The Northwestern Mutual Life Insurance Company

Financial Statements and Supplementary Information
December 31, 2020, 2019 and 2018

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Report of Independent Auditors

To the Board of Trustees of
The Northwestern Mutual Life Insurance Company

We have audited the accompanying statutory financial statements of The Northwestern Mutual Life Insurance Company (the "Company"), which comprise the statutory statements of financial position as of December 31, 2020 and 2019, and the related statutory statements of operations, changes in surplus and cash flows for each of the three years in the period ended December 31, 2020.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin. Management is also responsible 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements 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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the financial statements, the financial statements are prepared by the Company on the basis of the accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the statutory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2020 and 2019, or the results of its operations or its cash flows for each of the three years in the period ended December 31, 2020.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in accordance with the accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin described in Note 1.

PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
February 15, 2021

The Northwestern Mutual Life Insurance Company
Statements of Financial Position
(in millions)

	December 31, 2020	December 31, 2019
Assets:		
Bonds	$ 166,324	$ 159,760
Mortgage loans	41,568	39,771
Policy loans	17,686	17,829
Common and preferred stocks	5,083	4,677
Real estate	2,959	2,872
Other investments	24,942	20,962
Cash and short-term investments	3,239	2,408
Total investments	261,801	248,279
Due and accrued investment income	2,522	2,057
Net deferred tax assets	2,305	1,609
Deferred premium and other assets	3,692	3,541
Separate account assets	38,447	34,832
Total assets	$ 308,767	$ 290,318
Liabilities and surplus:		
Policy benefit reserves	$ 222,225	$ 211,100
Policyowner dividends payable	6,220	5,995
Interest maintenance reserve	2,355	979
Asset valuation reserve	7,362	6,203
Income taxes payable	231	129
Other liabilities	6,970	6,864
Separate account liabilities	38,447	34,832
Total liabilities	283,810	266,102
Surplus:		
Surplus notes	3,573	3,568
Unassigned surplus	21,384	20,648
Total surplus	24,957	24,216
Total liabilities and surplus	$ 308,767	$ 290,318

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

The Northwestern Mutual Life Insurance Company
Statements of Operations
(in millions)

	For the years ended December 31,		
	2020	2019	2018
Revenue:			
Premiums	$ 19,323	$ 19,010	$ 18,036
Net investment income	11,078	10,149	9,791
Other income	723	696	655
Total revenue	31,124	29,855	28,482
Benefits and expenses:			
Benefit payments to policyowners and beneficiaries	11,736	11,515	11,436
Net additions to policy benefit reserves	9,527	9,451	8,079
Net transfers from separate accounts	(680)	(783)	(497)
Total benefits	20,583	20,183	19,018
Commissions and operating expenses	3,502	3,306	3,230
Total benefits and expenses	24,085	23,489	22,248
Gain from operations before dividends and taxes	7,039	6,366	6,234
Policyowner dividends	6,235	5,999	5,634
Gain from operations before taxes	804	367	600
Income tax expense (benefit)	277	(199)	(159)
Net gain from operations	527	566	759
Net realized capital (losses) gains	(102)	702	24
Net income	$ 425	$ 1,268	$ 783

The Northwestern Mutual Life Insurance Company
Statements of Changes in Surplus
(in millions)

	For the years ended December 31,		
	2020	2019	2018
Beginning of year balance	$ 24,216	$ 22,134	$ 20,851
Net income	425	1,268	783
Change in net unrealized capital gains and losses	799	1,141	(126)
Change in net deferred tax assets	807	(130)	(76)
Change in nonadmitted assets	228	(143)	169
Change in asset valuation reserve	(1,159)	(1,606)	(263)
Change in surplus notes	5	620	-
Other surplus changes	(364)	932	796
Net increase in surplus	741	2,082	1,283
End of year balance	$ 24,957	$ 24,216	$ 22,134

The Northwestern Mutual Life Insurance Company
Statements of Cash Flows
(in millions)

	For the years ended December 31,		
	2020	2019	2018
Cash flows from operating activities:			
Premiums and other income received	$ 13,808	$ 13,864	$ 13,252
Investment income received	10,036	9,518	9,202
Benefit and dividend payments to policyowners and beneficiaries	(10,537)	(10,660)	(10,513)
Net transfers from separate accounts	664	770	496
Commissions, expenses and taxes paid	(3,809)	(3,268)	(2,699)
Net cash provided by operating activities	10,162	10,224	9,738
Cash flows used in investing activities:			
Proceeds from investments sold or matured:			
Bonds	60,747	41,841	33,279
Mortgage loans	3,301	3,078	3,167
Common and preferred stocks	4,046	5,461	4,886
Real estate	468	941	23
Other investments	3,063	2,235	2,831
Subtotal proceeds from investments	71,625	53,556	44,186
Cost of investments acquired:			
Bonds	(64,976)	(47,219)	(40,797)
Mortgage loans	(5,008)	(6,048)	(4,314)
Common and preferred stocks	(4,075)	(3,832)	(4,857)
Real estate	(478)	(841)	(168)
Other investments	(7,537)	(5,634)	(4,515)
Subtotal cost of investments acquired	(82,074)	(63,574)	(54,651)
Net inflows of policy loans	492	168	35
Net cash applied to investing activities	(9,957)	(9,850)	(10,430)
Cash flows from financing and miscellaneous sources:			
Surplus notes issuance	-	596	-
Net inflows (outflows) on deposit-type contracts	724	(232)	(350)
Other cash (applied) provided	(98)	(229)	472
Net cash provided by financing and miscellaneous sources	626	135	122
Net increase (decrease) in cash and short-term investments	831	509	(570)
Cash and short-term investments, beginning of year	2,408	1,899	2,469
Cash and short-term investments, end of year	$ 3,239	$ 2,408	$ 1,899

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

The Northwestern Mutual Life Insurance Company
Statements of Cash Flows (supplemental)
(in millions)

	For the years ended December 31,		
	2020	2019	2018
Supplemental disclosures of cash flow information			
Non-cash operating, investing and financing and miscellaneous sources not included in the statements of cash flows:			
Operating:			
Dividends used to pay premiums and loans	$ 5,779	$ 5,453	$ 5,149
Capitalized interest and payment in-kind investment income	895	870	776
Other policyowner contract activity	268	245	226
Employee benefit and compensation plan expenses	100	155	128
Investing:			
Bond refinancings and exchanges	3,652	13,075	2,116
Mortgage loan refinancings and transfers	520	731	1,377
Net policy loan activity	285	316	295
Other invested asset exchanges	163	270	103
Common stock exchanges	22	105	144
Net premium loan activity	113	125	139
Net asset transfers with affiliated entities	434	199	138
Financing and Miscellaneous:			
Deposit-type contract deposits and interest credited	556	505	391
Surplus note exchange	5	24	-

1. Basis of Presentation

The accompanying statutory financial statements include the accounts of The Northwestern Mutual Life Insurance Company (the Company). The Company offers life, annuity and disability insurance products to the personal, business and estate markets throughout the United States of America.

In March 2020, the World Health Organization declared COVID-19, the disease caused by the novel coronavirus, a pandemic. The impact of COVID-19 has not significantly affected the Company's financial results during 2020. The economic environment and other potential impacts of COVID-19 will continue to be monitored by the Company.

As part of an affiliated reinsurance agreement, the Company assumes the risks associated with the long-term care policies issued by its wholly-owned subsidiary, Northwestern Long Term Care Insurance Company (NLTC). See Note 9 for more information regarding reinsurance and its impacts on the Company's financial statements.

These financial statements were prepared in accordance with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin (statutory basis of accounting or SAP), which are based on the *Accounting Practices and Procedures Manual* of the National Association of Insurance Commissioners (NAIC). Financial statements prepared on the statutory basis of accounting differ from financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP), primarily because on a GAAP basis: (1) certain policy acquisition costs are deferred and amortized, (2) most bond and preferred stock investments are reported at fair value, (3) policy benefit reserves are established using different actuarial methods and assumptions, (4) deposit-type contracts, for which premiums, benefits and reserve changes are not included in revenue or benefits as reported in the statements of operations, are defined differently, (5) majority-owned subsidiaries are consolidated, (6) changes in deferred taxes are reported as a component of net income, (7) no deferral of realized investment gains and losses is permitted and (8) "nonadmitted" assets, required for the statutory basis of accounting, are included in total assets. The effects on the Company's financial statements attributable to the differences between the statutory basis of accounting and GAAP are material.

2. Summary of Significant Accounting Policies

The preparation of financial statements in accordance with the statutory basis of accounting requires the Company to make estimates or assumptions about the future that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the annual periods presented. Actual future results could differ from these estimates and assumptions.

Investments
See Notes 3, 4 and 14 regarding the statement value and fair value of the Company's investments in bonds, mortgage loans, common and preferred stocks, real estate and other investments, including derivative instruments.

Policy Loans
Policy loans represent amounts borrowed from the Company by life insurance and annuity policyowners, secured by the cash value of the related policies. Policy loans earn interest at either a fixed or variable rate, based on either an election that is made by the policyowner when applying for their policy or, for certain policies, as specified by the contract. If a variable rate is elected or specified by the contract, the rate will be reset annually. Policy loans are reported at the unpaid principal balance, which approximates fair value.

Cash and Short-term Investments
Short-term investments include securities that had maturities of one year or less at purchase, primarily money market funds and short-term commercial paper. These investments are reported at amortized cost, which approximates fair value.

Separate Accounts
Separate account assets and related reserve liabilities represent the segregation of balances attributable to variable life insurance and variable annuity products, as well as a group annuity separate account used to fund certain of the Company's employee and financial representative benefit plan obligations. All separate account assets are legally insulated from claims by the Company's general account policyowners and creditors. Variable product policyowners bear the investment performance risk associated with these products. Separate account assets related to variable products are invested at the direction of the policyowner in a variety of mutual fund options. Variable annuity policyowners also have the option to invest in fixed-rate investment options, which are supported by the assets held in the Company's general account. Separate account assets are generally reported at fair value primarily based on quoted market prices for the underlying investment securities. See Note 7 and Note 14 for more information regarding the Company's separate accounts and Note 8 for more information regarding the Company's employee and financial representative benefit plans.

Policy Benefit Reserves
Policy benefit reserves generally represent the net present value of future policy benefits less future policy premiums, calculated using actuarial methods, mortality and morbidity experience tables and valuation interest rates prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin (OCI). These actuarial tables and methods include assumptions regarding future mortality and morbidity experience. Actual future experience could differ from the assumptions used to make these reserve estimates. Deposit funds, which include liabilities for funding agreements, supplementary contracts and income annuities without life contingencies, and amounts left on deposit with the Company by beneficiaries or policyowners, are also included within policy benefit reserves. See Note 5 and Note 14 for more information regarding the Company's policy benefit reserves.

Policyowner Dividends
All life and disability insurance policies and certain annuity policies issued by the Company are participating. All long-term care insurance policies issued by NLTC are also participating. Annually, the Company's Board of Trustees (at its discretion) approves the amount and allocation, if any, of dividends among groups of policies issued by the Company, based on management's recommendation. The payment of dividends on any particular policy is not guaranteed. Dividends are accrued and charged to operations when approved. The liability for policyowner dividends includes the estimated amount of annual and termination dividends. Termination dividends are additional dividends payable on whole life policies upon surrender, maturity or, for policies issued in one state, death. Depending on the type of policy they own, participating policyowners generally have the option to receive their dividends in cash, or use them as follows: reduce future premiums due, purchase additional insurance benefits, repay policy loans, or leave them on deposit with the Company to accumulate interest. Dividends used by policyowners to purchase additional insurance benefits or pay premiums are reported as premiums in the statements of operations but are not included in premiums received or benefit and dividend payments to policyowners and beneficiaries in the statements of cash flows. The Company's annual approval and declaration of policyowner dividends includes a guarantee of a minimum aggregate amount of annual dividends to be paid to policyowners as a group in the subsequent calendar year. If this guaranteed amount is greater than the aggregate of annual dividends paid to policyowners in the subsequent year, the difference is paid in the immediately succeeding calendar year. The fact that the Company guarantees a minimum aggregate payment of annual dividends in one year does not obligate the Company to declare a dividend in future years or to guarantee any portion of dividends that may be declared in future years.

Interest Maintenance Reserve
The Company is required to maintain an interest maintenance reserve (IMR). The IMR is used to defer realized capital gains and losses, net of any income tax, on fixed income investments and derivatives that are attributable to changes in market interest rates, including both changes in risk-free market interest rates and market credit spreads. Net realized capital gains and losses deferred to the IMR are amortized into net investment income over the estimated remaining term to maturity of the investment sold or the asset/liability hedged by an interest rate-related derivative instrument.

Asset Valuation Reserve
The Company is required to maintain an asset valuation reserve (AVR). The AVR represents a reserve for invested asset valuation using a formula prescribed by the NAIC. The AVR is intended to protect surplus by absorbing declines in the value of the Company's investments that are not related to changes in interest rates. Increases or decreases in the AVR are reported as direct adjustments to surplus in the statements of changes in surplus.

Premium Revenue
Most life insurance premiums are recognized as revenue at the beginning of each respective policy year. Universal life insurance and annuity premiums are recognized as revenue when received. Considerations received on supplementary contracts and income annuities without life contingencies are deposit-type transactions and are excluded from revenue in the statements of operations. Disability and long-term care insurance premiums are recognized as revenue when due. Premium revenue is reported net of ceded reinsurance. See Note 9 for more information regarding the Company's use of reinsurance.

Net Investment Income
Net investment income primarily represents interest, dividends and prepayment fees received or accrued on bonds, mortgage loans, common and preferred stocks, policy loans and other investments. Net investment income also includes dividends and distributions paid to the Company from the accumulated earnings of joint ventures, partnerships and unconsolidated non-insurance subsidiaries. Net investment income is reduced by investment management expenses, real estate depreciation, interest costs associated with securities lending and repurchase agreements and interest expense related to the Company's surplus notes. See Note 3 for more information regarding net investment income and repurchase agreements and Note 13 for more information regarding the Company's surplus notes.

Other Income
Other income primarily represents ceded reinsurance expense allowances and various insurance policy charges. Ceded reinsurance expense allowances are recognized as revenue when due. See Note 9 for more information regarding the Company's use of reinsurance.

Benefit Payments to Policyowners and Beneficiaries
Benefit payments to policyowners and beneficiaries include death, surrender, maturity, disability and long-term care benefits, as well as payments on supplementary contracts and income annuities that include life contingencies. Benefit payments on supplementary contracts and income annuities without life contingencies are deposit-type transactions and are excluded from benefits in the statements of operations. Benefit payments are reported net of ceded reinsurance recoveries. See Note 9 for more information regarding the Company's use of reinsurance.

Commissions and Operating Expenses
Commissions and other operating expenses, including costs of acquiring new insurance policies, are generally charged to expense as incurred.

Federal Income Taxes
Current federal income taxes are charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year and any adjustments to such

estimates from prior years. Deferred tax assets and liabilities represent the future tax recoveries or obligations associated with the accumulation of temporary differences between the tax and financial statement bases of the Company's assets and liabilities. Changes in deferred tax assets and liabilities related to unrealized capital gains and losses on investments are included in changes in net unrealized capital gains and losses in the statements of changes in surplus. Other net changes in deferred tax assets and liabilities are reported as direct adjustments to surplus in the statements of changes in surplus.

The statutory basis of accounting limits the amount of gross deferred tax assets that can be admitted to surplus to those for which ultimate recoverability can be demonstrated. This limit is based on a calculation that considers available tax loss carryback and carryforward capacity, the expected timing of reversal for accumulated temporary differences, gross deferred tax liabilities and the level of Company surplus.

A "more likely than not" standard is applied for financial statement recognition of contingent tax liabilities, whereby a liability is recorded only if the Company believes that there is a greater than 50% likelihood that the related tax position will not be sustained upon examination. In cases where liability recognition is appropriate, a best estimate of the ultimate tax liability is made. If this estimate represents 50% or less of the total amount of the tax contingency, the best estimate is established as a liability. If this best estimate represents more than 50% of the total tax contingency, the total amount is established as a liability. Changes in contingent tax liabilities are included in income tax benefit in the year that such determination is made by the Company. The Company reports interest accrued or released related to contingent tax liabilities in current income taxes or tax benefit.

