State of Michigan 457 Plan

Financial Report

September 30, 2023

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INDEPENDENT AUDITOR'S REPORT

OAG
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Independent Auditor's Report on the Financial Statements and Other Reporting Required by *Government Auditing Standards*

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Department of Technology, Management, and Budget
Elliott-Larsen Building
Lansing, Michigan
and
Anthony J. Estell, Director
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Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the State of Michigan 457 Plan (Plan), a fiduciary fund of the State of Michigan, as of and for the fiscal year ended September 30, 2023 and the related notes to the financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the fiduciary net position of the State of Michigan 457 Plan as of September 30, 2023 and the changes in its fiduciary net position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Plan and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Plan and do not purport to, and do not, present fairly the financial position of the State of Michigan or its pension (and other employee benefit) trust funds as of September 30, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we will also issue a report dated December 21, 2023 on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

Doug Ringler

Doug Ringler
Auditor General
December 21, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

This section presents our discussion and analysis of the State of Michigan 457 Plan's (the Plan's) financial performance and provides an overview of the Plan's financial activities for the fiscal years ended September 30, 2023, and September 30, 2022. This section should be read in conjunction with the Plan's basic financial statements.

Using This Annual Financial Report

This annual financial report consists of two parts: (1) management's discussion and analysis (this section) and (2) the Plan's basic financial statements. The Plan's basic financial statements are comprised of a Statement of Plan Fiduciary Net Position, a Statement of Changes in Plan Fiduciary Net Position, and Notes to the Financial Statements. The Statement of Plan Fiduciary Net Position reports the assets and liabilities of the Plan and the net position that is held on behalf of participants as of the end of the fiscal year. The Statement of Changes in Plan Fiduciary Net Position reports the additions and deductions to the Plan that occurred during the fiscal year. The notes explain some of the information in the financial statements and provide more detailed data.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current and prior year:

	Fiscal Years Ended September 30 (in thousands)	
	2023	2022
Plan Net Position	$ 3,260,087	$ 2,727,876
Net investment income (loss)	$ 350,630	$ (519,494)
Contributions - Employees	368,004	310,537
Contributions - Employers	151	161
Contributions - Transfers from other systems	2,243	2,363
Benefits paid	(94,932)	(89,994)
Refunds and payments to other systems	(88,776)	(91,737)
Other income and expenses - net	(5,109)	(5,448)
Net Increase (Decrease) in Plan Net Position	$ 532,210	$ (393,613)

Overall Fund Structure and Objectives

The Plan was originally established by the State of Michigan in 1974 for the exclusive benefit of eligible State of Michigan employees and their beneficiaries. The Plan has been amended and restated since the Plan's original adoption and retitled as the "State of Michigan 457 Plan". It was last restated in its entirety, effective January 1, 2020.

The Plan was established as a means for State employees to save for retirement. Employees of the State of Michigan and judges are eligible to participate in the Plan as of the first day of employment and may voluntarily contribute a portion of their compensation up to the established Internal Revenue Code limits. The Plan was expanded in 2010 and 2012 to benefit eligible Michigan public school employees and their beneficiaries. Then in 2012, the Plan was further expanded to benefit eligible Michigan State Police and their beneficiaries, and to employees of the Education Achievement Authority (EAA) and their beneficiaries.

Effective August 11, 2014, public school employers were provided the option to sign up to offer public school employees a deferred compensation option through the State of Michigan 401K and 457 Plans. Public school employees enrolled in the defined benefit pension plan who were hired prior to July 1, 2010 and also elected to retain their premium subsidy health care were eligible to participate. As of November 1, 2021, these public school employees are permitted to defer compensation to the State of Michigan 457 Plan without the need for their employers to sign up. The deferred compensation option extends the opportunity to invest in the 457 Plan, and it also allows rollovers to the 401K Plan.

On April 25, 2017, the EAA Executive Committee approved a Resolution Authorizing Dissolution of the Education Achievement Authority of Michigan. The EAA ceased to exist as a legal entity on June 30, 2017. No new contributions were made to the Plan since August 18, 2017.

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closed the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and created a new optional revised hybrid plan (Pension Plus 2) with similar plan benefit calculations but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities.

