

Item 1A. Risk Factors

Our Government's operations, financial results, and satisfaction of its customers are subject to various risks and uncertainties, including those described below.

Social Risks

The COVID-19 pandemic may hinder our Government's ability to achieve its constitutional objectives, at least in the short-term.³¹

Overview and status

The Centers for Disease Control (CDC) is responding to a worldwide pandemic of respiratory disease spreading from person-to-person caused by a novel (new) coronavirus. The disease has been named "coronavirus disease 2019" (abbreviated "COVID-19"). On March 11, 2020, the COVID-19 outbreak was characterized as a pandemic by the World Health Organization (WHO). As of May 7, 2021, there have been 577,041 related deaths and 32,403,159 confirmed cases of COVID-19 in the US, which means nearly 10% of our population has been infected. For current data visit the [USAFacts.org website](https://USAFacts.org).

COVID-19 is thought to spread mainly through close contact from person to person, including between people who are physically near each other (within about 6 feet). People who are infected but do not show symptoms can also spread the virus to others. Cases of reinfection with COVID-19 have been reported but are rare. We are still learning about how the virus spreads and the severity of illness it causes.

Viruses constantly change through mutation, and new variants of a virus are expected to occur over time. Multiple variants of the virus that causes COVID-19 are circulating globally. These variants seem to spread more easily and quickly than other variants, which may lead to more cases of COVID-19. So far, studies suggest that antibodies generated through vaccination with currently authorized vaccines recognize these variants. This is being closely investigated and more studies are underway.

Mitigation and relief efforts

On March 16, 2020, the White House announced a program called "15 Days to Slow the Spread," which was a nationwide effort to slow the spread of COVID-19 through the implementation of social distancing at all levels of society. The social distancing guidelines were adapted by state and local governments in developing their own unique responses.

Rigorous and increased compliance with public health mitigation strategies, such as vaccination, physical distancing, use of masks, hand hygiene, and isolation and quarantine, is essential to limit the spread of the virus that causes COVID-19 and protect public health. There are currently three COVID-19 vaccines approved for use in the US. As of May 7, 2021, 254,779,333 doses of these vaccines have been administered, which is 78% of the supply distributed. Approximately 45% of the US population has been administered at least one dose of vaccine, while 33% of the population has been fully vaccinated.

To aid the nation's recovery from the coronavirus disease 2019 (COVID-19) pandemic, in 2020, Congress passed four special appropriations laws for the federal government to use in relief efforts. The largest of these was the "Coronavirus Aid, Relief, and Economic Security Act" or the "CARES Act." The Congressional Budget Office (CBO) estimates this bill will cost \$1.7 trillion³². This bill was passed into law on March 27, 2020, and attempts to address economic impacts of, and otherwise respond to, the COVID-19 outbreak by:

- authorizing emergency loans to distressed businesses, including air carriers, and suspending certain aviation excise taxes;
- providing funding for forgivable bridge loans and additional funding for grants and technical assistance to small businesses;
- providing funding for \$1,200 tax rebates to individuals (subject to income limitations), with additional \$500 payments per qualifying child;
- establishing limits on requirements for employers to provide paid leave;
- revising tax provisions regarding withdrawals from retirement plans, tax due dates, losses, charitable deductions, and business interest;
- providing additional funding for the prevention, diagnosis, and treatment of COVID-19;
- limiting liability for volunteer health care professionals;
- prioritizing Food and Drug Administration (FDA) review of certain drugs and allowing emergency use of certain diagnostic tests that are not approved by the FDA;
- expanding health-insurance coverage for diagnostic testing and requiring coverage for preventative services and vaccines;
- revising other provisions, including those regarding the medical supply chain, the national stockpile, the health care workforce, the Healthy Start program, telehealth services, nutrition services, Medicare, and Medicaid;
- temporarily suspending payments for federal student loans and otherwise revising provisions related to campus-based aid, supplemental educational-opportunity grants, federal work-study, subsidized loans, Pell grants, and foreign institutions; and
- authorizing the Department of the Treasury to temporarily guarantee money-market funds.

