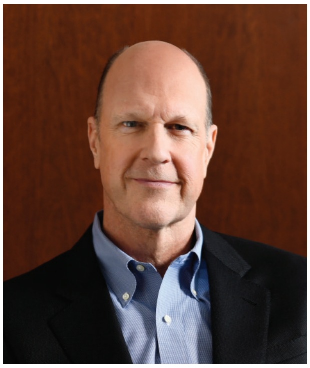
2020 ANNUAL REPORT

Prudential Financial, Inc.

MESSAGE FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Dear Fellow Shareholders,



Charles F. Lowrey

Marked by historic upheaval and tragedy, devastating loss and suffering, economic volatility and turmoil, 2020 presented untold challenges. Throughout the year, Prudential employees around the world rose to the challenges facing our customers, the company, our communities and themselves personally, again and again.

One example from the early days of the pandemic stands out vividly in my mind. It was a Sunday morning in late March, and the American northeast was facing a grim reality: the local health system was on the brink of being overwhelmed by the first wave of COVID-19 cases. Hospitals were running out of personal protective equipment and, as supplies dwindled, some considered closing their doors to new patients.

That was when a colleague remembered our emergency supplies, including protective masks, stored in a subbasement of our headquarters in Newark, New Jersey, as part of Prudential's emergency response plan. Following a flurry of phone calls over the next couple of hours, and thanks to the quick action of our security and facilities teams, by that evening a truck loaded with more than 150,000 face masks was on its way to local health care facilities. Given the magnitude of the need, it was a small contribution, but it was enough to provide immediate relief and keep local hospitals open.

"During 2020, we took decisive action to evolve our business toward one that is more efficient and customer-focused, less capital intensive, less interest rate and equity market sensitive, and one that will deliver more predictable financial results with higher growth."

In the midst of a once-in-a-century pandemic, actions like this reminded us of what's possible when we come together with a sense of urgency, unwavering focus, and the can-do attitude that has been a hallmark of Prudential's culture since our founding. This spirit was evident throughout 2020, as we worked to address the effects of the pandemic and racial injustice on our customers, businesses, employees and communities around the world.

In this letter I discuss how we delivered on our purpose—to make lives better by solving the financial challenges of our changing world—with a focus on three areas: our business performance and transformation, our commitment to Prudential's long-term resilience and sustainability, and our renewed efforts to combat racism and improve racial equity.

Performance and transformation

During 2020 our business performance was affected by a significant decline in interest rates and by the pandemic, which both led to lower income and return on equity. We maintained our financial strength during the year thanks to our risk management framework, which includes planning for a variety of extreme events, including a global pandemic. We enacted our playbook quickly, which helped us to meet the needs of our customers and employees and ensure the health of our balance sheet. We demonstrated our operational resilience in the face of challenges presented by the pandemic. In mid-March, for example, we quickly adapted our infrastructure to enable more than 90% of Prudential's employees to work remotely, to protect their health and safety and that of their families. Our technology team made it happen, and we have operated seamlessly ever since.

In 2019 we began a comprehensive strategic and transformative process with one overarching goal: to provide Prudential's customers, employees and shareholders with a more rewarding experience. We further accelerated our transformation amid the pandemic.

During 2020, we took decisive action to evolve our business toward one that is less capital intensive, less interest rate and equity market sensitive, and one that will deliver more predictable financial results with higher growth. This work included discontinuing sales of traditional variable annuities with living benefits and rotating away from secondary guarantee universal life products. In support of our strategy to rotate the mix of earnings in our international businesses to higher growth markets, we also sold the Prudential Life Insurance Company of Korea and announced the sale of the Prudential Life Insurance Company of Taiwan.

We created a dedicated Transformation Office to drive the work of reinventing how we operate. We identified ways to move closer to our customers while becoming more efficient in how we work, realizing approximately $400 million of run-rate cost savings by the end of 2020. By 2023, we expect to reach $750 million in annual run-rate savings.

We remain focused on addressing the needs of our shareholders and investors. For example, we have continued to improve the transparency and clarity of our financial reporting and disclosures, making it easier to understand our performance, strategy and progress. We have also worked closely with rating agencies to ensure they understand the financial strength of our franchise and have maintained our ratings from all four agencies.

Over the next three years, we expect to deliver on our cost savings program and to return $10 billion of capital to shareholders through share repurchases and dividends. We will also work toward reallocating $5 billion to $10 billion in capital toward our faster-growing businesses in asset management and emerging markets in opportunities that meet our strategic and financial requirements. To the extent we do not find appropriate opportunities, we will return additional capital to shareholders.

Ensuring our strength and sustainability

As Prudential enters its 146th year in business, we remain focused on the long-term future and sustainability of the company. At the heart of our forward planning is a determination to deliver on our promises to our stakeholders, including employees, customers, shareholders, and the communities in which we live and work.

In 2019, we introduced a Commitment to Stakeholders to codify our approach. In keeping with our founding purpose, fulfilling this pledge means leading in the development of financial, social and community prosperity. During 2020, we identified new ways to achieve progress on all three fronts.

Taking care of our employees has been and will remain one of our top priorities. Prudential's employees have shown tremendous resilience and focus during this trying time. Recognizing that our employees' well-being is critical to our ability to serve our customers, we were one of the first companies to transition to remote work. We also launched new resources and programs, and updated existing ones, to help employees care for themselves and their loved ones.

Our employees have done an extraordinary job of addressing the evolving needs of both our institutional and retail customers, many of whom are grappling with the economic volatility and hardship produced by the pandemic. To support that work, we continued to invest heavily in technology to better serve our customers and respond to the rapidly changing environment. We also extended timeframes for premium payments, accelerated the process for policy withdrawals and waived transaction fees for participants making withdrawals from retirement accounts. By continuing to focus on doing right by our customers we maintained their confidence and loyalty, which also supported business growth. During 2020 we gained numerous new clients, as is evident in the net inflows in Prudential Retirement and PGIM, our global asset management business.

We meaningfully improved Prudential's environmental footprint during the year. For example, we issued the firm's first green bond, furthering our commitment to investments that deliver a positive environmental impact. We also committed to offset all carbon emissions for employee travel in the U.S. and launched a renewable energy mandate to invest in companies that reduce global emissions. We shared our environmental impact through CDP, the world's leading environmental disclosure platform, scoring an A- on its 2020 Climate

Change Survey. More information about these initiatives and others designed to support Prudential's Global Environmental Commitment will be outlined in detail in our 2021 Sustainability Report, which will be released in June.

We also intensified our work to support the communities in which our employees live and work, especially communities of color, which have been disproportionately affected by the pandemic. For example, we waived rent for tenants in our buildings in our headquarters city of Newark, New Jersey, many of which are small businesses, and provided funding to supply Newark students and teachers with computers, internet access and IT support needed for effective remote learning. We worked closely with government leaders, lending our expertise in finance and community-based work, to develop pandemic recovery plans that are inclusive. We also supported community-based organizations, which serve as the front line during times of crisis by providing critical services to residents, and we provided access to capital for small businesses and entrepreneurs.

Driving progress toward a more equitable society

Among its many effects, the pandemic exposed and exacerbated the economic and racial inequities present in our society. The horrific events of last summer painted a stark and shocking picture of how racism continues to pervade American society. That reality catalyzed people across the U.S. and around the world into action. While we are proud of Prudential's long-standing commitment to racial equity and our support of social justice organizations, we are determined to drive progress further and faster. We believe it's both a moral imperative and a vital part of making us a better employer, and a more successful company.

To that end, after pausing to listen and learn, and with input from nearly 7,000 employees, we created specific commitments to accelerate our efforts to advance racial equity, which we launched in the second quarter of 2020. These commitments explain the measurable actions we will take to support our employees, use our voice to address societal issues, and ensure our businesses deliver inclusive products and services. Every member of our management team, starting with me, is being held accountable for the execution of these actions.

At the same time, we are continuing other efforts to fulfill our aspiration to be a fully inclusive company. We are particularly proud to have been among the first companies to launch an inclusion and diversity modifier as part of our long-term stock compensation plan, as an important accountability measure to ensure our commitment to inclusion becomes even more firmly embedded in our culture. We began this program in 2018, and it has already helped to improve the diversity of our senior team. As a result, we have continued and expanded the program to cover the next three years.

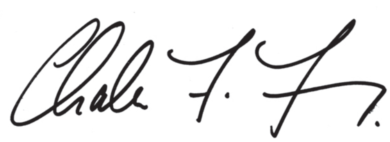
Looking ahead with confidence

Just as we have in previous times of crisis, Prudential withstood the many challenges that came our way in 2020. We did this while identifying and embracing new opportunities. We took new and meaningful steps to support our employees, customers and the communities in which we live and work around the world. Moreover, we reaffirmed and reinvigorated our long-standing commitment to drive social progress and help more people achieve financial security.

As we look ahead, we're excited to build upon the initiatives we have already taken to significantly transform the company into a higher growth, less market sensitive, more nimble business. In addition, we will strengthen our commitment to enhance our customers' experience, to support communities around the world and to advance our work on racial equity.

We look forward to continuing our progress and our ongoing dialogue with you, together with all of Prudential's valued stakeholders.

Thank you, as always, for your support and interest in Prudential.



Charles F. Lowrey
Chairman and Chief Executive Officer

PRUDENTIAL OFFICERS AND DIRECTORS (as of March 25, 2021)

EXECUTIVE OFFICERS

Charles F. Lowrey
Chairman and Chief Executive Officer

Robert M. Falzon
Vice Chairman

Lucien A. Alziari
Executive Vice President and Chief Human Resources Officer

Stacey Goodman
Executive Vice President and Chief Information Officer

Ann M. Kappler
Executive Vice President and General Counsel

Scott G. Sleyster
Executive Vice President and Head of International Businesses

Andrew F. Sullivan
Executive Vice President and Head of U.S. Businesses

Kenneth Y. Tanji
Executive Vice President and Chief Financial Officer

Timothy L. Schmidt
Senior Vice President and Chief Investment Officer

Nicholas C. Silitch
Senior Vice President and Chief Risk Officer

Candace J. Woods
Senior Vice President and Chief Actuary

BOARD OF DIRECTORS

Thomas J. Baltimore, Jr.
Chairman, President and Chief Executive Officer, Park Hotels & Resorts, Inc.

Gilbert F. Casellas
Former Chairman, OMNITRU

Robert M. Falzon
Vice Chairman, Prudential Financial, Inc.

Martina T. Hund-Mejean
Former Chief Financial Officer, Mastercard Worldwide

Wendy E. Jones
Former Senior Vice President, Global Operations, eBay, Inc.

Karl J. Krapek
Former President and Chief Operating Officer, United Technologies Corporation

Peter R. Lighte
Former Vice Chairman of J.P. Morgan Corporate Bank and Founding Chairman of J.P. Morgan Chase Bank, China

Charles F. Lowrey
Chairman and Chief Executive Officer, Prudential Financial, Inc.

George Paz
Former Chairman and Chief Executive Officer, Express Scripts Holding Company

Sandra Pianalto
Former President and Chief Executive Officer, Federal Reserve Bank of Cleveland

Christine A. Poon
Executive in Residence, The Max M. Fisher College of Business, The Ohio State University

Douglas A. Scovanner
Founder and Managing Member, Comprehensive Financial Strategies, LLC

Michael A. Todman
Former Vice Chairman, Whirlpool Corporation

SHAREHOLDER INFORMATION

Corporate Headquarters
Prudential Financial, Inc.
751 Broad Street, Newark, NJ 07102
973-802-6000

Stock Exchange Listing
The Common Stock of Prudential Financial, Inc. is traded on the New York Stock Exchange under the symbol “PRU.”

Shareholder Services at Computershare
Computershare Trust Company, N.A., the transfer agent for Prudential Financial, Inc., can assist registered shareholders with a variety of services, including:

- Convenient liquidation of shares
- Direct deposit of dividends
- Consolidating your shares into your brokerage account
- Changing the ownership of your shares
- Change of address

Electronic Delivery

Now you can receive electronic delivery of all shareholder communications from Computershare, including the annual report and proxy materials, tax forms and other statements. By selecting this option, you are partnering with us to minimize our impact on the environment.

For more information and to sign up for electronic delivery, contact Computershare directly:

- Online: www.computershare.com/investor
- By phone: within the United States at 800-305-9404, outside the United States at 732-512-3782
- By mail: Computershare Trust Company, N.A. P.O. Box 505000, Louisville, KY 40233-5000

Did you know you can also transfer shares registered at Computershare to your broker? Please contact your broker for additional information.

Annual Meeting
Shareholders are invited to attend Prudential Financial, Inc.’s annual meeting, which will be held on May 11, 2021, beginning at 2:00 p.m. at our offices located at 751 Broad Street, Newark, New Jersey. Additional information about the meeting can be found in the proxy statement.

Information about Prudential Financial, Inc.
You may access our news releases, financial information and reports filed with the Securities and Exchange Commission (for example, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, and our Current Reports on Form 8-K and any amendments to those forms) online at **www.investor.prudential.com**. Copies of current documents on our website are available without charge, and reports filed with or furnished to the Securities and Exchange Commission will be available as soon as reasonably practicable after they are filed with or furnished to the Commission.

Investor Relations
Institutional investors, analysts and other members of the professional financial community can contact our Investor Relations department via e-mail at investor.relations@prudential.com, or by visiting the Investor Relations website at **www.investor.prudential.com**.

Visit Prudential Financial, Inc. Online
For more information about our corporate governance, as well as to access information for shareholders and information about our company, visit our website at **www.prudential.com/governance**.

THIS PAGE INTENTIONALLY LEFT BLANK.

FINANCIAL HIGHLIGHTS

Prudential Financial, Inc.

In millions, except per share amounts *For the years ended December 31,*	**2020**	**2019**	**2018**
RESULTS BASED ON ADJUSTED OPERATING INCOME (A)(C)			
Revenues	$54,149	$55,873	$55,954
Benefits and expenses	49,005	50,022	49,833
Adjusted operating income before income taxes	$5,144	$5,851	$6,121
Operating return on average equity (B)(C)	10.7%	11.6%	12.2%
GAAP RESULTS			
Revenues	$57,033	$64,807	$62,992
Benefits and expenses	57,356	59,722	58,158
Income (loss) before income taxes and equity in earnings of operating joint ventures	$(323)	$5,085	$4,834
Return on average equity (B)	-0.6%	7.1%	8.2%
EARNINGS PER SHARE OF COMMON STOCK – diluted (C)			
Adjusted operating income after income taxes	$10.21	$11.24	$11.25
Reconciling items:			
Realized investment gains (losses), net, and related charges and adjustments	(10.85)	(2.33)	0.69
Other reconciling items	(3.05)	0.74	(3.49)
Total reconciling items, before income taxes	(13.90)	(1.59)	(2.80)
Income taxes, not applicable to adjusted operating income	(2.69)	(0.46)	(1.05)
Total reconciling items, after income taxes	(11.21)	(1.13)	(1.75)
Net Income (loss) attributable to Prudential Financial, Inc. (after-tax)	$(1.00)	$10.11	$9.50

Prudential Financial, Inc.

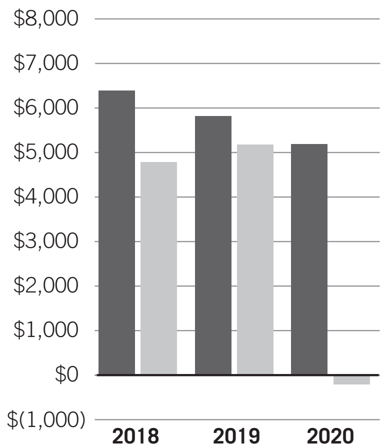
In millions, unless otherwise noted *As of or for the years ended December 31,*	**2020**	**2019**	**2018**
GAAP RESULTS			
Total revenues	$57,033	$64,807	$62,992
Net Income (loss) (after-tax)	$(146)	$4,238	$4,088
Less: Income (loss) attributable to noncontrolling interests	228	52	14
Net income (loss) attributable to Prudential Financial, Inc. (after-tax)	$(374)	$4,186	$4,074
FINANCIAL POSITION			
Invested assets	$553,620	$522,760	$479,245
Total assets	$940,722	$896,552	$815,078
Prudential Financial, Inc. equity	$67,425	$63,115	$48,617
Assets under management *(in billions)*	$1,721	$1,551	$1,377

Adjusted Operating Income(A)(C) and Income (Loss) from Operations

(pre-tax, in millions)

Adjusted operating income

Income (loss) before income taxes and equity in earnings of operating joint ventures (GAAP)

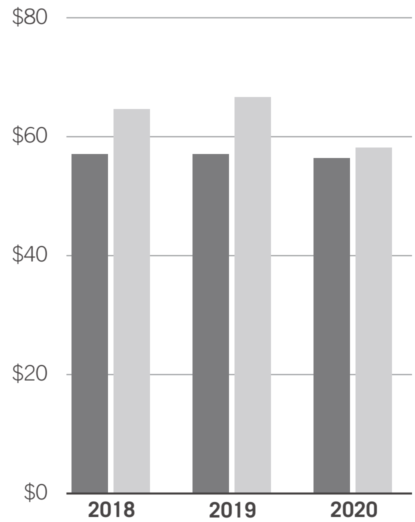


Adjusted Operating Revenues(A)(C) and GAAP Revenues

(in billions)

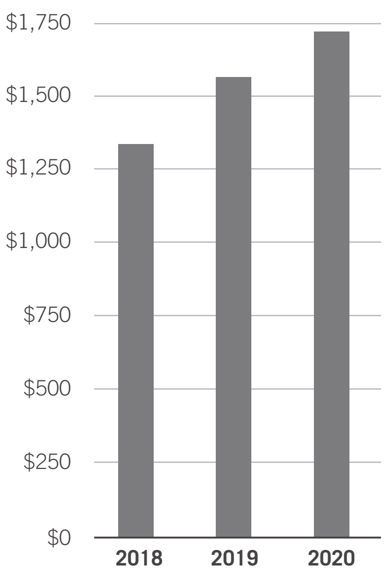
Adjusted operating revenues

Revenues (GAAP)



Assets Under Management

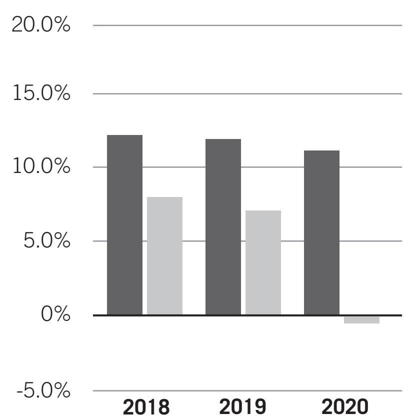
(in billions)



Operating Return on Average Equity(B)(C) and Return on Average Equity(B)

Operating return on average equity

Return on average equity



Consolidated adjusted operating income and adjusted book value, as well as operating return on average equity, which is based on adjusted operating income and adjusted book value, are non-GAAP measures. Reconciliations of these measures to the most directly comparable GAAP measures are included in this Annual Report.

We believe that our use of these non-GAAP measures helps investors understand and evaluate the Company's performance and financial position. The presentation of adjusted operating income as we measure it for management purposes enhances the understanding of the results of operations by highlighting the results from ongoing operations and the underlying profitability of our businesses. Trends in the underlying profitability of our businesses can be more clearly identified without the fluctuating effects of the items described below. Adjusted book value augments the understanding of our financial position by providing a measure of net worth that is primarily attributable to our business operations separate from the portion that is affected by capital and currency market conditions, and by isolating the accounting impact associated with insurance liabilities that are generally not marked to market and the supporting investments that are marked to market through accumulated other comprehensive income under GAAP. Operating return on average equity, which is based on adjusted operating income and adjusted book value, is a useful measure of the operating return the Company achieves in relation to the capital available to our businesses. However, these non-GAAP measures are not substitutes for income, equity, and return on average equity determined in accordance with GAAP, and the adjustments made to derive these measures are important to an understanding of our overall results of operations and financial position.

(A) Adjusted operating income is the measure used by the Company to evaluate segment performance and to allocate resources. Adjusted operating income excludes "Realized investment gains (losses), net," as adjusted, and related charges and adjustments. A significant element of realized investment gains and losses are impairments and credit-related and interest rate-related gains and losses. Impairments and losses from sales of credit-impaired securities, the timing of which depends largely on market credit cycles, can vary considerably across periods. The timing of other sales that would result in gains or losses, such as interest rate-related gains or losses, is largely subject to our discretion and influenced by market opportunities as well as our tax and capital profile. Realized investment gains (losses) within certain of our businesses for which such gains (losses) are a principal source of earnings, and those associated with terminating hedges of foreign currency earnings and current period yield adjustments are included in adjusted operating income. Adjusted operating income generally excludes realized investment gains and losses from products that contain embedded derivatives, and from associated derivative portfolios that are part of an asset-liability management program related to the risk of those products. Adjusted operating income also excludes gains and losses from changes in value of certain assets and liabilities relating to foreign currency exchange movements that have been economically hedged or considered part of our capital funding strategies for our international subsidiaries, as well as gains and losses on certain investments that are designated as trading. Additionally, adjusted operating income excludes the changes in fair value of equity securities that are recorded in net income. Additionally, market experience updates, reflecting the immediate impacts in current period results from changes in current market conditions on estimates of profitability, are excluded from adjusted operating income beginning with the second quarter of 2019, which we believe enhances the understanding of underlying performance trends. Adjusted operating income excludes the results of Divested and Run-off Businesses, which are not relevant to our ongoing operations. Discontinued operations and earnings attributable to noncontrolling interests, each of which is presented as a separate component of net income under GAAP, are also excluded from adjusted operating income. Adjusted operating income also excludes other items, such as certain components of the consideration for the Assurance IQ acquisition, which are recognized as compensation expense over the requisite service periods, as well as changes in the fair value of contingent consideration. The tax effect associated with pre-tax adjusted operating income is based on applicable IRS and foreign tax regulations inclusive of pertinent adjustments.

See Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of results based on adjusted operating income, and the Consolidated Financial Statements for a reconciliation of results based on adjusted operating income to GAAP results.

(B) Operating return on average equity (based on adjusted operating income) is a non-GAAP measure and represents adjusted operating income after-tax divided by average adjusted book value. Adjusted book value is calculated as total equity (GAAP book value) excluding accumulated other comprehensive income (loss) and the cumulative effect of foreign currency exchange rate remeasurements and currency translation adjustments corresponding to realized investment gains and losses. These items are excluded in order to highlight the book value attributable to our core business operations separate from the portion attributable to external and potentially volatile capital and currency market conditions. The comparable GAAP measure to operating return on average equity is return on average equity which is based on net income and GAAP book value. See chart below for a reconciliation between adjusted book value and GAAP book value.

(C) Prior period amounts have been reclassified to conform to current period presentation.

As of December 31,	**2020**	**2019**	**2018**
		(in millions)	
GAAP book value at end of period	$67,425	$63,115	$48,617
Less: Accumulated other comprehensive income	30,738	24,039	10,906
Less: Cumulative effect of remeasurement of foreign currency [1]	(1,399)	(1,835)	(2,344)
Adjusted book value	$38,086	$40,911	$40,055

(1) Includes the cumulative impact of net gains and losses resulting from foreign currency exchange rate remeasurement and associated realized investment gains and losses included in net income (loss) and currency translation adjustments corresponding to realized investment gains and losses.

Insurance and/or annuities are issued by The Prudential Insurance Company of America, Pruco Life Insurance Company (except in NY and/or NJ), Pruco Life Insurance Company of New Jersey (in NY and/or NJ), and Prudential Annuities Life Assurance Corporation (PALAC). Each is a Prudential Financial company located in Newark, NJ (main office), except for PALAC which is located in Shelton, CT (main office), and each is solely responsible for its own financial condition and contractual obligations. Prudential Annuities is a business of Prudential Financial, Inc.

Securities products and services are offered through: Pruco Securities, LLC or Prudential Investment Management Services LLC, both members SIPC and located in Newark, NJ, or Prudential Annuities Distributors, Inc., located in Shelton, CT. All are Prudential Financial companies.

Retirement products and services are provided by Prudential Retirement Insurance and Annuity Company, Hartford, CT, or its affiliates.

The Awards and Accolades list reflects rankings and recognition Prudential received during 2020.

FINANCIAL SECTION

TABLE OF CONTENTS

Throughout this Annual Report, "Prudential Financial" refers to Prudential Financial, Inc., the ultimate holding company for all of our companies. "Prudential Insurance" refers to The Prudential Insurance Company of America. "Prudential," the "Company," "we" and "our" refer to our consolidated operations.

FORWARD-LOOKING STATEMENTS

Certain of the statements included in this Annual Report constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Words such as "expects," "believes," "anticipates," "includes," "plans," "assumes," "estimates," "projects," "intends," "should," "will," "shall" or variations of such words are generally part of forward-looking statements. Forward-looking statements are made based on management's current expectations and beliefs concerning future developments and their potential effects upon Prudential Financial, Inc. and its subsidiaries. There can be no assurance that future developments affecting Prudential Financial, Inc. and its subsidiaries will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) the ongoing impact of the COVID-19 pandemic on the global economy, financial markets and our business; (2) losses on investments or financial contracts due to deterioration in credit quality or value, or counterparty default; (3) losses on insurance products due to mortality experience, morbidity experience or policyholder behavior experience that differs significantly from our expectations when we price our products; (4) changes in interest rates, equity prices and foreign currency exchange rates that may (a) adversely impact the profitability of our products, the value of separate accounts supporting these products or the value of assets we manage, (b) result in losses on derivatives we use to hedge risk or increase collateral posting requirements and (c) limit opportunities to invest at appropriate returns; (5) guarantees within certain of our products which are market sensitive and may decrease our earnings or increase the volatility of our results of operations or financial position; (6) liquidity needs resulting from (a) derivative collateral market exposure, (b) asset/liability mismatches, (c) the lack of available funding in the financial markets or (d) unexpected cash demands due to severe mortality calamity or lapse events; (7) financial or customer losses, or regulatory and legal actions, due to inadequate or failed processes or systems, external events, and human error or misconduct such as (a) disruption of our systems and data, (b) an information security breach, (c) a failure to protect the privacy of sensitive data, (d) reliance on third-parties or (e) labor and employment matters; (8) changes in the regulatory landscape, including related to (a) financial sector regulatory reform, (b) changes in tax laws, (c) fiduciary rules and other standards of care, (d) U.S. state insurance laws and developments regarding group-wide supervision, capital and reserves, (e) insurer capital standards outside the U.S. and (f) privacy and cybersecurity regulation; (9) technological changes which may adversely impact companies in our investment portfolio or cause insurance experience to deviate from our assumptions; (10) an inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (11) ratings downgrades; (12) market conditions that may adversely affect the sales or persistency of our products; (13) competition; (14) reputational damage; (15) the costs, effects, timing, or success of our plans to execute our strategy; and (16) the integration of Assurance IQ, LLC into our strategy. Prudential Financial, Inc. does not undertake to update any particular forward-looking statement included in this document. See "Risk Factors" included in Prudential Financial's 2020 Annual Report on Form 10-K for discussion of certain risks relating to our businesses and investment in our securities.

SELECTED FINANCIAL DATA

We derived the selected consolidated income statement data for the years ended December 31, 2020, 2019 and 2018 and the selected consolidated balance sheet data as of December 31, 2020 and 2019, from the Consolidated Financial Statements included elsewhere herein. We derived the selected consolidated income statement data for the years ended December 31, 2017 and 2016, and the selected consolidated balance sheet data as of December 31, 2018, 2017 and 2016, from consolidated financial statements not included herein.

Prior to January 1, 2018, the Company's Gibraltar Life Insurance Company, Ltd. ("Gibraltar Life") consolidated operations used a November 30 fiscal year end for purposes of inclusion in the Company's Consolidated Financial Statements. The result of this reporting date difference was a one-month reporting lag for Gibraltar Life. As a result, the Company's consolidated balance sheet as of December 31 previously included the assets and liabilities of Gibraltar Life as of November 30 for each respective year, and the Company's consolidated income statement data for the years ended December 31 included Gibraltar Life's results of operations for the twelve months ended November 30 for each respective year.

Effective January 1, 2018, the Company converted its Gibraltar Life operations to a December 31 fiscal year end. This action eliminated the one-month reporting lag so that the reporting dates and periods of financial balances and results of Gibraltar Life are consistent with those of the Company. The establishment of a new fiscal year end for Gibraltar Life is considered a change in accounting principle to a preferable method and requires retrospective application. The Company believes this change in accounting principle is preferable given that it aligns the reporting dates of Prudential Financial and its subsidiaries, which allows for a more timely and consistent basis of reporting the financial position and results of Gibraltar Life. In order to effect this elimination, the Company restated prior periods' equity which increased "Retained Earnings" by approximately $167 million as of December 31, 2016 and 2017. The impact to the Statements of Operations, Statements of Cash Flows, Statements of Comprehensive Income and other balance sheet captions, as a result of the elimination of the reporting lag, was not material for any of the periods presented.

This selected consolidated financial information should be read in conjunction with our Management's Discussion and Analysis of Financial Condition and Results of Operations and Consolidated Financial Statements included elsewhere herein.

	Year Ended December 31,				
	2020	2019	2018	2017	2016
	(in millions, except per share and ratio information)				
Income Statement Data:					
Revenues:					
Premiums	$31,140	$34,202	$35,779	$32,091	$30,964
Policy charges and fee income	6,029	5,978	6,002	5,303	5,906
Net investment income	17,410	17,585	16,176	16,435	15,520
Asset management and service fees	4,391	4,239	4,100	4,127	3,752
Other income (loss)	1,950	3,262	(1,042)	1,301	443
Realized investment gains (losses), net	(3,887)	(459)	1,977	432	2,194
Total revenues	57,033	64,807	62,992	59,689	58,779
Benefits and expenses:					
Policyholders' benefits	35,059	36,820	39,404	33,794	33,632
Interest credited to policyholders' account balances	4,538	4,880	3,196	3,822	3,761
Dividends to policyholders	1,625	2,274	1,336	2,091	2,025
Amortization of deferred policy acquisition costs	2,221	2,332	2,273	1,580	1,877
General and administrative expenses	13,913	13,416	11,949	11,915	11,779
Total benefits and expenses	57,356	59,722	58,158	53,202	53,074
Income (loss) before income taxes and equity in earnings of operating joint ventures	(323)	5,085	4,834	6,487	5,705
Total income tax expense (benefit)	(81)	947	822	(1,438)	1,335
Income (loss) before equity in earnings of operating joint ventures	(242)	4,138	4,012	7,925	4,370
Equity in earnings of operating joint ventures, net of taxes	96	100	76	49	49
Net income (loss)	(146)	4,238	4,088	7,974	4,419
Less: Income (loss) attributable to noncontrolling interests	228	52	14	111	51
Net income (loss) attributable to Prudential Financial, Inc.	$ (374)	$ 4,186	$ 4,074	$ 7,863	$ 4,368
EARNINGS PER SHARE					
Basic earnings per share—Common Stock:					
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ (1.00)	$ 10.23	$ 9.64	$ 18.19	$ 9.85
Net income (loss) attributable to Prudential Financial, Inc.	$ (1.00)	$ 10.23	$ 9.64	$ 18.19	$ 9.85
Diluted earnings per share—Common Stock:					
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ (1.00)	$ 10.11	$ 9.50	$ 17.86	$ 9.71
Net income (loss) attributable to Prudential Financial, Inc.	$ (1.00)	$ 10.11	$ 9.50	$ 17.86	$ 9.71
Dividends declared per share—Common Stock	$ 4.40	$ 4.00	$ 3.60	$ 3.00	$ 2.80

	As of December 31,				
	2020	2019	2018	2017	2016
	(in millions)				
Balance Sheet Data:					
Total investments excluding policy loans	$542,349	$510,664	$467,229	$457,980	$432,485
Separate account assets	327,277	312,281	279,136	306,617	287,636
Total assets	940,722	896,552	815,078	832,136	784,177
Future policy benefits and policyholders' account balances	468,025	445,637	424,184	405,506	386,113
Separate account liabilities	327,277	312,281	279,136	306,617	287,636
Short-term debt	925	1,933	2,451	1,380	1,133
Long-term debt	19,718	18,646	17,378	17,172	18,041
Total liabilities	872,512	832,833	766,047	777,625	737,922
Prudential Financial, Inc. equity	67,425	63,115	48,617	54,236	46,030
Noncontrolling interests	785	604	414	275	225
Total equity	$ 68,210	$ 63,719	$ 49,031	$ 54,511	$ 46,255

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain of the statements included in this section constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are made based on management's current expectations and beliefs concerning future developments and their potential effects upon Prudential Financial, Inc. and its subsidiaries. Prudential Financial, Inc.'s actual results may differ, possibly materially, from expectations or estimates reflected in such forward-looking statements. Certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements can be found in the "Forward-Looking Statements" included in this Annual Report, as well as the "Risk Factors" included in Prudential Financial's 2020 Annual Report on Form 10-K.

Pursuant to the FAST Act Modernization and Simplification of Regulation S-K, discussions related to the results of operations for the year ended December 31, 2019 in comparison to the year ended December 31, 2018 have been omitted. For such omitted discussions, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

Overview

Our principal operations consist of PGIM (our global investment management business), our U.S. Businesses (consisting of our U.S. Workplace Solutions, U.S. Individual Solutions, and Assurance IQ divisions), our International Businesses, the Closed Block division, and our Corporate and Other operations. The U.S. Workplace Solutions division consists of our Retirement and Group Insurance businesses; the U.S. Individual Solutions division consists of our Individual Annuities and Individual Life businesses; and the Assurance IQ division consists of our Assurance IQ business, which we acquired in October 2019 (see Note 1 to the Consolidated Financial Statements for additional information). The Closed Block division is accounted for as a divested business that is reported separately from the Divested and Run-off Businesses that are included in Corporate and Other. Our Corporate and Other operations include corporate items and initiatives that are not allocated to business segments and businesses that have been or will be divested or placed in run-off, excluding the Closed Block division. See "Business—" included in Prudential Financial's 2020 Annual Report on Form 10-K for a description of our sources of revenue and details on how our profitability is impacted. In addition, our profitability is impacted by our ability to effectively deploy capital, utilize our tax capacity and manage expenses.

Management expects that results in 2021 will continue to benefit from our differentiated mix of market-leading businesses that complement each other to provide competitive advantages, earnings diversification and capital benefits from a balanced risk profile. While challenges exist in the form of a low interest rate environment (see "Impact of a Low Interest Rate Environment" below), fee compression in certain of our businesses and other market factors, including macroeconomic stress and market disruption resulting from the COVID-19 pandemic (see "—COVID-19" below), we expect that our businesses will produce appropriate returns for the current market environment. We believe we are well-positioned to tap into market opportunities to meet the evolving needs of individual customers, workplace clients, and society at large. Our mix of high-quality protection, retirement and investment management businesses enables us to offer solutions that cover a broad range of financial needs and to engage with our clients through multiple channels, including the ability to sell solutions across a broad socio-economic spectrum through Assurance IQ's digital platform. We aim to expand our addressable market, build deeper and longer-lasting relationships with customers and clients, and meaningfully improve their financial wellness.

In order to further increase our competitive advantage, we are working to enhance the experience of our customers and the capabilities of our businesses, which we expect will also help us realize improved margins. In 2019, we launched programs in pursuit of these objectives that will result in multi-year investments in technology, systems and employee reskilling, as well as severance and related charges. The implementation of these programs resulted in approximately $400 million of costs in 2019, including a charge related to the Company's Voluntary Separation Program offered to certain eligible U.S.-based employees whose employment end dates occurred in 2020. Over the course of 2020, we incurred $194 million of additional implementation costs related to these programs, resulting in cumulative implementation costs of approximately $594 million as of December 31, 2020.

Over the next several years, we also expect to see significant expense efficiencies. The impact to the Company's 2020 results from these programs was a benefit of $216 million and, as of December 31, 2020, we have achieved approximately $400 million in run-rate cost savings, which we expect will accumulate to approximately $750 million by the end of 2023.

COVID-19

Beginning in the first quarter of 2020, the outbreak of COVID-19 created extreme stress and disruption in the global economy and financial markets and elevated mortality and morbidity experience for the global population. These events impacted our results of operations throughout 2020 and are expected to impact our results of operations in 2021. The Company has taken several measures to manage the impacts of this crisis. The actual and expected impacts of these events and other items are set forth below:

- *Liquidity*. As of December 31, 2020, we had $5.6 billion in highly liquid assets at Prudential Financial. Since the beginning of 2020, we took several steps to proactively manage liquidity, including refinancing $1.3 billion of junior subordinated debt to reduce our financing costs, entering into a $1.5 billion facility agreement with a Delaware trust to increase our alternative sources of liquidity and issuing $1.5 billion in senior debt in part to pre-fund 2020 and 2021 maturities. We suspended Common Stock repurchases beginning April 1, 2020 under our existing repurchase authorization, after repurchasing $500 million of shares of Prudential Financial's Common Stock in the first quarter of 2020. We did not resume share repurchases in 2020 as the duration and severity of the pandemic and its effect on the economy remained uncertain. On February 4, 2021, we announced that our Board of Directors has authorized the repurchase of up to $1.5 billion of our outstanding Common Stock during the period from January 1, 2021 through December 31, 2021. The impact of COVID-19 and related market dislocations could further strain our existing liquidity and cause us to increase the use of our alternative sources of liquidity, which could result in increased financial leverage on our balance sheet and negatively impact our credit and financial strength ratings or ratings outlooks. See "—Liquidity and Capital Resources—Liquidity" for a discussion of our liquidity.

- *Capital Resources.* As of December 31, 2020, all of our significant insurance subsidiaries maintained capital levels consistent with their ratings targets; however, market conditions could negatively impact the statutory capital of our insurance companies and constrain our overall capital flexibility, including as a result of credit migration and losses in our investment portfolio, as discussed below. Adverse market conditions could require us to take additional management actions for our insurance subsidiaries to maintain capital consistent with their ratings objectives, which may include redeploying financial resources from internal sources, or using available external sources of capital or seeking additional sources. See "—Liquidity and Capital Resources—Capital" for a discussion of our capital resources.

- *Investment Portfolio.* Net unrealized gains (losses) on fixed maturity investments (excluding securities classified as trading) were a net unrealized gain of $58,928 million as of December 31, 2020, compared to a net unrealized gain of $44,891 million as of December 31, 2019. Gross unrealized gains increased from $46,206 million as of December 31, 2019 to $59,980 million as of December 31, 2020, and gross unrealized losses decreased from $1,315 million to $980 million for the same period. The increase in gross unrealized gains and the decrease in gross unrealized losses was primarily due to a decrease in U.S. interest rates. The continued impact of COVID-19 on the global economy and corporate credit may continue to result in negative credit migration and possible losses in our investment portfolio. Due to the highly uncertain nature of these conditions, it is not possible to estimate the overall impacts at this time. The sectors most impacted by the COVID-19 crisis include energy, consumer cyclical and retail related investments (see "—General Account Investments" for additional information). During 2020, approximately 1.4% of total invested assets were modified to allow for limited forbearance. Under the terms of forbearance, the borrower is allowed to defer a portion of current year principal and/or interest payments for a short period (e.g., 6 months). These deferrals accrue additional interest and do not have a material impact on our investment value.

- *Underwriting Results.* In 2020, we estimate that COVID-19 had a net negative impact on our underwriting results, reflecting unfavorable mortality impacts in our Group Insurance and Individual Life businesses, partially offset by favorable mortality impacts in our Retirement business. Going forward, we estimate that our net underwriting results will be adversely impacted by approximately $85 million for every incremental 100,000 fatalities in the United States; however, the ultimate impact on our underwriting results will depend on factors such as: an insured's age; geographic concentration; insured versus uninsured populations among the fatalities; the transmissibility and virulence of the virus, including the potential of further mutation; and the speed and efficacy of the vaccine rollout. In addition, see "—Results of Operations by Segment" for a discussion of mortality experience in each of our segments, where applicable.

- *Expenses.* We experienced higher expenses of approximately $150 million in 2020 from costs associated with COVID-19, primarily related to agent compensation, as well as technology and third-party vendor capabilities related to remote work functionality and protecting our employees' health. However, we also experienced cost savings associated with COVID-19 of approximately $110 million in 2020, primarily from lower travel and entertainment costs.

  We have provided a number of customer accommodations in response to the COVID-19 pandemic, including extending grace periods for premium payments, expediting claim payments and withdrawal requests, waiving certain claims payment requirements, waiving certain transaction fees, waiving interest on policy loans and wiring funds at the Company's expense.

- *Business Continuity.* One of the main impacts of the COVID-19 pandemic has been executing our business continuity protocols to ensure our employees are safe and able to serve our customers. This included effectively transitioning the vast majority of our employees to remote work arrangements.

  We believe all of our businesses can sustain remote work and social distancing for an indefinite period while ensuring that critical business operations are sustained. In addition, we are managing COVID-19-related impacts on third-party provided services, and do not anticipate significant interruption in critical operations.

In addition to the considerations disclosed above, other COVID-19 related impacts are discussed in the following sections of this document:

- *Business Outlooks.* See "—Outlook" for a discussion of specific outlook considerations for each of our businesses, including impacts related to COVID-19.

- *Results of Operations by Segment.* See "—Results of Operations by Segment" for a discussion of COVID-19 impacts on segment results, where applicable.

- *Sales and Flows.* See "—Segment Results of Operations" for a discussion of sales and flows in each of our segments.

- *Risk Management.* See "—Risk Management—COVID-19" for a discussion of our risk management framework and its incorporation of pandemic stress scenarios.

- *Risk Factors.* See "Risk Factors" included in Prudential Financial's 2020 Annual Report on Form 10-K for a discussion of the risks to our businesses posed by the COVID-19 pandemic.

- *CARES Act and Other Regulatory Developments.* See "Business—Regulation—Regulatory Response to the COVID-19 Pandemic" included in Prudential Financial's 2020 Annual Report on Form 10-K for additional information.

Outlook

We feel confident about our prospects for the future based on the foundation of our integrated and complementary businesses. We plan to continue our transformation by executing on our cost savings plan and taking additional steps to increase our growth potential and reduce our market sensitivity. Specifically, we plan to reallocate capital across the businesses with the intention of doubling the earnings contribution from our higher-growth businesses and reducing the earnings contribution from our Individual Annuities business.

Specific outlook considerations for each of our businesses include the following:

- *PGIM.* Our global investment management business, PGIM, is focused on maintaining strong investment performance while leveraging the scale of its approximately $1.499 trillion of assets under management through its distinctive multi-manager model. In addition to providing solutions for its third-party clients, PGIM provides our U.S. and International Businesses with a competitive advantage through its investment expertise across a broad array of asset classes. Despite the impact of the COVID-19 pandemic, PGIM has experienced favorable equity market and credit conditions, strong performance, continued positive flows across both institutional and retail investors, gains from our seed capital and co-investments and increased levels of production and profitability from the agency business demonstrating the counter cyclical nature of the business. There remain risks to earnings across the asset management industry, including PGIM, if economic conditions remain unstable, markets decline or credit spreads widen. An economic downturn could also have impacts on real estate prices as well as transaction volumes in certain private asset classes. Adverse changes in market conditions could lead to lower fee-based revenues, incentive fees taking longer to be realized and losses emerging in our co- and seed investment portfolio. We believe PGIM's uniquely diversified global platform is well positioned to be resilient in the face of market and industry headwinds. Underpinning our growth strategy is our ability to continue to deliver robust investment performance, and to attract and retain high-caliber investment talent.

  U.S. Businesses:

- *U.S. Workplace Solutions.* In our Retirement business, we continue to provide products that respond to the needs of plan sponsors to manage risk and control their benefit costs while ensuring we maintain appropriate pricing and return expectations under changing market conditions. In our full service business, we have experienced strong deposits and sales in recent years and, while we foresee the continuation of spread and fee compression, we believe these are manageable headwinds. During 2020, account values in our full-service business were impacted by the CARES Act, which provided qualified individuals the ability to withdraw from defined contribution plans and individual retirement accounts up to $100,000 penalty-free, with the withdrawal taxed over a three-year period (unless otherwise elected by the individual). We expect the impact on account values of the withdrawals made in 2020 to continue into 2021. In our pension risk transfer business, we expect our differentiated capabilities and demonstrated execution to drive our business momentum in the face of increasing competition while we maintain appropriate pricing and return expectations under changing market conditions. We expect, however, that growth will not be linear given the episodic nature of larger cases. Given that many of the products in our institutional investment products business assume longevity risk, elevated levels of mortality resulting from COVID-19 may continue to contribute to a higher level of underwriting gains in this business. In our Group Insurance business, we continue to focus on expanding our Premier market segment and affinity relations, while maintaining a leadership position in the National segment. However, we expect COVID-19 to continue to contribute to elevated levels of mortality resulting in increased life insurance claims in the near-term. In addition, we expect elevated unemployment to drive increased disability claims in this business. Market conditions may also continue to impact sales volumes and the utilization of workplace benefits across our Workplace Solutions businesses.
- *U.S. Individual Solutions.* Our Individual Annuities business remains focused on helping its customers meet their investment and retirement needs. During 2020, we took actions to pivot to less interest rate-sensitive products and ensure we realize appropriate returns for the current economic environment, including the decision to discontinue sales of traditional variable annuities with guaranteed living benefits after December 31, 2020. We expect to continue to shift our focus to products that provide protected outcomes for our customers through simpler, technology-enabled channels and that deliver shareholder value across a wide range of economic environments. We also expect account values, fee income, and spread income to continue to be impacted by market conditions. Our Individual Life business continues to focus on making life insurance solutions more available to consumers and financial professionals, including building omnichannel distribution capabilities enabled by digital platforms. During 2020, we also took pricing and product actions to ensure we realize appropriate returns for the current economic environment and to diversify our product mix to further limit our sensitivity to interest rates, including the suspension of our single life guaranteed universal life product. We expect COVID-19 to continue to contribute to elevated levels of mortality, resulting in increased life insurance claims in the near-term. Across our Individual Solutions businesses, mandated social distancing has limited in-person engagement between customers and financial professionals. We have taken actions to expand our digital capabilities, which has mitigated the impact of these limitations; however, collectively, we expect the product actions we have taken along with the constrained distribution environment to adversely impact our sales prospects in the near-term.
- *Assurance IQ.* Assurance IQ leverages data science and technology to distribute Medicare, health, life, property and casualty, and personal finance products directly to retail customers, primarily through its digital and independent agent channels. Assurance uses an open architecture platform, and the products it currently distributes are predominantly offered by third-parties. We expect that Assurance IQ will contribute to the growth of our U.S. Businesses and has the potential to enhance the growth of our International Businesses over time. We expect the impacts of COVID-19 on our Assurance IQ business to be limited as the business does not have direct exposure to capital market conditions or mortality; however, consumer financial hardships and uncertainty created by the current economic conditions could negatively impact persistency and expected sales levels. In addition, during 2020 we experienced headwinds related to adapting components of the Assurance IQ distribution model to the remote work environment caused by COVID-19; however, we expect to mitigate these headwinds going forward through continued operational enhancements.

- *International Businesses.* Our International Businesses remain focused on meeting customers' protection and financial needs as well as maintaining the underlying strength of our distribution channels. We continue to strengthen our position in Japan and seek to expand our footprint in select high-growth emerging markets. We continue to invest in our existing businesses and regularly assess acquisition opportunities to build scale, complement our businesses, and support our long-term growth aspirations. We also regularly evaluate strategic options for our businesses as part of ensuring their alignment with our broader business goals and strategic vision, and in 2020 we sold our life insurance operations in Korea and entered into an agreement to sell our life insurance operations in Taiwan. For additional information on our strategic acquisitions and dispositions, see "—Results of Operations by Segment—International Insurance Division—International Insurance" below.

  In 2020, we saw a slightly elevated level of claims due to COVID-19 and increased expenses from supporting our captive agents. Sales throughout 2020 were impacted by the global implementation of social distancing protocols that limited in-person engagement between customers and advisors within both our captive agent and third-party distribution channels; however, our distribution channels adapted quickly to employ virtual tools to adjust to these limitations. In January 2021, Japan declared its second state of emergency regarding COVID-19, which again installed social distancing protocols, although less restrictive than the first time. While the current state of emergency in Japan is not countrywide and is more focused on social activities, further tightening of COVID-19 restrictions on personal interactions either in Japan or in other markets is possible and, depending on the specific circumstances and geographies impacted, could adversely impact our sales prospects for a period of time. We believe our needs-based selling and death protection focus are even more valuable to consumers based on the global experience of COVID-19 and will help support the continued growth of our businesses.

Industry Trends

Our U.S. and International Businesses are impacted by financial markets, economic conditions, regulatory oversight, and a variety of trends that affect the industries in which we compete.

Financial and Economic Environment:

- *U.S. Businesses.* As discussed further under "—Impact of a Low Interest Rate Environment" below, interest rates in the U.S. have experienced a sustained period of historically low levels, which continue to negatively impact our investment-related activity, including our investment income returns, net investment spread results, and portfolio income and reinvestment yields. In addition, we are subject to financial impacts associated with movements in equity markets and the evolution of the credit cycle as discussed in "—Segment Results of Operations" where applicable and more broadly in "Risk Factors" included in Prudential Financial's 2020 Annual Report on Form 10-K.
- *International Businesses.* While our International Businesses' operations, especially in Japan, have successfully managed a low interest rate environment for many years, as discussed under "—Impact of a Low Interest Rate Environment" below, these low rates continue to negatively impact our investment-related activity, including our investment income returns, net investment spread results, and portfolio income and reinvestment yields. The current reinvestment yields for certain blocks of business are now generally lower than the current portfolio yields supporting these blocks of business. The continuation of low interest rates in the U.S., along with their relation to interest rates in Japan, may impact the relative attractiveness of U.S. dollar-denominated products compared to yen-denominated products in Japan. In addition, we are subject to financial impacts associated with movements in foreign currency rates, particularly the Japanese yen. Fluctuations in the value of the yen can impact the relative attractiveness to customers of both yen-denominated and non-yen denominated products. In addition, we are subject to financial impacts associated with movements in equity markets and the evolution of the credit cycle as discussed in "—Segment Results of Operations" where applicable and more broadly in "Risk Factors" included in Prudential Financial's 2020 Annual Report on Form 10-K.

Demographics:

- *U.S. Businesses.* Customer demographics continue to evolve and new opportunities present themselves in different consumer segments such as the millennial and multicultural markets. Consumer expectations and preferences are changing. We believe existing customers and potential customers are increasingly looking for cost-effective solutions that they can easily understand and access through technology-enabled devices. At the same time, income protection, wealth accumulation and the needs of retiring baby boomers are continuing to shape the insurance industry. A persistent retirement security gap exists in terms of both savings and protection. Despite the ongoing phenomenon of the risk and responsibility of retirement savings shifting from employers to employees, employers are becoming increasingly focused on the financial wellness of the individuals they employ.
- *International Businesses.* Japan has an aging population as well as a large pool of household assets invested in low-yielding deposit and savings vehicles. The aging of Japan's population, along with strains on government pension and healthcare programs, have led to a growing demand for insurance products with a significant savings element (to meet savings and retirement needs as the population prepares for retirement) as well as health-related products.

Regulatory Environment. See "Business—Regulation" included in Prudential Financial's 2020 Annual Report on Form 10-K for a discussion of regulatory developments that may impact the Company and the associated risks.

Competitive Environment. See "Business—" included in Prudential Financial's 2020 Annual Report on Form 10-K for a discussion of the competitive environment and the basis on which we compete in each of our segments.

Impact of a Low Interest Rate Environment

As a global financial services company, market interest rates are a key driver of our results of operations and financial condition. Changes in interest rates can affect our results of operations and/or our financial condition in several ways, including favorable or adverse impacts to:

- investment-related activity, including: investment income returns, net interest margins, net investment spread results, new money rates, mortgage loan prepayments and bond redemptions;
- hedging costs and other risk mitigation activities;
- insurance reserve levels, market experience true-ups and amortization of both deferred policy acquisition costs ("DAC") and value of business acquired ("VOBA");
- customer account values, including their impact on fee income;
- fair value of, and possible impairments on, intangible assets such as goodwill;
- product offerings, design features, crediting rates and sales mix; and
- policyholder behavior, including surrender or withdrawal activity.

For more information on interest rate risks, see "Risk Factors—Market Risk" included in Prudential Financial's 2020 Annual Report on Form 10-K.

See below for discussions related to the current interest rate environments in our two largest markets, the U.S. and Japan; the composition of our insurance liabilities and policyholder account balances; and the hypothetical impacts to our investment-related results if these interest rate environments are sustained.

U.S. Operations excluding the Closed Block Division

Interest rates in the U.S. have experienced a sustained period of historically low levels with certain benchmarks reaching significant lows. While market conditions and events make uncertain the timing, amount and impact of any monetary policy decisions by the Federal Reserve, changes in interest rates may impact our reinvestment yields, primarily for our investments in fixed maturity securities and commercial mortgage loans. As interest rates decline, our reinvestment yield may be below our overall portfolio yield, resulting in an unfavorable impact to earnings. Conversely, as interest rates rise, our reinvestment yield may exceed the overall portfolio yield resulting in a favorable impact to earnings.

For the general account supporting our U.S. Individual Solutions division, U.S. Workplace Solutions division and our Corporate and Other operations, we estimate annual principal payments and prepayments that we would be required to reinvest to be approximately 5.4% of the fixed maturity security and commercial mortgage loan portfolios through 2022. The portion of the general account attributable to these operations has approximately $251 billion of such assets (based on net carrying value) as of December 31, 2020. The average portfolio yield for fixed maturity securities and commercial mortgage loans is approximately 3.9%, as of December 31, 2020.

Included in the $251 billion of fixed maturity securities and commercial mortgage loans are approximately $172 billion that are subject to call or redemption features at the issuer's option and have a weighted average interest rate of approximately 4%. Of this $172 billion, approximately 53% contain provisions for prepayment premiums. If we reinvest scheduled payments or prepayments (not subject to a prepayment fee) at rates below the current portfolio yield, including in some cases at rates below those guaranteed under our insurance contracts, future operating results will be impacted to the extent we do not, or are unable to, reduce crediting rates on in-force blocks of business, or effectively utilize other asset/liability management strategies described below, in order to maintain current net interest margins.

The following table sets forth the insurance liabilities and policyholder account balances of our U.S. Operations excluding the Closed Block Division, by type, for the date indicated:

	As of December 31, 2020
	(in billions)
Long-duration insurance products with fixed and guaranteed terms	$154
Contracts with adjustable crediting rates subject to guaranteed minimums	62
Participating contracts where investment income risk ultimately accrues to contractholders	14
Total	$230

The $154 billion above relates to long-duration products such as group annuities, structured settlements and other insurance products that have fixed and guaranteed terms, for which underlying assets may have to be reinvested at interest rates that are lower than portfolio rates. We seek to mitigate the impact of a prolonged low interest rate environment on these contracts through asset/liability management, as discussed further below.

The $62 billion above relates to contracts with crediting rates that may be adjusted over the life of the contract, subject to guaranteed minimums. Although we may have the ability to lower crediting rates for those contracts above guaranteed minimums, our willingness to do so may be limited by competitive pressures. The following table sets forth the related account values by range of guaranteed minimum crediting rates and the related range of the difference, in basis points ("bps"), between rates being credited to contractholders as of December 31, 2020, and the respective guaranteed minimums.

	Account Values with Adjustable Crediting Rates Subject to Guaranteed Minimums:					
	At guaranteed minimum	**1-49 bps above guaranteed minimum**	**50-99 bps above guaranteed minimum**	**100-150 bps above guaranteed minimum**	**Greater than 150 bps above guaranteed minimum**	**Total**
			($ in billions)			
Range of Guaranteed Minimum Crediting Rates:						
Less than 1.00%	$ 0.9	$ 1.2	$0.3	$0.0	$0.0	$ 2.4
1.00%—1.99%	1.4	15.3	2.7	2.0	1.2	22.6
2.00%—2.99%	1.3	0.9	2.0	1.2	1.3	6.7
3.00%—4.00%	28.1	0.4	0.1	0.2	0.2	29.0
Greater than 4.00%	0.9	0.0	0.0	0.0	0.0	0.9
Total(1)	$32.6	$17.8	$5.1	$3.4	$2.7	$61.6
Percentage of total	53%	29%	8%	6%	4%	100%

(1) Includes approximately $0.56 billion related to contracts that impose a market value adjustment if the invested amount is not held to maturity.

The remaining $14 billion of insurance liabilities and policyholder account balances in these operations relates to participating contracts for which the investment income risk is expected to ultimately accrue to contractholders. The crediting rates for these contracts are periodically adjusted based on the return earned on the related assets.

Assuming a hypothetical scenario where the average 10-year U.S. Treasury rate is 0.85% (which is reasonably consistent with recent rates) for the period from January 1, 2021 through December 31, 2021 (and credit spreads remain unchanged from average levels experienced during the fourth quarter 2020), we estimate that the unfavorable impact to net investment income of reinvesting activities, including scheduled maturities and estimated prepayments of fixed maturities and commercial mortgage and other loans (excluding assets supporting participating contracts) would be between $120 million and $160 million for the period from January 1, 2021 through December 31, 2021.

In order to mitigate the unfavorable impact that a low interest rate environment has on our net interest margins, we employ a proactive asset/liability management program, which includes strategic asset allocation and hedging strategies within a disciplined risk management framework. These strategies seek to match the characteristics of our products, and to closely approximate the interest rate sensitivity of the assets with the estimated interest rate sensitivity of the product liabilities. Our asset/liability management program also helps manage duration gaps, currency and other risks between assets and liabilities through the use of derivatives. We adjust this dynamic process as products change, as customer behavior changes and as changes in the market environment occur. As a result, our asset/liability management process has permitted us to manage the interest rate risk associated with our products through several market cycles. Our interest rate exposure is also mitigated by our business mix, which includes lines of business for which fee-based and insurance underwriting earnings play a more prominent role in product profitability. We also regularly examine our product offerings and their profitability. As a result, we may reprice certain products and discontinue sales of other products that do not meet our profit expectations.

Closed Block Division

Substantially all of the $61 billion of general account assets in the Closed Block division support obligations and liabilities relating to the Closed Block policies only. See Note 15 to the Consolidated Financial Statements for additional information on the Closed Block.

International Insurance Operations

While our international insurance operations have experienced a low interest rate environment for many years, the current reinvestment yields for certain blocks of business in our international insurance operations are generally lower than the current portfolio yield supporting these blocks of business. In recent years, the Bank of Japan's monetary policy has resulted in even lower and, at times, negative yields for certain tenors of government bonds. Our international insurance operations employ a proactive asset/liability management program in order to mitigate, to the extent possible, the unfavorable impact that the current interest rate environment has on our net interest margins. In conjunction with this program, we have not purchased negative yielding assets to support the portfolio and we continue to purchase long-term bonds with tenors of 30 years or greater. Additionally, our diverse product portfolio in terms of currency mix and premium payment structure allows us to further mitigate the negative impact from this low interest rate environment. We also regularly examine our product offerings and their profitability. As a result, we may reprice certain products, adjust commissions for certain products and discontinue sales of other products that do not meet our profit expectations. The impact of these actions and the introduction of certain new products has resulted in an increase in sales of U.S. dollar-denominated products relative to products denominated in other currencies. For additional information on sales within our international insurance operations, see "—International Businesses—Sales Results," below.

The following table sets forth the insurance liabilities and policyholder account balances of our Japanese operations, by type, for the date indicated:

	As of December 31, 2020
	(in billions)
Insurance products with fixed and guaranteed terms	$140
Contracts with a market value adjustment if invested amount is not held to maturity	26
Contracts with adjustable crediting rates subject to guaranteed minimums	12
Total	$178

The $140 billion is primarily comprised of long-duration insurance products that have fixed and guaranteed terms, for which underlying assets may have to be reinvested at interest rates that are lower than current portfolio yields. The remaining insurance liabilities and policyholder account balances include $26 billion related to contracts that impose a market value adjustment if the invested amount is not held to maturity and $12 billion related to contracts with crediting rates that may be adjusted over the life of the contract, subject to guaranteed minimums. Most of the current crediting rates on these contracts, however, are at or near contractual minimums. Although we have the ability in some cases to lower crediting rates for those contracts that are above guaranteed minimum crediting rates, the majority of this business has interest crediting rates that are determined by formula.

Assuming a hypothetical scenario where the average 30-year Japanese Government Bond yield is 0.65% and the 10-year U.S. Treasury rate is 0.85% (which is reasonably consistent with recent rates) for the period from January 1, 2021 through December 31, 2021 (and credit spreads remain unchanged from average levels experienced during the fourth quarter 2020), we estimate that the unfavorable impact to net investment income of reinvesting activities, including scheduled maturities and estimated prepayments of fixed maturities and commercial mortgage and other loans (excluding assets supporting participating contracts) would be between $40 million and $80 million for the period from January 1, 2021 through December 31, 2021.

Results of Operations

Consolidated Results of Operations

The following table summarizes net income (loss) for the periods presented:

	Year ended December 31,		
	2020	2019	2018
	(in millions)		
Revenues	$57,033	$64,807	$62,992
Benefits and expenses	57,356	59,722	58,158
Income (loss) before income taxes and equity in earnings of operating joint ventures	(323)	5,085	4,834
Income tax expense (benefit)	(81)	947	822
Income (loss) before equity in earnings of operating joint ventures	(242)	4,138	4,012
Equity in earnings of operating joint ventures, net of taxes	96	100	76
Net income (loss)	(146)	4,238	4,088
Less: Income attributable to noncontrolling interests	228	52	14
Net income (loss) attributable to Prudential Financial, Inc.	$ (374)	$ 4,186	$ 4,074

2020 to 2019 Annual Comparison. The $4,560 million decrease in "Net income (loss) attributable to Prudential Financial, Inc." reflected the following notable items:

- $2,801 million unfavorable variance, on a pre-tax basis, from realized investment gains and losses for Prudential Financial, Inc. excluding Divested and Run-off Businesses, and excluding the impact of the hedging program associated with certain variable annuities discussed below (see "General Account Investments" for additional information);
- $1,444 million unfavorable variance, on a pre-tax basis, from a loss in the current period from our Divested and Run-off Businesses compared to a gain in the prior year period (see "Results of Operations by Segment—Divested and Run-off Businesses" for additional information);
- $707 million unfavorable variance, on a pre-tax basis, from lower adjusted operating income from our business segments (see "Segment Results of Operations" for additional information);

- $351 million unfavorable variance, on a pre-tax basis, reflecting the impact from changes in the value of our embedded derivatives and related hedge positions, net of DAC and other costs, associated with certain variable annuities (see "Results of Operations by Segment—U.S. Businesses—U.S. Individual Solutions Division—Individual Annuities—Risks and Risk Mitigants" for additional information); and
- $339 million unfavorable variance, on a pre-tax basis, from investment related activities that are primarily within "Other income (loss)" for PFI excluding our Divested and Run-off Businesses. These unfavorable impacts were primarily driven by unrealized gains (losses) from equity securities.

Partially offsetting these decreases in "Net income (loss) attributable to Prudential Financial, Inc." was the following item:

- $1,028 million favorable variance from a lower tax expense.

Segment Results of Operations

We analyze the performance of our segments and Corporate and Other operations using a measure of segment profitability called adjusted operating income. See "—Segment Measures" for a discussion of adjusted operating income and its use as a measure of segment operating performance.

Shown below are the adjusted operating income contributions of each segment and Corporate and Other operations for the periods indicated and a reconciliation of this segment measure of performance to "Income (loss) before income taxes and equity in earnings of operating joint ventures" as presented in the Consolidated Statements of Operations.

	Year ended December 31,		
	2020	2019	2018
	(in millions)		
Adjusted operating income before income taxes by segment:			
PGIM	$ 1,262	$ 998	$ 959
U.S. Businesses:			
U.S. Workplace Solutions division:			
Retirement	1,436	1,301	1,049
Group Insurance	(16)	285	229
Total U.S. Workplace Solutions division	1,420	1,586	1,278
U.S. Individual Solutions division:			
Individual Annuities	1,470	1,843	1,925
Individual Life	(48)	87	223
Total U.S. Individual Solutions division	1,422	1,930	2,148
Assurance IQ division(1):			
Assurance IQ	(88)	(9)	0
Total Assurance IQ division	(88)	(9)	0
Total U.S. Businesses	2,754	3,507	3,426
International Businesses(2)	2,952	3,112	3,019
Corporate and Other	(1,824)	(1,766)	(1,283)
Total segment adjusted operating income before income taxes	5,144	5,851	6,121
Reconciling items:			
Realized investment gains (losses), net, and related adjustments(3)	(4,156)	(835)	611
Charges related to realized investment gains (losses), net(4)	(159)	(123)	(315)
Market experience updates(5)	(640)	(449)	0
Divested and Run-off Businesses(6):			
Closed Block division	(24)	36	(62)
Other Divested and Run-off Businesses(2)	(629)	755	(1,434)
Other adjustments(7)	51	(47)	0
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(8)	90	(103)	(87)
Consolidated income (loss) before income taxes and equity in earnings of operating joint ventures	$ (323)	$ 5,085	$ 4,834

(1) Assurance IQ was acquired by the Company in October 2019. See Note 1 to the Consolidated Financial Statements and "—Assurance IQ" for additional information.
(2) Effective second quarter of 2020, the results of POK and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Effective third quarter of 2020, the results of POT and the impact of its anticipated sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Prior period amounts have been updated to conform to current period presentation. See Note 1 to the Consolidated Financial Statements for additional information.
(3) Represents "Realized investment gains (losses), net," and related adjustments. See "—General Account Investments" and Note 22 to the Consolidated Financial Statements for additional information. Prior period amounts have been updated to conform to current period presentation.
(4) Includes charges that represent the impact of realized investment gains (losses), net, on the amortization of DAC and other costs, and on changes in reserves. Also includes charges resulting from payments related to market value adjustment features of certain of our annuity products and the impact of realized investment gains (losses), net, on the amortization of Unearned Revenue Reserves ("URR"). Prior period amounts have been updated to conform to current period presentation.

(5) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019. See Note 22 to the Consolidated Financial Statements for additional information. Prior period amounts have been updated to conform to current period presentation.
(6) Represents the contribution to income (loss) of Divested and Run-off Businesses that have been or will be sold or exited, including businesses that have been placed in wind down, but that did not qualify for "discontinued operations" accounting treatment under U.S. GAAP. See "—Divested and Run-off Businesses" for additional information.
(7) Represents adjustments not included in the above reconciling items. "Other adjustments" include certain components of the consideration for the Assurance IQ acquisition, which are recognized as compensation expense over the requisite service periods, as well as changes in the fair value of contingent consideration. See Note 22 to the Consolidated Financial Statements for additional information.
(8) Equity in earnings of operating joint ventures are included in adjusted operating income but excluded from "Income (loss) before income taxes and equity in earnings of operating joint ventures" as they are reflected on an after-tax U.S. GAAP basis as a separate line in the Consolidated Statements of Operations. Earnings attributable to noncontrolling interests are excluded from adjusted operating income but included in "Income (loss) before income taxes and equity in earnings of operating joint ventures" as they are reflected on a U.S. GAAP basis as a separate line in the Consolidated Statements of Operations. Earnings attributable to noncontrolling interests represent the portion of earnings from consolidated entities that relates to the equity interests of minority investors.

Segment results for 2020 presented above reflect the following:

PGIM. Results for 2020 increased in comparison to 2019, primarily reflecting an increase in asset management fees and other related revenues, partially offset by higher expenses.

Retirement. Results for 2020 increased in comparison to 2019, including an unfavorable comparative net impact from our annual reviews and update of assumptions and other refinements. Excluding this item, results increased primarily driven by higher reserve gains and lower expenses.

Group Insurance. Results for 2020 decreased in comparison to 2019, primarily reflecting less favorable underwriting results in our group life and group disability businesses, and lower net investment spread results.

Individual Annuities. Results for 2020 decreased in comparison to 2019, including an unfavorable comparative net impact from our annual reviews and update of assumptions and other refinements. Excluding this item, results decreased primarily driven by lower fee income, net of distribution expenses and other associated costs.

Individual Life. Results for 2020 decreased in comparison to 2019, including a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Excluding this item, results decreased primarily reflecting lower underwriting results, and a change in business practice related to the level of premiums collected on certain policies that resulted in reserve refinements.

Assurance IQ. Results for 2020 were $(88) million in our first full year of reporting since our acquisition of the business in October 2019. The loss reflects net revenues that were more than offset by operating expenses as well as amortization expenses related to intangible assets recognized as part of purchase accounting (see Note 1 and Note 10 to the Consolidated Financial Statements for additional information).

International Businesses. Results for 2020 decreased in comparison to 2019, inclusive of unfavorable net impacts from foreign currency exchange rates and unfavorable comparative net impacts from our annual reviews and update of assumptions and other refinements. Excluding these items, results decreased primarily reflecting lower net investment spread results and lower earnings from our joint venture investments, partially offset by favorable underwriting results including business growth.

Corporate and Other. Results for 2020 reflected increased losses in comparison to 2019, primarily driven by lower investment income and higher interest expense on debt, partially offset by lower charges related to corporate costs and initiatives, as well as favorable pension and employee benefit results.

Closed Block Division. Results for 2020 decreased in comparison to 2019, primarily driven by lower net investment activity results, partially offset by a decrease in the policyholder dividend obligation.

Segment Measures

Adjusted Operating Income. In managing our business, we analyze our segments' operating performance using "adjusted operating income." Adjusted operating income does not equate to "Income (loss) before income taxes and equity in earnings of operating joint ventures" or "Net income (loss)" as determined in accordance with U.S. GAAP, but is the measure of segment profit or loss we use to evaluate segment performance and allocate resources, and consistent with authoritative guidance, is our measure of segment performance. The adjustments to derive adjusted operating income are important to an understanding of our overall results of operations. Adjusted operating income is not a substitute for income determined in accordance with U.S. GAAP, and our definition of adjusted operating income may differ from that used by other companies; however, we believe that the presentation of adjusted operating income as we measure it for management purposes enhances the understanding of our results of operations by highlighting the results from ongoing operations and the underlying profitability of our businesses. See Note 22 to the Consolidated Financial Statements for additional information on the presentation of segment results and our definition of adjusted operating income.

Annualized New Business Premiums. In managing our Individual Life, Group Insurance and International Businesses, we analyze annualized new business premiums, which do not correspond to revenues under U.S. GAAP. Annualized new business premiums measure the current sales performance of the business, while revenues primarily reflect the renewal persistency of policies written in prior years and net investment income, in addition to current sales. Annualized new business premiums include 10% of first year premiums or deposits from single pay products. No other adjustments are made for limited pay contracts.

The amount of annualized new business premiums for any given period can be significantly impacted by several factors, including but not limited to: addition of new products, discontinuation of existing products, changes in credited interest rates for certain products and other product modifications, changes in premium rates, changes in tax laws, changes in regulations or changes in the competitive environment. Sales volume may increase or decrease prior to certain of these changes becoming effective, and then fluctuate in the other direction following such changes.

Assets Under Management. In managing our PGIM business, we analyze assets under management (which do not correspond directly to U.S. GAAP assets) because the principal source of revenues is fees based on assets under management. Assets under management represent the fair market value or account value of assets which we manage directly for institutional clients, retail clients, and for our general account, as well as assets invested in our products that are managed by third-party managers.

Account Values. In managing our Individual Annuities and Retirement businesses, we analyze account values, which do not correspond to U.S. GAAP assets. Net sales (redemptions) in our Individual Annuities business and net additions (withdrawals) in our Retirement business do not correspond to revenues under U.S. GAAP, but are used as a relevant measure of business activity.

Impact of Foreign Currency Exchange Rates

Foreign currency exchange rate movements and related hedging strategies

As a U.S.-based company with significant business operations outside the U.S., particularly in Japan, we are subject to foreign currency exchange rate movements that could impact our U.S. dollar ("USD")-equivalent earnings and shareholder return on equity. Our USD-equivalent earnings could be materially affected by currency fluctuations from period to period, even if earnings on a local currency basis are relatively constant. Our USD-equivalent equity is impacted as the value of our investment in international operations may also fluctuate based on changes in foreign currency exchange rates. We seek to mitigate these impacts through various hedging strategies, including the use of derivative contracts and by holding USD-denominated assets in certain of our foreign subsidiaries.

In order to reduce earnings volatility from foreign currency exchange rate movements, we enter into forward currency derivative contracts to effectively fix the currency exchange rates for a portion of our prospective non-USD-denominated earnings streams. This forward currency hedging program is primarily associated with our insurance operations in Japan.

In order to reduce equity volatility from foreign currency exchange rate movements, we primarily utilize a yen hedging strategy that calibrates the hedge level to preserve the relative contribution of our yen-based business to the Company's overall return on equity on a leverage neutral basis. We implement this hedging strategy utilizing a variety of instruments, including USD-denominated assets, foreign currency derivative contracts, and dual currency and synthetic dual currency investments held locally in our Japanese insurance subsidiaries. The total hedge level may vary based on our periodic assessment of the relative contribution of our yen-based business to the Company's overall return on equity.

The table below presents the aggregate amount of instruments that serve to hedge the impact of foreign currency exchange movements on our USD-equivalent shareholder return on equity from our Japanese insurance subsidiaries as of the dates indicated.

	December 31,	
	2020	2019
	(in billions)	
Foreign currency hedging instruments:		
Hedging USD-equivalent earnings:		
Forward currency contracts (notional amount outstanding)	$ 0.4	$ 0.6
Hedging USD-equivalent equity:		
USD-denominated assets held in yen-based entities(1)	10.1	13.1
Dual currency and synthetic dual currency investments(2)	0.5	0.6
Total USD-equivalent equity foreign currency hedging instruments	10.6	13.7
Total foreign currency hedges	$11.0	$14.3

(1) Includes USD-denominated fixed maturities at amortized cost plus any related accrued investment income, as well as USD notional amount of foreign currency derivative contracts outstanding. Note this amount represents only those USD assets serving to hedge the impact of foreign currency volatility on equity. Separate from this program, our Japanese operations also have $65.8 billion and $57.8 billion as of December 31, 2020 and 2019, respectively, of USD-denominated assets supporting USD-denominated liabilities related to USD-denominated products.

(2) Dual currency and synthetic dual currency investments are held by our yen-based entities in the form of fixed maturities and loans with a yen-denominated principal component and USD-denominated interest income. The amounts shown represent the present value of future USD-denominated cash flows.

The USD-denominated investments that hedge the impact of foreign currency exchange rate movements on USD-equivalent earnings and shareholder return on equity from our Japanese insurance operations are reported within yen-based entities and, as a result, foreign currency exchange rate movements will impact their value reported within our yen-based Japanese insurance entities. We seek to mitigate the risk that future unfavorable foreign currency exchange rate movements will decrease the value of these USD-denominated investments reported within our yen-based Japanese insurance entities, and therefore negatively impact their equity and regulatory solvency margins, by having our Japanese insurance operations enter into currency hedging transactions. Those hedges are with a subsidiary of Prudential Financial. These hedging strategies have the economic effect of moving the change in value of these USD-denominated investments due to foreign currency exchange rate movements from our Japanese yen-based entities to our USD-based entities.

These USD-denominated investments also pay a coupon which is generally higher than what a similar yen-denominated investment would pay. The incremental impact of this higher yield on our USD-denominated investments, as well as our dual currency and synthetic dual currency investments, will vary over time, and is dependent on the duration of the underlying investments as well as interest rate environments in both the U.S. and Japan at the time of the investments.

Impact of intercompany foreign currency exchange rate arrangements on segment results of operations

The financial results of our International Businesses and PGIM reflect the impact of intercompany arrangements with our Corporate and Other operations pursuant to which these segments' non-USD-denominated earnings are translated at fixed currency exchange rates. Results of our Corporate and Other operations include differences between the translation adjustments recorded by the segments at the fixed currency exchange rate versus the actual average rate during the period. In addition, specific to our International Businesses where we hedge certain currencies, the results of our Corporate and Other operations also include the impact of any gains or losses recorded from the forward currency contracts that settled during the period, which include the impact of any over or under hedging of actual earnings that differ from projected earnings.

For International Businesses, the fixed currency exchange rates are generally determined in connection with a foreign currency income hedging program designed to mitigate the impact of exchange rate changes on the segment's expected USD-equivalent earnings. Pursuant to this program, our Corporate and Other operations execute forward currency contracts with third parties to sell the net exposure of projected earnings for certain currencies in exchange for USD at specified exchange rates. The maturities of these contracts correspond with the future periods (typically on a three-year rolling basis) in which the identified non-USD-denominated earnings are expected to be generated. In establishing the level of non-USD-denominated earnings that will be hedged through this program, we exclude the anticipated level of USD-denominated earnings that will be generated by USD-denominated products and investments. For the year ended December 31, 2020, approximately 2% of the segment's earnings were yen-based and, as of December 31, 2020, we have hedged 100%, 72% and 31% of expected yen-based earnings for 2021, 2022 and 2023, respectively. To the extent currently unhedged, our International Businesses' future expected USD-equivalent of yen-based earnings will be impacted by yen exchange rate movements.

As a result of these arrangements, our International Businesses' results for 2020, 2019 and 2018 reflect the impact of translating yen-denominated earnings at fixed currency exchange rates of 104, 105, and 111 yen per USD, respectively. We expect our 2021 results to reflect the impact of translating yen-denominated earnings at a fixed currency exchange rate of 103 yen per USD. Since determination of the fixed currency exchange rates for a given year is impacted by changes in foreign currency exchange rates over time, the segment's future earnings will ultimately be impacted by these changes in exchange rates.

For PGIM and certain other currencies within our International Businesses, the fixed currency exchange rates for the current year are predetermined during the third quarter of the prior year using forward currency exchange rates.

The table below presents, for the periods indicated, the increase (decrease) to revenues and adjusted operating income for the International Businesses, PGIM and Corporate and Other operations, reflecting the impact of these intercompany arrangements.

	Year ended December 31,		
	2020	2019	2018
	(in millions)		
Segment impacts of intercompany arrangements:			
International Businesses(3)	$ 64	$ 39	$ 21
PGIM	(4)	6	0
Impact of intercompany arrangements(1)	60	45	21
Corporate and Other:			
Impact of intercompany arrangements(1)(3)	(60)	(45)	(21)
Settlement gains (losses) on forward currency contracts(2)(3)	67	55	(1)
Net benefit (detriment) to Corporate and Other	7	10	(22)
Net impact on consolidated revenues and adjusted operating income	$ 67	$ 55	$ (1)

(1) Represents the difference between non-USD-denominated earnings translated on the basis of weighted average monthly currency exchange rates versus fixed currency exchange rates determined in connection with the foreign currency income hedging program.

(2) As of December 31, 2020, 2019 and 2018, the total notional amounts of these forward currency contracts within our Corporate and Other operations were $1.0 billion, $1.3 billion and $2.1 billion, respectively, of which $0.4 billion, $0.6 billion and $1.3 billion, respectively, were related to our Japanese insurance operations.
(3) Excludes impacts related to POK. Prior period amounts have been updated to conform to current period presentation. Effective second quarter of 2020, the intercompany arrangement for the Korean won between our International Businesses and Corporate and Other operations was terminated and the related hedges were repurposed in relation to the anticipated sale of POK. Effective second quarter of 2020, Korean won-denominated earnings for 2020 and 2019 that were translated at fixed currency exchange rates of 1,090 and 1,110 Korean won per USD, respectively, are excluded from the International Businesses and are included in the Divested and Run-off Businesses included in Corporate and Other. See Note 1 to the Consolidated Financial Statements for additional information.

Impact of products denominated in non-local currencies on U.S. GAAP earnings

While our international insurance operations offer products denominated in local currency, several also offer products denominated in non-local currencies. This is most notable in our Japanese operations, which currently offer primarily USD-denominated products, but have also historically offered Australian dollar ("AUD")-denominated products. The non-local currency-denominated insurance liabilities related to these products are supported by investments denominated in corresponding currencies, including a significant portion designated as available-for-sale. While the impact from foreign currency exchange rate movements on these non-local currency-denominated assets and liabilities is economically matched, differences in the accounting for changes in the value of these assets and liabilities due to changes in foreign currency exchange rate movements have historically resulted in volatility in U.S. GAAP earnings.

In 2015, we implemented a structure in Gibraltar Life's operations that disaggregated the USD- and AUD-denominated businesses into separate divisions, each with its own functional currency that aligns with the underlying products and investments. The result of this alignment was to reduce differences in the accounting for changes in the value of these assets and liabilities that arise due to changes in foreign currency exchange rate movements. For the USD- and AUD-denominated assets that were transferred under this structure, the net cumulative unrealized investment gains associated with foreign exchange remeasurement that were recorded in "Accumulated other comprehensive income (loss)" ("AOCI") totaled $2.3 billion and $2.7 billion as of December 31, 2020 and 2019, respectively, and will be recognized in earnings within "Realized investment gains (losses), net" over time as these assets mature or are sold. Absent the sale of any of these assets prior to their stated maturity, approximately 13% of the $2.3 billion balance as of December 31, 2020 will be recognized in 2021, approximately 11% will be recognized in 2022, and the remaining balance will be recognized from 2023 through 2051.

Highly inflationary economy in Argentina

Our insurance operations in Argentina, Prudential of Argentina ("POA"), have historically utilized the Argentine peso as the functional currency given it is the currency of the primary economic environment in which the entity operates. During 2018, Argentina experienced a cumulative inflation rate that exceeded 100% over a 3-year period. As a result, Argentina's economy was deemed to be highly inflationary resulting in reporting changes effective July 1, 2018. Under U.S. GAAP, the financial statements of a foreign entity in a highly inflationary economy are to be remeasured as if its functional currency (formerly the Argentine peso) is the reporting currency of its parent reporting entity (the USD) on a prospective basis. While this changed how the results of POA are remeasured and/or translated into USD, the impact to our financial statements was not material nor is it expected to be material in future periods given the relative size of our POA operations. It should also be noted that due to the macroeconomic environment in Argentina, substantially all of POA's balance sheet consists of USD-denominated product liabilities supported by USD-denominated assets. As a result, this accounting change serves to reduce the remeasurement impact reflected in net income given that the functional currency and currency in which the assets and liabilities are denominated will be more closely aligned.

Accounting Policies & Pronouncements

Application of Critical Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires the application of accounting policies that often involve a significant degree of judgment. Management, on an ongoing basis, reviews estimates and assumptions used in the preparation of financial statements. If management determines that modifications in assumptions and estimates are appropriate given current facts and circumstances, the Company's results of operations and financial position as reported in the Consolidated Financial Statements could change significantly.

The following sections discuss the accounting policies applied in preparing our financial statements that management believes are most dependent on the application of estimates and assumptions and require management's most difficult, subjective, or complex judgments.

Insurance Assets

Deferred Policy Acquisition Costs and Deferred Sales Inducements

We capitalize costs that are directly related to the acquisition or renewal of insurance and annuity contracts. These costs primarily include commissions, as well as costs of policy issuance and underwriting and certain other expenses that are directly related to successfully negotiated contracts. We have also deferred costs associated with sales inducements related to our variable and fixed annuity contracts primarily within our Individual Annuities segment. Sales inducements are amounts that are credited to the policyholders' account balances mainly as an inducement to purchase the contract. For additional information about sales inducements, see Note 13 to the Consolidated Financial Statements. We generally amortize DAC and deferred sales inducements ("DSI") over the expected lives of the contracts, based on our estimates of the level and timing of gross premiums, gross profits, or gross margins, depending on the type of contract. As described in more detail below, in calculating DAC and DSI amortization, we are required to make assumptions about investment returns, mortality, persistency, and other items that impact our estimates of the level and timing of gross margins, gross profits, or gross premiums. We also periodically evaluate the recoverability of our DAC and DSI. For certain contracts, this evaluation is performed as part of our premium deficiency testing, as discussed further below in "—Insurance Liabilities—Future Policy Benefits." As of December 31, 2020, DAC and DSI for PFI excluding the Closed Block division were $18.8 billion and $0.8 billion, respectively, and DAC in our Closed Block division was $209 million.

Amortization methodologies

Gross Premiums. DAC, associated with the non-participating term life policies of our Individual Life segment and the whole life, term life, endowment and health policies of our International Businesses segment, is primarily amortized in proportion to gross premiums. Gross premiums are defined as the premiums charged to a policyholder for an insurance contract.

Gross Profits. DAC and DSI, associated with the variable and universal life policies of our Individual Life and International Businesses segments and the variable and fixed annuity contracts of our Individual Annuities and International Businesses segments, are generally amortized over the expected lives of these policies in proportion to total gross profits. Total gross profits include both actual gross profits and estimates of gross profits for future periods. Gross profits are defined as: i) amounts assessed for mortality, contract administration, surrender charges, and other assessments plus amounts earned from investment of policyholder balances, less ii) benefits in excess of policyholder balances, costs incurred for contract administration, the net cost of reinsurance for certain businesses, interest credited to policyholder balances and other credits. If significant negative gross profits are expected in any periods, the amount of insurance in force is generally substituted as the base for computing amortization. U.S. GAAP gross profits and amortization rates also include the impacts of the embedded derivatives associated with certain of the optional living benefit features of our variable annuity contracts, and index-linked crediting features of certain universal life and annuity contracts and related hedging activities. For additional information on the significant inputs to the valuation models for these embedded derivatives including capital market assumptions and actuarially-determined assumptions, see below "—Insurance Liabilities—Future Policy Benefits." In calculating amortization expense, we estimate the amounts of gross profits that will be included in our U.S. GAAP results and in adjusted operating income, and utilize these estimates to calculate distinct amortization rates and expense amounts. We also regularly evaluate and adjust the related DAC and DSI balances with a corresponding charge or credit to current period earnings for the impact of actual gross profits and changes in our projections of estimated future gross profits on our DAC and DSI amortization rates. Adjustments to the DAC and DSI balances include the impact to our estimate of total gross profits of the annual review of assumptions, our quarterly adjustments for current period experience, and our quarterly adjustments for market performance. Each of these adjustments is further discussed below in "—Annual assumptions review and quarterly adjustments."

Gross Margins. DAC associated with the traditional participating products of our Closed Block is amortized over the expected lives of these contracts in proportion to total gross margins. Total gross margins are defined as: i) amounts received from premiums, earned from investment of policyholder balances and other assessments, less ii) benefits paid, costs for contract administration, changes in the net level premium reserve for death and endowment benefits, annual policyholder dividends and other credits. We evaluate our estimates of future gross margins and adjust the related DAC balance with a corresponding charge or credit to current period earnings for the effects of actual gross margins and changes in our expected future gross margins. DAC adjustments for these participating products generally have not created significant volatility in our results of operations since many of the factors that affect gross margins are also included in the determination of our dividends to these policyholders and, during most years, the Closed Block has recognized a cumulative policyholder dividend obligation expense in "Policyholders' dividends," for the excess of actual cumulative earnings over expected cumulative earnings as determined at the time of demutualization. However, if actual cumulative earnings fall below expected cumulative earnings in future periods, thereby eliminating the cumulative policyholder dividend obligation expense, changes in gross margins and DAC amortization would result in a net impact to the Closed Block results of operations. As of December 31, 2020, the excess of actual cumulative earnings over the expected cumulative earnings was $2,920 million.

The amortization methodologies for products not discussed above primarily relate to less significant DAC and DSI balances associated with products in our Group Insurance and Retirement segments, which comprised approximately 2% of the Company's total DAC and DSI balances as of December 31, 2020.

Annual assumptions review and quarterly adjustments

Annually, we perform a comprehensive review of the assumptions used in estimating gross profits for future periods. Over the last several years, the Company's most significant assumption updates that have resulted in a change to expected future gross profits and the amortization of DAC and DSI have been related to lapse and other contractholder behavior assumptions, mortality, and revisions to expected future rates of returns on investments. These assumptions may also cause potential significant variability in amortization expense in the future. The impact on our results of operations of changes in these assumptions can be offsetting and we are unable to predict their movement or offsetting impact over time.

The quarterly adjustments for current period experience referred to above reflect the impact of differences between actual gross profits for a given period and the previously estimated expected gross profits for that period. To the extent each period's actual experience differs from the previous estimate for that period, the assumed level of total gross profits may change. In these cases, we recognize a cumulative adjustment to all previous periods' amortization, also referred to as an experience true-up adjustment.

The quarterly adjustments for market performance referred to above reflect the impact of changes to our estimate of total gross profits to reflect actual fund performance and market conditions. A significant portion of gross profits for our variable annuity contracts and, to a lesser degree, our variable life contracts are dependent upon the total rate of return on assets held in separate account investment options. This rate of return influences the fees we earn on variable annuity and variable life contracts, costs we incur associated with the guaranteed minimum death and guaranteed minimum income benefit features related to our variable annuity contracts and expected claims to be paid on variable life contracts, as well as other sources of profit. Returns that are higher than our expectations for a given period produce higher than expected account balances, which increase the future fees we expect to earn on variable annuity and variable life contracts and decrease the future costs we expect to incur associated with the guaranteed minimum death and guaranteed minimum income benefit features related to our variable annuity contracts and expected claims to be paid on variable life contracts. The opposite occurs when returns are lower than our expectations. The changes in future expected gross profits are used to recognize a cumulative adjustment to all prior periods' amortization.

The weighted average rate of return assumptions used in developing estimated market returns consider many factors specific to each product type, including asset durations, asset allocations and other factors. With regard to equity market assumptions, the near-term future rate of return assumption used in evaluating DAC and DSI for our domestic variable annuity and domestic and international variable life insurance products is derived using a reversion to the mean approach, a common industry practice. Under this approach, we consider historical equity returns and adjust projected equity returns over an initial future period of five years (the "near-term") so that equity returns converge to the long-term expected rate of return. If the near-term projected future rate of return is greater than our near-term maximum future rate of return of 15.0%, we use our maximum future rate of return. As of December 31, 2020, our domestic variable annuities and variable life insurance businesses assume an 8.0% long-term equity expected rate of return and a 1.3% near-term mean reversion equity expected rate of return, and our international variable life insurance business assumes a 4.8% long-term equity expected rate of return and a 1.5% near-term mean reversion equity expected rate of return.

With regard to interest rate assumptions used in evaluating DAC and DSI, we update the long-term and near-term future rates used to project fixed income returns annually and quarterly, respectively. As a result of our 2020 annual reviews and update of assumptions and other refinements, we reduced our long-term expectation of the (i) 10-year U.S. Treasury rate by 50 basis points and now grade to a rate of 3.25% over ten years, and (ii) 10-year Japanese Government Bond yield by 30 basis points and now grade to a rate of 1.00% over ten years. As part of our quarterly market experience updates, we update our near-term projections of interest rates to reflect changes in current rates.

Value of Business Acquired

In addition to DAC and DSI, we also recognize an asset for VOBA. VOBA is an intangible asset that represents an adjustment to the stated value of acquired in-force insurance contract liabilities to present them at fair value, determined as of the acquisition date. VOBA is amortized over the expected life of the acquired contracts using the same methodology and assumptions used to amortize DAC and DSI (see "—Deferred Policy Acquisition Costs and Deferred Sales Inducements" above for additional information). VOBA is also subject to recoverability testing. As of December 31, 2020, VOBA was $1.1 billion, and included $0.9 billion related to the acquisition from American International Group ("AIG") of AIG Star Life Insurance Co., Ltd, AIG Edison Life Insurance Company, AIG Financial Assurance Japan K.K. and AIG Edison Service Co., Ltd. (collectively, the "Star and Edison Businesses") in 2011. The remaining $0.2 billion primarily relates to previously-acquired traditional life, deferred annuity, defined contribution and defined benefit businesses. The VOBA associated with the in-force contracts of the Star and Edison Businesses is less sensitive to assumption changes, as the majority is amortized in proportion to gross premiums which are more predictably stable compared to gross profits.

Insurance Liabilities

Future Policy Benefits

Future Policy Benefit Reserves, including Unpaid Claims and Claim Adjustment Expenses

We establish reserves for future policy benefits to, or on behalf of, policyholders using methodologies prescribed by U.S. GAAP. The reserving methodologies used include the following:

- For most long-duration contracts, we utilize a net premium valuation methodology in measuring the liability for future policy benefits. Under this methodology, a liability for future policy benefits is accrued when premium revenue is recognized. The liability, which represents the present value of future benefits to be paid to or on behalf of policyholders and related expenses less the present value of future net premiums (portion of the gross premium required to provide for all benefits and expenses), is estimated using methods that include assumptions applicable at the time the insurance contracts are made with provisions for the risk of adverse deviation, as appropriate. Original assumptions continue to be used in subsequent accounting periods to determine changes in the liability for future policy benefits (often referred to as the "lock-in concept"), unless a premium deficiency exists. The result of the net premium valuation methodology is that the liability at any point in time represents an accumulation of the portion of premiums received to date expected to be needed to fund future benefits (i.e., net premiums received to date), less any benefits and expenses already paid. The liability does not necessarily reflect the full policyholder obligation the Company expects to pay at the conclusion of the contract since a portion of that obligation would be funded by net premiums received in the future and would be recognized in the liability at that time. We perform premium deficiency tests using best estimate assumptions as of the testing date without provisions for adverse deviation. If the liabilities determined based on these best estimate assumptions are greater than the net reserves (i.e., GAAP reserves net of any DAC, DSI or VOBA asset), the existing net reserves are adjusted by first reducing these assets by the amount of the deficiency or to zero through a charge to current period earnings. If the deficiency is more than these asset balances for insurance contracts, we then increase the net reserves by the excess, again through a charge to current period earnings. If a premium deficiency is recognized, the assumptions as of the premium deficiency test date are locked-in and used in subsequent valuations and the net reserves continue to be subject to premium deficiency testing. In addition, for limited-payment contracts, future policy benefit reserves also include a deferred profit liability representing gross premiums received in excess of net premiums. The deferred profits are generally recognized in revenue in a constant relationship with insurance in force or with the amount of expected future benefit payments.
- For certain contract features, such as those related to guaranteed minimum death benefits ("GMDB"), guaranteed minimum income benefits ("GMIB") and no-lapse guarantees, a liability is established when associated assessments (which include policy charges for administration, mortality, expense, surrender, and other, regardless of how characterized) are recognized. This liability is established using current best estimate assumptions and is based on the ratio of the present value of total expected excess payments (e.g., payments in excess of account value) over the life of the contract divided by the present value of total expected assessments (i.e., benefit ratio). The liability equals the current benefit ratio multiplied by cumulative assessments recognized to date, plus interest, less cumulative excess payments to date. The result of the benefit ratio method is that the liability at any point in time represents an accumulation of the portion of assessments received to date expected to be needed to fund future excess payments, less any excess payments already paid. The liability does not necessarily reflect the full policyholder obligation the Company expects to pay at the conclusion of the contract since a portion of that excess payment would be funded by assessments received in the future and would be recognized in the liability at that time. Similar to as described above for DAC, the reserves are subject to adjustments based on annual reviews of assumptions and quarterly adjustments for experience, including market performance. These adjustments reflect the impact on the benefit ratio of using actual historical experience from the issuance date to the balance sheet date plus updated estimates of future experience. The updated benefit ratio is then applied to all prior periods' assessments to derive an adjustment to the reserve recognized through a benefit or charge to current period earnings.
- For certain product guarantees, primarily certain optional living benefit features of the variable annuity products in our Individual Annuities segment including guaranteed minimum accumulation benefits ("GMAB"), guaranteed minimum withdrawal benefits ("GMWB") and guaranteed minimum income and withdrawal benefits ("GMIWB"), the benefits are accounted for as embedded derivatives using a fair value accounting framework. The fair value of these contracts is calculated as the present value of expected future benefit payments to contractholders less the present value of assessed rider fees attributable to the embedded derivative feature. Under U.S. GAAP, the fair values of these benefit features are based on assumptions a market participant would use in valuing these embedded derivatives. Changes in the fair value of the embedded derivatives are recorded quarterly through a benefit or charge to current period earnings. For additional information regarding the valuation of these embedded derivatives, see Note 6 to the Consolidated Financial Statements.
- In certain instances, the policyholder liability for a particular line of business may not be deficient in the aggregate to trigger loss recognition, but the pattern of earnings may be such that profits are expected to be recognized in earlier years followed by losses in later years. In these situations, accounting standards require that an additional liability (Profits Followed by Losses or "PFL" liability) be recognized by an amount necessary to sufficiently offset the losses that would be recognized in later years. The PFL liability is based on our current estimate of the present value of the amount necessary to offset losses anticipated in future periods. Because the liability is measured on a discounted basis, there will also be accretion into future earnings through an interest charge, and the liability will ultimately be released into earnings as an offset to future losses. Historically, the Company's PFL liabilities have been predominantly associated with certain universal life contracts that measure net GAAP reserves using current best estimate assumptions and accordingly, have been updated each quarter using current in-force and market data and as part of the annual assumption update. At the target accrual date (i.e., date of peak deficiency), the PFL liability transitions to a premium deficiency reserve and, for universal life products, will continue to be updated each quarter using current in-force and market data and as part of the annual assumption update.