See Note 10 for more information on the Company's income taxes.

Information Technology Equipment and Software
The cost of information technology (IT) equipment and operating system software is generally capitalized and depreciated over three years using the straight-line method. Non-operating system software is generally capitalized and depreciated over a maximum of five years using the straight-line method. IT equipment and operating software assets of $27 million and $31 million at December 31, 2020 and 2019, respectively, are included in other assets in the Statements of Financial Position and are net of accumulated depreciation of $42 million and $428 million, respectively. Non-operating software costs, net of accumulated depreciation, are nonadmitted assets and thereby excluded from assets and surplus in the statements of financial position. These amounts were $388 million and $357 million at December 31, 2020 and 2019, respectively. Depreciation expense for IT equipment and software totaled $153 million, $146 million and $134 million for the years ended December 31, 2020, 2019 and 2018, respectively.

Furniture, Fixtures and Equipment
The cost of furniture, fixtures and equipment, including leasehold improvements, is generally capitalized and depreciated over the useful life of the assets using the straight-line method. Furniture, fixtures and equipment, net of accumulated depreciation, are nonadmitted assets and thereby excluded from assets and surplus in the statements of financial position. These amounts were $117 million and $130 million at December 31, 2020 and 2019, respectively. Depreciation expense for furniture, fixtures and equipment totaled $14 million, $16 million and $16 million for the years ended December 31, 2020, 2019 and 2018, respectively.

Corporate Owned Life Insurance
Through a wholly-owned subsidiary, the Company indirectly holds corporate-owned life insurance ("COLI") to provide protection against key-person risk for certain qualified employees and to help fund certain future employee benefit expenses. See Note 3 for more information regarding COLI.

Nonadmitted Assets
Certain assets are designated as nonadmitted on the statutory basis of accounting. Such assets, principally related to defined benefit pension funding, amounts advanced to or due from the Company's financial representatives, furniture, fixtures, equipment and non-operating software (net of accumulated depreciation), derivatives, and certain equity-method investments for which audits are not performed are excluded from assets and surplus in the statements of financial position. Changes in nonadmitted assets are reported as a direct adjustment to surplus in the statements of changes in surplus.

Foreign Currency Translation
All of the Company’s insurance operations are conducted in the United States of America on a U.S. dollar-denominated basis. The Company invests in bonds, mortgage loans, equities, and other investments denominated in foreign currencies. Investments denominated in a foreign currency are remeasured to U.S. dollars at each reporting date using then-current foreign currency exchange rates. Translation gains or losses relating to fluctuations in exchange rates are reported as a change in net unrealized capital gains and losses until the related investment is sold, determined to be other-than-temporarily impaired or matures, at which time a realized capital gain or loss is reported. Transactions denominated in a foreign currency, such as receipt of foreign-denominated interest or dividends, are remeasured to U.S. dollars based on the actual exchange rate at the time of the transaction. See Note 4 for more information regarding the Company’s use of derivatives to mitigate exposure to fluctuations in foreign currency exchange rates.

Subsequent Events
The Company has evaluated events subsequent to December 31, 2020 through February 15, 2021, the date these financial statements were available to be issued. Based on this evaluation, it is the Company’s opinion that other than described below, no other events subsequent to December 31, 2020 have occurred that are material to the Company’s financial position at that date or the results of its operations for the year then ended.

During January 2021, the Company issued a $750 million funding agreement as part of a funding agreement-backed note (FABN) program, first established in December 2020. See Note 5 for more information regarding the Company’s FABN program.

3. Investments

Bonds
The Securities Valuation Office (SVO) of the NAIC Investment Analysis Office evaluates the credit quality of the Company’s bond investments and issues related credit ratings. Bonds rated at "1" (highest quality), "2" (high quality), "3" (medium quality), “4” (low quality) or “5” (lower quality) are reported in the financial statements at amortized cost less any other-than-temporary impairment. Bonds rated “6” (lowest quality) are reported at the lower of amortized cost or fair value. SVO-identified exchange-traded fund investments are reported at fair value. The interest method is used to amortize any purchase premium or discount, including estimates of future prepayments that are obtained from independent sources. Prepayment assumptions are updated at least annually, with the retrospective method used to adjust net investment income for changes in the estimated yield to maturity.

The disclosure of fair value for bonds is primarily based on independent pricing services or internally-developed pricing models utilizing observable market data. See Note 14 for more information regarding the fair value of the Company’s investments in bonds.

Statement value and fair value of bonds at December 31, 2020 and 2019, summarized by asset categories required in the NAIC Annual Statement, were as follows:

December 31, 2020	Reconciliation to Fair Value			
	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
U.S. Government	$ 2,755	$ 168	$ (1)	$ 2,922
States, territories and possessions	603	153	-	756
Special revenue and assessments	18,643	1,145	(4)	19,784
All foreign governments	4,927	577	(4)	5,500
Hybrid securities	976	69	(4)	1,041
SVO-identified funds	401	-	-	401
Industrial and miscellaneous	138,019	15,269	(258)	153,030
Total bonds	$ 166,324	$ 17,381	$ (271)	$ 183,434

December 31, 2019	Reconciliation to Fair Value			
	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
U.S. Government	$ 2,701	$ 158	$ (5)	$ 2,854
States, territories and possessions	742	139	(1)	880
Special revenue and assessments	26,310	887	(48)	27,149
All foreign governments	4,531	350	(23)	4,858
Hybrid securities	473	28	(22)	479
SVO-identified funds	3	-	-	3
Industrial and miscellaneous	125,000	7,864	(358)	132,506
Total bonds	$ 159,760	$ 9,426	$ (457)	$ 168,729

Bonds classified by the NAIC as special revenue and assessments primarily consist of U.S. Government agency-issued residential mortgage-backed securities and municipal bonds issued by political subdivisions to finance specific public projects. Bonds classified as industrial and miscellaneous consist primarily of notes issued by public and private corporate entities and structured securities not issued by U.S. Government agencies.

Statement value of bonds by SVO rating category at December 31, 2020 and 2019 was as follows:

December 31, 2020	SVO Rating 1	2	3	4	5	6	Total
	(in millions)						
U.S. Government	$ 2,755	$ -	$ -	$ -	$ -	$ -	$ 2,755
States, territories and possessions	527	76	-	-	-	-	603
Special revenue and assessments	18,435	178	30	-	-	-	18,643
All foreign governments	1,468	3,377	39	34	9	-	4,927
Hybrid securities	-	768	172	35	-	1	976
SVO-identified funds	-	401	-	-	-	-	401
Industrial and miscellaneous	59,331	61,398	8,797	5,208	3,160	125	138,019
Total bonds	$ 82,516	$ 66,198	$ 9,038	$ 5,277	$ 3,169	$ 126	$ 166,324

December 31, 2019	SVO Rating 1	2	3	4	5	6	Total
	(in millions)						
U.S. Government	$ 2,701	$ -	$ -	$ -	$ -	$ -	$ 2,701
States, territories and possessions	664	78	-	-	-	-	742
Special revenue and assessments	26,159	119	32	-	-	-	26,310
All foreign governments	1,472	2,903	65	40	51	-	4,531
Hybrid securities	-	270	173	30	-	-	473
SVO-identified funds	-	-	-	3	-	-	3
Industrial and miscellaneous	60,420	49,654	6,809	5,014	3,049	54	125,000
Total bonds	$ 91,416	$ 53,024	$ 7,079	$ 5,087	$ 3,100	$ 54	$ 159,760

Based on statement value, 89% and 90% of the Company's bond portfolio was rated investment grade (i.e., rated 1 or 2 by the SVO) at December 31, 2020 and 2019, respectively.

Statement value and fair value of structured securities at December 31, 2020 and 2019, aggregated by investment grade or below investment grade (i.e., rated 3, 4, 5 or 6 by the SVO), were as follows:

December 31, 2020	Investment Grade		Below Investment Grade		Total	
	Statement Value	Fair Value	Statement Value	Fair Value	Statement Value	Fair Value
	(in millions)		(in millions)		(in millions)	
Residential mortgage-backed:						
U.S. Government agencies	$16,465	$ 17,191	$ -	$ -	$ 16,465	$ 17,191
Other prime	661	685	2	2	663	687
Other below-prime	546	560	3	4	549	564
Commercial mortgage-backed:						
U.S. Government agencies	70	74	-	-	70	74
Conduit	3,756	3,954	-	-	3,756	3,954
Other commercial mortgage-backed	-	-	-	-	-	-
Other asset-backed	10,705	11,038	39	43	10,744	11,081
Total structured securities	$ 32,203	$ 33,502	$ 44	$ 49	$ 32,247	$ 33,551

December 31, 2019	Investment Grade		Below Investment Grade		Total	
	Statement Value	Fair Value	Statement Value	Fair Value	Statement Value	Fair Value
	(in millions)		(in millions)		(in millions)	
Residential mortgage-backed:						
U.S. Government agencies	$ 24,486	$ 24,947	$ -	$ -	$ 24,486	$ 24,947
Other prime	709	719	1	1	710	720
Other below-prime	357	362	2	3	359	365
Commercial mortgage-backed:						
U.S. Government agencies	64	66	-	-	64	66
Conduit	3,008	3,077	-	-	3,008	3,077
Other commercial mortgage-backed	2	2	-	-	2	2
Other asset-backed	8,420	8,574	98	107	8,518	8,681
Total structured securities	$ 37,046	$ 37,747	$ 101	$ 111	$ 37,147	$ 37,858

Based on statement value, over 99% of the Company's structured securities portfolio was rated as investment grade at each of December 31, 2020 and 2019. Based on statement value, the Company's investment in residential mortgage-backed securities issued by U.S. Government agencies at December 31, 2020 and 2019 was 10% and 15%, respectively, of total bond investments.

Statement value and fair value of bonds and short-term investments by contractual maturity at December 31, 2020 are summarized below. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment fees.

	Statement Value	Fair Value
	(in millions)	
Due in one year or less	$ 5,399	$ 5,443
Due after one year through five years	37,436	39,716
Due after five years through ten years	51,204	55,919
Due after ten years	74,910	84,981
Total	$ 168,949	$ 186,059

Mortgage Loans

Mortgage loans consist solely of commercial mortgage loans underwritten and originated by the Company and are reported at the unpaid principal balance, less any valuation adjustments or unamortized commitment or origination fees. Such fees are generally deferred upon receipt and amortized into net investment income over the life of the loan using the interest method. Affiliated mortgage loan investments were $134 million and $163 million at December 31, 2020 and 2019, respectively.

The statement value of mortgage loans by collateral property type and geographic location at December 31, 2020 and 2019 was as follows:

December 31, 2020	United States of America					
	East	Midwest	South	West	Foreign	Total
			(in millions)			
Apartment	$ 6,479	$ 2,170	$ 3,416	$ 7,901	$ -	$ 19,966
Office	3,552	871	1,127	3,192	-	8,742
Retail	2,318	524	1,492	1,950	-	6,284
Warehouse/Industrial	741	546	585	1,311	185	3,368
Manufactured housing	283	317	1,118	898	231	2,847
Other	124	60	27	150	-	361
Total	$ 13,497	$ 4,488	$ 7,765	$ 15,402	$ 416	$ 41,568

December 31, 2019	United States of America					
	East	Midwest	South	West	Foreign	Total
			(in millions)			
Apartment	$ 5,434	$ 1,915	$ 2,912	$ 7,411	$ -	$ 17,672
Office	3,617	897	1,293	3,263	-	9,070
Retail	2,593	535	1,670	2,052	-	6,850
Warehouse/Industrial	677	447	672	1,179	196	3,171
Manufactured housing	254	321	1,189	893	-	2,657
Other	126	59	28	138	-	351
Total	$ 12,701	$ 4,174	$ 7,764	$ 14,936	$ 196	$ 39,771

The Company has mortgage loans where co-lending or participation arrangements are in place with unaffiliated third parties. Mortgage loans with co-lending or participation arrangements totaled $3.3 billion and $3.5 billion at December 31, 2020 and 2019, respectively.

All mortgage loans were current on contractual interest and principal payments at each of December 31, 2020 and 2019. Interest rates and loan-to-value (LTV) ratio information for the Company's mortgage loans originated or refinanced during 2020 and 2019 is summarized below.

For mortgage loans originated or refinanced during:	2020	2019
Minimum interest rate	1.93%	2.95%
Maximum interest rate	5.50%	11.75%
Weighted-average LTV	57%	57%
Maximum LTV	71%	74%

LTV ratios are commonly used to assess the credit quality of commercial mortgage loans. A lower LTV ratio generally indicates a higher quality loan. At December 31, 2020 and 2019, the aggregate weighted-average LTV ratio for the mortgage loan portfolio was 54% and 52%, respectively.

The statement value of mortgage loans by collateral property type and LTV ratio at December 31, 2020 and 2019 was as follows:

December 31, 2020	< 51%	51%-70%	71%-90%	> 90%	Total
			(in millions)		
Apartment	$ 5,091	$ 14,268	$ 382	$ 225	$ 19,966
Office	4,311	3,929	502	-	8,742
Retail	1,797	3,230	1,141	116	6,284
Warehouse/Industrial	1,836	1,214	318	-	3,368
Manufactured housing	902	1,945	-	-	2,847
Other	169	44	133	15	361
Total	$ 14,106	$ 24,630	$ 2,476	$ 356	$ 41,568

December 31, 2019	< 51%	51%-70%	71%-90%	> 90%	Total
			(in millions)		
Apartment	$ 5,628	$ 11,877	$ 167	$ -	$ 17,672
Office	5,977	2,704	318	71	9,070
Retail	3,179	3,370	258	43	6,850
Warehouse/Industrial	1,699	1,187	216	69	3,171
Manufactured housing	419	2,238	-	-	2,657
Other	222	54	59	16	351
Total	$ 17,124	$ 21,430	$ 1,018	$ 199	$ 39,771

At December 31, 2020, the Company had no mortgage loans with an LTV ratio in excess of 100%. The aggregate statement value of mortgage loans with an LTV ratio in excess of 100% was $45 million at December 31, 2019.

The fair value of the collateral securing each commercial mortgage loan is updated at least annually by the Company. More frequent updates are performed if deemed necessary due to changes in market capitalization rates, borrower financial strength and/or property operating performance. Fair value of the collateral is estimated using the income capitalization approach based on stabilized property income and market capitalization rates. Stabilized property income is derived from actual property financial statements adjusted for non-recurring items, normalized market vacancy and lease rollover, among other factors. Other collateral, such as excess land and additional capital required to maintain property income, is also factored into fair value estimates. Both private market transactions and public market alternatives are considered in determining appropriate market capitalization rates. See Note 14 for more information regarding the fair value of the Company's investments in mortgage loans.

In the normal course of business, the Company may refinance or otherwise modify the terms of an existing mortgage loan, typically in reaction to a request by the borrower. These modifications can include a partial repayment of outstanding loan principal, changes to interest rates, extensions of loan maturity and/or changes to loan covenants. When such modifications are made, the statutory basis of accounting requires that the new terms of the loan be evaluated to determine whether the modification qualifies as a "troubled debt restructuring." If new terms are extended to a borrower that are less favorable to the Company than those currently being offered to new borrowers under similar circumstances in an arms-length transaction, a realized capital loss is reported for the estimated amount of the economic concessions made and the reported value of the mortgage loan is reduced. The Company recognized no capital losses related to troubled debt restructuring of mortgage loans for the years ended December 31, 2020, 2019 and 2018, respectively. The Company had no mortgage loans at either of December 31, 2020 or December 31, 2019 that were considered "restructured."

In circumstances where the Company has deemed it probable that it will be unable to collect all contractual principal and interest on a mortgage loan, a valuation allowance is established to reduce the statement value of the mortgage loan to its net realizable value. Changes to mortgage loan valuation allowances are reported as a change in net unrealized capital gains and losses in the statements of changes in surplus. If the Company later determines that the decline in value is other-than-temporary, a realized capital loss is reported, and any temporary valuation allowance is reversed. The Company had no mortgage loan valuation allowance at December 31, 2020 or 2019. The Company recognized other-than-temporary impairment losses on mortgage loans of $15 million and $0 for the years ended December 31, 2020 and 2019, respectively.

