MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

FINANCIAL AUDIT
OF THE

MICHIGAN LEGISLATIVE RETIREMENT SYSTEM

October 1, 2006 through September 30, 2008

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

900-0140-09

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:
http://audgen.michigan.gov

Michigan

Office of the Auditor General

REPORT SUMMARY

Financial Audit

Michigan Legislative Retirement System

October 1, 2006 through September 30, 2008

Report Number:
900-0140-09

Released:
March 2010

A financial audit determines if the financial statements are fairly presented; considers internal control over financial reporting; and determines compliance with requirements material to the financial statements. This financial audit of the Michigan Legislative Retirement System (MLRS) was conducted in accordance with Section 38.1041 of the Michigan Compiled Laws*.*

Financial Statements:

Auditor's Report Issued

We issued an unqualified opinion on the MLRS financial statements.

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

Internal Control Over Financial Reporting

We did not report any findings related to internal control over financial reporting.

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

Noncompliance and Other Matters Material to the Financial Statements

We did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under *Government Auditing Standards*.

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

Background:

MLRS is a single employer, public employee, defined benefit retirement plan and postemployment healthcare plan governed by the State of Michigan. MLRS was created by Act 261, P.A. 1957, as amended, and provides retirement and ancillary benefits to eligible current and former State legislators. MLRS's financial statements are included as pension and other employee benefit trust funds in the combined financial statements of the State of Michigan.

MLRS operates within the legislative branch of State government. The MLRS Board of Trustees appoints the director who serves as executive secretary to the MLRS Board, with whom the general oversight of MLRS resides. Act 486, P.A. 1996, amended the MLRS enabling statute to mandate that persons elected to the Michigan Legislature after March 30, 1997 participate in a Statewide defined contribution retirement plan administered by the Department of Management and Budget. The defined contribution retirement plan operates in a manner similar to a 401(k) plan as part of the State of Michigan Defined Contribution Retirement Fund.

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: http://audgen.michigan.gov

Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

March 10, 2010

Mr. R. Robert Geake, Chair
Board of Trustees
and
Ms. Christine I. Hammond, Director
Michigan Legislative Retirement System
Cora Anderson Building
Lansing, Michigan

Dear Mr. Geake and Ms. Hammond:

This is our report on the financial audit of the Michigan Legislative Retirement System (MLRS) for the period October 1, 2006 through September 30, 2008.

This report contains our report summary, our independent auditor's report on the financial statements, the MLRS management's discussion and analysis, and the MLRS financial statements and required supplementary information. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters and a glossary of acronyms and terms.

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

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL AND COMPLIANCE

GLOSSARY

INDEPENDENT AUDITOR'S REPORT

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on
the Financial Statements

Mr. R. Robert Geake, Chair
Board of Trustees
and
Ms. Christine I. Hammond, Director
Michigan Legislative Retirement System
Cora Anderson Building
Lansing, Michigan

Dear Mr. Geake and Ms. Hammond:

We have audited the accompanying financial statements of the Michigan Legislative Retirement System as of and for the fiscal years ended September 30, 2008 and September 30, 2007, as identified in the table of contents. 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 2, the financial statements present only the Michigan Legislative Retirement System and do not purport to, and do not, present fairly the financial position of the State of Michigan or its pension and other employee benefit trust funds as of September 30, 2008 and September 30, 2007 and the changes in financial position thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2008 and September 30, 2007 and the changes in financial position 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 our report dated February 9, 2010 on our consideration of the Michigan Legislative Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 11 through 14 is not a required part of the basic financial statements but is 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying required supplementary information, as identified in the table of contents, is not a required part of the Michigan Legislative Retirement System's financial statements but is supplementary information required by the Governmental Accounting Standards Board. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

AUDITOR GENERAL

February 9, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis of the Michigan Legislative Retirement System (MLRS) provides an overview of the financial activities and performance for the fiscal years ended September 30, 2008, September 30, 2007 and September 30, 2006. This should be read in conjunction with the financial statements and required supplementary information, which provides information for September 30, 2008 and September 30, 2007.

Financial Overview

Statement of Pension Plan and Other Postemployment Benefit Plan Net Assets

The statement of plan net assets presents information on MLRS's assets and liabilities using the accrual basis of accounting. Over time, increases or decreases in net assets may serve as a useful indicator of MLRS's financial strength or weakness. MLRS's plan net assets for the fiscal year ended September 30, 2008 **decreased** by $42,096,898 or 20.6% due to the decreased market value of MLRS investments. MLRS's plan net assets for September 30, 2007 **increased** by $20,505,462 or 11.2%, which was primarily due to the increase in the market value of MLRS investments.

