FINANCIAL AUDIT

OF THE

MICHIGAN LEGISLATIVE RETIREMENT SYSTEM

October 1, 1998 through September 30, 2000

03-140-01

EXECUTIVE DIGEST

MICHIGAN LEGISLATIVE RETIREMENT SYSTEM

INTRODUCTION

This report contains the results of our financial audit* of the Michigan Legislative Retirement System (MLRS) for the period October 1, 1998 through September 30, 2000.

AUDIT PURPOSE

This financial audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Financial audits are conducted at various intervals to provide for enhanced financial reporting of significant State programs and/or activities and to complement the annual audit of the State's financial statements. This audit is required on a biennial basis by Section 38.1041 of the *Michigan Compiled Laws*.

BACKGROUND

MLRS's mission* is to administer and maintain the retirement system for eligible members* of the Legislature and to provide retirement allowances and other benefits*, such as life, health, and dental insurance, to retirees*, deferred vested members*, and beneficiaries.

MLRS was created by Act 261, P.A. 1957 (Sections 38.1001 - 38.1080 of the *Michigan Compiled Laws*). An 11-member Board of Trustees administers MLRS.

** See glossary at end of report for definition.*

Act 486, P.A. 1996, amended the MLRS enabling statute to mandate that persons elected to the Michigan Legislature after March 31, 1997 participate in a Statewide defined contribution pension plan. Thus, the MLRS defined benefit plan is a closed plan.

MLRS is funded by State appropriations, member contributions, circuit and district court fees (as provided by Sections 600.2529 and 600.8381 of the *Michigan Compiled Laws*), and income from investments.

There were 234 and 231 persons (retirees and beneficiaries) receiving retirement benefits as of September 30, 2000 and September 30, 1999, respectively. Retirement benefits paid for the fiscal years ended September 30, 2000 and September 30, 1999 were $5,686,769 and $5,325,091, respectively.

AUDIT OBJECTIVES AND CONCLUSIONS

Audit Objective: To assess and report on MLRS's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial statements, and on its internal control* over financial reporting, based on our audit of the financial statements.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial statements. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses*.

Audit Objective: To audit MLRS's financial statements as of and for the fiscal years ended September 30, 2000 and September 30, 1999.

** See glossary at end of report for definition.*

Conclusion: We expressed an unqualified opinion* on MLRS's financial statements.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Michigan Legislative Retirement System for the period October 1, 1998 through September 30, 2000. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

PRIOR AUDIT FOLLOW-UP

MLRS complied with both prior audit recommendations.

** See glossary at end of report for definition.*

This page left intentionally blank.

November 8, 2001

The Honorable George A. McManus, Jr., Chairperson
Board of Trustees
Michigan Legislative Retirement System
State Capitol
Lansing, Michigan
and
Ms. Christine I. Hammond, Director
Michigan Legislative Retirement System
Anderson House Office Building
Lansing, Michigan

Dear Senator McManus and Ms. Hammond:

This is our report on the financial audit of the Michigan Legislative Retirement System for the period October 1, 1998 through September 30, 2000.

This report contains our executive digest; description of agency; audit objectives, audit scope, and prior audit follow-up; comments; and independent auditor's reports on compliance and on internal control over financial reporting and on the financial statements. This report also contains the Michigan Legislative Retirement System financial statements and notes to the financial statements, required supplementary information, and a glossary of acronyms and terms.

Our comments are organized by audit objective.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

This page left intentionally blank.

TABLE OF CONTENTS

MICHIGAN LEGISLATIVE RETIREMENT SYSTEM

INTRODUCTION

REQUIRED SUPPLEMENTARY INFORMATION

GLOSSARY

Description of Agency

The Michigan Legislative Retirement System (MLRS) is a single employer, Statewide public employee, defined benefit retirement system governed by the State of Michigan. MLRS's mission is to administer and maintain the retirement system for eligible members of the Legislature and to provide retirement allowances and other benefits, such as life, health, and dental insurance, to retirees, deferred vested members, and beneficiaries.

