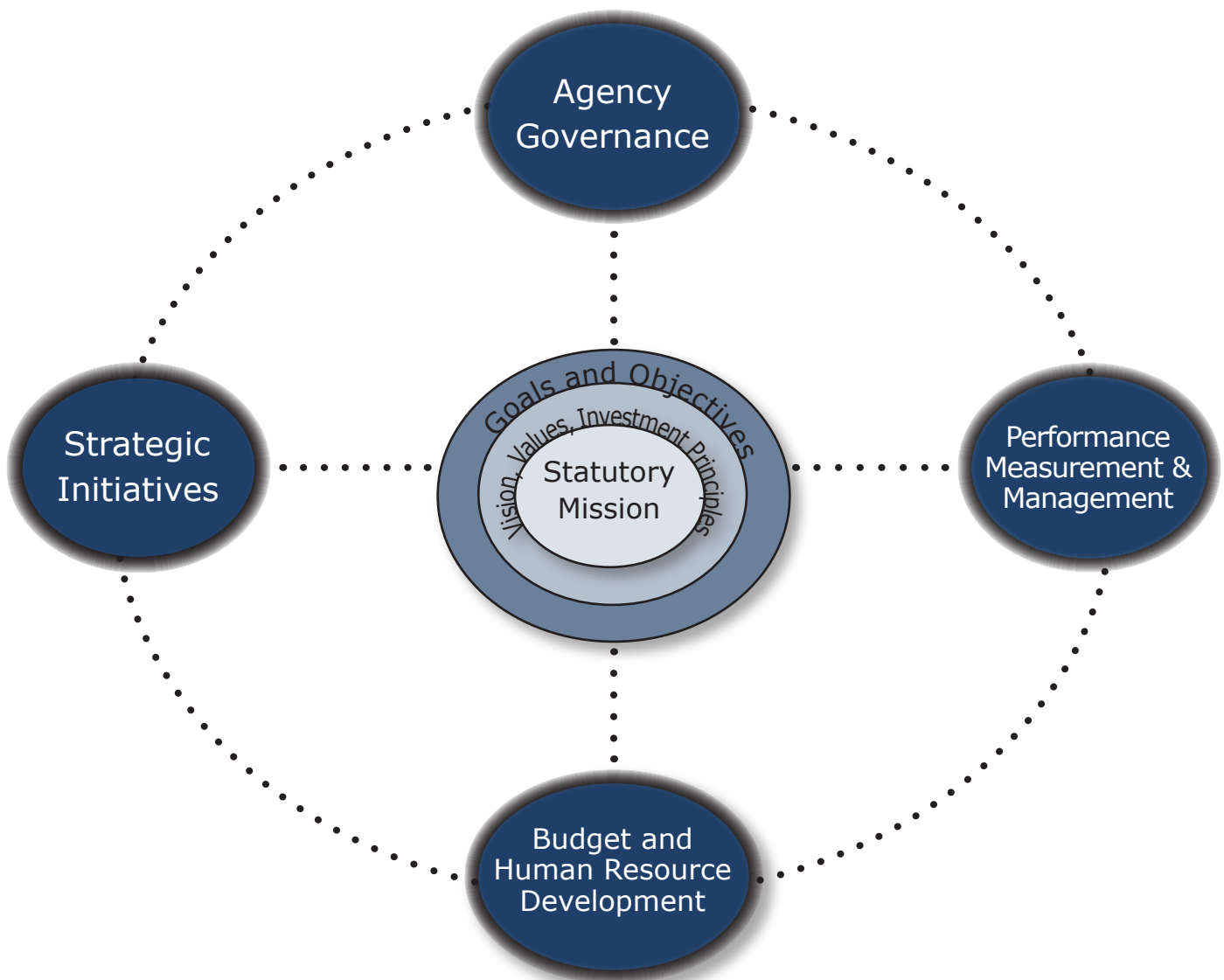
Budget and Human Resource Development

Maintaining adequate budgetary and human resources are critical to the accomplishment of goals and objectives and the successful completion of business plans and strategic initiatives.

Budget requests and staffing requirements are developed using various metrics and reports that compare the agency's actual performance with its goals and objectives.

Although the Legislature is ultimately responsible for appropriating a budget for the agency, the performance based approach used by the ASRS plays an important role in establishing credibility by ensuring resources are directed in a prudent manner.

strategic planning process



statutory mission

Arizona's Revised Statute § 38-712 outlines the purpose of the ASRS:

- Provide an incentive in the recruitment and retention of employees of the highest possible quality.
- Contribute toward providing a total compensation package that is generally equivalent to comparable employment in other public and private organizations in this state.
- Provide a retirement system that encourages employees to remain in service for periods of time that will provide public employers with the full benefit of the training and experience gained by the employees.
- Provide an orderly method of promoting and maintaining a high level of service to the public through an equitable separation procedure that is available to employees at retirement or on becoming disabled.
- Provide a base retirement benefit that is less than one hundred percent of a member's post-retirement income requirements, recognizing that personal savings and social security also contribute toward total post-retirement income requirements.