On June 3, 2018, the Governor signed Public Act 169 of 2018 into law. The legislation requires public school employers to make a dollar-for-dollar matching contribution to the 401K Plan on up to 3% of gross wages deferred to the 457 Plan effective September 1, 2018 for all MPSERS members who had elected to convert to the Defined Contribution plan.

Asset Allocation

The Bureau of Investments, Department of Treasury, in consultation with the Office of Retirement Services and subject to approval by the State of Michigan Investment Board, selects mutual funds, pooled funds, separate accounts, or other investment vehicles to pursue the Plan's investment objective, which are then made available by the trustee. Except as required under auto-enrollment in the State of Michigan 457 Plan Document, all participants have the ability to direct the investments of their accounts under the Plan, in accordance with the investment choices made available by the trustee and those policies or procedures determined by the administration from time to time. Forfeited assets are invested in accordance with the provisions of Articles 9 and 10 of the Plan Document. The Plan has no control over investment decisions made by the participants. Plan assets may be invested and reinvested in various instruments as deemed appropriate by the trustee and Plan management. Several investment tiers have been developed and made available to participants. A summary of the types of investments is listed in Note 3.

Investment Results

For fiscal year 2023, the S&P 500 was up 21.62%, the Dow Jones Industrial Average (the Dow) was up 19.18%, and the NASDAQ was up 26.11%. Other common indices that finished the fiscal year in positive territory included the Russell 2000 at 8.93%; Morgan Stanley Capital International (MSCI) Europe, Australasia, and the Far East (EAFE) at 25.65%; MSCI Emerging Markets at 11.70%; and Bloomberg U.S. Corporate High Yield Indices at 10.28%, while the Bloomberg U.S. Aggregate Bond posted a modest gain of 0.64%.

The continued global economic expansion, amid falling commodity prices and generally disinflationary trends, provided a favorable environment for the prices of riskier assets during the second quarter. The late-cycle outlook appeared mixed, with a supportive U.S. consumer backdrop tempered by rising interest rates.

U.S. large cap growth stocks spearheaded the rally in riskier asset prices, with non-U.S. equities registering more modest gains. Credit-sensitive fixed income categories, such as emerging-market debt and corporate high-yield bonds, posted positive returns, but rising interest rates dragged most bond categories lower. After the broad-based downturn in 2022, most asset categories have rebounded through the first half of 2023.

Despite sharp gains for U.S. large cap stocks, the 2023 market rebound remained relatively narrow. The top 10 largest U.S. stocks, concentrated in the technology and communications sectors, received a boost from exuberance about the prospects for artificial intelligence and rose more than 40% in the first half of the year. This far outpaced the rest of the market, where the rebound was less pronounced.

Global short-term interest rates rose to their highest levels in more than a decade. The pace of rate hikes was expected to slow and eventually stop during 2023.

Many economies, including the U.S., face headwinds related to persistent inflationary pressures and tightening monetary conditions. However, the global cycle does not appear to be synchronized. China’s economy continues to benefit from its post-COVID reopening, while Europe has stabilized amid falling energy prices.

Global services activity accelerated in the second quarter even as manufacturing measures stagnated. Central banks tightened policies over the past year at varying speeds and magnitudes. With inflation decelerating in recent months, many emerging markets appear near the end of their hiking cycles, while several developed market countries appear inclined to tighten policy further to address persistent inflation in core services activity. Commodity prices and global trade activity deteriorated for the quarter. Prices of both energy and industrial metals have dropped by double digits on a year-to-date basis.

China's economic reopening momentum lost steam during the second quarter. Policymakers are expected to bolster monetary, fiscal, and regulatory support in the months to come. However, structural imbalances—such as excess capacity and leverage, including in the large property sector—pose significant constraints on the potency of stimulus and the upside for China's growth trajectory.

The 10-year less 3-month Treasury yield inverted further during the quarter. The yield curve has been a reliable leading indicator of recessions, but the timing tends to be variable. Although banking system stress and recessionary fears became less of a concern to markets during the second quarter, banks further tightened lending standards across multiple loan categories. Even with tighter lending standards, the household and corporate sectors looked relatively healthy at the end of June and have so far shown limited vulnerability to interest rate increases. Supporting factors include tight housing supply, low consumer debt, and well-capitalized large banks.