Condensed Financial Information From the
Statement of Pension Plan and Other Postemployment Benefit Plan Net Assets
As of September 30
(In Thousands)

	2008	Increase (Decrease) Amount	Increase (Decrease) Percentage	2007	Increase (Decrease) Amount	Increase (Decrease) Percentage	2006
Assets:							
Cash	$ 6,568	$ 5,268	405.2%	$ 1,300	$ (2,329)	(64.2%)	$ 3,629
Receivables	1,003	19	1.9%	984	390	65.7%	594
Investments	155,974	(46,452)	(22.9%)	202,426	22,222	12.3%	180,204
Total assets	$163,545	$ (41,165)	(20.1%)	$204,710	$ 20,283	11.0%	$ 184,427
Liabilities:							
Warrants outstanding	$ 23	$ (29)	(55.8%)	$ 52	$ 21	67.7%	$ 31
Accounts payable	1,601	961	150.2%	640	(243)	(27.5%)	883
Total liabilities	$ 1,624	$ 932	134.7%	$ 692	$ (222)	(24.3%)	$ 914
Total net assets	$161,921	$ (42,097)	(20.6%)	$204,018	$ 20,505	11.2%	$ 183,513

Statement of Changes in Pension Plan and Other Postemployment Benefit Plan Net Assets

Additions to Plan Net Assets

The reserves needed to finance benefits* provided by MLRS are accumulated through the collection of court fees, member* and other contributions, State appropriations, and through earnings on investments. Contributions, investment income/loss, and other revenues for fiscal year 2007-08 totaled ($26,570,237). Total additions to plan net assets **decreased** 175.2% from the prior year due primarily to the fact that the MLRS investments decreased. Contributions, investment income/loss, and other revenues for fiscal year 2006-07 totaled $35,329,447. Total additions to plan net assets in 2006-07 **increased** 102.1% from the prior year due primarily to the fact that the MLRS investments increased.

Deductions From Net Plan Assets

The primary deductions include the payment of pension and life insurance benefits to members and beneficiaries; the payments for health, dental, and vision benefits; the refund or transfer of contributions to former members; and the cost of administering MLRS. Total deductions for fiscal year 2007-08 were $15,526,661, an **increase** of 4.7% over 2006-07 deductions. Total deductions for fiscal year 2006-07 were $14,823,985, an **increase** of 6.8% over 2005-06 deductions. The increases are primarily due to the increase in retirement and healthcare benefits.

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

Condensed Financial Information From the
Statement of Changes in Pension Plan and
Other Postemployment Benefit Plan Net Assets
For Fiscal Years Ended September 30
(In Thousands)

	2008	Increase (Decrease) Amount	Increase (Decrease) Percentage	2007	Increase (Decrease) Amount	Increase (Decrease) Percentage	2006
Additions							
Member contributions	$ 123	$ (21)	(14.6%)	$ 144	$ (47)	(24.6%)	$ 191
DC health premiums	22	3	15.8%	19	8	72.7%	11
Other contributions	3,578	(103)	(2.8%)	3,681	341	10.2%	3,340
Court fees	1,219	(19)	(1.5%)	1,238	22	1.8%	1,216
Net investment income (loss)	(31,864)	(61,503)	(207.5%)	29,639	17,340	141.0%	12,299
Miscellaneous income	352	(256)	(42.1%)	608	208	52.0%	400
Nonoperating revenue			N/A		(22)	(100.0%)	22
Total additions	$ (26,570)	$ (61,899)	(175.2%)	$ 35,329	$ 17,850	102.1%	$ 17,479
Deductions							
Pension benefits	$ 10,264	$ 582	6.0%	$ 9,682	$ 739	8.3%	$ 8,943
Healthcare benefits	4,719	228	5.1%	4,491	45	1.0%	4,446
Death benefits/life insurance	154	38	32.8%	116	(34)	(22.7%)	150
Refunds/qualified rollover	9	(184)	(95.3%)	193	188	3,760.0%	5
Administrative expenses	381	39	11.4%	342	11	3.3%	331
Total deductions	$ 15,527	$ 703	4.7%	$ 14,824	$ 949	6.8%	$ 13,875
Changes in net assets	$ (42,097)	$ (62,602)	(305.3%)	$ 20,505	$ 16,901	469.0%	$ 3,604
Ending net assets	$ 161,921	$ (42,097)	(20.6%)	$ 204,018	$ 20,505	11.2%	$ 183,513

Overall Financial Analysis

In fiscal year 2006-07, despite the negative effects of the subprime mortgage crisis and the accompanying credit crunch in the housing markets, along with evidence of a slowing U.S. economy, the MLRS portfolio was well-diversified and earned investment returns significantly higher than its 7% actuarial rate of return assumption. MLRS investments in the international markets greatly contributed to the portfolio's success this year, especially the fund allocation to emerging markets, the best performing segment of the international market with a 58% gain in the fiscal year. In addition, the fund profited from its exposure to domestic large cap equity energy and materials stocks. Overall, the portfolio benefited from MLRS's prudent investment program and strategic planning, and MLRS is well-positioned to meet its short- and long-term financial obligations.

The housing and credit crises that began in 2007 deepened and broadened in 2008, and the fiscal year ended with a bear market and deep financial turmoil. Major U.S. financial institutions (such as Lehman Brothers) failed, and others required rescue by the federal government; the broad U.S. market declined 21% for the fiscal year (as measured by the Russell 3000 Index); the international developed markets declined 30% for the fiscal year (as measured by the Morgan Stanley Capital International (MSCI) Europe, Australasia, and the Far East Index); and the international emerging markets declined 33% for the fiscal year (as measured by the MSCI Emerging Markets Free Index). Even fixed income markets posted negative returns. This market free-fall generated an extreme level of fear and pessimism that seemed to fuel market volatility. With all the negative news and turmoil, it is not surprising that the pension fund posted a negative return for fiscal year 2007-08. Nevertheless, the fund has generated a respectable 5.6% total rate of return over the five years ended September 30, 2008 and outperformed its benchmark at 5%. In addition, in the subsequent fiscal year 2008-09, the fund generated a 5.3% total rate of return as the financial markets improved. The fiduciaries for MLRS believe in taking a long-term perspective in the investment of the MLRS portfolio, and they believe that MLRS's asset allocation structure and its diversification, both continuously monitored, will best position MLRS to achieve its long-term goals.