MLRS was created by Act 261, P.A. 1957 (Sections 38.1001 - 38.1080 of the *Michigan Compiled Laws*). An 11-member Board of Trustees administers MLRS. The Board is composed of 2 members of the House of Representatives appointed by the Speaker of the House, 2 members of the Senate appointed in the same manner as are standing committees of the Senate, 2 retirees and 1 deferred vested member appointed by the Speaker of the House of Representatives, 2 retirees and 1 deferred vested member appointed by the Senate Majority Leader, and 1 participant in the Statewide defined contribution pension plan who was a former member of the defined benefit plan, appointed alternately by the Speaker of the House of Representatives and the Senate Majority Leader.

Act 486, P.A. 1996, amended the MLRS enabling statute to mandate that persons elected to the Michigan Legislature after March 31, 1997 participate in a Statewide defined contribution pension plan. Thus, the MLRS defined benefit plan is a closed plan.

MLRS is funded by State appropriations, member contributions, circuit and district court fees (as provided by Sections 600.2529 and 600.8381 of the *Michigan Compiled Laws*), and income from investments.

There were 234 and 231 persons (retirees and beneficiaries) receiving retirement benefits as of September 30, 2000 and September 30, 1999, respectively. Retirement benefits paid for the fiscal years ended September 30, 2000 and September 30, 1999 were $5,686,769 and $5,325,091, respectively.

Audit Objectives, Audit Scope, and Prior Audit Follow-Up

Audit Objectives

Our financial audit of the Michigan Legislative Retirement System (MLRS) had the following objectives:

1. To assess and report on MLRS's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial statements, and on its internal control over financial reporting, based on our audit of the financial statements.

2. To audit MLRS's financial statements as of and for the fiscal years ended September 30, 2000 and September 30, 1999.

Audit Scope

Our audit scope was to examine the financial and other records of the Michigan Legislative Retirement System for the period October 1, 1998 through September 30, 2000. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Prior Audit Follow-Up

MLRS complied with both prior audit recommendations.

COMMENTS

COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING

COMMENT

Audit Objective: To assess and report on the Michigan Legislative Retirement System's (MLRS's) compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial statements, and on its internal control over financial reporting, based on our audit of the financial statements.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial statements. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses.

FINANCIAL ACCOUNTING AND REPORTING

COMMENT

Audit Objective: To audit MLRS's financial statements as of and for the fiscal years ended September 30, 2000 and September 30, 1999.

Conclusion: We expressed an unqualified opinion on MLRS's financial statements.

Independent Auditor's Report on Compliance and
on Internal Control Over Financial Reporting

May 25, 2001

The Honorable George A. McManus, Jr., Chairperson
Board of Trustees
Michigan Legislative Retirement System
State Capitol
Lansing, Michigan
and
Ms. Christine I. Hammond, Director
Michigan Legislative Retirement System
Anderson House Office Building
Lansing, Michigan

Dear Senator McManus and Ms. Hammond:

We have audited the financial statements of the Michigan Legislative Retirement System as of and for the fiscal years ended September 30, 2000 and September 30, 1999 and have issued our report thereon dated May 25, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance
As part of obtaining reasonable assurance about whether the Michigan Legislative Retirement System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the Michigan Legislative Retirement System's internal control over financial reporting in order to determine our

auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the State's management and the Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

Independent Auditor's Report on
the Financial Statements

May 25, 2001

The Honorable George A. McManus, Jr., Chairperson
Board of Trustees
Michigan Legislative Retirement System
State Capitol
Lansing, Michigan
and
Ms. Christine I. Hammond, Director
Michigan Legislative Retirement System
Anderson House Office Building
Lansing, Michigan

Dear Senator McManus and Ms. Hammond:

We have audited the accompanying statement of pension plan net assets of the Michigan Legislative Retirement System as of September 30, 2000 and September 30, 1999 and the related statement of changes in pension plan net assets for the fiscal years then ended. These financial statements are the responsibility of the Michigan Legislative Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1a, the accompanying financial statements present only the Michigan Legislative Retirement System and are not intended to present fairly the financial position and results of operations of the State of Michigan or its pension trust funds.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan Legislative Retirement System as of September 30, 2000 and September 30, 1999 and the results of its operations for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 25, 2001 on our tests of the Michigan Legislative Retirement System's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of funding progress and schedule of employer contributions on pages 29 and 30 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

AUDITOR GENERAL

MICHIGAN LEGISLATIVE RETIREMENT SYSTEM
Statement of Pension Plan Net Assets
As of September 30