Businesses pared back on their job openings and hiring plans, but unemployment stayed near multi-decade lows and labor markets remained very tight. U.S. consumers looked financially healthy as well, amid record-high net worth and post-pandemic excess savings. Year-over-year nominal wage growth surpassed inflation, marking a positive reversal in real wage growth that is now boosting inflation-adjusted household incomes.

U.S. consumer inflation rates continued to decelerate after reaching a multi-decade peak above 9% last year. A big drop in energy prices helped reduce year-over-year total inflation, and additional energy weakness would help boost the chances of continued disinflation. Many inflation pressures that tend to be more transitory, such as supply-chain disruptions, continued to fade in recent months. However, categories where price increases tend to be more persistent and more reliant on demand-side factors now account for almost all of U.S. inflation. If tight labor markets continue to boost unit labor costs, inflation in services sectors may linger for longer than investors suspect.

Equity markets continued to rally, led by large U.S. technology companies as the perceived beneficiaries of an anticipated boom in artificial intelligence. Globally, developed-market equites outperformed emerging markets, and commodity prices dropped. Riskier fixed income sectors, such as leveraged loans, added to year-to-date gains, but more interest rate sensitive ones, such as government bonds, posted losses.

Valuations moved higher for all major regions as stock prices rallied for the third quarter. The trailing, one-year price-to-earnings (PE) ratios for non-U.S. stocks (developed markets and emerging markets) remained below their long-term averages, while the U.S. climbed to well above its longer-term average.

Global earnings growth remained challenged by above-target inflation, and monetary tightening. However, global earnings showed some signs of stabilization. Emerging markets remained laggards, with a double-digit earnings contraction on a year-over-year basis. Global earnings growth expectations for the next 12 months remain similar across the world in the low single digits.

The dollar appreciated modestly. Interest rate differentials have been the key driver of currency performance this year, and the dollar benefited as the Fed kept hiking rates. However, that trend is easing as other central banks continue to tighten their monetary policies. On a long-term basis, non-U.S. currencies appear undervalued relative to the dollar.

As banking-sector turmoil abated, Treasury yields rose and credit spreads fell across most fixed income categories. Most major bond sectors' yields and spreads finished roughly near their averages over the past two decades.

Source: Fidelity Investments Quarterly Market Update: Third Quarter 2023, Executive Summary

Contacting Management

This report is designed to provide Plan participants with a general overview of the Plan's finances and to demonstrate the Plan's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Office of Retirement Services, P.O. Box 30171, Lansing, MI 48909-7671.

BASIC FINANCIAL STATEMENTS

Statement of Plan Fiduciary Net Position (in thousands)

As of September 30, 2023

	State of Michigan Deferred Compensation Fund	Public School Deferred Compensation Fund	Education Achievement Authority Deferred Compensation Fund	Total
Assets				
Equity in Common Cash	$ 70	$ 5,424	$ 48	$ 5,542
Participant-directed investments				
at fair value/contract value (Note 3)				
Mutual funds	$ 202,997	$ 16,160	$ 11	$ 219,167
Common trust funds	911,880	1,379,017	5,538	2,296,435
Tier III investments	52,763	13,371	39	66,172
Stable Value Fund	459,971	6,521	43	466,535
Voya Small Cap Growth Strategy Fund	21,869	2,393	6	24,268
Jennison Associates Large Cap Growth Equity Fund	91,578	10,959	29	102,566
Artisan U.S. Mid-Cap Growth Strategy Fund	23,373	3,655	2	27,030
T. Rowe Price Mid-Cap Value Fund	23,904	5,187	31	29,122
Total participant-directed investments	$ 1,788,335	$ 1,437,263	$ 5,699	$ 3,231,296
Receivables:				
Participant loans	$ 4,831	$ 11,319		$ 16,150
Amounts due from employees	2,323	17,229		19,551
Other receivable	37	339	$ 1	376
Total receivables	$ 7,190	$ 28,886	$ 1	$ 36,077
Total assets	$ 1,795,594	$ 1,471,573	$ 5,749	$ 3,272,916
Liabilities				
Accounts Payable	$ 1,882	$ 8,433		$ 10,315
Unearned Revenue		2,514		2,514
Total liabilities	$ 1,882	$ 10,947		$ 12,829
Plan Net Position	$ 1,793,712	$ 1,460,626	$ 5,749	$ 3,260,087