Financial Questions or Requests

This financial report is designed to provide a general overview of MLRS's financial position. Requests for additional information or questions about this report should be addressed to: Michigan Legislative Retirement System, P.O. Box 30014, Lansing, MI 48909.

FINANCIAL STATEMENTS

MICHIGAN LEGISLATIVE RETIREMENT SYSTEM
Statement of Pension Plan and Other Postemployment Benefit (OPEB) Plan Net Assets
As of September 30

	2008			2007		
	Pension Plan	OPEB Plan	Total	Pension Plan	OPEB Plan	Total
ASSETS						
Cash	$ 5,987,699	$ 580,862	$ 6,568,561	$ 1,195,491	$ 104,310	$ 1,299,801
Receivables:						
Employer	$ 560,955	$ 54,418	$ 615,373	$ 231,524	$ 20,201	$ 251,725
Interest and dividends	45,759	4,439	50,198	46,446	4,052	50,498
Sale of investments	307,476	29,828	337,304	627,061	54,713	681,774
Total receivables	$ 914,190	$ 88,685	$ 1,002,875	$ 905,031	$ 78,966	$ 983,997
Investments:						
Common stock	$ 55,272,225	$ 5,361,918	$ 60,634,143	$ 75,199,793	$ 6,561,407	$ 81,761,200
Mutual funds	86,908,948	8,430,973	95,339,921	110,981,207	9,683,442	120,664,649
Total investments	$ 142,181,173	$ 13,792,891	$ 155,974,064	$ 186,181,000	$ 16,244,849	$ 202,425,849
Total assets	$ 149,083,062	$ 14,462,438	$ 163,545,500	$ 188,281,522	$ 16,428,125	$ 204,709,647
LIABILITIES						
Warrants outstanding	$ 20,611	$ 2,000	$ 22,611	$ 47,669	$ 4,159	$ 51,828
Accounts payable and other liabilities	1,459,893	141,623	1,601,516	588,224	51,324	639,548
Total liabilities	$ 1,480,504	$ 143,623	$ 1,624,127	$ 635,893	$ 55,483	$ 691,376
Net assets held in trust for pension and OPEB benefits	$ 147,602,558	$ 14,318,815	$ 161,921,373	$ 187,645,629	$ 16,372,642	$ 204,018,271

Schedules of funding progress are presented as required supplementary information.

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

MICHIGAN LEGISLATIVE RETIREMENT SYSTEM
Statement of Changes in Pension Plan and Other Postemployment Benefit (OPEB) Plan Net Assets
For Fiscal Years Ended September 30

	2008			2007		
	Pension Plan	OPEB Plan	Total	Pension Plan	OPEB Plan	Total
ADDITIONS						
Member contributions:						
Other member contributions	$ 13,286	$ 109,578	$ 122,864	$ 18,288	$ 126,270	$ 144,558
DC health premiums		22,174	22,174		19,570	19,570
Employer contributions		3,424,100	3,424,100		3,424,100	3,424,100
Other governmental contributions		153,982	153,982		257,079	257,079
Court fees		1,219,327	1,219,327	394,957	842,651	1,237,608
Total contributions	$ 13,286	$ 4,929,161	$ 4,942,447	$ 413,245	$ 4,669,670	$ 5,082,915
Investment income (loss):						
Net appreciation (depreciation) in fair value of investments	$ (36,504,888)	$ (3,284,125)	$ (39,789,013)	$ 21,547,044	$ 1,743,695	$ 23,290,739
Interest, dividends and other	7,781,053	754,834	8,535,887	6,463,570	498,272	6,961,841
Total investment income (loss)	$ (28,723,835)	$ (2,529,291)	$ (31,253,126)	$ 28,010,614	$ 2,241,967	$ 30,252,580
Less investment expenses	(557,554)	(54,088)	(611,642)	(564,662)	(49,268)	(613,930)
Net investment income (loss)	$ (29,281,389)	$ (2,583,379)	$ (31,864,768)	$ 27,445,952	$ 2,192,699	$ 29,638,650
Miscellaneous income	$	$ 352,084	$ 352,084	$	$ 607,882	$ 607,882
Total additions	$ (29,268,103)	$ 2,697,866	$ (26,570,237)	$ 27,859,197	$ 7,470,251	$ 35,329,447
DEDUCTIONS						
Benefits and refunds paid to plan members and beneficiaries:						
Retirement benefits	$ 10,264,373	$	$ 10,264,373	$ 9,681,902	$	$ 9,681,902
Health benefits		4,387,409	4,387,409		4,148,942	4,148,942
Dental benefits		330,612	330,612		341,899	341,899
Death benefits	154,398		154,398	115,800		115,800
Refund of contribution and interest	9,095		9,095	2,546		2,546
Qualified rollover				190,645		190,645
Administrative expenses	347,102	33,672	380,774	314,785	27,466	342,251
Total deductions	$ 10,774,968	$ 4,751,693	$ 15,526,661	$ 10,305,678	$ 4,518,307	$ 14,823,985
Net increase (decrease)	$ (40,043,071)	$ (2,053,827)	$ (42,096,898)	$ 17,553,519	$ 2,951,943	$ 20,505,462
Net assets held in trust for pension and OPEB benefits:						
Beginning of year	187,645,629	16,372,642	204,018,271	170,092,110	13,420,699	183,512,809
End of year	$ 147,602,558	$ 14,318,815	$ 161,921,373	$ 187,645,629	$ 16,372,642	$ 204,018,271

Schedules of funding progress are presented as required supplementary information.