On March 11, 2021, the American Rescue Plan Act was passed into law. This bill provides additional relief to address the continued impact of COVID-19 on the economy, public health, state and local governments, individuals, and businesses. The CBO estimates that the bill will cost \$1.9 trillion. Specifically, the bill provides funding for:

- agriculture and nutrition programs, including the Supplemental Nutrition Assistance Program (SNAP, formerly known as the food stamp program);
- schools and institutions of higher education;
- child care and programs for older Americans and their families;
- COVID-19 vaccinations, testing, treatment, and prevention;
- mental health and substance-use disorder services;
- emergency rental assistance, homeowner assistance, and other housing programs;
- payments to state, local, tribal, and territorial governments for economic relief;

- multiemployer pension plans;
- small business assistance, including specific programs for restaurants and live venues;
- programs for health care workers, transportation workers, federal employees, veterans, and other targeted populations;
- international and humanitarian responses;
- tribal government services;
- scientific research and development;
- state, territorial, and tribal capital projects that enable work, education, and health monitoring in response to COVID-19; and
- health care providers in rural areas.

The bill also includes provisions that:

- extend unemployment benefits and related services;
- make up to \$10,200 of 2020 unemployment compensation tax-free;
- make student loan forgiveness tax-free through 2025;
- provide a maximum recovery rebate of \$1,400 per eligible individual;
- expand and otherwise modify certain tax credits, including the child tax credit and the earned income tax credit;
- provide premium assistance for certain health insurance coverage; and
- require coverage, without cost-sharing, of COVID-19 vaccines and treatment under Medicaid and the Children's Health Insurance Program (CHIP).

Impact

The pandemic and our responses to it have had a significant negative impact on the health and well-being of the US population, as well as on the US economy. Despite mitigation and relief efforts, in 2020:

- 341,508 people died from causes associated with COVID-19, making COVID-19 the third leading cause of death in 2020, after heart disease and cancer.
- 19,852,553 people were diagnosed with COVID-19.
- GDP decreased 3.5%, the lowest growth rate since 1946.
- Monthly unemployment reached a high of 14.8% in April, after a 50-year low in February.
- The economy lost 9.4 million jobs, a 6.2% decrease from 2019, which was larger than the 8.6 million job drop from 2007 to 2009 during the Great Recession.

Further transmission of COVID-19 could translate into large numbers of people needing medical care at the same time. Public health and healthcare systems may become overloaded, with elevated rates of hospitalizations and deaths. Other critical infrastructure, such as law enforcement, emergency medical services, and sectors of the transportation industry may also be affected. Schools, childcare centers, and workplaces may experience more absenteeism, and our economy could be further negatively impacted.

There is also risk that the mitigation and relief efforts will not achieve their intended objectives, including risk of fraud in the relief bills. In 2021, the US Government Accountability Office (GAO) added emergency loans for small businesses to its high risk list noting "limited controls built into the [Paycheck Protection Program] PPP and [Economic Injury Disaster Loan] EIDL approval processes...[and] the related risk of hundreds of millions of dollars in improper payments."³³

For ongoing analysis of the impact of COVID-19, please see USAFacts' Coronavirus hub at <https://usafacts.org/issues/coronavirus/>.

In a free society, human behavior cannot be fully regulated or controlled.

Our Government provides services, promulgates regulations, and enacts legislation intended to make progress towards our Constitutional objectives; however, citizens are responsible for making their own choices as to employment,

healthcare, education, and the like. They may choose wisely or poorly, and they may or may not take advantage of the opportunities open to them. For example:

- While our Government seeks to create a stable economic climate that favors full employment and low inflation, it cannot guarantee these outcomes. Company investment, hiring decisions, and individuals' desire to work are beyond our Government's control.
- Our Government provides access to healthcare and discourages unhealthful behavior (for example, by imposing high excise taxes on tobacco and requiring warning labels); however, individuals may still choose to engage in unhealthful behavior such as smoking.
- Our Government sets emissions standards for automobiles to limit air pollution, but citizens are still free to drive as much as they wish.
- Our Government seeks to promote transportation safety by issuing drivers' licenses, imposing speed limits, requiring the use of seatbelts in cars and regulating the trucking, rail, and airline industries. Even so, accidents will occur as a result of human error or unforeseeable mechanical failures.

Our Government's revenue and spending and our Constitutional objectives may be significantly affected by social unrest.

Establishing justice and ensuring domestic tranquility have been top priorities since the adoption of the Constitution in 1787. If there is civil unrest, most inputs and outcomes of our Government are affected.