Common and Preferred Stocks

Common stocks are generally reported at fair value, with $4,883 million and $4,474 million included in the statements of financial position at December 31, 2020 and 2019, respectively. The fair value for publicly-traded common stocks is primarily based on quoted market prices. For private common stocks without quoted market prices, fair value is primarily determined using a sponsor valuation or market comparables approach. The equity method is generally used to report investments in common stock of unconsolidated subsidiaries.

Preferred stocks rated 1, 2 or 3 by the SVO are reported at amortized cost. Preferred stocks rated 4, 5 or 6 by the SVO are reported at the lower of amortized cost or fair value. At December 31, 2020 and 2019, the statements of financial position included $200 million and $203 million, respectively, of preferred stocks. The fair value for preferred stocks is primarily determined using a sponsor valuation or market comparables approach.

See Note 14 for more information regarding the fair value of the Company's investments in common and preferred stock.

Real Estate

Real estate investments are reported at cost, less any encumbrances and accumulated depreciation of buildings and other improvements. Depreciation of real estate investments is recorded using a straight-line method over the estimated useful lives of the improvements. Fair value of real estate is estimated primarily based on the capitalization of stabilized net operating income.

The statement value of real estate investments by property type and U.S. geographic location at December 31, 2020 and 2019 was as follows:

December 31, 2020	East	Midwest	South	West	Total
			(in millions)		
Apartment	$ 403	$ 187	$ 79	$ 833	$ 1,502
Office	213	688	62	-	963
Warehouse/Industrial	113	-	-	204	317
Other	16	53	108	-	177
Total	$ 745	$ 928	$ 249	$ 1,037	$ 2,959

December 31, 2019	East	Midwest	South	West	Total
			(in millions)		
Apartment	$ 277	$ 195	$ 178	$ 718	$ 1,368
Office	214	676	128	17	1,035
Warehouse/Industrial	118	-	38	205	361
Other	16	54	13	25	108
Total	$ 625	$ 925	$ 357	$ 965	$ 2,872

The Company's home office properties are included above (Office/Midwest) and had an aggregate statement value of $688 million and $676 million at December 31, 2020 and 2019, respectively. The Company's other investments in real estate are held for the production of income.

Other Investments

Other investments primarily represent investments that are made through ownership interests in partnerships, joint ventures (JVs) and limited liability companies (LLCs). In some cases, these ownership interests are held directly by the Company, while in other cases these investments are held indirectly through wholly-owned non-insurance investment holding companies organized as LLCs. Whether held directly by the Company or indirectly through its investment holding companies, securities or real estate partnerships, JVs, and LLCs are reported in the statements of financial position using the equity method of accounting based on the Company's share of the underlying entities' audited GAAP-basis equity.

The statement value of other investments held directly or indirectly by the Company at December 31, 2020 and 2019 was as follows:

	December 31, 2020	December 31, 2019
	(in millions)	
Securities partnerships and LLCs	$ 9,615	$ 7,581
Common and preferred stocks	3,499	2,030
Real estate JVs, partnerships and LLCs	3,435	2,697
Bonds	3,296	3,571
Real estate	1,197	1,023
COLI	1,195	1,043
Cash and short-term investments	1,100	444
Structured settlements	790	800
Low income housing tax credit properties	708	662
Derivative instruments	358	546
Lease receivables	144	274
Other net assets (liabilities)	(395)	291
Total	$ 24,942	$ 20,962

For securities partnerships and LLCs, bonds, common and preferred stocks, COLI, cash and short-term investments and derivative instruments, the underlying entity generally reports these investments at fair value. For real estate related investments (including JVs, partnerships and LLCs), structured settlements, tax credit properties and lease receivables, the underlying entity generally reports these investments at cost, reduced where appropriate by depreciation or amortization. Tax credit properties had 13 years of unexpired credits at December 31, 2020 and 2019, respectively. The required holding period for tax credit properties is 15 years. The amount of tax credits and other tax benefits recognized during 2020 and 2019 were $136 million and $123 million, respectively. See Note 10 for more information regarding the Company's use of tax credits.

See Note 4 for more information regarding the Company's use of derivatives.

Investments in Subsidiaries, Controlled and Affiliated Entities

The Company's investments in subsidiaries, controlled and affiliated entities (SCAs) are reported in the statements of financial position using the equity method of accounting based on the Company's share of the underlying entities' audited GAAP-basis equity. At December 31, 2020 and 2019, the value of wholly-owned SCA investments were as follows:

	December 31, 2020			December 31, 2019		
	Investment in SCA	Nonadmitted Asset	Statement Value	Investment in SCA	Nonadmitted Asset	Statement Value
		(in millions)			(in millions)	
NM Wealth Management Company	$ 265	$ -	$ 265	$ 237	$ -	$ 237
Total common stock SCAs [1]	265	-	265	237	-	237
NML Securities Holdings, LLC	11,016	-	11,016	8,485	-	8,485
NML Real Estate Holdings, LLC	2,467	-	2,467	2,404	-	2,404
NM Investment Holdings, LLC	1,371	-	1,371	1,334	-	1,334
NM Investment Services, LLC	126	-	126	124	-	124
NM Pebble Valley, LLC	93	-	93	128	-	128
NM GP Holdings, LLC	56	6	50	62	13	49
NM QOZ Fund II, LLC	45	-	45	-	-	-
QOZ Holding Company, LLC	23	-	23	-	-	-
NM QOZ FUND, LLC	16	-	16	16	-	16
NM-SAS, LLC	12	7	5	4	-	4
Mason Street Advisors, LLC	6	6	-	36	36	-
Northwestern Mutual Investment Management Company, LLC	3	3	-	44	44	-
NM Career Distribution Holdings, LLC	2	2	-	4	4	-
GRO-SUB, LLC	2	2	-	1	1	-
GRO, LLC	-	-	-	1	1	-
Venture Studio Holdings, LLC	-	-	-	-	-	-
Total other investment SCAs [2]	15,238	26	15,212	12,643	99	12,544
Total investments in SCAs	$ 15,503	$ 26	$ 15,477	$ 12,880	$ 99	$ 12,781

[1] Reported in common and preferred stocks in the statements of financial position.
[2] Reported in other investments in the statements of financial position.

Investment filings for all common stock SCAs were submitted to the NAIC during 2020. In all cases, the NAIC accepted the statement value.

Net Investment Income

The sources of net investment income for the years ended December 31, 2020, 2019 and 2018 were as follows:

	For the years ended December 31,		
	2020	2019	2018
		(in millions)	
Bonds	$ 6,154	$ 6,400	$ 6,020
Mortgage loans	1,717	1,676	1,573
Common and preferred stocks	188	146	210
Real estate	279	288	275
Other investments	2,122	1,205	1,184
Policy loans	1,180	1,180	1,164
Amortization of IMR	255	133	135
Gross investment income	11,895	11,028	10,561
Less: investment expenses	817	879	770
Net investment income	$ 11,078	$ 10,149	$ 9,791

For the years ended December 31, 2020 and 2019, bond investment income included $82 million and $72 million of prepayment fees, respectively, generated as a result of 127 and 108 securities, respectively, sold, disposed, or otherwise redeemed as a result of a callable feature. Accrued investment income more than ninety days past due is a nonadmitted asset. Changes in the nonadmitted amount are reported as direct adjustments to surplus in the statements of changes in surplus. Accrued investment income that is ultimately deemed uncollectible is included as a reduction of net investment income in the period that such determination is made.

Realized Capital Gains and Losses
Realized capital gains and losses are recognized based upon specific identification of investments sold. Realized capital losses also include valuation adjustments for impairment of bonds, mortgage loans, common and preferred stocks, real estate and other investments that have experienced a decline in fair value that the Company considers to be other-than-temporary. Realized capital gains and losses, as reported in the statements of operations, are net of any capital gains tax (or benefit) and exclude any deferrals to the IMR of interest rate-related capital gains or losses.

Realized capital gains and losses for the years ended December 31, 2020, 2019 and 2018 were as follows:

	For the year ended December 31, 2020			For the year ended December 31, 2019			For the year ended December 31, 2018		
	Realized Gains	Realized Losses	Net Realized Gains (Losses)	Realized Gains	Realized Losses	Net Realized Gains (Losses)	Realized Gains	Realized Losses	Net Realized Gains (Losses)
		(in millions)			(in millions)			(in millions)	
Bonds	$ 2,724	$ (861)	$ 1,863	$ 1,094	$ (369)	$ 725	$ 275	$ (543)	$ (268)
Mortgage loans	-	(22)	(22)	8	(3)	5	-	(2)	(2)
Common and preferred stocks	461	(643)	(182)	662	(291)	371	538	(147)	391
Real estate	253	-	253	502	(6)	496	12	(13)	(1)
Other investments	1,350	(1,302)	48	1,005	(1,053)	(48)	699	(952)	(253)
Subtotal	$ 4,788	$ (2,828)	1,960	$ 3,271	$ (1,722)	1,549	$ 1,524	$ (1,657)	(133)
Less: IMR net gains (losses) before taxes			2,064			674			(245)
Less: Capital gains tax (benefit) expense			(2)			173			88
Net realized capital (losses) gains			$ (102)			$ 702			$ 24

Realized capital gains and losses are generally the result of normal investment trading activity. Proceeds from the sale of bonds totaled $48 billion, $30 billion, and $22 billion for the years ended December 31, 2020, 2019 and 2018, respectively.

On a quarterly basis, the Company performs a review of bonds, mortgage loans, common and preferred stocks, real estate and other investments to identify investments that have experienced a decline in fair value that is considered to be other-than-temporary. Factors considered include the duration and extent to which fair value was less than cost, the financial condition and near-term financial prospects of the issuer and the Company's ability and intent to hold the investment for a period of time sufficient to allow for an anticipated recovery in value. If the decline in an investment's fair value is considered to be other-than-temporary, the statement value of the investment is generally written down to fair value and a realized capital loss is reported.

For fixed income investments, the review focuses on the issuer's ability to remit all contractual interest and principal payments and the Company's ability and intent to hold the investment until the earlier of a recovery in value or maturity. The Company's intent and ability to hold an investment takes into consideration broad portfolio management parameters such as expected net cash flows and liquidity targets, asset/liability duration management and issuer and industry sector credit exposures. Mortgage loans considered to have experienced an other-than-temporary decline in value are written down to net realizable value based on the appraised value of the collateral property.

For equity securities, greater weight and consideration is given to the duration and extent of the decline in fair value and the likelihood that the fair value of the security will recover in the foreseeable future. A real estate equity investment is evaluated for an other-than-temporary impairment when the fair value of the property is lower than its depreciated cost.

For real estate and other investments that represent ownership interests in partnerships, JVs and LLCs, the review focuses on the likelihood that the Company will ultimately recover its initial investment, adjusted for its share of subsequent net earnings and/or distributions. The Company's review of securities partnerships will generally defer to GAAP-basis impairment reviews performed by the general partner absent compelling evidence of a permanent impairment of the Company's partnership interest.

Realized capital losses related to declines in fair value of investments that were considered to be other-than-temporary for the years ended December 31, 2020, 2019 and 2018 were as follows:

	For the years ended December 31,		
	2020	2019	2018
Bonds, common and preferred stocks:		(in millions)	
Structured securities	$ -	$ (1)	$ (1)
Foreign government	(34)	-	-
Financial services	-	-	(1)
Consumer discretionary	(51)	(84)	-
Industrials	(42)	(9)	(35)
Energy	(59)	(44)	(2)
Basic materials	-	(1)	-
Other	(13)	-	-
Subtotal	(199)	(139)	(39)
Mortgage loans	(15)	-	-
Real estate	-	(6)	(13)
Other investments:			
Securities partnerships	(6)	(78)	(44)
Energy and transportation	-	-	(22)
Subtotal	(6)	(78)	(66)
Total	$ (220)	$ (223)	$ (118)

In addition to the realized capital losses above, $37 million, $0.2 million and $22 million of other-than-temporary impairments were recorded by the Company's unconsolidated non-insurance subsidiaries for the years ended December 31, 2020, 2019 and 2018, respectively. The decline in the Company's equity in these subsidiaries resulting from these impairments is reported in changes in net unrealized capital gains and losses in the statements of changes in surplus.

Unrealized Capital Gains and Losses

Unrealized capital gains and losses include changes in the fair value of common and some preferred stocks, other investments and currency translation adjustments on foreign-denominated bonds and mortgage loans and are reported net of any related changes in deferred taxes in the statements of changes in surplus. Changes in the Company's equity-method share of the undistributed earnings of partnerships, JVs, LLCs and unconsolidated subsidiaries are also reported as changes in unrealized capital gains and losses. If net earnings are distributed to the Company in the form of dividends, net investment income is recognized in the amount of the distribution and the previously unrealized net capital gains are reversed.

Changes in net unrealized capital gains and losses for the years ended December 31, 2020, 2019 and 2018 were as follows:

	For the years ended December 31,		
	2020	2019	2018
		(in millions)	
Bonds	$ 606	$ 152	$ (376)
Mortgage loans	33	11	(10)
Common and preferred stocks	520	304	(653)
Other investments	(251)	727	833
Subtotal	908	1,194	(206)
Change in deferred taxes	(109)	(53)	80
Change in net unrealized capital gains and losses	$ 799	$ 1,141	$ (126)

Changes in net unrealized capital gains and losses for the years ended December 31, 2020, 2019 and 2018 included the reversal of previously unrealized capital gains of $(1,428) million, $(369) million and $(602) million, respectively, related to distributions of accumulated net earnings made to the Company from unconsolidated non-insurance subsidiaries.

The amortized cost and fair value of bonds and common and preferred stocks for which fair value declined and remained below cost at December 31, 2020 and 2019 were as follows:

	December 31, 2020					
	Decline For Less Than 12 Months			Decline For Greater Than 12 Months		
	Amortized Cost	Fair Value	Difference	Amortized Cost	Fair Value	Difference
			(in millions)			
Bonds	$ 5,669	$ 5,526	$ (143)	$ 3,544	$ 3,290	$ (254)
Common and preferred stocks	150	131	(19)	159	123	(36)
Total	$ 5,819	$ 5,657	$ (162)	$ 3,703	$ 3,413	$ (290)

	December 31, 2019					
	Decline For Less Than 12 Months			Decline For Greater Than 12 Months		
	Amortized Cost	Fair Value	Difference	Amortized Cost	Fair Value	Difference
			(in millions)			
Bonds	$ 11,128	$ 10,947	$ (181)	$ 9,657	$ 9,139	$ (518)
Common and preferred stocks	495	430	(65)	374	307	(67)
Total	$ 11,623	$ 11,377	$ (246)	$ 10,031	$ 9,446	$ (585)

All of these bonds were current on contractual interest and principal payments at December 31, 2020. Based on the results of the impairment review process described above, the Company considers these declines in fair value to be temporary based on current facts and circumstances.

At December 31, 2020 and 2019, unrealized capital losses on structured securities in a loss position for greater than 12 months were $5 million and $32 million, respectively, while unrealized capital losses on structured securities in a loss position for less than 12 months were $20 million and $34 million, respectively.

For securities without a full SVO credit analysis performed, the statutory basis of accounting allows the Company to assign a NAIC designation of 5* to such securities for reporting purposes. At December 31, 2020 and 2019, the statement and fair values of NAIC 5* securities were as follows:

	December 31,					
	2020			2019		
	Number of Securities	Statement Value	Fair Value	Number of Securities	Statement Value	Fair Value
	($ in millions)			($ in millions)		
Bonds	51	$ 1,300	$ 1,279	59	$ 1,471	$ 1,412
Preferred stock	9	127	155	5	79	83
Loan-backed and structured securities	2	6	8	5	57	66
Total	62	$ 1,433	$ 1,442	69	$ 1,607	$ 1,561

Repurchase Agreements

The Company participates in bilateral and tri-party repurchase programs with U.S. domiciled unaffiliated third parties. The agreements under these programs require the Company to sell securities and simultaneously agree to repurchase the same (or substantially the same) securities prior to the securities reaching their maturity. These repurchase agreements are intended to enhance the yield of the Company's investment portfolio. The agreements are accounted for as collateralized borrowings with the transferred security proceeds recorded as other liabilities in the statements of financial position while the underlying securities continue to be recorded as investments by the Company. Investment earnings are recorded as net investment income and the difference between the transferred security proceeds and the amount at which the securities will be subsequently reacquired is amortized into net investment income as interest expense in the statements of operations.

