FINANCIAL AUDIT
OF THE

MICHIGAN LEGISLATIVE RETIREMENT SYSTEM

October 1, 1994 through September 30, 1996

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, 1994 through September 30, 1996.

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 permit the Auditor General to express an opinion on the State's financial statements. This audit is required on a biennial basis by Section 38.1041 of the *Michigan Compiled Laws*.

BACKGROUND

The mission* of MLRS is to administer and maintain the retirement system for members* of the Legislature and its presiding officers and to provide retirement allowances and other benefits* , such as life, health, and dental insurance, to participants, survivors, and beneficiaries.

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

* *See glossary on page 40 for definition*.

MLRS is funded by State appropriations, participant 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 199 persons (retirees, spouses, and dependent children) receiving retirement benefits as of September 30, 1996 and September 30, 1995. MLRS operating revenues and expenses were as follows for the fiscal years ended September 30:

	1996	1995
Revenues	$14,936,046	$14,720,721
Expenses	$ 6,040,587	$ 6,280,821

AUDIT OBJECTIVES AND CONCLUSIONS

Audit Objective: To assess the adequacy of MLRS's internal control structure* .

Conclusion: Our assessment of MLRS's internal control structure did not disclose any material weaknesses*.

Audit Objective: To assess MLRS's compliance with applicable statutes, the *Michigan Administrative Code*, and State procedures.

Conclusion: Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on MLRS's financial statements.

* *See glossary on page 40 for definition*.

Audit Objective: To audit MLRS's financial statements as of and for the fiscal years ended September 30, 1996 and September 30, 1995.

Conclusion: We expressed an unqualified opinion on the 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, 1994 through September 30, 1996. Our audit was conducted in accordance with generally accepted auditing standards and *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 had complied with all three of our prior audit recommendations.

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The Honorable George A. McManus, Jr., Chairperson
Board of Trustees
Michigan Legislative Retirement System
State Capitol
Lansing, Michigan
and
Ms. Christine Hammond, Director
Michigan Legislative Retirement System
P.O. Box 30036
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, 1994 through September 30, 1996.

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 the internal control structure, on compliance with laws and regulations, and on the financial statements. This report also contains the Michigan Legislative Retirement System financial statements and notes to 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

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MICHIGAN LEGISLATIVE RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

GLOSSARY

Description of Agency

The mission of the Michigan Legislative Retirement System (MLRS) is to administer and maintain the retirement system for members of the Legislature and its presiding officers and to provide retirement allowances and other benefits, such as life, health, and dental insurance, to participants, survivors, and beneficiaries.

MLRS was created by Act 261, P.A. 1957, being Sections 38.1001 - 38.1080 of the *Michigan Compiled Laws*. An 11-member Board of Trustees administers MLRS. The Board is comprised of 3 members of the House of Representatives appointed by the Speaker of the House, 3 members of the Senate appointed in the same manner as are standing committees of the Senate, the Senate Majority Leader, the Speaker of the House, 2 retirants* , and a deferred vested member*. Board members are appointed for two-year terms.

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

A director and two clerical employees perform the MLRS administrative functions. The Office of Retirement Systems, Department of Management and Budget, provides accounting services and prepares the MLRS financial statements. The State Treasurer acts as custodian for MLRS funds.

There were 199 persons (retirees, spouses, and dependent children) receiving retirement benefits as of September 30, 1996 and September 30, 1995. MLRS operating revenues and expenses were as follows for the fiscal years ended September 30:

	1996	1995
Revenues	$14,936,046	$14,720,721
Expenses	$ 6,040,587	$ 6,280,821

* *See glossary on page 40 for definition*.

Audit Objectives

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

1. To assess the adequacy of MLRS's internal control structure.

2. To assess MLRS's compliance with applicable statutes, the *Michigan Administrative Code*, and State procedures.

3. To audit MLRS's financial statements as of and for the fiscal years ended September 30, 1996 and September 30, 1995.

Audit Scope

Our audit scope was to examine the financial and other records of the Michigan Legislative Retirement System for the period October 1, 1994 through September 30, 1996. Our audit was conducted in accordance with generally accepted auditing standards and *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 had complied with all three of our prior audit recommendations.

COMMENTS

INTERNAL CONTROL STRUCTURE

COMMENT

Audit Objective: To assess the adequacy of the Michigan Legislative Retirement System's (MLRS's) internal control structure.

Conclusion: Our assessment of MLRS's internal control structure did not disclose any material weaknesses.

The Michigan Administrative Information Network (MAIN) is the Statewide financial management system implemented in fiscal year 1994-95. Individual State agencies are not responsible for the design of the Statewide policies and controls of MAIN. However, because MAIN is a Statewide system, which all State agencies are required to use, the internal control structure of each agency, including MLRS, is affected to varying degrees by MAIN.