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

Statement of Changes in Plan Fiduciary Net Position (in thousands)

For Fiscal Year Ended September 30, 2023

Additions to Net Position	**State of Michigan Deferred Compensation Fund**	**Public School Deferred Compensation Fund**	**Education Achievement Authority Deferred Compensation Fund**	**Total**
Investment income (loss):				
Interest and Dividends	$ 11,558	$ 724	$ 1	$ 12,283
Net increase (decrease) in fair value of investments	176,679	160,894	775	338,347
Total investment income (loss)	$ 188,237	$ 161,618	$ 776	$ 350,630
Contributions:				
Employees	$ 57,741	$ 310,262		$ 368,004
Employers	151			151
Transfers from other systems	1,244	999		2,243
Total contributions	$ 59,136	$ 311,262		$ 370,397
Miscellaneous income	$ 267	$ 1,687	$ 7	$ 1,961
Total additions	$ 247,639	$ 474,567	$ 783	$ 722,988
Deductions from Net Position				
Benefits paid to participants	$ 69,890	$ 24,964	$ 78	$ 94,932
Administrative and investment expenses	1,979	5,078	13	7,070
Refunds and payments to other systems	71,882	16,791	104	88,776
Total deductions	$ 143,751	$ 46,832	$ 195	$ 190,778
Net increase (Decrease) in Net Position	$ 103,889	$ 427,734	$ 588	$ 532,210
Plan Net Position				
Beginning of fiscal year	$ 1,689,823	$ 1,032,892	$ 5,161	$ 2,727,876
End of fiscal year	$ 1,793,712	$ 1,460,626	$ 5,749	$ 3,260,087

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

NOTE 1 – GENERAL DESCRIPTION OF THE PLAN

The State of Michigan 457 Plan (the Plan) is a deferred compensation plan sponsored by the State of Michigan. The Plan is considered part of the State reporting entity and is included in the *State of Michigan Annual Comprehensive Financial Report* as a pension (and other employee benefit) trust fund. The Office of Retirement Services administers the Plan and the plan administrator has the authority to amend the Plan.

The following description provides only general information. Participants should refer to the Plan Document for a more complete description of the Plan's provisions. The Plan Document is available on the State of Michigan 401K and 457 Plan website.

General

The Plan was established by the Civil Service Commission in 1974. The first enrollment was on April 17, 1975, with contributions starting in May 1975. The Plan Document was last restated effective January 1, 2020 to incorporate all amendments, update changes required by law, and add new sections for changes in provisions made since the previous restatement. As of September 30, 2023, the Plan included 22,266 State of Michigan participants, 154,533 Michigan public school participants (684 participating employers), and 491 participants of the former Educational Achievement Authority (EAA).

Eligibility

The following employees are eligible to participate in the Plan on the first day of employment:

- State of Michigan employees (except per diem workers who receive no taxable wages, working patients of a mental health facility, and individuals paid on a fee basis or receiving only military subsistence payments),
- Employees of the state judicial council as of September 30, 1996, who irrevocably elected to forgo participation in the State's defined benefit pension plan and are currently employed by Wayne County performing judicial duties in the third circuit court, thirty-six district court, or Wayne County Clerk’s Office,

- Judges,
- Michigan State Police,
- Public school employees, and
- Former Education Achievement Authority employees (no new contributions).

Contributions

In accordance with Section 457 of the Internal Revenue Code, the Plan limits the amount of an individual's annual contribution, including additional catch-up contributions for those participants age 50 or older. Plan limits are adjusted each year by the Internal Revenue Service (IRS) based on increases in the Consumer Price Index (CPI).