The Company manages counterparty and other risks associated with its repurchase program by adhering to guidelines that require counterparties to provide the Company with cash or other high-quality collateral of no less than 97% of the fair value of the securities on loan plus accrued interest and by setting conservative standards for the Company's reinvestment of cash collateral received. At December 31, 2020 and 2019, the liability to return the repurchase agreement cash collateral was $1.3 billion and $1.7 billion, respectively, and is reported as other liabilities in the statements of financial position.

During 2020 and 2019, cash collateral received, and the corresponding liability to return that collateral, had the following characteristics:

For the quarter ended:	Maximum Balance	Ending Balance
	(in millions)	
March 31, 2020	$ 1,990	$ 1,862
June 30, 2020	$ 1,866	$ 1,278
September 30, 2020	$ 1,332	$ 1,319
December 31, 2020	$ 1,319	$ 1,315
March 31, 2019	$ 1,867	$ 1,771
June 30, 2019	$ 1,798	$ 1,797
September 30, 2019	$ 1,833	$ 1,410
December 31, 2019	$ 1,718	$ 1,711

During 2020 and 2019, securities sold under repurchase agreements included the following characteristics:

For the quarter ended:	Maximum Balance (Fair Value)	Ending Balance (Fair Value)	Ending Balance (Statement Value)
		(in millions)	
March 31, 2020	$ 2,033	$ 1,907	$ 1,862
June 30, 2020	$ 1,911	$ 1,303	$ 1,278
September 30, 2020	$ 1,367	$ 1,350	$ 1,319
December 31, 2020	$ 1,353	$ 1,341	$ 1,315
March 31, 2019	$ 1,902	$ 1,799	$ 1,697
June 30, 2019	$ 1,835	$ 1,821	$ 1,697
September 30, 2019	$ 1,872	$ 1,434	$ 1,299
December 31, 2019	$ 1,754	$ 1,730	$ 1,600

The repurchase agreements have overnight contractual maturities. Securities sold under the repurchase agreements consisted of U.S. Treasury securities and U.S. Government agency-issued residential mortgage-backed securities. All securities sold had NAIC ratings of 1.

The amortized cost, fair value and remaining term to maturity of reinvested repurchase agreement collateral held by the Company at December 31, 2020 and 2019 was as follows:

	December 31, 2020		December 31, 2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)		(in millions)	
30 days or less	$ 554	$ 554	$ 700	$ 700
31-60 days	165	165	9	9
61-90 days	39	39	30	30
91-120 days	2	2	60	60
121-180 days	138	138	117	118
181-365 days	115	115	258	258
1-2 years	54	54	486	486
2-3 years	214	215	45	45
Over 3 years	46	46	9	9
Total	$ 1,327	$ 1,328	$ 1,714	$ 1,715

If the securities sold under the repurchase agreements or the reinvested collateral become less liquid, the Company has the liquidity resources within its general account available to meet potential cash demands when securities are required to be repurchased.

Restricted Assets

Certain of the Company's investments are either pledged as collateral or are otherwise held beyond the exclusive control of the Company ("restricted assets"). These restrictions are generally the result of collateral support agreements with counterparties in connection with repurchase agreements and derivative transactions.

At December 31, 2020 and 2019, collateral held by counterparties was primarily in the form of cash, short-term investments and bonds, including U.S. Government securities. See Note 4 for more information regarding the Company's derivative portfolio.

The statement value of restricted assets at December 31, 2020 and 2019, summarized by type of restriction, was as follows:

	December 31, 2020	December 31, 2019
	(in millions)	
Loaned securities - repurchase agreements	$ 1,315	$ 1,600
Federal Home Loan Bank of Chicago pledged collateral	1,359	-
Derivative transactions	242	67
Federal Home Loan Bank of Chicago stock	37	-
Securities on deposit with states	4	4
Total restricted assets	$ 2,957	$ 1,671

Collateral Assets Received

The statement and fair values of collateral received at December 31, 2020 and 2019 were as follows:

	December 31, 2020		December 31, 2019	
	Statement Value	Fair Value	Statement Value	Fair Value
	(in millions)		(in millions)	
Repurchase agreement collateral	$ 1,315	$ 1,341	$ 1,711	$ 1,711
Derivative collateral	154	154	642	642
Mortgage loan escrow	75	75	59	59
Real estate escrow and security deposits	4	4	5	5
Total collateral assets	$ 1,548	$ 1,574	$ 2,417	$ 2,417

At December 31, 2020 and 2019, derivative collateral received included $1 million related to separate accounts and the obligation to return this collateral is reported in separate account liabilities in the statements of financial position. The obligation to return all other collateral received is reported as other liabilities in the statements of financial position.

4. Derivative Financial Instruments

The Company enters into derivative transactions, generally to mitigate the risk to its assets, liabilities and surplus from fluctuations in interest rates, foreign currency exchange rates, credit conditions and other market risks. Derivatives may be exchange traded, cleared or executed in the over-the-counter market. A majority of the Company's over-the-counter derivatives are bilateral contracts between two counterparties. The Company's remaining over-the-counter derivatives are cleared and settled through central clearing exchanges.

Derivatives that are designated as hedges for accounting purposes and meet the qualifications for statutory hedge accounting are reported on a basis consistent with the asset or liability being hedged (i.e., at amortized cost or fair value). Derivatives that are used to mitigate risk but are not designated as hedges for accounting purposes or otherwise do not meet the qualifications for statutory hedge accounting are reported at fair value.

To qualify for hedge accounting, the hedge relationship must be designated and formally documented at inception. This documentation details the risk management objective and strategy for the hedge, the derivative used in the hedge and the methodology for assessing hedge effectiveness. The hedge must also be "highly effective," with an assessment of its effectiveness performed both at inception and on an ongoing basis over the life of the hedge.

The fair value of derivative instruments is based on quoted market prices when available. In the absence of quoted market prices, fair value is estimated using industry-standard models utilizing market observable inputs.

Derivative transactions expose the Company to the risk that a counterparty may not be able to fulfill its obligations under the contract. The Company manages this risk by dealing only with counterparties that maintain a minimum credit rating, by performing ongoing review of counterparties' credit standing and by adhering to established limits for credit exposure to any single counterparty. The Company also utilizes collateral support arrangements that require the daily exchange of collateral assets if counterparty credit exposure exceeds certain limits. The Company does not offset the statement values for derivatives executed with the same counterparty, even if a master netting arrangement is in place. The Company also does not offset the right to claim collateral against the obligation to return such collateral.

The fair value of collateral held by the Company under derivative support agreements at December 31, 2020 and 2019 was as follows:

	December 31,	
	2020	2019
	(in millions)	
Bonds:		
General Account	$ 83	$ 71
Separate Accounts	-	-
Total bond collateral	$ 83	$ 71
Cash:		
General Account	$ 153	$ 642
Separate Accounts	1	-
Total cash collateral	$ 154	$ 642

Bond collateral held in the general account is not reported in the statements of financial position. Cash collateral held in the general account is reported as cash and short-term investments in the statements of financial position, while the Company's obligation to return the collateral is reported as other liabilities. Separate account cash collateral assets and related liabilities is reported in the separate account assets and liabilities, respectively, in the statements of financial position.

The fair value of collateral posted by the Company at December 31, 2020 and 2019 was as follows:

	December 31, 2020	December 31, 2019
	(in millions)	
Bonds posted for derivative support agreements:		
General Account	$ 12	$ 7
Separate Accounts	-	-
Bonds posted for futures agreements:		
General Account	92	34
Separate Accounts	15	10
Total bond collateral	$ 119	$ 51
Cash posted for derivative support agreements:		
General Account	$ 117	$ 12
Separate Accounts	-	-
Cash posted for futures agreements:		
General Account	4	1
Separate Accounts	2	3
Total cash collateral	$ 123	$ 16

Bonds posted as collateral are reported as bonds and cash posted as collateral is reported as a receivable included in other investments in the statements of financial position.

The Company has no embedded credit derivatives that expose it to the possibility of being required to make future payments.

Hedging - Designated as Hedging Instruments

The Company designates and accounts for the following derivative types as cash flow or fair value hedges, with the related derivative instrument reported at amortized cost in the statements of financial position. No component of these derivatives' economic gain or loss was excluded from the assessment of hedge effectiveness.

Interest rate floors are used to mitigate the asset/liability management risk of a significant and sustained decrease in interest rates for certain of the Company's insurance products. Interest rate floors entitle the Company to receive payments from a counterparty if market interest rates decline below a specified level. Amounts received on these contracts are reported as net investment income.

Interest rate swaps are used to mitigate interest rate risk for investments in fixed and variable interest rate bonds and fixed rate liabilities over a period of up to 12 years. Interest rate swaps obligate the Company and a counterparty to exchange amounts based on the difference between a variable interest rate index and a specified fixed rate of interest applied to the notional amount of the contract. Amounts received or paid on these contracts are reported as net investment income.

Foreign currency swaps are used to mitigate the foreign exchange risk for investments in bonds and mortgage loans denominated in foreign currencies over a period of up to 30 years. Foreign currency swaps obligate the Company and a counterparty to exchange the foreign currency-denominated interest and principal payments receivable on foreign bonds and mortgage loans for U.S. dollar-denominated payments based on currency exchange rates specified at trade inception. Foreign exchange gains or losses on these contracts are reported as a change in unrealized capital gains or losses until the maturity or termination of the contract, at which time a realized capital gain or loss is recognized. Amounts received or paid on these contracts are reported as net investment income.

Hedging - Not Designated as Hedging Instruments
The Company enters into other derivative transactions that mitigate economic risks but are not designated as a hedge for accounting purposes or otherwise do not qualify for statutory hedge accounting. These instruments are reported in the statements of financial position at fair value. Changes in the fair value of these instruments are reported as a change in unrealized capital gains or losses until the maturity or termination of the contract, at which time a realized capital gain or loss is recognized.

The average fair value of outstanding derivative assets not designated as hedging instruments was $142 million and $136 million for the years ended December 31, 2020 and 2019, respectively. The average fair value of outstanding derivative liabilities not designated as hedging instruments was $30 million and $18 million for the years ended December 31, 2020 and 2019, respectively.

Interest rate caps and floors are used to mitigate the risk of a significant and sustained increase or decrease in interest rates for certain of the Company's debt instruments and insurance and annuity products. Interest rate caps and floors entitle the Company to pay or receive payments from a counterparty if market interest rates rise above or decline below a specified level. Amounts paid or received on these contracts are reported as net investment income.

Interest rate swaps are used to mitigate interest rate risk for investments in variable interest rate and fixed interest rate bonds over a period of up to 10 years. Interest rate swaps obligate the Company and a counterparty to exchange amounts based on the difference between a variable interest rate index and a specified fixed rate of interest applied to the notional amount of the contract. Amounts received or paid on these contracts are reported as net investment income.

Swaptions are used to mitigate the asset/liability management risk of a significant and sustained increase in interest rates for certain of the Company's insurance products. Swaptions provide the Company an option to enter into an interest rate swap with a counterparty on specified terms.

Fixed income futures are used to mitigate interest rate risk for investments in portfolios of fixed income securities. Fixed income futures obligate the Company to sell to or buy from a counterparty a specified number of contracts at a specified price at a future date.

Fixed income forwards are used to gain exposure to the investment risk and return of mortgage-backed securities by utilizing "to-be-announced" (TBA) forward contracts. The Company also uses TBA forward contracts to hedge interest rate risk and participate in the mortgage-backed securities market in an efficient and cost-effective way. Additionally, pursuant to the Company's mortgage dollar roll program, TBAs or mortgage-backed securities are transferred to counterparties with a corresponding agreement to purchase a substantially similar security for later settlement. These transactions do not qualify as secured borrowings and are accounted for as derivatives.

Foreign currency forwards are used to mitigate the foreign exchange risk for investments in bonds denominated in foreign currencies or common stock or other equity investments in companies operating in foreign countries. Foreign currency forwards obligate the Company to pay to or receive from a counterparty a specified amount of a foreign currency at a future date.

Foreign currency swaps are used to mitigate the foreign exchange risk for investments in bonds denominated in foreign currencies over a period of up to 15 years. Foreign currency swaps obligate the Company and a counterparty to exchange the foreign currency-denominated interest and principal payments receivable on foreign bonds and mortgage loans for U.S. dollar-denominated payments based on currency exchange rates specified at trade inception. Foreign exchange gains or losses on these contracts are reported as a change in unrealized capital gains or losses until the maturity or termination of the contract, at which time a realized capital gain or loss is recognized. Amounts received or paid on these contracts are reported as net investment income.

Equity and fixed income total return swaps are used to mitigate market risk for investments in portfolios of common stocks, other equity securities, and fixed income investments. Total return swaps obligate the Company and a counterparty to exchange amounts based on the difference between the return on a specified security, basket of securities or index and a specified short-term funding rate, typically London Interbank Offered Rate (LIBOR) plus or minus a spread, applied to the notional amount of the contract.

Equity index futures are used to mitigate market risk for investments in portfolios of common stock. Equity index futures obligate the Company to pay to or receive from a counterparty an amount based on a specified equity market index as of a future date applied to the notional amount of the contract.

Warrants are acquired through the purchase of private bonds. Warrants provide the Company the right to purchase an underlying financial instrument at a given price and time. Changes in the value of the underlying financial instrument are reported as a change in unrealized capital gains or losses. When the warrant is exercised, the derivative is terminated, and the current value becomes the basis for the new financial instrument.

Purchased credit default swaps are used to mitigate the credit risk for investments in bonds issued by specific bond issuers. Credit default swaps provide the Company an option to put a specific bond to a counterparty at par in the event of a "credit event" encountered by the bond issuer. A credit event is generally defined as a bankruptcy, failure to make required payments or acceleration of issuer obligations under the terms of the bond.

Investment Replications

Equity total return swap replications are used in conjunction with the purchase of cash market instruments to replicate investment in portfolios of common stocks and other equity securities. Equity total return swaps obligate the Company and a counterparty to exchange amounts based on the difference between a variable equity index return and a specified fixed rate of return applied to the notional amount of the contract. Equity total return swaps are reported at fair value, with changes in fair value reported as a change in unrealized capital gains or losses until the maturity or termination of the contract, at which time a realized capital gain or loss is recognized.

Interest rate swap replications are used to replicate a bond investment through the use of cash market instruments combined with an interest rate swap. Interest rate swaps obligate the Company and a counterparty to exchange amounts based on the difference between a variable interest rate and a specified fixed interest rate applied to the notional amount of the contract. Interest rate swap replications, including the derivative components, are reported at amortized cost.