Because MLRS's internal control structure is affected by this Statewide system, professional auditing standards required our assessment of internal controls in MLRS to include elements reviewed in our financial related audit of MAIN for the period October 1, 1994 through April 30, 1996. That audit reported 29 reportable conditions*, including 3 material weaknesses, which are more fully explained in our separately issued report dated August 31, 1996.

COMPLIANCE WITH LAWS AND REGULATIONS

COMMENT

Audit Objective: To assess MLRS's compliance with applicable statutes, the *Michigan Administrative Code*, and State procedures.

* *See glossary on page 40 for definition*.

Conclusion: Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on MLRS's financial statements.

FINANCIAL ACCOUNTING AND REPORTING

COMMENT

Audit Objective: To audit MLRS's financial statements as of and for the fiscal years ended September 30, 1996 and September 30, 1995.

Conclusion: We expressed an unqualified opinion on the financial statements.

Independent Auditor's Report on the
Internal Control Structure

April 30, 1997

The Honorable George A. McManus, Jr., Chairperson
Board of Trustees
Michigan Legislative Retirement System
State Capitol
Lansing, Michigan

Dear Senator McManus:

We have audited the financial statements of the Michigan Legislative Retirement System as of and for the fiscal years ended September 30, 1996 and September 30, 1995 and have issued our report thereon dated April 30, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *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.

The management of the Michigan Legislative Retirement System is responsible for establishing and maintaining an internal control structure, which operates in conjunction with the Statewide internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements for the fiscal years ended September 30, 1996 and September 30, 1995, we obtained an understanding of the Michigan Legislative Retirement System's internal control structure and internal control elements reviewed as part of our financial related audit of the Michigan Administrative Information Network. The Michigan Administrative Information Network is the Statewide financial management system implemented in fiscal year 1994-95 and, as such, affects the Michigan Legislative Retirement System's internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the Michigan Administrative Information Network's internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Michigan Legislative Retirement System's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Our financial related audit of the Michigan Administrative Information Network for the period October 1, 1994 through April 30, 1996 noted 29 reportable conditions on the internal control structure which are more fully explained in our separately issued report on the Michigan Administrative Information Network dated August 31, 1996. Although the Michigan Legislative Retirement System is not responsible for the design of the Statewide policies and controls of the Michigan Administrative Information Network, which all State agencies are required to use, these reportable conditions affected the Michigan Legislative Retirement System's internal control structure.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, 3 of the 29 reportable conditions identified in our financial related audit of the Michigan Administrative Information Network were material weaknesses. These conditions were considered in determining the nature, timing, and extent of the procedures performed in our audit of the financial statements for the fiscal years ended September 30, 1996 and September 30, 1995.

AUDITOR GENERAL

Independent Auditor's Report on
Compliance With Laws and Regulations

April 30, 1997

The Honorable George A. McManus, Jr., Chairperson
Board of Trustees
Michigan Legislative Retirement System
State Capitol
Lansing, Michigan

Dear Senator McManus:

We have audited the financial statements of the Michigan Legislative Retirement System as of and for the fiscal years ended September 30, 1996 and September 30, 1995 and have issued our report thereon dated April 30, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *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.

Compliance with laws, regulations, contracts, and grants applicable to the Michigan Legislative Retirement System is the responsibility of the Michigan Legislative Retirement System management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Michigan Legislative Retirement System's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. 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*.

AUDITOR GENERAL

Independent Auditor's Report on
the Financial Statements

April 30, 1997

The Honorable George A. McManus, Jr., Chairperson
Board of Trustees
Michigan Legislative Retirement System
State Capitol
Lansing, Michigan

Dear Senator McManus:

We have audited the accompanying balance sheet of the Michigan Legislative Retirement System as of September 30, 1996 and September 30, 1995 and the related statement of revenues, expenses, and changes in fund balance for the fiscal years then ended. These financial statements are the responsibility of the Michigan Legislative Retirement System management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *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 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 discussed 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, 1996 and September 30, 1995 and the results of its operations for the fiscal years then ended on the basis of accounting described in Note 2a.

Our audit was made for the purpose of forming an opinion on the Michigan Legislative Retirement System's financial statements. The required supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements referred to in the first paragraph. The required supplementary information for fiscal years ended September 30, 1996 and 1995, except for the annual covered payroll and the unfunded pension and life insurance benefit obligations as a percentage of the covered payroll, has been subjected to the auditing procedures applied in our audit of the Michigan Legislative Retirement System financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the financial statements. This audit did not comprehend the annual covered payroll, the unfunded pension and life insurance benefit obligations as a percentage of the covered payroll, and the required supplementary information for the fiscal years ended September 30, 1994 and before and, accordingly, we express no opinion concerning such information.