The assumptions used in establishing reserves are generally based on the Company's experience, industry experience and/or other factors, as applicable. We update our actuarial assumptions, such as mortality, morbidity, retirement and policyholder behavior assumptions, annually, unless a material change is observed in an interim period that we feel is indicative of a long-term trend. Generally, we do not expect trends to change significantly in the short-term and, to the extent these trends may change, we expect such changes to be gradual over the long-term. In a sustained low interest rate environment, there is an increased likelihood that the reserves determined based on best estimate assumptions may be greater than the net liabilities.

The following paragraphs provide additional details about the reserves we have established:

International Businesses. The reserves for future policy benefits of our International Businesses, which as of December 31, 2020, represented 42% of our total future policy benefit reserves, primarily relate to non-participating whole life and term life products and endowment contracts, and are generally calculated using the net premium valuation methodology, as described above. The primary assumptions used in determining expected future benefits and expenses include mortality, lapse, morbidity, investment yield and maintenance expense assumptions. Reserves also include claims reported but not yet paid, and claims incurred but not yet reported. In addition, future policy benefit reserves for certain contracts also include amounts related to our deferred profit liability, as described above.

Retirement. The reserves for future policy benefits of our Retirement segment, which as of December 31, 2020, represented 22% of our total future policy benefit reserves, primarily relate to our non-participating life contingent group annuity and structured settlement products and are generally calculated using the net premium valuation methodology, as described above. The primary assumptions used in establishing these reserves include mortality, retirement, maintenance expense and investment yield assumptions. In addition, future policy benefit reserves for certain contracts also include amounts related to our deferred profit liability, as described above.

Individual Annuities. The reserves for future policy benefits of our Individual Annuities segment, which as of December 31, 2020, represented 7% of our total future policy benefit reserves, primarily relate to reserves for the GMDB and GMIB features of our variable annuities, and for the optional living benefit features that are accounted for as embedded derivatives. As discussed above, in establishing reserves for GMDBs and GMIBs, we utilize current best estimate assumptions. The primary assumptions used in establishing these reserves generally include annuitization, lapse, withdrawal and mortality assumptions, as well as interest rate and equity market return assumptions. Lapse rates are adjusted at the contract level based on the in-the-moneyness of the benefit and reflect other factors, such as the applicability of any surrender charges. Lapse rates are reduced when contracts are more in-the-money. Lapse rates are also generally assumed to be lower for the period where surrender charges apply. For life contingent payout annuity contracts, we establish reserves using best estimate assumptions with provisions for adverse deviations as of inception or best estimate assumptions as of the most recent loss recognition event.

The reserves for certain optional living benefit features, including GMAB, GMWB and GMIWB are accounted for as embedded derivatives at fair value, as described above. This methodology could result in either a liability or contra-liability balance, given changing capital market conditions and various actuarial assumptions. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally-developed models with option pricing techniques. The models are based on a risk neutral valuation framework and incorporate premiums for risks inherent in valuation techniques, inputs, and the general uncertainty around the timing and amount of future cash flows. The significant inputs to the valuation models for these embedded derivatives include capital market assumptions, such as interest rate levels and volatility assumptions, the Company's market-perceived risk of its own non-performance risk ("NPR"), as well as actuarially-determined assumptions, including mortality rates and contractholder behavior, such as lapse rates, benefit utilization rates and withdrawal rates. Capital market inputs and actual contractholders' account values are updated each quarter based on capital market conditions as of the end of the quarter, including interest rates, equity markets and volatility. In the risk neutral valuation, the initial swap curve drives the total returns used to grow the contractholders' account values. The Company's discount rate assumption is based on the London Inter-Bank Offered Rate ("LIBOR") swap curve adjusted for an additional spread, which includes an estimate of NPR. Actuarial assumptions, including contractholder behavior and mortality, are reviewed at least annually, and updated based upon emerging experience, future expectations and other data, including any observable market data, such as available industry studies or market transactions such as acquisitions and reinsurance transactions. For additional information regarding the valuation of these optional living benefit features, see Note 6 to the Consolidated Financial Statements.

Individual Life. The reserves for future policy benefits of our Individual Life segment, which as of December 31, 2020, represented 7% of our total future policy benefit reserves, primarily relate to term life, universal life and variable life products. For term life contracts, the future policy benefit reserves are generally calculated using the net premium valuation methodology, as described above. The primary assumptions used in determining expected future benefits and expenses include mortality, lapse, investment yield and maintenance expense assumptions. For variable and universal life products, which include universal life contracts that contain no-lapse guarantees, reserves for future policy benefits are primarily established using the reserving methodology for GMDB and GMIB contracts. As discussed above, in establishing reserves for GMDBs and GMIBs, we utilize current best estimate assumptions. The primary assumptions used in establishing these reserves generally include mortality, lapse, and premium pattern, as well as interest rate and equity market return assumptions. Reserves also include claims reported but not yet paid, and claims incurred but not yet reported.

Group Insurance. The reserves for future policy benefits of our Group Insurance segment, which as of December 31, 2020, represented 2% of our total future policy benefit reserves, primarily relate to reserves for group life and disability benefits. For short-duration contracts, a liability is established when the claim is incurred. The reserves for group life and disability benefits also include a liability for unpaid claims and claim adjustment expenses, which relates primarily to the group long-term disability product. This liability represents our estimate of future disability claim payments and expenses as well as estimates of claims that have been incurred, but have not yet been reported, as of the balance sheet date. The liability is determined as the present value of expected future claim payments and expenses. The primary assumptions used in determining expected future claim payments are claim termination factors, an assumed interest rate and expected Social Security offsets. The remaining reserves for future policy benefits for group life and disability benefits relate primarily to our group life business, and include reserves for waiver of premium, claims reported but not yet paid, and claims incurred but not yet reported. The waiver of premium reserve is calculated as the present value of future benefits and utilizes assumptions such as expected mortality and recovery rates. The reserve for claims reported but not yet paid is based on the inventory of claims that have been reported but not yet paid. The reserve for claims incurred but not yet reported is estimated using expected patterns of claims reporting.

Corporate and Other. The reserves for future policy benefits of our Corporate & Other operations, which as of December 31, 2020, represented 5% of our total future policy benefit reserves, primarily relate to our long-term care products and are generally calculated using the net premium valuation methodology, as described above. Due to the recognition of a premium deficiency in the first quarter of 2020 as a result of the decline in interest rates, most contracts are valued with the best estimate assumptions at that time. The primary assumptions used in establishing these reserves include interest rate, morbidity, mortality, lapse, premium rate increase and maintenance expense assumptions. In addition, certain less significant reserves for our long-term care products, such as our disabled life reserves, are established using current best estimate actuarial assumptions.

Closed Block Division. The future policy benefit reserves for the traditional participating life insurance products of the Closed Block division, which as of December 31, 2020, represented 15% of our total future policy benefit reserves are determined using the net premium valuation methodology, as described above. Under this method, the future policy benefit reserves are accrued as a level proportion of the premium paid by the policyholder. In applying this method, we use mortality assumptions to determine our expected future benefits and expected future premiums, and apply an interest rate to determine the present value of both of these amounts. The mortality assumptions are based on standard industry mortality tables that were used to determine the cash surrender value of the policies, and the interest rates used are the interest rates used to calculate the cash surrender value of the policies.

Policyholders' Account Balances

Policyholders' account balances liability represents the contract value that has accrued to the benefit of the policyholder as of the balance sheet date. This liability is primarily associated with the accumulated account deposits, plus interest credited, less policyholder withdrawals and other charges assessed against the account balance, as applicable. Our unearned revenue reserve also reported as a component of "Policyholders' account balances" primarily relates to the variable and universal life products within our Individual Life and International Businesses segments and represents policy charges for services to be provided in future periods. The charges are deferred as unearned revenue and are generally amortized over the expected life of the contract in proportion to the product's estimated gross profits, similar to DAC and DSI as discussed above. Policyholders' account balances also include amounts representing the fair value of embedded derivative instruments associated with the index-linked features of certain universal life and annuity products. For additional information regarding the valuation of these embedded derivatives, see Note 6 to the Consolidated Financial Statements.

Sensitivities for Insurance Assets and Liabilities

The following table summarizes the aggregate impact that could result on each of the listed financial statement balances from changes in certain key assumptions. The figures below are presented in aggregate for the Company. The information below is for illustrative purposes and includes only the hypothetical direct impact on December 31, 2020 balances of changes in a single assumption and not changes in any combination of assumptions. Additionally, the illustration of the insurance assumption impacts below reflects a parallel shift in the insurance assumptions across the Company; however, these may be non-parallel in practice and only applicable to specific businesses. Changes in current assumptions could result in impacts to financial statement balances that are in excess of the amounts illustrated. A description of the estimates and assumptions used in the preparation of each of these financial statement balances is provided above. For traditional long-duration and limited-payment contracts, U.S. GAAP requires the original assumptions used when the contracts are issued to be locked-in and that those assumptions be used in all future liability calculations as long as the resulting liabilities are adequate to provide for the future benefits and expenses (i.e., there is no premium deficiency). Therefore, these products are not reflected in the sensitivity table below unless the hypothetical change in assumption would result in an adverse impact that would cause a premium deficiency. Similarly, the impact of any favorable change in assumptions for traditional long-duration and limited-payment contracts is not reflected in the table below given that the current assumption is required to remain locked-in, and instead the positive impacts would be recognized into net income over the life of the policies in force.

The impacts presented within this table exclude the following:

- The impacts of our asset liability management strategy, which seeks to offset the changes in the balances presented within this table and is primarily composed of investments and derivatives. See further below for a discussion of the estimates and assumptions involved with the application of U.S. GAAP accounting policies for these instruments and "Quantitative and Qualitative Disclosures about Market Risk" for hypothetical impacts on related balances as a result of changes in certain significant assumptions.
- The impacts of our Long-Term Care business, a component of our Divested and Run-off Businesses within our Corporate and Other operations. Long-Term Care business sensitivities are presented separately from the immediately following table (see "—Sensitivities for the Long-Term Care business within our Corporate and Other operations"). While the accounting for long-term care products primarily follows the locked-in assumptions model described above, as a result of the decline in interest rates in the first quarter of 2020, this business recognized a premium deficiency and unlocked and updated the previously locked-in assumptions used in the valuation model. Sensitivities are presented separately in order to provide stand-alone and supplementary information.

Hypothetical change in current assumptions:	December 31, 2020 Increase (Decrease) in Deferred Policy Acquisition Costs, Deferred Sales Inducements and Value of Business Acquired	Future Policy Benefits and Policyholders' Account Balances	Net Impact
		(in millions)	
Long-term interest rate:			
Increase by 25 basis points	$ 55	$ (60)	$ 115
Decrease by 25 basis points	$ (50)	$ 45	$ (95)
Long-term equity expected rate of return:			
Increase by 50 basis points	$ 185	$ (140)	$ 325
Decrease by 50 basis points	$(165)	$ 145	$ (310)
NPR credit spread:			
Increase by 50 basis points	$(485)	$(2,275)	$ 1,790
Decrease by 50 basis points	$ 545	$ 2,535	$(1,990)
Mortality:			
Increase by 1%	$ (45)	$ (165)	$ 120
Decrease by 1%	$ 45	$ 165	$ (120)
Lapse:			
Increase by 10%	$(150)	$ (980)	$ 830
Decrease by 10%	$ 160	$ 1,010	$ (850)

Sensitivities for the Long-Term Care Business within Corporate and Other

The following table summarizes certain significant assumptions made in establishing reserves for long-term care products and the net impact that could result from changes in these assumptions should they occur. Under U.S. GAAP, reserves for long-term care products are primarily calculated using the locked-in assumptions concept described above. As such, the adverse hypothetical impacts illustrated in the table below are those that would increase our best estimate reserves and, when compared to our GAAP reserves, may cause a premium deficiency that would require us to unlock and update our assumptions and record a charge to net income. The favorable hypothetical impacts in the table below would decrease our best estimate reserves but they would not result in an immediate decrease to our GAAP reserves (given that we would be required to leave the current assumptions locked-in); rather, the positive impacts would be recognized into net income over the life of the policies in force.

The information below is for illustrative purposes and includes the impacts of changes in a single assumption and not changes in any combination of assumptions. As a result of emerging experience, changes in current assumptions and the related impact that could result in the listed financial statement balances that are in excess of the amounts illustrated may occur in future periods.

Assumption	December 31, 2020 Current Assumption	Assumption Change	Increase (Decrease) in Best Estimate Reserve (in millions)
Mortality Improvement	Based on "G2" industry mortality improvement scale, grossed up to apply to only healthy lives	Remove all mortality improvement on healthy lives	$(350)
Claim Incidence	Based on Company and industry experience. No reflection of future claim management efficiencies	Increase / decrease in expected incidence: +5% to -5%	$300 - $(300)
Average Ultimate Lapse Rate	Individual: 0.7% Group: 0.7%	-10 basis points to +10 basis points	$125 - $(125)
Investment Rate(1)	Weighted average of 4.74%	-25 basis points to +25 basis points	$400 - $(400)
Expected Future Premium Rate Increase Approvals	Approximately $0.5 billion for the rate increase program(2)	Decrease / increase unapproved rate increases by: -10% to +10%	$50 - $(50)

(1) Investment rate reflects the expected investment yield over the life of the block of business, and is derived from the portfolio yield, current reinvestment rates and our intermediate and long-term assumption for investment yields.
(2) Includes expected future premium rate increases and benefit reductions in lieu of rate increases, not yet approved.

Goodwill

As of December 31, 2020, our goodwill balance of $3,035 million is primarily reflected in the following reporting units: $2,140 million for Assurance IQ, $455 million for Retirement's Full Service business, $258 million for PGIM, and $136 million for Gibraltar Life and Other.

We test goodwill for impairment on an annual basis, as of December 31 of each year, or more frequently if events or circumstances indicate the potential for impairment is more likely than not. The goodwill impairment analysis is performed at the reporting unit level, which is the same as, or one level below, our operating segments. Although accounting guidance provides for an optional qualitative assessment for testing goodwill impairment, all of our reporting units elected to perform the quantitative test, which compares each reporting unit's fair value to its carrying value. The carrying value represents the capital that the business would require if operating as a standalone entity. For additional information on goodwill and our reporting segments, see Note 2 and Note 10 to the Consolidated Financial Statements.

As of December 31, 2019, the Company performed a qualitative goodwill impairment assessment for Assurance IQ, following the acquisition of the business in October 2019. A quantitative impairment assessment of the goodwill allocated to Assurance IQ was performed for the first time as of December 31, 2020. The assessment included both a discounted cash flow approach and a market approach based on sales, Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") and earnings multiples. The estimated fair value of Assurance IQ as of December 31, 2020 was based on weighting the results of each approach.

The discounted cash flow approach calculated the value of Assurance IQ by applying a discount rate, derived from a capital asset pricing model and reflecting a market expected rate of return for the reporting unit, to its projected future cash flows. The projected future cash flows involved significant judgement and were based on our internal forecasts and a terminal value, which incorporates an expected long-term growth rate and market-based multiples. The internal forecasts were based on management's current outlook on the product mix and future performance of the business and incorporated expected industry and market conditions and trends.

The market approach derived the value of Assurance IQ based on comparable publicly traded companies. Each comparable company was assigned a relative weight based on various factors, primarily focused on the comparability of lines of business and business mix, with additional considerations given to comparability of business lifecycle, growth and profitability. Market multiples were developed for the comparable companies using independent analysts' consensus estimates for each company's forecasted sales, EBITDA and earnings. The market multiples were then applied to Assurance IQ's forecasted results, and a control premium, reflective of observable premiums paid for comparable change-in-control transactions, was added to determine a total estimated fair value for the reporting unit. The market multiples used to determine the fair value of Assurance IQ were higher as of December 31, 2020, when compared to the prior year. See "Risk Factors—Strategic Risk" included in Prudential Financial's 2020 Annual Report on Form 10-K for additional information on risks that may impact the performance and fair value of Assurance IQ.

The estimated fair value of Assurance IQ, based on a weighted average of the valuation approaches described above, exceeded the carrying value by 10%, as of December 31, 2020.

Gibraltar Life and Other and PGIM completed a quantitative impairment analysis using an earnings multiple approach, while Retirement's Full Service business used a discounted cash flow approach to estimate its fair value as of December 31, 2020. The significant inputs and considerations applied under each approach are similar to the ones applied by Assurance IQ. The fair value of the reporting units, excluding Assurance IQ, exceeded their carrying value by a weighted average of 229% as of December 31, 2020.

Estimating the fair value of reporting units is a subjective process that involves the use of significant estimates by management. For all reporting units tested, unanticipated changes in business performance or the regulatory environment, market declines or other events impacting the fair value of these businesses, including changes in market multiples, discount rates, interest rates and growth rate assumptions or increases in the level of equity required to support these businesses, could cause an impairment of goodwill, resulting in a charge to income.

Valuation of Investments, Including Derivatives, Measurement of Allowance for Credit Losses, and the Recognition of Other-than-Temporary Impairments

Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, equity securities, other invested assets, and derivative financial instruments. Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices or the values of securities or commodities. Derivative financial instruments we generally use include swaps, futures, forwards and options and may be exchange-traded or contracted in the over-the-counter ("OTC") market. We are also party to financial instruments that contain derivative instruments that are "embedded" in the financial instruments. Management believes the following accounting policies related to investments, including derivatives, are most dependent on the application of estimates and assumptions. Each of these policies is discussed further within other relevant disclosures related to investments and derivatives, as referenced below:

- Valuation of investments, including derivatives;
- Measurement of the allowance for credit losses on fixed maturity securities classified as available-for-sale or held-to-maturity, commercial mortgage loans, and other loans; and
- Recognition of other-than-temporary impairments ("OTTI") for equity method investments.

We present at fair value in the statements of financial position our debt security investments classified as available-for-sale, investments classified as trading such as our assets supporting experience-rated contractholder liabilities and certain fixed maturities, equity securities, and certain investments within "Other invested assets," such as derivatives. For additional information regarding the key estimates and assumptions surrounding the determination of fair value of fixed maturity and equity securities, as well as derivative instruments, embedded derivatives and other investments, see Note 6 to the Consolidated Financial Statements and "—Valuation of Assets and Liabilities—Fair Value of Assets and Liabilities."

For our investments classified as available-for-sale, the impact of changes in fair value is recorded as an unrealized gain or loss in AOCI, a separate component of equity. For our investments classified as trading and equity securities, the impact of changes in fair value is recorded within "Other income (loss)." Our investments classified as held-to-maturity are carried at the acquisition price, net of any unamortized premiums or discounts. Our commercial mortgage and other loans are carried primarily at unpaid principal balances, net of unamortized deferred loan origination fees and expenses and unamortized premiums or discounts and a valuation allowance for losses.

In addition, an allowance for credit losses is measured each quarter for available-for-sale fixed maturity securities, held-to-maturity fixed maturity securities, commercial mortgage and other loans. For additional information regarding our policies regarding the measurement of credit losses, see Note 2 to the Consolidated Financial Statements.

For equity method investments, the carrying value of these investments is written down or impaired to fair value when a decline in value is considered to be other-than-temporary.

Pension and Other Postretirement Benefits

We sponsor pension and other postretirement benefit plans covering employees who meet specific eligibility requirements. Our net periodic costs for these plans consider an assumed discount (interest) rate, an expected rate of return on plan assets, expected increases in compensation levels, mortality and trends in health care costs. Of these assumptions, our expected rate of return assumptions and our discount rate assumptions have historically had the most significant effect on our net period costs associated with these plans.

We determine our expected rate of return on plan assets based upon a building block approach that considers plan asset mix, risk free rates, inflation, real return, term premium, credit spreads, equity risk premium and capital appreciation as well as expenses, the effect of active management and the effect of rebalancing for the equity, debt and real estate asset mix applied on a weighted average basis to our pension asset portfolio. See Note 18 to the Consolidated Financial Statements for our actual asset allocations by asset category and the asset allocation ranges prescribed by our investment policy guidelines for both our pension and other postretirement benefit plans. Our assumed long-term rate of return for 2020 was 6.50% for our domestic pension plans and 7.00% for our other postretirement benefit plans. Given the amount of plan assets as of December 31, 2019, the beginning of the measurement year, if we had assumed an expected rate of return for both our domestic pension and other domestic postretirement benefit plans that was 100 bps higher or 100 bps lower than the rates we assumed, the change in our net periodic costs would have been as shown in the table below. The information provided in the table below considers only changes in our assumed long-term rate of return given the level and mix of invested assets at the beginning of the measurement year, without consideration of possible changes in any of the other assumptions described above that could ultimately accompany any changes in our assumed long-term rate of return.

	For the year ended December 31, 2020	
	Increase/(Decrease) in Net Periodic Pension Cost	Increase/(Decrease) in Net Periodic Other Postretirement Cost
	(in millions)	
Increase in expected rate of return by 100 bps	$(132)	$(15)
Decrease in expected rate of return by 100 bps	$ 132	$ 15

Foreign pension plans represent 5% of plan assets at the beginning of 2020. An increase in expected rate of return by 100 bps would result in a decrease in net periodic pension costs of $6 million; conversely, a decrease in expected rate of return by 100 bps would result in an increase in net periodic pension costs of $4 million.

We determine our discount rate, used to value the pension and postretirement benefit obligations, based upon rates commensurate with current yields on high quality corporate bonds. See Note 18 to the Consolidated Financial Statements for information regarding the December 31, 2019 methodology we employed to determine our discount rate for 2020. Our assumed discount rate for 2020 was 3.30% for our domestic pension plans and 3.25% for our other domestic postretirement benefit plans. Given the amount of pension and postretirement obligations as of December 31, 2019, the beginning of the measurement year, if we had assumed a discount rate for both our domestic pension and other postretirement benefit plans that was 100 bps higher or 100 bps lower than the rates we assumed, the change in our net periodic costs would have been as shown in the table below. The information provided in the table below considers only changes in our assumed discount rate without consideration of possible changes in any of the other assumptions described above that could ultimately accompany any changes in our assumed discount rate.

	For the year ended December 31, 2020	
	Increase/(Decrease) in Net Periodic Pension Cost	Increase/(Decrease) in Net Periodic Other Postretirement Cost
	(in millions)	
Increase in discount rate by 100 bps	$(136)	$(7)
Decrease in discount rate by 100 bps	$ 159	$ 4

Foreign pension plans represent 14% of plan obligations at the beginning of 2020. An increase in discount rate by 100 bps would result in a decrease in net periodic pension costs of $14 million; conversely, a decrease in discount rate by 100 bps would result in an increase in net periodic pension costs of $9 million.

Given the application of the authoritative guidance for accounting for pensions, and the deferral and amortization of actuarial gains and losses arising from changes in our assumed discount rate, the change in net periodic pension cost arising from an increase in the assumed discount rate by 100 bps would not always be expected to equal the change in net periodic pension cost arising from a decrease in the assumed discount rate by 100 bps.

For a discussion of our expected rate of return on plan assets and discount rate for our qualified pension plan in 2020, see "—Results of Operations by Segment—Corporate and Other."

For purposes of calculating pension income from our own qualified pension plan for the year ended December 31, 2021, we decreased the discount rate to 2.55% from 3.30% in 2020. The expected rate of return on plan assets will decrease to 5.75% in 2021 from 6.00% in 2020, and the assumed rate of increase in compensation will remain unchanged at 4.5%.

In addition to the effect of changes in our assumptions, the net periodic cost or benefit from our pension and other postretirement benefit plans may change due to factors such as actual experience being different from our assumptions, special benefits to terminated employees, or changes in benefits provided under the plans.

At December 31, 2020, the sensitivity of our domestic and foreign pension and postretirement obligations to a 100 basis point change in discount rate was as follows.

	December 31, 2020	
	Increase/(Decrease) in Pension Benefits Obligation	Increase/(Decrease) in Accumulated Postretirement Benefits Obligation
	(in millions)	
Increase in discount rate by 100 bps	$(1,690)	$(190)
Decrease in discount rate by 100 bps	$ 2,056	$ 228

Taxes on Income

Our effective tax rate is based on income, non-taxable and non-deductible items, tax credits, statutory tax rates and tax planning opportunities available in the various jurisdictions in which we operate. Inherent in determining our annual tax rate are judgments regarding business plans, planning opportunities and expectations about future outcomes. The Dividend Received Deduction ("DRD") is a major reason for the difference between the Company's effective tax rate and the U.S. federal statutory rate. The DRD is an estimate that incorporates the prior and current year information, as well as the current year's equity market performance. Both the current estimate of the DRD and the DRD in future periods can vary based on factors such as, but not limited to, changes in the amount of dividends received that are eligible for the DRD, changes in the amount of distributions received from underlying fund investments, changes in the account balances of variable life and annuity contracts, and the Company's taxable income before the DRD.

In December 2017, Securities and Exchange Commission ("SEC") staff issued "Staff Accounting Bulletin 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act" ("SAB 118"), which allowed the registrants to record provisional amounts during a 'measurement period' not to extend beyond one year. Under the relief provided by SAB 118, a company could recognize provisional amounts when it did not have the necessary information available, prepared or analyzed in reasonable detail to complete its accounting for the change in tax law. See Note 16 to the Consolidated Financial Statements for a discussion of refinements to provisional amounts related to The United States Tax Cuts and Jobs Act of 2017 ("Tax Act of 2017") included in "Total income tax expense (benefit) before equity in earnings of operating joint ventures" in 2018.

The Tax Act of 2017 includes a provision causing post-1986 unremitted foreign earnings of at least 10% owned non-U.S. affiliates to be included in the Company's U.S. income tax base, with an election to pay the associated tax on an eight-year installment basis. Unremitted foreign earnings from certain operations in foreign jurisdictions that impose a withholding tax on dividends are considered to be permanently reinvested for purposes of determining the applicable withholding tax expense. See Note 16 to the Consolidated Financial Statements for a discussion of unremitted earnings for which the Company provides U.S. income taxes.

An increase or decrease in our effective tax rate by one percentage point would have resulted in a decrease or increase in our 2020 "Total income tax expense (benefit)" of $3 million.

The CARES Act. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted into law. One provision of the CARES Act amends the Tax Act of 2017 and allows companies with net operating losses ("NOLs") originating in 2018, 2019, or 2020 to carry back those losses up to five years. For 2020, the Company has recorded an income tax benefit of $51 million and $149 million from carrying the 2018 NOL and estimated 2020 NOL back to tax years that have a 35% tax rate.

Contingencies

A contingency is an existing condition that involves a degree of uncertainty that will ultimately be resolved upon the occurrence of future events. Under U.S. GAAP, accruals for contingencies are required to be established when the future event is probable and its impact can be reasonably estimated, such as in connection with an unresolved legal matter. The initial reserve reflects management's best estimate of the probable cost of ultimate resolution of the matter and is revised accordingly as facts and circumstances change and, ultimately, when the matter is brought to closure.

Other Accounting Policies

For digital insurance brokerage placement services, the Company earns both initial and renewal commissions as compensation for the placement of insurance policies with insurance carriers. At the effective date of the policy, the Company records within "Other income" the expected lifetime revenue for the initial and renewal commissions considering estimates of the timing of future policy cancellations. These estimates are reassessed each reporting period and any changes in estimates are reflected in the current period.

Adoption of New Accounting Pronouncements

ASU 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts,* was issued by the Financial Accounting Standards Board ("FASB") on August 15, 2018 and is expected to have a significant impact on the Consolidated Financial Statements and Notes to the Consolidated Financial Statements. In October 2019, the FASB issued ASU 2019-09, *Financial Services—Insurance (Topic 944): Effective Date* to affirm its decision to defer the effective date of ASU 2018-12 to January 1, 2022 (with early adoption permitted), representing a one year extension from the original effective date of January 1, 2021. As a result of the COVID-19 pandemic, in November 2020 the FASB issued ASU 2020-11, *Financial Services—Insurance (Topic 944): Effective Date and Early Application* to defer for an additional one year the effective date of ASU 2018-12 from January 1, 2022 to January 1, 2023, and to provide transition relief to facilitate the early adoption of the ASU. The transition relief would allow large calendar-year public companies that early adopt ASU 2018-12 to apply the guidance either as of January 1, 2020 or January 1, 2021 (and record transition adjustments as of January 1, 2020 or January 1, 2021, respectively) in the 2022 financial statements. Companies that do not early adopt ASU 2018-12 would apply the guidance as of January 1, 2021 (and record transition adjustments as of January 1, 2021) in the 2023 financial statements. The Company currently intends to adopt ASU 2018-12 effective January 1, 2023. ASU 2018-12 will impact, at least to some extent, the accounting and disclosure requirements for all long-duration insurance and investment contracts issued by the Company. In addition to the impacts to the balance sheet upon adoption, the Company also expects an impact to how earnings emerge thereafter. See Note 2 to the Consolidated Financial Statements for a more detailed discussion of ASU 2018-12, as well as other accounting pronouncements issued but not yet adopted and newly adopted accounting pronouncements.

Results of Operations by Segment

PGIM

Operating Results

The following table sets forth PGIM's operating results for the periods indicated:

	Year ended December 31,		
	2020	2019	2018
	(in millions)		
Operating results(1):			
Revenues	$4,153	$3,589	$3,294
Expenses	2,891	2,591	2,335
Adjusted operating income	1,262	998	959
Realized investment gains (losses), net, and related adjustments	0	(1)	(10)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	159	8	(21)
Income (loss) before income taxes and equity in earnings of operating joint ventures	$1,421	$1,005	$ 928

(1) Certain of PGIM's investment activities are based in currencies other than the U.S. dollar and are therefore subject to foreign currency exchange rate risk. The financial results of PGIM include the impact of an intercompany arrangement with our Corporate and Other operations designed to mitigate the impact of exchange rate changes on PGIM's U.S. dollar-equivalent earnings. For more information related to this intercompany arrangement, see "—Results of Operations—Impact of Foreign Currency Exchange Rates," above.

Adjusted Operating Income

2020 to 2019 Annual Comparison. Adjusted operating income increased $264 million, primarily reflecting an increase in asset management fees, net of related expenses, due to higher average assets under management as a result of market appreciation, strong investment performance and public fixed income inflows. The increase also reflected an increase in other related revenues, net of related expenses, primarily due to higher commercial mortgage origination revenue driven by higher loan production and profitability, higher net performance-based incentive fees, and favorable co- and seed investment results driven by strong underlying investment performance.

These increases were partially offset by higher expenses primarily reflecting higher compensation driven by business growth, as well as a decrease in service, distribution and other revenues primarily due to the absence of fees in the current year period related to the Wells Fargo agreement (see the "Revenues by type" table in "—Revenues and Expenses," below).

Revenues and Expenses

The following table sets forth PGIM's revenues, presented on a basis consistent with the table above under "—Operating Results," by type:

	Year ended December 31,		
	2020	**2019**	**2018**
	(in millions)		
Revenues by type:			
Asset management fees by source:			
Institutional customers	$1,350	$1,283	$1,204
Retail customers(1)	1,003	878	867
General account	557	521	471
Total asset management fees	2,910	2,682	2,542
Other related revenues by source:			
Incentive fees	206	169	59
Transaction fees	26	22	33
Co- and seed investments	122	79	57
Commercial mortgage(2)	198	110	121
Total other related revenues	552	380	270
Service, distribution and other revenues(3)	691	527	482
Total revenues	$4,153	$3,589	$3,294

(1) Consists of fees from: individual mutual funds and variable annuities and variable life insurance separate account assets; funds invested in proprietary mutual funds through our defined contribution plan products; and third-party sub-advisory relationships. Revenues from fixed annuities and the fixed-rate accounts of variable annuities and variable life insurance are included in the general account.
(2) Includes mortgage origination revenues from our commercial mortgage origination and servicing business.
(3) Includes payments from Wells Fargo under an agreement dated as of July 30, 2004, implementing arrangements with respect to money market mutual funds in connection with the combination of our retail securities brokerage and clearing operations with those of Wells Fargo. The agreement extended for ten years from the Wachovia Securities joint venture termination date of December 31, 2009 to December 31, 2019. The revenue from Wells Fargo under this agreement was $60 million and $70 million for the years ended December 31, 2019 and 2018, respectively.

2020 to 2019 Annual Comparison. Revenues increased $564 million. Asset management fees increased primarily reflecting higher average assets under management as a result of market appreciation, strong investment performance and public fixed income inflows. Other related revenues increased primarily reflecting higher commercial mortgage origination revenue driven by higher loan production and profitability, favorable co- and seed investment results driven by strong underlying investment performance, and higher performance-based incentive fees. Service, distribution and other revenues increased primarily reflecting higher revenues from certain consolidated funds (which were fully offset by higher expenses related to noncontrolling interests in these funds), partially offset by the absence of fees in the current year period related to the Wells Fargo agreement.

Expenses increased $300 million. This increase primarily reflects higher expenses for service, distribution and other revenues largely driven by higher revenues associated with certain consolidated funds, as discussed above. The increase also includes higher variable expenses associated with an increase in overall segment earnings and higher performance-based incentive fee revenues, higher compensation expenses driven by business growth, and expenses related to the startup of a closed-end retail fund in the current year period. These increases were partially offset by lower expenses related to travel and entertainment resulting from COVID-19.

Assets Under Management

The following table sets forth assets under management by asset class as of the dates indicated.

	December 31, 2020	2019	2018
		(in billions)	
Assets Under Management(1) (at fair value):			
Public equity	$ 202.4	$ 165.7	$ 147.0
Public fixed income	1,004.5	885.9	773.1
Real estate	121.5	117.1	110.3
Private credit and other alternatives	106.5	97.5	87.1
Multi-asset	63.7	64.8	64.0
Total PGIM assets under management(2)	$1,498.6	$1,331.0	$1,181.5
Assets under management within other reporting segments(2)(3)	222.3	219.9	195.8
Total PFI assets under management	$1,720.9	$1,550.9	$1,377.3

(1) Prior period amounts have been updated to conform to current period presentation. "Public equity" represents stock ownership interest in a corporation or partnership (excluding hedge funds) or real estate investment trust. "Public fixed income" represents debt instruments that pay interest and usually have a maturity (excluding mortgages). "Real estate" includes direct real estate equity and real estate mortgages. "Private credit and other alternatives" includes private credit, private equity, hedge funds and other alternative strategies. "Multi-asset" includes funds or products that invest in more than one asset class, balancing equity and fixed income funds and target date funds.
(2) Effective first quarter of 2020, certain assets have been reclassified from the U.S. Individual Solutions division to PGIM. Prior period amounts have been updated to conform to current period presentation.
(3) Primarily includes certain assets related to annuity and variable life products in our U.S. Individual Solutions division, retirement and group life products in our U.S. Workplace Solutions division and certain general account assets of our International Businesses. These assets are not directly managed by PGIM, but rather are invested in non-proprietary funds or are managed by either the divisions themselves or by our Chief Investment Officer Organization.

2020 to 2019 Annual Comparison. PGIM's assets under management increased $168 billion in 2020, primarily reflecting market appreciation, strong investment performance and public fixed income inflows.

The following table sets forth assets under management by source as of the dates indicated.

	December 31, 2020	2019	2018
		(in billions)	
Assets Under Management(1) (at fair value):			
Institutional customers	$ 614.9	$ 552.8	$ 493.5
Retail customers	372.0	305.6	260.2
General account	511.7	472.6	427.8
Total PGIM assets under management(2)	$1,498.6	$1,331.0	$1,181.5
Assets under management within other reporting segments(2)(3)	222.3	219.9	195.8
Total PFI assets under management	$1,720.9	$1,550.9	$1,377.3

(1) Prior period amounts have been updated to conform to current period presentation. "Institutional customers" consist of third-party institutional assets and group insurance contracts. "Retail customers" consist of individual mutual funds and variable annuities and variable life insurance separate account assets, funds invested in proprietary mutual funds through our defined contribution plan products, and third-party sub-advisory relationships. "General account" also includes fixed annuities and the fixed-rate accounts of variable annuities and variable life insurance.
(2) Effective first quarter of 2020, certain assets have been reclassified from the U.S. Individual Solutions division to PGIM. Prior period amounts have been updated to conform to current period presentation.
(3) Primarily includes certain assets related to annuity and variable life products in our U.S. Individual Solutions division, retirement and group life products in our U.S. Workplace Solutions division and certain general account assets of our International Businesses. These assets are not directly managed by PGIM, but rather are invested in non-proprietary funds or are managed by either the divisions themselves or by our Chief Investment Officer Organization.

The following table sets forth the component changes in PGIM's assets under management for the periods indicated.

	December 31, 2020	2019	2018
	(in billions)		
Beginning assets under management	$1,331.0	$1,181.5	$1,180.0
Institutional third-party flows	3.0	(6.5)	14.1
Retail third-party flows	17.2	5.7	(0.4)
Total third-party flows	20.2	(0.8)	13.7
Affiliated flows(1)	(8.5)	(3.9)	7.9
Market appreciation (depreciation)(2)	146.7	148.6	(23.0)
Foreign exchange rate impact	6.8	0.5	1.2
Net money market activity and other increases (decreases)	2.4	5.1	1.7
Ending assets under management(3)	$1,498.6	$1,331.0	$1,181.5

(1) Represents assets that PGIM manages for the benefit of other reporting segments within the Company. Additions and withdrawals of these assets are attributable to third-party product inflows and outflows in other reporting segments.
(2) Includes income reinvestment, where applicable.
(3) Prior period amounts have been updated to conform to current period presentation.

Private Capital Deployment

Private capital deployment is indicative of the pace and magnitude of capital that is invested and will result in future revenues that may include management fees, transaction fees, incentive fees and servicing revenues, as well as future costs to manage these assets.

Private capital deployment represents the gross value of private capital invested in real estate debt and equity, and private credit and equity asset classes. Assets under management resulting from private capital deployment are included in "Real estate" and "Private credit and other alternatives" in the "—Assets Under Management—by asset class table" above, and these accounted for a net increase of approximately $12 billion of assets under management in 2020. The increase was primarily driven by private debt originations and real estate equity acquisitions, partially offset by maturities and capital returned to investors.

Private capital deployment includes PGIM's real estate agency debt business, which consists of agency commercial loans that are originated and sold to third party investors. PGIM continues to service these commercial loans; however, they are not included in assets under management.

The following table sets forth PGIM's private capital deployed by asset class for the periods indicated.

	December 31, 2020	2019	2018
	(in billions)		
Private capital deployed:			
Real estate debt and equity	$24.4	$26.1	$25.6
Private credit and equity	12.6	13.2	12.5
Total private capital deployed	$37.0	$39.3	$38.1

Co- and Seed Investments

The following table sets forth PGIM's co- and seed investments at carrying value (including the value of derivative instruments used to mitigate equity market and currency risk) by asset class and source as of the dates indicated.

	December 31,	
	2020	2019(1)
	(in millions)	
Co-Investments:		
Public fixed income	$ 489	$ 462
Real estate	170	228
Private credit and other alternatives	26	19
Seed Investments:		
Public equity	675	671
Public fixed income	356	325
Real estate	33	34
Private credit and other alternatives	79	59
Multi-asset	62	74
Total	$1,890	$1,872

(1) Prior period amounts have been updated to conform to current period presentation.

The increase of $18 million in co- and seed investments was primarily driven by strong public fixed income and private credit and other alternatives investment performance, partially offset by a liquidation of a significant real estate co-investment.

U.S. Businesses

Operating Results

The following table sets forth the operating results for our U.S. Businesses for the periods indicated:

	Year ended December 31,		
	2020	2019	2018
	(in millions)		
Adjusted operating income before income taxes:			
U.S. Businesses:			
U.S. Workplace Solutions division:			
Retirement	$ 1,436	$ 1,301	$1,049
Group Insurance	(16)	285	229
Total U.S. Workplace Solutions division	1,420	1,586	1,278
U.S. Individual Solutions division:			
Individual Annuities	1,470	1,843	1,925
Individual Life	(48)	87	223
Total U.S. Individual Solutions division	1,422	1,930	2,148
Assurance IQ division(1):			
Assurance IQ	(88)	(9)	0
Total Assurance IQ division	(88)	(9)	0
Total U.S. Businesses	2,754	3,507	3,426
Reconciling Items:			
Realized investment gains (losses), net, and related adjustments(2)	(2,526)	(1,881)	88
Charges related to realized investment gains (losses), net	(120)	(58)	(333)
Market experience updates(3)	(591)	(408)	0
Other adjustments(4)	51	(47)	0
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	4	2	(1)
Income (loss) before income taxes and equity in earnings of operating joint ventures	$ (428)	$ 1,115	$3,180

(1) Assurance IQ was acquired by the Company in October 2019. See Note 1 to the Consolidated Financial Statements for additional information.
(2) Prior period amounts have been updated to conform to current period presentation.
(3) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019. See Note 22 to the Consolidated Financial Statements for additional information.
(4) Represents certain components of the consideration for the Assurance IQ acquisition, which are recognized as compensation expense over the requisite service periods, as well as changes in the fair value of contingent consideration. See Note 22 to the Consolidated Financial Statements for additional information.

2020 to 2019 Annual Comparison. Adjusted operating income for our U.S. Businesses decreased by $753 million primarily due to:

- Lower fee income, net of distribution expenses and other associated costs, in our Individual Annuities business;
- Lower underwriting results primarily driven by COVID-19 related net mortality experience; and
- An unfavorable comparative net impact from our annual reviews and update of assumptions and other refinements.
- Partially offsetting these decreases were lower expenses, including those associated with cost savings initiatives.

U.S. Businesses—U.S. Workplace Solutions Division

Retirement

Operating Results

The following table sets forth Retirement's operating results for the periods indicated:

	Year ended December 31,		
	2020	2019	2018
	(in millions)		
Operating results:			
Revenues	$12,034	$15,064	$16,825
Benefits and expenses	10,598	13,763	15,776
Adjusted operating income	1,436	1,301	1,049
Realized investment gains (losses), net, and related adjustments	(23)	332	(402)
Charges related to realized investment gains (losses), net	0	4	(5)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	3	2	(1)
Income (loss) before income taxes and equity in earnings of operating joint ventures	$ 1,416	$ 1,639	$ 641

Adjusted Operating Income

2020 to 2019 Annual Comparison. Adjusted operating income increased $135 million, including an unfavorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for 2020 included a net charge of $22 million from these updates primarily driven by an increase in expected benefit payments, while results for 2019 included a net benefit of $154 million from these updates, primarily driven by a reduction in expected benefit payments. Excluding this item, adjusted operating income increased $311 million, primarily driven by higher reserve gains due to COVID-19 related mortality gains, and lower expenses primarily due to lower costs resulting from expense savings initiatives. Net investment spread results remained relatively flat as lower reinvestment yields were largely offset by higher income on non-coupon investments and the impact of lower crediting rates.

Revenues, Benefits and Expenses

2020 to 2019 Annual Comparison. Revenues decreased $3,030 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, revenues decreased $3,037 million. This decrease primarily reflected lower pension risk transfer premiums with corresponding offsets in policyholders' benefits, as discussed below.

Benefits and expenses decreased $3,165 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses decreased $3,348 million. Policyholders' benefits, including the change in policy reserves, decreased primarily related to the decrease in pension risk transfer premiums discussed above, as well as more favorable reserve experience primarily driven by COVID-19 related mortality gains.

Account Values

Account values are a significant driver of our operating results, and are primarily driven by net additions (withdrawals) and the impact of market changes. The income we earn on most of our fee-based products varies with the level of fee-based account values, since many policy fees are determined by these values. The investment income and interest we credit to policyholders on our spread-based products varies with the level of general account values. To a lesser extent, changes in account values impact our pattern of amortization of DAC and VOBA and general and administrative expenses.

The following table shows the changes in the account values and net additions (withdrawals) of Retirement's products for the periods indicated. Net additions (withdrawals) are plan sales and participant deposits or additions, as applicable, minus plan and participant withdrawals and benefits. Account values include both internally- and externally-managed client balances as the total balances drive revenue for the Retirement business. For more information on internally-managed balances, see "—PGIM."

	Year ended December 31,		
	2020	2019	2018
	(in millions)		
Full Service:			
Beginning total account value	$272,448	$231,669	$234,616
Deposits and sales	40,914	36,394	33,116
Withdrawals and benefits	(34,652)	(35,706)	(26,429)
Change in market value, interest credited and interest income and other activity	36,517	40,091	(9,634)
Ending total account value	$315,227	$272,448	$231,669
Institutional Investment Products:			
Beginning total account value	$227,596	$200,759	$194,492
Additions(1)	22,469	31,101	21,310
Withdrawals and benefits	(18,288)	(16,743)	(15,409)
Change in market value, interest credited and interest income	8,854	9,089	3,303
Other(2)	2,756	3,390	(2,937)
Ending total account value	$243,387	$227,596	$200,759

(1) Additions primarily include: group annuities and funded pension reinsurance calculated based on premiums received; funding agreements issued; unfunded longevity reinsurance contracts calculated as the present value of future projected benefits; and investment-only stable value contracts calculated as the fair value of customers' funds held in a client-owned trust.
(2) "Other" activity includes the effect of foreign exchange rate changes associated with our British pounds sterling denominated longevity reinsurance business and changes in asset balances for externally-managed accounts. For the years ended December 31, 2020 and 2019, "Other" activity also includes $6,989 million in receipts offset by $6,695 million in payments and $3,804 million in receipts offset by $3,104 million in payments, respectively, related to funding agreements backed by commercial paper which typically have maturities of less than 90 days.

2020 to 2019 Annual Comparison. The increase in Full Service account values primarily reflected favorable changes in the market value of customer funds and net deposits and sales.

The increase in Institutional Investment Products account values primarily reflected a favorable change in the market value of account values, net additions driven by investment-only stable value accounts and collateralized funding agreements.

Group Insurance

Operating Results

The following table sets forth Group Insurance's operating results and benefits and administrative operating expense ratios for the periods indicated:

	Year ended December 31,		
	2020	2019	2018
	(in millions)		
Operating results:			
Revenues	$5,786	$5,750	$5,685
Benefits and expenses	5,802	5,465	5,456
Adjusted operating income	(16)	285	229
Realized investment gains (losses), net, and related adjustments	48	(20)	(38)
Income (loss) before income taxes and equity in earnings of operating joint ventures	$ 32	$ 265	$ 191
Benefits ratio(1)(4):			
Group life(2)	93.4%	87.4%	87.2%
Group disability(2)	78.4%	75.4%	75.8%
Total Group Insurance(2)	90.2%	84.7%	84.9%
Administrative operating expense ratio(3)(4):			
Group life	12.4%	12.7%	12.2%
Group disability	26.1%	24.1%	27.1%
Total Group Insurance	15.4%	15.2%	15.1%

(1) Ratio of policyholder benefits to earned premiums plus policy charges and fee income.
(2) Benefits ratios reflect the impacts of our annual reviews and update of assumptions and other refinements. Excluding these impacts, the group life, group disability and total Group Insurance benefits ratios were 93.6%, 78.8% and 90.4% for 2020, respectively, 87.0%, 77.7% and 84.9% for 2019, respectively, and 87.4%, 77.8% and 85.5% for 2018, respectively.

(3) Ratio of general and administrative expenses (excluding commissions) to gross premiums plus policy charges and fee income.
(4) The benefit and administrative ratios are measures used to evaluate profitability and efficiency.

Adjusted Operating Income

2020 to 2019 Annual Comparison. Adjusted operating income decreased $301 million, including a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for 2020 and 2019 included a net benefit from this update of $11 million and $9 million, respectively. Excluding this item, adjusted operating income decreased $303 million, primarily reflecting lower underwriting results in our group life business driven by unfavorable claim experience primarily due to COVID-19 impacts on non-experience-rated contracts. The decrease also reflected lower underwriting results in our group disability business driven by the impact to reserves from lower interest rates, and lower net investment spread results driven by lower reinvestment yields and lower prepayment fee income.

Revenues, Benefits and Expenses

2020 to 2019 Annual Comparison. Revenues increased $36 million. Excluding the impact from our annual reviews and update of assumptions and other refinements, as discussed above, revenues increased $5 million. The increase primarily reflected higher premiums and policy charges and fee income driven by growth in our group life business, mostly offset by lower net investment income driven by lower reinvestment yields and lower prepayment fee income, with partial offsets in interest credited to policyholder account balances, as discussed below.

Benefits and expenses increased $337 million. Excluding the impact from our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses increased $308 million. The increase primarily reflected higher policyholders' benefits and changes in reserves, including increases in our group life business mostly due to COVID-19 impacts. The increase was partially offset by lower interest credited to policyholder account balances, offset in net investment income, as discussed above.

Sales Results

The following table sets forth Group Insurance's annualized new business premiums, as defined under "—Segment Measures" above, for the periods indicated:

	Year ended December 31,		
	2020	2019	2018
	(in millions)		
Annualized new business premiums(1):			
Group life	$243	$254	$376
Group disability	163	159	183
Total	$406	$413	$559

(1) Amounts exclude new premiums resulting from rate changes on existing policies, from additional coverage under our Servicemembers' Group Life Insurance contract and from excess premiums on group universal life insurance that build cash value but do not purchase face amounts.

2020 to 2019 Annual Comparison. Total annualized new business premiums decreased $7 million compared to 2019, primarily driven by lower sales in our group life business, partially offset by higher sales in our group disability business. Sales levels reflect pricing competitiveness and reduced levels of client case movement within the National segment.

U.S. Businesses—U.S. Individual Solutions Division

Individual Annuities

Our Individual Annuities business includes both fixed and variable annuities which may include optional guaranteed living benefit riders (e.g., GMIB, GMAB, GMWB and GMIWB), and/or optional death benefit riders (e.g., GMDB). We also offer fixed annuities that provide a guarantee of principal and interest credited at rates we determine (subject to certain contractual minimums) or at rates based upon the performance of an index (subject to caps or participation rates), as well as indexed variable annuities that provide several index crediting strategies and varying levels of downside protection at predetermined levels and durations. The drivers of our business results are generally included in adjusted operating income, with exceptions related to certain guarantees, as discussed below.

The U.S. GAAP accounting and our adjusted operating income treatment for our guarantees differ depending upon the specific contractual features. Under U.S. GAAP, the reserves for GMIB and GMDB are accounted for in accordance with an insurance fulfillment accounting framework and the results are included in adjusted operating income in a manner generally consistent with U.S. GAAP.

In contrast, certain of our guaranteed living benefit riders (e.g., GMAB, GMWB and GMIWB) are accounted for under U.S. GAAP as embedded derivatives and reported using a fair value accounting framework. For purposes of measuring segment performance, adjusted operating income excludes the changes in fair value and instead reflects the performance of these riders using an insurance fulfillment accounting framework. Under this framework, adjusted operating income recognized each period reflects the rider fees earned during the period, less the portion of such fees estimated to be required to cover future benefit payments and hedging costs. Sales of traditional variable annuities with guaranteed living benefit riders have been discontinued as of December 31, 2020. See “Business—Individual Annuities” included in Prudential Financial’s 2020 Annual Report on Form 10-K for more information about these products.

Operating Results

The following table sets forth Individual Annuities’ operating results for the periods indicated:

	Year ended December 31,		
	2020	2019	2018
	(in millions)		
Operating results:			
Revenues	$ 4,440	$ 4,995	$4,966
Benefits and expenses	2,970	3,152	3,041
Adjusted operating income	1,470	1,843	1,925
Realized investment gains (losses), net, and related adjustments	(2,911)	(2,551)	846
Charges related to realized investment gains (losses), net	4	59	(407)
Market experience updates(1)	(324)	(100)	0
Income (loss) before income taxes and equity in earnings of operating joint ventures	$(1,761)	$ (749)	$2,364

(1) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019. See Note 22 to the Consolidated Financial Statements for additional information.

Adjusted Operating Income

2020 to 2019 Annual Comparison. Adjusted operating income decreased $373 million, including an unfavorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for 2020 included a $136 million net charge from these updates primarily driven by unfavorable impacts related to a decrease in long-term interest rate assumptions. Results for 2019 included a $12 million net charge from these updates. Excluding this item, adjusted operating income decreased $249 million primarily driven by lower fee income, net of distribution expenses and other associated costs, due to unfavorable impacts from our traditional living benefit guarantees resulting from declining interest rates, as well as certain products reaching contractual milestones for fee tier reduction.

Revenues, Benefits and Expenses

2020 to 2019 Annual Comparison. Revenues decreased $555 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, revenues decreased $423 million. The decrease was primarily driven by lower policy charges and fee income reflecting unfavorable impacts from our traditional living benefit guarantees resulting from declining interest rates, as well as certain products reaching contractual milestones for fee tier reductions. Also contributing to the decrease were lower premiums resulting from lower single premium immediate annuity sales, with offsets in policyholders’ benefits as discussed below.

Benefits and expenses decreased $182 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses decreased $174 million primarily driven by lower policyholders’ benefits, including changes in reserves, due to lower reserve provisions resulting from a decrease in single premium immediate annuity sales, with offsets in premiums, as discussed above.

Account Values

Account values are a significant driver of our operating results. Since most fees are determined by the level of separate account assets, fee income varies primarily based on the level of account values. Additionally, our fee income generally drives other items such as the pattern of amortization of DAC and other costs. Account values are driven by net flows from new business sales, surrenders, withdrawals and benefit payments, policy charges and the impact of positive or negative market value changes. The annuity industry's competitive and regulatory landscapes, which have been dynamic over the last few years, may impact our net flows, including new business sales. The following table sets forth account value information for the periods indicated:

	Year ended December 31,		
	2020	2019	2018
		(in millions)	
Total Individual Annuities(1):			
Beginning total account value	$169,681	$151,080	$168,626
Sales	6,815	9,720	8,270
Full surrenders and death benefits	(7,845)	(9,374)	(8,958)
Sales, net of full surrenders and death benefits	(1,030)	346	(688)
Partial withdrawals and other benefit payments	(5,191)	(5,163)	(4,814)
Net flows	(6,221)	(4,817)	(5,502)
Change in market value, interest credited and other activity	16,360	27,072	(8,341)
Policy charges	(3,540)	(3,654)	(3,703)
Ending total account value	$176,280	$169,681	$151,080

(1) Includes gross variable and fixed annuities sold as retail investment products. Investments sold through defined contribution plan products are included with such products within our Retirement business. Variable annuity account values were $170.5 billion, $164.9 billion and $147.3 billion as of December 31, 2020, 2019 and 2018, respectively. Fixed annuity account values were $5.7 billion, $4.8 billion and $3.7 billion as of December 31, 2020, 2019 and 2018, respectively.

2020 to 2019 Annual Comparison. The increase in account values during 2020 was primarily driven by favorable changes in the market value of contractholder funds, partially offset by net outflows and policy charges.

The decrease in sales, net of full surrenders and death benefits, reflects lower gross sales driven by benefit rate reductions and pricing actions in response to capital market conditions, and lower full surrenders driven by general uncertainty around COVID-19 as well as recent market volatility.

Risks and Risk Mitigants

Fixed Annuity Risks and Risk Mitigants. The primary risk exposure of our fixed annuity products relates to investment risks we bear for providing customers a minimum guaranteed interest rate or an index-linked interest rate required to be credited to the customer's account value, which include interest rate fluctuations and/or sustained periods of low interest rates, and credit risk related to the underlying investments. We manage these risk exposures primarily through our investment strategies and product design features, which include credit rate resetting subject to the minimum guaranteed interest rate as well as surrender charges applied during the early years of the contract that help to provide protection for premature withdrawals. In addition, a portion of our fixed products has a market value adjustment provision that affords protection of lapse in the case of rising interest rates. We also manage these risk exposures through external reinsurance for certain of our fixed annuity products. For information on our external reinsurance agreements, see "Business—Individual Annuities" included in Prudential Financial's 2020 Annual Report on Form 10-K and Note 14 to the Consolidated Financial Statements.

Indexed Variable Annuity Risks and Risk Mitigants. The primary risk exposure of our indexed variable annuity products relates to the investment risks we bear in order to credit to the customer's account balance the required crediting rate based on the performance of the elected indices at the end of each term. We manage this risk primarily through our investment strategies including derivatives and product design features, which include credit rate resetting subject to contractual minimums as well as surrender charges applied during the early years of the contract that help to provide protection for premature withdrawals. In addition, our indexed variable annuity strategies have an interim value provision that provides protection from lapse in the case of rising interest rates.

Variable Annuity Risks and Risk Mitigants. The primary risk exposures of our variable annuity contracts relate to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including capital markets assumptions such as equity market returns, interest rates and market volatility, along with actuarial assumptions such as contractholder mortality, the timing and amount of annuitization and withdrawals, and contract lapses. For these risk exposures, achievement of our expected returns is subject to the risk that actual experience will differ from the assumptions used in the original pricing of these products. We manage our exposure to certain risks driven by fluctuations in capital markets primarily through a combination of i) Product Design Features, ii) our Asset Liability Management Strategy, and iii) our Capital Hedge Program, as discussed below. We also manage these risk exposures through external reinsurance for certain of our variable annuity products. For information on our external reinsurance agreements, see "Business—Individual Annuities" included in Prudential Financial's 2020 Annual Report on Form 10-K and Note 14 to the Consolidated Financial Statements. Sales of traditional variable annuities with guaranteed living benefit riders have been discontinued as of December 31, 2020. See "Business—Individual Annuities" included in Prudential Financial's 2020 Annual Report on Form 10-K for more information about these products.

i. Product Design Features:

A portion of the variable annuity contracts that we offer include an automatic rebalancing feature, also referred to as an asset transfer feature. This feature is implemented at the contract level, and transfers assets between certain variable investment sub-accounts selected by the annuity contractholder and, depending on the benefit feature, a fixed-rate account in the general account or a bond fund sub-account within the separate accounts. The objective of the automatic rebalancing feature is to reduce our exposure to equity market risk and market volatility. Other product design features we utilize include, among others, asset allocation restrictions, minimum issuance age requirements and certain limitations on the amount of purchase payments, as well as a required minimum allocation to our general account for certain of our products. We continue to introduce products that diversify our risk profile and have incorporated provisions in product design allowing frequent revisions of key pricing elements for certain of our products. In addition, there is diversity in our fee arrangements as certain fees are primarily based on the benefit guarantee amount, the contractholder account value and/or premiums, which helps preserve certain revenue streams when market fluctuations cause account values to decline.

ii. Asset Liability Management ("ALM") Strategy (including fixed income instruments and derivatives):

We employ an ALM strategy that utilizes a combination of both traditional fixed income instruments and derivatives to help defray potential claims associated with our variable annuity living benefit guarantees. The economic liability we manage with this ALM strategy consists of expected living benefit claims under less severe market conditions, which are managed using fixed income and derivative instruments, and potential living benefit claims resulting from more severe market conditions, which are hedged using derivative instruments. For our Prudential Defined Income ("PDI") variable annuity, we utilize fixed income instruments to help defray potential claims. For the portion of our ALM strategy executed with derivatives, we enter into a range of exchange-traded and OTC equity, interest rate and credit derivatives, including, but not limited to: equity and treasury futures; total return, credit default and interest rate swaps; and options, including equity options, swaptions, and floors and caps. The intent of this strategy is to more efficiently manage the capital and liquidity associated with these products while continuing to mitigate fluctuations in net income due to movements in capital markets.

Under our ALM strategy, the difference between the change in value of our hedging instruments and the change in value of the portion of the economic liability that is being hedged, has historically been reflected in adjusted operating income over time. Beginning with the second quarter of 2020, this impact is excluded from adjusted operating income, which the Company believes enhances the understanding of underlying performance trends.

The valuation of the economic liability we seek to defray excludes certain items that are included within the U.S. GAAP liability, such as NPR in order to maximize protection irrespective of the possibility of our own default, as well as risk margins (required by U.S. GAAP but different from our best estimate) and valuation methodology differences. The following table provides a reconciliation between the liability reported under U.S. GAAP and the economic liability we manage through our ALM strategy as of the periods indicated.

	December 31,	
	2020	2019
	(in millions)	
U.S. GAAP liability, including NPR, net of reinsurance recoverables(1)	$18,537	$12,612
NPR adjustment, net of reinsurance recoverables(1)	4,103	3,522
Subtotal	22,640	16,134
Adjustments including risk margins and valuation methodology differences	(5,080)	(4,385)
Economic liability managed through the ALM strategy	$17,560	$11,749

(1) Prior period amounts have been updated to conform to current period presentation.

As of December 31, 2020, the fair value of our fixed income instruments and derivative assets exceed the economic liability within the entities in which the risks reside.

Under our ALM strategy, we expect differences in the U.S. GAAP net income impact between the changes in value of the fixed income instruments and derivatives as compared to the changes in the embedded derivative liability these assets support. These differences can be primarily attributed to three distinct areas:

- *Different valuation methodologies in measuring the liability we intend to cover with fixed income instruments and derivatives versus the liability reported under U.S. GAAP.* The valuation methodology utilized in estimating the economic liability we intend to defray with fixed income instruments and derivatives is different from that required to be utilized to measure the liability under U.S. GAAP. Additionally, the valuation of the economic liability excludes certain items that are included within the U.S. GAAP liability, such as NPR in order to maximize protection irrespective of the possibility of our own default and risk margins (required by U.S. GAAP but different from our best estimate).

- *Different accounting treatment between liabilities and assets supporting those liabilities.* Under U.S. GAAP, changes in value of the embedded derivative liability and derivative instruments used to hedge a portion of the economic liability are immediately reflected in net income. In contrast, changes in fair value of fixed income instruments that support a portion of the economic liability are designated as available-for-sale and are recorded as unrealized gains (losses) in other comprehensive income versus net income.

- *General hedge results.* For the derivative portion of the ALM strategy, the net hedging impact (the extent to which the changes in value of the hedging instruments offset the change in value of the portion of the economic liability we are hedging) may be impacted by a number of factors, including: cash flow timing differences between our hedging instruments and the corresponding portion of the economic liability we are hedging, basis differences attributable to actual underlying contractholder funds to be hedged versus hedgeable indices, rebalancing costs related to dynamic rebalancing of hedging instruments as markets move, certain elements of the economic liability that may not be hedged (including certain actuarial assumptions), and implied and realized market volatility on the hedge positions relative to the portion of the economic liability we seek to hedge.

iii. Capital Hedge Program:

We employ a capital hedge program to protect a portion of the overall capital position of the variable annuities business against its exposure to the equity markets. The capital hedge program is conducted using equity derivatives which include equity call and put options, total return swaps and futures contracts. The changes in value of these derivatives have historically been recognized in adjusted operating income over the expected duration of the capital hedge program. Beginning with the second quarter of 2020, changes in value of these derivatives are excluded from adjusted operating income which the Company believes enhances the understanding of underlying performance trends.

Results excluded from adjusted operating income

The following table provides the net impact to the Consolidated Statements of Operations from the results excluded from adjusted operating income, which is primarily driven by the changes in the U.S. GAAP embedded derivative liability and hedge positions under the ALM strategy as described above, and the related amortization of DAC and other costs.

	Year ended December 31,		
	2020	2019	2018
	(in millions)(1)		
Results excluded from adjusted operating income(2)			
Change in value of U.S. GAAP liability, pre-NPR(3)	$(4,979)	$(1,510)	$ (681)
Change in the NPR adjustment	581	(1,103)	1,394
Change in fair value of hedge assets, excluding capital hedges(4)	2,251	695	(427)
Change in fair value of capital hedges(5)	(900)	(1,024)	404
Other	136	391	156
Realized investment gains (losses), net, and related adjustments	(2,911)	(2,551)	846
Market experience updates(6)	(324)	(100)	0
Charges related to realized investment gains (losses), net	4	59	(407)
Total results excluded from adjusted operating income(7)	$(3,231)	$(2,592)	$ 439

(1) Positive amounts represent income; negative amounts represent a loss.
(2) Includes the impact of annual reviews and update of assumptions and other refinements.
(3) Represents the change in the liability (excluding NPR) for our variable annuities living benefit guarantees, which is measured utilizing a valuation methodology that is required under U.S. GAAP. This liability includes such items as risk margins which are required by U.S. GAAP but not included in our best estimate of the liability.
(4) Represents the change in fair value of the derivatives utilized to hedge potential claims associated with our variable annuity living benefit guarantees.
(5) Represents the changes in fair value of equity derivatives of the capital hedge program intended to protect a portion of the overall capital position of the variable annuities business against its exposure to the equity markets.
(6) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019.
(7) Excludes amounts from the changes in fair value of fixed income instruments recorded in OCI (versus net income): a gain of $1,384 million, a gain of $845 million and a loss of $14 million as of December 31, 2020, 2019 and 2018, respectively.

For 2020, the loss of $3,231 million was driven by an unfavorable impact related to the portions of the U.S. GAAP liability before NPR, net of the change in fair value of hedge assets (excluding the change in fair value of capital hedges) largely due to unfavorable hedge breakage resulting from equity market volatility, as well as the unfavorable impact on the unhedged portion of the economic liability as a result of declining interest rates, partially offset by favorable equity market performance. Contributing to the overall loss were losses associated with our capital hedge program. Partially offsetting these items was a favorable NPR adjustment.

For 2019, the loss of $2,592 million was driven by an unfavorable NPR adjustment, losses associated with our capital hedge program, and an unfavorable impact related to the portions of the U.S. GAAP liability before NPR, net of the change in fair value of hedge assets (excluding the change in fair value of capital hedges) largely due to declining interest rates, partially offset by favorable equity market performance.

Product Specific Risks and Risk Mitigants

For certain living benefit guarantees, claims will primarily represent the funding of contractholder lifetime withdrawals after the cumulative withdrawals have first exhausted the contractholder account value. Due to the age of the in-force block, limited claim payments have occurred to date, and they are not expected to increase significantly within the next five years, based upon current assumptions. The timing and amount of future claims will depend on actual returns on contractholder account value and actual contractholder behavior relative to our assumptions. The majority of our current living benefit guarantees provide for guaranteed lifetime contractholder withdrawal payments inclusive of a "highest daily" contract value guarantee. Our Prudential Defined Income variable annuity complements our variable annuity products with the highest daily benefit and provides for guaranteed lifetime contractholder withdrawal payments, but restricts contractholder asset allocation to a single bond fund sub-account within the separate accounts.

The majority of our traditional variable annuity contracts with living benefit guarantees, and contracts sold with our highest daily living benefit features, include risk mitigants in the form of an automatic rebalancing feature and/or inclusion in our ALM strategy. We may also utilize external reinsurance as a form of additional risk mitigation. The risks associated with the guaranteed benefits of certain legacy products that were sold prior to our development of the automatic rebalancing feature are also managed through our ALM strategy. Certain legacy products with GMAB rider options include the automatic rebalancing feature but are not included in the ALM strategy. As discussed above, sales of traditional variable annuities with living benefit guarantees and automatic rebalancing features have been discontinued as of December 31, 2020. See "Business—Individual Annuities" included in Prudential Financial's 2020 Annual Report on Form 10-K for more information about these products.

For our GMDBs, we provide a benefit payable in the event of death. Our base GMDB is generally equal to a return of cumulative deposits adjusted for any partial withdrawals. Certain products include an optional enhanced GMDB based on the greater of a minimum return on the contract value or an enhanced value. We have retained the risk that the total amount of death benefit payable may be greater than the contractholder account value; however, a substantial portion of the account values associated with GMDBs are subject to an automatic rebalancing feature because the contractholder also selected a living benefit guarantee which includes an automatic rebalancing feature. All of the variable annuity account values with living benefit guarantees also contain GMDBs. The living and death benefit features for these contracts cover the same insured life and, consequently, we have insured both the longevity and mortality risk on these contracts.

The following table sets forth the risk management profile of our living benefit guarantees and guaranteed minimum death benefit ("GMDB") features as of the periods indicated:

	December 31,					
	2020		2019		2018	
	Account Value	% of Total	Account Value	% of Total	Account Value	% of Total
			(in millions)			
Living benefit/GMDB features(1):						
Both ALM strategy and automatic rebalancing(2)(3)	$112,177	66%	$111,535	68%	$101,496	69%
ALM strategy only(3)	7,410	4%	7,703	5%	7,520	5%
Automatic rebalancing only	634	1%	732	1%	804	1%
External reinsurance(4)	3,173	2%	3,150	2%	2,873	2%
PDI	18,540	11%	16,296	9%	11,237	7%
Other products	2,492	1%	2,457	1%	2,306	2%
Total living benefit/GMDB features	$144,426		$141,873		$126,236	
GMDB features and other(5)	26,120	15%	23,055	14%	21,103	14%
Total variable annuity account value	$170,546		$164,928		$147,339	

(1) All contracts with living benefit guarantees also contain GMDB features, which cover the same insured contract.
(2) Contracts with living benefits that are included in our ALM strategy and that have an automatic rebalancing feature.
(3) Excludes PDI which is presented separately within this table.
(4) Represents contracts subject to a reinsurance transaction with an external counterparty covering certain Highest Daily Lifetime Income ("HDI") v.3.0 business for the period April 1, 2015 through December 31, 2016. These contracts with living benefits also have an automatic rebalancing feature. See Note 14 to the Consolidated Financial Statements for additional information.
(5) Includes contracts that have a GMDB feature and do not have an automatic rebalancing feature.

Individual Life

Operating Results

The following table sets forth Individual Life's operating results for the periods indicated:

	Year ended December 31, 2020	2019	2018
	(in millions)		
Operating results:			
Revenues	$6,398	$6,115	$5,831
Benefits and expenses	6,446	6,028	5,608
Adjusted operating income	(48)	87	223
Realized investment gains (losses), net, and related adjustments	359	358	(318)
Charges related to realized investment gains (losses), net	(124)	(121)	79
Market experience updates(1)	(267)	(308)	0
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	1	0	0
Income (loss) before income taxes and equity in earnings of operating joint ventures	$ (79)	$ 16	$ (16)

(1) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019. See Note 22 to the Consolidated Financial Statements for additional information.

Adjusted Operating Income

2020 to 2019 Annual Comparison. Adjusted operating income decreased $135 million, including a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for 2020 included a $92 million net charge from these updates, mainly driven by unfavorable impacts related to a decrease in long-term interest rate assumptions. Results for 2019 included a $208 million net charge from these updates, mainly driven by unfavorable impacts related to mortality assumptions. Excluding this item, adjusted operating income decreased $251 million, primarily reflecting lower underwriting results, driven by an unfavorable impact from mortality experience, net of reinsurance, primarily attributable to COVID-19 related claims, a change in business practice related to the level of premiums collected on certain policies that resulted in reserve refinements, and the absence of a favorable impact from changes in market conditions on estimates of profitability in the prior year period. These decreases were partially offset by lower expenses from cost savings initiatives.

Revenues, Benefits and Expenses

2020 to 2019 Annual Comparison. Revenues increased $283 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, revenues increased $212 million. This increase was primarily driven by higher policy charges and fee income driven by business growth, and higher net investment income due to higher average invested assets resulting from business growth, partially offset by lower investment yields.

Benefits and expenses increased $418 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses increased $463 million. This increase reflected higher policyholders' benefits, including changes in reserves, driven by an unfavorable impact from mortality experience, net of reinsurance, primarily attributable to COVID-19 related claims as well as a change in business practice related to the level of premiums collected on certain policies that resulted in reserve refinements and the absence of a favorable impact from changes in market conditions on estimates of profitability in the prior year period, as discussed above. The increase also reflected higher general and administrative expenses, net of capitalization, due to an increase in VOBA amortization, partially offset by lower expenses from cost savings initiatives.

Sales Results

The following table sets forth Individual Life's annualized new business premiums, as defined under "—Results of Operations—Segment Measures" above, by distribution channel and product, for the periods indicated:

	2020			2019			2018		
	Prudential Advisors	Third Party	Total	Prudential Advisors	Third Party	Total	Prudential Advisors	Third Party	Total
				(in millions)					
Term Life	$ 26	$122	$148	$ 27	$173	$200	$ 28	$185	$213
Guaranteed Universal Life(1)	3	91	94	8	87	95	8	89	97
Other Universal Life(1)	17	74	91	38	117	155	45	105	150
Variable Life	100	349	449	78	200	278	54	109	163
Total	$146	$636	$782	$151	$577	$728	$135	$488	$623

(1) Single pay life premiums and excess (unscheduled) premiums are included in annualized new business premiums based on a 10% credit and represented approximately 7%, 9% and 13% of Guaranteed Universal Life and 7%, 14% and 26% of Other Universal Life annualized new business premiums for the years ended December 31, 2020, 2019 and 2018, respectively. Prior period percentages have been updated to conform to current period presentation.

2020 to 2019 Annual Comparison. Total annualized new business premiums increased $54 million, primarily reflecting higher sales of variable life products throughout the year including the impact of increased sales prior to pricing actions taken in the fourth quarter of 2020, partially offset by lower sales of other universal life products due to the absence of large case activity in 2020 and lower sales of term life products due to pricing actions.

U.S. Businesses—Assurance IQ Division

Assurance IQ

Operating Results

The following table sets forth Assurance IQ's operating results for the periods indicated. Results for 2019 only reflect activity from October 10, 2019 ("acquisition date") through December 31, 2019.

	2020	2019(1)
	(in millions)	
Operating results:		
Revenues	$391	$101
Expenses	479	110
Adjusted operating income	(88)	(9)
Realized investment gains (losses), net, and related adjustments	1	0
Other adjustments(2)	51	(47)
Income (loss) before income taxes and equity in earnings of operating joint ventures	$ (36)	$ (56)

(1) Represents activity from the acquisition date through December 31, 2019. See Note 1 to the Consolidated Financial Statements for additional information.
(2) "Other adjustments" include certain components of the consideration for the Assurance IQ acquisition, which are recognized as compensation expense over the requisite service periods, as well as changes in the fair value of contingent consideration. See Note 22 to the Consolidated Financial Statements for additional information.

Adjusted Operating Income

Adjusted operating income for the year ended December 31, 2020 was $(88) million, reflecting revenues, net of marketing and distribution expenses, primarily related to our health (Medicare and Health Under 65) and life insurance product lines. Results also include amortization expenses related to intangible assets recognized as part of purchase accounting (see Note 1 and Note 10 to the Consolidated Financial Statements for additional information).

For the period from the acquisition date through December 31, 2019, adjusted operating income was $(9) million, reflecting the starting period of Assurance IQ's earnings with Prudential and includes revenues, net of marketing and distribution expenses, related to seasonal enrollments within our health product line, as well as operating expenses and amortization expenses related to intangible assets recognized as part of purchase accounting.

Revenues and Expenses

Revenues for the year ended December 31, 2020 were $391 million, primarily reflecting commissions and marketing referral revenues from our health (Medicare and Health Under 65) and life insurance product lines. Expenses for the year ended December 31, 2020 were $479 million driven by marketing and distribution costs, general and administrative operating expenses including certain expenses (e.g., advertising costs) incurred in preparation for the annual Medicare enrollment period, and amortization expenses related to intangible assets.

Revenues for the period from the acquisition date through December 31, 2019 were $101 million, primarily reflecting commissions and marketing referral revenues from our health, life insurance, and property and casualty product lines. Expenses for the period from the acquisition date through December 31, 2019 were $110 million driven by marketing and distribution costs, general and administrative operating expenses, and amortization expenses related to intangible assets.

International Businesses

Business Updates

- In the third quarter of 2020, we completed the sale of The Prudential Life Insurance Company of Korea, Ltd. ("POK") to KB Financial Group Inc., for cash consideration of approximately 2.3 trillion Korean Won, equal to approximately $1.9 billion. See Note 1 to the Consolidated Financial Statements for additional information. Effective in the second quarter of 2020, the results of this business and the impact of its sale were reflected in the Divested and Run-off Businesses that are included in Corporate and Other, and all prior period amounts have been updated to conform to the current period presentation. See "—Divested and Run-off Businesses" for additional information.
- In the third quarter of 2020, we entered into a definitive agreement with Taishin Financial Holding Co, Ltd., a Taiwanese financial services provider, to sell Prudential Life Insurance Company of Taiwan Inc. ("POT") for cash consideration of approximately

$195 million at current exchange rates, to be paid at closing, and contingent consideration with a fair value of approximately $15 million at December 31, 2020. The transaction is expected to close in 2021, subject to regulatory approvals and customary closing conditions. Beginning in the third quarter of 2020, we reported our investment in POT as "held for sale" and have recognized an approximate $350 million after-tax charge to earnings, through December 31, 2020, to adjust the carrying value of POT to the fair market value reflected in the purchase price (see Note 1 to the Consolidated Financial Statements for additional information). Also, effective in the third quarter of 2020, the results of this business and the impact of its anticipated sale were reflected in the Divested and Run-off Businesses that are included in Corporate and Other, and all prior period amounts have been updated to conform to the current period presentation. We intend to use the proceeds of the transaction for general corporate purposes.

Operating Results

The results of our International Businesses' operations are translated on the basis of weighted average monthly exchange rates, inclusive of the effects of the intercompany arrangement discussed in "—Results of Operations—Impact of Foreign Currency Exchange Rates" above. To provide a better understanding of operating performance within the International Businesses, where indicated below, we have analyzed our results of operations excluding the effect of the year over year change in foreign currency exchange rates. Our results of operations, excluding the effect of foreign currency fluctuations, were derived by translating foreign currencies to USD at uniform exchange rates for all periods presented, including for constant dollar information discussed below. For our Japan operations, we used an exchange rate of 104 yen per USD, which was determined in connection with the foreign currency income hedging program discussed in "—Results of Operations—Impact of Foreign Currency Exchange Rates" above. In addition, for constant dollar information discussed below, activity denominated in USD is generally reported based on the amounts as transacted in USD. Annualized new business premiums presented on a constant exchange rate basis in the "Sales Results" section below reflect translation based on these same uniform exchange rates.

The following table sets forth the International Businesses' operating results for the periods indicated:

	Year ended December 31,		
	2020	2019	2018
		(in millions)	
Operating results(1):			
Revenues:			
Life Planner	$10,122	$ 9,605	$ 9,000
Gibraltar Life and Other	11,454	11,331	11,058
Total revenues	21,576	20,936	20,058
Benefits and expenses:			
Life Planner	8,618	8,172	7,657
Gibraltar Life and Other	10,006	9,652	9,382
Total benefits and expenses	18,624	17,824	17,039
Adjusted operating income:			
Life Planner	1,504	1,433	1,343
Gibraltar Life and Other	1,448	1,679	1,676
Total adjusted operating income	2,952	3,112	3,019
Realized investment gains (losses), net, and related adjustments(2)	727	1,240	317
Charges related to realized investment gains (losses), net	(42)	(12)	11
Market experience updates(3)	(39)	(31)	0
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(48)	(107)	(69)
Income (loss) before income taxes and equity in earnings of operating joint ventures	$ 3,550	$ 4,202	$ 3,278

(1) Effective second quarter of 2020, the results of POK and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Effective third quarter of 2020, the results of POT and the impact of its anticipated sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Prior period amounts have been updated to conform to current period presentation. See Note 1 to the Consolidated Financial Statements for additional information.
(2) Prior period amounts have been updated to conform to current period presentation.
(3) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019. See Note 22 to the Consolidated Financial Statements for additional information.

Adjusted Operating Income

2020 to 2019 Annual Comparison. Adjusted operating income from our Life Planner operations increased $71 million including a net unfavorable impact of $1 million from currency fluctuations, inclusive of the currency hedging program discussed above. Both periods also include the impact of our annual reviews and update of assumptions and other refinements, which resulted in a $42 million net charge in 2020 compared to a $5 million net benefit in 2019. The net charge in 2020 was primarily driven by unfavorable impacts related to a decrease in long-term interest rate assumptions.

Excluding these items, adjusted operating income from our Life Planner operations increased $119 million, primarily reflecting favorable underwriting results due to the growth of business in force in our Japan and Brazil operations and favorable policyholder experience, partially offset by an unfavorable impact from mortality experience. Also contributing to the increase were lower expenses primarily driven by the absence of updates to legal reserves incurred in the prior year period, partially offset by higher expenses driven by costs associated with COVID-19 (see "Overview—COVID-19—Expenses") and higher costs related to business growth and business initiatives. These increases were partially offset by lower net investment spread results primarily driven by lower reinvestment yields.

Adjusted operating income from our Gibraltar Life and Other operations decreased $231 million including a net unfavorable impact of $9 million from currency fluctuations, inclusive of the currency hedging program discussed above. Both periods also include the impact of our annual reviews and update of assumptions and other refinements, which resulted in a $52 million net charge in 2020 compared to a $7 million net benefit in 2019. The net charge in 2020 was primarily driven by updates of reserves reflecting the impact of a decrease in long-term interest rate assumptions, as well as other refinements.

Excluding these items, adjusted operating income from our Gibraltar Life and Other operations decreased $163 million, primarily reflecting lower net investment spread results driven by lower reinvestment yields, and lower earnings from our joint venture investments, as well as higher expenses driven by costs associated with COVID-19 (see "Overview—COVID-19—Expenses"). These decreases were partially offset by favorable underwriting results and a favorable impact from mortality experience.

Revenues, Benefits and Expenses

2020 to 2019 Annual Comparison. Revenues from our Life Planner operations increased $517 million including a net unfavorable impact of $109 million from currency fluctuations and a net benefit of $33 million from our annual reviews and update of assumptions and other refinements. Excluding these items, revenues increased $593 million, primarily driven by higher premiums and policy charges and fee income attributable to the growth of business in force.

Benefits and expenses from our Life Planner operations increased $446 million including a net favorable impact of $108 million from currency fluctuations and a net charge of $80 million from our annual reviews and update of assumptions and other refinements. Excluding these items, benefits and expenses increased $474 million, primarily reflecting higher policyholders' benefits, including changes in reserves, driven by the growth of business in force, as well as an unfavorable impact from mortality experience. These increases were partially offset by lower expenses primarily driven by the absence of updates to legal reserves incurred in the prior year period, partially offset by higher expenses driven by costs associated with COVID-19 impacts.

Revenues from our Gibraltar Life and Other operations increased $123 million, including a net favorable impact of $98 million from currency fluctuations and a net charge of $9 million from our annual reviews and update of assumptions and other refinements. Excluding these items, revenues increased $34 million primarily driven by higher premiums, partially offset by lower net investment results driven by lower reinvestment yields, and lower other income driven by an unfavorable impact from our joint venture investments.

Benefits and expenses from our Gibraltar Life and Other operations increased $354 million including a net unfavorable impact of $107 million from currency fluctuations and a net charge of $50 million from our annual reviews and update of assumptions and other refinements. Excluding these items, benefits and expenses increased $197 million, primarily reflecting higher policyholders' benefits, including changes in reserves, as well as higher expenses driven by costs associated with COVID-19 impacts.

Sales Results

The following table sets forth annualized new business premiums, as defined under "—Results of Operations—Segment Measures" above, on an actual and constant exchange rate basis for the periods indicated:

	Year ended December 31,		
	2020	**2019**	**2018**
		(in millions)	
Annualized new business premiums(1):			
On an actual exchange rate basis:			
Life Planner	$1,041	$1,097	$1,023
Gibraltar Life and Other	1,149	1,213	1,483
Total	$2,190	$2,310	$2,506
On a constant exchange rate basis:			
Life Planner	$1,087	$1,105	$1,021
Gibraltar Life and Other	1,153	1,220	1,492
Total	$2,240	$2,325	$2,513

(1) Effective second quarter of 2020, the results of POK and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Effective third quarter of 2020, the results of POT and the impact of its anticipated sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Prior period amounts have been updated to conform to current period presentation. See Note 1 to the Consolidated Financial Statements for additional information.

The amount of annualized new business premiums and the sales mix in terms of types and currency denomination of products for any given period can be significantly impacted by several factors, including but not limited to: the addition of new products, discontinuation of existing products, changes in credited interest rates for certain products and other product modifications, changes in premium rates, changes in interest rates or fluctuations in currency markets, changes in tax laws, changes in life insurance regulations or changes in the competitive environment. Sales volume may increase or decrease prior to certain of these changes becoming effective, and then fluctuate in the other direction following such changes.

Our diverse product portfolio in Japan, in terms of currency mix and premium payment structure, allows us to adapt to changing market and competitive dynamics, including the extremely low interest rate environment. We regularly examine our product offerings and their related profitability and, as a result, we have repriced or discontinued sales of certain products that do not meet our profit expectations. The impact of these actions, coupled with the introduction of certain new products, has generally resulted in an increase in sales of products denominated in USD relative to products denominated in other currencies.

2020 to 2019 Annual Comparison. The table below presents annualized new business premiums on a constant exchange rate basis, by product category and distribution channel, for the periods indicated:

	Year Ended December 31, 2020					Year Ended December 31, 2019				
	Life	Accident & Health	Retirement (1)	Annuity	Total	Life	Accident & Health	Retirement (1)	Annuity	Total
					(in millions)					
Life Planner(2)	$ 578	$ 71	$438	$ 0	$1,087	$ 607	$ 92	$405	$ 1	$1,105
Gibraltar Life and Other:										
Life Consultants	340	33	58	63	494	349	40	82	142	613
Banks(3)	418	0	23	18	459	378	0	37	12	427
Independent Agency	100	4	91	5	200	88	8	68	16	180
Subtotal	858	37	172	86	1,153	815	48	187	170	1,220
Total	$1,436	$108	$610	$86	$2,240	$1,422	$140	$592	$171	$2,325

(1) Includes retirement income, endowment and savings variable universal life.
(2) Effective second quarter of 2020, the results of POK and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Effective third quarter of 2020, the results of POT and the impact of its anticipated sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Prior period amounts have been updated to conform to current period presentation. See Note 1 to the Consolidated Financial Statements for additional information.
(3) Single pay life annualized new business premiums, which include 10% of first year premiums, and 3-year limited pay annualized new business premiums, which include 100% of new business premiums, represented 3% and 71%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the year ended December 31, 2020, and 1% and 66%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the year ended December 31, 2019.

Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations decreased $18 million primarily driven by lower sales due to COVID-19 impacts, lower sales of corporate term products in Japan driven by the corporate product tax rule change effective July 2019, and lower Life Planner headcount, as discussed below. The decreases were partially offset by higher sales of USD-denominated products ahead of pricing increases in the third quarter of 2020.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life and Other operations decreased $67 million. Life Consultants sales decreased $119 million, primarily driven by COVID-19 impacts, lower sales of USD-denominated fixed annuity products driven by declines in crediting rates, and lower Life Consultant headcount (as discussed under "Sales Force" below). Bank channel sales increased $32 million, reflecting higher sales of USD-denominated protection products ahead of pricing increases in the third quarter of 2020, partially offset by lower sales due to COVID-19 impacts. Independent Agency sales increased $20 million, reflecting higher sales of USD-denominated protection and endowment products ahead of pricing increases in the third quarter of 2020, partially offset by lower sales of USD-denominated fixed annuity products.

Sales Force

The following table sets forth the number of Life Planners and Life Consultants for the periods indicated:

	As of December 31,		
	2020	2019	2018
Life Planners:			
Japan	4,555	4,356	4,183
All other countries(1)	1,511	1,833	1,640
Gibraltar Life Consultants	7,254	7,403	7,964
Total	13,320	13,592	13,787

(1) Effective second quarter of 2020, the results of POK and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Effective third quarter of 2020, the results of POT and the impact of its anticipated sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Prior period amounts have been updated to conform to current period presentation. See Note 1 to the Consolidated Financial Statements for additional information.

2020 to 2019 Comparison. The number of Life Planners decreased by 123, driven by a decrease of 322 in other operations, primarily attributable to a decrease in Brazil as a result of increased terminations related to enhanced agency contract requirements. Life Planners in Japan increased by 199 as a result of recruiting efforts and fewer terminations. The number of Gibraltar Life Consultants decreased by 136, primarily reflecting more selective recruiting efforts and retention standards.

Corporate and Other

Corporate and Other includes corporate operations, after allocations to our business segments, and Divested and Run-off Businesses other than those that qualify for "discontinued operations" accounting treatment under U.S. GAAP.

	Year ended December 31,		
	2020	2019	2018
		(in millions)	
Operating results:			
Interest expense on debt(1)	$ (894)	$ (866)	$ (809)
Investment income(1)	134	250	169
Pension and employee benefits	191	149	195
Other corporate activities(2)	(1,255)	(1,299)	(838)
Adjusted operating income	(1,824)	(1,766)	(1,283)
Realized investment gains (losses), net, and related adjustments	(2,357)	(193)	216
Charges related to realized investment gains (losses), net	3	(53)	7
Market experience updates(3)	(10)	(10)	0
Divested and Run-off Businesses(4)	(629)	755	(1,434)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(25)	(6)	4
Income (loss) before income taxes and equity in earnings of operating joint ventures	$(4,842)	$(1,273)	$(2,490)

(1) Prior period amounts have been updated to conform to current period presentation.
(2) Includes consolidating adjustments.
(3) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019. See Note 22 to the Consolidated Financial Statements for additional information.
(4) Effective second quarter of 2020, the results of POK and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Effective third quarter of 2020, the results of POT and the impact of its anticipated sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Prior period amounts have been updated to conform to current period presentation. See Note 1 to the Consolidated Financial Statements for additional information.

2020 to 2019 Annual Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, increased $58 million. Investment income decreased $116 million primarily driven by lower income on highly liquid assets due to lower investment yields, a decrease in average invested assets and lower income on non-coupon investments. Interest expense on debt increased $28 million, reflecting higher average debt balances. Net charges from other corporate activities decreased $44 million, primarily reflecting higher charges in the prior year period for certain corporate costs and initiatives, including a significant charge related to the implementation of the Company's Voluntary Separation Program (see "—Overview" above), partially offset by increases to legal reserves in the current year period.

Results from pension and employee benefits were favorable by $42 million, primarily driven by a decrease in employee health benefit costs.

For purposes of calculating pension income from our qualified pension plan for the year ended December 31, 2021, we decreased the discount rate from 3.30% to 2.55% as of December 31, 2020. The expected rate of return on plan assets will decrease from 6.00% in 2020 to 5.75% in 2021. The assumed rate of increase in compensation will remain unchanged at 4.50%. Giving effect to the foregoing assumptions and other factors, we expect income from our qualified pension plan in 2021 to be approximately $85 million to $90 million higher than 2020 levels. The increase is driven by lower interest costs on the plan obligation due to the lower discount rate.

For purposes of calculating postretirement benefit expenses for the year ended December 31, 2021, we decreased the discount rate from 3.25% to 2.40% as of December 31, 2020. The expected rate of return on plan assets will remain unchanged at 6.75%. Giving effect to the foregoing assumptions and other factors, we expect postretirement income in 2021 to be approximately $15 million to $20 million higher than 2020 levels. The increase is driven by lower interest costs on the plan obligation due to the lower discount rate.

In 2021, pension and other postretirement benefit service costs related to active employees will continue to be allocated to our business segments. For further information regarding our pension and postretirement plans, see Note 18 to the Consolidated Financial Statements.

Divested and Run-off Businesses

Divested and Run-off Businesses Included in Corporate and Other

Income from our Divested and Run-off Businesses includes results from several businesses that have been or will be sold or exited, including businesses that have been placed in wind down status that do not qualify for "discontinued operations" accounting treatment under U.S. GAAP. The results of these Divested and Run-off Businesses are reflected in our Corporate and Other operations, but are excluded from adjusted operating income. A summary of the results of the Divested and Run-off Businesses reflected in our Corporate and Other operations is as follows for the periods indicated:

	Year ended December 31,		
	2020	2019	2018
		(in millions)	
Long-Term Care	$ 351	$469	$(1,458)
Other(1)	(980)	286	24
Total Divested and Run-off Businesses income (loss) excluded from adjusted operating income	$(629)	$755	$(1,434)

(1) Effective second quarter of 2020, the results of POK and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Effective third quarter of 2020, the results of POT and the impact of its anticipated sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Prior period amounts have been updated to conform to current period presentation. See Note 1 to the Consolidated Financial Statements for additional information.

Long-Term Care. Results for the year ended December 31, 2020 decreased $118 million compared to 2019, including an unfavorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for 2020 included a $33 million net charge from these updates, while results for 2019 included a $9 million net charge from these updates. Excluding these items, results decreased $94 million primarily reflecting less favorable underwriting results including less favorable claim experience, an increase in reserves as a result of an unlocking of assumptions in the first quarter of 2020 due to the decline in interest rates, and a less favorable increase in the market value of equity securities. These decreases were partially offset by a more favorable increase in the market value of derivatives used for duration management.

Other. Results for the year ended December 31, 2020 primarily reflect the results of POK and the impact of its sale which was completed in August 2020, as well as the results of POT and the impact of its anticipated sale. See Note 1 to the Consolidated Financial Statements for additional information.

Closed Block Division

The Closed Block division includes certain in-force traditional domestic participating life insurance and annuity products and assets that are used for the payment of benefits and policyholder dividends on these policies (collectively, the “Closed Block”), as well as certain related assets and liabilities. We no longer offer these traditional domestic participating policies. See Note 15 to the Consolidated Financial Statements for additional information.

Each year, the Board of Directors of The Prudential Insurance Company of America (“PICA”) determines the dividends payable on participating policies for the following year based on the experience of the Closed Block, including investment income, net realized and unrealized investment gains (losses), mortality experience and other factors. Although the Closed Block experience for dividend action decisions is based upon statutory results, at the time the Closed Block was established, we developed, as required by U.S. GAAP, an actuarial calculation of the timing of the maximum future earnings from the policies included in the Closed Block. If actual cumulative earnings in any given period are greater than the cumulative earnings we expected, we record this excess as a policyholder dividend obligation. We will subsequently pay this excess to Closed Block policyholders as an additional dividend unless it is otherwise offset by future Closed Block performance that is less favorable than we originally expected. The policyholder dividends we charge to expense within the Closed Block division will include any change in our policyholder dividend obligation that we recognize for the excess of actual cumulative earnings in any given period over the cumulative earnings we expected in addition to the actual policyholder dividends declared by the Board of Directors of PICA.

As of December 31, 2020, the excess of actual cumulative earnings over the expected cumulative earnings was $2,920 million, which was recorded as a policyholder dividend obligation. Actual cumulative earnings, as required by U.S. GAAP, reflect the recognition of realized investment gains and losses in the current period, as well as changes in assets and related liabilities that support the Closed Block policies. Additionally, the accumulation of net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block has been reflected as a policyholder dividend obligation of $5,867 million at December 31, 2020, to be paid to Closed Block policyholders unless offset by future experience, with a corresponding amount reported in AOCI.

Operating Results

The following table sets forth the Closed Block division’s results for the periods indicated:

	Year ended December 31,		
	2020	2019	2018
		(in millions)	
U.S. GAAP results:			
Revenues	$4,766	$5,642	$4,678
Benefits and expenses	4,790	5,606	4,740
Income (loss) before income taxes and equity in earnings of operating joint ventures	$ (24)	$ 36	$ (62)

Income (loss) Before Income Taxes and Equity in Earnings of Operating Joint Ventures

2020 to 2019 Annual Comparison. Income (loss) before income taxes and equity in earnings of operating joint ventures decreased $60 million. Net investment activity results decreased primarily reflecting lower realized investment gains driven by unfavorable changes in the value of derivatives used in risk management activities, and a decrease in other income driven by less favorable changes in the value of equity securities. Net insurance activity results reflected a favorable comparative change driven by a decrease in the 2021 dividend scale and runoff of policies in force. As a result of the above and other variances, a $117 million increase in the policyholder dividend obligation was recorded in 2020, compared to a $564 million increase in 2019. If actual cumulative earnings fall below expected cumulative earnings in future periods, earnings volatility in the Closed Block division, which is primarily due to changes in investment results, may not be offset by changes in the cumulative earnings policyholder dividend obligation. For a discussion of the Closed Block division's realized investment gains (losses), net, see "—General Account Investments."

Revenues, Benefits and Expenses

2020 to 2019 Annual Comparison. Revenues decreased $876 million primarily driven by a decrease in net realized investment gains, a decrease in other income, and lower premiums due to runoff of policies in force, as discussed above.

Benefits and expenses decreased $816 million primarily driven by a decrease in dividends to policyholders, reflecting a decrease in the policyholder dividend obligation expense due to changes in cumulative earnings, as discussed above.

Income Taxes

The differences between income taxes expected at the U.S. federal statutory income tax rate of 21% applicable for 2020, 2019 and 2018, and the reported income tax (benefit) expense are provided in the following table:

	Year Ended December 31,		
	2020	2019(1)	2018(1)
		(in millions)	
Expected federal income tax expense (benefit) at federal statutory rate	$ (68)	$1,068	$1,015
Non-taxable investment income	(228)	(270)	(250)
Foreign taxes at other than U.S. rate	252	234	347
Low-income housing and other tax credits	(112)	(118)	(112)
Changes in tax law	(194)	(2)	(321)
Sale of subsidiary	277	4	10
Non-controlling interest	(48)	(11)	0
Non-deductible expenses	14	23	33
Change in valuation allowance	17	(1)	(6)
State taxes	10	1	6
Other	(1)	19	100
Reported income tax expense (benefit)	$ (81)	$ 947	$ 822
Effective tax rate	25.1%	18.6%	17.0%

(1) Prior period amounts have been updated to conform to current period presentation.

Effective Tax Rate

The effective tax rate is the ratio of "Total income tax expense (benefit)" divided by "Income before income taxes and equity in earnings of operating joint ventures." Our effective tax rate for fiscal years 2020, 2019 and 2018 was 25.1%, 18.6%, and 17.0%, respectively. For a detailed description of the nature of each significant reconciling item, see Note 16 to the Consolidated Financial Statements. The change in the effective tax rate from 18.6% in 2019 to 25.0% in 2020 was primarily driven by a decrease in pre-tax net income, the sale of a subsidiary and the impact of the CARES Act. The increase in the effective tax rate from 17.0% in 2018 to 18.6% in 2019 was primarily driven by the impacts of the Tax Act of 2017 in 2018.

