



2011 pbgc Annual Report

Pension Benefit Guaranty Corporation
www.pbcc.gov

A MESSAGE FROM OUR CHAIR



This Administration is committed to securing the future of America's workers and retirees. The economic challenges facing workers, retirees, and the employers that sponsor defined benefit pension plans are significant. The Pension Benefit Guaranty Corporation (PBGC) helps to secure the retirement hopes of millions of workers by encouraging companies to maintain plans and by paying the benefits earned by workers up to the maximum allowed by law when employers are no longer able.

On behalf of the PBGC Board, I am pleased to present the PBGC's FY 2011 Annual Report. The Annual Report provides important information on the PBGC's operations and its finances. It highlights many of the accomplishments of the PBGC over this past fiscal year, including the continued success of the PBGC in strengthening plans and preserving them in bankruptcy. It also underscores the important role of the PBGC in acting as a backstop for workers and retirees who depend on pension plans.

In the past year, the Administration has taken steps to strengthen the PBGC and to preserve pension plans. We recommended legislation that reforms premiums to encourage preservation of sound pensions, treats businesses more fairly, and strengthens the PBGC's programs for the future. It is a step toward a more secure future for workers, for retirees, and for the PBGC's pension insurance mission itself.

My fellow Board members and I will continue our strong oversight and leadership of the PBGC. Consistent with the Board's commitment to good governance, the Board completed its work this past fiscal year in adopting a new investment policy appropriate for the PBGC's mission and continues to work on other initiatives to strengthen the PBGC's programs. As Chair of the Board, I can assure the Congress and the American people that we will continue to work with the PBGC Director and staff to protect and strengthen retirement security.

A handwritten signature in black ink that reads "Hilda L. Solis". The signature is written in a cursive, flowing style.

Hilda L. Solis
Secretary of Labor
Chair of the Board

A MESSAGE FROM OUR DIRECTOR: PROVIDING SECURITY, TODAY AND TOMORROW



The market collapse of three years ago still resonates in economic tremors that undermine both job security and retirement security. Another seismic shift, this one demographic, has already begun to transform America's retirement needs. Workers and retirees still face uncertainty: uncertainty about the economy; uncertainty that their companies and their jobs will last beyond the next paycheck; and uncertainty about their futures.

Throughout this, ***PBGC continues to help***. Thirty-seven years ago Congress set us up to protect and insure pension plans, make sure workers' benefits get paid, and promote the voluntary pension system. That remains our mission:

- ***We work for more secure retirements. We implement pension laws, and work with the President and Congress to improve them for the next generation.*** This past year, the Administration proposed that PBGC's premiums be reformed to encourage the preservation of healthy plans, which will strengthen both existing plans and our ability to protect them.
- ***We work with companies to preserve their pension plans.*** Last year PBGC staff negotiated with dozens of companies, both in bankruptcy and otherwise, to preserve their plans. Partly as a result, 74,000 people will keep their pension plans that otherwise might not. PBGC also made changes to reduce the procedural and regulatory burdens that accompany traditional plans.
- ***When plans do fail, we step in and make sure benefits keep getting paid.*** We work to ensure that retirees get the full benefits provided by law — on time.

We currently protect the retirement hopes of nearly 44 million participants in more than 27,000 ongoing pension plans. When a PBGC-insured plan cannot keep its pension promises, PBGC makes sure the plan's participants get their benefits, up to the limits of federal pension law.

Over the years we've become responsible for about 1.5 million people in more than 4,300 failed plans. Every month, on average, we pay \$458 million for 873,000 retirees. PBGC is also responsible for future payments to about 628,000 who have not yet retired. During FY 2011, we assumed responsibility for more than 57,000 additional workers and retirees in 134 failed plans.

But that has never been, and is not now, the whole of our mission. From the beginning, PBGC has been charged to "encourage the continuation and maintenance of voluntary private pension plans for the benefit of their participants."

One doesn't need to be an expert to see that such plans, and retirement security generally, are in trouble.

Restoring Retirement Security in Uncertain Times

Longer Healthier Lives Require Better Pensions & More Saving, not Less The great news is that people in America are living longer and healthier lives. Today, at retirement, the average person retiring can expect to live for almost two decades. That's just the average; many will live into their late 80s or 90s. This is a big improvement: fifty years ago, after retirement, the average person lived less than 15 years.

Unfortunately, pensions haven't kept up. Many companies no longer rely on traditional pension plans and focus instead on 401(k)-type defined contribution savings plans. Those DC plans may force individual employees to become their own retirement and investment experts; as a result, many save too little, invest it in ways that generate a lower return, and often use the savings for things other than retirement.

Once we do the math, it's clear that retirement is going to cost more, not less. As people live longer, pensions are becoming more expensive and people are going to have to save more.

One of this country's greatest accomplishments has been to provide security to our seniors. Seventy-five years ago, the people who were most likely to be poor were the elderly who could no longer work. Today, thanks to Social Security and Medicare, economic growth – and pensions – that is no longer true. But we are in danger of reversing that progress. And people know it.

Retirement Concerns are Growing Most people don't think they have enough to retire, and since the stock market crash of 2008, these concerns have skyrocketed. According to the National Institute on Retirement Security, in 2009, a staggering 83 percent reported having retirement concerns. The Employee Benefits Research Institute noted in their last Retirement Confidence Survey that a record percentage of workers is “not at all confident” about retirement.

Traditional defined benefit pension plans help. Defined benefit plans provide each person a steady retirement income that lasts their whole life, no matter how long he or she lives. Participation is automatic, so saving is built-in; that helps avoid the under-saving that research says is otherwise the norm. Furthermore, with a traditional defined benefit plan, people are not forced to cancel or delay their retirement, or absorb the risks of the market, because of an economic downturn.

Unfortunately, many employers are abandoning them. Some employers have frozen their plans; others have gone further and eliminated them entirely, via voluntary standard terminations.

There continue to be options that preserve some of the benefits of DB plans. Hybrid DB plans, such as cash balance plans, cover more than 1/3 of all participants in private-sector plans, and give more portable options.

PBGC is working to help ensure that employers and employees continue to have access to options for a more secure retirement.

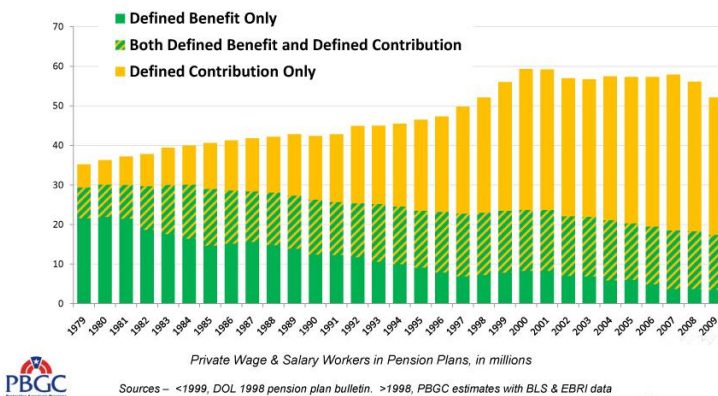
Working to Preserve the Pension Plans We Have

Before any plan fails, PBGC tries to preserve the plan and keep responsibility for delivering on pension promises in the hands of the employer who made them. Every plan retained by its sponsor is a victory both for PBGC and for the plan's participants. Through our Early Warning Program, we identify transactions that might threaten the health of pension plans, and step in before plans fail.

When major layoffs or plant closures threaten a plan's viability, PBGC steps in and works to negotiate protection for the plan.

Even after a company enters bankruptcy, PBGC is an active advocate, urging companies to keep their plans if possible through their reorganization.

50+ million private workers have an employer-provided retirement plan, often only a DC plan. Most private workers have no plan.



Stepping in to Ensure Pensions if Plans Fail

If a plan cannot be preserved, then PBGC will pay its beneficiaries. For 37 years we have stepped in to pay their benefits — on time, each and every month, and without interruption. In FY 2011, this proud tradition continued: we made 8.5 million payments totaling nearly \$5.5 billion.

Preserving Multiemployer Plans

More than 10 million of America's workers and retirees participate in and rely on multiemployer plans. For decades, multiemployer plans were in relatively good health, even in the face of industry decline. Unfortunately, for many multiemployer plans, that is no longer true. Many are substantially underfunded; for some, the traditional remedies of increasing funding or reducing future benefit accruals won't be enough.

PBGC's multiemployer pension insurance works very differently from our single-employer program. PBGC has fewer tools to work with multiemployer plans, and we cannot step in until plans are already insolvent, by which time other remedies are no longer possible.

In the past year, as a result of additional failures, the financial deficit of our multiemployer program increased sharply, from \$1.4 billion last year to \$2.8 billion as of September 30, 2011. The greater challenge, however, comes from those plans that have not yet failed: our estimate of our reasonably possible obligations (obligations to participants), described in our financial statements, increased to \$23 billion.

We have been studying the challenges facing multiemployer plans and listening to stakeholders about possible approaches to address them.

Protecting Our Financial Integrity

Despite PBGC's efforts to preserve pensions, in FY 2011, 152 underfunded single-employer plans did terminate, most often in bankruptcy. These included plans sponsored by Alabama Aircraft Industries, Inc.; Wolverine Tube, Inc.; Harry & David; and Johnson Memorial Hospital.

With these additional obligations, PBGC's total obligations rose to nearly \$107 billion. Although our investment assets increased as well, overall our net deficit rose from \$23 billion at the end of FY 2010 to \$26 billion this fiscal year.

Since our obligations are paid out over decades, we have sufficient funds to pay benefits for the foreseeable future.

Nonetheless, PBGC's obligations are clearly greater than its resources. We cannot ignore PBGC's future financial condition any more than we would that of the pension plans we insure.

To meet these challenges in a way that both preserves pensions and PBGC's ability to insure them, the Administration proposed to give the PBGC Board authority more consistent with other Federal insurance programs to set PBGC's premiums. Premiums would be fairer, and take into account risks that different plan sponsors pose to their retirees and to PBGC. This would replace the current system, which forces sound companies to pay for others that are not and charges the highest premiums when plans can least afford them. Without such action, the PBGC's deficit will increase and we may face, for the first time, the need for taxpayer funds.

Investing the funds entrusted to us wisely. In FY 2011, roughly half of PBGC professional investment managers outperformed their respective portfolio benchmarks. For the year, PBGC realized a 5.1% annualized return on total invested funds (excluding transition accounts), which is consistent with our overall benchmark.

Staying Accountable to Pensioners and the Public

Throughout our 37 years, PBGC has worked to provide our assistance in ways that are not only compassionate, but also professional and accountable. In that tradition of accountability, this report offers a complete accounting of our operating and financial performance.

Improving Our Performance

PBGC is proud of the professionalism of our people and of the quality of the services we provide. PBGC enters people's lives at a time of great distress, and we work hard to provide both security and compassion. Nonetheless, we are far from perfect and there is always room for improvement. Each year, we measure and report on our performance. Our annual performance report can be found beginning on page 2. It covers the benchmarks we use to satisfy ourselves and the public that we are:

Meeting the needs both of pensioners & pension plans. In FY 2011, our customer satisfaction scores, measured by independent American Customer Satisfaction Index surveys, remained well above most federal agencies and private businesses. Several exceeded the ACSI "threshold of excellence" of 80. Retirees who count on us for their benefits rated us at an all-time high of 90.

Paying benefits as accurately and quickly as possible. In FY 2011, the average time to issue a benefit determination dropped from 3.8 years to 2.9 years.

Finding & Correcting Errors. Our Inspector General found that, in several plans that were terminated five to eight years ago, PBGC did a poor job of accounting for all the assets; as a result, some pensioners may not have received the right benefit. We are redoing that work and are committed to correcting any errors. We are also making changes to prevent similar mistakes in the future.

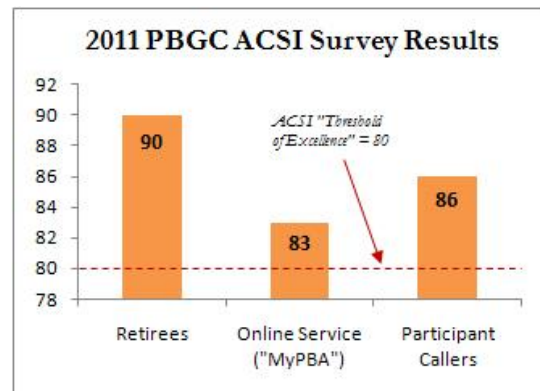
Financial Report

During FY 2011, we paid \$5.5 billion so that retirees and their surviving beneficiaries would receive benefits, because their pension plans could not.

On our financial statements we disclose the pension obligations we have assumed to date. Our obligations ("liabilities") continue to exceed the assets currently available to pay them, so we continue to report a very substantial deficit. As of September 30, 2011, we had single-employer assets totaling \$79 billion, an increase of about \$1.5 billion from the close of the previous fiscal year. Our single-employer liabilities (measured in present value though they will be paid over decades) totaled \$93 billion; this compares to total liabilities of \$90 billion in 2010. The net of these positions is a single-employer deficit of \$23 billion, an increase of \$1.7 billion from the prior year. The multiemployer insurance program experienced a \$1.3 billion decline, bringing its FY 2011 deficit to \$2.8 billion, with \$1.7 billion in assets to cover about \$4.5 billion in liabilities.

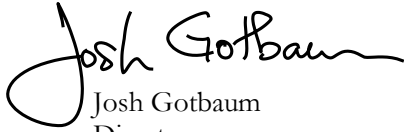
More details of PBGC's financial condition can be found in our financial statements and related materials. The independent auditor's reports are also included.

We are pleased that, in FY 2011, PBGC continued its unbroken 19-year record of unqualified (clean) audits. Our independent auditor and Inspector General continue, appropriately, to raise issues about the security of our information and the integration of our financial systems. We have undertaken a multi-year program to remedy these weaknesses.



An Ongoing Commitment to Help

PBGC has a long proud history of helping people in troubled times, giving them an important source of security. Our challenge is to continue to do so, professionally and accountably — to take advantage of time and technology to help millions of America’s workers and retirees achieve a more secure future, however uncertain that future may appear.



Josh Gotbaum
Director

November 14, 2011

2011 ANNUAL REPORT

Contents

A MESSAGE FROM OUR CHAIR.....	i
A MESSAGE FROM OUR DIRECTOR.....	ii
PBGC ANNUAL PERFORMANCE REPORT.....	2
SUMMARY OF HISTORICAL FINANCIAL PERFORMANCE.....	19
FISCAL YEAR 2011 FINANCIAL STATEMENT HIGHLIGHTS.....	21
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	24
MANAGEMENT REPRESENTATION.....	41
FINANCIAL STATEMENTS AND NOTES.....	42
APPENDIX A – IMPROPER PAYMENT ASSESSMENT.....	82
2011 ACTUARIAL VALUATION.....	93
LETTER OF THE INSPECTOR GENERAL.....	96
REPORT OF INDEPENDENT AUDITOR.....	97
MANAGEMENT’S RESPONSE TO REPORT OF INDEPENDENT AUDITOR.....	108
ORGANIZATION.....	109

The Pension Benefit Guaranty Corporation (PBGC or the Corporation) is a federal corporation established under the Employee Retirement Income Security Act (ERISA) of 1974, as amended. It guarantees payment of basic pension benefits earned by more than 44 million of America’s workers and retirees participating in more than 27,000 private-sector defined benefit pension plans. The Corporation receives no funds from general tax revenues. Operations are financed by insurance premiums paid by companies that sponsor defined benefit pension plans, investment income, and assets from terminated plans. This annual report is prepared to meet applicable legal requirements and is in accordance with and pursuant to the provisions of: the Government Corporation Control Act, 31 U.S.C. section 9106; Circular No. A-11, “Preparation, Submission and Execution of the Budget” Office of Management and Budget, August 18, 2011; and, Circular No. A-136 Revised, “Financial Reporting Requirements,” Office of Management and Budget, October 27, 2011. Section 4008 of the Employee Retirement Income Security Act, 29 U.S.C. section 1308, also requires an actuarial report evaluating expected operations and claims that will be issued as soon as practicable.

PBGC ANNUAL PERFORMANCE REPORT

The Pension Benefit Guaranty Corporation (PBGC) protects some 44 million workers and retirees in private defined benefit pension plans. We do so by encouraging companies to keep their plans, and by paying benefits when they cannot.

Broadly speaking, we have three overarching goals:

- *Preserve plans and protect pensioners,*
- *Pay pension benefits on time and accurately,* and
- Do so in ways that maintain high standards of *stewardship and accountability.*

This report describes our mission and our operations, how we measure our success, and our progress in achieving our goals.

We measure our performance by how we do our work and how we serve our customers:

- People who participate in and depend on pension plans,
- People who administer plans, and
- The Congress, other policymakers, and the public.

We closely monitor our operational results: how quickly and seamlessly we are able to start paying retirees new to the PBGC system, how accurately we calculate their benefits, how well we invest assets, and so on. We measure customer satisfaction directly, by surveying our customers to find out how well people think we serve them and to get suggestions for improving our services in the future.

“As long as the PBGC is there in the future to help with peoples' pensions, that would be great. It is scary to think about what would happen if we get to retirement age and then we lose our pensions.”

Participant Caller Survey – April 2011

Operations in Brief

We administer two insurance programs. Our single-employer program protects nearly 34 million workers and retirees in about 25,000 pension plans. Our multiemployer program protects about 10 million workers and retirees in about 1,500 pension plans.

In FY 2011, PBGC:

- paid nearly \$5.5 billion for approximately 873,000 retirees in more than 4,300 failed plans (an additional 628,000 workers will receive benefits when they retire),
- became responsible for more than 57,000 people in failed plans,
- started paying benefits to an additional 15,000 retirees, on time and without missing a single payment,
- helped protect another 74,000 people by encouraging companies in bankruptcy **not** to terminate their plans,
- negotiated \$195 million in increased protection for over 200,000 plan participants at risk from corporate transactions, and
- secured \$370 million on behalf of people whose companies down-sized.

Our Customer Focus

“I think they are perfect. I'm very, very, absolutely pleased. What is making [me] pleased right now is talking to you. It's really good to see that the company is doing this to follow up and that they are interested in us.”

Participant Caller Survey - April 2011

We have built a strong culture of serving the people who count on us. Our [Customer Service Plan](#) highlights our customer focus. We maintain a rigorous and continuous cycle of soliciting customer feedback, conducting analysis of operational strengths and gaps, and persistently following through on customer concerns. Our outstanding customer satisfaction scores attest to the success of our efforts.

Workers and retirees who call our participant toll-free number remain very satisfied with our efforts to provide timely, accurate, and responsive services. Our American Customer Satisfaction Index (ACSI) participant caller satisfaction score increased to 86, seven points higher than last year's score of 79 (see Chart 1), and 21 points higher than the 2010 government aggregate score. Our Customer Contact Center answers about 2,300 calls on an average day, and typically handles customer inquiries within seven minutes.

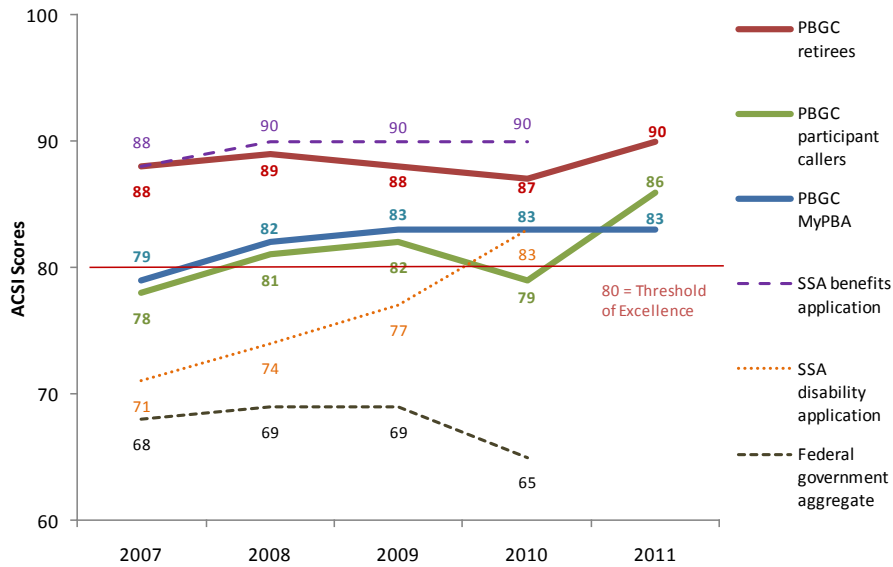
This year, we took a major step to further improve our customers' experience. We adopted a formal Customer Care Program to increase first-call resolution, reduce customer callbacks, and ensure that we are giving callers accurate and timely information.