	2000			1999		
	Pension Fund	Postemployment Healthcare Fund	Total	Pension Fund	Postemployment Healthcare Fund	Total
ASSETS						
Cash	$ 5,870,677	$ 153,340	$ 6,024,017	$ 1,997,531	$ 29,488	$ 2,027,019
Receivables:						
Employer	$ 88,655	$ 2,316	$ 90,971	$ 41,151	$ 607	$ 41,758
Interest and dividends	803,000	20,974	823,974	987,531	14,578	1,002,109
Sale of investments	472,957	12,353	485,310	439,567	6,489	446,056
Total Receivables	$ 1,364,612	$ 35,643	$ 1,400,255	$ 1,468,249	$ 21,674	$ 1,489,923
Investments:						
Bonds	$ 60,797,218	$ 1,587,997	$ 62,385,215	$ 66,815,059	$ 986,355	$ 67,801,414
Common stock	99,142,318	2,589,554	101,731,872	96,919,987	1,430,779	98,350,766
Mutual funds	12,576,744	328,499	12,905,243			
Total Investments	$172,516,280	$ 4,506,050	$177,022,330	$163,735,046	$ 2,417,134	$166,152,180
Total Assets	$179,751,569	$ 4,695,033	$184,446,602	$167,200,826	$ 2,468,296	$169,669,122
LIABILITIES						
Warrants outstanding	$ 30,136	$ 787	$ 30,923	$ 51,217	$ 756	$ 51,973
Accounts payable and other accrued liabilities	1,879,880	49,102	1,928,982	1,141,869	16,857	1,158,726
Total Liabilities	$ 1,910,016	$ 49,889	$ 1,959,905	$ 1,193,086	$ 17,613	$ 1,210,699
Net Assets Held in Trust for Pension and Healthcare Benefits*	$177,841,553	$ 4,645,144	$182,486,697	$166,007,740	$ 2,450,683	$168,458,423

* A schedule of funding progress is presented as required supplementary information.

The accompanying notes are an integral part of the financial statements.

MICHIGAN LEGISLATIVE RETIREMENT SYSTEM
Statement of Changes in Pension Plan Net Assets
For the Fiscal Years Ended September 30

	2000			1999		
	Pension Fund	Postemployment Healthcare Fund	Total	Pension Fund	Postemployment Healthcare Fund	Total
ADDITIONS						
Member contributions:						
Other contributions	$ 78,062	$ 346,913	$ 424,975	$ 185,779	$ 272,552	$ 458,331
Military contributions	671		671	16,723		16,723
Employer contributions:						
Other contributions		3,257,100	3,257,100		2,868,200	2,868,200
Court fees		1,146,456	1,146,456		1,080,396	1,080,396
Investment income	18,794,162		18,794,162	20,354,818		20,354,818
Less other investment expenses	(696,426)		(696,426)	(637,867)		(637,867)
Interest income		267,940	267,940		58,271	58,271
Miscellaneous income				13		13
Total Additions	$ 18,176,469	$ 5,018,409	$ 23,194,878	$ 19,919,466	$ 4,279,419	$ 24,198,885
DEDUCTIONS						
Benefits and refunds paid to members and beneficiaries:						
Retirement benefits	$ 5,686,769	$	$ 5,686,769	$ 5,325,091	$	$ 5,325,091
Health benefits		2,559,302	2,559,302		2,041,579	2,041,579
Dental benefits		264,646	264,646		230,812	230,812
Death benefits	117,500		117,500	225,000		225,000
Refunds of member contributions and interest	3,612		3,612	31,584		31,584
Transfer to other systems	268,833		268,833	207,473		207,473
Administrative expenses	265,942		265,942	223,975		223,975
Total Deductions	$ 6,342,656	$ 2,823,948	$ 9,166,604	$ 6,013,123	$ 2,272,391	$ 8,285,514
Net Increase	$ 11,833,813	$ 2,194,461	$ 14,028,274	$ 13,906,343	$ 2,007,028	$ 15,913,371
Net Assets Held in Trust for Pension and Healthcare Benefits						
Beginning of year	166,007,740	2,450,683	168,458,423	152,101,397	443,655	152,545,052
End of year	$ 177,841,553	$ 4,645,144	$ 182,486,697	$ 166,007,740	$ 2,450,683	$ 168,458,423

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements

Note 1 Plan Description

a. Reporting Entity

The Michigan Legislative Retirement System (MLRS) is a single employer, Statewide public employee, defined benefit retirement system governed by the State of Michigan and created by Act 261, P.A. 1957, as amended. MLRS was established by the State of Michigan for the purpose of providing retirement, survivor, and disability benefits to eligible legislators in the legislative branch of State government.

