Combined Financial Statements

State of South Carolina
Deferred Compensation Program

Year ended December 31, 2020

Administered by the
South Carolina Public
Employee Benefit Authority
Columbia, South Carolina

Contents

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Members
South Carolina Public Employee Benefit Authority
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying combined statements of fiduciary net position and changes in fiduciary net position of the State of South Carolina Deferred Compensation Program (the Program), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Program as of December 31, 2020, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Audit Standards*, we have also issued our report dated June 30, 2021, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
June 30, 2021

This section presents management's discussion and analysis of the financial position and performance of the State of South Carolina Deferred Compensation Program (Deferred Comp) and is intended to provide an overview of Deferred Comp's financial activities as of and for the years ended December 31, 2020 and 2019. It is intended to be a narrative supplement to Deferred Comp's financial statements.

Deferred Comp's financial statements provide information about the activities of the two defined contribution plans administered, which are listed below.

- Salary Deferral [401(k)] and Savings Profit Sharing Plan and Trust (401(k) plan); and
- South Carolina 457 Deferred Compensation Plan and Trust (457 plan)

Overview of the Financial Statements

Because of the long-term nature of a deferred compensation program, financial statements alone cannot provide sufficient information to properly reflect Deferred Comp's ongoing plan perspective. This financial report consists of two financial statements and the notes to the financial statements.

The *Combined Statement of Fiduciary Net Position* reports Deferred Comp's assets, liabilities and resulting net position where Assets - Liabilities = Fiduciary Net Position Held in Trust at the end of the year. It can be thought of as a snapshot of the financial position of Deferred Comp at a specific point in time.

The *Combined Statement of Changes in Fiduciary Net Position* reports Deferred Comp's transactions that occurred during the year where Additions - Deductions = Change in Fiduciary Net Position. It can be thought of as a recording of events that occurred over the specified time period of a year and supports the changes that have occurred to the prior year's fiduciary net position value on the Combined Statement of Fiduciary Net Position.

The *Notes to the Combined Financial Statements* are an integral part of the financial statements and include additional information not readily evident in the statements themselves.

Plan Highlights

The following highlights occurred during the year ended December 31, 2020:

- Participation experienced a nominal increase from the prior year in both the 401(k) and 457 plans. In the 401(k) plan, there were 76,452 and 76,398 participant accounts, and in the 457 plan there were 23,494 and 23,441 participant accounts, at the end of the 2020 and 2019 fiscal years, respectively.
- Fiduciary net position held in trust grew by $523.8 million, or 11.06%, during 2020. This was compared to an increase of $539.2 million, or 12.85%, in 2019. The change was largely related to an increase in investment values during 2020.
- Net investment earnings decreased by approximately $61 million in 2020 compared to an increase of $809 million in 2019. The decrease in 2020 was the result of less substantial market gains when compared to 2019.
- Miscellaneous income decreased slightly during the year primarily due to a reduction in the administrative fee assessed by the plan to cover plan level administrative expenses. The fee was reduced from $1 per quarter, per participant to $1 per year, per participant effective January 1, 2020.
- Distributions dropped by just over $44 million, or 13.37 percent, from 2019 to 2020. The reduction is primarily attributable to a decrease in distributions related to retirement and severance of employment as well as a decline in RMD payments associated with a waiver of the 2020 required minimum distribution (RMD) requirement per the Coronavirus, Aid, Relief and Economic Security (CARES) Act. An increase in in-service distributions as well as the addition of coronavirus-related distributions partially offset the reduction.

Plan Highlights (continued)

- Administrative expenses and fees declined $1.32 million, or 17.87%, from 2019 to 2020 largely due to a reduction in the annual recordkeeping fee assessed to participants by Empower Retirement (Empower), Deferred Comp's current third-party administrator, from 0.0975% to 0.065% effective January 1, 2020.
- The CARES Act, enacted on March 27, 2020, made a number of changes to federal law related to retirement plans. On April 17, 2020, the PEBA Board voted to adopt several of the optional provisions of the CARES Act, including the addition of a new category of in-service distribution, referred to as a coronavirus-related distribution, for qualified individuals; increasing the maximum loan limit to $100,000, or 100 percent of the present value of the account, for any loan made to a qualified individual beginning April 17, 2020 (adoption date), through September 23, 2020 (180 days after enactment of the CARES Act); and extending the loan repayment period by one year for qualified individuals who have an outstanding loan balance on or after April 17, 2020, and have loan payments due from April 17, 2020, through December 31, 2020. The impact of the adoption of these optional provisions follows.
    - A total of 1,347 coronavirus-related distributions were paid across both plans totaling $13,945,690. Participants who took a coronavirus-related distribution are allowed to repay all or a portion of the distribution to the plan within three years of when the distribution was received.
    - A total of 8 coronavirus-related loans were distributed across both plans totaling $210,572. Loan repayments on these loans are allowed to be delayed in accordance with the adoption of the loan repayment extension.
    - A total of 37 loan repayment extensions were requested across both plans. While loan payments are not required to be made during the extension period, interest continues to accrue, and subsequent payments will be adjusted to account for the delay.