When we surveyed people who called our toll-free number, they reported greater ease with navigating the telephone menu, improved follow-up, and timelier correspondence in FY 2011. The callers also expressed confidence that we will continue to do a good job in the future, also echoed in our survey of retirees currently receiving benefits.

Our primary online application for workers and retirees is called My Pension Benefit Account (MyPBA). MyPBA allows customers to access certain forms and information, and to perform routine transactions. During FY 2011, MyPBA users executed about 229,000 MyPBA transactions, and nearly 36,000 people established new accounts. People enjoy the convenience of handling certain transactions online, and they are satisfied with how MyPBA serves their needs.

The ACSI rating for MyPBA was 83, exceeding the ACSI “threshold of excellence” of 80. In addition to monitoring customer satisfaction, we also use survey feedback to identify potential new services.

Chart 1: Participant Satisfaction Achieves Record High Scores



Summary Table of PBGC Measures

The following table provides FY 2011 performance measure results by goals. We have four corporate-level performance measures, which collectively demonstrate how well we have met our commitments to preserve plans and protect pensioners, pay pension benefits on time and accurately to retirees and beneficiaries, and maintain high standards of stewardship and accountability.

FY 2011 Performance Measures	Target	Result	Baseline
Preserve Plans and Protect Pensioners			
ACSI for premium filers	72	75	2006: 68
Pay Timely and Accurate Benefits			
ACSI for workers and retirees who call PBGC	81	86	2004: 84
ACSI for retirees receiving benefits from PBGC	85	90	2001: 73
Ensure Superior Stewardship and Accountability			
Audit opinion on PBGC’s financial statements	Unqualified	Unqualified	1993: Unqualified
<i>The American Customer Satisfaction Index (ACSI) uses a 0-100 scale.</i>			

Preserving Plans and Protecting Pensioners

In our single-employer insurance program, we work with insured companies to prevent their plans from failing, and to protect people covered by the pension plans that we insure. Despite the relative improvement in the overall economy in FY 2011, PBGC efforts to preserve plans remained strong.

Reportable events filings (such as when a company misses a required contribution) remained close to FY 2009 and FY 2010 levels. Plan terminations also proceeded at a similar pace to last year, as we continued to assume underfunded plans of companies that faced financial distress due to the downturn. Bankruptcies were down from the highs of FY 2009 and FY 2010, while transaction activity increased as the capital markets opened up, allowing companies to fund acquisitions and seek opportunistic sales. Although new shutdown and layoff cases declined in FY 2011, settlements rose as we reached agreements in earlier cases.

Early Warning: In FY 2011, we monitored nearly 1,000 companies to identify transactions that could pose significant risks to underfunded plans and to arrange for sponsors to protect those plans. In cases where a transaction could weaken a pension plan, we engaged the plan sponsor to negotiate an agreement to strengthen the plan. Due to a significant increase in market activity, we reviewed 78 early warning transactions in FY 2011. Our efforts resulted in \$195 million in increased protection for over 200,000 plan participants.

PBGC entered into the following major agreements to strengthen plans and protect participants' benefits in FY 2011:

- Motorola Solutions, agreed to add \$100 million to strengthen the pensions of 87,000 employees and retirees,
- Tomkins Corp., an auto parts and building materials maker, agreed to add \$44 million to strengthen the pensions of 13,000 employees and retirees, and
- American General Finance, Inc. (AGF), a former subsidiary of the American International Group, Inc. (AIG), agreed to add \$4 million to strengthen the pensions of 9,000 employees and retirees.

Underfunded Plan Terminations: An underfunded plan may terminate either through a distress termination or a termination initiated by PBGC. In a distress termination, the sponsor and its corporate affiliates initiate the action, but must demonstrate that the company cannot afford to keep its plan. When PBGC initiates the termination of a plan, it is to protect participants' benefits or the pension insurance program, if the plan meets certain criteria.

In FY 2011, 152 underfunded plans terminated, about the same number as in FY 2010. In FY 2011, some of the largest failures were plans sponsored by Alabama Aircraft Industries, Inc.; Wolverine Tube, Inc.; Harry & David; and Johnson Memorial Hospital.

Standard Terminations: A standard termination occurs when a sponsor seeks to terminate its plan and the plan has enough money to cover all benefits that are due to its participants. We review all standard termination filings to ensure compliance with the law and audit a statistically significant number of these terminations to determine whether participants and beneficiaries have received their full plan benefits. We also take in the benefits of unlocatable participants in standard terminations and list those [missing participants](#) on our website as we work to find them.

During FY 2011, we received 1,425 standard termination filings for review, compared with 1,441 in FY 2010 and 1,200 in FY 2009. We also completed 264 compliance audits, and took enforcement action in 69 of these cases. The number of cases requiring enforcement action increased by 44 percent this fiscal year. Additional payments from enforcement actions vary from year to year. In FY 2011, these enforcement actions resulted in additional payments of more than \$2 million to over 900 workers and retirees.

Bankruptcy Activities: PBGC takes an active role in bankruptcies to prevent unnecessary plan terminations, and to pursue claims on behalf of the plan participants and the pension insurance program. Specifically, we:

- evaluate asset sales and other transactions that may affect a sponsor’s ability to maintain its plan;
- enforce liens on non-bankrupt affiliates of a sponsor that fails to make statutorily required pension contributions;
- litigate the appropriateness of plan terminations;
- resolve objections to our claims; and
- in some cases, serve on unsecured creditors committees.

In FY 2011, we opened 56 new bankruptcy cases. PBGC fights hard to preserve pension plans in bankruptcy and had many successes in FY 2011. We worked with 19 companies in bankruptcy to continue their pension plans after the sponsor reorganized, or after a new owner assumed operations. Their pension plans cover about 74,000 people, who will receive their full promised benefits. This also kept more than \$2 billion in unfunded pension liabilities off PBGC’s books. Companies that continued their plans following bankruptcy in FY 2011 include Chemtura Corp. with 15,000 participants and Visteon Corp. with 23,000 participants.

We do not always succeed. We fought to preserve the Harry & David Pension Plan for its 2,500 participants, but the bankruptcy court supported the company’s move to terminate the plan over our objection. We have now assumed responsibility for paying those benefits as they become due.

Responding to Major Shutdowns and Layoffs: Under Section 4062(e) of ERISA, a company has additional liabilities and must report to us when it ceases operations at a facility and more than 20 percent of a pension plan’s active participants are separated from employment. In these circumstances, we can negotiate agreements that protect the plans via additional cash contributions or other means. During FY 2011, we opened 68 new 4062(e) cases and reached settlements with 40 companies for more than \$370 million.

Recovering Assets for Retirees and the Insurance Program

In our role as trustee of terminated plans, we file claims on behalf of the plan, such as claims against fiduciaries for breach of their duties. For example, as trustee of the Saint Vincent Catholic Medical Centers pension plan, we are prosecuting an appeal to the Second Circuit against Morgan Stanley for imprudently investing plan assets in mortgage-backed securities. Assets recovered in these cases help replenish the assets available to the insurance program in the future and in some cases may result in higher benefits to some participants.

Paying Timely and Accurate Benefits

Although the optimal outcome is for companies to keep responsibility for their pension plans, some plans fail. When they do, PBGC is there.

In FY 2011, PBGC became responsible for an additional 55,000 workers and retirees in 129 terminated single-employer plans. By law, we must determine the individual benefits owed to each participant, which requires a unique calculation for each participant. Despite this complexity and the significant variation in termination activity from year to year, we remain committed to delivering accurate and timely payments and benefit determinations, and remaining responsive to participants' needs.

Continuing Benefits When Plans Fail

When a company can no longer keep its pension promises, our first priority is to ensure that people keep getting their benefit payments without interruption. In FY 2011, we stepped in to pay nearly 15,000 retirees already receiving monthly checks. All continued to receive their benefits without interruption when we assumed the plans. When a person's final benefit amount is not yet calculated and payment is due, we pay estimated benefits in the interim. For benefits we finalized in FY 2011, 92 percent of estimated payments were within 10 percent of the final benefit amount.

Paying Benefits on Time

PBGC paid nearly \$5.3 billion in benefits in FY 2011 to more than 819,000 retirees. Each and every month, we process and pay these benefits on time. On average, we process about 3,000 benefit applications per month for new retirees, with the number varying based on participants and beneficiaries becoming eligible for retirement. Participants who have reached retirement age will often apply for their benefits at the time we assume responsibility for their plan.

During FY 2011, we continued to process nearly 85 percent of retiree applications within 45 days. The 45 days allow us to review applicant documentation, follow up to obtain missing information, and position the retiree to receive payment in the following pay cycle. We monitor this activity to ensure timely benefit payments and continue to promote use of electronic direct deposit (EDD) for faster and more secure payments. Currently, 79 percent of payments are by EDD.

PBGC measures the satisfaction of retirees with the American Customer Satisfaction Index (ACSI) survey methodology, using feedback to improve performance and customer service. Retirees receiving benefits from PBGC continue to say that they are very satisfied with our services. Our FY 2011 ACSI score of 90 from retirees is the all-time high score for this measure, or any PBGC satisfaction measure, capping a decade-long trend of scores in the high 80s. The survey results demonstrate continued excellence in providing clear communications, on-time payments, and that retirees remain confident about our ability to serve them.

Paying Accurate Benefits

We calculate benefits using a process spelled out in federal law. Actuaries calculate each participant's benefit according to the pension plan's provisions; then they must apply statutory and regulatory rules to determine how much we can pay. We send each participant a letter presenting the benefit amount and explaining how it was calculated. Retirees already receiving estimated pay may see adjustments to their benefits when they are final.

During FY 2011, we issued 71,000 benefit determinations at an average completion time of 2.9 years, dropping to its lowest point in four years. See Chart 2. We are moving retirees from estimated to final pay

faster and reducing the amount of time it takes us to notify participants of the benefit they will receive from us. This year we continued to work through two of our oldest and most complex plans—Bethlehem Steel and United Airlines. We completed all benefit determinations for the Bethlehem Steel plans, and neared completion for the United Airlines plan. We remain committed to bringing the average time to issue benefit determinations down. The average age of the benefit determinations yet to be issued is 1.7 years, shown in Chart 3, representing nearly 288,000 people waiting for their benefit determinations. The increase from 2010 is primarily due to the large plans trusted during the prior year as a result of the recession.

Chart 2: Average Age of Benefit Determinations Dropped to Its Lowest Point in Years

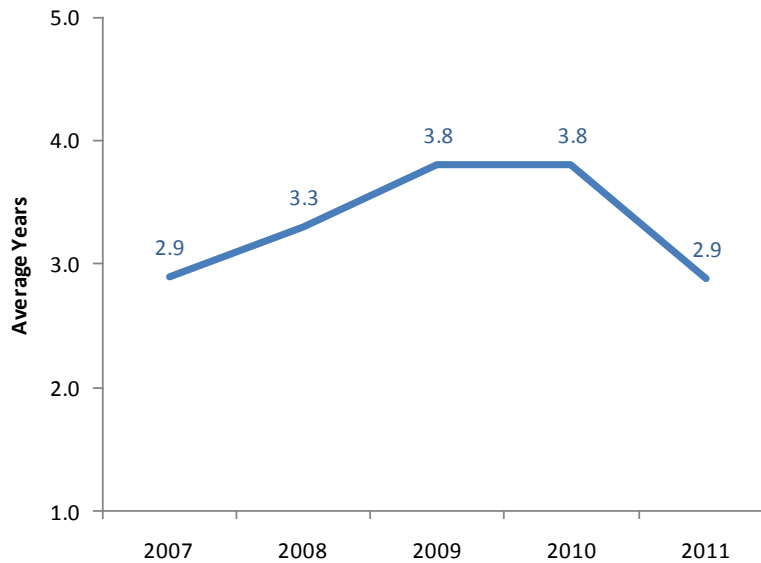
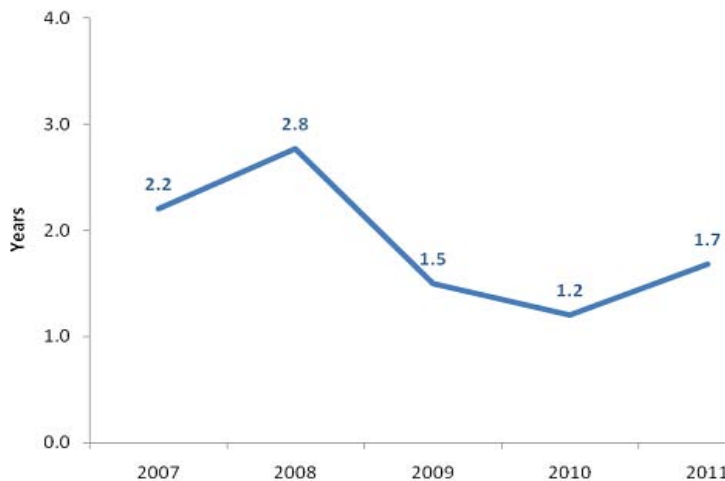


Chart 3: Increase in Average Age of Benefit Determinations Inventory



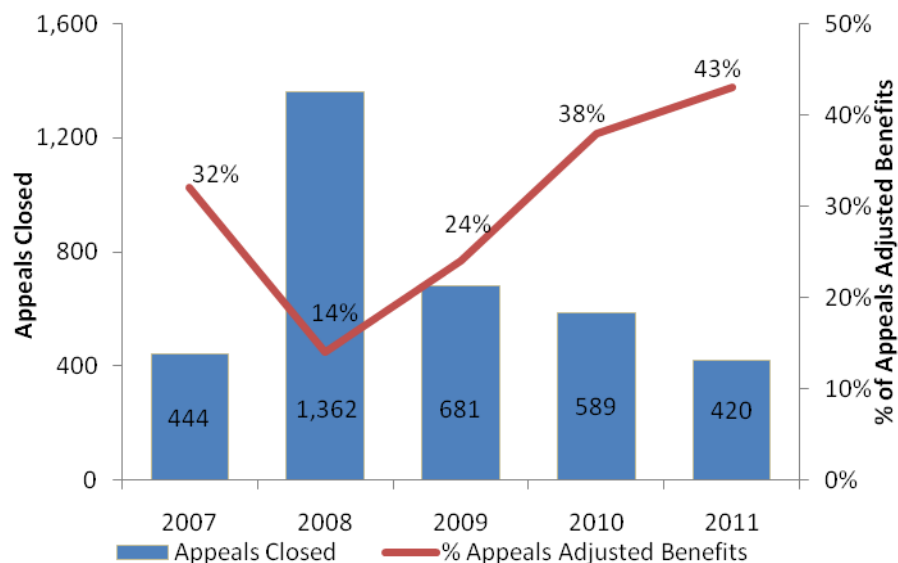
ERISA provides a very complex benefit determination process, and so it is not surprising that our decisions are appealed or litigated. Our goal is to ensure that beneficiaries get every penny to which they are entitled. Unfortunately, guaranteed benefits can be very different from the benefits that would have been received if a plan had continued in operation, and so beneficiaries can and do choose to appeal and litigate the results of those appeals.

How We Handle Appeals

Plan participants have the right to appeal PBGC benefit determinations. Appeals are often based on the participant presenting new information. Participants must submit an appeal or request additional time to file within 45 days of the benefit determination. Since 2006, we have issued over 650,000 benefit determinations and less than one percent of them have been appealed. The PBGC Appeals Board carefully examines the issues raised and makes a decision on whether an appeal should be granted. In FY 2011, the average time to close appeals remained stable at just over 300 days.

On average, about 30 percent of appeals result in benefit changes. Chart 4 illustrates the number of appeals that have resulted in adjustments to a participant’s benefit. For appeals closed in FY 2011, over 40 percent of them resulted in adjustments to benefit determinations. We post significant [appeal decisions](#) on our website for public access.

Chart 4: Few Appeals, and a Minority of Appeals Result in Adjusted Benefits



Benefits Litigation

In a large and complex program, disputes can arise. When we believe our decision was correct, we defend it in court. Examples include *Davis v. PBGC* (disputing several PBGC interpretations of ERISA and implementing regulations), and *USAPA v. PBGC* (challenging PBGC’s exercise of discretion not to pursue speculative allegations of fiduciary breach).

We continued to litigate the contested termination of the Delphi Salaried Plan (*Black v. PBGC*, et al.) and the contested termination of a bank holding company’s plan (*PBGC v. FBOP*; *FBOP v. PBGC*). We also sued

to enforce a standard termination audit determination requiring additional payments to participants in *PBGC v. Ferfolia Funeral Home*. PBGC sued the Japanese parent of a liquidating US auto parts manufacturer for controlled group liability for pension underfunding (*PBGC v. Asahi Tec*). In another case, the First Circuit upheld the settlement of an underfunding claim based on the PBGC valuation regulation, rejecting a theory that would have sharply reduced the amount of the claim (*Wolverine, Proctor & Schwartz*).

When We Make Mistakes

When pensioners meet the PBGC, their lives are already distressed. We work hard to help them with compassion and professionalism. However, the benefit determination process is complex, and we can and do make mistakes. When we do, we restore what is due to the participant as quickly as possible, whether the error is a small or large amount, and whether it affects many people or just one. We also take steps to determine the cause of the error and make improvements to our program to prevent such errors in the future. We know that any error, even if small and affecting only a few people, undermines the confidence and security of others that we serve.

In FY 2011, we acted on concerns raised by our Office of Inspector General about the accuracy of benefits provided to participants in the National Steel and other plans. The OIG was concerned with the plan asset evaluations for the National Steel and United plans, so we hired independent certified public accounting firms to redo those asset evaluations. We will recalculate benefits based on the revised asset figures. In addition to redoing the original work and correcting whatever errors we find, we also began a top-to-bottom review of the entire benefits operations, including processes, organization, and personnel. We have begun making changes and will implement more in the coming year.

We also conducted an Improper Payments Elimination and Recovery Act (IPERA) review of benefit payments in FY 2011. The IPERA methodology helps us to understand how well our processes are working, and to ensure payments are proper and well documented.

Multiemployer Financial Assistance Payments

Under current law, we cannot step in to financially assist multiemployer plans until they are insolvent (ie, have used up all their cash). Insolvency usually occurs after all contributing employers have withdrawn from the plan, leaving the plan without a source of income.

Our payments to insolvent multiemployer plans cover guaranteed benefits and reasonable administrative expenses. In FY 2011, we paid \$115 million in financial assistance to 49 multiemployer pension plans covering the benefits of nearly 54,000 retirees, up from the \$97 million we paid to 50 plans in FY 2010. An additional 28,000 people in these plans will receive benefits when they retire. We expect the number of insolvent multiemployer plans to more than double over the next five years.

We also work to facilitate plan combinations or close outs where that makes sense. In FY 2011, we helped five small insolvent multiemployer plans close out through the purchase of annuities and payment of lump sums for participants' guaranteed benefits. Closing out small insolvent plans reduces future administrative costs and helps us manage the growth in our financial assistance workload.

Ensuring Stewardship and Accountability

As a financial institution with responsibility for over 40 million people and obligations of over \$100 billion, it is essential that we do our work both professionally and accountably. Throughout FY 2011, we were a careful steward of the Corporation's resources and investments. In addition to collecting premiums and attaining our 19th consecutive unqualified audit opinion on financial statements, we maintained our focus on improving management in a number of areas as outlined below.

Collecting Premiums

PBGC collects premiums to insure defined benefit pension plans in the single-employer and multiemployer programs. In FY 2011, we collected \$2.4 billion.

Pension plan administrators file premiums with PBGC online using My Plan Administration Account (My PAA), submitting over 36,000 electronic filings in FY 2011. Like the callers to our participant call center and retirees who count on us, premium filers also expressed satisfaction with our services in FY 2011.