Unrecognized Tax Benefits

The Company's liability for income taxes includes the liability for unrecognized tax benefits and interest that relate to tax years still subject to review by the Internal Revenue Service or other taxing authorities. The completion of review or the expiration of the Federal statute of limitations for a given audit period could result in an adjustment to the liability for income taxes. The total unrecognized benefit as of December 31, 2020, 2019 and 2018 was $17 million, $18 million and $20 million, respectively. We do not anticipate any significant changes within the next twelve months to our total unrecognized tax benefits related to tax years for which the statute of limitations has not expired.

Income Tax Expense vs. Income Tax Paid in Cash

Income tax expense recorded under U.S. GAAP routinely differs from the income taxes paid in cash in any given year. Income tax expense recorded under U.S. GAAP is based on income reported in our Consolidated Statements of Operations for the current period and it includes both current and deferred taxes. Income taxes paid during the year include tax installments made for the current year as well as tax payments and refunds related to prior periods.

For additional information on income tax related items, see “Business—Regulation” included in Prudential Financial’s 2020 Annual Report on Form 10-K and Note 16 to the Consolidated Financial Statements.

Experience-Rated Contractholder Liabilities, Assets Supporting Experience-Rated Contractholder Liabilities and Other Related Investments

Certain products included in the Retirement and International Businesses segments are experience-rated in that investment results associated with these products are expected to ultimately accrue to contractholders. The majority of investments supporting these experience-rated products are carried at fair value. These investments are reflected on the Consolidated Statements of Financial Position as “Assets supporting experience-rated contractholder liabilities, at fair value.” Realized and unrealized gains (losses) for these investments are reported in “Other income (loss).” Interest and dividend income for these investments is reported in “Net investment income.” To a lesser extent, these experience-rated products are also supported by derivatives and commercial mortgage and other loans. The derivatives that support these experience-rated products are reflected on the Consolidated Statements of Financial Position as “Other invested assets” and are carried at fair value, and the realized and unrealized gains (losses) are reported in “Realized investment gains (losses), net.” The commercial mortgage and other loans that support these experience-rated products are carried at unpaid principal, net of unamortized discounts and an allowance for losses, and are reflected on the Consolidated Statements of Financial Position as “Commercial mortgage and other loans.” Gains (losses) on sales and changes in the valuation allowance for commercial mortgage and other loans are reported in “Realized investment gains (losses), net.”

Our Retirement segment has two types of experience-rated products that are supported by assets supporting experience-rated contractholder liabilities and other related investments. Fully participating products are those for which the entire return on underlying investments is passed back to the policyholders through a corresponding adjustment to the related liability, primarily classified in the Consolidated Statements of Financial Position as “Policyholders’ account balances.” The adjustment to the liability is based on changes in the fair value of all of the related assets, including commercial mortgage and other loans, which are carried at amortized cost, less any valuation allowance. Partially participating products are those for which only a portion of the return on underlying investments is passed back to the policyholders over time through changes to the contractual crediting rates. The crediting rates are typically reset semiannually, often subject to a minimum crediting rate, and returns are required to be passed back within ten years.

In our International Businesses, the experience-rated products are fully participating. As a result, the entire return on the underlying investments is passed back to policyholders through a corresponding adjustment to the related liability.

Adjusted operating income excludes net investment gains (losses) on assets supporting experience-rated contractholder liabilities, related derivatives and commercial mortgage and other loans. This is consistent with the exclusion of realized investment gains (losses) with respect to other investments supporting insurance liabilities managed on a consistent basis. In addition, to be consistent with the historical treatment of charges related to realized investment gains (losses) on investments, adjusted operating income also excludes the change in contractholder liabilities due to asset value changes in the pool of investments (including changes in the fair value of commercial mortgage and other loans) supporting these experience-rated contracts, which are reflected in “Interest credited to policyholders’ account balances.” The result of this approach is that adjusted operating income for these products includes net fee revenue and interest spread we earn on these experience-rated contracts, and excludes changes in fair value of the pool of investments, both realized and unrealized, that we expect will ultimately accrue to the contractholders.

The following table sets forth the impact on results for the periods indicated of these items that are excluded from adjusted operating income:

	Year ended December 31,		
	2020	2019	2018
	(in millions)		
Retirement:			
Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net(1)	$ 602	$ 699	$(472)
Change in experience-rated contractholder liabilities due to asset value changes	(625)	(682)	435
Gains (losses), net, on experienced rated contracts(2)(3)	$ (23)	$ 17	$ (37)
International Businesses:			
Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net	$ 68	$ 267	$(275)
Change in experience-rated contractholder liabilities due to asset value changes	(68)	(267)	275
Gains (losses), net, on experienced rated contracts	$ 0	$ 0	$ 0
Total:			
Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net(1)	$ 670	$ 966	$(747)
Change in experience-rated contractholder liabilities due to asset value changes	(693)	(949)	710
Gains (losses), net, on experienced rated contracts(2)(3)	$ (23)	$ 17	$ (37)

(1) Prior period amounts have been updated to conform to current period presentation.

(2) Decreases to contractholder liabilities due to asset value changes are limited by certain floors and therefore do not reflect cumulative declines in recorded asset values of $3 million, $7 million and $99 million as of December 31, 2020, 2019 and 2018, respectively. We have recovered, and expect to recover in future periods, these declines in recorded asset values through subsequent increases in recorded asset values or reductions in crediting rates on contractholder liabilities.

(3) Included in the amounts above related to the change in the liability to contractholders as a result of commercial mortgage and other loans are increases of $6 million and $57 million, and a decrease of $23 million for the years ended December 31, 2020, 2019 and 2018, respectively. As prescribed by U.S. GAAP, changes in the fair value of commercial mortgage and other loans held for investment in our general account, other than when associated with impairments, are not recognized in income in the current period, while the impact of these changes in fair value are reflected as a change in the liability to fully participating contractholders in the current period.

The net impacts, for the Retirement segment, of changes in experience-rated contractholder liabilities and investment gains (losses) on assets supporting experience-rated contractholder liabilities and other related investments reflect timing differences between the recognition of the mark-to-market adjustments and the recognition of the recovery of these adjustments in future periods through subsequent increases in asset values or reductions in crediting rates on contractholder liabilities for partially participating products. These impacts also reflect the difference between the fair value of the underlying commercial mortgages and other loans and the amortized cost, less any valuation allowance, of these loans, as described above.

Valuation of Assets and Liabilities

Fair Value of Assets and Liabilities

The authoritative guidance related to fair value measurement establishes a framework that includes a three-level hierarchy used to classify the inputs used in measuring fair value. The level in the hierarchy within which the fair value falls is determined based on the lowest level input that is significant to the measurement. The fair values of assets and liabilities classified as Level 3 include at least one significant unobservable input in the measurement. See Note 6 to the Consolidated Financial Statements for an additional description of the valuation hierarchy levels as well as for the balances of assets and liabilities measured at fair value on a recurring basis by hierarchy level presented on a consolidated basis.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis, as of the periods indicated, and the portion of such assets and liabilities that are classified in Level 3 of the valuation hierarchy. The table also provides details about these assets and liabilities excluding those held in the Closed Block division. We believe the amounts excluding the Closed Block division are most relevant to an understanding of our operations that are pertinent to investors in Prudential Financial because substantially all Closed Block division assets support obligations and liabilities relating to the Closed Block policies only. See Note 15 to the Consolidated Financial Statements for further information on the Closed Block.

	As of December 31, 2020				As of December 31, 2019			
	PFI excluding Closed Block Division		Closed Block Division		PFI excluding Closed Block Division		Closed Block Division	
	Total at Fair Value	Total Level 3(1)	Total at Fair Value	Total Level 3(1)	Total at Fair Value	Total Level 3(1)	Total at Fair Value	Total Level 3(1)
	(in millions)							
Fixed maturities, available-for-sale	$370,681	$ 5,005	$42,224	$1,038	$349,720	$ 3,570	$41,376	$ 745
Assets supporting experience-rated contractholder liabilities:								
Fixed maturities	21,414	615	0	0	19,530	730	0	0
Equity securities	2,043	0	0	0	1,790	0	0	0
All other(2)	619	20	0	0	261	0	0	0
Subtotal	24,076	635	0	0	21,581	730	0	0
Fixed maturities, trading	3,636	230	278	13	3,628	275	256	12
Equity securities	5,653	576	2,345	84	5,140	557	2,245	76
Commercial mortgage and other loans	1,092	0	0	0	228	0	0	0
Other invested assets(3)	2,268	366	3	0	1,433	567	0	0
Short-term investments	6,222	146	88	31	3,789	119	147	36
Cash equivalents	5,241	1	241	0	8,855	99	151	32
Other assets	268	268	0	0	113	113	0	0
Separate account assets	304,270	1,821	0	0	288,724	1,717	0	0
Total assets	$723,407	$ 9,048	$45,179	$1,166	$683,211	$ 7,747	$44,175	$ 901
Future policy benefits	$ 18,879	$18,879	$ 0	$ 0	$ 12,831	$12,831	$ 0	$ 0
Policyholders' account balances	1,914	1,914	0	0	1,316	1,316	0	0
Other liabilities(3)	385	0	0	0	928	105	8	0
Notes issued by consolidated variable interest entities ("VIEs")	0	0	0	0	800	800	0	0
Total liabilities	$ 21,178	$20,793	$ 0	$ 0	$ 15,875	$15,052	$ 8	$ 0

(1) Level 3 assets expressed as a percentage of total assets measured at fair value on a recurring basis for PFI excluding the Closed Block division and for the Closed Block division totaled 1.3% and 2.6%, respectively, as of December 31, 2020 and 1.1% and 2.0%, respectively, as of December 31, 2019.
(2) "All other" represents cash equivalents and short-term investments.
(3) "Other invested assets" and "Other liabilities" primarily include derivatives. The amounts include the impact of netting subject to master netting agreements.

The determination of fair value, which for certain assets and liabilities is dependent on the application of estimates and assumptions, can have a significant impact on our results of operations and may require the application of a greater degree of judgment depending on market conditions, as the ability to value assets and liabilities can be significantly impacted by a decrease in market activity or a lack of transactions executed in an orderly manner.

Fixed maturity securities included in Level 3 in our fair value hierarchy are generally priced based on internally-developed valuations or indicative broker quotes. For certain private fixed maturity and equity securities, the internal valuation models use significant unobservable inputs and, accordingly, such securities are included in Level 3 in our fair value hierarchy. Level 3 fixed maturity securities for PFI excluding the Closed Block division included approximately $1.3 billion of public fixed maturities as of December 31, 2020 with values primarily based on indicative broker quotes, and approximately $4.6 billion of private fixed maturities, with values primarily based on internally-developed models. Significant unobservable inputs used in their valuation included: issue specific spread adjustments, material non-public financial information, management judgment, estimation of future earnings and cash flows, default rate assumptions, liquidity assumptions and indicative quotes from market makers. Separate account assets included in Level 3 in our fair value hierarchy primarily include corporate securities and commercial mortgage loans.

Embedded derivatives reported in "Future policy benefits" and "Policyholders' account balances" that are included in level 3 of our fair value hierarchy represent general account liabilities pertaining to living benefit features of the Company's variable annuity contracts and the index-linked interest credited features on certain life and annuity products. These are carried at fair value with changes in fair value included in "Realized investment gains (losses), net." These embedded derivatives are valued using internally-developed models that require significant estimates and assumptions developed by management. Changes in these estimates and assumptions can have a significant impact on the results of our operations.

For additional information about the valuation techniques and the key estimates and assumptions used in our determination of fair value, see Note 6 to the Consolidated Financial Statements.

General Account Investments

We maintain diversified investment portfolios in our general account to support our liabilities to customers as well as our other general liabilities. Investments and other assets that do not support general account liabilities, and are therefore excluded from our general account, are as follows:

- assets of our derivative operations;
- assets of our investment management operations, including investments managed for third-parties; and
- those assets classified as "Separate account assets" on our balance sheet.

The general account portfolios are managed pursuant to the distinct objectives and investment policy statements of PFI excluding the Closed Block division and of the Closed Block division. The primary investment objectives of PFI excluding the Closed Block division include:

- hedging and otherwise managing the market risk characteristics of the major product liabilities and other obligations of the Company;
- optimizing investment income yield within risk constraints over time; and
- for certain portfolios, optimizing total return, including both investment income yield and capital appreciation, within risk constraints over time, while managing the market risk exposures associated with the corresponding product liabilities.

We pursue our objective to optimize investment income yield for PFI excluding the Closed Block division over time through:

- the investment of net operating cash flows, including new product premium inflows, and proceeds from investment sales, repayments and prepayments into investments with attractive risk-adjusted yields; and
- the sale of investments, where appropriate, either to meet various cash flow needs or to manage the portfolio's risk exposure profile with respect to duration, credit, currency and other risk factors, while considering the impact on taxes and capital.

The primary investment objectives of the Closed Block division include:

- providing for the reasonable dividend expectations of the participating policyholders within the Closed Block division; and
- optimizing total return, including both investment income yield and capital appreciation, within risk constraints, while managing the market risk exposures associated with the major products in the Closed Block division.

Our portfolio management approach, while emphasizing our investment income yield and asset/liability risk management objectives, also takes into account the capital and tax implications of portfolio activity and our assertions regarding our ability and intent to hold debt securities to recovery. For a further discussion of our allowance for credit losses, including our assertions regarding any intention or requirement to sell debt securities before anticipated recovery, see "—Realized Investment Gains and Losses—Credit Losses" below.

Management of Investments

The Investment Committee of our Board of Directors ("Board") oversees our proprietary investments, including our general account portfolios, and regularly reviews performance and risk positions. Our Chief Investment Officer Organization ("CIO Organization") develops investment policies subject to risk limits proposed by our Enterprise Risk Management ("ERM") group for the general account portfolios of our domestic and international insurance subsidiaries and directs and oversees management of the general account portfolios within risk limits and exposure ranges approved annually by the Investment Committee.

The CIO Organization, including related functions within our insurance subsidiaries, works closely with product actuaries and ERM to understand the characteristics of our products and their associated market risk exposures. This information is incorporated into the development of target asset portfolios that manage market risk exposures associated with the liability characteristics and establish investment risk exposures, within tolerances prescribed by Prudential's investment risk limits, on which we expect to earn an attractive risk-adjusted return. We develop asset strategies for specific classes of product liabilities and attributed or accumulated surplus, each with distinct risk characteristics. Market risk exposures associated with the liabilities include interest rate risk, which is addressed through the duration characteristics of the target asset mix, and currency risk, which is addressed by the currency profile of the target asset mix. In certain of our smaller markets outside of the U.S. and Japan, capital markets limitations hinder our ability to hedge interest rate exposure to the same extent we do for our U.S. and Japan businesses and lead us to accept a higher degree of interest rate risk in these smaller portfolios. General account portfolios typically include allocations to credit and other investment risks as a means to enhance investment yields and returns over time.

Most of our products can be categorized into the following three classes:

- interest-crediting products for which the rates credited to customers are periodically adjusted to reflect market and competitive forces and actual investment experience, such as fixed annuities and universal life insurance;
- participating individual and experience-rated group products in which customers participate in actual investment and business results through annual dividends, interest or return of premium; and
- products with fixed or guaranteed terms, such as traditional whole life and endowment products, guaranteed investment contracts ("GICs"), funding agreements and payout annuities.

Our total investment portfolio is composed of a number of operating portfolios. Each operating portfolio backs a specific set of liabilities, and the portfolios have a target asset mix that supports the liability characteristics, including duration, cash flow, liquidity needs and other criteria. As of December 31, 2020, the average duration of our domestic general account investment portfolios attributable to PFI excluding the Closed Block division, including the impact of derivatives, was between 7 and 8 years. As of December 31, 2020, the average duration of our international general account portfolios attributable to our Japanese insurance operations, including the impact of derivatives, was between 12 and 13 years and represented a blend of yen-denominated and U.S. dollar and Australian dollar-denominated investments, which have distinct average durations supporting the insurance liabilities we have issued in those currencies. Our asset/liability management process has enabled us to manage our portfolios through several market cycles.

We implement our portfolio strategies primarily through investment in a broad range of fixed income assets, including government and agency securities, public and private corporate bonds and structured securities and commercial mortgage loans. In addition, we hold allocations of non-coupon investments, which include equity securities and other invested assets such as LPs/LLCs, real estate held through direct ownership, derivative instruments, and seed money investments in separate accounts.

We manage our public fixed maturity portfolio to a risk profile directed or overseen by the CIO Organization and ERM groups and to a profile that also reflects the market environments impacting both our domestic and international insurance portfolios. The return that we earn on the portfolio will be reflected in investment income and in realized gains or losses on investments.

We use privately-placed corporate debt securities and commercial mortgage loans, which consist of mortgages on diversified properties in terms of geography, property type and borrowers, to enhance the yield on our portfolio and to improve the overall diversification of the portfolios. Private placements typically offer enhanced yields due to an illiquidity premium and generally offer enhanced credit protection in the form of covenants. Our origination capability offers the opportunity to lead transactions and gives us the opportunity for better terms, including covenants and call protection, and to take advantage of innovative deal structures.

Derivative strategies are employed in the context of our risk management framework to enhance our ability to manage interest rate and currency risk exposures of the asset portfolio relative to the liabilities and to manage credit and equity positions in the investment portfolios. For a discussion of our risk management process, see "Quantitative and Qualitative Disclosures About Market Risk" below.

Our portfolio asset allocation reflects our emphasis on diversification across asset classes, sectors and issuers. The CIO Organization, directly and through related functions within the insurance subsidiaries, implements portfolio strategies primarily through various investment management units within Prudential's PGIM segment. Activities of the PGIM segment on behalf of the general account portfolios are directed and overseen by the CIO Organization and monitored by ERM for compliance with investment risk limits.

In executing the activities on behalf of the general account portfolio, Prudential investment management units are incorporating environmental, social and governance factors into their respective investment processes as appropriate. These factors include investing in opportunities to support diversity and inclusion and to help mitigate climate change by pursuing relevant investments across asset classes.

Portfolio Composition

Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, policy loans and non-coupon investments as defined above. The composition of our general account reflects, within the discipline provided by our risk management approach, our need for competitive results and the selection of diverse investment alternatives available primarily through our PGIM segment. The size of our portfolio enables us to invest in asset classes that may be unavailable to the typical investor.

The following tables set forth the composition of our general account investment portfolio apportioned between PFI excluding the Closed Block division and the Closed Block division, as of the dates indicated:

	December 31, 2020			
	PFI Excluding Closed Block Division		Closed Block Division	Total
	($ in millions)			
Fixed maturities:				
Public, available-for-sale, at fair value	$309,813	63.7%	$29,475	$339,288
Public, held-to-maturity, at amortized cost, net of allowance	1,719	0.4	0	1,719
Private, available-for-sale, at fair value	60,224	12.4	12,749	72,973
Private, held-to-maturity, at amortized cost, net of allowance	211	0.1	0	211
Fixed maturities, trading, at fair value	3,425	0.7	277	3,702
Assets supporting experience-rated contractholder liabilities, at fair value	24,115	5.0	0	24,115
Equity securities, at fair value	5,108	1.1	2,345	7,453
Commercial mortgage and other loans, at book value, net of allowance	55,892	11.5	8,421	64,313
Policy loans, at outstanding balance	7,207	1.5	4,064	11,271
Other invested assets, net of allowance(1)	10,716	2.1	3,610	14,326
Short-term investments, net of allowance	7,640	1.5	124	7,764
Total general account investments	486,070	100.0%	61,065	547,135
Invested assets of other entities and operations(2)	6,485		0	6,485
Total investments	$492,555		$61,065	$553,620

	December 31, 2019			
	PFI Excluding Closed Block Division		Closed Block Division	Total
	($ in millions)			
Fixed maturities:				
Public, available-for-sale, at fair value	$296,382	64.9%	$29,011	$325,393
Public, held-to-maturity, at amortized cost	1,705	0.4	0	1,705
Private, available-for-sale, at fair value	52,750	11.6	12,365	65,115
Private, held-to-maturity, at amortized cost	228	0.1	0	228
Fixed maturities, trading, at fair value	2,467	0.5	256	2,723
Assets supporting experience-rated contractholder liabilities, at fair value	21,597	4.7	0	21,597
Equity securities, at fair value	4,586	1.0	2,245	6,831
Commercial mortgage and other loans, at book value, net of allowance	54,671	12.0	8,629	63,300
Policy loans, at outstanding balance	7,832	1.7	4,264	12,096
Other invested assets(1)	9,210	2.0	3,334	12,544
Short-term investments	5,223	1.1	227	5,450
Total general account investments	456,651	100.0%	60,331	516,982
Invested assets of other entities and operations(2)	5,778		0	5,778
Total investments	$462,429		$60,331	$522,760

(1) Other invested assets consist of investments in LPs/LLCs, investment real estate held through direct ownership, derivative instruments and other miscellaneous investments. For additional information regarding these investments, see "—Other Invested Assets" below.

(2) Includes invested assets of our investment management and derivative operations. Excludes assets of our investment management operations that are managed for third-parties and those assets classified as "Separate account assets" on our balance sheet. For additional information regarding these investments, see "—Invested Assets of Other Entities and Operations" below.

The increase in general account investments attributable to PFI excluding the Closed Block division in 2020 was primarily due to a decrease in interest rates, the reinvestment of net investment income and net business inflows. For information regarding the methodology used in determining the fair value of our fixed maturities, see Note 6 to the Consolidated Financial Statements.

As of December 31, 2020 and 2019, 43% and 42%, respectively, of our general account investments attributable to PFI excluding the Closed Block division related to our Japanese insurance operations. The following table sets forth the composition of the investments of our Japanese insurance operations' general account, as of the dates indicated:

	December 31,	
	2020	2019
	(in millions)	
Fixed maturities:		
Public, available-for-sale, at fair value	$154,261	$142,220
Public, held-to-maturity, at amortized cost, net of allowance	1,719	1,705
Private, available-for-sale, at fair value	21,748	19,189
Private, held-to-maturity, at amortized cost, net of allowance	211	228
Fixed maturities, trading, at fair value	550	492
Assets supporting experience-rated contractholder liabilities, at fair value	3,149	2,777
Equity securities, at fair value	2,134	2,185
Commercial mortgage and other loans, at book value, net of allowance	19,915	19,138
Policy loans, at outstanding balance	3,078	2,859
Other invested assets(1)	3,045	2,187
Short-term investments, net of allowance	438	165
Total Japanese general account investments	$210,248	$193,145

(1) Other invested assets consist of investments in LPs/LLCs, investment real estate held through direct ownership, derivative instruments and other miscellaneous investments.

The increase in general account investments related to our Japanese insurance operations in 2020 was primarily attributable to a decrease in interest rates, the reinvestment of net investment income and net business inflows.

As of December 31, 2020, our Japanese insurance operations had $89.2 billion, at carrying value, of investments denominated in U.S. dollars, including $1.8 billion that were hedged to yen through third-party derivative contracts and $74.8 billion that support liabilities denominated in U.S. dollars, with the remainder as part of the hedging of foreign currency exchange rate exposure to U.S. dollar-equivalent equity. As of December 31, 2019, our Japanese insurance operations had $77.1 billion, at carrying value, of investments denominated in U.S. dollars, including $2.1 billion that were hedged to yen through third-party derivative contracts and $62.4 billion that support liabilities denominated in U.S. dollars, with the remainder as part of the hedging of foreign currency exchange rate exposure of U.S. dollar-equivalent equity. The $12.1 billion increase in the carrying value of U.S. dollar-denominated investments from December 31, 2019 was primarily attributable to a decrease in the U.S. treasury bond rates, reinvestment of net investment income and portfolio growth as a result of net business inflows.

Our Japanese insurance operations had $10.2 billion and $9.9 billion, at carrying value, of investments denominated in Australian dollars that support liabilities denominated in Australian dollars as of December 31, 2020 and 2019, respectively. The $0.3 billion increase in the carrying value of Australian dollar-denominated investments from December 31, 2019 was primarily attributable to the translation impact of the Australian dollar strengthening against the U.S. dollar, partially offset by run off of the portfolio. For additional information regarding U.S. and Australian dollar investments held in our Japanese insurance operations and a discussion of our yen hedging strategy, see "—Results of Operations by Segment—Impact of Foreign Currency Exchange Rates" above.

Investment Results

The following tables set forth the investment results of our general account apportioned between PFI excluding the Closed Block division and the Closed Block division, for the periods indicated. The yields are based on net investment income as reported under U.S. GAAP and as such do not include certain interest-related items, such as settlements of duration management swaps which are included in "Realized investment gains (losses), net."

	Year Ended December 31, 2020							
	PFI Excluding Closed Block Division and Japanese Operations		Japanese Insurance Operations		PFI Excluding Closed Block Division		Closed Block Division	Total(5)
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Amount	Amount
				($ in millions)				
Fixed maturities(2)	4.59%	$ 7,416	2.78%	$3,875	3.75%	$11,291	$1,566	$12,857
Assets supporting experience-rated contractholder liabilities	3.22	637	1.88	52	3.06	689	0	689
Equity securities	2.01	48	3.62	72	2.74	120	42	162
Commercial mortgage and other loans	3.95	1,377	2.89	731	3.91	2,108	358	2,466
Policy loans	5.31	238	3.23	98	4.47	336	247	583
Short-term investments and cash equivalents	0.83	171	0.86	14	0.83	185	6	191
Gross investment income	4.06	9,887	2.89	4,842	3.58	14,729	2,219	16,948
Investment expenses	(0.12)	(272)	(0.14)	(245)	(0.13)	(517)	(136)	(653)
Investment income after investment expenses	3.94%	9,615	2.75%	4,597	3.45%	14,212	2,083	16,295
Other invested assets(3)		413		245		658	157	815
Investment results of other entities and operations(4)		300		0		300	0	300
Total investment income		$10,328		$4,842		$15,170	$2,240	$17,410

	Year Ended December 31, 2019							
	PFI Excluding Closed Block Division and Japanese Operations		Japanese Insurance Operations		PFI Excluding Closed Block Division		Closed Block Division	Total(5)
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Amount	Amount
				($ in millions)				
Fixed maturities(2)	4.71%	$ 7,567	2.87%	$3,842	3.87%	$11,409	$1,713	$13,122
Assets supporting experience-rated contractholder liabilities	3.61	678	1.99	52	3.42	730	0	730
Equity securities	2.30	49	3.27	66	2.77	115	45	160
Commercial mortgage and other loans	4.21	1,406	4.29	767	4.24	2,173	388	2,561
Policy loans	5.36	256	3.92	107	4.84	363	255	618
Short-term investments and cash equivalents	2.58	373	3.40	27	2.62	400	32	432
Gross investment income	4.41	10,329	3.04	4,861	3.86	15,190	2,433	17,623
Investment expenses	(0.13)	(400)	(0.14)	(280)	(0.13)	(680)	(209)	(889)
Investment income after investment expenses	4.28%	9,929	2.90%	4,581	3.73%	14,510	2,224	16,734
Other invested assets(3)		378		184		562	99	661
Investment results of other entities and operations(4)		190		0		190	0	190
Total investment income		$10,497		$4,765		$15,262	$2,323	$17,585

	Year Ended December 31, 2018							
	PFI Excluding Closed Block Division and Japanese Operations		Japanese Insurance Operations		PFI Excluding Closed Block Division		Closed Block Division	Total(5)
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Amount	Amount
	($ in millions)							
Fixed maturities(2)	4.68%	$7,004	2.93%	$3,707	3.87%	$10,711	$1,692	$12,403
Assets supporting experience-rated contractholder liabilities	3.62	674	1.81	46	3.41	720	0	720
Equity securities	2.28	48	3.45	72	2.86	120	45	165
Commercial mortgage and other loans	4.03	1,299	3.96	623	4.01	1,922	407	2,329
Policy loans	5.44	258	3.92	101	4.91	359	263	622
Short-term investments and cash equivalents	2.20	265	2.83	33	2.25	298	30	328
Gross investment income	4.36	9,548	3.04	4,582	3.82	14,130	2,437	16,567
Investment expenses	(0.15)	(397)	(0.13)	(237)	(0.14)	(634)	(204)	(838)
Investment income after investment expenses	4.21%	9,151	2.91%	4,345	3.68%	13,496	2,233	15,729
Other invested assets(3)		221		93		314	55	369
Investment results of other entities and operations(4)		78		0		78	0	78
Total investment income		$9,450		$4,438		$13,888	$2,288	$16,176

(1) The denominator in the yield percentage is based on quarterly average carrying values for all asset types except for fixed maturities which are based on amortized cost (2019 and 2018) and amortized cost, net of allowance (2020). Amounts for fixed maturities, short-term investments and cash equivalents are also netted for securities lending activity (i.e., income netted for rebate expenses and asset values netted for securities lending liabilities). A yield is not presented for other invested assets as it is not considered a meaningful measure of investment performance. Total yields exclude investment income and assets related to other invested assets.
(2) Includes fixed maturity securities classified as available-for-sale and held-to-maturity and excludes fixed maturity securities classified as trading, which are included in other invested assets.
(3) Other invested assets consist of investments in LPs/LLCs, investment real estate held through direct ownership, derivative instruments, fixed maturities classified as trading and other miscellaneous investments.
(4) Includes net investment income of our investment management operations.
(5) The total yield was 3.54%, 3.81% and 3.77% for the years ended December 31, 2020, 2019 and 2018, respectively.

The decrease in investment income after investment expenses yield attributable to our general account investments, excluding both the Closed Block division and the Japanese insurance operations' portfolio, for 2020 compared to 2019 was primarily the result of lower fixed income reinvestment rates.

The decrease in investment income after investment expenses yield attributable to the Japanese insurance operations' portfolio for 2020 compared to 2019 was primarily the result of lower fixed income reinvestment rates.

Both the U.S. dollar-denominated and Australian dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts provide a yield that is substantially higher than the yield on comparable yen-denominated fixed maturities. The average amortized cost of U.S. dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts was approximately $54.2 billion and $47.5 billion, for the years ended December 31, 2020 and 2019, respectively. The majority of U.S. dollar-denominated fixed maturities support liabilities that are denominated in U.S. dollars. The average amortized cost of Australian dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts was approximately $8.2 billion and $8.4 billion, for the years ended December 31, 2020 and 2019, respectively. The majority of Australian dollar-denominated fixed maturities support liabilities that are denominated in Australian dollars. For additional information regarding U.S. and Australian dollar investments held in our Japanese insurance operations, see "—Results of Operations by Segment—Impact of Foreign Currency Exchange Rates" above.

Realized Investment Gains and Losses

The following table sets forth "Realized investment gains (losses), net" of our general account apportioned between PFI excluding Closed Block division and the Closed Block division by investment type as well as "Charges related to realized investment gains (losses), net" and adjustments, for the periods indicated:

	Years Ended December 31,		
	2020	2019	2018
	(in millions)		
PFI excluding Closed Block Division:			
Realized investment gains (losses), net:			
Due to foreign exchange movements on securities approaching maturity(2)	$ (26)	$ (53)	$ (23)
Due to securities actively marketed for sale(2)	(83)	(4)	(24)
Due to credit or adverse conditions of the respective issuer(1)(3)	(111)	(175)	(169)
Allowance for credit losses on fixed maturities(1)(3)	(105)	N/A	N/A
Net gains (losses) on sales and maturities	777	867	504
Fixed maturity securities(4)	452	635	288
Commercial mortgage and other loans	10	(6)	(15)
Derivatives	(4,571)	(1,623)	1,249
OTTI losses on other invested assets recognized in earnings	(33)	(18)	(7)
Allowance for credit losses on other invested assets	(1)	N/A	N/A
Other net gains (losses)	17	70	106
Other	(17)	52	99
Subtotal	(4,126)	(942)	1,621
Investment results of other entities and operations(5)	57	(38)	226
Total—PFI excluding Closed Block Division	(4,069)	(980)	1,847
Related adjustments(6)	(87)	145	(1,236)
Realized investment gains (losses), net, and related adjustments(6)	(4,156)	(835)	611
Charges related to realized investment gains (losses), net	(159)	(123)	(315)
Realized investment gains (losses), net, and charges related to realized investment gains (losses), net and adjustments(6)	$(4,315)	$ (958)	$ 296
Closed Block Division:			
Realized investment gains (losses), net:			
Due to foreign exchange movements on securities approaching maturity(2)	$ (69)	$ (56)	$ (28)
Due to securities actively marketed for sale(2)	(9)	0	(9)
Due to credit or adverse conditions of the respective issuer(1)(3)	(6)	(27)	(26)
Allowance for credit losses on fixed maturities(1)(3)	(27)	N/A	N/A
Net gains (losses) on sales and maturities	388	417	3
Fixed maturity securities(4)	277	334	(60)
Commercial mortgage and other loans	0	3	(6)
Derivatives	(87)	193	193
OTTI losses on other invested assets recognized in earnings	0	0	(1)
Allowance for credit losses on other invested assets	0	N/A	N/A
Other net gains (losses)	(8)	(9)	4
Other	(8)	(9)	3
Subtotal—Closed Block Division	182	521	130
Consolidated PFI realized investment gains (losses), net	$(3,887)	$ (459)	$ 1,977

(1) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused or will lead to a deficiency in the contractual cash flows related to the investment. The amount of the impairment or allowance recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment (2019 and 2018) or allowance (2020).
(2) Represents the difference between the fair value of the debt security and the amortized cost at the time of the write-down.
(3) Beginning January 1, 2020, related to the implementation of ASU 2016-13, write-offs of credit adverse securities are reported as OTTI.
(4) Includes fixed maturity securities classified as available-for-sale and held-to-maturity and excludes fixed maturity securities classified as trading.
(5) Includes "realized investment gains (losses), net" of our investment management operations.
(6) Prior period amounts have been updated to conform to current period presentation.

2020 to 2019 Annual Comparison

Net gains on sales and maturities of fixed maturity securities were $777 million and $867 million for the years ended December 31, 2020 and 2019, respectively, primarily driven by the impact of foreign currency exchange rate movements of U.S. and Australian dollar-denominated securities that matured or were sold within our International Businesses segment and other sales of fixed maturity securities within our domestic segments driven by interest rate declines during the investment holding period.

Net realized losses on derivative instruments of $4,571 million, for the year ended December 31, 2020, primarily included:

- $3,957 million of losses on product-related embedded derivatives and related hedge positions associated with certain variable annuity contracts; and
- $2,362 million of losses on capital hedges due to increases in equity indices.

Partially offsetting these losses were:

- $1,483 million of gains on interest rate derivatives due to decreases in swap and U.S. Treasury rates;
- $139 million of gains for fees earned on fee-based synthetic GICs; and
- $61 million of gains on foreign currency hedges due to Japanese yen strengthening against U.S. dollar.

Net realized losses on derivative instruments of $1,623 million, for the year ended December 31, 2019, primarily included:

- $2,677 million of losses on product-related embedded derivatives and related hedge positions associated with certain variable annuity contracts; and
- $1,070 million of losses on capital hedges due to increases in equity indices.

Partially offsetting these losses were:

- $1,354 million of gains on interest rate derivatives due to decreases in swap and U.S. Treasury rates;
- $378 million of gains on foreign currency hedges due to U.S. dollar appreciation versus the euro;
- $145 million of gains for fees earned on fee-based synthetic GICs; and
- $124 million of gains on credit default swaps primarily due to spreads tightening.

For a discussion of living benefit guarantees and related hedge positions in our Individual Annuities segment, see "—Results of Operations by Segment—U.S. Businesses—U.S. Individual Solutions Division—Individual Annuities" above.

Related adjustments include the portions of "Realized investment gains (losses), net" that are included in adjusted operating income and the portions of "Other income (loss)" and "Net investment income" that are excluded from adjusted operating income. These adjustments are made to arrive at "Realized investment gains (losses), net, and related adjustments" which are excluded from adjusted operating income. Results for the years ended December 31, 2020 and 2019 reflected related adjustments of net negative $87 million and net positive $145 million, respectively. Both periods' results reflected settlements and changes in value related to interest rate and currency derivatives, as well as changes in the fair value of equity securities and fixed income securities designated as trading. Additionally, the results for 2020 included the impact of foreign currency exchange rate movements on certain non-local currency denominated assets and liabilities, for which the majority of the foreign currency exposure is hedged and offset in "Realized Investment gains (losses), net."

Charges that relate to "Realized investment gains (losses), net" are also excluded from adjusted operating income and may be reflected as net charges or net benefits. Results for the years ended December 31, 2020 and 2019 reflected net related charges of $159 million and $123 million, respectively. Both periods' results were primarily driven by the impact of derivative activity on the amortization of DAC and other costs, and certain policyholder reserves.

Credit Losses

The level of credit losses generally reflects current and expected economic conditions and is expected to increase when economic conditions worsen and to decrease when economic conditions improve. Historically, the causes of credit losses have been specific to each individual issuer and have not directly resulted in credit losses to other securities within the same industry or geographic region. We may also realize additional credit and interest rate-related losses through sales of investments pursuant to our credit risk and portfolio management objectives.

We maintain separate monitoring processes for public and private fixed maturities and create watch lists to highlight securities that require special scrutiny and management. For private placements, our credit and portfolio management processes help ensure prudent controls over valuation and management. We have separate pricing and authorization processes to establish "checks and balances" for new investments. We apply consistent standards of credit analysis and due diligence for all transactions, whether they originate through our own in-house origination staff or through agents. Our regional offices closely monitor the portfolios in their regions. We set all valuation standards centrally, and we assess the fair value of all investments quarterly. Our public and private fixed maturity investment managers formally review all public and private fixed maturity holdings on a quarterly basis and more frequently when necessary to identify potential credit deterioration whether due to ratings downgrades, unexpected price variances and/or company or industry-specific concerns.

For LPs/LLCs accounted for using the equity method and for wholly-owned investment real estate, the carrying value of these investments is written down or impaired to fair value when a decline in value is considered to be other-than-temporary.

COVID-19

A continued impact of COVID-19 on the global economy and corporate credit may result in losses and credit migration in our investment portfolio. Due to the highly uncertain nature of these conditions, it is not possible to estimate the overall impacts at this time. We believe our investment portfolio has been diligently constructed with a strong focus on ALM discipline, risk management, and capital preservation; and although certain industries will likely be more impacted by COVID-19 driven market conditions, we expect to benefit from our experience in managing highly specialized asset classes through multiple credit cycles. The following represents some of the sectors in our investment portfolio most impacted by COVID-19.

Energy Related Investments

As of December 31, 2020, PFI excluding the Closed Block division had energy related exposure with a market value of approximately \$14 billion including a net unrealized gain of \$1 billion, which was reflected in AOCI. This \$14 billion represented investments in public and private corporate fixed maturity securities (excluding trading securities) and was comprised of the midstream (43%), independent energy (25%), integrated energy (20%), oil field services (6%) and refining (6%) sub-sectors. As of December 31, 2020, the credit quality of energy sector fixed maturity securities was 86% investment grade and 14% below investment grade. Energy related investment realized losses were approximately \$184 million, comprised of \$126 million of write-downs and \$58 million of addition to credit loss allowances for the year ended December 31, 2020. Our investments in the energy sector could experience future valuation declines or losses if energy prices maintain their recent levels or continue to decline for an extended period of time. Our assessment that securities are other-than-temporarily impaired may change due to new developments, including those developments related to COVID-19.

Consumer Cyclical Related Investments

As of December 31, 2020, PFI excluding the Closed Block division had consumer cyclical related exposure with a market value of approximately \$13 billion and a net unrealized gain of \$1 billion, which was reflected in AOCI. This \$13 billion represented investments in public and private corporate fixed maturity securities (excluding trading securities) and included exposures in retail (37%), automotive (18%), leisure (7%), restaurants (7%), gaming (4%) and lodging (1%). As of December 31, 2020, the credit quality of consumer cyclical sector fixed maturity securities was 79% investment grade and 21% below investment grade. For additional information regarding "—Retail Related Investments," see below.

Retail Related Investments

As of December 31, 2020, PFI excluding the Closed Block division had retail related investments of approximately \$13 billion consisting primarily of \$6 billion of corporate fixed maturities of which 89% were considered investment grade (also included in "—Consumer Cyclical Related Investments"); \$6 billion of commercial mortgage loans with a weighted-average loan-to-value ratio of approximately 58% and weighted-average debt service coverage ratio of 2.13 times; and \$1 billion of real estate held through direct ownership and real estate-related LPs/LLCs. In addition, we held approximately \$11 billion of commercial mortgage-backed securities, of which approximately 99% and 1% were rated AAA (super-senior) and AA to A, respectively, and comprised of diversified collateral pools. Approximately 30% of the collateral pools were comprised of retail-related investments, with no pools solely collateralized by retail related investments. For additional information regarding commercial mortgage-backed securities, see "—Fixed Maturity Securities—Fixed Maturity Securities Credit Quality" below.

Airline Related Investments

As of December 31, 2020, PFI excluding the Closed Block division had \$0.1 billion of airline related corporate fixed maturities within the transportation sector of which 97% were investment grade.

General Account Investments of PFI excluding Closed Block Division

In the following sections, we provide details about our investment portfolio, excluding investments held in the Closed Block division. We believe the details of the composition of our investment portfolio excluding the Closed Block division are most relevant to an understanding of our operations that are pertinent to investors in Prudential Financial, Inc. because substantially all Closed Block division assets support obligations and liabilities relating to the Closed Block policies only. See Note 15 to the Consolidated Financial Statements for further information on the Closed Block.

Fixed Maturity Securities

In the following sections, we provide details about our fixed maturity securities portfolio, which excludes fixed maturity securities classified as assets supporting experienced-rated contractholder liabilities and classified as trading.

Fixed Maturity Securities by Contractual Maturity Date

The following table sets forth the breakdown of the amortized cost of our fixed maturity securities portfolio by contractual maturity, as of the date indicated:

	December 31, 2020	
	Amortized Cost	% of Total
	($ in millions)	
Corporate & government securities:		
Maturing in 2021	$ 10,141	3.2%
Maturing in 2022	9,391	2.9
Maturing in 2023	11,618	3.6
Maturing in 2024	12,550	3.9
Maturing in 2025	12,836	4.0
Maturing in 2026	13,795	4.3
Maturing in 2027	14,401	4.5
Maturing in 2028	10,584	3.3
Maturing in 2029	12,285	3.9
Maturing in 2030	11,356	3.6
Maturing in 2031	9,066	2.9
Maturing in 2032 and beyond	166,639	52.1
Total corporate & government securities	294,662	92.2
Asset-backed securities	11,584	3.6
Commercial mortgage-backed securities	10,296	3.2
Residential mortgage-backed securities	2,838	1.0
Total fixed maturities	$319,380	100.0%

Fixed Maturity Securities by Industry

The following table sets forth the composition of the portion of our fixed maturity, available-for-sale portfolio by industry category attributable to PFI excluding the Closed Block division and the associated gross unrealized gains and losses, as well as the allowance for credit losses, as of the dates indicated:

	December 31, 2020					December 31, 2019			
Industry(1)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses (5)	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
					(in millions)				
Corporate securities:									
Finance	$ 37,577	$ 5,240	$ 70	$ 0	$ 42,747	$ 34,710	$ 2,796	$ 85	$ 37,421
Consumer non-cyclical	28,891	5,085	52	0	33,924	24,941	2,846	112	27,675
Utility	24,235	4,504	60	11	28,668	22,341	2,498	81	24,758
Capital goods	13,711	1,947	49	2	15,607	12,287	1,150	83	13,354
Consumer cyclical	11,196	1,536	52	13	12,667	10,871	994	45	11,820
Foreign agencies	5,323	903	11	0	6,215	5,649	928	10	6,567
Energy	12,257	1,583	118	58	13,664	12,922	1,126	186	13,862
Communications	6,013	1,343	35	22	7,299	5,916	939	34	6,821
Basic industry	5,895	914	17	0	6,792	5,866	497	38	6,325
Transportation	10,067	1,568	40	0	11,595	9,443	833	34	10,242
Technology	3,717	381	14	0	4,084	3,395	278	13	3,660
Industrial other	4,485	778	21	0	5,242	3,894	351	33	4,212
Total corporate securities	163,367	25,782	539	106	188,504	152,235	15,236	754	166,717
Foreign government(2)	93,521	16,229	236	0	109,514	97,880	20,658	63	118,475
Residential mortgage-backed(3)	2,572	198	0	0	2,770	2,955	154	1	3,108
Asset-backed	11,584	137	67	0	11,654	9,832	123	34	9,921
Commercial mortgage-backed	10,296	883	8	0	11,171	10,211	441	9	10,643
U.S. Government	25,959	8,348	15	0	34,292	24,938	4,511	94	29,355
State & Municipal	10,142	1,991	1	0	12,132	9,593	1,327	7	10,913
Total fixed maturities, available-for-sale (4)(5)	$317,441	$53,568	$866	$106	$370,037	$307,644	$42,450	$962	$349,132

(1) Investment data has been classified based on standard industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.

(2) As of December 31, 2020 and 2019, based on amortized cost, 86% and 76%, respectively, represent Japanese government bonds held by our Japanese insurance operations with no other individual country representing more than 4% and 11% of the balance, respectively.
(3) As of December 31, 2020 and 2019, based on amortized cost, 97% and more than 99% were rated A or higher, respectively.
(4) Excluded from the table above are securities held outside the general account in other entities and operations. For additional information regarding investments held outside the general account, see "—Invested Assets of Other Entities and Operations" below.
(5) Effective January 1, 2020, due to the implementation of ASU 2016-13, an allowance for credit losses is now presented for available-for-sale securities. Prior period amounts have been updated to exclude held-to-maturity securities to conform to current period presentation.

The increase in net unrealized gains from December 31, 2019 to December 31, 2020 was primarily due to a decrease in U.S. interest rates.

The following table sets forth the composition of the portion of our fixed maturity, held-to-maturity portfolio by industry category attributable to PFI excluding the Closed Block division and the associated gross unrealized gains and losses, as well as the allowance for credit losses, as of the dates indicated:

	December 31, 2020					December 31, 2019			
Industry(1)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
					(in millions)				
Corporate securities:									
Finance	$ 651	$ 67	$0	$ 718	$9	$ 628	$ 64	$0	$ 692
Foreign agencies	0	0	0	0	0	21	0	0	21
Basic industry	87	2	0	89	0	83	2	0	85
Total corporate securities	738	69	0	807	9	732	66	0	798
Foreign government(2)	935	270	0	1,205	0	891	282	0	1,173
Residential mortgage-backed(3)	266	20	0	286	0	310	21	0	331
Total fixed maturities, held-to-maturity(4)	$1,939	$359	$0	$2,298	$9	$1,933	$369	$0	$2,302

(1) Investment data has been classified based on standard industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.
(2) As of both December 31, 2020 and 2019, based on amortized cost, 98% represent Japanese government bonds held by our Japanese insurance operations.
(3) As of both December 31, 2020 and 2019, based on amortized cost, all were rated A or higher.
(4) Excluded from the table above are securities held outside the general account in other entities and operations. For additional information regarding investments held outside the general account, see "—Invested Assets of Other Entities and Operations" below.

Fixed Maturity Securities Credit Quality

The Securities Valuation Office ("SVO") of the National Association of Insurance Commissioners ("NAIC") evaluates the investments of insurers for statutory reporting purposes and assigns fixed maturity securities to one of six categories called "NAIC Designations." In general, NAIC Designations of "1" highest quality, or "2" high quality, include fixed maturities considered investment grade, which include securities rated Baa3 or higher by Moody's Investor Service, Inc. ("Moody's") or BBB- or higher by Standard & Poor's Rating Services ("S&P"). NAIC Designations of "3" through "6" generally include fixed maturities referred to as below investment grade, which include securities rated Ba1 or lower by Moody's and BB+ or lower by S&P. The NAIC Designations for commercial mortgage-backed securities and non-agency residential mortgage-backed securities, including our asset-backed securities collateralized by sub-prime mortgages, are based on security level expected losses as modeled by an independent third-party (engaged by the NAIC) and the statutory carrying value of the security, including any purchase discounts or impairment charges previously recognized.

As a result of time lags between the funding of investments, the finalization of legal documents, and the completion of the SVO filing process, the fixed maturity portfolio includes certain securities that have not yet been designated by the SVO as of each balance sheet date. Pending receipt of SVO designations, the categorization of these securities by NAIC Designation is based on the expected ratings indicated by internal analysis.

Investments of our international insurance companies are not subject to NAIC guidelines. Investments of our Japanese insurance operations are regulated locally by the Financial Services Agency ("FSA"), an agency of the Japanese government. The FSA has its own investment quality criteria and risk control standards. Our Japanese insurance companies comply with the FSA's credit quality review and risk monitoring guidelines. The credit quality ratings of the investments of our Japanese insurance companies are based on ratings assigned by nationally recognized credit rating agencies, including Moody's and S&P, or rating equivalents based on ratings assigned by Japanese credit ratings agencies.

The following table sets forth our fixed maturity, available-for-sale portfolio by NAIC Designation or equivalent rating attributable to PFI excluding the Closed Block division, as of the dates indicated:

	December 31, 2020					December 31, 2019			
NAIC Designation(1)(2)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses(3)	Allowance for Credit Losses(7)	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses(3)	Fair Value
	(in millions)								
1	$229,951	$41,311	$381	$ 0	$270,881	$232,039	$35,923	$287	$267,675
2	68,458	10,683	180	0	78,961	59,114	5,198	384	63,928
Subtotal High or Highest Quality Securities(4)	298,409	51,994	561	0	349,842	291,153	41,121	671	331,603
3	11,913	1,192	95	0	13,010	10,033	854	93	10,794
4	5,119	211	119	23	5,188	4,914	248	98	5,064
5	1,629	123	67	16	1,669	1,280	196	83	1,393
6	371	48	24	67	328	264	31	17	278
Subtotal Other Securities(5)(6)	19,032	1,574	305	106	20,195	16,491	1,329	291	17,529
Total fixed maturities, available-for-sale(7)	$317,441	$53,568	$866	$106	$370,037	$307,644	$42,450	$962	$349,132

(1) Reflects equivalent ratings for investments of the international insurance operations.
(2) Includes, as of December 31, 2020 and 2019, 102 securities with amortized cost of $356 million (fair value, $382 million) and 796 securities with amortized cost of $3,073 million (fair value, $3,130 million), respectively, that have been categorized based on expected NAIC Designations pending receipt of SVO ratings.
(3) As of December 31, 2020, includes gross unrealized losses of $184 million on public fixed maturities and $121 million on private fixed maturities considered to be other than high or highest quality and, as of December 31, 2019, includes gross unrealized losses of $188 million on public fixed maturities and $103 million on private fixed maturities considered to be other than high or highest quality.
(4) On an amortized cost basis, as of December 31, 2020, includes $253,387 million of public fixed maturities and $45,022 million of private fixed maturities and, as of December 31, 2019, includes $248,179 million of public fixed maturities and $42,974 million of private fixed maturities.
(5) On an amortized cost basis, as of December 31, 2020, includes $9,592 million of public fixed maturities and $9,440 million of private fixed maturities and, as of December 31, 2019, includes $9,049 million of public fixed maturities and $7,442 million of private fixed maturities.
(6) On an amortized cost basis, as of December 31, 2020, securities considered below investment grade based on low issue composite ratings total $15,747 million, or 5% of the total fixed maturities, and include securities considered high or highest quality by the NAIC based on the rules described above.
(7) Effective January 1, 2020, due to the implementation of ASU 2016-13, an allowance for credit losses is now presented for available-for-sale securities. Prior period amounts have been updated to exclude held-to-maturity securities to conform to current period presentation.

The following table sets forth our fixed maturity, held-to-maturity portfolio by NAIC Designation or equivalent rating attributable to PFI excluding the Closed Block division, as of the dates indicated:

	December 31, 2020					December 31, 2019			
NAIC Designation(1)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses(2)	Fair Value	Allowance for Credit Losses	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses(2)	Fair Value
	(in millions)								
1	$1,839	$349	$0	$2,188	$7	$1,743	$351	$0	$2,094
2	100	10	0	110	2	190	18	0	208
Subtotal High or Highest Quality Securities(3)	1,939	359	0	2,298	9	1,933	369	0	2,302
3	0	0	0	0	0	0	0	0	0
4	0	0	0	0	0	0	0	0	0
5	0	0	0	0	0	0	0	0	0
6	0	0	0	0	0	0	0	0	0
Subtotal Other Securities	0	0	0	0	0	0	0	0	0
Total fixed maturities, held-to-maturity	$1,939	$359	$0	$2,298	$9	$1,933	$369	$0	$2,302

(1) Reflects equivalent ratings for investments of the international insurance operations.
(2) As of both December 31, 2020 and December 31, 2019, there were no gross unrealized losses on public fixed maturities and private fixed maturities considered to be other than high or highest quality.
(3) On an amortized cost basis, as of December 31, 2020, includes $1,728 million of public fixed maturities and $211 million of private fixed maturities and, as of December 31, 2019, includes $1,705 million of public fixed maturities and $228 million of private fixed maturities.

Asset-Backed and Commercial Mortgage-Backed Securities

The following table sets forth the amortized cost and fair value of asset-backed and commercial mortgage-backed securities within our fixed maturity available-for-sale portfolio attributable to PFI excluding the Closed Block division by credit quality, as of the dates indicated:

	December 31, 2020				December 31, 2019			
	Asset-Backed Securities(2)		Commercial Mortgage-Backed Securities(3)		Asset-Backed Securities(2)		Commercial Mortgage-Backed Securities(3)	
Low Issue Composite Rating(1)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)							
AAA	$11,327	$11,323	$10,284	$11,159	$9,585	$9,594	$10,196	$10,627
AA	139	144	1	2	83	86	0	0
A	16	17	2	2	40	41	6	7
BBB	12	13	9	8	19	21	9	9
BB and below	90	157	0	0	105	179	0	0
Total(4)(5)	$11,584	$11,654	$10,296	$11,171	$9,832	$9,921	$10,211	$10,643

(1) The table above provides ratings as assigned by nationally recognized rating agencies as of December 31, 2020, including S&P, Moody's, Fitch Ratings Inc. ("Fitch") and Morningstar, Inc. ("Morningstar"). Low issue composite rating uses ratings from the major credit rating agencies or if these are not available an equivalent internal rating. For securities where the ratings assigned are not equivalent, the second lowest rating is utilized.
(2) Includes collateralized loan obligations ("CLOs"), credit-tranched securities collateralized by auto loans, education loans, credit cards and other asset types.
(3) As of December 31, 2020 and 2019, based on amortized cost, 98% and 97% were securities with vintages of 2013 or later, respectively.
(4) Excludes fixed maturity securities classified as "Assets supporting experience-rated contractholder liabilities" and "Fixed maturities, trading" as well as securities held outside the general account in other entities and operations.
(5) Prior period amounts have been updated to conform to current period presentation.

Included in "Asset-backed securities" above are investments in CLOs. The following table sets forth information pertaining to these investments in CLOs within our fixed maturity available-for-sale portfolio attributable to PFI excluding the Closed Block division, as of the dates indicated:

	December 31, 2020		December 31, 2019	
	Collateralized Loan Obligations			
Low Issue Composite Rating(1)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
AAA	$9,554	$9,506	$7,294	$7,271
AA	2	2	0	0
A	1	1	0	0
BBB	1	1	0	0
BB and below	1	1	0	0
Total(2)(3)(4)	$9,559	$9,511	$7,294	$7,271

(1) The table above provides ratings as assigned by nationally recognized rating agencies as of December 31, 2020, including S&P, Moody's, Fitch and Morningstar. Low issue composite rating uses ratings from the major credit rating agencies or if these are not available an equivalent internal rating. For securities where the ratings assigned are not equivalent, the second lowest rating is utilized.
(2) There was no allowance for credit losses as of December 31, 2020.
(3) Excludes fixed maturity securities classified as "Assets supporting experience-rated contractholder liabilities" and "Fixed maturities, trading" as well as securities held outside the general account in other entities and operations.
(4) Prior period amounts have been updated to conform to current period presentation.

Assets Supporting Experience-Rated Contractholder Liabilities

For information regarding the composition of "Assets supporting experience-rated contractholder liabilities," see Note 3 to the Consolidated Financial Statements.

Commercial Mortgage and Other Loans

Investment Mix

The following table sets forth the composition of our commercial mortgage and other loans portfolio attributable to PFI excluding the Closed Block division, as of the dates indicated:

	December 31, 2020	December 31, 2019
	(in millions)	
Commercial mortgage and agricultural property loans	$55,223	$53,928
Uncollateralized loans	655	656
Residential property loans	101	124
Other collateralized loans	120	65
Total recorded investment gross of allowance(1)	56,099	54,773
Allowance for credit losses	(207)	(102)
Total net commercial mortgage and other loans(2)	$55,892	$54,671

(1) As a percentage of recorded investment gross of allowance, more than 99% of these assets were current as of both December 31, 2020 and 2019.
(2) Excluded from the table above are commercial mortgage and other loans held outside the general account in other entities and operations. For additional information regarding commercial mortgage and other loans held outside the general account, see "—Invested Assets of Other Entities and Operations" below.

We originate commercial mortgage and agricultural property loans using a dedicated sales and underwriting staff through our various regional offices in the U.S. and international offices primarily in London and Tokyo. All loans are underwritten consistently to our standards using a proprietary quality rating system that has been developed from our industry experience in real estate and mortgage lending.

Uncollateralized loans primarily represent reverse dual currency loans and corporate loans held by the company's international insurance operations.

Residential property loans primarily include Japanese recourse loans. Upon default of these recourse loans, we can make a claim against the personal assets of the property owner, in addition to the mortgaged property. These loans are also backed by third-party guarantors.

Other collateralized loans include consumer loans.

Composition of Commercial Mortgage and Agricultural Property Loans

Our commercial mortgage and agricultural property loan portfolio strategy emphasizes diversification by property type and geographic location. The following tables set forth the breakdown of the gross carrying values of commercial mortgage and agricultural property loans attributable to PFI excluding the Closed Block division by geographic region and property type, as of the dates indicated:

	December 31, 2020		December 31, 2019	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)			
Commercial mortgage and agricultural property loans by region:				
U.S. Regions(1):				
Pacific	$19,186	34.7%	$18,061	33.5%
South Atlantic	8,710	15.8	8,943	16.6
Middle Atlantic	6,500	11.8	6,664	12.4
East North Central	3,018	5.5	3,413	6.3
West South Central	5,426	9.8	5,439	10.1
Mountain	2,239	4.1	2,442	4.5
New England	1,664	3.0	1,902	3.5
West North Central	531	0.9	454	0.8
East South Central	836	1.5	622	1.2
Subtotal-U.S.	48,110	87.1	47,940	88.9
Europe	4,605	8.3	3,781	7.0
Asia	979	1.8	886	1.6
Other	1,529	2.8	1,321	2.5
Total commercial mortgage and agricultural property loans	$55,223	100.0%	$53,928	100.0%

(1) Regions as defined by the United States Census Bureau.

	December 31, 2020		December 31, 2019	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)			
Commercial mortgage and agricultural property loans by property type:				
Industrial	$13,819	25.0%	$12,224	22.7%
Retail	5,718	10.4	6,524	12.1
Office	10,719	19.4	11,203	20.8
Apartments/Multi-Family	15,316	27.7	15,176	28.1
Agricultural properties	3,273	5.9	2,856	5.3
Hospitality	2,056	3.7	2,066	3.8
Other	4,322	7.9	3,879	7.2
Total commercial mortgage and agricultural property loans	$55,223	100.0%	$53,928	100.0%

Loan-to-value and debt service coverage ratios are measures commonly used to assess the quality of commercial mortgage and agricultural property loans. The loan-to-value ratio compares the amount of the loan to the fair value of the underlying property collateralizing the loan and is commonly expressed as a percentage. A loan-to-value ratio less than 100% indicates an excess of collateral value over the loan amount. Loan-to-value ratios greater than 100% indicate that the loan amount exceeds the collateral value. The debt service coverage ratio compares a property's net operating income to its debt service payments. Debt service coverage ratios less than 1.0 times indicate that property operations do not generate enough income to cover the loan's current debt payments. A debt service coverage ratio greater than 1.0 times indicates an excess of net operating income over the debt service payments.

As of December 31, 2020, our commercial mortgage and agricultural property loans attributable to PFI excluding the Closed Block division had a weighted-average debt service coverage ratio of 2.46 times and a weighted-average loan-to-value ratio of 58%. As of December 31, 2020, 94% of commercial mortgage and agricultural property loans were fixed rate loans. For those commercial mortgage and agricultural property loans that were originated in 2020, the weighted-average debt service coverage ratio was 2.71 times, and the weighted-average loan-to-value ratio was 65%.

The values utilized in calculating these loan-to-value ratios are developed as part of our periodic review of the commercial mortgage and agricultural property loan portfolio, which includes an internal evaluation of the underlying collateral value. Our periodic review also includes a credit quality re-rating process, whereby we update the internal quality rating originally assigned at underwriting based on the proprietary quality rating system mentioned above. As discussed below, the internal quality rating is a key input in determining our allowance for credit losses.

For loans with collateral under construction, renovation or lease-up, a stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios. Our commercial mortgage and agricultural property loan portfolio included $2.4 billion and $1.8 billion of such loans as of December 31, 2020 and 2019, respectively. All else being equal, these loans are inherently riskier than those collateralized by properties that have already stabilized. As of December 31, 2020 and 2019, there were $1 million and $0 million, respectively, of allowances related to these loans. In addition, these unstabilized loans are included in the calculation of our portfolio reserve, as discussed below.

The following table sets forth the gross carrying value of our commercial mortgage and agricultural property loans attributable to PFI excluding the Closed Block division by loan-to-value and debt service coverage ratios, as of the date indicated:

	December 31, 2020			
	Debt Service Coverage Ratio			
	≥ 1.2x	1.0x to < 1.2x	< 1.0x	Total Commercial Mortgage and Agricultural Property Loans
Loan-to-Value Ratio	(in millions)			
0%-59.99%	$26,359	$ 742	$467	$27,568
60%-69.99%	16,692	1,305	233	18,230
70%-79.99%	7,897	799	214	8,910
80% or greater	199	304	12	515
Total commercial mortgage and agricultural property loans	$51,147	$3,150	$926	$55,223

The following table sets forth the breakdown of our commercial mortgage and agricultural property loans attributable to PFI excluding the Closed Block division by year of origination, as of the date indicated:

Year of Origination	December 31, 2020	
	Gross Carrying Value	% of Total
	($ in millions)	
2020	$ 5,468	9.9%
2019	10,103	18.3
2018	8,504	15.4
2017	7,119	12.9
2016	6,278	11.4
2015	5,513	9.9
2014	4,405	8.0
2013 & Prior	7,833	14.2
Total commercial mortgage and agricultural property loans	$55,223	100.0%

Commercial Mortgage and Other Loans by Contractual Maturity Date

The following table sets forth the breakdown of our commercial mortgage and other loans portfolio by contractual maturity, as of the date indicated:

Vintage	December 31, 2020	
	Gross Carrying Value	% of Total
	($ in millions)	
Maturing in 2021	$ 2,604	4.6%
Maturing in 2022	3,822	6.8
Maturing in 2023	3,856	6.9
Maturing in 2024	5,790	10.3
Maturing in 2025	6,881	12.3
Maturing in 2026	6,270	11.2
Maturing in 2027	5,727	10.2
Maturing in 2028	5,280	9.4
Maturing in 2029	4,949	8.8
Maturing in 2030	3,634	6.5
Maturing in 2031	815	1.5
Maturing in 2032 and beyond	6,471	11.5
Total commercial mortgage and other loans	$56,099	100.0%

Commercial Mortgage and Other Loans Quality

The commercial mortgage and other loans portfolio is monitored on an ongoing basis. If certain criteria are met, loans are assigned to either of the following "watch list" categories:

(1) "Closely Monitored," which includes a variety of considerations, such as when loan metrics fall below acceptable levels, the borrower is not cooperative or has requested a material modification, or the portfolio manager has directed a change in category; or

(2) "Not in Good Standing," which includes loans in default or with a high probability of loss of principal, such as when the loan is in the process of foreclosure or the borrower is in bankruptcy.

Our workout and special servicing professionals manage the loans on the watch list.

The current expected credit loss ("CECL") allowance represents the Company's best estimate of expected credit losses over the remaining life of the assets. The determination of the allowance considers historical credit loss experience, current conditions, and reasonable and supportable forecasts. The allowance is calculated separately for commercial mortgage loans, agricultural mortgage loans, uncollateralized loans, other collateralized loans and residential property loans.

For commercial mortgage and agricultural mortgage loans, the allowance is calculated using an internally developed CECL model.

Key inputs to the CECL model include unpaid principal balances, internal credit ratings, annual expected loss factors, average lives of the loans adjusted for prepayment considerations, current and historical interest rate assumptions and other factors influencing the Company's view of the current stage of the economic cycle and future economic conditions. Subjective considerations include a review of whether historical loss experience is representative of current market conditions and the Company's view of the credit cycle. Model assumptions and factors are reviewed and updated as appropriate.

When individual loans no longer have the credit risk characteristics of the commercial or agricultural mortgage loan pools, they are removed from the pools and are evaluated individually for an allowance. The allowance is determined based on the outstanding loan balance less the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

The CECL allowance for other collateralized and uncollateralized loans carried at amortized cost is determined based on probability of default and loss given default assumptions by sector, credit quality and average lives of the loans.

The following table sets forth the change in allowance for credit losses for our commercial mortgage and other loans portfolio, as of the dates indicated:

	December 31, 2020	December 31, 2019
	(in millions)	
Allowance, beginning of year	$102	$ 106
Cumulative effect of adoption of ASU 2016-13	101	0
Addition to (release of) allowance for credit losses	1	(4)
Recoveries of amounts previously written-down	0	N/A
Other	3	0
Allowance, end of period	$207	$ 102

The allowance for credit losses as of December 31, 2020 increased compared to December 31, 2019, primarily due to the cumulative effect of adopting ASU 2016-13.

Equity Securities

The equity securities attributable to PFI excluding the Closed Block division consist principally of investments in Common and Preferred Stock of publicly-traded companies, as well as mutual fund shares. The following table sets forth the composition of our equity securities portfolio and the associated gross unrealized gains and losses, as of the dates indicated:

	December 31, 2020				December 31, 2019			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
				(in millions)				
Mutual funds	$1,481	$ 410	$ 5	$1,886	$ 817	$ 258	$ 1	$1,074
Other Common Stocks	2,201	1,013	62	3,152	2,429	1,091	57	3,463
Non-redeemable Preferred Stocks	54	22	6	70	51	3	5	49
Total equity securities, at fair value(1)	$3,736	$1,445	$73	$5,108	$3,297	$1,352	$63	$4,586

(1) Amounts presented exclude investments in private equity and hedge funds and other investments which are reported in "Other invested assets."

The net change in unrealized gains (losses) from equity securities attributable to PFI excluding Closed Block division still held at period end, recorded within "Other income (loss)," was $83 million and $586 million during the year ended December 31, 2020 and 2019, respectively.

Other Invested Assets

The following table sets forth the composition of "Other invested assets" attributable to PFI excluding the Closed Block division, as of the dates indicated:

	December 31, 2020	December 31, 2019
	(in millions)	
LPs/LLCs:		
Equity method:		
Private equity	$ 3,547	$2,740
Hedge funds	1,770	1,362
Real estate-related	1,078	792
Subtotal equity method	6,395	4,894
Fair value:		
Private equity	1,063	990
Hedge funds	1,111	1,233
Real estate-related	41	50
Subtotal fair value	2,215	2,273
Total LPs/LLCs	8,610	7,167
Real estate held through direct ownership(1)	1,176	1,350
Derivative instruments	199	73
Other(2)	731	620
Total other invested assets	$10,716	$9,210

(1) As of December 31, 2020 and 2019, real estate held through direct ownership had mortgage debt of $409 million and $537 million, respectively.
(2) Primarily includes leveraged leases and member and activity stock held in the Federal Home Loan Banks of New York and Boston. For additional information regarding our holdings in the Federal Home Loan Banks of New York and Boston, see Note 17 to the Consolidated Financial Statements.

Invested Assets of Other Entities and Operations

"Invested Assets of Other Entities and Operations" presented below includes investments held outside the general account and primarily represents investments associated with our investment management operations and derivative operations. Our derivative operations act on behalf of affiliates primarily to manage interest rate, foreign currency, credit and equity exposures. Assets within our investment management operations that are managed for third-parties and those assets classified as "Separate account assets" on our balance sheet are not included.

	December 31, 2020	December 31, 2019
	(in millions)	
Fixed maturities:		
Public, available-for-sale, at fair value(1)	$ 644	$ 587
Private, available-for-sale, at fair value	0	1
Fixed maturities, trading, at fair value(1)	212	1,161
Equity securities, at fair value	682	691
Commercial mortgage and other loans, at book value(2)	1,112	259
Other invested assets(1)	3,799	3,062
Short-term investments	36	17
Total investments	$6,485	$5,778

(1) As of December 31, 2020 and 2019, balances include investments in CLOs with fair value of $496 million and $438 million, respectively.
(2) Book value is generally based on unpaid principal balance, net of any allowance for credit losses, or at fair value, when the fair value option has been elected.

Fixed Maturities, Trading

"Fixed maturities, trading, at fair value" are primarily related to assets associated with consolidated variable interest entities ("VIEs") for which the Company is the investment manager. The assets of the consolidated VIEs are generally offset by liabilities for which the fair value option has been elected. For further information on these consolidated VIEs, see Note 4 to the Consolidated Financial Statements.

Commercial Mortgage and Other Loans

Our investment management operations include our commercial mortgage operations, which provide mortgage origination, investment management and servicing for our general account, institutional clients, the Federal Housing Administration and government-sponsored entities such as Fannie Mae and Freddie Mac.

The mortgage loans of our commercial mortgage operations are included in "Commercial mortgage and other loans." Derivatives and other hedging instruments related to our commercial mortgage operations are primarily included in "Other invested assets."

Other Invested Assets

"Other invested assets" primarily include assets of our derivative operations used to manage interest rate, foreign currency, credit, and equity exposures.

Furthermore, other invested assets include strategic investments made as part of our investment management operations. We make these strategic investments in real estate, as well as fixed income, public equity and real estate securities, including controlling interests. Certain of these investments are made primarily for purposes of co-investment in our managed funds and structured products. Other strategic investments are made with the intention to sell or syndicate to investors, including our general account, or for placement in funds and structured products that we offer and manage (seed investments). As part of our investment management operations, we also make loans to our managed funds that are secured by equity commitments from investors or assets of the funds. "Other invested assets" also includes certain assets in consolidated investment funds where the Company is deemed to exercise control over the funds.

Liquidity and Capital Resources

Overview

Liquidity refers to the ability to generate sufficient cash resources to meet the payment obligations of the Company. Capital refers to the long-term financial resources available to support the operations of our businesses, fund business growth, and provide a cushion to withstand adverse circumstances. Our ability to generate and maintain sufficient liquidity and capital depends on the profitability of our businesses, general economic conditions and our access to the capital markets and the alternate sources of liquidity and capital described herein. The principles of our liquidity and capital management framework are described in an enterprise wide policy that is reviewed and approved by our Board.

Our businesses are subject to comprehensive regulation and supervision by domestic and international regulators. These regulations currently include requirements (many of which are the subject of ongoing rule-making) relating to capital and liquidity management. For information on these regulatory initiatives and their potential impact on us, see "Business—Regulation" and "Risk Factors" included in Prudential Financial's 2020 Annual Report on Form 10-K.

COVID-19 and Related Market Disruptions

Beginning in the first quarter of 2020, broad market concerns over the impact of COVID-19 have led to significant volatility and disruptions in the global economy and financial markets. In 2020 we took the following significant management actions that impacted our liquidity and capital position, including in response to this macro environment and the global pandemic:

- We executed transactions to reduce our ongoing financing costs in August by issuing $1.3 billion of junior subordinated notes at interest rates of 3.70% and 4.125% and with maturities ranging from 2050 to 2060 and using the proceeds to redeem in September our $710 million 5.70% junior subordinated notes due in 2053 and our $575 million 5.75% junior subordinated notes due in 2052;
- In May, we augmented our alternative sources of liquidity by entering into a facility agreement with a Delaware trust, pursuant to which Prudential Financial may issue and sell to the trust at any time over a ten-year period up to $1.5 billion of 2.850% senior notes due May 15, 2030 and receive in exchange a corresponding amount of U.S. Treasury securities. The facility agreement is similar to our existing put option agreement that allows us to issue up to $1.5 billion of senior notes to a trust, which we established in 2013 and expires in 2023;
- We suspended Common Stock repurchases under our existing repurchase authorization beginning April 1, 2020, after repurchasing $500 million of shares of Prudential Financial's Common Stock in the first quarter of 2020. On February 4, 2021, the Board authorized the Company to repurchase, at management's discretion, up to $1.5 billion of its outstanding Common Stock during the period from January 1, 2021 through December 31, 2021;
- In March, we issued $1.5 billion of senior notes, with maturities ranging from 2026 to 2040, for general corporate purposes, including pre-funding part of our senior notes maturing through 2021. Of these senior notes, $500 million were issued in the form of "green bonds," where proceeds are allocated to existing or future investments in assets, businesses or projects that provide environmental benefits;
- In March, Prudential Legacy Insurance Company of New Jersey issued $800 million of surplus notes under its $4 billion reserve financing facility to enhance the statutory surplus of the Closed Block. Following a partial redemption in December 2020, the facility had $400 million of surplus notes outstanding as of December 31, 2020. Established in 2015, this facility is intended to alleviate any temporary impact to the Closed Block's surplus due to the timing difference between the mark to market on assets and the decision on the level of the policyholder dividend;
- We executed additional capital hedges that protect the capital position of our U.S. insurance subsidiaries against additional declines in the equity markets; and
- We accelerated our product diversification strategy and repriced certain products, which are expected to support the capital position of our insurance subsidiaries over time.

Liquidity. The Company continues to operate with significant liquid resources and maintains access to substantial alternative sources of liquidity, such as committed credit facilities, membership in the Federal Home Loan Banks, commercial paper programs, and agreements that allow us to issue senior debt to trust entities. As of December 31, 2020, Prudential Financial had highly liquid assets of $5.6 billion, excluding the net borrowings from an intercompany liquidity account. Nevertheless, adverse developments related to COVID-19 and associated market dislocations could strain our existing liquidity. For example, capital or liquidity needs at our subsidiaries resulting from market conditions or business operations could require us to use our highly liquid assets or tap alternative sources of liquidity, and our access to traditional funding sources, such as commercial paper borrowings, could become limited due to market conditions. Any need to increase the use of our alternative sources of liquidity may result in increased financial leverage on our balance sheet and negatively impact our credit and financial strength ratings or ratings outlooks.

Capital. As of December 31, 2020, all of our significant insurance subsidiaries maintained capital levels consistent with their ratings targets. However, market conditions could negatively impact the statutory capital of our insurance companies and constrain our overall capital flexibility. For example, adverse market conditions may lead to increased defaults and/or further deterioration in the credit quality or fair values of our investment portfolio, which would negatively impact the statutory capital of our insurance subsidiaries. Adverse market conditions could require us to take additional management actions for our insurance subsidiaries to maintain capital consistent with their ratings objectives, which may include redeploying financial resources from internal sources or using available external sources of capital or seeking additional sources.

Liquidity and Capital Risk Management. Effective and prudent liquidity and capital management is a priority across the organization. Management monitors the liquidity of Prudential Financial and its subsidiaries on a daily basis and projects borrowing and capital needs over a multi-year time horizon. We use a Risk Appetite Framework ("RAF") to ensure that all risks taken across the Company align with our capacity and willingness to take those risks. The RAF provides a dynamic assessment of capital and liquidity stress impacts, including scenarios similar to, and more severe than, those occurring due to COVID-19, and is intended to ensure that sufficient resources are available to absorb those impacts. We believe that our capital and liquidity resources are sufficient to satisfy the capital and liquidity requirements of Prudential Financial and its subsidiaries.

Capital

Our capital management framework is primarily based on statutory Risk-Based Capital ("RBC") and solvency margin measures. Due to our diverse mix of businesses and applicable regulatory requirements, we apply certain refinements to the framework that are designed to more appropriately reflect risks associated with our businesses on a consistent basis across the Company.

We believe Prudential Financial's capitalization and financial profile are consistent with its ratings targets. Our long-term senior debt rating targets for Prudential Financial are "A" for S&P, Moody's, and Fitch, and "a" for A.M. Best Company ("A.M. Best"). Our financial strength rating targets for our life insurance companies are "AA/Aa/AA" for S&P, Moody's and Fitch, respectively, and "A+" for A.M. Best. Some entities may currently be rated below these targets, and not all life insurance companies are rated by each of these rating agencies. See "—Ratings" below for a description of the potential impacts of ratings downgrades.

Capital Governance

Our capital management framework is ultimately reviewed and approved by our Board. The Board has authorized our Chairman and Chief Executive Officer and Vice Chair to approve certain capital actions on behalf of the Company and to further delegate authority with respect to capital actions to appropriate officers, up to specified limits. Any capital commitment that exceeds the authority granted to senior management must be separately authorized by the Board.

In addition, our Capital and Finance Committee ("CFC") reviews the use and allocation of capital above certain threshold amounts to promote the efficient use of capital, consistent with our strategic objectives, ratings aspirations and other goals and targets. This management committee provides a multi-disciplinary due diligence review of specific initiatives or transactions requiring the use of capital, including mergers and acquisitions. The CFC also reviews our annual capital plan (and updates to this plan), as well as our capital, liquidity and financial position, borrowing plans, and related matters prior to the discussion of these items with the Board.

Capitalization

The primary components of the Company's capitalization consist of equity and outstanding capital debt, including junior subordinated debt. As shown in the table below, as of December 31, 2020, the Company had $50.2 billion in capital, all of which was available to support the aggregate capital requirements of its businesses and its Corporate and Other operations. Based on our assessment of these businesses and operations, we believe this level of capital is consistent with our ratings targets.

	December 31,	
	2020	**2019**
	(in millions)	
Equity(1)	$36,687	$39,076
Junior subordinated debt (including hybrid securities)	7,615	7,575
Other capital debt	5,856	7,001
Total capital	$50,158	$53,652

(1) Amounts attributable to Prudential Financial, excluding AOCI.

Insurance Regulatory Capital

We manage PICA, The Prudential Life Insurance Company, Ltd. ("Prudential of Japan"), Gibraltar Life, and other significant insurance subsidiaries to regulatory capital levels consistent with our "AA" ratings targets. We utilize the RBC ratio as a primary measure of the capital adequacy of our domestic insurance subsidiaries and the solvency margin ratio as a primary measure of the capital adequacy of our Japanese insurance subsidiaries.

RBC is calculated based on statutory financial statements and risk formulas consistent with the practices of the NAIC. RBC considers, among other things, risks related to the type and quality of the invested assets, insurance-related risks associated with an insurer's products and liabilities, interest rate risks and general business risks. RBC ratio calculations are intended to assist insurance regulators in measuring an insurer's solvency and ability to pay future claims. The reporting of RBC measures is not intended for the purpose of ranking any insurance company or for use in connection with any marketing, advertising or promotional activities, but is available to the public.

The table below presents the RBC ratios of our most significant domestic insurance subsidiaries as of December 31, 2019, the most recent statutory fiscal year-end for these subsidiaries for which RBC information has been filed:

	Ratio
PICA(1)	411%
Prudential Annuities Life Assurance Corporation ("PALAC")	484%
Composite Major U.S. Insurance Subsidiaries(2)	426%

(1) Includes Prudential Retirement Insurance and Annuity Company ("PRIAC"), Pruco Life Insurance Company ("Pruco Life"), Pruco Life Insurance Company of New Jersey ("PLNJ"), which is a subsidiary of Pruco Life, and Prudential Legacy Insurance Company of New Jersey ("PLIC").
(2) Includes PICA and its subsidiaries, as noted above, and PALAC. Composite RBC is not reported to regulators and is based on the summation of total adjusted capital and risk charges for the included companies as determined under statutory accounting and RBC guidance to calculate a composite numerator and denominator, respectively, for purposes of calculating the composite ratio.

Although not yet filed, we expect our RBC ratios as of December 31, 2020 to be above our "AA" financial strength target levels.

Similar to the RBC ratios that are employed by U.S. insurance regulators, regulatory authorities in the international jurisdictions in which we operate generally establish some form of minimum solvency margin requirements for insurance companies based on local statutory accounting practices. These solvency margins are a primary measure of the capital adequacy of our international insurance operations. Maintenance of our solvency margins at certain levels is also important to our competitive positioning, as in certain jurisdictions, such as Japan, these solvency margins are required to be disclosed to the public and therefore impact the public perception of an insurer's financial strength.

The table below presents the solvency margin ratios of our most significant international insurance subsidiaries as of September 30, 2020, the most recent date for which this information is available:

	Ratio
Prudential of Japan consolidated(1)	907%
Gibraltar Life consolidated(2)	956%

(1) Includes Prudential Trust Co., Ltd., a subsidiary of Prudential of Japan.
(2) Includes Prudential Gibraltar Financial Life Insurance Co., Ltd. ("PGFL"), a subsidiary of Gibraltar Life.

Although not yet filed, we expect the solvency margin ratio for each of these subsidiaries to be greater than 700% (3.5 times the regulatory required minimums) as of December 31, 2020.

All of our domestic and significant international insurance subsidiaries have capital levels that substantially exceed the minimum level required by applicable insurance regulations. However, as discussed above, market conditions could negatively impact the statutory capital of our insurance companies and constrain our overall capital flexibility. Our regulatory capital levels also may be affected in the future by changes to the applicable regulations, proposals for which are currently under consideration by both domestic and international insurance regulators. For additional information on the calculation of RBC and solvency margin ratios, as well as regulatory minimums, see Note 19 to the Consolidated Financial Statements.

Captive Reinsurance Companies

We use captive reinsurance companies to more effectively manage our reserves and capital on an economic basis and to enable the aggregation and transfer of risks. Our captive reinsurance companies assume business from affiliates only. To support the risks they assume, our captives are capitalized to a level we believe is consistent with the "AA" financial strength rating targets of our insurance subsidiaries. All of our captives are subject to internal policies governing their activities. In the normal course of business, we contribute capital to the captives to support business growth and other needs. Prudential Financial has also entered into support agreements with several of the captives in connection with financing arrangements. For a description of captive reinsurance company financing activities, see below under "—Financing Activities—Subsidiary Borrowings—Term and Universal Life Reserve Financing."

Shareholder Distributions

Share Repurchase Program and Shareholder Dividends

In December 2019, the Board authorized the Company to repurchase, at management's discretion, up to $2.0 billion of its outstanding Common Stock during the period from January 1, 2020 through December 31, 2020. We suspended Common Stock repurchases under this authorization beginning April 1, 2020, after purchasing $500 million of shares of Prudential Financial's Common Stock in the first quarter of 2020. On February 4, 2021, the Board authorized the Company to repurchase, at management's discretion, up to $1.5 billion of its outstanding Common Stock during the period from January 1, 2021 through December 31, 2021.

In general, the timing and amount of share repurchases are determined by management based on market conditions and other considerations, including any increased capital needs of our businesses due to, among other things, credit migration and losses in our investment portfolio, changes in regulatory capital requirements and opportunities for growth and acquisitions. Repurchases may be executed in the open market, through derivative, accelerated repurchase and other negotiated transactions and through plans designed to comply with Rule 10b5-1(c) under the Securities Exchange Act of 1934.

The following table sets forth information about declarations of Common Stock dividends, as well as repurchases of shares of Prudential Financial's Common Stock, for each of the quarterly periods in 2020 and for the prior four years:

	Dividend Amount		Shares Repurchased	
Quarterly period ended:	**Per Share**	**Aggregate**	**Shares**	**Total Cost**
	(in millions, except per share data)			
December 31, 2020	$1.10	$442	0.0	$ 0
September 30, 2020	$1.10	$441	0.0	$ 0
June 30, 2020	$1.10	$441	0.0	$ 0
March 31, 2020	$1.10	$445	6.7	$500

	Dividend Amount		Shares Repurchased	
Year ended:	**Per Share**	**Aggregate**	**Shares**	**Total Cost**
	(in millions, except per share data)			
December 31, 2020	$4.40	$1,769	6.7	$ 500
December 31, 2019	$4.00	$1,644	27.2	$2,500
December 31, 2018	$3.60	$1,525	14.9	$1,500
December 31, 2017	$3.00	$1,300	11.5	$1,250
December 31, 2016	$2.80	$1,245	25.1	$2,000

In addition, on February 4, 2021, Prudential Financial's Board of Directors declared a cash dividend of $1.15 per share of Common Stock, payable on March 11, 2021 to shareholders of record as of February 16, 2021.

Liquidity

Liquidity management and stress testing are performed on a legal entity basis as the ability to transfer funds between subsidiaries is limited due in part to regulatory restrictions. Liquidity needs are determined through daily and quarterly cash flow forecasting at the holding company and within our operating subsidiaries. We seek to maintain a minimum balance of highly liquid assets to ensure that adequate liquidity is available at Prudential Financial to cover fixed expenses in the event that we experience reduced cash flows from our operating subsidiaries at a time when access to capital markets is also not available.

We seek to mitigate the risk of having limited or no access to financing due to stressed market conditions by generally pre-funding debt in advance of maturity. During 2020, we issued $1.5 billion of senior notes, of which $1 billion were issued for general corporate purposes, including pre-funding in part our senior notes maturing through 2021. We mitigate the refinancing risk associated with our debt that is used to fund operating needs by matching the term of debt with the assets financed. To ensure adequate liquidity in stress scenarios, stress testing is performed for our major operating subsidiaries. We seek to further mitigate liquidity risk by maintaining our access to alternative sources of liquidity, as discussed below.

Liquidity of Prudential Financial

The principal sources of funds available to Prudential Financial, the parent holding company, are dividends, returns of capital and loans from subsidiaries, and proceeds from debt issuances and certain stock-based compensation activity. These sources of funds may be supplemented by Prudential Financial's access to the capital markets as well as the "—Alternative Sources of Liquidity" described below.

The primary uses of funds at Prudential Financial include servicing debt, making capital contributions and loans to subsidiaries, making acquisitions, paying declared shareholder dividends and repurchasing outstanding shares of Common Stock executed under authority from the Board.

As of December 31, 2020, Prudential Financial had highly liquid assets with a carrying value totaling $6,479 million, an increase of $1,375 million from December 31, 2019. Highly liquid assets predominantly include cash, short-term investments, U.S. Treasury securities, obligations of other U.S. government authorities and agencies, and/or foreign government bonds. We maintain an intercompany liquidity account that is designed to optimize the use of cash by facilitating the lending and borrowing of funds between Prudential Financial and its subsidiaries on a daily basis. Excluding the net borrowings from this intercompany liquidity account, Prudential Financial had highly liquid assets of $5,560 million as of December 31, 2020, an increase of $1,499 million from December 31, 2019.

The following table sets forth Prudential Financial's principal sources and uses of highly liquid assets, excluding net borrowings from our intercompany liquidity account, for the periods indicated:

Sources and Uses of Holding Company Highly Liquid Assets	Year Ended December 31, 2020	Year Ended December 31, 2019
	(in millions)	
Highly Liquid Assets, beginning of period	**$ 4,061**	**$ 5,548**
Dividends and/or returns of capital from subsidiaries(1)	3,698	3,282
Affiliated loans/(borrowings)—(capital activities)(2)	(1,017)	818
Capital contributions to subsidiaries(3)	(386)	(521)
Total Business Capital Activity	**2,295**	**3,579**
Share repurchases	(500)	(2,500)
Common stock dividends(4)	(1,766)	(1,641)
Acquisition/Disposition Activity(5)	1,627	(1,831)
Total Share Repurchases, Dividends and Acquisition/Disposition Activity	**(639)**	**(5,972)**
Proceeds from the issuance of debt	2,768	2,465
Repayments of debt	(2,467)	(1,114)
Total Debt Activity	**301**	**1,351**
Proceeds from stock-based compensation and exercise of stock options	293	418
Interest income from subsidiaries on intercompany agreements, net of interest paid	223	199
Swap terminations(7)	(190)	(92)
Net income tax receipts & payments	482	103
Interest paid on external debt	(988)	(952)
Affiliated (borrowings)/loans—(operating activities)(6)	(283)	(115)
Other, net(7)	5	(6)
Total Other Activity	**(458)**	**(445)**
Net increase (decrease) in highly liquid assets	**1,499**	**(1,487)**
Highly Liquid Assets, end of period	**$ 5,560**	**$ 4,061**

(1) Includes $470 million in the form of in-kind dividends in 2020. See "Item 15—Schedule II—Notes to Condensed Financial Information of Registrant—Dividends and Returns of Capital" included in Prudential Financial's 2020 Annual Report on Form 10-K for dividends and returns of capital by subsidiary.
(2) Represents the investment and deployment of capital to and from our businesses in the form of loans. 2020 includes net lending of $1,017 million from international insurance subsidiaries including $470 million received by PFI in the form of the extinguishment of debt held by international subsidiaries (offset by the in-kind dividends referred to in footnote 1 above). 2019 includes net receipts of $818 million from international subsidiaries.
(3) 2020 primarily includes capital contributions of $217 million to PGIM, and $170 million to international insurance subsidiaries. 2019 includes capital contributions of $200 million to PICA, $180 million to international insurance subsidiaries, $73 million to PGIM, and $68 million to Assurance IQ.
(4) Includes cash payments made on dividends declared in prior periods.
(5) 2020 represents the net proceeds from the sale of POK that were distributed to PFI. 2019 represents costs related to the acquisition of Assurance IQ, including $1,758 million of purchase consideration and $73 million of compensation expense, which is recognized over the requisite service periods.
(6) Represents loans to and from affiliated subsidiaries to support business operating needs.
(7) Prior period amounts have been updated to conform to current period presentation.

Dividends and Returns of Capital from Subsidiaries

Domestic insurance subsidiaries. During 2020, Prudential Financial received returns of capital of $760 million from PALAC, dividends of $500 million from PICA and $120 million from Prudential Annuities Holding Company.

International insurance subsidiaries. During 2020, Prudential Financial received dividends of $3,531 million from its international insurance subsidiaries, which includes $1,627 million net proceeds from the sale of POK and $470 million of in-kind dividends in the form of the extinguishment of debt held by international insurance subsidiaries. In addition to paying Common Stock dividends, our international insurance operations may return capital to Prudential Financial through or facilitated by other means, such as the repayment of preferred stock obligations held by Prudential Financial or other affiliates, affiliated lending, affiliated derivatives and reinsurance with U.S.- and Bermuda-based affiliates.

Other subsidiaries. During 2020, Prudential Financial received dividends and returns of capital of $399 million from PGIM subsidiaries and dividends of $14 million from other subsidiaries.

Restriction on dividends and returns of capital from subsidiaries. Our insurance companies are subject to limitations on the payment of dividends and other transfers of funds to Prudential Financial and other affiliates under applicable insurance law and regulation. Further, as discussed above, recent market conditions could negatively impact capital positions of our insurance companies, which could further restrict their ability to pay dividends. More generally, the payment of dividends by any of our subsidiaries is subject to declaration by their Board of Directors and can be affected by market conditions and other factors.

With respect to our domestic insurance subsidiaries, PICA is permitted to pay ordinary dividends based on calculations specified under New Jersey insurance law, subject to prior notification to the New Jersey Department of Banking and Insurance ("NJDOBI"). Any distributions above this amount in any twelve-month period are considered to be "extraordinary" dividends, and the approval of the NJDOBI is required prior to payment. The laws regulating dividends of the states where our other domestic insurance companies are domiciled are similar, but not identical, to New Jersey's.

Capital redeployment from our international insurance subsidiaries is subject to local regulatory requirements in the international jurisdictions in which they operate. Our most significant international insurance subsidiaries, Prudential of Japan and Gibraltar Life, are permitted to pay common stock dividends based on calculations specified by Japanese insurance law, subject to prior notification to the FSA. Dividends in excess of these amounts and other forms of capital distribution require the prior approval of the FSA. The regulatory fiscal year end for both Prudential of Japan and Gibraltar Life is March 31, 2021, after which time the common stock dividend amount permitted to be paid without prior approval from the FSA can be determined.

The ability of our PGIM subsidiaries and the majority of our other operating subsidiaries to pay dividends is largely unrestricted from a regulatory standpoint.

See Note 19 to the Consolidated Financial Statements for information on specific dividend restrictions.

Liquidity of Insurance Subsidiaries

We manage the liquidity of our insurance operations to ensure stable, reliable and cost-effective sources of cash flows to meet all of our obligations. Liquidity within each of our insurance subsidiaries is provided by a variety of sources, including portfolios of liquid assets. The investment portfolios of our subsidiaries are integral to the overall liquidity of our insurance operations. We segment our investment portfolios and employ an asset/liability management approach specific to the requirements of each of our product lines. This enhances the discipline applied in managing the liquidity, as well as the interest rate and credit risk profiles, of each portfolio in a manner consistent with the unique characteristics of the product liabilities.

Liquidity is measured against internally-developed benchmarks that take into account the characteristics of both the asset portfolio and the liabilities that they support. We consider attributes of the various categories of liquid assets (for example, type of asset and credit quality) in calculating internal liquidity measures to evaluate our insurance operations' liquidity under various stress scenarios, including company-specific and market-wide events. We continue to believe that cash generated by ongoing operations and the liquidity profile of our assets provide sufficient liquidity under reasonably foreseeable stress scenarios for each of our insurance subsidiaries.

Cash Flow

The principal sources of liquidity for our insurance subsidiaries are premiums, investment and fee income, investment maturities, sales of investments, and sales associated with our insurance and annuity operations, as well as internal and external borrowings. The principal uses of liquidity include benefits, claims and dividends paid to policyholders, and payments to policyholders and contractholders in connection with surrenders, withdrawals and net policy loan activity. Other uses of liquidity may include commissions, general and administrative expenses, purchases of investments, the payment of dividends to the parent holding company, hedging and reinsurance activity and payments in connection with financing activities.

In each of our major insurance subsidiaries, we believe that the cash flows from operations are adequate to satisfy current liquidity requirements. The continued adequacy of this liquidity will depend upon factors such as future securities market conditions, changes in interest rate levels, policyholder perceptions of our financial strength, policyholder behavior, catastrophic events and the relative safety and attractiveness of competing products, each of which could lead to reduced cash inflows or increased cash outflows. Our insurance operations' cash flows from investment activities result from repayments of principal, proceeds from maturities and sales of invested assets and investment income, net of amounts reinvested. The primary liquidity risks with respect to these cash flows are the risk of default by debtors or bond insurers, our counterparties' willingness to extend repurchase and/or securities lending arrangements, commitments to invest and market volatility. We closely manage these risks through our credit risk management process and regular monitoring of our liquidity position.

Domestic insurance operations. In managing the liquidity of our domestic insurance operations, we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions when selecting assets to support these contractual obligations. We use surrender charges and other contract provisions to mitigate the extent, timing and profitability impact of withdrawals of funds by customers. The following table sets forth the liabilities for future policy benefits and policyholders' account balances of certain of our domestic insurance subsidiaries as of the dates indicated:

	December 31,	
	2020	2019
	(in billions)	
PICA	$ 227.2	$216.7
PLIC	50.9	51.8
Pruco Life	56.7	48.1
PRIAC	29.0	26.1
PALAC	27.7	19.1
Other(1)	(102.9)	(96.0)
Total future policy benefits and policyholders' account balances(2)	$ 288.6	$265.8

(1) Includes the impact of intercompany eliminations.
(2) Amounts are reflected gross of affiliated reinsurance recoverables.

The liabilities presented above are primarily supported by invested assets in our general account. As noted above, when selecting assets to support these contractual obligations, we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions. As a result, assets will include both liquid assets, as discussed below, and other assets that we believe adequately support our liabilities.

For PICA and other subsidiaries, the liabilities presented above primarily include annuity reserves and deposit liabilities and individual life insurance policy reserves. Individual life insurance policies may impose surrender charges and policyholders may be subject to a new underwriting process in order to obtain a new insurance policy. PICA's reserves for group annuity contracts primarily relate to pension risk transfer contracts, which are generally not subject to early withdrawal. For our individual annuity contracts, to encourage persistency, most of our variable and fixed annuities have surrender or withdrawal charges for a specified number of years. In addition, certain fixed annuities impose a market value adjustment if the invested amount is not held to maturity. The living benefit features of our variable annuities also encourage persistency because the potential value of the living benefit is fully realized only if the contract persists.

For PRIAC, the liabilities presented above primarily include reserves for stable value contracts. Although many of these contracts are subject to discretionary withdrawal, withdrawals are typically at the market value of the underlying assets. Risk is further reduced by the high persistency of clients driven in part by our competitive position in our target markets and contractual provisions such as deferred payouts.

Gross account withdrawals for our domestic insurance operations' products in 2020 were generally consistent with our assumptions in asset/liability management, and the associated cash outflows did not have a material adverse impact on our overall liquidity.