MLRS is considered part of the State of Michigan financial reporting entity and its financial statements are included in the *State of Michigan Comprehensive Annual Financial Report* as a pension trust fund. MLRS operates within the legislative branch of State government. The MLRS Board of Trustees appoints the director, who serves as the executive secretary to the MLRS Board and is responsible for the daily administration of the retirement system.

Act 486, P.A. 1996, amended the MLRS enabling statute to mandate that persons elected to the Michigan Legislature after March 31, 1997 participate in a Statewide defined contribution pension plan. Thus, the MLRS defined benefit plan is a closed plan. The Statewide defined contribution pension plan operates in the manner similar to a 401(k) plan and is accounted for in the State Employees' Defined Contribution Retirement Fund. Executive Order No. 1999-7 transferred administration of the Fund from the Department of Treasury to the Department of Management and Budget.

MLRS and the MLRS Board do not exercise oversight responsibility over the State Employees' Defined Contribution Retirement Fund or any other entities; therefore, MLRS is the only entity included in this financial report. Accordingly, the accompanying financial statements are not intended to present fairly the financial position and the results of operations of the State of Michigan or its pension trust funds.

b. Membership

At September 30, 2000 and September 30, 1999, MLRS membership consisted of:

	2000	1999
Retirees and beneficiaries currently receiving benefits:		
Regular benefits	165	160
Survivor benefits	69	71
Disability benefits	0	0
Total	234	231
Inactive members with vested deferred benefits	71	77
Current employees:		
Vested	52	31
Nonvested	22	43
Total	74	74
Total of all members	379	382

c. Benefit Provisions

Regular Retirement:

A member may retire and receive retirement benefits based on age and service after: (1) attaining age 50, if age and years of credited service combined are equal to or greater than 70; or (2) attaining age 55 with 5 or more years of credited service if elected, qualified, and seated not less than (a) 3 full or partial terms in the House of Representatives, (b) 2 full or partial terms in the Senate, or (c) 1 term in the House of Representatives and 1 term in the Senate.

For those legislators who first became members on or before January 1, 1995, the retirement benefit is calculated by multiplying 20% of a member's highest salary earned for the first 5 years of service, plus 4% of the member's highest salary for each of the next 11 years of service, plus 1% of the member's highest salary for each additional year.

For those legislators who first became members after January 1, 1995, the retirement benefit is calculated by multiplying 3% of the highest salary for each year of service.

Post Retirement Benefit Adjustment:

For those legislators who first became members on or before January 1, 1995, the annual retirement benefit payable to a retiree or a retiree's survivor is increased by 4% compounded annually. The adjustment is effective each January 1.

For those legislators who first became members after January 1, 1995, the annual retirement benefit payable to a retiree or a retiree's survivor is increased by 4%, but is not compounded annually. The adjustment is effective each January 1.

Disability Benefit:

A member or deferred vested member who becomes disabled as determined by at least 2 licensed physicians appointed by the MLRS Board is eligible for a disability benefit computed in the same manner described under a regular retirement.

Survivor Benefit:

Upon the death of a vested member or deferred vested member who meets the service, but not the age, requirements for a regular retirement, or upon the death of a retiree, the surviving spouse shall be entitled to a benefit equal to 66 2/3% of the benefit the member would have received or was receiving at the time of death. Special provisions apply to surviving minor children and surviving spouses with minor children.

Refunds:

A member who leaves legislative service may request a refund of the member's contributions. A member who receives a refund of contributions forfeits all rights to any future benefits. Members who return to legislative service and who previously received a refund of their contributions may reinstate their service through repayment of the refund plus interest in accordance with the statute.

d. Other Postemployment Benefits

Under Sections 50a and 50b of the Michigan Legislative Retirement System Act, all retirees and their survivors and dependents have the option of continuing health, dental, vision, and hearing insurance coverage. MLRS also provides health, dental, vision, and hearing insurance coverage for deferred vested members who were members on or before January 1, 1995 and for their survivors and dependents. MLRS funds the health, dental, vision, and hearing benefits on a pay-as-you-go basis*; however, the State has begun to advance fund the program for future health insurance costs.