Summary comparative statements

Fiduciary Net Position	**December 31, 2020**	**December 31, 2019**	**Increase/ (Decrease) Amount**	**Increase/ (Decrease) Percent**
Assets				
Fixed income investments	$ 1,438,881,493	$ 1,430,048,677	$ 8,832,816	0.62 %
Variable earning investments	3,790,848,979	3,272,763,295	518,085,684	15.83 %
Receivables	31,474,580	34,488,518	(3,013,938)	(8.74)%
Total assets	5,261,205,052	4,737,300,490	523,904,562	11.06 %
Liabilities				
Accounts payable	1,229,115	1,136,929	92,186	8.11 %
Total liabilities	1,229,115	1,136,929	92,186	8.11 %
Fiduciary Net Position Held in Trust, end of year	$ 5,259,975,937	$ 4,736,163,561	$ 523,812,376	11.06 %

Changes in Fiduciary Net Position	**For the years ended December 31, 2020**	**For the years ended December 31, 2019**	**Increase/ (Decrease) Amount**	**Increase/ (Decrease) Percent**
Additions				
Net investment earnings	$ 617,602,859	$ 679,067,359	$ (61,464,500)	(9.05)%
Contributions	196,535,696	195,621,550	914,146	0.47 %
Miscellaneous income	1,020,973	1,200,640	(179,667)	(14.96)%
Total additions	815,159,528	875,889,549	(60,730,021)	(6.93)%
Deductions				
Distributions	285,294,607	329,310,051	(44,015,444)	(13.37)%
Administrative expenses and fees	6,052,545	7,369,687	(1,317,142)	(17.87)%
Total deductions	291,347,152	336,679,738	(45,332,586)	(13.46)%
Change in Fiduciary Net Position	523,812,376	539,209,811	(15,397,435)	(2.86)%
Fiduciary Net Position Held in Trust,				
Beginning of year	4,736,163,561	4,196,953,750	539,209,811	12.85 %
End of year	$ 5,259,975,937	$ 4,736,163,561	$ 523,812,376	11.06 %

Requests for Information

This financial report is designed to provide a general overview of the South Carolina Deferred Compensation Program. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the South Carolina Public Employee Benefit Authority, 202 Arbor Lake Drive, Columbia, SC 29223. Inquiries may also be made at www.peba.sc.gov or by calling 888.260.9430.

State of South Carolina Deferred Compensation Program

Combined Statement of Fiduciary Net Position

December 31, 2020

	457 Plan	401(k) Plan	Total
Assets			
Fixed income investments			
Stable value fund	$ 312,952,315	$ 1,067,588,427	$ 1,380,540,742
84-month guaranteed investment contracts	18,196,380	40,144,371	58,340,751
Total fixed income investments	331,148,695	1,107,732,798	1,438,881,493
Variable earning investments			
Mutual funds	553,248,931	2,195,656,872	2,748,905,803
Target retirement funds	238,292,109	598,021,343	836,313,452
Collective investment trusts	33,581,773	141,765,514	175,347,287
Schwab self-directed brokerage account	9,199,073	21,083,364	30,282,437
Total variable earning investments	834,321,886	2,956,527,093	3,790,848,979
Receivables			
Notes receivable from participants	4,774,562	25,823,159	30,597,721
Contributions receivable	454,067	422,792	876,859
Total receivables	5,228,629	26,245,951	31,474,580
Total assets	1,170,699,210	4,090,505,842	5,261,205,052
Liabilities			
Accounts payable	768,426	460,689	1,229,115
Total liabilities	768,426	460,689	1,229,115
Fiduciary Net Position Held in Trust	$ 1,169,930,784	$ 4,090,045,153	$ 5,259,975,937