As Chart 5 indicates, our survey results for premium filers rose by an unprecedented four points, to an all-time high score of 75. Users of My PAA rated their satisfaction with the system at 79, approaching the ACSI “threshold of excellence” at 80.

This year’s higher premium filer satisfaction score is attributable to several factors: We improved call-handling procedures by assigning one representative to a given group of plans for greater convenience and familiarity; and continued to offer expanded call center hours during peak filing periods to help filers meet their premium filing obligations on time. We have also listened to our premium payers and pension professionals. In response to their comments, we are providing relief from certain premium penalties and in certain situations involving alternative premium funding target elections. For plan years beginning after 2010, we will automatically waive premium penalties that are assessed solely because premium payments are late by not more than seven calendar days; and relief is available for certain “election-related” filing inconsistencies.

We also enhanced system validations in My PAA to improve the accuracy of online transactions, and continued to increase system speed for faster transaction processing. Chart 5 also shows that premium-filer and My PAA satisfaction scores compare very well with other regulatory agencies with collection responsibility.

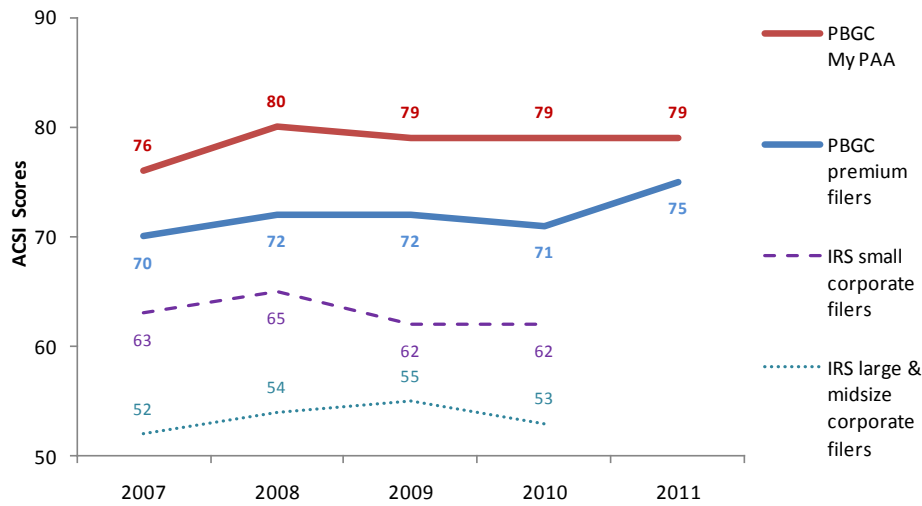
“It's very easy to do and it's surprising especially for a government agency.”

“I think they do an outstanding job compared to my expectations.”

“Any time that I have ever called, the person on the other line has been extremely polite and very helpful.”

Premium Filer Survey – July 2011

Chart 5: Practitioner Satisfaction Achieves Record High Score



Investment Management

PBGC's investment program manages the Corporation's assets using private-sector investment management firms subject to our oversight and acting in accordance with our newly adopted investment policy.

As of September 30, 2011, PBGC had an investment performance portfolio of nearly \$70 billion. Funds are derived from a combination of premiums, assets of trustee plans, and payments from plan sponsors as settlements in bankruptcy. In FY 2011, the total return on PBGC's investment performance portfolio was 5.1 percent, excluding transition accounts. Roughly half of PBGC investment managers outperformed their respective portfolio benchmarks and the portfolio as a whole performed to the benchmark level. See table for detail.

TABLE 1: FISCAL YEAR 2011 INVESTMENT RETURNS VERSUS BENCHMARKS

	1-Year Period	3-Year Period	5-Year Period
Total Fund Composite	5.1%	10.1%	6.0%
Total Fund Benchmark ¹	5.1%	9.0%	5.4%
Total Global Bonds	8.3%	12.7%	8.5%
Total Global Bonds Benchmark ²	8.3%	11.3%	7.4%
Total Global Public Stock	-5.2%	0.9%	-1.6%
Total Global Public Stock Benchmark ³	-5.1%	0.7%	-1.3%

¹The Total Fund Benchmark is a dynamically weighted benchmark based upon the weights of the equity, fixed-income, and cash benchmarks. This benchmark is used to compare against the Total Fund Composite returns shown above.

²The Total Global Bonds Benchmark is a dynamically weighted benchmark based upon the weights of all bond managers and the returns of their respective benchmarks.

³The Total Global Public Stock Benchmark is a dynamically weighted benchmark using both the Dow Jones US Total Stock Market 5000 and the Total International Equity Composite Benchmark.

ERISA also prescribes a benchmark that funds are invested in accordance with statutory requirements — which mandate that some funds in some accounts be in government-guaranteed securities and others are in fixed-income securities. For further analysis of PBGC's investment activities please refer to page 31 of Management's Discussion and Analysis of Results of Operations & Financial Condition.

Strengthening Internal Controls

PBGC's Internal Control Committee leverages expertise from representatives throughout the agency to manage corporate risk. Each year, we conduct an entity-wide risk assessment to support strategic planning and help improve agency controls. We test our management controls and certify to their effectiveness, as reflected in the Federal Managers' Financial Integrity Act Statement of Assurance found on page 39. Concerted effort this year resulted in the closing of 45 of just over 200 open OIG audit recommendations.

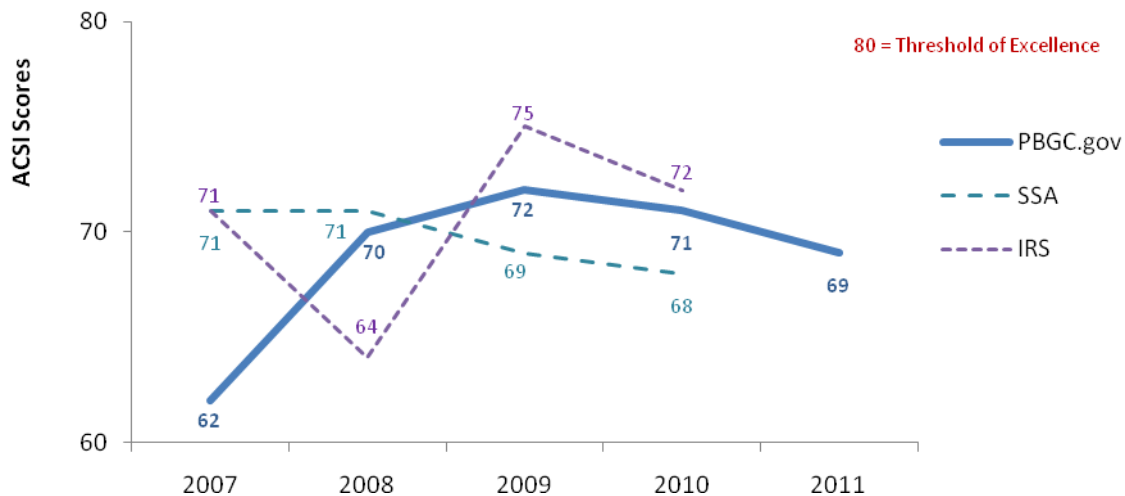
Strengthening E-Government and Information Technology

Our information technology (IT) infrastructure remains sufficient to pay benefits and perform our other operations. We are now taking steps to meet federal security and control standards. In FY 2011, we completed a formal security assessment and authorization of our general support systems, but much work remains to remediate all weaknesses identified. We are making progress on our five-year plan to improve our Web presence, consolidate operational systems for manageability and scalability, and put the necessary IT security controls in place. We plan to demonstrate significant improvement on a number of security and control weaknesses in FY 2012.

We made a significant effort in the first half of the year to develop and deploy an upgraded PBGC website, which made its debut in January 2011. Customer satisfaction with the previous website had begun falling, prompting the redesign effort. Despite that effort, customer satisfaction dropped 2 points to 69 from last year's score of 71. After the initial period, customer satisfaction scores steadily improved over the final

few months of the year. Chart 6 below shows that overall customer satisfaction with PBGC.gov remains comparable to sites of other organizations performing similar roles.

Chart 6: PBGC.gov Satisfaction Compares Well With Other Federal Agencies



Reforming Federal Contracting and Acquisition

We have built a strong culture of serving the people who rely on us. We can meet their needs because we augment our employees with contractor staff. We work to make sure that our contractors are both efficient and compassionate, but like other Federal agencies, ensuring proper oversight remains a significant challenge. Throughout FY 2011, we continued to make improvements to the way we acquire goods and services and administer contracts. In FY 2011, 87 percent of acquisitions were full competitions and 40 percent were performance-based contracts, an increase over the prior year.

Also in FY 2011, we updated existing policies and procedures, improved customer communications, completed integration of the contract-writing system with the core financial system which strengthened internal controls, increased emphasis on training for those handling acquisition matters—contracting officers, contracting officer’s representatives (CORs), and program managers—and established new internal controls focused on the activities of CORs and purchase cardholders.

Furthering Collaboration and Transparency

During FY 2011, we increased efforts to be more collaborative and transparent with customers and the public. Our [open government Web page](#), established in FY 2010, is kept current with data considered of value to the public. We also measure customers’ perceptions of our transparency via the PBGC.gov survey, which has shown that customers feel we do a good job making information accessible and sharing it thoroughly and promptly.

We shared our Pension Insurance Modeling System (PIMS) with the Society of Actuaries (SOA), the nation’s largest actuarial research organization. SOA recently produced its first report using PIMS for research and analysis. We developed PIMS to project our future financial condition and better understand our exposure risk.

We helped organize and participated in an interagency Benefits Processing Working Group. Working with other benefit paying agencies, we have found ways to share data sources that will reduce improper payments and explored opportunities to streamline processes and improve operational efficiencies for like activities.

Each year, we post our [Freedom of Information Act \(FOIA\) reports](#) to our website. Since the late 90s, we have maintained an automated system to process and track FOIA requests. In FY 2011, our electronic system assisted us with processing and tracking over 7,200 requests, and we again ended the year with no backlog. The overwhelming majority of requests submitted are from participants in pension plans trusted by PBGC.

During the year, we expanded our sharing of plan information with the other ERISA agencies—the Department of the Treasury’s Internal Revenue Service and the Department of Labor. This information sharing facilitates the agencies’ enforcement efforts and multiemployer plan compliance assistance.

Each year, we also publish the [Pension Insurance Data Book](#). The most recent annual compendium of information on defined benefit plans and participants can be found there.

Lastly, we had speaking engagements with a more diverse audience in FY 2011. Our requests were up more than 50 percent from FY 2010, reaching nearly 80 engagements. They included pension professionals, plan sponsors, business groups, labor unions, retiree organizations, academics, and financial professionals. Topics included the administration’s premium reform proposal, our efforts to strengthen and protect pension plans, the PBGC regulatory agenda, our accounting and compliance practices, current and completed litigation, and the multiemployer program.

Promoting Green Practices

PBGC’s strategic sustainability plan, developed in FY 2010, outlined actions we would take in FY 2011 to implement certain programs identified in the Federal Leadership in Environmental, Energy, and Economic Performance executive order. During the year, our headquarters building obtained its first Leadership in Energy and Environmental Design (LEED) Gold certification, demonstrating exemplary energy savings and reduced carbon footprint—two of the goals of the executive order.

Transforming the Federal Workforce

Federal Employee Viewpoint Survey (FedView): Since 2006, we have used the FedView results to gather employees’ perceptions of workforce management. In FY 2011, we scored well above the government-wide average by each measure and ranked in the top 5 agencies for two of the Human Capital Assessment and Accountability Framework (HCAAF) indices -- *results-oriented performance culture* and *talent management* indices. The HCAAF framework consists of four indices--*leadership and knowledge management*, *results-oriented performance culture*, *talent management*, and *job satisfaction*. Our lowest rank on any was 12th among 83 agencies. The FY 2011 results showed improvement in the areas of communication between employee and supervisor/team lead, and areas of accountability and individual performance. We will continue using the FedView results to monitor the work environment and support effective human capital practices for our employees.

Hiring Reform: We fully implemented the four major milestones of the hiring reform initiative—mapped our end-to-end hiring process, developed streamlined job opportunity announcements, notified applicants at four points in the application process, and further engaged managers in the hiring process. We continued to meet requirements for delegated hiring authority, received a positive OPM evaluation with no deficiencies, and OPM recertified our senior leader performance management program.

Enhancing Employee Training: We made enhancements to our training facility, expanding the footage available for classroom use. We strengthened our employee development and in FY 2011, employees attended over 150 courses focused on improving contract management skills, use of IT systems applications, and technical and supervisory skills.

Workforce Recruitment Program: We launched a Workforce Recruitment Program to better connect with college students and recent graduates with disabilities. We also continued to encourage a healthy and balanced work life through various health and wellness workshops.

Enhancing Telework: Flexible work options are a part of PBGC's culture. We implemented a new law, passed in December 2010 expanding telework opportunities for federal employees. We updated our telework policies to align with the new law. Approximately 18 percent of employees participate in the telework program regularly, and another 19 percent take advantage of unscheduled use to continue normal work activities during, for example, snowstorms and tropical storms.

Other efforts in FY 2011 to strengthen the workforce included establishing a certified labor-management forum and piloting a new talent management system to improve operational efficiency.

Program Evaluation

PBGC conducts evaluations to identify opportunities to improve program and support operations. In FY 2011, this included reviews of regulations promulgated by PBGC, in addition to the annual evaluation of services provided to our customers. We also value and actively engage with the Government Accountability Office (GAO), the Office of Inspector General (OIG), and the Office of Government Ethics (OGE) to ensure PBGC programs are operating effectively, efficiently and with integrity. Their support continues to help strengthen our program operations.

Regulatory Review

PBGC issued its [Plan for Regulatory Review](#) in July 2011. The plan highlights how we plan to work with our stakeholders and reduce burden in various areas, including reportable events, premiums, reporting of plan underfunding, and business shutdowns and layoffs. PBGC developed the plan in response to the executive order on Improving Regulation and Regulatory Review that calls for an “open exchange” of information among government officials, experts, stakeholders, and the public. **The public is encouraged to submit comments on an on-going basis as PBGC engages in its regulatory review. PBGC has also announced that it will begin more active engagement with its constituencies on regulatory matters, including holding of public hearings and meetings, rather than relying solely on written comments.**

The American Customer Satisfaction Index

PBGC uses ACSI survey methodology to provide an objective third-party means to gather customer satisfaction information on our public-facing services. Because the ACSI is a recognized standard throughout government and industry, we can compare ourselves to other government and private organizations, as well as gauge the effectiveness of efforts to improve our customers' experiences.

Government Accountability Office

During the year, GAO issued a number of reports relating to PBGC operations and programs, as follows:

- GAO performed a study of multiemployer pension plans, and although there were no substantive problems with PBGC operations, recommended that PBGC, the Department of Labor, and the Internal Revenue Service work to improve information sharing regarding multiemployer plans. We are working to implement GAO's suggestions.
- GAO concluded that past changes in our investment policy had not adversely affected PBGC investment performance, and found no substantive problems with the actual operations. GAO did recommend that PBGC update its investment policy statement and improve internal operating procedures. We had already implemented both of GAO's suggestions: Our Board of Directors approved a new investment policy statement, and updated operating procedures have been implemented.
- GAO also reported that we had addressed many of the past recommendations to improve contractor oversight, but also reported a more strategic approach to contracting is still needed to link contractor performance to agency goals given our heavy reliance on contractors. We agree with GAO's recommendations, and are committed to developing a service contract inventory to assist us in categorizing our contracts and improving our workforce planning and contracting decisions.

GAO has several active reviews that are currently ongoing, including a study of the Administration's proposal to grant PBGC's Board the authority to assess risk-based premiums. As part of this study, GAO will examine PBGC's insolvency risk, if premiums are not raised, options available to redesign PBGC's premium structure, and other policy issues. We are working closely with GAO on this review. We look forward to the issuance of the report on this important proposal.

Office of Inspector General

PBGC recognizes the importance of the Office of Inspector General's (OIG) oversight in improving our programs and operations. Throughout the year, we worked to implement corrective actions to OIG reports in numerous areas including information security, procurement and financial operations.

During FY 2011, the OIG issued multiple performance audit and evaluation reports, in addition to the financial statement audit reports. They identified areas where we needed to improve our operations and correct vulnerabilities, including systemic errors in the plan asset audits of terminated pension plans, systemic information technology weaknesses, protection of personally identifiable information, and strategic preparedness for potential workload influx.

- In response to requests from multiple Senators and Members of Congress, the OIG also reviewed our program operations to determine the fair market value of the assets of terminated pension plans. They found systemic serious errors and omissions in our plan asset audits resulting in some work becoming unreliable. This work was conducted by a contractor and overseen by the PBGC. As a result, the OIG concluded that neither PBGC nor the plan beneficiaries could have reasonable assurance that plan assets had been sufficiently identified, correctly valued, and properly allocated to the individual pension plans. The OIG recommended significant corrective actions which we are already implementing.
- As part of the annual financial statement audit, the OIG conducted a vulnerability assessment and penetration testing of our information security infrastructure to discover possible weaknesses in logical security controls and to exploit discovered vulnerabilities. The OIG reported major issues of concern. Testing disclosed a large number of critical and high severity vulnerabilities, as well as several thousand medium and low vulnerabilities. Unfortunately, certain testing of the vulnerabilities

was successfully exploited, indicating the need for us to take prompt and effective corrective action. Taking these actions is necessary to protect the millions of bits of personally identifiable information we collect from participants and beneficiaries of terminated pension plans and sensitive business information from plan sponsors.

- The OIG's review of our planning for a potential influx of pension plans concluded that we need to develop specific strategies and tactics to be used in the event of a serious workload surge. Their recommendations included taking a strategic approach in assessing preparedness for an influx, ensuring that plans reflect the use of contractors, and vetting the feasibility of existing plans, including plans for the expansion of contracts and plans to ensure that we can support the need for increased capacity, bandwidth, and network usage.

The OIG's work has helped us see where we need to make changes. We appreciate their efforts and we remain committed to implementing corrective actions. Please visit <http://oig.pbgc.gov> for more information about the OIG's reports.

Office of Government Ethics

PBGC leadership continues to integrate ethics into the daily work of the Corporation. In FY 2011, we instituted on-line ethics training, and expanded our training to include Contracting Officer's Representatives (CORs). The on-line training included a feedback mechanism to enable us to make continual improvements. We also launched an on-line financial disclosure system, which allows our employees to electronically update their financial disclosure information and carry over information from year to year.

In FY 2011, OGE audited our ethics program and found it to be effectively administered and in compliance with applicable laws, regulations, and policy. In September 2011, our program received the Office of Government Ethics' Program Excellence and Innovation Award at the National Government Ethics Conference.

FINANCIAL SUMMARY—SINGLE-EMPLOYER PROGRAM

<i>(Dollars in millions)</i>	Fiscal Year Ended September 30,									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Insurance Activity:										
Benefits paid	\$ 5,340	5,467	4,478	4,292	4,266	4,082	3,685	3,006	2,488	1,537
Participants receiving monthly benefits at end of year *	775,300	747,530	743,610	640,070	631,130	612,630	682,540	517,900	458,800	344,310
Plans trustee and pending trusteeship by PBGC	4,292	4,140	3,993	3,850	3,783	3,673	3,585	3,469	3,277	3,122
Summary of Operations:										
Premium income, net **	\$ 2,072	2,231	1,822	1,340	1,476	1,442	1,451	1,458	948	787
Other income	\$ 17	30	16	23	55	79	44	24	28	28
Investment income (loss)	\$ 3,446	7,594	6,330	(4,164)	4,737	2,184	3,897	3,197	3,349	170
Actuarial charges and adjustments (credits)	\$ 6,561	9,421	13,901	(4,813)	346	4,819	490	1,787	6,161	2,802
Losses (credits) from completed and probable terminations	\$ 201	509	4,234	(826)	399	(6,155)	3,954	14,707	5,377	9,313
Administrative and investment expenses	\$ 424	449	417	400	378	405	342	288	290	225
Other expenses	\$ 21	(7)	15	5	114	2	77	(36)	97	15
Net income (loss)	\$ (1,672)	(517)	(10,399)	2,433	5,031	4,634	529	(12,067)	(7,600)	(11,370)
Summary of Financial Position:										
Cash and investments	\$ 71,292	69,150	62,062	51,722	61,122	57,728	54,387	36,254	33,215	24,851
Total assets	\$ 78,960	77,463	68,736	64,612	67,241	59,972	56,470	38,993	34,016	25,430
Present value of future benefits	\$ 92,953	90,022	83,035	59,996	69,235	69,143	69,737	60,836	44,641	28,619
Net position	\$ (23,266)	(21,594)	(21,077)	(10,678)	(13,111)	(18,142)	(22,776)	(23,305)	(11,238)	(3,638)

* This measure may differ from numbers reported in the Annual Performance Report, which also include participants whose benefit payments ended during the year (for example, due to death or a final lump-sum payout).