The effects of the Company's use of derivative instruments on the Statements of Financial Position at December 31, 2020 and 2019 were as follows:

	December 31, 2020				
	Notional	Statement Value		Fair Value	
	Amount	Assets	Liabilities	Assets	Liabilities
			(in millions)		
Derivatives designated as hedging instruments:					
Interest rate contracts:					
Interest rate floors	$ 400	$ 2	$ -	$ 32	$ -
Interest rate swaps	350	-	-	9	-
Foreign exchange contracts:					
Foreign currency swaps	11,592	258	(599)	432	(477)
Derivatives not designated as hedging instruments:					
Interest rate contracts:					
Interest rate caps	1,338	1	-	1	-
Interest rate floors	200	35	-	35	-
Interest rate swaps	168	8	-	8	-
Swaptions	3,656	26	-	26	-
Fixed income futures	12,536	-	-	-	-
Fixed income forwards	2,295	15	(1)	15	(1)
Foreign exchange contracts:					
Foreign currency forwards	1,771	4	(16)	4	(16)
Foreign currency swaps	132	9	(6)	9	(6)
Equity contracts:					
Equity total return swaps	-	-	-	-	-
Equity index futures	-	-	-	-	-
Fixed contracts:					
Fixed income total return swaps	-	-	-	-	-
Credit contracts:					
Purchased credit default swaps	-	-	-	-	-
Warrants	-	-	-	-	-
Investment replications					
Interest rate contracts:					
Interest rate swaps	6	-	-	-	-
Equity contracts:					
Equity total return swaps	-	-	-	-	-
Total derivatives		$ 358	$ (622)	$ 571	$ (500)

	December 31, 2019				
	Notional	Statement Value		Fair Value	
	Amount	Assets	Liabilities	Assets	Liabilities
			(in millions)		
Derivatives designated as hedging instruments:					
Interest rate contracts:					
Interest rate floors	$ 600	$ 3	$ -	$ 27	$ -
Interest rate swaps	56	-	-	5	-
Foreign exchange contracts:					
Foreign currency swaps	10,962	468	(168)	590	(142)
Derivatives not designated as hedging instruments:					
Interest rate contracts:					
Interest rate caps	998	2	-	2	-
Interest rate floors	2,252	32	(2)	32	(2)
Interest rate swaps	150	2	(0)	2	-
Swaptions	3,559	31	-	31	-
Fixed income futures	7,370	-	-	-	-
Fixed income forwards	-	-	-	-	-
Foreign exchange contracts:					
Foreign currency forwards	1,092	1	(15)	1	(15)
Foreign currency swaps	121	7	(4)	7	(4)
Equity contracts:					
Equity total return swaps	-	-	-	-	-
Equity index futures	-	-	-	-	-
Fixed contracts:					
Fixed income total return swaps	-	-	-	-	-
Credit contracts:					
Purchased credit default swaps	-	-	-	-	-
Warrants	-	-	-	-	-
Investment replications					
Interest rate contracts:					
Interest rate swaps	-	-	-	-	-
Equity contracts:					
Equity total return swaps	-	-	-	-	-
Total derivatives		$ 546	$ (189)	$ 697	$ (163)

The notional amounts shown above are used to denominate the derivative contracts and do not represent amounts exchanged between the Company and the derivative counterparties. Derivative instruments are reported as other investments or other liabilities in the statements of financial position.

The effects of the Company's use of derivative instruments on the statements of operations and changes in surplus for the years ended December 31, 2020, 2019 and 2018 were as follows:

	For the year ended December 31, 2020		
	Change in Net Unrealized Capital Gains (Losses)	Net Realized Capital Gains (Losses)	Net Investment Income
		(in millions)	
Derivatives designated as hedging instruments:			
Interest rate contracts:			
Interest rate floors	$ -	$ -	$ 15
Interest rate swaps	-	-	1
Foreign exchange contracts:			
Foreign currency swaps	(641)	29	158
Derivatives not designated as hedging instruments:			
Interest rate contracts:			
Interest rate caps	-	-	(1)
Interest rate floors	9	27	-
Interest rate swaps	6	-	1
Swaptions	(3)	-	(9)
Fixed income futures	12	(121)	-
Fixed income forwards	13	23	-
Foreign exchange contracts:			
Foreign currency forwards	2	(83)	-
Foreign currency swaps	(1)	-	2
Equity contracts:			
Equity total return swaps	-	-	-
Equity index futures	-	-	-
Fixed contracts:			
Fixed income total return swaps	-	-	-
Credit contracts:			
Purchased credit default swaps	-	(1)	
Warrants	(40)	117	-
Investment replications			
Interest rate contracts:			
Interest rate swaps	-	5	-
Equity contracts:			
Equity total return swaps	-	52	-
Total derivatives	$ (643)	$ 48	$ 167

	For the year ended December 31, 2019		
	Change in Net Unrealized Capital Gains (Losses)	Net Realized Capital Gains (Losses)	Net Investment Income
		(in millions)	
Derivatives designated as hedging instruments:			
Interest rate contracts:			
Interest rate floors	$ -	$ -	$ 8
Interest rate swaps	-	-	-
Foreign exchange contracts:			
Foreign currency swaps	(188)	(3)	139
Derivatives not designated as hedging instruments:			
Interest rate contracts:			
Interest rate caps	(3)	-	(2)
Interest rate floors	11	-	(1)
Interest rate swaps	(9)	4	1
Swaptions	(34)	-	(9)
Fixed income futures	7	(123)	-
Fixed income forwards	-	4	-
Foreign exchange contracts:			
Foreign currency forwards	(17)	46	-
Foreign currency swaps	(1)	-	1
Equity contracts:			
Equity total return swaps	-	68	(9)
Equity index futures	-	-	-
Fixed contracts:			
Fixed income total return swaps	-	-	-
Credit contracts:			
Purchased credit default swaps	-	-	
Warrants	26	-	-
Investment replications			
Interest rate contracts:			
Interest rate swaps	-	-	-
Equity contracts:			
Equity total return swaps	-	-	-
Total derivatives	$ (208)	$ (4)	$ 128

	For the year ended December 31, 2018		
	Change in Net Unrealized Capital Gains (Losses)	Net Realized Capital Gains (Losses)	Net Investment Income
		(in millions)	
Derivatives designated as hedging instruments:			
Interest rate contracts:			
Interest rate floors	$ -	$ -	$ 6
Interest rate swaps	-	-	-
Foreign exchange contracts:			
Foreign currency swaps	376	30	107
Derivatives not designated as hedging instruments:			
Interest rate contracts:			
Interest rate caps	-	-	(2)
Interest rate floors	(1)	-	-
Interest rate swaps	7	12	(1)
Swaptions	8	-	(9)
Fixed income futures	(9)	(32)	-
Fixed income forwards	(4)	(8)	-
Foreign exchange contracts:			
Foreign currency forwards	12	24	-
Foreign currency swaps	5	-	-
Equity contracts:			
Equity total return swaps	-	-	-
Equity index futures	-	-	-
Fixed contracts:			
Fixed income total return swaps	-	-	-
Credit contracts:			
Purchased credit default swaps	-	-	
Warrants	16	-	-
Investment replications			
Interest rate contracts:			
Interest rate swaps	-	-	-
Equity contracts:			
Equity total return swaps	-	-	-
Total derivatives	$ 410	$ 26	$ 101

Changes in net unrealized gains or losses resulting from derivatives that no longer qualify for hedge accounting were $0 million, $0 million and $5 million for the years ended December 31, 2020, 2019 and 2018, respectively.

5. Policy Benefit Reserves

General account policy benefit reserves at December 31, 2020 and 2019 were as follows:

	December 31, 2020	December 31, 2019
	(in millions)	
Life insurance reserves	$ 194,110	$ 185,991
Annuity reserves	11,849	10,887
Deposit funds	4,860	3,580
Disability and long-term care unpaid claims and claim reserves	5,342	5,200
Disability and long-term care active life reserves	6,064	5,442
Total policy benefit reserves	$ 222,225	$ 211,100

See Note 9 for more information regarding the Company's use of reinsurance and the related impact on policy benefit reserves.

Life Insurance Reserves

Policy and contract reserves are determined in accordance with standard valuation methods approved by the OCI and are computed in accordance with standard actuarial methodology based on the Commissioners' Reserve Valuation Method (CRVM) or the net level premium method. The reserves are based on assumptions for interest, mortality and other risks insured. Effective January 1, 2017, the OCI required a principles-based approach ("PBR") for the calculation of its policy benefit reserves with a three-year phase-in period from the effective date. PBR requires reserves to be calculated using company experience assumptions with margin subject to a floor based on similar prescribed methods and assumptions used with existing in-force business. The Company adopted PBR for certain new life insurance products issued on or after July 1, 2019 and for all remaining life insurance policies issued on or after January 1, 2020. PBR did not affect policy benefit reserves for policies in-force prior to January 1, 2017.

Life insurance reserve calculations, using basic data, determine tabular interest, tabular cost, and tabular cost less actual reserves released. Tabular interest on funds not involving life contingencies is calculated as the product of the valuation interest rate times the mean of the amount of funds subject to such rate held at the beginning and end of the year of valuation.

As of December 31, 2020, the Company had nearly $2 trillion of total life insurance in force, including $29 billion of life insurance in force for which gross premiums were less than net premiums according to the standard valuation methods and assumptions prescribed by the OCI. Gross premiums are calculated using mortality tables that reflect both the Company's actual experience and the potential transfer of risk to reinsurers. Net premiums are determined in the calculation of statutory reserves, which must be based on industry-standard mortality tables.

Additional premiums or charges are assessed for substandard lives on policies issued after January 1, 1956. Net level premium or CRVM mean reserves for these policies are based on multiples of mortality tables or one-half the net flat or other extra mortality charge. The Company waives deduction of fractional premiums upon death of an insured and returns any portion of the final premium beyond the date of death. Cash values are not promised in excess of the legally computed reserves.

At December 31, 2020 and 2019, the account and cash values related to the Company's general account life reserves were as follows:

	Account Value		Cash Value		Reserves	
	December 31,					
	2020	2019	2020	2019	2020	2019
	(in millions)					
Subject to discretionary withdrawal, surrender values, or policy loans:						
Universal life	$ 8,449	$ 7,602	$ 8,185	$ 7,319	$ 8,211	$ 7,346
Universal life with secondary guarantees	14	14	12	11	29	26
Other permanent cash value life insurance	-	-	171,031	164,904	174,799	168,377
Variable life	-	-	-	-	943	941
Variable universal life	5	4	5	4	27	27
Not subject to discretionary withdrawal or no cash value:						
Term policies without cash value	-	-	-	-	4,830	4,556
Accidental death benefits	-	-	-	-	11	12
Disability - active lives	-	-	-	-	1,100	1,032
Disability - disabled lives	-	-	-	-	1,297	1,243
Miscellaneous reserves	-	-	-	-	2,894	2,774
Total gross life reserves	8,468	7,620	179,233	172,238	194,141	186,334
Reinsurance ceded	-	-	-	-	1,216	1,223
Total net life insurance	$ 8,468	$ 7,620	$ 179,233	$ 172,238	$ 192,925	$ 185,111

At December 31, 2020 and 2019, the withdrawal characteristics of the Company's separate account life reserves were as follows:

	Account Value		Cash Value		Reserves	
	December 31,					
	2020	2019	2020	2019	2020	2019
	(in millions)					
Subject to discretionary withdrawal, surrender values or policy loans:						
Variable life	$ -	$ -	$ 9,086	$ 8,162	$ 8,199	$ 7,281
Variable universal life	1,375	1,093	1,308	1,043	1,287	1,020
Total gross life reserves	$ 1,375	$ 1,093	$ 10,394	$ 9,205	$ 9,486	$ 8,301
Reinsurance ceded	-	-	-	-	-	-
Total net life insurance	$ 1,375	$ 1,093	$ 10,394	$ 9,205	$ 9,486	$ 8,301

Following are amounts reported as net life insurance reserves in the Company's Annual Statement, which agree with the amounts reported as net life insurance reserves in the table above at December 31, 2020 and 2019.

	December 31, 2020	December 31, 2019
	($ in millions)	
From Life, Accident & Health Annual Statement:		
Life insurance	$ 190,270	$ 182,519
Accidental death benefits	11	12
Disability - active lives	1,100	1,032
Disability - disabled lives	1,297	1,243
Miscellaneous reserves	247	305
Subtotal net life insurance	192,925	185,111
From Separate Accounts Annual Statement:		
Life insurance	9,486	8,301
Combined Total	$ 202,411	$ 193,412

During 2019, the methodology and mortality assumptions used in certain life insurance reserve calculations were reviewed and updated, and the corresponding reserves were reduced by $1.6 billion, net of reinsurance, respectively. This was accounted for as a change in valuation basis and is included in other surplus changes in the statements of changes in surplus.

Annuity Reserves
For annuities and supplementary contracts, policy and contract reserves are calculated using Commissioners' Annuity Reserve Valuation Method (CARVM), Valuation Manual Section 21 (VM-21) for variable annuity products and Actuarial Guideline 33 for all other products. Other deferred annuity reserves are based on policy value, with additional reserves held to reflect guarantees under these contracts. Immediate annuity reserves are based on the present value of expected benefit payments. Changes in future policy benefit reserves on supplementary contracts and income annuities without life contingencies are deposit-type transactions and are excluded from net additions to policy benefit reserves in the statements of operations.

During 2020, valuation interest rate assumptions used in certain annuity reserve calculations were reviewed and updated, and the corresponding reserves were increased by $126 million. This was accounted for as a change in valuation basis and is included in other surplus changes in the statements of changes in surplus.

Deposit Funds
Deposit funds primarily represent reserves for funding agreements, supplementary contracts and income annuities without life contingencies, and amounts left on deposit with the Company by beneficiaries or policyowners. Beneficiaries of the Company's life insurance policies can choose to receive their death benefit in a single lump sum payment or through a supplementary contract consisting of a series of scheduled payments. If the beneficiary does not affirmatively choose a supplementary contract, the proceeds are automatically paid to the beneficiary in a single lump sum.

Prior to November 1, 2013, beneficiaries of the Company's life insurance policies also could choose to receive their death benefit by deposit of the proceeds (if $20,000 or more) into an interest-bearing retained asset account ("Northwestern Access Fund"). Funds held on behalf of Northwestern Access Fund account holders are segmented in the Company's general account and are invested primarily in short-term, liquid investments and high quality corporate bonds. Northwestern Access Fund accounts are credited with interest at short-term market rates, with certain accounts subject to guaranteed minimum crediting rates.

The total deposit fund liability for Northwestern Access Fund account balances held by the Company was $310 million and $328 million at December 31, 2020 and 2019, respectively. Accounts were credited with interest at annual rates ranging from 0.02% to 3.50% and 1.28% to 3.50% during 2020 and 2019, respectively. The crediting interest rates changed 28 times and 45 times during 2020 and 2019, respectively.

In May 2020, the Company became a member of the Federal Home Loan Bank of Chicago (FHLBC) and began issuing funding agreements to FHLBC in exchange for cash. Funding agreements are issued through the general account and the sales proceeds are invested as part of a spread lending strategy. The Company is required to pledge collateral to the FHLBC in the form of eligible securities when funding agreements are issued. Upon an event of default by the Company, the FHLBC's recovery on the collateral is limited to the outstanding amount of the Company's liability to the FHLBC.

At December 31, 2020, the Company held $37 million of FHLBC activity stock. At December 31, 2020, the amount of collateral pledged to the FHLBC was as follows:

	Statement Value [1]	Fair Value [1]
	(in millions)	
Current year	$ 1,359	$ 1,525

[1] Includes amounts in excess of minimum requirements

During the year ended December 31, 2020, the maximum amount of collateral pledged to the FHLBC was as follows:

	Statement Value	Fair Value	Amount Borrowed at Time of Max Collateral
		(in millions)	
Current year	$ 1,359	$ 1,525	$ 886

At December 31, 2020, the amount borrowed from FHLBC, in the form of funding agreements, was as follows:

	December 31, 2020
	(in millions)
Borrowed	$ 886
Deposit fund reserves	$ 886
Max borrowed during the year	$ 886
Borrowing capacity as determined by insurer	$ 8,000

The Company does not have prepayment obligations for these funding agreements.

During December 2020, the Company established a $10 billion global FABN program. As part of this program, a special purpose entity will issue medium term notes (Notes) to investors. Note proceeds will be used to purchase funding agreements from the Company. The issued funding agreements will have payment terms substantially identical to the Notes. For the year ended December 31, 2020, the Company has not issued funding agreements under this FABN program. During January 2021, the Company issued its first funding agreement, in the amount of $750 million, as part of this program.