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

Note 1 Plan Description

a. Organization

The Michigan Legislative Retirement System (MLRS) is a single employer, public employee, defined benefit retirement plan and postemployment healthcare plan governed by the State of Michigan. MLRS was created by Act 261, P.A. 1957, as amended, and provides retirement and ancillary benefits to eligible current and former State legislators. MLRS's pension plan was established by the State to provide retirement, survivor, and disability benefits to the Michigan Legislature, elected for the first time before March 31, 1997. In addition, MLRS's health plan provides to eligible vested members the option of receiving health, prescription, dental, and vision coverage under the Michigan Legislative Retirement Act.

MLRS operates within the legislative branch of State government. The MLRS Board of Trustees appoints the director who serves as executive secretary to the MLRS Board, with whom the general oversight of MLRS resides. Act 486, P.A. 1996, amended the MLRS enabling statute to mandate that persons elected to the Michigan Legislature after March 30, 1997 participate in a Statewide defined contribution retirement plan administered by the Department of Management and Budget. Thus, the defined benefit retirement plan is a closed plan. The defined contribution retirement plan operates in a manner similar to a 401(k) plan as part of the State of Michigan Defined Contribution Retirement Fund.

b. <u>Membership</u>

At September 30, 2008 and September 30, 2007, MLRS's membership consisted of the following:

	2008	2007
Retirees and beneficiaries currently receiving benefits:		
Regular benefits	222	221
Survivor benefits	62	65
Disability benefits	0	0
Total	284 *	286 *
Current members:		
Vested	16	16
Nonvested	0	0
Total	16	16
Inactive members entitled to benefits and not yet receiving them	39	44
Total all members	339	346

* Includes 10 domestic relations orders* alternate payees for 2008 and 2007.

MLRS provides other postemployment benefits (OPEB) which include health, dental, vision, and life insurance benefits. The number of plan participants at September 30, 2008 and September 30, 2007 was as follows:

	2008	2007
Health/Dental/Vision Plan:		
Eligible participants	353 **	363 **
Participants receiving benefits	341 **	351 **
Life Insurance Plan:		
Participants receiving benefits	304	317

** Includes 39 defined contribution (DC) plan participants for 2008 and 36 DC plan participants for 2007 who are receiving healthcare insurance through MLRS in accordance with State statute. There were 9 DC plan participants in 2008 and 11 DC plan participants in 2007 who were eligible for healthcare insurance and declined to receive the benefits.

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

c. Benefit Provisions

(1) Introduction:

Act 261, P.A. 1957, as amended (the Michigan Legislative Retirement System Act), establishes eligibility and benefit provisions for this defined benefit retirement plan.

Michigan's constitutional term-limit amendment limits members of the House of Representatives to six years in office and members of the Senate to eight years in office. Effective March 31, 1997, Act 486, P.A. 1996, closed MLRS to new legislators. The Act provides certain re-elected former legislators the option to rejoin MLRS. All legislators who first take office after 1997 are automatically enrolled in the State's defined contribution retirement plan.

Benefit provisions of the postemployment healthcare (OPEB) plan are established by State statute, which may be amended. Act 261 P.A.1957, as amended, establishes eligibility and benefit provisions for the health plan. Eligible members may receive health, prescription, dental, and vision benefits.

(2) 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.

A member's retirement benefit is computed using a benefit formula prescribed by the enabling statute and described in the next two paragraphs. The benefit is paid on a monthly basis.

For those legislators who first became members on or before January 1, 1995, the retirement benefit is calculated by multiplying 20% of the highest salary earned for the first 5 years of service, plus

4% of the highest salary for each of the next 11 years of service, plus 1% of the 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.

(3) 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 and/or his/her survivor is increased by 4% compounded annually. The adjustment is effective each January.

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

(4) Other Postemployment Benefits (OPEB):
Under Sections 50a and 50b of the Michigan Legislative Retirement System Act, all retirees and their dependents and survivors receive 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. In addition, in accordance with State law, MLRS provides health insurance coverage to eligible former legislators (and their dependents) who meet certain vesting requirements established by statute and who belong to the State's defined contribution retirement plan. Member enrollment in the MLRS health plan is voluntary. MLRS pays for health, dental, vision, and hearing benefits on a modified pay-as-you-go basis*; however, the State has begun to advance funds for future MLRS health insurance costs.

MLRS provides $150,000 in life insurance coverage to active members. Deferred vested members* are covered by varying

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

amounts of life insurance, ranging from $5,000 to $150,000, depending on the member's date of deferral and, in some instances, the payment of an annual premium. Retirees are covered by varying amounts of life insurance, ranging from $2,500 to $75,000, depending on their retirement dates and, in some instances, the payment of an annual premium. MLRS prefunds life insurance benefits using the entry age actuarial cost method*. The life insurance plan and the pension plan use the actuarial assumptions stated in Note 4.