The Plan provides for the Personal Healthcare Fund (PHF) for State of Michigan employees hired on or after January 1, 2012, State employees hired after March 31, 1997 but prior to January 1, 2012 and who opted out of the graded premium, Michigan public school employees hired on or after September 4, 2012, Public school employees hired prior to September 4, 2012 and who opted out of the graded premium, and Michigan State Police hired on or after June 10, 2012 to account for employee contributions of up to 2% of compensation. Employer matching contributions are made to the 401K Plan. Eligible State employees hired after March 31, 1997 but prior to January 1, 2012 and who opted out of the graded premium also receive a monetized amount upon first termination of employment for years of service accrued prior to March 31, 2012, all or a portion of which is contributed to the Plan if annual limits are reached in the 401K Plan.

The EAA was dissolved effective June 30, 2017 and the plan no longer receives new EAA contributions; however, the plan will remain open as long as former EAA employee balances remain in the plan.

Contributions from Other Systems

Active employees or former employees may roll over money from another governmental 457 Plan into their State of Michigan 457 Plan account, or from a 401(a) plan, 401K plan, 403(b) plan, or traditional individual retirement accounts (IRAs) if severed from employment for more than twelve (12) months and have maintained a 457 account balance. Participants may withdraw funds rolled into the Plan at any time.

Participant Account

Each participant's account is credited with his or her contributions and an allocation of the Plan's earnings. Allocations are based on the participant's account balance to reflect the effect of income or losses from the particular investments. The benefit to which a participant is entitled is limited to the benefit that can be provided from the participant's account.

Vesting

Participants are 100% vested in their contributions and related earnings or losses at all times.

Loans to Participants

Participants of the Plan may borrow from their account balances of the Plan in accordance with the loan policy statement. Loan amounts can range from a minimum of $1,000 to a maximum of $50,000. An additional loan option was made available for eligible participants under the Coronavirus Aid, Relief, and Economic Security (CARES) Act from April 22, 2020 to September 22, 2020 to a maximum of $100,000. Loans must be repaid within five years, with the exception of residential loans, which may be extended up to thirty years. However, from April 22, 2020 through December 31, 2020, participants were able to defer loan payments for up to one year under the CARES Act. The interest rate on loans reflects a rate equal to the prime interest rate on the first day of the prior month.

Loans to Participants – Defaulted

Defaulted loans are loans resulting from the failure of a participant to make the required loan repayments on an outstanding loan. These loans are considered a distribution to the participant for which a federal 1099 tax form is issued. During fiscal year 2023 defaulted loans totaled $442.9 thousand for participants in the State of Michigan Deferred Compensation Retirement Fund and $1.8 million in the Public School Deferred Compensation Fund. There were no defaulted loans in the EAA Deferred Compensation Fund.

Payment of Benefits

Participants may, but are not required to, withdraw their funds after 45 days of separation from employment. Withdrawal of participant funds may be by lump sum, monthly payments, annual payments, or rollovers to other qualified plans or an IRA. Payments may occur over a period not to exceed life expectancy from the date that the payments begin. In-service benefit payments are permitted for various reasons as outlined in the Plan Document.

Refunds and Payments to Other Systems

After 45 days of separation from employment, participants may, but are not required to, roll over all or a portion of their account balances to other qualified plans or an IRA, or they may use all or a portion of their account balances to purchase preapproved service credit in the State of Michigan's pension trust funds, if applicable.

Forfeited Accounts

Forfeited accounts totaled $88.2 thousand on September 30, 2023. As specified in the Plan Document, these accounts are to be used to restore forfeited assets when applicable, offset future employer contributions, and pay administrative expenses of the Plan. Forfeited assets are invested in accordance with the provisions of Articles 9 and 10 of the Plan Document.

Other Postemployment Benefits (OPEB)

The Plan's financial statements reflect the PHF activity for State employees, Michigan State Police, and public school employees participating in the PHF that are not eligible for subsidized health care benefits. The State employees eligible for subsidized health care benefits are included in the OPEB actuarial valuation provided for Michigan State Employees' Retirement System (MSERS) and reported in the MSERS financial statements. The public school employees eligible for subsidized health care are included in the OPEB actuarial valuation provided for the Michigan Public School Employees' Retirement System (MPSERS) and reported in the MPSERS financial statements. The Michigan State Police eligible for subsidized health care are included in the OPEB actuarial valuation provided for the Michigan State Police Retirement System (MSPRS) and reported in the MSPRS financial statements. For more information regarding these OPEB, please refer to the separately issued retirement system annual comprehensive financial reports.