MLRS provides $150,000 in life insurance coverage to active members. Deferred vested members and retirees are covered by varying amounts of life insurance, ranging from $2,500 to $150,000. The life insurance plan and the pension plan use the actuarial assumptions stated in the actuarial section. The number of plan participants and other relevant financial information is as follows:

	Fiscal Year	
	1999-2000	1998-99
Health/Dental/Vision Plans		
Eligible participants	312	316
Participants receiving benefits	311	315
Expense for year	$ 2,823,948	$ 2,272,391
Net assets available for benefits	$ 4,645,144	$ 2,450,683
Life Insurance Plan		
Participants receiving benefits	298	304
Actuarial accrued liabilities	$ 8,299,749	$ 8,056,856
Net assets available for benefits	$13,991,916	$11,399,000
Life insurance payments	$ 117,500	$ 225,000

e. Term Limits

Michigan's constitutional term-limit amendment limits members of the House of Representatives to 6 years in office and members of the Senate

* *See glossary at end of report for definition.*

to 8 years in office. Most current legislators who are members of MLRS will leave office by 2002 because of term limits. In addition, new legislators are automatically enrolled in the State of Michigan Defined Contribution Plan, ensuring that in the next two years, there will be a dramatic reduction in the number of active members of MLRS.

Note 2 Summary of Significant Accounting Policies and Plan Asset Matters

a. Basis of Accounting

MLRS financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting, which emphasizes the measurement of total financial position and results of operations, is explained in more detail in the *State of Michigan Comprehensive Annual Financial Report.* Contributions from the State and participating legislators are recognized as revenue in the period in which service is provided. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the retirement plan.

b. Contributions and Reserves

The Michigan Legislative Retirement System Act provides for several funds. These funds and the contributions and other monies allocated to them are described below:

(1) Members' Savings Fund (MSF). Members who first became members on or before January 1, 1995 contributed 7% of their salary to MSF for a period not to exceed 20 years. Members who first became members after January 1, 1995 contributed 5% of their salary to MSF. During the period January 1, 1999 through December 31, 2000, members who first became members after December 1, 1994 and on or before January 1, 1995, contributed an additional 4% of their salary to MSF. After January 1, 1999, there were no member contributions allocated to MSF from the pre-December 1, 1994 members or the post-January 1, 1995 members. Members may make other contributions to MSF to purchase military service credit or to repay previously refunded contributions. MSF represents active member and deferred vested member contributions (and interest credited from the Income Fund) less amounts transferred to the Members' Retirement Fund for retirement and

amounts refunded to terminated members. Fund balances for MSF for the fiscal years ended September 30, 2000 and September 30, 1999 were $4,762,158 and $4,741,277, respectively.

(2) Members' Retirement Fund (MRF). MRF represents the reserves for payment of retirement benefits to retired members and deferred vested members. At retirement, a member's accumulated contributions (with interest) are transferred to MRF (from MSF). Interest is credited to MRF (from the Income Fund), and monthly allowances are debited. At each fiscal year-end, an actuarial valuation determines the 100% funding requirements for MRF. Any amounts required to fund MRF 100% are transferred in the next fiscal year. Fund balances for MRF for the fiscal years ended September 30, 2000 and September 30, 1999 were $108,960,108 and $102,395,667, respectively.

(3) Survivors' Retirement Fund (SRF). Until January 1, 1999, all members with less than 20 years of service contributed 0.5% of their salary to SRF. After January 1, 1999, there are no member contributions allocated to SRF. Interest is credited annually to SRF (from the Income Fund), and member savings are transferred to SRF from MSF upon the death of a vested member, and additional State contributions may be made in order to fund SRF 100%. Survivors' monthly retirement allowances are paid from SRF upon the death of vested members, deferred vested members, and retirees. Fund balances for SRF for the fiscal years ended September 30, 2000 and September 30, 1999 were $49,838,658 and $45,917,698, respectively.

(4) Insurance Revolving Fund (IRF). Until January 1, 1999, all members contributed 0.5% of their salary to IRF. After January 1, 1999, there are no member contributions allocated to IRF. Additional State appropriations, if any, and interest from the Income Fund are credited to IRF. IRF pays lump sum death benefits to beneficiaries of members, deferred vested members, and retirees. Fund balances for the fiscal years ended September 30, 2000 and September 30, 1999 were $14,280,629 and $12,953,098, respectively.

