State of Michigan 401K Plan

Financial Report
September 30, 2025

State of Michigan 401K Plan

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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*

Michelle Lange, Director
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 401K Plan (Plan), a fiduciary fund of the State of Michigan, as of and for the fiscal year ended September 30, 2025 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 401K Plan as of September 30, 2025 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, 2025, 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.

As discussed in Note 4, the financial statements have been restated to correct a misstatement. 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.

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Doug A. Ringler, CPA, CIA
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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.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will also issue a report dated December 22, 2025 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 22, 2025

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents our discussion and analysis of the State of Michigan 401K Plan's (the Plan's) financial performance and provides an overview of the Plan's financial activities for the fiscal years ended September 30, 2025, and September 30, 2024. 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)	
	2025	2024
Plan Net Position	$ 13,859,836	$ 12,105,922 *
Net Investment income (loss)	$ 1,499,350	$ 2,345,204
Contributions - Employees	449,917	417,866
Contributions - Employers	584,397	531,533
Contributions - Transfers from other systems	29,647	29,368
Benefits paid	(316,825)	(269,797)
Refunds and payments to other systems	(474,734)	(387,052)
Other income and expenses - net	(17,837)	(15,001)
Net Increase (Decrease) in Plan Net Position	$ 1,753,915	$ 2,652,121

*The 2024 Plan Net Position balance was restated from the State of Michigan 401K Plan Financial Report for the fiscal year ended September 30, 2024. Information regarding the restatement can be found in Note 4 to the financial statements on page 32.

Overall Fund Structure and Objectives

The qualified Deferred Compensation Plan (the Plan) was originally established by the State of Michigan pursuant to Act 306, P.A. 1976, for the exclusive benefit of eligible employees and their beneficiaries. The State of Michigan originally adopted the Michigan State Employees Deferred Compensation Plan II on September 13, 1985, effective October 1, 1985. The Plan has been amended and restated since the Plan's original adoption and retitled as the "State of Michigan 401K Plan." It was last restated in its entirety, effective January 1, 2020, and the restated Plan was last amended on December 28, 2022, effective retroactively to 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 are 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 requires public school employers to make a 4% non-matching contribution to the 401K Plan effective October 1, 2017 for all Michigan Public School Employees' Retirement System (MPSERS) Defined Contribution participants hired on or after September 4, 2012, and changed the matching contribution formula for all MPSERS Defined Contribution participants hired on or after September 4, 2012 to a dollar-for-dollar match up to 3% of compensation effective February 1, 2018. Further, 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.

On November 29, 2023, the Governor signed Public Act 250 of 2023 into law. The legislation requires public school employees who first work for a reporting unit after June 30, 2024, and fail to make an election for any reason on or before the close of the 75-day election period to be considered to have made an election to become a Pension Plus 2 member.

Asset Allocation

The Bureau of Investments, Department of Treasury, in consultation with the Michigan 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 401K 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 2025, the S&P 500 was up 17.60%, the Dow Jones Industrial Average (the Dow) was up 11.50%, and the NASDAQ was up 25.42%. Other common indices that finished the fiscal year in positive territory included the Russell 2000 at 10.76%; Morgan Stanley Capital International (MSCI) Europe, Australasia, and the Far East (EAFE) at 14.99%; MSCI Emerging Markets at 17.32%; Bloomberg U.S. Corporate High Yield Index at 7.41%; and the Bloomberg U.S. Aggregate Bond Index at 2.88%.

The global economy remains in a solid expansion with countries in various phases of the business cycle amid a variety of fiscal, monetary, and trade policy crosscurrents. The U.S. demonstrated a mix of cycle dynamics, including improving corporate profits and credit conditions, while other areas such as labor markets softened. China and Europe experienced signs of improved cyclical momentum and many regions continued to ease monetary conditions, but the global policy backdrop remained unsettled. Outside the U.S., countries have exhibited various policies to support domestic growth. European investor sentiment continued to improve off weak levels amid fiscal and monetary support, while Japanese corporate governance reforms have provided a multiyear tailwind for corporate profitability and equity markets. China has tilted some of its policy support in favor of consumption and its equity market, while financial conditions and industrial activity remain in decent shape.