(5) Disability Benefit:
A member or deferred vested member who becomes disabled as determined by at least two licensed physicians appointed by the MLRS Board of Trustees is eligible for a disability benefit computed in the same manner described under "Regular Retirement."

(6) Survivor Benefit:
Upon the death of a vested member or deferred vested member who meets the service but not the age requirement for regular retirement (see "Regular Retirement"), or upon the death of a retiree, a surviving spouse shall be entitled to a benefit equal to 66.67% 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.

(7) Refunds:
A member who leaves legislative service may request a refund of his/her contributions from the Members' Savings Fund. A member who receives a refund of contributions forfeits all rights to any future MLRS 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.

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

Note 2 Summary of Significant Accounting Policies

a. Measurement Focus, Basis of Accounting, and Presentation

The MLRS financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as provided by accounting principles generally accepted in the United States of America. Contributions are recognized as revenue in the period in which service is provided, and expenses are recorded when incurred regardless of when payment is made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

b. Contributions and Reserves

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

(1) Members' Savings Fund (MSF) - Until January 1, 1999, members who first became members before December 1, 1994, with less than 20 years of service, contributed approximately 7% of salary to MSF, and members who first became members on or after January 1, 1995 contributed 5% of salary to MSF. After January 1, 1999, there were no member contributions allocated to MSF, except for a short-term additional 4% of salary contributed (from January 1, 1999 through December 31, 2000) by members who first became members on January 1, 1995 in accordance with legislation. Eligible members may make other contributions to MSF to purchase special service credit or to repay previously refunded contributions. MSF represents active member contributions (and interest credited from the Income Fund) less amounts transferred to reserves for retirement and amounts refunded to terminated members. At September 30, 2008 and September 30, 2007, the balance in this account was $1.7 million and $1.8 million, respectively.

(2) Members' Retirement Fund (MRF) - MRF represents the reserves for payment of retirement benefits. 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 100% fund MRF are transferred in the next fiscal year. At September 30, 2008 and September 30, 2007, the balance in this account was $80.9 million and $106.4 million, respectively.

(3) Survivors' Retirement Fund (SRF) - Until January 1, 1999, all members with less than 20 years of service contributed 0.5% of salary to SRF. After January 1, 1999, there were no member contributions allocated to SRF. Interest is credited annually to SRF (from the Income Fund), 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 make SRF 100% funded. Survivors' monthly retirement allowances are paid from SRF upon the death of vested members, deferred vested members, and retirants. At September 30, 2008 and September 30, 2007, the balance in this account was $49.1 million and $60.2 million, respectively.

(4) Insurance Revolving Fund (IRF) - Until January 1, 1999, all members contributed 0.5% of salary to IRF. After January 1, 1999, there were no member contributions allocated to IRF. State contributions, if any, member premiums, and interest from the Income Fund are credited to IRF. Life insurance benefits are paid from IRF to beneficiaries of members, retirants, and deferred vested members. At September 30, 2008 and September 30, 2007, the balance in this account was $15.9 million and $19.1 million, respectively.

(5) Health Insurance Fund (HIF) - Until January 1, 1999, all members contributed 1% of salary to HIF. After January 1, 1999, member contributions are made as follows: (1) members who first became members on or before January 1, 1995 contribute 9% to HIF; (2) members who first became members after January 1, 1995 contribute 7% to HIF. HIF is also credited with employer contributions, court fees, other governmental contributions, and interest income. Funds from this reserve are used to pay healthcare expenses and are accumulated to fully fund the future health insurance liabilities for MLRS. At September 30, 2008 and

September 30, 2007, the balance in this account was $14.3 million and $16.4 million, respectively.

(6) Income Fund (IF) - IF is credited with all investment earnings and other miscellaneous income. Interest transfers are made annually to the other reserves, based on beginning balance. IF also accounts for investment and administrative expenses and interest on refunds and transfers.

c. Fair Value of Investments

Plan investments are presented at fair value. Securities traded on a national exchange are valued at the last reported sales price at current exchange rates. 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.

d. Reporting Entity

MLRS has pension and other employee benefit trust funds. MLRS is considered part of the State and is included in the *State of Michigan Comprehensive Annual Financial Report.* MLRS and the MLRS Board of Trustees are not financially accountable for any other entities. Accordingly, MLRS is the only entity included in this financial report.

e. Investment Income

Dividend income is recognized 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.

f. Related Party Transactions

The cash account included $6,568,561 and $1,299,801 on September 30, 2008 and September 30, 2007, respectively, which represents funds deposited in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to $120,952 and $161,385 for the fiscal years ended September 30, 2008 and September 30, 2007, respectively.

g. Fixed Assets

MLRS does not own any fixed assets. Equipment expenses are immaterial in amount and are expensed annually.

h. Excess Benefits

Section 415 of the Internal Revenue Code requires that, for individuals who receive retirement benefits in excess of established limits, these benefits are recorded and reported outside of the pension fund in order to keep the qualified status of the plan. This includes coordination of benefits issued where a retiree participates in more than one qualified plan. MLRS provided excess benefits to three retirees, for a total amount of $37,782 as of September 30, 2008 and $32,973 as of September 30, 2007.