Tax Status

The U.S. Department of Treasury made its most recent issuance of a Private Letter Ruling on February 19, 2010, that the Plan constitutes an eligible deferred compensation plan as defined in section 457(b) of the Code and the trust associated with the Plan satisfies all applicable requirements of section 457(g), and will be treated as and is, therefore, exempt from federal income tax under section 501(a). Although the Plan may be subsequently amended and restated, management believes that the Plan will continue to operate as an eligible deferred compensation plan and trust.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The accompanying financial statements present only the State of Michigan 457 Plan. Accordingly, they do not purport to, and do not, present fairly the financial position and the changes in financial position of the State of Michigan as a whole or its pension (and other employee benefit) trust funds in conformity with accounting principles generally accepted in the United States of America.

Measurement Focus and Basis of Accounting

The Plan uses the economic resources measurement focus and the accrual basis of accounting. Employee contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions.

Investments

Investments in the mutual funds, common trust funds, Voya Small Cap Growth Strategy Fund, Jennison Associates Large Cap Growth Equity Fund, Artisan U.S. Mid-Cap Growth Strategy Fund, T. Rowe Price Mid-Cap Value Fund, and Tier III investments are stated at fair value based on quoted market prices. The Stable Value Fund is stated at contract value (see Note 3 for additional information). The mutual funds are registered with the Securities and Exchange Commission, and guaranteed investment contracts (GICs) are regulated by state insurance departments. Investments in common trust funds are managed by State Street Global Advisors (SSgA), BlackRock, and the Prudential Trust Company. Common trust funds are similar to mutual funds though not registered like mutual funds are. The value of the Plan's position in the common cash fund is equivalent to the fair value of the common cash fund shares.

Investments measured at fair value are determined based on the market approach, which utilizes prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The fair value of publicly traded fixed income and equity securities is based upon quoted market prices and exchange rates, when applicable.

Participant Loans

Participant loans are stated at the outstanding principal amount.

NOTE 3 – INVESTMENTS

The Bureau of Investments, Department of Treasury, in consultation with the Office of Retirement Services and subject to approval by the State of Michigan Investment Board, selects mutual funds, pooled funds, separate accounts, or other investment vehicles to pursue the Plan's investment objective, which are then made available to participants by the trustee. Except as required under auto-enrollment in the State of Michigan 457 Plan Document, all participants have the ability to direct the investments of their accounts under the Plan, in accordance with the investment choices made available by the trustee and those policies or procedures determined by the administration from time to time.

Three investment tiers have been developed to classify the investments available to participants, based upon the general investment strategy. Tier I contains funds that have a passive investment strategy. These investments are managed to mirror investment performance of an established index. Tier II contains funds that have an active investment strategy. These investments are managed actively by an investment advisor using a specific fund investment objective. Tier III contains accounts with investments that are self-directed by the participant. These are not managed passively or actively by anyone other than the participant. A brief summary of the types of investments included in each tier follows:

Tier I - Common trust funds include BlackRock Government Short-Term Investment Fund, State Street U.S. Bond Index Non-Lending Series Fund Class A, State Street S&P 500 Index Non-Lending Series Fund Class A, State Street S&P MidCap Index Non-Lending Series Fund Class A, BlackRock S&P SmallCap 600 Equity Index Fund F, State Street Global All Cap Equity Ex-U.S. Index Non-Lending Series Fund Class A, BlackRock Emerging Markets Index Fund F, State Street Target Retirement Income Fund – Class P, and State Street Target Retirement Funds - Class P ranging in retirement dates from 2020 through 2065. All of the BlackRock funds employ the unitized accounting method.