In general, the statutory mission refers to the following five programs managed by the ASRS:

1. The Defined Benefit Plan (The Plan)
2. The Defined Contribution System (The System)
3. The Long Term Disability (LTD) program for disabled members.
4. The coordination and administration of a Retiree Health Insurance program and premium benefit supplement.
5. The availability of an optional, Supplemental Defined Contribution Plan (the Supplemental Retirement Savings Plan, or SRSP) to participating employers.

vision, values, and investment principles

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
- Funded Status
- Investment Performance
- Operational Effectiveness

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

Values

Our organizational culture will be based upon the following 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.

Investment Principles

The following unranked principles provide the paradigm within which the ASRS will make its macro-level investment decisions:

1. Maximize fund rates of return for acceptable levels of fund risk.
2. Achieve long-term fund rates of return equal to or greater than the actuarial assumed interest rate.
3. Mitigate employee and employer contribution rate volatility.
4. Achieve long-term economic and actuarial funded statuses of approximately 100%.

strategic goals for fiscal years 2010, 2011, 2012

Operations Goals

1. Members will receive calculations and disbursements timely, consistently, and accurately.
2. Retired and disabled members will have access to affordable, competitive and efficiently run health insurance and disability programs.
3. Contributions, account information, and financial data will be collected, managed, and accounted for efficiently and effectively.
4. Members will have timely and easy access to information and educational programs delivered in a variety of methods, including expanded access to web services and self-service opportunities.
5. Develop and maintain a modern, high-performing, and secure technology infrastructure that supports timely and efficient service.

Investment Goals

6. Achieve a total fund rate of return equal to or greater than the actuarial assumed interest rate.
7. Achieve a total fund rate of return equal to or greater than the asset allocation benchmark.
8. Achieve a total fund rate of return equal to or greater than the amount projected in the most recent asset allocation study.
9. Achieve asset class net rates of return equal to or greater than their respective broad asset class benchmarks.
10. Achieve portfolio-level net rates of return equal to or greater than their respective portfolio benchmarks.
11. Ensure sufficient monies are available to meet cash flow requirements.

Administration Goals

12. Foster member and stakeholder trust and confidence in the ASRS through effective communications, mutually beneficial relations, and a forward-looking legislative agenda.
13. Ensure that administrative services are in place to support: an effective operating cost structure and budget; and a work force that reflects agency values and is capable of consistent high performance.
14. Implement governance, strategic planning, and risk management policies and programs needed to achieve goals and mitigate threats to the ASRS.

Goal 1

Members will receive calculations and disbursements timely, consistently, and accurately.

OPERATIONS GOALS AND OBJECTIVES

Domestic Relations Orders (DRO)

Objectives:

- Complete a review of DRO documents for 90 percent or higher of member requests within 10 business days of document receipt.

New Retiree Application Processing

Objectives:

- Disburse an estimated monthly retirement benefit to 90 percent or higher of new retirees within 10 business days of their retirement date.
- Achieve an overall satisfaction rating of 90 percent or higher.
- The new retiree process will be high performing, yet cost effective when measured against peer retirement systems.
- Develop capabilities for members to apply for some services (refund, retirement, survivor benefit, etc.) via the web.

Pension Payroll

Objectives:

- Disburse monthly pension payments to 98 percent or higher of annuitants on the first day of each month.
- Calculate and disburse the 13th check for System members by November 30th of each year, or according to the direction of the Board.
- Complete a pension audit of 90 percent or higher of account exceptions within 20 business days of identification. *Review objective for reasonableness after data becomes available.*
- Process necessary adjustments for 90 percent or higher of accounts within 20 business days of the completion of

the pension audit. *Review objective for reasonableness after data becomes available.*

- Distribute 1099R documents by January 31st of each year.
- Achieve an overall satisfaction rating of 90 percent or higher.
- The pension payroll process will be high performing, yet cost effective when measured against peer retirement systems.
- Develop capabilities to electronically notify members that their payment advice is available on the ASRS website.
- Achieve an accuracy rating of 98 percent.

Refunds

Objectives:

- Disburse refunds to 90 percent or higher of members within 10 business days of receipt.
- Distribute 1099R documents by January 31st of each year.
- Achieve an accuracy rating of 100 percent.
- Achieve an overall satisfaction rating of 90 percent or higher.
- The refund process will be high performing, yet cost effective when measured against peer retirement systems.
- Develop capabilities for members to apply for some services (refund, retirement, survivor benefit, etc.) via the web.

Service Audit

Objectives:

- Complete 90 percent or higher of service audits within 10 business days.

Goal 1

Members will receive calculations and disbursements timely, consistently, and accurately.