Note 3 Contributions

a. Member Contributions

Until January 1, 1999, the following contributions were made by members of MLRS:

Members who first became members on or before December 1, 1994 contributed 9% of their salaries to MLRS. The contributions were placed in the following reserves created by the enabling statute: 7% to MSF for the first 20 years of service; 0.5% to IRF; 0.5% to SRF for the first 20 years of service; and 1% to HIF.

Members who first became members after December 1, 1994 contributed 7% of their salaries to MLRS. The contributions were placed in the following reserves created by the enabling statute: 5% to MSF; 0.5% to IRF; 0.5% to SRF; and 1% to HIF.

After January 1, 1999, the following contributions are made by the members of MLRS:

Members who first became members on or before December 1, 1994 contribute 9% of their salaries to MLRS. The contributions are placed in accordance with the enabling statute.

Members who first became members on January 1, 1995 contributed 13% of their salaries to MLRS. The contributions were placed in the following reserves in accordance with the enabling statute: 9% to HIF and 4% to MSF until December 31, 2000. After December 31, 2000, these members contribute 9% of their salaries to MLRS. The contributions are placed in HIF in accordance with the enabling statute: 9% to HIF.

Members who first became members after January 1, 1995, contribute 7% of their salaries to MLRS. The contributions are placed in HIF in accordance with the enabling statute: 7% to HIF.

Member contributions are tax-deferred through the provisions of Section 414(h)(2) of the Internal Revenue Code.

b. State Contributions

State contributions are made on the basis of actuarial requirements as determined by the MLRS actuary and approved by the MLRS Board of Trustees. Through the annual State budgetary process, the Legislature annually appropriates, and the Governor approves, the State contributions along with certain court fee revenues, which are paid to MLRS pursuant to State statute. A chart showing State contributions is presented as required supplementary information.

Note 4 Funded Status

a. Pension Plan

State contributions are determined based on a statutorily required annual actuarial valuation. The annual required employer contribution and the actual contribution for the pension plan were $0 and $394,957 for fiscal years 2007-08 and 2006-07, respectively. As of September 30, 2008, the actuarial value of assets* and actuarial accrued liability* (AAL) of the plan were $170.0 million and $169.4 million, respectively, resulting in a funded ratio of 100%. As of September 30, 2007, the amounts were $167.8 million and $163.3 million, respectively, resulting in a funded ratio of 103%. A historical perspective of funding levels for MLRS is presented in the required supplementary information section of this report.

b. Postemployment Health (OPEB) Plan

In fiscal year 2006-07, MLRS implemented Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* GASB Statement No. 43 requires a biannual actuarial valuation. The OPEB plan is currently not prefunded and legislation does not appropriate State contributions for prefunding OPEB costs. The required employer contribution for OPEB for September 30, 2008 based on the September 30, 2005 valuation date was $8.0 million, while the actual contributions were $4.6 million from the State and $.2 million from other governmental contributions (Medicare Part D drug subsidy).

As of September 30, 2008, the actuarial value of assets and AAL of the plan were $14.3 million and $132.6 million, respectively, resulting in an unfunded actuarial accrued liability* (UAAL) of $118.4 million and a funded ratio of 11%. As of September 30, 2005, the actuarial value of assets and AAL of the plan were $11.9 million and $111.4 million, respectively, resulting in a UAAL of $99.5 million. The covered payroll (annual payroll of active members covered by the plan) was $11.9 million and the ratio of UAAL to covered payroll was 998% as of September 30, 2008. The covered payroll was $11.9 million and the ratio of UAAL to covered payroll was 838% as of September 30, 2005.

c. Actuarial Valuations and Assumptions

Actuarial valuations for both the pension and OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the

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

future. Examples include assumptions about future employment, mortality, and trends. The actuarial methods and assumptions used are designed to reduce the effects of short-term volatility. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial value of plan assets for both pension and OPEB plans is increasing or decreasing over time relative to the AAL for benefits.

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the historical pattern of sharing of costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Pension Plan

Valuation Date	September 30, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent-of-Payroll
Amortization Period	5 years open
Asset Valuation Method	5-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7%
Projected Salary Increases	4%
Cost-of-Living Adjustments	4% Annual compounded (non-compounded for legislators who first became members after January 1, 1995)

OPEB Plan

Valuation Date	September 30, 2008
Actuarial Cost Method	Project Unit Credit
Amortization Method	Level Percent Open
Amortization Period	30 Year Open
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	4.5% Per Year
Projected Salary Increases	4%
Valuation Healthcare Cost Trend Rate	10% in 2009, grading to 4% in 2019

Note 5 Deposits and Investments

a. Investment Authority

All investments made are subject to approval by the MLRS Board of Trustees, which has investment authority under the Michigan Legislative Retirement System Act. Investments made are subject to statutory regulations imposed under the Public Employee Retirement System Investment Act (Act 314, P.A. 1965, as amended). The Act authorizes, with certain restrictions, the investment of pension fund assets in stocks, corporate and governmental bonds and notes, mortgages, real estate, and certain short-term and alternative investments. MLRS also contracts with independent investment advisors.

b. Derivatives and Securities Lending

The plan did not have any investments in prohibited derivatives as defined in Act 314, P.A. 1965, as amended, as of September 30, 2008 or September 30, 2007. Also, the plan did not participate in securities lending activities.

c. Investments Exceeding 5% of Plan Net Assets

MLRS did not hold an individual investment that exceeded 5% of net assets available for benefits at September 30, 2008 or September 30, 2007.

d. Deposit and Investment Risk

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment to GASB Statement No. 3),* deposits and investments require certain disclosure regarding policies and the risks associated with them. The custodial credit risk, credit risk, interest rate risk, and foreign currency risk are discussed in the following paragraphs.