Withdrawal Characteristics of Annuity Reserves and Deposit Funds

At December 31, 2020 and 2019, the withdrawal characteristics of the Company's general account and separate account annuity reserves and deposit funds were as follows:

	General Account		Separate Account		Total	
	December 31,					
	2020	2019	2020	2019	2020	2019
	(in millions)					
Individual Annuities						
Subject to discretionary withdrawal						
- with market value adjustment	$ 70	$ 85	$ -	$ -	$ 70	$ 85
- at book value less surrender charge of 5% or more	71	80	-	-	71	80
- at fair value	-	-	22,203	20,535	22,203	20,535
Total with market value adjustment or at fair value	141	165	22,203	20,535	22,344	20,700
- at book value without adjustment	1,857	1,893	-	-	1,857	1,893
Not subject to discretionary withdrawal	7,861	6,984	289	271	8,150	7,255
Total gross individual annuities	9,859	9,042	22,492	20,806	32,351	29,848
Reinsurance ceded	-	-	-	-	-	-
Total net individual annuities	$ 9,859	$ 9,042	$ 22,492	$ 20,806	$ 32,351	$ 29,848
Group Annuities						
Subject to discretionary withdrawal						
- at fair value	$ -	$ -	$ 19	$ 21	$ 19	$ 21
Total with market value adjustment or at fair value	-	-	19	21	19	21
Not subject to discretionary withdrawal	1,990	1,845	6,291	5,577	8,281	7,422
Total gross group annuities	1,990	1,845	6,310	5,598	8,300	7,443
Reinsurance ceded	-	-	-	-	-	-
Total net group annuities	$ 1,990	$ 1,845	$ 6,310	$ 5,598	$ 8,300	$ 7,443
Deposit-Type Contracts						
Subject to discretionary withdrawal						
- with market value adjustment	$ 95	$ 112	$ -	$ -	$ 95	$ 112
- at fair value	-	-	33	31	33	31
Total with market value adjustment or at fair value	95	112	33	31	128	143
- at book value without adjustment	3,468	3,133	-	-	3,468	3,133
Not subject to discretionary withdrawal	1,297	335	-	-	1,297	335
Total gross deposit-type contracts	4,860	3,580	33	31	4,893	3,611
Reinsurance ceded	-	-	-	-	-	-
Total net deposit-type contracts	$ 4,860	$ 3,580	$ 33	$ 31	$ 4,893	$ 3,611
Total annuity reserves and deposit funds	$ 16,709	$ 14,467	$ 28,835	$ 26,435	$ 45,544	$ 40,902

Of the individual annuity reserves at book value less surrender charge of 5% or more noted above, the Company expects that $9 million will have less than a 5% surrender charge and be reported with the amounts at book value without adjustment in 2021.

Following are amounts reported as net annuity reserves in the Company's Annual Statement, which agree with the amounts reported as net annuity reserves in the table above at December 31, 2020 and 2019.

	December 31, 2020	December 31, 2019
	($ in millions)	
From Life, Accident & Health Annual Statement:		
Annuities	$ 10,300	$ 9,469
Supplementary contracts with life contingencies	1,549	1,418
Deposit-type contracts	4,860	3,580
Subtotal net annuity reserves	16,709	14,467
From Separate Accounts Annual Statement:		
Annuities	28,513	26,133
Supplementary contracts	289	271
Other contract deposit funds	33	31
Subtotal net annuity reserves	28,835	26,435
Combined Total	$ 45,544	$ 40,902

Disability and Long-Term Care Reserves

Unpaid claims and claim reserves for disability and long-term care policies are based on the present value of expected benefit payments. The changes in reserves for unpaid claims, losses and loss adjustment expenses on disability and long-term care policies for the years ended December 31, 2020 and 2019 were as follows:

	For the years ended December 31, 2020	For the years ended December 31, 2019
	(in millions)	
Balance at January 1	$ 5,200	$ 5,012
Incurred related to:		
Current year	972	845
Prior years	(85)	57
Total incurred	887	902
Paid related to:		
Current year	(41)	(34)
Prior years	(704)	(680)
Total paid	(745)	(714)
Balance at December 31	$ 5,342	$ 5,200

Changes in reserves for incurred claims related to prior years are generally the result of differences between assumed claim experience at the time reserves were originally estimated and subsequent actual claim experience. In 2020, this change also included the impact of certain disability income assumption updates made to align assumptions with recent experience.

Active life reserves are based on the net level premium method for disability policies issued prior to 1987 and the two-year preliminary term method for those issued after 1987. Active life reserves are mean reserves for disability policies issued through 2000 and mid-terminal plus unearned premium reserves for policies issued after 2000. Active life reserves for long-term care policies consist of mid-terminal reserves and unearned premiums. Mid-terminal reserves are based on the one-year preliminary term method and industry-based morbidity experience.

During 2019, the morbidity assumptions used in certain long-term care insurance active life reserve calculations were reviewed and updated, and the corresponding reserves were increased by $340 million. This was accounted for as a change in valuation basis and is included in other surplus changes in the statements of changes in surplus.

Additional Actuarial Reserves

Each year, the Company must perform asset adequacy testing (AAT) to demonstrate that reserves make adequate provision for the anticipated cash flows required by contractual obligations and related expenses, in light of assets held for the reserves. Asset adequacy testing is performed in accordance with presently accepted actuarial standards and must include assumptions necessary to determine the adequacy of reserves under moderately adverse conditions. At December 31, 2020 and 2019, reserves required as a result of AAT were as follows:

	December 31,	
	2020	2019
	(in millions)	
Annuities and deposit funds	$ 320	$ 260
Life insurance	2	2
Total reserves	$ 322	$ 262

Statutory Minimum Reserves

The Company has the option to establish policy benefit reserves using a standard of valuation that produces higher reserves than those calculated according to the minimum standard provided in the statutory regulations. For contracts issued January 1, 2001 and later, excess reserves over the statutory minimums were $665 million and $549 million at December 31, 2020 and 2019, respectively.

6. Premium and Annuity Considerations Deferred and Uncollected

Gross deferred and uncollected insurance premiums represent life insurance premiums due to be received from policyowners through the next respective policy anniversary dates. Net deferred and uncollected premiums represent only the portion of gross premiums related to mortality charges and interest and are reported in deferred premium and other assets in the statements of financial position.

Deferred and uncollected premiums at December 31, 2020 and 2019 were as follows:

	December 31, 2020		December 31, 2019	
	Gross	Net	Gross	Net
	(in millions)		(in millions)	
Ordinary new business	$ 369	$ 219	$ 252	$ 156
Ordinary renewal	2,919	2,321	2,806	2,240
Total deferred and uncollected premiums	$ 3,288	$ 2,540	$ 3,058	$ 2,396

7. Separate Accounts

Separate account liabilities at December 31, 2020 and 2019 were as follows:

	Variable Life		Variable Annuities		Total	
	December 31,					
	2020	2019	2020	2019	2020	2019
	(in millions)		(in millions)		(in millions)	
Separate account reserves	$ 9,486	$ 8,301	$ 28,835	$ 26,435	38,321	$ 34,736
Non-policy liabilities					126	96
Total separate account liabilities					$ 38,447	$ 34,832

While separate account liability values are not guaranteed by the Company, variable annuity and variable life insurance products do include guaranteed minimum death benefits (GMDB) underwritten by the Company. General account policy benefit reserves included $6 million and $5 million attributable to GMDB at December 31, 2020 and 2019, respectively.

Premiums and other considerations received from variable annuity and variable life insurance policyowners were $1.5 billion for the years ended December 31, 2020 and 2019, respectively. These amounts are reported as premiums in the statements of operations. The subsequent transfer of these premiums to the separate accounts, net of amounts received from the separate accounts to provide for policy benefit payments to variable product policyowners, is reported as net transfers to separate accounts in the statements of operations. Following are amounts reported as transfers to and from separate accounts within the Company's Separate Account Annual Statement, which agree with the amounts reported as net transfers to (from) separate accounts within these financial statements:

	At and for the years ended December 31,		
	2020	2019	2018
		(in millions)	
From Separate Account Annual Statement:			
Transfers to separate accounts	$ 1,467	$ 1,522	$ 1,696
Transfers from separate accounts	(2,147)	(2,305)	(2,193)
Net transfers to (from) separate accounts	$ (680)	$ (783)	$ (497)

8. Employee and Financial Representative Benefit Plans

The Company provides defined pension benefits for all eligible employees and financial representatives. This includes sponsorship of noncontributory defined benefit pension plans that are "qualified" under the terms of the Employee Retirement Income Security Act (ERISA) and the Internal Revenue Code ("Code"), as well as "nonqualified" plans that provide benefits to certain participants in excess of limits set by ERISA and the Code for the qualified plans. The Company's funding policy for the qualified plans is to make annual contributions that are no less than the minimum amount needed to comply with the requirements of ERISA and no greater than the maximum amount deductible for federal income tax purposes. The Company made no contributions to the qualified retirement plans during either of the years ended December 31, 2020 and 2019 and does not expect to make a contribution to the plans during 2021.

The Company's defined benefit pension plans for employees contains two different benefit formulas – a formula based on the final average pay of the participant that was frozen as of December 31, 2013 and one that awards cash balance credits based on each participant's age and years of service that became effective on January 1, 2014. Benefits accrued under the final average pay formula remain available to participants upon retirement. Accumulated cash balance credits earn interest based on market rates and are subject to a minimum crediting rate. The Company's defined benefit pension plans for financial representatives utilize a formula that is based on the participant's estimated annual income earned over their career.

In addition to defined pension benefits, the Company provides certain health care and life insurance benefits ("postretirement benefits") to retired employees, retired financial representatives and their eligible dependents. Participants are eligible for retirement health care coverage if they meet eligibility requirements for age and length of service and were either active or retired as of July 31, 2013 for employees and as of December 31, 2013 for financial representatives. Employees or financial representatives hired or contracted after the above dates are not eligible for coverage under the postretirement health plans. During 2020, the Company announced that beginning with employees retiring on or after January 1, 2022, the Company will no longer provide a subsidy for retiree health care coverage.

Medicare-eligible retirees and their dependents are offered health care options provided under an independent third-party health care marketplace ("marketplace"). Retirees and dependents that are not yet Medicare-eligible retain the historical health care benefits offered by the Company. Medicare-eligible retirees and dependents are provided with a pre-funded retiree health reimbursement account and access to third-party advisors to purchase health benefits through the marketplace. Non-Medicare-eligible retirees and dependents are provided premium assistance based on the retirees' years of service with the Company. The Company pays the entire cost of retiree life insurance coverage.

Benefit Plan Assets

Aggregate plan assets of the defined benefit pension plans and postretirement benefit plans at December 31, 2020 and 2019, and changes in these assets for the years then ended, were as follows:

	Defined Benefit Plans		Postretirement Benefit Plans	
	2020	2019	2020	2019
	(in millions)		(in millions)	
Fair value of plan assets at January 1	$ 5,459	$ 4,621	$ 84	$ 73
Changes in plan assets:				
Actual return on plan assets	854	988	13	15
Actual plan benefits paid	(155)	(150)	(3)	(4)
Fair value of plan assets at December 31	$ 6,158	$ 5,459	$ 94	$ 84

Plan assets consist of group annuity contracts issued by the Company that are funded by a Group Annuity Separate Account, which primarily invests in a diversified portfolio of public and private common stocks and corporate, government and mortgage-backed debt securities. The overall investment objective of the plans is to maximize long-term total rate of return, consistent with prudent standards for investment and asset/liability risk management and in accordance with ERISA requirements. Plan investments are managed with a long-term perspective and for the sole benefit of the plans' participants.

Plan asset allocations are rebalanced regularly to maintain holdings within desired asset allocation ranges and to reposition the portfolio based upon perceived market opportunities and risks. Diversification, both by and within asset classes, is a primary risk management consideration. Assets are invested across various asset classes, sectors, industries and geographies. The measurement date for plan assets was December 31 of the respective period with the fair value of plan assets primarily based on quoted market prices.

The target asset allocations and the actual allocation of the plans' investments based on fair value at December 31, 2020 and 2019 were as follows:

	Target Allocation		Actual Allocation	
	2020	2019	2020	2019
Bonds	64%	64%	60%	62%
Equity investments	35%	35%	37%	36%
Other investments	1%	1%	3%	2%
Total assets	100%	100%	100%	100%

At each of December 31, 2020 and 2019, other investments were comprised of cash and short-term investments.

Benefit Plan Obligations

Aggregate projected benefit obligations (PBOs) of the defined benefit pension plans and postretirement benefit plans at December 31, 2020 and 2019 and changes in these obligations for the years then ended were as follows:

	Defined Benefit Plans		Postretirement Benefit Plans	
	2020	2019	2020	2019
	(in millions)		(in millions)	
Projected benefit obligation at January 1	$ 6,050	$ 4,970	$ 743	$ 610
Changes in benefit obligation:				
Service cost of benefits earned	134	129	14	16
Interest cost on projected obligations	177	204	16	23
Projected gross plan benefits paid	(181)	(168)	(23)	(22)
Experience (gains)/losses	889	915	119	116
Plan amendments and other	-	-	(207)	-
Projected benefit obligation at December 31	$ 7,069	$ 6,050	$ 662	$ 743

The PBO represents the estimated net present value of estimated future benefit obligations. For defined benefit plans, the PBO includes assumptions for future compensation increases for active participants. The accumulated benefit obligation (ABO) is similar to the PBO but is based only on current compensation with no assumption of future compensation increases. The aggregate ABO for the defined benefit plans was $6.6 billion and $5.7 billion for the years ended December 31, 2020 and 2019, respectively. Experience (gains)/losses for each of the years ended December 31, 2020 and 2019 primarily reflect the impact of changes in the PBO discount rate.

Benefit Plan Assumptions

The assumptions used in estimating the projected benefit obligations at December 31, 2020 and 2019 and the net periodic benefit cost for the years ended December 31, 2020, 2019 and 2018 were as follows:

	Defined Benefit Plans		Postretirement Benefit Plans	
	2020	2019	2020	2019
Projected benefit obligation:				
Weighted average discount rate	2.44%	3.17%	2.37%	3.18%
Annual increase in compensation	3.75%	3.75%	3.75%	3.75%
Cash balance plan interest crediting rate	2.39%	3.14%	n/a	n/a

	Defined Benefit Plans			Postretirement Benefit Plans		
	2020	2019	2018	2020	2019	2018
Net periodic benefit cost:						
Weighted average discount rate	3.17%	4.18%	3.57%	3.18%	4.18%	3.57%
Annual increase in compensation	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
Long-term rate of return on plan assets	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
Cash balance plan interest crediting rate	3.14%	4.16%	3.54%	n/a	n/a	n/a

The expected long-term rate of return on plan assets is estimated in consideration of historical financial market performance, internal and third-party capital market expectations and the long-term target asset allocation.

The assumed annual increase in future retiree medical costs used in measuring the obligation for postretirement benefits were as follows:

	December 31,	
	2020	2019
Assumed annual increase	5.00%	5.00%
Ultimate rate of annual increase	5.00%	5.00%
Year in which ultimate rate is reached	2021	2020

Effective January 1, 2019, the Company's exposure to medical inflation will be limited to a maximum annual increase of 3% with any annual increase in excess of that rate passed on to the plan's participants in the form of increased premiums.

Benefit Plan Funded Status

Following is an aggregate reconciliation of the funded status of the plans to the related financial statement liabilities reported by the Company at December 31, 2020 and 2019.

	Defined Benefit Plans		Postretirement Benefit Plans	
	2020	2019	2020	2019
	(in millions)		(in millions)	
Fair value of plan assets	$ 6,158	$ 5,459	$ 94	$ 84
Projected benefit obligation	7,069	6,050	662	743
Funded status	(911)	(591)	(568)	(659)
Nonadmitted asset	(463)	(485)	-	-
Financial statement liability	$ (1,374)	$ (1,076)	$ (568)	$ (659)

The PBO for defined benefit plans above included $1,374 million related to the underfunded qualified plan for financial representatives and unfunded non-qualified plans at December 31, 2020 and $1,076 million related to unfunded non-qualified plans at December 31, 2019. In the aggregate, the fair value of qualified defined benefit plan assets represented 107% and 110% of the projected benefit obligations of these plans at December 31, 2020 and 2019, respectively.