(5) Health Insurance Fund (HIF). Until January 1, 1999, all members contributed 1% of their salary to HIF. After January 1, 1999, members' contributions are made as follows: members who first became members on or before January 1, 1995 contribute 9% to HIF; and members who first became members after January 1, 1995 contribute 7% to HIF. Funds from HIF pay for health care expenses and are accumulated to fully fund the future health insurance liabilities. Fund balances for the fiscal years ended September 30, 2000 and September 30, 1999 were $4,645,144 and $2,450,683, respectively.

(6) Income Fund. The Income Fund is credited with all investment earnings, and all investment and administrative expenses are reimbursed from the Fund. Interest transfers are made annually to other funds.

c. <u>Related Party Transactions</u>
The cash account, which represents funds deposited in a common cash investment pool maintained for various State operating funds, included $6,024,017 and $2,027,019 on September 30, 2000 and September 30, 1999, respectively. The participating funds in the common cash investment pool earn interest at various rates, depending upon prevailing short-term interest rates. Earnings from these activities amounted to $206,655 and $30,753 for the fiscal years ended September 30, 2000 and September 30, 1999, respectively.

d. <u>Fixed Assets</u>
Fixed assets, which are immaterial in amount, are not recognized on the accounting records. Administrative disbursements are treated as expenses, and equipment expenses are not capitalized.

Note 3 <u>Investments</u>
All investments made are subject to approval by the MLRS Board, which has investment authority under the controlling act. Investments made are subject to statutory regulations imposed under the Public Employee Retirement System Investment Act (Act 314, P.A. 1965, as amended). MLRS also

contracts with independent investment advisors and the State Treasurer acts as custodian for MLRS investments.

a. Methods Used to Value Investments. Plan investments are presented at fair value. Securities traded on a national exchange are valued at the last reported sales price. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. Other investments that do not have an established market are recorded at estimated fair value. Short-term investments are carried at cost, which approximates fair value.

b. Investment Income. Dividend income is recognized based on the ex-dividend date and interest income is recognized on the accrual basis as earned. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date.

c. Investments Exceeding 5% of Net Assets. At September 30, 2000 and September 30, 1999, MLRS did not hold any individual investment that exceeded 5% of net assets available for benefits, as defined in Act 314, P.A. 1965, as amended.

d. Categories of Investment Risk. Governmental Accounting Standards Board Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements,* requires classification of investments into one of three categories based upon credit risk. Category 1 includes investments that are insured or registered or that are held by MLRS or its agent in MLRS's name. Category 2 includes uninsured and unregistered investments that are held by the counter party's trust department or agent in MLRS's name. Category 3 includes uninsured and unregistered investments that are held by the counter party, its trust department or agent, but not in MLRS's name. At September 30, 2000, all investments were classified as Category 1, except for $12.9 million in mutual funds that were not considered securities for credit risk classification purposes and were not categorized. At September 30, 1999, all investments were classified as Category 1.

e. Derivatives and Securities Lending. MLRS did not have any investments in derivatives or securities lending activities, as defined in Act 314, P.A. 1965, as amended.

Note 4 Funding Status and Progress

Presented at the end of this note is the total actuarial accrued liability* of projected pension benefits for MLRS. The actuarial accrued liability is a measure intended to help users (a) assess a pension fund's funding status on a going-concern basis, (b) assess progress being made toward accumulating the assets needed to pay benefits as due, and (c) make comparisons among public employee retirement systems.

The actuarial accrued liability of projected pension benefits consists of: (a) the actuarial present value of credited benefits payable for current active members, (b) the actuarial present value of projected benefits payable to current retirees and beneficiaries, and (c) the actuarial present value of projected benefits to terminated vested members.