(1) Custodial credit risk associated with common cash deposits:

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, MLRS deposits may not be recovered. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are: (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name. At September 30, 2008 and September 30, 2007, all MLRS common cash deposits were covered by depository insurance or collateralized with securities held by the State's agent in the State's name.

To lessen the custodial credit risk associated with common cash deposits, the State Treasurer's policy requires all financial institutions holding the State's money to pledge collateral equal to the amount of the account balance for all demand and time deposits to secure the State funds. A bank, savings and loan association, or credit union holding State funds must be organized under the law of Michigan or federal law and maintain a principal office or branch office in the State of Michigan. No deposit in any financial organization may be in excess of 50% of the net worth of the organization.

(2) Foreign currency risk associated with common cash deposits:

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of deposits. Act 35, P.A. 1997, requires State deposits be held in a financial institution that maintains a principal office or branch office located in the State of Michigan. MLRS had no common cash deposits subject to foreign currency risk at September 30, 2008 or September 30, 2007.

(3) Custodial credit risk associated with investments:

The custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, MLRS will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either: (a) the counterparty or (b) the counterparty's trust department or agent but are not in the government's name. The State Treasurer does not have an investment policy for managing custodial credit risk. At September 30, 2008 or September 30, 2007, MLRS investments were not exposed to custodial credit risk as they were all registered in MLRS's name.

(4) Credit risk for investments:

Credit risk is the risk that an issuer will not fulfill its obligations. GASB Statement No. 40 states that governments should disclose the credit quality ratings of external investment pools, money market funds, bond mutual funds, and other pooled investments of fixed income securities in which they invest. The following investments are subject to credit risk:

Debt Securities

As of September 30

	2008			2007		
		Rating			Rating	
Investment Type	Fair Value	Standard & Poor's	Moody's Investors Service	Fair Value	Standard & Poor's	Moody's Investors Service
Mutual funds**	$32,035,669	AA	Aa	$48,838,887	AA	Aa
	9,375,506	BB	Ba			
	$41,411,175			$48,838,887		

** Average Quality Rating

(5) Interest rate risk associated with investments:

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of those investments. MLRS has a 25% target allocation of fixed income securities, which is affected by interest rates because these securities are a debt investment. At September 30, 2008 and September 30, 2007, the fair value was $41,411,175 and $48,838,887, respectively, with the investment activity for the year producing a total rate of return of 2.0% and 5.9% and a rate of return since inception of 5.1% and 6.7%. The projected duration is 4.1 and 5.3 years, respectively. MLRS does not have a policy for controlling interest rate risk.

(6) Foreign currency risk associated with investments:

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. MLRS invests in various foreign investments (including, but not limited to, equities, fixed income, and mutual funds), which are subject to various limitations in accordance with the MLRS Investment Policy Statement (which incorporates the provision of the Public Employee Retirement System Investment Act, Act 314, P.A. 1965, as amended). Foreign investment restrictions per this policy include a 20% limitation on the total assets of MLRS and, additionally, a 5% limitation on the outstanding foreign securities of a single issuer (allowances are made for the daily market pricing fluctuations of an investment). New investments in countries that have been identified by the U.S. Department of State as engaging in or sponsoring terrorism are prohibited, and existing investments in any such newly-identified country shall be quickly divested in accordance with the law.

As of September 30, 2008 and September 30, 2007, MLRS held the following investments subject to foreign currency risk:

Foreign Currency Risk

Country	Currency	Value in U.S. Dollars As of September 30 2008	2007
America			
Mexico	Peso	$	$ 164,480
Brazil	Real	326,993	615,892
Europe			
European Union	Euro	838,180	2,074,886
Switzerland	Franc	565,121	502,042
United Kingdom	Pounds Sterling	387,150	1,074,646
Middle East			
Israel	Shekel	307,251	397,117
Pacific			
China	Renminbi	76,977	
Various			
Various mutual funds		40,541,162	44,306,762
	Total	$43,042,834	$49,135,825

Note: International derivatives market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses.

As of September 30, 2008, maturity dates on these investments range from October 2008 through July 2011 with an average maturity of 1.8 years.

Note 6 Accounting Change

MLRS implemented GASB Statement No. 50, *Pension Disclosures*, beginning in fiscal year 2006-07. The new standard aligned financial reporting requirements for pensions with OPEB. MLRS disclosed in the notes to the financial statements pension information regarding the annual required contribution, the actual contribution, the actuarial value of assets and actuarial accrued liability, and the funding ratio. This information is also presented as required supplementary information.

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Funding Progress

Each time a higher level of benefit is adopted, unfunded obligations are created. The law governing the Michigan Legislative Retirement System (MLRS) requires that these additional obligations be financed systematically over a period of future years.

Analysis of the dollar amounts of 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 the 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 this percentage, the stronger the system. Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of MLRS progress in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system.