AUDITOR GENERAL

MICHIGAN LEGISLATIVE RETIREMENT SYSTEM
Balance Sheet
As of September 30

		1996		1995
ASSETS				
Equity in Common Cash (Note 2d)	$	3,611,262	$	7,078,819
Accounts receivable		1,099,514		1,495,859
Total cash and accounts receivable	$	4,710,776	$	8,574,678
Investments - book value (Note 2c):				
Bonds, at amortized cost (market value:1996,$52,606,592; 1995, $44,981,534)	$	52,315,211	$	42,731,941
Common stock, at cost (market value: 1996,$67,521,660; 1995,$56,737,084)		44,902,038		40,200,493
Real estate, at cost (market value:1996,$0; 1995, $1,997,000)				1,997,000
Subtotal investments (market value: 1996, $120,128,252; 1995, $103,715,618)	$	97,217,249	$	84,929,434
Total Assets	$	101,928,025	$	93,504,112
LIABILITIES				
Accounts payable and other accrued liabilities		(184,048)		(655,594)
Net assets available for benefits	$	101,743,977	$	92,848,518
FUND BALANCE				
Actuarial present value of projected pension benefits payable to current retirants and beneficiaries (Note 3)	$	51,957,923	$	49,379,742
Actuarial present value of projected pension benefits payable to terminated vested participants		16,433,192		16,770,933
Actuarial present value of credited projected pension benefits for active participants:				
Member contributions		5,722,356		5,201,884
Employer financed portion		27,782,178		23,416,060
Actuarial present value of post employment life insurance benefits payable to retirees, terminated vested participants, and active members		5,869,300		5,505,557
Total credited projected pension and post employment life insurance obligations	$	107,764,949	$	100,274,176
Reserve for health insurance		153,531		68,191
Pension and insurance obligations in excess of net assets		(6,174,503)		(7,493,849)
Fund Balance (Note 3)	$	101,743,977	$	92,848,518

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

MICHIGAN LEGISLATIVE RETIREMENT SYSTEM
Statement of Revenues, Expenses, and Changes in Fund Balance
For the Fiscal Years Ended September 30

	Reserves For					
	Members Savings Fund		Members Retirement Fund		Survivors Retirement Fund	
	1996	1995	$ A 1996	19 95	1996	1995
OPERATING REVENUES:						
Member contributions	$ 469,467	$ 459,739	$	$	$ 35,274	$ 34,(
Military contributions	4,916	8,318				
Employer contributions (Note 4)			474,020	1,114,417	130,841	287,1
Court fees			1,198,367	1,282,411		
Investment income (Note 2c)						
Total Operating Revenues	$ 474,383	$ 468,057	$ 1,672,387	$ 2,396,828	$ 166,115	$ 321,2
OPERATING EXPENSES:						
Administrative expenses (includes investment manager fees)	$	$	$	$	$	$
Refunds of member contributions and interest	414	75,188				
Members life insurance and death benefits						
Retirement allowances			3,190,420	3,179,924	764,027	660,3
Medical, dental, and Medicare insurance						
Total Operating Expenses	$ 414	$ 75,188	$ 3,190,420	$ 3,179,924	$ 764,027	$ 660,3
Net Operating Income (Loss)	$ 473,969	$ 392,869	$ (1,518,033)	$ (783,096)	$ (597,912)	$ (339,1
OTHER CHANGES IN RESERVES						
Interest allocation	$ 199,878	$ 213,054	$ 6,567,472	$ 5,819,787	$ 2,721,078	$ 2,409,1
Transfer for retirements (Note 2b)	(153,375)	(636,443)	111,011	636,443	42,364	
Total Other Changes in Reserves	$ 46,503	$ (423,389)	$ 6,678,483	$ 6,456,230	$ 2,763,442	$ 2,409,1
Net Fund Balance Additions	$ 520,472	$ (30,520)	$ 5,160,450	$ 5,673,134	$ 2,165,530	$ 2,070,(
Fund Balances - Beginning of Year	5,201,884	5,232,404	57,486,388	51,813,254	23,804,057	21,734,(
Fund Balances - End of Year (Note 3)	$ 5,722,356	$ 5,201,884	$ 62,646,838	$ 57,486,388	$ 25,969,587	$ 23,804,(

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

Insurance Resolving   Health Insurance   Income Fund   AdminLe ave   Total

	Fund		Fund						
1996	1995	1996	1995	1996	1995	1996	1995	1996	1995
64,704	$ 79,026	$ 73,219	$ 68,192	$	$	$	$	$ 642,664	$ 641,
								4,916	8,
350,239	566,854	1,413,468	1,047,971				167,966	2,368,567	3,184,
								1,198,367	1,282,
				10,721,532	9,604,627			10,721,532	9,604,
414,943	$ 645,880	$ 1,486,687	$ 1,116,163	$ 10,721,532	$ 9,604,627	$ 0	$ 167,966	$ 14,936,046	$ 14,720,
	$	$	$	$ 590,487	$ 439,296		$ 167,966	$ 590,487	$ 607,
271								685	75,
81,500	710,126							81,500	710,
								3,954,447	3,840,
		1,413,468	1,047,971					1,413,468	1,047,
81,771	$ 710,126	$ 1,413,468	$ 1,047,971	$ 590,487	$ 439,296	$ 0	$ 167,966	$ 6,040,587	$ 6,280,
333,172	$ (64,246)	$ 73,219	$ 68,192	$ 10,131,045	$ 9,165,331	$ 0	$ 0	$ 8,895,459	$ 8,439,
734,514	$ 642,641	$ 12,121	$	$ (10,235,063)	$ (9,084,632)	$	$	$ 0	$
								0	
734,514	$ 642,641	$ 12,121	$ 0	$ (10,235,063)	$ (9,084,632)	$ 0	$ 0	$ 0	$
067,686	$ 578,395	$ 85,340	$ 68,192	$ (104,018)	$ 80,699	$	$	$ 8,895,459	$ 8,439,
183,979	5,605,584	68,192		104,018	23,319			92,848,518	84,408,
251,665	$ 6,183,979	$ 153,532	$ 68,192	$ 0	$ 104,018	$ 0	$ 0	$ 101,743,977	$ 92,848,