The standardized measure of the pension and insurance benefit obligations as of September 30, 2000 and September 30, 1999 (excluding the reserve for health insurance) is as follows:

	2000	1999
Actuarial accrued liability:		
Active members	$ 21,664,786	$ 18,739,565
Retirees and beneficiaries currently receiving benefits	80,690,775	77,812,308
Vested terminated members not yet receiving benefits	26,116,572	30,544,248
Total actuarial accrued liability	$128,472,133	$127,096,121
Actuarial value of assets (market value: 2000, $177,841,533; 1999, $166,007,740)	160,253,762	146,141,026
Unfunded (overfunded) actuarial accrued liability*	($ 31,781,629)	($ 19,044,905)

* *See glossary at end of report for definition.*

Note 5 Contributions Required and Contributions Made

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal actuarial cost method*. Normal cost* is funded on a current basis. Periodic contributions for both normal cost and the amortization of any unfunded actuarial accrued liability are based on the level percentage of payroll method so that contribution rates do not have to increase over decades of time.

As a result of the closure of the defined benefit plan and a favorable investment performance, actuary reports indicate that MLRS is now more than fully funded for all pension and life insurance benefits to be paid to existing active members, deferred vested members, retirees, and beneficiaries. A schedule of funding progress is presented as required supplementary information.

Active members continue to make contributions to designated funds based upon the requirements set forth in the enabling statute and as described in Note 2.

Note 6 Required Supplementary Information

Governmental Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, requires the disclosure of certain historical trend information. Trend information is intended to help users assess the funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems. This trend information is presented in the following pages as required supplementary information.

Note 7 Subsequent Event

Effective February 1, 2001, legislative salaries increased approximately 36%. MLRS management believes that this increase will have a direct effect on the retirement benefit amounts paid to active MLRS members upon retirement or upon payment of retirement benefits to their survivors. Also, these salary increases may affect MLRS's actuarial accrued liability; however, such an effect has not yet been determined.

* *See glossary at end of report for definition.*

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress
(In Thousands)

Each time a higher level of benefit is adopted, unfunded obligations are created. Sections 38.1020(4) and 38.1022(5) of the *Michigan Complied Laws* require that these additional obligations be financed systematically over a period of future years.

Analysis of the dollar amounts of the actuarial value of assets, actuarial accrued liability, or unfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of Michigan Legislative Retirement System (MLRS) funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater the percentage, the stronger the system. Trends in unfunded actuarial accrued liability expressed as a percentage of annual covered payroll approximately adjust for the effects of inflation and aid analysis of MLRS progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller the percentage, the stronger the system.

Valuation Date September 30	Actuarial Value of Assets (1) (a)	Actuarial Accrued Liability (AAL) Entry Age (b)*	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll (2) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1991	$ 69,808	$ 72,632	$ 2,824	96%	$ 6,827	41%
1992	$ 78,143	$ 75,781	$ (2,362)	103%	$ 6,827	
1993	$ 88,074	$ 82,579	$ (5,495)	107%	$ 6,871	
1993 (3)(4)	$ 86,660	$ 88,144	$ 1,484	98%	$ 6,871	22%
1994	$ 93,264	$ 99,974	$ 6,710	93%	$ 7,202	93%
1995	$ 103,660	$ 105,866	$ 2,206	98%	$ 7,419	30%
1996	$ 113,633	$ 112,571	$ (1,062)	101%	$ 7,654	
1997	$ 126,819	$ 116,263	$ (10,556)	109%	$ 7,836	
1998	$ 131,836	$ 112,934	$ (18,902)	117%	$ 6,610	
1999	$ 146,141	$ 127,096	$ (19,045)	115%	$ 4,195	
2000	$ 160,254	$ 128,472	$ (31,782)	125%	$ 4,344	

(1) Excludes reserve for health insurance.
(2) October-based payroll.
(3) After changes in actuarial assumptions methods.
(4) After reflecting the impact of term limits.

* See Note C.

Schedule of Employer Contributions
(In Thousands)

Fiscal Year	Valuation Date September 30	Required Contribution as a Percentage of Payroll	Actual Payroll	Dollar Contributions For Fiscal Year Required	Actual (1)
1990-91	1990	36.40%	$ 6,815	$ 2,481	$ 2,451
1991-92	1991	35.60%	$ 6,654	$ 2,369	$ 2,597
1992-93	1992	33.06%	$ 6,821	$ 2,255	$ 2,458
1993-94	1993	30.74%	$ 7,055	$ 2,169	$ 2,347
1993-94	1993 (2)	31.62%	$ 7,055	$ 2,231	$ 2,347
1993-94	1993 (3)	45.48%	$ 7,055	$ 3,209	$ 2,347
1994-95	1994	45.45%	$ 7,370	$ 3,350	$ 3,419
1994-95	1994 (4)	29.43%	$ 7,370	$ 2,169	$ 3,419
1995-96	1995	26.97%	$ 7,565	$ 2,040	$ 2,152
1996-97	1996	25.51%	$ 7,737	$ 1,974	$ 2,070
1997-98	1997	19.79%	$ 8,197	$ 1,622	$ 2,083
1997-98	1997 (5)	0.00%	$ 8,197	$ 0	$ 2,083
1998-99	1998	0.00%	$ 6,610	$ 0	$ 0
1999-2000	1999	0.00%	$ 4,195	$ 0	$ 0