See Notes to Combined Financial Statements

State of South Carolina Deferred Compensation Program

Combined Statement of Changes in Fiduciary Net Position

For the year ended December 31, 2020

	457 Plan	401(k) Plan	Total
Additions			
Investment income	$ 29,815,774	$ 114,322,377	$ 144,138,151
Net appreciation in value of investments	100,293,538	373,171,170	473,464,708
Net investment income	130,109,312	487,493,547	617,602,859
Contributions from participants	49,516,184	137,660,555	187,176,739
Contributions from employers	-	9,358,957	9,358,957
Total contributions	49,516,184	147,019,512	196,535,696
Miscellaneous income	206,856	814,117	1,020,973
Total additions	179,832,352	635,327,176	815,159,528
Deductions			
Distributions	64,921,889	220,372,718	285,294,607
Participant fees	983,208	3,919,081	4,902,289
Administrative expenses	224,460	925,796	1,150,256
Total deductions	66,129,557	225,217,595	291,347,152
Change in Fiduciary Net Position	113,702,795	410,109,581	523,812,376
Fiduciary Net Position Held in Trust,			
Beginning of year	1,056,227,989	3,679,935,572	4,736,163,561
End of year	$ 1,169,930,784	$ 4,090,045,153	$ 5,259,975,937

See Notes to Combined Financial Statements

Note 1. General Description of Deferred Comp

The financial statements of the South Carolina Deferred Compensation Program (Deferred Comp) are provided for general information only. Users of the financial statements should refer to the plan documents for complete information. The statements presented herein contain the following defined contribution plans:

- **State of South Carolina 457 Deferred Compensation Plan and Trust (457 plan)** - the plan was established by the South Carolina General Assembly on May 11, 1977 through Act 97. Enrollment in the 457 plan began in August 1980, and the first contributions were made in September 1980; and
- **State of South Carolina Salary Deferral [401(k)] and Savings Profit Sharing Plan and Trust (401(k) plan)** - the plan was established by the South Carolina Deferred Compensation Commission (the Commission) effective January 1, 1985. Contributions to the Plan began in October 1985.

The Commission, established in Chapter 23 of Title 8 of the State of South Carolina (the State) Code of Laws, was the trustee of Deferred Comp through December 31, 2013. Effective after December 31, 2013, the Commission was abolished, and all of the functions and duties of the Commission were devolved upon the Board of Directors of the South Carolina Public Employee Benefit Authority (PEBA). PEBA was created by the S.C. General Assembly effective July 1, 2012 and is the state agency responsible for the administration and management of the state's employee insurance programs and retirement systems.

The governing board of the authority is a board of directors consisting of 11 members. The membership composition is as follows:

- three non-representative members appointed by the Governor;
- two members appointed by the President Pro Tempore of the Senate, one a non-representative member and one a representative member who is either an active or retired member of the South Carolina Police Officers Retirement System (PORS);
- two members appointed by the Chairman of the Senate Finance Committee, one a non-representative member and one a representative member who is a retired member of the South Carolina Retirement System (SCRS);
- two members appointed by the Speaker of the House of Representatives, one a non-representative member and one a representative member who must be a state employee who is an active contributing member of SCRS; and
- two members appointed by the Chairman of the House Ways and Means Committee, one a non-representative member and one a representative member who is an active contributing member of SCRS employed by a public school district.

Non-representative members of the PEBA board may not belong to the classes of employees and retirees from which representative members must be appointed. Individuals appointed to the PEBA board must possesses certain qualifications.

Members of the PEBA board serve for terms of four years, on a staggered schedule and until their successors are appointed and qualify. Vacancies on the PEBA Board must be filled within 60 days in the manner of the original appointment for the unexpired portion of the term.

Approximately 744 South Carolina public sector entities (the employers) participate in Deferred Comp. These entities include state agencies, counties, municipalities, colleges and universities, and special purpose districts. State agencies are reported as one employer in the number of participating employers above.

Note 1. General Description of Deferred Comp (continued)

Eligibility:

In accordance with Deferred Comp provisions, any employee of a participating employer who elects to participate in Deferred Comp is eligible. Contributions to Deferred Comp are made through payroll deductions from an employee's total compensation subject to certain limits. At December 31, 2020, there were 23,494 participant accounts in the 457 plan and 76,452 participant accounts in the 401(k) plan.

Contributions:

Deferred Comp participants elect salary deferral contributions to reduce their compensation by not less than $10 per pay period and not more than 100 percent of their compensation; not to exceed the maximum contribution allowed by the IRS. An election must be made in dollar increments per pay period. Amounts contributed on a pre-tax basis by participants are deferred, subject to the limitations above, for federal and state income tax purposes until distributions are paid to the participants.