** Beginning in FY 2009, PBGC started to reflect premium income net of bad debt expense for premium, interest and penalties.

FINANCIAL SUMMARY—MULTIEMPLOYER PROGRAM

<i>(Dollars in millions)</i>	Fiscal Year Ended September 30,									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Insurance Activity:										
Financial assistance paid	\$ 115	97	86	85	71	70	14	10	5	5
Plans receiving financial assistance from PBGC	49	50	43	42	36	33	29	27	24	23
Summary of Operations:										
Premium Income, net *	\$ 92	93	95	90	81	58	26	27	25	25
Other income	\$ 0	0	2	0	0	0	0	0	0	0
Investment income (loss)	\$ 148	183	121	121	23	(1)	79	54	37	118
Actuarial charges and adjustments (credits)	\$ 0	0	0	(1)	0	0	0	1	1	0
Losses (gains) from financial assistance	\$ 1,560	831	614	(271)	319	461	204	55	480	101
Administrative and investment expenses	\$ 14	12	0	0	0	0	0	0	0	0
Net income (loss)	\$ (1,334)	(567)	(396)	482	(216)	(404)	(99)	25	(419)	42
Summary of Financial Position:										
Cash and investments	\$ 1,725	1,613	1,441	1,318	1,196	1,164	1,147	1,057	984	933
Total assets	\$ 1,739	1,628	1,459	1,327	1,197	1,166	1,160	1,070	1,000	944
Present value of future benefits	\$ 1	1	1	1	2	2	2	3	3	3
Nonrecoverable future financial assistance, present value	\$ 4,475	3,030	2,296	1,768	2,124	1,876	1,485	1,295	1,250	775
Net position	\$ (2,770)	(1,436)	(869)	(473)	(955)	(739)	(335)	(236)	(261)	158

* Beginning in FY 2009, PBGC started to reflect premium income net of bad debt expense for premium, interest and penalties.

FISCAL YEAR 2011 FINANCIAL STATEMENT HIGHLIGHTS

Financial Position

- PBGC's combined financial condition declined by \$3.01 billion, increasing the deficit to \$26.04 billion as of September 30, 2011, from \$23.03 billion as of September 30, 2010. The single-employer program's net position declined by \$1.68 billion, increasing the program's deficit to \$23.27 billion. The multiemployer program's net position declined by \$1.33 billion, increasing its deficit to \$2.77 billion.
- The primary factors in the single-employer program's net loss included \$3.88 billion in charges due to passage of time, a charge of \$1.67 billion from actuarial adjustments, a charge of \$1.01 billion due to a reduction in interest factors, \$0.45 billion of administrative, investment, and other expenses, and \$0.20 billion in losses from completed and probable terminations. These factors were offset by \$3.45 billion in investment income and \$2.07 billion in net premium income.
- The primary reasons for the \$1.33 billion increase in the multiemployer program's deficit included \$1.56 billion in losses from financial assistance, partially offset by \$148 million in investment income and \$92 million in net premium income. The losses from financial assistance were due to the decrease in interest factors and the addition of 21 new plans to the multiemployer probables inventory, which was offset by the deletion of seven plans.

Operations in FY 2011

- PBGC's combined benefit payments to participants was \$5.46 billion in FY 2011 and \$5.56 billion in FY 2010.
- Net premium income decreased by \$160 million to \$2.16 billion from \$2.32 billion in FY 2010. The flat-rate premium generated income of \$1.24 billion and the Variable Rate Premium (VRP) income was \$929 million.
- PBGC's portfolio achieved a return on investment of 5.1% which was consistent with PBGC's Total Fund Benchmark of 5.1%, and it also exceeded the PPA hypothetical portfolio benchmark return of 3.6%.
- Pension liability valuation interest factors decreased by 10 basis points to 4.31% at September 30, 2011, from 4.41% at September 30, 2010. This resulted in an increase of \$1.01 billion in actuarial charges due to change in interest rates. The actuarial charges for passage of time amounted to \$3.88 billion.
- During FY 2011, 152 underfunded single-employer plans were terminated. Because of PBGC's previous efforts to evaluate its exposure to probable terminations, \$0.47 billion of the net claims for these plans were already reflected in PBGC's 2010 results. The 152 plans had an average funded ratio of approximately 50%. Their terminations resulted in an aggregate net loss to PBGC of \$1.19 billion (see Note 12).
- Six plans with underfunding of \$545 million were newly classified as probable terminations in FY 2011. Probable terminations represent PBGC's best estimate of claims for plans that are likely to terminate in a future year.

Estimates of Reasonably Possible Contingencies

- At year-end, PBGC's estimate of its single-employer reasonably possible exposure totaled approximately \$227 billion, a significant increase from \$170 billion in FY 2010. This exposure increased primarily due to the growth in the number of companies meeting the reasonable possible criteria and the decrease in the interest rate used for valuing liabilities.
- PBGC's estimate of its multiemployer reasonably possible exposure increased from \$20 billion in 2010 to \$23 billion in FY 2011, due primarily to new data received for the larger plans with deteriorating funding levels; and the decrease in interest rates for valuing liabilities.

KEY SINGLE-EMPLOYER AND MULTIEMPLOYER RESULTS

<i>(Dollars in millions)</i>	FY 2011	FY 2010
Insurance Activity		
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Benefits Paid	\$ 5,340	\$ 5,467
Financial Assistance Paid	\$ 115	\$ 97
Retirees Receiving Benefits (at end of year)*	829,000	801,000
Total Participants Receiving or Owed Benefits (at end of year)*	1,479,000	1,470,000
New Underfunded Terminations	152	147
Terminated/Trusteed Plans (Cumulative)	4,302	4,150
Plans Receiving Financial Assistance	49	50
 Summary of Operations		
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Premium Income, Net	\$ 2,164	\$ 2,324
Losses from Completed and Probable Terminations	\$ 201	\$ 509
Losses from Financial Assistance	\$ 1,560	\$ 831
Investment Income	\$ 3,594	\$ 7,777
Actuarial Charges and Adjustments	\$ 6,561	\$ 9,421
 Financial Position		
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Total Assets	\$ 80,699	\$ 79,091
Total Liabilities	\$ 106,735	\$ 102,121
Net Income (Loss)	\$ (3,006)	\$ (1,084)
Net Position	\$ (26,036)	\$ (23,030)
 SINGLE-EMPLOYER PROGRAM		
Total Assets	\$ 78,960	\$ 77,463
Total Liabilities	\$ 102,226	\$ 99,057
Net Income (Loss)	\$ (1,672)	\$ (517)
Net Position	\$ (23,266)	\$ (21,594)
 MULTIEMPLOYER PROGRAM		
Total Assets	\$ 1,739	\$ 1,628
Total Liabilities	\$ 4,509	\$ 3,064
Net Income (Loss)	\$ (1,334)	\$ (567)
Net Position	\$ (2,770)	\$ (1,436)

* This measure may differ from numbers reported in the Annual Performance Report, which also include participants whose benefit payments ended during the year (for example, due to death or a final lump-sum payout).

FINANCIAL STATEMENTS

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

I. Introduction

PBGC management believes that the following discussion and analysis of the Corporation's financial statements and other statistical data will enhance the reader's understanding of PBGC's financial condition and results of operations. This discussion should be read in conjunction with the annual performance report and the financial statements beginning on page 42 and with the accompanying notes.

II. Financial and Program Risks

PBGC's operating results can change markedly from year to year depending on the severity of losses from plan terminations, changes in the interest factors used to discount future benefit payments, investment performance, general economic conditions, and other factors such as changes in law. Operating results may be more variable than those of most private insurers, in part because PBGC must provide insurance of catastrophic risk without all the tools private insurers use to address risk. Most private insurers can diversify or reinsure their catastrophic risks or apply traditional insurance underwriting methods to these risks. Unlike private insurers, the Corporation cannot decline insurance coverage regardless of the potential risk posed by an insured. Private insurers can also adjust premiums in response to actual or expected claims exposure. In contrast, PBGC's premiums are defined by statute and the Congress must approve any premium changes.

Claims against PBGC's insurance programs are highly variable. A single large pension plan termination may result in a larger claim against the Corporation than the termination of many smaller plans. Future results will continue to depend largely on the infrequent and unpredictable termination of a limited number of very large plans. Additionally, PBGC's risks are concentrated in certain industries. Finally, PBGC's financial condition is also sensitive to market risk associated with interest rates and equity returns, as those risks apply both to PBGC's own assets and liabilities and to those of PBGC-insured plans.

III. Legislative and Regulatory Developments

Administration Premium Proposal

The Administration has put forth a proposal to alter PBGC's premium authority and ensure that PBGC has the funds to do its job while providing incentives for firms both to continue offering pensions and to improve plan funding so they can keep their pension promises. The proposal was included in both the President's FY 2012 Budget and *The President's Plan for Economic Growth and Deficit Reduction*, which was sent to the Congress in September 2011. These reforms would both strengthen PBGC's finances and encourage companies to preserve sound pensions.

The proposal consists of two parts: 1) a gradual increase in the single-employer flat-rate premium that will raise approximately \$4 billion by 2021, and 2) granting PBGC's Board discretion to increase the single-employer variable-rate premium to raise \$12 billion by 2021. The Board would be required to consult with stakeholders prior to setting a new premium schedule and would also establish a hardship waiver and other limitations on plan-specific premium increases. PBGC would be directed to try to make the premiums counter-cyclical and any increase also would be phased-in gradually so companies are not hit all at once and at a time when they can least afford the increases. In determining variable-rate premiums, the Board would

consider a number of factors, including a plan's risk of losses to PBGC, the amount of a plan's underfunding, and other factors the Board determined appropriate.

The program has other safeguards to prevent undue hardship on plan sponsors. The total target premium revenue for fiscal years 2014-2021 would be capped at \$17 billion above the current baseline, and the total premium amount paid by any single-employer plan would be capped at four times the amount that the employer paid for the 2010 plan year.

Appropriations

The President's FY 2012 Budget proposes to continue the authority that provides PBGC additional administrative resources when the number of participants in terminated plans exceeds 100,000 or when assets received from new plan terminations or asset growth exceed \$25 million. These provisions ensure that PBGC can take prompt action to protect and pay participants' pension benefits. The President's Budget also proposes language slightly modified from current authority to allow PBGC additional obligation authority for unforeseen and extraordinary pre-termination or extraordinary multiemployer program expenses, after approval by the Office of Management and Budget and notification of the Committees on Appropriations of the House of Representatives and the Senate.

Reducing Regulatory Burden

In response to Executive Order 13563 on Improving Regulation and Regulatory Review (January 18, 2011), PBGC issued its plan to review its regulations to ease administrative burden, simplify filings, and provide relief for small businesses and plans. PBGC's plan addresses priorities and issues for review, as well as expanded opportunities for public participation in our rulemaking, including hearings on major regulations, use of social media, and continuing opportunity for public comment on PBGC's website. As an example of its new regulatory approach, in FY 2011, PBGC announced that it was providing relief from certain premium penalties and in certain situations involving alternative premium funding target elections.

Pension Protection Act of 2006 (PPA)

This legislation made many changes to the pension insurance system, including changes to premiums, guarantee rules, reporting and disclosure, multiemployer plan withdrawal liability, and the missing participants program. During FY 2011, PBGC continued developing the numerous rules necessary to implement and comply with the PPA. In developing these regulations, PBGC seeks to ease and simplify employer compliance when feasible, taking into account the needs of small businesses, comments from stakeholders, and the principles of Executive Order 13563. For example, PBGC's PPA implementation premium regulations include these small plan provisions:

- **Timing of the flat-rate premium.** Under the regulations, small plans (fewer than 100 participants) and mid-size plans (100 to 499 participants) have later deadlines for paying the flat-rate premium. The deadline for large plans (500 or more participants) is February 28 of the plan year; the deadline for mid-size plans is October 15 of the plan year; and the deadline for small plans is April 30 following the end of the plan year (all dates apply to calendar year plans).
- **Timing of the variable-rate premium (VRP).** Under the regulations, the VRP determination date is the funding valuation date, which (under Title I of ERISA and the Internal Revenue Code) is the first day of the plan year for large plans but may be any day in the plan year for small plans. To accommodate later valuation dates, the regulations provide that the due date for all premiums of small plans is six and a half months later than for large and mid-size plans. The deadline for large and mid-size plans is October 15 of the plan year, while the deadline for small plans is April 30 following the end of the plan year.

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- Amount of the VRP. Under PPA 2006 and the regulations, the variable-rate premium is capped for plans of certain small employers (generally 25 or fewer employees). Under the regulations, plans paying the VRP cap need not compute or report VRP data.

During FY 2011, PBGC published a final rule dealing with PPA changes to payment of benefits in PBGC-trusted plans (where the plan terminates while the sponsor is in bankruptcy) and a proposed rule implementing PPA changes to PBGC's guarantee of shutdown benefits. In FY 2012, PBGC expects to repropose amendments to its reportable events regulation implementing PPA. Also in FY 2012, PBGC expects to publish proposed rules implementing PPA changes to terminations of cash balance plans, the missing participants program, and Title IV treatment of owner-participant benefits and benefits in commercial airline plans that terminate after electing PPA funding relief. These rule-makings, together with the nine final rules published in FY 2007-2011, will largely complete PBGC's PPA implementation plan.

Pension Funding Relief (2010)

The Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010, signed June 25, 2010, provides temporary funding relief for contributors to single-employer and multiemployer defined benefit plans. Plans that elect relief are required to notify PBGC of the election. PBGC worked with IRS to develop and announce this notification requirement.

IV. Discussion of Insurance Programs

PBGC operates two separate insurance programs for defined benefit plans. PBGC's single-employer program guarantees payment of basic pension benefits when underfunded plans terminate. The insured event in the single-employer program is plan termination. By contrast, in the multiemployer program, the insured event is plan insolvency. PBGC's multiemployer program financially assists insolvent covered plans to pay benefits at the statutorily guaranteed level. By law, the two programs are funded and administered separately and their financial conditions, results of operations, and cash flows are reported separately. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Please refer to Note 2: "Significant Accounting Policies" for further detail including a description of PBGC's valuation method used in determining benefit liabilities.

IV.A Single-Employer Program Results of Activities and Trends

The single-employer program covers about 33.39 million participants (excluding plans that PBGC has trusted), slightly down from 33.45 million participants in 2010. The number of covered ongoing plans decreased from about 26,377 in 2010 to about 25,607 in 2011. Most plans that were terminated had sufficient funding to cover future benefits and distributed all plan benefits as insurance company annuities or lump sums pursuant to the standard termination rules of ERISA; PBGC's activities related to standard terminations are limited to ensuring compliance.

In contrast, when a covered underfunded plan terminates, PBGC becomes trustee of the plan, applies legal limits on payouts, and pays benefits. The amount of benefit paid is determined after taking into account (a) the benefit that a beneficiary had accrued in the terminated plan, (b) the availability of assets from the terminated plan to cover benefits, and (c) the legal maximum benefits provided under ERISA. In 2011, the maximum annual payment guaranteed under the single-employer program was \$54,000 for a retiree aged 65, unchanged from 2010.

In FY 2011 the primary drivers of the net loss of \$1.672 billion included the following: \$3.880 billion actuarial charge due to passage of time; a charge for actuarial adjustments of \$1.672 billion; a charge of \$1.009 billion due to a reduction in interest factors (which has the effect of increasing benefit liabilities and actuarial

charges); \$0.374 billion in administrative and other expenses; and a charge due to completed and probable terminations of \$0.201 billion. These amounts were offset by investment income of \$3.446 billion and net premium income of \$2.072 billion.

PBGC's single-employer program realized a net loss of \$1.672 billion compared with a net loss in 2010 of \$0.517 billion. The \$1.155 billion year-to-year increase in net loss was primarily attributable to (1) a decrease in investment income of \$4.148 billion (a gain of \$3.446 billion compared to a gain of \$7.594 billion in FY 2010), (2) a \$2.862 billion increase in charges for actuarial adjustments, (3) a \$5.387 billion decrease in actuarial charges due to change in interest rates, and (4) a decrease of \$0.308 billion in losses from completed and probable terminations. Actuarial charges and adjustments arise from gains and losses from mortality and retirement assumptions, changes in interest factors, and passage of time. Passage of time refers to the interest that is assumed to be earned during the fiscal year on PBGC's liability at the end of the prior year; future benefit payments for terminated plans are discounted using an assumed interest factor that must then be earned during the year.

Underwriting Activity

PBGC's single-employer program realized a net underwriting loss of \$0.158 billion in 2011, a significant decline from the gain of \$2.581 billion in 2010. This \$2.739 billion year-to-year decrease was primarily due to the year-to-year increase in charges from underwriting actuarial adjustments of \$2.862 billion, as well as a \$0.159 billion decrease in single-employer net premium income, offset by a decrease of \$0.308 billion in losses from completed and probable terminations.

Income from underwriting activity decreased (from \$2.261 billion in 2010 to \$2.089 billion in 2011), largely due to a decrease in net premium income from plan sponsors (from \$2.231 billion in 2010 to \$2.072 billion in 2011). Other income, consisting of interest on recoveries from sponsors, decreased from \$30 million in 2010 to \$17 million in 2011.

Annual flat-rate premiums for the single-employer program remained unchanged at \$35 per participant in FY 2011. Flat-rate premium income decreased by \$51 million to a total of about \$1.143 billion. Annual variable rate premium income, paid by underfunded single-employer plans, decreased by \$101 million to a total of \$929 million. The VRP rate of \$9 per \$1,000 of underfunding remained unchanged.

Beginning with calendar-year 2008 plans, PPA eliminated the full-funding VRP exemption and changed the interest rate rules for determining a plan's present value of vested benefits for VRP purposes. Under PPA, the present value is determined using three "segment" rates. The first of these applies to benefits expected to be paid within five years of the first day of the plan year, the second applies to the following 15 years, and the third applies to benefits expected to be paid after that.

The Department of the Treasury determines each segment rate monthly using the portion of a corporate bond yield curve that is based on corporate bonds maturing during that segment rate period. The corporate bond yield curve, also prescribed on a monthly basis by the Department of the Treasury, reflects the yields for the previous month on investment-grade corporate bonds with varying maturities that are in the top three quality levels. The January 2011 segment rates for calendar-year plans were 1.98%, 5.23%, and 6.52% for the first, second, and third segments, respectively.

The Corporation's losses from completed and probable plan terminations declined from a loss of \$0.509 billion in 2010 to a loss of \$0.201 billion in 2011. This was primarily because charges related to new plans that terminated FYTD (\$1.190 billion) were offset by a credit of \$0.378 billion from revaluations of plans that had terminated in prior years and a \$0.612 billion reduction in probable claims. (See "Subtotal terminated plans" in Note 12).

The net claim for probable terminations as of September 30, 2011, is \$0.833 billion, while the net claim as of September 30, 2010, was \$1.445 billion. This \$0.612 billion reduction resulted primarily from a decrease in

net claims of \$0.718 billion for 5 plans that were deleted and the transfer of \$0.474 billion of previously accrued claims to a termination status (see Note 6). These factors were offset by the addition of 6 new probables with net claims of \$0.545 billion and an increase in the reserve for small unidentified probables of \$0.035 billion. The actual amount of future losses remains unpredictable.

Single-employer administrative expenses decreased \$15 million from \$368 million in FY 2010 to \$353 million in FY 2011.

