FINANCIAL AUDIT
OF THE

MICHIGAN LEGISLATIVE RETIREMENT SYSTEM

October 1, 1996 through September 30, 1998

03-140-99

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, 1996 through September 30, 1998.

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 (Sections 38.1001 - 38.1080 of the *Michigan Compiled Laws*). An 11-member Board of Trustees administers MLRS.

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

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

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 215 and 214 persons (retirees, spouses, and dependent children) receiving retirement benefits as of September 30, 1998 and September 30, 1997, respectively. The retirement payroll for the fiscal years ended September 30, 1998 and September 30, 1997 was $4,961,742 and $4,469,808, respectively.

AUDIT OBJECTIVES AND CONCLUSIONS

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

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a material effect on MLRS's financial statements. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses* . However, we

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

identified reportable conditions* related to separation of duties and fund balance reconciliations (Findings 1 and 2).

Audit Objective: To audit MLRS's financial statements as of and for the fiscal years ended September 30, 1998 and September 30, 1997.

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, 1996 through September 30, 1998. Our audit was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

AGENCY RESPONSES

Our audit report contains 2 findings and 2 corresponding recommendations. MLRS indicated that it has either complied with or taken steps to comply with the recommendations.

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

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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 I. Hammond, Director
Michigan Legislative Retirement System
House Office Building
Lansing, Michigan

Dear Senator McManus and Ms. Hammond:

This is our report on the financial audit of the Michigan Legislative Retirement System for the period October 1, 1996 through September 30, 1998.

This report contains our executive digest; description of agency; audit objectives, audit scope, and agency responses; comments, findings, recommendations, and agency preliminary responses; and independent auditor's reports on compliance and on internal control over financial reporting and on the financial statements. This report also contains the Michigan Legislative Retirement System financial statements and notes to the financial statements; required supplementary information; the Michigan Legislative Retirement System's detail of changes in plan net assets, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after the release of the audit report.

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

AUDITOR GENERAL

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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 (Sections 38.1001 - 38.1080 of the *Michigan Compiled Laws*). An 11-member Board of Trustees administers MLRS. The Board is composed 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*. The Board members are appointed for two-year terms.

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

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 assists MLRS with the preparation of the financial statements. However, MLRS has overall responsibility for financial statement preparation. The State Treasurer acts as custodian for MLRS funds.

There were 215 and 214 persons (retirees, spouses, and dependent children) receiving retirement benefits as of September 30, 1998 and September 30, 1997, respectively. The retirement payroll for the fiscal years ended September 30, 1998 and September 30, 1997 was $4,961,742 and $4,469,808, respectively.

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

Audit Objectives, Audit Scope, and Agency Responses

Audit Objectives

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

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

2. To audit MLRS's financial statements as of and for the fiscal years ended September 30, 1998 and September 30, 1997.

Audit Scope

Our audit scope was to examine the financial and other records of the Michigan Legislative Retirement System for the period October 1, 1996 through September 30, 1998. Our audit was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Agency Responses

Our audit report contains 2 findings and 2 corresponding recommendations. MLRS indicated that it has either complied with or taken steps to comply with the recommendations.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING

COMMENT

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

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a material effect on MLRS's financial statements. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses. However, we identified reportable conditions related to separation of duties and fund balance reconciliations.

FINDING

1. **Separation of Duties**

MLRS did not maintain effective internal control over the processing of its expenditure transactions.

Section 3.1 of the Michigan Administrative Information Network's* (MAIN's) Financial Administration and Control System Security Manual states that each agency is responsible for maintaining an appropriate separation of duties to achieve effective internal control. Sound internal control procedures require that all expenditures be authorized and approved for payment by someone not responsible for preparing the expenditure document.

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

MLRS assigned Relational Standard Accounting and Reporting System* (R*STARS) users functional responsibility codes that allowed a single user the ability to enter, post, and release transactions for adjustment or payment in R*STARS. MLRS should assign functional responsibility codes in a manner that provides for the proper separation of duties so that the risk of transactions being processed and released by a single employee is prevented.

Although our review of MLRS expenditures did not disclose any inappropriate payments, improving its internal control would help reduce the possibility of such payments.