Domestic tranquility has periodically been disrupted by localized rebellions, criminal gangs, labor actions, riots, and mass protests. In 1794, President George Washington raised a militia to suppress the "Whisky Rebellion," an uprising by farmers in western Pennsylvania resisting the imposition of an excise tax on whiskey. In 1932, President Herbert Hoover ordered the army to disperse the so-called "bonus army," a group of more than 40,000 veterans, family members and supporters who gathered in Washington to demand cash redemption for bonus certificates awarded for service in World War I. In 1968, the assassination of civil rights leader Martin Luther King, Jr. sparked a wave of riots across American cities, including Washington D.C., Chicago, Baltimore, Detroit, and Kansas City, causing dozens of deaths, more than 10,000 arrests, and widespread property damage. President Lyndon B. Johnson mobilized more than 10,000 federal troops and national guardsmen to quell the disturbances in Washington. The 1960s also saw mass demonstrations to protest the war in Vietnam, including one in 1969 that drew an estimated half a million protesters to the capital. Most significantly, a dispute between southern and northern states over the institution of slavery resulted in the secession of 11 southern states from the union, followed by a civil war to restore the union that lasted from 1861 to 1865, costing the lives of 620,000 soldiers.

Throughout 2020, Domestic Violent Extremists (DVEs) targeted individuals with opposing views engaged in First Amendment-protected, non-violent protest activity. DVEs motivated by a range of issues, including anger over COVID-19 restrictions, the 2020 election results, and police use of force have plotted and on occasion carried out attacks against government facilities. Long-standing racial and ethnic tension—including opposition to immigration—has driven DVE attacks, including a 2019 shooting in El Paso, Texas that killed 23 people. DHS is concerned these same drivers to violence will remain through early 2021 and some DVEs may be emboldened by the January 6, 2021 breach of the US Capitol Building in Washington, D.C. to target elected officials and government facilities. DHS remains concerned that homegrown violent extremists inspired by foreign terrorist groups, who committed three attacks targeting government officials in 2020, remain a threat. Threats of violence against critical infrastructure, including the electric, telecommunications and healthcare sectors, increased in 2020 with violent extremists citing misinformation and conspiracy theories about COVID-19 for their actions.³⁴

Today, cities, counties, and states operate police forces and court systems responsible for enforcing local laws and maintaining public order, prisons to accommodate those who have been convicted of breaking the law and sentenced to incarceration, and fire departments to prevent and fight fires. The federal government also operates a number of law-enforcement agencies, including the Federal Bureau of Investigation and the Drug Enforcement Administration. Our Government also seeks to ensure the safety of consumer products, food and pharmaceuticals, and transportation systems; protect the environment; and protect the population against natural disasters.

Our Government's ability to maintain order and protect the population from a variety of threats faces a number of risks and challenges, including:

- Natural disasters such as hurricanes, earthquakes, tornadoes, and forest fires;
- Riots and civil unrest, with potential causes including racial tensions and perceptions that inequality is rising and economic mobility declining;
- Nuclear disasters, caused by an accident or sabotage;
- Terrorist attacks, either homegrown or originating abroad;
- Individuals or groups that seek to harm others, including by committing homicides, and the inability of our Government to control all individuals despite incentives and laws; and
- War with a powerful adversary.

Promoting good health faces key challenges.³³

First, the Medicare Hospital Insurance Trust Fund is forecast to be depleted as early as 2023, reflecting rising health-care costs and a relative decline in the number of workers paying payroll taxes. See Exhibit 99.07 for more information.

Second, epidemics, such as those caused by the Ebola or Zika viruses, and pandemics, such as the one caused by COVID-19, could bring about widespread illness and loss of life. See *The COVID-19 pandemic may hinder our Government's ability to achieve its constitutional objectives, at least in the short-term* above for discussion of the risks associated with the current pandemic.

Third, in 2021, the GAO added national efforts to prevent, respond to, and recover from drug misuse to its high-risk list, noting "National rates of drug misuse have increased over the past 2 decades and represent a serious risk to public health. This has resulted in significant loss of life and harmful effects to society and the economy, including billions of dollars in costs. GAO identified several challenges in the federal government's response, such as a need for greater leadership and coordination of the national effort, strategic guidance that fulfills all statutory requirements, and more effective implementation and monitoring." As of 2019, nearly 137 people in the US died per day after overdosing on opioids. The misuse of and addiction to opioids—including prescription pain relievers, heroin, and synthetic opioids such as fentanyl—is a serious national crisis that affects public health as well as social and economic welfare. The Centers for Disease Control and Prevention estimates that the total "economic burden" of prescription opioid misuse alone in the United States is \$78.5 billion a year, including the costs of healthcare, lost productivity, addiction treatment, and criminal justice involvement.