Downside risks to employment are rising as labor market indicators softened during the third quarter, although most remain historically tight. Slower immigration and weak demographics restricted labor supply and lowered the number of new jobs required to keep the unemployment rate from rising. Despite the lower threshold, labor demand weakened enough to raise the unemployment rate.

Consumers enjoyed record-high exposure to equities throughout the third quarter as the stock market hit all-time highs. Households' strong balance sheets allowed for stable consumption spending despite softer labor conditions. The gains from wealth remained uneven, with high earners and older cohorts holding the majority share, and an aging population with concentrated wealth implies the economy may be more susceptible than in the past to swings in asset prices. The average U.S. tariff rate remained at 90-year highs through the third quarter of 2025, a steep rise from less than 3% at the beginning of the year.

The boom in AI-related business investment, led by massive outlays by large tech companies, contributed more than half of U.S. domestic GDP growth over the past year. Capex trends in other industries and smaller businesses remained muted, with business-friendly tax cuts and deregulatory policies confronting headwinds from tariff and policy uncertainty.

The market remains optimistic that companies can achieve higher profit margins and double-digit earnings growth in both 2025 and 2026, and this outlook may at least partially hinge on companies' ability to pass along higher costs to consumers.

Tax cuts approved via the One Big Beautiful Bill Act in the third quarter will likely provide a modest cyclical lift to the economy and a pronounced boost to business cash flows and profits over the next 12–18 months. That legislation also locked in a continuation of large fiscal deficits over the next decade, with an expectation of rising interest payments on the debt.

The market expects the Fed to continue easing monetary policy into 2026 and beyond. The yield curve has steepened significantly over the past year, and concerns over sticky inflation, elevated fiscal deficits, and political influence on Fed decision-making may keep long-term interest rates elevated and challenge the Fed's ability to influence the economy.

Source: Fidelity Quarterly Market Update: Third Quarter 2025, 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 Michigan 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, 2025

	State of Michigan Defined Contribution and Deferred Compensation Retirement Fund	Public School Defined Contribution Fund	Education Achievement Authority Defined Contribution Fund	Total
Assets				
Equity in Common Cash	$ 1,075	$ 9,286	$ 46	$ 10,408
Participant-directed investments				
at fair value/contract value (Note 3)				
Mutual funds	$ 825,097	$ 12,678		$ 837,774
Common trust funds	9,057,961	1,648,840	$ 5,321	10,712,121
Tier III investments	390,855	21,911	73	412,839
Stable Value Fund	612,686	5,394	37	618,118
Voya Small Cap Growth Strategy Fund	133,069	2,951		136,020
Jennison Associates Large Cap Growth Equity Fund	572,439	16,113	49	588,602
Artisan U.S. Mid-Cap Growth Strategy Fund	119,345	3,957		123,303
Ceredex Small-Cap Value Equity Fund	55,457	1,251		56,708
T. Rowe Price Mid-Cap Value Fund	142,647	4,530	4	147,181
Total participant-directed investments	$ 11,909,556	$ 1,717,625	$ 5,484	$ 13,632,665
Receivables:				
Participant loans	$ 160,927			$ 160,927
Amounts due from employees	24,823			24,823
Amounts due from employer	17,177	$ 15,374		32,551
Other receivable	288	262		550
Total receivables	$ 203,216	$ 15,636		$ 218,852
Total assets	$ 12,113,846	$ 1,742,547	$ 5,531	$ 13,861,925
Liabilities				
Accounts Payable	$ 2,088			$ 2,088
Total liabilities	$ 2,088			$ 2,088
Plan Net Position	$ 12,111,758	$ 1,742,547	$ 5,531	$ 13,859,836