RECOMMENDATION

We recommend that MLRS maintain effective internal control over the processing of its expenditure transactions.

AGENCY PRELIMINARY RESPONSE

MLRS does not agree or disagree with this finding. The finding is based on the policies and guidelines of MAIN that require separation of duties. Some of these policies and procedures are unworkable in very small State agencies like MLRS because of the very small number of personnel available to enter transactions into MAIN. The management of MLRS did exercise internal control over expenditure transactions, although the control features were not part of MAIN guidelines and policies.

MLRS informed us that, with assistance from the Department of Management and Budget, it has recently instituted internal control features within MAIN that will address the concerns raised in this finding.

FINDING

2. Fund Balance Reconciliations

MLRS did not periodically reconcile the fund balance reserve for member savings with the total of individual member contribution account balances. The fund

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

balance reserve exceeded the total of individual member contribution account balances by $131,759 and $34,005 as of September 30, 1998 and September 30, 1997, respectively.

The fund balance reserve for member savings represents the combined individual active and deferred member contributions and interest. Members contribute between 5% and 7% of their salaries for retirement and annually receive interest on their accumulated contributions. For fiscal years 1997-98 and 1996-97, the fund balance reserve was approximately $5.2 million and $5.7 million, respectively.

Although our audit did not disclose any error with member contributions, reconciling the fund balance reserve with the individual member contribution account balances is a basic internal control procedure to help ensure the accuracy of accounting for member contributions.

RECOMMENDATION

We recommend that MLRS periodically reconcile the fund balance reserve for member savings with the total of individual member contribution account balances.

AGENCY PRELIMINARY RESPONSE

MLRS does not agree or disagree with this finding.

MLRS informed us that it will periodically reconcile the fund balance reserve for member savings with the total of individual member contribution account balances.

FINANCIAL ACCOUNTING AND REPORTING

COMMENT

Audit Objective: To audit MLRS's financial statements as of and for the fiscal years ended September 30, 1998 and September 30, 1997.

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

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

June 4, 1999

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

Dear Senator McManus and Ms. Hammond:

We have audited the financial statements of the Michigan Legislative Retirement System for the fiscal years ended September 30, 1998 and September 30, 1997 and have issued our report thereon dated June 4, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Michigan Legislative Retirement System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting 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. Reportable conditions are described in Findings 1 and 2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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 over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that neither of the reportable conditions described in the previous paragraph is a material weakness.

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

AUDITOR GENERAL

Independent Auditor's Report on
the Financial Statements

June 4, 1999

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

Dear Senator McManus and Ms. Hammond:

We have audited the accompanying statement of pension plan and postemployment healthcare plan net assets of the Michigan Legislative Retirement System as of September 30, 1998 and September 30, 1997 and the related statement of changes in pension plan and postemployment healthcare plan net assets for the fiscal years then ended. These financial statements are the responsibility of the Michigan Legislative Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan Legislative Retirement System as of September 30, 1998 and September 30, 1997 and the results of its operations for the fiscal years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards,* we have also issued a report dated June 4, 1999 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 grants.

The schedule of funding progress and the schedule of employer contributions on pages 32 and 33 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The year 2000 supplementary information on page 34 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 supplementary information. However, we did not audit the information and do not express an opinion on it.

The accompanying supplemental information, consisting of the detail of changes in plan net assets, is presented for purposes of additional analysis and is not a required part of the Michigan Legislative Retirement System's financial statements referred to in the first paragraph. The supplemental information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion concerning such information.