International insurance operations. As with our domestic operations, in managing the liquidity of our international insurance operations, we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions in selecting assets to support these contractual obligations. The following table sets forth the liabilities for future policy benefits and policyholders' account balances of certain of our international insurance subsidiaries as of the dates indicated:

	December 31,	
	2020	2019
	(in billions)	
Prudential of Japan(1)	$ 63.3	$ 56.4
Gibraltar Life(2)	114.6	108.0
All other international insurance subsidiaries(3)	1.5	15.4
Total future policy benefits and policyholders' account balances(4)	$179.4	$179.8

(1) As of December 31, 2020 and 2019, $18.3 billion and $15.7 billion, respectively, of the insurance-related liabilities for Prudential of Japan are associated with U.S. dollar-denominated products that are coinsured to our domestic insurance operations and supported by U.S. dollar-denominated assets. As of December 31, 2020, $1.4 billion of the insurance-related liabilities for Prudential of Japan are primarily associated with yen- and U.S. dollar-denominated products that are coinsured to Gibraltar Re, our Bermuda-based reinsurance affiliate, and primarily supported by yen- and U.S. dollar-denominated assets. As of December 31, 2019, $0.7 billion of the insurance-related liabilities for Prudential of Japan are primarily associated with yen-denominated products that are coinsured to Gibraltar Re and primarily supported by yen-denominated assets.
(2) Includes PGFL. As of December 31, 2020 and 2019, $7.1 billion and $5.5 billion, respectively, of the insurance-related liabilities for PGFL are associated with U.S. dollar-denominated products that are coinsured to our domestic insurance operations and supported by U.S. dollar-denominated assets. As of December 31, 2020, $4.5 billion of the insurance-related liabilities for Gibraltar Life are primarily associated with yen- and U.S. dollar-denominated products that are coinsured to Gibraltar Re and primarily supported by yen- and U.S. dollar-denominated assets. As of December 31, 2019, $2.0 billion of the insurance-related liabilities for Gibraltar Life are primarily associated with yen-denominated products that are coinsured to Gibraltar Re and primarily supported by yen-denominated assets.
(3) Represents our international insurance operations, excluding Japan.
(4) Amounts are reflected gross of affiliated reinsurance recoverables.

The liabilities presented above are primarily supported by invested assets in our general account. When selecting assets to support these contractual obligations, we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions. As a result, assets will include both liquid assets, as discussed below, and other assets that we believe adequately support our liabilities.

We believe most of the longer-term recurring pay individual life insurance policies sold by our Japanese operations do not have significant withdrawal risk because policyholders may incur surrender charges and must undergo a new underwriting process to obtain a new insurance policy.

Gibraltar Life sells fixed annuities, denominated in U.S. and Australian dollars, that may be subject to increased surrenders should the yen depreciate in relation to these currencies or if interest rates in Australia and the U.S. decline relative to Japan. A significant portion of the liabilities associated with these contracts include a market value adjustment feature, which mitigates the profitability impact from surrenders. As of December 31, 2020, products with a market value adjustment feature represented $26.1 billion of our Japan operations' insurance-related liabilities, which included $22.8 billion attributable to non-yen denominated fixed annuities.

Liquid Assets

Liquid assets include cash and cash equivalents, short-term investments, U.S. Treasury securities, fixed maturities that are not designated as held-to-maturity and public equity securities. In addition to access to substantial investment portfolios, our insurance companies' liquidity is managed through access to a variety of instruments available for funding and/or managing cash flow mismatches, including from time to time those arising from claim levels in excess of projections. Our ability to utilize assets and liquidity between our subsidiaries is limited by regulatory and other constraints. We believe that ongoing operations and the liquidity profile of our assets provide sufficient liquidity under reasonably foreseeable stress scenarios for each of our insurance subsidiaries.

The following table sets forth the fair value of certain of our domestic insurance operations' portfolio of liquid assets, as of the dates indicated:

	December 31, 2020						
	Prudential Insurance(1)	PLIC	PRIAC	PALAC	Pruco Life	Total	December 31, 2019
				(in billions)			
Cash and short-term investments	$ 6.4	$ 0.4	$ 0.7	$ 1.4	$0.5	$ 9.4	$ 11.9
Fixed maturity investments(2):							
High or highest quality	138.2	37.4	21.2	18.9	6.7	222.4	201.3
Other than high or highest quality	9.4	3.5	1.3	0.8	0.4	15.4	12.2
Subtotal	147.6	40.9	22.5	19.7	7.1	237.8	213.5
Public equity securities, at fair value	0.4	2.3	0.1	0.3	0.1	3.2	2.5
Total	$154.4	$43.6	$23.3	$21.4	$7.7	$250.4	$227.9

(1) Represents a legal entity view and as such includes both domestic and international sleeves.
(2) Excludes fixed maturities designated as held-to-maturity. Credit quality is based on NAIC or equivalent rating.

The following table sets forth the fair value of our international insurance operations' portfolio of liquid assets, as of the dates indicated:

	December 31, 2020				
	Prudential of Japan	Gibraltar Life(1)	All Other(2)	Total	December 31, 2019
			(in billions)		
Cash and short-term investments	$ 1.3	$ 3.4	$1.3	$ 6.0	$ 5.0
Fixed maturity investments(3):					
High or highest quality(4)	44.1	97.4	6.2	147.7	157.2
Other than high or highest quality	0.7	2.2	1.9	4.8	5.4
Subtotal	44.8	99.6	8.1	152.5	162.6
Public equity securities	1.7	1.9	0.0	3.6	4.7
Total	$47.8	$104.9	$9.4	$162.1	$172.3

(1) Includes PGFL.
(2) Represents our international insurance operations, excluding Japan.
(3) Excludes fixed maturities designated as held-to-maturity. Credit quality is based on NAIC or equivalent rating.
(4) As of December 31, 2020, $112.9 billion, or 76%, were invested in government or government agency bonds.

Given the size and liquidity profile of our investment portfolios, we believe that claim experience, including policyholder withdrawals and surrenders, varying from our projections does not constitute a significant liquidity risk. Our asset/liability management process takes into account the expected maturity of investments and expected claim payments as well as the specific nature and risk profile of the liabilities. To the extent we need to pay claims in excess of projections, we may borrow temporarily or sell investments sooner than anticipated to pay these claims, which may result in increased borrowing costs or realized investment gains or losses, including from changes in interest rates or credit spreads. The payment of claims and sale of investments earlier than anticipated would have an impact on the reported level of cash flow from operating, investing, and financing activities, in our financial statements. Historically, there has been no significant variation between the expected maturities of our investments and the payment of claims.

Liquidity associated with other activities

Hedging activities associated with Individual Annuities

For the portion of our Individual Annuities' ALM strategy executed through hedging, as well as the capital hedge program, we enter into a range of exchange-traded, cleared and other OTC equity and interest rate derivatives in order to hedge certain capital market risks related to more severe market conditions. For a full discussion of our Individual Annuities' risk management strategy, see "—Results of Operations by Segment—U.S. Businesses—U.S. Individual Solutions Division—Individual Annuities." This portion of our Individual Annuities' ALM strategy and capital hedge program requires access to liquidity to meet payment obligations relating to these derivatives, such as payments for periodic settlements, purchases, maturities and terminations. These liquidity needs can vary materially due to, among other items, changes in interest rates, equity markets, mortality and policyholder behavior.

The hedging portion of our Individual Annuities' ALM strategy and capital hedge program may also result in derivative related collateral postings to (when we are in a net pay position) or from (when we are in a net receive position) counterparties. The net collateral position depends on changes in interest rates and equity markets related to the amount of the exposures hedged. Depending on market conditions, the collateral posting requirements can result in material liquidity needs when we are in a net pay position. As of December 31, 2020, the derivatives comprising the hedging portion of our ALM strategy and capital hedge program were in a net receive position of $3.4 billion compared to a net receive position of $4.7 billion as of December 31, 2019. The change in collateral position was primarily driven by a negative impact from increasing equities, partially offset by decreasing interest rates.

Foreign exchange hedging activities

We employ various hedging strategies to manage potential exposure to foreign currency exchange rate movements, particularly those associated with the yen. Our overall yen hedging strategy calibrates the hedge level to preserve the relative contribution of our yen-based business to the Company's overall return on equity on a leverage neutral basis. The hedging strategy includes two primary components:

Income Hedges—We hedge a portion of our prospective yen-based earnings streams by entering into external forward currency derivative contracts that effectively fix the currency exchange rates for that portion of earnings, thereby reducing volatility from foreign currency exchange rate movements. As of December 31, 2020, we have hedged 100%, 72%, and 31%, of expected yen-based earnings for 2021, 2022 and 2023, respectively.

Equity Hedges—We hold both internal and external hedges primarily to hedge our USD-equivalent equity. These hedges also mitigate volatility in the solvency margins of yen-based subsidiaries resulting from changes in the market value of their USD-denominated investments hedging our USD-equivalent equity attributable to changes in the yen-USD exchange rate.

For additional information on our hedging strategy, see "—Results of Operations—Impact of Foreign Currency Exchange Rates."

Cash settlements from these hedging activities result in cash flows between subsidiaries of Prudential Financial and either international-based subsidiaries or external parties. The cash flows are dependent on changes in foreign currency exchange rates and the notional amount of the exposures hedged. For example, a significant yen depreciation over an extended period of time could result in net cash inflows, while a significant yen appreciation could result in net cash outflows. The following tables set forth information about net cash settlements and the net asset or liability resulting from these hedging activities related to the yen and other currencies for the periods indicated:

	Year ended December 31,	
Cash Settlements: Received (Paid)	**2020**	**2019**
	(in millions)	
Income Hedges (External)(1)	$ 74	$ 67
Equity Hedges:		
Internal(2)	188	432
External(3)	230	143
Total Equity Hedges	418	575
Total Cash Settlements	$492	$642

	As of December 31,	
Assets (Liabilities):	**2020**	**2019**
	(in millions)	
Income Hedges (External)(4)	$ 3	$ 60
Equity Hedges:		
Internal(2)	291	506
External(5)	(56)	43
Total Equity Hedges(6)	235	549
Total Assets (Liabilities)	$238	$609

(1) Includes non-yen related cash settlements of $60 million, primarily denominated in Brazilian real, Australian dollar and Chilean peso and $41 million, primarily denominated in Australian dollar, Korean won and Brazilian real for the year ended December 31, 2020 and 2019, respectively.
(2) Represents internal transactions between international-based and U.S.-based entities. Amounts noted are from the U.S.-based entities' perspectives.
(3) Includes non-yen related cash settlements of $23 million and $17 million, denominated in Korean won for the year ended December 31, 2020 and 2019, respectively.
(4) Includes non-yen related assets of $2 million, primarily denominated in Brazilian real, Chilean peso and Australian dollar and assets of $37 million, primarily denominated in Korean won, Australian dollar and Chilean peso, as of December 31, 2020 and 2019, respectively.
(5) Includes non-yen related assets of $1 million, denominated in Korean won, as of December 31, 2019.
(6) As of December 31, 2020, approximately $324 million, $117 million and $(207) million of the net market values are scheduled to settle in 2021, 2022 and thereafter, respectively. The net market value of the assets (liabilities) will vary with changing market conditions to the extent there are no corresponding offsetting positions.

PGIM operations

The principal sources of liquidity for our fee-based PGIM businesses include asset management fees, commercial mortgage origination and servicing fees, and internal and external funding facilities. The principal uses of liquidity include general and administrative expenses, facilitating our commercial mortgage loan business, and distributions of dividends and returns of capital to Prudential Financial. The primary liquidity risks for our fee-based PGIM businesses relate to their profitability, which is impacted by market conditions, our investment management performance and client redemptions. We believe the cash flows from our fee-based PGIM businesses are adequate to satisfy the current liquidity requirements of these operations, as well as requirements that could arise under reasonably foreseeable stress scenarios, which are monitored through the use of internal measures.

The principal sources of liquidity for our co- and seed investments held in our PGIM businesses are cash flows from investments, the ability to liquidate investments, borrowing lines from internal sources, including Prudential Financial and Prudential Funding, LLC ("Prudential Funding"), a wholly-owned subsidiary of PICA, and external sources, including PGIM's limited-recourse credit facility. The principal use of liquidity for our co- and seed investments includes making investments to support business growth and paying interest expense from the internal and external borrowings used to fund those investments. The primary liquidity risks include the inability to sell assets in a timely manner, declines in the value of assets and credit defaults. There have been no material changes to the liquidity position of our PGIM operations since December 31, 2020.

Alternative Sources of Liquidity

In addition to asset-based financing as discussed below, Prudential Financial and certain subsidiaries have access to other sources of liquidity, including syndicated, unsecured committed credit facilities, membership in the Federal Home Loan Banks, commercial paper programs, and a put option agreement. In May 2020, we entered into a facility agreement with a Delaware trust, pursuant to which Prudential Financial may issue and sell to the trust at any time over a ten-year period up to $1.5 billion of senior notes due May 15, 2030 and receive in exchange a corresponding amount of U.S. Treasury securities, thereby augmenting our alternative sources of liquidity. For more information on these sources of liquidity, see Note 17 to the Consolidated Financial Statements.

Asset-based Financing

We conduct asset-based or secured financing within our insurance and other subsidiaries, including transactions such as securities lending, repurchase agreements and mortgage dollar rolls, to earn spread income, to borrow funds, or to facilitate trading activity. These programs are primarily driven by portfolio holdings of securities that are lendable based on counterparty demand for these securities in the marketplace. The collateral received in connection with these programs is primarily used to purchase securities in the short-term spread portfolios of our insurance entities. Investments held in the short-term spread portfolios include cash and cash equivalents, short-term investments (primarily corporate bonds), mortgage loans and fixed maturities (primarily collateralized loan obligations and other structured securities), with a weighted average life at time of purchase by the short-term portfolios of four years or less. Floating rate assets comprise the majority of our short-term spread portfolio. These short-term portfolios are subject to specific investment policy statements, which among other things, do not allow for significant asset/liability interest rate duration mismatch.

The following table sets forth our liabilities under asset-based or secured financing programs as of the dates indicated:

	December 31, 2020			December 31, 2019		
	PFI Excluding Closed Block Division	Closed Block Division	Consolidated	PFI Excluding Closed Block Division	Closed Block Division	Consolidated
	($ in millions)					
Securities sold under agreements to repurchase	$ 8,092	$2,802	$10,894	$ 6,834	$2,847	$ 9,681
Cash collateral for loaned securities	3,379	120	3,499	3,228	986	4,214
Securities sold but not yet purchased	2	0	2	0	0	0
Total(1)(2)	$11,473	$2,922	$14,395	$10,062	$3,833	$13,895
Portion of above securities that may be returned to the Company overnight requiring immediate return of the cash collateral(3)	$10,463	$2,922	$13,385	$10,062	$3,833	$13,895
Weighted average maturity, in days(3)	28	N/A		N/A	N/A	

(1) The daily weighted average outstanding balance for the year ended December 31, 2020 and 2019 was $11,464 million and $10,524 million, respectively, for PFI excluding the Closed Block division, and $3,290 million and $4,152 million, respectively, for the Closed Block division.
(2) Includes utilization of external funding facilities for PGIM's commercial mortgage origination business.
(3) Excludes securities that may be returned to the Company overnight. "N/A" reflects that all outstanding balances may be returned to the Company overnight.

As of December 31, 2020, our domestic insurance entities had assets eligible for the asset-based or secured financing programs of $132.0 billion, of which $14.1 billion were on loan. Taking into account market conditions and outstanding loan balances as of December 31, 2020, we believe approximately $16.1 billion of the remaining eligible assets are readily lendable, including approximately $11.1 billion relating to PFI excluding the Closed Block division, of which $2.9 billion relates to certain separate accounts and may only be used for financing activities related to those accounts, and the remaining $5.0 billion relating to the Closed Block division.

Financing Activities

As of December 31, 2020, total short-term and long-term debt of the Company on a consolidated basis was $20.6 billion, an increase of $0.1 billion from December 31, 2019. The following table sets forth total consolidated borrowings of the Company as of the dates indicated. We may, from time to time, seek to redeem or repurchase our outstanding debt securities through open market purchases, individually negotiated transactions or otherwise. Any such actions will depend on prevailing market conditions, our liquidity position and other factors.

	December 31, 2020			December 31, 2019		
	Prudential Financial	Subsidiaries	Consolidated	Prudential Financial	Subsidiaries	Consolidated
	(in millions)					
General obligation short-term debt:						
Commercial paper	$ 25	$ 355	$ 380	$ 25	$ 524	$ 549
Current portion of long-term debt	399	0	399	1,179	0	1,179
Subtotal	424	355	779	1,204	524	1,728
General obligation long-term debt:						
Senior debt	11,007	173	11,179	9,912	172	10,084
Junior subordinated debt	7,554	60	7,615	7,518	57	7,575
Surplus notes(1)	0	343	343	0	342	342
Subtotal	18,561	576	19,137	17,430	571	18,001
Total general obligations	18,985	931	19,916	18,634	1,095	19,729
Limited and non-recourse borrowings(2)						
Short-term debt	0	18	18	0	13	13
Current portion of long-term debt	0	128	128	0	192	192
Long-term debt	0	581	581	0	645	645
Subtotal	0	727	727	0	850	850
Total borrowings	$18,985	$1,658	$20,643	$18,634	$1,945	$20,579

(1) Amounts are net of assets under set-off arrangements of $10,964 million and $9,749 million as of December 31, 2020 and 2019, respectively.
(2) Limited and non-recourse borrowing primarily represents mortgage debt of our subsidiaries that has recourse only to real estate investment property of $409 million and $537 million as of December 31, 2020 and 2019, respectively, and a draw on a credit facility with recourse only to collateral pledged by the Company of $300 million as of both December 31, 2020 and 2019.

As of December 31, 2020 and 2019, we were in compliance with all debt covenants related to the borrowings in the table above. For additional information on our short- and long-term debt obligations, see Note 17 to the Consolidated Financial Statements.

We executed transactions to reduce our ongoing financing costs in August 2020 by issuing $1.3 billion of junior subordinated notes at interest rates of 3.70% and 4.125% and with maturities ranging from 2050 to 2060 and using the proceeds to redeem in September 2020 our $710 million 5.70% junior subordinated notes due in 2053 and our $575 million 5.75% junior subordinated notes due in 2052.

Based on the use of proceeds, we classify our borrowings as capital debt and operating debt. Capital debt, which is debt utilized to meet the capital requirements of our businesses, was $13.5 billion and $14.6 billion as of December 31, 2020 and 2019, respectively. Operating debt of $6.4 billion and $5.2 billion as of December 31, 2020 and 2019, respectively, is utilized for business funding to meet specific purposes, which may include activities associated with our PGIM and Assurance IQ businesses. Operating debt also consists of debt issued to finance specific portfolios of investment assets, the proceeds from which will service the debt. Specifically, this includes assets supporting reserve requirements under Regulation XXX and Guideline AXXX as described below, as well as funding for institutional and insurance company portfolio cash flow timing differences.

Prudential Financial Borrowings

Long-term borrowings are conducted primarily by Prudential Financial. It borrows these funds to meet its capital and other funding needs, as well as the capital and funding needs of its subsidiaries. Prudential Financial maintains a shelf registration statement with the SEC that permits the issuance of public debt, equity and hybrid securities. As a "Well-Known Seasoned Issuer" under SEC rules, Prudential Financial's shelf registration statement provides for automatic effectiveness upon filing and has no stated issuance capacity.

Prudential Financial's borrowings increased $0.4 billion from December 31, 2019, primarily driven by the issuance, net of related costs, of $1.5 billion of senior debt and $1.3 billion of Junior subordinated debt, partially offset by $1.2 billion in senior debt maturities and $1.3 billion in junior subordinated debt redemptions. For more information on long-term debt, see Note 17 to the Consolidated Financial Statements.

Subsidiary Borrowings

Subsidiary borrowings principally consist of commercial paper borrowings by Prudential Funding, asset-based financing and real estate investment financing. Borrowings of our subsidiaries decreased $287 million from December 31, 2019 due primarily to a $169 million decrease in commercial paper outstanding and a $123 million decrease in limited and non-recourse borrowings.

Term and Universal Life Reserve Financing

For business written prior to the implementation of principle-based reserving, Regulation XXX and Guideline AXXX require domestic life insurers to establish statutory reserves for term and universal life insurance policies with long-term premium guarantees that are consistent with the statutory reserves required for other individual life policies with similar guarantees. Many market participants believe that these levels of reserves are excessive relative to the levels reasonably required to maintain solvency for moderately adverse experience. The difference between the statutory reserve and the amount necessary to maintain solvency for moderately adverse experience is considered to be the non-economic portion of the statutory reserve.

We use captive reinsurance subsidiaries to finance the portion of the statutory reserves required to be held by our domestic life insurance companies under Regulation XXX and Guideline AXXX that we consider to be non-economic. The financing arrangements involve the reinsurance of term and universal life business to our captive reinsurers and the issuance of surplus notes by those captives that are treated as capital for statutory purposes. These surplus notes are subordinated to policyholder obligations, and the payment of principal and interest on the surplus notes can only be made with prior insurance regulatory approval.

We have entered into agreements with external counterparties providing for the issuance of surplus notes by our captive reinsurers in return for the receipt of credit-linked notes ("Credit-Linked Note Structures"). As of December 31, 2020, we had Credit-Linked Note Structures with an aggregate issuance capacity of $14,825 million, of which $12,919 million was outstanding, as compared to an aggregate issuance capacity of $13,700 million, of which $12,009 million was outstanding, as of December 31, 2019. The increase in issuance capacity in 2020 reflects a $1,200 million Credit-Linked Note Structure entered into in June 2020 for Guideline AXXX reserves, of which $700 million was outstanding as of December 31, 2020. Under the agreements, the captive receives in exchange for the surplus notes one or more credit-linked notes issued by a special-purpose affiliate of the Company with an aggregate principal amount equal to the surplus notes outstanding. The captive holds the credit-linked notes as assets supporting Regulation XXX or Guideline AXXX non-economic reserves, as applicable. The captive can redeem the principal amount of the outstanding credit-linked notes for cash upon the occurrence of, and in an amount necessary to remedy, a specified liquidity stress event affecting the captive. Under the agreements, the external counterparties have agreed to fund any such payments under the credit-linked notes in return for the receipt of fees. Under certain of the transactions, Prudential Financial has agreed to make capital contributions to the captive to reimburse it for investment losses in excess of specified amounts and/or has agreed to reimburse the external counterparties for any payments made under the credit-linked notes. To date, no such payments under the credit-linked notes have been required. Under these transactions, because valid rights of set-off exist, interest and principal payments on the surplus notes and on the credit-linked notes are settled on a net basis, and the surplus notes are reflected in the Company's total consolidated borrowings on a net basis.

The following table summarizes our Credit-Linked Note Structures, which are reported on a net basis, as of December 31, 2020:

	Surplus Notes			
Credit-Linked Note Structures:	**Original Issue Dates**	**Maturity Dates**	**Outstanding as of December 31, 2020**	**Facility Size**
			($ in millions)	
XXX	2011-2014	2021-2024	$ 1,750(1)	$ 1,750
AXXX	2013	2033	3,248	3,500
XXX	2014-2018	2021-2034	2,355(2)	2,375
XXX	2014-2017	2024-2037	2,330	2,400
AXXX	2017	2037	1,466	2,000
XXX	2018	2038	1,070	1,600
AXXX	2020	2032	700	1,200
Total Credit-Linked Note Structures			$12,919	$14,825

(1) Prudential Financial has agreed to reimburse amounts paid under the credit-linked notes issued in this structure up to $0.5 billion. During the fourth quarter of 2019, this financing facility was restructured to allow for an extension through 2036.

(2) The $2.36 billion of surplus notes represents an intercompany transaction that eliminates upon consolidation. Prudential Financial has agreed to reimburse amounts paid under credit-linked notes issued in this structure up to $1.0 billion.

As of December 31, 2020, we also had outstanding an aggregate of $2,775 million of debt issued for the purpose of financing Regulation XXX and Guideline AXXX non-economic reserves, of which approximately $1,175 million relates to Regulation XXX reserves and $1,600 million relates to Guideline AXXX reserves. In addition, as of December 31, 2020, for purposes of financing Guideline AXXX reserves, one of our captives had $3,982 million of surplus notes outstanding that were issued to affiliates.

The Company has introduced updated versions of its individual life products in conjunction with the requirement to adopt principle-based reserving by January 1, 2020. These updated products are currently priced to support the principle-based statutory reserve level without the need for reserve financing. Certain elements of the implementation of principle-based reserving are yet to be finalized by the NAIC and may have a material impact on statutory reserves. The Company continues to assess the impact of the implementation of principle-based reserving on projected statutory reserve levels, product pricing and the use of financing.

Ratings

Financial strength ratings (which are sometimes referred to as “claims-paying” ratings) and credit ratings are important factors affecting public confidence in an insurer and its competitive position in marketing products. Our credit ratings are also important for our ability to raise capital through the issuance of debt and for the cost of such financing. Nationally Recognized Statistical Ratings Organizations continually review the financial performance and financial condition of the entities they rate, including Prudential Financial and its rated subsidiaries.

A downgrade in the credit or financial strength ratings of Prudential Financial or its rated subsidiaries could potentially, among other things, limit our ability to market products, reduce our competitiveness, increase the number or value of policy surrenders and withdrawals, increase our borrowing costs and potentially make it more difficult to borrow funds, adversely affect the availability of financial guarantees, such as letters of credit, cause additional collateral requirements or other required payments under certain agreements, allow counterparties to terminate derivative agreements and/or hurt our relationships with creditors, distributors, or trading counterparties thereby potentially negatively affecting our profitability, liquidity, and/or capital. In addition, we consider our own risk of non-performance in determining the fair value of our liabilities. Therefore, changes in our credit or financial strength ratings may affect the fair value of our liabilities.

Financial strength ratings represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under an insurance policy. Credit ratings represent the opinions of rating agencies regarding an entity’s ability to repay its indebtedness. The following table summarizes the ratings for Prudential Financial and certain of its subsidiaries as of February 19, 2021:

	A.M. Best(1)	S&P(2)	Moody’s(3)	Fitch(4)
Last review date	**12/2/2020**	**11/25/2020**	**9/11/2020**	**5/18/2020**
Current outlook	**Stable**	**Stable***	**Stable**	**Stable**
Financial Strength Ratings:				
The Prudential Insurance Company of America	A+	AA-	Aa3	AA-
Pruco Life Insurance Company	A+	AA-	Aa3	AA-
Pruco Life Insurance Company of New Jersey	A+	AA-	NR**	AA-
Prudential Annuities Life Assurance Corporation	A+	AA-	NR	AA-
Prudential Retirement Insurance and Annuity Company	A+	AA-	Aa3	AA-
The Prudential Life Insurance Company Ltd. (Prudential of Japan)	NR	A+	NR	NR
Gibraltar Life Insurance Company, Ltd.	NR	A+	NR	NR
The Prudential Gibraltar Financial Life Insurance Co. Ltd	NR	A+	NR	NR
Credit Ratings:				
Prudential Financial, Inc.:				
Short-term borrowings	AMB-1	A-1	P-2	F1
Long-term senior debt	a-	A	A3	A-
Junior subordinated long-term debt	bbb	BBB+	Baa1	BBB
The Prudential Insurance Company of America:				
Capital and surplus notes	a	A	A2	A
Prudential Funding, LLC:				
Short-term debt	AMB-1	A-1+	P-1	F1+
Long-term senior debt	a+	AA-	A1	A+
PRICOA Global Funding I:				
Long-term senior debt	aa-	AA-	Aa3	AA-

* The Current ‘Stable’ Outlook on Prudential’s ratings corresponds to all S&P rated Prudential entities including Prudential’s Japanese Subsidiaries (The Prudential Life Insurance Company Ltd., Gibraltar Life Insurance Company, Ltd., and The Prudential Gibraltar Financial Life Insurance Co. Ltd.), which have ‘Stable’ Outlooks as of June 2020.

** “NR” indicates not rated.

(1) A.M. Best Company, which we refer to as A.M. Best, financial strength ratings for insurance companies range from “A++ (superior)” to “D (Poor)”. A rating of A+ is the second highest of thirteen rating categories. A.M. Best long-term credit ratings range from “aaa (exceptional)” to “c (Poor)”. A.M. Best short-term credit ratings range from “AMB-1+”, which represents the strongest ability to repay short-term debt obligations, to “AMB-4 (Questionable)”.

(2) Standard & Poor's Rating Services, which we refer to as S&P, financial strength ratings for insurance companies range from "AAA (extremely strong)" to "D (default)". A rating of AA- is the fourth highest of twenty-three rating categories. S&P's long-term issue credit ratings range from "AAA (extremely strong)" to "D (default)". S&P short-term ratings range from "A-1 (highest category)" to "D (default)".
(3) Moody's Investors Service, Inc., which we refer to as Moody's, insurance financial strength ratings range from "Aaa (exceptional)" to "C (lowest)". A rating of Aa3 is the fourth highest of twenty-one rating categories. Numeric modifiers are used to refer to the ranking within the group—with 1 being the highest and 3 being the lowest. These modifiers are used to indicate relative strength within a category. Moody's long-term credit ratings range from "Aaa (highest)" to "C (default)". Moody's short-term ratings range from "Prime-1 (P-1)", which represents a superior ability for repayment of short-term debt obligations, to "Prime-3 (P-3)", which represents an acceptable ability for repayment of such obligations. Issuers rated "Not Prime" do not fall within any of the Prime rating categories.
(4) Fitch Ratings Inc., which we refer to as Fitch, financial strength ratings range from "AAA (exceptionally strong)" to "C (distressed)". A rating of AA- is the fourth highest of twenty-one rating categories. Fitch long-term credit ratings range from "AAA (highest credit quality)", which denotes exceptionally strong capacity for timely payment of financial commitments, to "D (default)". Short-term ratings range from "F1+ (highest credit quality)" to "D (default)".

The ratings set forth above reflect current opinions of each rating agency. Each rating should be evaluated independently of any other rating. These ratings are not directed toward shareholders and do not in any way reflect evaluations of the safety and security of the Common Stock. These ratings are reviewed periodically and may be changed at any time by the rating agencies. As a result, we cannot assure stakeholders that we will maintain our current ratings in the future.

Rating agencies use an "outlook" statement for both industry sectors and individual companies. For an industry sector, a stable outlook generally implies that over the next 12 to 18 months the rating agency expects ratings to remain unchanged among companies in the sector. In 2020, Fitch, Moody's and AM Best revised the Rating Outlook on the U.S. life insurance industry from Stable to Negative. S&P maintained their outlook for the U.S. life insurance sector at Stable. In June of 2020, S&P revised their Outlook on the Japan sovereign rating from 'Positive' to 'Stable'. This resulted in a change in outlook to 'Stable' for Prudential of Japan, Prudential Gibraltar Financial Life Insurance Co. and Gibraltar, as these entities are capped by Japan's sovereign credit rating ('A+'/'Stable' Outlook).

For a particular company, an outlook generally indicates a medium- or long-term trend (generally six months to two years) in credit fundamentals, which if continued, may lead to a rating change. These indicators are not necessarily a precursor of a rating change nor do they preclude a rating agency from changing a rating at any time without notice. A.M. Best, Fitch, S&P and Moody's have the Company's ratings on Stable outlook.

Requirements to post collateral or make other payments because of ratings downgrades under certain agreements, including derivative agreements, can be satisfied in cash or by posting permissible securities held by the subsidiaries subject to the agreements. In addition, a ratings downgrade by A.M. Best to "A-" for our domestic life insurance companies would require PICA to either post collateral or a letter of credit in the amount of approximately $1.2 billion, based on the level of statutory reserves related to the variable annuity business acquired from Allstate. We believe that the posting of such collateral would not be a material liquidity event for PICA.

Contractual Obligations

The table below summarizes the future estimated cash payments related to certain contractual obligations as of December 31, 2020. The estimated payments reflected in this table are based on management's estimates and assumptions about these obligations. Because these estimates and assumptions are necessarily subjective, the actual cash outflows in future periods will vary, possibly materially, from those reflected in the table. In addition, we do not believe that our cash flow requirements can be adequately assessed based solely upon an analysis of these obligations, as the table below does not contemplate all aspects of our cash inflows, such as the level of cash flow generated by certain of our investments, nor all aspects of our cash outflows.

	Estimated Payments Due by Period				
	Total	2021	2022-2023	2024-2025	2026 and thereafter
			(in millions)		
Short-term and long-term debt obligations(1)	$ 41,534	$ 1,881	$ 2,577	$ 2,857	$ 34,219
Operating lease obligations(2)	556	156	202	118	80
Purchase obligations:					
Commitments to purchase or fund investments(3)	9,903	5,219	2,650	1,171	863
Commercial mortgage loan commitments(4)	2,357	1,969	378	10	0
Other liabilities:					
Insurance liabilities(5)	1,181,976	51,178	69,794	70,297	990,707
Other(6)	14,806	14,454	140	65	147
Total	$1,251,132	$74,857	$75,741	$74,518	$1,026,016

(1) The estimated payments due by period for long-term debt reflects the contractual maturities of principal, as disclosed in Note 17 to the Consolidated Financial Statements, as well as estimated future interest payments. The payment of principal and estimated future interest for short-term debt are reflected in estimated payments due in 2021. The estimate for future interest payments includes the effect of derivatives that qualify for hedge accounting treatment. See Note 17 to the Consolidated Financial Statements for additional information concerning our short-term and long-term debt.
(2) The estimated payments due by period for operating leases reflect the future minimum lease payments under non-cancelable operating leases, as disclosed in Note 11 to the Consolidated Financial Statements.
(3) As discussed in Note 23 to the Consolidated Financial Statements, we have commitments to purchase or fund investments, some of which are contingent upon events or circumstances not under our control, including those at the discretion of our counterparties. The timing of the fulfillment of

certain of these commitments cannot be estimated, therefore the settlements of these obligations are reflected in estimated payments due in less than one year. Commitments to purchase or fund investments include $336 million that we anticipate will ultimately be funded from our separate accounts.

(4) As discussed in Note 23 to the Consolidated Financial Statements, loan commitments of our commercial mortgage operations, which are legally binding commitments to extend credit to a counterparty, have been reflected in the contractual obligations table above principally based on the expiration date of the commitment; however, it is possible these loan commitments could be funded prior to their expiration date. In certain circumstances the counterparty may also extend the date of the expiration in exchange for a fee.

(5) The estimated cash flows due by period for insurance liabilities reflect future estimated cash payments to be made to policyholders and others for future policy benefits, policyholders' account balances, policyholder's dividends, reinsurance payables and separate account liabilities, net of premium receipts and reinsurance recoverables. Contractual obligations are contingent upon the receipt of premiums. These future estimated cash flows for current policies in force generally reflect our best estimate economic and actuarial assumptions. These cash flows are undiscounted with respect to interest. Therefore, the sum of the cash flows shown for all years in the table of $1,182 billion exceeds the corresponding liability amounts of approximately $809 billion included in the Consolidated Financial Statements as of December 31, 2020. Separate account liabilities are legally insulated from general account obligations, and it is generally expected these liabilities will be fully funded by separate account assets and their related cash flows. We have made significant assumptions to determine the future estimated cash flows related to the underlying policies and contracts. Due to the significance of the assumptions used and the contingent nature of contractual terms, actual cash flows and their timing will differ, possibly materially, from these estimates. Timing of cash flows in the "2025 and thereafter" category include long term liabilities that may extend beyond 100 years.

(6) The estimated payments due by period for other liabilities includes securities sold under agreements to repurchase, cash collateral for loaned securities, liabilities for unrecognized tax benefits, bank customer liabilities, and other miscellaneous liabilities. Amounts presented in the table also exclude $305 million of notes issued by consolidated VIE's which recourse for these obligations is limited to the assets of the respective VIE and do not have recourse to the general credit of the company.

We also enter into agreements to purchase goods and services in the normal course of business; however, these purchase obligations are not material to our consolidated results of operations or financial position as of December 31, 2020.

Off-Balance Sheet Arrangements

Guarantees and Other Contingencies

In the course of our business, we provide certain guarantees and indemnities to third parties pursuant to which we may be contingently required to make payments in the future. See Note 23 to the Consolidated Financial Statements for additional information.

Other Contingent Commitments

We also have other commitments, some of which are contingent upon events or circumstances not under our control, including those at the discretion of our counterparties. See Note 23 to the Consolidated Financial Statements for additional information regarding these commitments. For further discussion of certain of these commitments that relate to our separate accounts, also see "—Liquidity associated with other activities—PGIM operations."

Other Off-Balance Sheet Arrangements

In 2020, Prudential Financial entered into a ten-year facility agreement with a Delaware trust that gives Prudential Financial the right, at any time over a ten-year period, to issue up to $1.5 billion of senior notes to the trust in return for principal and interest strips of U.S. Treasury securities that are held by the trust.

In 2013, we entered into a put option agreement with a Delaware trust that gives Prudential Financial the right, at any time over a ten-year period, to issue up to $1.5 billion of senior notes to the trust in return for principal and interest strips of U.S. Treasury securities that are held by the trust.

In 2014, Prudential Financial entered into financing transactions, pursuant to which it issued $500 million of limited recourse notes and, in return, obtained $500 million of asset-backed notes from a Delaware master trust and ultimately contributed the asset-backed notes to its subsidiary, PRIAC. As of December 31, 2020, no principal payments have been received or are currently due on the asset-backed notes and, as a result, there was no payment obligation under the limited recourse notes. Accordingly, none of the notes are reflected in the Consolidated Financial Statements as of that date.

See Note 17 to the Consolidated Financial Statements for more information on these arrangements.

Other than as described above, we do not have retained or contingent interests in assets transferred to unconsolidated entities, or variable interests in unconsolidated entities or other similar transactions, arrangements or relationships that serve as credit, liquidity or market risk support, that we believe are reasonably likely to have a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or our access to or requirements for capital resources. In addition, other than the agreements referred to above, we do not have relationships with any unconsolidated entities that are contractually limited to narrow activities that facilitate our transfer of or access to associated assets.

Risk Management

Overview

We employ a risk governance structure, overseen by senior management and our Board and managed by Enterprise Risk Management ("ERM"), to provide a common framework for: evaluating the risks embedded in and across our businesses and corporate centers; developing risk appetites; managing these risks; and identifying current and future risk challenges and opportunities. For a discussion of the risks of our businesses, see "Risk Factors" included in Prudential Financial's 2020 Annual Report on Form 10-K.

Risk Governance Framework

Each of our businesses has a risk governance structure that is supported by a framework at the corporate level. Generally, our businesses are authorized to make day-to-day risk decisions that are consistent with enterprise risk policies and limits, and subject to enterprise oversight.

Board of Directors Oversight

Our Board oversees our risk profile and management's processes for assessing and managing risk, through both the whole Board and its committees. The Board also reviews strategic risks and opportunities facing the Company and its businesses. Other important categories of risk are assigned to designated Board committees that report back to the full Board. In general, the committees oversee the following risks:

- Audit Committee: insurance risk and operational risk, including model risk, as well as risks related to financial controls, legal, regulatory and compliance risks, and the overall risk management governance structure and risk management function;
- Compensation Committee: the design and operation of the Company's compensation programs so that they do not encourage unnecessary or excessive risk-taking, as well as broad human capital management issues;
- Corporate Governance and Business Ethics Committee: the Company's overall ethical culture, political contributions, lobbying expenses and overall political strategy, as well as the Company's Environmental, Social, and Governance strategy that includes environmental risk (which includes climate risk), sustainability and corporate social responsibility to minimize reputational risk and focus on future sustainability;
- Finance Committee: liquidity risk and risk involving our capital and liquidity management, including the incurrence and repayment of borrowings, the capital structure of the Company, funding of benefit plans and statutory insurance reserves. The Finance Committee oversees our capital plan and receives regular updates on the sources and uses of capital relative to plan, as well as on our Risk Appetite Framework;
- Investment Committee: investment risk, market risk, and review of investment performance and risk positions. The Investment Committee approves investment and market risk limits based on asset class, issuer, credit quality and geography; and
- Risk Committee: the governance of significant risk throughout the Company, the establishment and ongoing monitoring of our risk profile, risk capacity and risk appetite, and coordination of the risk oversight functions of the other Board committees.

Management Oversight

Our primary risk management committee is the Enterprise Risk Committee ("ERC"). The ERC is chaired by our Chief Risk Officer and otherwise consists of the Vice Chairman, Head of U.S. Businesses, Head of International Businesses, General Counsel, Chief Financial Officer, Chief Investment Officer, Chief Information Officer and Chief Actuary. Our Chief Auditor also attends meetings of the ERC. The ERC oversees the Company's risk management framework, including the identification, assessment, monitoring and management of risks and how those risks align with the Company's loss absorption resources. The primary focus of the ERC is the critical analysis of significant quantitative and qualitative risks and the appropriateness and alignment to the defined risk appetite of the Company.

The ERC is supported by five Risk Oversight Committees aligned with our tactical risks, each of which consists of subject matter experts and are dedicated to one of the following risk types: investment, market (including liquidity), insurance, operational, and model. Significant matters or matters where there are unresolved points of view are reviewed by the ERC. The Risk Oversight Committees provide an opportunity to evaluate complex issues by subject matter experts within the various risk areas. They evaluate the effectiveness of risk mitigation options, identify stakeholders of risks and issues, review material assumptions for reasonability and consistency across the Company, and develop recommendations for risk limits, among other responsibilities.

In addition, each of our businesses and certain corporate centers maintains their own risk committee as a forum for leaders to identify, assess, and monitor risk and exposure issues and to review new business activities and initiatives.

Enterprise Risk Management Oversight

ERM manages the risk management framework. It operates independently and is responsible for recommending policies, limits and standards for all risks. ERM oversees these risks under the guidance of the ERC and Risk Oversight Committees. Additionally, ERM and our business unit Chief Risk Officers work with our businesses and corporate areas to identify, monitor and manage risks that we may face. The ERM infrastructure is generally aligned by risk type, with certain groups within ERM working across risk types.

Risk Identification

We rely on a combination of activities to ensure that all material risks have been identified and managed as appropriate. There are three levels of activities that seek to ensure that changes in risk levels or new risks to the Company are identified and escalated as appropriate: (1) business activities, (2) corporate center activities, and (3) processes involving senior management and the Board.

- Business Activities: Each business area has a risk committee that allows senior leaders to discuss and evaluate current, new, and emerging risks in their own operations. Businesses are required to develop and maintain documented risk inventories that facilitate the identification of current risk exposures.
- Corporate Center Activities: The corporate centers review the results of the business activities and examine risks from an enterprise view across businesses under normal and stressed conditions. As a result, the corporate centers, particularly ERM, use several processes and activities to identify and assess the risks of the Company. Most corporate centers have their own risk committees.
- Senior Management and the Board: Senior management plays a critical role in reviewing the risk profile of the Company, including identifying impacts to the business strategy and risks in any new strategies under consideration. These risks are discussed with the ERC as appropriate, and with the Board if significant. As discussed above, the Board oversees the Company's risk profile and management's processes for assessing and managing risk, both as a full Board and through its committees.

Risk Measurement and Monitoring

Our Risk Appetite Framework is a comprehensive process designed to reasonably ensure that risks taken across the Company align with the Company's capacity and willingness to take those risks. Using the Risk Appetite Framework, the Company measures, evaluates, and manages its financial risks. The comprehensive models, metrics, and stress scenarios used enable the Company to understand its current risk profile as well as how the risk profile may change over time through varying degrees of stress. The Risk Appetite Framework anchors the risk and capital management processes and supports management and the Board in making well-informed business decisions.

The Risk Appetite Framework is centered around a comprehensive and cohesive stress testing regime which includes a variety of stress scenarios designed to explore outcomes across the investment portfolios and businesses. This robust stress testing examines the sensitivity of assets and liabilities and how they interact with each other through time to identify places where the Company's capacity may be challenged by the risks taken. These analytics provide insight into the impact of stress scenarios on capital and liquidity.

Additionally, the Qualitative Risk Appetite Framework helps the Company understand and manage risks that are not easily quantifiable. By continuously scanning the internal environment and reporting findings to leadership and the Board on a regular basis, the Company can monitor and mitigate operational risks in qualitative areas, such as: culture; reputation; compliance with laws, regulations, and policies; and decision-making incentives.

COVID-19

Our risk management framework incorporates severe to very severe stresses across equities, interest rates, credit migration and defaults, currencies and pandemics. This framework includes a specific "pandemic and sell-off" scenario with a mortality calamity (1.5 extra deaths per 1,000 lives in the first year) based on a modern-day interpretation of the 1918 Spanish Flu experience that is aligned with most regulatory frameworks. The stress scenario assumes an even distribution of increased mortality across the population, while current COVID-19 mortality is sharply skewed toward older ages. As the COVID-19 event continues to unfold, we continue to update our analysis and take management actions in response to this specific event.

As of December 31, 2020, the COVID-19 pandemic has not reached the most severe levels included in the Company's stress testing. In addition, we expect the impact of COVID-19-related claims to be moderated by the balance between our mortality exposure (such as in our individual and group life businesses) and our longevity exposure (such as in our retirement business).

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Market risk is defined as the risk of loss from changes in interest rates, equity prices and foreign currency exchange rates resulting from asset/liability mismatches where the change in the value of our liabilities is not offset by the change in value of our assets.

For additional information regarding the potential impacts of interest rate and other market fluctuations, as well as general economic and market conditions on our businesses and profitability, see "Risk Factors" included in Prudential Financial's 2020 Annual Report on Form 10-K. For additional information regarding the overall management of our general account investments and our asset mix strategies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—General Account Investments—Management of Investments" above. For additional information regarding our liquidity and capital resources, which may be impacted by changing market risks, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" above.

Market Risk Management

Management of market risk, which we consider to be a combination of both investment risk and market risk exposures, includes the identification and measurement of various forms of risk, the establishment of risk thresholds and the creation of processes intended to maintain risks within these thresholds while optimizing returns on the underlying assets or liabilities.

Our risk management process utilizes a variety of tools and techniques, including:

- Measures of price sensitivity to market changes (e.g., interest rates, equity index prices, foreign exchange);
- Asset/liability management;
- Stress scenario testing;
- Hedging programs; and
- Risk management governance, including policies, limits, and a committee that oversees investment and market risk.

For additional information regarding our overall risk management framework and governance structure, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management" above.

Market Risk Mitigation

Risk mitigation takes three primary forms:

- Asset/Liability Management: Managing assets to liability-based measures. For example, investment policies identify target durations for assets based on liability characteristics and asset portfolios are managed to within ranges around them. This mitigates potential unanticipated economic losses from interest rate movements.
- Hedging: Using derivatives to offset risk exposures. For example, for our variable annuities, potential living benefit claims resulting from more severe market conditions are hedged using derivative instruments.
- Management of portfolio concentration risk. For example, ongoing monitoring and management at the enterprise level of key rate, currency and other concentration risks support diversification efforts to mitigate exposure to individual markets and sources of risk.

Market Risk Related to Interest Rates

We perform liability-driven investing and engage in careful asset/liability management. Asset/liability mismatches create the risk that changes in liability values will differ from the changes in the value of the related assets. Additionally, changes in interest rates may impact other items including, but not limited to, the following:

- Net investment spread between the amounts that we are required to pay and the rate of return we are able to earn on investments for certain products supported by general account investments;
- Asset-based fees earned on assets under management or contractholder account values;
- Estimated total gross profits and the amortization of deferred policy acquisition and other costs;
- Net exposure to the guarantees provided under certain products; and
- Capital levels of our regulated entities.

We use duration and convexity analyses to measure price sensitivity to interest rate changes. Duration measures the relative sensitivity of the fair value of a financial instrument to changes in interest rates. Convexity measures the rate of change in duration with respect to changes in interest rates. We use asset/liability management and derivative strategies to manage our interest rate exposure by legal entity by matching the relative sensitivity of asset and liability values to interest rate changes, or controlling "duration mismatch" of assets and liability duration targets. In certain markets, capital market limitations that hinder our ability to acquire assets that approximate the duration of some of our liabilities are considered in setting duration targets. We consider risk-based capital and tax implications as well as current market conditions in our asset/liability management strategies.

We assess the impact of interest rate movements on the value of our financial assets, financial liabilities and derivatives using hypothetical test scenarios that assume either upward or downward 100 basis point parallel shifts in the yield curve from prevailing interest rates, reflecting changes in either credit spreads or the risk-free rate. The following table sets forth the net estimated potential loss in fair value on these financial instruments from a hypothetical 100 basis point upward shift as of December 31, 2020 and 2019. This table is presented on a gross basis and excludes offsetting impacts to insurance liabilities that are not considered financial liabilities under U.S GAAP. This scenario results in the greatest net exposure to interest rate risk of the hypothetical scenarios tested at those dates. While the test scenario is for illustrative purposes only and does not reflect our expectations regarding future interest rates or the performance of fixed income markets, it is a near-term, reasonably possible hypothetical change that illustrates the potential impact of such events. These test scenarios do not measure the changes in value that could result from non-parallel shifts in the yield curve which we would expect to produce different changes in discount rates for different maturities. As a result, the actual loss in fair value from a 100 basis point change in interest rates could be different from that indicated by these calculations. The estimated changes in fair values do not include separate account assets.

	As of December 31, 2020			As of December 31, 2019		
	Notional	Fair Value	Hypothetical Change in Fair Value	Notional	Fair Value	Hypothetical Change in Fair Value
			(in millions)			
Financial assets with interest rate risk:						
Fixed maturities(1)		$ 440,531	$(47,271)		$ 416,812	$(43,532)
Commercial mortgage and other loans		68,676	(3,010)		65,893	(3,112)
Derivatives with interest rate risk:						
Swaps	$244,020	3,457	(6,039)	$200,055	6,894	(4,747)
Futures	21,458	79	(1,191)	18,897	(37)	(1,004)
Options	52,093	1,384	(616)	50,403	15	(91)
Forwards	41,214	86	(49)	30,488	(23)	(105)
Synthetic GICs	86,264	0	0	80,009	1	0
Embedded derivatives(2)(3)		(20,793)	7,775		(14,147)	6,525
Financial liabilities with interest rate risk(4):						
Short-term and long-term debt		(24,408)	4,873		(23,277)	4,156
Policyholders' account balances—investment contracts		(110,473)	3,791		(102,156)	3,562
Net estimated potential loss			$(41,737)			$(38,348)

(1) Includes assets classified as "Fixed maturities, available-for-sale, at fair value," "Assets supporting experience-rated contractholder liabilities, at fair value" and "Fixed maturities, trading, at fair value." Approximately $413 billion and $391 billion as of December 31, 2020 and 2019, respectively, of fixed maturities are classified as available-for-sale.

(2) Embedded derivatives relate primarily to certain features associated with variable annuity, indexed universal life, and indexed annuity contracts. The fair value and hypothetical change in fair value of each is $(18,528) million and $7,720 million, $(1,334) million and $170 million, and $(580) million and $(115) million, respectively, as of December 31, 2020. The fair value and hypothetical change in fair value of each is $(12,602) million and $6,315 million, $(1,119) million and $216 million, and $(197) million and $(6) million, respectively, as of December 31, 2019.

(3) Excludes any offsetting impact of derivative instruments purchased to hedge changes in the embedded derivatives. Amounts reported net of third-party reinsurance.

(4) Excludes approximately $360 billion and $344 billion as of December 31, 2020 and 2019, respectively, of insurance reserve and deposit liabilities which are not considered financial liabilities. We believe that the interest rate sensitivities of these insurance liabilities would serve as an offset to the net interest rate risk of the financial assets and liabilities, including investment contracts.

Under U.S. GAAP, the fair value of the embedded derivatives for certain features associated with variable annuity, indexed universal life, and indexed annuity contracts, reflected in the table above, includes the impact of the market's perception of our NPR. For more information on NPR related to the sensitivity of the embedded derivatives to our NPR credit spread, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Accounting Policies & Pronouncements—Application of Critical Accounting Estimates—Sensitivities for Insurance Assets and Liabilities" above.

For an additional discussion of our variable annuity optional living benefit guarantees accounted for as embedded derivatives and related derivatives used to hedge the changes in fair value of these embedded derivatives, see "Market Risk Related to Certain Variable Annuity Products" below. For additional information about the key estimates and assumptions used in our determination of fair value, see Note 6 to the Consolidated Financial Statements. For information on the impacts of a sustained low interest rate environment, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Executive Summary—Impact of a Low Interest Rate Environment" above.

Market Risk Related to Equity Prices

We have exposure to equity risk through asset/liability mismatches, including our investments in equity securities held in our general account investment portfolio and unhedged exposure in our insurance liabilities, principally related to certain variable annuity living benefit feature embedded derivatives. Our equity-based derivatives primarily hedge the equity risk embedded in these living benefit feature embedded derivatives, and are also part of our capital hedging program. Changes in equity prices create risk that the resulting changes in asset values will differ from the changes in the value of the liabilities relating to the underlying or hedged products. Additionally, changes in equity prices may impact other items including, but not limited to, the following:

- Asset-based fees earned on assets under management or contractholder account value;
- Estimated total gross profits and the amortization of deferred policy acquisition and other costs; and
- Net exposure to the guarantees provided under certain products.

We manage equity risk against benchmarks in respective markets. We benchmark our return on equity holdings against a blend of market indices, mainly the S&P 500 and Russell 2000 for U.S. equities. We benchmark foreign equities against the Tokyo Price Index, and the MSCI EAFE, a market index of European, Australian, and Far Eastern equities. We target price sensitivities that approximate those of the benchmark indices.

We estimate our equity risk from a hypothetical 10% decline in equity benchmark market levels. The following table sets forth the net estimated potential loss in fair value from such a decline as of December 31, 2020 and 2019. While these scenarios are for illustrative purposes only and do not reflect our expectations regarding future performance of equity markets or of our equity portfolio, they represent near-term reasonably possible hypothetical changes that illustrate the potential impact of such events. These scenarios consider only the direct impact on fair value of declines in equity benchmark market levels and not changes in asset-based fees recognized as revenue, changes in our estimates of total gross profits used as a basis for amortizing deferred policy acquisition and other costs, or changes in any other assumptions such as market volatility or mortality, utilization or persistency rates in our variable annuity contracts that could also impact the fair value of our living benefit features. In addition, these scenarios do not reflect the impact of basis risk, such as potential differences in the performance of the investment funds underlying the variable annuity products relative to the market indices we use as a basis for developing our hedging strategy. The impact of basis risk could result in larger differences between the change in fair value of the equity-based derivatives and the related living benefit features in comparison to these scenarios. In calculating these amounts, we exclude separate account equity securities.

	As of December 31, 2020			As of December 31, 2019		
	Notional	Fair Value	Hypothetical Change in Fair Value	Notional	Fair Value	Hypothetical Change in Fair Value
			(in millions)			
Equity securities(1)		$ 10,041	$(1,004)		$ 9,175	$ (918)
Equity-based derivatives(2)	$64,407	(557)	1,800	$52,677	(719)	1,755
Embedded derivatives(2)(3)(4)		(20,793)	(1,676)		(14,147)	(1,726)
Net estimated potential loss			$ (880)			$ (889)

(1) Includes equity securities classified as “Assets supporting experience-rated contractholder liabilities” and “Equity securities, at fair value.”
(2) The notional and fair value of equity-based derivatives and the fair value of embedded derivatives are also reflected in amounts under “Market Risk Related to Interest Rates” above, and are not cumulative.
(3) Embedded derivatives relate primarily to certain features associated with variable annuity, indexed universal life, and indexed annuity contracts. The fair value and hypothetical change in fair value of each is $(18,528) million and $(1,921) million, $(1,334) million and $59 million, and $(580) million and $186 million, respectively, as of December 31, 2020. The fair value and hypothetical change in fair value of each is $(12,602) million and $(1,833) million, $(1,119) million and $81 million, and $(197) million and $26 million, respectively, as of December 31, 2019.
(4) Excludes any offsetting impact of derivative instruments purchased to hedge changes in the embedded derivatives. Amounts reported net of third-party reinsurance.

Market Risk Related to Foreign Currency Exchange Rates

As a U.S.-based company with significant business operations outside of the U.S., particularly in Japan, we are exposed to foreign currency exchange rate risk related to these operations, as well as in our general account investment portfolio and other proprietary investment portfolios.

For our international insurance operations, changes in foreign currency exchange rates create risk that we may experience volatility in the U.S. dollar-equivalent earnings and equity of these operations. We actively manage this risk through various hedging strategies, including the use of foreign currency hedges and through holding U.S. dollar-denominated securities in the investment portfolios of certain of these operations. Additionally, our Japanese insurance operations offer a variety of non-yen denominated products which are supported by investments in corresponding currencies. While these non-yen denominated assets are economically matched to the currency of the product liabilities, the accounting treatment may differ for changes in the value of these assets and liabilities due to moves in foreign currency exchange rates, resulting in volatility in reported U.S. GAAP earnings. This volatility has been mitigated by disaggregating the U.S. and Australian dollar-denominated businesses in Gibraltar Life into separate divisions, each with its own functional currency that aligns with the underlying products and investments. For certain of our international insurance operations outside of Japan, we elect to not hedge the risk of changes in our equity investments due to foreign exchange rate movements. For further information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Impact of Foreign Currency Exchange Rates—Impact of products denominated in non-local currencies on U.S. GAAP earnings” above.

For our domestic general account investment portfolios supporting our U.S. insurance operations and other proprietary investment portfolios, our foreign currency exchange rate risk arises primarily from investments that are denominated in foreign currencies. We manage this risk by hedging substantially all domestic foreign currency denominated fixed income investments into U.S. dollars. We generally do not hedge all of the foreign currency risk of our investments in equity securities of unaffiliated foreign entities.

We manage our foreign currency exchange rate risks within specified limits, and estimate our exposure, excluding equity in our Japanese insurance operations, to a hypothetical 10% change in foreign currency exchange rates. The following table sets forth the net estimated potential loss in fair value from such a change as of December 31, 2020 and 2019. While these scenarios are for illustrative purposes only and do not reflect our expectations regarding future changes in foreign exchange markets, they represent reasonably possible near-term hypothetical changes that illustrate the potential impact of such events.

	As of December 31, 2020		As of December 31, 2019	
	Fair Value	Hypothetical Change in Fair Value	Fair Value	Hypothetical Change in Fair Value
		(in millions)		
Unhedged portion of equity investment in international subsidiaries and foreign currency denominated investments in domestic general account portfolio	$3,490	$(349)	$4,834	$(483)

For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—General Account Investments—Portfolio Composition" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations by Segment—International Businesses" above.

Derivatives

We use derivative financial instruments primarily to reduce market risk from changes in interest rates, equity prices and foreign currency exchange rates, including their use to alter interest rate or foreign currency exposures arising from mismatches between assets and liabilities. Our derivatives primarily include swaps, futures, options and forward contracts that are exchange-traded or contracted in the OTC market.

Our derivatives also include interest rate guarantees we provide on our synthetic GIC products. Synthetic GICs simulate the performance of traditional insurance-related GICs but are accounted for as derivatives under U.S. GAAP due to the fact that the policyholders own the underlying assets, and we only provide a book value "wrap" on the customers' funds, which are held in a client-owned trust. Since these wraps provide payment of guaranteed principal and interest to the customer, changes in interest rates create risk such that declines in the market value of customers' funds would increase our net exposure to these guarantees; however, our obligation is limited to payments that are in excess of the existing customers' fund value. Additionally, we have the ability to periodically reset crediting rates, subject to a 0% minimum floor, as well as the ability to increase prices. Further, our contract provisions provide that, although participants may withdraw funds at book value, contractholder withdrawals may only occur at market value immediately, or at book value over time. These factors, among others, result in these contracts experiencing minimal changes in fair value, despite a more significant notional value.

Our derivatives also include those that are embedded in certain financial instruments, and primarily relate to certain optional living benefit features associated with our variable annuity products, as discussed in more detail in "Market Risk Related to Certain Variable Annuity Products" below. For additional information on our derivative activities, see Note 5 to the Consolidated Financial Statements.

Market Risk Related to Certain Variable Annuity Products

The primary risk exposures of our variable annuity contracts relate to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including capital markets assumptions, such as equity market returns, interest rates and market volatility and actuarial assumptions. For our capital markets assumptions, we manage our exposure to the risk created by capital markets fluctuations through a combination of product design elements, such as an automatic rebalancing element and inclusion of certain optional living benefits in our living benefits hedging program. In addition, we consider external reinsurance a form of risk mitigation as well as our capital hedge program. Certain variable annuity optional living benefit features are accounted for as embedded derivatives and recorded at fair value. The market risk sensitivities associated with U.S. GAAP values of both the embedded derivatives and the related derivatives used to hedge the changes in fair value of these embedded derivatives are provided under "Market Risk Related to Interest Rates" and "Market Risk Related to Equity Prices" above.

For additional information regarding our risk management strategies, including our living benefit hedging program and other product design elements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations by Segment—U.S. Individual Solutions Division—Individual Annuities" above.

CONSOLIDATED FINANCIAL STATEMENTS

Management's Annual Report on Internal Control Over Financial Reporting

Management of Prudential Financial, Inc. (together with its consolidated subsidiaries, the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. Management conducted an assessment of the effectiveness, as of December 31, 2020, of the Company's internal control over financial reporting, based on the framework established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment under that framework, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2020.

Our internal control over financial reporting is a process designed by or under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2020, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing herein.

February 19, 2021

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Prudential Financial, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of financial position of Prudential Financial, Inc. and its subsidiaries (the "Company") as of December 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2020, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated 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 conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the COSO.

Changes in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for credit losses on certain financial assets reported at amortized cost, certain off-balance sheet exposures, and impairments for fixed maturities, available-for-sale in 2020, the manner in which it accounts for leases in 2019, and the manner in which it accounts for certain financial assets and liabilities and the manner in which it accounts for certain tax effects originally recognized in accumulated other comprehensive income in 2018.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Valuation of Guaranteed Benefit Features Associated with Certain Life and Annuity Products Included in the Liability for Future Policy Benefits

As described in Notes 2, 6, 12 and 13 to the consolidated financial statements, the Company issues certain variable annuity contracts which contain guaranteed benefit features. Certain of the guarantees associated with these contracts are accounted for as embedded derivatives and recorded at fair value. As of December 31, 2020, the fair value of the obligations associated with these guarantees accounted for as embedded derivatives was $18.9 billion. As there is no observable active market for the transfer of these obligations, the valuations are calculated by management using internally-developed models with option pricing techniques. The models are based on a risk neutral valuation framework and incorporate premiums for risks inherent in valuation techniques, inputs, and the general uncertainty around the timing and amount of future cash flows. The significant inputs to the valuation models for these embedded derivatives include capital market assumptions, such as interest rate levels and volatility assumptions, the Company's market-perceived non-performance risk under the contract, as well as actuarially determined assumptions, including mortality rates, lapse rates, benefit utilization rates and withdrawal rates. For certain life insurance and annuity products that include certain other contract features, including guaranteed minimum death benefits (GMDB) and no-lapse guarantees, additional policyholder liabilities are established when associated assessments are recognized. The liability for no-lapse guarantee features is grouped with GMDB features in Note 13. As of December 31, 2020, the additional liability for these contract features included in the liability for future policy benefits was $10.4 billion. As disclosed by management, this liability is established using current best estimate assumptions, including mortality rates, lapse rates, benefit utilization rates, withdrawal rates, and premium pattern rates, as well as interest rate and equity market return assumptions, and is based on the ratio of the present value of total expected excess payments (i.e., payments in excess of account value) over the life of the contract divided by the present value of total expected assessments (i.e., benefit ratio). The liability equals the current benefit ratio multiplied by cumulative assessments recognized to date, plus interest, less cumulative excess payments to date.

The principal considerations for our determination that performing procedures relating to the valuation of guaranteed benefit features associated with certain life and annuity products included in the liability for future policy benefits is a critical audit matter are (i) the significant judgment by management to determine the valuation model for the benefit features accounted for as embedded derivatives in light of the valuation objective (fair value) given the lack of an observable market for these guarantees and to determine the aforementioned assumptions for the guaranteed benefit features accounted for as embedded derivatives and additional policyholder liabilities, (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the model for embedded derivatives recorded at fair value and the aforementioned assumptions used in the valuation of the liabilities for the guaranteed benefit features accounted for as embedded derivatives and additional policyholder liabilities, and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the valuation of guaranteed benefit features associated with certain life and annuity products included in the liability for future policy benefits, including controls over the model for the benefit features accounted for as embedded derivatives and development of the assumptions used in the valuation of the liabilities for the guaranteed benefit features accounted for as embedded derivatives and additional policyholder liabilities. These procedures also included, among others, testing management's process for determining the valuation of guaranteed benefit features associated with certain life and annuity products included in the liability for future policy benefits, which included the involvement of professionals with specialized skill and knowledge to assist in (i) evaluating the appropriateness of management's models and (ii) evaluating the reasonableness of the aforementioned assumptions used in the valuation based on industry knowledge and data as well as historical Company data and experience. The procedures also included testing the completeness and accuracy of data used to develop the aforementioned assumptions and testing that the aforementioned assumptions are accurately reflected in the models.

Valuation of the Deferred Acquisition Costs Related to Universal Life and Variable Life Products and Fixed and Variable Deferred Annuity Products

As described in Notes 2 and 7 to the consolidated financial statements, the Company defers acquisition costs that relate directly to the successful acquisition of new and renewal insurance and annuity business to the extent such costs are deemed recoverable from future profits. As of December 31, 2020, a significant portion of the $19 billion of deferred policy acquisition costs (DAC) are associated with certain universal and variable life products and fixed and variable deferred annuity products. DAC related to universal and variable life products and fixed and variable deferred annuity products is generally amortized over the expected life of the contracts in proportion to gross profits arising principally from investment margins, mortality and expense margins, and surrender charges. These margins are updated periodically based on historical and anticipated future experience. Gross profits also include impacts from the embedded derivatives associated with certain of the optional living benefit features of variable annuity contracts. The DAC balance is regularly adjusted with a corresponding charge or credit to current period earnings for the impact of actual gross profits and changes in management's projections of estimated future gross profits. DAC is subject to periodic recoverability testing.

The principal considerations for our determination that performing procedures relating to the valuation of DAC related to universal life and variable life products and fixed and variable deferred annuity products is a critical audit matter are (i) the significant judgment by management to determine the assumptions used in the projection of gross profits used to amortize DAC related to mortality rates, lapse rates, benefit utilization rates, withdrawal rates, and premium pattern rates, as well as interest rate and equity market return assumptions (collectively, the "significant assumptions") (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the significant assumptions, and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the valuation of DAC related to universal life and variable life products and fixed and variable deferred annuity products, including controls over the development of the significant assumptions. These procedures also included, among others, testing management's process for determining the valuation of DAC related to universal life and variable life products and fixed and variable deferred annuity products, which included the involvement of professionals with specialized skill and knowledge to assist in (i) evaluating the appropriateness of management's models and (ii) evaluating the reasonableness of the significant assumptions used in the valuation based on industry knowledge and data as well as historical Company data and experience. The procedures also included testing the completeness and accuracy of data used to develop the assumptions and testing that the assumptions are accurately reflected in the models.

Goodwill Impairment Assessment – Assurance IQ Reporting Unit

As described in Notes 2 and 10 to the consolidated financial statements, the Company tests goodwill for impairment annually, as of December 31, and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company's consolidated goodwill balance was $3.0 billion as of December 31, 2020, and the goodwill associated with the Assurance IQ reporting unit was $2.1 billion. If the fair value of a reporting unit exceeds its carrying value, the applicable goodwill is considered not to be impaired. If the carrying value exceeds fair value, an impairment charge is recorded for the excess. As disclosed by management, a quantitative impairment assessment of the goodwill allocated to Assurance IQ was performed as of December 31, 2020. The estimated fair value of Assurance IQ was based on weighting the results of a discounted cash flow approach and a market approach based on sales, EBITDA and earnings multiples. In determining the fair value of a reporting unit, management is required to make significant estimates including, but not limited to: projected revenues and operating margins, applicable discount and growth rates, and comparative market multiples.

The principal considerations for our determination that performing procedures relating to the goodwill impairment assessment of the Assurance IQ reporting unit is a critical audit matter are (i) the significant judgment by management to determine the fair value measurement of the reporting unit; (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating audit evidence related to projected revenues and operating margins, discount rates, and comparative market multiples (collectively, the "significant assumptions"); and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill impairment assessment related to the Assurance IQ reporting unit, including controls over the significant assumptions. These procedures also included, among others, (i) testing management's process for determining the fair value estimate (ii) evaluating the appropriateness of the approaches, and (iii) evaluating the significant assumptions used by management by considering the consistency of the assumptions with the current and past performance of the reporting unit, the consistency with external market and industry data, and whether these assumptions were consistent with evidence obtained in other areas of the audit, and (iv) testing the completeness and accuracy of underlying data used in the approaches. Professionals with specialized skill and knowledge were used to assist in the evaluation of the appropriateness of the approaches used in the impairment assessment models and reasonableness of the discount rates and comparative market multiples assumptions.

PricewaterhouseCoopers LLP

New York, New York
February 19, 2021

We have served as the Company's auditor since 1996, which includes periods before the Company became subject to SEC reporting requirements.

PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Financial Position
December 31, 2020 and 2019 (in millions, except share amounts)

	2020	2019
ASSETS		
Fixed maturities, available-for-sale, at fair value (allowance for credit losses: 2020-$133) (amortized cost: 2020-$354,470; 2019-$346,574)(1)	$412,905	$391,096
Fixed maturities, held-to-maturity, at amortized cost (net of allowance for credit losses: 2020-$9) (fair value: 2020-$2,298; 2019-$2,302)(1)(2)	1,930	1,933
Fixed maturities, trading, at fair value (amortized cost: 2020-$3,670; 2019-$3,917)(1)	3,914	3,884
Assets supporting experience-rated contractholder liabilities, at fair value(1)	24,115	21,597
Equity securities, at fair value (cost: 2020-$5,968; 2019-$5,560)(1)	8,135	7,522
Commercial mortgage and other loans (net of $235 and $121 allowance for credit losses; includes $1,092 and $228 of loans measured at fair value under the fair value option at December 31, 2020 and 2019, respectively)(1)(2)	65,425	63,559
Policy loans	11,271	12,096
Other invested assets (2020-net of $2 allowance for credit losses; includes $6,407 and $5,646 of assets measured at fair value at December 31, 2020 and 2019, respectively)(1)(2)	18,125	15,606
Short-term investments (2020-net of $1 allowance for credit losses)	7,800	5,467
Total investments	553,620	522,760
Cash and cash equivalents(1)	13,701	16,327
Accrued investment income(1)	3,193	3,330
Deferred policy acquisition costs(2)	19,027	19,912
Value of business acquired	1,103	1,110
Other assets (2020-net of $11 allowance for credit losses)(1)(2)	22,801	20,832
Separate account assets	327,277	312,281
TOTAL ASSETS	$940,722	$896,552
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	$306,343	$293,527
Policyholders' account balances	161,682	152,110
Policyholders' dividends(2)	9,524	6,988
Securities sold under agreements to repurchase	10,894	9,681
Cash collateral for loaned securities	3,499	4,213
Income taxes(2)	12,022	11,378
Short-term debt	925	1,933
Long-term debt	19,718	18,646
Other liabilities (2020-net of $20 allowance for credit losses)(1)(2)	20,323	20,802
Notes issued by consolidated variable interest entities (includes $0 and $800 measured at fair value under the fair value option as of December 31, 2020 and 2019, respectively)(1)	305	1,274
Separate account liabilities	327,277	312,281
Total liabilities	872,512	832,833
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 23)		
EQUITY		
Preferred Stock ($0.01 par value; 10,000,000 shares authorized; none issued)	0	0
Common Stock ($0.01 par value; 1,500,000,000 shares authorized; 666,305,189 shares issued as of both December 31, 2020 and 2019)	6	6
Additional paid-in capital	25,584	25,532
Common Stock held in treasury, at cost (269,867,738 and 267,472,781 shares at December 31, 2020 and 2019, respectively)	(19,652)	(19,453)
Accumulated other comprehensive income (loss)	30,738	24,039
Retained earnings	30,749	32,991
Total Prudential Financial, Inc. equity	67,425	63,115
Noncontrolling interests	785	604
Total equity	68,210	63,719
TOTAL LIABILITIES AND EQUITY	$940,722	$896,552

(1) See Note 4 for details of balances associated with variable interest entities.
(2) December 31, 2020 amounts include the impacts of the January 1, 2020 adoption of ASU 2016-13. See Note 2 for details.

See Notes to Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Operations
Years Ended December 31, 2020, 2019 and 2018 (in millions, except per share amounts)

	2020	2019	2018
REVENUES			
Premiums	$31,140	$34,202	$35,779
Policy charges and fee income	6,029	5,978	6,002
Net investment income	17,410	17,585	16,176
Asset management and service fees	4,391	4,239	4,100
Other income (loss)	1,950	3,262	(1,042)
Realized investment gains (losses), net	(3,887)	(459)	1,977
Total revenues	57,033	64,807	62,992
BENEFITS AND EXPENSES			
Policyholders' benefits	35,059	36,820	39,404
Interest credited to policyholders' account balances	4,538	4,880	3,196
Dividends to policyholders	1,625	2,274	1,336
Amortization of deferred policy acquisition costs	2,221	2,332	2,273
General and administrative expenses	13,913	13,416	11,949
Total benefits and expenses	57,356	59,722	58,158
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	(323)	5,085	4,834
Total income tax expense (benefit)	(81)	947	822
INCOME (LOSS) BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	(242)	4,138	4,012
Equity in earnings of operating joint ventures, net of taxes	96	100	76
NET INCOME (LOSS)	(146)	4,238	4,088
Less: Income (loss) attributable to noncontrolling interests	228	52	14
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	$ (374)	$ 4,186	$ 4,074
EARNINGS PER SHARE			
Basic earnings per share-Common Stock:			
Net income (loss) attributable to Prudential Financial, Inc.	$ (1.00)	$ 10.23	$ 9.64
Diluted earnings per share-Common Stock:			
Net income (loss) attributable to Prudential Financial, Inc.	$ (1.00)	$ 10.11	$ 9.50
Dividends declared per share of Common Stock	$ 4.40	$ 4.00	$ 3.60

See Notes to Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2020, 2019 and 2018 (in millions)

	2020	2019	2018
NET INCOME (LOSS)	$ (146)	$ 4,238	$ 4,088
Other comprehensive income (loss), before tax:			
Foreign currency translation adjustments for the period	523	67	(68)
Net unrealized investment gains (losses)	7,229	17,195	(8,393)
Defined benefit pension and postretirement unrecognized periodic benefit (cost)	210	(322)	(320)
Total	7,962	16,940	(8,781)
Less: Income tax expense (benefit) related to other comprehensive income (loss)	1,252	3,811	(1,812)
Other comprehensive income (loss), net of taxes	6,710	13,129	(6,969)
Comprehensive income (loss)	6,564	17,367	(2,881)
Less: Comprehensive income (loss) attributable to noncontrolling interests	239	55	19
Comprehensive income (loss) attributable to Prudential Financial, Inc.	$6,325	$17,312	$(2,900)

See Notes to Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Equity
Years Ended December 31, 2020, 2019 and 2018 (in millions)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2017	$6	$24,769	$28,671	$(16,284)	$17,074	$54,236	$275	$54,511
Cumulative accounting update ASU 2016-01			904		(847)	57		57
Cumulative accounting update ASU 2018-02			(1,653)		1,653	0		0
Common Stock acquired				(1,500)		(1,500)		(1,500)
Contributions from noncontrolling interests							147	147
Distributions to noncontrolling interests							(27)	(27)
Stock-based compensation programs		59		191		250		250
Dividends declared on Common Stock			(1,526)			(1,526)		(1,526)
Comprehensive income:								
Net income (loss)			4,074			4,074	14	4,088
Other comprehensive income (loss), net of tax					(6,974)	(6,974)	5	(6,969)
Total comprehensive income (loss)						(2,900)	19	(2,881)
Balance, December 31, 2018	6	24,828	30,470	(17,593)	10,906	48,617	414	49,031
Cumulative effect of adoption of accounting changes(1)			(21)		7	(14)		(14)
Common Stock acquired				(2,500)		(2,500)		(2,500)
Exchangeable Surplus Notes conversion		502				502		502
Assurance IQ acquisition		79		375		454		454
Contributions from noncontrolling interests							208	208
Distributions to noncontrolling interests							(82)	(82)
Consolidations/(deconsolidations) of noncontrolling interests							9	9
Stock-based compensation programs		123		265		388		388
Dividends declared on Common Stock			(1,644)			(1,644)		(1,644)
Comprehensive income:								
Net income (loss)			4,186			4,186	52	4,238
Other comprehensive income (loss), net of tax					13,126	13,126	3	13,129
Total comprehensive income (loss)						17,312	55	17,367
Balance, December 31, 2019	6	25,532	32,991	(19,453)	24,039	63,115	604	63,719
Cumulative effect of adoption of accounting changes(2)			(99)			(99)		(99)
Common Stock acquired				(500)		(500)		(500)
Contributions from noncontrolling interests							100	100
Distributions to noncontrolling interests							(53)	(53)
Consolidations/(deconsolidations) of noncontrolling interests							(105)	(105)
Stock-based compensation programs		52		301		353		353
Dividends declared on Common Stock			(1,769)			(1,769)		(1,769)
Comprehensive income:								
Net income (loss)			(374)			(374)	228	(146)
Other comprehensive income (loss), net of tax					6,699	6,699	11	6,710
Total comprehensive income (loss)						6,325	239	6,564
Balance, December 31, 2020	$6	$25,584	$30,749	$(19,652)	$30,738	$67,425	$785	$68,210

(1) Includes the impact from the adoption of ASU 2017-08 and 2017-12.
(2) Includes the impact from the adoption of ASU 2016-13. See Note 2.

See Notes to Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Cash Flows
Years Ended December 31, 2020, 2019 and 2018 (in millions)

	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ (146)	$ 4,238	$ 4,088
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Realized investment (gains) losses, net	3,887	459	(1,977)
Policy charges and fee income	(2,652)	(2,616)	(2,248)
Interest credited to policyholders' account balances	4,538	4,880	3,196
Depreciation and amortization	457	460	161
(Gains) losses on assets supporting experience-rated contractholder liabilities, net	(743)	(971)	863
Change in:			
Deferred policy acquisition costs	(542)	(634)	(597)
Future policy benefits and other insurance liabilities	10,817	10,992	16,481
Income taxes	(424)	(339)	49
Derivatives, net	(2,940)	1,485	968
Other, net	(3,884)	1,671	680
Cash flows from (used in) operating activities	8,368	19,625	21,664
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from the sale/maturity/prepayment of:			
Fixed maturities, available-for-sale	44,106	52,306	59,675
Fixed maturities, held-to-maturity	88	100	94
Fixed maturities, trading	690	363	623
Assets supporting experience-rated contractholder liabilities	29,162	15,281	27,383
Equity securities	2,704	2,708	3,771
Commercial mortgage and other loans	5,447	6,525	6,474
Policy loans	2,528	2,279	2,309
Other invested assets	1,815	1,783	1,549
Short-term investments	47,339	38,095	33,846
Payments for the purchase/origination of:			
Fixed maturities, available-for-sale	(56,523)	(64,570)	(77,234)
Fixed maturities, held-to-maturity	0	0	(9)
Fixed maturities, trading	(1,413)	(876)	(1,080)
Assets supporting experience-rated contractholder liabilities	(30,822)	(14,613)	(27,315)
Equity securities	(3,168)	(2,813)	(3,254)
Commercial mortgage and other loans	(6,107)	(10,677)	(10,328)
Policy loans	(1,956)	(1,931)	(1,970)
Other invested assets	(2,760)	(2,557)	(2,664)
Short-term investments	(49,802)	(37,286)	(33,336)
Acquisitions, net of cash acquired	0	(1,755)	0
Dispositions, net of cash disposed	1,454	0	0
Derivatives, net	1,286	1,047	26
Other, net	(278)	(437)	(188)
Cash flows from (used in) investing activities	(16,210)	(17,028)	(21,628)
CASH FLOWS FROM FINANCING ACTIVITIES			
Policyholders' account deposits	41,424	27,485	28,791
Policyholders' account withdrawals	(34,701)	(26,662)	(27,287)
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities	499	16	1,125
Cash dividends paid on Common Stock	(1,766)	(1,641)	(1,521)
Net change in financing arrangements (maturities 90 days or less)	(21)	(181)	199
Common Stock acquired	(500)	(2,500)	(1,500)
Common Stock reissued for exercise of stock options	153	133	132
Proceeds from the issuance of debt (maturities longer than 90 days)	3,013	2,993	2,934
Repayments of debt (maturities longer than 90 days)	(2,743)	(1,429)	(1,810)
Proceeds from notes issued by consolidated VIEs	0	971	0
Repayments of notes issued by consolidated VIEs	(19)	(638)	0
Other, net	(456)	(181)	(282)
Cash flows from (used in) financing activities	4,883	(1,634)	781
Effect of foreign exchange rate changes on cash balances	340	16	142
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS	(2,619)	979	959
CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS, BEGINNING OF YEAR	16,474	15,495	14,536
CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS, END OF YEAR	$ 13,855	$ 16,474	$ 15,495

PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Cash Flows
Years Ended December 31, 2020, 2019 and 2018 (in millions)

	2020	2019	2018
SUPPLEMENTAL CASH FLOW INFORMATION			
Income taxes paid, net of refunds	$ 287	$ 1,348	$ 760
Interest paid	$ 1,531	$ 1,521	$ 1,443
NON-CASH TRANSACTIONS DURING THE YEAR			
Treasury Stock shares issued for stock-based compensation programs	$ 151	$ 197	$ 138
Conversion of surplus notes into Common Stock	$ 0	$ 502	$ 0
Significant Pension Risk Transfer transactions:			
Assets received, excluding cash and cash equivalents	$ 703	$ 3,166	$ 816
Liabilities assumed	1,049	4,332	8,395
Net cash received	$ 346	$ 1,166	$ 7,579
Acquisitions:			
Assets acquired, excluding cash and cash equivalents	$ 0	$ 2,425	$ 0
Liabilities assumed	0	216	0
Treasury Stock shares issued	0	454	0
Net cash paid on acquisition	$ 0	$ 1,755	$ 0
RECONCILIATION TO STATEMENTS OF FINANCIAL POSITION			
Cash and cash equivalents	$13,701	$16,327	$15,353
Restricted cash and restricted cash equivalents (included in "Other assets")	154	147	142
Total cash, cash equivalents, restricted cash and restricted cash equivalents	$13,855	$16,474	$15,495

See Notes to Consolidated Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

Prudential Financial, Inc. (“Prudential Financial” or “PFI”) and its subsidiaries (collectively, “Prudential” or the “Company”) provide a wide range of insurance, investment management, and other financial products and services to both individual and institutional customers throughout the United States and in many other countries. Principal products and services provided include life insurance, annuities, retirement-related services, mutual funds and investment management.

The Company’s principal operations are composed of PGIM (the Company’s global investment management business), the U.S. Businesses (consisting of the U.S. Workplace Solutions, U.S. Individual Solutions, and Assurance IQ divisions), the International Businesses, the Closed Block division, and the Company’s Corporate and Other operations. The U.S. Workplace Solutions division consists of the Retirement and Group Insurance businesses, the U.S. Individual Solutions division consists of the Individual Annuities and Individual Life businesses, and the Assurance IQ division consists of the Assurance IQ business, which the Company acquired in October 2019. The Closed Block division is accounted for as a divested business that is reported separately from the Divested and Run-off Businesses that are included in Corporate and Other. The Company’s Corporate and Other operations include corporate items and initiatives that are not allocated to business segments and businesses that have been or will be divested or placed in run-off, excluding the Closed Block division. See Note 22 to the Consolidated Financial Statements for revenues, income and loss, and total assets by segment.

Basis of Presentation

The Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”). The Consolidated Financial Statements include the accounts of Prudential Financial, entities over which the Company exercises control, including majority-owned subsidiaries and minority-owned entities such as limited partnerships in which the Company is the general partner and variable interest entities (“VIEs”) in which the Company is considered the primary beneficiary. See Note 4 for additional information on the Company’s consolidated variable interest entities. Intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates include those used in determining deferred policy acquisition costs (“DAC”) and related amortization; policyholders’ account balances related to the fair value of embedded derivative instruments associated with the index-linked features of certain universal life and annuity products; value of business acquired (“VOBA”) and its amortization; amortization of deferred sales inducements (“DSI”); measurement of goodwill and any related impairment; valuation of investments including derivatives, measurement of allowance for credit losses, and the recognition of other-than-temporary impairments (“OTTI”); future policy benefits including guarantees; pension and other postretirement benefits; provision for income taxes and valuation of deferred tax assets; and accruals for contingent liabilities, including estimates for losses in connection with unresolved legal and regulatory matters.

COVID-19

Beginning in the first quarter of 2020, the outbreak of the novel coronavirus (“COVID-19”) has resulted in extreme stress and disruption in the global economy and financial markets, and has adversely impacted, and may continue to adversely impact, the Company’s results of operations, financial condition and cash flows. Due to the highly uncertain nature of these conditions, it is not possible to estimate the ultimate impacts at this time. The risks may have manifested, and may continue to manifest, in the Company’s financial statements in the areas of, among others, i) investments: increased risk of loss on our investments due to default or deterioration in credit quality or value; ii) insurance liabilities and related balances: potential changes to assumptions regarding investment returns, mortality, morbidity and policyholder behavior which are reflected in our insurance liabilities and certain related balances (e.g., DAC, VOBA, etc.); and iii) goodwill: the macroeconomic environment may also result in the need to recognize an impairment of goodwill which could negatively impact the Company’s results of operations and financial condition. The Company cannot predict what impact the COVID-19 pandemic will ultimately have on the global economy, markets or its businesses.

Reclassifications

Certain amounts in prior periods have been reclassified to conform to the current period presentation.

Acquisitions

In October 2019, the Company completed its acquisition of Assurance IQ, as noted above. Assurance IQ is a wholly-owned subsidiary of the Company and the results of the Assurance IQ business are reported as a separate segment within the Company’s U.S. Businesses.

The total purchase consideration included $2,212 million paid at closing, and $100 million of contingent consideration (see "*Assurance IQ Contingent Consideration Liability*" below). The amount paid at closing comprised $1,758 million in cash and $454 million in shares of restricted Prudential Financial Common Stock and other equity awards. In addition to the purchase consideration, the Company also granted approximately $160 million of cash and equity awards to Assurance IQ employees which are recognized as compensation expense over their requisite service periods. See Note 21 for further details on the equity awards issued as part of the transaction.

The contingent consideration as well as additional compensation awards are payable in 2023 in a mix of approximately 25% cash and 75% Prudential Financial Common Stock, contingent upon Assurance IQ's achievement of certain targets for gross revenues net of associated selling expenses ("Variable Profits") over the period from January 1, 2020 through December 31, 2022 as follows:

- If Variable Profits are less than $900 million, no additional amount is payable.
- If Variable Profits are greater than $1,300 million, an additional amount of $1,150 million is payable.
- If Variable Profits are greater than $900 million but less than or equal to $1,300 million, an additional amount is payable equal to the product of (i) the quotient of (A) an amount equal to (1) Variable Profits achieved minus (2) $900 million divided by (B) $400 million and (ii) $1,150 million.

Payment of the additional amount may be accelerated if the Company violates certain provisions of the merger agreement requiring it to take or refrain from taking certain actions, including with respect to the management and operation of Assurance IQ.

Pursuant to the merger agreement, the number of shares of Prudential Financial Common Stock issued at closing was determined based on a price per share of $83.71, which is equal to the weighted average price of Prudential Financial Common Stock for the 15 trading days before, and 15 trading days beginning on, September 4, 2019, the date of the merger agreement. The foregoing $454 million in shares of restricted Prudential Financial Common Stock and equity awards paid at closing was based on the $87.67 closing price per share of Prudential Financial Common Stock on the closing date.

Assurance IQ Net Assets Acquired

The assets acquired and liabilities assumed have been included in the Consolidated Financial Statements as of the acquisition date. Total assets acquired included identified intangible assets of $191 million. At the time of acquisition, the Company recognized an asset for goodwill, determined as the excess of the purchase price over the net fair value of the assets acquired and liabilities assumed, that amounted to $2,128 million, which is fully deductible for tax purposes. The value of the components within goodwill include expected revenue and cost synergies, the business model, technology capabilities, new customers, and the assembled workforce and key personnel. The valuation of the assets acquired and liabilities assumed was preliminary at the time of acquisition. In April 2020, the Company revised its purchase price allocation and adjusted the goodwill asset to $2,140 million. See Note 2 and Note 10 for additional information regarding goodwill.

Assurance IQ Contingent Consideration Liability

The contingent consideration liability referred to above is reported at fair value. Fair value is determined based on the present value of expected payments under the arrangement, using an internally-developed option pricing model based on a number of assumptions, including certain unobservable assumptions for future Variable Profits and the future price of Prudential Financial Common Stock. The fair value of the liability is updated each reporting period, with changes in fair value reported within "Other income." The fair value of the contingent consideration liability was zero and $105 million as of December 31, 2020 and 2019, respectively (see Note 6 for additional information). The stock-based component of contingent consideration impacts the share count for purposes of calculating the Company's diluted earnings per share when Assurance IQ's actual Variable Profits achieved as of the end of the reporting period is in excess of $900 million, as if the contingent consideration performance period ended on the applicable reporting date. The number of shares issued as part of the contingent consideration payable in 2023 will be based on a $83.71 price per share.

Dispositions

The Prudential Life Insurance Company of Korea, Ltd.

In August 2020, Prudential International Insurance Holdings, Ltd. ("PIIH"), a subsidiary of Prudential Financial, successfully completed the sale of The Prudential Life Insurance Company of Korea, Ltd. ("POK") to KB Financial Group Inc., for cash consideration of approximately ₩2.3 trillion, equal to approximately $1.9 billion. The Company recognized an approximate $800 million after-tax loss on the transaction in 2020.

Prudential Life Insurance Company of Taiwan Inc.

In August 2020, PIIH entered into a Share Purchase Agreement (the “Share Purchase Agreement”) with Taishin Financial Holding Co, Ltd. (the “Buyer”), pursuant to which PIIH has agreed to sell to the Buyer all of the issued and outstanding capital stock of Prudential Life Insurance Company of Taiwan Inc. (“POT”), the Company’s insurance business in Taiwan. This transaction consists of cash consideration of approximately NT$5.5 billion, equal to approximately $195 million at current exchange rates, to be paid at closing, and contingent consideration with a fair value of approximately $15 million as of December 31, 2020. The fair value of the contingent consideration is tied to the level of yields for the 10-year Taiwanese Government bond two years after the signing of the transaction and can result in a maximum payout of $100 million if yields increase by 40 basis points.

The Share Purchase Agreement contains customary warranties and covenants of PIIH and the Buyer. The Company expects the transaction to close in 2021, subject to regulatory approval and the satisfaction of customary closing conditions.

As of December 31, 2020, the Company is reporting its investment in POT as “held for sale” and recognized an estimated $350 million after-tax charge to earnings to adjust the carrying value of POT to the fair market value reflected in the purchase price. The ultimate after-tax loss will be based on balances at the closing date and could vary materially from the charge recorded in 2020. The Company intends to use the proceeds of the transaction for general corporate purposes.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

ASSETS

Fixed maturities, available-for-sale, at fair value (“AFS debt securities”) includes bonds, notes and redeemable preferred stock that are carried at fair value. See Note 6 for additional information regarding the determination of fair value. The purchased cost of fixed maturities is adjusted for amortization of premiums and accretion of discounts to maturity or, if applicable, call date.

AFS debt securities, where fair value is below amortized cost, are reviewed quarterly to determine whether the amortized cost basis of the security is recoverable. For mortgage-backed and asset-backed AFS debt securities, a credit impairment will be recognized to the extent the amortized cost exceeds the net present value of projected future cash flows (the “net present value”) for the security. For all other AFS debt securities, qualitative factors are first considered including, but not limited to, the extent of the decline and the reasons for the decline in value (e.g., credit events, currency or interest-rate related, including general credit spread widening), and the financial condition of the issuer. If analysis of these qualitative factors results in the security needing to be impaired, the credit impairment will be measured as the extent to which the amortized cost exceeds the net present value. The net present value is calculated by discounting the Company’s best estimate of projected future cash flows at the effective interest rate implicit in the AFS debt security at the date of acquisition.

Credit impairment is recognized as an allowance for credit losses and reported in “Realized investment gains (losses), net.” Once the Company has deemed all or a portion of the amortized cost uncollectible, the allowance is removed from the balance sheet by writing down the amortized cost basis of the AFS debt security.

The Company adopted Accounting Standards Update (“ASU”) 2016-13, and related ASUs, effective January 1, 2020. See “Recent Accounting Pronouncements” in this Note for additional information about the adoption. Prior to the adoption of ASU 2016-13, credit impairments were recognized as a direct write down to the cost basis of the security.

Interest income, including amortization of premium and accretion of discount, are included in “Net investment income” under the effective yield method. Prepayment premiums are also included in “Net investment income.”

For high credit quality mortgage-backed and asset-backed AFS debt securities (those rated AA or above), the amortized cost and effective yield of the securities are adjusted as necessary to reflect historical prepayment experience and changes in estimated future prepayments. The adjustments to amortized cost are recorded as a charge or credit to “Net investment income” in accordance with the retrospective method.

For mortgage-backed and asset-backed AFS debt securities rated below AA, the effective yield is adjusted prospectively for any changes in the estimated timing and amount of cash flows unless the investment is purchased with credit deterioration or an allowance is currently recorded for the respective security. If an investment is impaired, any changes in the estimated timing and amount of cash flows will be recorded as the credit impairment, as opposed to a yield adjustment. If the asset is purchased with credit deterioration (or previously impaired), the effective yield will be adjusted if there are favorable changes in cash flows subsequent to the allowance being reduced to zero. Prior to the adoption of ASU 2016-13, the effective yield was adjusted prospectively unless an impairment was recorded in the current period.

For mortgage-backed and asset-backed AFS debt securities, cash flow estimates consider the payment terms of the underlying assets backing a particular security, including interest rate and prepayment assumptions based on data from widely accepted third-party data sources or internal estimates. In addition to interest rate and prepayment assumptions, cash flow estimates also include other assumptions regarding the underlying collateral including default rates and recoveries, which vary based on the asset type and geographic location, as well as the vintage year of the security. These assumptions can significantly impact income recognition and the amount of impairment recognized in earnings and other comprehensive income (loss) ("OCI"). The payment priority of the respective security is also considered. For all other AFS debt securities, cash flow estimates are driven by assumptions regarding probability of default and estimates regarding timing and amount of recoveries associated with a default. The Company has developed these estimates using information based on its historical experience as well as using market observable data, such as industry analyst reports and forecasts, sector credit ratings and other data relevant to the collectability of a security, such as the general payment terms of the security and the security's position within the capital structure of the issuer.

The Company may use the estimated fair value of collateral, if any, as a proxy for the net present value if it believes that the security is dependent on the liquidation of collateral for recovery of its investment. If the net present value is less than the amortized cost of the investment, an allowance for losses is recognized in earnings for the difference between amortized cost and the net present value and is limited to the difference between amortized cost and fair value of the AFS debt security. Any difference between the fair value and the net present value of the debt security at the impairment measurement date remains in OCI. Changes in the allowance for losses are reported in "Realized investment gains (losses), net."

When an AFS debt security's fair value is below amortized cost and (1) the Company has the intent to sell the AFS debt security, or (2) it is more likely than not the Company will be required to sell the AFS debt security before its anticipated recovery, the amortized cost basis of the AFS debt security is written down to fair value and any previously recognized allowance is reversed. The impairment is reported in "Realized investment gains (losses), net."

The associated unrealized gains and losses, net of tax, and the effect on DAC, VOBA, DSI, future policy benefits, policyholders' account balances and policyholders' dividends that would result from the realization of unrealized gains and losses, are included in "Accumulated other comprehensive income (loss)" ("AOCI"). Each of these balances is discussed in greater detail below.

Fixed maturities, held-to-maturity, at amortized cost includes bonds that the Company has both the positive intent and ability to hold to maturity, and are carried at amortized cost, net of the current expected credit loss ("CECL") allowance ("HTM debt securities"). Interest income for HTM debt securities is computed in the same manner as interest income for AFS debt securities, both prior to and after the adoption of ASU 2016-13.

Credit impairment for HTM debt securities is recorded through a CECL allowance. The CECL allowance is generally determined based on probability of default and loss given default assumptions according to sector, credit quality and remaining time to maturity. Changes in the allowance are reported in "Realized investment gains (losses), net." Once the Company has deemed all or a portion of the amortized cost uncollectible, the uncollectible portion of the allowance is removed from the balance sheet by writing down the amortized cost basis of the security. Prior to the adoption of ASU 2016-13, credit impairments were recognized as a direct write down to the cost basis of the security and the credit impairment recognized was measured based upon the net present value of expected cash flows.