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, 2025

Additions to Net Position	State of Michigan Defined Contribution and Deferred Compensation Retirement Fund	Public School Defined Contribution Fund	Education Achievement Authority Defined Contribution Fund	Total
Investment income (loss):				
Interest and Dividends	$ 42,904	$ 380	$ 1	$ 43,286
Net increase (decrease)				
in fair value of investments	1,251,498	203,926	640	1,456,064
Total investment income (loss)	$ 1,294,402	$ 204,306	$ 641	$ 1,499,350
Contributions:				
Employees	$ 449,917			$ 449,917
Employers	345,574	$ 238,823		584,397
Transfers from other systems	23,989	5,658		29,647
Total contributions	$ 819,480	$ 244,481		$ 1,063,960
Miscellaneous income	$ 3,126	$ 1,292	$ 5	$ 4,423
Total additions	$ 2,117,008	$ 450,079	$ 646	$ 2,567,734
Deductions from Net Position				
Benefits paid to participants	$ 293,552	$ 23,215	$ 58	$ 316,825
Administrative and investment expenses	17,607	4,646	7	22,260
Refunds and payments to other systems	430,738	43,869	127	474,734
Total deductions	$ 741,897	$ 71,730	$ 192	$ 813,819
Net increase (Decrease) in Net Position	$ 1,375,112	$ 378,349	$ 454	$ 1,753,915
Plan Net Position				
Beginning of fiscal year	$ 10,776,821	$ 1,364,198	$ 5,077	$ 12,146,096
Restatements*	(40,174)			(40,174)
End of fiscal year	$ 12,111,758	$ 1,742,547	$ 5,531	$ 13,859,836

*Information regarding the restatements can be found in Note 4 to the financial statements on page 32.

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

NOTE 1 – GENERAL DESCRIPTION OF THE PLAN

The State of Michigan 401K Plan (the Plan) is a deferred compensation fund and a defined contribution retirement fund sponsored by the State of Michigan. The Plan is considered part of the State's reporting entity and is included in the *State of Michigan Annual Comprehensive Financial Report* as a pension (and other employee benefit) trust fund. The Michigan 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 State of Michigan originally adopted the Michigan State Employees Deferred Compensation Plan II on September 13, 1985, effective October 1, 1985, pursuant to Act 306, P.A. 1976, for the exclusive benefit of eligible employees and their beneficiaries. The Plan was amended as of March 31, 1997, to implement a defined contribution retirement fund. 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. The restated Plan Document was last amended effective January 1, 2020. As of September 30, 2025, the Plan included 78,136 State of Michigan participants, 151,624 Michigan public school participants (676 participating employers), and 270 participants of the former Educational Achievement Authority (EAA).

Eligibility

The following employees are eligible to participate in the 401K deferred compensation fund on the first day of employment:

- State of Michigan employees hired before March 31, 1997 (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),

- Judges elected before March 31, 1997, and
- Michigan State Police hired prior to June 10, 2012.

The following employees are eligible to participate in the defined contribution retirement fund as of the first day of employment:

- State of Michigan employees hired on or after March 31, 1997 (except the Adjutant General and Assistant Adjutant General, per diem workers who receive no taxable wages, working patients of a mental health facility, and individuals receiving only military subsistence payments),
- State of Michigan employees hired prior to March 31, 1997, who irrevocably elected to forgo participation in the State's defined benefit pension plan,
- 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 elected on or after March 31, 1997,
- Judges elected prior to March 31, 1997, who irrevocably elected to forgo participation in the State's defined benefit pension plan,
- Michigan State Police hired on or after June 10, 2012,
- Public school employees hired on or after July 1, 2010,
- Public school employees hired prior to July 1, 2010, who either elected the Personal Healthcare Fund (PHF) or irrevocably elected to forgo participation in the defined benefit pension plan,
- All other public school employees hired prior to July 1, 2010, but only for discretionary matching contributions or qualified rollover contributions or transfers, and
- Former Education Achievement Authority employees (no new contributions).