OPERATIONS GOALS AND OBJECTIVES

Service Purchase

Objectives:

- Distribute 90 percent or higher of cost invoices within 15 business days of receipt.
- Process 90 percent or higher of lump sum payments within 10 business days of receipt.
- Process 90 percent or higher of payroll deduction agreements within 5 business days of receipt.
- Achieve an accuracy rating of 98 percent or higher for cost invoices.
- Achieve an overall satisfaction rating of 90 percent or higher.
- The service purchase process will be high performing, yet cost effective when measured against peer retirement systems.

Survivor Benefits

Objectives:

- Distribute materials to 90 percent or higher of beneficiaries within 15 business days of notification. *Review objective for reasonableness after data becomes available.*
- Disburse lump sum payments to 90 percent or higher of non-retired member beneficiaries within 10 business days of document receipt. *Review objective for reasonableness after data becomes available.*
- Eliminate payment disruptions for 95 percent or higher of Joint and Survivor annuitant beneficiaries. *Review objective for reasonableness after data becomes available.*
- Disburse 90 percent or higher of all other annuitant payments on the next payment run, if pertinent documents are received by

the 10th of each month. *Review objective for reasonableness after data becomes available.*

- Distribute 1099R documents by January 31st of each year.
- Achieve an overall satisfaction rating of 90 percent or higher.
- Achieve an accuracy rating of 98 percent or higher.
- The survivor benefit process will be high performing, yet cost effective when measured against peer retirement systems.
- Develop capabilities for members to apply for some services (refund, retirement, survivor benefit, etc.) via the web.

Transfers

Objectives:

- Distribute transfers-in letters to 90 percent or higher of employers within 5 business days of receiving request.
- Calculate 90 percent or higher of transfers-in within 5 business days of receiving information from other plan.
- Distribute transfers-in letters to 90 percent or higher of members within 5 business days of receiving request.
- Process 90 percent or higher of transfers-in within 10 business days of payment receipt.
- Distribute transfers-out letters to 90 percent or higher of employers within 15 business days of other plan's request.
- Disburse 90 percent or higher of transfers-out within 10 business days of invoice receipt.

Goal 2

Retired and disabled members will have access to affordable, competitive and efficiently run health insurance and disability programs.

OPERATIONS GOALS AND OBJECTIVES

Health Insurance Program Development and Administration

Objectives:

- Demonstrate the affordability, competitiveness and accessibility of ASRS plans through comparative analysis with other plans.
- Provide access to a choice of healthcare plans (EPO/HMO and PPO/Indemnity) for 100 percent or higher of Medicare eligible retirees within Arizona.
- Distribute open enrollment materials no later than 15 days before the open enrollment period of each year.
- Periodically review the performance of the health insurance carrier's customer service as outlined in the contract.

Health Insurance Carrier Customer Service

Objectives:

- Answer 80 percent or higher of calls within 30 seconds or less.
- Maintain a call abandonment rate of 5 percent or less.
- Resolve 90 percent or higher of calls on the first contact.
- Respond to 90 percent or higher of routine telephone customer service inquiries within 10 business days.
- Process 98 percent or higher of enrollment applications within 5 business days of receipt.
- Distribute 99 percent of ID cards within 10 business days after final member eligibility data is received and passes quality assurance checks.
- Achieve an overall satisfaction rating of 85 percent or higher.

- Achieve an accuracy rating of 95 percent or more of all claims processed.

On-Site Health Insurance Vendor Customer Service:

Objectives:

- Develop measures and reports to capture performance for phone inquiries and research and follow-up activities.
- Respond to 80 percent or higher of walk-ins within 15 minutes.
- Process 90 percent of enrollments, coverage changes and adjustments by the effective date.

Health Benefit Supplement Payments to Employers

Objectives:

- Maintain plan and rate tables for participating employers offering retiree health insurance coverage with 98 percent accuracy by the effective date.
- Process 90 percent of employer enrollments, coverage changes and adjustments by the effective date.

Long Term Disability Program Administration

Objectives:

- Process all LTD payments by the established due dates.
- Review the LTD payment exception report on a periodic basis to ensure that any variances that have occurred are reasonable.
- Conduct a monthly audit of members formerly on LTD to ensure their ASRS insurance coverage has been discontinued.

Goal 2

Retired and disabled members will have access to affordable, competitive, and efficiently run health insurance and disability programs.

OPERATIONS GOALS AND OBJECTIVES

- Periodically review the performance standards of the LTD claims administrator as outlined in the contract.

LTD Claim Administrator Customer Service

Objectives:

- Answer all incoming calls received during business hours in an average of 30 seconds or less.
- Maintain a call abandonment rate of 5 percent or less.
- Achieve an accuracy rating of 97 percent or higher for payments (net dollar amounts) being disbursed.
- Process 90 percent or more of all claims (decision approved or denied) within 90 calendar days of receipt of the claim (or date of disability if claim filed earlier).
- Deliver 97 percent or more of standard reports within 5 business days of their due dates.
- Achieve an overall satisfaction rating of 90 percent or more for initial application.
- Achieve an overall satisfaction rating of 90 percent or more for maintenance.
- The Account Manager will achieve an average quarterly rating from the client of "3" or more on a scale of 1-4.