Statutory accounting guidance requires that changes in plan funded status be recognized immediately as a direct adjustment to surplus, subject to limitations such as admissibility of net pension assets. These adjustments are included in changes in nonadmitted assets and other in the statements of changes in surplus. Aggregate defined benefit pension and postretirement plan surplus impacts were as follows for the years ended December 31, 2020 and 2019:

	For the year ended December 31, 2020				
	Defined Benefit Plans			Postretirement Benefit Plans	
	Net experience gains (losses)	Prior service (costs) credits	Net initial asset	Net experience gains (losses)	Prior service (costs) credits
	(in millions)			(in millions)	
Balance at January 1	$ (1,289)	$ 165	$ 299	$ (63)	$ (45)
Amortization from surplus into net periodic benefit cost	56	(25)	(14)	4	(4)
Changes in plan assets and benefit obligations recognized in surplus	(384)	-	-	(109)	234
Balance at December 31	$ (1,617)	$ 140	$ 285	$ (168)	$ 185

	For the year ended December 31, 2019				
	Defined Benefit Plans			Postretirement Benefit Plans	
	Net experience gains (losses)	Prior service (costs) credits	Net initial asset	Net experience gains (losses)	Prior service (costs) credits
	(in millions)			(in millions)	
Balance at January 1	$ (1,113)	$ 190	$ 314	$ 42	$ (50)
Amortization from surplus into net periodic benefit cost	53	(25)	(15)	(1)	5
Changes in plan assets and benefit obligations recognized in surplus	(229)	-	-	(104)	-
Balance at December 31	$ (1,289)	$ 165	$ 299	$ (63)	$ (45)

Benefit Plan Costs

The components of net periodic benefit cost for the years ended December 31, 2020, 2019 and 2018 were as follows:

	Defined Benefit Plans			Postretirement Benefit Plans		
	2020	2019	2018	2020	2019	2018
	(in millions)			(in millions)		
Components of net periodic benefit cost:						
Service cost of benefits earned	$ 134	$ 129	$ 146	$ 14	$ 16	$ 20
Interest cost on projected obligations	177	204	180	16	23	21
Amortization of experience losses	56	53	42	4	(1)	-
Amortization of prior service (credits) costs	(25)	(25)	(25)	(4)	5	5
Amortization of initial net asset	(14)	(15)	-	-	-	-
Expected return on plan assets	(336)	(284)	(309)	(5)	(4)	(5)
Curtailment	(1)	-	-	28	-	-
Net periodic benefit (credit) cost	$ (9)	$ 62	$ 34	$ 53	$ 39	$ 41

The expected benefit payments by the defined benefit plans and the postretirement benefit plans for the years 2021 through 2030 are as follows:

	Defined Benefit Plans	Postretirement Benefit Plans
	(in millions)	
2021	$ 183	$ 28
2022	205	27
2023	214	27
2024	225	26
2025	233	26
2026-2030	1,306	125
Total	$ 2,366	$ 259

The Company sponsors a contributory 401(k) plan for eligible employees, for which the Company provides a matching contribution, and a noncontributory defined contribution plan for financial representatives. In addition, the Company sponsors nonqualified plans that provide related benefits to certain participants in excess of limits set by ERISA for qualified defined contribution plans. For the years ended December 31, 2020, 2019 and 2018, the Company expensed total contributions to these plans of $57 million, $53 million and $50 million, respectively. The Company announced in the fourth quarter of 2020 that it's matching contributions to the 401(k) plan will be temporarily ceased beginning in 2021 and replaced by additional contribution credits to the cash balance plan.

9. Reinsurance

The Company limits its exposure to life insurance death benefits by ceding coverage to various reinsurers. In 1999, the Company ceased reinsuring new individual disability policies, but has maintained a portion of the reinsurance ceded on policies issued prior to 1999. The Company cedes between 60 - 80% of the morbidity risk on group disability and 60% of the mortality risk on group life policies.

As part of an affiliated reinsurance agreement, the Company assumes 100% of the net risk associated with NLTC's long-term care business. At December 31, 2020 and 2019, the net amount due from NLTC under this agreement was $50 million and $48 million, respectively.

Amounts in the financial statements are reported net of the impact of reinsurance. Policy benefit reserves were reported net of ceded reserves of $1.7 billion at both December 31, 2020 and 2019. The Company has reinsured all risks disclosed in the financial statements under Actuarial Guideline 48.

The effects of reinsurance on premium revenue and total benefits for the years ended December 31, 2020, 2019 and 2018 were as follows:

	For the years ended December 31,		
	2020	2019	2018
		(in millions)	
Direct premium revenue	$ 19,501	$ 19,197	$ 18,231
Premiums assumed	800	763	711
Premiums ceded	(978)	(950)	(906)
Premium revenue	$ 19,323	$ 19,010	$ 18,036
Direct benefit expense	$ 20,538	$ 20,158	$ 19,037
Benefits assumed	837	830	680
Benefits ceded	(792)	(805)	(699)
Total benefits	$ 20,583	$ 20,183	$ 19,018

In addition, the Company received $133 million, $135 million and $129 million in allowances from reinsurers for reimbursement of commissions and other expenses on ceded business for the years ended December 31, 2020, 2019 and 2018, respectively. These amounts are reported in other income in the statements of operations. For the years ended December 31, 2020, 2019 and 2018, the Company incurred $127 million, $136 million and $138 million, respectively, in expense allowances on reinsurance assumed from NLTC.

Reinsurance contracts do not relieve the Company from its obligations to policyowners. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company mitigates this counterparty risk by dealing only with reinsurers that meet its financial strength standards while adhering to concentration limits for counterparty exposure to any single reinsurer. Most significant reinsurance treaties contain financial protection provisions that take effect if a reinsurer's credit rating falls below a prescribed level. There were no reinsurance recoverables at December 31, 2020 and 2019 that were considered by the Company to be uncollectible.

10. Federal Income Taxes

The results of the Company's operations are consolidated with the following entities for purposes of filing the Company's consolidated federal income tax return:

Northwestern Mutual Investment Services, LLC
NML Real Estate Holdings, LLC and subsidiaries
NML Securities Holdings, LLC and subsidiaries
Northwestern Mutual MU TLD Registry, LLC
Northwestern Mutual Wealth Management Company
NM Investment Holdings, LLC
GRO, LLC and GRO-SUB, LLC
NM Career Distrib. Holdings, LLC and subsidiaries
NM Investment Management Company, LLC
Northwestern Long Term Care Ins. Co
NM Harrisburg, Inc
Mason Street Advisors, LLC
NM GP Holdings, LLC and subsidiaries
NM Pebble Valley, LLC
Northwestern Mutual Registry, LLC
QOZ Holding Co, LLC and subsidiaries
NM QOZ Fund, LLC
NM QOZ Fund II, LLC
NM SAS, LLC
Venture Studio Holdings, LLC
Wysh Financial Services, LLC

The Company collects from or refunds to these subsidiaries their share of consolidated federal income taxes determined pursuant to written tax-sharing agreements, which generally require that these subsidiaries determine their share of consolidated tax payments or refunds as if each subsidiary filed a separate federal income tax return on a stand-alone basis.

The components of current income tax expense (benefit) in the Statements of Operations for the years ended December 31, 2020, 2019 and 2018 related to ordinary taxable income (loss) were as follows:

	For the years ended December 31,		
	2020	2019	2018
		(in millions)	
Tax payable on ordinary income	$ 637	$ 103	$ 110
Low income housing tax credits	(136)	(123)	(119)
Other tax credits	(71)	(49)	(23)
Decrease in contingent tax liabilities	(153)	(130)	(127)
Total current tax expense (benefit)	$ 277	$ (199)	$ (159)

In addition to current income tax benefit related to ordinary taxable income or loss as summarized above, the Company is subject to federal income tax on capital gains and losses that generally result from investment transactions. Investment capital gains and losses resulting from changes in market interest rates or credit spreads are deferred to the IMR net of any related tax expense or benefit. Current tax expense (benefit) of $433 million, $141 million and $(49) million was included in net IMR deferrals for the years ended December 31, 2020, 2019 and 2018, respectively. In addition, net realized capital gains and losses as reported in the statements of operations included current tax expense (benefit) of $(2) million, $173 million and $88 million for the years ended December 31, 2020, 2019 and 2018, respectively.

The table below shows how the Company's income tax expense or benefit for the years ended December 31, 2020, 2019 and 2018 differs from the amount obtained by applying the statutory rate of 21% to gain from operations before taxes, including net realized capital gains (losses) before IMR and capital gain tax (benefit):

	For the years ended December 31,		
	2020	2019	2018
		(in millions)	
Provision computed at statutory rate	$ 580	$ 402	$ 98
Adjustments to the statutory rate:			
Subsidiary distributions	(283)	(73)	(115)
Tax credits	(207)	(172)	(142)
Amortization of IMR	(53)	(28)	(28)
Dividends received deduction	(31)	(33)	(26)
Employee benefits	(22)	(12)	(17)
Deferred adjustments	(29)	183	214
Other	(50)	(21)	(28)
Total statutory income tax expense (benefit)	$ (95)	$ 246	$ (44)
Federal income tax expense (benefit) reported on statements of operations	$ 277	$ (199)	$ (159)
Capital gains tax expense, net of IMR transfers	431	315	39
Change in net deferred tax assets	(803)	130	76
Total statutory income tax expense (benefit)	$ (95)	$ 246	$ (44)

During the year, the Company may make payments to or receive refunds from the Internal Revenue Service (IRS) for federal income taxes that are applicable to current or previous tax years. The Company made or received net income tax payments, including subsidiaries, of $679 million, $410 million and $150 million to the IRS during the years ended December 31, 2020, 2019 and 2018, respectively.

Federal income taxes available for recoupment in the case of future tax losses are limited to amounts reported on previous tax returns. Total capital gain taxes paid for tax years 2020, 2019 and 2018 that are available for recoupment are $461 million, $496 million and $247 million, respectively.

Federal income tax returns for 2016 and 2013 and prior years are closed as to further assessment of tax. Tax returns for the 2014 and 2015 tax years are in appeals with the IRS. Income taxes payable in the statements of financial position represents an estimate of taxes payable, including additional taxes that may become due with respect to tax years that remained open to examination by the IRS ("contingent tax liabilities") at the respective reporting date.

Changes in contingent tax liabilities for the years ended December 31, 2020 and 2019 were as follows:

	For the years ended December 31,	
	2020	2019
	(in millions)	
Balance at January 1	$ 153	$ 283
Reductions for tax positions of prior years	(153)	(130)
Balance at December 31	$ -	$ 153

Included in contingent tax liabilities at December 31, 2020 and 2019 were $0 million and $138 million, respectively, of tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of the deductions. Because of the impact of deferred taxes for amounts other than interest, the timing of the ultimate deduction may affect the effective tax rate in future periods. The Company has no tax positions for which the ultimate deductibility is not certain.

For the years ended December 31, 2020, 2019 and 2018, the Company recognized $(15) million, $(3) million and $(9) million, respectively, of interest-related tax expense.

The components of net deferred tax assets reported in the statements of financial position at December 31, 2020 and 2019 were as follows:

	December 31, 2020	December 31, 2019	Change
	(in millions)		
Deferred tax assets:			
Policy acquisition costs	$ 1,016	$ 942	$ 74
Investments	319	259	60
Policy benefit liabilities	1,673	1,656	17
Benefit plan obligations	621	573	48
Fixed Assets	931	-	931
Other	83	115	(32)
Gross deferred tax assets	4,643	3,545	1,098
Nonadmitted deferred tax assets	-	-	-
Gross admitted deferred tax assets	4,643	3,545	1,098
Deferred tax liabilities:			
Investments	986	822	164
Other	1,352	1,114	238
Gross deferred tax liabilities	2,338	1,936	402
Net deferred tax assets	$ 2,305	$ 1,609	$ 696

The Company exceeded the minimum RBC level of 300%, which is necessary to apply the maximum admissibility thresholds, based on authorized control level RBC computed without net deferred tax assets at December 31, 2020 and 2019.

Significant components of the calculation of net admitted deferred tax assets at December 31, 2020 and 2019 were as follows (in millions):

	December 31, 2020			December 31, 2019			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross deferred tax assets	$ 4,324	$ 319	$ 4,643	$ 3,287	$ 258	$ 3,545	$ 1,037	$ 61	$ 1,098
Statutory valuation allowance adjustment	-	-	-	-	-	-	-	-	-
Adjusted gross deferred tax assets	4,324	319	4,643	3,287	258	3,545	1,037	61	1,098
Deferred tax assets nonadmitted	-	-	-	-	-	-	-	-	-
Subtotal net admitted deferred tax asset	4,324	319	4,643	3,287	258	3,545	1,037	61	1,098
Deferred tax liabilities	1,352	986	2,338	1,114	822	1,936	238	164	402
Net admitted deferred tax asset/(liability)	$ 2,972	$ (667)	$ 2,305	$ 2,173	$ (564)	$ 1,609	$ 799	$ (103)	$ 696

	December 31, 2020			December 31, 2019			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Federal income taxes paid in prior years recoverable through loss carrybacks	$ -	$ 185	$ 185	$ -	$ 147	$ 147	$ -	$ 38	$ 38
Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets above) after application of the threshold limitation (lesser of a. or b. below)	2,599	-	2,599	1,695	-	1,695	904	-	904
Adjusted gross deferred tax assets (excluding the amount of deferred tax assets offset by gross deferred tax liabilities)	1,725	134	1,859	1,592	112	1,704	133	22	155
Total deferred tax assets admitted as the result of application of SSAP No. 101	$ 4,324	$ 319	$ 4,643	$ 3,287	$ 259	$ 3,545	$ 1,037	$ 60	$ 1,098

	December 31, 2020 Total	December 31, 2019 Total	Change Total
a. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	$ 2,599	$ 1,695	$ 904
b. Adjusted gross deferred tax assets allowed per limitation threshold	$ 3,394	$ 3,386	$ 8
Ratio percentage used to detemine recovery period and threshold limitation amount	920%	1010%	
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation	$ 22,625	$ 22,576	

All gross deferred tax liabilities have been recognized at December 31, 2020 and 2019. The Company did not employ tax planning strategies in its valuation allowance assessment at either December 31, 2020 or 2019. At December 31, 2020, the percentage of net ordinary deferred tax assets admitted as a result of tax planning strategies was 9%. The Company did not employ tax planning strategies in its deferred tax asset admissibility calculations at December 31, 2019.

11. Commitments and Contingencies

Commitments

In the normal course of its investment activities, the Company makes commitments to fund private equity investments, real estate, mortgage loans and other investments. These forward commitments aggregated to $9.7 billion and $10.1 billion at December 31, 2020 and 2019, respectively, and were extended at market rates and terms.

Contingencies

The Company is engaged in various legal actions in the normal course of its insurance and investment operations. The status of these legal actions is actively monitored by the Company. If the Company believes, based on available information, that an adverse outcome upon resolution of a given legal action is probable and the amount of that adverse outcome is reasonably estimable, a loss is recognized and a related liability reported. Legal actions are subject to inherent uncertainties, and future events could change the Company's assessment of the probability or estimated amount of potential losses from pending or threatened legal actions. Based on available information, it is the opinion of the Company that the ultimate resolution of pending or threatened legal actions, both individually and in the aggregate, will not result in losses that would have a material effect on the Company's financial position at December 31, 2020.

Guarantees

In the normal course of business, the Company makes guarantees to third parties on behalf of wholly-owned subsidiaries (e.g., debt guarantees) and financial representatives (e.g., the guarantee of office lease payments), or directly to financial representatives (e.g., future minimum compensation payments). If the financial representatives are not able to meet their obligations or these minimum compensation thresholds are not otherwise met, the Company would be required to make payments to fulfill its guarantees. For certain of these guarantees, the Company has the right to pursue recovery of payments made under the agreements. The terms of these guarantees range from less than one year to twenty-one years at December 31, 2020.

Following is a summary of the guarantees provided by the Company that were outstanding at December 31, 2020 and 2019, including both the maximum potential exposure under the guarantees and the financial statement liability reported based on fair value of the guarantees.