AUDITOR GENERAL

MICHIGAN LEGISLATIVE RETIREMENT SYSTEM

Statement of Pension Plan and Postemployment Healthcare Plan Net Assets

As of September 30

	1998			1997		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
ASSETS						
Cash	$	$	$ 0	$ 3,569,302	$ 7,927	$ 3,577,229
Receivables:						
Employer	$ 43,450	$ 127	$ 43,577	$ 201,407	$ 447	$ 201,854
Interest and dividends	710,353	2,072	712,425	834,348	1,853	836,201
Sale of investments	1,459,699	4,257	1,463,956	22,462	50	22,512
Total Receivables	$ 2,213,502	$ 6,456	$ 2,219,958	$ 1,058,217	$ 2,350	$ 1,060,567
Investments:						
Bonds	$ 64,825,619	$ 189,086	$ 65,014,705	$ 62,165,172	$ 138,058	$ 62,303,230
Common stock	86,529,529	252,393	86,781,922	86,386,107	191,849	86,577,956
Total Investments	$ 151,355,148	$ 441,479	$ 151,796,627	$ 148,551,279	$ 329,907	$ 148,881,186
Total Assets	$ 153,568,650	$ 447,935	$ 154,016,585	$ 153,178,798	$ 340,184	$ 153,518,982
LIABILITIES						
Warrants outstanding	$ 41,229	$ 120	$ 41,349	$ 184,559	$ 410	$ 184,969
Accounts payable and other accrued liabilities	1,426,024	4,160	1,430,184	1,034,618	2,298	1,036,916
Total Liabilities	$ 1,467,253	$ 4,280	$ 1,471,533	$ 1,219,177	$ 2,708	$ 1,221,885
Net Assets Held in Trust for Pension and Healthcare Benefits*	$ 152,101,397	$ 443,655	$ 152,545,052	$ 151,959,621	$ 337,476	$ 152,297,097

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

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

MICHIGAN LEGISLATIVE RETIREMENT SYSTEM

Statement of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets

For the Fiscal Years Ended September 30

	1998			1997		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
ADDITIONS						
Member contributions:						
Other contributions	$ 519,570	$ 81,975	$ 601,545	$ 555,802	$ 76,126	$ 631,928
Military contributions	21,277		21,277	7,893		7,893
Employer contributions:						
Other contributions	988,900	1,651,098	2,639,998	1,039,100	1,460,500	2,499,600
Court fees	1,093,794		1,093,794	1,030,627		1,030,627
Investment income	11,704,826		11,704,826	30,435,206		30,435,206
Less other investment expenses	(601,026)		(601,026)	(512,962)		(512,962)
Interest income		24,204	24,204		105,044	105,044
Miscellaneous income	15		15			
Total Additions	$ 13,727,356	$ 1,757,277	$ 15,484,633	$ 32,555,666	$ 1,641,670	$ 34,197,336
DEDUCTIONS						
Benefits and refunds paid to members and beneficiaries:						
Retirement benefits	$ 4,961,742	$	$ 4,961,742	$ 4,469,808	$	$ 4,469,808
Health benefits		1,472,947	1,472,947		1,296,526	1,296,526
Dental benefits		178,151	178,151		174,997	174,997
Death benefits	416,000		416,000	410,500		410,500
Refunds of member contributions and interest	207		207	5,190		5,190
Transfer to other systems	7,991,260		7,991,260			
Administrative expenses	216,371		216,371	198,199		198,199
Total Deductions	$ 13,585,580	$ 1,651,098	$ 15,236,678	$ 5,083,697	$ 1,471,523	$ 6,555,220
Net Increase	$ 141,776	$ 106,179	$ 247,955	$ 27,471,971	$ 170,147	$ 27,642,116
Net Assets Held in Trust for Pension and Healthcare Benefits						
Beginning of year, as restated (Note 3)	151,959,621	337,476	152,297,097	124,487,650	167,329	124,654,981
End of year	$ 152,101,397	$ 443,655	$ 152,545,052	$ 151,959,621	$ 337,476	$ 152,297,097

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

Notes to the Financial Statements

Note 1 Plan Description

a. Reporting Entity

The Michigan Legislative Retirement System (MLRS) is a single employer, Statewide public employee 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 the purpose of providing retirement, survivor, and disability benefits to all legislators in the legislative branch of State government.

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

Act 486, P.A. 1996, amended the MLRS enabling statute to mandate that persons elected to the Michigan Legislature after March 31, 1997 participate in a Statewide defined contribution pension plan administered by the State Treasurer. Thus, the defined benefit plan is a closed plan. The defined contribution plan operates in a manner similar to a 401(k) plan. Act 486, P.A. 1996, allowed members of the defined benefit plan a one-time opportunity to transfer to the defined contribution plan. Transferring legislators were allowed to transfer the actuarial present value of their vested pension benefits and/or their contributions from MLRS to the defined contribution plan. Of 145 active members, 22 legislators chose to transfer from MLRS to the defined contribution plan. MLRS transferred $7.9 million to the defined contribution plan on behalf of these members.