Contribution limits for 2020 for the plans were as follows:

- **State of South Carolina 457 Deferred Compensation Plan and Trust (457 plan)** –
  - $19,500 for under age 50
  - $26,000 for age 50 and older (with age 50+ catch-up contribution)
  - Up to $39,000 with Special 457(b) catch up (cannot be combined with age 50+ catch-up)

  Effective January 1, 2009, the 457 plan was amended to provide for matching contributions at the discretion of the employer. This amendment permits employers to make contributions to the 457 plan on behalf of each employee who is a participant and who is active during the plan year at an amount to be determined by the employer. Contribution limits are the same whether the contribution is made by the employee or by the employer.

  Effective January 1, 2011, the 457 plan was amended to provide for Roth contributions. This amendment permits employees to contribute to the 457 plan with after-tax dollars.

- **State of South Carolina Salary Deferral [401(k)] and Savings Profit Sharing Plan and Trust (401(k) plan)** –
  - $19,500 for under age 50
  - $26,000 for age 50 and older (with age 50+ catch-up contribution)

  Effective July 1, 1999, the 401(k) plan was amended to provide for employer matching contributions. This amendment permits employers to make contributions to the 401(k) plan on behalf of each employee who is a participant and who is active during the plan year at an amount to be determined by the employer. Furthermore, the 401(k) plan was amended to provide for discretionary employer contributions, permitting an employer to make contributions to the plan on behalf of each employee who has not elected to make salary deferral contributions and who has an annual salary of less than $20,000 during such plan year. Employer matching and discretionary contributions shall not exceed contribution limitations as specified by the plan.

  Effective November 2, 2009, the 401(k) plan was amended to provide for Roth contributions. This amendment permits employees to contribute to the 401(k) plan with after-tax dollars.

Participant accounts:

Each participant's account is credited with the participant's salary deferral contributions, employer discretionary contributions, and plan earnings or losses, and charged with an allocation of third-party administrator recordkeeping fees, investment option fees, and program administration fees.

Note 1. General Description of Deferred Comp (continued)

Vesting:

Participants are vested immediately in both their employee and employer contributions plus actual earnings thereon.

Distributions:

Participants may withdraw the present value of funds contributed to Deferred Comp based on the following:

- **State of South Carolina 457 Deferred Compensation Plan and Trust (457 plan)** –
    - severance of employment from a participating employer, or
    - due to unforeseen emergency, which requires approval of Empower on behalf of PEBA.
- **State of South Carolina Salary Deferral [401(k)] and Savings Profit Sharing Plan and Trust (401(k) plan)** –
    - severance of employment from a participating employer,
    - attainment of age 59½, or
    - due to financial hardship, which requires approval of Empower on behalf of PEBA.

Participants are also allowed to take a rollover from their Deferred Comp account in order to purchase service credit in a defined benefit governmental plan such as the South Carolina Retirement System. In the event of a participant's death, the participant's beneficiary would be entitled to the present value of funds contributed to Deferred Comp.

Participants may select various payout options including lump-sum payments or installment payments for the following: a fixed period of time, a fixed dollar amount until the account is exhausted, or payments throughout the participants' life expectancy or joint life expectancy with a spouse.

Notes receivable from participants:

Participants may borrow from their Deferred Comp account provided the note is at least $2,500 and not more than the greater of 50 percent of their vested account balance or $50,000. Notes are repayable in one to five years except for notes for the purchase of a primary residence which may be paid back over twenty years. Interest is charged at a fixed rate over the term of the note. The note's interest rate is established based upon a prime interest rate plus an additional 2 percent, as listed in the Wall Street Journal on the last business day of the month prior to origination. Interest rates charged on participant notes ranged from 5.25 percent to 10.25 percent for the year ended December 31, 2020. The participant is charged a $50 issuance fee at the initiation of the note and a quarterly maintenance fee of $6.25 throughout the year.

If a participant fails to repay a note at maturity or fails to make a scheduled payment by the end of the quarter following the quarter in which the payment was due, the note plus accrued interest is considered to be in default. Due to Internal Revenue Service (IRS) recordkeeping regulations, if a defaulted note was issued after January 1, 2002, and the participant is still active, the note remains on Deferred Comp's books. Management believes it is unlikely that such notes will be repaid since they have been reported to the participant and the IRS as withdrawals from the Plan. Therefore, management has excluded defaulted notes from notes receivable. Notes receivable from participants are valued at their unpaid balances plus accrued interest.

Accounts payable:

Deferred Comp holds funds related to unclaimed benefit payments in a separate forfeiture account until such time that those payments are reissued. The funds are considered payable and are therefore classified as accounts payable in Deferred Comp's financial statements. Also included in accounts payable are administrative expenses incurred on or before December 31 but not paid until the following year.