Note 1 Plan Description

a. Reporting Entity

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

MLRS is a component unit of the State of Michigan. As such, MLRS is considered part of the State of Michigan financial reporting entity and is 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 executive secretary to the MLRS Board and is responsible for the daily administration of the retirement system.

MLRS and the MLRS Board do not exercise oversight responsibility over 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 results of operations of the State of Michigan or its pension trust funds.

At September 30, 1996 and September 30, 1995, MLRS membership consisted of:

	1996	1995
Retirees and beneficiaries		
currently receiving benefits:		
Retirement annuities	133	132
Survivor annuities	65	66
Disability annuities	1	1
Total	199	199
Inactive members entitled to benefits		
and not yet receiving them	48	50
Current members:		
Vested	64	65
Nonvested	82	82
Total	146	147

All benefits vest after 5 years of service. Members may retire at age 55 with 5 years of credited service. The system also provides disability and survivor benefits to members after 5 years of service. The age provision is waived for disability and death benefits. Benefits are paid monthly over the member's or survivor's lifetime. For those legislators who became members prior to December 1, 1994, members benefits are equal to 4% of the member's highest compensation times the member's years of credited service with a maximum of 64% after 16 years of service, plus 1% for each year after 16 years.

For those legislators who first became members on or after December 2, 1994, the retirement benefit is calculated by multiplying 3% times years of credited service, times compensation.

For those legislators who first became members on or before December 1, 1994, the annual retirement benefit payable to a retiree or his/her survivor is increased by 4% compounded annually. The adjustment is payable each January 1.

For those legislators who first become members between December 2, 1994 and March 31, 1997, the annual retirement benefit payable to a retiree or his/her survivor is increased by 4%, but is not compounded annually. The adjustment is payable each January 1.

Legislators who first became members on or before December 1, 1994 contribute 9% of their salaries to MLRS. The contributions are placed in the following reserves created by the enabling statute: 7% to the members savings fund for the first 20 years of service; 0.5% to the insurance revolving fund; 0.5% to the survivors retirement fund for the first 20 years of service; and 1% to the health insurance fund.

Legislators who first become members between December 2, 1994 and March 31, 1997 contribute 7% of their salaries to MLRS. The contributions are placed in the following reserves created by the enabling statute: 5% to the members savings fund; 0.5% to the insurance revolving fund; 0.5% to the survivors retirement fund; and 1% to the health insurance fund.

Member contributions are tax sheltered through the provisions of Section 414 (h) (2) of the Internal Revenue Code. If a legislator leaves office or dies before becoming eligible for retirement benefits, accumulated member contributions are refunded to the member or designated beneficiary.

b. Other Postemployment Benefits

Under Section 50a and 50b of the Michigan Legislative Retirement Act, all retirees have the option of continuing health and dental insurance plans. MLRS also provides fully paid health and dental insurance plans for deferred vested members who were members before December 1, 1994 and for their survivors and dependents. The employer funds the health and dental insurance plan benefits on, essentially, a pay-as-you-go basis and pre-funds life insurance benefits using the entry age actuarial cost method. The life insurance plan and the pension plan use the same actuarial assumptions stated in Note 4. The number of plan participants and other relevant financial information is as follows:

	Fiscal Year	
	1995-96	1994-95
Health and Dental Plans		
Eligible participants	247	249
Participants receiving benefits	247	249
Expense for year	$1,413,468	$1,047,971
Payroll contribution rate	18.7%	14.3%
Life Insurance Plan		
Participants receiving benefits	134	133
Actuarially required employer contribution	$332,093	$378,083
Actual employer contribution	$350,239	$566,854
Actuarially accrued liabilities	$5,869,300	$5,505,557
Net assets available for benefits	$7,251,665	$6,183,979
Unfunded accrued liability	($1,382,365)	($678,422)