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 the results of operations of the State of Michigan or its pension trust funds.

At September 30, 1998 and September 30, 1997, MLRS membership consisted of:

	1998	1997
Retirees and beneficiaries currently receiving benefits:		
Regular benefits	145	149
Survivor benefits	70	65
Disability benefits	0	0
Total	215	214
Inactive members entitled to benefits and not yet receiving them	46	52
Current employees:		
Vested	77	72
Nonvested	45	74
Total	122*	146
Total of all members	383	412

*Reduced membership reflects impact of defined contribution plan transfer.

b. <u>Benefit Provisions</u>

A member may retire and receive retirement benefits based on age and service after: (1) attaining age 55 with 8 or more years of credited service; (2) attaining age 50, if age and years of credited service combined are equal to or greater than 70; or (3) effective January 1, 1987, 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, (b) 2 full or partial terms in the Senate, or (c) 1 term in the House and 1 term in the Senate.

For those legislators who first became members on or before December 1, 1994, a member's 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 any remaining years of credited service.

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 a retiree's survivor is increased by 4% compounded annually. The adjustment is effective each January 1.

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

c. Other Postemployment Benefits

Under Sections 50a and 50b of the Michigan Legislative Retirement Act, all retirees and their dependents and survivors have the option of continuing health, dental, vision, and hearing insurance coverage. MLRS also provides fully paid health, dental, vision, and hearing coverage for deferred vested members who were members before December 1, 1994 and for their survivors and dependents. MLRS funds the health, dental, vision, and hearing benefits on a pay-as-you-go basis and has begun a limited advance funding program for future health insurance costs.

MLRS provides $150,000 in life insurance coverage to current members. Retirees are covered by varying amounts, ranging from $2,500 to $75,000, depending on their retirement date 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 the actuarial section. The number of plan participants and other relevant financial information is as follows:

	Fiscal Year	
	1997-98	1996-97
Health/Dental/Vision Plans		
Eligible participants	258	266
Expense for year	$ 1,651,098	$1,471,523
Net assets available for benefits	$ 443,655	$ 337,476
Life Insurance Plan		
Actuarial accrued liabilities	$ 6,210,037	$6,124,914
Net assets available for benefits	$10,082,057	$9,215,831
Life insurance payments	$ 416,000	$ 410,500

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. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the retirement plan.

b. Fund Accounting

(1) MLRS is an integral part of the State of Michigan reporting entity. As such, MLRS financial statements 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 their salary to MSF 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 MSF. 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 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.

(4) Survivors' Retirement Fund (SRF). All legislators with less than 20 years of service contribute 0.5% of their salary to SRF. Interest credited to SRF (from the Income Fund) and members savings are transferred to SRF from MSF and additional State contributions are made in order to make SRF 100% funded. Survivors' monthly retirement allowances are paid from SRF upon the death of members, deferred vested members, and retirants.

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

(6) Health Insurance Fund. All legislators contribute 1% of their salary to the Health Insurance Fund to pay for health and dental insurance premiums.

(7) Income Fund. The Income Fund is credited with all investment earnings, and all administrative expenses are reimbursed from the 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. Investments

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 Public Employee Retirement System Investment Act (Act 314, P.A. 1965, as amended). MLRS also contracts with independent investment advisors.

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

(2) Investment Income. Dividend income is recognized based on the ex-dividend date and interest income is recognized on the accrual basis as earned. Market value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the settlement date (the date upon which the transaction is ultimately completed).

(3) Investments Exceeding 5% of Net Assets. At September 30, 1998 and September 30, 1997, MLRS did not hold any individual investment that exceeded 5% of net assets available for benefits.

(4) Categories of Investment Risk. Governmental Accounting Standards Board (GASB) Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements,* requires classification of investments into one of three categories based upon credit risk. Category 1 includes investments that are insured or registered or that are held by MLRS or its agent in MLRS's name. Category 2 includes uninsured and unregistered investments that are held by the counterparty, its trust department or agent, in MLRS's name. Category 3 includes uninsured and unregistered investments that are held by the counterparty, its trust department or agent, but not in MLRS's name. At September 30, 1998 and September 30, 1997, all investments of MLRS were classified as Category 1.