Data and Cybersecurity Risks

Government data is often untimely and inconsistent, inhibiting informed decision-making.

Unlike information about a corporation, the data for our Government come from numerous and varied sources. The current state of this data poses significant challenges, including:

- Each of the sources may prepare the data on different accounting bases (e.g. cash vs. accrual) and for different time periods (e.g. a point in time vs. a full year, calendar year vs. fiscal year), preventing comparability.
- The data is often not provided timely, sometimes years after-the-fact even for material data sets. For example, the latest date for which we have detailed corporate tax information is 2016. The latest date for which we have Medicaid enrollment data that is not estimates is 2013. The latest date for which we have consolidated financial data for our more than 90,000 state and local governments is 2018. And data on student enrollment and teacher populations is missing for some recent years.
- Sometimes the data conflicts with other data provided by our Government for the same metrics. For example, there are conflicting figures from the same or different government agencies for research and development spending, Unemployment Insurance benefits, Supplemental Security Income payments, and healthcare costs.

This lack of availability and comparability of data makes analysis of our Government challenging, hampering the knowledge and decision-making capability of our leaders, regulators, citizens, and all other interested parties. We have highlighted these and other key data challenges for this 10-K in Exhibits 99.12 and 99.13 to this report.

Government personnel security clearance processing challenges put us at risk.³³

A high-quality and timely government-wide personnel security clearance process is essential to minimize the risks of unauthorized disclosures of classified information and to identify and assess individuals with criminal histories or other questionable behavior. As of October 1, 2015, the latest date for which data are available, approximately 4.2 million government and contractor employees, at nearly 80 executive branch agencies, were eligible to hold a personnel security clearance. Current challenges in the personnel security clearance process include:

- *Timeliness* - For fiscal year 2020, the government-wide average for the fastest 90% of initial secret clearance investigations was 58 days, while the timeliness objective is 40 days. For fiscal year 2016 (the latest available data), investigations for the fastest 90% of initial top-secret clearances ranged from 168 days to 208 days, while the timeliness objective is 80 days. As of October 2020, there was a backlog of approximately 220,000 background investigations.
- *Investigation quality* - The executive branch has not established measures for the quality of background investigations. Establishing performance measures is one element of a framework for effectively managing program performance to achieve desired outcomes.
- *Resolution of previously identified issues* - Several critical areas of previously identified areas for reform - such as the implementation of continuous evaluation, and the issuance of a reciprocity policy - remain incomplete. The GAO made numerous recommendations to executive branch agencies to address risks associated with the personnel security clearance process since 2011, of which 14 are open as of March 2021.

Increasing cyber security threats challenge our safety, prosperity, and well-being.³³

Our Government and our nation's critical infrastructures—such as energy, transportation systems, communications, and financial services—are dependent on computerized (cyber) information systems and electronic data to carry out operations and to process, maintain, and report essential information. Ineffectively protecting cyber assets can facilitate security incidents and cyberattacks that disrupt critical operations; lead to inappropriate access to and disclosure, modification, or destruction of sensitive information; and threaten national security, economic well-being, and public health and safety. We are seeing steady advances in the sophistication of cyber-attack technology and the emergence of new and more destructive attacks. Since 2010, the GAO has made more than 3,300 recommendations (103 designated priority) to agencies aimed at addressing cybersecurity challenges facing the government. Nevertheless, many agencies face challenges in safeguarding their information systems and information, in part because many of these recommendations have not been fully implemented, and as of December 2020, more than 750 (67 designated priority) of the GAO's information security-related recommendations had not been fully implemented.

Strategic and Operational Risks

Our Government's revenue and spending are significantly affected by economic conditions.

Our Government's ability to deliver services to citizens is influenced by the state of the economy. Indeed, maintaining economic growth, full employment, and low and stable inflation are among its top priorities, at least in part because these conditions both foster the prosperity and well-being of its citizens and provide tax revenue that funds Government services.

An economic downturn could result in business failures and job losses, with a resulting decline in corporate and personal income-tax revenue. At the same time, spending would rise as government increases outlays for services such as unemployment insurance, Temporary Assistance to Needy Families, and the Supplemental Nutrition Assistance Program.