The CECL allowance represents the Company's best estimate of expected credit losses over the remaining life of the assets. The determination of the allowance considers historical credit loss experience, current conditions, and reasonable and supportable forecasts. The allowance is calculated separately for each HTM debt security.

Key inputs to the CECL model include unpaid principal balances, credit ratings, annual expected loss factors, average life adjusted for prepayment considerations, current and historical interest rate assumptions, and other factors influencing the Company's view of the current stage of the economic cycle and future economic conditions. Subjective considerations include a review of whether historical loss experience is representative of current market conditions and the Company's view of the credit cycle. Model assumptions and factors are reviewed and updated as appropriate.

Fixed maturities, trading, at fair value consists of fixed maturities with embedded features that are considered derivatives and assets contained within consolidated variable interest entities. Realized and unrealized gains and losses on these investments are reported in "Other income (loss)," and interest and dividend income from these investments is reported in "Net investment income."

Assets supporting experience-rated contractholder liabilities, at fair value includes invested assets that consist of fixed maturities, equity securities, short-term investments and cash equivalents, that support certain products included in the Retirement and International Businesses segments which are experience-rated, meaning that the investment results associated with these products are expected to ultimately accrue to contractholders. Realized and unrealized gains and losses for these investments are reported in "Other income (loss)." Interest and dividend income from these investments is reported in "Net investment income."

Equity securities, at fair value is comprised of common stock, mutual fund shares and non-redeemable preferred stock that are carried at fair value. Realized and unrealized gains and losses on these investments are reported in "Other income (loss)," and dividend income is reported in "Net investment income" on the ex-dividend date.

Effective January 1, 2018, the Company adopted ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities* using a modified retrospective method. Adoption of this ASU impacted the Company's accounting and presentation related to equity investments. The most significant impact is that the changes in fair value of equity securities previously classified as "available-for-sale" are reported in net income within "Other income (loss)" in the Consolidated Statements of Operations. The impact of this standard resulted in an increase to retained earnings of $904 million, a reduction to AOCI of $847 million, and an increase to equity of $57 million upon adoption on January 1, 2018.

Commercial mortgage and other loans consists of commercial mortgage loans, agricultural property loans, loans backed by residential properties, as well as certain other collateralized and uncollateralized loans. Loans backed by residential properties primarily include recourse loans held by the Company's international insurance operations. Uncollateralized loans primarily represent reverse dual currency loans and corporate loans held by the Company's international insurance operations.

Commercial mortgage and other loans originated and held for investment are generally carried at unpaid principal balance, net of unamortized deferred loan origination fees and expenses, and net of the CECL allowance. Certain off-balance sheet credit exposures (e.g., indemnification of serviced mortgage loans, and certain unfunded mortgage loan commitments where the Company cannot unconditionally cancel the commitment) are also subject to a CECL allowance. See Note 23 for additional information.

The Company carries certain commercial mortgage loans originated within the Company's commercial mortgage operations at fair value where the fair value option has been elected. Loans held for sale where the Company has not elected the fair value option are carried at the lower of cost or fair value. Commercial mortgage and other loans acquired, including those related to the acquisition of a business, are recorded at fair value when purchased, reflecting any premiums or discounts to unpaid principal balances. Interest income, and the amortization of the related premiums or discounts, are included in "Net investment income" under the effective yield method. Prepayment fees are also included in "Net investment income."

The CECL allowance represents the Company's best estimate of expected credit losses over the remaining life of the assets or off-balance sheet credit exposures. The determination of the allowance considers historical credit loss experience, current conditions, and reasonable and supportable forecasts. Prior to the adoption of ASU 2016-13, the allowance was based upon credit losses that were probable of occurring for recognized loans, not an estimate of credit losses that may occur over the remaining life of the asset.

The allowance is calculated separately for commercial mortgage loans, agricultural mortgage loans, and other collateralized and uncollateralized loans. For commercial mortgage and agricultural mortgage loans, the allowance is calculated using an internally developed CECL model.

Key inputs to the CECL model include unpaid principal balances, internal credit ratings, annual expected loss factors, average lives of the loans adjusted for prepayment considerations, current and historical interest rate assumptions, and other factors influencing the Company's view of the current stage of the economic cycle and future economic conditions. Subjective considerations include a review of whether historical loss experience is representative of current market conditions and the Company's view of the credit cycle. Model assumptions and factors are reviewed and updated as appropriate. Information about certain key inputs is detailed below.

Key factors in determining the internal credit ratings for commercial mortgage and agricultural mortgage loans include loan-to-value and debt-service-coverage ratios. Other factors include amortization, loan term, and estimated market value growth rate and volatility for the property type and region. The loan-to-value ratio compares the carrying amount of the loan to the fair value of the underlying property or properties collateralizing the loan, and is commonly expressed as a percentage. Loan-to-value ratios greater than 100% indicate that the carrying amount of the loan exceeds the collateral value. A loan-to-value ratio less than 100% indicates an excess of collateral value over the carrying amount of the loan. The debt service coverage ratio is a property's net operating income as a percentage of its debt service payments. Debt service coverage ratios less than 1.0 times indicate that property operations do not generate enough income to cover the loan's current debt payments. A debt service coverage ratio greater than 1.0 times indicates an excess of net operating income over the debt service payments. The values utilized in calculating these ratios are developed as part of the Company's periodic review of the commercial mortgage loan and agricultural property loan portfolios, which includes an internal appraisal of the underlying collateral value. The Company's periodic review also includes a quality re-rating process, whereby the internal quality rating originally assigned at underwriting is updated based on current loan, property and market information using a proprietary quality rating system. See Note 3 for additional information related to the loan-to-value ratios and debt service coverage ratios related to the Company's commercial mortgage and agricultural loan portfolios.

Annual expected loss rates are based on historical default and loss experience factors. Using average lives, the annual expected loss rates are converted into life-of-loan loss expectations.

When individual loans no longer have the credit risk characteristics of the commercial or agricultural mortgage loan pools, they are removed from the pools and are evaluated individually for an allowance. The allowance is determined based on the outstanding loan balance less the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

The CECL allowance on commercial mortgage and other loans can increase or decrease from period to period based on the factors noted above. The change in allowance is reported in "Realized investment gains (losses), net." As it relates to unfunded commitments that are in scope of this guidance, the CECL allowance is reported in "Other liabilities," and the change in the allowance is reported in "Realized investment gains (losses), net."

The CECL allowance for other collateralized and uncollateralized loans (e.g., corporate loans) carried at amortized cost is determined based on probability of default and loss given default assumptions by sector, credit quality and average lives of the loans. Additions to, or releases of, the allowance are reported in "Realized investment gains (losses), net."

Once the Company has deemed a portion of the amortized costs to be uncollectible, the uncollectible portion of allowance is removed from the balance sheet by writing down the amortized cost basis of the loan. The carrying amount of the loan is not adjusted for subsequent recoveries in value.

Interest received on loans that are past due is either applied against the principal or reported as net investment income based on the Company's assessment as to the collectability of the principal. The Company defines "past due" as principal or interest not collected at least 30 days past the scheduled contractual due date. See Note 3 for additional information about the Company's past due loans.

The Company discontinues accruing interest on loans after the loans become 90 days delinquent as to principal or interest payments, or earlier when the Company has doubts about collectability. When the Company discontinues accruing interest on a loan, any accrued but uncollectible interest on the loan and other loans backed by the same collateral, if any, is charged against interest income in the same period. Generally, a loan is restored to accrual status only after all delinquent interest and principal are brought current and, in the case of loans where the payment of interest has been interrupted for a substantial period, or the loan has been modified, a regular payment performance has been established.

Commercial mortgage and other loans are occasionally restructured in a troubled debt restructuring ("TDR"). These restructurings generally include one or more of the following: full or partial payoffs outside of the original contract terms; changes to interest rates; extensions of maturity; or additions or modifications to covenants. Additionally, the Company may accept assets in full or partial satisfaction of the debt as part of a TDR. When restructurings occur, they are evaluated individually to determine whether the restructuring or modification constitutes a TDR as defined by authoritative accounting guidance. If the borrower is experiencing financial difficulty and the Company has granted a concession, the restructuring, including those that involve a partial payoff or the receipt of assets in full satisfaction of the debt is deemed to be a TDR. When there is a reasonable expectation that the Company will execute a TDR, all effects of the potential restructuring are considered for the estimation of the CECL allowance.

When a loan is modified in a TDR, the CECL allowance of the loan is remeasured using the modified terms and the loan's original effective yield, and the allowance is adjusted accordingly. The loan will be evaluated to determine whether the loan no longer has similar credit risk characteristics of the commercial or agricultural mortgage loan pools and need to be evaluated for an allowance on an individual basis. Subsequent to the modification, income is recognized prospectively based on the modified terms of the loan.

In a TDR where the Company receives assets in full satisfaction of the debt, any CECL allowance is reversed and a direct write-down of the loan is recorded for the amount of the allowance, and any additional loss, net of recoveries, or any gain is recorded for the difference between the fair value of the assets received and the recorded investment in the loan. When assets are received in partial settlement, the same process is followed, and the remaining loan is evaluated prospectively for credit impairment based on the CECL allowance process noted above.

The Company's PGIM business provides commercial mortgage origination, underwriting and servicing for certain government sponsored entities ("GSEs"). The Company has agreed to indemnify the GSEs for a portion of the credit risk associated with certain of the mortgages it services. Management has established a CECL allowance that factors in historical loss information, current conditions and reasonable and supportable forecasts. The allowance also considers the remaining lives of the loans subject to the indemnification. The CECL allowance is included in "Other liabilities" and changes in the CECL allowance are reported in "Realized investment gains (losses), net." See Note 23 for additional information. Prior to the adoption of ASU 2016-13, a credit loss allowance was not required.

Policy loans represent funds loaned to policyholders up to the cash surrender value of the associated insurance policies and are carried at the unpaid principal balances due to the Company from the policyholders. Interest income on policy loans is recognized in "Net investment income" at the contract interest rate when earned. Policy loans are fully collateralized by the cash surrender value of the associated insurance policies.

Other invested assets consists of the Company's non-coupon investments in limited partnerships and limited liability companies ("LPs/LLCs"), other than operating joint ventures, as well as wholly-owned investment real estate, derivative assets and other investments. LPs/LLCs interests are accounted for using either the equity method of accounting, or at fair value with changes in fair value reported in "Other income (loss)." The Company's income from investments in LPs/LLCs accounted for using the equity method, other than the Company's investments in operating joint ventures, is included in "Net investment income." The carrying value of these investments is written down, or impaired, to fair value when a decline in value is considered to be other-than-temporary. In applying the equity method (including assessment for OTTI), the Company uses financial information provided by the investee, generally on a one to three-month lag. The Company consolidates LPs/LLCs in certain other instances where it is deemed to exercise control, or is considered the primary beneficiary of a variable interest entity. See Note 4 for additional information about VIEs.

The Company's wholly-owned investment real estate consists of real estate which the Company has the intent to hold for the production of income as well as real estate held for sale. Real estate which the Company has the intent to hold for the production of income is carried at depreciated cost less any write-downs to fair value for impairment losses and is reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. Real estate held for sale is carried at the lower of depreciated cost or fair value less estimated selling costs and is not further depreciated once classified as such. An impairment loss is recognized when the carrying value of the investment real estate exceeds the estimated undiscounted future cash flows (excluding interest charges) from the investment. At that time, the carrying value of the investment real estate is written down to fair value. Decreases in the carrying value of investment real estate held for the production of income due to OTTI are recorded in "Realized investment gains (losses), net." Depreciation on real estate held for the production of income is computed using the straight-line method over the estimated useful lives of the properties and is included in "Net investment income."

Short-term investments primarily consist of highly liquid debt instruments with a maturity of twelve months or less and greater than three months when purchased, other than those debt instruments meeting this definition that are included in "Assets supporting experience-rated contractholder liabilities, at fair value." These investments are generally carried at fair value or amortized cost that approximates fair value and include certain money market investments, funds managed similar to regulated money market funds, short-term debt securities issued by government-sponsored entities and other highly liquid debt instruments.

Realized investment gains (losses) are computed using the specific identification method with the exception of some of the Company's International Businesses portfolios, where the average cost method is used. Realized investment gains and losses are generated from numerous sources, including the sales of fixed maturity securities, investments in joint ventures and limited partnerships and other types of investments, as well as changes to the allowance for credit losses recognized in earnings. Realized investment gains and losses also reflect fair value changes on commercial mortgage loans carried at fair value, and fair value changes on embedded derivatives and free-standing derivatives that do not qualify for hedge accounting treatment. See *"Derivative Financial Instruments"* below for additional information regarding the accounting for derivatives.

Cash and cash equivalents include cash on hand, amounts due from banks, certain money market investments, funds managed similar to regulated money market funds, other debt instruments with maturities of three months or less when purchased, other than cash equivalents that are included in "Assets supporting experience-rated contractholder liabilities, at fair value," and receivables related to securities purchased under agreements to resell (see also "*Securities sold under agreements to repurchase*" below). These assets are generally carried at fair value or amortized cost which approximates fair value.

Accrued investment income primarily includes accruals of interest and dividend income from investments that have been earned but not yet received.

Deferred policy acquisition costs are costs directly related to the successful acquisition of new and renewal insurance and annuity business that have been deferred to the extent such costs are deemed recoverable from future profits. Such DAC primarily includes commissions, costs of policy issuance and underwriting, and certain other expenses that are directly related to successfully acquired contracts. In each reporting period, capitalized DAC is amortized to "Amortization of DAC," net of the accrual of imputed interest on DAC balances. DAC is subject to periodic recoverability testing. DAC, for applicable products, is adjusted for the impact of unrealized gains or losses on investments as if these gains or losses had been realized, with corresponding credits or charges included in AOCI.

For traditional participating life insurance which are included in the Closed Block, DAC is amortized over the expected life of the contracts in proportion to gross margins based on historical and anticipated future experience., Any changes in estimated gross margins on unamortized DAC are reflected in the period such that estimated gross margins are revised on a retrospective basis. DAC related to non-participating traditional individual life insurance and longevity reinsurance contracts is amortized in proportion to gross premiums.

DAC related to universal and variable life products and fixed and variable deferred annuity products are generally deferred and amortized over the expected life of the contracts in proportion to gross profits arising principally from investment margins, mortality and expense margins, and surrender charges, based on historical and anticipated future experience, which is updated periodically. The Company uses a reversion to the mean approach for equities to derive future equity return assumptions; however, if the projected equity return calculated using this approach is greater than the maximum equity return assumption, the maximum equity return is utilized. Gross profits also include impacts from the embedded derivatives associated with certain of the optional living benefit features of variable annuity contracts, and index-linked crediting features of certain universal life and annuity contracts and related hedging activities. Total gross profits include both actual gross profits and estimates of gross profits for future periods. The Company regularly evaluates and adjusts DAC balances with a corresponding charge or credit to current period earnings, representing a cumulative adjustment to all prior periods' amortization, for the impact of actual gross profits and changes in the Company's projections of estimated future gross profits. Adjustments to DAC balances include: (i) annual review of assumptions that reflect the comprehensive review of the assumptions used in estimating gross profits for future periods; (ii) quarterly adjustments for current period experience (also referred to as "experience true-up" adjustments) that reflect the impact of differences between actual gross profits for a given period and the previously estimated expected gross profits for that period; and (iii) quarterly adjustments for market performance (also referred to as "experience unlocking") that reflect the impact of changes to the Company's estimate of total gross profits to reflect actual fund performance and market conditions.

For group annuity contracts (other than single premium group annuities), acquisition costs are generally deferred and amortized over the expected life of the contracts in proportion to gross profits. For group corporate-, bank- and trust-owned life insurance contracts, acquisition costs are generally deferred and amortized in proportion to lives insured. For single premium immediate annuities with life contingencies, single premium group annuities, including non-participating group annuity contracts, and single premium structured settlements with life contingencies, all acquisition costs are charged to expense immediately because generally all premiums are recognized as revenue at the inception of the contract. For funding agreement notes contracts, single premium structured settlement contracts without life contingencies, and single premium immediate annuities without life contingencies, acquisition expenses are deferred and amortized over the expected life of the contracts using the interest method. For other group life and disability insurance contracts and guaranteed investment contracts ("GICs"), acquisition costs are expensed as incurred.

For some products, policyholders can elect to modify product benefits, features, rights or coverages by exchanging a contract for a new contract or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. These transactions are known as internal replacements. If policyholders surrender traditional life insurance policies in exchange for life insurance policies that do not have fixed and guaranteed terms, the Company immediately charges to expense the remaining unamortized DAC on the surrendered policies. For other internal replacement transactions, except those that involve the addition of a nonintegrated contract feature that does not change the existing base contract, the unamortized DAC is immediately charged to expense if the terms of the new policies are not substantially similar to those of the former policies. If the new terms are substantially similar to those of the earlier policies, the DAC is retained with respect to the new policies and amortized over the expected life of the new policies. See Note 7 for additional information regarding DAC.

Value of business acquired represents identifiable intangible assets to which a portion of the purchase price in a business acquisition is attributed under the application of purchase accounting. VOBA represents an adjustment to the stated value of in-force insurance contract liabilities to present them at fair value, determined as of the acquisition date. VOBA balances are subject to recoverability testing, in the manner in which they were acquired. The Company has established a VOBA asset primarily for its acquired life insurance products, accident and health products with fixed benefits, deferred annuity contracts, and defined contribution and defined benefit businesses. As of December 31, 2020, the majority of the VOBA balance relates to the 2011 acquisition of AIG Star Life Insurance Co., Ltd, AIG Edison Life Insurance Company, and AIG Financial Assurance Japan K.K. and AIG Edison Service Co., Ltd. (collectively, the "Star and Edison Businesses".) The Company amortizes VOBA over the anticipated life of the acquired contracts using the same methodology and assumptions used to amortize DAC. The Company records amortization of VOBA in "General and administrative expenses." VOBA, for applicable products, is adjusted for the impact of unrealized gains or losses on investments as if these gains or losses had been realized, with corresponding credits or charges included in AOCI. See Note 8 for additional information regarding VOBA.

Other assets consist primarily of prepaid pension benefit costs (see Note 18), certain restricted assets (e.g., cash and cash equivalents), trade receivables, goodwill and other intangible assets, "right-of-use" lease assets (see "*Other liabilities*" below), DSI, the Company's investments in operating joint ventures, property and equipment, reinsurance recoverables (see "*Reinsurance*" below), receivables resulting from sales of securities that had not yet settled at the balance sheet date, and trade receivables related to Assurance IQ.

Trade receivables related to Assurance IQ are reported net of the CECL allowance. The CECL allowance considers the credit quality of the counterparties and is generally determined based on probability of default and loss given default assumptions. Additions to or releases of the allowance are reported in "General and administrative expenses." Prior to the adoption of ASU 2016-13, the allowance was based upon credit losses that were probable of occurring, not an estimate of credit losses that may occur over the remaining life of the trade receivables.

Property and equipment are carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets, which generally range from 3 to 40 years.

As a result of certain acquisitions, the Company recognizes an asset for goodwill representing the excess of cost over the net fair value of the assets acquired and liabilities assumed. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. A reporting unit is an operating segment or a unit one level below the operating segment, if discrete financial information is prepared and regularly reviewed by management at that level. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill.

The Company tests goodwill for impairment annually as of December 31 and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Accounting guidance provides for an optional qualitative assessment for testing goodwill impairment that may allow companies to skip the quantitative test. The Company estimated the fair value of the reporting units by applying the quantitative test, which involves comparing each reporting unit's fair value to its carrying value including goodwill. If the fair value of a reporting unit exceeds its carrying value, the applicable goodwill is considered not to be impaired. If the carrying value exceeds fair value, an impairment charge to income is recorded for the excess. An impairment loss recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted. Management is required to make significant estimates in determining the fair value of a reporting unit including, but not limited to: projected revenues and operating margins, applicable discount and growth rates, and comparative market multiples. See Note 10 for additional information on goodwill by reporting unit.

The Company offered various types of sales inducements to policyholders related to fixed and variable deferred annuity contracts. The Company defers sales inducements and amortizes them over the expected life of the policy using the same methodology and assumptions used to amortize DAC. Sales inducement balances are subject to periodic recoverability testing. The Company records amortization of DSI in "Interest credited to policyholders' account balances." DSI, for applicable products, is adjusted for the impact of unrealized gains or losses on investments as if these gains or losses had been realized, with corresponding credits or charges included in AOCI. See Note 13 for additional information regarding sales inducements.

Identifiable intangible assets primarily include customer relationships and mortgage servicing rights and are recorded net of accumulated amortization. The Company tests identifiable intangible assets for impairment on an annual basis as of December 31 of each year or whenever events or circumstances suggest that the carrying value of an identifiable intangible asset may exceed the sum of the undiscounted cash flows expected to result from its use and eventual disposition. If this condition exists and the carrying value of an identifiable intangible asset exceeds its fair value, the excess is recognized as an impairment and is recorded as a charge against net income. Measuring intangible assets requires the use of estimates. Significant estimates include the projected net cash flow attributable to the intangible asset and the risk rate at which future net cash flows are discounted for purposes of estimating fair value, as applicable. See Note 10 for additional information regarding identifiable intangible assets.

Investments in operating joint ventures are generally accounted for under the equity method. The carrying value of these investments is written down, or impaired, to fair value when a decline in value is considered to be other-than-temporary. See Note 9 for additional information on investments in operating joint ventures.

Leases are recorded on the balance sheet as "right-of-use" assets and lease liabilities within "Other assets" and "Other liabilities" respectively. Leases are classified as either operating or finance leases and lease expense is recognized within "General and administrative expenses." As a lessee, for operating leases, total lease expense is recognized using a straight-line method. Finance leases are treated as the purchase of an asset on a financing basis. Additionally, as a lessor, for sales-type and direct financing leases, the Company derecognizes the carrying value of the leased asset that is considered to have been transferred to a lessee and records a lease receivable and residual asset ("receivable and residual" approach). See Note 11 for additional information regarding leases.

Effective January 1, 2019, the Company adopted ASU 2016-02, *Leases (Topic 842)*, using a modified retrospective approach. The impact of this standard resulted in an increase of "right-of-use" assets and lease liabilities related to existing operating leases of approximately $600 million as of January 1, 2019 on the Consolidated Financial Statements and Notes to the Consolidated Financial Statements.

Separate account assets represent segregated funds that are invested for certain policyholders, pension funds and other customers. The assets consist primarily of equity securities, fixed maturities, real estate-related investments, real estate mortgage loans, short-term investments and derivative instruments and are reported at fair value. The assets of each account are legally segregated and are not subject to claims that arise out of any other business of the Company. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. The investment income and realized investment gains or losses from separate account assets generally accrue to the policyholders and are not included in the Company's results of operations. Mortality, policy administration and surrender charges assessed against the accounts are included in "Policy charges and fee income." Asset management fees charged to the accounts are included in "Asset management and service fees." Seed money that the Company invests in separate accounts is reported in the appropriate general account asset line. Investment income and realized investment gains or losses from seed money invested in separate accounts accrue to the Company and are included in the Company's results of operations. See Note 13 for additional information regarding separate account arrangements with contractual guarantees. See also "*Separate account liabilities"* below.

LIABILITIES

Future policy benefits represent liabilities that primarily consist of the present value of estimated future payments to or on behalf of policyholders, where the timing and amount of payment depends on policyholder mortality or morbidity, less the present value of future net premiums. For individual traditional participating life insurance products, the mortality and interest rate assumptions applied are those used to calculate the policies' guaranteed cash surrender values. For life insurance, other than individual traditional participating life insurance, and annuity and disability products, expected mortality and morbidity are generally based on Company experience, industry data and/or other factors. Interest rate assumptions are based on factors such as market conditions and expected investment returns. Although mortality, morbidity and interest rate assumptions are "locked-in" upon the issuance of new insurance or annuity business with fixed and guaranteed terms, significant changes in experience or assumptions may require the Company to provide for expected future losses on a product by recognizing a premium deficiency. A premium deficiency exists when the liability for future policy benefits plus the present value of expected future gross premiums are determined to be insufficient to provide for expected future policy benefits and expenses. If a premium deficiency is recognized, the assumptions without a provision for the risk of adverse deviation as of the premium deficiency test date are locked-in and used in subsequent valuations. The net reserves continue to be subject to premium deficiency testing. In determining if a premium deficiency related to short-duration contracts exists, the Company considers, among other factors, anticipated investment income. Any adjustments to future policy benefit reserves related to net unrealized gains on securities classified as available-for-sale are included in AOCI. In certain instances, the policyholder liability for a particular line of business may not be deficient in the aggregate to trigger loss recognition, but the pattern of earnings may be such that profits are expected to be recognized in earlier years followed by losses in later years. In these situations, accounting standards require that an additional liability (Profits Followed by Losses or "PFL" liability) be recognized by an amount necessary to sufficiently offset the losses that would be recognized in later years. Historically, PFL liabilities have been predominantly associated with certain universal life contracts that measure GAAP reserves using a dynamic approach, and accordingly, are updated each quarter, using current in-force and market data, and as part of the annual assumption update, such that the liability as of each measurement date represents the Company's current estimate of the present value of the amount necessary to offset anticipated future losses. See Note 12 for additional information regarding future policy benefits.

The Company's liability for future policy benefits also includes a liability for unpaid claims and claim adjustment expenses. The Company does not establish claim liabilities until a loss has been incurred. However, unpaid claims and claim adjustment expenses include estimates of claims that the Company believes have been incurred but have not yet been reported as of the balance sheet date. The Company's liability for future policy benefits also includes net liabilities for guarantee benefits related to certain long-duration life and annuity contracts, which are discussed more fully in Note 13, and deferred profits.

Policyholders' account balances represents the contract value that has accrued to the benefit of the policyholder as of the balance sheet date. This liability is primarily associated with the accumulated account deposits, plus interest credited, less policyholder withdrawals and other charges assessed against the account balance, as applicable. These policyholders' account balances also include provision for benefits under non-life contingent payout annuities and certain unearned revenues. See Note 12 for additional information regarding policyholders' account balances. Policyholders' account balances also includes amounts representing the fair value of embedded derivative instruments associated with the index-linked features of certain universal life and annuity products. For additional information regarding the valuation of these embedded derivatives, see Note 6.

Policyholders' dividends includes dividends payable to policyholders and the policyholder dividend obligation associated with the participating policies included in the Closed Block. The dividends payable for participating policies included in the Closed Block are determined at the end of each year for the following year by the Board of Directors of The Prudential Insurance Company of America ("PICA") based on its statutory results, capital position, ratings, and the emerging experience of the Closed Block. The policyholder dividend obligation represents amounts expected to be paid to Closed Block policyholders as an additional policyholder dividend unless otherwise offset by future Closed Block performance. Any adjustments to the policyholder dividend obligation related to net unrealized gains (losses) on securities classified as available- for-sale are included in AOCI. For additional information on the policyholder dividend obligation, see Note 15. The dividends payable for policies other than the participating policies included in the Closed Block include dividends payable in accordance with certain group and individual insurance policies.

Securities sold under agreements to repurchase represent liabilities associated with securities repurchase agreements that are used primarily to earn spread income. As part of securities repurchase agreements, the Company transfers U.S. government and government agency securities to a third-party and receives cash as collateral. For securities repurchase agreements, the cash received is typically invested in cash equivalents, short-term investments or fixed maturities. Receivables associated with securities purchased under agreements to resell are generally reflected as cash equivalents. As part of securities resale agreements, the Company invests cash and receives as collateral U.S. government securities or other debt securities.

Securities repurchase and resale agreements that satisfy certain criteria are treated as secured borrowing or secured lending arrangements. These agreements are carried at the amounts at which the securities will be subsequently resold or reacquired, as specified in the respective transactions. For securities purchased under agreements to resell, the Company's policy is to take possession or control of the securities either directly or through a third-party custodian. These securities are valued daily and additional securities or cash collateral is received, or returned, when appropriate to protect against credit exposure. Securities to be resold are the same, or substantially the same, as the securities received. The majority of these transactions are with large brokerage firms and large banks. For securities sold under agreements to repurchase, the market value of the securities to be repurchased is monitored, and additional collateral is obtained where appropriate, to protect against credit exposure. The Company obtains collateral in an amount at least equal to 95% of the fair value of the securities sold. Securities to be repurchased are the same, or substantially the same, as those sold. The majority of these transactions are with highly rated money market funds. Income and expenses related to these transactions executed within the insurance companies used to earn spread income are reported as "Net investment income."

Cash collateral for loaned securities represent liabilities to return cash proceeds from security lending transactions. Securities lending transactions are used primarily to earn spread income. As part of securities lending transactions, the Company transfers U.S. and foreign debt and equity securities, as well as U.S. government and government agency securities, and receives cash as collateral. Cash proceeds from securities lending transactions are primarily used to earn spread income, and are typically invested in cash equivalents, short-term investments or fixed maturities. Securities lending transactions are treated as financing arrangements and are recorded at the amount of cash received. The Company obtains collateral in an amount equal to 102% and 105% of the fair value of the domestic and foreign securities, respectively. The Company monitors the market value of the securities loaned on a daily basis with additional collateral obtained as necessary. Substantially all of the Company's securities lending transactions are with large brokerage firms and large banks. Income and expenses associated with securities lending transactions used to earn spread income are reported as "Net investment income."

The Company also enters into securities lending transactions where non-cash collateral, typically U.S. government or Japanese government bonds, are received. The collateral received is not reported on the Company's Consolidated Statements of Financial Position. In these transactions, the Company receives a fee and obtains collateral in an amount equal to 102% and 105% of the fair value of the domestic and foreign securities, respectively. The Company monitors the market value of the securities loaned on a daily basis with additional collateral obtained as necessary. Substantially all of these transactions are with large brokerage firms and large banks. Income is reported as "Net investment income."

Income taxes primarily represents the net deferred tax liability and the Company's estimated taxes payable for the current year and open audit years.

The Company and its includible domestic subsidiaries file a consolidated federal income tax return that includes both life insurance companies and non-life insurance companies. Certain other domestic subsidiaries file separate tax returns. Subsidiaries operating outside the U.S. are taxed, and income tax expense is recorded, based on applicable foreign statutes. See Note 16 for a discussion of certain non-U.S. jurisdictions for which the Company assumes repatriation of earnings.

Items required by tax regulations to be included in the tax return may differ from the items reflected in the financial statements. As a result, the effective tax rate reflected in the financial statements may be different than the actual rate applied on the tax return. Some of these differences are permanent such as expenses that are not deductible in the Company's tax return, and some differences are temporary, reversing over time, such as valuation of insurance reserves. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future years for which the Company has already recorded the tax benefit in the Company's Consolidated Statements of Operations. Deferred tax liabilities generally represent tax expense recognized in the Company's financial statements for which payment has been deferred, or expenditures for which the Company has already taken a deduction in the Company's tax return but have not yet been recognized in the Company's financial statements. Deferred income taxes are recognized, based on enacted rates, when assets and liabilities have different values for financial statement and tax reporting purposes.

The application of U.S. GAAP requires the Company to evaluate the recoverability of the Company's deferred tax assets and establish a valuation allowance if necessary to reduce the Company's deferred tax assets to an amount that is more likely than not expected to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. See Note 16 for a discussion of factors considered when evaluating the need for a valuation allowance.

The U.S. Tax Cuts and Jobs Act of 2017 ("Tax Act of 2017") included two new tax provisions that could impact the Company's effective tax rate and cash tax payments. The Base Erosion and Anti-Abuse Tax ("BEAT") taxes modified taxable income, starting at a rate of 10% in 2019 and increasing to 12.5% in 2026, and is due if the calculated BEAT amount that is determined without the benefit of foreign and certain tax credits is greater than the regular corporate tax in any given year. In general, modified taxable income is calculated by adding back to a taxpayer's regular taxable income the amount of certain "base erosion tax benefits" with respect to payments to foreign affiliates, as well as the "base erosion percentage" of any net operating loss deductions. Final Regulations confirmed that benefit and claim payments made by our U.S. insurance business to our foreign affiliates on reinsurance assumed by the U.S. affiliates are not base erosion payments. The Global Intangible Low-Taxed Income ("GILTI") provision applies a minimum U.S. tax to earnings of consolidated foreign subsidiaries in excess of a 10% deemed return on tangible assets of foreign subsidiaries by imposing the U.S. tax rate to 50% of earnings of such foreign affiliates and provides for a partial foreign tax credit for foreign income taxes. The amount of tax in any period on GILTI can depend on annual differences between U.S. taxable income recognition rules and taxable income recognition rules in the country of operations and the overall taxable income of U.S. operations, as well as U.S. expense allocation rules which limit the amount of foreign tax credits that can be applied to reduce the U.S. tax on the GILTI provision. Under certain circumstances, the taxable income of U.S. operations may cause more than 50% of earnings of foreign affiliates to be subject to the GILTI provision. In years that the PFI consolidated federal income tax return reports a net operating loss or has a loss attributable to U.S. sources of operations, the GILTI provision would cause a loss of U.S. tax benefits for some or all of those losses, effectively increasing the tax on foreign earnings. The Company accounts for the effects of the BEAT and GILTI provisions as a period cost if and when incurred.

In December of 2017, Securities and Exchange Commission ("SEC") staff issued "SAB 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act" ("SAB 118"), which allowed registrants to record provisional amounts during a "measurement period" not to extend beyond one year. Under the relief provided by SAB 118, a company could recognize provisional amounts when it did not have the necessary information available, prepared or analyzed in reasonable detail to complete its accounting for the change in tax law. See Note 16 for a discussion of refinements to the provisional amount related to the Tax Act of 2017 included in "Total income tax expense (benefit) before equity in earnings of operating joint ventures" in 2018.

U.S. GAAP prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on tax returns. The application of this guidance is a two-step process. First, the Company determines whether it is more likely than not, based on the technical merits, that the tax position will be sustained upon examination. If a tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements. The second step is measurement. The Company measures the tax position as the largest amount of benefit that is greater than 50 percent likely to be realized upon ultimate resolution with a taxing authority that has full knowledge of all relevant information. This measurement considers the amounts and probabilities of the outcomes that could be realized upon ultimate settlement using the facts, circumstances, and information available at the reporting date.

The Company's liability for income taxes includes a liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by the Internal Revenue Service ("IRS") or other taxing jurisdictions. Audit periods remain open for review until the statute of limitations has passed. Generally, for tax years which produce net operating losses, capital losses or tax credit carryforwards ("tax attributes"), the statute of limitations does not close, to the extent of these tax attributes, until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the liability for income taxes. The Company classifies all interest and penalties related to tax uncertainties as income tax expense. See Note 16 for additional information regarding income taxes.

Effective January 1, 2018, the Company adopted ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Loss)*, which allowed a reclassification from AOCI to retained earnings for stranded effects resulting from the Tax Act of 2017. The Company elected to apply the ASU subsequent to recording the adoption impacts of ASU 2016-01 as described above. As a result, the Company reclassified stranded effects resulting from the Tax Act of 2017 by increasing AOCI and decreasing retained earnings, each by $1,653 million upon adoption on January 1, 2018. Stranded effects unrelated to the Tax Act of 2017 are generally released from AOCI when an entire portfolio of the type of item related to the stranded effect is liquidated, sold or extinguished (i.e., portfolio approach).

Short-term and long-term debt liabilities are primarily carried at an amount equal to unpaid principal balance, net of unamortized discount or premium and debt issue costs. Original-issue discount or premium and debt-issue costs are recognized as a component of interest expense over the period the debt is expected to be outstanding, using the interest method of amortization. Interest expense is generally presented within "General and administrative expenses" in the Company's Consolidated Statements of Operations. Interest expense may also be reported within "Net investment income" for certain activity, as prescribed by specialized industry guidance. Short-term debt is debt coming due in the next twelve months, including that portion of debt otherwise classified as long-term. The short-term debt caption may exclude short-term debt items for which the Company has the intent and ability to refinance on a long-term basis in the near-term. See Note 17 for additional information regarding short-term and long-term debt.

Other liabilities consist primarily of trade payables, lease liabilities (see "*Other assets*" above), pension and other employee benefit liabilities (see Note 18), derivative liabilities (see "*Derivative Financial Instruments*" below), reinsurance payables (see "*Reinsurance*" below), and payables resulting from purchases of securities that had not yet settled at the balance sheet date.

Notes issued by consolidated variable interest entities represent notes issued by certain asset-backed investment vehicles, primarily collateralized loan obligations ("CLOs"), which the Company is required to consolidate. The creditors of these VIEs do not have recourse to the Company in excess of the assets contained within the VIEs. The Company has elected the fair value option for the majority of these notes, and has based the fair value on the corresponding bank loan collateral. Changes in fair value are reported in "Other income (loss)."

Separate account liabilities primarily represent the contractholder's account balance in separate account assets and to a lesser extent borrowings of the separate account, and will be equal and offsetting to total separate account assets. See also "*Separate account assets"* above.

Commitments and contingent liabilities are accrued if it is probable that a liability has been incurred and an amount is reasonably estimable. Management evaluates whether there are incremental legal or other costs directly associated with the ultimate resolution of the matter that are reasonably estimable and, if so, they are included in the accrual. These accruals are generally reported in "Other liabilities."

REVENUES AND BENEFITS AND EXPENSES

Insurance Revenue and Expense Recognition

Premiums from individual life products, other than universal and variable life contracts, and health insurance and long-term care products are recognized when due. When premiums are due over a significantly shorter period than the period over which benefits are provided, any gross premium in excess of the net premium (i.e., the portion of the gross premium required to provide for all expected future benefits and expenses) is generally deferred and recognized into revenue in a constant relationship to insurance in force. Benefits are recorded as an expense when they are incurred. A liability for future policy benefits is recorded when premiums are recognized using the net level premium valuation methodology.

Premiums from non-participating group annuities with life contingencies, single premium structured settlements with life contingencies and single premium immediate annuities with life contingencies are recognized when due. When premiums are due over a significantly shorter period than the period over which benefits are provided, any gross premium in excess of the net premium is generally deferred and recognized into revenue based on expected future benefit payments. Benefits are recorded as an expense when they are incurred. A liability for future policy benefits is recorded when premiums are recognized using the net level premium valuation methodology.

Certain individual annuity contracts provide the contractholder a guarantee that the benefit received upon death or annuitization will be no less than a minimum prescribed amount. These benefits are accounted for as insurance contracts. The Company also provides contracts with certain living benefits which are considered embedded derivatives. See Note 13 for additional information regarding these contracts and Note 6 for information regarding the valuation of these embedded derivatives.

Amounts received as payment for universal or variable group and individual life contracts, deferred fixed or variable annuities, structured settlements and other contracts without life contingencies, and participating group annuities are reported as deposits to "Policyholders' account balances" and/or "Separate account liabilities." Revenues from these contracts are reflected in "Policy charges and fee income" consisting primarily of fees assessed during the period against the policyholders' account balances for mortality and other benefit charges, policy administration charges and surrender charges. In addition to fees, the Company earns investment income from the investment of deposits in the Company's general account portfolio. Fees assessed that represent compensation to the Company for services to be provided in future periods and certain other fees are generally deferred and amortized into revenue over the life of the related contracts in proportion to estimated gross profits. Benefits and expenses for these products include claims in excess of related account balances, expenses of contract administration, interest credited to policyholders' account balances and amortization of DAC, DSI and VOBA.

Policyholders' account balances also includes amounts representing the fair value of embedded derivative instruments associated with the index-linked features of certain universal life and annuity products. For additional information regarding the valuation of these embedded derivatives, see Note 6.

For group life, other than universal and variable group life contracts, and disability insurance, premiums are generally recognized over the period to which the premiums relate in proportion to the amount of insurance protection provided. Claim and claim adjustment expenses are recognized when incurred.

Asset management and service fees principally includes asset-based asset management fees, which are recognized in the period in which the services are performed. In certain asset management fee arrangements, the Company is entitled to receive performance-based incentive fees when the return on assets under management exceeds certain benchmark returns or other performance targets. The Company may be required to return all, or part, of such performance-based incentive fees depending on future performance of these assets relative to performance benchmarks. The Company records performance-based incentive fee revenue when the contractual terms of the asset management fee arrangement have been satisfied and it is probable that a significant reversal in the amount of the fee will not occur. Under this principle the Company records a deferred performance-based incentive fee liability to the extent it receives cash related to the performance-based incentive fee prior to meeting the revenue recognition criteria delineated above.

Other income (loss) includes realized and unrealized gains or losses from investments classified "Fixed maturities, trading, at fair value," "Assets supporting experience-rated contractholder liabilities, at fair value," "Equity securities, at fair value," and "Other invested assets" that are measured at fair value and consolidated entities that follow specialized investment company fair value accounting. "Other income (loss)" also includes gains and losses primarily related to the remeasurement of foreign currency denominated assets and liabilities, as discussed in more detail under "*Foreign Currency*" below.

Additionally, for digital insurance brokerage placement services provided by Assurance IQ, the Company earns both initial and renewal commissions as compensation for the placement of insurance policies with insurance carriers. At the effective date of the policy, the Company records within "Other income (loss)" the expected lifetime revenue for the initial and renewal commissions considering estimates of the timing of future policy cancelations. These estimates are reassessed each reporting period and any changes in estimates are reflected in the current period.

OTHER ACCOUNTING POLICIES

Share-Based Payments

The Company applies the fair value-based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee share ownership plans. Excess tax benefits (deficits) are recorded in earnings and represent the cumulative difference between the actual tax benefit realized and the amount of deferred tax assets recorded attributable to shared-based payment transactions.

The Company accounts for non-employee stock options using the fair value method in accordance with authoritative guidance and related interpretations on accounting for equity instruments that are issued to other than employees for acquiring, or in conjunction with selling, goods or services.

Earnings Per Share

Earnings per share of Common Stock for 2020, 2019 and 2018 reflects the consolidated earnings of Prudential Financial. Basic earnings per share is computed by dividing available income attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share includes the effect of all dilutive potential common shares that were outstanding during the period. See Note 20 for additional information.

Foreign Currency

The currency in which the Company prepares its financial statements (the "reporting currency") is the U.S. dollar. Assets, liabilities and results of foreign operations are recorded based on the functional currency of each foreign operation. The determination of the functional currency is based on economic facts and circumstances pertaining to each foreign operation. The local currencies of the Company's foreign operations are typically their functional currencies with the most significant exception being the Company's Japanese operations where multiple functional currencies exist.

There are two distinct processes for expressing these foreign transactions and balances in the Company's financial statements: foreign currency measurement and foreign currency translation. Foreign currency measurement is the process by which transactions in foreign currencies are expressed in the functional currency. Gains and losses resulting from foreign currency measurement are reported in current earnings in "Other income (loss)." Foreign currency translation is the process of expressing a foreign entity's functional currency financial statements in the reporting currency. Assets and liabilities of foreign operations and subsidiaries reported in currencies other than U.S. dollars are translated at the exchange rate in effect at the end of the period. Revenues, benefits and other expenses are translated at the average rate prevailing during the period. The effects of translating the statements of operations and financial position of non-U.S. entities with functional currencies other than the U.S. dollar are included, net of related qualifying hedge gains and losses and income taxes, in "Foreign currency translation adjustment," a component of AOCI.

Derivative Financial Instruments

Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices, values of securities or commodities, credit spreads, market volatility, expected returns, and liquidity. Values can also be affected by changes in estimates and assumptions, including those related to counterparty behavior and non-performance risk ("NPR") used in valuation models. Derivative financial instruments generally used by the Company include swaps, futures, forwards and options and may be exchange-traded or contracted in the over-the-counter ("OTC") market. Certain of the Company's OTC derivatives are cleared and settled through central clearing counterparties (OTC-cleared), while others are bilateral contracts between two counterparties (OTC-bilateral). Derivative positions are carried at fair value, generally by obtaining quoted market prices or through the use of valuation models.

Derivatives are used to manage the interest rate and currency characteristics of assets or liabilities and to mitigate volatility of expected non-functional currency earnings and net investments in foreign operations resulting from changes in currency exchange rates. Additionally, derivatives may be used to seek to reduce exposure to interest rate, credit, foreign currency and equity risks associated with assets held or expected to be purchased or sold, and liabilities incurred or expected to be incurred. As discussed in detail below, and in Note 5, all realized and unrealized changes in fair value of derivatives are recorded in current earnings, with the exception of cash flow hedges and hedges of net investments in foreign operations. The Company may also enter into intercompany derivatives, the results of which ultimately eliminate in consolidation over the term of the instrument; however, where applicable, derivative results are included in business gross profits which may impact the pattern by which DAC and other assets are amortized. Cash flows from derivatives are reported in the operating, investing, or financing activities sections in the Consolidated Statements of Cash Flows based on the nature and purpose of the derivative.

Derivatives are recorded either as assets, within "Other invested assets," or as liabilities, within "Other liabilities," except for embedded derivatives which are recorded with the associated host contract. The Company nets the fair value of all derivative financial instruments with counterparties for which a master netting arrangement has been executed.

The Company designates derivatives as either (1) a hedge of the fair value of a recognized asset or liability or unrecognized firm commitment ("fair value" hedge); (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge); (3) a foreign currency fair value or cash flow hedge ("foreign currency" hedge); (4) a hedge of a net investment in a foreign operation; or (5) a derivative that does not qualify for hedge accounting.

To qualify for hedge accounting treatment, a derivative must be highly effective in mitigating the designated risk of the hedged item. Effectiveness of the hedge is formally assessed at inception and throughout the life of the hedging relationship.

The Company formally documents at inception all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as fair value, cash flow, or foreign currency hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. Hedges of a net investment in a foreign operation are linked to the specific foreign operation.

When a derivative is designated as a fair value hedge and is determined to be highly effective, changes in its fair value, along with changes in the fair value of the hedged asset or liability (including losses or gains on firm commitments), are reported on a net basis in the Consolidated Statements of Operations, generally in "Realized investment gains (losses), net." When swaps are used in hedge accounting relationships, periodic settlements are recorded in the same Consolidated Statements of Operations line as the related settlements of the hedged items.

When a derivative is designated as a cash flow hedge and is determined to be highly effective, changes in its fair value are recorded in AOCI until earnings are affected by the variability of cash flows being hedged (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings). At that time, the related portion of deferred gains or losses on the derivative instrument is reclassified and reported in the Consolidated Statements of Operations line item associated with the hedged item.

When a derivative is designated as a foreign currency hedge and is determined to be highly effective, changes in its fair value are recorded either in current period earnings if the hedge transaction is a fair value hedge (e.g., a hedge of a recognized foreign currency asset or liability) or in AOCI if the hedge transaction is a cash flow hedge (e.g., a foreign currency denominated forecasted transaction). When a derivative is used as a hedge of a net investment in a foreign operation, its change in fair value is accounted for in the same manner as a translation adjustment (i.e., reported in the cumulative translation adjustment account within AOCI).

If it is determined that a derivative no longer qualifies as an effective fair value or cash flow hedge or management removes the hedge designation, the derivative will continue to be carried on the balance sheet at its fair value, with changes in fair value recognized currently in "Realized investment gains (losses), net." In this scenario, the hedged asset or liability under a fair value hedge will no longer be adjusted for changes in fair value and the existing basis adjustment is amortized to the Consolidated Statements of Operations line associated with the asset or liability. The component of AOCI related to discontinued cash flow hedges is reclassified to the Consolidated Statements of Operations line associated with the hedged cash flows consistent with the earnings impact of the original hedged cash flows.

When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, or because it is probable that the forecasted transaction will not occur by the end of the specified time period, the derivative will continue to be carried on the balance sheet at its fair value, with changes in fair value recognized currently in "Realized investment gains (losses), net." Any asset or liability that was recorded pursuant to recognition of the firm commitment is removed from the balance sheet and recognized currently in "Realized investment gains (losses), net." Gains and losses that were in AOCI pursuant to the cash flow hedge of a forecasted transaction are recognized immediately in "Realized investment gains (losses), net."

If a derivative does not qualify for hedge accounting, all changes in its fair value, including net receipts and payments, are included in "Realized investment gains (losses), net" without considering changes in the fair value of the economically associated assets or liabilities.

The Company is a party to financial instruments that contain derivative instruments that are "embedded" in the financial instruments. At inception, the Company assesses whether the economic characteristics of the embedded instrument are clearly and closely related to the economic characteristics of the remaining component of the financial instrument (i.e., the host contract) and whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded instrument possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate instrument with the same terms would qualify as a derivative instrument, the embedded instrument qualifies as an embedded derivative that is separated from the host contract, carried at fair value, and changes in its fair value are included in "Realized investment gains (losses), net." For certain financial instruments that contain an embedded derivative that otherwise would need to be bifurcated and reported at fair value, the Company may elect to carry the entire instrument at fair value and report it within "Other invested assets" or "Other liabilities."

Reinsurance

For each of its reinsurance contracts, the Company determines if the contract provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. The Company reviews all contractual features, particularly those that may limit the amount of insurance risk to which the reinsurer is subject or features that delay the timely reimbursement of claims.

The Company participates in reinsurance arrangements in various capacities as either the ceding entity or as the reinsurer (i.e., assuming entity). See Note 14 for additional information about the Company's reinsurance arrangements. Reinsurance assumed business is generally accounted for consistent with direct business. Amounts currently recoverable under reinsurance agreements are included in "Other assets" and amounts payable are included in "Other liabilities." Revenues and benefits and expenses include amounts assumed under reinsurance agreements and are reflected net of reinsurance ceded.

Reinsurance ceded arrangements do not discharge the Company as the primary insurer. Ceded balances would represent a liability of the Company in the event the reinsurers were unable to meet their obligations to the Company under the terms of the reinsurance agreements. Reinsurance recoverables are reported net of the CECL allowance. The CECL allowance considers the credit quality of the reinsurance counterparty and is generally determined based on the probability of default and loss given default assumptions, after considering any applicable collateral arrangements. Additions to or releases of the allowance are reported in "Policyholders' benefits". Prior to the adoption of ASU 2016-13, an allowance for credit losses for reinsurance recoverables was established only when it was deemed probable that a reinsurer may fail to make payments to us in a timely manner. Reinsurance premiums, commissions, expense reimbursements, benefits and reserves related to reinsured long-duration contracts under coinsurance arrangements are accounted for over the life of the underlying reinsured contracts using assumptions consistent with those used to account for the underlying contracts. Coinsurance arrangements contrast with the Company's yearly renewable term arrangements, where only mortality risk is transferred to the reinsurer and premiums are paid to the reinsurer to reinsure that risk**.** The mortality risk that is reinsured under yearly renewable term arrangements represents the difference between the stated death benefits in the underlying reinsured contracts and the corresponding reserves or account value carried by the Company on those same contracts. The premiums paid to the reinsurer are based upon negotiated amounts, not on the actual premiums paid by the underlying contract holders to the Company. As yearly renewable term arrangements are usually entered into by the Company with the expectation that the contracts will be in force for the lives of the underlying policies, they are considered to be long-duration reinsurance contracts. The cost of reinsurance for universal life products is generally recognized based on the gross assessments of the underlying direct policies. The cost of reinsurance for term insurance products is generally recognized in proportion to yearly renewable term premiums over the life of the underlying policies. The cost of reinsurance related to short-duration reinsurance contracts is accounted for over the reinsurance contract period.

If the Company determines that a reinsurance agreement does not expose the reinsurer to a reasonable possibility of a significant loss from insurance risk, the Company records the agreement using the deposit method of accounting. Deposits received are included in "Other liabilities" and deposits made are included in "Other assets". As amounts are paid or received, consistent with the underlying contracts, the deposit assets or liabilities are adjusted. Interest on such deposits is recorded as "Other income (loss)" or "General and administrative expenses," as appropriate.

RECENT ACCOUNTING PRONOUNCEMENTS

Changes to U.S. GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of Accounting Standards Updates ("ASUs") to the FASB Accounting Standards Codification ("ASC"). The Company considers the applicability and impact of all ASUs. ASUs listed below include those that have been adopted during the current fiscal year and/or those that have been issued but not yet adopted as of December 31, 2020, and as of February 19, 2021. ASUs not listed below were assessed and determined to be either not applicable or not material.

Adoption of ASU 2016-13

The Company adopted ASU 2016-13, and related ASUs, effective January 1, 2020 using the modified retrospective method for certain financial assets carried at amortized cost and certain off-balance sheet exposures. The modified retrospective method results in a cumulative effect adjustment to opening retained earnings. The Company adopted the guidance related to fixed maturities, available-for-sale on a prospective basis.

This ASU requires the use of a new current expected credit loss ("CECL") model to account for expected credit losses on certain financial assets reported at amortized cost (e.g., loans held for investment, fixed maturities held-to-maturity, reinsurance receivables, etc.) and certain off-balance sheet credit exposures (e.g., indemnification of serviced mortgage loans and certain loan commitments). The guidance requires an entity to estimate lifetime credit losses related to such financial assets and credit exposures based on relevant information about past events, current conditions, and reasonable and supportable forecasts that may affect the collectability of the reported amounts. The standard also modifies the OTTI guidance for fixed maturities, available-for-sale requiring the use of an allowance rather than a direct write-down of the investment.

The impacts of this ASU on the Company's Consolidated Financial Statements primarily include (1) A Cumulative Effect Adjustment Upon Adoption; (2) Changes to the Presentation of the Consolidated Statements of Financial Position and Consolidated Statements of Operations; and (3) Changes to Accounting Policies. Each of these impacts is described below.

(1) Cumulative Effect Adjustment Upon Adoption

Summary of Transition Impact on the Consolidated Statements of Financial Position Upon Adoption on January 1, 2020

	Increase/(Decrease)
	(in millions)
Fixed maturities, held-to-maturity	$ (9)
Commercial mortgage and other loans	(115)
Other invested assets	(1)
Deferred policy acquisition costs	9
Other assets	(6)
Total assets	**$(122)**
Policyholders' dividends	$ (14)
Other liabilities	21
Income taxes	(30)
Total liabilities	**(23)**
Retained earnings	(99)
Total equity	**(99)**
Total liabilities and equity	**$(122)**

The prospective adoption of the portions of the standard related to fixed maturities, available-for-sale resulted in no impact to opening retained earnings.

(2) Changes to the Presentation of the Consolidated Statements of Financial Position and Consolidated Statements of Operations

The allowance for credit losses is presented parenthetically on relevant line items in the Consolidated Statements of Financial Position. In the Consolidated Statements of Operations, realized investment gains (losses), net are presented on one line item and no longer reflect the breakout of OTTI on fixed maturity securities; OTTI on fixed maturity securities transferred to OCI; and other realized investment gains (losses), net. The presentation of this detail in prior periods is immaterial.

(3) Changes to Accounting Policies

The narrative description of our significant accounting policies at the beginning of this Note reflects our policies as of December 31, 2020, including the policies associated with the adoption of ASU 2016-13.

Other ASUs adopted during the year ended December 31, 2020

Standard	Description	Effective date and method of adoption	Effect on the financial statements or other significant matters
ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	This ASU simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test, which measures a goodwill impairment by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of the goodwill. Under the ASU, a goodwill impairment should be recorded for the amount by which the carrying amount of a reporting unit exceeds its fair value (capped by the total amount of goodwill allocated to the reporting unit).	January 1, 2020 using the prospective method.	The adoption of the ASU did not have a significant impact on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.

Standard	Description	Effective date and method of adoption	Effect on the financial statements or other significant matters
ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting	This ASU provides optional relief for certain contracts impacted by reference rate reform. The standard permits an entity to consider contract modification due to reference rate reform to be an event that does not require contract remeasurement at the modification date or reassessment of a previous accounting determination. The ASU also temporarily (until December 31, 2022) allows hedge relationships to continue without de-designation upon changes due to reference rate reform.	March 12, 2020 to December 31, 2022 using the prospective method.	This ASU did not have a significant impact on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements. The Company made the election under ASU 2020-04 for all applicable contracts as they converted from the current reference rate to the new reference rate.

ASU issued but not yet adopted as of December 31, 2020—ASU 2018-12

ASU 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, was issued by the FASB on August 15, 2018 and is expected to have a significant impact on the Consolidated Financial Statements and Notes to the Consolidated Financial Statements. In October 2019, the FASB issued ASU 2019-09, *Financial Services—Insurance (Topic 944): Effective Date* to affirm its decision to defer the effective date of ASU 2018-12 to January 1, 2022 (with early adoption permitted), representing a one year extension from the original effective date of January 1, 2021. As a result of the COVID-19 pandemic, in November 2020 the FASB issued ASU 2020-11, *Financial Services—Insurance (Topic 944): Effective Date and Early Application* to defer for an additional one year the effective date of ASU 2018-12 from January 1, 2022 to January 1, 2023, and to provide transition relief to facilitate the early adoption of the ASU. The transition relief would allow large calendar-year public companies that early adopt ASU 2018-12 to apply the guidance either as of January 1, 2020 or January 1, 2021 (and record transition adjustments as of January 1, 2020 or January 1, 2021, respectively) in the 2022 financial statements. Companies that do not early adopt ASU 2018-12 would apply the guidance as of January 1, 2021 (and record transition adjustments as of January 1, 2021) in the 2023 financial statements. The Company currently intends to adopt ASU 2018-12 effective January 1, 2023. ASU 2018-12 will impact, at least to some extent, the accounting and disclosure requirements for all long-duration insurance and investment contracts issued by the Company. Outlined below are four key areas of change, although there are other less significant changes not noted below. In addition to the impacts to the balance sheet upon adoption, the Company also expects an impact to how earnings emerge thereafter.

ASU 2018-12 Amended Topic	Description	Method of adoption	Effect on the financial statements or other significant matters
Cash flow assumptions used to measure the liability for future policy benefits for non-participating traditional and limited-pay insurance products	Requires an entity to review, and if necessary, update the cash flow assumptions used to measure the liability for future policy benefits, for both changes in future assumptions and actual experience, at least annually using a retrospective update method with a cumulative catch-up adjustment recorded in a separate line item in the Consolidated Statements of Operations.	An entity may choose one of two adoption methods for the liability for future policy benefits: (1) a modified retrospective transition method whereby the entity may choose to apply the amendments to contracts in force as of the beginning of the prior year (if early adoption is elected) or as of the beginning of the earliest period presented on the basis of their existing carrying amounts, adjusted for the removal of any related amounts in Accumulated other comprehensive income (loss) ("AOCI") or (2) a full retrospective transition method.	The options for method of adoption and the impacts of such methods are under assessment.

ASU 2018-12 Amended Topic	Description	Method of adoption	Effect on the financial statements or other significant matters
Discount rate assumption used to measure the liability for future policy benefits for non-participating traditional and limited-pay insurance products	Requires discount rate assumptions to be based on an upper-medium grade fixed income instrument yield, which will be updated each quarter with the impact recorded through OCI. An entity shall maximize the use of relevant observable information and minimize the use of unobservable information in determining the discount rate assumptions.	As noted above, an entity may choose either a modified retrospective transition method or full retrospective transition method for the liability for future policy benefits. Under either method, for balance sheet remeasurement purposes, the liability for future policy benefits will be remeasured using current discount rates as of either the beginning of the prior year (if early adoption is elected) or the beginning of the earliest period presented with the impact recorded as a cumulative effect adjustment to AOCI.	Upon adoption, under either transition method, there will be an adjustment to AOCI as a result of remeasuring in-force contract liabilities using current upper-medium grade fixed income instrument yields. The adjustment upon adoption will largely reflect the difference between discount rates locked-in at contract inception versus current discount rates at transition. The magnitude of such adjustment is currently being assessed.
Amortization of deferred acquisition costs (DAC) and other balances	Requires DAC and other balances, such as unearned revenue reserves and DSI, to be amortized on a constant level basis over the expected term of the related contract, independent of expected profitability.	An entity may apply one of two adoption methods: (1) a modified retrospective transition method whereby the entity may choose to apply the amendments to contracts in force as of the beginning of the prior year (if early adoption is elected) or as of the beginning of the earliest period presented on the basis of their existing carrying amounts, adjusted for the removal of any related amounts in AOCI or (2) if an entity chooses a full retrospective transition method for its liability for future policy benefits, as described above, it is required to also use a full retrospective transition method for DAC and other balances.	The options for method of adoption and the impacts of such methods are under assessment. Under the modified retrospective transition method, the Company would not expect a significant impact to the balance sheet, other than the impact of the removal of any related amounts in AOCI.
Market Risk Benefits ("MRB")	Requires an entity to measure all market risk benefits (e.g., living benefit and death benefit guarantees associated with variable annuities) at fair value, and record MRB assets and liabilities separately on the Consolidated Statements of Financial Position. Changes in fair value of market risk benefits are recorded in net income, except for the portion of the change in MRB liabilities attributable to changes in an entity's NPR, which is recognized in OCI.	An entity shall adopt the guidance for market risk benefits using the retrospective transition method, which includes a cumulative effect adjustment on the balance sheet as of either the beginning of prior year (if early adoption is elected) or the beginning of the earliest period presented. An entity shall maximize the use of relevant observable information and minimize the use of unobservable information in determining the balance of the market risk benefits upon adoption.	Upon adoption, the Company expects an impact to retained earnings for the difference between the fair value and carrying value of benefits not currently measured at fair value (e.g., guaranteed minimum death benefits on variable annuities) and an impact from reclassifying the cumulative effect of changes in NPR from retained earnings to AOCI. The magnitude of such adjustments is currently being assessed.

3. INVESTMENTS

Fixed Maturity Securities

The following tables set forth the composition of fixed maturity securities (excluding investments classified as trading), as of the dates indicated:

	December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
	(in millions)				
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 30,766	$ 9,699	$ 17	$ 0	$ 40,448
Obligations of U.S. states and their political subdivisions	10,668	2,144	1	0	12,811
Foreign government bonds	94,110	16,373	239	0	110,244
U.S. public corporate securities	95,299	18,516	213	47	113,555
U.S. private corporate securities(1)	36,894	4,196	134	19	40,937
Foreign public corporate securities	25,857	3,768	64	24	29,537
Foreign private corporate securities	28,668	3,183	226	33	31,592
Asset-backed securities(2)	14,489	176	74	0	14,591
Commercial mortgage-backed securities	15,036	1,288	11	10	16,303
Residential mortgage-backed securities(3)	2,683	205	1	0	2,887
Total fixed maturities, available-for-sale(1)	$354,470	$59,548	$980	$133	$412,905

	December 31, 2020					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses	Amortized Cost, Net of Allowance
	(in millions)					
Fixed maturities, held-to-maturity:						
Foreign government bonds	$ 935	$270	$0	$1,205	$0	$ 935
Foreign public corporate securities	651	68	0	719	9	642
Foreign private corporate securities	87	1	0	88	0	87
Residential mortgage-backed securities(3)	266	20	0	286	0	266
Total fixed maturities, held-to-maturity(4)	$1,939	$359	$0	$2,298	$9	$1,930

(1) Excludes notes with amortized cost of $5,966 million (fair value, $6,100 million), which have been offset with the associated debt under a netting agreement.
(2) Includes credit-tranched securities collateralized loan obligations, auto loans, education loans, home equity and other asset types.
(3) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.
(4) Excludes notes with amortized cost of $4,998 million (fair value, $5,821 million), which have been offset with the associated debt under a netting agreement.

	December 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI(4)
	(in millions)				
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 30,625	$ 5,195	$ 161	$ 35,659	$ 0
Obligations of U.S. states and their political subdivisions	10,068	1,437	8	11,497	0
Foreign government bonds	98,356	20,761	63	119,054	(34)
U.S. public corporate securities	87,566	11,030	257	98,339	(6)
U.S. private corporate securities(1)	34,410	2,243	120	36,533	0
Foreign public corporate securities	26,841	3,054	70	29,825	(1)
Foreign private corporate securities	27,619	1,201	580	28,240	0
Asset-backed securities(2)	13,067	147	40	13,174	(77)
Commercial mortgage-backed securities	14,978	610	14	15,574	0
Residential mortgage-backed securities(3)	3,044	159	2	3,201	(1)
Total fixed maturities, available-for-sale(1)	$346,574	$45,837	$1,315	$391,096	$(119)

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
Fixed maturities, held-to-maturity:				
Foreign government bonds	$ 891	$ 282	$ 0	$ 1,173
Foreign public corporate securities	649	64	0	713
Foreign private corporate securities	83	2	0	85
Residential mortgage-backed securities(3)	310	21	0	331
Total fixed maturities, held-to-maturity(5)	$ 1,933	$ 369	$ 0	$ 2,302

(1) Excludes notes with amortized cost of $4,751 million (fair value, $4,757 million), which have been offset with the associated debt under a netting agreement.
(2) Includes credit-tranched securities collateralized by loan obligations, auto loans, education loans, home equity and other asset types.
(3) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.
(4) Represents the amount of unrealized losses remaining in AOCI, from the impairment measurement date. Amount excludes $362 million of net unrealized gains on impaired available-for-sale securities and $1 million of net unrealized gains on impaired held-to-maturity securities relating to changes in the value of such securities subsequent to the impairment measurement date.
(5) Excludes notes with amortized cost of $4,998 million (fair value, $5,401 million), which have been offset with the associated debt under a netting agreement.

The following table sets forth the fair value and gross unrealized losses on available-for-sale fixed maturity securities without an allowance for credit losses aggregated by investment category and length of time that individual fixed maturity securities had been in a continuous unrealized loss position, as of the date indicated:

	December 31, 2020					
	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
Fixed maturities, available-for-sale:						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 750	$ 17	$ 0	$ 0	$ 750	$ 17
Obligations of U.S. states and their political subdivisions	73	1	0	0	73	1
Foreign government bonds	6,536	231	39	8	6,575	239
U.S. public corporate securities	3,905	87	1,197	106	5,102	193
U.S. private corporate securities	1,712	52	843	82	2,555	134
Foreign public corporate securities	1,412	30	376	23	1,788	53
Foreign private corporate securities	798	34	2,371	192	3,169	226
Asset-backed securities	4,132	25	4,685	49	8,817	74
Commercial mortgage-backed securities	284	8	93	3	377	11
Residential mortgage-backed securities	116	1	1	0	117	1
Total fixed maturities, available-for-sale	$19,718	$486	$9,605	$463	$29,323	$949

The following table sets forth the fair value and gross unrealized losses on fixed maturity securities aggregated by investment category and length of time that individual fixed maturity securities had been in a continuous unrealized loss position, as of the date indicated:

	December 31, 2019					
	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
Fixed maturities(1):						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 4,950	$161	$ 267	$ 0	$ 5,217	$ 161
Obligations of U.S. states and their political subdivisions	273	8	0	0	273	8
Foreign government bonds	2,332	60	126	3	2,458	63
U.S. public corporate securities	3,944	85	2,203	172	6,147	257
U.S. private corporate securities	2,283	44	1,563	76	3,846	120
Foreign public corporate securities	1,271	23	496	47	1,767	70
Foreign private corporate securities	1,466	33	5,666	547	7,132	580
Asset-backed securities	3,979	12	4,433	28	8,412	40
Commercial mortgage-backed securities	1,193	10	164	4	1,357	14
Residential mortgage-backed securities	207	1	88	1	295	2
Total	$21,898	$437	$15,006	$878	$36,904	$1,315

(1) As of December 31, 2019, there were no securities classified as held-to-maturity in a gross unrealized loss position.

As of December 31, 2020, the gross unrealized losses on fixed maturity available-for-sale securities without an allowance were composed of $636 million related to "1" highest quality or "2" high quality securities based on the National Association of Insurance Commissioners ("NAIC") or equivalent rating and $313 million related to other than high or highest quality securities based on NAIC or equivalent rating. As of December 31, 2020, the $463 million of gross unrealized losses of twelve months or more were concentrated in the Company's corporate securities within the energy, utility and finance sectors.

As of December 31, 2019, the gross unrealized losses on fixed maturity securities were composed of $973 million related to "1" highest quality or "2" high quality securities based on NAIC or equivalent rating and $342 million related to other than high or highest quality securities based on NAIC or equivalent rating. As of December 31, 2019, the $878 million of gross unrealized losses of twelve months or more were concentrated in the Company's corporate securities within the energy, consumer non-cyclical and finance sectors.

In accordance with its policy described in Note 2, the Company concluded that an adjustment to earnings for credit losses related to these fixed maturity securities was not warranted at December 31, 2020. These conclusions were based on a detailed analysis of the underlying credit and cash flows on each security. Gross unrealized losses are primarily attributable to general credit spread widening, increases in interest rates, foreign currency exchange rate movements and the financial condition or near-term prospects of the issuer. As of December 31, 2020, the Company did not intend to sell these securities, and it was not more likely than not that the Company would be required to sell these securities before the anticipated recovery of the remaining amortized cost basis.

The following table sets forth the amortized cost or amortized cost, net of allowance and fair value of fixed maturities by contractual maturities, as of the date indicated:

	December 31, 2020			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost, Net of Allowance	Fair Value
	(in millions)			
Fixed maturities:				
Due in one year or less	$ 11,534	$ 12,100	$ 120	$ 120
Due after one year through five years	51,323	55,272	526	602
Due after five years through ten years	68,938	78,293	87	89
Due after ten years(1)	190,467	233,459	931	1,201
Asset-backed securities	14,489	14,591	0	0
Commercial mortgage-backed securities	15,036	16,303	0	0
Residential mortgage-backed securities	2,683	2,887	266	286
Total	$354,470	$412,905	$1,930	$2,298

(1) Excludes available-for-sale notes with amortized cost of $5,966 million (fair value, $6,100 million) and held-to-maturity notes with amortized cost of $4,998 million (fair value, $5,821 million), which have been offset with the associated debt under a netting agreement.

Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Asset-backed, commercial mortgage-backed and residential mortgage-backed securities are shown separately in the table above, as they do not have a single maturity date.

The following table sets forth the sources of fixed maturity proceeds and related investment gains (losses), as well as losses on write-downs, impairments and the allowance for credit losses of fixed maturities, for the periods indicated:

	Years Ended December 31,		
	2020	2019	2018
	(in millions)		
Fixed maturities, available-for-sale:			
Proceeds from sales(1)	$21,013	$32,283	$38,230
Proceeds from maturities/prepayments	23,563	20,036	21,207
Gross investment gains from sales and maturities	1,690	1,715	1,412
Gross investment losses from sales and maturities	(524)	(434)	(905)
OTTI recognized in earnings(2)	N/A	(315)	(279)
Write-downs recognized in earnings(3)	(304)	N/A	N/A
(Addition to) release of allowance for credit losses(4)	(133)	N/A	N/A
Fixed maturities, held-to-maturity:			
Proceeds from maturities/prepayments(5)	$ 88	$ 99	$ 94
(Addition to) release of allowance for credit losses(4)	0	N/A	N/A

(1) Includes $470 million, $13 million and $(238) million of non-cash related proceeds due to the timing of trade settlements for the years ended December 31, 2020, 2019 and 2018, respectively.
(2) For the years ended December 31, 2019 and 2018, amounts exclude the portion of OTTI amounts remaining in OCI, representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(3) For the year ended December 31, 2020, amounts represent write-downs of credit adverse securities, write-downs on securities approaching maturity related to foreign exchange movements and securities actively marketed for sale.
(4) Effective January 1, 2020, credit losses on available-for-sale and held-to-maturity fixed maturity securities are recorded within the “allowance for credit losses”.
(5) Includes less than $1 million, less than $(1) million and less than $(1) million of non-cash related proceeds due to the timing of trade settlements for the years ended December 31, 2020, 2019 and 2018, respectively.

The following tables set forth the activity in the allowance for credit losses for fixed maturity securities, as of the date indicated:

	Year Ended December 31, 2020						
	U.S. Treasury Securities and Obligations of U.S. States	Foreign Government Bonds	U.S. and Foreign Corporate Securities	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Total
	(in millions)						
Fixed maturities, available-for-sale:							
Balance, beginning of period	$0	$ 0	$ 0	$0	$ 0	$0	$ 0
Additions to allowance for credit losses not previously recorded	0	39	255	0	1	0	295
Reductions for securities sold during the period	0	(39)	(126)	0	0	0	(165)
Additions (reductions) on securities with previous allowance	0	0	5	0	9	0	14
Write-downs charged against the allowance	0	0	(11)	0	0	0	(11)
Balance, end of period	$0	$ 0	$ 123	$0	$10	$0	$ 133

	Year Ended December 31, 2020						
	U.S. Treasury Securities and Obligations of U.S. States	Foreign Government Bonds	U.S. and Foreign Corporate Securities	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Total
	(in millions)						
Fixed maturities, held-to-maturity:							
Balance, beginning of period	$0	$0	$0	$0	$0	$0	$0
Cumulative effect of adoption of ASU 2016-13	0	0	9	0	0	0	9
Balance, end of period	$0	$0	$9	$0	$0	$0	$9

See Note 2 for additional information about the Company's methodology for developing our allowance and expected losses.

For the year ended December 31, 2020, the increase in the allowance for credit losses on available-for-sale securities was primarily related to adverse projected cash flows on public and private corporate securities.

The Company did not have any fixed maturity securities purchased with credit deterioration, as of December 31, 2020.

Assets Supporting Experience-Rated Contractholder Liabilities

The following table sets forth the composition of "Assets supporting experience-rated contractholder liabilities," as of the dates indicated:

	December 31, 2020		December 31, 2019	
	Amortized Cost or Cost	Fair Value	Amortized Cost or Cost	Fair Value
	(in millions)			
Short-term investments and cash equivalents	$ 658	$ 658	$ 277	$ 277
Fixed maturities:				
Corporate securities	14,442	15,472	13,143	13,603
Commercial mortgage-backed securities	1,743	1,839	1,845	1,896
Residential mortgage-backed securities(1)	964	1,018	1,134	1,158
Asset-backed securities(2)	1,665	1,697	1,639	1,662
Foreign government bonds	934	945	802	814
U.S. government authorities and agencies and obligations of U.S. states	371	443	341	397
Total fixed maturities(3)	20,119	21,414	18,904	19,530
Equity securities	1,661	2,043	1,465	1,790
Total assets supporting experience-rated contractholder liabilities(4)	$22,438	$24,115	$20,646	$21,597

(1) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.
(2) Includes collateralized loan obligations, auto loans, education loans, home equity and other asset types. Collateralized loan obligations at fair value were $1,102 million and $1,060 million as of December 31, 2020 and 2019, respectively, all of which were rated AAA.
(3) As a percentage of amortized cost, 94% of the portfolio was considered high or highest quality based on NAIC or equivalent ratings, as of both December 31, 2020 and 2019.
(4) As a percentage of amortized cost, 79% and 77% of the portfolio consisted of public securities as of December 31, 2020 and 2019, respectively.

The net change in unrealized gains (losses) from assets supporting experience-rated contractholder liabilities still held at period end, recorded within "Other income (loss)," was $726 million, $996 million and $(778) million during the years ended December 31, 2020, 2019 and 2018, respectively.

Equity Securities

The net change in unrealized gains (losses) from equity securities still held at period end, recorded within "Other income (loss)," was $205 million, $943 million and $(1,157) million during the years ended December 31, 2020, 2019 and 2018, respectively.

Concentrations of Financial Instruments

The Company monitors its concentrations of financial instruments and mitigates credit risk by maintaining a diversified investment portfolio which limits exposure to any single issuer.

As of the dates indicated, the Company's exposure to concentrations of credit risk of single issuers greater than 10% of the Company's equity included securities of the U.S. government and certain U.S. government agencies and securities guaranteed by the U.S. government, as well as the securities disclosed below:

	December 31, 2020		December 31, 2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Investments in Japanese government and government agency securities:				
Fixed maturities, available-for-sale	$80,273	$92,764	$74,118	$89,546
Fixed maturities, held-to-maturity	912	1,173	869	1,143
Fixed maturities, trading	25	25	23	23
Assets supporting experience-rated contractholder liabilities	849	855	653	664
Total	$82,059	$94,817	$75,663	$91,376

	December 31, 2020		December 31, 2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Investments in South Korean government and government agency securities:				
Fixed maturities, available-for-sale	$26	$33	$10,823	$13,322
Assets supporting experience-rated contractholder liabilities	15	16	15	16
Total	$41	$49	$10,838	$13,338

The decrease in South Korean government and government agency securities from December 31, 2019 to December 31, 2020 was due to the sale of POK, which was completed in August 2020.

Commercial Mortgage and Other Loans

The following table sets forth the composition of "Commercial mortgage and other loans," as of the dates indicated:

	December 31, 2020		December 31, 2019	
	Amount (in millions)	% of Total	Amount (in millions)	% of Total
Commercial mortgage and agricultural property loans by property type:				
Office	$12,750	19.7%	$13,462	21.4%
Retail	7,326	11.3	8,379	13.3
Apartments/Multi-Family	18,330	28.3	17,348	27.6
Industrial	14,954	23.1	13,226	21.1
Hospitality	2,395	3.7	2,415	3.9
Other	4,981	7.7	4,533	7.2
Total commercial mortgage loans	60,736	93.8	59,363	94.5
Agricultural property loans	4,048	6.2	3,472	5.5
Total commercial mortgage and agricultural property loans	64,784	100.0%	62,835	100.0%
Allowance for credit losses	(227)		(117)	
Total net commercial mortgage and agricultural property loans	64,557		62,718	
Other loans:				
Uncollateralized loans	655		656	
Residential property loans	101		124	
Other collateralized loans	120		65	
Total other loans	876		845	
Allowance for credit losses	(8)		(4)	
Total net other loans	868		841	
Total net commercial mortgage and other loans(1)	$65,425		$63,559	

(1) Includes loans held for sale which are carried at fair value and are collateralized primarily by apartment complexes. As of December 31, 2020 and 2019, the net carrying value of these loans was $1,092 million and $228 million, respectively.

As of December 31, 2020, the commercial mortgage and agricultural property loans were secured by properties geographically dispersed throughout the United States (with the largest concentrations in California (28%), Texas (8%) and New York (7%)) and included loans secured by properties in Europe (8%), Australia (2%) and Asia (2%).

The following table sets forth the activity in the allowance for credit losses for commercial mortgage and other loans, as of the dates indicated:

	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
			(in millions)			
Balance at December 31, 2017	$ 97	$3	$ 1	$0	$ 5	$106
Addition to (release of) allowance for credit losses	23	0	(1)	0	0	22
Charge-offs, net of recoveries	0	0	0	0	0	0
Balance at December 31, 2018	120	3	0	0	5	128
Addition to (release of) allowance for credit losses	(5)	0	0	0	(1)	(6)
Charge-offs, net of recoveries	(1)	0	0	0	0	(1)
Balance at December 31, 2019	114	3	0	0	4	121
Cumulative effect of adoption of ASU 2016-13	110	5	0	0	0	115
Addition to (release of) allowance for expected losses	1	1	0	0	1	3
Write-downs charged against allowance	(7)	0	0	0	0	(7)
Other	0	0	0	3	0	3
Balance at December 31, 2020	$218	$9	$ 0	$3	$ 5	$235

See Note 2 for additional information about the Company's methodology for developing our allowance and expected losses.

For the year ended December 31, 2020, the increase in the allowance for credit losses on commercial mortgage and other loans was primarily related to the cumulative effect of adoption of ASU 2016-13.

The following tables set forth key credit quality indicators based upon the recorded investment gross of allowance for credit losses, as of the date indicated:

	December 31, 2020						
	Amortized Cost by Origination Year						
	2020	2019	2018	2017	2016	Prior	Total
	(in millions)						
Commercial Mortgage Loans							
Loan-to-Value Ratio:							
0%-59.99%	$ 828	$ 2,693	$3,217	$3,854	$3,223	$15,360	$29,175
60%-69.99%	2,678	4,981	4,291	2,239	2,667	4,058	20,914
70%-79.99%	2,492	2,587	1,500	1,057	918	1,409	9,963
80% or greater	23	3	61	69	23	505	684
Total	$6,021	$10,264	$9,069	$7,219	$6,831	$21,332	$60,736
Debt Service Coverage Ratio:							
Greater or Equal to 1.2x	$5,901	$ 9,429	$8,587	$6,954	$6,382	$18,904	$56,157
1.0 - 1.2x	118	711	383	263	384	1,719	3,578
Less than 1.0x	2	124	99	2	65	709	1,001
Total	$6,021	$10,264	$9,069	$7,219	$6,831	$21,332	$60,736
Agricultural Property Loans							
Loan-to-Value Ratio:							
0%-59.99%	$ 956	$ 494	$ 349	$ 527	$ 367	$ 1,254	$ 3,947
60%-69.99%	8	51	39	3	0	0	101
70%-79.99%	0	0	0	0	0	0	0
80% or greater	0	0	0	0	0	0	0
Total	$ 964	$ 545	$ 388	$ 530	$ 367	$ 1,254	$ 4,048
Debt Service Coverage Ratio:							
Greater or Equal to 1.2x	$ 941	$ 544	$ 381	$ 468	$ 308	$ 1,202	$ 3,844
1.0 - 1.2x	23	0	1	59	1	40	124
Less than 1.0x	0	1	6	3	58	12	80
Total	$ 964	$ 545	$ 388	$ 530	$ 367	$ 1,254	$ 4,048

Commercial mortgage loans

	December 31, 2019			
	Debt Service Coverage Ratio			
	> 1.2X	1.0X to <1.2X	< 1.0X	Total
	(in millions)			
Loan-to-Value Ratio:				
0%-59.99%	$31,027	$ 701	$217	$31,945
60%-69.99%	17,090	1,145	42	18,277
70%-79.99%	8,020	719	28	8,767
80% or greater	209	143	22	374
Total commercial mortgage loans	$56,346	$2,708	$309	$59,363

Agricultural property loans

	December 31, 2019			
	Debt Service Coverage Ratio			
	> 1.2X	1.0X to <1.2X	< 1.0X	Total
	(in millions)			
Loan-to-Value Ratio:				
0%-59.99%	$3,289	$57	$14	$3,360
60%-69.99%	112	0	0	112
70%-79.99%	0	0	0	0
80% or greater	0	0	0	0
Total agricultural property loans	$3,401	$57	$14	$3,472

See Note 2 for additional information about the Company's commercial mortgage and other loans credit quality monitoring process.

The following tables set forth an aging of past due commercial mortgage and other loans based upon the recorded investment gross of allowance for credit losses, as well as the amount of commercial mortgage and other loans on non-accrual status, as of the dates indicated:

	December 31, 2020						
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due(1)	Total Past Due	Total Loans	Non-Accrual Status(2)
	(in millions)						
Commercial mortgage loans	$60,614	$ 3	$119	$ 0	$122	$60,736	$ 5
Agricultural property loans	3,996	37	0	15	52	4,048	15
Residential property loans	99	1	0	1	2	101	1
Other collateralized loans	120	0	0	0	0	120	0
Uncollateralized loans	655	0	0	0	0	655	0
Total	$65,484	$41	$119	$16	$176	$65,660	$21

(1) As of December 31, 2020, there were no loans in this category accruing interest.
(2) For additional information regarding the Company's policies for accruing interest on loans, see Note 2.

	December 31, 2019						
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due(1)	Total Past Due	Total Loans	Non-Accrual Status(2)
	(in millions)						
Commercial mortgage loans	$59,363	$0	$0	$ 0	$ 0	$59,363	$44
Agricultural property loans	3,458	1	0	13	14	3,472	13
Residential property loans	121	1	0	2	3	124	2
Other collateralized loans	65	0	0	0	0	65	0
Uncollateralized loans	656	0	0	0	0	656	0
Total	$63,663	$2	$0	$15	$17	$63,680	$59

(1) As of December 31, 2019, there were no loans in this category accruing interest.
(2) For additional information regarding the Company's policies for accruing interest on loans, see Note 2.

Loans on non-accrual status recognized interest income of $2 million for the year ended December 31, 2020, and $15 million of these loans did not have a related allowance for credit losses as of December 31, 2020.

The Company did not have any losses on commercial mortgage and other loans purchased with credit deterioration, as of December 31, 2020.

Other Invested Assets

The following table sets forth the composition of "Other invested assets," as of the dates indicated:

	December 31, 2020	December 31, 2019
	(in millions)	
LPs/LLCs:		
Equity method:		
Private equity	$ 4,605	$ 3,625
Hedge funds	2,451	1,947
Real estate-related	1,691	1,372
Subtotal equity method	8,747	6,944
Fair value:		
Private equity	1,786	1,705
Hedge funds	2,036	2,172
Real estate-related	314	336
Subtotal fair value	4,136	4,213
Total LPs/LLCs	12,883	11,157
Real estate held through direct ownership(1)	2,027	2,388
Derivative instruments	1,915	877
Other(2)	1,300	1,184
Total other invested assets	$18,125	$15,606

(1) As of December 31, 2020 and 2019, real estate held through direct ownership had mortgage debt of $409 million and $537 million, respectively.
(2) Primarily includes strategic investments made by investment management operations, leveraged leases and member and activity stock held in the Federal Home Loan Banks of New York and Boston. For additional information regarding the Company's holdings in the Federal Home Loan Banks of New York and Boston, see Note 17.

In certain investment structures, the Company's investment management business invests with other co-investors in an investment fund referred to as a feeder fund. In these structures, the invested capital of several feeder funds is pooled together and used to purchase ownership interests in another fund, referred to as a master fund. The master fund utilizes this invested capital and, in certain cases, other debt financing, to purchase various classes of assets on behalf of its investors. Specialized industry accounting for investment companies calls for the feeder fund to reflect its investment in the master fund as a single net asset equal to its proportionate share of the net assets of the master fund, regardless of its level of interest in the master fund. In cases where the Company consolidates the feeder fund, it retains the feeder fund's net asset presentation and reports the consolidated feeder fund's proportionate share of the net assets of the master fund in "Other invested assets," with any unaffiliated investors' non-controlling interest in the feeder fund reported in "Other liabilities" or "Noncontrolling interests." The consolidated feeder funds' investments in these master funds, reflected on this net asset basis, totaled $459 million and $428 million as of December 31, 2020 and 2019, respectively. There was $201 million and $230 million of unaffiliated interest in the consolidated feeder funds as of December 31, 2020 and 2019, respectively, and the master funds had gross assets of $54,123 million and $89,313 million, respectively, and gross liabilities of $50,706 million and $86,471 million, respectively, which are not included on the Company's balance sheet.

Equity Method Investments

The following tables set forth summarized combined financial information for significant LP/LLC interests accounted for under the equity method, including the Company's investments in operating joint ventures that are described in more detail in Note 9. Changes between periods in the tables below reflect changes in the activities within the operating joint ventures and LPs/LLCs, as well as changes in the Company's level of investment in such entities:

	December 31, 2020	December 31, 2019
	(in millions)	
STATEMENTS OF FINANCIAL POSITION		
Total assets(1)	$424,712	$313,828
Total liabilities(2)	$ 35,705	$ 19,274
Partners' capital	389,007	294,554
Total liabilities and partners' capital	$424,712	$313,828
Total liabilities and partners' capital included above	$ 9,475	$ 7,438
Equity in LP/LLC interests not included above	666	814
Carrying value	$ 10,141	$ 8,252

(1) Amount represents gross assets of each fund where the Company has a significant investment. These assets consist primarily of investments in real estate, investments in securities and other miscellaneous assets.
(2) Amount represents gross liabilities of each fund where the Company has a significant investment. These liabilities consist primarily of third-party-borrowed funds, securities repurchase agreements and other miscellaneous liabilities.

	Years Ended December 31,		
	2020	2019	2018
	(in millions)		
STATEMENTS OF OPERATIONS			
Total revenue(1)	$42,964	$11,430	$ 6,264
Total expenses(2)	(8,887)	(5,800)	(3,222)
Net earnings (losses)	$34,077	$ 5,630	$ 3,042
Equity in net earnings (losses) included above	$ 744	$ 525	$ 233
Equity in net earnings (losses) of LP/LLC interests not included above	28	11	14
Total equity in net earnings (losses)	$ 772	$ 536	$ 247

(1) Amount represents gross revenue of each fund where the Company has a significant investment. This revenue consists of income from investments in real estate, investments in securities and other income.
(2) Amount represents gross expenses of each fund where the Company has a significant investment. These expenses consist primarily of interest expense, investment management fees, salary expenses and other expenses.

Accrued Investment Income

The following table sets forth the composition of "Accrued investment income," as of the date indicated:

	December 31, 2020
	(in millions)
Fixed maturities	$2,676
Equity securities	7
Commercial mortgage and other loans	205
Policy loans	274
Other invested assets	27
Short-term investments and cash equivalents	4
Total accrued investment income	$3,193

There was less than $1 million of write-downs on accrued investment income for the year ended December 31, 2020.

Net Investment Income

The following table sets forth "Net investment income" by investment type, for the periods indicated:

	Years Ended December 31,		
	2020	2019	2018
	(in millions)		
Fixed maturities, available-for-sale(1)	$12,339	$12,644	$11,989
Fixed maturities, held-to-maturity(1)	235	232	226
Fixed maturities, trading	126	149	143
Assets supporting experience-rated contractholder liabilities	700	731	722
Equity securities	162	160	164
Commercial mortgage and other loans	2,485	2,584	2,352
Policy loans	584	619	622
Other invested assets	1,318	1,005	519
Short-term investments and cash equivalents	197	453	345
Gross investment income	18,146	18,577	17,082
Less: investment expenses	(736)	(992)	(906)
Net investment income	$17,410	$17,585	$16,176

(1) Includes income on credit-linked notes which are reported on the same financial statement line items as related surplus notes, as conditions are met for right to offset.

The carrying value of non-income producing assets included $389 million in available-for-sale fixed maturities, $29 million in assets supporting experience-rated contractholder liabilities and less than $1 million in trading fixed maturities as of December 31, 2020. Non-income producing assets represent investments that had not produced income for the twelve months preceding December 31, 2020.

Realized Investment Gains (Losses), Net

The following table sets forth "Realized investment gains (losses), net" by investment type, for the periods indicated:

	Years Ended December 31,		
	2020	2019	2018
	(in millions)		
Fixed maturities(1)	$ 729	$ 966	$ 228
Commercial mortgage and other loans	103	44	49
Investment real estate	(16)	78	84
LPs/LLCs	2	(38)	17
Derivatives	(4,715)	(1,513)	1,597
Other	10	4	2
Realized investment gains (losses), net	$(3,887)	$ (459)	$1,977

(1) Includes fixed maturity securities classified as available-for-sale and held-to-maturity and excludes fixed maturity securities classified as trading.

Net Unrealized Gains (Losses) on Investments within AOCI

The following table sets forth net unrealized gains (losses) on investments, as of the dates indicated:

	December 31,		
	2020	2019	2018
	(in millions)		
Fixed maturity securities, available-for-sale—with OTTI(1)	$ N/A	$ 243	$ 190
Fixed maturity securities, available-for-sale—all other(1)	N/A	44,279	21,721
Fixed maturity securities, available-for-sale with an allowance	(25)	N/A	N/A
Fixed maturity securities, available-for-sale without an allowance	58,593	N/A	N/A
Derivatives designated as cash flow hedges(2)	(168)	832	811
Derivatives designated as fair value hedges(2)	10	0	0
Other investments(3)	7	(15)	(2)
Net unrealized gains (losses) on investments	$58,417	$45,339	$22,720

(1) Effective January 1, 2020, per ASU 2016-13, fixed maturity securities, available-for-sale are no longer required to be disclosed "with OTTI" and "all other."
(2) For additional information on cash flow and fair value hedges, see Note 5.
(3) As of December 31, 2020, there were no net unrealized losses on held-to-maturity securities that were previously transferred from available-for-sale. Includes net unrealized gains on certain joint ventures that are strategic in nature and are included in "Other assets."

Repurchase Agreements and Securities Lending

In the normal course of business, the Company sells securities under agreements to repurchase and enters into securities lending transactions. The following table sets forth the composition of "Securities sold under agreements to repurchase," as of the dates indicated:

	December 31, 2020			December 31, 2019		
	Remaining Contractual Maturities of the Agreements			Remaining Contractual Maturities of the Agreements		
	Overnight & Continuous	Up to 30 Days	Total	Overnight & Continuous	Up to 30 Days	Total
	(in millions)					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 9,548	$546	$10,094	$9,431	$0	$9,431
Commercial mortgage-backed securities	463	0	463	0	0	0
Residential mortgage-backed securities	337	0	337	250	0	250
Total securities sold under agreements to repurchase(1)	$10,348	$546	$10,894	$9,681	$0	$9,681

(1) The Company did not have any agreements with remaining contractual maturities greater than thirty days, as of the dates indicated.

The following table sets forth the composition of "Cash collateral for loaned securities" which represents the liability to return cash collateral received for the following types of securities loaned, as of the dates indicated:

	December 31, 2020			December 31, 2019		
	Remaining Contractual Maturities of the Agreements			Remaining Contractual Maturities of the Agreements		
	Overnight & Continuous	Up to 30 Days	Total	Overnight & Continuous	Up to 30 Days	Total
	(in millions)					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$0	$ 0	$ 9	$0	$ 9
Obligations of U.S. states and their political subdivisions	108	0	108	33	0	33
Foreign government bonds	426	0	426	244	0	244
U.S. public corporate securities	2,360	0	2,360	2,996	0	2,996
Foreign public corporate securities	567	0	567	762	0	762
Commercial mortgage-backed securities	0	0	0	2	0	2
Equity securities	38	0	38	167	0	167
Total cash collateral for loaned securities(1)	$3,499	$0	$3,499	$4,213	$0	$4,213

(1) The Company did not have any agreements with remaining contractual maturities greater than thirty days, as of the dates indicated.

Securities Pledged

The Company pledges as collateral investment securities it owns to unaffiliated parties through certain transactions, including securities lending, securities sold under agreements to repurchase, collateralized borrowings and postings of collateral with derivative counterparties. The following table sets forth the carrying value of investments pledged to third parties, as of the dates indicated:

	December 31,	
	2020	2019
	(in millions)	
Fixed maturities(1)	$19,608	$15,109
Fixed maturities, trading	67	58
Assets supporting experience-rated contractholder liabilities	29	22
Separate account assets	3,191	2,547
Equity securities	416	543
Other	450	445
Total securities pledged	$23,761	$18,724

(1) Includes fixed maturity securities classified as available-for-sale and held-to-maturity and excludes fixed maturity securities classified as trading.

The following table sets forth the carrying amount of the associated liabilities supported by the pledged collateral, as of the dates indicated:

	December 31,	
	2020	2019
	(in millions)	
Securities sold under agreements to repurchase	$10,894	$ 9,681
Cash collateral for loaned securities	3,499	4,213
Separate account liabilities	3,249	2,624
Total liabilities supported by the pledged collateral	$17,642	$16,518

In the normal course of its business activities, the Company accepts collateral that can be sold or repledged. The primary sources of this collateral are securities in customer accounts, securities purchased under agreements to resell and postings of collateral from OTC derivative counterparties. The fair value of this collateral was approximately $8,872 million as of December 31, 2020 (the largest components of which included $252 million of securities and $8,620 million of cash from OTC derivative counterparties) and $7,729 million as of December 31, 2019 (the largest components of which included $1,012 million of securities and $6,717 million of cash from OTC derivative counterparties). A portion of the aforementioned securities, for both periods, had either been sold or repledged.

Assets on Deposit, Held in Trust, and Restricted as to Sale

The following table provides assets on deposit, assets held in trust, and securities restricted as to sale, as of the dates indicated:

	December 31, 2020	December 31, 2019
	(in millions)	
Assets on deposit with governmental authorities or trustees	$ 31	$ 30
Assets held in voluntary trusts(1)	539	58
Assets held in trust related to reinsurance and other agreements(2)	16,614	14,897
Securities restricted as to sale(3)	153	36
Total assets on deposit, assets held in trust and securities restricted as to sale	$17,337	$15,021

(1) Represents assets held in voluntary trusts established primarily to fund guaranteed dividends to certain policyholders and to fund certain employee benefits.
(2) Represents assets held in trust related to reinsurance agreements excluding reinsurance agreements between wholly-owned subsidiaries. Assets valued at $34.0 billion and $21.7 billion were held in trust related to reinsurance agreements between wholly-owned subsidiaries as of December 31, 2020 and 2019, respectively.
(3) Includes member and activity stock associated with memberships in the Federal Home Loan Banks of New York and Boston.

4. VARIABLE INTEREST ENTITIES

In the normal course of its activities, the Company enters into relationships with various special-purpose entities and other entities that are deemed to be VIEs. A VIE is an entity that either (1) has equity investors that lack certain essential characteristics of a controlling financial interest (including the ability to control activities of the entity, the obligation to absorb the entity's expected losses and the right to receive the entity's expected residual returns) or (2) lacks sufficient equity to finance its own activities without financial support provided by other entities, which in turn would be expected to absorb at least some of the expected losses of the VIE.

The Company is the primary beneficiary if the Company has (1) the power to direct the activities of the VIE that most significantly impact the economic performance of the entity and (2) the obligation to absorb losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could be potentially significant. If the Company determines that it is the VIE's primary beneficiary, it consolidates the VIE.

Consolidated Variable Interest Entities

The Company is the investment manager of certain asset-backed investment vehicles, commonly referred to as CLOs, and certain other vehicles for which the Company earns fee income for investment management services. The Company may sell or syndicate investments through these vehicles, principally as part of the strategic investing activity of the Company's investment management businesses. Additionally, the Company may invest in securities issued by these vehicles. The Company is also the investment manager of certain investment structures whose beneficial interests are wholly-owned by consolidated subsidiaries.