(5) Derivatives and Securities Lending. MLRS did not have any investments in derivatives or securities lending activities.

d. Related Party Transactions

The cash account, which represents funds deposited in a common cash investment pool maintained for various State operating funds, includes $0 for fiscal year 1997-98 and $3,577,229 for fiscal year 1996-97. The participating funds in the common cash investment pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to $118,289 and $260,211 for the fiscal years ended September 30, 1998 and September 30, 1997, respectively.

Note 3 Accounting Changes

Effect of Change in Accounting Principle. During fiscal year 1996-97, MLRS implemented the provisions of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 26, *Financial Reporting for*

Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans. GASB Statement Nos. 25 and 26 establish the financial reporting framework for pension plans. The framework includes fair value accounting for investments (recognition of unrealized investment gains and losses) and amortization of unfunded actuarial liabilities over no more than 40 years, and it requires certain additional disclosures regarding postemployment healthcare benefits.

The provisions of GASB Statement Nos. 25 and 26 require restatement of prior year balances for the effect of changing from reporting investments at cost to reporting investments at fair value. The effect of the change in accounting principle on the net assets held in trust for pension benefits and postemployment healthcare benefits as of September 30, 1996 is shown below:

September 30, 1996, Net plan assets held in trust for pension and postemployment healthcare benefits, as previously reported	$101,743,977
Cumulative effect of change in accounting principle	22,911,003
September 30, 1996, Net plan assets held in trust for pension and postemployment healthcare benefits, as restated	$124,654,980

Note 4 Funding Status and Progress

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

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

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

The standardized measure of the pension and insurance benefit obligations as of September 30, 1998 and September 30, 1997 (excluding the reserve for health insurance) is as follows:

	1998	1997
Actuarial accrued liability:		
Active members	$ 30,378,053	$ 35,429,638
Retirees and beneficiaries currently receiving benefits	64,657,383	61,154,904
Vested terminated members not yet receiving benefits	17,898,310	19,678,501
Total actuarial accrued liability	$112,933,746	$116,263,043
Actuarial value of assets (market value: 1998, $152,125,600; 1997, $151,823,420)	131,836,311	126,818,596
Unfunded (overfunded) actuarial accrued liability	$ (18,902,565)	$ (10,555,553)

Note 5 Contributions Required and Contributions Made

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

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

Employer contributions for retirement (net of health insurance) were $2,082,694 (25.4%) and $2,069,727 (26.8%) of the annual active member payroll of $8,197,494 and $7,737,041, respectively, for fiscal years 1997-98 and 1996-97, respectively. Employer contributions during the years were made on the basis of actuarial calculations for normal cost plus financing of unfunded actuarial accrued liabilities, which required a net contribution rate of 19.79% for fiscal year 1997-98 and 25.51% for fiscal year 1996-97. The contributions for fiscal years 1997-98 and 1996-97 exceeded actuarial requirements by $460,410 and $96,008, respectively.

Note 6 Required Supplementary Information

GASB Statement No. 25 requires the disclosure of certain historical trend information. Trend information is intended to help users assess the funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems. This trend information is presented in the following pages as required supplementary information.

Note 7 Subsequent Events

At the end of calendar year 1998, Michigan's constitutional term-limit amendment (limiting members of the House of Representatives to 6 years in office and the members of the Senate to 8 years in office) had a large impact on MLRS. Sixty-four of 107 active members in the House of Representatives and 5 members of 37 active members in the Senate either retired, became deferred vested members, entered the MLRS health care program as defined contribution plan members, or became members of another house in the Legislature. This was the largest turnover event in the history of MLRS. Almost all remaining MLRS active members will be term limited from office by the year 2002. In addition, their successors are automatically enrolled in the State Employees' Defined Contribution Retirement Plan, ensuring that in the next four years, there will be a dramatic reduction in the number of active members of MLRS.