Financial Activity

In FY 2011 all of the \$3.446 billion of the single-employer net investment gains were absorbed by the net actuarial charges of \$4.889 billion for the passage of time and changes in interest rates. Single-employer financial net income increased significantly from a loss of \$3.098 billion in FY 2010 to a loss of \$1.514 billion in FY 2011. The Corporation had investment income of \$3.446 billion in FY 2011, compared with investment income of \$7.594 billion in FY 2010. This was offset by a year-over-year decrease of \$5.722 billion in actuarial charges. PBGC marks its assets to market, which is consistent with the FASB Accounting Standards Codification Section 820, *Fair Value Measurements and Disclosures* (see Note 5).

Actuarial charges under financial activity represent the effects of changes in interest rates and the passage of time on the present value of future benefits. Passage of time refers to the interest that is assumed to be earned during the fiscal year on PBGC's liability at the end of the prior year; future benefit payments for terminated plans are discounted using an assumed interest factor which must then be earned during the year. The increase in passage of time charges is due primarily to the different interest factors in effect at the beginning of FY 2011 and FY 2010, 4.41% and 5.17%, respectively. Charges due to change in interest rates increased substantially due to the decrease in the applicable interest factors.

PBGC discounts its liabilities for future benefits with interest factors¹ that, together with the mortality table used by PBGC, approximate the price in the private-sector annuity market at which a plan sponsor or PBGC could settle its obligations. PBGC's select interest factor decreased to 4.31% (for the first 20 years after the valuation date) at September 30, 2011, from 4.41% (for the first 25 years) at September 30, 2010. The ultimate factor decreased to 4.26% at September 30, 2011, after the first 20 years from 4.51% at September 30, 2010.

PBGC's single-employer PVFB (Present Value of Future Benefits) increased from \$90.022 billion at September 30, 2010 to \$92.953 billion at September 30, 2011. PVFB comprises the vast majority of PBGC's combined total liabilities on its Statements of Financial Condition of \$106.735 billion.

IV.B Multiemployer Program Results of Activities and Trends

A multiemployer plan is a pension plan maintained by two or more unrelated employers under collective bargaining agreements with one or more unions. Multiemployer plans cover most unionized workers in the trucking, retail food, construction, mining, garment, and other industries. Benefit eligibility under a multiemployer plan is usually based on covered employment with any employer contributing to that plan.

¹ PBGC surveys life insurance industry annuity prices through the American Council of Life Insurers (ACLI) to obtain input needed to determine interest factors and then derives interest factors that will best match the private-sector prices from the surveys. The interest factors are often referred to as select and ultimate interest factors. Any pair of interest factors will generate liability amounts that differ from the survey prices, which cover 14 different ages or benefit timings. The PBGC process derives the interest factor pair that differs least over the range of prices in the survey.

Workers accrue pension credits in the plan even when they change employment from one contributing employer to another.

Multiemployer plans are typically governed by a board of trustees appointed in equal numbers by labor and management. Under ERISA, the trustees have a fiduciary duty to act in the best interest of participants. Multiemployer plans are subject to the minimum funding requirements of ERISA. While bargaining parties will negotiate over plan contributions, they usually delegate plan design to the trustees.

Most collective bargaining agreements that cover multiemployer plans provide for contributions based on time worked in a covered job. Some plans base contributions on “units of production,” such as number of items produced, tons of coal mined, or gross sales achieved. Contributions are held in a trust fund that is managed and invested by the board of trustees in accordance with ERISA’s fiduciary standards. All plan assets in the trust are available to pay all benefit claims. Assets in the plan do not revert to contributing employers.

Benefits in most multiemployer plans are based on a “unit benefit” formula that establishes a monthly benefit as a dollar amount times years of service. In some plans, benefits are a function of the level of contributions made to the plan for the participant’s work.

Employers in multiemployer plans generally remain in the plan unless they go out of business, bargain out of the plan, or move their business out of the plan coverage area. If an employer withdraws from the plan, it may be assessed withdrawal liability. Any withdrawal liability that is assessed will generally be based on the plan’s unfunded vested benefits and the employer’s share of contributions to the plan made by all contributing employers. In some instances, the employer may be assessed partial withdrawal liability.

PBGC’s multiemployer program covers about 10.31 million participants (down slightly from the 2010 count of 10.41 million participants) in about 1,459 insured plans. The multiemployer flat-rate premium remained unchanged at \$9.00 per participant in FY 2011. PBGC does not trustee multiemployer plans. In the multiemployer program, the event triggering PBGC’s guarantee is plan insolvency – the inability to pay guaranteed benefits when due. Insolvency usually occurs after all contributing employers have withdrawn from the plan, leaving the plan without a source of income. PBGC provides insolvent multiemployer plans with financial assistance, in the statutorily-required form of loans, sufficient to pay PBGC guaranteed benefits and reasonable administrative expenses. Once begun, these loans generally continue year after year until the plan no longer needs assistance or has paid all promised benefits at the guaranteed level. These loans are rarely repaid (and for that reason are fully reserved).

Benefits under the multiemployer program are calculated based on (a) the benefit a participant would have received under the insolvent plan, subject to (b) the legal multiemployer maximum under ERISA. The maximum guaranteed amount depends on the participant’s years of service. In 2011, for example, the maximum annual payment for a participant with 30 years of service was \$12,870.

PBGC’s obligations for future financial assistance to multiemployer plans increased from \$3.03 billion at September 30, 2010 to \$4.48 billion at September 30, 2011, an increase of approximately \$1.45 billion (48%). The increase is primarily due to the addition of 21 new probables. However, it is also due, in part, to actuarial adjustments that combine the effects of a lower interest factor with new mortality table assumptions that project longer lives for participants. During the fiscal year, PBGC paid \$115 million in financial assistance to 49 insolvent plans that cover 54,000 participants.

The multiemployer program reported a net loss of \$1.334 billion in FY 2011 compared with a net loss of \$567 million in FY 2010. This resulted in a negative net position of \$2.770 billion in FY 2011 compared with a negative net position of \$1.436 billion in FY 2010. The change in net loss was primarily due to the increase in expected loss from future financial assistance of \$729 million and by a decrease in net investment income of \$35 million.

The multiemployer program reported a net loss from underwriting activity of \$1.482 billion in FY 2011 compared with a net loss of \$750 million in FY 2010. This decline of \$732 million was primarily attributable to the increase in losses from financial assistance of \$729 million (due to the decrease in interest factors and the addition of 21 plans to the multiemployer probable inventory, offset by the deletion of 7 plans) and the increase in administrative expenses of \$2 million. Financial activity reflected financial income of \$148 million from earnings on fixed income investments in 2011, compared to income of \$183 million in 2010. Multiemployer program investments originate primarily from the cash receipts for premiums due from insured plans. By law, PBGC is required to invest these premiums in obligations issued or guaranteed by the United States of America. Multiemployer program assets at year-end were invested 99.6 percent in Treasury securities, as compared with 99.4 percent in Treasury securities in 2010.

V. Overall Capital and Liquidity

PBGC's obligations include monthly payments to participants and beneficiaries in terminated defined benefit plans, financial assistance to multiemployer plans, and the operating expenses of the Corporation. The financial resources available to pay these obligations are underwriting income received from insured plan sponsors (largely premiums), the income earned on PBGC's investments, and the assets taken over from failed plans.

The Corporation has sufficient liquidity to meet its obligations for a significant number of years; however, neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants.

FY 2011 combined premium cash receipts totaled \$2.4 billion, an increase of \$0.2 billion from \$2.2 billion in 2010. Net cash flow provided by investment activity decreased to \$2.1 billion versus \$2.2 billion provided in 2010.

In 2011, PBGC's cash receipts of \$4.5 billion from operating activities of the single-employer program were insufficient to cover its operating cash obligations of \$6.1 billion. This resulted in net cash underperformance from operating activities of \$1.6 billion (equal to the underperformance of \$1.6 billion in 2010). When the single-employer cash provided through investing activities of \$2.2 billion is added to this net cash underperformance, the single-employer program in the aggregate experienced a net cash increase of \$0.6 billion. In the multiemployer program, cash receipts of \$165 million from operating activities were sufficient to cover its operating cash obligations of \$134 million, resulting in net cash provided by operations of \$31 million. When this net cash performance is added to net cash underperformance through investing activities of \$32 million, the multiemployer program in the aggregate experienced an overall net cash decrease of \$1 million.

During FY 2011, PBGC recovered approximately \$163 million through agreements with sponsors of terminated plans for unpaid contributions and unfunded benefits. A portion of PBGC's recoveries is paid out as additional benefits to plan participants with nonguaranteed benefits according to statutory priorities.

In 2011, PBGC's combined net increase in cash and cash equivalents amounted to \$578 million, arising from an increase of \$579 million for the single-employer program and a decrease of \$1 million for the multiemployer program.

VI. Single-Employer and Multiemployer Program Exposure

PBGC estimates its loss exposure to reasonably possible terminations (e.g., underfunded plans sponsored by companies with credit ratings below investment grade) at approximately \$227 billion on September 30, 2011, and \$170 billion on September 30, 2010. The comparable estimate of reasonably possible exposure for

2009 was approximately \$168 billion. PBGC's exposure to loss may be less than these amounts because of the statutory guarantee limits on insured pensions, but PBGC is unable to estimate prospectively the extent and effect of the guarantee limitations. These estimates are measured as of December 31 of the previous year (see Note 9). For FY 2011, this exposure was concentrated in the following sectors: manufacturing (primarily automobile/auto parts, and primary and fabricated metals), transportation (primarily airlines), services, and wholesale and retail trade.

The Corporation estimates that, as of September 30, 2011, it is reasonably possible that multiemployer plans may require future financial assistance of approximately \$23 billion. As of September 30, 2010 and 2009, these exposures were estimated at approximately \$20 billion and \$0.326 billion, respectively. The significant increase in FY 2011 from prior years is due primarily to new data received for two particularly large plans; and the decrease in interest rates for valuing liabilities. (The sponsor of one plan, with a net liability of \$16.4 billion, is in the "transportation, communication, and utilities" industry category; the other, with a net liability of \$5.4 billion, is in the "agriculture, mining, and construction" industry category.)

The significant volatility in plan underfunding and sponsor credit quality over time makes long-term estimates of PBGC's expected claims uncertain. This volatility, and the concentration of claims in a relatively small number of terminated plans, have characterized PBGC's experience to date and will likely continue. Factors such as economic conditions affecting interest rates, financial markets, and the rate of business failures will also influence PBGC's claims going forward.

PBGC's sources of information on plan underfunding are the most recent Section 4010 and PBGC premium filings, Form 5500, and other submissions to the Corporation. PBGC publishes Table S-49, "Various Measures of Underfunding in PBGC-Insured Plans," in its *Pension Insurance Data Book* where the limitations of the estimates are fully and appropriately described.

VII. Outlook for 2012

For FY 2012, PBGC estimates \$6.0 billion in single-employer benefit payments and \$111 million in financial assistance payments to multiemployer plans. Under a continuing resolution for FY 2012, which will be in effect through November 18, 2011, PBGC will operate on about 13.2 percent, or \$61.2 million, of its FY 2011 administrative budget of \$464 million during this period.

In 2012, significant factors beyond PBGC's control (including changes in interest rates, the financial markets, plan contributions made by sponsors, and recently enacted statutory changes) will continue to influence PBGC's underwriting income and investment gains or losses. PBGC's best estimate of 2012 premium receipts ranges between \$2.0 billion and \$2.3 billion. No reasonable estimate can be made of 2012 terminations, effects of changes in interest rates, or investment income.

As of September 30, 2011, the single-employer and multiemployer programs reported deficits of \$23.3 billion and \$2.8 billion, respectively. Notwithstanding these deficits, the Corporation has approximately \$79.0 billion in single-employer assets and \$1.7 billion in multiemployer assets and will be able to meet its obligations for a significant number of years. However, neither program at present has the resources to fully satisfy PBGC's obligations in the long run.

VIII. Investment Activities

PBGC uses institutional investment management firms to invest its assets, subject to PBGC's oversight and consistent with the Corporation's investment policy statement approved by its Board of Directors. PBGC does not determine the specific investments to be made but instead relies entirely on its investment managers' discretion in executing investments appropriate for their assigned investment mandates. PBGC

does ensure that each investment manager adheres to PBGC prescribed investment guidelines associated with each investment mandate and measures each investment manager's performance in comparison with agreed upon benchmarks.

PBGC's investment assets consist of premium revenues, which are accounted for in the revolving funds, and assets from trustee plans and their sponsors, which are accounted for in the trust funds. By law, PBGC is required to invest certain revolving funds (i.e., Funds 1 and 2) in obligations issued or guaranteed by the United States of America. Portions of the other revolving fund (i.e., Fund 7) can be invested in other debt obligations, but under PBGC's current investment policy these revolving funds are invested solely in Treasury securities. Total revolving fund investments, including cash and investment income, at September 30, 2011, were approximately \$19.01 billion (\$0.77 billion for Fund 1, \$1.73 billion for Fund 2, and \$16.51 billion for Fund 7). PBGC has never established funds 3, 4, 5 or 6, which ERISA authorized for special discretionary purposes. Trust fund investments totaled \$54.48 billion as of September 30, 2011. At the end of FY 2011, PBGC's total investments consisting of cash and cash equivalents, investments, and investment income receivable as shown on the Statements of Financial Condition were \$73.50 billion.

The Board adopted a new investment policy in May 2011. The investment policy objective is to maximize total return within a prudent risk framework that incorporates PBGC's fixed obligations and asset composition of potential trustee plans. The investment policy establishes a 30 percent target asset allocation for equities and other non-fixed income assets, and a 70 percent asset allocation for fixed income.

PBGC's investment program, with assets under performance management of approximately \$69.8 billion as of September 30, 2011, is responsible for managing the vast majority of PBGC's assets. Of the approximately \$3.7 billion difference between the September 30, 2011 assets reported on the Statements of Financial Condition and the assets within the PBGC's investment performance portfolio, approximately \$2.3 billion represent net unsettled purchases, approximately \$0.3 billion are special situations assets which generally represent illiquid assets received from terminated pension plans, bankruptcy proceedings, or settlements, and \$0.3 billion represent newly trustee assets that have not yet been commingled. Asset allocation percentages refer to the investments within PBGC's investment program that are subject to the corporation's investment policy, as described below.

Cash and fixed income securities totaled approximately 74 percent of total assets under performance management invested at the end of FY 2011, compared with 66 percent for FY 2010. Equity securities (i.e., public equities) represented approximately 23 percent of total assets under performance management invested at the end of FY 2011, compared with 31 percent for FY 2010. The total fiscal year to date Total Fund Composite return (excluding private market assets and transition accounts) for FY 2011 was 5.1% compared with 12.1% in FY 2010. A small percentage of PBGC's investments (1.1 percent of total investment assets at FY 2011 compared with .001 percent at FY 2010) predominantly represent assets that are in the process of moving out of one of the manager portfolios either for liquidation or for transfer to another manager. The total fiscal year to date return of the Total Fund Composite return including these transition accounts was 5.0% in FY 2011 compared to 11.7% in FY 2010. Private markets assets, comprised largely of private equity, private debt, and real estate that are currently part of the investment portfolio, represented approximately 3 percent of total investments at the end of FY 2011, unchanged from the prior year.

Due to the cyclical nature of capital markets, PBGC reports both one-year and five-year returns for its investment program. For the five-year period ending September 30, 2011, PBGC's return on total invested funds excluding transition accounts was 6.0% compared with a total fund benchmark return of 5.4%. Including the transition accounts, the five year annualized return was 5.9%.

The table below summarizes the performance of PBGC's investment program.

INVESTMENT PERFORMANCE <i>(Annual Rates of Return)</i>				
	September 30,		Three and Five Years Ended	
	2011	2010	September 30, 2011	
			<u>3 yrs</u>	<u>5 yrs</u>
Total Fund Composite	5.1%	12.1%	10.1%	6.0%
Total Fund Benchmark¹	5.1	11.0	9.0	5.4
Total Global Public Stock	(5.2)	10.2	0.9	(1.6)
Total Global Public Stock Benchmark²	(5.1)	9.5	0.7	(1.3)
Total Global Bonds	8.3	13.9	12.7	8.5
Total Global Bonds Benchmark³	8.3	12.3	11.3	7.4
Trust Funds	3.6	11.6	9.7	5.0
Revolving Funds	8.9	12.4	10.4	8.2
Indices				
Dow Jones US Total Stock Market 5000	0.7	11.3	1.7	(0.7)
MSCI All Country World ex-US Index	(10.8)	7.6	0.5	(1.6)
S&P 500 Stock Index	1.1	10.2	1.2	(1.2)
Barclays Capital Treasury Index	6.0	7.3	6.5	6.8
Barclays Capital Aggregate Bond Index	5.3	8.2	8.0	6.5
Barclays Capital Global Aggregate ex-US Index, Hedged	1.3	5.6	5.2	4.3

¹The Total Fund Benchmark is a dynamically weighted benchmark based upon the weights of the equity, fixed income and cash benchmarks. This benchmark is utilized to compare against the Total Invested Funds returns shown above.

²The Total Global Public Stock Benchmark is a dynamically weighted benchmark utilizing both the Dow Jones US Total Stock Market 5000 Index and the Total International Equity Composite Benchmark.

³The Total Global Bonds Benchmark is a dynamically weighted benchmark based upon the weights of PBGC's fixed income managers and the returns of their respective benchmarks.

Fixed Income

As described below, PBGC fixed income investment managers utilize a number of different benchmarks. Where applicable, the relative percentage that each index or benchmark represents for its respective asset class is provided. The percentage invested under each benchmark(s), in aggregate, for each asset class relative to the overall PBGC investment program at September 30, 2011 is also provided below.

The Total Global Bonds Benchmark is a dynamically weighted benchmark based on the weights of the underlying fixed income managers and the returns of their respective benchmarks. As of September 30, 2011, the weighted benchmark encompasses the Revolving Fund Treasuries Custom Benchmark (33.9%), the Barclays Capital U.S. TIPS index (5.8%), the Total Long Duration Bonds Benchmark (35.6%), the Barclays Capital U.S. Aggregate Bond index (14.6%), the Total Developed Market Bonds Benchmark (3.2%), the Barclays Capital U.S. High Yield BB/B 1% Constrained index (2.5%), and the Total Emerging Market Bonds Benchmark (4.4%). The overall Total Global Bonds composite equals 68.5 percent of the total PBGC portfolio.

Treasuries: This category includes investments in United States Dollar (USD) denominated fixed income securities managed by outside professional asset managers, and applies to 23.2 percent of PBGC's investment program assets at year-end. The Long Treasury Benchmark is the Revolving Fund Treasuries Custom Benchmark. The Revolving Fund Treasuries Custom Benchmark is a customized index made up of US Treasury notes and bonds. While PBGC is able to redeem composite assets upon request, the composite assets are part of the Revolving Fund and can only be redeemed to meet pension benefit obligations or administrative expenses.

TIPS: This category includes investments in USD denominated fixed income securities managed by outside professional asset managers, and applies to 4.0 percent of PBGC's investment program assets at year-end. The TIPS Benchmark is the Barclays Capital U.S. TIPS index. The Barclays Capital U.S. TIPS index includes U.S. Treasury Inflation Protected Securities ("TIPS"). While PBGC is able to redeem composite assets upon request, the composite assets are part of the Revolving Fund and can only be redeemed to meet pension benefit obligations or administrative expenses.

Long Duration: This category includes investments primarily in USD denominated fixed income securities managed by outside professional asset managers, and applies to 24.4 percent of PBGC's investment program assets at year-end. The Total Long Duration Bonds Composite Benchmark is a dynamically weighted benchmark based on the weights of the underlying Trust Fund long duration fixed income managers and the returns of their respective benchmarks. As of September 30, 2011, the Long Duration Bonds Composite Benchmark encompasses the Barclays Capital Long U.S. Government/Credit index (50.5%) and Custom Benchmarks (49.5%). The Barclays Capital Long U.S. Government/Credit index includes both government and credit securities. The Government component includes public obligations of the U.S. Treasury that have remaining maturities of more than one year and publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government. The credit component of the index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. The custom benchmarks include similar securities and are weighted combinations of sub-sector benchmarks. PBGC is able to redeem composite assets upon request.