The Company has analyzed these relationships and determined that for certain CLOs and other investment structures it is the primary beneficiary and consolidates these entities. This analysis includes a review of (1) the Company's rights and responsibilities as investment manager and (2) variable interests (if any) held by the Company. The assets of these VIEs are restricted and must be used first to settle liabilities of the VIE. The Company is not required to provide, and has not provided, material financial or other support to any of these VIEs.

Additionally, the Company is the primary beneficiary of certain VIEs in which the Company has invested, as part of its investment activities, but for which it is not the investment manager. These include structured investments issued by a VIE that manages yen-denominated investments coupled with cross-currency coupon swap agreements thereby creating synthetic dual currency investments. The Company's involvement in the structuring of these investments combined with its economic interest indicates that the Company is the primary beneficiary. The Company has not provided material financial support or other support that was not contractually required to these VIEs.

The table below reflects the carrying amount and balance sheet caption in which the assets and liabilities of consolidated VIEs are reported. The liabilities primarily comprise obligations under debt instruments issued by the VIEs. The creditors of these VIEs do not have recourse to the Company in excess of the assets contained within the VIEs.

	Consolidated VIEs for which the Company is the Investment Manager(1)		Other Consolidated VIEs(1)	
	December 31,		December 31,	
	2020	2019	2020	2019
	(in millions)			
Fixed maturities, available-for-sale	$ 110	$ 104	$ 296	$ 285
Fixed maturities, held-to-maturity	87	83	882	839
Fixed maturities, trading	160	1,112	0	0
Assets supporting experience-rated contractholder liabilities	0	0	0	4
Equity securities	42	47	0	0
Commercial mortgage and other loans	975	883	0	0
Other invested assets	2,221	2,199	127	89
Cash and cash equivalents	101	166	0	0
Accrued investment income	2	4	4	4
Other assets	594	450	768	689
Total assets of consolidated VIEs	$4,292	$5,048	$2,077	$1,910
Other liabilities	$ 256	$ 304	$ 2	$ 13
Notes issued by consolidated VIEs(2)	305	1,274	0	0
Total liabilities of consolidated VIEs	$ 561	$1,578	$ 2	$ 13

(1) Total assets of consolidated VIEs reflect $2,538 million and $2,668 million as of December 31, 2020 and 2019, respectively, related to VIEs whose beneficial interests are wholly-owned by consolidated subsidiaries.

(2) Recourse is limited to the assets of the respective VIE and does not extend to the general credit of the Company. As of December 31, 2020, the maturity of this obligation was within 4 years.

Unconsolidated Variable Interest Entities

The Company has determined that it is not the primary beneficiary of certain VIEs for which it is the investment manager. These VIEs consist primarily of CLOs and investment funds for which the Company has determined that it is not the primary beneficiary as it does not have both (1) the power to direct the activities of the VIE that most significantly impact the economic performance of the entity and (2) the obligation to absorb losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could be potentially significant. The Company's maximum exposure to loss resulting from its relationship with unconsolidated VIEs for which it is the investment manager is limited to its investment in the VIEs, which was $935 million and $1,021 million at December 31, 2020 and 2019, respectively. These investments are reflected in "Fixed maturities, available-for-sale," "Fixed maturities, trading," "Equity securities" and "Other invested assets." There are no liabilities associated with these unconsolidated VIEs on the Company's Consolidated Statements of Financial Position.

In the normal course of its activities, the Company will invest in LPs/LLCs which include hedge funds, private equity funds and real estate-related funds and may or may not be VIEs. The Company's maximum exposure to loss on these investments, both VIEs and non-VIEs, is limited to the amount of its investment. The Company has determined that it is not required to consolidate these entities because either (1) it does not control them or (2) it does not have the obligation to absorb losses of these entities that could be potentially significant to the entities or the right to receive benefits from the entities that could be potentially significant. The Company classifies these investments as "Other invested assets" and its maximum exposure to loss associated with these entities was $12,883 million and $11,157 million as of December 31, 2020 and 2019, respectively.

In addition, in the normal course of its activities, the Company will invest in structured investments including VIEs for which it is not the investment manager. These structured investments typically invest in fixed income investments and are managed by third parties and include asset-backed securities, commercial mortgage-backed securities and residential mortgage-backed securities. The Company's maximum exposure to loss on these structured investments, both VIEs and non-VIEs, is limited to the amount of its investment. See Note 3 for details regarding the carrying amounts and classification of these assets. The Company has not provided material financial or other support that was not contractually required to these structures. The Company has determined that it is not the primary beneficiary of these structures due to the fact that it does not control these entities.

5. DERIVATIVES AND HEDGING

Types of Derivative and Hedging Instruments

Interest Rate Contracts

Interest rate swaps, options and futures are used by the Company to reduce risks from changes in interest rates, manage interest rate exposures arising from mismatches between assets and liabilities and to hedge against changes in their values it owns or anticipates acquiring or selling.

Swaps may be attributed to specific assets or liabilities or to a portfolio of assets or liabilities. Under interest rate swaps, the Company agrees with counterparties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed upon notional principal amount.

The Company also uses interest rate swaptions, caps, and floors to manage interest rate risk. A swaption is an option to enter into a swap with a forward starting effective date. The Company pays a premium for purchased swaptions and receives a premium for written swaptions. In an interest rate cap, the buyer receives payments at the end of each period in which the interest rate exceeds the agreed strike price. Similarly, in an interest rate floor, the buyer receives payments at the end of each period in which the interest rate is below the agreed strike price. Swaptions, caps and floors are included in interest rate options.

In standardized exchange-traded interest rate futures transactions, the Company purchases or sells a specified number of contracts, the values of which are determined by the daily market values of underlying referenced investments. The Company enters into exchange-traded futures with regulated futures commission's merchants who are members of a trading exchange.

Equity Contracts

Equity options, total return swaps, and futures are used by the Company to manage its exposure to the equity markets which impacts the value of assets and liabilities it owns or anticipates acquiring or selling.

Equity index options are contracts which will settle in cash based on differentials in the underlying indices at the time of exercise and the strike price. The Company uses combinations of purchases and sales of equity index options to hedge the effects of adverse changes in equity indices within a predetermined range.

Total return swaps are contracts whereby the Company agrees with counterparties to exchange, at specified intervals, the difference between the return on an asset (or market index) and London Inter-Bank Offered Rate ("LIBOR") plus an associated funding spread based on a notional amount. The Company generally uses total return swaps to hedge the effect of adverse changes in equity indices.

In standardized exchange-traded equity futures transactions, the Company purchases or sells a specified number of contracts, the values of which are determined by the daily market values of underlying referenced equity indices. The Company enters into exchange-traded futures with regulated futures commission's merchants who are members of a trading exchange.

Foreign Exchange Contracts

Currency derivatives, including currency futures, options, forwards and swaps, and foreign currency denominated debts are used by the Company to reduce risks from changes in currency exchange rates with respect to investments denominated in foreign currencies that the Company either holds or intends to acquire or sell, and to hedge the currency risk associated with net investments in foreign operations and anticipated earnings of its foreign operations.

Under currency forwards, the Company agrees with counterparties to deliver a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date. As noted above, the Company uses currency forwards to mitigate the impact of changes in currency exchange rates on U.S. dollar-equivalent earnings generated by certain of its non-U.S. businesses, primarily its international insurance and investment operations. The Company executes forward sales of the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these forwards correspond with the future periods in which the non-U.S. dollar-denominated earnings are expected to be generated.

Under currency swaps, the Company agrees with counterparties to exchange, at specified intervals, the difference between one currency and another at an exchange rate and calculated by reference to an agreed principal amount. Generally, the principal amount of each currency is exchanged at the beginning and termination of the currency swap by each party.

Under foreign currency denominated debts, the company uses portion of its foreign currency denominated debt (same functional currency of its foreign subsidiaries) to hedge the risk of change in the net investment in a foreign subsidiary due to changes in exchange rates. These debt obligations reduce the company's foreign currency exposure from equity investment and act as hedge of the investment. The Company assesses hedge effectiveness of its derivatives based upon the change in forward rates and assesses its foreign currency denominated debts based upon the change in spot rates.

Credit Contracts

The Company writes credit default swaps to gain exposure similar to investment in public fixed maturity cash instruments. With these derivatives the Company sells credit protection on a single name reference, or certain index reference, and in return receives a quarterly premium. This premium or credit spread generally corresponds to the difference between the yield on the referenced name (or an index's referenced names) public fixed maturity cash instruments and swap rates, at the time the agreement is executed. If there is an event of default by the referenced name or one of the referenced names in the index, as defined by the agreement, then the Company is obligated to pay the referenced amount of the contract to the counterparty and receive in return the referenced defaulted security or similar security (in the case of a credit default index) or pay the referenced amount less the auction recovery rate. See credit derivatives section for further discussion of guarantees. In addition to selling credit protection, the Company purchases credit protection using credit derivatives to hedge specific credit exposures in the Company's investment portfolio.

Other Contracts

"To Be Announced" ("TBA") Forward Contracts. The Company uses TBA forward contracts to gain exposure to the investment risk and return of mortgage-backed securities. TBA transactions can help the Company enhance the return on its investment portfolio, and can provide a more liquid and cost-effective method of achieving these goals than purchasing or selling individual mortgage-backed pools. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at a specified future date. Additionally, pursuant to the Company's mortgage dollar roll program, TBAs or mortgage-backed securities are transferred to counterparties with a corresponding agreement to repurchase them at a future date. These transactions do not qualify as secured borrowings and are accounted for as derivatives.

Loan Commitments. In its mortgage operations, the Company enters into commitments to fund commercial mortgage loans at specified interest rates and other applicable terms within specified periods of time. These commitments are legally binding agreements to extend credit to a counterparty. Loan commitments for loans that will be held for sale are recognized as derivatives and recorded at fair value. The determination of the fair value of loan commitments accounted for as derivatives considers various factors including, among others, terms of the related loan, the intended exit strategy for the loans based upon either securitization valuation models or investor purchase commitments, prevailing interest rates, origination income or expense, and the value of service rights. Loan commitments that relate to the origination of mortgage loans that will be held for investment are not accounted for as derivatives and accordingly are not recognized in the Company's financial statements. See Note 23 for additional information.

Embedded Derivatives. The Company offers certain products (for example, variable annuities) which may include guaranteed benefit features that are accounted for as embedded derivatives. These embedded derivatives are carried at fair value through "Realized investment gains (losses), net" based on the change in value of the underlying contractual guarantees, which are determined using valuation models. The Company maintains a portfolio of derivative instruments that is intended to offset certain risks related to the above products' features. The derivatives may include, but are not limited to equity options, equity futures, total return swaps, interest rate swaptions, caps, floors and other instruments.

Synthetic Guarantees. The Company sells synthetic GICs, through both full service and investment-only sales channels, to investment vehicles primarily used by qualified defined contribution pension plans. The synthetic GICs are issued in respect of assets that are owned by the trustees of such plans, who invest the assets according to the contract terms agreed to with the Company. The contracts establish participant balances and credit interest thereon. The participant balances are supported by the underlying assets. In connection with certain participant-initiated withdrawals, the contract guarantees that after all underlying assets are liquidated, any remaining participant balances will be paid by the Company. These contracts are accounted for as derivatives and recorded at fair value.

Primary Risks Managed by Derivatives

The table below provides a summary of the gross notional amount and fair value of derivatives contracts by the primary underlying risks, excluding embedded derivatives and associated reinsurance recoverables. Many derivative instruments contain multiple underlying risks. The fair value amounts below represent the value of derivative contracts prior to taking into account the netting effects of master netting agreements and cash collateral. This netting impact results in total derivative assets of $1,906 million and $867 million as of December 31, 2020 and 2019, respectively, and total derivative liabilities of $792 million and $831 million as of December 31, 2020 and 2019, respectively, reflected in the Consolidated Statements of Financial Position.

Primary Underlying Risk/ Instrument Type	December 31, 2020			December 31, 2019		
	Gross Notional	Fair Value Assets	Fair Value Liabilities	Gross Notional	Fair Value Assets	Fair Value Liabilities
	(in millions)					
Derivatives Designated as Hedge Accounting Instruments:						
Interest Rate						
Interest Rate Swaps	$ 3,065	$ 978	$ (90)	$ 3,257	$ 628	$ (73)
Interest Rate Forwards	249	0	(8)	205	4	(1)
Foreign Currency						
Foreign Currency Forwards	2,577	68	(116)	1,461	22	(57)
Currency/Interest Rate						
Foreign Currency Swaps	22,642	878	(1,037)	22,746	1,467	(302)
Total Derivatives Designated as Hedge Accounting Instruments	$ 28,533	$ 1,924	$ (1,251)	$ 27,669	$ 2,121	$ (433)
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate						
Interest Rate Swaps	$178,803	$17,174	$(13,172)	$141,162	$10,249	$(4,861)
Interest Rate Futures	15,778	99	(5)	17,095	4	(38)
Interest Rate Options	14,593	914	(233)	16,496	339	(238)
Interest Rate Forwards	2,910	25	0	2,218	18	(3)
Foreign Currency						
Foreign Currency Forwards	35,478	764	(647)	26,604	208	(214)
Foreign Currency Options	0	0	0	0	0	0
Currency/Interest Rate						
Foreign Currency Swaps	13,661	537	(601)	13,874	740	(345)
Credit						
Credit Default Swaps	3,360	63	(28)	798	21	0
Equity						
Equity Futures	5,668	10	(25)	1,802	0	(3)
Equity Options	36,250	1,731	(1,028)	32,657	679	(765)
Total Return Swaps	22,489	32	(1,277)	18,218	6	(636)
Other						
Other(1)	1,262	0	0	1,258	0	0
Synthetic GICs	86,264	0	0	80,009	1	0
Total Derivatives Not Qualifying as Hedge Accounting Instruments	$416,516	$21,349	$(17,016)	$352,191	$12,265	$(7,103)
Total Derivatives(2)(3)	$445,049	$23,273	$(18,267)	$379,860	$14,386	$(7,536)

(1) "Other" primarily includes derivative contracts used to improve the balance of the Company's tail longevity and mortality risk. Under these contracts, the Company's gains (losses) are capped at the notional amount.
(2) Excludes embedded derivatives and associated reinsurance recoverables which contain multiple underlying risks. The fair value of these embedded derivatives was a net liability of $20,119 million and $14,035 million as of December 31, 2020, and 2019, respectively, primarily included in "Future policy benefits."
(3) Recorded in "Other invested assets" and "Other liabilities" on the Consolidated Statements of Financial Position.

As of December 31, 2020, the following amounts were recorded on the Consolidated Statements of Financial Position related to the carrying amount of the hedged assets (liabilities) and cumulative basis adjustments included in the carrying amount for fair value hedges:

	December 31, 2020		December 31, 2019	
Balance Sheet Line Item in which Hedged Item is Recorded	**Carrying Amount of the Hedged Assets (Liabilities)**	**Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets (Liabilities)(1)**	**Carrying Amount of the Hedged Assets (Liabilities)**	**Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets (Liabilities)(1)**
	(in millions)			
Fixed maturities, available-for-sale, at fair value	$ 402	$ 79	$ 389	$ 64
Commercial mortgage and other loans	$ 20	$ 2	$ 23	$ 2
Policyholders' account balances	$(1,627)	$(303)	$(1,376)	$(107)
Future policy benefits	$(1,585)	$(372)	$ (676)	$(172)

(1) There were no material fair value hedging adjustments for hedged assets and liabilities for which hedge accounting has been discontinued.

Most of the Company's derivatives do not qualify for hedge accounting for various reasons. For example: (i) derivatives that economically hedge embedded derivatives do not qualify for hedge accounting because changes in the fair value of the embedded derivatives are already recorded in net income; (ii) derivatives that are utilized as macro hedges of the Company's exposure to various risks typically do not qualify for hedge accounting because they do not meet the criteria required under portfolio hedge accounting rules; and (iii) synthetic GIC, which are product standalone derivatives, do not qualify as hedging instruments under hedge accounting rules.

Offsetting Assets and Liabilities

The following table presents recognized derivative instruments (excluding embedded derivatives and associated reinsurance recoverables), and repurchase and reverse repurchase agreements that are offset in the Consolidated Statements of Financial Position, and/or are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the Consolidated Statements of Financial Position:

	December 31, 2020				
	Gross Amounts of Recognized Financial Instruments	**Gross Amounts Offset in the Statements of Financial Position**	**Net Amounts Presented in the Statements of Financial Position**	**Financial Instruments/ Collateral(1)**	**Net Amount**
	(in millions)				
Offsetting of Financial Assets:					
Derivatives(1)	$23,144	$(21,367)	$ 1,777	$ (806)	$971
Securities purchased under agreement to resell	252	0	252	(252)	0
Total Assets	$23,396	$(21,367)	$ 2,029	$ (1,058)	$971
Offsetting of Financial Liabilities:					
Derivatives(1)	$18,265	$(17,475)	$ 790	$ (790)	$ 0
Securities sold under agreement to repurchase	10,894	0	10,894	(10,432)	462
Total Liabilities	$29,159	$(17,475)	$11,684	$(11,222)	$462

	December 31, 2019				
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statements of Financial Position	Net Amounts Presented in the Statements of Financial Position	Financial Instruments/ Collateral(1)	Net Amount
	(in millions)				
Offsetting of Financial Assets:					
Derivatives(1)	$14,303	$(13,519)	$ 784	$ (607)	$177
Securities purchased under agreement to resell	1,012	0	1,012	(1,012)	0
Total Assets	$15,315	$(13,519)	$ 1,796	$(1,619)	$177
Offsetting of Financial Liabilities:					
Derivatives(1)	$ 7,528	$ (6,705)	$ 823	$ (244)	$579
Securities sold under agreement to repurchase	9,681	0	9,681	(9,681)	0
Total Liabilities	$17,209	$ (6,705)	$10,504	$(9,925)	$579

(1) Amounts exclude the excess of collateral received/pledged from/to the counterparty.

For information regarding the rights of offset associated with the derivative assets and liabilities in the table above, see "—Counterparty Credit Risk" below. For securities purchased under agreements to resell and securities sold under agreements to repurchase, the Company monitors the value of the securities and maintains collateral, as appropriate, to protect against credit exposure. Where the Company has entered into repurchase and resale agreements with the same counterparty, in the event of default, the Company would generally be permitted to exercise rights of offset. For additional information on the Company's accounting policy for securities repurchase and resale agreements, see Note 2.

Cash Flow, Fair Value and Net Investment Hedges

The primary derivative instruments used by the Company in its fair value, cash flow and net investment hedge accounting relationships are interest rate swaps, currency swaps, currency forwards, and foreign currency denominated debts. These instruments are only designated for hedge accounting in instances where the appropriate criteria are met. The Company does not use futures, options, credit, and equity derivatives in any of its fair value, cash flow or net investment hedge accounting relationships.

The following table provides the financial statement classification and impact of derivatives used in qualifying and non-qualifying hedge relationships, including the offset of the hedged item in fair value hedge relationships.

	Year Ended December 31, 2020						
	Realized Investment Gains (Losses)	Net Investment Income	Other Income (Loss)	Interest Expense	Interest Credited To Policyholders' Account Balances	Policyholders' Benefits	AOCI(1)
	(in millions)						
Derivatives Designated as Hedge Accounting Instruments:							
Fair value hedges							
Gains (losses) on derivatives designated as hedge instruments:							
Interest Rate	$ (17)	$ (8)	$ 0	$ 0	$ 236	$ 186	$ 0
Currency	0	0	0	0	0	46	0
Total gains (losses) on derivatives designated as hedge instruments	(17)	(8)	0	0	236	232	0
Gains (losses) on the hedged item:							
Interest Rate	16	18	0	0	(196)	(155)	0
Currency	0	1	0	0	0	(46)	0
Total gains (losses) on hedged item	16	19	0	0	(196)	(201)	0
Amortization for Gain (Loss) Excluded from Assessment of the Effectiveness							
Currency	0	0	0	0	0	(1)	10
Total Amortization for Gain (Loss) Excluded from Assessment of the Effectiveness	0	0	0	0	0	(1)	10
Total gains (losses) on fair value hedges net of hedged item	(1)	11	0	0	40	30	10
Cash flow hedges							
Interest Rate	40	1	0	(1)	0	0	7
Currency	5	0	0	0	0	0	(69)
Currency/Interest Rate	99	314	(303)	0	0	0	(938)
Total gains (losses) on cash flow hedges	144	315	(303)	(1)	0	0	(1,000)
Net investment hedges							
Currency	(7)	0	126	0	0	0	(128)
Currency/Interest Rate	0	0	0	0	0	0	0
Total gains (losses) on net investment hedges	(7)	0	126	0	0	0	(128)
Derivatives Not Qualifying as Hedge Accounting Instruments:							
Interest Rate	5,800	0	0	0	0	0	0
Currency	100	0	(1)	0	0	0	0
Currency/Interest Rate	(188)	0	(4)	0	0	0	0
Credit	(56)	0	0	0	0	0	0
Equity	(5,623)	0	0	0	0	0	0
Other	2	0	0	0	0	0	0
Embedded Derivatives	(4,882)	0	0	0	0	0	0
Total gains (losses) on derivatives not qualifying as hedge accounting instruments	(4,847)	0	(5)	0	0	0	0
Total	$(4,711)	$326	$(182)	$(1)	$ 40	$ 30	$(1,118)

	Year Ended December 31, 2019						
	Realized Investment Gains (Losses)	Net Investment Income	Other Income (Loss)	Interest Expense	Interest Credited To Policyholders' Account Balances	Policyholders' Benefits	AOCI(1)
	(in millions)						
Derivatives Designated as Hedge Accounting Instruments:							
Fair value hedges							
Gains (losses) on derivatives designated as hedge instruments:							
Interest Rate	$ (14)	$ (7)	$ 0	$0	$ 194	$ 155	$ 0
Currency	0	0	0	0	0	0	0
Total gains (losses) on derivatives designated as hedge instruments	(14)	(7)	0	0	194	155	0
Gains (losses) on the hedged item:							
Interest Rate	11	20	0	0	(186)	(140)	0
Currency	1	3	0	0	0	0	0
Total gains (losses) on hedged item	12	23	0	0	(186)	(140)	0
Total gains (losses) on fair value hedges net of hedged item	(2)	16	0	0	8	15	0
Cash flow hedges							
Interest Rate	58	0	0	0	0	0	(25)
Currency	6	0	0	0	0	0	(62)
Currency/Interest Rate	130	282	(97)	0	0	0	99
Total gains (losses) on cash flow hedges	194	282	(97)	0	0	0	12
Net investment hedges							
Currency	0	0	0	0	0	0	4
Currency/Interest Rate	0	0	0	0	0	0	0
Total gains (losses) on net investment hedges	0	0	0	0	0	0	4
Derivatives Not Qualifying as Hedge Accounting Instruments:							
Interest Rate	4,533	0	0	0	0	0	0
Currency	14	0	5	0	0	0	0
Currency/Interest Rate	394	0	0	0	0	0	0
Credit	123	0	0	0	0	0	0
Equity	(4,057)	0	0	0	0	0	0
Other	0	0	0	0	0	0	0
Embedded Derivatives	(2,705)	0	0	0	0	0	0
Total gains (losses) on derivatives not qualifying as hedge accounting instruments	(1,698)	0	5	0	0	0	0
Total	$(1,506)	$298	$(92)	$0	$ 8	$ 15	$16

	Year Ended December 31, 2018						
	Realized Investment Gains (Losses)	Net Investment Income	Other Income (Loss)	Interest Expense	Interest Credited To Policyholders' Account Balances	Policyholders' Benefits	AOCI(1)
	(in millions)						
Derivatives Designated as Hedge Accounting Instruments:							
Fair value hedges							
Gains (losses) on derivatives designated as hedge instruments:							
Interest Rate	$ 20	$ (9)	$ 0	$ 0	$(65)	$ 35	$ 0
Currency	6	0	0	0	0	0	0
Total gains (losses) on derivatives designated as hedge instruments	26	(9)	0	0	(65)	35	0
Gains (losses) on the hedged item:							
Interest Rate	(27)	31	0	0	79	(31)	0
Currency	(5)	3	0	0	0	0	0
Total gains (losses) on hedged item	(32)	34	0	0	79	(31)	0
Total gains (losses) on fair value hedges net of hedged item	(6)	25	0	0	14	4	0
Cash flow hedges							
Interest Rate	2	0	0	(1)	0	0	32
Currency	7	0	0	0	0	0	20
Currency/Interest Rate	69	217	257	0	0	0	798
Total gains (losses) on cash flow hedges	78	217	257	(1)	0	0	850
Net investment hedges							
Currency	0	0	0	0	0	0	6
Currency/Interest Rate	0	0	0	0	0	0	0
Total gains (losses) on net investment hedges	0	0	0	0	0	0	6
Derivatives Not Qualifying as Hedge Accounting Instruments:							
Interest Rate	(1,226)	0	0	0	0	0	0
Currency	342	0	(1)	0	0	0	0
Currency/Interest Rate	364	0	3	0	0	0	0
Credit	(55)	0	0	0	0	0	0
Equity	1,121	0	0	0	0	0	0
Other	0	0	0	0	0	0	0
Embedded Derivatives	966	0	0	0	0	0	0
Total gains (losses) on derivatives not qualifying as hedge accounting instruments	1,512	0	2	0	0	0	0
Total	$ 1,584	$242	$259	$(1)	$ 14	$ 4	$856

(1) Net change in AOCI, excluding changes related to net investment hedges using non-derivative instruments of $(21) million for year ended December 31, 2020 and $0 million for both year ended December 31, 2019 and 2018.

Presented below is a rollforward of current period cash flow hedges in AOCI before taxes:

	(in millions)
Balance, December 31, 2017	$ (39)
Amount recorded in AOCI	
Interest Rate	33
Currency	27
Currency/Interest Rate	1,341
Total amount recorded in AOCI	1,401
Amount reclassified from AOCI to income	
Interest Rate	(1)
Currency	(7)
Currency/Interest Rate	(543)
Total amount reclassified from AOCI to income	(551)
Balance, December 31, 2018	$ 811
Cumulative effect adjustment from the adoption of ASU 2017-12(1)	9
Amount recorded in AOCI	
Interest Rate	33
Currency	(56)
Currency/Interest Rate	414
Total amount recorded in AOCI	391
Amount reclassified from AOCI to income	
Interest Rate	(58)
Currency	(6)
Currency/Interest Rate	(315)
Total amount reclassified from AOCI to income	(379)
Balance, December 31, 2019	$ 832
Amount recorded in AOCI	
Interest Rate	47
Currency	(64)
Currency/Interest Rate	(828)
Total amount recorded in AOCI	(845)
Amount reclassified from AOCI to income	
Interest Rate	(40)
Currency	(5)
Currency/Interest Rate	(110)
Total amount reclassified from AOCI to income	(155)
Balance, December 31, 2020	$ (168)

(1) See Note 2 for details.

The changes in fair value of cash flow hedges are deferred in AOCI and are included in "Net unrealized investment gains (losses)" in the Consolidated Statements of Comprehensive Income; these amounts are then reclassified to earnings when the hedged item affects earnings. Using December 31, 2020 values, it is estimated that a pre-tax gain of approximately $230 million is expected to be reclassified from AOCI to earnings during the subsequent twelve months ending December 31, 2021.

The exposures the Company is hedging with these qualifying cash flow hedges include the variability of future cash flows from forecasted transactions denominated in foreign currencies, the purchases of invested assets, and the receipt or payment of variable interest on existing financial instruments. The maximum length of time over which the Company is hedging its exposure to the variability in future cash flows for forecasted transactions is 10 years.

There were no material amounts reclassified from AOCI into earnings relating to instances in which the Company discontinued cash flow hedge accounting because the forecasted transaction did not occur by the anticipated date or within the additional time period permitted by the authoritative guidance for the accounting for derivatives and hedging. In addition, there were no instances in which the Company discontinued fair value hedge accounting due to a hedged firm commitment no longer qualifying as a fair value hedge.

For net investment hedges, in addition to derivatives, the Company uses foreign currency denominated debt to hedge the risk of change in the net investment in a foreign subsidiary due to changes in exchange rates. For effective net investment hedges, the amounts, before applicable taxes, recorded in the cumulative translation adjustment within AOCI were $(149) million for the year ended December 31, 2020, $4 million for the year ended December 31, 2019, and $6 million for the year ended December 31 2018.

Credit Derivatives

The following table provides a summary of the notional and fair value of written credit protection. The Company's maximum amount at risk under these credit derivatives, assuming the value of the underlying referenced securities become worthless, is equal to the notional amounts. These credit derivatives have maturities of less than 27 years for index references.

	December 31, 2020													
	NAIC Rating Designation of Underlying Credit Obligation(1)													
	NAIC 1		NAIC 2		NAIC 3		NAIC 4		NAIC 5		NAIC 6		Total	
	Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value
	(in millions)													
Single name reference(2)	$ 0	$0	$0	$0	$ 0	$ 0	$0	$0	$0	$0	$0	$0	$ 0	$ 0
Index reference(2)	50	0	0	0	3,003	63	0	0	0	0	0	0	3,053	63
Total	$50	$0	$0	$0	$3,003	$63	$0	$0	$0	$0	$0	$0	$3,053	$63

	December 31, 2019													
	NAIC Rating Designation of Underlying Credit Obligation(1)													
	NAIC 1		NAIC 2		NAIC 3		NAIC 4		NAIC 5		NAIC 6		Total	
	Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value
	(in millions)													
Single name reference(2)	$36	$0	$60	$1	$ 4	$ 0	$0	$0	$0	$0	$ 0	$0	$100	$ 1
Index reference(2)	50	0	0	0	570	13	0	0	0	0	72	7	692	20
Total	$86	$0	$60	$1	$574	$13	$0	$0	$0	$0	$72	$7	$792	$21

(1) The NAIC rating designations are based on availability and the lowest ratings among Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Rating Services ("S&P") and Fitch Ratings Inc. ("Fitch"). If no rating is available from a rating agency, a NAIC 6 rating is used.
(2) Single name credit default swaps may reference to the credit of corporate debt, sovereign debt, and structured finance. Index references NAIC designations are based on the lowest rated single name reference included in the index.

In addition to writing credit protection, the Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company's investment portfolio. As of December 31, 2020 and 2019, the Company had $307 million and $6 million of outstanding notional amounts, reported at fair value as a liability of $28 million and $0 million, respectively.

Counterparty Credit Risk

The Company is exposed to losses in the event of non-performance by counterparties to financial derivative transactions with a positive fair value. The Company manages credit risk by: (i) entering into derivative transactions with highly rated major international financial institutions and other creditworthy counterparties governed by master netting agreements, as applicable; (ii) trading through central clearing and OTC parties; (iii) obtaining collateral, such as cash and securities, when appropriate; and (iv) setting limits on single party credit exposures which are subject to periodic management review.

Substantially all of the Company's derivative agreements have zero thresholds which require daily full collateralization by the party in a liability position. In addition, certain of the Company's derivative agreements contain credit-risk related contingent features; if the credit rating of one of the parties to the derivative agreement is to fall below a certain level, the party with positive fair value could request termination at the then fair value or demand immediate full collateralization from the party whose credit rating fell and is in a net liability position.

As of December 31, 2020, there were no net liability derivative positions with counterparties with credit risk-related contingent features. All derivatives have been appropriately collateralized by the Company or the counterparty in accordance with the terms of the derivative agreements.

6. FAIR VALUE OF ASSETS AND LIABILITIES

Fair Value Measurement—Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative fair value guidance establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1—Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. The Company's Level 1 assets and liabilities primarily include certain cash equivalents and short-term investments, equity securities and derivative contracts that trade on an active exchange market.

Level 2—Fair value is based on significant inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, and other market observable inputs. The Company's Level 2 assets and liabilities include: fixed maturities (corporate public and private bonds, most government securities, certain asset-backed and mortgage-backed securities, etc.), certain equity securities (mutual funds, which do not trade in active markets because they are not publicly available), certain commercial mortgage loans, short-term investments and certain cash equivalents (primarily commercial paper), and certain OTC derivatives.

Level 3—Fair value is based on at least one significant unobservable input for the asset or liability. The assets and liabilities in this category may require significant judgment or estimation in determining the fair value. The Company's Level 3 assets and liabilities primarily include: certain private fixed maturities and equity securities, certain manually priced public equity securities and fixed maturities, certain highly structured OTC derivative contracts, certain consolidated real estate funds for which the Company is the general partner and embedded derivatives resulting from certain products with guaranteed benefits.

Assets and Liabilities by Hierarchy Level—The tables below present the balances of assets and liabilities reported at fair value on a recurring basis, as of the dates indicated:

	As of December 31, 2020				
	Level 1	Level 2	Level 3	Netting(1)	Total
			(in millions)		
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 40,298	$ 150	$	$ 40,448
Obligations of U.S. states and their political subdivisions	0	12,807	4		12,811
Foreign government bonds	0	110,233	11		110,244
U.S. corporate public securities	0	113,486	69		113,555
U.S. corporate private securities(2)	0	38,689	2,248		40,937
Foreign corporate public securities	0	29,384	153		29,537
Foreign corporate private securities	0	28,727	2,865		31,592
Asset-backed securities(3)	0	14,068	523		14,591
Commercial mortgage-backed securities	0	16,294	9		16,303
Residential mortgage-backed securities	0	2,876	11		2,887
Subtotal	0	406,862	6,043		412,905
Assets supporting experience-rated contractholder liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	212	0		212
Obligations of U.S. states and their political subdivisions	0	231	0		231
Foreign government bonds	0	926	19		945
Corporate securities	0	14,990	482		15,472
Asset-backed securities(3)	0	1,583	114		1,697
Commercial mortgage-backed securities	0	1,839	0		1,839
Residential mortgage-backed securities	0	1,018	0		1,018
Equity securities	1,784	259	0		2,043
All other(4)	50	549	20		619
Subtotal	1,834	21,607	635		24,076
Fixed maturities, trading	0	3,671	243		3,914
Equity securities	6,207	1,131	660		7,998
Commercial mortgage and other loans	0	1,092	0		1,092
Other invested assets(5)	227	23,045	366	(21,367)	2,271
Short-term investments	405	5,728	177		6,310
Cash equivalents	1,476	4,005	1		5,482
Other assets	0	0	268		268
Separate account assets(6)(7)	51,826	250,623	1,821		304,270
Total assets	$61,975	$717,764	$10,214	$(21,367)	$768,586
Future policy benefits(8)	$ 0	$ 0	$18,879	$	$ 18,879
Policyholders' account balances	0	0	1,914		1,914
Other liabilities	32	17,828	0	(17,475)	385
Notes issued by consolidated VIEs	0	0	0		0
Total liabilities	$ 32	$ 17,828	$20,793	$(17,475)	$ 21,178

	As of December 31, 2019				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in millions)				
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 35,554	$ 105	$	$ 35,659
Obligations of U.S. states and their political subdivisions	0	11,493	4		11,497
Foreign government bonds	0	119,032	22		119,054
U.S. corporate public securities	0	97,959	380		98,339
U.S. corporate private securities(2)	0	34,749	1,784		36,533
Foreign corporate public securities	0	29,756	69		29,825
Foreign corporate private securities	0	27,237	1,003		28,240
Asset-backed securities(3)	0	12,238	936		13,174
Commercial mortgage-backed securities	0	15,574	0		15,574
Residential mortgage-backed securities	0	3,189	12		3,201
Subtotal	0	386,781	4,315		391,096
Assets supporting experience-rated contractholder liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	185	0		185
Obligations of U.S. states and their political subdivisions	0	212	0		212
Foreign government bonds	0	790	24		814
Corporate securities	0	12,966	637		13,603
Asset-backed securities(3)	0	1,593	69		1,662
Commercial mortgage-backed securities	0	1,896	0		1,896
Residential mortgage-backed securities	0	1,158	0		1,158
Equity securities	1,505	285	0		1,790
All other(4)	0	261	0		261
Subtotal	1,505	19,346	730		21,581
Fixed maturities, trading	0	3,597	287		3,884
Equity securities	5,813	939	633		7,385
Commercial mortgage and other loans	0	228	0		228
Other invested assets(5)	6	14,379	567	(13,519)	1,433
Short-term investments	1,806	1,975	155		3,936
Cash equivalents	2,079	6,796	131		9,006
Other assets	0	0	113		113
Separate account assets(6)(7)	46,574	240,433	1,717		288,724
Total assets	$57,783	$674,474	$ 8,648	$(13,519)	$727,386
Future policy benefits(8)	$ 0	$ 0	$12,831		$ 12,831
Policyholders' account balances	0	0	1,316		1,316
Other liabilities	41	7,495	105	(6,705)	936
Notes issued by consolidated VIEs	0	0	800		800
Total liabilities	$ 41	$ 7,495	$15,052	$ (6,705)	$ 15,883

(1) "Netting" amounts represent cash collateral of $3,892 million and $6,814 million as of December 31, 2020 and 2019, respectively.
(2) Excludes notes with fair value of $6,100 million (carrying amount of $5,966 million) and $4,757 million (carrying amount of $4,751 million) as of December 31, 2020 and 2019, respectively, which have been offset with the associated payables under a netting agreement.
(3) Includes credit-tranched securities collateralized by syndicated bank loans, sub-prime mortgages, auto loans, credit cards, education loans and other asset types.
(4) All other represents cash equivalents and short-term investments.
(5) Other invested assets excluded from the fair value hierarchy include certain hedge funds, private equity funds and other funds for which fair value is measured at net asset value ("NAV") per share (or its equivalent) as a practical expedient. At December 31, 2020 and 2019, the fair values of such investments were $4,136 million and $4,213 million respectively.
(6) Separate account assets included in the fair value hierarchy exclude investments in entities that calculate NAV per share (or its equivalent) as a practical expedient. Such investments excluded from the fair value hierarchy include investments in real estate, hedge funds and other invested assets. At December 31, 2020 and 2019, the fair value of such investments were $23,007 million and $23,557 million, respectively.
(7) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company's Consolidated Statements of Financial Position.
(8) As of December 31, 2020, the net embedded derivative liability position of $18.9 billion includes $0.5 billion of embedded derivatives in an asset position and $19.4 billion of embedded derivatives in a liability position. As of December 31, 2019, the net embedded derivative liability position of $12.8 billion includes $0.7 billion of embedded derivatives in an asset position and $13.5 billion of embedded derivatives in a liability position.

The methods and assumptions the Company uses to estimate the fair value of assets and liabilities measured at fair value on a recurring basis are summarized below.

Fixed Maturity Securities—The fair values of the Company's public fixed maturity securities are generally based on prices obtained from independent pricing services. Prices for each security are generally sourced from multiple pricing vendors, and a vendor hierarchy is maintained by asset type based on historical pricing experience and vendor expertise. The Company ultimately uses the price from the pricing service highest in the vendor hierarchy based on the respective asset type. The pricing hierarchy is updated for new financial products and recent pricing experience with various vendors. Consistent with the fair value hierarchy described above, securities with validated quotes from pricing services are generally reflected within Level 2, as they are primarily based on observable pricing for similar assets and/or other market observable inputs. Typical inputs used by these pricing services include but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, and/or estimated cash flow, prepayment speeds and default rates. If the pricing information received from third-party pricing services is deemed not reflective of market activity or other inputs observable in the market, the Company may challenge the price through a formal process with the pricing service or classify the securities as Level 3. If the pricing service updates the price to be more consistent with the presented market observations, the security remains within Level 2.

Internally-developed valuations or indicative broker quotes are also used to determine fair value in circumstances where vendor pricing is not available, or where the Company ultimately concludes that pricing information received from the independent pricing services is not reflective of market activity. If the Company concludes the values from both pricing services and brokers are not reflective of market activity, it may override the information with an internally-developed valuation. As of December 31, 2020 and 2019, overrides on a net basis were not material. Pricing service overrides, internally-developed valuations and indicative broker quotes are generally included in Level 3 in the fair value hierarchy.

The Company conducts several specific price monitoring activities. Daily analyses identify price changes over predetermined thresholds defined at the financial instrument level. Various pricing integrity reports are reviewed on a daily and monthly basis to determine if pricing is reflective of market activity or if it would warrant any adjustments. Other procedures performed include, but are not limited to, reviews of third-party pricing services methodologies, reviews of pricing trends and back testing.

The fair values of private fixed maturities, which are originated by internal private asset managers, are primarily determined using discounted cash flow models. These models primarily use observable inputs that include Treasury or similar base rates plus estimated credit spreads to value each security. The credit spreads are obtained through a survey of private market intermediaries who are active in both primary and secondary transactions, and consider, among other factors, the credit quality and the reduced liquidity associated with private placements. Internal adjustments are made to reflect variation in observed sector spreads. Since most private placements are valued using standard market observable inputs and inputs derived from, or corroborated by, market observable data including, but not limited to observed prices and spreads for similar publicly-traded issues, they have been reflected within Level 2. For certain private fixed maturities, the discounted cash flow model may incorporate significant unobservable inputs, which reflect the Company's own assumptions about the inputs that market participants would use in pricing the asset. To the extent management determines that such unobservable inputs are significant to the price of a security, a Level 3 classification is made.

Assets Supporting Experience-Rated Contractholder Liabilities—Assets supporting experience-rated contractholder liabilities consist primarily of fixed maturity securities, equity securities and derivatives whose fair values are determined consistent with similar instruments described above under "Fixed Maturity Securities" and below under "Equity Securities" and "Derivative Instruments."

Equity Securities—Equity securities consist principally of investments in common and preferred stock of publicly-traded companies, perpetual preferred stock, privately-traded securities, as well as mutual fund shares. The fair values of most publicly-traded equity securities are based on quoted market prices in active markets for identical assets and are classified within Level 1 in the fair value hierarchy. Estimated fair values for most privately traded equity securities are determined using discounted cash flow, earnings multiple and other valuation models that require a substantial level of judgment around inputs and therefore are classified within Level 3. The fair values of mutual fund shares that transact regularly (but do not trade in active markets because they are not publicly available) are based on transaction prices of identical fund shares and are classified within Level 2 in the fair value hierarchy. The fair values of perpetual preferred stock are based on inputs obtained from independent pricing services that are primarily based on indicative broker quotes. As a result, the fair values of perpetual preferred stock are classified as Level 3.

Commercial Mortgage and Other Loans—The fair value of loans held and accounted for using the fair value option is determined utilizing pricing indicators from the whole loan market, where investors are committed to purchase these loans at a predetermined price, which is considered the principal exit market for these loans. The Company evaluates the valuation inputs used for these assets, including the existence of predetermined exit prices, the terms of the loans, prevailing interest rates and credit risk, and deems the primary pricing inputs are Level 2 inputs in the fair value hierarchy.

Other Invested Assets—Other invested assets primarily include investments in LPs/LLCs, derivatives and certain limited partnerships which are consolidated because the Company is either deemed to exercise control or considered the primary beneficiary of a variable interest entity. These entities are primarily investment companies and follow specialized industry accounting whereby their assets are carried at fair value. The investments held by these entities include various feeder fund investments in underlying master funds (whose underlying holdings generally include public fixed maturities, equity securities and mutual funds), as well as wholly-owned real estate held within other investment funds. For the unconsolidated fund investments, the fair value is primarily determined by the fund managers and is measured at NAV as a practical expedient.

Other Assets—Other assets reflected in Level 3 primarily include reinsurance recoverables which are carried at fair value and relate to the reinsurance of the Company's living benefit guarantees on certain variable annuity contracts. The methods and assumptions used to estimate the fair value are consistent with those described below under "Future Policy Benefits."

Derivative Instruments—Derivatives are recorded at fair value either as assets, within "Assets supporting experience-rated contractholder liabilities," or "Other invested assets, at fair value," or as liabilities, within "Other liabilities," except for embedded derivatives which are recorded with the associated host contract. The fair values of derivative contracts can be affected by changes in interest rates, foreign exchange rates, commodity prices, credit spreads, market volatility, expected returns, NPR, liquidity and other factors. For derivative positions included within Level 3 of the fair value hierarchy, liquidity valuation adjustments are made to reflect the cost of exiting significant risk positions, and consider the bid-ask spread, maturity, complexity and other specific attributes of the underlying derivative position.

The Company's exchange-traded futures and options include Treasury futures, Eurodollar futures, commodity futures, Eurodollar options and commodity options. Exchange-traded futures and options are valued using quoted prices in active markets and are classified within Level 1 in the fair value hierarchy.

The majority of the Company's derivative positions are traded in the OTC derivative market and are classified within Level 2 in the fair value hierarchy. OTC derivatives classified within Level 2 are valued using models that utilize actively quoted or observable market input values from external market data providers, third-party pricing vendors and/or recent trading activity. The Company's policy is to use mid-market pricing in determining its best estimate of fair value. The fair values of most OTC derivatives, including interest rate and cross-currency swaps, currency forward contracts, commodity swaps, commodity forward contracts, single name credit default swaps, loan commitments held for sale and TBA forward contracts on highly rated mortgage-backed securities issued by U.S. government sponsored entities are determined using discounted cash flow models. The fair values of European style option contracts are determined using Black-Scholes option pricing models. These models' key inputs include the contractual terms of the respective contract, along with significant observable inputs, including interest rates, currency rates, credit spreads, equity prices, index dividend yields, NPR, volatility and other factors.

The Company's cleared interest rate swaps and credit derivatives linked to an index are valued using models that utilize actively quoted or observable market inputs, including the secured overnight financing rate ("SOFR"), obtained from external market data providers, third-party pricing vendors and/or recent trading activity. These derivatives are classified as Level 2 in the fair value hierarchy.

The majority of the Company's derivative agreements are with highly rated major international financial institutions. To reflect the market's perception of its own and the counterparty's NPR, the Company incorporates additional spreads over LIBOR into the discount rate used in determining the fair value of OTC derivative assets and liabilities that are not otherwise collateralized.

Derivatives classified as Level 3 include look-back equity options and other structured products. These derivatives are valued based upon models, such as Monte Carlo simulation models and other techniques that utilize significant unobservable inputs. Level 3 methodologies are validated through periodic comparison of the Company's fair values to external broker-dealer values.

Cash Equivalents and Short-Term Investments—Cash equivalents and short-term investments include money market instruments, commercial paper and other highly liquid debt instruments. Certain money market instruments are valued using unadjusted quoted prices in active markets that are accessible for identical assets and are primarily classified as Level 1. The remaining instruments in this category are generally fair valued based on market observable inputs and these investments have primarily been classified within Level 2.

Separate Account Assets—Separate account assets include mutual funds, fixed maturity securities, treasuries, equity securities, real estate and commercial mortgage loans for which values are determined consistent with similar instruments described above under "Fixed Maturity Securities," "Equity Securities" and "Commercial Mortgage and Other Loans."

Future Policy Benefits—The liability for future policy benefits is related to guarantees primarily associated with the living benefit features of certain variable annuity contracts offered by the Company's Individual Annuities segment, including guaranteed minimum accumulation benefits ("GMAB"), guaranteed withdrawal benefits ("GMWB") and guaranteed minimum income and withdrawal benefits ("GMIWB"), accounted for as embedded derivatives. The fair values of these liabilities are calculated as the present value of future expected benefit payments to customers less the present value of future expected rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or asset balance, given changing capital market conditions and various actuarial assumptions. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally-developed models with option pricing techniques. The models are based on a risk neutral valuation framework and incorporate premiums for risks inherent in valuation techniques, inputs, and the general uncertainty around the timing and amount of future cash flows. The determination of these risk premiums requires the use of management's judgment.

The significant inputs to the valuation models for these embedded derivatives include capital market assumptions, such as interest rate levels and volatility assumptions, the Company's market-perceived NPR, as well as actuarially determined assumptions, including contractholder behavior, such as lapse rates, benefit utilization rates, withdrawal rates, and mortality rates. Since many of these assumptions are unobservable and are considered to be significant inputs to the liability valuation, the liability included in future policy benefits has been reflected within Level 3 in the fair value hierarchy.

Capital market inputs and actual policyholders' account values are updated each quarter based on capital market conditions as of the end of the quarter, including interest rates, equity markets and volatility. In the risk neutral valuation, the initial swap curve drives the total return used to grow the policyholders' account values. The Company's discount rate assumption is based on the LIBOR swap curve adjusted for an additional spread relative to LIBOR to reflect NPR.

Actuarial assumptions, including contractholder behavior and mortality, are reviewed at least annually, and updated based upon emerging experience, future expectations and other data, including any observable market data. These assumptions are generally updated annually unless a material change that the Company feels is indicative of a long-term trend is observed in an interim period.

Policyholders' Account Balances—The liability for policyholders' account balances is related to certain embedded derivative instruments associated with certain universal life and annuity products that provide the policyholders with the index-linked interest credited over contract specified term periods. The fair values of these liabilities are determined using discounted cash flow models which include capital market assumptions such as interest rates and equity index volatility assumptions, the Company's market-perceived NPR and actuarially determined assumptions for mortality, lapses and projected hedge costs.

As there is no observable active market for these liabilities, the fair value is determined as the present value of account balances paid to policyholders in excess of contractually guaranteed minimums using option pricing techniques for index term periods that contain deposits as of the valuation date, and the expected option cost for future index term periods, where the terms of index crediting rates have not yet been declared by the Company. Premiums for risks inherent in valuation techniques, inputs, and the general uncertainty around the timing and amount of future cash flows are also incorporated in the fair value of these liabilities. Since the valuation of these liabilities require the use of management's judgement to determine these risk premiums and the use of unobservable inputs, these liabilities are reflected within Level 3 in the fair value hierarchy.

Capital market inputs, including interest rates and equity markets volatility, and actual policyholders' account values are updated each quarter. Actuarial assumptions are reviewed at least annually and updated based upon emerging experience, future expectations and other data, including any observable market data. Aside from these annual updates, assumptions are generally updated only if a material change is observed in an interim period that the Company believes is indicative of a long-term trend.

Other Liabilities—Other liabilities include certain derivative instruments and the contingent consideration liability associated with the acquisition of Assurance IQ. The fair values of derivative instruments are primarily determined consistent with those described above under "Derivative Instruments." For the contingent consideration liability, see Note 1 for additional information.

Notes issued by Consolidated VIEs—These notes are based on the fair values of corresponding bank loan collateral. Since the notes are valued based on reference collateral, they are classified as Level 3. See Note 4 and "Fair Value Option" below for additional information.

Quantitative Information Regarding Internally-Priced Level 3 Assets and Liabilities—The tables below present quantitative information on significant internally-priced Level 3 assets and liabilities:

	As of December 31, 2020						
	Fair Value	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
	(in millions)						
Assets:							
Corporate securities(2)(3)	$3,697	Discounted cash flow(5)	Discount rate	0.40%	25%	4.28%	Decrease
		Market comparables	EBITDA multiples(4)	7.0X	15.0X	9.0X	Increase
		Liquidation	Liquidation value	12.13%	15.00%	13.02%	Increase
Equity securities	$195	Discounted cash flow(5)	Discount rate	0.5%	20%		Decrease
		Market comparables	EBITDA multiples(4)	1X	8.8X	3.3X	Increase
		Net Asset Value	Share price	$1	$1,414	$495	Increase
Separate account assets-commercial mortgage loans(6)	$775	Discounted cash flow	Spread	1.60%	2.98%	1.80%	Decrease
Liabilities:							
Future policy benefits(7)	$18,879	Discounted cash flow	Lapse rate(9)	1%	20%		Decrease
			Spread over LIBOR(10)	0.06%	1.17%		Decrease
			Utilization rate(11)	39%	96%		Increase
			Withdrawal rate		See table footnote (12) below.		
			Mortality rate(13)	0%	15%		Decrease
			Equity volatility curve	18%	26%		Increase
Policyholders' account balances(8)	$1,914	Discounted cash flow	Lapse rate(9)	1%	42%		Decrease
			Spread over LIBOR(10)	0.06%	1.17%		Decrease
			Mortality rate(13)	0%	24%		Decrease
			Equity volatility curve	6%	42%		Increase

	As of December 31, 2019						
	Fair Value	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
	(in millions)						
Assets:							
Corporate securities(2)(3)	$1,424	Discounted cash flow(5)	Discount rate	0.49%	20%	7.41%	Decrease
		Market comparables	EBITDA multiples(4)	5.7X	9.2X	7.3X	Increase
		Liquidation	Liquidation value	14.25%	83.61%	59.47%	Increase
Equity securities	$210	Discounted cash flow(5)	Discount rate	10%	30%		Decrease
		Market comparables	EBITDA multiples(4)	1X	10.1X	5.4X	Increase
		Net Asset Value	Share price	$5	$1,353	$451	Increase
Separate account assets-commercial mortgage loans(6)	$796	Discounted cash flow	Spread	1.11%	1.85%	1.26%	Decrease
Liabilities:							
Future policy benefits(7)	$12,831	Discounted cash flow	Lapse rate(9)	1%	18%		Decrease
			Spread over LIBOR(10)	0.10%	1.23%		Decrease
			Utilization rate(11)	43%	97%		Increase
			Withdrawal rate		See table footnote (12) below.		
			Mortality rate(13)	0%	15%		Decrease
			Equity volatility curve	13%	23%		Increase
Policyholders' account balances(8)	$1,316	Discounted cash flow	Lapse rate(9)	1%	42%		Decrease
			Spread over LIBOR(10)	0.10%	1.23%		Decrease
			Mortality rate(13)	0%	24%		Decrease
			Equity volatility curve	6%	25%		Increase

(1) Conversely, the impact of a decrease in input would have the opposite impact on fair value as that presented in the table.
(2) Includes assets classified as fixed maturities available-for-sale, assets supporting experience-rated contractholder liabilities and fixed maturities, trading.
(3) Excludes notes which have been offset with the associated payables under a netting agreement.
(4) Represents multiples of earnings before interest, taxes, depreciation and amortization ("EBITDA"), and are amounts used when the Company has determined that market participants would use such multiples when valuing the investments.
(5) Includes certain investments where enterprise value is less than the amount needed to support senior and subordinated claims. These investments typically use a range of discount rates (10% to 20%), therefore presenting a range, rather than a weighted average, is a more meaningful representation of the unobservable inputs used in the valuation.
(6) Changes in the fair value of separate account assets are borne by customers and thus are offset by changes in separate account liabilities on the Company's Consolidated Statements of Financial Position. As a result, changes in value associated with these investments are not reflected in the Company's Consolidated Statements of Operations.
(7) Future policy benefits primarily represent general account liabilities for the living benefit features of the Company's variable annuity contracts which are accounted for as embedded derivatives. Since the valuation methodology for these liabilities uses a range of inputs that vary at the contract level over the cash flow projection period, presenting a range, rather than a weighted average, is a more meaningful representation of the unobservable inputs used in the valuation.
(8) Policyholders' account balances primarily represent general account liabilities for the index-linked interest credited on certain of the Company's life and annuity products that are accounted for as embedded derivatives. Since the valuation methodology for these liabilities uses a range of inputs that vary at the contract level over the cash flow projection period, presenting a range, rather than a weighted average, is a more meaningful representation of the unobservable inputs used in the valuation.
(9) Lapse rates for contracts with living benefit guarantees are adjusted at the contract level based on the in-the-moneyness of the living benefit and reflect other factors, such as the applicability of any surrender charges. Lapse rates are reduced when contracts are more in-the-money. Lapse rates for contracts with index-linked crediting guarantees may be adjusted at the contract level based on the applicability of any surrender charges, product type, and market related factors such as interest rates. Lapse rates are also generally assumed to be lower for the period where surrender charges apply. For any given contract, lapse rates vary throughout the period over which cash flows are projected for the purposes of valuing these embedded derivatives.
(10) The spread over the London Inter-Bank Offered Rate ("LIBOR") swap curve represents the premium added to the proxy for the risk-free rate (LIBOR) to reflect the Company's estimates of rates that a market participant would use to value the living benefits in both the accumulation and payout phases and index-linked interest crediting guarantees. This spread includes an estimate of NPR, which is the risk that the obligation will not be fulfilled by the Company. NPR is primarily estimated by utilizing the credit spreads associated with issuing funding agreements, adjusted for any illiquidity risk premium. In order to reflect the financial strength ratings of the Company, credit spreads associated with funding agreements, as opposed to credit spread associated with debt, are utilized in developing this estimate because funding agreements, living benefit guarantees, and index-linked interest crediting guarantees are insurance liabilities and are therefore senior to debt.

(11) The utilization rate assumption estimates the percentage of contracts that will utilize the benefit during the contract duration, and begin lifetime withdrawals at various time intervals from contract inception. The remaining contractholders are assumed to either begin lifetime withdrawals immediately or never utilize the benefit. Utilization assumptions may vary by product type, tax status, and age. The impact of changes in these assumptions is highly dependent on the product type, the age of the contractholder at the time of the sale, and the timing of the first lifetime income withdrawal. Range reflects the utilization rate for the vast majority of business with living benefits.

(12) The withdrawal rate assumption estimates the magnitude of annual contractholder withdrawals relative to the maximum allowable amount under the contract. These assumptions vary based on the age of the contractholder, the tax status of the contract and the duration since the contractholder began lifetime withdrawals. As of December 31, 2020 and 2019, the minimum withdrawal rate assumption is 76% and 78% respectively. As of both December 31, 2020 and 2019, the maximum withdrawal rate assumption may be greater than 100%. The fair value of the liability will generally increase the closer the withdrawal rate is to 100% and decrease as the withdrawal rate moves further away from 100%.

(13) The range reflects the mortality rates for the vast majority of business with living benefits and other contracts, with policyholders ranging from 45 to 90 years old. While the majority of living benefits have a minimum age requirement, certain other contracts do not have an age restriction. This results in contractholders with mortality rates approaching 0% for certain benefits. Mortality rates may vary by product, age, and duration. A mortality improvement assumption is also incorporated into the overall mortality table.

Interrelationships Between Unobservable Inputs—In addition to the sensitivities of fair value measurements to changes in each unobservable input in isolation, as reflected in the table above, interrelationships between these inputs may also exist, such that a change in one unobservable input may give rise to a change in another or multiple inputs. Examples of such interrelationships for significant internally-priced Level 3 assets and liabilities are as follows:

Corporate Securities—The rate used to discount future cash flows reflects current risk-free rates plus credit and liquidity spread requirements that market participants would use to value an asset. The discount rate may be influenced by many factors, including market cycles, expectations of default, collateral, term, and asset complexity. Each of these factors can influence discount rates, either in isolation, or in response to other factors.

Future Policy Benefits—The Company expects efficient benefit utilization and withdrawal rates to generally be correlated with lapse rates. However, behavior is generally highly dependent on the facts and circumstances surrounding the individual contractholder, such as their liquidity needs or tax situation, which could drive lapse behavior independent of other contractholder behavior assumptions. To the extent more efficient contractholder behavior results in greater in-the-moneyness at the contract level, lapse rates may decline for those contracts. Similarly, to the extent that increases in equity volatility are correlated with overall declines in the capital markets, lapse rates may decline as contracts become more in-the-money.

Changes in Level 3 Assets and Liabilities—The following tables describe changes in fair values of Level 3 assets and liabilities as of the dates indicated, as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at the end of their respective periods. When a determination is made to classify assets and liabilities within Level 3, the determination is based on significance of the unobservable inputs in the overall fair value measurement. All transfers are based on changes in the observability of the valuation inputs, including the availability of pricing service information that the Company can validate. Transfers into Level 3 are generally the result of unobservable inputs utilized within valuation methodologies and the use of indicative broker quotes for assets that were previously valued using observable inputs. Transfers out of Level 3 are generally due to the use of observable inputs in valuation methodologies as well as the availability of pricing service information for certain assets that the Company can validate.

	Year Ended December 31, 2020										
	Fair Value, beginning of period	Total realized and unrealized gains (losses)	Purchases	Sales	Issuances	Settlements	Other(1)	Transfers into Level 3	Transfers out of Level 3	Fair Value, end of period	Unrealized gains (losses) for assets still held(2)
	(in millions)										
Fixed maturities, available-for-sale:											
U.S. government	$ 105	$ 0	$ 45	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 150	$ 0
U.S. states	4	0	0	0	0	0	0	0	0	4	0
Foreign government	22	0	0	0	0	0	0	1	(12)	11	0
Corporate securities(3)	3,236	274	1,144	(127)	0	(1,021)	(16)	2,178	(333)	5,335	203
Structured securities(4)	948	(8)	685	(18)	0	(547)	156	178	(851)	543	(11)
Assets supporting experience-rated contractholder liabilities:											
Foreign government	24	0	0	0	0	(5)	0	0	0	19	0
Corporate securities(3)	637	(17)	6	(9)	0	(182)	(19)	99	(33)	482	(25)
Structured securities(4)	69	(1)	191	0	0	(33)	0	1	(113)	114	3
Equity securities	0	0	0	0	0	0	0	0	0	0	0
All other activity	0	0	134	0	0	(5)	(2)	0	(107)	20	0
Other assets:											
Fixed maturities, trading	287	(24)	33	(33)	0	0	9	19	(48)	243	(24)
Equity securities	633	14	59	(50)	0	(6)	11	0	(1)	660	11
Other invested assets	567	7	209	0	4	(5)	(415)	8	(9)	366	7
Short-term investments	155	1	327	0	0	(115)	(48)	0	(143)	177	(1)
Cash equivalents	131	0	0	0	0	0	(130)	0	0	1	0
Other assets	113	87	69	0	0	(1)	0	0	0	268	88
Separate account assets(5)	1,717	143	242	(71)	0	(84)	0	43	(169)	1,821	157
Liabilities:											
Future policy benefits	(12,831)	(4,837)	0	0	(1,304)	0	93	0	0	(18,879)	(5,263)
Policyholders' account balances(6)	(1,316)	(228)	0	0	(370)	0	0	0	0	(1,914)	(155)
Other liabilities	(105)	105	0	0	0	0	0	0	0	0	105
Notes issued by consolidated VIEs	(800)	25	0	0	0	0	775	0	0	0	25

	Year Ended December 31, 2020								
	Total realized and unrealized gains (losses)					Unrealized gains (losses) for assets still held(2)			
	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (losses)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (losses)(7)
	(in millions)								
Fixed maturities, available-for-sale	$ (111)	$ 0	$ 0	$368	$9	$ (139)	$ 0	$ 0	$331
Assets supporting experience-rated contractholder liabilities	0	(22)	0	0	4	0	(22)	0	0
Other assets:									
Fixed maturities, trading	0	(25)	0	0	1	0	(24)	0	0
Equity securities	0	14	0	0	0	0	11	0	0
Other invested assets	0	7	0	0	0	0	7	0	0
Short-term investments	1	0	0	0	0	(1)	0	0	0
Cash equivalents	0	0	0	0	0	0	0	0	0
Other assets	87	0	0	0	0	88	0	0	0
Separate account assets(5)	0	0	143	0	0	0	0	157	0
Liabilities:									
Future policy benefits	(4,837)	0	0	0	0	(5,263)	0	0	0
Policyholders' account balances	(228)	0	0	0	0	(155)	0	0	0
Other liabilities	0	105	0	0	0	0	105	0	0
Notes issued by consolidated VIEs	0	25	0	0	0	0	25	0	0

	Year Ended December 31, 2019										
	Fair Value, beginning of period	Total realized and unrealized gains (losses)	Purchases	Sales	Issuances	Settlements	Other(1)	Transfers into Level 3	Transfers out of Level 3	Fair Value, end of period	Unrealized gains (losses) for assets still held(2)
	(in millions)										
Fixed maturities, available-for-sale:											
U.S. government	$ 81	$ 0	$ 24	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 105	$ 0
U.S. states	5	0	0	0	0	(1)	0	0	0	4	0
Foreign government	125	0	0	0	0	0	(1)	10	(112)	22	(2)
Corporate securities(3)	2,685	(3)	1,462	(47)	0	(1,137)	10	353	(87)	3,236	(96)
Structured securities(4)	1,339	40	952	(67)	0	(507)	(4)	755	(1,560)	948	0
Assets supporting experience-rated contractholder liabilities:											
Foreign government	225	0	0	0	0	(5)	(196)	0	0	24	0
Corporate securities(3)	444	4	146	0	0	(189)	196	46	(10)	637	(6)
Structured securities(4)	149	0	29	0	0	(35)	0	0	(74)	69	0
Equity securities	1	1	0	(2)	0	0	0	0	0	0	1
All other activity	0	0	8	0	0	(8)	0	0	0	0	0
Other assets:											
Fixed maturities, trading	206	(26)	105	(31)	0	0	(7)	41	(1)	287	(27)
Equity securities	671	42	79	(52)	0	(85)	1	1	(24)	633	34
Other invested assets	263	11	341	0	0	(42)	(6)	0	0	567	(1)
Short-term investments	89	0	597	0	0	(526)	(5)	0	0	155	0
Cash equivalents	77	0	131	0	0	(77)	0	0	0	131	0
Other assets	25	44	44	0	0	0	0	0	0	113	44
Separate account assets(5)	1,534	184	346	(111)	0	(144)	0	55	(147)	1,717	170
Liabilities:											
Future policy benefits	(8,926)	(2,685)	0	0	(1,221)	0	1	0	0	(12,831)	(2,999)
Policyholders' account balances(6)	(56)	(933)	0	0	(324)	0	(3)	0	0	(1,316)	(917)
Other liabilities	0	(5)	0	0	(100)	0	0	0	0	(105)	(5)
Notes issued by consolidated VIEs	(595)	15	0	0	(858)	638	0	0	0	(800)	15

	Year Ended December 31, 2019							
	Total realized and unrealized gains (losses)					Unrealized gains (losses) for assets still held(2)		
	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (losses)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances
	(in millions)							
Fixed maturities, available-for-sale	$(67)	$ 0	$ 0	$86	$18	$ (98)	$ 0	$ 0
Assets supporting experience-rated contractholder liabilities	0	(4)	0	0	9	0	(5)	0
Other assets:								
Fixed maturities, trading	0	(27)	0	0	1	0	(27)	0
Equity securities	0	42	0	0	0	0	34	0
Other invested assets	(1)	12	0	0	0	(1)	0	0
Short-term investments	0	0	0	0	0	0	0	0
Cash equivalents	0	0	0	0	0	0	0	0
Other assets	44	0	0	0	0	44	0	0
Separate account assets(5)	0	0	180	0	4	0	0	170
Liabilities:								
Future policy benefits	(2,685)	0	0	0	0	(2,999)	0	0
Policyholders' account balances	(933)	0	0	0	0	(917)	0	0
Other liabilities	0	(5)	0	0	0	0	(5)	0
Notes issued by consolidated VIEs	15	0	0	0	0	15	0	0

The following tables summarize the portion of changes in fair values of Level 3 assets and liabilities included in earnings and OCI for the year ended December 31, 2018, as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held as of December 31, 2018:

	Year Ended December 31, 2018							
	Total realized and unrealized gains (losses)					Unrealized gains (losses) for assets still held(2)		
	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (losses)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances
	(in millions)							
Fixed maturities, available-for-sale	$(29)	$ 0	$ 0	$(141)	$17	$ (60)	$ 0	$ 0
Assets supporting experience-rated contractholder liabilities	0	(39)	0	0	8	0	(38)	0
Other assets:								
Fixed maturities, trading	0	5	0	0	1	0	8	0
Equity securities	0	(6)	0	0	0	0	(19)	0
Other invested assets	4	0	0	0	0	2	1	0
Short-term investments	0	0	0	0	0	(1)	0	0
Cash equivalents	(1)	0	0	0	0	0	0	0
Other assets	(34)	0	0	0	0	(34)	0	0
Separate account assets(5)	0	0	(66)	0	2	0	0	(52)
Liabilities:								
Future policy benefits	947	0	0	0	0	611	0	0
Policyholders' account balances	30	0	0	0	0	30	0	0
Other liabilities	2	0	0	0	0	3	0	0
Notes issued by consolidated VIEs	14	0	0	0	0	14	0	0

(1) "Other," for the periods ended December 31, 2020 and 2019, primarily represent deconsolidation of VIE, reclassifications of certain assets between reporting categories and foreign currency translation.
(2) Unrealized gains or losses related to assets still held at the end of the period do not include amortization or accretion of premiums and discounts.
(3) Includes U.S. corporate public, U.S. corporate private, foreign corporate public and foreign corporate private securities.
(4) Includes asset-backed, commercial mortgage-backed and residential mortgage-backed securities.
(5) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company's Consolidated Statements of Financial Position.
(6) Issuances and settlements for Policyholders' account balances are presented net in the rollforward. Prior period amounts have been updated to conform to current period presentation.
(7) Effective January 1, 2020, the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period were added prospectively due to adoption of ASU 2018-13. *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*.

Derivative Fair Value Information

The following tables present the balances of certain derivative assets and liabilities measured at fair value on a recurring basis, as of the date indicated, by primary underlying risks. These tables exclude embedded derivatives and associated reinsurance recoverables. The derivative assets and liabilities shown below are included in "Other invested assets" or "Other liabilities" in the tables contained within the sections "—Assets and Liabilities by Hierarchy Level" and "—Changes in Level 3 Assets and Liabilities," above.

	As of December 31, 2020				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in millions)				
Derivative assets:					
Interest Rate	$ 99	$19,091	$0	$	$ 19,190
Currency	0	832	0		832
Credit	0	63	0		63
Currency/Interest Rate	0	1,415	0		1,415
Equity	128	1,645	0		1,773
Commodity	0	0	0		0
Netting(1)				(21,367)	(21,367)
Total derivative assets	$227	$23,046	$0	$(21,367)	$ 1,906
Derivative liabilities:					
Interest Rate	$ 5	$13,503	$0	$	$ 13,508
Currency	0	763	0		763
Credit	0	28	0		28
Currency/Interest Rate	0	1,638	0		1,638
Equity	25	2,305	0		2,330
Commodity	0	0	0		0
Netting(1)				(17,475)	(17,475)
Total derivative liabilities	$ 30	$18,237	$0	$(17,475)	$ 792

	As of December 31, 2019				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in millions)				
Derivative assets:					
Interest Rate	$ 4	$11,238	$1	$	$ 11,243
Currency	0	230	0		230
Credit	0	21	0		21
Currency/Interest Rate	0	2,207	0		2,207
Equity	2	683	0		685
Commodity	0	0	0		0
Netting(1)				(13,519)	(13,519)
Total derivative assets	$ 6	$14,379	$1	$(13,519)	$ 867
Derivative liabilities:					
Interest Rate	$38	$ 5,176	$0	$	$ 5,214
Currency	0	271	0		271
Credit	0	0	0		0
Currency/Interest Rate	0	647	0		647
Equity	3	1,401	0		1,404
Commodity	0	0	0		0
Netting(1)				(6,705)	(6,705)
Total derivative liabilities	$41	$ 7,495	$0	$ (6,705)	$ 831

(1) "Netting" amounts represent cash collateral and the impact of offsetting asset and liability positions held with the same counterparty, subject to master netting agreement.

Changes in Level 3 derivative assets and liabilities—The following tables provide a summary of the changes in fair value of Level 3 derivative assets and liabilities as of the dates indicated, as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at the end of their respective periods:

	Year Ended December 31, 2020										
	Fair Value, beginning of period	Total realized and unrealized gains (losses) (4)	Purchases	Sales	Issuances	Settlements	Other(1)	Transfers into Level 3 (2)	Transfers out of Level 3 (2)	Fair Value, end of period	Unrealized gains (losses) for assets still held (4)
	(in millions)										
Net Derivative—Equity	$0	$ 0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Derivative—Interest Rate	1	(1)	0	0	0	0	0	0	0	0	0

	Year Ended December 31, 2019										
	Fair Value, beginning of period	Total realized and unrealized gains (losses) (4)	Purchases	Sales	Issuances	Settlements	Other(1)	Transfers into Level 3 (2)	Transfers out of Level 3 (2)	Fair Value, end of period	Unrealized gains (losses) for assets still held (4)
	(in millions)										
Net Derivative—Equity	$0	$ 0	$0	$0	$0	$0	$0	$0	$0	$0	$ 0
Net Derivative—Interest Rate	2	(1)	0	0	0	0	0	0	0	1	(2)

	Year Ended December 31, 2018										
	Fair Value, beginning of period	Total realized and unrealized gains (losses)(4)	Purchases	Sales	Issuances	Settlements	Other(3)	Transfers into Level 3 (2)	Transfers out of Level 3 (2)	Fair Value, end of period	Unrealized gains (losses) for assets still held(4)
	(in millions)										
Net Derivative—Equity	$10	$1	$0	$0	$0	$0	$(11)	$0	$0	$0	$0
Net Derivative—Interest Rate	(3)	5	0	0	0	0	0	0	0	2	5

(1) Represents conversion of warrants to equity shares.
(2) Transfers into or out of Level 3 are generally reported at the value as of the beginning of the quarter in which the transfers occur for any such positions still held at the end of the quarter.
(3) Related to warrants received in restructuring a certain asset that resulted in reclassification of reporting category.
(4) Total realized and unrealized gains (losses) as well as unrealized gains (losses) for assets still held at the end of the period are recorded in "Realized investment gains (losses), net."

Nonrecurring Fair Value Measurements—The following tables represent information for assets measured at fair value on a nonrecurring basis. The fair value measurement is nonrecurring as these assets are measured at fair value only when there is a triggering event (e.g., an evidence of impairment). Assets included in the table are those that were impaired during the respective reporting periods and that are still held as of the reporting date. The estimated fair values for these amounts were determined using significant unobservable inputs (Level 3).

	Year Ended December 31,		
	2020	2019	2018
	(in millions)		
Realized investment gains (losses) net:			
Commercial mortgage loans(1)	$ 0	$ 2	$(12)
Mortgage servicing rights(2)	$(25)	$11	$ 10
Investment real estate	$(24)	$ 0	$ 0

	Year Ended December 31,	
	2020	2019
	(in millions)	
Carrying value after measurement as of period end		
Commercial mortgage loans(1):	$ 0	$15
Mortgage servicing rights(2):	$307	$87
Investment real estate	$ 31	$ 0

(1) Commercial mortgage loans are valued based on discounted cash flows utilizing market rates or the fair value of the underlying real estate collateral.
(2) Mortgage servicing rights are valued using a discounted cash flow model. The model incorporates assumptions for servicing revenues, which are adjusted for expected prepayments, delinquency rates, escrow deposit income and estimated loan servicing expenses. The discount rates incorporated into the model are determined based on the estimated returns a market participant would require for this business plus a liquidity and risk premium. This estimate includes available relevant data from any active market sales of mortgage servicing rights.

Fair Value Option

The fair value option allows the Company to elect fair value as an alternative measurement for selected financial assets and financial liabilities not otherwise reported at fair value. Such elections have been made by the Company to help mitigate volatility in earnings that result from different measurement attributes. Electing the fair value option also allows the Company to achieve consistent accounting for certain assets and liabilities. Changes in fair value are reflected in "Realized investment gains (losses), net" for commercial mortgage and other loans and "Other income (loss)" for other assets and notes issued by consolidated VIEs. Changes in fair value due to instrument-specific credit risk are estimated using changes in credit spreads and quality ratings for the period reported. Interest income on commercial mortgage and other loans is included in "Net investment income." Interest income on these loans is recorded based on the effective interest rate as determined at the closing of the loan.

The following tables present information regarding assets and liabilities where the fair value option has been elected:

	Year Ended December 31,		
	2020	2019	2018
	(in millions)		
Liabilities:			
Notes issued by consolidated VIEs:			
Changes in fair value	$(25)	$(15)	$(14)

	Year Ended December 31,		
	2020	2019	2018
	(in millions)		
Commercial mortgage and other loans:			
Interest income	$17	$20	$18
Notes issued by consolidated VIEs:			
Interest expense	$32	$45	$36

	Year Ended December 31,	
	2020	2019
	(in millions)	
Commercial mortgage and other loans(1):		
Fair value as of period end	$1,092	$228
Aggregate contractual principal as of period end	$1,073	$224
Other assets:		
Fair value as of period end	$ 10	$ 10
Notes issued by consolidated VIEs:		
Fair value as of period end	$ 0	$800
Aggregate contractual principal as of period end	$ 0	$857

(1) As of December 31, 2020, for loans for which the fair value option has been elected, there were no loans in non-accrual status and none of the loans were more than 90 days past due and still accruing.

Fair Value of Financial Instruments

The table below presents the carrying amount and fair value by fair value hierarchy level of certain financial instruments that are not reported at fair value. The financial instruments presented below are reported at carrying value on the Company's Consolidated Statements of Financial Position. In some cases, as described below, the carrying amount equals or approximates fair value.

	December 31, 2020				
	Fair Value				Carrying Amount(1)
	Level 1	Level 2	Level 3	Total	Total
	(in millions)				
Assets:					
Fixed maturities, held-to-maturity(2)	$ 0	$ 2,209	$ 89	$ 2,298	$ 1,930
Assets supporting experience-rated contractholder liabilities	39	0	0	39	39
Commercial mortgage and other loans	0	107	67,477	67,584	64,333
Policy loans	0	0	11,271	11,271	11,271
Other invested assets	0	153	0	153	153
Short-term investments	1,464	26	0	1,490	1,490
Cash and cash equivalents	7,951	268	0	8,219	8,219
Accrued investment income	0	3,193	0	3,193	3,193
Other assets	154	2,917	449	3,520	3,517
Total assets	$9,608	$ 8,873	$79,286	$ 97,767	$ 94,145
Liabilities:					
Policyholders' account balances—investment contracts	$ 0	$ 36,820	$73,653	$110,473	$107,526
Securities sold under agreements to repurchase	0	10,894	0	10,894	10,894
Cash collateral for loaned securities	0	3,499	0	3,499	3,499
Short-term debt	0	794	146	940	925
Long-term debt(3)	644	21,685	1,139	23,468	19,718
Notes issued by consolidated VIEs	0	0	305	305	305
Other liabilities	0	7,626	48	7,674	7,674
Separate account liabilities—investment contracts	0	86,046	23,631	109,677	109,677
Total liabilities	$ 644	$167,364	$98,922	$266,930	$260,218

	December 31, 2019				
	Fair Value				Carrying Amount(1)
	Level 1	Level 2	Level 3	Total	Total
	(in millions)				
Assets:					
Fixed maturities, held-to-maturity(2)	$ 0	$ 2,217	$ 85	$ 2,302	$ 1,933
Assets supporting experience-rated contractholder liabilities	16	0	0	16	16
Commercial mortgage and other loans	0	107	65,558	65,665	63,331
Policy loans	0	0	12,096	12,096	12,096
Other invested assets	0	36	0	36	36
Short-term investments	1,492	39	0	1,531	1,531
Cash and cash equivalents	6,278	1,043	0	7,321	7,321
Accrued investment income	0	3,330	0	3,330	3,330
Other assets	147	2,526	643	3,316	3,315
Total assets	$7,933	$ 9,298	$78,382	$ 95,613	$ 92,909
Liabilities:					
Policyholders' account balances—investment contracts	$ 0	$ 32,940	$69,216	$102,156	$101,241
Securities sold under agreements to repurchase	0	9,681	0	9,681	9,681
Cash collateral for loaned securities	0	4,213	0	4,213	4,213
Short-term debt	0	1,748	205	1,953	1,933
Long-term debt(3)	1,950	18,188	1,186	21,324	18,646
Notes issued by consolidated VIEs	0	0	474	474	474
Other liabilities	0	6,403	579	6,982	6,982
Separate account liabilities—investment contracts	0	77,134	24,407	101,541	101,541
Total liabilities	$1,950	$150,307	$96,067	$248,324	$244,711

(1) Carrying values presented herein differ from those in the Company's Consolidated Statements of Financial Position because certain items within the respective financial statement captions are not considered financial instruments or out of scope under authoritative guidance relating to disclosures of the fair value of financial instruments.
(2) Excludes notes with fair value of $5,821 million (carrying amount of $4,998 million) and $5,401 million (carrying amount of $4,998 million) as of December 31, 2020 and 2019, respectively, which have been offset with the associated payables under a netting agreement.
(3) Includes notes with fair value of $11,921 million (carrying amount of $10,964 million) and $10,158 million (carrying amount of $9,749 million) as of December 31, 2020 and 2019, respectively, which have been offset with the associated receivables under a netting agreement.

The fair values presented above have been determined by using available market information and by applying market valuation methodologies, as described in more detail below.

Fixed Maturities, Held-to-Maturity

The fair values of public fixed maturity securities are generally based on prices from third-party pricing services, which are reviewed for reasonableness; however, for certain public fixed maturity securities and investments in private placement fixed maturity securities, this information is either not available or not reliable. For these public fixed maturity securities, the fair value is based on indicative broker quotes, if available, or determined using a discounted cash flow model or other internally-developed models. For private fixed maturities, fair value is determined using a discounted cash flow model. In determining the fair value of certain fixed maturity securities, the discounted cash flow model may also use unobservable inputs, which reflect the Company's own assumptions about the inputs market participants would use in pricing the security.

Commercial Mortgage and Other Loans

The fair value of most commercial mortgage loans is based upon the present value of the expected future cash flows discounted at the appropriate U.S. Treasury rate or foreign government bond rate (for non-U.S. dollar-denominated loans) plus an appropriate credit spread for loans of similar quality, average life and currency. The quality ratings for these loans, a primary determinant of the credit spreads and a significant component of the pricing process, are based on an internally-developed methodology. Certain commercial mortgage loans are valued incorporating other factors, including the terms of the loans, the principal exit strategies for the loans, prevailing interest rates and credit risk.

Policy Loans

The Company's valuation technique for policy loans is to discount cash flows at the current policy loan coupon rate. Policy loans are fully collateralized by the cash surrender value of underlying insurance policies. As a result, the carrying value of the policy loans approximates the fair value.

Short-Term Investments, Cash and Cash Equivalents, Accrued Investment Income and Other Assets

The Company believes that due to the short-term nature of certain assets, the carrying value approximates fair value. These assets include: certain short-term investments, which are not securities, recorded at amortized cost and include quality loans; cash and cash equivalent instruments; accrued investment income; and other assets that meet the definition of financial instruments, including receivables, such as reinsurance recoverables, unsettled trades, accounts receivable and restricted cash.

Policyholders' Account Balances—Investment Contracts

Only the portion of policyholders' account balances related to products that are investment contracts (those without significant mortality or morbidity risk) are reflected in the table above. For fixed deferred annuities, single premium endowments, payout annuities and other similar contracts without life contingencies, fair values are generally derived using discounted projected cash flows based on interest rates that are representative of the Company's financial strength ratings, and hence reflect the Company's NPR. For GICs, funding agreements, structured settlements without life contingencies and other similar products, fair values are generally derived using discounted projected cash flows based on interest rates being offered for similar contracts with maturities consistent with those of the contracts being valued. For those balances that can be withdrawn by the customer at any time without prior notice or penalty, the fair value is the amount estimated to be payable to the customer as of the reporting date, which is generally the carrying value. For defined contribution and defined benefit contracts and certain other products, the fair value is the market value of the assets supporting the liabilities.

Securities Sold Under Agreements to Repurchase

The Company receives collateral for selling securities under agreements to repurchase, or pledges collateral under agreements to resell. Repurchase and resale agreements are also generally short-term in nature and, therefore, the carrying amounts of these instruments approximate fair value.

Cash Collateral for Loaned Securities

Cash collateral for loaned securities represents the collateral received or paid in connection with loaning or borrowing securities, similar to the securities sold under agreement to repurchase above. Due to the short-term nature of these transactions, the carrying value approximates fair value.

Debt

The fair value of short-term and long-term debt, as well as notes issued by consolidated VIEs, is generally determined by either prices obtained from independent pricing services, which are validated by the Company, or discounted cash flow models. With the exception of the notes issued by consolidated VIEs for which recourse is limited to the assets of the respective VIE and does not extend to the general credit of the Company, the fair values of these instruments consider the Company's NPR. Discounted cash flow models predominately use market observable inputs such as the borrowing rates currently available to the Company for debt and financial instruments with similar terms and remaining maturities. For commercial paper issuances and other debt with a maturity of less than 90 days, the carrying value approximates fair value.

Other Liabilities

Other liabilities are primarily payables, such as reinsurance payables, unsettled trades, drafts and accrued expense payables. Due to the short-term until settlement of most of these liabilities, the Company believes that carrying value approximates fair value.

Separate Account Liabilities—Investment Contracts

Only the portion of separate account liabilities related to products that are investment contracts are reflected in the table above. Separate account liabilities are recorded at the amount credited to the contractholder, which reflects the change in fair value of the corresponding separate account assets including contractholder deposits less withdrawals and fees; therefore, carrying value approximates fair value.

7. DEFERRED POLICY ACQUISITION COSTS

The balances of and changes in DAC as of and for the years ended December 31, are as follows:

	2020	2019	2018
		(in millions)	
Balance, beginning of period	$19,912	$20,058	$18,992
Capitalization of commissions, sales and issue expenses	2,763	2,966	2,870
Amortization—Impact of assumption and experience unlocking and true-ups	(36)	(164)	(217)
Amortization—All other	(2,185)	(2,168)	(2,056)
Change due to unrealized investment gains and losses	(379)	(713)	519
Foreign currency translation	142	(8)	(32)
Other(1)	(1,190)	(59)	(18)
Balance, end of period	$19,027	$19,912	$20,058

(1) "Other" for 2020 primarily represents the impact related to the sale of The Prudential Life Insurance Company of Korea, Ltd. of $(1,193) million. "Other" for 2019 primarily represents the impact related to the sale of the Company's Pramerica of Italy subsidiary of $(46) million and DAC ceded to a third-party reinsurer of $(14) million. "Other" for 2018 represents the impact related to the sale of the Company's Pramerica of Poland subsidiary of $(38) million and the impact of the elimination of Gibraltar Life's one-month reporting lag of $20 million.

8. VALUE OF BUSINESS ACQUIRED

The balances of and changes in VOBA as of and for the years ended December 31, are as follows:

	2020	2019	2018
	(in millions)		
Balance, beginning of period	$1,110	$1,850	$1,591
Amortization—Impact of assumption and experience unlocking and true-ups	(317)	(139)	0
Amortization—All other	(212)	(235)	(276)
Change due to unrealized investment gains and losses	418	(478)	455
Interest	56	64	69
Foreign currency translation	48	10	23
Other	0	38	(12)
Balance, end of period	$1,103	$1,110	$1,850

The following table provides VOBA balances for the year ended December 31, 2020:

	VOBA Balance
	(in millions)
CIGNA	$219
Prudential Annuities Holding Co.	$ 29
Gibraltar Life	$852
Gibraltar BSN Life Berhad	$ 3

The following table provides estimated future amortization, net of interest, for the periods indicated:

	2021	2022	2023	2024	2025
	(in millions)				
Estimated future VOBA amortization	$99	$93	$85	$79	$72

9. INVESTMENTS IN OPERATING JOINT VENTURES

The Company has made investments in certain joint ventures that are strategic in nature and made other than for the sole purpose of generating investment income. These investments are accounted for under the equity method of accounting and are included in "Other assets" in the Company's Consolidated Statements of Financial Position. The earnings from these investments are included on an after-tax basis in "Equity in earnings of operating joint ventures, net of taxes" in the Company's Consolidated Statements of Operations. The Company has made these investments through its PGIM and International Businesses segments, and its Corporate and Other operations. The summarized financial information for the Company's operating joint ventures has been included in the summarized combined financial information for all significant equity method investments shown in Note 3.

The following table sets forth information related to the Company's investments in operating joint ventures as of and for the years ended December 31:

	2020	2019	2018
	(in millions)		
Investment in operating joint ventures	$1,394	$1,309	$1,329
Dividends received from operating joint ventures	$ 60	$ 70	$ 93
After-tax equity in earnings of operating joint ventures	$ 96	$ 100	$ 76

For the years ended December 31, 2020, 2019 and 2018, the Company recognized $30 million, $29 million and $32 million, respectively, of asset management fee income for services the Company provided to these operating joint ventures.

10. GOODWILL AND OTHER INTANGIBLES

The changes in the carrying value of goodwill by reportable segment are as follows:

	PGIM	Retirement	Assurance IQ	International Businesses	Other	Total
			(in millions)			
Goodwill balance, December 31, 2017:	$235	$444	$ 0	$164	$ 0	$ 843
Acquisitions	0	11	0	0	11	22
Foreign currency translation	(2)	0	0	0	0	(2)
Goodwill balance, December 31, 2018:	233	455	0	164	11	863
Acquisitions	22	0	2,128	0	0	2,150
Foreign currency translation	(1)	0	0	1	0	0
Goodwill balance, December 31, 2019:	254	455	2,128	165	11	3,013
Foreign currency translation and other(1)	4	0	12	(21)	27	22
Goodwill balance, December 31, 2020:	$258	$455	$2,140	$144	$38	$3,035

(1) The goodwill associated with Assurance IQ includes a measurement period adjustment made during 2020. The goodwill reclass between International Businesses and Other relates to an operation that became classified as divested business and transferred to Corporate and Other during 2020.

The Company tests goodwill for impairment annually, as of December 31, and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount, as discussed in further detail in Note 2. The Company performed the annual goodwill test using the quantitative approach for all reporting units at December 31, 2020. As of December 31, 2019, the Company performed a qualitative goodwill impairment assessment for Assurance IQ and applied the quantitative goodwill impairment approach for all other reporting units.

As of December 31, 2020, the estimated fair value of Assurance IQ, based on a weighted average of the valuation approaches described above, exceeded the carrying value by 10%, while the estimated fair values of the other reporting units with allocated goodwill exceeded their carrying value by a weighted average of 229%.

Estimating the fair value of reporting units is a subjective process that involves the use of significant estimates by management. For all reporting units tested, unanticipated changes in business performance or regulatory environment, market declines or other events impacting the fair value of these businesses, including changes in market multiples, discount rates, interest rates and growth rates assumptions or increases in the level of equity required to support these businesses, could cause an impairment of goodwill, resulting in a charge to income.

Other Intangibles

Other intangible balances at December 31, are as follows:

	2020			2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
			(in millions)			
Subject to amortization:						
Mortgage servicing rights	$819	$(512)	$307	$745	$(468)	$277
Customer relationships	247	(175)	72	244	(153)	91
Software and other	192	(60)	132	201	(38)	163
Not subject to amortization	69	N/A	69	69	N/A	69
Total			$580			$600

The fair values of net mortgage servicing rights were $309 million and $287 million at December 31, 2020 and 2019, respectively. Amortization expense for other intangibles was $102 million, $65 million and $61 million for the years ending December 31, 2020, 2019 and 2018, respectively. The amortization expense amounts for 2020, 2019 and 2018 do not include impairments recorded for mortgage servicing rights or other intangibles. See the nonrecurring fair value measurements section of Note 6 for more information regarding these impairments.

The following table provides estimated future amortization for the periods indicated:

	2021	2022	2023	2024	2025
	(in millions)				
Estimated future amortization expense of other intangibles	$101	$93	$76	$46	$38

11. LEASES

The Company occupies leased office space and other facilities in many locations under various long-term leases and has entered into numerous leases covering the long-term use of computers and other equipment. The leases, depending on their specific terms, are classified as either operating or finance with the vast majority of leases falling under the operating classification. The leases in the Company's portfolio have remaining lease terms from less than one year to 28 years, some of which include options to extend the leases for up to 15 years, and some of which include options to terminate the leases within 8 years. An analysis of all economic and non-economic factors associated with leases containing certain options, including factors such as the existence of cancellation penalties, leasehold improvements made to the underlying assets and location of the underlying assets, is conducted to determine whether those leases are reasonably certain to renew, and hence, should be included in the lease term that is used to establish the right-of-use assets and lease liabilities for those arrangements.

The Company does not have residual guarantees associated with its lessee arrangements, nor are there any restrictions or covenants associated with its lease arrangements.

Lessee

Supplemental balance sheet information related to leases where the Company is the lessee is included below. Right-of-use assets and lease liabilities are included within "Other assets" and "Other liabilities" respectively.

	December 31,	
	2020	2019
	($ in millions)	
Operating Leases:		
Right-of-use assets	$ 466	$ 554
Lease liabilities	$ 511	$ 594
Weighted average remaining lease term	6 years	6 years
Weighted average discount rate	2.22 %	2.46 %

Maturities of operating lease liabilities are as follows:

	December 31, 2020
	(in millions)
2021	$156
2022	121
2023	81
2024	72
2025	46
Thereafter	80
Total lease payments	556
Less imputed interest	(45)
Total	$511

Lease expense is included in "General and administrative expenses," which was comprised of operating lease and short-term costs. Operating lease costs were $156 million and $138 million for the years ended December 31, 2020 and 2019, respectively. Short-term lease costs were $104 million and $101 million for the years ended December 31, 2020 and 2019, respectively. Short-term lease costs relate to those leases with terms of twelve months or less that do not include an option to purchase the underlying asset that is reasonably certain of exercise.

Lessor

The Company directly owns real estate properties within its investment portfolio. Such real estate is leased to third-parties, with the Company serving as the lessor. The terms of the leases vary depending on property type (e.g., commercial or residential). In most cases, the lessee has an option to renew the lease contract based on market rates but does not have an option to purchase the property. The terms of the leases may also include provisions for the use of common areas. Such non-lease components are not separately accounted for by the Company, as a result of applying the practical expedient discussed in Note 2. Lease income included in "Net investment income" were $161 million and $182 million for the years ended December 31, 2020 and 2019, respectively.

12. POLICYHOLDERS' LIABILITIES

Future Policy Benefits

Future policy benefits at December 31 for the years indicated are as follows:

	2020	2019
	(in millions)	
Life insurance	$195,245	$191,654
Individual and group annuities and supplementary contracts	77,254	75,940
Other contract liabilities	30,873	23,052
Subtotal future policy benefits excluding unpaid claims and claim settlement expenses	303,372	290,646
Unpaid claims and claim settlement expenses	2,971	2,881
Total future policy benefits	$306,343	$293,527

Life insurance liabilities include reserves for death and endowment policy benefits, terminal dividends and certain health benefits. Individual and group annuities and supplementary contracts liabilities include reserves for life contingent immediate annuities and life contingent group annuities. Other contract liabilities include unearned premiums and certain other reserves for group, annuities and individual life and health products.

Future policy benefits for individual participating traditional life insurance are based on the net level premium method, calculated using the guaranteed mortality and nonforfeiture interest rates which range from 2.5% to 7.5%. Participating insurance represented 3% and 2% of direct individual life insurance in force as of December 31, 2020 and 2019, respectively, and 10%, 11% and 12% of direct individual life insurance premiums for 2020, 2019 and 2018, respectively.

Future policy benefits for individual non-participating traditional life insurance policies, group and individual long-term care policies and individual health insurance policies are generally equal to the present value of future benefit payments and related expenses, less the present value of future net premiums. Assumptions as to mortality, morbidity and persistency are based on the Company's experience, industry data, and/or other factors, when the basis of the reserve is established. Interest rates used in the determination of the present values range from (0.1)% to 7.8%.

Future policy benefits for individual and group annuities and supplementary contracts with life contingencies are generally equal to the present value of expected future payments. Assumptions as to mortality are based on the Company's experience, industry data, and/or other factors, when the basis of the reserve is established. The interest rates used in the determination of the present values range from (0.2)% to 12.1%; less than 1% of the reserves are based on an interest rate in excess of 8%.

Future policy benefits for other contract liabilities are generally equal to the present value of expected future payments based on the Company's experience, except for example, certain group insurance coverages for which future policy benefits are equal to gross unearned premium reserves. The interest rates used in the determination of the present values range from 0.2% to 6.5%.

The Company's liability for future policy benefits is also inclusive of liabilities for guaranteed benefits related to certain long-duration life and annuity contracts. Liabilities for guaranteed benefits with embedded derivative features are primarily in "other contract liabilities" in the table above. The remaining liabilities for guaranteed benefits are primarily reflected with the underlying contract in the table above. See Note 13 for additional information regarding liabilities for guaranteed benefits related to certain long-duration life and annuity contracts.

Reserves for recognizing a premium deficiency included in "Future policy benefits" are established, if necessary, when the liability for future policy benefits plus the present value of expected future gross premiums are determined to be insufficient to provide for expected future policy benefits and expenses. Additionally, in certain instances the policyholder liability for a particular line of business may not be deficient in the aggregate to trigger loss recognition, but the pattern of earnings may be such that profits are expected to be recognized in earlier years followed by losses in later years. In these situations, accounting standards require that an additional PFL liability be recognized by an amount necessary to sufficiently offset the losses that would be recognized in later years. Premium deficiencies have been recognized in the past for the group single premium annuity business, which consists of limited-payment, long-duration traditional, non-participating annuities; structured settlements; single premium immediate annuities with life contingencies; long-term care; certain individual health policies; and certain interest-sensitive life products.

Unpaid claims and claim settlement expenses primarily reflect the Company's estimate of future disability claim payments and expenses as well as estimates of claims incurred but not yet reported as of the balance sheet date related to group disability products. Unpaid claim liabilities that are discounted use interest rates ranging from 1.8% to 6.4%.