On the federal level, the combination of lower revenue and higher spending would widen the budget deficit, which would have to be financed either by raising taxes, selling government assets, or issuing debt. The increase of our national debt raises interest costs and constrains our Government's ability to provide services in the future.

An economic downturn could be caused by policy errors, the vagaries of the business cycle, and exogenous factors. In the longer term, the economy could succumb to a slowing pace of growth as an aging society reduces the size of the labor force as a proportion of the total population.

Policy errors

- Keeping interest rates low for too long could stoke inflation, which may then need to be curbed by a sudden, sharp increase in interest rates. Too-low rates also raise the risk of unsustainable asset valuations, or "bubbles."
- Keeping interest rates higher than necessary, which could slow the pace of economic growth by increasing the cost of doing business, as an example, and thereby raise unemployment.
- Excessive government spending with borrowed funds, which could drive inflation higher, eroding citizens' standard of living, creating an uncertain business environment, and discouraging investment.
- Insufficient government spending on services such as policing, health, defense, and education could reduce the effectiveness of key government functions and adversely affect the safety and well-being of the population.
- Raising personal and/or corporate income taxes excessively, thus possibly reducing incentives for certain individuals to work, invest, and innovate.
- Reducing personal and/or corporate income taxes too much and not decreasing government spending accordingly, thereby increasing the budget deficit.

Other potential causes

The state of the economy also depends on factors beyond our Government's control, including:

- *External shocks* – economic downturns or crises in overseas markets could reduce demand for US exports of goods and services, potentially slowing domestic economic growth.
- *Health shocks* – large-scale pandemics could cause economic disruption and budgetary pressures on federal, state, and local governments, reducing government revenues and requiring greater government expenditures.
- *Energy shocks* – a sudden, sharp jump in the price of oil and/or natural gas could result in higher prices for products such as gasoline and heating fuel, curbing consumer spending for other goods and services and slowing the overall pace of growth. More expensive energy could also spur broader consumer-price inflation by pushing up prices companies pay for electricity, fuel, and raw materials for the production of chemicals, plastics, and other goods.
- *Financial shocks* – a sharp drop in financial asset prices (e.g. common stocks) would reduce household wealth, potentially limiting consumer spending and driving companies into bankruptcy.
- *Housing bubble* – a steep increase in home prices, followed by a sharp decline, could push the economy into a recession by causing a drop in household balance sheets, consumer confidence, and spending.

Our Government's revenue and its ability to provide needed services in the long run may also be limited by failure to control budget deficits and the national debt.

Federal debt held by the public is now at its highest level since shortly after World War II. Without a change in current laws and policies, federal spending, especially for Social Security and Medicare, is forecast to outstrip revenue over the next decade, widening the national debt to 107% of GDP in 2031 from 102% in 2021, according to the Congressional Budget Office. In 30 years, the Congressional Budget Office projects the debt will rise to 202% of GDP. That amount would be the

highest in the nation's history by far. As a result, there is a risk that interest payments on the debt could consume a growing portion of the budget, possibly limiting the federal government's ability to provide other services unless taxes are raised or revenue is otherwise increased. A rising debt also risks pushing up interest rates, reducing savings and investment, and increasing the chances of a fiscal crisis.

Recently enacted legislation and tax avoidance put downward pressure on tax revenues, reducing Government resources.

On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) became law. Effective January 1, 2018, the TCJA reduces the top individual income tax rate from 39.6% to 37%, changes the income tax brackets associated with each tax rate, eliminates personal exemptions and nearly doubles the standard deduction, caps state and local tax deductions at \$10,000, increases the child tax credit, provides for a 20% deduction of qualified business income and certain dividends for individuals, reduces the corporate tax rate to 21%, and provides changes to treatment of earnings from foreign subsidiaries, among other provisions.

The Joint Committee on Taxation, a nonpartisan committee of the US Congress, estimates that the TCJA will reduce federal income tax revenue by \$1.5 trillion between 2018 and 2027, including \$1.1 trillion between 2018 and 2022. The estimated impacts on annual tax revenues range from a gain of \$33 billion in 2027 to a loss of \$280 billion of revenue in 2019. This works out to an average estimated annual revenue loss of \$146 billion, or about 3% of our Government's annual revenue.