Goal 3

Contributions, account information, and financial data will be collected, managed, and accounted for efficiently and effectively.

OPERATIONS GOALS AND OBJECTIVES

Contribution Accounting

Objectives:

- Process contributions, resolve exceptions, and post member data for 90 percent or higher of employer reporting units within one week of receipt.
- Reconcile the contributions receivable ledger within 25 business days of month end.
- Notify and send late charge letters to employers who have missed established payroll reporting time lines by the end of the following month.
- Initiate remedial action to collect contributions from an employer when their account has been delinquent for 90 days or more.
- Achieve a rate of 95 percent or higher of employer reporting units that transmit contributions via electronic funds transfer.

General Accounting

Objectives:

- Obtain a “clean” audit opinion for the yearly financial statement.
- Deposit 95 percent of checks (including contributions and service purchase) within 24 hours of receipt.
- Pay 100 percent of valid invoices within 30 days of receipt.
- Pay 99 percent of all invoices with a discount within the discount period.
- Meet the trial balance assignment schedule completion dates.
- Collect an average of 5 percent of outstanding accounts receivable balance each month.
- Ensure that 100 percent of employees are

paid timely and accurately.

- Deliver month end financial reports within required time frames.

Member Balance Accounting

Objectives:

- Complete 90 percent or higher of adjustments to non-retired member service, salary, or account balance within 5 business days of identification.
- Complete the fiscal year end roll process by July 31st of each year.
- Reconcile lump sum service purchase payments within 25 days of month end.

Records Management

Objectives:

- Complete data entry for 90 percent or higher of member enrollment forms within 10 business days of contribution receipt.
- Complete data entry for 90 percent or higher of address, name, and beneficiary change forms within 10 business days of receipt.
- Image 100 percent of documents for workflow enabled processes within 24 hours of receipt.
- Image non-workflow enabled documents within 1 week of receipt.
- Maintain an accuracy rating of 98 percent.
- Ensure that 95 percent or more of active members have accounts that contain a valid Social Security Number, Name, Date of Birth, Gender, and Address.
- Ensure that 90 percent or more of inactive members have a valid address.

Goal 4

Members will have timely and easy access to information and educational programs delivered in a variety of methods, including expanded access to web services and self-service opportunities.

OPERATIONS GOALS AND OBJECTIVES

Appeals

Objectives:

- Respond to 90 percent or higher of member appeals (assistant director and/or director level) within 10 business days.

Benefit Estimates

Objectives:

- Members attending a Getting Ready for Retirement meeting will receive a benefit estimate at the time of their meeting.
- Distribute 95 percent or higher of benefit estimates within 3 business days of request.
- Encourage members to self-generate a personalized benefit estimate on the ASRS website.
- Achieve an overall satisfaction rating of 90 percent or higher.
- Benefit estimate processing will be high performing, yet cost effective when measured against peer retirement systems.

Correspondence (e-mail or written)

Objectives:

- Respond to 90 percent or higher of e-mail inquiries within 3 business days of receipt.
- Respond to 90 percent or higher of written correspondence within 10 business days of receipt.
- Achieve an overall satisfaction rating of 90 percent or higher.
- Develop a personal message center on the website that will enable registered users to communicate with a benefit advisor in a secure environment.

Member Educational Programs

Objectives:

- Develop capabilities for members to view a calendar of upcoming educational opportunities and self-schedule their attendance at a meeting on the ASRS website.
- Increase member access to ASRS educational programs through development of alternative communication methods, such as webinars and pre-recorded informational videos.
- Achieve an overall satisfaction rating of 90 percent or higher.
- Educational programs will be high performing, yet cost effective when measured against peer retirement systems.

Member Service Advisory Center

Objectives:

- Answer 80 percent or higher of member calls within 20 seconds of entering the queue.
- Maintain a call abandonment rate of 5 percent or less.
- Resolve 97 percent or more of member questions during the first contact.
- Achieve a call quality rating of 95 percent or higher.
- Achieve an overall satisfaction rating of 90 percent or higher.
- Member contact points will be high performing, yet cost effective when measured against peer retirement systems.

Goal 4

Members will have timely and easy access to information and educational programs delivered in a variety of methods, including expanded access to web services and self-service opportunities.

OPERATIONS GOALS AND OBJECTIVES

Member Statements

Objectives:

- Mail member statements by September 30th of each year.
- Provide access to member statements on the ASRS web site by September 30th of each year.
- Achieve an overall satisfaction rating of 90 percent or higher.
- Develop capabilities to electronically notify members that their statement is available on the ASRS website.

newsletters.