Tier II - Two of the Tier II funds (PIMCO Total Return Instl Fund and American Funds EuroPacific Growth Fund R6) are mutual funds that employ the traditional share accounting method in which dividends are directly applied to participant accounts. The Prudential High Yield Fund is a common trust fund that also employs the traditional share accounting method. Two of the Tier II funds (Dodge & Cox Stock X Fund and Virtus Ceredex Small-Cap Value Equity I Fund) are mutual funds that employ a unitized accounting method in which dividends are applied to the pooled investment account. The Dodge & Cox Stock X Fund will cease using unitized accounting on October 15, 2023, and convert to share accounting). Other Tier II investments that include the Stable Value Fund, Voya Small Cap Growth Strategy Fund, Jennison Associates Large Cap Growth Equity Fund, Artisan U.S. Mid-Cap Growth Strategy Fund, and T. Rowe Price Mid-Cap Value Fund, all employ the unitized accounting method and are designed for the exclusive use and benefit of State of Michigan 401K Plan and 457 Plan participants. The funds are unitized to eliminate the impact of revenue sharing on pricing. Unitization also allows the cash holding percentage of each unitized fund to be established between the plan sponsor and the custodian, which reduces the need to trade underlining securities of the investment option on a daily basis and, therefore, the commission cost of trading those securities can be minimized.

Tier III - Individual stocks and bonds, thousands of mutual funds (load, no-load, and no-fee/no-load) from a multitude of fund families, and derivatives are available through the Plan's third party administrator. The various types of investments within Tier III are self-managed by the participants and are not separately classified by type of investment by the Plan's third party administrator. These self-managed stocks, bonds, mutual funds, covered call options and Exchange Traded Funds are presented on the statement of plan net position within the Tier III investments.

Investment Risk:

The Plan's investments are subject to several types of risk. As of September 30, 2023, the Plan did not have any investments subject to custodial credit risk or concentration of credit risk. Other types of risk are examined in more detail below:

a. **Interest Rate Risk**

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Plan's investment policy does not restrict investment maturities. As of September 30, 2023 the weighted average maturities of investments subject to interest rate risk are shown below (in thousands):

Investment Type	Fair Value/ Contract Value	Weighted Average Maturity (Years)
Stable Value Fund:		
Synthetic contracts*	$ 466,535	3.49
Common trust funds:		
State Street U.S. Bond Index Non-Lending Series Fund Class A	$ 200,410	8.56
BlackRock Government Short-Term Investment Fund	$ 44,030	0.07
Prudential High Yield Fund	$ 9,052	4.88
Mutual Funds:		
PIMCO Total Return Instl Fund	$ 21,078	8.44

*These investments are reported at contract value as disclosed in Note 2.

b. Credit Risk

Credit risk is the risk that an issuer or another counterparty to an investment will not fulfill its obligation. The Plan has an investment policy that limits its investment choices. The investment choices offered to participants are defined by tiers as described in the preceding paragraphs. As of September 30, 2023 the credit quality ratings of debt securities subject to credit risk (other than U.S. government securities) are shown below (in thousands):

Investment Type	Fair Value/ Contract Value	Duration	Rating	Rating Organization
Stable Value Fund:				
Synthetic contracts*	$ 466,535	Long-term	A to AAA	S&P
Common trust funds:				
State Street U.S. Bond Index Non-Lending Series Fund Class A	$ 200,410	Long-term	AA- to A+	S&P
BlackRock Government Short-Term Investment Fund	$ 44,030	Short-term	A-1 to A-1+	S&P
		Long-term	A to AA+	S&P
Prudential High Yield Fund	$ 9,052	Long-term	B- to AAA	S&P
Mutual Funds:				
PIMCO Total Return Instl Fund	$ 21,078	Intermediate	D to AAA	S&P

*These investments are reported at contract value as disclosed in Note 2.

c. Foreign Currency Risk

Foreign currency risk is the risk that investments in securities traded in foreign currencies or more directly in foreign currencies may decline in value relative to the U.S. dollar, which may reduce the value of the portfolio. The Plan does not have an investment policy addressing foreign currency risk. As of September 30, 2023 the following investments shown below were subject to foreign currency risk (in thousands):