Contributions

In accordance with Section 401(k) 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).

Also, for State of Michigan employees and judges participating in the defined contribution retirement fund and who are not covered by the State's defined benefit pension plans, the Plan provides for the State of Michigan to make a mandatory (i.e., non-matching) contribution of 4.0% plus a matching contribution on up to 3.0% of each participant's compensation. The State does not make matching contributions for employees in the deferred compensation component of the Plan.

The Plan also provides for public school reporting units and the Michigan State Police to make a mandatory contribution of 50% of eligible hybrid plan participants' voluntary contributions up to 1% of compensation. Additionally, effective February 1, 2018, the Plan provides for the public school reporting units to make a matching contribution of 100% of Defined Contribution participants' voluntary contributions up to 3% of compensation. 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.

Finally, the Plan provides for the PHF for State of Michigan employees hired on or after January 1, 2012, Michigan public school employees hired on or after September 4, 2012, Michigan State Police hired on or after June 10, 2012, and the Michigan National Guard Adjutant General and Assistant Adjutant Generals hired on or after January 1, 2011, to account for employee contributions and an employer match on up to 2% of compensation. The PHF employer match for Troopers and Sergeants of the Michigan State Police who were originally hired on or after June 10, 2012, was increased from 2% to 3% effective June 26, 2022, under a new Collective Bargaining Agreement that became effective on June 24, 2022.

State of Michigan employees who were hired after March 31, 1997, but prior to January 1, 2012, and who opted out of the graded premium benefit receive an employer match on up to 2% of compensation plus a monetized amount for existing years of service upon terminating employment. Public school employees who were hired prior to September 4, 2012, and who opted out of the graded premium benefit also receive a PHF employer match on up to 2% of compensation.

Contributions from Other Systems

Active employees or former employees may roll over money from another 401K plan, 401(a) plan, 403(b) plan, or traditional individual retirement accounts (IRAs) into their account in the Plan, or from a 457 Plan if severed from employment more than twelve (12) months and have maintained a 401k 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; the employer contributions, if applicable; 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. All participants are vested in their employer contributions and related earnings or losses based on years of service. A participant is 50% vested upon attaining two years of service credit, 75% vested upon attaining three years, and 100% vested upon attaining four years. A year of service for State of Michigan participants, judges and Michigan State Police is defined as 2,080 hours, whereas a year of service for public school and EAA participants is defined as 1,020 hours in a school fiscal year.

Loans to Participants

State of Michigan participants may borrow from their vested 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 2025 defaulted loans totaled $6.5 million for participants in the State of Michigan 401K Defined Contribution Retirement Fund.

Payment of Benefits

Participants may, but are not required to, withdraw their vested 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 vested 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 non-vested accounts totaled $31.4 million on September 30, 2025. Section 401(a)(2) of the Internal Revenue Code restricts the State from recapturing any contributions made to the Plan. Accordingly, 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 determination on October 17, 2014, that the Plan constitutes a qualified trust under Section 401(a) of the Internal Revenue Code. Although the Plan may be subsequently amended and restated, management believes that the Plan will continue to operate as a qualified 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 401K 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, Ceredex Small-Cap Value Equity 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 Michigan 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 401K 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 Fund – Class P, and State Street Target Retirement Funds - Class P ranging in retirement dates from 2025 through 2070. All of the BlackRock funds employ the unitized accounting method.

Tier II - American Funds EUPAC Fund R6 and Dodge & Cox Stock X Fund are mutual funds that employs the traditional share accounting method in which dividends are directly applied to participant accounts. The Prudential High Yield Fund and PIMCO Total Return Collective Trust are common trust funds that also employ the traditional share accounting method. 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, T. Rowe Price Mid-Cap Value Fund, and Ceredex Small-Cap Value Equity 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 from Charles Schwab & Co., Inc. (Schwab) through the Plan's recordkeeper. The various types of investments within Tier III are self-managed by the participants and are not separately classified by type of investment by Schwab or the Plan's recordkeeper. These self-managed stocks, bonds, mutual funds, covered call options and Exchange Traded Funds are presented on the Statement of Plan Fiduciary Net Position within the Tier III investments.