- On-line enrollment.
- Smart forms.
- Webinars.
- Tutorials.
- Develop and implement online satisfaction surveys.
- Achieve an overall satisfaction rating of 90 percent for web registration.
- Achieve an overall satisfaction rating of 90 percent for the overall web site.

Walk-in Counseling

Objectives:

- Respond to 80 percent or higher of walk-in customers within 15 minutes of arrival (Phoenix and Tucson offices).
- Achieve an overall satisfaction rating of 90 percent or higher.
- Walk-in counseling services will be high performing, yet cost effective when measured against peer retirement systems.

Web Services

Objectives:

- Increase utilization of the ASRS website in order to reduce or offset future transactions and member costs.
- Expand service and self-service options to include:
 - On-line scheduler.
 - Secure e-mail and correspondence (personal message centers).
 - Electronic notification members that their statement is available on the ASRS website.
 - E-correspondence for electronic

Goal 5

Develop and maintain a modern, high-performing, and secure technology infrastructure that supports timely and efficient service.

OPERATIONS GOALS AND OBJECTIVES

Business Applications Development, Maintenance, and Upgrades

Objectives:

- Manage scope by ensuring that incidents, data changes, enhancements and projects include the requirements necessary to successfully complete the task.
- Manage budget by ensuring that incidents, data changes, enhancements and projects are completed within the approved budget.
 - 90 percent of all projects will achieve budget projections within 15 percent of estimate.
 - Monthly average of all incidents and data changes will be completed within 15 percent variance of the established average hours for incidents and established average hours for data changes.
- Manage schedule by ensuring the timely completion of incidents, data changes, enhancements and projects.
 - 90 percent of all projects will be completed within 2 weeks of target completion date.
 - 90 percent of all priority incidents and data changes will be completed within 2 weeks of target completion date.
- Achieve desired return on investment by ensuring that enhancements and projects meet desired outcomes after implementation.
 - 90 percent of enhancements and projects will meet return on investment projections within a variance of 20 percent.
- Increase the quality of in-house applications according to the development methodology by submitting quality code to test and reducing the number of incidents and data changes during testing and production.
 - Achieve a downward trend of 5 percent

or greater in the number of bugs, incidents and data change requests.

Continuity of Operations Plan

Objectives:

- Perform functionality test semi-annually (April, December).
- Determine whether to activate the disaster recovery plan within 2 hours of notification of situation.
- If activated, the Crisis Management Team will:
 - Achieve recovery for critical business systems and functions within 24 hours.
 - Achieve recovery for Member Service Advisory Center within 10 hours.

Maintain Network Applications, Hardware and Upgrades

Objectives:

- Develop, maintain, and implement scheduled yearly hardware and software upgrades.
- Maintain a core network infrastructure capable of providing availability 99 percent of the time.
- Telephone systems will be available 98 percent or higher of the time.
- Critical business applications will be available 97 percent or higher of the time.
- Maintain a help desk satisfaction rating of 3.6 or higher (out of 4).
- Process all operations requests in a manner that allows business units to meet their service objectives by:
 - Reducing Lockout times for Business Applications.
 - Improving Desktop Performance.
- Develop an Information Security Plan that meets state standards in plan, policy and compliance.

Goal 6

Achieve a total fund rate of return equal to or greater than the actuarial assumed interest rate.

INVESTMENT GOALS AND OBJECTIVES

Objective:

- Achieve a 20-year rolling annual rate of return equal to or greater than 8%.

Goal 7

Achieve a total fund rate of return equal to or greater than the asset allocation benchmark.

INVESTMENT GOALS AND OBJECTIVES

Objective:

- Achieve annual rolling investment rates of return equal to or greater than the return of the Asset Allocation Benchmark.
- Achieve 3-year rolling annual investment rates of return equal to or greater than the return of the Asset Allocation Benchmark.

Goal 8

Achieve a total fund rate of return equal to or greater than the amount projected in the most recent asset allocation study.

INVESTMENT GOALS AND OBJECTIVES

Objective:

- Achieve a 5-year rolling annual rate of return equal to or greater than the projected return expectation in the ASRS Asset Allocation Study.

Goal 9

Achieve asset class net rates of return equal to or greater than their respective broad asset class benchmarks.

INVESTMENT GOALS AND OBJECTIVES

Objective:

- Achieve annual rolling investment asset class net rates of return equal to or greater than their respective broad asset class benchmarks.
- Achieve 3-year rolling annual investment asset class net rates of return equal to or greater than their respective broad asset class benchmarks.

Goal 10

Achieve portfolio-level net rates of return equal to or greater than their respective portfolio benchmarks.

INVESTMENT GOALS AND OBJECTIVES

Objective:

- Achieve annual rolling portfolio level net rates of return equal to or greater than their respective portfolio benchmarks.
- Achieve 3-year rolling annual portfolio level net rates of return equal to or greater than their respective portfolio benchmarks.