Note 2 Summary of Significant Accounting Policies and Plan Asset Matters

a. Accrual Basis

MLRS financial statements are prepared on 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. The Governmental Accounting Standards Board (GASB) has issued Statement Nos. 25, 26, and 28. GASB Statement Nos. 25 and 26 establish the financial reporting framework for pension plans, which includes fair value accounting for investments, recognition of unrealized investment gains and losses, and amortization of unfunded actuarial liabilities for 40 years and requires certain additional disclosures regarding postemployment healthcare benefits. GASB Statement No. 28 establishes accounting and financial reporting standards for recognizing assets and liabilities arising from collateralized securities lending transactions in which governmental entities (lenders) transfer their securities to broker-dealers and other entities (borrowers). The above statements are to be adopted by MLRS by fiscal year 1996-97. Management has not yet evaluated the total effect on its financial statements.

b. Fund Accounting

(1) MLRS is a component unit of the State of Michigan reporting entity. As such, financial statements of MLRS are reported in the *State of Michigan Comprehensive Annual Financial Report* as a pension trust fund.

(2) Members Savings Fund (MSF). Those legislators who first became members on or before December 1, 1994, with less than 20 years of service, contribute approximately 7% of pay to the fund, and also make other contributions to purchase special credit or repay previously refunded contributions. Legislators who first became members after December 1, 1994 contribute 5% to this fund. MSF represents active member and deferred vested member contributions less amounts transferred to the members retirement fund and amounts refunded to terminated members.

(3) Members Retirement Fund (MRF). MRF represents the reserves for payment of future retirement benefits to retired members. At retirement, a member's accumulated contributions (with interest) are transferred to the MRF (from the MSF). Interest is credited to the MRF (from the income fund) and monthly allowances are debited. At each fiscal year-end, an actuarial valuation determines the 100% funding requirements for the MRF. Any amounts required to 100% fund the MRF are transferred in the next fiscal year.

(4) Survivors Retirement Fund (SRF). All legislators with less than 20 years of service contribute 0.5% of their salary to the SRF. Interest is

credited to the SRF (from the income fund), and members savings are transferred to the SRF from the MSF and additional State contributions are made in order to make the SRF 100% funded. Survivors monthly retirement allowances are paid from this fund upon the death of members, deferred vested members, and retirants.

(5) Insurance Revolving Fund. All legislators contribute 0.5% of salary. Additional State appropriations and interest are credited to this fund. This fund pays life insurance premiums and lump sum death benefits to beneficiaries of members, retirants, and deferred vested members.

(6) Health Insurance Fund. All legislators contribute 1% of salary to this fund which is used to pay health and dental insurance premiums. This fund was authorized by Act 359, P.A. 1994.

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

(8) 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.

c. <u>Investments</u>

All investments made are subject to approval by the MLRS Board, which has investment authority under the controlling act. Investments are made subject to the Michigan Public Pension Investment Act (Act 314, P.A. 1965, as amended). MLRS also contracts with independent investment advisors. The additional expenses are reflected in the administrative expense category.

(1) Book Value. Investments are carried at amortized cost. The cost of investments sold is determined using the average cost of that security. The real estate investment is recorded at book value. Bond premiums and discounts are amortized over the expected period to maturity of the related bonds.

(2) Investment Income. Interest income is recognized on the accrual basis as earned. All gains and losses on investments are recognized at the point of sale and are included in investment income.

(3) Market Values. Market values for common and preferred stock are based on September 30, 1996 and September 30, 1995 closing market quotations. Fixed debt quotations are provided from a national brokerage pricing service. Mortgage market values are determined on the basis of comparable yield available in the marketplace.

(4) Investments Exceeding 5% of Net Assets. At September 30, 1996 and 1995, MLRS did not hold any individual investment that exceeded 5% of net assets available for benefits.

(5) Categories of Investment Risk. GASB Statement No. 3, entitled "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 which are held by MLRS or its agent in MLRS's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust departments or agent in MLRS's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, its trust department or agent, but not in MLRS's name. At September 30, 1996 and September 30, 1995, all investments of MLRS are classified as Category 1 except for real estate investments in 1995, totaling $1,997,000 at book value, which are not categorized.

d. Related Party Transactions

Cash includes $3,611,262 for fiscal year 1995-96 and $7,078,819 for fiscal year 1994-95 which represent 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 $430,467 for fiscal year 1995-96 and $449,547 for fiscal year 1994-95.

Note 3 Funding Status and Progress

Presented at the end of this note is the total pension benefit obligation of MLRS. The amount of the total pension benefit obligation is based on a standardized measurement established by GASB Statement No. 5 that, with some exceptions, must be used by public employee retirement systems (PERS). The standardized measurement is the actuarial present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effects of projected salary increases and any step rate benefits. A standardized measure of the pension benefit obligation was adopted by GASB to enable readers of the PERS financial statements to (a) assess the PERS funding status on a going-concern basis, (b) assess progress made in accumulating sufficient assets to pay benefits when due, and (c) make comparisons among PERS. Based on this financial disclosure method (actuarially calculated credited projected benefits) and the book value of assets, MLRS is 92.5% funded as of September 30, 1996 and 91.2% funded as of September 30, 1995, excluding life insurance liabilities.