Policyholders' Account Balances

Policyholders' account balances at December 31 for the years indicated are as follows:

	2020	2019
	(in millions)	
Individual annuities	$ 47,663	$ 44,391
Group annuities	30,700	27,843
Guaranteed investment contracts and guaranteed interest accounts	14,071	13,759
Funding agreements	6,938	4,119
Interest-sensitive life contracts	41,711	40,364
Dividend accumulation and other deposit type funds	20,599	21,634
Total policyholders' account balances	$161,682	$152,110

Policyholders' account balances primarily represent an accumulation of account deposits plus credited interest less withdrawals, expense charges and mortality charges, if applicable. These policyholders' account balances also include provisions for benefits under non-life contingent payout annuities and certain unearned revenues. Policyholders' account balances also include amounts representing the fair value of embedded derivative instruments associated with the index-linked features of certain universal life and annuity products. See Note 6 for additional information on the fair value of these embedded derivative instruments. Included in "Funding agreements" at December 31, 2020 and 2019 are $4,402 million and $4,104 million, respectively, related to the Company's Funding Agreement Notes Issuance Program ("FANIP"). Under this program, which has a maximum authorized amount of $15 billion of medium-term notes and $3 billion of commercial paper, Delaware statutory trusts issue short-term commercial paper and/or medium-term notes to investors that are secured by funding agreements issued to the trusts by PICA. The outstanding commercial paper and notes have fixed or floating interest rates that range from 0.0% to 3.5% and original maturities ranging from two months to five years. Included in the amounts at December 31, 2020 and 2019 is the medium-term note liability, which is carried at amortized cost, of $2,414 million and $2,414 million, respectively and short-term note liability of $1,991 million and $1,697 million, respectively.

Also included in "Funding agreements" are collateralized funding agreements issued to the Federal Home Loan Bank of New York ("FHLBNY") at December 31, 2020 and 2019 totaled $2,522 million and $0 million, respectively. These obligations, which are carried at amortized cost, have fixed or floating interest rates that range from 0.6% to 1.9% and original maturities ranging from nine months to seven years. For additional details on the FHLBNY program, see Note 17.

Interest crediting rates range from 0% to 6.3% for interest-sensitive life contracts and from 0% to 13.3% for contracts other than interest-sensitive life. Less than 1% of policyholders' account balances have interest crediting rates in excess of 8%.

13. CERTAIN LONG-DURATION CONTRACTS WITH GUARANTEES

The Company issues variable annuity contracts through its separate accounts for which investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contractholder. The Company also issues variable annuity contracts with general and separate account options where the Company contractually guarantees to the contractholder a return of no less than total deposits made to the contract adjusted for any partial withdrawals ("return of net deposits"). In certain of these variable annuity contracts, the Company also contractually guarantees to the contractholder a return of no less than (1) total deposits made to the contract adjusted for any partial withdrawals plus a minimum return ("minimum return"), and/or (2) the highest contract value on a specified date adjusted for any withdrawals ("contract value"). These guarantees include benefits that are payable in the event of death, annuitization or at specified dates during the accumulation period and withdrawal and income benefits payable during specified periods. The Company also issues annuity contracts and single premium life contracts with market value adjusted investment options ("MVAs"). Annuity contracts and single premium life contracts with MVAs provide for a return of principal plus a fixed rate of return if held-to-maturity, or, alternatively, a "market adjusted value" if surrendered prior to maturity or if funds are reallocated to other investment options. The market value adjustment may result in a gain or loss to the Company, depending on crediting rates or an indexed rate at surrender, as applicable. The Company also issues fixed deferred and immediate annuity contracts, some without MVA, that have a guaranteed credited rate and annuity benefit. The Company also issues indexed variable annuity contracts for which the return is tied to the return of specific indices where the Company contractually guarantees to the contractholder a return of no less than total deposits made to the contract adjusted for any partial withdrawals upon death.

In addition, the Company issues certain variable life, variable universal life and universal life contracts where the Company contractually guarantees to the contractholder a death benefit even when there is insufficient value to cover monthly mortality and expense charges, whereas otherwise the contract would typically lapse ("no-lapse guarantee"). Variable life and variable universal life contracts are offered with general and separate account options.

The assets supporting the variable portion of all variable annuities are carried at fair value and reported as “Separate account assets” with an equivalent amount reported as “Separate account liabilities.” Amounts assessed against the contractholders for mortality, administration, and other services are included within revenue in “Policy charges and fee income” and changes in liabilities for minimum guarantees are generally included in “Policyholders’ benefits” or “Realized investment gains (losses), net.”

For those guarantees of benefits that are payable in the event of death, the net amount at risk is generally defined as the current guaranteed minimum death benefit in excess of the current account balance at the balance sheet date. The Company’s primary risk exposures for these contracts relates to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including fixed income and equity market returns, contract lapses and contractholder mortality.

For guarantees of benefits that are payable at annuitization, the net amount at risk is generally defined as the present value of the minimum guaranteed annuity payments available to the contractholder determined in accordance with the terms of the contract in excess of the current account balance. The Company’s primary risk exposures for these contracts relates to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including fixed income and equity market returns, timing of annuitization, contract lapses and contractholder mortality.

For guarantees of benefits that are payable at withdrawal, the net amount at risk is generally defined as the present value of the minimum guaranteed withdrawal payments available to the contractholder determined in accordance with the terms of the contract in excess of the current account balance. For guarantees of accumulation balances, the net amount at risk is generally defined as the guaranteed minimum accumulation balance minus the current account balance. The Company’s primary risk exposures for these contracts relates to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including equity market returns, interest rates, market volatility and contractholder behavior.

The Company’s contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed may not be mutually exclusive. The liabilities related to the net amount at risk are reflected within “Future policy benefits.” As of December 31, 2020 and 2019, the Company had the following guarantees associated with these contracts, by product and guarantee type:

	December 31, 2020		December 31, 2019	
	In the Event of Death	At Annuitization/ Accumulation(1)	In the Event of Death	At Annuitization / Accumulation(1)
	($ in millions)			
Annuity Contracts				
Return of net deposits				
Account value	$133,726	$ 17	$130,893	$ 16
Net amount at risk	$ 214	$ 0	$ 244	$ 0
Average attained age of contractholders	68 years	75 years	67 years	75 years
Minimum return or contract value				
Account value	$ 31,157	$ 148,841	$ 32,609	$ 147,511
Net amount at risk	$ 2,327	$ 4,203	$ 2,626	$ 4,578
Average attained age of contractholders	70 years	68 years	69 years	68 years
Average period remaining until earliest expected annuitization	N/A	0.20 years	N/A	0.17 years

(1) Includes income and withdrawal benefits.

	December 31,	
	2020	2019
	In the Event of Death	
	($ in millions)	
Variable Life, Variable Universal Life and Universal Life Contracts		
Separate account value	$ 8,939	$ 9,983
General account value	$ 19,279	$ 18,225
Net amount at risk	$222,703	$245,929
Average attained age of contractholders	55 years	55 years

Account balances of variable annuity contracts with guarantees were invested in separate account investment options as follows:

	December 31, 2020	December 31, 2019
	(in millions)	
Equity funds	$ 94,270	$ 93,010
Bond funds	62,549	60,074
Balanced funds	0	1,592
Money market funds	3,156	3,530
Total	$159,975	$158,206

In addition to the amounts invested in separate account investment options above, $7,729 million at December 31, 2020, and $7,781 million at December 31, 2019, of account balances of variable annuity contracts with guarantees, inclusive of contracts with MVA features, were invested in general account investment options. For the years ended December 31, 2020, 2019 and 2018, there were no transfers of assets, other than cash, from the general account to any separate account, and accordingly no gains or losses recorded.

Liabilities for Guarantee Benefits

The table below summarizes the changes in general account liabilities for guarantees. The liabilities for GMDB and GMIB are included in "Future policy benefits" and the related changes in the liabilities are included in "Policyholders' benefits." GMAB, GMWB and GMIWB are accounted for as embedded derivatives and are recorded at fair value within "Future policy benefits." Changes in the fair value of these derivatives, including changes in the Company's own risk of non-performance, along with any fees attributed or payments made relating to the derivative, are recorded in "Realized investment gains (losses), net." See Note 6 for additional information regarding the methodology used in determining the fair value of these embedded derivatives. The Company maintains a portfolio of derivative investments that serve as a partial hedge of the risks associated with these products, for which the changes in fair value are also recorded in "Realized investment gains (losses), net." This portfolio of derivative investments does not qualify for hedge accounting treatment under U.S. GAAP. Additionally, the Company externally reinsures the guaranteed benefit features associated with certain contracts. See Note 14 for further information regarding the external reinsurance arrangement.

	GMDB		GMIB	GMAB/GMWB/ GMIWB
	Variable Life, Variable Universal Life and Universal Life	Annuity	Annuity	Annuity
		(in millions)		
Balance at December 31, 2017	$5,110	$697	$419	$ 8,721
Incurred guarantee benefits(1)	791	125	(14)	206
Paid guarantee benefits	(77)	(88)	(5)	0
Change in unrealized investment gains and losses	(406)	(20)	(20)	0
Other(2)	0	(1)	(2)	0
Balance at December 31, 2018	5,418	713	378	8,927
Incurred guarantee benefits(1)	1,492	82	(8)	3,905
Paid guarantee benefits	(111)	(69)	(4)	0
Change in unrealized investment gains and losses	805	27	(15)	0
Other(2)	(2)	0	4	(1)
Balance at December 31, 2019	7,602	753	355	12,831
Incurred guarantee benefits(1)	1,389	162	12	6,103
Paid guarantee benefits	(126)	(89)	(4)	0
Change in unrealized investment gains and losses	721	38	(8)	0
Other(2)(3)	(77)	(1)	13	(53)
Balance at December 31, 2020	$9,509	$863	$368	$18,881

(1) Incurred guarantee benefits include the portion of assessments established as additions to reserves as well as changes in estimates affecting the reserves. Also includes changes in the fair value of features considered to be derivatives.
(2) Other primarily represents foreign currency translation.
(3) Includes the impact from the sale of POK.

The GMDB, which includes the liability for no-lapse guarantees, and GMIB liability are established when associated assessments (which include all policy charges including charges for administration, mortality, expense, surrender, and other, regardless of how characterized) are recognized. This liability is established using current best estimate assumptions and is based on the ratio of the present value of total expected excess payments (e.g., payments in excess of account value) over the life of the contract divided by the present value of total expected assessments (i.e., benefit ratio). The liability equals the current benefit ratio multiplied by cumulative assessments recognized to date, plus interest, less cumulative excess payments to date. Similar to as described above for DAC, the reserves are subject to adjustments based on annual reviews of assumptions and quarterly adjustments for experience, including market performance. These adjustments reflect the impact on the benefit ratio of using actual historical experience from the issuance date to the balance sheet date plus updated estimates of future experience. The updated benefit ratio is then applied to all prior periods' assessments to derive an adjustment to the reserve recognized through a benefit or charge to current period earnings.

The GMAB features provide the contractholder with a guaranteed return of initial account value or an enhanced value if applicable. The most significant of the Company's GMAB features are the guaranteed return option features, which includes an automatic rebalancing element that reduces the Company's exposure to these guarantees. The GMAB liability is calculated as the present value of future expected payments in excess of the account balance less the present value of future expected rider fees attributable to the embedded derivative feature.

The GMWB features provide the contractholder with access to a guaranteed remaining balance if the account value is reduced to zero through a combination of market declines and withdrawals. The guaranteed remaining balance is generally equal to the protected value under the contract, which is initially established as the greater of the account value or cumulative deposits when withdrawals commence, less cumulative withdrawals. The contractholder also has the option, after a specified time period, to reset the guaranteed remaining balance to the then current account value, if greater. The contractholder accesses the guaranteed remaining balance through payments over time, subject to maximum annual limits. The GMWB liability is calculated as the present value of future expected payments to customers less the present value of future expected rider fees attributable to the embedded derivative feature.

The GMIWB features, taken collectively, provide a contractholder two optional methods to receive guaranteed minimum payments over time, a "withdrawal" option or an "income" option. The withdrawal option (which was available under only one of the GMIWBs and is no longer offered) guarantees that a contractholder can withdraw an amount each year until the cumulative withdrawals reach a total guaranteed balance. The income option (which varies among the Company's GMIWBs) in general guarantees the contractholder the ability to withdraw an amount each year for life (or for joint lives, in the case of any spousal version of the benefit) where such amount is equal to a percentage of a protected value under the benefit. The contractholder also has the potential to increase this annual amount, based on certain subsequent increases in account value that may occur. The GMIWB can be elected by the contractholder upon issuance of an appropriate deferred variable annuity contract or at any time following contract issue prior to annuitization. Certain GMIWB features include an automatic rebalancing element that reduces the Company's exposure to these guarantees. The GMIWB liability is calculated as the present value of future expected payments to customers less the present value of future expected rider fees attributable to the embedded derivative feature.

Sales Inducements

The Company defers sales inducements and amortizes them over the anticipated life of the policy using the same methodology and assumptions used to amortize DAC. DSI is included in "Other assets." The Company has offered various types of sales inducements including: (1) a bonus whereby the policyholder's initial account balance is increased by an amount equal to a specified percentage of the customer's initial deposit; (2) additional credits after a certain number of years a contract is held; and (3) enhanced interest crediting rates that are higher than the normal general account interest rate credited in certain product lines. Changes in DSI, reported as "Interest credited to policyholders' account balances," are as follows:

	Sales Inducements
	(in millions)
Balance at December 31, 2017	$1,168
Capitalization	3
Amortization—Impact of assumption and experience unlocking and true-ups	(6)
Amortization—All other	(166)
Change in unrealized investment gains and losses	25
Balance at December 31, 2018	1,024
Capitalization	1
Amortization—Impact of assumption and experience unlocking and true-ups	108
Amortization—All other	(163)
Change in unrealized investment gains and losses	(35)
Balance at December 31, 2019	935
Capitalization	1
Amortization—Impact of assumption and experience unlocking and true-ups	104
Amortization—All other	(166)
Change in unrealized investment gains and losses	(54)
Balance at December 31, 2020	$ 820

14. REINSURANCE

The Company participates in reinsurance with third parties primarily to provide additional capacity for future growth, limit the maximum net loss potential arising from large risks and acquire or dispose of businesses.

Effective April 1, 2015, the Company entered into an agreement with Union Hamilton Reinsurance, Ltd. ("Union Hamilton") an external counterparty, to reinsure approximately 50% of the Prudential Premier® Retirement Variable Annuity with Highest Daily Lifetime Income ("HDI") v.3.0 business, a guaranteed benefit feature. This reinsurance agreement covered most new HDI v.3.0 variable annuity business issued between April 1, 2015 and December 31, 2016 on a quota share basis, with Union Hamilton's cumulative quota share amounting to $2.9 billion of new rider premiums as of December 31, 2016. Reinsurance on business subject to this agreement remains in force for the duration of the underlying annuity contracts. New sales subsequent to December 31, 2016 are not covered by this external reinsurance agreement. This reinsurance agreement is accounted for as an embedded derivative.

In January 2013, the Company acquired the Hartford Life Business through reinsurance transactions with three subsidiaries of Hartford Financial Services Group, Inc. ("Hartford Financial"). Under the related agreements, the Company provided reinsurance for approximately 700,000 life insurance policies with net retained face amount in force of approximately $141 billion. The Company acquired the general account business through a coinsurance arrangement and, for certain types of general account policies, a modified coinsurance arrangement. The Company acquired the separate account business through a modified coinsurance arrangement. In May 2018, Hartford Financial sold a group of operating subsidiaries, which included two of the Company's counterparties to these reinsurance arrangements. There was no impact to the terms, rights or obligations of the Company, or operation of these reinsurance arrangements, as a result of this change in control of such counterparties. In January 2021, there was a definitive agreement announced to subsequently sell the two counterparties mentioned above. We anticipate there will be no impact to the terms, rights or obligations of the Company, or operation of these reinsurance arrangements, as a result of this change in control of such counterparties.

Since 2011, the Company has entered into several reinsurance agreements to assume pension liabilities in the United Kingdom. Under these arrangements, the Company assumes the longevity risk, and in some arrangements, also the investment risk associated with the pension benefits of certain specified beneficiaries.

In 2006, the Company acquired the variable annuity business of The Allstate Corporation ("Allstate") through a reinsurance transaction. The reinsurance arrangements with Allstate include a coinsurance arrangement associated with the general account liabilities assumed and a modified coinsurance arrangement associated with the separate account liabilities assumed. The reinsurance payable, which represents the Company's obligation under the modified coinsurance arrangement, is netted with the reinsurance receivable in the Consolidated Statements of Financial Position. In January 2021, Allstate announced a definitive agreement to sell the Company's counterparty to these reinsurance arrangements. We anticipate there will be no impact to the terms, rights or obligations of the Company, or operation of these reinsurance arrangements, as a result of this change in control of such counterparty.

In 2004, the Company acquired the retirement business of CIGNA and subsequently entered into various reinsurance arrangements. The Company still has indemnity coinsurance and modified coinsurance without assumption arrangements in effect related to this acquisition.

For the domestic business, life and disability reinsurance is accomplished through various plans of reinsurance, primarily yearly renewable term, per person excess, excess of loss, and coinsurance. On policies sold since 2000, the Company has reinsured a significant portion of the individual life mortality risk. Placement of reinsurance is accomplished primarily on an automatic basis with some specific risks reinsured on a facultative basis. The Company is authorized and has historically retained up to $30 million per life, but reduced its operating retention limit to $20 million per life in 2013. Retention in excess of the operating limit is on an exception basis.

The international business primarily uses reinsurance to obtain experience with respect to certain new product offerings and to a lesser extent, to mitigate mortality risk for certain protection products and for capital management purposes.

Reinsurance amounts included in the Consolidated Statements of Operations for premiums, policy charges and fee income, and policyholders' benefits for the years ended December 31, are as follows:

	2020	2019	2018
		(in millions)	
Direct premiums	$29,091	$33,260	$35,048
Reinsurance assumed	4,336	3,022	2,574
Reinsurance ceded	(2,287)	(2,080)	(1,843)
Premiums	$31,140	$34,202	$35,779
Direct policy charges and fee income	$ 5,341	$ 5,252	$ 5,245
Reinsurance assumed	1,192	1,181	1,189
Reinsurance ceded	(504)	(455)	(432)
Policy charges and fee income	$ 6,029	$ 5,978	$ 6,002
Direct policyholders' benefits	$32,514	$35,601	$38,079
Reinsurance assumed	5,659	4,304	3,659
Reinsurance ceded	(3,114)	(3,085)	(2,334)
Policyholders' benefits	$35,059	$36,820	$39,404

Reinsurance recoverables at December 31, are as follows:

	2020	2019
	(in millions)	
Individual and group annuities(1)	$ 273	$ 688
Life insurance(2)	6,649	5,535
Other reinsurance	432	403
Total reinsurance recoverables(3)	$7,354	$6,626

(1) Primarily represents reinsurance recoverables established under the reinsurance arrangements associated with the acquisition of the retirement business of CIGNA. The Company has recorded reinsurance recoverables related to the acquisition of the retirement business of CIGNA of $27 million and $553 million at December 31, 2020 and 2019, respectively. Also included is $204 million and $95 million of reinsurance recoverables at December 31, 2020 and 2019, respectively, established under the reinsurance agreement with Union Hamilton related to the ceding of certain embedded derivative liabilities associated with the Company's guaranteed benefits.
(2) Includes $2,245 million and $2,105 million of reinsurance recoverables established at December 31, 2020 and 2019, respectively, under the reinsurance arrangements associated with the acquisition of the Hartford Life Business. The Company has also recorded reinsurance payables related to the Hartford Life Business acquisition of $1,362 million and $1,290 million at December 31, 2020 and 2019, respectively.
(3) Net of $(5) million of loss allowance at December 31, 2020.

Excluding the reinsurance recoverable associated with the acquisition of the Hartford Life Business and the retirement business of CIGNA, four major reinsurance companies account for approximately 59% of the reinsurance recoverable at December 31, 2020. The Company periodically reviews the financial condition of its reinsurers, amounts recoverable therefrom, and unearned reinsurance premium, in order to reduce its exposure to loss from reinsurer insolvencies. Any expected credit losses are reflected in the CECL allowance, after considering any collateral the Company obtained in the form of a trust, letter of credit, or funds withheld arrangement. See Note 2 for additional details regarding CECL. Under the Company's longevity reinsurance transactions, the Company obtains collateral from its counterparties to mitigate counterparty default risk.

15. CLOSED BLOCK

On December 18, 2001, the date of demutualization, PICA established a closed block for certain in-force participating insurance policies and annuity products, along with corresponding assets used for the payment of benefits and policyholders' dividends on these products, (collectively the "Closed Block"), and ceased offering these participating products. The recorded assets and liabilities were allocated to the Closed Block at their historical carrying amounts. The Closed Block forms the principal component of the Closed Block division. See Note 22 for financial information on the Closed Block. The insurance policies and annuity contracts comprising the Closed Block are managed in accordance with the Plan of Reorganization approved by the New Jersey Department of Banking and Insurance ("NJDOBI") on December 18, 2001, and PICA is directly obligated for the insurance policies and annuity contracts in the Closed Block.

The policies included in the Closed Block are specified individual life insurance policies and individual annuity contracts that were in force on the date of demutualization and for which PICA is currently paying or expects to pay experience-based policy dividends. Assets have been allocated to the Closed Block in an amount that has been determined to produce cash flows which, together with revenues from policies included in the Closed Block, are expected to be sufficient to support obligations and liabilities relating to these policies, including provision for payment of benefits, certain expenses and taxes and to provide for continuation of the policyholder dividend scales in effect in 2000, assuming experience underlying such scales continues. To the extent that, over time, cash flows from the assets allocated to the Closed Block and claims and other experience related to the Closed Block are, in the aggregate, more or less favorable than what was assumed when the Closed Block was established, total dividends paid to Closed Block policyholders may be greater than or less than the total dividends that would have been paid to these policyholders if the policyholder dividend scales in effect in 2000 had been continued. Any cash flows in excess of amounts assumed will be available for distribution over time to Closed Block policyholders and will not be available to shareholders. If the Closed Block has insufficient funds to make guaranteed policy benefit payments, such payments will be made from PICA's assets outside of the Closed Block. The Closed Block will continue in effect as long as any policy in the Closed Block remains in force unless, with the consent of the New Jersey insurance regulator, it is terminated earlier.

The excess of Closed Block liabilities over Closed Block assets at the date of the demutualization (adjusted to eliminate the impact of related amounts in AOCI) represented the estimated maximum future earnings at that date from the Closed Block expected to result from operations attributed to the Closed Block after income taxes. In establishing the Closed Block, the Company developed an actuarial calculation of the timing of such maximum future earnings. If actual cumulative earnings of the Closed Block from inception through the end of any given period are greater than the expected cumulative earnings, only the expected earnings will be recognized in income. Any excess of actual cumulative earnings over expected cumulative earnings will represent undistributed accumulated earnings attributable to policyholders, which are recorded as a policyholder dividend obligation. The policyholder dividend obligation represents amounts to be paid to Closed Block policyholders as an additional policyholder dividend unless otherwise offset by future Closed Block performance that is less favorable than originally expected. If the actual cumulative earnings of the Closed Block from its inception through the end of any given period are less than the expected cumulative earnings of the Closed Block, the Company will recognize only the actual earnings in income.

As of December 31, 2020 and 2019, the Company recognized a policyholder dividend obligation of $2,920 million and $2,816 million, respectively, to Closed Block policyholders for the excess of actual cumulative earnings over the expected cumulative earnings. Additionally, accumulated net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block have been reflected as a policyholder dividend obligation of $5,867 million and $3,332 million at December 31, 2020 and 2019, respectively, to be paid to Closed Block policyholders unless offset by future experience, with a corresponding amount reported in AOCI.

On December 7, 2018, PICA's Board of Directors approved a continuation of the dividends payable on Closed Block policies for 2019. On December 6, 2019, PICA's Board of Directors acted to decrease the dividends payable on Closed Block policies for 2020. On December 4, 2020, PICA's Board of Directors acted to decrease the dividends payable on Closed Block policies for 2021. These actions resulted in decreases of approximately $86 million, $79 million and $147 million for the years ended December 31, 2018, 2019 and 2020, respectively, in the liability for policyholders' dividends recognized.

Closed Block liabilities and assets designated to the Closed Block at December 31, as well as maximum future earnings to be recognized from these liabilities and assets, are as follows:

	2020	2019
	(in millions)	
Closed Block liabilities		
Future policy benefits	$46,762	$47,613
Policyholders' dividends payable	635	717
Policyholders' dividend obligation	8,787	6,149
Policyholders' account balances	4,874	4,973
Other Closed Block liabilities	3,141	4,049
Total Closed Block liabilities	64,199	63,501
Closed Block assets		
Fixed maturities, available-for-sale, at fair value	41,959	41,146
Fixed maturities, trading, at fair value	277	256
Equity securities, at fair value	2,345	2,245
Commercial mortgage and other loans	8,421	8,629
Policy loans	4,064	4,264
Other invested assets	3,610	3,333
Short-term investments	124	227
Total investments	60,800	60,100
Cash and cash equivalents	269	191
Accrued investment income	431	456
Other Closed Block assets	92	93
Total Closed Block assets	61,592	60,840
Excess of reported Closed Block liabilities over Closed Block assets	2,607	2,661
Portion of above representing accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses)	5,810	3,280
Allocated to policyholder dividend obligation	(5,867)	(3,332)
Future earnings to be recognized from Closed Block assets and Closed Block liabilities	$ 2,550	$ 2,609

Information regarding the policyholder dividend obligation is as follows:

	2020	2019
	(in millions)	
Balance, January 1	$6,149	$3,150
Cumulative effect adjustment from the adoption of ASU 2016-13(1)	(13)	0
Impact from earnings allocable to policyholder dividend obligation	117	564
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation	2,534	2,435
Balance, December 31	$8,787	$6,149

(1) See Note 2 for more information.

Closed Block revenues and benefits and expenses for the years ended December 31, are as follows:

	2020	2019	2018
	(in millions)		
Revenues			
Premiums	$1,981	$2,207	$2,301
Net investment income	2,255	2,332	2,298
Realized investment gains (losses), net	182	521	130
Other income (loss)	362	589	(39)
Total Closed Block revenues	4,780	5,649	4,690
Benefits and Expenses			
Policyholders' benefits	2,758	2,906	2,972
Interest credited to policyholders' account balances	127	130	132
Dividends to policyholders	1,549	2,187	1,236
General and administrative expenses	327	351	364
Total Closed Block benefits and expenses	4,761	5,574	4,704
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes	19	75	(14)
Income tax expense (benefit)	(43)	10	(78)
Closed Block revenues, net of Closed Block benefits and expenses and income taxes	$ 62	$ 65	$ 64

16. INCOME TAXES

The following schedule discloses significant components of income tax expense (benefit) for each year presented:

	Year Ended December 31,		
	2020	2019	2018
	(in millions)		
Current tax expense (benefit):			
U.S.	$ (571)	$ 86	$ (346)
State and local	11	2	7
Foreign	848	879	681
Total current tax expense (benefit)	288	967	342
Deferred tax expense (benefit):			
U.S.	(362)	57	80
State and local	1	(1)	1
Foreign	(8)	(76)	399
Total deferred tax expense (benefit)	(369)	(20)	480
Total income tax expense (benefit) on income (loss) before equity in earnings of operating joint ventures	(81)	947	822
Income tax expense (benefit) on equity in earnings of operating joint ventures	47	43	31
Income tax expense (benefit) on discontinued operations	0	0	0
Income tax expense (benefit) reported in equity related to:			
Other comprehensive income (loss)	1,252	3,811	(1,812)
Stock-based compensation programs	0	0	0
Total income taxes	$1,218	$4,801	$ (959)

Reconciliation of Expected Tax at Statutory Rates to Reported Income Tax Expense (Benefit)

The differences between income taxes expected at the U.S. federal statutory income tax rate of 21% applicable for 2020, 2019 and 2018, and the reported income tax expense (benefit) are summarized as follows:

	Year Ended December 31,		
	2020	2019(1)	2018(1)
	(in millions)		
Expected federal income tax expense (benefit)	$ (68)	$1,068	$1,015
Non-taxable investment income	(228)	(270)	(250)
Foreign taxes at other than U.S. rate	252	234	347
Low-income housing and other tax credits	(112)	(118)	(112)
Changes in tax law	(194)	(2)	(321)
Sale of subsidiary	277	4	10
Non-controlling interest	(48)	(11)	0
Non-deductible expenses	14	23	33
Change in valuation allowance	17	(1)	(6)
State taxes	10	1	6
Other	(1)	19	100
Reported income tax expense (benefit)	$ (81)	$ 947	$ 822
Effective tax rate	25.1%	18.6%	17.0%

(1) Prior period amounts have been updated to conform to current period presentation.

The effective tax rate is the ratio of "Total income tax expense (benefit)" divided by "Income before income taxes and equity in earnings of operating joint ventures." The Company's effective tax rate for fiscal years 2020, 2019 and 2018 was 25.1%, 18.6% and 17.0%, respectively. The following is a description of items that had the most significant impact on the difference between the Company's statutory U.S. federal income tax rate of 21% applicable for 2020, 2019 and 2018, and the Company's effective tax rate during the periods presented:

Non-Taxable Investment Income. The U.S. Dividends Received Deduction ("DRD") reduces the amount of dividend income subject to U.S. tax and accounts for most of the non-taxable investment income shown in the table above. More specifically, the U.S. DRD constitutes $109 million of the total $228 million of 2020 non-taxable investment income, $122 million of the total $270 million of 2019 non-taxable investment income, and $127 million of the total $250 million of 2018 non-taxable investment income. The DRD for the current period was estimated using information from 2019, current year investment results, and current year's equity market performance. The actual current year DRD can vary based on factors such as, but not limited to, changes in the amount of dividends received that are eligible for the DRD, changes in the amount of distributions received from fund investments, changes in the account balances of variable life and annuity contracts, and the Company's taxable income before the DRD.

Foreign Taxes at Other Than U.S. Rates. The statutory income tax rate in the Company's largest non-U.S. tax jurisdiction is approximately 28% in Japan as compared to the U.S. federal income tax rate of 21% applicable for 2020, 2019 and 2018.

The 952 Election. The Company made a tax election, effective for the 2017 and later tax years, to subject earnings from its insurance operations in Brazil to tax in the U.S. in the tax year earned, net of related foreign tax credits. This election has the effect of reducing the rate at which the Company will incur taxes on these earnings from the approximately 40% tax rate in Brazil to the 21% tax rate in the U.S., which in turn will reduce the amount of associated income tax expense in 2018 and thereafter. In conjunction with this election, the Company remeasured its related deferred tax assets from the previous 45% rate in Brazil to the new rate of 21% in the U.S., which resulted in additional income tax expense at the time of election. The net effect of the lower tax rate and the remeasurement of the deferred tax assets was a net increase (decrease) in income tax expense of $34 million in 2018, $(3) million in 2019 and $24 million in 2020. In October 2019, the IRS issued a legal memorandum, applicable to all taxpayers, in which the IRS argues that the election became inoperable in 1998. The Company disagrees with the IRS's position and intends to defend its position. If the Company is ultimately not successful, it will not be able to claim a U.S. tax credit for the Brazil taxes in excess of the U.S. tax rate, and thus will have a higher tax expense over time.

Low-Income Housing and Other Tax Credits. These amounts include incentives within the U.S. tax code for the development of affordable housing aiming at low-income Americans. The Company routinely makes such investments that generate a tax credit which reduces the Company's effective tax rate.

Changes in Tax Law. The following is a list of notable changes in tax law that impacted the Company's effective tax rate for the periods presented:

Tax Act of 2017. On December 22, 2017, the Tax Act of 2017 was enacted into U.S. law. During 2018, the Company completed the collection, preparation and analysis of data relevant to the Tax Act of 2017, and interpreted any additional guidance issued by the IRS, U.S. Department of the Treasury, or other standard-setting organizations, and recognized a $153 million reduction in income tax expense primarily related to refinements of our provisional estimates of earnings of affiliated foreign companies subject to the one-time toll charge.

2018 Industry Issue Resolution (IIR). In August 2018, the IRS released a Directive to provide guidance on the tax reserving for guaranteed benefits within variable annuity contracts and principle-based reserves on certain life insurance contracts. Adopting the methodology specified in the Directive resulted in an accelerated deduction for the Company's 2017 tax return that would have otherwise been deductible in future years. Prior to the adoption of this Directive, the Company accounted for these future deductions as deferred tax assets measured using the current 21% corporate income tax rate. Upon adoption of the Directive, the tax benefits were revalued using the 35% tax rate applicable for the 2017 tax year and resulted in a reduction in income tax expense of $198 million in 2018.

The CARES Act. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted into law. One provision of the CARES Act amends the Tax Act of 2017 and allows companies with net operating losses ("NOLs") originating in 2020, 2019 or 2018 to carry back those losses for up to five years. For 2020, the Company has recorded an income tax benefit of $149 million and $51 million from carrying the estimated 2020 NOL and 2018 NOL back to tax years that have a 35% tax rate.

Sale of Subsidiary. This line item is primarily related to a lower tax basis than our GAAP basis for subsidiaries sold. See Note 1 for additional information on the sale of subsidiary-related items.

Other. This line item represents insignificant reconciling items that are individually less than 5% of the computed expected federal income tax expense (benefit) and have therefore been aggregated for purposes of this reconciliation in accordance with relevant disclosure guidance.

GILTI High Tax Exclusion. On July 20, 2020, the U.S. Treasury and the Internal Revenue Service issued Final Regulations which will allow an annual election to exclude from the U.S. tax return certain GILTI amounts when the taxes paid by a foreign affiliate exceed 18.9% (90% of U.S. statutory rate of 21%) of the GILTI amount for that foreign affiliate (the "high-tax exception"). These regulations are effective for the 2021 taxable year with an election to apply to any taxable year beginning after 2017. In many of the countries in which we operate, including Japan, there are differences between local tax rules used to determine the tax base and the U.S. tax principles used to determine GILTI. Also, our Japan affiliates have a different tax year than the U.S. calendar tax year used to determine GILTI. Therefore, while many of the countries, including Japan, have a statutory tax rate above the 18.9% threshold, separate affiliates may not meet the 18.9% threshold each year and, as such, may not qualify for this exclusion. The Company plans to make the high-tax exception election for the 2020 tax year and recorded lower 2020 GILTI cost included in "Total income tax expense" for 2020. Additionally, the Company plans to make an election for 2018 by filing an amended tax return and recorded an estimated tax benefit of $4 million in "Total income tax expense" for 2020.

The Treasury Department and the IRS also issued Proposed Regulations on July 20, 2020 which would require that, if a high-tax exception election is made with respect to GILTI in any year, an election having the same effect must also be made with regard to income taxed under Subpart F of the Tax Code. Such an election under Subpart F of the Tax Code would apply to the Full Inclusion election made by the Company for its insurance operations in Brazil, thereby increasing the tax rate applied to our Brazil insurance operations. The Proposed Regulations will be effective for taxable years beginning after they are issued in final form.

Schedule of Deferred Tax Assets and Deferred Tax Liabilities

	As of December 31, 2020	As of December 31, 2019
	(in millions)	
Deferred tax assets:		
Insurance reserves	$ 1,926	$ 730
Policyholders' dividends	1,901	1,365
Net operating and capital loss carryforwards	205	189
Employee benefits	929	973
Other	206	113
Deferred tax assets before valuation allowance	5,167	3,370
Valuation allowance	(143)	(136)
Deferred tax assets after valuation allowance	5,024	3,234
Deferred tax liabilities:		
Net unrealized investment gains	13,841	11,109
Deferred policy acquisition costs	3,518	3,799
Investments	19	138
Value of business acquired	270	262
Deferred tax liabilities	17,648	15,308
Net deferred tax liability	$(12,624)	$(12,074)

The application of U.S. GAAP requires the Company to evaluate the recoverability of deferred tax assets and establish a valuation allowance if necessary to reduce the deferred tax asset to an amount that is more likely than not expected to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance, the Company considers many factors, including: (1) the nature of the deferred tax assets and liabilities; (2) whether they are ordinary or capital; (3) in which tax jurisdictions they were generated and the timing of their reversal; (4) taxable income in prior carryback years as well as projected taxable earnings exclusive of reversing temporary differences and carryforwards; (5) the length of time that carryovers can be utilized in the various taxing jurisdictions; (6) any unique tax rules that would impact the utilization of the deferred tax assets; and (7) any tax planning strategies that the Company would employ to avoid a tax benefit from expiring unused. Although realization is not assured, management believes it is more likely than not that the deferred tax assets, net of valuation allowances, will be realized.

A valuation allowance has been recorded against deferred tax assets related to federal, state and local taxes and foreign operations. Adjustments to the valuation allowance are made to reflect changes in management's assessment of the amount of the deferred tax asset that is realizable and the amount of deferred tax asset actually realized during the year. The valuation allowance includes amounts recorded in connection with deferred tax assets as follows:

	Federal	State	Foreign Operations	Total
		(in millions)		
Balance at January 1, 2018	$ 0	$ 196	$18	$ 214
Charged to costs and expenses	0	24	(6)	18
Other adjustments	0	(114)	(1)	(115)
Balance at December 31, 2018	0	106	11	117
Charged to costs and expenses	3	34	(5)	32
Other adjustments	0	(13)	0	(13)
Balance at December 31, 2019	3	127	6	136
Charged to costs and expenses	12	5	5	22
Other adjustments	0	(16)	1	(15)
Balance at December 31, 2020	$15	$ 116	$12	$ 143

The following table sets forth the amount and expiration dates of federal, state and foreign operating, capital loss and tax credit carryforwards for tax purposes, as of the periods indicated:

	As of December 31,	
	2020	2019
	(in millions)	
Federal net operating and capital loss carryforwards(1)	$ 231	$ 33
State net operating and capital loss carryforwards(2)	$1,880	$2,005
Foreign net operating and capital loss carryforwards(3)	$ 136	$ 203
Federal foreign tax credit carryforwards(4)	$ 9	$ 4
General business credits(5)	$ 82	$ 0

(1) Expires in 2025.
(2) Expires between 2021 and 2040.
(3) $2 million expires between 2021 and 2035 and $54 million has an unlimited carryforward.
(4) Expires in 2030. These relate to foreign non-general basket tax credits.
(5) Expires in 2040.

Consistent with the Tax Act of 2017, the Company provides applicable U.S. income tax for all unremitted earnings of the Company's foreign affiliates. For certain foreign affiliates organized in withholding tax jurisdictions, the Company considers the unremitted foreign earnings of those affiliates to be indefinitely reinvested, and therefore does not provide for the withholding tax when calculating its current and deferred tax obligations. For certain other foreign affiliates organized in withholding tax jurisdictions, the Company does not consider unremitted earnings indefinitely reinvested, and therefore provides for foreign withholding tax when calculating its current and deferred tax obligations. The following table summarizes the Company's indefinite reinvestment assertions for jurisdictions in which the Company operates that impose a withholding tax on dividends or may be subject to other foreign country tax upon a remittance:

Unremitted earnings are indefinitely reinvested	Unremitted earnings are not indefinitely reinvested
Insurance operations in Chile and China and non-insurance operations in Korea and certain operations in Luxembourg	Insurance operations in Argentina, India, Indonesia, Ghana and Taiwan, and non-insurance operations in China, India, Italy and Taiwan

During the first and second quarters of 2018, respectively, the Company determined that the earnings of its Polish and Italian insurance operations would be repatriated to the United States; accordingly, these earnings were not considered indefinitely reinvested, and the Company recognized an income tax expense of $10 million in "Income (loss) before equity in earnings of operating joint ventures" during 2018. During the first and fourth quarters of 2018, the Company determined that a portion of the earnings of its Korean insurance operation would be repatriated to the United States; accordingly, a portion of these earnings were not considered indefinitely reinvested, and the Company recognized an income tax expense of $14 million in "Income (loss) before equity in earnings of operating joint ventures" during 2018. The Company made no changes with respect to its repatriation assumptions in 2019. During the second and third quarters of 2020, respectively, the Company determined that the earnings of its Korean and Taiwan insurance operations would be repatriated to the United States; accordingly, these earnings were not considered indefinitely reinvested, and the Company recognized an income tax expense of $132 million in "Income (loss) before equity in earnings of operating joint ventures" during 2020. During the second quarter of 2020, the Company changed the permanent investment assertion for Europrisa Management Company S.A (Luxembourg) due to a plan to liquidate the company, which gave rise to an immaterial amount of income tax expense during 2020.

The following table sets forth the undistributed earnings of foreign subsidiaries, where the Company assumes indefinite reinvestment of such earnings and for which, in 2020, 2019, and 2018, U.S. deferred taxes have not been provided, and for which foreign deferred withholding taxes have not been provided. The net tax liability that may arise if the 2020 earnings were remitted which includes any foreign exchange impacts, is immaterial.

	At December 31,		
	2020	2019	2018
	(in millions)		
Undistributed earnings of foreign subsidiaries (assuming indefinite reinvestment for U.S. tax purposes)(1)	N/A	N/A	N/A
Undistributed earnings of foreign subsidiaries (assuming indefinite reinvestment only for Withholding or other non-U.S. Taxes)	$ 176	$2,764	$2,475

(1) Consistent with the Tax Act of 2017, the Company provides U.S. income tax for all unremitted earnings of the Company's foreign affiliates as of December 31, 2017.

The Company's "Income (loss) before income taxes and equity in earnings of operating joint ventures" includes income (loss) from domestic operations of $(3,226) million, $1,985 million and $1,447 million, and income (loss) from foreign operations of $2,903 million, $3,101 million and $3,387 million for the years ended December 31, 2020, 2019 and 2018, respectively.

Tax Audit and Unrecognized Tax Benefits

The Company's liability for income taxes includes the liability for unrecognized tax benefits and interest that relate to tax years still subject to review by the IRS or other taxing authorities. The completion of review or the expiration of the Federal statute of limitations for a given audit period could result in an adjustment to the liability for income taxes.

The following table reconciles the total amount of unrecognized tax benefits at the beginning and end of the periods indicated:

	2020	2019	2018
	(in millions)		
Balance at January 1,	$18	$20	$ 45
Increases in unrecognized tax benefits—prior years	0	0	20
(Decreases) in unrecognized tax benefits—prior years	(1)	(2)	0
Increases in unrecognized tax benefits—current year	0	0	0
(Decreases) in unrecognized tax benefits—current year	0	0	0
Settlements with taxing authorities	0	0	(45)
Balance at December 31,	$17	$18	$ 20
Unrecognized tax benefits that, if recognized, would favorably impact the effective rate	$ 0	$ 0	$ 0

The Company does not anticipate any significant changes within the next twelve months to its total unrecognized tax benefits related to tax years for which the statute of limitations has not expired.

The Company classifies all interest and penalties related to tax uncertainties as income tax expense (benefit). The amounts recognized in the consolidated financial statements for tax-related interest and penalties for the years ended December 31 are as follows:

	2020	2019	2018
	(in millions)		
Interest and penalties recognized in the Consolidated Statements of Operations	$1	$1	$1

	2020	2019
	(in millions)	
Interest and penalties recognized in liabilities in the Consolidated Statements of Financial Position	$3	$2

Listed below are the tax years that remain subject to examination, by major tax jurisdiction, as of December 31, 2020:

Major Tax Jurisdiction	Open Tax Years
United States	2014-2020
Japan	Fiscal years ended March 31, 2016-2020
Korea	2015-2020

The Company participates in the IRS's Compliance Assurance Program. Under this program, the IRS assigns an examination team to review completed transactions as they occur in order to reach agreement with the Company on how they should be reported in the relevant tax returns. If disagreements arise, accelerated resolutions programs are available to resolve the disagreements in a timely manner.

Some of the Company's affiliates in Japan file a consolidated tax return, while others file separate tax returns. The Company's affiliates in Japan are subject to audits by the local taxing authority. The general statute of limitations is five years from when the return is filed. The Japanese National Tax Service conducted tax audits of some non-insurance companies during the reporting period, which had no material impact on the Company's 2020, 2019 or 2018 results.

The Company's affiliates in South Korea file separate tax returns and are subject to audits by the local taxing authority. The general statute of limitations is five years from when the return is filed. During 2020, the Korean tax authority substantially completed a routine tax audit of Prudential of Korea for 2017, 2016, and 2015 tax years. These activities are expected to have no material impact on the Company's 2020, 2019 or 2018 results.

17. SHORT-TERM AND LONG-TERM DEBT

Short-term Debt

The table below presents the Company's short-term debt at December 31, for the years indicated as follows:

	2020	2019
	($ in millions)	
Commercial paper:		
Prudential Financial	$ 25	$ 25
Prudential Funding, LLC	355	524
Subtotal commercial paper	380	549
Current portion of long-term debt:		
Senior Notes	399	1,179
Mortgage Debt	128	192
Surplus Notes subject to set-off arrangements (1)	500	0
Subtotal Current portion of long-term debt	1,027	1,371
Other(2)	18	13
Subtotal	1,425	1,933
Less: Assets under set-off arrangements (1)	500	0
Total short-term debt(3)	$ 925	$1,933
Supplemental short-term debt information:		
Portion of commercial paper borrowings due overnight	$ 75	$ 224
Daily average commercial paper outstanding for the quarter ended	$1,602	$1,702
Weighted average maturity of outstanding commercial paper, in days	18	6
Weighted average interest rate on outstanding commercial paper	0.11%	1.61%

(1) The surplus notes have corresponding assets where rights to set-off exist, thereby reducing the amount of surplus notes.
(2) Includes $18 million drawn on a revolving line of credit held by a subsidiary at December 31, 2020.
(3) Includes Prudential Financial debt of $424 million and $1,204 million at December 31, 2020 and 2019, respectively.

At December 31, 2020 and 2019, the Company was in compliance with all covenants related to the above debt.

Commercial Paper

Prudential Financial has a commercial paper program with an authorized capacity of $3.0 billion. Prudential Financial's commercial paper borrowings have generally been used to fund the working capital needs of Prudential Financial's subsidiaries and provide short-term liquidity at Prudential Financial.

Prudential Funding, LLC ("Prudential Funding"), a wholly-owned subsidiary of PICA, has a commercial paper program, with an authorized capacity of $7.0 billion. Prudential Funding commercial paper borrowings generally have served as an additional source of financing to meet the working capital needs of PICA and its subsidiaries. Prudential Funding also lends to other subsidiaries of Prudential Financial up to limits agreed with the NJDOBI. Prudential Funding maintains a support agreement with PICA whereby PICA has agreed to maintain Prudential Funding's tangible net worth at a positive level. Additionally, Prudential Financial has issued a subordinated guarantee covering Prudential Funding's $7.0 billion commercial paper program.

Federal Home Loan Bank of New York

PICA is a member of the FHLBNY. Membership allows PICA access to the FHLBNY's financial services, including the ability to obtain collateralized loans and to issue collateralized funding agreements. Under applicable law, the funding agreements issued to the FHLBNY have priority claim status above debt holders of PICA. FHLBNY borrowings and funding agreements are collateralized by qualifying mortgage-related assets or U.S. Treasury securities, the fair value of which must be maintained at certain specified levels relative to outstanding borrowings. FHLBNY membership requires PICA to own member stock and borrowings require the purchase of activity-based stock in an amount equal to 4.5% of outstanding borrowings. Under FHLBNY guidelines, if any of PICA's financial strength ratings decline below A-/A3/A- Negative by S&P/Moody's/Fitch, respectively, and the FHLBNY does not receive written assurances from the NJDOBI regarding PICA's solvency, new borrowings from the FHLBNY would be limited to a term of 90 days or less. Currently there are no restrictions on the term of borrowings from the FHLBNY. All FHLBNY stock purchased by PICA is classified as restricted general account investments within "Other invested assets," and the carrying value of these investments was $147.4 million and $30.2 million as of December 31, 2020 and 2019, respectively.

NJDOBI permits PICA to pledge collateral to the FHLBNY in an amount of up to 5% of its prior year-end statutory net admitted assets, excluding separate account assets. Based on PICA's statutory net admitted assets as of December 31, 2019, the 5% limitation equates to a maximum amount of eligible assets of $7.3 billion and an estimated maximum borrowing capacity (after taking into account required collateralization levels) of approximately $6.6 billion. Nevertheless, FHLBNY borrowings are subject to the FHLBNY's discretion and to the availability of qualifying assets at PICA.

In the first quarter of 2020, PICA issued $3.6 billion in funding agreements under the FHLBNY facility. As of December 31, 2020, $2.5 billion of funding agreements remain outstanding under this facility with maturities ranging from January 2021 to February 2027 and rates from 0.620% to 1.925%. These funding agreements are reflected as "Policyholders' account balances" on the Consolidated Statements of Financial Position and as such are not included in the foregoing table.

Federal Home Loan Bank of Boston

Prudential Retirement Insurance and Annuity Company ("PRIAC") is a member of the Federal Home Loan Bank of Boston ("FHLBB"). Membership allows PRIAC access to collateralized advances which will be classified in "Short-term debt" or "Long-term debt," depending on the maturity date of the obligation. PRIAC's membership in FHLBB requires the ownership of member stock and borrowings from FHLBB require the purchase of activity-based stock in an amount between 3.0% and 4.5% of outstanding borrowings, depending on the maturity date of the obligation. All FHLBB stock purchased by PRIAC is classified as restricted general account investments within "Other invested assets," and the carrying value of these investments was $6 million and $6 million as of December 31, 2020 and 2019, respectively. As of December 31, 2020, PRIAC had no advances outstanding under the FHLBB facility.

Under Connecticut state insurance law, without the prior consent of the Connecticut Insurance Department, the amount of assets insurers may pledge to secure debt obligations is limited to the lesser of 5% of prior-year statutory admitted assets or 25% of prior-year statutory surplus, resulting in a maximum borrowing capacity for PRIAC under the FHLBB facility of approximately $265 million as of December 31, 2020.

Credit Facilities

As of December 31, 2020, the Company maintained syndicated, unsecured committed credit facilities as described below.

Borrower	Original Term	Expiration Date	Capacity	Amount Outstanding
			(in millions)	
Prudential Financial and Prudential Funding	5 years	Jul 2022	$ 4,000	$0
Prudential Holdings of Japan, Inc.	5 years	Sep 2024	¥100,000	¥0

The $4.0 billion five-year credit facility contains customary representations and warranties, covenants and events of default and borrowings are not contingent on the borrowers' credit ratings nor subject to material adverse change clauses. Borrowings under this facility are conditioned on the continued satisfaction of customary conditions, including Prudential Financial's maintenance of consolidated net worth of at least $20.958 billion, which is calculated as U.S. GAAP equity, excluding AOCI, equity of noncontrolling interests and equity attributable to the Closed Block. The Company expects that it may borrow under the facility from time to time to fund its working capital needs. In addition, amounts under this credit facility may be drawn in the form of standby letters of credit that can be used to meet the Company's operating needs.

The ¥100 billion five-year facility was entered into by Prudential Holdings of Japan, Inc. ("PHJ") in September 2019. This facility also contains customary representations and warranties, covenants, and events of default and borrowings are not contingent on the borrower's credit ratings nor subject to material adverse change clauses.

Borrowings under each of these credit facilities may be used for general corporate purposes. As of December 31, 2020, the Company was in compliance with the covenants under each of these credit facilities.

In addition to the above credit facilities, the Company had access to $219 million of certain other lines of credit at December 31, 2020, of which $175 million was for the sole use of certain real estate separate accounts. The separate account facilities include loan-to-value ratio requirements and other financial covenants, and recourse on obligations under these facilities is limited to the assets of the applicable separate account. At December 31, 2020, $31 million of these credit facilities were used. The Company also has access to uncommitted lines of credit from financial institutions.

Agreements for Senior Notes Issuance

In November 2013, Prudential Financial entered into a ten-year put option agreement with a Delaware trust upon the completion of the sale of $1.5 billion of trust securities by that Delaware trust in a Rule 144A private placement. The trust invested the proceeds from the sale of the trust securities in a portfolio of principal and interest strips of U.S. Treasury securities. The put option agreement provides Prudential Financial the right to sell to the trust at any time up to $1.5 billion of 4.419% senior notes due November 2023 and receive in exchange a corresponding amount of U.S. Treasury securities held by the trust. In return, the Company agreed to pay a semi-annual put premium to the trust at a rate of 1.777% per annum applied to the unexercised portion of the put option. The put option agreement with the trust provides Prudential Financial with a source of liquid assets.

The put option described above will be exercised automatically in full upon the Company's failure to make certain payments to the trust, such as paying the put option premium or reimbursing the trust for its expenses, if the Company's failure to pay is not cured within 30 days, and upon an event involving its bankruptcy. The Company is also required to exercise the put option if its consolidated stockholders' equity, calculated in accordance with U.S. GAAP but excluding AOCI, falls below $7.0 billion, subject to adjustment in certain cases. The Company has a one-time right to unwind a prior voluntary exercise of the put option by repurchasing all of the senior notes then held by the trust in exchange for a corresponding amount of U.S. Treasury securities. Finally, Prudential Financial may redeem all but not less than all outstanding senior notes prior to their maturity at a redemption price equal to the greater of par or a make-whole price, following a voluntary exercise in full of the put option.

In May 2020, Prudential Financial entered into a ten-year facility agreement with a Delaware trust upon the completion of the sale of $1.5 billion of trust securities by that Delaware trust in a Rule 144A private placement. The trust invested the proceeds from the sale of the trust securities in a portfolio of principal and/or interest strips of U.S. Treasury securities. The facility agreement provides Prudential Financial the right to issue and sell to the trust from time to time up to $1.5 billion of 2.850% senior notes due May 15, 2030 and receive in exchange a corresponding amount of the U.S. Treasury securities held by the trust. In return, the Company agreed to pay a semi-annual facility fee to the trust at a rate of 2.175% per annum applied to the maximum amount of senior notes that the Company could issue and sell to the trust. Similar to the Company's put option agreement, the facility agreement with the trust provides Prudential Financial with a source of liquid assets.

The right to issue senior notes described above will be exercised automatically in full upon the Company's failure to make certain payments to the trust, such as paying the facility fee or reimbursing the trust for its expenses, if the Company's failure to pay is not cured within 30 days, and upon an event involving its bankruptcy. The Company is also required to exercise this issuance right if its consolidated stockholders' equity, calculated in accordance with U.S. GAAP but excluding AOCI, falls below $9.0 billion, subject to adjustment in certain cases. Prior to any involuntary exercise of the issuance right, the Company has the right to repurchase any of its senior notes then held by the trust in exchange for a corresponding amount of U.S. Treasury securities. Finally, Prudential Financial may redeem any outstanding senior notes, in whole or in part, prior to February 15, 2030, at a redemption price equal to the greater of par or a make-whole price, or thereafter, at par.

Long-term Debt

The table below presents the Company's long-term debt at December 31, for the years indicated as follows:

	Maturity Dates	Rate(1)	December 31, 2020	December 31, 2019
			($ in millions)	
Fixed-rate notes:				
Surplus notes	2025	8.3%	$ 343	$ 342
Surplus notes subject to set-off arrangements	2022-2038	2.23%-5.26%	8,134	7,484
Senior notes	2023-2051	1.5%-6.75%	11,179	10,084
Mortgage debt(2)	2027	3.85%	24	104
Floating-rate notes:				
Line of Credit	2023	1.41%-3.10%	300	300
Surplus notes subject to set-off arrangements	2024-2037	1.61%-3.5%	2,330	2,265
Mortgage debt(3)	2022-2024	1.43%-3.88%	257	241
Junior subordinated notes(4)	2042-2060	1.55%-5.88%	7,615	7,575
Subtotal			30,182	28,395
Less: assets under set-off arrangements(5)			10,464	9,749
Total long-term debt(6)			$19,718	$18,646

(1) Ranges of interest rates are for the year ended December 31, 2020.
(2) Includes $0 and $43 million of debt denominated in foreign currency at December 31, 2020 and 2019, respectively.
(3) Includes $29 million and $53 million of debt denominated in foreign currency at December 31, 2020 and 2019, respectively.

(4) Includes Prudential Financial debt of $7,554 million and subsidiary debt of $60 million denominated in foreign currency at December 31, 2020.
(5) Assets under set-off arrangements represent a reduction in the amount of surplus notes included in long-term debt, resulting from an arrangement where valid rights of set-off exist and it is the intent of both parties to settle on a net basis under legally enforceable arrangements. These assets include available-for-sale securities that are reported at fair value.
(6) Includes Prudential Financial debt of $18,561 million and $17,430 million at December 31, 2020 and 2019, respectively.

At December 31, 2020 and 2019, the Company was in compliance with all debt covenants related to the borrowings in the table above.

The following table presents the contractual maturities of the Company's long-term debt as of December 31, 2020:

	Calendar Year					
	2022	2023	2024	2025	2026 and thereafter	Total
	(in millions)					
Long-term debt	$136	$572	$724	$348	$17,938	$19,718

Senior Notes

Under its shelf registration statement the Company maintains a *Medium-Term Notes Program* and an *InterNotes® Retail Notes Program* which have authorized issuance capacities of $20.0 billion and $5.0 billion, respectively.

The table below presents the Company's senior notes and mortgage debt balances as of December 31, 2020 for the years indicated as follows:

Facility Name	Maturity Date Range	2020 Amount Outstanding	2019 Amount Outstanding
		($ in millions)	
Medium-Term Notes(1)	2021-2051	$ 9,847	$ 9,508
Senior Notes	2047-2049	1,462	1,455
InterNotes® Retail Notes	2029-2045	270	302
Mortgage Debt(2)	2021-2027	409	537
Total		**$11,988**	**$11,802**

(1) Includes $400 million of notes from current portion of long-term debt.
(2) Includes $128 million of notes from current portion of long-term debt.

Medium-Term Notes Program. The outstanding balance of this program increased by $0.3 billion from December 31, 2019. The increase was due to the issuance of $0.5 billion of medium-term notes with an interest rate of 1.5% maturing in March 2026, $0.5 billion of notes with an interest rate of 2.1% maturing in 2030, and $0.5 billion of notes with an interest rate of 3.0% maturing in 2040, offset by $1.2 billion of maturities in June and November 2020. As of December 31, 2020, $0.4 billion of the outstanding balance of this program is included in current portion of long-term debt.

The weighted average interest rate on outstanding senior notes issued under the Medium-Term Notes and *InterNotes® Retail Notes Programs*, including the effect of interest rate hedging activity, was 4.45% and 4.85% for the years ended December 31, 2020 and 2019, respectively, excluding the effect of debt issued to consolidated subsidiaries.

Mortgage Debt. Mortgage debt decreased by $128 million from December 31, 2019, primarily due to $200 million of prepayment activity, offset by new borrowings in 2020 of $71 million and foreign exchange fluctuations of $2 million. As of December 31, 2020, the Company's subsidiaries had long-term mortgage debt of $409 million that has recourse only to real estate property held for investment by those subsidiaries, of which $128 million is included in current portion of long-term debt.

Funding Agreement Notes Issuance Program ("FANIP"). The Company maintains a FANIP in which statutory trusts issue medium-term notes and commercial paper secured by funding agreements issued to the trusts by PICA. These obligations are included in "Policyholders' account balances" and not included in the foregoing table. See Note 12 for further discussion of these obligations.

Surplus Notes

As of December 31, 2020, PICA had $343 million of fixed-rate surplus notes outstanding. These notes are subordinated to other PICA borrowings and policyholder obligations, and the payment of interest and principal may only be made with the prior approval of the NJDOBI. The NJDOBI could prohibit the payment of the interest and principal on the surplus notes if certain statutory capital requirements are not met. At December 31, 2020 and 2019, the Company met these statutory capital requirements.

Surplus Notes with Set-Off Arrangements

Agreement Start Date	Maturity Years	Maximum Borrowing Capacity	2020 Amount Outstanding	2019 Amount Outstanding
		($ in millions)		
Regulation XXX				
2011-2014(1)(2)	2021-2024	$ 1,750	$ 1,750	$1,750
2014-2017	2024-2037	2,400	2,330	2,265
2018	2038	1,600	1,070	920
Guideline AXXX				
2013(3)	2033	3,500	3,248	3,248
2017	2037	2,000	1,466	1,466
2020	2032	1,200	700	0
Other Notes				
2015-2019	2029	4,000	400	100
Total		$16,450	$10,964	$9,749

(1) Prudential has agreed to reimburse one of the external counterparties for any payment under the credit linked notes funded by it in an amount of up to $0.5 billion.
(2) Includes $0.5 billion of notes from current portion of long-term debt.
(3) The current financing capacity available under the facility is $3.5 billion but can be increased to a maximum potential size of $4.5 billion.

Surplus Notes Supporting Regulation XXX and Guideline AXXX Reserves

As shown in the table above, the Company's captive reinsurance subsidiaries maintain facilities with external counterparties providing for the issuance of surplus notes by the captive to finance reserves required under Regulation XXX and Guideline AXXX. Under these facilities, the captives receive in exchange for the surplus notes one or more credit-linked notes issued by special-purpose affiliates in aggregate principal amounts equal to the surplus notes issued. The captives hold the credit-linked notes as assets supporting the non-economic portion of the statutory reserves required to be held by the Company's domestic insurance subsidiaries under Regulation XXX and Guideline AXXX in connection with the reinsurance of term life or universal life insurance policies through the captive. The non-economic portion of the statutory reserve equals the difference between the statutory reserve required under Regulation XXX and Guideline AXXX and the amount the Company considers necessary to maintain solvency for moderately adverse experience. The credit-linked notes are redeemable for cash upon the occurrence of a liquidity stress event affecting the captives and external counterparties have agreed to fund these payments in return for a fee. Under certain of these different transactions, Prudential Financial has agreed to reimburse the captive for investment losses in excess of specified amounts.

For each of the above transactions, because valid rights of set-off exist, interest and principal payments on the surplus notes and on the related credit-linked notes are settled on a net basis, and the surplus notes are reflected in the Company's total consolidated borrowings on a net basis. The surplus notes for the captive reinsurance subsidiaries described above are subordinated to policyholder obligations, and for certain applicable surplus notes, the repayment of principal may only be made with prior approval of the Arizona Department of Insurance and Financial Institutions, the domiciliary insurance regulator of the captives. The payment of interest on the surplus notes has been approved by the Arizona Department of Insurance and Financial Institutions, subject to its ability to withdraw that approval.

Other Surplus Notes

The surplus note facility listed under "Other Notes" in the table above reflects a financing facility that Prudential Legacy Insurance Company of New Jersey ("PLIC") has entered into with certain external counterparties and a special-purpose affiliate, pursuant to which PLIC may, at its option, issue and sell to the affiliate up to $4.0 billion in aggregate principal amount of surplus notes, in return for an equal principal amount of credit-linked notes. The credit-linked notes are redeemable for cash upon the occurrence of a liquidity stress event affecting PLIC, and external counterparties have agreed to fund these payments in return for a fee. Upon issuance, PLIC would hold any credit-linked notes as assets to support future statutory surplus needs within PLIC.

Junior Subordinated Notes

Prudential Financial's junior subordinated notes outstanding are considered hybrid securities that receive enhanced equity treatment from the rating agencies. These notes outstanding, along with their key terms, are as follows:

Issue Date	Principal Amount	Initial Interest Rate	Investor Type	Optional Redemption Date	Interest Rate Subsequent to Optional Redemption Date	Maturity Date
	($ in millions)					
Aug-12	$1,000	5.88%	Institutional	9/15/2022	LIBOR + 4.18%	9/15/2042
Nov-12	$1,500	5.63%	Institutional	6/15/2023	LIBOR + 3.92%	6/15/2043
Mar-13	$ 500	5.20%	Institutional	3/15/2024	LIBOR + 3.04%	3/15/2044
May-15	$1,000	5.38%	Institutional	5/15/2025	LIBOR + 3.03%	3/15/2045
Sep-17	$ 750	4.50%	Institutional	9/15/2027	LIBOR + 2.38%	9/15/2047
Aug-18	$ 565	5.63%	Retail	8/15/2023	5.63%	8/13/2058
Sep-18	$1,000	5.70%	Institutional	9/15/2028	LIBOR + 2.67%	9/15/2048
Aug-20	$ 500	4.13%	Retail	9/1/2025	4.13%	9/1/2060
Aug-20	$ 800	3.70%	Institutional	10/1/2030	US Treasury + 3.04%	10/1/2050

The Company has the right to defer interest payments on these notes for specified periods, typically 5 to 10 years without resulting in a default, during which time interest will be compounded. On or after the optional redemption dates, Prudential Financial may redeem the notes at par plus accrued and unpaid interest. Prior to those optional redemption dates, redemptions generally are subject to a make-whole price; however, the Company may redeem the notes prior to these dates at par upon the occurrence of certain events, such as a future change in the regulatory capital treatment of the notes with respect to the Company.

Limited Recourse Notes

In 2014, the Company entered into financing transactions pursuant to which it issued $500 million of limited recourse notes and, in return, obtained $500 million of asset-backed notes issued by a designated series of a Delaware master trust. The asset-backed notes mature from 2021 through 2027; however, the maturity date of a portion of the notes may be extended by the Company through 2028, subject to conditions.

The master trust's payment obligations under each of the asset-backed notes are secured by corresponding payment obligations of a third-party financial institution and a portfolio of specified assets that have an aggregate value at least equal to the principal amount of the applicable asset-backed note. The principal amount of each asset-backed note is payable to PRIAC in cash at any time upon demand by PRIAC or, if not repaid earlier, at maturity. Each of the limited recourse notes obligates Prudential Financial to reimburse the applicable third-party financial institution for any principal payments received on the corresponding asset-backed note, but there is no obligation to reimburse any portion of a principal payment that is needed by PRIAC to pay then current claims to its policyholders. Each limited recourse note bears interest at a rate equal to the rate on the corresponding asset-backed note, plus an amount representing fees payable to the applicable third-party financial institution. As of December 31, 2020, no principal payments have been received or are currently due on the asset-backed notes and, as a result, there was no payment obligation under the limited recourse notes. Accordingly, the notes are not reflected in the Consolidated Financial Statements as of December 31, 2020.

Interest Expense

In order to modify exposure to interest rate and currency exchange rate movements, the Company utilizes derivative instruments, primarily interest rate swaps, in conjunction with some of its debt issues. The impact of these derivative instruments is not reflected in the rates presented in the tables above. For those derivative instruments that qualify for hedge accounting treatment, interest expense was $2 million, less than $1 million, and $1 million for the years ended December 31, 2020, 2019 and 2018, respectively. See Note 5 for additional information on the Company's use of derivative instruments.

Interest expense for short-term and long-term debt was $1,575 million, $1,563 million and $1,423 million for the years ended December 31, 2020, 2019 and 2018, respectively.

18. EMPLOYEE BENEFIT PLANS

Pension and Other Postretirement Plans

The Company has funded and non-funded non-contributory defined benefit pension plans ("Pension Benefits"), which cover substantially all of its employees. For some employees, benefits are based on final average earnings and length of service (the "traditional formula"), while benefits for other employees are based on an account balance that takes into consideration age, length of service and earnings during their career (the "cash balance formula"). At December 31, 2020, approximately 77% of the Company's Pension Benefits relate to its domestic qualified pension plan, which initially determined benefits based on the traditional formula. Effective January 1, 2001, active domestic employees covered under this plan were given the option to convert from the traditional formula to the cash balance formula, and all new domestic employees began accruing benefits under the cash balance formula. As of December 31, 2020, approximately 68% and 32% of the benefit obligation under this plan relates to participants under the traditional formula and cash balance formula, respectively. At December 31, 2020, the vast majority of active employees under this plan are accruing benefits under the cash balance formula.

The Company provides certain health care and life insurance benefits for its retired employees, their beneficiaries and covered dependents ("Other Postretirement Benefits"). The health care plan is contributory; the life insurance plan is non-contributory. Substantially all of the Company's U.S. employees may become eligible to receive other postretirement benefits if they retire after age 55 with at least 10 years of service or under certain circumstances after age 50 with at least 20 years of continuous service.

Prepaid benefits costs and accrued benefit liabilities are included in “Other assets” and “Other liabilities,” respectively, in the Company’s Consolidated Statements of Financial Position. The status of these plans as of December 31, 2020 and 2019 is summarized below:

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
	(in millions)			
Change in benefit obligation				
Benefit obligation at the beginning of period	$(14,637)	$(13,185)	$(1,993)	$(1,876)
Service cost	(321)	(291)	(24)	(22)
Interest cost	(429)	(489)	(64)	(78)
Plan participants’ contributions	0	0	(22)	(21)
Medicare Part D subsidy receipts	0	0	(7)	(7)
Amendments	0	0	0	(27)
Curtailments	16	0	0	0
Actuarial gains (losses), net(1)	(978)	(1,499)	(101)	(124)
Settlements	43	45	0	0
Special termination benefits	(7)	(26)	0	(1)
Benefits paid	878	831	171	165
Acquisition/Divestiture	46	0	0	0
Foreign currency changes and other	(94)	(23)	0	(2)
Benefit obligation at end of period	$(15,483)	$(14,637)	$(2,040)	$(1,993)
Change in plan assets				
Plan assets at beginning of period	$ 13,906	$ 12,807	$ 1,557	$ 1,432
Actual return on plan assets	1,740	1,681	171	264
Employer contributions	200	280	10	5
Plan participants’ contributions	0	0	22	21
Disbursement for settlements	(43)	(45)	0	0
Benefits paid	(878)	(831)	(171)	(165)
Acquisition/Divestiture	(51)	0	0	0
Foreign currency changes and other	23	14	0	0
Plan assets at end of period	$ 14,897	$ 13,906	$ 1,589	$ 1,557
Funded status at end of period	$ (586)	$ (731)	$ (451)	$ (436)
Amounts recognized in the Statements of Financial Position				
Prepaid benefit cost	$ 2,426	$ 2,204	$ 0	$ 0
Accrued benefit liability	(3,012)	(2,935)	(451)	(436)
Net amount recognized	$ (586)	$ (731)	$ (451)	$ (436)
Items recorded in “Accumulated other comprehensive income (loss)” not yet recognized as a component of net periodic (benefit) cost:				
Prior service cost	$ (10)	$ (12)	$ 59	$ 65
Net actuarial loss	3,972	4,191	354	341
Net amount not recognized	$ 3,962	$ 4,179	$ 413	$ 406
Accumulated benefit obligation	$(14,690)	$(13,934)	$(2,040)	$(1,993)

(1) For 2020 and 2019, actuarial losses for pension and other postretirement benefits were primarily driven by a decrease in the discount rate.

In addition to the plan assets above, the Company in 2007 established an irrevocable trust, commonly referred to as a “rabbi trust,” for the purpose of holding assets of the Company to be used to satisfy its obligations with respect to certain non-qualified retirement plans ($1,360 million and $1,301 million benefit obligation at December 31, 2020 and 2019, respectively). Assets held in the rabbi trust are available to the general creditors of the Company in the event of insolvency or bankruptcy. The Company may from time to time in its discretion make contributions to the trust to fund accrued benefits payable to participants in one or more of the plans, and, in the case of a change in control of the Company, as defined in the trust agreement, the Company will be required to make contributions to the trust to fund the accrued benefits, vested and unvested, payable on a pre-tax basis to participants in the plans. The Company did not make any discretionary payments to the trust in 2020 and 2019. As of December 31, 2020 and 2019, the assets in the trust had a carrying value of $1,044 million and $986 million, respectively.

The Company also maintains a separate rabbi trust for the purpose of holding assets of the Company to be used to satisfy its obligations with respect to certain other non-qualified retirement plans ($77 million and $76 million benefit obligation at December 31, 2020 and 2019, respectively), as well as certain cash-based deferred compensation arrangements. As of December 31, 2020 and 2019, the assets in the trust had a carrying value of $111 million and $106 million, respectively.

Pension benefits for foreign plans comprised 13% and 14% of the ending benefit obligation for both 2020 and 2019, respectively. Foreign pension plans comprised 4% and 5% of the ending fair value of plan assets for both 2020 and 2019, respectively. There are no material foreign postretirement plans.

Information for pension plans with a projected benefit obligation in excess of plan assets

	2020	2019
	(in millions)	
Projected benefit obligation	$3,012	$2,997
Fair value of plan assets	$ 0	$ 62

Information for pension plans with an accumulated benefit obligation in excess of plan assets

	2020	2019
	(in millions)	
Accumulated benefit obligation	$2,834	$2,760
Fair value of plan assets	$ 0	$ 7

Components of Net Periodic Benefit Cost

The Company uses market related value to determine components of net periodic (benefit) cost. Market related value recognizes certain changes in fair value of plan assets over a period of five years. Changes in the fair value of U.S. equities, international equities, real estate and other assets are recognized over a five year period. However, changes in the fair value for fixed maturity assets (including short-term investments) are recognized immediately for the purposes of market related value.

Net periodic (benefit) cost included in "General and administrative expenses" in the Company's Consolidated Statements of Operations for the years ended December 31, includes the following components:

	Pension Benefits			Other Postretirement Benefits		
	2020	2019	2018	2020	2019	2018
	(in millions)					
Service cost	$ 321	$ 291	$ 314	$ 24	$ 22	$ 23
Interest cost	429	489	448	64	78	70
Expected return on plan assets	(804)	(816)	(817)	(100)	(95)	(108)
Amortization of prior service cost	(4)	(4)	(4)	6	4	1
Amortization of actuarial (gain) loss, net	262	217	213	16	24	17
Settlements	9	59	8	0	0	0
Special termination benefits(1)(2)(3)	7	26	1	0	1	0
Net periodic (benefit) cost	$ 220	$ 262	$ 163	$ 10	$ 34	$ 3

(1) For 2020, 2019 and 2018, certain employees were provided special termination benefits under non-qualified plans in the form of unreduced early retirement benefits as a result of their involuntary termination.
(2) For 2020, certain employees were provided special termination benefits under non-qualified plans in the form of unreduced early retirement benefits as a result of their participation in the Voluntary Separation Program that was offered to eligible U.S.-based employees in 2019.
(3) For 2019, certain employees were provided special termination benefits in the qualified and non-qualified plans in the form of retirement eligibility bridging as a result of their participation in the Voluntary Separation Program that was offered to eligible U.S.-based employees.

Changes in Accumulated Other Comprehensive Income (Loss)

The benefit obligation is based upon actuarial assumptions such as discount, termination, retirement, mortality and salary growth rates. Changes at year-end in these actuarial assumptions, along with experience changes based on updated participant census data are deferred in AOCI. Plan assets generate actuarial gains and losses when actual returns on plan assets differ from expected returns on plan assets, and these differences are also deferred in AOCI. The cumulative deferred gain (loss) within AOCI is amortized into earnings if it exceeds 10% of the greater of the benefit obligation or plan assets at the beginning of the year, and the amortization period is based upon the actuarially calculated expected future years of service for a given plan.

The amounts recorded in AOCI as of the end of the period, which have not yet been recognized as a component of net periodic (benefit) cost, and the related changes in these items during the period that are recognized in "Other comprehensive income (loss)" are as follows:

	Pension Benefits		Other Postretirement Benefits	
	Prior Service Cost	Net Actuarial (Gain) Loss	Prior Service Cost	Net Actuarial (Gain) Loss
	(in millions)			
Balance, December 31, 2017	$(22)	$3,611	$10	$344
Amortization for the period	4	(213)	(1)	(17)
Deferrals for the period(1)	3	430	32	82
Impact of foreign currency changes and other	0	1	0	(1)
Balance, December 31, 2018	(15)	3,829	41	408
Amortization for the period	4	(217)	(4)	(24)
Deferrals for the period(2)	0	634	27	(45)
Impact of foreign currency changes and other	(1)	(55)	1	2
Balance, December 31, 2019	(12)	4,191	65	341
Amortization for the period	4	(262)	(6)	(16)
Deferrals for the period(3)	0	42	0	30
Impact of foreign currency changes and other	(2)	1	0	(1)
Balance, December 31, 2020	$(10)	$3,972	$59	$354

(1) For 2018, deferred losses for pension and other postretirement benefits were driven by unfavorable asset performance partially offset by an increase in discount rate.
(2) For 2019, deferred losses for pension were driven by a decrease in discount rate partially offset by favorable asset performance. Deferred gains for other postretirement benefits were driven by favorable asset performance partially offset by a decrease in discount rate.
(3) For 2020, deferred losses for pension and other postretirement benefits were driven by a decrease in discount rate partially offset by favorable asset performance.

The Company's assumptions related to the calculation of the domestic benefit obligation (end of period) and the determination of net periodic (benefit) cost (beginning of period) are presented in the table below:

	Pension Benefits			Other Postretirement Benefits		
	2020	2019	2018	2020	2019	2018
Weighted average assumptions						
Discount rate (beginning of period)	3.30%	4.30%	3.65%	3.25%	4.30%	3.60%
Discount rate (end of period)	2.55%	3.30%	4.30%	2.40%	3.25%	4.30%
Rate of increase in compensation levels (beginning of period)	4.50%	4.50%	4.50%	N/A	N/A	N/A
Rate of increase in compensation levels (end of period)	4.50%	4.50%	4.50%	N/A	N/A	N/A
Expected return on plan assets (beginning of period)	6.00%	6.50%	6.25%	6.75%	7.00%	7.00%
Interest crediting rate (beginning of period)	4.30%	4.30%	4.30%	N/A	N/A	N/A
Interest crediting rate (end of period)	4.25%	4.30%	4.30%	N/A	N/A	N/A
Health care cost trend rates (beginning of period)	N/A	N/A	N/A	6.25%	6.00%	6.20%
Health care cost trend rates (end of period)	N/A	N/A	N/A	6.25%	6.25%	6.00%
For 2020, 2019 and 2018, the ultimate health care cost trend rate after gradual decrease until: 2028, 2024, 2024, (beginning of period)	N/A	N/A	N/A	5.00%	5.00%	5.00%
For 2020, 2019 and 2018, the ultimate health care cost trend rate after gradual decrease until: 2028, 2028, 2024 (end of period)	N/A	N/A	N/A	4.50%	5.00%	5.00%

The domestic discount rate used to value the pension and postretirement obligations at December 31, 2020 and December 31, 2019 is based upon the value of a portfolio of Aa-rated investments whose cash flows would be available to pay the benefit obligation's cash flows when due. The December 31, 2020 portfolio is selected from a compilation of approximately 440 Aa-rated bonds across the full range of maturities. Since yields can vary widely at each maturity point, the Company generally avoids using the highest and lowest yielding bonds at the maturity points, so as to avoid relying on bonds that might be mispriced or misrated. This refinement process generally results in having a distribution from the 10th to 90th percentile. The Aa-rated portfolio is then selected and, accordingly, its value is a measure of the benefit obligation. A single equivalent discount rate is calculated to equate the value of the Aa-rated portfolio to the cash flows for the benefit obligation. The result is rounded to the nearest 5 basis points and the benefit obligation is recalculated using the rounded discount rate.

The pension and postretirement expected long-term rates of return on plan assets for 2020 were determined based upon an approach that considered the allocation of plan assets as of December 31, 2019. Expected returns are estimated by asset class as noted in the discussion of investment policies and strategies below. Expected returns on asset classes are developed using a building-block approach that is forward looking and are not strictly based upon historical returns. The building blocks for equity returns include inflation, real return, a term premium, an equity risk premium, capital appreciation, expenses, the effect of active management and the effect of rebalancing. The building blocks for fixed maturity returns include inflation, real return, a term premium, credit spread, capital appreciation, effect of active management, expenses and the effect of rebalancing.

The Company applied the same approach to the determination of the expected rate of return on plan assets in 2021. The expected rate of return for 2021 is 5.75% and 6.75% for pension and postretirement, respectively.

The assumptions for foreign pension plans are based on local markets. There are no material foreign postretirement plans.

Plan Assets

The investment goal of the domestic pension plan assets is to generate an above benchmark return on a diversified portfolio of stocks, bonds and other investments. The cash requirements of the pension obligation, which include a traditional formula principally representing payments to annuitants and a cash balance formula that allows lump sum payments and annuity payments, are designed to be met by the bonds and short-term investments in the portfolio.

The investment goal of the domestic postretirement plan assets is to generate an above benchmark return on a diversified portfolio of stocks, bonds, and other investments, while meeting the cash requirements for the postretirement obligation that includes a medical benefit including prescription drugs, a dental benefit and a life benefit.

The pension and postretirement plans risk management practices include guidelines for asset concentration, credit rating, liquidity and tax efficiency. The pension and postretirement plans do not invest in leveraged derivatives. Derivatives such as futures contracts are used to reduce transaction costs and change asset concentration, while interest rate swaps and futures are used to adjust duration.

The plan fiduciaries for the Company's pension and postretirement plans have developed guidelines for asset allocations reflecting a percentage of total assets by asset class, which are reviewed on an annual basis. Asset allocation targets as of December 31, 2020 are as follows:

	Pension		Postretirement	
	Minimum	Maximum	Minimum	Maximum
Asset Category				
U.S. Equities	2%	8%	31%	70%
International Equities	2%	9%	2%	22%
Fixed Maturities	54%	67%	10%	45%
Short-term Investments	0%	12%	0%	31%
Real Estate	2%	16%	0%	0%
Other	4%	27%	0%	0%

To implement the investment strategy, plan assets are invested in funds that primarily invest in securities that correspond to one of the asset categories under the investment guidelines. However, at any point in time, some of the assets in a fund may be of a different nature than the specified asset category.

Assets held with PICA are in either pooled separate accounts or single client separate accounts. Assets held with a bank are either in common/collective trusts or single client trusts. Pooled separate accounts and common/collective trusts hold assets for multiple investors. Each investor owns a "unit of account." The asset allocation targets above include the underlying asset mix in the Pooled Separate Accounts and Common/Collective Trusts. Single client separate accounts or trusts hold assets for only one investor, the domestic qualified pension plan, and each security in the fund is treated as individually owned.

There were no investments in Prudential Financial Common Stock as of December 31, 2020 and December 31, 2019 for either the pension or postretirement plans.

The authoritative guidance around fair value established a framework for measuring fair value. Fair value is disclosed using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, as described in Note 6.

The following describes the valuation methodologies used for pension and postretirement plans assets measured at fair value.

Insurance Company Pooled Separate Accounts, Common or Collective Trusts, and United Kingdom Insurance Pooled Funds— Insurance company pooled separate accounts are invested via group annuity contracts issued by PICA. Assets are represented by a "unit of account." The redemption value of those units is based on a per unit value whose value is the result of the accumulated values of underlying investments. The unit of account value is used as a practical expedient to estimate fair value.

Equities—See Note 6 for a discussion of the valuation methodologies for equity securities.

U.S. Government Securities (both Federal and State & Other), Non–U.S. Government Securities, *and Corporate Debt*—See Note 6 for a discussion of the valuation methodologies for fixed maturity securities.

Interest Rate Swaps—See Note 6 for a discussion of the valuation methodologies for derivative instruments.

Registered Investment Companies (Mutual Funds)—Securities are priced at the NAV, which is the closing price published by the registered investment company on the reporting date.

Unrealized Gain (Loss) on Investment of Securities Lending Collateral—This value is the contractual position relative to the investment of securities lending collateral.

Short-term Investments—Securities are valued initially at cost and thereafter adjusted for amortization of any discount or premium (i.e., amortized cost). Amortized cost approximates fair value.

Partnerships—The value of interests owned in partnerships is based on valuations of the underlying investments that include private placements, structured debt, real estate, equities, fixed maturities, commodities and other investments.

Hedge Funds—The value of interests in hedge funds is based on the underlying investments that include equities, debt and other investments.

Variable Life Insurance Policies—These assets are held in group and individual variable life insurance policies issued by PICA. Group policies are invested in Insurance Company Pooled Separate Accounts. Individual policies are invested in Registered Investment Companies (Mutual Funds). The value of interest in these policies is the cash surrender value (contract value) of the policies based on the underlying investments. The variable life insurance policies are valued at contract value which approximates fair value.

Pension plan asset allocations in accordance with the investment guidelines are as follows:

	As of December 31, 2020				As of December 31, 2019(5)			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(in millions)							
Fixed Maturities:								
U.S. government securities (federal):								
Mortgage-backed	$ 0	$ 1	$ 0	$ 1	$ 0	$ 1	$ 0	$ 1
Other U.S. government securities	0	985	0	985	0	783	0	783
U.S. government securities (state & other)	0	588	0	588	0	562	0	562
Non-U.S. government securities	0	103	0	103	0	93	0	93
Corporate Debt:								
Corporate bonds	0	4,290	0	4,290	0	4,281	0	4,281
Asset-backed	0	25	0	25	0	22	0	22
Collateralized Mortgage Obligations	0	614	0	614	0	485	0	485
Collateralized Loan Obligations	0	441	0	441	0	397	0	397
Interest rate swaps(1)	0	0	0	0	0	2	0	2
Registered investment companies	96	0	0	96	7	0	0	7
Other(2)	33	2	35	70	37	(2)	44	79
Unrealized gain (loss) on investment of securities lending collateral(3)	0	0	0	0	0	0	0	0
Subtotal fixed maturities	129	7,049	35	7,213	44	6,624	44	6,712
Real Estate:								
Partnerships	0	0	838	838	0	0	688	688
Other:								
Partnerships	0	0	1,234	1,234	0	0	973	973
Hedge funds	0	0	1,327	1,327	0	0	1,312	1,312
Subtotal other	0	0	2,561	2,561	0	0	2,285	2,285
Net assets in the fair value hierarchy	$129	$7,049	$3,434	$10,612	$44	$6,624	$3,017	$ 9,685
Investments Measured at Net Asset Value,as a practical expedient(4)								
Pooled separate accounts				$ 2,659				$ 2,869
Common/collective trusts				1,440				1,185
United Kingdom insurance pooled funds				186				167
Net assets at fair value				$14,897				$13,906

(1) Interest rate swaps notional amount is $13 million and $2,462 million for the years ended December 31, 2020 and 2019, respectively.
(2) This category primarily consists of cash and cash equivalents, short-term investments, payables and receivables, and open future contract positions (including fixed income collateral).
(3) The contractual net value of the investment of securities lending collateral invested primarily in short-term bond funds is $586 million and $135 million and the liability for securities lending collateral is $586 million and $135 million for the years ended December 31, 2020 and 2019, respectively.
(4) The pension plan excludes from the fair value hierarchy investments that are measured at NAV per share (or its equivalent) as a practical expedient to estimate fair value.
(5) Prior period amounts have been updated to conform to the current year presentation.

Changes in Fair Value of Level 3 Pension Assets

	Fixed Maturities		Real Estate(1)	Other(1)	
	Corporate Bonds	Other	Partnerships	Partnerships	Hedge Fund
			(in millions)		
Fair Value, January 1, 2019	$ 2	$ 62	$482	$ 830	$1,463
Actual Return on Assets:					
Relating to assets still held at the reporting date	0	0	41	68	15
Relating to assets sold during the period	0	0	0	0	0
Purchases, sales and settlements	0	(18)	165	75	(166)
Transfers in and/or out of Level 3(2)	(2)	0	0	0	0
Fair Value, December 31, 2019	$ 0	$ 44	$688	$ 973	$1,312
Actual Return on Assets:					
Relating to assets still held at the reporting date	0	0	11	161	116
Relating to assets sold during the period	0	0	0	0	0
Purchases, sales and settlements	0	(9)	139	100	(101)
Transfers in and/or out of Level 3	0	0	0	0	0
Fair Value, December 31, 2020	$ 0	$ 35	$838	$1,234	$1,327

(1) Prior period amounts have been updated to conform to the current year presentation
(2) The transfers from level 3 to level 2 are due to the availability of external pricing sources.

Postretirement plan asset allocations in accordance with the investment guidelines are as follows:

	As of December 31, 2020				As of December 31, 2019 (3)			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(in millions)							
Equities:								
U.S. Equities	$ 0	$14	$0	$ 14	$ 0	$ 14	$0	$ 14
International Equities	0	9	0	9	0	8	0	8
Subtotal equities	0	23	0	23	0	22	0	22
Fixed Maturities:								
U.S. government securities (federal):								
Other U.S. government securities	0	9	0	9	0	20	0	20
Non-U.S. government securities	0	1	0	1	0	2	0	2
Corporate Debt:								
Corporate bonds	0	7	0	7	0	53	0	53
Asset-backed	0	2	0	2	0	16	0	16
Collateralized Mortgage Obligations	0	3	0	3	0	10	0	10
Collateralized Loan Obligations	0	4	0	4	0	15	0	15
Registered investment companies	19	0	0	19	4	0	0	4
Equities	0	22	0	22	0	20	0	20
Other(1)	0	0	0	0	0	0	1	1
Subtotal fixed maturities	19	48	0	67	4	136	1	141
Short-term Investments:								
Registered investment companies	165	0	0	165	163	0	0	163
Net assets in the fair value hierarchy	$184	$71	$0	$ 255	$167	$158	$1	$ 326
Investments Measured at Net Asset Value,as a practical expedient(2)								
Common trusts				$ 279				$ 273
Net assets at fair value				534				599
Variable Life Insurance Policies at contract value				1,055				958
Total net assets				$1,589				$1,557

(1) This category primarily consists of cash and cash equivalents, short-term investments, payables and receivables and open future contract positions (including fixed income collateral).
(2) The postretirement plan excludes from the fair value hierarchy investments that are measured at NAV per share (or its equivalent) as a practical expedient to estimate fair value.
(3) Prior period amounts have been updated to conform to the current year presentation.

Changes in Fair Value of Level 3 Postretirement Assets

	Fixed Maturities		
	Asset-backed	Collateralized Mortgage Obligations	Other
	(in millions)		
Fair Value, January 1, 2019	$ 1	$ 1	$ 3
Actual Return on Assets:			
Relating to assets still held at the reporting date	0	0	0
Relating to assets sold during the period	0	0	0
Purchases, sales and settlements	0	(1)	(2)
Transfers in and/or out of Level 3(1)	(1)	0	0
Fair Value, December 31, 2019	$ 0	$ 0	$ 1
Actual Return on Assets:			
Relating to assets still held at the reporting date	0	0	0
Relating to assets sold during the period	0	0	0
Purchases, sales and settlements	0	0	(1)
Transfers in and/or out of Level 3	0	0	0
Fair Value, December 31, 2020	$ 0	$ 0	$ 0

(1) The transfers from level 3 to level 2 are due to the availability of external pricing sources.

The expected benefit payments for the Company's pension and postretirement plans, as well as the expected Medicare Part D subsidy receipts related to the Company's postretirement plan, for the years indicated are as follows:

	Pension Benefit Payments	Other Postretirement Benefit Payments	Other Postretirement Benefits–Medicare Part D Subsidy Receipts
		(in millions)	
2021	$ 802	$ 148	$ 7
2022	824	149	7
2023	862	148	6
2024	866	148	6
2025	897	145	6
2026-2030	4,646	669	28
Total	$8,897	$1,407	$60

The Company anticipates that it will make cash contributions in 2021 of approximately $185 million to the pension plans and approximately $10 million to the postretirement plans.

Postemployment Benefits

The Company accrues postemployment benefits for income continuance and health and life benefits provided to former or inactive employees who are not retirees. The net accumulated liability for these benefits at December 31, 2020 and 2019 was $15 million and $1 million, respectively, and is included in "Other liabilities."

Other Employee Benefits

The Company sponsors voluntary savings plans for employees (401(k) plans). The plans provide for salary reduction contributions by employees and matching contributions by the Company of up to 4% of annual salary. The matching contributions by the Company included in "General and administrative expenses" were $82 million, $84 million and $89 million for the years ended December 31, 2020, 2019 and 2018, respectively.

19. EQUITY

Preferred Stock

As of December 31, 2020, 2019 and 2018, the Company had 10,000,000 shares of preferred stock authorized but none issued or outstanding.

Common Stock

On the date of demutualization in December 2001, Prudential Financial completed an initial public offering of its Common Stock. The shares of Common Stock issued were in addition to shares of Common Stock the Company distributed to policyholders as part of the demutualization. The Common Stock is traded on the New York Stock Exchange under the symbol "PRU". In the event of a liquidation, dissolution or winding-up of the Company, holders of Common Stock would be entitled to receive a proportionate share of the net assets of the Company that remain after paying all liabilities and the liquidation preferences of any preferred stock.

The changes in the number of shares of Common Stock issued, held in treasury and outstanding, are as follows for the periods indicated:

	Common Stock		
	Issued	Held In Treasury	Outstanding
		(in millions)	
Balance, December 31, 2017	660.1	237.5	422.6
Common Stock issued	0.0	0.0	0.0
Common Stock acquired	0.0	14.9	(14.9)
Stock-based compensation programs(1)	0.0	(3.0)	3.0
Balance, December 31, 2018	660.1	249.4	410.7
Common Stock issued(2)(3)	6.2	(5.5)	11.7
Common Stock acquired	0.0	27.2	(27.2)
Stock-based compensation programs(1)	0.0	(3.6)	3.6
Balance, December 31, 2019	666.3	267.5	398.8
Common Stock issued	0.0	0.0	0.0
Common Stock acquired	0.0	6.7	(6.7)
Stock-based compensation programs(1)	0.0	(4.3)	4.3
Balance, December 31, 2020	666.3	269.9	396.4

(1) Represents net shares issued from treasury pursuant to the Company's stock-based compensation programs.
(2) In August 2019, as a result of the note holders' exercise of the exchange option on $500 million of surplus notes, the Company issued approximately 6.2 million shares of Common Stock at an exchange rate equal to 12.3877 shares of Common Stock per each $1,000 principal amount of surplus notes. The Company's obligations under the surplus notes are now satisfied. For additional information, see Note 20.
(3) In October 2019, the Company issued approximately 5.5 million shares of restricted Common Stock as part of consideration paid for the Assurance IQ acquisition. For additional information about the acquisition, see Note 1.

Additional paid-in capital

Additional paid-in capital is primarily comprised of the cumulative excess between: (a) the total cash received by the Company in conjunction with past issuances of Common Stock shares or Common Stock shares reissued from treasury in conjunction with the Company's stock-based compensation program and (b) the total par value associated with those shares ($.01 per share).

Common stock held in treasury

Common Stock held in treasury represents the Company's previously issued shares of stock which have been repurchased by the Company but not retired. These shares are accounted for at the cost at which they were acquired. Common Stock held in treasury is typically impacted by repurchases of shares under the Board of Directors approved share repurchase program and by reissuances of shares associated with our stock-based compensation programs, or for other purposes, which are accounted for at average cost upon reissuance. Gains resulting from the reissuance of Common Stock held in treasury are credited to Additional paid-in capital. Losses resulting from the reissuance of Common Stock held in treasury are charged first to Additional paid-in capital to the extent the Company has previously recorded gains on treasury share transactions, then to Retained earnings.

The Board of Directors may from time to time, at its discretion, authorize management to repurchase shares of Common Stock of the Company. The timing and amount of share repurchases are determined by management based upon market conditions and other considerations, and repurchases may be executed in the open market, through derivative, accelerated repurchase and other negotiated transactions and through prearranged trading plans complying with Rule 10b5-1(c) under the Securities Exchange Act of 1934 (the "Exchange Act"). Numerous factors could affect the timing and amount of any future repurchases under the share repurchase authorization, including increased capital needs of the Company due to changes in regulatory capital requirements, opportunities for growth and acquisitions, and the effect of adverse market conditions on the segments.

The following table summarizes share repurchases for each of the past three years as well as the share repurchase authorization for 2021, which was approved by the Board of Directors in February 2021:

	January 1, 2021 - December 31, 2021	January 1, 2020 - December 31, 2020(1)	January 1, 2019 - December 31, 2019	January 1, 2018 - December 31, 2018
Total Board authorized share repurchase amount ($ in billions)	$ 1.5	$2.0	$ 2.5	$ 1.5
Total number of shares repurchased under this authorization as of the period end (in millions)	N/A*	6.7	27.2	14.9

* Share repurchase authorization for a future period.

(1) In April 2020, the Company suspended Common Stock repurchases under the 2020 share repurchase authorization and did not resume share repurchases for the remainder of the authorization period.

Accumulated Other Comprehensive Income (Loss)

AOCI represents the cumulative OCI items that are reported separate from net income and detailed on the Consolidated Statements of Comprehensive Income. Each of the components that comprise OCI are described in further detail in Note 2 (Foreign Currency Translation Adjustment and Net Unrealized Investment Gains (Losses)) and Note 18 (Pension and Postretirement Unrecognized Net Periodic Benefit (Cost)). The balance of and changes in each component of AOCI as of and for the years ended December 31, are as follows:

	Accumulated Other Comprehensive Income (Loss) Attributable to Prudential Financial, Inc.			
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses)(1)	Pension and Postretirement Unrecognized Net Periodic Benefit (Cost)	Total Accumulated Other Comprehensive Income (Loss)
	(in millions)			
Balance, December 31, 2017	$(269)	$19,968	$(2,625)	$17,074
Change in OCI before reclassifications	(74)	(7,614)	(547)	(8,235)
Amounts reclassified from AOCI	1	(779)	227	(551)
Income tax benefit (expense)	9	1,735	68	1,812
Cumulative effect of adoption of ASU 2016-01	0	(847)	0	(847)
Cumulative effect of adoption of ASU 2018-02	(231)	2,282	(398)	1,653
Balance, December 31, 2018	(564)	14,745	(3,275)	10,906
Change in OCI before reclassifications	37	18,540	(563)	18,014
Amounts reclassified from AOCI	27	(1,345)	241	(1,077)
Income tax benefit (expense)	(36)	(3,835)	60	(3,811)
Cumulative effect of adoption of ASU 2017-12	0	7	0	7
Balance, December 31, 2019	(536)	28,112	(3,537)	24,039
Change in OCI before reclassifications	455	8,112	(70)	8,497
Amounts reclassified from AOCI	57	(883)	280	(546)
Income tax benefit (expense)	76	(1,276)	(52)	(1,252)
Balance, December 31, 2020	$ 52	$34,065	$(3,379)	$30,738

(1) Includes cash flow hedges of $(168) million, $832 million and $811 million as of December 31, 2020, 2019, and 2018, respectively, and fair value hedges of $10 million, $0 million, and $0 million as of December 31, 2020, 2019, and 2018, respectively.