Goal 11

Ensure sufficient monies are available to meet cash flow requirements.

INVESTMENT GOALS AND OBJECTIVES

Objective:

- Ensure all pension benefits, health insurance, member refunds, administrative payments, and other requirements are made from available cash balances and without utilizing alternate liquidity options.

Goal 12

Foster member and stakeholder trust and confidence in the ASRS through effective communications, mutually beneficial relations, and a forward-looking legislative agenda.

ADMINISTRATION GOALS AND OBJECTIVES

Communications and Media Relations

Objectives:

- Respond to all media inquiries in conjunction with the Director's Office. Provide timely, accurate information on newsworthy subjects.
- Issue news releases and coordinate media interviews where appropriate.
- Maintain media contact list, including emergency contacts.
- Ensure all members have access to timely, accurate information on their benefit programs and ASRS news.
- Publish and distribute Financial Horizons newsletter for all members.
- Publish and distribute Your Retirement newsletters for retired and disabled members.
- Promote and keep updated the ASRS website.
- Ensure Member Services has the appropriate information for their outreach meetings (fact sheets, pamphlets, handbooks, etc.).
- Achieve a member satisfaction rating of 90 percent or higher.

Employer Relations and Communications

Objectives:

- Provide a workshop for employers who have new staff or for seasoned professionals to review the basics.
- Conduct conferences for current employers to keep them up-to-date on new statutes, forms and process changes.
- Assist employer human resource and payroll staff on a daily basis with forms, laws, and

questions.

- Keep employers updated and notified through newsletters and emails.
- Update the Employer Manual every two years.
- Manage the Section 218 agreement for the State of Arizona. Respond to inquiries any public employer may have regarding the 218 agreement and make sure all employers are in compliance.
- Achieve an employer satisfaction rating of 90 percent or higher for new employer workshops.
- Achieve an employer satisfaction rating of 90 percent or higher for employer conferences.
- Increase employer access to ASRS educational programs through development of alternative communication methods, such as webinars and pre-recorded informational videos.

Legislative Relations and Communications

Objectives:

- Conduct an annual assessment of staff and Board legislative suggestions.
- Develop costs, strategies, and draft language for the External Affairs Committee and the full Board in the fall.
- Open bill folders by November 15th of every year (or other date as required by Legislative Council).
- Report to the Board and External Affairs Committee as necessary.
- Monitor legislation that affects the ASRS but not proposed by the agency and report findings as appropriate.
- Provide policymakers with information about the ASRS upon request.

Goal 12

Foster member and stakeholder trust and confidence in the ASRS through effective communications, mutually beneficial relations, and a forward-looking legislative agenda.

ADMINISTRATION GOALS AND OBJECTIVES

- Provide the Legislature or other entities with the actuarial costs and impacts associated with legislative proposals.
- Prepare weekly bill reports during session.
- Prepare an annual “Summary of Retirement Legislation.”
- Respond to legislative constituents’ issues as requested.
- Provide ad hoc presentations about proposed initiatives upon request.

Rules Administration and Communications

Objectives:

- Complete the Certification of Compliance by June 30 of every year.
- Conduct all tasks necessary to ensure that rules are filed properly.

Goal 13

Ensure that administrative services are in place to support: an effective operating cost structure and budget; and a work force that reflects agency values and is capable of consistent high performance.

ADMINISTRATION GOALS AND OBJECTIVES

Budget Administration

Objectives:

- Develop, complete and deliver to Governor's Office by September 1st of each year a biennial budget request designed to meet goals, objectives, and strategic initiatives.
- Manage the ASRS appropriated annual operating budget to achieve the goals, objectives, and priorities set forth by the Director or Board by implementing, monitoring, evaluating, reporting, and forecasting authorized financial resources.

Contracts and Procurement

Objectives:

- To procure, in accordance with the Arizona Procurement Code (APC), goods & services for the ASRS that meet or exceed the users' expectations 80 percent of the time in two out of three of price, timeliness, and quality.
- To manage and dispose of surplus and excess property, to obtain maximum usage and value from such property.

Facilities Management

Objectives:

- Respond to 90 percent of facility related requests within 2 hours, with a 90 percent satisfaction and timeliness rate.
- Participate in the management of ASRS occupied properties to achieve an acceptable rate of return.

Fixed Asset Management

Objectives:

- Within 5 business days after purchase, log asset into the asset database. Annually, conduct inventory, update records with

location changes and missing property, and report results to senior management.

Human Resource Development

Objectives:

- Within budgetary constraints, and if service levels require, maintain permanent staffing levels at 90 percent or higher for 6 of 12 months in each fiscal year.
- Enhance retention by developing appropriate methods to assess the overall satisfaction of ASRS employees such as employee surveys, exit interviews and focus groups; use the information to identify ways of improving communication, working conditions, and environment.
- On an ongoing basis, provide counseling, mentoring, and direction to staff and management on how to manage relationships in a way that allows the agency to secure and retain a highly capable workforce that will help the agency succeed in meeting its goals.
- Ensure compliance with all relevant laws and regulations.