	December 31, 2020		December 31, 2019	
Nature of guarantee	Maximum potential amount of future payments	Financial statement liability	Maximum potential amount of future payments	Financial statement liability
	(in millions)		(in millions)	
Guarantees of future minimum compensation - financial representatives	$ 59	$ 1	$ 67	$ 1
Guarantees of real estate obligations	476	5	418	4
Guarantees issued on behalf of wholly-owned subsidiaries	106	-	19	-
Total guarantees	$ 641	$ 6	$ 504	$ 5

No material payments have been required under these guarantees to date, and the Company believes the probability that it will be required to perform under these guarantees in the future is remote. Performance under these guarantees would require the Company to recognize additional operating expense or increase the amount of its equity investment in the affiliate or subsidiary on behalf of which the guarantee was made.

12. Related Party Transactions

The Company has a capital support and guarantee of benefits agreement that requires it to maintain the capital and surplus (as defined) of NLTC at a minimum level based upon a formula applied to NLTC's earned premium and policy benefit reserves, or 150% of its company action level of RBC as prescribed by the NAIC, whichever is lower. In addition, NM guarantees NLTC's policyowners its ability to pay all policy benefits due and owed pursuant to contracts of insurance sold by NLTC during the term of the agreement. This agreement was amended during 2020 to extend the length of the agreement through December 31, 2025 and increase the aggregate capital contribution limit from $200 million to $300 million. The Company contributed capital to NLTC of $15 million and $25 million for the years ended December 31, 2020 and 2019, respectively. The Company has contributed a total of $205 million to NLTC through December 31, 2020. The Company reported a payable to NLTC of $59 million and $56 million at December 31, 2020 and 2019, respectively, which is reported in other liabilities in the statements of financial position at each of those dates. Intercompany balances are settled in cash, generally within thirty days of the respective reporting date.

13. Surplus Notes

The following table summarizes the surplus notes issued by the Company and are outstanding at December 31, 2020:

Description	Issue date	Principal amount	Statement value	Interest paid current year	Cumulative interest paid	Interest rate	Maturity date
		($ in millions)					
2010 Notes	3/26/2010	$ 1,224	$ 1,224	$ 74	$ 1,083	6.063%	3/30/2040
2017 Notes	9/26/2017	1,200	1,198	46	139	3.850%	9/30/2047
2019 Notes	9/20/2019	1,347	1,151	50	50	3.625%	9/30/2059
	Total	$ 3,771	$ 3,573	$ 170	$ 1,272		

Each series of notes was distributed pursuant to Rule 144A under the Securities Act of 1933, as amended. Interest on each of the above notes is payable semi-annually on March 30 and September 30, subject to approval by the OCI. SAP requires recognition of interest expense on the notes upon OCI approval of semi-annual interest payments.

On September 20, 2019, the Company issued $1,347 million of 2019 notes. A portion of the issuance was comprised of $600 million new principal, issued at a discount, with net proceeds of $597 million. The remaining $747 million of principal was used to redeem 2010 notes with a principal balance of $526 million as part of a surplus note exchange transaction. Of the $221 million of discount at the time of the exchange, $22 million was related to an inducement for noteholders to exchange their 2010 notes, and was recorded as a reduction to net investment income within the statement of operations. Since this exchange transaction did not meet the “substantially different” criteria within SSAP No. 103R, *Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, the remaining discount of $199 million will be amortized and charged to the statement of operations over the remaining life of the 2019 notes.

The notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of the Company and do not repay principal prior to maturity, with principal payment at maturity subject to the prior approval of the OCI. The notes are not redeemable at the option of any note holder but are redeemable, in whole or in part, at the option of the Company at any time, subject to the prior approval of the OCI, at a “make whole” redemption price equal to the greater of the principal amount of the notes to be redeemed or the sum of the present value of the remaining scheduled payments of principal and interest on the notes to be redeemed, excluding accrued interest as of the date on which the notes are to be redeemed, discounted on a semi-annual basis at a defined U.S. Treasury rate plus 0.20% (2017 notes) and 0.25% (2010 and 2019 notes). The entire amount of the 2017 and 2019 notes are redeemable, at par, in the event of certain defined tax events.

No affiliates of the Company hold any portion of the notes, which are generally held of record at the Depository Trust Company by bank custodians on behalf of investors. No single investor holds 10% or more of the 2017 notes or the 2019 notes. The largest holder of the 2010 notes is Nippon Life Insurance Company of Japan, which held $250 million in principal amount of notes at each of December 31, 2020 and 2019.

14. Fair Value of Financial Instruments

Certain of the Company's assets and liabilities are considered "financial instruments" as defined by Statement of Statutory Principles No. 100, *Fair Value Measurements* (SSAP 100). The Company's estimation of fair value for financial instruments uses a hierarchy that, where possible, makes use of quoted market prices from active and transparent markets for assets that are identical to those being valued, typically obtained from independent pricing services ("level 1"). In the absence of quoted market prices for identical assets, fair value is estimated by these pricing services using relevant and observable market-based inputs for substantially similar securities ("level 2"). Financial instruments for which no quoted market prices or observable inputs are available are generally valued using internally-developed pricing models or indicative (i.e., non-binding) quotes from independent securities brokers ("level 3").

The Company actively monitors fair value estimates received from independent pricing services at each financial reporting date, including analysis of valuation changes for individual securities compared to overall market trends and validation on an exception basis with internally-developed pricing models. The Company also performs periodic reviews of the information sources, inputs and methods used by its independent pricing services, including an evaluation of their control processes. Where necessary, the Company will challenge third-party valuations or methods and require more observable inputs or different methodologies.

For financial instruments included in the scope of SSAP 100, the statement value and fair value at December 31, 2020 and 2019 were as follows:

	December 31, 2020					
	Statement Value	Fair Value	Quoted prices in active markets for identical assets (level 1)	Significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Net Asset Value (NAV)
	(in millions)					
General account investment assets:						
Bonds	$ 166,324	$ 183,434	$ 3,175	$ 162,956	$ 17,303	$ -
Mortgage loans	41,568	45,155	-	-	45,155	-
Common and preferred stocks	4,623	4,659	4,051	60	548	-
Policy loans	17,686	17,686	-	-	17,686	-
Derivative assets	358	571	-	571	-	-
Surplus note investments	161	211	-	211	-	-
Cash and short-term investments	3,239	3,239	614	2,625	-	-
Separate account assets	38,447	38,447	34,519	3,172	711	45
General account liabilities:						
Investment-type insurance reserves	$ 6,397	$ 6,445	$ -	$ -	$ 6,445	$ -
Liabilities for repurchase agreements	1,315	1,315	-	1,315	-	-
Derivative liabilities	622	500	-	500	-	-
Separate account liabilities	38,447	38,447	34,519	3,172	711	45

	December 31, 2019					
	Statement Value	Fair Value	Quoted prices in active markets for identical assets (level 1)	Significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Net Asset Value (NAV)
	(in millions)					
General account investment assets:						
Bonds	$ 159,760	$ 168,729	$ 2,605	$ 151,243	$ 14,881	$ -
Mortgage loans	39,771	41,784	-	-	41,784	
Common and preferred stocks	4,267	4,290	3,671	78	541	
Policy loans	17,829	17,829	-	-	17,829	
Derivative assets	546	697	-	697	-	
Surplus note investments	111	144	-	144	-	-
Cash and short-term investments	2,408	2,408	809	1,599	-	-
Separate account assets	34,832	34,832	31,092	3,017	617	106
General account liabilities:						
Investment-type insurance reserves	$ 5,242	$ 5,189	$ -	$ -	$ 5,189	$ -
Liabilities for repurchase agreements	1,711	1,711	-	1,711	-	-
Derivative liabilities	189	163	-	163	-	-
Separate account liabilities	34,832	34,832	31,092	3,017	617	106

Bonds
Bonds classified as level 1 financial instruments are generally limited to U.S. Treasury securities. Most bonds, including U.S. and foreign public and private corporate bonds, municipal bonds and structured securities, are classified as level 2 financial instruments and are valued based on prices obtained from independent pricing services or internally-developed pricing models using observable inputs. Typical market-observable inputs include benchmark yields, reported trades, issuer spreads, bids, offers, benchmark securities, estimated cash flows and prepayment speeds. Level 3 bonds are typically privately-placed and relatively illiquid, with fair value based on non-binding broker quotes or internally-developed pricing models utilizing unobservable inputs. See Note 3 for more information regarding the Company's investments in bonds.

Mortgage Loans
Mortgage loans consist solely of commercial mortgage loans underwritten and originated by the Company. Fair value of these loans is estimated using a discounted cash flow approach based on market interest rates for commercial mortgage debt with comparable credit risk and maturity. See Note 3 for more information regarding the Company's investments in mortgage loans.

Common and Preferred Stock
Common and preferred stocks classified as level 1 financial instruments are limited to those actively traded on a U.S. or foreign stock exchange. Level 2 securities are stocks for which market quotes are available but are not considered to be actively traded. Common and preferred stocks classified as level 3 are generally privately-placed with fair value primarily based on a sponsor valuation or market comparables approach utilizing unobservable inputs. See Note 3 for more information regarding the Company's investments in common and preferred stocks.

Policy Loans
See Note 2 for information regarding policy loans, for which the Company considers the unpaid principal balance to approximate fair value.

Derivative Instruments
The Company's derivative investments are generally traded in over-the-counter markets with fair value estimated using industry-standard models with market-observable inputs such as swap yield curves, LIBOR basis curves, foreign currency spot rates, foreign currency basis curves, option volatilities and credit spreads. Warrants classified as level 3 are generally privately-placed with fair value primarily based on a sponsor valuation or market comparables approach utilizing unobservable inputs. See Note 4 for more information regarding the Company's derivative investments.

Surplus Note Investments
The Company invests in surplus note issuances of other mutual insurance companies. These bond-like instruments are classified as level 2 financial instruments and are valued based on prices obtained from independent pricing services or internally-developed pricing models using observable inputs. Typical market-observable inputs include benchmark yields, reported trades, issuer spreads, bids, offers, benchmark securities, estimated cash flows and prepayment speeds.

Cash and Short-term Investments
Cash and short-term investments include cash deposit balances, money market mutual funds, short-term commercial paper and other highly-liquid debt instruments, for which the Company considers net asset value or amortized cost to approximate fair value.

Separate Account Assets and Liabilities
See Note 2 and Note 7 for information regarding the Company's separate accounts, for which fair value is primarily based on quoted market prices for the related common stocks, preferred stocks, bonds, derivative instruments and other investments. Separate account assets classified as level 3 financial instruments are primarily securities partnership investments that are valued based on the Company's underlying equity in the partnerships, which the Company considers to approximate fair value.

General Account Insurance Reserves
The Company's general account insurance liabilities defined as financial instruments under SSAP 100 are limited to "investment-type" products such as fixed-rate annuity policies, supplementary contracts without life contingencies and amounts left on deposit. The fair value of investment-type insurance reserves is estimated based on future cash flows discounted at market interest rates for similar instruments with comparable maturities.

Repurchase Agreement Liabilities
See Note 3 for information regarding repurchase agreement activity, for which the Company considers the liability to return collateral to approximate the fair value of collateral originally received.

Assets and Liabilities Reported at Fair Value

The following tables summarize assets and liabilities measured and reported at fair value in the statements of financial position at December 31, 2020 and 2019.

December 31, 2020 (in millions)	Quoted prices in active markets for identical assets (level 1)	Significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Net Asset Value (NAV)	Total
General account:					
Bonds	$ 401	$ 30	$ 90	$ -	$ 521
Common and preferred stocks	4,051	-	390	-	4,441
Money market mutual funds	309	-	-	-	309
Derivative assets	-	98	-	-	98
Derivative liabilities	-	23	-		23
Total general account	$ 4,761	$ 151	$ 480	$ -	$ 5,392
Separate accounts:					
Mutual fund investments	$ 32,149	$ -	$ -	-	$ 32,149
Other benefit plan assets/liabilities	21	20	4	-	45
Pension and postretirement assets:					
Bonds	341	3,094	118	-	3,553
Common and preferred stock	1,768	1	47	45	1,861
Cash and short-term securities	50	52	-	-	102
Other assets/liabilities	190	5	542	-	737
Subtotal pension and postretirement assets	2,349	3,152	707	45	6,253
Total separate accounts	$ 34,519	$ 3,172	$ 711	$ 45	$ 38,447

December 31, 2019 (in millions)	Quoted prices in active markets for identical assets (level 1)	Significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Net Asset Value (NAV)	Total
General account:					
Bonds	$ 3	$ 37	$ 5	$ -	$ 45
Common and preferred stocks	3,671	-	458	-	4,129
Money market mutual funds	668	-	-	-	668
Derivative assets	-	75	-	-	75
Derivative liabilities	-	21	-		21
Total general account	$ 4,342	$ 133	$ 463	$ -	$ 4,938
Separate accounts:					
Mutual fund investments	$ 29,245	$ -	$ -	-	$ 29,245
Other benefit plan assets/liabilities	21	18	4	1	44
Pension and postretirement assets:					
Bonds	226	2,887	119	-	3,232
Common and preferred stock	1,462	1	46	105	1,614
Cash and short-term securities	34	105	-	-	139
Other assets/liabilities	104	6	448	-	558
Subtotal pension and postretirement assets	1,826	2,999	613	105	5,543
Total separate accounts	$ 31,092	$ 3,017	$ 617	$ 106	$ 34,832

During 2020, transfers into level 3 are the result of observable market data, such as public ratings, no longer being available and transfers out of level 3 are the result of observable market data, including 3rd party vendor prices and public ratings, being available and utilized in the determination of the fair market value of the securities. There were no material asset transfers into or out of level 3 during the year ended December 31, 2019.

The following tables summarize the changes in fair value of level 3 financial instruments for the years ended December 31, 2020 and 2019.

For the year ended December 31, 2020	General account common and preferred stock	General account bonds	Derivative assets	Separate account assets
	(in millions)			
Fair value, beginning of period	$ 458	$ 5	$ -	$ 617
Realized gains/(losses)	14	(5)	-	47
Unrealized gains/(losses)	(21)	(25)		41
Issuances	-	-	-	-
Purchases	58	5	-	137
Sales	(57)	-	-	(134)
Settlements	-	-	-	-
Net discount/premium	8	-	-	2
Transfers into level 3		110	-	7
Transfers out of level 3	(70)	-	-	(6)
Fair value, end of period	$ 390	$ 90	$ -	$ 711

For the year ended December 31, 2019	General account common and preferred stock	General account bonds	Derivative assets	Separate account assets
	(in millions)			
Fair value, beginning of period	$ 455	$ 5	$ 16	$ 531
Realized gains/(losses)	(27)	-	-	41
Unrealized gains/(losses)	24	-		26
Issuances	-	-	-	-
Purchases	37	-	-	151
Sales	(35)	-	-	(132)
Settlements	-	-	-	-
Net discount/premium	4	-	-	(1)
Transfers into level 3		-	-	1
Transfers out of level 3	-	-	(16)	
Fair value, end of period	$ 458	$ 5	$ -	$ 617

The fair values of level 3 financial instruments are sensitive to changes in significant unobservable inputs. Level 3 bonds are valued using a combination of discounted cash flows and indicative quotes from independent securities brokers based on market comparable companies. The most significant unobservable input in the discounted cash flow analysis is the discount rate. This rate is estimated based upon a risk-free market interest rate (U.S. Treasury with comparable maturity) plus a credit spread adjustment based on the estimated credit rating of the issuer. In general, issuers with lower credit ratings have higher credit spreads. A decrease in the credit spread adjustment would increase the fair value of the investment as the future expected cash flows are discounted at a lower rate. The opposite impact would occur if credit spread adjustments increase.

Level 3 privately-placed common and preferred stocks and derivatives, are primarily valued using a private equity sponsor valuation or market comparables approach. Both approaches rely on the use of multiples that are based on industry-specific comparable companies. Multiples are derived from the relationship of an entity's fair value to its book value or earnings before interest, taxes, depreciation and amortization (EBITDA). The use of EBITDA normalizes for company-specific differences in capital structure, taxation and fixed asset accounting. An increase in the multiple would result in an increase in the fair value of the investment. The opposite impact would occur if the multiple decreased.