Investment Type/Fund	Foreign Currency	Fair Value
Separate account		
Jennison Associates Large Cap Growth Equity Fund	Euro	$ 1,040

Fully Benefit Responsive Synthetic Guaranteed Investment Contract (SGIC):

As part of the Stable Value Fund, the Plan uses SGIC investment derivatives that invest in a portfolio of underlying securities and a benefit response wrap contract. The wrap contract produces a floating rate of return that is adjusted periodically, but not below zero, to reflect the underlying investment portfolio and generally provides for participant withdrawals at contract value (principal plus accrued interest). As of September 30, 2023, the fair value of the SGIC is shown below (in thousands):

		Fair Value
SGIC Components:		
Underlying investments	$	466,657
Wrap contract		*
Total	$	466,657

* The market value of the SGIC's underlying investments was higher than the SGIC's contract value; therefore, the wrap contract does not have a value.

Fair Value of Investments

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs reflect market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

The Plan categorizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

a. Level 1 debt and equity securities are valued using quoted prices in active markets for the actual or identical securities. Market price data is generally obtained from relevant exchanges or dealer markets.

b. Level 2 securities are valued using significant other observable securities.

c. Level 3 securities are valued using significant unobservable inputs.

The Plan has the following recurring fair value measurements as of September 30, 2023 shown below (in thousands):

		Fair Value Measurements Using		
	9/30/2023	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Mutual Funds	$ 219,167	$ 219,167		
Common trust funds	2,296,435	1,858,303	$ 438,133	
Tier III Investments*	60,771		60,771	
Stable Value Fund	466,535		466,535	
Voya Small Cap Growth Strategy Fund	24,268		24,268	
Jennison Associates Large Cap Growth Equity Fund	102,566		102,566	
Artisan U.S. Mid-Cap Growth Strategy Fund	27,030		27,030	
T. Rowe Price Mid-Cap Value Fund	29,122		29,122	
Total Investments by fair value	$ 3,225,895	$ 2,077,470	$ 1,148,425	$ -

*Tier III investments exclude cash held in participant accounts totaling approximately $5.4 million.

The fair value of debt and equity securities classified in Level 1 at September 30, 2023 were valued using prices quoted in active markets for those securities. The fair value of debt securities classified in Level 2 at September 30, 2023 was based on the value of their underlying investments, which include, but are not limited to, treasury bills, government and corporate bonds, mortgage backed securities, and asset backed securities.

The State Street S&P 500 Index Non-Lending Series Fund Class A, State Street S&P MidCap Index Non-Lending Series Fund Class A, and State Street Target Retirement Funds - Class P, within the common trust funds, are classified as Level 1. All other common trust funds, which are similar to mutual funds though not registered like mutual funds, are Level 2 because their fair value is determined by the fund manager based on the value of each underlying investment within their respective pooled investment account.

The fair value of the State Street Target Retirement Funds - Class P, within the common trust funds, was based on the units of the underlying funds that make up each Target Retirement fund, which may include, but are not limited to, the State Street S&P 500 Index Fund, State Street Russell Small/Mid Cap Index Fund, State Street Global All Cap Equity ex-U.S. Index Fund, State Street Bloomberg Roll Select Commodity Index Fund, State Street Developed Real Estate Securities Index Fund, State Street 1-10 Year U.S. TIPS Index Fund, and State Street government and corporate bond funds. The value of the Stable Value Fund was also based on the value of its underlying investments, which include a Synthetic GIC issued by Voya Retirement Insurance and Annuity Company and is classified as Level 2. The Jennison Associates Large Cap Growth Equity Fund, T. Rowe Price Mid-Cap Value Fund, Artisan U.S. Mid-Cap Growth Strategy Fund, and Voya Small Cap Growth Strategy Fund are classified as Level 2 because a portion of their value was based on assets held within State Street's Short-Term Investment Fund (STIF) for liquidity purposes. The Tier III investments are classified as Level 2 based on the value of its underlying investments, a portion of which are classified as Level 2.

The Plan does not contain any debt or equity securities classified in Level 3.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Plan's assessment of the significance of particular inputs to these fair value measurements requires judgement and considers factors specific to each asset or liability.