Investment Risk:

The Plan's investments are subject to several types of risk. As of September 30, 2025, 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, 2025, 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*	$ 618,118	3.00
Common trust funds:		
State Street U.S. Bond Index Non-Lending Series Fund Class A	$ 1,209,288	8.18
BlackRock Government Short-Term Investment Fund	$ 294,258	0.09
PIMCO Total Return Collective Trust	$ 140,994	11.54
Prudential High Yield Fund	$ 43,979	3.69

*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, 2025, 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*	$	618,118	Long-term	A to AAA	S&P
Common trust funds:					
State Street U.S. Bond Index Non-Lending Series Fund Class A	$	1,209,288	Long-term	Baa to Aaa	Moody's
BlackRock Government Short-Term Investment Fund	$	294,258	Short-term	A-1 to A-1+	S&P
			Long-term	A to AA+	S&P
PIMCO Total Return Collective Trust	$	140,994	Intermediate	CCC to AAA	S&P
Prudential High Yield Fund	$	43,979	Long-term	Below B 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, 2025, the 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	$ 3,575
T. Rowe Price Mid-Cap Value Fund	Euro	$ 1,505
T. Rowe Price Mid-Cap Value Fund	Canadian Dollar	$ 1,137

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 responsive 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 provide for participant withdrawals at contract value (principal plus accrued interest). As of September 30, 2025, the fair value of the SGIC is shown below (in thousands):

		Fair Value
SGIC Components:		
Underlying investments	$	618,227
Wrap contract		*
Total	$	618,227

* 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, 2025, shown below (in thousands):

		Fair Value Measurements Using		
	9/30/2025	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	$ 837,774	$ 837,774		
Common trust funds	10,712,121	7,813,366	$ 2,898,755	
Tier III Investments*	382,309		382,309	
Stable Value Fund	618,118		618,118	
Voya Small Cap Growth Strategy Fund	136,020		136,020	
Jennison Associates Large Cap Growth Equity Fund	588,602	588,602		
Artisan U.S. Mid-Cap Growth Strategy Fund	123,303		123,303	
Ceredex Small-Cap Value Equity Fund	56,708		56,708	
T. Rowe Price Mid-Cap Value Fund	147,181		147,181	
Total Investments by fair value	$ 13,602,135	$ 9,239,742	$ 4,362,393	$ -

*Tier III investments exclude cash held in participant accounts totaling approximately $30.5 million.

The fair value of debt and equity securities classified in Level 1 at September 30, 2025, were valued using prices quoted in active markets for those securities. The fair value of debt securities classified in Level 2 at September 30, 2025, 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.

All mutual funds are Level 1. The PIMCO Total Return Collective Trust, 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 also 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 Developed Real Estate Securities Index Fund, State Street Bloomberg Enhanced Roll Yield Total Return Index Commodity Fund, State Street 1-10 Year U.S. TIPS Index Fund, and State Street government and corporate bond index 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 T. Rowe Price Mid-Cap Value Fund, Artisan U.S. Mid-Cap Growth Strategy Fund, Voya Small Cap Growth Strategy Fund, and Ceredex Small-Cap Value Equity 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. Jennison Associates Large Cap Growth Equity Fund is Level 1 because the STIF holdings as of September 30, 2025, were insignificant. 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.

NOTE 4 – ACCOUNTING RESTATEMENT

The 401k State of Michigan Defined Contribution and Deferred Compensation Retirement Fund had over reported contributions due from employers in fiscal year 2024. This error resulted in an overstatement of the amounts due from employer current and long term, employer contributions, and plan net position. The fiscal year 2025 beginning net position for the State of Michigan Defined Contribution and Deferred Compensation Retirement Fund was restated by $40.2 million from $10.8 billion to $10.7 billion to reflect this error correction.