Effective January 5, 1999, Act 501, P.A. 1998, created or amended numerous sections of the MLRS Act. Because the changes became effective subsequent to the date of the financial statements audited, they do not affect the results of our audit. Our audit report reflects the MLRS Act in effect as of the date of the financial statements. Major modifications include altering the membership of the MLRS Board of Trustees, contribution and benefit changes for members who took office on or before January 1, 1995, and member contribution shifts between MLRS's funds.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

Each time a higher level of benefit is adopted, unfunded obligations are created. Sections 38.1020(4) and 38.1022(5) of the *Michigan Compiled Laws* require 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 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 expressed as a percentage of annual covered payroll approximately adjust for the effects of inflation and aid analysis of MLRS progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller the percentage, the stronger the system.

Valuation Date September 30	Actuarial Value of Assets* (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 ((b-a)/c)
1989	$ 58,454	$ 60,997	$ 2,543	96%	$ 6,449	39%
1989#	$ 58,454	$ 62,888	$ 4,434	93%	$ 6,449	69%
1990	$ 62,972	$ 67,492	$ 4,520	93%	$ 6,861	66%
1991	$ 69,808	$ 72,632	$ 2,824	96%	$ 6,827	41%
1992	$ 78,143	$ 75,781	$ (2,362)	103%	$ 6,827	
1993	$ 88,074	$ 82,579	$ (5,495)	107%	$ 6,871	
1993@+	$ 86,660	$ 88,144	$ 1,484	98%	$ 6,871	22%
1994	$ 93,264	$ 99,974	$ 6,710	93%	$ 7,202	93%
1995	$103,660	$105,866	$ 2,206	98%	$ 7,419	30%
1996	$113,633	$112,571	$ (1,062)	101%	$ 7,654	
1997	$126,819	$116,263	$(10,556)	109%	$ 7,836	
1998	$131,836	$112,934	$(18,902)	117%	$ 6,610	

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

Schedule of Employer Contributions

Fiscal Year	Valuation Date September 30	Required Contribution as a Percentage of Payroll	Actual Payroll	Dollar Contributions For Fiscal Year: Required	Dollar Contributions For Fiscal Year: Actual*
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%	$7,564,764	$2,040,217	$2,153,466
1996-97	1996	25.51%	$7,737,041	$1,973,719	$2,069,727
1997-98	1997	19.79%	$8,197,494	$1,622,284	
1997-98	1997##	0.00%	$8,197,494	$ 0	$2,082,694

* Actual dollar contributions are public-financed contributions less health insurance premiums and less noninvestment administrative expenses for fiscal years 1988-89 through 1993-94.

\# After changes in benefit provisions.

@ After changes in actuarial assumptions/methods.

& After reflecting the impact of term limits.

\## After closing the defined benefit plan to new members.

Year 2000 Issues

In October 1998, the Governmental Accounting Standards Board (GASB) issued Technical Bulletin 98-1, entitled *Disclosures about Year 2000 Issues.* The provision of the GASB Technical Bulletin, effective for financial statements on which the auditor's report is dated after October 31, 1998, requires the agency to make disclosures in the notes to the financial statements about its readiness in addressing year 2000 issues for its computer systems and other electronic equipment. In March 1999, GASB issued an amended Technical Bulletin, 99-1, that allowed disclosure of year 2000 issues in required supplementary information or in the notes to the financial statements. Retroactive application was allowed.

The year 2000 issue is the result of shortcomings in electronic data-processing systems and other electronic equipment that may adversely affect operations in the year 1999 and beyond. To address the year 2000 issues, the State established the Year 2000 Project Office within the Department of Management and Budget. The Year 2000 Project Office's mission is to lead, support, and facilitate achievement of year 2000 compliance throughout the State's executive branch to ensure uninterrupted service to Michigan's citizens. The Year 2000 Project Office is monitoring year 2000 compliance efforts at the various agencies and is providing assistance and assigning resources to accelerate compliance for all mission critical systems and equipment.

Disclosures regarding the Statewide year 2000 remediation efforts are available in the *State of Michigan Comprehensive Annual Financial Report* for the fiscal year ended September 30, 1998.

The following stages have been identified as necessary to implement a year 2000 compliance system:

1. Awareness stage - encompasses establishing a budget and project plan for dealing with the year 2000 issue.

2. Assessment stage - when the organization begins the actual process of identifying all of its systems and individual components of the systems. An organization may

decide to review all system components for year 2000 compliance or, through a risk analysis, identify only mission critical systems and equipment to check for compliance.