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

	Years Ended December 31,			Affected line item in Consolidated Statements of Operations
	2020	2019	2018	
	(in millions)			
Amounts reclassified from AOCI(1)(2):				
Foreign currency translation adjustment:				
Foreign currency translation adjustment	$ 1	$ (27)	$ (1)	Realized investment gains (losses), net
Foreign currency translation adjustment	(58)	0	0	Other income (loss)
Total foreign currency translation adjustment	(57)	(27)	(1)	
Net unrealized investment gains (losses):				
Cash flow hedges—Interest Rate	40	58	1	(3)
Cash flow hedges—Currency	5	6	7	(3)
Cash flow hedges—Currency/Interest rate	110	315	543	(3)
Fair value hedges—Currency	(1)	0	0	(3)
Net unrealized investment gains (losses) on available-for-sale securities	729	966	228	Realized investment gains (losses), net
Total net unrealized investment gains (losses)	883	1,345	779	(4)
Amortization of defined benefit items:				
Prior service cost	(2)	0	3	(5)
Actuarial gain (loss)	(278)	(241)	(230)	(5)
Total amortization of defined benefit items	(280)	(241)	(227)	
Total reclassifications for the period	$ 546	$1,077	$ 551	

(1) All amounts are shown before tax.
(2) Positive amounts indicate gains/benefits reclassified out of AOCI. Negative amounts indicate losses/costs reclassified out of AOCI.
(3) See Note 5 for additional information on cash flow and fair value hedges.
(4) See table below for additional information on unrealized investment gains (losses), including the impact on deferred policy acquisition and other costs, future policy benefits and policyholders' dividends.
(5) See Note 18 for information on employee benefit plans.

Net Unrealized Investment Gains (Losses)

Net unrealized investment gains (losses) on available-for-sale fixed maturity securities and certain other invested assets and other assets are included in the Company's Consolidated Statements of Financial Position as a component of AOCI. Changes in these amounts include reclassification adjustments to exclude from "Other comprehensive income (loss)" those items that are included as part of "Net income" for a period that had been part of "Other comprehensive income (loss)" in earlier periods. The amounts for the periods indicated below, split between amounts related to available-for-sale fixed maturity securities on which an OTTI loss had been previously recognized, an allowance for credit losses has been recognized, and all other net unrealized investment gains (losses), are as follows:

Net Unrealized Investment Gains (Losses) on Available-for-Sale Fixed Maturity Securities on which an OTTI loss had been previously recognized and an allowance for credit losses has been recognized

	Net Unrealized Gains (Losses) on Investments	DAC, DSI, VOBA and Reinsurance Recoverables	Future Policy Benefits, Policyholders' Account Balances and Reinsurance Payables	Policyholders' Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related to Net Unrealized Investment Gains (Losses)
	(in millions)					
Balance, December 31, 2017	$ 286	$(2)	$ 3	$(46)	$(94)	$ 147
Net investment gains (losses) on investments arising during the period	(19)				8	(11)
Reclassification adjustment for (gains) losses included in net income	(76)				33	(43)
Reclassification adjustment for OTTI losses excluded from net income(1)	(2)				1	(1)
Impact of net unrealized investment (gains) losses on DAC, DSI, VOBA and reinsurance recoverables		1			0	1
Impact of net unrealized investment (gains) losses on future policy benefits, policyholders' account balances and reinsurance payables			1		0	1
Impact of net unrealized investment (gains) losses on policyholders' dividends				23	(9)	14
Balance, December 31, 2018	189	(1)	4	(23)	(61)	108
Net investment gains (losses) on investments arising during the period	129				(29)	100
Reclassification adjustment for (gains) losses included in net income	(96)				21	(75)
Reclassification adjustment for OTTI losses excluded from net income(1)	21				(5)	16
Impact of net unrealized investment (gains) losses on DAC, DSI, VOBA and reinsurance recoverables		0			0	0
Impact of net unrealized investment (gains) losses on future policy benefits, policyholders' account balances and reinsurance payables			1		0	1
Impact of net unrealized investment (gains) losses on policyholders' dividends				1	0	1
Balance, December 31, 2019	243	(1)	5	(22)	(74)	151
Reclassification to all other due to implementation of ASU 2016-13(2)	(243)	1	(5)	22	74	(151)
Net investment gains (losses) on investments arising during the period	47				(9)	38
Reclassification adjustment for (gains) losses included in net income	25				(5)	20
Increase (Decrease) due to non-credit related losses recognized in AOCI during the period	(97)				19	(78)
Impact of net unrealized investment (gains) losses on DAC, DSI, VOBA and reinsurance recoverables		1			0	1
Impact of net unrealized investment (gains) losses on future policy benefits, policyholders' account balances and reinsurance payables			(1)		0	(1)
Impact of net unrealized investment (gains) losses on policyholders' dividends				11	(2)	9
Balance, December 31, 2020	$ (25)	$ 1	$(1)	$ 11	$ 3	$ (11)

(1) Represents "transfers in" related to the portion of OTTI losses recognized during the period that were not recognized in earnings for securities with no prior OTTI loss.
(2) Represents net unrealized gains (losses) for which an OTTI loss had been previously recognized.

All Other Net Unrealized Investment Gains (Losses) in AOCI

	Net Unrealized Gains (Losses) on Investments(1)	DAC, DSI, VOBA and Reinsurance Recoverables	Future Policy Benefits, Policyholders' Account Balances and Reinsurance Payables	Policyholders' Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related to Net Unrealized Investment Gains (Losses)
	(in millions)					
Balance, December 31, 2017	$ 36,112	$(1,580)	$(1,243)	$(3,631)	$ (9,837)	$19,821
Net investment gains (losses) on investments arising during the period	(10,838)				2,893	(7,945)
Reclassification adjustment for (gains) losses included in net income	(703)				303	(400)
Reclassification adjustment for OTTI losses excluded from net income(2)	2				(1)	1
Impact of net unrealized investment (gains) losses on DAC, DSI, VOBA and reinsurance recoverables		842			(263)	579
Impact of net unrealized investment (gains) losses on future policy benefits, policyholders' account balances and reinsurance payables			452		(186)	266
Impact of net unrealized investment (gains) losses on policyholders' dividends				1,924	(874)	1,050
Cumulative effect of adoption of ASU 2016-01	(2,042)			813	212	(1,017)
Cumulative effect of adoption of ASU 2018-02					2,282	2,282
Balance, December 31, 2018	22,531	(738)	(791)	(894)	(5,471)	14,637
Net investment gains (losses) on investments arising during the period	23,826				(5,282)	18,544
Reclassification adjustment for (gains) losses included in net income	(1,249)				277	(972)
Reclassification adjustment for OTTI losses excluded from net income(2)	(21)				5	(16)
Impact of net unrealized investment (gains) losses on DAC, DSI, VOBA and reinsurance recoverables		(846)			190	(656)
Impact of net unrealized investment (gains) losses on future policy benefits, policyholders' account balances and reinsurance payables			(2,123)		475	(1,648)
Impact of net unrealized investment (gains) losses on policyholders' dividends				(2,450)	515	(1,935)
Cumulative effect of adoption of ASU 2017-12	9				(2)	7
Balance, December 31, 2019	45,096	(1,584)	(2,914)	(3,344)	(9,293)	27,961
Reclassification due to implementation of ASU 2016-13(3)	243	(1)	5	(22)	(74)	151
Net investment gains (losses) on investments arising during the period	13,914				(2,656)	11,258
Reclassification adjustment for (gains) losses included in net income	(908)				173	(735)
Reclassification due to allowance for credit losses recorded during the period	97				(19)	78
Impact of net unrealized investment (gains) losses on DAC, DSI, VOBA and reinsurance recoverables		355			(70)	285
Impact of net unrealized investment (gains) losses on future policy benefits, policyholders' account balances and reinsurance payables			(3,678)		760	(2,918)
Impact of net unrealized investment (gains) losses on policyholders' dividends				(2,537)	533	(2,004)
Balance, December 31, 2020	$ 58,442	$(1,230)	$(6,587)	$(5,903)	$(10,646)	$34,076

(1) Includes cash flow and fair value hedges. See Note 5 for additional information.
(2) Represents "transfers out" related to the portion of OTTI losses recognized during the period that were not recognized in earnings for securities with no prior OTTI loss.
(3) Represents net unrealized gains (losses) for which an OTTI loss had been previously recognized.

Retained earnings

Retained earnings primarily represents the cumulative net income earned by the Company that has been retained by the Company as of the reporting date. Other unique items, included but not limited to the adoption of new accounting standards updates, may also impact retained earnings. In any given period, retained earnings may increase due to net income and may decrease due to net losses or the declaration of dividends. The declaration and payment of dividends on the Common Stock is limited by New Jersey corporate law, pursuant to which Prudential Financial is prohibited from paying a Common Stock dividend if, after giving effect to that dividend, either (a) the Company would be unable to pay its debts as they become due in the usual course of its business or (b) the Company's total assets would be less than its liabilities. In addition, the terms of the Company's outstanding junior subordinated debt include a "dividend stopper" provision that restricts the payment of dividends on the Common Stock if interest payments are not made on the junior subordinated debt.

Other than the above limitations, the Company's Retained earnings balance is free of restrictions for the payment of Common Stock dividends; however, Common Stock dividends will be dependent upon financial conditions, results of operations, cash needs, future prospects and other factors, including cash available to Prudential Financial, the parent holding company. The principal sources of funds available to Prudential Financial are dividends and returns of capital from its subsidiaries, loans from its subsidiaries, repayments of operating loans from its subsidiaries, and cash and other highly liquid assets. The primary uses of funds at Prudential Financial include servicing its debt, operating expenses, capital contributions and loans to subsidiaries, the payment of declared shareholder dividends and repurchases of outstanding shares of Common Stock if executed under Board authority. As of December 31, 2020, Prudential Financial had highly liquid assets (excluding amounts held in an intercompany liquidity account) of $5,560 million predominantly including cash, short-term investments, U.S. Treasury securities, obligations of other U.S. government authorities and agencies, and/or foreign government bonds.

Future cash available at Prudential Financial to support the payment of future Common Stock dividends is dependent on the receipt of dividends or other funds from its subsidiaries, the majority of which are subject to comprehensive regulation, including limitations on their payment of dividends and other transfers of funds, which are discussed in this Note further below.

Non-controlling interests

For certain subsidiaries, the Company owns a controlling interest that is less than 100% ownership of the subsidiary but must consolidate 100% of the subsidiary's financial statements in accordance with U.S. GAAP. Non-controlling interests represent the portion of equity ownership in a consolidated subsidiary that is not attributable to the Company.

Insurance Subsidiaries—Statutory Financial Information and Restrictions on Payments of Dividends

U.S. Insurance Subsidiaries—Statutory Financial Information

The Company's domestic insurance subsidiaries are required to prepare statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the insurance department of the state of domicile. Statutory accounting practices primarily differ from U.S. GAAP by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities using different actuarial assumptions as well as valuing investments and certain assets and accounting for deferred taxes on a different basis.

The risk-based capital ("RBC") ratio is a primary measure by which the Company and its insurance regulators evaluate the capital adequacy of PICA and the Company's other domestic insurance subsidiaries. RBC is determined by NAIC-prescribed formulas that consider, among other things, risks related to the type and quality of the invested assets, insurance-related risks associated with an insurer's products and liabilities, interest rate risks and general business risks. Insurers that have less statutory capital than required are considered to have inadequate capital and are subject to varying degrees of regulatory action depending upon the level of capital inadequacy. The Company expects to report RBC ratios as of December 31, 2020 above the regulatory required minimums that would require corrective action and above our "AA" financial strength target levels for both PICA and Prudential Annuities Life Assurance Corporation ("PALAC").

The following table summarizes certain statutory financial information for the Company's two largest U.S. insurance subsidiaries for the periods indicated:

	PICA			PALAC		
In millions and presented as of or for the year ended	**December 31, 2020**	**December 31, 2019**	**December 31, 2018**	**December 31, 2020**	**December 31, 2019**	**December 31, 2018**
Statutory net income (loss)	$ 1,770	$ (169)	$ 1,324	$ (637)	$(2,052)	$ (852)
Statutory capital and surplus	$11,597	$11,483	$10,695	$6,262	$ 4,748	$6,396

U.S. Insurance Subsidiaries—Restrictions on Payment of Dividends to Prudential Financial, the Parent Holding Company

With respect to PICA, a New Jersey domiciled insurance subsidiary which is also the Company's primary domestic insurance subsidiary, New Jersey insurance law provides that, except in the case of extraordinary dividends (as described below), all dividends or other distributions paid by PICA may be paid only from unassigned surplus, as determined pursuant to statutory accounting principles, less cumulative unrealized investment gains and losses and revaluation of assets as of the prior calendar year-end. As of December 31, 2020, PICA's unassigned surplus less applicable adjustments for cumulative unrealized investment gains was $8,266 million. PICA must give prior notification to the NJDOBI of its intent to pay any such dividend or distribution. Also, if any dividend, together with other dividends or distributions made within the preceding twelve months, exceeds the greater of (i) 10% of statutory capital and surplus as of the preceding December 31 or (ii) its statutory net gain from operations excluding realized investment gains and losses for the twelve-month period ending on the preceding December 31, the dividend is considered to be an "extraordinary dividend" and requires the prior approval of the NJDOBI. Under New Jersey insurance law, PICA is permitted to pay an ordinary dividend of up to $1,476 million in 2021, without prior approval of the NJDOBI.

The laws regulating dividends of the states where the Company's other domestic insurance subsidiaries are domiciled are similar, but not identical, to New Jersey. With respect to PALAC, an Arizona domiciled insurance subsidiary of the Company, Arizona insurance law provides that if any dividend, together with other dividends or distributions made within the preceding twelve months, exceeds the lesser of (i) 10% of statutory capital and surplus as of the preceding December 31 or (ii) its statutory net gain from operations excluding realized investment gains and losses for the twelve month period ending on the preceding December 31, the dividend is considered to be an "extraordinary dividend" and requires prior approval of the Arizona Department of Insurance. Under Arizona law, PALAC has no ordinary dividend capacity during 2021. All dividends will be considered extraordinary and will require prior approval from the Arizona Department of Insurance.

International Insurance Subsidiaries—Statutory Financial Information

The Company's international insurance subsidiaries prepare financial statements in accordance with local regulatory requirements. These statutory accounting practices differ from U.S. GAAP primarily by charging policy acquisition costs to expense as incurred and establishing future policy benefit liabilities using different actuarial assumptions, as well as valuing investments and certain assets and accounting for deferred taxes on a different basis.

The Japan Financial Services Agency ("FSA") utilizes a solvency margin ratio to evaluate the capital adequacy of Japanese insurance companies. The solvency margin ratio considers the level of solvency margin capital to a solvency margin risk amount, which is calculated in a similar manner to RBC. As of December 31, 2020, the Company expects The Prudential Life Insurance Company Ltd. ("Prudential of Japan") and Gibraltar Life both had solvency margin capital in excess of 3.5 times the regulatory required minimums that would require corrective action.

All of the Company's domestic and international insurance subsidiaries have capital and surplus levels that exceed their respective regulatory minimum requirements, and none utilized prescribed or permitted practices that vary materially from the practices prescribed by the NAIC or equivalent regulatory bodies for results reported as of December 31, 2020 and 2019, respectively, or for the years ended December 31, 2020, 2019 and 2018, respectively.

International Insurance Subsidiaries—Restrictions on Payment of Dividends to Prudential Financial, the Parent Holding Company

The Company's international insurance operations are subject to dividend restrictions from the regulatory authorities in the jurisdictions in which they operate. With respect to Prudential of Japan and Gibraltar Life, the Company's most significant international insurance subsidiaries, both of which are domiciled in Japan, Japan insurance law provides that common stock dividends may be paid in an amount of up to 83% of prior fiscal year statutory after-tax earnings, after certain reserving thresholds are met, including providing for policyholder dividends. If statutory retained earnings exceed 100% of statutory paid-in capital, 100% of prior year statutory after-tax earnings may be paid, after reserving thresholds are met. Dividends in excess of these amounts and other forms of capital distribution require the prior approval of the FSA. Additionally, Prudential of Japan and Gibraltar Life must give prior notification to the FSA of their intent to pay any dividend or distribution.

For the year ended December 31, 2020, Prudential Financial received $3,531 million from its international insurance subsidiaries, which includes $1,627 million of net proceeds from the sale of POK and $470 million of in-kind dividends in the form of extinguishment of debt held by international insurance subsidiaries. In addition to paying Common Stock dividends, the Company's international insurance operations may return capital to Prudential Financial through, or facilitated by, other means, such as the repayment of Preferred Stock obligations held by Prudential Financial or other affiliates, affiliated lending, affiliated derivatives and reinsurance with U.S.- and Bermuda-based affiliates. In 2019, the Company's Japan insurance operations entered into reinsurance agreements with Gibraltar Re, the Company's Bermuda-based reinsurance affiliate, to reinsure the mortality and morbidity risk associated with a portion of the in-force contracts as well as newly-issued contracts for certain products. The Company expects these transactions will allow it to more efficiently manage its capital and risk profile. The current regulatory fiscal year end for both Prudential of Japan and Gibraltar Life is March 31, 2021, after which time the common stock dividend amount permitted to be paid without prior approval from the FSA can be determined.

In addition, although prior regulatory approval may not be required by law for the payment of dividends up to the limitations described above, in practice, the Company would typically discuss any dividend payments with the applicable regulatory authority prior to payment. Additionally, the payment of dividends by the Company's subsidiaries is subject to declaration by their Board of Directors and may be affected by market conditions and other factors.

20. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of the basic and diluted per share computations of Common Stock based on the consolidated earnings of Prudential Financial for the years ended December 31, is as follows:

	2020			2019			2018		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
	(in millions, except per share amounts)								
Basic earnings per share									
Net income (loss)	$(146)			$4,238			$4,088		
Less: Income (loss) attributable to noncontrolling interests	228			52			14		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards	21			46			48		
Net income (loss) attributable to Prudential Financial available to holders of Common Stock	$(395)	395.8	$(1.00)	$4,140	404.8	$10.23	$4,026	417.6	$9.64
Effect of dilutive securities and compensation programs									
Add: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Basic	$ 21			$ 46			$ 48		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Diluted	21			45			47		
Stock options		0.0			1.1			1.5	
Deferred and long-term compensation programs		0.0			1.4			1.2	
Exchangeable Surplus Notes	0	0.0		12	3.6		21	5.9	
Diluted earnings per share(1)									
Net income (loss) attributable to Prudential Financial available to holders of Common Stock	$(395)	395.8	$(1.00)	$4,153	410.9	$10.11	$4,048	426.2	$9.50

(1) For the year ended December 31, 2020, weighted average shares for basic earnings per share is also used for calculating diluted earnings per share because dilutive shares and dilutive earnings per share are not applicable when a net loss is reported. As a result of the net loss attributable to Prudential Financial available to holders of Common Stock for the year ended December 31, 2020, all potential stock options and compensation programs were considered antidilutive.

Unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and included in the computation of earnings per share pursuant to the two-class method. Under this method, earnings attributable to Prudential Financial are allocated between Common Stock and the participating awards, as if the awards were a second class of stock. During periods of net income available to holders of Common Stock, the calculation of earnings per share excludes the income attributable to participating securities in the numerator and the dilutive impact of these securities from the denominator. In the event of a net loss available to holders of Common Stock, undistributed earnings are not allocated to participating securities and the denominator excludes the dilutive impact of these securities as they do not share in the losses of the Company. Undistributed earnings allocated to participating unvested share-based payment awards for the years ended December 31, 2020, 2019 and 2018, as applicable, were based on 4.9 million, 4.6 million and 4.9 million of such awards, respectively, weighted for the period they were outstanding.

Stock options and shares related to deferred and long-term compensation programs that are considered antidilutive are excluded from the computation of diluted earnings per share. Stock options are considered antidilutive based on application of the treasury stock method or in the event of a net loss available to holders of Common Stock. Shares related to deferred and long-term compensation programs are considered antidilutive in the event of a net loss available to holders of Common Stock. For the years ended December 31, the number of stock options and shares related to deferred and long-term compensation programs that were considered antidilutive and were excluded from the computation of diluted earnings per share, weighted for the portion of the period they were outstanding, are as follows:

	2020		2019		2018	
	Shares	Exercise Price Per Share	Shares	Exercise Price Per Share	Shares	Exercise Price Per Share
	(in millions, except per share amounts, based on weighted average)					
Antidilutive stock options based on application of the treasury stock method	3.3	$82.06	1.2	$102.84	0.7	$108.34
Antidilutive stock options due to net loss available to holders of Common Stock	0.4		0.0		0.0	
Antidilutive shares based on application of the treasury stock method	0.2		0.0		0.0	
Antidilutive shares due to net loss available to holders of Common Stock	1.6		0.0		0.0	
Total antidilutive stock options and shares	5.5		1.2		0.7	

In September 2009, the Company issued $500 million of surplus notes with an interest rate of 5.36% per annum which were exchangeable at the option of the note holders for shares of Common Stock. In August 2019, as a result of the note holders' exercise of the exchange option, the Company issued approximately 6.2 million shares of Common Stock at an exchange rate equal to 12.3877 shares of Common Stock per each $1,000 principal amount of surplus notes. The Company's obligations under the surplus notes are now satisfied. In calculating diluted earnings per share under the if-converted method, for the years ended December 31, 2019 and 2018, the potential shares that would be issued assuming a hypothetical exchange, weighted for the period the notes were outstanding, are added to the denominator, and the related interest expense, net of tax, is excluded from the numerator, if the overall effect is dilutive.

21. SHARE-BASED PAYMENTS

Omnibus Incentive Plan

Prudential Financial, Inc.'s Omnibus Incentive Plan provides stock-based awards including stock options, stock appreciation rights, restricted stock shares, restricted stock units, stock settled performance shares, and cash settled performance units. Dividend equivalents are generally provided on restricted stock shares and restricted stock units outstanding as of the record date. Dividend equivalents are generally accrued on target performance shares and units outstanding as of the record date. These dividend equivalents are paid only on the performance shares and units released up to a maximum of the target number of shares and units awarded. Generally, the requisite service period is the vesting period. There were 9,906,113 authorized shares available for grant under the Omnibus Incentive Plan as of December 31, 2020.

Assurance IQ Acquisition

The Company acquired Assurance IQ on October 10, 2019. The terms of the Acquisition included compensation awards that involved share-based payment arrangements that are linked to retention and therefore fall under the reporting requirements of ASC 718, Stock Compensation. These compensation awards include stock options, restricted stock units and performance shares.

Compensation Costs

Compensation cost for restricted stock units, performance shares and performance units granted to employees is measured by the share price of the underlying Common Stock at the date of grant.

Compensation cost for employee stock options is based on the fair values estimated on the grant date. Under the Omnibus Incentive Plan, the fair value of each stock option award is estimated using a binomial option pricing model on the date of grant for stock options issued to employees. For the Acquisition related awards, the fair value of each stock option award is based on its intrinsic value on the date of grant.

The weighted average grant date assumptions used in the binomial option valuation model are as follows:

	2020	2019	2018
Expected volatility	33.99%	34.63%	35.39%
Expected dividend yield	4.59%	4.26%	2.88%
Expected term	5.60 years	5.54 years	5.49 years
Risk-free interest rate	1.42%	2.50%	2.64%

Expected volatilities are based on historical volatility of Prudential Financial's Common Stock and implied volatilities from traded options on Prudential Financial's Common Stock. The Company uses historical data and expectations of future exercise patterns to estimate option exercises and employee terminations within the valuation model. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods associated with the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The following table summarizes the compensation cost recognized and the related income tax benefit for stock options, restricted stock units, performance shares and performance units for the years ended December 31:

	2020		2019		2018	
Omnibus Incentive Plan:	Total Compensation Cost Recognized (1)	Income Tax Benefit	Total Compensation Cost Recognized (1)	Income Tax Benefit	Total Compensation Cost Recognized (1)	Income Tax Benefit
			(in millions)			
Employee stock options	$ 11	$ 3	$ 11	$ 3	$ 13	$ 3
Employee restricted stock units	162	38	149	35	139	32
Employee performance shares and performance units	53	12	71	17	3	1
Total	$226	$53	$231	$55	$155	$36

(1) Compensation costs related to retirement eligible participants are recorded on the grant date (typically in the first quarter of every year).

	2020		2019	
Assurance IQ Acquisition:	Total Compensation Cost Recognized	Income Tax Benefit	Total Compensation Cost Recognized	Income Tax Benefit
		(in millions)		
Employee stock options	$14	$4	$4	$1
Employee restricted stock units	2	1	1	0
Employee performance shares	0	0	0	0
Total	$16	$5	$5	$1

Compensation costs related to stock-based compensation plans capitalized in deferred acquisition costs for the years ended December 31, 2020, 2019 and 2018 were de minimis.

Stock Options

Each stock option granted under the Omnibus Incentive Plan has an exercise price at the fair market value of Prudential Financial's Common Stock on the date of grant and has a maximum term of 10 years. Generally, one third of the option grant vests in each of the first three years. Options granted related to the Acquisition have an exercise price based on the original strike price of the Assurance IQ options that they replaced and have a maximum term of 10 years from the date the Assurance IQ options were originally granted. Options granted related to the Acquisition generally vest quarterly over three years.

A summary of the status of the Company's stock option grants is as follows:

	Employee Stock Options			
	Omnibus Incentive Plan		Assurance IQ Acquisition	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2019	4,610,997	$76.26	547,192	$1.38
Granted	610,027	95.87	0	0.00
Exercised	(647,313)	59.82	(142,638)	0.51
Forfeited	0	0.00	(10,288)	5.10
Expired	(9,859)	78.45	0	0.00
Outstanding at December 31, 2020	4,563,852	$81.21	394,266	$1.60
Exercisable at December 31, 2020	3,427,197	$76.25	57,791	$4.02

The weighted average grant date fair value of employee stock options granted under the Omnibus Incentive Plan during the years ended December 31, 2020, 2019 and 2018 was $18.00, $20.02 and $27.11, respectively. For the Acquisition related awards, the weighted average grant date fair value of employee stock options granted during the year ended December 31, 2019 was $86.31. No Acquisition related options were granted in 2020.

The total intrinsic value (i.e., market price of the stock less the option exercise price) of employee stock options exercised during the years ended December 31, 2020, 2019 and 2018 was $13 million, $21 million, and $28 million, respectively. For the Acquisition related awards, the total intrinsic value of employee stock options exercised during the years ended December 31, 2020 and 2019 were $10 million and $3 million, respectively.

The weighted average remaining contractual term and the aggregate intrinsic value of stock options outstanding and exercisable as of December 31, 2020 is as follows:

	Employee Stock Options			
	Omnibus Incentive Plan		Assurance IQ Acquisition	
	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(in years)	(in millions)	(in years)	(in millions)
Outstanding	4.47	$32	7.44	$30
Exercisable	3.46	$32	7.39	$ 4

Restricted Stock Units, Performance Share Awards and Performance Unit Awards

A restricted stock unit is an unfunded, unsecured right to receive a share of Prudential Financial's Common Stock at the end of a specified period of time, which is subject to forfeiture and transfer restrictions. Generally, the restrictions will lapse on the third anniversary of the date of grant. Performance shares and performance units are awards denominated in Prudential Financial's Common Stock. The number of units is determined over the performance period and may be adjusted based on the satisfaction of certain performance goals for the Company. Performance share awards are payable in Prudential Financial's Common Stock. Performance unit awards are payable in cash. Effective October 2019, the Company modified certain provisions of its long term compensation plan to settle the performance units component in Prudential Financial Common Stock. As a result, outstanding performance units were converted to performance shares except for certain employee directed deferrals in the deferred compensation plan which remain as performance units for the full life of the grant. Beginning in 2020, the Company no longer grants performance unit awards.

A summary of the Company's restricted stock units, performance shares and performance unit awards under the Omnibus Incentive Plan is as follows:

	Restricted Stock Units	Weighted Average Grant Date Fair Value	Performance Share and Performance Unit Awards(1)	Weighted Average Grant Date Fair Value
Restricted at December 31, 2019(2)	4,471,189	$102.25	1,822,886	$90.03
Granted(2)	1,922,202	93.88	671,994	95.42
Forfeited	(197,399)	95.86	(16,118)	65.17
Performance adjustment(3)			49,485	95.43
Released	(1,437,753)	109.73	(622,607)	90.23
Restricted at December 31, 2020(2)	4,758,239	$ 96.87	1,905,640	$92.07

(1) Performance share and performance unit awards reflect the target units awarded, reduced for forfeitures and releases to date. The actual number of units to be awarded at the end of each performance period will range between 0% and 125% of the target number of units granted, based upon a measure of the reported performance for the Company relative to stated goals. Performance awards granted to senior management in 2018 include a stated goal related to diversity & inclusion that can modify the performance result by +/- 10%.
(2) Effective October 1, 2019, the Company modified existing performance share and performance unit awards to remove features of the grants that prevent having a mutual understanding of the key terms and conditions of the award between the employee and employer until the grants vested. Consequently, the weighted average grant date fair value as of December 31, 2020 is the closing stock price of Prudential Financial's common stock as of September 30, 2019. The weighted average grant date fair value as of December 31, 2018 is the closing stock price of Prudential Financial's common stock as of December 31, 2019.
(3) Represents the difference between the target units granted and the actual units awarded based upon the attainment of performance goals for the Company.

A summary of the Company's restricted stock units and performance share awards related to the Acquisition is as follows:

	Restricted Stock Units	Weighted Average Grant Date Fair Value	Performance Share Awards(1)	Weighted Average Grant Date Fair Value
Restricted at December 31, 2019	125,788	$87.67	1,982,708	$89.81
Granted	0	0.00	112,949	63.30
Forfeited	(20,222)	87.67	(29,662)	85.30
Performance adjustment(2)	0	0.00	0	0.00
Released	(32,869)	87.67	0	0.00
Restricted at December 31, 2020	72,697	$87.67	2,065,995	$88.43

(1) Performance share awards related to the Assurance IQ acquisition reflect the maximum number of units that have been awarded under the terms of the acquisition. The actual number of units that will be awarded at the end of the performance period will range between 0% and 100% of the number of units granted, based upon a predetermined formula of achieving Variable Profits between $900 million and $1,300 million.
(2) Represents the difference between the target units granted and the actual units awarded based upon the attainment of performance goals for the Company.

The fair market value of restricted stock units, performance shares and performance units released under the Omnibus Incentive Plan for the years ended December 31, 2020, 2019 and 2018 was $191 million, $255 million and $238 million, respectively. The fair market value of restricted stock units for the Acquisition related awards under the Omnibus Incentive Plan for the year ended December 31, 2020 was $2 million. There were no vested restricted stock units or performance shares related to the Acquisition for the year ended December 31, 2019.

The weighted average grant date fair value for restricted stock units granted under the Omnibus Incentive Plan during the years ended December 31, 2020, 2019 and 2018 was $93.88, $93.35 and $106.32, respectively. The weighted average grant date fair value for performance shares and performance units granted under the Omnibus Incentive Plan during the years ended December 31, 2020, 2019 and 2018 was $95.42, $90.68 and $81.55, respectively. The weighted average grant date fair value for restricted stock units granted for the Acquisition during the year ended December 31, 2019 was $87.67. No restricted units were granted in 2020. The weighted average grant date fair value for performance shares granted for the Acquisition during the years ended December 31, 2020 and 2019 were $63.30 and $89.81 respectively .

Unrecognized Compensation Cost

Unrecognized compensation cost for stock options under the Omnibus Incentive Plan as of December 31, 2020 was $3 million with a weighted average recognition period of 1.57 years. Unrecognized compensation cost for restricted stock units, performance shares and performance units under the Omnibus Incentive Plan as of December 31, 2020 was $153 million with a weighted average recognition period of 1.68 years. Unrecognized compensation cost for stock options related to the Acquisition as of December 31, 2020 was $30 million with a weighted average recognition period of 2.16 years. Unrecognized compensation cost for restricted stock units and performance shares related to the Acquisition as of December 31, 2020 was $7 million with a weighted average recognition period of 3.23 years.

Tax Benefits Realized

The Company's tax benefit realized for exercises of stock options under the Omnibus Incentive Plan during the years ended December 31, 2020, 2019 and 2018 was $3 million, $5 million and $7 million, respectively. The tax benefit realized for exercises of stock options related to the Acquisition during the years ended December 31, 2020 and 2019 were $3 million and $2 million, respectively.

The Company's tax benefit realized upon vesting of restricted stock units, performance shares and performance units under the Omnibus Incentive Plan for the years ended December 31, 2020, 2019 and 2018 was $44 million, $52 million and $49 million, respectively. The tax benefit realized upon vesting of restricted stock units and performance shares related to the Acquisition during the year ended December 31, 2020 was $1 million. There were no vested restricted stock units or performance shares related to the Acquisition for the year ended December 31, 2019.

Settlement of Awards

The Company's policy is to issue shares from Common Stock held in treasury upon exercise of stock options, the release of restricted stock units and performance shares. The Company uses cash to settle performance units. The amount of cash used to settle performance units during the years ended December 31, 2020, 2019 and 2018 was $2 million, $32 million and $29 million, respectively.

22. SEGMENT INFORMATION

Segments

The Company operates through eight segments: PGIM (our global investment management business); Retirement, Group Insurance, Individual Annuities, Individual Life, and Assurance IQ (collectively referred to as the U.S. Businesses); International Businesses; and Closed Block. In addition, the Company reports certain of its results of operations in its Corporate and Other operations.

The PGIM segment provides investment management services and solutions related to public fixed income, public equity, real estate debt and equity, private credit and other alternatives, and multi-asset class strategies, to institutional and retail clients globally, as well as the Company's general account.

The U.S. Businesses offer a broad range of products and solutions that cover protection, retirement, savings, income and investment needs. The U.S. Businesses are organized into three divisions:

U.S. Workplace Solutions division. The U.S. Workplace Solutions division consists of the Retirement and Group Insurance segments. The Retirement segment provides a broad range of retirement investment and income products and services to retirement plan sponsors in the public, private and not-for-profit sectors. The Group Insurance segment provides a full range of group life, long-term and short-term group disability, and group corporate-, bank- and trust-owned life insurance in the U.S., primarily to institutional clients for use in connection with employee plans and affinity groups.

U.S. Individual Solutions division. The U.S. Individual Solutions division consists of the Individual Annuities and Individual Life segments. The Individual Annuities segment develops and distributes individual variable and fixed annuity products, primarily to the U.S. mass affluent and affluent markets. The Individual Life segment develops and distributes individual variable life, term life and universal life insurance products primarily to the U.S. mass middle, mass affluent and affluent markets.

Assurance IQ division. The Assurance IQ division consists of the Assurance IQ segment, a leading consumer solutions platform that offers a range of solutions to help meet consumers' financial needs. Assurance IQ leverages data science and technology to primarily distribute third-party products (such as Medicare, health, life, property and casualty, and personal finance products) and a proprietary term life product directly to retail shoppers, primarily through its digital and agent channels. Additionally, Assurance IQ may help customers fulfill financial wellness needs by matching them with other product providers or intermediaries.

The International Businesses develops and distributes individual life insurance, retirement and related products to the mass affluent and affluent markets in Japan and other foreign countries through its Life Planner operations. In addition, similar products are offered through its Gibraltar Life and Other operations to the broad middle income and mass affluent markets across Japan and the Company's joint ventures in various foreign countries through multiple distribution channels (including banks, independent agencies and Life Consultants).

The Closed Block division includes certain in-force participating insurance and annuity products and corresponding assets that are used for the payment of benefits, expenses and policyholders' dividends related to these products, as well as certain related assets and liabilities. In connection with demutualization, the Company ceased offering these participating products. The Closed Block division is accounted for as a divested business that is reported separately from the Divested and Run-off Businesses that are included in the Company's Corporate and Other operations. See Note 15 for additional information on the Closed Block.

Corporate and Other Operations consists primarily of: (1) capital that is not deployed in any business segment; (2) investments not allocated to business segments, including debt-financed investment portfolios, and tax credit and other tax-enhanced investments financed by business segments; (3) capital debt, including any related interest expense and financing costs, that is used or will be used to meet the capital requirements of the Company; (4) our qualified and non-qualified pension and other employee benefit plans, after allocations to business segments; (5) corporate-level activities, after allocations to business segments, including strategic expenditures, acquisition and disposition costs, corporate governance, corporate advertising, philanthropic activities, deferred compensation, costs related to certain contingencies and legal matters; (6) expenses associated with the multi-year plan of programs that span across our businesses and the functional areas that support those businesses; (7) certain retained obligations relating to pre-demutualization policyholders; (8) impacts of risk management activities pursuant to our Risk Appetite Framework; (9) the foreign currency income hedging program used to hedge certain non-U.S. dollar denominated earnings in our International Businesses segment; (10) intercompany arrangements with our International Businesses and PGIM segments to translate non-U.S. dollar-denominated earnings at fixed currency exchange rates; and (11) transactions with and between other segments, including the elimination of intercompany transactions for consolidation purposes.

Segment Accounting Policies. The accounting policies of the segments are the same as those described in Note 2. Results for each segment include earnings on attributed equity established at a level which management considers necessary to support each segment's risks. Operating expenses specifically identifiable to a particular segment are allocated to that segment as incurred. Operating expenses not identifiable to a specific segment that are incurred in connection with the generation of segment revenues are generally allocated based upon the segment's historical percentage of general and administrative expenses.

For information related to significant acquisitions, see Note 1. For information related to the adoption of new accounting pronouncements, see Note 2. The segments' results in prior years have been revised for these items, as applicable, to conform to the current year presentation.

Adjusted Operating Income

The Company analyzes the operating performance of each segment using "adjusted operating income." Adjusted operating income does not equate to "Income (loss) before income taxes and equity in earnings of operating joint ventures" or "Net income (loss)" as determined in accordance with U.S. GAAP but is the measure of segment profit or loss used by the Company's chief operating decision maker to evaluate segment performance and allocate resources and, consistent with authoritative guidance, is the measure of segment performance presented below. Adjusted operating income is calculated by adjusting each segment's "Income (loss) before income taxes and equity in earnings of operating joint ventures" for the following items, which are described in greater detail below:

- Realized investment gains (losses), net, and related adjustments;
- Charges related to realized investment gains (losses), net;
- Market experience updates;
- Divested and Run-off Businesses;
- Other adjustments; and
- Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests.

These items are important to an understanding of overall results of operations. Adjusted operating income is not a substitute for income determined in accordance with U.S. GAAP, and the Company's definition of adjusted operating income may differ from that used by other companies. However, the Company believes that the presentation of adjusted operating income as measured for management purposes enhances the understanding of results of operations by highlighting the results from ongoing operations and the underlying profitability factors of its businesses.

Realized investment gains (losses), net, and related adjustments

Realized investment gains (losses), net

Adjusted operating income excludes "Realized investment gains (losses), net," except for certain items described below. Significant activity excluded from adjusted operating income includes impairments and credit-related gains (losses) from sales of securities, the timing of which depends largely on market credit cycles and can vary considerably across periods, and interest rate-related gains (losses) from sales of securities, which are largely subject to the Company's discretion and influenced by market opportunities, as well as the Company's tax and capital profile. Additionally, adjusted operating income excludes realized investment gains (losses) from products that contain embedded derivatives, and from associated derivative portfolios that are part of an asset/liability management program related to the risk of those products. While the Company has historically reflected the results of its variable annuities hedging programs in adjusted operating income over time, beginning with the second quarter of 2020 these impacts are excluded from adjusted operating income, which the Company believes enhances the understanding of underlying performance trends.

The following table sets forth the significant components of "Realized investment gains (losses), net" that are included in adjusted operating income and, as a result, are reflected as adjustments to "Realized investment gains (losses), net" for purposes of calculating adjusted operating income:

	Year Ended December 31,		
	2020	2019	2018
	(in millions)		
Net gains (losses) from(1)(2):			
Terminated hedges of foreign currency earnings	$ 68	$ 60	$ (14)
Current period yield adjustments	$364	$326	$369
Principal source of earnings	$ 57	$ (37)	$219

(1) In addition to the items in the table above, "Realized investment gains (losses), net, and related charges and adjustments" also includes an adjustment to reflect "Realized investment gains (losses), net" related to Divested and Run-off Businesses. See "Divested and Run-off Businesses" discussed below.
(2) Prior period amounts have been updated to conform to current period presentation.

Terminated Hedges of Foreign Currency Earnings. The amounts shown in the table above primarily reflect the impact of an intercompany arrangement between Corporate and Other operations and the International Businesses segment, pursuant to which the non-U.S. dollar-denominated earnings in all countries for a particular year, including its interim reporting periods, are translated at fixed currency exchange rates. The fixed rates are determined in connection with a currency hedging program designed to mitigate the risk that unfavorable rate changes will reduce the segment's U.S. dollar-equivalent earnings. Pursuant to this program, the Company's Corporate and Other operations may execute forward currency contracts with third-parties to sell the net exposure of projected earnings from the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these contracts correspond with the future periods in which the identified non-U.S. dollar-denominated earnings are expected to be generated. These contracts do not qualify for hedge accounting under U.S. GAAP, so the resulting profits or losses are recorded in "Realized investment gains (losses), net." When the contracts are terminated in the same period that the expected earnings emerge, the resulting positive or negative cash flow effect is included in adjusted operating income.

Current Period Yield Adjustments. The Company uses interest rate and currency swaps and other derivatives to manage interest and currency exchange rate exposures arising from mismatches between assets and liabilities, including duration mismatches. For derivative contracts that do not qualify for hedge accounting treatment, the periodic swap settlements, as well as certain other derivative related yield adjustments are recorded in "Realized investment gains (losses), net," and are included in adjusted operating income to reflect the after-hedge yield of the underlying instruments. In certain instances, when these derivative contracts are terminated or offset before their final maturity, the resulting realized gains or losses are recognized in adjusted operating income over periods that generally approximate the expected terms of the derivatives or underlying instruments in order for adjusted operating income to reflect the after-hedge yield of the underlying instruments. Included in the amounts shown in the table above are gains (losses) on certain derivative contracts that were terminated or offset before their final maturity of $41 million, $41 million and $19 million for the years ended 2020, 2019 and 2018, respectively. As of December 31, 2020, there was a $195 million deferred net gain related to certain derivative contracts that were terminated or offset before their final maturity, primarily in the International Businesses. Also included in the amounts shown in the table above are fees related to synthetic GICs of $139 million, $147 million and $146 million for the years ended 2020, 2019 and 2018, respectively. Synthetic GICs are accounted for as derivatives under U.S. GAAP and, therefore, these fees are recorded in "Realized investment gains (losses), net." See Note 5 for additional information on synthetic GICs.

Principal Source of Earnings. The Company conducts certain activities for which realized investment gains (losses) are a principal source of earnings for its businesses and are therefore included in adjusted operating income, particularly within the Company's PGIM segment. For example, PGIM's strategic investing business makes investments for sale or syndication to other investors or for placement or co-investment in the Company's managed funds and structured products. The realized investment gains (losses) associated with the sale of these strategic investments, as well as the majority of derivative results, are a principal activity for this business and included in adjusted operating income. In addition, the realized investment gains (losses) associated with loans originated by the Company's commercial mortgage operations, as well as related derivative results and retained mortgage servicing rights, are a principal activity for this business and are therefore included in adjusted operating income.

Adjustments related to Realized investment gains (losses), net

The following table sets forth certain other items excluded from adjusted operating income and reflected as an adjustment to "Realized investment gains (losses), net" for purposes of calculating adjusted operating income:

	Year Ended December 31,		
	2020	2019	2018
		(in millions)	
Net gains (losses) from(1):			
Investments carried at fair value through net income	$163	$490	$(343)
Foreign currency exchange movements	$ 3	$ 42	$(270)
Gains (losses), net, on experience-rated contracts (excluding derivatives and commercial mortgage and other loans)(2)	$ 50	$ 22	$(153)
Other activities	$ (35)	$ (32)	$ (34)

(1) Prior period amounts have been updated to conform to current period presentation.
(2) Adjusted operating income excludes net investment gains (losses) on assets supporting experience-rated contractholder liabilities, related derivatives, and commercial mortgage and other loans. The activity for derivatives and commercial mortgage and other loans that support these experience-rated products are reported in "Realized investment gains (losses), net" and excluded from adjusted operating income.

Investments carried at fair value through net income. The Company has certain investments in its general account portfolios that are carried at fair value with changes in fair value reported in "Other income (loss)." Examples include the Company's investments in equity securities and fixed maturities designated as trading. Consistent with the exclusion of realized investment gains (losses) with respect to other investments managed on a consistent basis, the net gains or losses on these investments are excluded from adjusted operating income.

Foreign Currency Exchange Movements. The Company has certain assets and liabilities for which, under U.S. GAAP, the changes in value, including those associated with changes in foreign currency exchange rates during the period, are recorded in "Other income (loss)." To the extent the foreign currency exposure on these assets and liabilities is economically hedged or considered part of the Company's capital funding strategies for its international subsidiaries, the change in value included in "Other income (loss)" is excluded from adjusted operating income. The insurance liabilities are supported by investments denominated in corresponding currencies, including a significant portion designated as available-for-sale. While these non-yen denominated assets and liabilities are economically hedged, unrealized gains (losses) on available-for-sale investments, including those arising from foreign currency exchange rate movements, are recorded in AOCI under U.S. GAAP, while the non-yen denominated liabilities are remeasured for foreign currency exchange rate movements, with the related change in value recorded in earnings within "Other income (loss)." Due to this non-economic volatility that has been reflected in U.S. GAAP earnings, the change in value recorded within "Other income (loss)" is excluded from adjusted operating income.

Investment gains (losses) on assets supporting experience-rated contractholder liabilities and changes in experience-rated contractholder liabilities due to asset value changes. Certain products included in the Retirement and International Businesses segments are experience-rated in that investment results associated with these products are expected to ultimately accrue to contractholders. The majority of investments supporting these experience-rated products are carried at fair value, with realized and unrealized gains (losses) reported in "Other income (loss)" and the related interest and dividend income reported in "Net investment income." To a lesser extent, these experience-rated products are also supported by derivatives and commercial mortgage and other loans. The derivatives are carried at fair value, with realized and unrealized gains (losses) reported in "Realized investment gains (losses), net." The commercial mortgage and other loans are carried at unpaid principal, net of unamortized discounts and an allowance for losses, with gains (losses) on sales and changes in the valuation allowance for commercial mortgage and other loans reported in "Realized investment gains (losses), net."

Adjusted operating income excludes net investment gains (losses) on assets supporting experience-rated contractholder liabilities, related derivatives and commercial mortgage and other loans. This is consistent with the exclusion of realized investment gains (losses) with respect to other investments supporting insurance liabilities managed on a consistent basis. In addition, to be consistent with the historical treatment of charges related to realized investment gains (losses) on investments, adjusted operating income also excludes the change in contractholder liabilities due to asset value changes in the pool of investments (including changes in the fair value of commercial mortgage and other loans) supporting these experience-rated contracts, which are reflected in "Interest credited to policyholders' account balances." The result of this approach is that adjusted operating income for these products includes net fee revenue and interest spread we earn on these experience-rated contracts, and excludes changes in fair value of the pool of investments, both realized and unrealized, that we expect will ultimately accrue to the contractholders.

Other Activities. The Company excludes certain other items from adjusted operating income that are consistent with similar adjustments described above.

Charges related to realized investment gains (losses), net

Charges that relate to realized investment gains (losses) are also excluded from adjusted operating income, and include the following:

- The portion of the amortization of DAC, VOBA, unearned revenue reserves and DSI for certain products that is related to net realized investment gains (losses).
- Policyholder dividends and interest credited to policyholders' account balances that relate to certain life policies that pass back certain realized investment gains (losses) to the policyholder, and reserves for future policy benefits for certain policies that are affected by net realized investment gains (losses).
- Market value adjustments paid or received upon a contractholder's surrender of certain of the Company's annuity products as these amounts mitigate the net realized investment gains or losses incurred upon the disposition of the underlying invested assets.

Market experience updates

The Company had historically recognized the immediate impacts from changes in current market conditions on estimates of profitability in current period adjusted operating income. Beginning with the second quarter of 2019 these impacts are excluded from adjusted operating income, which the Company believes enhances the understanding of underlying performance trends. These amounts represent the impact of those changes on DAC and other costs and reserves, primarily related to variable annuity and variable and universal life products.

Divested and Run-off Businesses

The contribution to income (loss) of Divested and Run-off Businesses that have been or will be sold or exited, including businesses that have been placed in wind down, but that did not qualify for "discontinued operations" accounting treatment under U.S. GAAP, are excluded from adjusted operating income as the results of Divested and Run-off Businesses are not considered relevant to understanding the Company's ongoing operating results.

The Closed Block division is accounted for as a divested business because it consists primarily of certain participating insurance and annuity products that the Company ceased selling at demutualization in 2001. See Note 15 for further information on the Closed Block.

Other adjustments

Other adjustments represent all other adjustments that are excluded from adjusted operating income. These include certain components of the consideration for the Assurance IQ acquisition, which are recognized as compensation expense over the requisite service periods, as well as changes in the fair value of contingent consideration.

Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests

Equity in earnings of operating joint ventures, on a pre-tax basis, are included in adjusted operating income as these results are a principal source of earnings. These earnings are reflected on a U.S. GAAP basis on an after-tax basis as a separate line on the Company's Consolidated Statements of Operations.

Earnings attributable to noncontrolling interests are excluded from adjusted operating income. Earnings attributable to noncontrolling interests represents the portion of earnings from consolidated entities that relates to the equity interests of minority investors, and are reflected on a U.S. GAAP basis as a separate line on the Company's Consolidated Statements of Operations.

Reconciliation of adjusted operating income and net income (loss)

The table below reconciles adjusted operating income before income taxes to income before income taxes and equity in earnings of operating joint ventures:

	Year ended December 31,		
	2020	2019	2018
	(in millions)		
Adjusted operating income before income taxes by segment:			
PGIM	$ 1,262	$ 998	$ 959
U.S. Businesses:			
U.S. Workplace Solutions division:			
Retirement	1,436	1,301	1,049
Group Insurance	(16)	285	229
Total U.S. Workplace Solutions division	1,420	1,586	1,278
U.S. Individual Solutions division:			
Individual Annuities(1)	1,470	1,843	1,925
Individual Life	(48)	87	223
Total U.S. Individual Solutions division	1,422	1,930	2,148
Assurance IQ division(2):			
Assurance IQ	(88)	(9)	0
Total Assurance IQ division	(88)	(9)	0
Total U.S. Businesses	2,754	3,507	3,426
International Businesses(3)	2,952	3,112	3,019
Corporate and Other	(1,824)	(1,766)	(1,283)
Total segment adjusted operating income before income taxes	5,144	5,851	6,121
Reconciling Items(3):			
Realized investment gains (losses), net, and related adjustments(4)	(4,156)	(835)	611
Charges related to realized investment gains (losses), net	(159)	(123)	(315)
Market experience updates(5)	(640)	(449)	0
Divested and Run-off Businesses:			
Closed Block division	(24)	36	(62)
Other Divested and Run-off Businesses	(629)	755	(1,434)
Other adjustments(6)	51	(47)	0
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	90	(103)	(87)
Consolidated income (loss) before income taxes and equity in earnings of operating joint ventures	$ (323)	$ 5,085	$ 4,834

(1) Individual Annuities segment results reflect DAC as if the Individual Annuities business is a stand-alone operation. The elimination of intersegment costs capitalized in accordance with this policy is included in consolidating adjustments within Corporate and Other operations.
(2) Assurance IQ was acquired by the Company in October 2019. See Note 1 for additional information.
(3) Effective second quarter of 2020, the results of POK and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Effective third quarter of 2020, the results of POT and the impact of its anticipated sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Prior period amounts have been updated to conform to current period presentation. See Note 1 for additional information.
(4) Prior period amounts have been updated to conform to current period presentation.
(5) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019.
(6) Represents adjustments not included in the above reconciling items. "Other adjustments" include certain components of the consideration for the Assurance IQ acquisition, which are recognized as compensation expense over the requisite service periods, as well as changes in the fair value of contingent consideration.

Reconciliation of select financial information

The tables below present certain financial information for the Company's segments and its Corporate and Other operations, including assets by segment and revenues, and benefits and expenses by segment on an adjusted operating income basis, and the reconciliation of the segment totals to amounts reported in the Consolidated Financial Statements.

	As of December 31, 2020	As of December 31, 2019
	(in millions)	
Assets by segment:		
PGIM	$ 48,680	$ 47,655
U.S. Businesses:		
U.S. Workplace Solutions division:		
Retirement	213,726	198,153
Group Insurance	45,601	43,712
Total U.S. Workplace Solutions division	259,327	241,865
U.S. Individual Solutions division:		
Individual Annuities	200,718	189,040
Individual Life	110,953	96,072
Total U.S. Individual Solutions division	311,671	285,112
Assurance IQ division(1):		
Assurance IQ	2,703	2,639
Total Assurance IQ division	2,703	2,639
Total U.S. Businesses	573,701	529,616
International Businesses(2)	231,128	213,335
Corporate and Other(2)	25,124	44,619
Closed Block division	62,089	61,327
Total assets per Consolidated Statements of Financial Position	$940,722	$896,552

(1) Assurance IQ was acquired by the Company in October 2019. See Note 1 for additional information.

(2) Effective second quarter of 2020, the carrying amount of assets of POK are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Effective third quarter of 2020, the carrying amount of assets of POT are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Prior period amounts have been updated to conform to current period presentation. See Note 1 for additional information.

Revenues, and benefits and expenses on an adjusted operating income basis by segment	Year Ended December 31, 2020							
	Total Revenues	Net Investment Income	Total Benefits and Expenses	Policyholders' Benefits	Interest Credited to Policyholders' Account Balances	Dividends to Policyholders	Interest Expense	Amortization of DAC
	(in millions)							
PGIM	$ 4,153	$ 304	$ 2,891	$ 0	$ 0	$ 0	$ 33	$ 8
U.S. Businesses:								
U.S. Workplace Solutions division:								
Retirement	12,034	4,707	10,598	8,010	1,470	0	23	26
Group Insurance	5,786	526	5,802	4,664	206	0	3	8
Total U.S. Workplace Solutions division	17,820	5,233	16,400	12,674	1,676	0	26	34
U.S. Individual Solutions division:								
Individual Annuities	4,440	898	2,970	337	337	0	59	524
Individual Life	6,398	2,314	6,446	3,170	848	36	769	367
Total U.S. Individual Solutions division	10,838	3,212	9,416	3,507	1,185	36	828	891
Assurance IQ division(1):								
Assurance IQ	391	2	479	0	0	0	5	0
Total Assurance IQ division	391	2	479	0	0	0	5	0
Total U.S. Businesses	29,049	8,447	26,295	16,181	2,861	36	859	925
International Businesses(2)	21,576	4,982	18,624	13,714	851	40	8	1,204
Corporate and Other(2)	(629)	541	1,195	30	0	0	670	(49)
Total revenues, and benefits and expenses on an adjusted operating income basis	54,149	14,274	49,005	29,925	3,712	76	1,570	2,088
Reconciling items:								
Realized investment gains (losses), net, and related adjustments	(3,463)	(35)	693	0	693	0	0	0
Charges related to realized investment gains (losses), net	(134)	0	25	0	(58)	0	0	(116)
Market experience updates(3)	(196)	0	444	261	21	0	0	132
Divested and Run-off Businesses:								
Closed Block division	4,766	2,240	4,790	2,757	127	1,549	1	26
Other Divested and Run-off Businesses(2)	1,944	931	2,573	2,116	43	0	3	91
Other adjustments(4)	105	0	54	0	0	0	0	0
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(138)	0	(228)	0	0	0	0	0
Total revenue, and benefits and expenses per Consolidated Statements of Operations	$57,033	$17,410	$57,356	$35,059	$4,538	$1,625	$1,574	$2,221

Revenues, and benefits and expenses on an adjusted operating income basis by segment	Year Ended December 31, 2019							
	Total Revenues	Net Investment Income	Total Benefits and Expenses	Policyholders' Benefits	Interest Credited to Policyholders' Account Balances	Dividends to Policyholders	Interest Expense	Amortization of DAC
	(in millions)							
PGIM	$ 3,589	$ 200	$ 2,591	$ 0	$ 0	$ 0	$ 49	$ 6
U.S. Businesses:								
U.S. Workplace Solutions division:								
Retirement	15,064	4,738	13,763	11,061	1,503	0	46	38
Group Insurance	5,750	624	5,465	4,257	286	0	2	7
Total U.S. Workplace Solutions division	20,814	5,362	19,228	15,318	1,789	0	48	45
U.S. Individual Solutions division:								
Individual Annuities	4,995	856	3,152	435	334	0	122	513
Individual Life	6,115	2,247	6,028	2,778	830	38	774	577
Total U.S. Individual Solutions division	11,110	3,103	9,180	3,213	1,164	38	896	1,090
Assurance IQ division(1):								
Assurance IQ	101	0	110	0	0	0	0	0
Total Assurance IQ division	101	0	110	0	0	0	0	0
Total U.S. Businesses	32,025	8,465	28,518	18,531	2,953	38	944	1,135
International Businesses(2)	20,936	4,944	17,824	12,925	876	46	25	1,116
Corporate and Other(2)	(677)	579	1,089	36	0	0	521	(46)
Total revenues, and benefits and expenses on an adjusted operating income basis	55,873	14,188	50,022	31,492	3,829	84	1,539	2,211
Reconciling items(2):								
Realized investment gains (losses), net, and related adjustments	114	(36)	949	0	949	0	0	0
Charges related to realized investment gains (losses), net	(252)	0	(129)	(136)	(94)	0	0	(181)
Market experience updates(3)	(79)	0	370	191	4	0	0	139
Divested and Run-off Businesses:								
Closed Block division	5,642	2,323	5,606	2,907	130	2,187	7	29
Other Divested and Run-off Businesses	3,660	1,110	2,905	2,366	62	3	4	134
Other adjustments(4)	(5)	0	42	0	0	0	0	0
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(146)	0	(43)	0	0	0	0	0
Total revenue, and benefits and expenses per Consolidated Statements of Operations	$64,807	$17,585	$59,722	$36,820	$4,880	$2,274	$1,550	$2,332

Revenues, and benefits and expenses on an adjusted operating income basis by segment	Total Revenues	Net Investment Income	Total Benefits and Expenses	Policyholders' Benefits	Interest Credited to Policyholders' Account Balances	Dividends to Policyholders	Interest Expense	Amortization of DAC
	Year Ended December 31, 2018							
	(in millions)							
PGIM	$ 3,294	$ 73	$ 2,335	$ 0	$ 0	$ 0	$ 40	$ 8
U.S. Businesses:								
U.S. Workplace Solutions division:								
Retirement	16,825	4,377	15,776	13,215	1,430	0	35	33
Group Insurance	5,685	616	5,456	4,241	282	0	2	5
Total U.S. Workplace Solutions division	22,510	4,993	21,232	17,456	1,712	0	37	38
U.S. Individual Solutions division:								
Individual Annuities	4,966	694	3,041	370	335	0	67	511
Individual Life	5,831	2,033	5,608	2,489	766	37	714	368
Total U.S. Individual Solutions division	10,797	2,727	8,649	2,859	1,101	37	781	879
Total U.S. Businesses	33,307	7,720	29,881	20,315	2,813	37	818	917
International Businesses(2)	20,058	4,642	17,039	12,453	867	59	21	1,121
Corporate and Other(2)	(705)	452	578	(12)	0	0	535	(44)
Total revenues, and benefits and expenses on an adjusted operating income basis	55,954	12,887	49,833	32,756	3,680	96	1,414	2,002
Reconciling items(2):								
Realized investment gains (losses), net, and related adjustments(5)	(99)	(41)	(710)	0	(710)	0	0	0
Charges related to realized investment gains (losses), net	(273)	0	42	(75)	40	0	0	118
Divested and Run-off Businesses:								
Closed Block division	4,678	2,288	4,740	2,972	132	1,236	2	35
Other Divested and Run-off Businesses	2,835	1,042	4,269	3,751	54	4	4	118
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(103)	0	(16)	0	0	0	0	0
Total revenue, and benefits and expenses per Consolidated Statements of Operations	$62,992	$16,176	$58,158	$39,404	$3,196	$1,336	$1,420	$2,273

(1) Assurance IQ was acquired by the Company in October 2019. See Note 1 for additional information.
(2) Effective second quarter of 2020, the results of POK and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Effective third quarter of 2020, the results of POT and the impact of its anticipated sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Prior period amounts have been updated to conform to current period presentation. See Note 1 for additional information.
(3) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019. The Company had historically recognized these impacts in adjusted operating income.
(4) Represents adjustments not included in the above reconciling items. "Other adjustments" include certain components of the consideration for the Assurance IQ acquisition, which are recognized as compensation expense over the requisite service periods, as well as changes in the fair value of contingent consideration.
(5) Prior period amounts have been updated to conform to current period presentation.

Revenues, calculated in accordance with U.S. GAAP, for the years ended December 31, include the following associated with the Company's foreign and domestic operations:

	2020	2019	2018
		(in millions)	
Domestic operations	$34,921	$40,868	$40,603
Foreign operations, total	$22,112	$23,939	$22,389
Foreign operations, Japan	$19,864	$19,626	$19,125
Foreign operations, Korea(1)	$ 364	$ 1,638	$ 1,495

(1) Revenues related to POK until sold in August 2020.

Intersegment Revenues

Management has determined the intersegment revenues with reference to market rates. Intersegment revenues are eliminated in consolidation in Corporate and Other operations. The PGIM segment revenues include intersegment revenues, primarily consisting of asset-based management and administration fees, for the years ended December 31, as follows:

	2020	2019	2018
		(in millions)	
PGIM segment intersegment revenues	$866	$777	$731

Segments may also enter into internal derivative contracts with other segments. For adjusted operating income, each segment accounts for the internal derivative results consistent with the manner in which that segment accounts for other similar external derivatives.

Asset management and service fees

The table below presents asset management and service fees, predominantly related to an investment management activities, for the periods indicated:

	2020	2019	2018
		(in millions)	
Asset-based management fees	$ 3,615	$ 3,489	$ 3,438
Performance-based incentive fees	193	169	56
Other fees	583	581	606
Total asset management and service fees	$ 4,391	$ 4,239	$ 4,100

23. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments and Guarantees

Commercial Mortgage Loan Commitments

	December 31,	
	2020	2019
	(in millions)	
Total outstanding mortgage loan commitments	$ 2,357	$ 2,129
Portion of commitment where prearrangement to sell to investor exists	$ 882	$ 751

In connection with the Company's commercial mortgage operations, it originates commercial mortgage loans. Commitments for loans that will be held for sale are recognized as derivatives and recorded at fair value. In certain of these transactions, the Company pre-arranges that it will sell the loan to an investor, including to government sponsored entities as discussed below, after the Company funds the loan. The above amount includes unfunded commitments that are not unconditionally cancellable. For related credit exposure, there was an allowance for credit losses of $0 million as of December 31, 2020, which is a change of $(2) million for the year ended December 31, 2020.

Commitments to Purchase Investments (excluding Commercial Mortgage Loans)

	December 31,	
	2020	2019
	(in millions)	
Expected to be funded from the general account and other operations outside the separate accounts	$9,567	$7,372
Expected to be funded from separate accounts	$ 336	$ 49

The Company has other commitments to purchase or fund investments, some of which are contingent upon events or circumstances not under the Company's control, including those at the discretion of the Company's counterparties. The Company anticipates a portion of these commitments will ultimately be funded from its separate accounts. The above amount includes unfunded commitments that are not unconditionally cancellable. There were no related charges for credit losses for the year ended December 31, 2020.

Indemnification of Securities Lending and Securities Repurchase Transactions

	December 31,	
	2020	2019
	(in millions)	
Indemnification provided to certain clients for securities lending and securities repurchase transactions(1)	$7,108	$5,071
Fair value of related collateral associated with above indemnifications(2)	$7,254	$5,204
Accrued liability associated with guarantee	$ 0	$ 0

(1) Includes $34 million and $38 million related to securities repurchase transactions as of December 31, 2020 and 2019, respectively.
(2) Includes $34 million and $37 million related to securities repurchase transactions as of December 31, 2020 and 2019, respectively.

In the normal course of business, the Company may facilitate securities lending or securities repurchase transactions on behalf of certain client accounts (collectively, “the accounts”). In certain of these arrangements, the Company has provided an indemnification to the accounts to hold them harmless against losses caused by counterparty (i.e., borrower) defaults associated with such transactions facilitated by the Company. In securities lending transactions, collateral is provided by the counterparty to the accounts at the inception of the transaction in an amount at least equal to 102% of the fair value of the loaned securities and the collateral is maintained daily to equal at least 102% of the fair value of the loaned securities. In securities repurchase transactions, collateral is provided by the counterparty to the accounts at the inception of the transaction in an amount at least equal to 95% of the fair value of the securities subject to repurchase and the collateral is maintained daily to equal at least 95% of the fair value of the securities subject to repurchase. The Company is only at risk if the counterparty to the transaction defaults and the value of the collateral held is less than the value of the securities loaned to, or subject to repurchase from, such counterparty. The Company believes the possibility of any payments under these indemnities is remote.

Credit Derivatives Written

As discussed further in Note 5, the Company writes credit derivatives under which the Company is obligated to pay the counterparty the referenced amount of the contract and receive in return the defaulted security or similar security.

Guarantees of Asset Values

	December 31,	
	2020	2019
	(in millions)	
Guaranteed value of third parties’ assets	$86,264	$80,009
Fair value of collateral supporting these assets	$90,612	$81,604
Asset (liability) associated with guarantee, carried at fair value	$ 0	$ 1

Certain contracts underwritten by the Retirement segment include guarantees related to financial assets owned by the guaranteed party. These contracts are accounted for as derivatives and carried at fair value. The collateral supporting these guarantees is not reflected on the Consolidated Statements of Financial Position.

Indemnification of Serviced Mortgage Loans

	December 31,	
	2020	2019
	(in millions)	
Maximum exposure under indemnification agreements for mortgage loans serviced by the Company	$2,684	$2,113
First-loss exposure portion of above	$ 784	$ 622
Accrued liability associated with guarantees(1)	$ 41	$ 19

(1) As of December 31, 2020, the accrued liability associated with guarantees includes an allowance for credit losses of $20 million, which is a change of $1 million for the year ended December 31, 2020.

As part of the commercial mortgage activities of the Company’s PGIM segment, the Company provides commercial mortgage origination, underwriting and servicing for certain government sponsored entities, such as Fannie Mae and Freddie Mac. The Company has agreed to indemnify the government sponsored entities for a portion of the credit risk associated with certain of the mortgages it services through a delegated authority arrangement. Under these arrangements, the Company originates multi-family mortgages for sale to the government sponsored entities based on underwriting standards they specify, and makes payments to them for a specified percentage share of losses they incur on certain loans serviced by the Company. The Company’s percentage share of losses incurred generally varies from 4% to 20% of the loan balance, and is typically based on a first-loss exposure for a stated percentage of the loan balance, plus a shared exposure with the government sponsored entity for any losses in excess of the stated first-loss percentage, subject to a contractually specified maximum percentage. The Company determines the liability related to this exposure using historical loss experience, and the size and remaining life of the asset. The Company serviced $21,465 million and $16,878 million of mortgages subject to these loss-sharing arrangements as of December 31, 2020 and 2019, respectively, all of which are collateralized by first priority liens on the underlying multi-family residential properties. As of December 31, 2020, these mortgages had a weighted-average debt service coverage ratio of 1.99 times and a weighted-average loan-to-value ratio of 63%. As of December 31, 2019, these mortgages had a weighted-average debt service coverage ratio of 1.88 times and a weighted-average loan-to-value ratio of 61%. The Company had no losses related to indemnifications that were settled for the years ended December 31, 2020, 2019, and 2018.

Other Guarantees

	December 31,	
	2020	2019
	(in millions)	
Other guarantees where amount can be determined	$52	$55
Accrued liability for other guarantees and indemnifications	$ 0	$ 0

The Company is also subject to other financial guarantees and indemnity arrangements. The Company has provided indemnities and guarantees related to acquisitions, dispositions, investments and other transactions that are triggered by, among other things, breaches of representations, warranties or covenants provided by the Company. These obligations are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential obligation is subject to contractual limitations, while in other cases such limitations are not specified or applicable. Included above are $9 million and $12 million as of December 31, 2020 and 2019, respectively, of yield maintenance guarantees related to certain investments the Company sold. The Company does not expect to make any payments on these guarantees and is not carrying any liabilities associated with these guarantees.

Since certain of these obligations are not subject to limitations, it is not possible to determine the maximum potential amount due under these guarantees. The accrued liabilities identified above do not include retained liabilities associated with sold businesses.

Insolvency Assessments

Most of the jurisdictions in which the Company is admitted to transact business require insurers doing business within the jurisdiction to participate in guarantee associations, which are organized to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the lines of business in which the impaired, insolvent or failed insurer engaged. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets. In addition, Japan has established the Japan Policyholders Protection Corporation as a contingency to protect policyholders against the insolvency of life insurance companies in Japan through assessments to companies licensed to provide life insurance.

Assets and liabilities held for insolvency assessments were as follows:

	December 31,	
	2020	2019
	(in millions)	
Other assets:		
Premium tax offset for future undiscounted assessments	$44	$48
Premium tax offset currently available for paid assessments	3	3
Total	$47	$51
Other liabilities:		
Insolvency assessments	$36	$37

Contingent Liabilities

On an ongoing basis, the Company and its regulators review its operations including, but not limited to, sales and other customer interface procedures and practices, and procedures for meeting obligations to its customers and other parties. These reviews may result in the modification or enhancement of processes or the imposition of other action plans, including concerning management oversight, sales and other customer interface procedures and practices, and the timing or computation of payments to customers and other parties. In certain cases, if appropriate, the Company may offer customers or other parties remediation and may incur charges, including the cost of such remediation, administrative costs and regulatory fines.

The Company is subject to the laws and regulations of states and other jurisdictions concerning the identification, reporting and escheatment of unclaimed or abandoned funds, and is subject to audit and examination for compliance with these requirements. For additional discussion of these matters, see "—Litigation and Regulatory Matters" below.

It is possible that the results of operations or the cash flow of the Company in a particular quarterly or annual period could be materially affected as a result of payments in connection with the matters discussed above or other matters depending, in part, upon the results of operations or cash flow for such period. Management believes, however, that ultimate payments in connection with these matters, after consideration of applicable reserves and rights to indemnification, should not have a material adverse effect on the Company's financial position.

Litigation and Regulatory Matters

The Company is subject to legal and regulatory actions in the ordinary course of its businesses. Pending legal and regulatory actions include proceedings relating to aspects of the Company's businesses and operations that are specific to it and proceedings that are typical of the businesses in which it operates, including in both cases businesses that have been either divested or placed in wind down status. Some of these proceedings have been brought on behalf of various alleged classes of complainants. In certain of these matters, the plaintiffs are seeking large and/or indeterminate amounts, including punitive or exemplary damages. The outcome of litigation or a regulatory matter, and the amount or range of potential loss at any particular time, is often inherently uncertain.

The Company establishes accruals for litigation and regulatory matters when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. For litigation and regulatory matters where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established but the matter, if potentially material, is disclosed, including matters discussed below. The Company estimates that as of December 31, 2020, the aggregate range of reasonably possible losses in excess of accruals established for those litigation and regulatory matters for which such an estimate currently can be made is less than $250 million. Any estimate is not an indication of expected loss, if any, or the Company's maximum possible loss exposure on such matters. The Company reviews relevant information with respect to its litigation and regulatory matters on a quarterly and annual basis and updates its accruals, disclosures and estimates of reasonably possible loss based on such reviews.

Labor and Employment Matters

Prudential of Brazil Labor and Employment Matters

Prudential of Brazil ("POB") sells insurance products to consumers through life planner franchisees ("Life Planners"), who are engaged as independent life insurance brokers and not as employees. When a Life Planner's contractual relationship with POB is terminated, in many cases the Life Planner commences a labor suit against POB alleging entitlement to employment related benefits. POB is a defendant in numerous such lawsuits in Brazil brought by former Life Planners and has been subject to regulatory actions challenging the validity of POB's franchise model. POB has continued to receive additional labor suits and regulatory actions involving the operation of its franchise model notwithstanding steps that POB has taken to attempt to mitigate the labor risk by modifying its franchise model. POB continues to modify its franchise model to further mitigate this risk.

Individual Annuities, Individual Life and Group Insurance

Broderick v. The Prudential Insurance Company of America, et al.

In December 2016, a complaint entitled *Julie Han Broderick, Darron Smith and Thomas Schreck v. The Prudential Insurance Company of America, et al.,* was filed in the Superior Court of New Jersey, Law Division—Essex County. The complaint: (i) alleges that defendants terminated plaintiffs' employment for engaging in whistleblowing conduct involving the sale of MyTerm policies through Wells Fargo and violated New Jersey's Conscientious Employee Protection Act; and (ii) seeks back and front pay, compensatory and punitive damages and attorneys' fees and costs. In January 2017, defendants filed an answer to the complaint. In December 2019, the court granted the Company's summary judgment motion and dismissed the complaint. In September 2020, the parties filed a Joint Stipulation of Dismissal with Prejudice. This matter is now closed.

Behfarin v. Pruco Life

In July 2017, a putative class action complaint entitled *Richard Behfarin v. Pruco Life Insurance Company* was filed in the United States District Court for the Central District of California, alleging that the Company imposes charges on owners of universal life policies to cure defaults and/or reinstate lapses, that are inconsistent with the applicable universal life policy. The complaint includes claims for breach of contract, breach of implied covenant of good faith and fair dealing, and violation of California law, and seeks unspecified damages along with declaratory and injunctive relief. In September 2017, the Company filed its answer to the complaint. In September 2018, plaintiff filed a motion for class certification. In October 2019, plaintiff filed: (1) the First Amended Complaint adding Prudential Insurance Company of America and Pruco Life Insurance Company of New Jersey as defendants; and (2) a motion seeking preliminary certification of a settlement class, appointment of a class representative and class counsel, and preliminary approval of the proposed class action settlement. In November 2019, the court issued an order granting the motion for preliminary approval of the settlement. In June 2020, the court issued an order: (i) granting plaintiffs' motion for certification of the settlement class; (ii) approving the proposed nationwide class settlement agreement; (iii) approving the class notice; (iv) awarding attorneys' fees and costs to plaintiffs and a reduced incentive award to Behfarin; and (v) dismissing the action with prejudice, but maintaining jurisdiction over the settlement.

Escheatment Litigation

Total Asset Recovery Services, LLC v. MetLife, Inc., et al., Prudential Financial, Inc., The Prudential Insurance Company of America, and Prudential Insurance Agency, LLC

In December 2017, Total Asset Recovery Services, LLC, on behalf of the State of New York, filed a Second Amended Complaint in the Supreme Court of the State of New York, County of New York, against, among other 19 defendants, Prudential Financial, Inc., The Prudential Insurance Company of America and Prudential Insurance Agency, LLC, alleging that the Company failed to escheat life insurance proceeds in violation of the New York False Claims Act. The second amended complaint seeks injunctive relief, compensatory damages, civil penalties, treble damages, prejudgment interest, attorneys' fees and costs. In May 2018, defendants filed a motion to dismiss the Second Amended Complaint. In April 2019, defendants' motion to dismiss the Second Amended Complaint was granted and plaintiff subsequently filed a Notice of Appeal with the New York State Supreme Court, First Department. In December 2020, the New York Supreme Court, First Department, reversed and vacated the judgment of the trial court and granted leave to plaintiff to file a third amended complaint.

Securities Litigation

City of Warren v. PFI, et al.

In November 2019, a putative class action complaint entitled City of Warren Police and Fire Retirement System v. Prudential Financial, Inc., Charles F. Lowrey and Kenneth Y. Tanji, was filed in the United States District Court for the District of New Jersey. The complaint asserts claims for federal securities law violations against PFI, and Charles Lowrey, PFI's chief executive officer, and Kenneth

Tanji, PFI's chief financial officer, individually, and alleges that: (i) the Company's reserve assumptions failed to account for adversely developing mortality experience in the Individual Life business segment; (ii) the Company's reserves were insufficient to satisfy its future policy benefit liabilities; and (iii) the Company materially understated its liabilities and overstated net income due to flawed assumptions in calculating mortality experience. The putative class includes all purchasers of PFI common stock between February 15, 2019 and August 2, 2019. In March 2020, the court issued an order consolidating this action with Donald P. Crawford v. PFI, et al. under the caption *In re Prudential Financial, Inc. Securities Litigation*. In June 2020, plaintiffs filed an amended complaint and added Robert M. Falzon, PFI's vice chairman, as an individual defendant. In August 2020, the Company filed a motion to dismiss the amended complaint. In December 2020, the court issued an order granting defendants' motion to dismiss the amended complaint with prejudice and plaintiff subsequently filed, in January 2021, a Notice of Appeal to the United States Court of Appeals for the Third Circuit.

Donald P. Crawford v. PFI, et al.

In January 2020, a putative class action complaint entitled David P. Crawford v. Prudential Financial, Charles F. Lowrey and Kenneth Tanji, was filed in the United States District Court for the District of New Jersey. The complaint asserts claims for federal securities law violations against PFI, and Charles Lowrey and Kenneth Tanji, individually, and alleges that: (i) the Company's reserve assumptions failed to account for adversely developing mortality experience in the Individual Life business segment; (ii) the Company's reserves were insufficient to satisfy its future policy benefit liabilities; and (iii) the Company materially understated its liabilities and overstated net income due to flawed assumptions in calculating mortality experience. The putative class includes all purchasers of PFI common stock between February 15, 2019 and August 2, 2019. In March 2020, the court issued an order consolidating this action with *City of Warren v. PFI, et al.* under the caption *In re Prudential Financial, Inc. Securities Litigation.* Case updates are consolidated with the City of Warren action.

Donel Davidson v. Charles F. Lowrey, et al.

In September 2020, a shareholder derivative complaint entitled *Pekin Police Pension Fund, Derivatively on Behalf of Prudential Financial, Inc. v. Charles F. Lowrey, et al*., was filed in the United States District Court for the District of New Jersey (the "Derivative Complaint") against PFI as a "nominal" defendant, PFI's chairman and chief executive officer, vice chairman, chief financial officer, certain former officers of PFI, and all of the current outside directors of PFI's Board. The Derivative Complaint asserts claims for federal securities law violations, breach of fiduciary duty, waste of corporate assets, and unjust enrichment, and alleges that: (i) the Company's reserve assumptions failed to account for adversely developing mortality experience in the Individual Life business segment; (ii) the Company's reserves were insufficient to satisfy its future policy benefit liabilities; (iii) the Company materially understated its liabilities and overstated net income due to flawed assumptions in calculating mortality experience; and (iv) the individual defendants breached their duty of care and loyalty to the Company by allowing the alleged improper activity. In December 2020, the Court issued an order substituting Donel Davidson for Pekin Police Pension Fund as the named plaintiff.

Daniel Plaut v. Prudential Financial, Inc.

In October 2020, a shareholder derivative complaint entitled *Daniel Plaut, Derivatively on Behalf of Prudential Financial, Inc. v. Charles F. Lowrey, et al*., was filed in the Superior Court of New Jersey, Law Division, Essex County (the "Derivative Complaint") against PFI as a "nominal" defendant, PFI's chairman and chief executive officer, vice chairman, and all of the current outside directors of PFI's Board. The Derivative Complaint asserts claims for breach of fiduciary duty, unjust enrichment, and abuse of control and alleges that: (i) the Company's reserve assumptions failed to account for adversely developing mortality experience in the Individual Life business segment; (ii) the Company's reserves were insufficient to satisfy its future policy benefit liabilities; (iii) the Company materially understated its liabilities and overstated net income due to flawed assumptions in calculating mortality experience; and (iv) the individual defendants engaged in corporate misconduct, mismanagement and waste through their participation in the alleged wrongdoing.

Robert Lalor v. Charles F. Lowrey, et al.

In November 2020, a verified shareholder derivative complaint entitled *Robert Lalor, derivatively on behalf of Prudential Financial, Inc. v. Charles F. Lowrey, et al*., was filed in the United States District Court for the District of New Jersey (the "Derivative Complaint") against PFI as a "nominal" defendant, PFI's chairman and chief executive officer, vice chairman, chief financial officer, certain former officers of PFI, and all of the current outside directors of PFI's Board. The Derivative Complaint asserts claims for federal securities law violations, breach of fiduciary duty, waste of corporate assets, and unjust enrichment, and alleges that: (i) the Company's reserve assumptions failed to account for adversely developing mortality experience in the Individual Life business segment; (ii) the Company's reserves were insufficient to satisfy its future policy benefit liabilities; (iii) the Company materially understated its liabilities and overstated net income due to flawed assumptions in calculating mortality experience; and (iv) the individual defendants had irreconcilable conflicts of interest and breached their duties of candor, loyalty, oversight and supervision.

Shareholder Demands

In January 2020, the Board of Directors received a shareholder demand letter containing allegations: (i) of wrongdoing similar to those alleged in the City of Warren and Crawford complaints; and (ii) that certain of the Company's current and former directors and executive officers breached their fiduciary duties of loyalty, due care and candor. The demand letter requests that the Board of Directors investigate and commence legal proceedings against the named individuals to recover for the Company's benefit the damages purportedly sustained by the Company as a result of the alleged breaches. In February 2020, the Board of Directors authorized the creation of a special committee to investigate the allegations set forth in the shareholder demand letter. In April 2020, the Company received additional shareholder demands raising allegations similar to those contained in the January 2020 demand, and may be subject prospectively to additional activity relating to these matters. In January 2021, the special committee completed its investigation, and in February 2021, the Board provided notice rejecting the shareholder demands and dissolved the special committee.

Other Matters

Cho v. PICA, et al.

In November 2019, a putative class action complaint entitled *Cho v. The Prudential Insurance Company of America, et. al*., was filed in the United States District Court for the District of New Jersey. The Complaint purports to be brought on behalf of participants in the Prudential Employee Savings Plan (the "Plan") and (i) alleges that Defendants failed to fulfill their fiduciary obligations under the Employee Retirement Income Security Act of 1974, in the administration, management and operation of the Plan, including engaging in prohibited transactions; and (ii) seeks declaratory, injunctive and equitable relief, and unspecified damages including interest, attorneys' fees and costs. In January 2020, defendants filed a motion to dismiss the complaint. In September 2020, plaintiff filed an amended complaint and added as individual defendants certain PFI officers and current and former members of the Company's Administrative Committee and Investment Oversight Committee. In December 2020, defendants filed a motion to dismiss the amended complaint.

Doyle C. Stone v. PFI, et al.

In February 2021, a putative class action complaint entitled Doyle C. Stone v. Prudential Financial, Inc., Pruco Life Insurance Company, was filed in the United States District Court for the District of New Jersey. The complaint asserts claims against Prudential Financial, Inc. and Pruco Life Insurance Company for violation of the New Jersey Consumer Fraud Act, breach of contract, breach of fiduciary duty, breach of implied duty of good faith and fair dealing, misrepresentation and unjust enrichment, based on: (i) the Company's alleged deficient identification, notification and payment practices for retirement plan participants in transferred group retirement, annuity and insurance plans ("Plan Participants"); and (ii) improper transfer of Plan Participant funds to its own accounts. The putative class includes all Plan Participants from January 2015 to the present.

LIBOR Litigation

Prudential Investment Portfolios 2, f/k/a Dryden Core Investment Fund, o/b/o Prudential Core Short-Term Bond Fund and Prudential Core Taxable Money Market Fund v. Bank of America Corporation, et al.

In May 2014, Prudential Investment Portfolios 2, on behalf of the Prudential Core Short-Term Bond Fund and the Prudential Core Taxable Money Market Fund (the "Funds"), filed an action against ten banks in the United States District Court for the District of New Jersey asserting that the banks participated in the setting of LIBOR, a major benchmark interest rate. The complaint alleges that the defendant banks manipulated LIBOR, and asserts, among other things, claims for common law fraud, negligent misrepresentation, breach of contract, intentional interference with contract and with prospective economic relations, unjust enrichment, breaches of the New Jersey Civil RICO ("Racketeer Influenced and Corrupt Organizations Act") statute, and violations of the Sherman Act. In June 2014, the United States Judicial Panel on Multidistrict Litigation transferred the action to the United States District Court for the Southern District of New York, where it has been consolidated for pre-trial purposes with other pending LIBOR-related actions. In October 2014, the Funds filed an amended complaint. In November 2014, the defendants filed a motion to dismiss the amended complaint. In August 2015, the court issued a decision granting in part, and denying in part, defendants' motions to dismiss. The court dismissed certain of the Funds' claims, including those alleging fraud based on offering material statements; New Jersey RICO; and express breach of contract. The court upheld certain of the Funds' claims, including those alleging fraud based on false LIBOR submissions to the British Bankers' Association; negligent misrepresentation; unjust enrichment; and breach of the implied covenant of good faith and fair dealing. Following the August 2015 decision, granting in part defendants' motions to dismiss, in September 2015, Prudential filed the following LIBOR complaints: (i) in the Southern District of New York, captioned *Prudential Investment Portfolios 2 et al. v. Barclays Bank PLC, et al.* (the "New York Complaint"), naming as defendants Barclays Bank PLC, Barclays Capital Inc., Barclays PLC, Citibank, N.A., Citigroup Funding Inc., Credit Suisse AG, Credit Suisse Group AG, Credit Suisse (USA) Inc., Deutsche Bank AG, HSBC Bank plc, HSBC Holdings PLC, JPMorgan Chase & Co., JPMorgan Chase Bank, N.A., Royal Bank of Canada, and The Royal Bank of Scotland PLC. These defendants were dismissed from the original LIBOR action on jurisdictional grounds. The New York complaint reasserts the causes of action brought in the original LIBOR action; and (ii) in the Western district of North Carolina, captioned *Prudential Investment Portfolios 2 et al. v. Bank of America Corporation et al*. (the "North Carolina Complaint"), naming as defendants Bank of America Corporation and Bank of America, N.A. These defendants were dismissed from the original LIBOR action on jurisdictional grounds. The North Carolina Complaint reasserts the causes of action brought in the original LIBOR action. Both the New York Complaint and the North Carolina Complaint have been transferred for pre-trial purposes to the LIBOR multi-district litigation presided over by Judge Buchwald in the U.S. District Court for the Southern District of New York. In May 2016, the Second Circuit Court of Appeals vacated the district court's dismissal of the LIBOR plaintiffs' antitrust claims and remanded to the district court the question of whether plaintiffs possess standing as "efficient enforcers" of applicable antitrust laws. In July 2016, defendants filed a joint motion to dismiss all antitrust claims based on lack of standing and lack of personal jurisdiction. In December 2016, the motion was granted in part and denied in part. In January 2017, the United States Supreme Court denied defendants' petition for certiorari. In February 2017, the court clarified its December 2016 order, holding that antitrust claims only exist against panel banks, not their affiliates. This clarification resulted in the Funds' New Jersey antitrust claims being dismissed for lack of personal jurisdiction. The Funds antitrust claims in the New York and North Carolina actions remain pending. In July 2017, the

Funds obtained an entry of judgment on the New Jersey antitrust claims dismissed on personal jurisdiction grounds. In July 2017, the Funds filed with the Second Circuit Court an appeal from the dismissal of their New Jersey anti-trust claims. In June 2019, the court issued two orders approving stipulations dismissing with prejudice Prudential's claims against Citigroup Inc., Citibank, N.A., Citigroup Funding Inc., and Citigroup Global Markets Inc. In December 2019, the court issued two orders approving stipulations dismissing with prejudice Prudential's claims against HSBC Holdings PLC, HSBC Bank PLC, HSBC Finance Corp., HSBC Securities (USA) Inc., and HSBC USA Inc. In May 2020, the court issued two orders approving stipulations dismissing with prejudice Prudential's claims against Barclays Bank PLC, Barclays Capital Inc., and Barclays PLC. In August 2020, the court issued two orders approving stipulations dismissing with prejudice, Prudential's claims against Deutsche Bank AG. In October 2020, the court issued orders approving stipulations dismissing with prejudice, Prudential's claims against JPMorgan Chase & Co., JPMorgan Chase Bank, N.A., and J.P. Morgan Securities LLC, f/k/a/ J.P. Morgan Securities Inc., Bank of America Corporation, Bank of America, N.A., and Merrill Lynch, Pierce, Fenner & Smith Inc., f/k/a Banc of America Securities LLC.

Summary

The Company's litigation and regulatory matters are subject to many uncertainties, and given their complexity and scope, their outcome cannot be predicted. It is possible that the Company's results of operations or cash flow in a particular quarterly or annual period could be materially affected by an ultimate unfavorable resolution of pending litigation and regulatory matters depending, in part, upon the results of operations or cash flow for such period. In light of the unpredictability of the Company's litigation and regulatory matters, it is also possible that in certain cases an ultimate unfavorable resolution of one or more pending litigation or regulatory matters could have a material adverse effect on the Company's financial position. Management believes, however, that, based on information currently known to it, the ultimate outcome of all pending litigation and regulatory matters, after consideration of applicable reserves and rights to indemnification, is not likely to have a material adverse effect on the Company's financial position.

24. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The unaudited quarterly results of operations for the years ended December 31, 2020 and 2019 are summarized in the table below:

	Three Months Ended			
	March 31	June 30	September 30	December 31
	(in millions, except per share amounts)			
2020				
Total revenues	$13,464	$12,115	$15,425	$16,029
Total benefits and expenses	13,802	14,447	13,978	15,129
Net income (loss)	(270)	(2,405)	1,507	1,022
Less: Income attributable to noncontrolling interests	1	4	20	203
Net income (loss) attributable to Prudential Financial, Inc.	$ (271)	$ (2,409)	$ 1,487	$ 819
Basic earnings per share—Common Stock(1):				
Net income (loss) attributable to Prudential Financial, Inc.	$ (0.70)	$ (6.12)	$ 3.72	$ 2.04
Diluted earnings per share—Common Stock(1):				
Net income (loss) attributable to Prudential Financial, Inc.	$ (0.70)	$ (6.12)	$ 3.70	$ 2.03
2019				
Total revenues	$15,091	$15,388	$15,105	$19,223
Total benefits and expenses	13,951	14,512	13,380	17,879
Net income (loss)	937	738	1,425	1,138
Less: Income attributable to noncontrolling interests	5	30	7	10
Net income (loss) attributable to Prudential Financial, Inc.	$ 932	$ 708	$ 1,418	$ 1,128
Basic earnings per share—Common Stock(1):				
Net income (loss) attributable to Prudential Financial, Inc.	$ 2.25	$ 1.73	$ 3.47	$ 2.78
Diluted earnings per share—Common Stock(1):				
Net income (loss) attributable to Prudential Financial, Inc.	$ 2.22	$ 1.71	$ 3.44	$ 2.76

(1) Quarterly earnings per share amounts may not add to the full year amounts due to the averaging of shares.

25. SUBSEQUENT EVENTS

Common Stock Dividend Declaration

On February 4, 2021, Prudential Financial's Board of Directors declared a cash dividend of $1.15 per share of Common Stock, payable on March 11, 2021 to shareholders of record as of February 16, 2021.

Shareholder Distributions

On February 4, 2021, Prudential Financial's Board of Directors authorized the Company to repurchase, at management's discretion, up to $1.5 billion of its outstanding Common Stock during the period from January 1, 2021 through December 31, 2021.

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

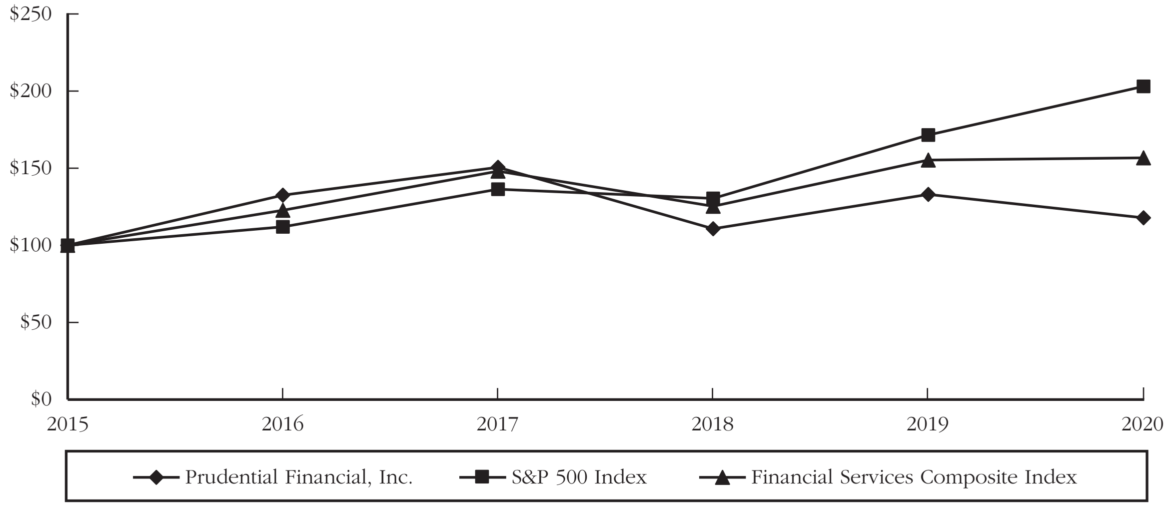
Prudential Financial's Common Stock trades on the New York Stock Exchange under the symbol "PRU." On January 31, 2021, there were 1,171,000 registered holders of record for the Common Stock and 397 million shares outstanding.

Performance Graph

The following graph, which covers the period from the closing price on December 31, 2015 through the closing price on December 31, 2020, compares the cumulative total shareholder return on Prudential Financial's Common Stock with the cumulative total shareholder return on (i) the Standard & Poor's ("S&P") 500 Index, and (ii) a Financial Services Composite Index, which is the average of the S&P 500 Life & Health Insurance and S&P 500 Diversified Financials indices. The figures presented below assume the reinvestment of all dividends into shares of common stock and an initial investment of $100 at the closing prices on December 31, 2015.

	ANNUAL RETURN PERCENTAGE Years Ending				
Company / Index	**Dec16**	**Dec17**	**Dec18**	**Dec19**	**Dec20**
Prudential Financial, Inc.	32.50	13.65	-26.46	20.10	-11.40
S&P 500 Index	11.96	21.83	-4.38	31.49	18.40
Financial Services Composite Index	22.70	20.66	-15.35	23.88	0.94

Comparison of Cumulative Five Year Total Return



		COMMON STOCK / INDEX RETURNS Years Ending				
Company / Index	**Base Period Dec15**	**Dec16**	**Dec17**	**Dec18**	**Dec19**	**Dec20**
Prudential Financial, Inc. Common Stock	**100**	**132.50**	**150.59**	**110.74**	**133.00**	**117.85**
S&P 500 Index	**100**	**111.96**	**136.40**	**130.42**	**171.49**	**203.04**
Financial Services Composite Index	**100**	**122.70**	**148.05**	**125.33**	**155.26**	**156.72**

AWARDS AND ACCOLADES

Prudential's commitment to doing business the right way, strengthening communities and providing an inclusive work environment is reflected in the awards and recognition we have proudly received from national and global organizations.

The World's Most Admired Companies®, *FORTUNE®*, No. 1 in Insurance: Life and Health

World's Most Ethical Companies®, Ethisphere

The Civic 50, Points of Light

100 Most Sustainable Companies in America, *Barron's*

FTSE4Good Index Series

100 Best Corporate Citizens, *Corporate Responsibility Magazine*

Corporate Inclusion Index, Hispanic Association of Corporate Responsibility

Top Employers and Top LGBT-Friendly Companies, *HISPANIC Network Magazine*

Top Companies for Executive Women, National Association for Female Executives

Corporate Equality Index, Human Rights Campaign

America's Best Employers for Veterans, *Forbes*

Best for Vets Employers, *Military Times*

Military Spouse Friendly® Employer, VIQTORY

Leading Disability Employer Seal™, National Organization on Disability

Best Place to Work for People with Disabilities, Disability:IN

100 Best Companies, *Working Mother*

100 Best Adoption-Friendly Workplaces, Dave Thomas Foundation for Adoption

Prudential

PRINTED ON RECYCLED PAPER
WITH 10% POST-CONSUMER WASTE.

PRU
Rock Solid® Business,
Sustainable Future.

PAPERS PRODUCED UNDER A SUSTAINABLE FOREST MANAGEMENT PROGRAM. PRINTED USING VEGETABLE-BASED INKS AND RENEWABLE ENERGY.