Note 2. Summary of Significant Accounting Policies

The financial statements of Deferred Comp have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following are the significant accounting policies used in preparing the accompanying financial statements of Deferred Comp.

Basis of accounting:

The financial statements have been prepared in accordance with GAAP, including all applicable effective statements of the GASB and the accrual basis of accounting.

Use of estimates:

The preparation of financial statements in conformity with GAAP requires PEBA to make estimates and assumptions that affect the reported amounts of assets, liabilities, and the changes therein and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Contributions and contributions receivable

Contributions are recognized when amounts are withheld from employees. Contributions receivable represents amounts withheld from employees but not yet remitted to the third-party administrator at December 31.

Distributions

Participant withdrawals are recorded when due and payable under the provisions of Deferred Comp.

Investment valuation and income recognition:

Variable earning investments are stated at fair value. If available, quoted market prices are used to value investments. Units of target retirement funds are stated at fair value as provided by their issuer, State Street Global Advisors, based on quoted market prices of the investments held in the collective trust fund.

Investments in the Stable Value Fund are valued at contract value reported daily by Great-West Life & Annuity Insurance Company, which approximates fair value. The investment valuation includes contributions received plus investment income earned to date less applicable fees and amounts withdrawn.

Management considers 84-month Guaranteed Investment Contracts (84-month GICs) to be “nonparticipating contracts” as defined in the GASB Codification Sec. I50, Investments, as they are nonnegotiable and have redemption terms that do not consider future market rates. 84-month GICs are therefore valued at contract value, as estimated by the respective insurance companies. The reported balance at December 31, 2020, represents contributions received plus interest credited, less applicable charges and amounts withdrawn.

Purchases and sales of securities are recorded on a trade-date basis. Variable earning investment income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized and unrealized gains and losses on investments are included in the net appreciation in fair value of investments as reported on the combined statement of changes in fiduciary net position. Interest on participant loans is recorded as earned on the accrual basis.

Administrative expenses:

All direct expenses of maintaining Deferred Comp are paid from Deferred Comp’s net position.

Note 2. Summary of Significant Accounting Policies (continued)

Subsequent events:

These financial statements have not been updated for events occurring subsequent to June 30, 2021, which is the date these financial statements were available to be issued.

Note 3. Investments

Deferred Comp investments are managed by several fund managers and are subject to various risks. Among these risks are custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Each one of these risks is discussed in more detail below.

Custodial credit risk:

Custodial credit risk, as it relates to investments, is the risk that in the event of the failure of the custodian, Deferred Comp would not be able to recover the value of investments or collateral securities that are in the possession of the third-party. Deferred Comp's investment securities are exposed to a minimal level of custodial credit risk as they are held in segregated trust accounts with the custodian but in the name of Deferred Comp.

Credit risk:

Credit risk is the risk that an issuer or the counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investor Services (Moody's), Standard & Poor's (S&P), and Fitch Ratings (Fitch). Deferred Comp manages the overall credit risk of its fixed income investments by requiring the Stable Value Fund and 84-month GIC's manager, Great-West Life & Annuity Insurance Company (the Company), to invest in accordance with PEBA's approved Statement of Investment Policy (the Policy).

The Policy lists the primary objective of the Stable Value Fund to preserve principal and provide a stable, competitive rate of return. The Company is permitted to invest Deferred Comp assets in investment grade fixed income instruments, including those of the U.S. Government and its agencies, corporate bonds, and mortgage and asset-backed securities. According to the Company's contract with Deferred Comp (the Contract), the Company must maintain or exceed an overall weighted average credit quality rating by Moody's of "Aa2" (or equivalent of Aa2) within the Stable Value Fund at all times. At the time of issuance, investments must meet or exceed the following Moody's credit ratings: Commercial paper - P; Corporate bonds - A3; and Asset backed securities, agency-mortgage backed securities, agency-collateralized mortgage obligations, and commercial mortgage backed securities – Aaa.

The primary objective for the 84-month GICs is to preserve principal while maintaining a rate of return comparable to similar fixed income investments without market fluctuations. Each 84-month GIC is backed by the financial strength of the issuing company, whose crediting must exceed an "A2" rating (or equivalent of A2) as measured by Moody's at the time of issuance. The Company is expected to exercise due care and diligence in making investment decisions.