Core: This category includes investments primarily in USD denominated fixed income securities managed by outside professional asset managers, and applies to 10.0 percent of PBGC's investment program assets at year-end. The Core Fixed Income Benchmark is the Barclays Capital U.S. Aggregate Bond index. The Barclays Capital U.S. Aggregate Bond index includes securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. PBGC is able to redeem composite assets upon request.

Developed Market: This category includes investments in USD denominated and International/Non-USD denominated fixed income securities managed by outside professional asset managers, and applies to 2.2 percent of PBGC's investment program assets at year-end. The Total Developed Market Bonds Composite Benchmark is a dynamically weighted benchmark based on the weights of the underlying fixed income managers and the returns of their respective benchmarks. As of September 30, 2011, the weighted benchmark encompasses the Barclays Capital Global Aggregate index hedged (55.2%) and un-hedged (44.8%). The Barclays Capital Global Aggregate index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD investment grade 144A securities. The hedged index negates exposure to foreign currencies by hedging currency exposure back to the USD. The un-hedged index is exposed to the foreign currency returns of the underlying securities. PBGC is able to redeem composite assets upon request.

High Yield: This category includes investments primarily in USD denominated fixed income securities managed by outside professional asset managers, and applies to 1.7 percent of PBGC's investment program assets at year-end. The High Yield Benchmark is the Barclays Capital U.S. High Yield Ba/B 1% Issuer Constrained index. The Barclays Capital U.S. High Yield Ba/B 1% Issuer Constrained index includes the universe of fixed rate, non-investment grade debt securities rated Ba or B. The index also includes Canadian and global bonds (SEC registered) of issuers in non-Emerging Market countries. The index limits the size of an individual issuer to 1% of the index. PBGC is able to redeem composite assets upon request.

Emerging Market Bonds: This category includes investments in USD denominated and International/Non-USD denominated fixed income securities managed by outside professional asset managers, and applies to 3.0 percent of PBGC's investment program assets at year-end. The Emerging Market Debt Composite Benchmark is a dynamically weighted benchmark based on the weights of the underlying fixed income managers and the returns of their respective benchmarks. As of September 30, 2011, the weighted benchmark encompasses the JP Morgan EMBIG Diversified index (59.7%) and a Custom Benchmark (40.3%). The JP Morgan EMBIG Diversified index includes U.S. dollar-denominated debt instruments issued by Emerging Market countries. The EMBI Global Diversified index includes USD denominated Brady bonds, Eurobonds, and traded loans issued by sovereign and quasi-sovereign entities. PBGC is able to redeem composite assets upon request.

Money Market Securities

This category includes an investment in a money market instrument managed by an outside professional asset manager that invests in a diversified portfolio of short-term obligations and deposits, including, but not limited to, U.S. Treasury and agency obligations, certificates of deposits, commercial paper, and repurchase agreements (Trust Fund Cash). In addition, the category includes overnight investments in U.S. Treasury securities held at the U.S. Treasury (Revolving Fund Cash). The Total Money Market Securities Benchmark is a dynamically weighted benchmark based on the weights of the Trust Fund Cash and the Revolving Fund Cash and the returns of their respective benchmarks. As of September 30, 2011, the weighted benchmark encompasses the 3-Month Treasury Bill (98.6%) and the 4-Week Treasury Bill (1.4%). The cash composite represents 4.1 percent of PBGC's investment program as of September 30, 2011.

Global Public Stock

As described below, PBGC's Global Public Stock investment managers utilize a number of different benchmarks. Where applicable, the relative percentage that each index or benchmark represents for its respective asset class is provided. The percentage invested under each benchmark(s), in aggregate, for each asset class relative to the overall PBGC investment program at September 30, 2011 is also provided below.

US Public Stock: This category includes investments in U.S. Equity securities managed by outside professional asset managers, and applies to 11.2 percent of PBGC's investment program assets at year-end. The U.S. Equity Composite Benchmark is the Dow Jones U.S. Total Stock Market 5000 index. The Dow Jones U.S. Total Stock Market 5000 Index represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. PBGC is able to redeem composite assets upon request.

International Public Stock: This category includes investments in International Equity securities managed by outside professional asset managers, and applies to 11.8 percent of PBGC's investment program assets at year-end. The International Public Stock Composite Benchmark is a dynamically weighted benchmark based upon the weights of all the international funds and the returns of their respective benchmarks. As of September 30, 2011, the weighted benchmark encompasses the MSCI EAFE index (75.1%), the MSCI Emerging Markets index (19.3%), and the MSCI Canada index (5.6%). The MSCI EAFE index (Europe, Australasia, Far East) is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada. The MSCI Emerging Markets index is designed to measure equity market performance of emerging markets and the MSCI Canada index is designed to measure the equity market performance of Canada. PBGC is able to redeem composite assets upon request.

Global Public Stock: This category includes investments in the U.S. Public Stock composite and the International Public Stock composite, and applies to 23.0 percent of PBGC's investment program assets at year-end. The Total Global Public Stock Benchmark is a dynamically weighted benchmark based upon the weights of the Total U.S. Public Stock Benchmark and the Total International Public Stock Benchmark. PBGC is able to redeem composite assets upon request.

As of September 30, 2011, the Total Global Public Stock Benchmark is comprised of the Dow Jones U.S. Total Stock Market 5000 index (48.6%), and the Total International Public Stock Benchmark (51.4%).

Private Markets

This category includes private equity, debt, and real estate funds that invest primarily in buyouts, venture capital, distressed debt, and commercial real estate, and applies to 3.3 percent of PBGC's investment program assets at year-end. Private investments are difficult to benchmark due to their illiquid nature. Typical benchmarks utilized for private equity include universe comparisons where funds which have the same original investment date are compared against the performance of a similar fund. For direct Private real estate investments, many institutions use the National Council of Real Estate Investment Funds (NCREIF) index, which includes U.S. commercial real estate properties acquired in the private market for investment purposes. For investments in private equity real estate, peer universe comparisons based on similar funds with the same original investment date are often utilized. Private Market investments do not have redemption provisions. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the funds. It is estimated that the majority of the underlying assets of the funds will be liquidated over the next twelve years. The fair values of the investments in this category have been estimated using the net asset value of the PBGC's ownership interest in partners' capital.

Pension Protection Act of 2006 Reporting Requirement

The Pension Protection Act of 2006 requires PBGC to estimate the effect of an asset allocation based on a combination of two commonly used market benchmarks. This hypothetical portfolio, with a 60 percent allocation to the Standard & Poor's 500 equity index and a 40 percent allocation to the Barclays Capital Aggregate fixed income index, while presenting a risk-return profile different from PBGC's current allocation, would have decreased the assets of the Corporation by approximately \$1.0 billion (3.6% return compared with PBGC's Total Fund Composite return including transition accounts of 5.0%) for the one-year period ending September 30, 2011, and decreased the assets of the Corporation by approximately \$12.0 billion (2.9% return compared with PBGC's Total Fund Composite return including transition accounts of 5.9%) over the five-year period ending September 30, 2011. As reported in last year's FY 2010 Annual Report, the same "60/40 portfolio" would have decreased the assets of the Corporation by approximately \$1.3 billion (9.8% return compared with PBGC's Total Fund Composite return including transition accounts of 11.7%) for the one-year period ending September 30, 2010 and decreased the assets of the Corporation by approximately \$6.2 billion (3.7% return compared with PBGC's Total Fund Composite Return including transition accounts of 5.7%) for the five-year period ending September 30, 2010. For further analysis of PBGC's investment activities please refer to section "VIII. Investment Activities" on page 31.

PBGC Management Assurances and Internal Controls Program

The PBGC's Internal Controls Program is designed to support compliance with the Federal Managers' Financial Integrity Act (FMFIA) and Office of Management and Budget (OMB) Circular A-123 requirements. The Internal Controls Program and the other related activities described below undergird PBGC's FMFIA Assurance Statement. For FY 2011, PBGC provided a qualified Statement of Assurance due to two material weaknesses relating to a) System Security and IT Operational Effectiveness, and b) Benefits Administration Audit Processes and Records Management.

FMFIA Assurance Statement Process

Members of PBGC's executive and senior management prepared annual assurance statements regarding compliance with the FMFIA. These representations are based on their knowledge of PBGC operations, the results of reviews conducted by the Office of Inspector General (OIG) and the Government Accountability Office (GAO), internal management assessments and evaluations, and consideration of other factors affecting the PBGC control environment.

Internal Control Committee

The PBGC Internal Control Committee (ICC) provided corporate oversight and accountability regarding internal controls over the PBGC operations, financial reporting, and compliance with laws and regulations. Chaired by the Chief Financial Officer, the committee's membership includes members from each major area of the agency, including a representative of the PBGC's OIG as a non-voting member. The ICC approves major changes to key financial reporting controls and PBGC systems, monitors the status of internal control deficiencies and related corrective actions, and considers other matters, including controls designed to prevent or detect fraud.

Documentation and Testing of Controls

PBGC's Internal Control Program is primarily focused on documenting and testing controls within the following areas: financial reporting, entity-wide, and information technology. During the year, selected controls were evaluated for the adequacy of control design and tested to determine operating effectiveness of the controls. Reports regarding results of testing were provided to PBGC management and ICC members for consideration under FMFIA.

Financial Reporting Controls: The PBGC has identified 12 major business process cycles which have a significant impact on the PBGC's financial reporting processes: Benefit Payments, Benefit Determinations, Budget, Financial Reporting, Human Resources/Payroll, Investments, Losses on Completed and Probable Terminations, Non-Recoverable Future Financial Assistance, Payables, Premiums, Single-Employer Contingent Liability, and Present Value of Future Benefits. As of the end of FY 2011, PBGC had identified 157 key controls over financial reporting for testing within these major business cycles. Employees responsible for performance of these controls maintained logs documenting control execution, and provided quarterly representations regarding the performance of those controls.

Entity-Wide Controls: These controls are overarching controls which support the overall effectiveness of PBGC's internal control environment. As of the end of FY 2011, PBGC had identified 46 key entity-wide controls for testing within the following six components of its internal control environment: control environment, risk assessment, control activities, information and communication, monitoring, and anti-fraud.

Information Technology Controls: In order to protect the confidentiality, integrity, and availability of PBGC information systems and the information processed, stored, and transmitted by those systems, PBGC is implementing the controls required by National Institute of Standards and Technology Special Publication No. 800-53 Revision No. 3 (NIST 800-53), Recommended Security Controls for Federal Information Systems and Organizations. During FY 2011, PBGC performed testing of two key PBGC systems: Consolidated Financial Systems (CFS) and Benefit Administration Applications (BAA) based on 74 NIST 800-53 controls that relate to the operation of each of those systems. In addition, PBGC also performed remediation testing which showed progress in addressing prior-year deficiencies associated with the General Support Systems and Integrated Present Value of Future Benefits (IPVFB) System.

Assessment of Improper Payment Risk

Based on the requirements of the Improper Payments Information Act (IPIA) of 2002, as amended by the Improper Payments Elimination and Reporting Act (IPERA) of 2010, and OMB's implementing guidance (as implemented by OMB Circular A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments), PBGC identified three programs that were potentially at risk of significant improper payments based on OMB thresholds. The three programs include: a) benefit payments to participants in "final pay" status for plans trustee by PBGC under Title IV of ERISA; multiemployer plan financial assistance payments to eligible multiemployer plans that are unable to pay benefits when due under the requirements of Title IV of ERISA; and payments to contractors for goods and services received in connection with PBGC mission accomplishment. Please refer to the Improper Payment Assessment section of this report for additional information.

Audit Coordination and Follow-up Program

In implementing OMB Circular A-50, PBGC has established its Audit Coordination and Follow-up Directive. It is PBGC policy to fully cooperate with audits of PBGC operations and ensure the efficient tracking, resolution, and implementation of agreed-upon audit recommendations contained in audit reports issued by the OIG and the GAO. PBGC has dedicated staff to coordinate with OIG and GAO audit representatives in providing access to records and information needed to complete audits and ensure that management responses to draft reports are provided in a timely manner. To facilitate timely completion and closure of audit recommendations, staff regularly monitors implementation efforts, including regular distribution of audit follow-up status reports to executive management via a corporate-wide portal and formal submission of documentation evidencing completion of required corrective actions. Status reports document planned corrective actions and estimated completion dates, and also indicate those recommendations for which work has been completed and reported as such to the OIG and GAO.

Compliance with Laws, Regulations, and Other Requirements

To foster an environment that promotes compliance with laws and regulations, the PBGC maintains two legal compendia: the Compendium of Legal Authority lists laws which may have a significant impact on PBGC's financial statements or PBGC operations, and the Compendium of Executive Orders and OMB Requirements lists other requirements applicable to PBGC. These documents provide brief descriptions of each applicable requirement and identify the PBGC department or other component with primary compliance responsibility. PBGC updates and maintains these lists to help ensure compliance with applicable laws, regulations, and other requirements.

Federal Managers' Financial Integrity Act Statement of Assurance

In accordance with the Federal Managers' Financial Integrity Act and OMB Circular A-123, the PBGC's FMFIA Assurance Statement for FY 2011 is presented below:

PBGC's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). In accordance with OMB Circular A-123, Management's Responsibility for Internal Control, the agency conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations (FMFIA Section 2) and conformance with financial management system requirements (FMFIA Section 4). Based on the results of this evaluation for the period ending September 30, 2011, PBGC is providing a qualified statement of assurance that the agency met all the objectives of FMFIA. The results of that assessment provided reasonable assurance that, except for two noted material weaknesses discussed below, PBGC's internal control over the effectiveness and efficiency of operations and compliance with laws and regulations was operating effectively. Further, the assessment did not identify any non-conformances with financial management system requirements.

In addition, PBGC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, PBGC can provide reasonable assurance that its internal control over financial reporting as of September 30, 2011, was operating effectively, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

Summary of the Material Weakness Relating to System Security and IT Operational Effectiveness and Corrective Action Plans

PBGC continues to address the material weakness relating to System Security and IT Operational Effectiveness. In January 2010, the PBGC's Office of Information Technology began work on an enterprise-wide corrective action plan (CAP) effort, which was published in March 31, 2010. The CAP focuses on the root causes of findings that were noted both as part of the OIG's work as well as internal assessments. The plan is based on the security controls outlined in NIST 800-53 rev. 3 as a framework and provides a timeline to address identified weaknesses over the next several years. During FY 2011, PBGC retained the Bureau of Public Debt's (BPD) security services team to conduct a Security Assessment and Authorization (SA&A) of PBGC's infrastructure general support systems. Based on the results, PBGC obtained signed authorizations to operate its general support systems, laying an important foundation for future progress. Continued execution of the CAP remains a primary agency priority.

Summary of Material Weakness Related to Benefits Administration Audit Processes and Records Management

Both management and OIG have conducted reviews that have underscored the need for improvement in how BAPD audits plan assets, and particularly, how BAPD manages its contractors and its records collection and retention processes. During FY 2012, PBGC will develop a plan that will address the deficiencies noted in the financial audit, IPERA, and internal reviews. The plan will focus on fundamental issues such as internal controls, processes, contractor oversight, and training and staff competencies. In addition, BAPD is currently undergoing a Strategic Review that will address some of the organizational structure and operations to meet its mission challenges. The implementation of any recommendations from this review will be a multi-year process. Recommendations from the strategic review are top priorities for PBGC senior leadership.

MANAGEMENT REPRESENTATION

PBGC's management is responsible for the accompanying Statements of Financial Condition of the Single-Employer and Multiemployer Funds as of September 30, 2011 and 2010, the related Statements of Operations and Changes in Net Position and the Statements of Cash Flows for the years then ended. PBGC's management is also responsible for establishing and maintaining systems of internal accounting and administrative controls that provide reasonable assurance that the control objectives, i.e., preparing reliable financial statements, safeguarding assets, and complying with laws and regulations, are achieved.

In the opinion of management, the financial statements of the Single-Employer and Multiemployer Program Funds present fairly the financial position of PBGC as September 30, 2011, and September 30, 2010, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America (GAAP) and actuarial standards applied on a consistent basis. As noted in the FMFIA Statement of Assurance above, except for two material weaknesses: a) system security and IT operational effectiveness, and b) benefits administration audit processes and records management, PBGC's accounting systems and internal controls comply with the provisions of FMFIA. In addition, PBGC has sufficient compensating controls in place to ensure the reliability of the financial statements the agency.

Estimates of probable terminations, nonrecoverable future financial assistance, amounts due from employers and the present value of future benefits have a material effect on the financial results being reported. Litigation has been disclosed and reported in accordance with GAAP.

As a result of the aforementioned, PBGC has based these statements, in part, upon informed judgments and estimates for those transactions not yet complete or for which the ultimate effects cannot be precisely measured, or for those that are subject to the effects of any pending litigation.

The Inspector General engaged Clifton Gunderson LLP to conduct the audit of the Corporation's fiscal years 2011 and 2010 financial statements, and Clifton Gunderson LLP issued an unqualified opinion on those financial statements.


Josh Gotbaum
Director


Patricia Kelly
Chief Financial Officer

November 14, 2011

PENSION BENEFIT GUARANTY CORPORATION
STATEMENTS OF FINANCIAL CONDITION

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30, 2011	2010	September 30, 2011	2010	September 30, 2011	2010
<i>(Dollars in millions)</i>						
ASSETS						
Cash and cash equivalents	\$ 5,021	\$ 4,442	\$ 5	\$ 6	\$ 5,026	\$ 4,448
Securities lending collateral (Notes 3 and 5)	4,587	5,427	0	0	4,587	5,427
Investments, at market (Notes 3 and 5):						
Fixed maturity securities	46,257	39,789	1,720	1,607	47,977	41,396
Equity securities	17,997	22,393	0	0	17,997	22,393
Private equity	1,459	2,050	0	0	1,459	2,050
Real estate and real estate investment trusts	536	459	0	0	536	459
Other	22	17	0	0	22	17
Total investments	66,271	64,708	1,720	1,607	67,991	66,315
Receivables, net:						
Sponsors of terminated plans	31	11	0	0	31	11
Premiums (Note 11)	561	754	1	2	562	756
Sale of securities	1,807	1,589	0	0	1,807	1,589
Derivative contracts (Note 4)	178	78	0	0	178	78
Investment income	469	418	12	12	481	430
Other	3	5	0	0	3	5
Total receivables	3,049	2,855	13	14	3,062	2,869
Capitalized assets, net	32	31	1	1	33	32
Total assets	\$78,960	\$77,463	\$1,739	\$1,628	\$80,699	\$79,091

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

PENSION BENEFIT GUARANTY CORPORATION
STATEMENTS OF FINANCIAL CONDITION

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30, 2011	2010	September 30, 2011	2010	September 30, 2011	2010
<i>(Dollars in Millions)</i>						
LIABILITIES						
Present value of future benefits, net (Note 6):						
Trusteed plans	\$91,718	\$ 88,021	\$1	\$ 1	\$91,719	\$ 88,022
Plans pending termination and trusteeship	346	501	0	0	346	501
Settlements and judgments	56	55	0	0	56	55
Claims for probable terminations	833	1,445	0	0	833	1,445
Total present value of future benefits, net	92,953	90,022	1	1	92,954	90,023
Present value of nonrecoverable future financial assistance (Note 7)						
Insolvent plans	0	0	1,232	1,179	1,232	1,179
Probable insolvent plans	0	0	3,243	1,851	3,243	1,851
Total present value of nonrecoverable future financial assistance	0	0	4,475	3,030	4,475	3,030
Payables, net:						
Derivative contracts (Note 4)	173	67	0	0	173	67
Due for purchases of securities	4,079	3,076	0	0	4,079	3,076
Payable upon return of securities loaned	4,587	5,427	0	0	4,587	5,427
Unearned premiums	366	364	31	31	397	395
Accounts payable and accrued expenses (Note 8)	68	101	2	2	70	103
Total payables	9,273	9,035	33	33	9,306	9,068
Total liabilities	102,226	99,057	4,509	3,064	106,735	102,121
Net position	(23,266)	(21,594)	(2,770)	(1,436)	(26,036)	(23,030)
Total liabilities and net position	\$78,960	\$ 77,463	\$1,739	\$1,628	\$80,699	\$ 79,091