The actuarial present value of projected benefits consists of: (a) the actuarial present value of projected benefits payable to current retirants and beneficiaries, (b) the actuarial present value of projected benefits payable to terminated vested participants, and (c) the actuarial present value of credited projected benefits for active participants. The actuarial present value of credited projected benefits for active participants represents a portion of the actuarial present value of projected total benefits, giving effect to estimated salary increases to date of retirement. The portion assumed to be credited is the portion represented by the ratio of (a) the number of years of covered service rendered as of the date of the valuation to (b) the total covered service which will have been rendered as of the expected date of retirement.

A variety of significant actuarial assumptions are used to determine the standardized measure of the pension benefit obligation and these assumptions are summarized below:

(a) The present value of future pension payments was computed by using a discount rate of 7%. The discount rate is equal to the estimated long-term rate of return on current and future investments of the pension plan.

(b) Future pension payments reflect an assumption of a 4% (compounded annually) salary increase.

(c) Future pension payments reflect post retirement benefit increases, consistent with the retirement statute.

The total pension and insurance benefit obligations increased by $7,490,773 from September 30, 1995 to September 30, 1996. The total pension and insurance benefit obligations increased by $6,902,962 from September 30, 1994 to September 30, 1995. There were no changes in benefit provisions or actuarial assumptions during the year that affect the pension benefit obligation. Included in the total pension benefit obligation as of September 30, 1996 is $5,869,300 attributable to life insurance benefits. Included in the total pension obligation as of September 30, 1995 is $5,505,557 attributable to life insurance ($5,258,529 as of September 30, 1994).

The standardized measure of the pension and insurance benefit obligations as of September 30, 1996 and September 30, 1995 (excluding the reserve for health insurance) is as follows:

	1996	1995
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated members not yet receiving benefits	$ 72,679,576	$ 70,342,081
Current members:		
Accumulated member contributions including allocated investment income	5,722,356	5,201,884
Employer-financed vested	23,137,379	19,820,277
Employer-financed nonvested	6,225,638	4,909,934
Total pension benefit obligation	$107,764,949	$100,274,176
Net assets available for benefits (market value: 1996, $124,466,466; 1995, $111,566,511)	101,590,446	92,780,327
Unfunded pension and insurance obligations	$ 6,174,503	$ 7,493,849

Note 4 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. The unfunded actuarial accrued liability is funded over a 40-year period. Periodic contributions for both normal cost and the amortization of the 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.

Employer contributions for retirement (net of health insurance) were $2,153,466, equivalent to 28.5% of the annual active member payroll of $7,565,401, for fiscal year 1995-96 and $3,418,752, equivalent to 46.4% of the annual active member payroll of $7,370,041, for fiscal year 1994-95. Employer contributions during the years were made on the basis of actuarial calculations for normal cost plus financing of unfunded accrued liabilities which required a net contribution rate of 26.97% for fiscal year 1995-96 and 29.43% for fiscal year 1994-95. The contributions for fiscal year 1995-96 exceeded actuarial requirements by $113,249. The contributions for fiscal year 1994-95 exceeded actuarial requirements by $1,249,749. Employer required contributions for fiscal year 1994-95 decreased 16.02% or $1,180,681 as a result of passage of Act 359, P.A. 1994.

Significant actuarial assumptions used to compute pension contribution requirements are the same as those used to determine the standardized measure of the pension obligation. The significant assumptions used in the actuarial valuations as of September 30, 1996 and September 30, 1995 were:

(a) A rate of return on the investment of present and future assets of 7% per year compounded annually.

(b) Projected salary increases of 4% per year compounded annually, attributable to inflation.

(c) Pre- and post-retirement life expectancies of participants were based on the 1971 Group Annuity Mortality Table; and

(d) Rates of non-death withdrawal from active service before retirement, rates of disability, and expected retirement ages.

(e) Effective for the September 30, 1993 valuation, valuation assets were equal to valuation assets (prior method) as of September 30, 1992, with subsequent differences between total investment income (actuarial assumption) being spread over a five-year period.

Note 5 <u>Subsequent Events</u>

Act 486, P.A. 1996, amended the MLRS enabling statute to mandate that persons elected to the Michigan House of Representatives and the Michigan Senate after March 31, 1997 will participate in a Statewide defined contribution pension plan to be administered by the State Treasurer in conjunction with the MLRS Board. The defined contribution plan will operate in a manner similar to a 401(k) plan. Under the new law, the State of Michigan, as the employer, will contribute 4% of each member's salary into an individual account which will be invested by the member. In addition, the State of Michigan will make a matching contribution of up to 3% if the member voluntarily contributes to his/her own account. A member fully vests in both employer and employee contributions after 4 years of service. These contributions and their investment return shall constitute the member's retirement benefit on his/her date of retirement. Retiree health insurance will also be available to members with 6 years of service who retire under the defined contribution plan.