(1) Actual contributions are public-financed contributions, less health insurance premiums and less noninvestment administrative expenses for fiscal years 1990-91 through 1993-94.
(2) After changes in actuarial assumptions/methods.
(3) After reflecting the impact of term limits.
(4) After changes in benefit provisions.
(5) After closing the defined benefit plan to new members.

Notes to Required Supplementary Information

Note A Description

The 10-year historical trend information is designed to provide information about Michigan Legislative Retirement System (MLRS) progress made in accumulating sufficient assets to pay benefits when due. This information is presented to enable the reader to assess the progress made by MLRS in accumulating sufficient assets to pay pension benefits as they become due.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes that usually affect trends in contribution requirements.

The schedule of funding progress and schedule of employer contributions are reported as historical trend information. The schedule of funding progress is presented to measure the progress made to accumulate sufficient assets to pay benefits when due. The schedule of employer contributions is presented to show the responsibility of the employer in meeting the actuarial requirements to maintain MLRS on a sound financial basis.

Note B Summary of Actuarial Assumptions

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

Valuation date	September 30, 2000	September 30, 1999
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level Percent of Payroll	Level Percent of Payroll
Amortization period	12 Years	12 Years
Asset valuation method	5-Year Smoothed Market	5-Year Smoothed Market
Actuarial assumptions:		
Investment rate of return	7%	7%
Projected salary increases*	4%	4%
Inflation	4%	4%
Cost-of-living adjustments	4%	4%

* See Note C.

Note C <u>Subsequent Event</u>

Effective February 1, 2001, legislative salaries increased approximately 36%. MLRS management believes that this increase will have a direct effect on the retirement benefit amounts paid to active MLRS members upon retirement or upon payment of retirement benefits to their survivors. Also, these salary increases may affect MLRS's actuarial accrued liability; however, such an effect has not yet been determined.

Glossary of Acronyms and Terms

actuarial accrued liability (AAL)	The portion of the actuarial present value of pension plan benefits and expenses that is not provided through future normal costs.
actuarial cost method	A procedure for determining the actuarial present value of pension plan benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a normal cost and an actuarial accrued liability.
benefits	Payments to which participants may be entitled under the pension plan, including pension benefits, death benefits, and benefits due on termination of office.
deferred vested member	A member who leaves office and meets the service requirement but not the age requirement or a member who defers receipt of a retirement allowance until a future date.
entry age normal actuarial cost method	A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
HIF	Health Insurance Fund.
internal control	A process, effected by an entity's management and other personnel, designed to provide reasonable assurance

regarding the achievement of objectives in the following categories: (1) reliability of financial reporting, (2) effectiveness and efficiency of operations, and (3) compliance with applicable laws and regulations.

IRF	Insurance Revolving Fund.
material weakness	A condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
member	A person elected to the Michigan House of Representatives or the Michigan Senate.
mission	The agency's main purpose or the reason that the agency was established.
MLRS	Michigan Legislative Retirement System.
MRF	Members' Retirement Fund.
MSF	Members' Savings Fund.
normal cost	The portion of the actuarial present value of pension plan benefits and expenses allocated to a valuation year by the actuarial cost method.
pay-as-you-go basis	A method of financing a pension plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

reportable condition A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements.

retiree A member who separated from office and retired with a retirement allowance payable from the Members' Retirement Fund of the Michigan Legislative Retirement System.

SRF Survivors' Retirement Fund.

unfunded actuarial accrued liability (UAAL) The excess of the actuarial accrued liability over the actuarial value of assets.

unqualified opinion An auditor's opinion in which the auditor states, without reservation, that the financial schedules and/or financial statements are fairly presented in conformity with the disclosed basis of accounting or are fairly presented in relation to the primary financial schedules and/or statements.