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

PENSION BENEFIT GUARANTY CORPORATION
STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	For the Years Ended September 30,		For the Years Ended September 30,		For the Years Ended September 30,	
	2011	2010	2011	2010	2011	2010
<i>(Dollars in Millions)</i>						
UNDERWRITING						
Income:						
Premium, net (Note 11)	\$ 2,072	\$ 2,231	\$ 92	\$ 93	\$ 2,164	\$ 2,324
Other	17	30	0	0	17	30
Total	<u>2,089</u>	<u>2,261</u>	<u>92</u>	<u>93</u>	<u>2,181</u>	<u>2,354</u>
Expenses:						
Administrative	353	368	14	12	367	380
Other	21	(7)	0	0	21	(7)
Total	<u>374</u>	<u>361</u>	<u>14</u>	<u>12</u>	<u>388</u>	<u>373</u>
Other underwriting activity:						
Losses from completed and probable terminations (Note 12)	201	509	0	0	201	509
Losses from financial assistance (Note 7)			1,560	831	1,560	831
Actuarial adjustments (credits) (Note 6)	1,672	(1,190)	0	0	1,672	(1,190)
Total	<u>1,873</u>	<u>(681)</u>	<u>1,560</u>	<u>831</u>	<u>3,433</u>	<u>150</u>
Underwriting gain (loss)	<u>(158)</u>	<u>2,581</u>	<u>(1,482)</u>	<u>(750)</u>	<u>(1,640)</u>	<u>1,831</u>
FINANCIAL:						
Investment income (loss) (Note 13):						
Fixed	3,502	5,233	148	183	3,650	5,416
Equity	(276)	2,116	0	0	(276)	2,116
Private equity	144	404	0	0	144	404
Other	76	(159)	0	0	76	(159)
Total	<u>3,446</u>	<u>7,594</u>	<u>148</u>	<u>183</u>	<u>3,594</u>	<u>7,777</u>
Expenses:						
Investment	71	81	0	0	71	81
Actuarial charges (Note 6):						
Due to passage of time	3,880	4,215	0	0	3,880	4,215
Due to change in interest rates	1,009	6,396	0	0	1,009	6,396
Total	<u>4,960</u>	<u>10,692</u>	<u>0</u>	<u>0</u>	<u>4,960</u>	<u>10,692</u>
Financial income (loss)	<u>(1,514)</u>	<u>(3,098)</u>	<u>148</u>	<u>183</u>	<u>(1,366)</u>	<u>(2,915)</u>
Net loss	<u>(1,672)</u>	<u>(517)</u>	<u>(1,334)</u>	<u>(567)</u>	<u>(3,006)</u>	<u>(1,084)</u>
Net position, beginning of year	<u>(21,594)</u>	<u>(21,077)</u>	<u>(1,436)</u>	<u>(869)</u>	<u>(23,030)</u>	<u>(21,946)</u>
Net position, end of year	\$ <u>(23,266)</u>	\$ <u>(21,594)</u>	\$ <u>(2,770)</u>	\$ <u>(1,436)</u>	\$ <u>(26,036)</u>	\$ <u>(23,030)</u>

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

PENSION BENEFIT GUARANTY CORPORATION
STATEMENTS OF CASH FLOWS

<i>(Dollars in millions)</i>	Single-Employer Program		Multiemployer Program		Memorandum Total	
	For the Years Ended September 30,		For the Years Ended September 30,		For the Years Ended September 30,	
	2011	2010	2011	2010	2011	2010
OPERATING ACTIVITIES:						
Premium receipts	\$ 2,268	\$ 2,086	\$ 91	\$ 93	\$ 2,359	\$ 2,179
Interest and dividends received	2,155	1,989	74	73	2,229	2,062
Cash received from plans upon trusteeship	36	81	0	0	36	81
Receipts from sponsors/non-sponsors	70	241	0	0	70	241
Receipts from the missing participant program	6	3	0	0	6	3
Other receipts	1	5	0	0	1	5
Benefit payments – trustee plans	(5,382)	(5,284)	0	0	(5,382)	(5,284)
Financial assistance payments			(115)	(97)	(115)	(97)
Settlements and judgments	0	0	0	0	0	0
Payments for administrative and other expenses	(428)	(409)	(13)	(11)	(441)	(420)
Accrued interest paid on securities purchased	(310)	(313)	(6)	(7)	(316)	(320)
Net cash provided (used) by operating activities (Note 15)	<u>(1,584)</u>	<u>(1,601)</u>	<u>31</u>	<u>51</u>	<u>(1,553)</u>	<u>(1,550)</u>
INVESTING ACTIVITIES:						
Proceeds from sales of investments	85,242	71,459	1,216	1,039	86,458	72,498
Payments for purchases of investments	(83,079)	(69,163)	(1,248)	(1,089)	(84,327)	(70,252)
Net change in investment of securities lending collateral	(841)	2,923	0	0	(841)	2,923
Net change in securities lending payable	841	(2,923)	0	0	841	(2,923)
Net cash provided (used) by investing activities	<u>2,163</u>	<u>2,296</u>	<u>(32)</u>	<u>(50)</u>	<u>2,131</u>	<u>2,246</u>
Net increase (decrease) in cash and cash equivalents	579	695	(1)	1	578	696
Cash and cash equivalents, beginning of year	4,442	3,747	6	5	4,448	3,752
Cash and cash equivalents, end of year	<u>\$ 5,021</u>	<u>\$ 4,442</u>	<u>\$ 5</u>	<u>\$ 6</u>	<u>\$ 5,026</u>	<u>\$ 4,448</u>

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

September 30, 2011 and 2010

Note 1: Organization and Purpose

The Pension Benefit Guaranty Corporation (PBGC or the Corporation) is a federal corporation created by Title IV of the Employee Retirement Income Security Act of 1974 (ERISA) and is subject to the provisions of the Government Corporation Control Act. Its activities are defined in ERISA as amended by the Multiemployer Pension Plan Amendments Act of 1980, the Single-Employer Pension Plan Amendments Act of 1986, the Pension Protection Act of 1987, the Retirement Protection Act of 1994, the Consolidated Appropriations Act, 2001, the Deficit Reduction Act of 2005, and the Pension Protection Act of 2006. The Corporation insures the pension benefits, within statutory limits, of participants in covered single-employer and multiemployer defined benefit pension plans.

ERISA requires that PBGC programs be self-financing. ERISA provides that the U.S. Government is not liable for any obligation or liability incurred by PBGC.

For financial statement purposes, PBGC divides its business activity into two broad areas – “Underwriting Activity” and “Financial Activity” – covering both single-employer and multiemployer program segments. PBGC’s Underwriting Activity provides financial guaranty insurance in return for insurance premiums (whether actually paid or not). Actual and expected probable losses that result from the termination of underfunded pension plans are included in this category, as are actuarial adjustments based on changes in actuarial assumptions, such as mortality. Financial Activity consists of the performance of PBGC’s assets and liabilities. PBGC’s assets consist of premiums collected from defined benefit plan sponsors, assets from distress or involuntarily terminated plans that PBGC has insured, and recoveries from the former sponsors of those terminated plans. PBGC’s future benefit liabilities consist of those future benefits, under statutory limits, that PBGC has assumed following distress or involuntary terminations. Gains and losses on PBGC’s investments and changes in the value of PBGC’s future benefit liabilities (e.g., actuarial charges such as changes in interest rates and passage of time) are included in this area.

As of September 30, 2011, the single-employer and multiemployer programs reported net positions of \$(23.3) billion and \$(2.8) billion, respectively. The single-employer program had assets of approximately \$79.0 billion offset by total liabilities of \$102.2 billion, which include a total present value of future benefits (PVFB) of approximately \$93.0 billion. As of September 30, 2011, the multiemployer program had assets over \$1.7 billion offset by approximately \$4.5 billion in present value of nonrecoverable future financial assistance. Notwithstanding these deficits, the Corporation has sufficient liquidity to meet its obligations for a significant number of years; however, neither program at present has the resources to fully satisfy PBGC’s long-term obligations to plan participants.

PBGC’s \$73.5 billion of total investments (including cash and investment income) represents the largest component of PBGC’s Statements of Financial Condition combined assets of \$80.7 billion at September 30, 2011. This amount of \$73.5 billion (as compared to investments under management of \$69.8 billion, as reported on page 32) reflects the fact that PBGC experiences a recurring inflow of trusteed plan assets that have not yet been incorporated into the PBGC investment program. For total investments (i.e., not the investment program), cash and fixed-income securities (\$53.5 billion) represents 73 percent of the total investments, while equity securities (\$18.0 billion) represents 25 percent of total investments. Private market assets (\$1.5 billion), comprised largely of private equity, private debt, and real estate, represent 2 percent of the total investments.

Single-Employer and Multiemployer Program Exposure

PBGC's estimate of the total underfunding in single-employer plans sponsored by companies with credit ratings below investment grade, and which were classified by PBGC as reasonably possible of termination as of September 30, 2011, was \$227 billion. The comparable estimates of the single-employer program's reasonably possible exposure for 2010 and 2009 were \$170 billion and \$168 billion, respectively. These estimates are measured as of December 31 of the previous year (see Note 9). For 2011, this exposure is concentrated in the following sectors: manufacturing (primarily automobile/auto parts, and primary and fabricated metals), transportation (primarily airlines), services, and wholesale and retail trade.

PBGC estimates that, as of September 30, 2011, it is reasonably possible that multiemployer plans may require future financial assistance in the amount of \$23 billion. The comparable estimates of the multiemployer program's reasonable possible exposure for FY 2010 and FY 2009 were \$20 billion and \$326 million, respectively. The significant increase from prior years is primarily due to the addition of two large plans to the reasonably possible inventory. The sponsor of one plan, now with net liability of \$16.4 billion, is in the "transportation, communication, and utilities" industry category; the other, now with net liability of \$5.4 billion, is in the "agriculture, mining, and construction" industry category.

There is significant volatility in plan underfunding and sponsor credit quality over time, which makes long-term estimation of PBGC's expected claims difficult. This volatility, and the concentration of claims in a relatively small number of terminated plans, have characterized PBGC's experience to date and will likely continue. Among the factors that will influence PBGC's claims going forward are economic conditions affecting interest rates, financial markets, and the rate of business failures.

PBGC's sources of information on plan underfunding are the most recent Section 4010 and PBGC premium filings, and other submissions to the Corporation. PBGC publishes Table S-49, "Various Measures of Underfunding in PBGC-Insured Plans," in its *Pension Insurance Data Book* where the limitations of the estimates are fully and appropriately described.

Under the single-employer program, PBGC is liable for the payment of guaranteed benefits with respect only to underfunded terminated plans. An underfunded plan may terminate only if PBGC or a bankruptcy court finds that one of the four conditions for a distress termination, as defined in ERISA, is met or if PBGC involuntarily terminates a plan under one of five specified statutory tests. The net liability assumed by PBGC is generally equal to the present value of the future benefits payable by PBGC less amounts provided by the plan's assets and amounts recoverable by PBGC from the plan sponsor and members of the plan sponsor's controlled group, as defined by ERISA.

Under the multiemployer program, if a plan becomes insolvent, it receives financial assistance from PBGC to allow the plan to continue to pay participants their guaranteed benefits. PBGC recognizes assistance as a loss to the extent that the plan is not expected to be able to repay these amounts from future plan contributions, employer withdrawal liability or investment earnings. Since multiemployer plans do not receive PBGC assistance until fully insolvent, financial assistance is almost never repaid; for this reason such assistance is fully reserved.

Note 2: Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions may change over time as new information is obtained or subsequent developments occur. Actual results could differ from those estimates.

Recent Accounting Developments

During FY 2011, PBGC implemented FASB Accounting Standards Update No. 2009-16, *Transfers and Servicing (Topic 860) – Accounting for Transfers of Financial Assets* and FASB Accounting Standards Update No. 2011-02, *Receivables (Topic 310) – A Creditor’s Determination of Whether a Restructuring is a Troubled Debt Restructuring*. Accounting Standards Update 2009-16 improves the relevance, representations, and comparability of the information that PBGC provides in its financial reports regarding transfers of financial assets. See Note 3 for disclosures regarding Securities Lending and Repurchase Agreements. Accounting Standards Update 2011-02 requires disclosures for loan modifications that constitute troubled debt restructurings. See Note 7 for disclosures on multiemployer financial assistance notes receivable.

During FY 2010, PBGC implemented FASB Accounting Standards Update No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements* (ASU 2010-06) and FASB Accounting Standards Update No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820) – Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, as amended (ASU 2009-12). ASU 2010-06 added disclosures for significant transfers between Levels 1 and 2; separate presentation for transfers into and transfers out of Level 3; class of assets and liabilities; and valuation techniques for Levels 2 and 3. ASU 2009-12 permits, as a practical expedient, a reporting entity to measure the fair value of an investment on the basis of net asset value (NAV) per share. ASU 2009-12 requires disclosures by class of NAV investment including the attributes of the investments, such as: the nature of any restrictions on the investor’s ability to redeem its investments at the measurement date; any unfunded commitments; and the investment strategies of the investees.

Valuation Method

A primary objective of PBGC’s financial statements is to provide information that is useful in assessing PBGC’s present and future ability to ensure that its plan beneficiaries receive benefits when due. Accordingly, PBGC values its financial assets at estimated fair value, consistent with the standards for pension plans contained in the FASB Accounting Standards Codification Section 960, *Defined Benefit Pension Plans*. PBGC values its liabilities for the present value of future benefits and present value of nonrecoverable future financial assistance using assumptions derived from annuity prices from insurance companies, as described in the Statement of Actuarial Opinion. As described in Section 960, the assumptions are “those assumptions that are inherent in the estimated cost at the (valuation) date to obtain a contract with an insurance company to provide participants with their accumulated plan benefits.” Also, in accordance with Section 960, PBGC selects assumptions for expected retirement ages and the cost of administrative expenses in accordance with its best estimate of anticipated experience.

The FASB Accounting Standards Codification Section 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. Section 820 applies to accounting pronouncements that require or permit fair value measurements. Prior to Section 820, there were different definitions of fair value with limited guidance for

applying those definitions in GAAP; additionally, the issuance for applying fair value was dispersed among many accounting pronouncements that require fair value measurement.

Revolving and Trust Funds

PBGC accounts for its single-employer and multiemployer programs' revolving and trust funds on an accrual basis. Each fund is charged its portion of the benefits paid each year. PBGC includes totals for both the revolving and trust funds for presentation purposes in the financial statements; however, the single-employer and multiemployer programs are separate programs by law and, therefore, PBGC also reports them separately.

ERISA provides for the establishment of the revolving fund where premiums are collected and held. The assets in the revolving fund are used to cover deficits incurred by plans trusteeed and to provide funds for financial assistance. The Pension Protection Act of 1987 created a single-employer revolving (7th) fund that is credited with all premiums in excess of \$8.50 per participant, including all penalties and interest charged on these amounts, and its share of earnings from investments. This fund may not be used to pay PBGC's administrative costs or the benefits of any plan terminated prior to October 1, 1988, unless no other amounts are available.

The trust funds include assets (e.g., pension plan investments) PBGC assumes (or expects to assume) once a terminated plan has been trusteeed, and related investment income. These assets generally are held by custodian banks. The trust funds support the operational functions of PBGC.

The trust funds reflect accounting activity associated with: (1) trusteeed plans – plans for which PBGC has legal responsibility – the assets and liabilities are reflected separately on PBGC's Statements of Financial Condition, the income and expenses are included in the Statements of Operations and Changes in Net Position and the cash flows from these plans are included in the Statements of Cash Flows, and (2) plans pending termination and trusteeship – plans for which PBGC has begun the process for termination and trusteeship by fiscal year-end – the assets and liabilities for these plans are reported as a net amount on the liability side of the Statements of Financial Condition under "Present value of future benefits, net." For these plans, the income and expenses are included in the Statements of Operations and Changes in Net Position, but the cash flows are not included in the Statements of Cash Flows, and (3) probable terminations – plans that PBGC determines are likely to terminate and be trusteeed by PBGC – the assets and liabilities for these plans are reported as a net amount on the liability side of the Statements of Financial Condition under "Present value of future benefits, net." The accrued loss from these plans is included in the Statements of Operations and Changes in Net Position as part of "Losses from completed and probable terminations." The cash flows from these plans are not included in the Statements of Cash Flows. PBGC cannot exercise legal control over a plan's assets until it becomes trustee.

Allocation of Revolving and Trust Funds

PBGC allocates assets, liabilities, income and expenses to the single-employer and multiemployer programs' revolving and trust funds to the extent that such amounts are not directly attributable to a specific fund. Revolving fund investment income is allocated on the basis of each program's average cash and investments available during the year while the expenses are allocated on the basis of each program's present value of future benefits and present value of nonrecoverable future financial assistance. Revolving fund assets and liabilities are allocated according to the year-end equity of each program's revolving funds. Plan assets acquired by PBGC and commingled at PBGC's custodian bank are credited directly to the appropriate fund while the earnings and expenses on the commingled assets are allocated to each program's trust funds on the basis of each trust fund's value, relative to the total value of the commingled fund.

Cash and Cash Equivalents

Cash includes cash on hand and demand deposits. Cash equivalents are investments with original maturities of one business day and highly liquid investments that are readily convertible into cash within one business day.

Securities Lending Collateral

PBGC participates in a securities lending program administered by its custodian bank. The custodian bank requires collateral that equals 102 percent to 105 percent of the securities lent. The collateral is held by the custodian bank. The custodian bank either receives cash or non-cash as collateral or returns collateral to cover mark-to-market changes. Any cash collateral received is invested by PBGC's investment agent. In addition to the lending program managed by the custodian bank, some of PBGC's investment managers are authorized to invest in securities purchased under resale agreements (an agreement with a commitment by the seller to buy a security back from the purchaser at a specified price at a designated future date), and securities sold under repurchase agreements.

Investment Valuation and Income

PBGC bases market values on the last sale of a listed security, on the mean of the "bid-and-ask" for nonlisted securities or on a valuation model in the case of fixed income securities that are not actively traded. These valuations are determined as of the end of each fiscal year. Purchases and sales of securities are recorded on the trade date. In addition, PBGC invests in and discloses its derivative investments in accordance with the guidance contained in the FASB Accounting Standards Codification Section 815, *Derivatives and Hedging*. Investment income is accrued as earned. Dividend income is recorded on the ex-dividend date. Realized gains and losses on sales of investments are calculated using first-in, first-out for the revolving fund and average cost for the trust fund. PBGC marks the plan's assets to market and any increase or decrease in the market value of a plan's assets occurring after the date on which the plan is terminated must, by law, be credited to or suffered by PBGC.

Securities Purchased Under Resale Agreements

Securities purchased under resale agreements are agreements whereby the purchaser agrees to buy securities from the seller, and subsequently sell them back at a pre-agreed price and date. Those greater than one day are reported under "Fixed maturity securities" as "Securities purchased under resale agreements" in the Note 3 table entitled "Investments of Single-Employer Revolving Funds and Single-Employer Trusteed Plans," on page 56. Resale agreements that mature in one day are included in "Cash and cash equivalents" which are reported on the Statements of Financial Condition.

Sponsors of Terminated Plans

The amounts due from sponsors of terminated plans or members of their controlled group represent the settled, but uncollected, claims for employer liability (underfunding as of date of plan termination) and for contributions due their plan less an allowance for estimated uncollectible amounts. PBGC discounts any amounts expected to be received beyond one year for time and risk factors. Some agreements between PBGC and plan sponsors provide for contingent payments based on future profits of the sponsors. The Corporation will report any such future amounts in the period they are realizable. Income and expenses related to amounts due from sponsors are reported in the underwriting section of the Statements of Operations and Changes in Net Position. Interest earned on settled claims for employer liability and due and unpaid employer contributions (DUEC) is reported as "Income: Other." The change in the allowances for uncollectible employer liability and DUEC is reported as "Expenses: Other."