3. Remediation stage - when the organization actually makes changes to systems and equipment. This stage deals primarily with the technical issues of converting existing systems or switching to compliant systems. During this stage, decisions are made on how to make the systems or processes year 2000 compliant, and the required system changes are made.

4. Validation/Testing stage - when the organization validates and tests the changes made during the conversion process. The development of test data and test scripts, the running of test scripts, and the review of test results are crucial for this state of the conversion process to be successful. If the testing results show anomalies, the tested area needs to be corrected and retested.

MLRS identified the computer and electronic equipment that are critical to its operations. MLRS efforts toward achieving year 2000 compliance have been primarily aimed at ensuring unimpeded and uninterrupted operation of the common pension payroll. MLRS has completed the assessment, remediation, validation, and testing of this critical computer application as of September 30, 1998.

There can be no assurance that organizations and governmental agencies with which MLRS interacts, including banks, venders, customers, and state and federal governments, will be year 2000 compliant. With regard to these external organizations, MLRS is currently in the process of obtaining assurance that its systems will be ready for the year 2000. If issues are identified, action plans will be instituted as necessary. However, even if the systems of both are compliant in a timely manner, problems could arise with communications between systems if compliance is achieved through inconsistent approaches or methodologies.

Management believes that MLRS has the correct plan in place and that MLRS will be able to process date and/or date related information correctly prior to, during, and after January 1, 2000. However, because of the unprecedented nature of the year 2000 issue, its effect and the success of the related remediation efforts cannot be fully determinable until the year 2000 and thereafter. Consequently, management cannot guarantee that MLRS is or will be year 2000 ready, that MLRS's remediation efforts will be successful in whole or in part, or that parties with whom the agency does business will be year 2000 ready.

Notes to Required Supplementary Information

Note A Description

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

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

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

Note B <u>Summary of Actuarial Assumptions</u>

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

Valuation date	September 30, 1998	September 30, 1997
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level Percent of Payroll	Level Percent of Payroll
Amortization period	5 Years	5 Years
Asset valuation method	5-Year Smoothed Market*	5-Year Smoothed Market
Actuarial assumptions:		
Investment rate of return	7%	7%
Projected salary increases	4%	4%
Includes inflation at	4%	4%
Cost-of-living adjustments	4%	4%

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

SUPPLEMENTAL INFORMATION

MICHIGAN LEGISLATIVE RETIREMENT SYSTEM
Detail of Changes in Plan Net Assets (Pension and Postemployment Healthcare Benefits)
For the Fiscal Years Ended September 30

	Members' Savings Fund		Members' Retirement Fund		Survivors' Retirement Fund	
	1998	1997	1998	1997	1998	1997
ADDITIONS						
Member contributions:						
Other contributions	$ 416,156	$ 459,129	$	$	$ 40,987	$ 34,635
Military contributions	21,277	7,893				
Employer contributions:						
Other contributions			988,900	624,534		95,000
Court fees			1,093,794	1,030,627		
Investment income:						
Investment income						
Less other investment expenses						
Interest income						
Miscellaneous income						
Total Additions	$ 437,433	$ 467,022	$ 2,082,694	$ 1,655,161	$ 40,987	$ 129,635
DEDUCTIONS						
Benefits and refunds paid to plan members and beneficiaries:						
Retirement benefits	$	$	$ 4,023,574	$ 3,661,671	$ 938,168	$ 808,135
Health benefits						
Dental benefits						
Death benefits						
Refunds of member contributions and interest	207	5,190				
Transfer to other systems	929,760		6,910,782			
Administrative expenses						
Total Deductions	$ 929,967	$ 5,190	$ 10,934,356	$ 3,661,671	$ 938,168	$ 808,135
Net Increase (Decrease)	$ (492,534)	$ 461,832	$ (8,851,662)	$ (2,006,510)	$ (897,181)	$ (678,500)
Other Changes in Net Assets						
Interest allocations	$ 247,321	$ 218,243	$ 6,853,968	$ 21,998,034	$ 2,834,713	$ 9,097,193
Transfer upon retirements	(251,368)	(694,141)	204,248	646,540	47,120	47,601
Total Other Changes in Net Assets	$ (4,047)	$ (475,898)	$ 7,058,216	$ 22,644,574	$ 2,881,833	$ 9,144,794
Net Increase (Decrease) After Other Changes	$ (496,581)	$ (14,066)	$ (1,793,446)	$ 20,638,064	$ 1,984,652	$ 8,466,294
Net Assets Held in Trust for Pension and Healthcare Benefits:						
Beginning of year	5,708,290	5,722,356	95,563,291	74,925,227	39,523,738	31,057,444
End of year	$ 5,211,709	$ 5,708,290	$ 93,769,845	$ 95,563,291	$ 41,508,390	$ 39,523,738