Enforcement of tax laws helps fund our Government. Internal Revenue Service (IRS) enforcement collects revenue from noncompliant taxpayers and, perhaps more importantly, promotes voluntary compliance by giving taxpayers confidence that others are paying their fair share. The IRS's capacity to implement new initiatives, carry out ongoing enforcement and taxpayer service programs, and combat identity theft (IDT) refund fraud under an uncertain budgetary environment remains a challenge. In 2019, the IRS estimated that the average annual gross tax gap—the difference between taxes owed and taxes paid on time—was \$381 billion, on average, for tax years 2011-2013. In addition, the IRS estimates that at least \$6.1 billion in individual IDT tax refund fraud was attempted in 2018, of which it prevented at least \$6 billion. The IRS estimates that it paid between \$90 million and \$380 million to fraudsters.

Failure to raise the debt limit could create operational and economic risk.

Gross federal debt, or the sum of the debt held by the public and debt held by government entities (such as the Social Security trust fund) is subject to a statutory ceiling set by Congress. The ceiling, known as the debt limit, has been suspended (there is no limit) through July 31, 2021. The Treasury must take extraordinary measures to continue funding government activities after August 1, 2021. Even then, it will be able to continue borrowing only for a limited time. Once the limit is reached, the Treasury may not issue new debt to pay bills already incurred by Congress. Since 1960, Congress has raised, extended, or altered the definition of the debt ceiling or suspended it numerous times, most recently effective August 2, 2019. Failure to raise the ceiling when needed could prompt an unprecedented default on Treasury securities, which are generally considered the world's safest government debt and form a foundation for the global financial system. A US default, in turn, could trigger a financial crisis and throw the nation into a recession.

Ongoing efforts to modernize the financial regulatory system and the federal role in housing finance also pose risks to the budget outlook and economic stability.³³

Following massive bailouts of financial firms during the 2007-2008 crisis, in 2010, the federal government enacted the Dodd-Frank Act, which was intended to strengthen oversight of the financial system and reduce the risk of another crisis. In May 2018, the Financial CHOICE Act rolled back a number of provisions of the Dodd-Frank Act. This act, as amended, has not been tested, and it's unclear whether it is adequate to prevent future financial crises that would involve the use of government funds to rescue financial institutions.

As a reaction to the financial crisis, our Government also took over two housing-finance agencies, Fannie Mae and Freddie Mac, which guarantee about half of the new mortgages in the US and have combined assets of about \$7 trillion. Our Government's role in housing finance could require the use of significant government funds.

Our Government has significant fiscal exposure to risks associated with a changing environment.³³

Changes in our environment may pose risk to agriculture, infrastructure, and the health of citizens. Possible effects include coastal flooding as a result of rising sea levels, changes to the productivity of farms, and more intense and frequent weather events, according to our Government Accountability Office. Drought and diminishing water supplies are also risks. Our Government is the owner and operator of infrastructure that is vulnerable to changes in our environment, insures crops that could be damaged, and provides disaster aid in emergencies.

The federal government is also financially liable for cleaning up areas where federal activities have contaminated the environment. Various federal laws, agreements with states, and court decisions require the federal government to clean up environmental hazards at federal sites and facilities—such as nuclear weapons production facilities and military installations. Such sites are contaminated by many types of waste. The GAO reports that the federal government's environmental liability has been growing for the past 20 years and is likely to continue to increase. For fiscal year 2020, the federal government's estimated environmental liability was \$595 billion—up from \$212 billion for fiscal year 1997. However, this estimate does not reflect all of the future cleanup responsibilities federal agencies may face. The GAO has found that federal agencies cannot always address their environmental liabilities in ways that maximize the reduction of health and safety risks to the public and the environment in a cost-effective manner, and that some agencies do not take a holistic, risk-informed approach to environmental cleanup that aligns limited funds with the greatest risks to human health and the environment.

Our Government's ability to achieve its vision is affected by foreign relations.

Cultivating friendly relations with foreign powers that share our values as well as improving relations or avoiding conflicts with actual and potential adversaries are essential to providing for the common defense. When necessary, we go to war to protect our vital national interests. Threats to our national security include:

- *Russia*, a nuclear power and principal successor to the USSR, seeks veto authority over nations on its periphery in terms of their governmental, economic, and diplomatic decisions, to shatter NATO and change European and Middle East security and economic structures to its favor. The use of emerging technologies to discredit and subvert democratic processes in Georgia, Crimea, and eastern Ukraine is concern enough, but when coupled with its expanding and modernizing nuclear arsenal the challenge is clear.
- *China*, which also possesses a nuclear arsenal, is leveraging military modernization, influence operations, and predatory economics to coerce neighboring countries to reorder the Indo-Pacific region to their advantage. As China continues its economic and military ascendance, asserting power through an all-of-nation long-term strategy, it will continue to pursue a military modernization program that seeks Indo-Pacific regional dominance in the near-term and displacement of the US to achieve global preeminence in the future.
- *Global terrorism* – Groups such as Islamic State have taken advantage of instability in the Middle East, including the collapse of Libya, civil war in Syria, and a weak, US-backed regime in Iraq, to extend control over territory and natural resources that can then be used to stage terrorist attacks across the globe. Such groups are difficult to counter because they usually deploy suicide attackers and their radical ideology, alien to our own values, makes it difficult if not impossible to negotiate with them.
- *Nuclear proliferation* – While the US has continued to reduce the number and salience of nuclear weapons, others, including Russia and China, have moved in the opposite direction. They have added new types of nuclear capabilities to their arsenals, increased the salience of nuclear forces in their strategies and plans, and engaged in increasingly aggressive behavior, including in outer space and cyber space. North Korea continues its illicit pursuit of nuclear weapons and missile capabilities in direct violation of United Nations (UN) Security Council resolutions. Iran has agreed to constraints on its nuclear program in the Joint Comprehensive Plan of Action (JCPOA). Nevertheless, it retains the technological capability and much of the capacity necessary to

- develop a nuclear weapon within one year of a decision to do so.
- *Alliances* – Our Government has concluded alliances and partnerships with a number of nations around the world, including Turkey, Pakistan, Israel, and Saudi Arabia. The goals and interests of these nations may not be identical to our own, and they may become embroiled in local conflicts that end up involving the US.
- *Cyberwarfare* could disrupt our military capabilities and command and control; adversaries could also create economic havoc through cyber-attacks on the financial system, the power grid, our water sources, and nuclear power plants.

Our Government’s ability to secure the financial future of retirees is threatened by the risk of insolvency facing Social Security trust funds and the Pension Benefit Guaranty Corporation.³³

The cost of providing Social Security and disability benefits is rising faster than revenue generated by the payroll tax. Reserves of the DI Trust Fund may be depleted as early as 2026, and reserves of the OASI Trust Fund may be depleted as early as 2031, according to projections by the funds’ trustees. See Exhibit 99.06 for more information. The Pension Benefit Guaranty Corporation (PBGC), which backs the pension benefits of over 34 million Americans through insurance programs that guarantee pension benefits when plans fail, may not be able to meet its long-term obligations, due in part to a long-term decline in the number of traditional defined benefit plans and the collective financial risk of the many underfunded pension plans that PBGC insures. According to the PBGC’s 2020 Annual Report, the PBGC’s deficit was \$48 billion as of September 30, 2020. Its projections show that the multiemployer program continues to show a very high likelihood of insolvency during 2026, and that insolvency is a near certainty by the end of 2027. When the program becomes insolvent, PBGC will be unable to provide financial assistance to pay the current level of guaranteed benefits in insolvent plans. At that time, the only money available to provide financial assistance will be incoming multiemployer premiums and thus PBGC will be only able to pay financial assistance to the extent of PBGC’s multiemployer premium income.

Failure to maintain and upgrade the nation’s surface transportation system could curb economic growth and adversely affect the quality of life for citizens.³³

The nation’s highways, mass transit, and rail systems are under growing strain, reflecting increasing congestion and freight demand, and traditional funding sources are eroding. For example, federal taxes on gasoline haven’t been raised since 1993. Inflation-adjusted revenue from motor fuel taxes that support the Highway Trust Fund, a major source of federal surface transportation funding, is declining, according to the Government Accountability Office, and our Government has been using general revenues to maintain spending levels. This trend is forecast to continue as consumers turn to vehicles that are more fuel efficient or that use alternative energy sources. The Congressional Budget Office estimates that \$159 billion in additional funding would be needed between 2022 and 2029 to maintain inflation adjusted spending on current levels.

Recruiting and retaining skilled Government workers is key to delivering essential, and in many cases life-saving, services to the American people.³³

High levels of training and education are required to address complex challenges such as disaster response, national and homeland security, and rapidly evolving technology and privacy-security issues. However, current budget and long-term fiscal pressures, declining levels of federal employee satisfaction, and a potential wave of employee retirements could produce gaps in leadership and institutional knowledge.