Training and Standard Operating Procedures

Objectives:

- Identify and analyze the skill gaps of staff at all levels and develop a plan to eliminate those gaps.
- Identify, compose, and publish all ASRS standard operating procedures and establish a cycle for review.
- Maintain and monitor the ASRS enterprise wiki (a collaborative website).

Goal 14

Implement governance, strategic planning, and risk management policies and programs needed to achieve goals and mitigate threats to the ASRS.

ADMINISTRATION GOALS AND OBJECTIVES

Director's Office: Agency Governance

Objectives:

- Ensure that Board and Committee Meeting agendas and materials are posted and completed in an accurate and timely manner.
- Facilitate an annual review of governance documents to effectively delineate roles, powers, duties, checks, and balances of the Board, Board Committees, and Director.
- Conduct a yearly actuarial valuation for the Plan, System, Health Benefit Supplement, and Long Term Disability Program.
- Perform regular analysis to identify inequitable or non-standardized program offerings, their cost, suggestions for changes, and their potential cost savings or administrative benefits.
- Engage members, legislators, or other interested parties to discuss agency initiatives or solicit feedback regarding agency operations, initiatives and programs.
- Facilitate the completion of an administrative risk assessment every two years.

Director's Office: Strategic Planning

Objectives:

- Report annually to the Board the agency's ability to meet Strategic Plan objectives.
- Ensure proper coordination of the Strategic Plan and process. Identify and research issues and make recommendations.
- Initiate strategic and tactical actions to address performance shortfalls, adapt to the current and emerging business environment, and adopt best practices and technology.
- Ensure member satisfaction and peer benchmarking surveys are completed timely, effectively, and within budgeted limits.

Director's Office: Values (PRIDE) Initiative

Objectives:

- Create a brand of service perceived as knowledgeable, energetic, and efficient that reflects ASRS core values and displays a passionate personal interest in obtaining a satisfying outcome for the recipient.
- Provide a stimulating, disciplined work environment that reflects ASRS core values; offer fair and equitable compensation; and supply proper tools which result in professionally satisfying relationships among staff and superior service to members.
- Through knowledge, leadership and integrity, the ASRS will be a trusted resource on retirement related issues for our members and the community we serve.

Internal Audit

Objectives:

- Develop a Board and Director approved audit plan based on a risk assessment of the agency every two years.
- For audits identified as high risk, identify and make recommendations to address:
 - Deficiencies in the internal control structure
 - Deficiencies in employer compliance with ASRS laws, rules, and policies.
 - The agency's ability to meet strategic goals and objectives within designated timeframes
- Report on investment compliance with applicable statutes and policies of the ASRS on a periodic basis.
- Perform periodic quality reviews of the business functions identified in the biannual audit plan.
- Investigate concerns of members who communicate through the fraud hotline.

A set of unranked investment principles has been developed and adopted to provide the paradigm within which the ASRS will make its macro-level investment decisions.

The first principle, “maximize fund rates of return for acceptable levels of fund risk,” has an asset oriented focus. Here, the returns generated or earned by the investment Fund should be considered in conjunction with the risk or volatility that the Fund will support, where risk is essentially the possibility of a change in the value of the ASRS Fund attributed to changes in economic conditions, interest rates, dividend policy and other variables.

The second principle, “achieve long-term fund rates of return equal to or greater than the actuarial assumed interest rate,” has a liability oriented focus. Here, the returns generated or earned by the investment Fund should be considered in conjunction with the actuarial assumed interest rate, where this interest rate is essentially an estimate of the long-term average of the combination of expected inflation rates and expected real rates of return. The actuarial assumed interest rate is also the discount rate used to calculate the present value of liabilities.

The third principle, “mitigate employee and employer contribution rate volatility,” has a contribution-rate oriented focus. Here, the structuring of the investment Fund should be considered in conjunction with the level, volatility, and direction of the contribution rates that will need to be paid by both employees and employers in the Fund. In general, lower levels and volatility in contribution rates are preferred.

The fourth principle, “achieve long-term economic and actuarial funded statuses of approximately 100%,” has a funded-status oriented focus. Here, the structuring of the investment Fund should be

considered in conjunction with the level, volatility, and direction of the economic and actuarial funded status of the Fund. Although both actuarial and economic funded status levels are valuable for discussion and decision-making, economic-funded status is more reflective of financial condition and long-term policy implications. Economic funded status is defined as the actual or market value of investments as a percentage of the actual or market value of liabilities and excludes such accounting constructs as smoothing and amortization.