Deferred Comp also offers participants the ability to invest in two bond mutual funds: the Baird Aggregate Bond Fund and the Fidelity Inflation-Protected Bond Index. The average S&P rating of holdings for the Baird Aggregate Bond Fund is an "A" rating. The Fidelity Inflation-Protected Bond Index's holdings consist of obligations of the U.S. government, which are not considered to have credit risk.

Concentration of credit risk:

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The concentration of investments is determined by the participants' elections to invest in the available investment options as selected by the Board. Mutual funds, target date funds, and collective investment trust funds that exceed 5 percent of fiduciary net position held in trust are identified in Note 6 on page 17.

Note 3. Investments (continued)

PEBA places no limit on the amount Deferred Comp may invest in any one 84-month GIC issuer. At December 31, 2020, there were no GIC issuers holding contracts that exceed 5 percent of fiduciary net position held in trust.

The Stable Value Fund balance at December 31, 2020, exceeded 5 percent of fiduciary net position held in trust. The Contract dictates that amounts in the fund must be invested in accordance with the following concentration limits:

- A minimum of 50 percent of the account assets must be invested in U.S. Treasury debt, agency-mortgage backed securities or collateralized mortgage obligations.
- A maximum of 35 percent of the account assets may be invested in corporate bonds or asset-backed securities.
- A maximum of 20 percent of the account assets may be invested individually in either corporate bonds or asset-backed securities.
- No more than 10 percent of the account assets may be invested in corporate securities rated “BBB” as measured by Moody’s.
- No more than 5 percent of the account assets may be invested in any one corporate issuer (including asset-backed securities). For purposes of diversification, each asset-backed or non-agency mortgage-backed securities will be treated as a separate issuer.

Foreign currency risk:

Foreign currency risk is the risk that changes in exchange rates could adversely affect the fair value of an investment. Deferred Comp allows the option to invest in mutual funds of countries outside of the U.S that invest in securities not required to disclose the individual assets within the fund. Such international funds are identified in Note 6 on page 17.

Interest rate risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a theoretical measurement that gauges the sensitivity of a particular bond to changes in interest rates based on current prepayment speeds and scheduled interest payments. The Contract limits the Stable Value Fund’s average duration to not exceed 5 years. The Stable Value Fund’s average duration at December 31, 2020 was 2.4 years. Investment in guaranteed investment contracts and funding agreements is limited to a term of 84 months or less. Refer to Footnote 4, Stable Value Fund, and Footnote 5, 84-month Guaranteed Investment Contracts for tables summarizing the fixed income investments by their credit rating and future maturities. The average effective duration for the Baird Aggregate Bond Fund and Fidelity Inflation-Protected Bond Index are 6.4 and 5.4, respectively.

Fair Value Measurements:

Fair value measurements are categorized within the fair value hierarchy defined in GASB 72. The hierarchy is based on the valuation inputs used to measure the fair value of the assets and consists of three levels as follows:

Level 1 inputs: Quoted prices (unadjusted) for identical assets or liabilities in active markets that a reporting entity can access at the measurement date. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 inputs: Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs: Unobservable inputs for an asset or liability. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Note 3. Investments (continued)

In determining fair value, Deferred Comp utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value.

Deferred Comp had the following recurring fair value measurements as of December 31, 2020:

		Fair Value Measurements Using		
	At 12.31.2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments at fair value				
Mutual funds	$ 2,748,905,803	$ 2,748,905,803	$ -	$ -
Target retirement funds	836,313,452	-	836,313,452	-
Self-directed brokerage	30,282,437	30,282,437	-	-
Total investments at fair value	$ 3,615,501,692	$ 2,779,188,240	$ 836,313,452	$ -
Investments at net asset value (NAV)				
Collective investment trusts	$ 175,347,287			
Investments at contract value				
Stable value fund	$ 1,380,540,742			
84-month guaranteed investment contracts	58,340,751			
Total investments at contract value	$ 1,438,881,493			
Total investments	$ 5,229,730,472			

Mutual funds and self-directed brokerage: These investments are stated at the fair value of shares held by the plans at year-end, which are determined by quoted market prices.

Target retirement funds: This investment type includes 11 funds that are invested through collective trust funds. There is no quoted price in an active market to determine the fair value of the investment, but the value is determined daily by the investment manager based upon the value of the underlying assets using significant other observable inputs.

Collective investment trusts: This investment type includes one fund that invests primarily in non-U.S. common stocks. The fair value of the investment has been determined using NAV per share of the fund as reported by the Investment Manager.

Additionally, there were no unfunded commitments or redemption notice periods for investments measured at the net asset value.