Note 6 Required Supplementary Information

Ten-year historical trend information designed to provide information about MLRS's progress made in accumulating sufficient assets to pay benefits when due is presented on the following pages as required supplementary information. 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.

REQUIRED SUPPLEMENTARY INFORMATION

Analysis of Funding Progress - Pension Benefits

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 net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of 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 pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of MLRS progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller the percentage, the stronger the system.

($ in Thousands)

Valuation Date September 30		Net Assets Available for Benefits	Pension Benefit Obligation (PBO)	Assets as a % of PBO	Unfunded PBO	Annual Covered Payroll *	Unfunded PBO as a % of Covered Payroll
1987		$ 46,317	$ 46,837	99%	$ 520	$ 5,772	9%
1987	#	46,317	57,511	81	11,194	5,772	194
1987	@	46,317	50,081	92	3,764	5,772	65
1988		48,185	53,503	90	5,318	6,026	88
1989		52,846	57,844	91	4,998	6,449	78
1989	#	52,846	59,443	89	6,597	6,449	102
1990		57,256	64,004	89	6,748	6,861	98
1991		62,070	68,892	90	6,822	6,827	100
1992		68,105	72,014	95	3,909	6,827	57
1993		74,794	78,348	95	3,554	6,871	52
1993	+	74,794	82,430	91	7,636	6,871	111
1994		78,801	88,112	89	9,311	7,202	129
1995	&	86,596	94,769	91	8,173	7,419	110
1996		94,337	101,896	93	7,559	7,654	99

* October based payrolls.
\# After changes in benefit provisions.
@ After changes in actuarial assumptions.
\+ After reflecting the impact of term limits.
& Excludes reserve for health insurance.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, and accounting policies and by other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension benefit obligation as a factor. Changes in actuarial assumptions as of September 30, 1987 would have caused corresponding changes in employer contributions in subsequent years.

Analysis of Funding Progress - Life Insurance Benefits

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 net assets available for benefits, life insurance benefit obligation, and unfunded life insurance benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the life insurance benefit obligation provides one indication of 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 life insurance benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded life insurance benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of MLRS progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system.

($ in Thousands)

Valuation Date September 30		Net Assets Available for Benefits	Life Insurance Benefit Obligation (LIBO)	Assets as a % of LIBO	Unfunded (Overfunded) LIBO	Annual Covered Payroll *	Unfunded LIBO as a % of Covered Payroll
1987		$ 3,116	$ 3,228	97 %	$ 112	$ 5,772	2
1987	@	3,116	2,870	109	(246)	5,772	
1988		3,331	3,024	110	(307)	6,026	
1988	#	3,331	4,112	81	781	6,026	13
1988	@	3,331	3,555	94	224	6,026	4
1989		3,832	3,803	101	(29)	6,449	
1990		4,205	4,066	103	(139)	6,861	
1991		4,492	4,364	103	(128)	6,827	
1992		4,944	4,512	110	(432)	6,827	
1993		5,321	4,861	109	(460)	6,871	
1993	+	5,321	5,073	105	(248)	6,871	
1994		5,607	5,259	107	(348)	7,202	
1995		6,184	5,506	112	(678)	7,419	
1996		7,252	5,869	124	(1,383)	7,654	

* October based payrolls.
\# After changes in benefit provisions.
@ After changes in actuarial assumptions.
\+ After reflecting the impact of term limits.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, and accounting policies and by other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension benefits obligation as a fa ctor. Changes in actuarial assumptions as of September 30, 1987 and 1988 would have caused corresponding changes in employer contributions in subsequent years.

Revenues by Source

Fiscal Year Ended September 30	Member Contributions	Employer Contributions	Court Fees *	Investment and Other Income	Total
1987	$ 431,828	$ 1,634,256	$ 1,007,986	$ 5,519,785	$ 8,593,855
1988	591,126	1,698,245	1,085,561	1,877,688	5,252,620
1989	572,286	2,102,179	1,043,293	4,898,764	8,616,522
1990	610,300	2,202,821	1,064,729	4,754,307	8,632,157
1991	648,668	2,476,895	1,089,231	5,225,178	9,439,972
1992	586,170	2,724,787	1,070,536	6,644,504	11,025,997
1993	610,504	3,031,113	1,058,251	7,787,079	12,486,947
1994	606,477	2,878,824	1,033,897	5,605,792	10,124,990
1995	649,371	3,184,312	1,282,411	9,604,627	14,720,721
1996	647,580	2,368,567	1,198,367	10,721,532	14,936,046

Expenses by Type

Fiscal Year Ended September 30	Benefits **	Refunds	Administrative Expenses ***	Total
1987	$ 2,255,516	$ 16,786	$ 297,116	$ 2,569,418
1988	2,848,653	1,514	320,418	3,170,585
1989	3,096,402	15,352	341,809	3,453,563
1990	3,400,793	34,371	414,414	3,849,578
1991	3,816,857	54,805	466,935	4,338,597
1992	4,012,941	935	525,704	4,539,580
1993	4,844,351	21,569	554,813	5,420,733
1994	5,138,163	2,787	690,497	5,831,447
1995	5,598,371	75,188	607,262	6,280,821
1996	5,449,415	685	590,487	6,040,587

* Includes district and circuit courts.