Pension Benefits
(In Thousands)

Valuation Date September 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll (1) (c)	UAAL as a Percentage of Covered Payroll (2) ((b-a)/c)
1999	146,141	127,096	(19,045)	115	4,195	N/A
2000	160,254	128,472	(31,782)	125	4,344	N/A
2001	168,399	138,621	(29,778)	121	4,284	N/A
2002	167,158	143,858	(23,300)	116	4,331	N/A
2003	164,950	147,431	(17,519)	112	2,016	N/A
2004	161,905	151,938	(9,967)	107	2,016	N/A
2005	157,456	154,650	(2,806)	102	2,016	N/A
2006	159,347	158,407	(940)	101	2,016	N/A
2007	167,750	163,313	(4,437)	103	1,332	N/A
2008	169,986	169,396	(590)	100	1,332	N/A

(1) October based payrolls.

(2) Percentage of covered payroll is not applicable (N/A) as MLRS is overfunded and no contribution is required.

Other Postemployment Benefits (1)
(In Thousands)

Valuation Date September 30	Actuarial Value of Assets (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)
2005	11,929	111,393	99,464	11%	11,875	838%
2008	14,319	132,628	118,309	11%	11,859	998%

(1) Includes members in both the defined benefit plan and the defined contribution plan.

(2) October based payrolls.

Schedules of Employer and Other Contributions

Pension Benefits

Fiscal Year Ended September 30	Valuation Date September 30	Annual Required Contribution (ARC)	Actual Contributions	Percent Contributed (1)
1999	1998	0	0	N/A
2000	1999	0	0	N/A
2001	2000	0	0	N/A
2002	2001	0	0	N/A
2003	2002	0	0	N/A
2004	2003	0	0	N/A
2005	2004	0	0	N/A
2006	2005	0	0	N/A
2007	2006	394,957	394,957	100%
2008	2007	0	0	N/A

Other Postemployment Benefits (2)

Fiscal Year Ended September 30	Valuation Date September 30	Annual Required Contribution (ARC)	Actual Contributions	Other Governmental Contributions	Percent Contributed
2008	2005	7,965,791	4,643,427	153,982	60%

(1) N/A indicates no annual required contributions or actual contributions.

(2) Includes members in both the defined benefit plan and the defined contribution plan.

Note to the Required Supplementary Information

Note A Description

Ten-year historical trend information designed to provide information about the Michigan Legislative Retirement System's (MLRS's) progress in accumulating sufficient assets to pay benefits when due is presented in the preceding schedules. This information is presented to enable the interested parties to assess the progress made by MLRS in accumulating sufficient assets to pay pension and other postemployment benefits as they become due. Because this is the first two-year period that MLRS is reporting other postemployment benefits in accordance with GASB Statement No. 43, only two years of historical trend information is provided.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension benefit obligation as a factor.

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

This Page Left Intentionally Blank

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

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

Mr. R. Robert Geake, Chair
Board of Trustees
and
Ms. Christine I. Hammond, Director
Michigan Legislative Retirement System
Cora Anderson Building
Lansing, Michigan

Dear Mr. Geake 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, 2008 and September 30, 2007, as identified in the table of contents, and have issued our report thereon dated February 9, 2010. 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.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the Michigan Legislative Retirement System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Michigan Legislative Retirement System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Michigan Legislative Retirement System's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined in the preceding paragraph.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Michigan Legislative Retirement System Board of Trustees, the Michigan Legislative Retirement System 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

February 9, 2010

GLOSSARY

actuarial accrued liability (AAL)	The difference between the actuarial present value of pension plan benefits and the actuarial present value of future normal costs; also referred to as "past service liability."
actuarial value of assets	The value placed at any particular date on the assets and liabilities of a retirement fund by the actuary responsible for the valuation of the assets and liabilities.
benefits	Payments to which participants may be entitled under the pension plan, including pension benefits, death benefits, and benefits due on termination of office.
control deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
DC	defined contribution.
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.
domestic relations order	A judgment, decree, or order of the court made pursuant to the domestic relations law of the State and relating to the provision of alimony payments, child support, or marital property rights to a spouse of a participant under a judgment of separate maintenance or to a former spouse, child, or dependent of a participant.
entry age 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

	services 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 presented fairly in all material respects in conformity with the disclosed basis of accounting.
GASB	Governmental Accounting Standards Board.
HIF	Health Insurance Fund.
IF	Income Fund.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
IRF	Insurance Revolving Fund.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material weakness in internal control over financial reporting	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules and/or financial statements will not be prevented or detected.
member	A person elected to the Michigan House of Representatives or the Michigan Senate.

MLRS	Michigan Legislative Retirement System.
MRF	Members' Retirement Fund.
MSCI	Morgon Stanley Capital International.
MSF	Members' Savings Fund.
OPEB	other postemployment benefits.
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.
significant deficiency in internal control over financial reporting	A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial schedules and/or financial statements that is more than inconsequential will not be prevented or detected.
SRF	Survivors' Retirement Fund.
unfunded actuarial accrued liability (UAAL)	The difference between the actuarial accrued liability and the actuarial value of assets.
unqualified opinion	An auditor's opinion in which the auditor states that the financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting.

This Page Left Intentionally Blank

This Page Left Intentionally Blank

STATE OF MICHIGAN

OFFICE of the AUDITOR GENERAL