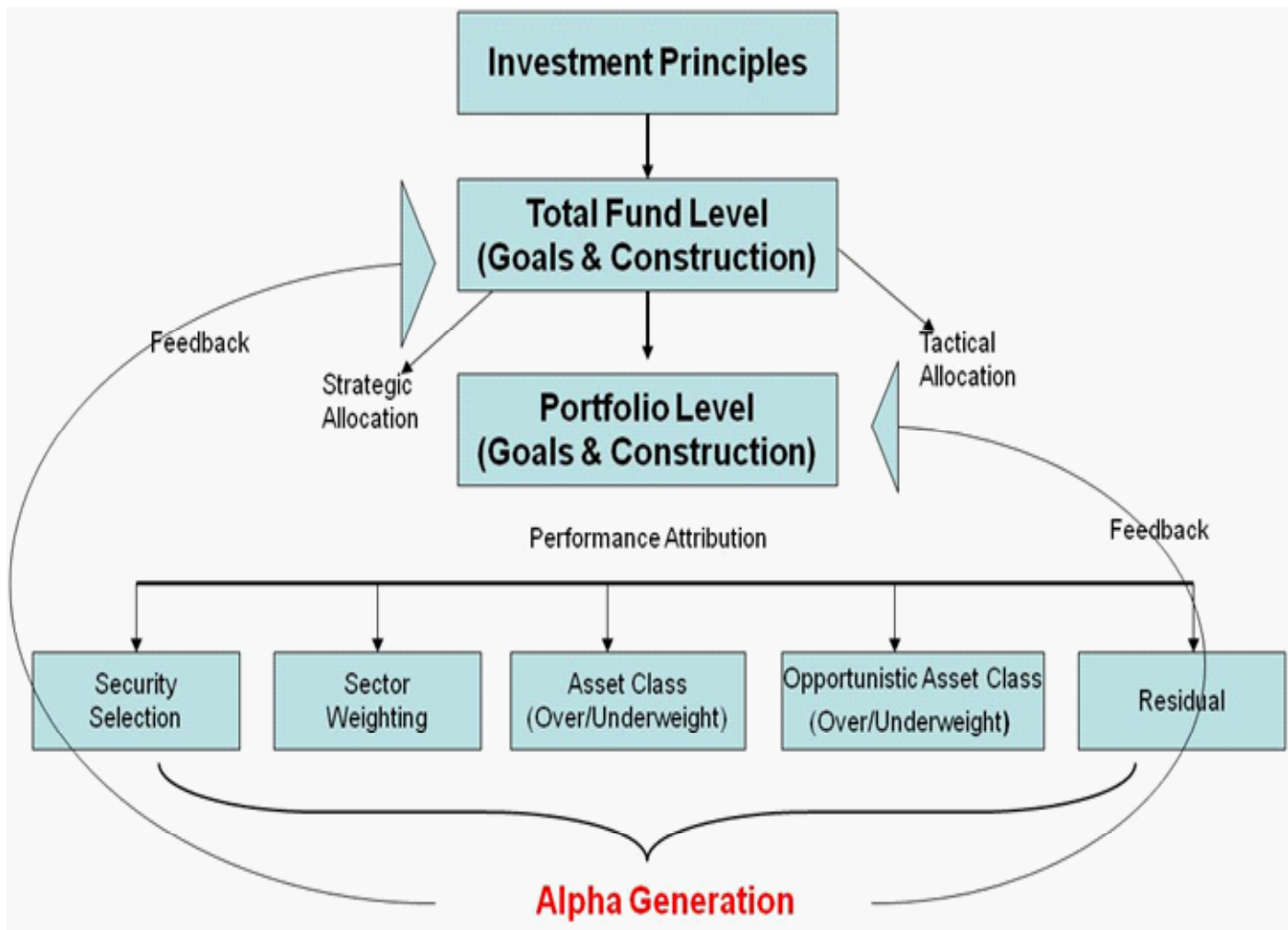
Collectively, the ASRS Investment Principles incorporate the following elements that are important for a fund’s comprehensive investment structure:

1. Complementary use of *absolute* and *relative* rates-of-return perspectives.
2. Complementary use of *asset-only* and *asset-liability* perspectives.
3. Complementary use of *economic* and *actuarial* perspectives.

Exhibit A provides a schematic of the relationship between the Investment Principles and Investment Goals (total fund level) and Objectives (portfolio level) basis.

Though important, Safety of Principal is not denoted as a separate principle, given its incorporation in other principles and the general acceptability of Modern Portfolio Theory. Liquidity of the Fund is also not denoted separately as it is a normal investment operating function and acts more as a constraint than an investment principle.

Exhibit A Investment Process Schematic



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 actu-
arial 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 opera-
tions will *energize* the organization.

Improvement.

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

Diversity.

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

Excellence.

A commitment to service excellence will
permeate the organization.



ARIZONA STATE
RETIREMENT SYSTEM