Note 4. Stable Value Fund

The Stable Value Fund (the Fund) is an investment option of Deferred Comp in which bond securities are held as underlying investments in a segregated trust for participants. The Company is the Fund manager for Deferred Comp. All monies invested in the Fund are maintained and held separate and apart from the Company's general account and any other investment account the Company may have. In addition, the Company has assumed sole responsibility of providing wrap coverage in order to guarantee return of the participants' principal and accrued interest.

Note 4. Stable Value Fund (continued)

This investment seeks to preserve principal value and provide a relatively stable rate of interest income. The objective of the Fund is to achieve returns, which over time exceed the returns on bank savings accounts and money market funds. The Fund invests in securities issued by the U.S. Government or one of its agencies, as well as high-grade corporate bonds, and mortgage and asset-backed securities.

Quarterly interest rates are declared by the Company prior to each calendar quarter for participant accounts based upon factors such as the current yield of the investments held by the Fund and Fund expenses. Once declared, the effective interest rates are guaranteed for the calendar quarter. The quarterly effective interest rate declared each calendar quarter applies to all assets in the Fund regardless of the date of deposit. Interest is credited to the participants' accounts in the Fund daily, at a rate which compounds to the effective rate for the quarter.

The following represents the Fund's annual interest rate credited to participants for the quarters during the year ended December 31, 2020:

1Q 2020	2.45%
2Q 2020	2.40%
3Q 2020	2.35%
4Q 2020	2.25%

The following represents the contract value of the Fund's underlying investments by fixed income sector at December 31, 2020:

Fixed Income Sector		December 31, 2020
Treasuries	$	105,887,004
Agency - Mortgage Backed Securities		601,206,720
Agency - Collateralized Mortgage Obligations		53,994,585
Agency - Commercial Mortgage Backed Securities		129,893,632
Agency Securities		2,971,923
Asset Backed Securities		169,519,165
Non-Agency – Commercial Mortgage Backed Securities		58,234,058
Corporate Bonds		239,529,691
Cash and Equivalents		19,303,964
Total	**$**	**1,380,540,742**

The following represents the contract value of the Fund's underlying investments by their Moody's Credit Rating at December 31, 2020:

Moody's Credit Rating		December 31, 2020
Aaa	$	1,108,382,106
Aa2		7,183,798
A1		12,956,493
A2		16,779,299
A3		50,927,996
Ba1		23,116,435
Baa1		11,801,954
Baa2		53,842,566
Baa3		51,312,842
Not Rated		44,237,253
Total	**$**	**1,380,540,742**

Note 4. Stable Value Fund (continued)

The following represents the contract value of the Fund's underlying investments by their future maturities at December 31, 2020:

Maturities in Years	December 31, 2020
Less than 1	$ 17,947,030
1-5	361,149,458
5-10	354,522,863
10-15	414,959,252
15 - 20	117,791,420
20 - 25	14,081,516
25 - 30	67,646,496
More than 30	32,442,707
Total	**$ 1,380,540,742**

Mortgage backed securities and collateralized mortgage obligations make up the majority of investments with maturities exceeding 10 years. The fair values of these securities are based on cash flows from principal and interest payments of the underlying mortgages and are subject to the credit worthiness of the individual mortgagors. These securities are sensitive to prepayments, which are likely in an environment of declining interest rates and thereby reduce the value of the security.

Note 5. 84-Month Guaranteed Investment Contracts

84-month GICs are deposited quarterly with insurance companies who invest the funds in their general asset account. The insurance companies provide a guarantee of principal and a guaranteed quarterly interest rate. As such, the 84-month GICs are subject to credit risk associated with the individual insurance company issuer. Each participant does not have access to the 84-month GIC until the 84-month maturity period is over. Effective January 1, 2015, the 84-month GIC was discontinued as an investment option in Deferred Comp.

The following are the interest rate ranges by year for 84-month GICs based on the date purchased:

Rates in effect during year purchased	
2014	**2015**
1.75-1.85%	1.80%

The following represents a summary of each 84-month GIC issuer, Moody's credit rating, and future maturities at December 31, 2020:

		December 31, 2020		
	Moody's Credit Rating	Maturities in Years		
		Less than 1	**1 - 3**	**Total**
Great-West Life & Annuity Insurance Company	Aa3	$ 58,340,564	$ 187	$ 58,340,751

Note 6. Variable earning investments

Deferred Comp's variable earning investments are held by the custodian in pooled separate accounts. The following represents the fair value of Deferred Comp's units of participation at December 31, 2020:

		December 31, 2020		
Mutual funds				
Vanguard Institutional Index		812,097,950	*	
T. Rowe Price Growth Stock		388,424,770	*	
Dodge and Cox Stock		348,105,585	*	
Baird Aggregate Bond Fund		229,571,355		
T. Rowe Price Mid Cap Value		207,402,430		
American Funds EuroPacific Growth R6		185,323,747	**	
Hartford Mid Cap Fund		180,285,528		
AllianceBerstein Small Cap Growth		120,840,351		
Fidelity Inflation Protected Bond Index		106,745,054		
American Funds New Perspective		81,040,456	**	
American Beacon Small Cap Value		46,952,512		
TIAA CREF Small Cap Blend		42,116,065		
	$	**2,748,905,803**		
Target retirement funds				**Effective Duration**
SSgA Target Retirement Income	$	409,848,889	*	2.56
SSgA Target Retirement 2020		135,518,663		2.54
SSgA Target Retirement 2030		130,901,710		3.07
SSgA Target Retirement 2040		75,978,093		2.41
SSgA Target Retirement 2025		35,200,881		3.03
SSgA Target Retirement 2050		17,019,423		1.91
SSgA Target Retirement 2035		14,987,953		2.74
SSgA Target Retirement 2045		9,222,142		2.10
SSgA Target Retirement 2060		3,720,427		1.91
SSgA Target Retirement 2055		3,039,923		1.91
SSgA Target Retirement 2065		875,348		1.91
	$	**836,313,452**		
Collective investment trusts				
Fidelity Diversified International		175,347,287		
	$	**175,347,287**		

* Represents investments exceeding 5 percent or more of net position.
** Represents international funds.

Note 7. Schwab Self-Directed Brokerage Account

Effective January 1, 2010, Deferred Comp participants have the option to invest in a self-directed brokerage account. The self- directed brokerage account is offered through Charles Schwab & Co., Inc. and allows participants to select from numerous mutual funds and other types of securities, such as stocks and bonds, for an additional fee or fees. As of December 31, 2020, the balance invested in the Schwab self-directed brokerage account was $30,282,437.

Note 8. Program Termination

Currently, there are no intentions to terminate either of the plans within Deferred Comp. However, the State reserves the right to terminate, suspend, withdraw or amend Deferred Comp at any time.

Note 9. Tax Status

The 457 plan received a favorable determination from the Internal Revenue Service (IRS), stating the plan constitutes an eligible deferred compensation plan as defined in Section 457(b) of the Internal Revenue Code (IRC), and, as such, is exempt from federal and state income taxes. Amounts of compensation deferred by employees participating in the 457 plan are not subject to federal income tax withholding, and the compensation is not includable in taxable income until actually paid or otherwise made available to the participant, his beneficiary or his estate.

The 401(k) plan received a favorable determination from the IRS as qualifying under Section 401(k) of the IRC and, as such, is also exempt from federal and state income taxes. As a result, amounts of compensation deferred by employees participating in the 401(k) plan are not subject to federal income tax withholding, and the compensation is not includable in taxable income until actually paid or otherwise made available to the participant, his beneficiary or his estate.

Accounting principles generally accepted in the United States of America require Deferred Comp management to evaluate tax positions taken by Deferred Comp and recognize a tax liability (or asset) if Deferred Comp has taken an uncertain position that more likely than not would not be substantiated upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by Deferred Comp, and has concluded that as of December 31, 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Note 10. Risks and Uncertainties

Deferred Comp invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the combined statement of fiduciary net position.

Note 11. Commitments

Effective July 1, 2017, PEBA entered into an agreement with Deferred Comp’s investment consultant that has an initial contract period that ran through June 30, 2020 but may be extended two additional one-year periods unless PEBA or the consultant elects not to extend the contract. The first year of the contract extension is in effect, which carries the contract period through June 30, 2021. PEBA anticipates the second-year extension will be executed carrying the contract period through June 30, 2022. The contract requires an annual fee of $58,000, payable in four equal quarterly installments. Costs associated with the investment consultant contract are shared pro-rata between the 457 plan and the 401(k) plan, based upon plan assets under management.

Note 11. Commitments (continued)

Effective January 1, 2020, PEBA entered into a contract with Empower to provide recordkeeping, administration, communication, education, investment management and custodial trustee services for Deferred Comp. The contract has an initial contract period that runs through December 31, 2022. The contract may be extended at the end of the initial contract period unless PEBA elects not to extend the contract. Extensions may be less than, but will not exceed, two additional one-year periods. Under the terms of the contract, participants pay Empower an annual recordkeeping fee of 0.065% of their account balance.