Insurance Revolving Fund		Health Insurance Fund		Income Fund		Total	
1998	1997	1998	1997	1998	1997	1998	1997
$ 62,427	$ 62,038	$ 81,975	$ 76,126	$	$	$ 601,545	$ 631,928
						21,277	7,893
	319,566	1,651,098	1,460,500			2,639,998	2,499,600
						1,093,794	1,030,627
				11,704,826	30,435,206	11,704,826	30,435,206
				(601,026)	(512,962)	(601,026)	(512,962)
		24,204	105,044			24,204	105,044
				15		15	
$ 62,427	$ 381,604	$ 1,757,277	$ 1,641,670	$ 11,103,815	$ 29,922,244	$ 15,484,633	$ 34,197,336
$	$	$	$	$	$	$ 4,961,742	$ 4,469,808
		1,472,947	1,296,526			1,472,947	1,296,526
		178,151	174,997			178,151	174,997
416,000	410,500					416,000	410,500
						207	5,190
				150,718		7,991,260	
				216,371	198,199	216,371	198,199
$ 416,000	$ 410,500	$ 1,651,098	$ 1,471,523	$ 367,089	$ 198,199	$ 15,236,678	$ 6,555,220
$ (353,573)	$ (28,896)	$ 106,179	$ 170,147	$ 10,736,726	$ 29,724,045	$ 247,955	$ 27,642,116
$ 800,724	$ 2,556,440	$	$	$(10,736,726)	$(33,869,910)	$ 0	$ 0
						0	0
$ 800,724	$ 2,556,440	$ 0	$ 0	$(10,736,726)	$(33,869,910)	$ 0	$ 0
$ 447,151	$ 2,527,544	$ 106,179	$ 170,147	$ 0	$ (4,145,865)	$ 247,955	$ 27,642,116
11,164,302	8,636,758	337,476	167,329	0	4,145,865	152,297,097	124,654,981
$ 11,611,453	$ 11,164,302	$ 443,655	$ 337,476	$ 0	$ 0	$ 152,545,052	$ 152,297,097

Glossary of Acronyms and Terms

actuarial accrued liability (AAL)
The portion of the actuarial present value of pension plan benefits and expenses which is not provided through future normal costs. The actuarial accrued liability, at any particular time, is equal to the present value of future benefits less the present value of future normal costs.

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 of an audited entity are fairly presented in conformity with generally accepted accounting principles.

GASB
Governmental Accounting Standards Board.

internal control
A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.

material weakness
A condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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.
members	Persons elected to the Michigan House of Representatives or the Michigan Senate.
Michigan Administrative Information Network (MAIN)	The Statewide financial management system used by the State.
mission	The agency's main purpose or the reason the agency was established.
MLRS	Michigan Legislative Retirement System.
MSF	Members' Savings Fund.
MRF	Members' Retirement Fund.
normal cost	The portion of the actuarial present value of pension plan benefits and expenses allocated to a valuation year by the actuarial cost method.
Relational Standard Accounting and Reporting System (R*STARS)	The accounting and financial software package used by the State.
reportable condition	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect MLRS's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

retirants	Members who separate from office and retire with a retirement allowance payable from the Members' Retirement Fund of MLRS.
smoothed market	An actuarial valuation method that assumes the fund will earn an expected rate of return and includes an adjustment to reflect market value.
SRF	Survivors' Retirement Fund.
unfunded actuarial accrued liability (UAAL)	The excess of the actuarial accrued liability over the actuarial value of assets.