** Includes insurance premiums.

*** Includes investment manager fees.

Employer Contributions - Computed and Actual

Fiscal Year	Valuation Date September 30		Computed Contributions as % of Payroll	Actual Payroll	Dollar Contribution For Fiscal Year Computed	Dollar Contribution For Fiscal Year Actual +
1986-87	1985		33.47%	$ 5,710,019	$ 1,911,143	$ 2,076,443
1987-88	1986		32.64	5,948,498	1,941,590	
1987-88	1987		31.78	5,948,498	1,890,433	
1987-88	1987	#	46.55	5,948,498	2,769,026	
1987-88	1987	@	32.97	5,948,498	1,961,220	1,893,689
1988-89	1988		34.26	6,346,629	2,174,355	
1988-89	1988	#	38.13	6,346,629	2,419,970	
1988-89	1988	@	35.76	6,346,629	2,269,555	2,215,893
1989-90	1989		34.33	6,752,783	2,318,230	
1989-90	1989	#	36.51	6,752,783	2,465,441	2,264,129
1990-91	1990		36.40	6,814,738	2,480,565	2,451,200
1991-92	1991		35.60	6,654,485	2,368,997	2,597,100
1992-93	1992		33.06	6,821,322	2,255,129	2,457,938
1993-94	1993		30.74	7,055,339	2,168,811	
1993-94	1993	@	31.62	7,055,339	2,230,898	
1993-94	1993	&	45.48	7,055,339	3,208,768	2,347,199
1994-95	1994		45.45	7,370,041	3,349,684	
1994-95	1994	& #	29.43	7,370,041	2,169,003	3,418,752
1995-96	1995		26.97	7,565,401	2,040,217	2,153,466

\+ Actual contributions are public-financed contributions less health insurance premiums. and, beginning with fiscal year 1987-88, less non-investment administrative expenses.
\# After changes in benefit provisions.
@ After changes in actuarial assumptions and methods.
& After reflecting the impact of term limits.

Analysis of Benefit Payments

Fiscal Year Ended	Regular Allowances *	Life Insurance	Dental Insurance	Health Insurance @ #	Total
1987	$ 1,664,649	$ 25,070	$ 61,536	$ 504,261	$ 2,255,516
1988	1,986,518	127,064	53,294	681,777	2,848,653
1989	2,281,794	30,052	74,599	709,957	3,096,402
1990	2,356,808	187,517	98,040	758,428	3,400,793
1991	2,544,222	309,000	107,785	855,850	3,816,857
1992	2,733,635	256,287	119,728	903,291	4,012,941
1993	3,023,169	350,400	129,585	1,341,197	4,844,351
1994	3,356,903	409,800	142,254	1,229,206	5,138,163
1995	3,840,274	710,126	165,006	882,965	5,598,371
1996	3,954,447	81,500	157,989	1,255,479	5,449,415

* Includes survivor allowances.
@ Includes Medicare reimbursement.
# Excludes rate stabilization reserve.

Comparative Summary Schedule of Cash Receipts and Disbursements
Fiscal Year Ended September 30

	1996	1995
Cash balance at beginning of year	$ 7,078,819	$ 7,648,853
Add receipts:		
Member contributions	$ 647,645	$ 649,370
Employer contributions	3,568,924	4,450,014
Investment income	10,942,726	9,246,122
Investment sales and redemptions	43,371,361	44,178,279
Total cash receipts	$ 58,530,656	$ 58,523,785
Less disbursements:		
Benefit payments	$ 5,466,704	$ 5,943,432
Administrative expenses	686,034	217,526
Investments purchased	55,845,213	52,857,673
Refunds	262	75,188
Total cash disbursements	$ 61,998,213	$ 59,093,819
Cash balance at end of year	$ 3,611,262	$ 7,078,819

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.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial statements/schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
internal control structure	The management control environment, accounting system, and control policies and procedures established by management to provide reasonable assurance that resources are safeguarded; that resources are used in compliance with laws and regulations; and that financial transactions are properly accounted for and reported.
MAIN	Michigan Administrative Information Network.
material weakness	A serious reportable condition in which the design or operation of one or more of the internal control structure elements (including management controls) does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial statements, would not be prevented or detected.
members	Persons elected to the Michigan House of Representatives and the Michigan Senate.

mission The agency's main purpose or the reason the agency was established.

MLRS Michigan Legislative Retirement System.

OAG Office of the Auditor General.

reportable condition A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents a significant deficiency in the design or operation of the internal control structure.

retirants Members who separate from office and retire with a retirement allowance payable from the members retirement fund of MLRS.