Premiums

Premiums receivable represent the estimated earned but unpaid portion of the premiums for plans that have a plan year commencing before the end of PBGC's fiscal year and past due premiums deemed collectible, including penalties and interest. The liability for unearned premiums represents an estimate of payments received during the fiscal year that cover the portion of a plan's year after PBGC's fiscal year-end. "Premium income, net" represents actual and estimated revenue generated from defined benefit pension plan premium filings as required by Title IV of ERISA less bad debt expense for termination premiums that are reserved at 100 percent, interest, and penalties (see Note 11).

Capitalized Assets

Capitalized assets include furniture and fixtures, electronic processing equipment and internal-use software. This includes costs for internally developed software incurred during the application development stage (system design including software configuration and software interface, coding, testing including parallel processing phase). These costs are shown net of accumulated depreciation and amortization.

Present Value of Future Benefits (PVFB)

The PVFB is the estimated liability for future pension benefits that PBGC is or will be obligated to pay the participants of trustee plans and the net liability for plans pending termination and trusteeship. The PVFB liability (including trustee plans as well as plans pending termination and trusteeship) is stated as the actuarial present value of estimated future benefits less the present value of estimated recoveries from sponsors and members of their controlled group and the assets of plans pending termination and trusteeship as of the date of the financial statements. PBGC also includes the estimated liabilities attributable to plans classified as probable terminations as a separate line item in the PVFB (net of estimated recoveries and plan assets). PBGC uses assumptions to adjust the value of those future payments to reflect the time value of money (by discounting) and the probability of payment (by means of decrements, such as for death or retirement). PBGC also includes anticipated expenses to settle the benefit obligation in the determination of the PVFB. PBGC's benefit payments to participants reduce the PVFB liability.

The values of the PVFB are particularly sensitive to changes in underlying estimates and assumptions. These estimates and assumptions could change and the impact of these changes may be material to PBGC's financial statements (see Note 6).

(1) **Trustee Plans**—represents the present value of future benefit payments less the present value of expected recoveries (for which a settlement agreement has not been reached with sponsors and members of their controlled group) for plans that have terminated and been trustee by PBGC prior to fiscal year-end. Assets are shown separately from liabilities for trustee plans.

(2) **Pending Termination and Trusteeship**—represents the present value of future benefit payments less the plans' net assets (at fair value) anticipated to be received and the present value of expected recoveries (for which a settlement agreement has not been reached with sponsors and members of their controlled group) for plans for which termination action has been initiated and/or completed prior to fiscal year-end. Unlike trustee plans, the liability for plans pending termination and trusteeship is shown net of plan assets.

(3) **Settlements and Judgments**—represents estimated liabilities related to settled litigation.

(4) **Net Claims for Probable Terminations**—In accordance with the FASB Accounting Standards Codification Section 450, *Contingencies*, PBGC recognizes net claims for probable terminations with \$50 million or more of underfunding, which represent PBGC's best estimate of the losses, net of plan assets and the present value of expected recoveries (from sponsors and members of their controlled group) for plans that are likely to terminate in the future. These estimated losses are based on conditions that existed as of PBGC's fiscal year-end. Management believes it is likely that one or more events subsequent to PBGC's fiscal year-end will occur, confirming the loss. Criteria used for classifying a specific plan as a probable

termination include, but are not limited to, one or more of the following conditions: the plan sponsor is in liquidation or comparable state insolvency proceeding with no known solvent controlled group member; sponsor has filed or intends to file for distress plan termination and the criteria will likely be met; or PBGC is considering the plan for involuntary termination. In addition, management takes into account other economic events and factors in making judgments regarding the classification of a plan as a probable termination. These events and factors may include, but are not limited to: the plan sponsor is in bankruptcy or has indicated that a bankruptcy filing is imminent; the plan sponsor has stated that plan termination is likely; the plan sponsor has received a going concern opinion from its independent auditors; or the plan sponsor is in default under existing credit agreement(s).

In addition, a reserve for small unidentified probable losses and incurred but not reported (IBNR) claims is recorded based on an actuarial loss development methodology (ratio method) (see Note 6).

(5) PBGC identifies certain plans as high-risk if the plan sponsor is in Chapter 11 proceedings or the sponsor's senior unsecured debt is rated CCC+/Caa1 or lower by S&P or Moody's respectively. PBGC specifically reviews each plan identified as high-risk and classifies those plans as probable if, based on available evidence, PBGC concludes that plan termination is likely (based on criteria described in (4) above). Otherwise, high-risk plans are classified as reasonably possible.

(6) In accordance with Section 450, PBGC's exposure to losses from plans of companies that are classified as reasonably possible is disclosed in the footnotes. In order for a plan sponsor to be specifically classified as reasonably possible, it must first have \$5 million or more of underfunding, as well as meet additional criteria. Criteria used for classifying a company as reasonably possible include, but are not limited to, one or more of the following conditions: the plan sponsor is in Chapter 11 reorganization; funding waiver pending or outstanding with the Internal Revenue Service; sponsor missed minimum funding contribution; sponsor's bond rating is below-investment-grade for Standard & Poor's (BB+) or Moody's (Ba1); or sponsor has no bond rating but the Dun & Bradstreet Financial Stress Score is below the threshold considered to be investment grade (see Note 9).

Present Value of Nonrecoverable Future Financial Assistance

In accordance with Title IV of ERISA, PBGC provides financial assistance to multiemployer plans, in the form of loans, to enable the plans to pay guaranteed benefits to participants and reasonable administrative expenses. These loans, issued in exchange for interest-bearing promissory notes, constitute an obligation of each plan.

The present value of nonrecoverable future financial assistance represents the estimated nonrecoverable payments to be provided by PBGC in the future to multiemployer plans that will not be able to meet their benefit obligations. The present value of nonrecoverable future financial assistance is based on the difference between the present value of future guaranteed benefits and expenses and the market value of plan assets, including the present value of future amounts expected to be paid by employers, for those plans that are expected to require future assistance. The amount reflects the rates at which, in the opinion of management, these liabilities (net of expenses) could be settled in the market for single-premium nonparticipating group annuities issued by private insurers (see Note 7).

A liability for a particular plan is included in the "Present Value of Nonrecoverable Future Financial Assistance" when it is determined that the plan is currently, or will likely become in the future, insolvent and will require assistance to pay the participants their guaranteed benefit. Determining insolvency requires considering several complex factors, such as an estimate of future cash flows, future mortality rates, and age of participants not in pay status.

Each year, PBGC analyzes insured multiemployer plans to identify those plans that are at risk of becoming claims on the insurance program. Regulatory filings with PBGC and the other ERISA agencies are important to this analysis and determination of risk. For example, a multiemployer plan that no longer has

contributing employers files a notice of termination with PBGC. In general, if a terminated plan's assets are less than the present value of its liabilities, PBGC considers the plan a probable risk of requiring financial assistance in the future.

PBGC also analyzes ongoing multiemployer plans (i.e., plans that continue to have employers making regular contributions for covered work) to determine whether any such plans may be probable or possible claims on the insurance program. In conducting this analysis each year, PBGC examines plans that are chronically underfunded, have poor cash flow trends, a falling contribution base, and that may lack a sufficient asset cushion to weather temporarily income losses. A combination of these factors, or any one factor that is of sufficient concern, leads to a more detailed analysis of the plan's funding and the likelihood that the contributing employers will be willing and able to maintain the plan.

Securities Sold Under Repurchase Agreements

Securities sold under repurchase agreements are agreements with a commitment by the seller to buy a security back from the purchaser at a specified price and designated future date. These agreements represent collateralized short-term loans for which the collateral may be a treasury security, money market instrument, federal agency security, or mortgage-backed security. On the Statements of Financial Condition, securities sold under repurchase agreements are reported as a liability, "Securities sold under repurchase agreements" at the amounts at which the securities will be subsequently reacquired.

Administrative Expenses

These operating expenses (for either the single-employer or multiemployer insurance programs) are amounts paid and accrued for services rendered or while carrying out other activities that constitute PBGC's ongoing operations, e.g., payroll, contractual services, office space, material and supplies, etc. In FY 2010, PBGC revised its administrative expense allocation methodology to ensure each insurance program continued to receive its fair share of administrative expenses. (This resulted in some prior single-employer indirect costs being moved to the multiemployer program). Beginning in FY 2010, resource activity levels in the multiemployer program rose significantly in the areas of financial assistance processing, field audits of newly insolvent plans, additional actuarial analysis of ongoing and terminated multiemployer plans, and responding to a growing number of technical and legal requests from plan administrators and practitioners. The revised expense allocation methodology fully captures these and all other administrative expenses attributable to either the single-employer or multiemployer insurance programs.

Other Expenses

These expenses represent an estimate of the net amount of receivables deemed to be uncollectible during the period. The estimate is based on the most recent status of the debtor (e.g., sponsor), the age of the receivables and other factors that indicate the element of uncollectibility in the receivables outstanding.

Losses from Completed and Probable Terminations

Amounts reported as losses from completed and probable terminations represent the difference as of the actual or expected date of plan termination (DOPT) between the present value of future benefits (including amounts owed under Section 4022(c) of ERISA) assumed, or expected to be assumed, by PBGC, less related plan assets and the present value of expected recoveries from sponsors and members of their controlled group (see Note 12). When a plan terminates, the previously recorded probable net claim is reversed and newly estimated DOPT plan assets, recoveries and PVFB are netted and reported on the line PVFB - Plans pending termination and trusteeship (this value is usually different than the amount previously reported), with any change in the estimate being recorded in the Statements of Operations and Changes in Net Position. In addition, the plan's net income from date of plan termination to the beginning of PBGC's fiscal year is

included as a component of losses from completed and probable terminations for plans with termination dates prior to the year in which they were added to PBGC's inventory of terminated plans.

Actuarial Adjustments and Charges (Credits)

PBGC classifies actuarial adjustments related to insurance based changes in method and the effect of experience as underwriting activity; actuarial adjustments are the result of the movement of plans from one valuation methodology to another, e.g., nonseriatim (calculating the liability for the group) to seriatim (calculating separate liability for each person), and of new data (e.g., deaths, revised participant data). Actuarial charges (credits) related to changes in interest rates and passage of time is classified as financial activity. These adjustments and charges (credits) represent the change in the PVFB that results from applying actuarial assumptions in the calculation of future benefit liabilities (see Note 6).

Depreciation and Amortization

PBGC calculates depreciation on the straight-line basis over estimated useful lives of 5 years for equipment and 10 years for furniture and fixtures. PBGC calculates amortization for capitalized software, which includes certain costs incurred for purchasing and developing software for internal use, on the straight-line basis over estimated useful lives not to exceed 5 years, commencing on the date that the Corporation determines that the internal-use software is implemented. Routine maintenance and leasehold improvements (the amounts of which are not material) are charged to operations as incurred. Capitalization of software cost occurs during the development stage and costs incurred during the preliminary project and post-implementation stages are expensed as incurred.

Reclassification

Certain security lending collateral amounts in the FY 2010 financial statements have been reclassified to be consistent with the FY 2011 presentation. All such changes had no impact on FY 2010 or FY 2011 net positions.

Note 3: Investments

Premium receipts are invested through the revolving fund in U.S. Treasury securities. The trust funds include assets PBGC assumes or expects to assume with respect to terminated plans (e.g., recoveries from sponsors) and investment income thereon. These assets generally are held by custodian banks. The basis and market value of the investments by type are detailed below as well as related investment profile data. The basis indicated is cost of the asset if assumed after the date of plan termination or the market value at date of plan termination if the asset was assumed as a result of a plan's termination. PBGC marks the plan's assets to market and any increase or decrease in the market value of a plan's assets occurring after the date on which the plan is terminated must, by law, be credited to or suffered by PBGC. Investment securities denominated in foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income, and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions. The portfolio does not isolate that portion of the results of operations resulting from changes in foreign exchange rates of investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss on investments. For PBGC's securities, unrealized holding gains and losses are both recognized by including them in earnings. Unrealized holding gains and losses measure the total change in fair value – consisting of unpaid interest income earned or unpaid accrued dividend and the remaining change in fair value from holding the security.

To Be Announced (TBA) and Bond Forward transactions are recorded as regular buys and sells of investments and not as derivatives. TBA (to be announced) is a contract for the purchase or sale of mortgage-backed securities to be delivered on a future date. The term TBA is derived from the fact that the

actual mortgage-backed security that will be delivered to fulfill a TBA trade is not designated at the time the trade is made. The securities are to be announced 48 hours prior to the established trade settlement date. TBAs are issued by FHLMC, FNMA, and GNMA. In accordance with FASB Accounting Standards Codification Section 815, *Derivatives and Hedging*, TBA and Bond Forward contracts are deemed regular way trades as they are completed within the time frame generally established by regulations and conventions in the market place or by the exchange on which they are executed. Thus, recording of TBA and Bond Forward contracts recognizes the acquisition or disposition of the securities at the full contract amounts on day one of the trade.

In prior years, foreign exchange forward contracts and swap contracts were recorded gross of receivables and payables. Beginning in FY 2010, foreign exchange forwards are included in “Fixed maturity securities” rather than “Receivables, net – Derivative contracts” or “Derivative contracts” (liabilities). Swaps are netted rather than recorded at gross levels for the individual contracts as “Receivables, net – Derivative contracts” and “Derivative contracts” (liabilities). Certain amounts shown as futures for receivables and payables were offset to reflect a net margin variation for one recently trusteed plan. Bond forwards and TBAs have been reclassified to “Receivables, net – Sale of securities” and “Due for purchases of securities” from derivative contracts receivables and payables

PBGC obtained a recovery in the form of an ownership interest in a new entity, emerging from a chapter 11 bankruptcy proceeding. This interest was valued as private equity and was sold on March 31, 2011 for the amount of \$591.6 million.

As the following table illustrates, the market value of investments of the single-employer program increased significantly from September 30, 2010, to September 30, 2011.

INVESTMENTS OF SINGLE-EMPLOYER REVOLVING FUNDS AND SINGLE-EMPLOYER TRUSTEED PLANS

<i>(Dollars in millions)</i>	September 30, 2011		September 30, 2010	
	Basis	Market Value	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	\$20,935	\$23,775	\$19,652	\$21,288
Commercial paper/securities purchased under resale agreements	6	6	199	199
Asset backed securities	5,088	5,150	2,681	2,733
Pooled funds				
Domestic	374	393	476	481
International	0	0	0	0
Global/other	0	0	0	0
Corporate bonds and other	11,021	11,765	9,250	10,168
International securities	5,088	5,168	4,492	4,920
Subtotal	42,512	46,257	36,750	39,789
Equity securities:				
Domestic	1,678	1,681	1,760	1,824
International	1,067	1,015	940	1,083
Pooled funds				
Domestic	6,377	7,990	7,256	10,778
International	5,373	7,308	5,765	8,691
Global/other	3	3	15	17
Subtotal	14,498	17,997	15,736	22,393
Private equity	1,452	1,459	2,169	2,050
Real estate and real estate investment trusts	447	536	441	459
Insurance contracts and other investments	23	22	22	17
Total*	\$58,932	\$66,271 **	\$55,118	\$64,708

*Total includes securities on loan at September 30, 2011, and September 30, 2010, with a market value of \$6.125 billion and \$5.674 billion, respectively.

**This total of \$66,271 million of investments at market value represents the single-employer assets only. It differs from the total investments of \$73.50 billion shown on page 32 of this report which includes investments of the multiemployer program, cash and cash equivalents and accrued investment income.

INVESTMENTS OF MULTIEMPLOYER REVOLVING FUNDS AND MULTIEMPLOYER TRUSTEED PLANS

<i>(Dollars in millions)</i>	September 30, 2011		September 30, 2010	
	Basis	Market Value	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	\$1,533	\$1,720	\$1,478	\$1,607
Equity securities	0	0	0	0
Total	\$1,533	\$1,720	\$1,478	\$1,607

INVESTMENT PROFILE

	September 30,	
	2011	2010
Fixed Income Assets		
Average Quality	AA	AA
Average Maturity (years)	14.9	15.5
Duration (years)	9.6	9.9
Yield to Maturity (%)	3.3	3.8
Equity Assets		
Average Price/Earnings Ratio	12.9	18.4
Dividend Yield (%)	2.9	2.3
Beta	1.03	1.03

Derivative Instruments

PBGC assigns investment discretion and grants specific authority to all of its investment managers to invest according to specific portfolio investment guidelines established with PBGC. PBGC further limits the use of derivatives by investment managers through tailored provisions in the investment guidelines with investment managers consistent with PBGC's investment policy statement and overall risk tolerance. These investment managers, who act as fiduciaries to PBGC, determine when it may or may not be appropriate to utilize derivatives in the portfolio(s) for which they are responsible. Investments in derivatives carry many of the same risks of the underlying instruments and carry additional risks that are not associated with direct investments in the securities underlying the derivatives. Furthermore, risks may arise from the potential inability to terminate or sell derivative positions, although derivative instruments are generally more liquid than physical market instruments. A liquid secondary market may not always exist for certain derivative positions at any time. Over-the-counter derivative instruments also involve counterparty risk that the other party to the derivative instrument will not meet its obligations.

The use of derivatives by PBGC investment managers is restricted in-so-far as portfolios cannot utilize derivatives to create leverage in the portfolios for which they are responsible. That is, the portfolios shall not utilize derivatives to leverage the portfolio beyond the maximum risk level associated with a fully invested portfolio of physical securities.

Derivative instruments are used (1) to mitigate risk (e.g., adjust duration or currency exposures), (2) to enhance investment returns, and/or (3) as liquid and cost-efficient substitutes for positions in physical securities. These derivative instruments are not designated as accounting hedges consistent with FASB Accounting Standards Codification Section 815, *Derivatives and Hedging*, which requires an active designation as a prerequisite for any hedge accounting. PBGC utilizes a no hedging designation which results in the gain or loss on a derivative instrument to be recognized currently in earnings. Derivatives are accounted for at fair market value in accordance with the FASB Accounting Standards Codification Section 815, *Derivatives and Hedging*. Derivatives are marked to market with changes in value reported as a component of financial income on the Statements of Operations and Changes in Net Position. PBGC presents all derivatives at fair value on the Statements of Financial Condition.

During fiscal years 2010 and 2011, PBGC, through its investment managers, invested in investment products that used various U.S. and non-U.S. derivative instruments including but not limited to: S&P 500 index futures, options, government bond futures, interest rate, credit default and total return swaps and swaption contracts, stock warrants and rights, debt option contracts, and foreign currency forward and option contracts. Some of these derivatives are traded on organized exchanges and thus bear minimal counterparty

risk. The counterparties to PBGC's non-exchange-traded derivative contracts are major financial institutions subject to ISDA (International Swaps and Derivatives Association, Inc.) master agreements. PBGC monitors its counterparty risk and exchanges collateral under most contracts to further support performance by its counterparties.

A futures contract is an agreement between a buyer or seller and an established futures exchange clearinghouse in which the buyer or seller agrees to take or make a delivery of a specific amount of a financial instrument at a specified price on a specific date (settlement date). The futures exchanges and clearinghouses clear, settle, and guarantee transactions occurring through their facilities. Upon entering into a futures contract, an "initial margin" amount (in cash or liquid securities) of generally one to six percent of the face value indicated in the futures contract is required to be deposited with the broker. Open futures positions are marked to market daily. Subsequent payments known as "variation margin" are made or received by the portfolio dependent upon the daily fluctuations in value of the underlying contract. PBGC maintains adequate liquidity in its portfolio to meet these margin calls.

PBGC also invests in forward contracts. A forward foreign currency contract is a commitment to purchase or sell a foreign currency at the settlement date at a negotiated rate. Foreign currency forward, futures, and option contracts may be used as a substitute for cash currency holdings, in order to minimize currency risk exposure to changes in foreign currency exchange rates and to adjust overall currency exposure to reflect the investment views of the fixed income and equity portfolio managers regarding relationships between currencies.

A swap is an agreement between two parties to exchange different financial returns on a notional investment amount. The major forms of swaps traded are interest rate swaps, credit default swaps, and total return swaps. PBGC uses swap and swaption (an option on a swap) contracts to adjust exposure to interest rates, fixed income securities exposure, credit exposure, and equity exposure, and to generate income based on the investment views of the portfolio managers regarding interest rates, indices and individual issues.

Interest rate swaps involve exchanges of fixed rate and floating rate interest. Interest rate swaps are often used to alter exposure to interest rate fluctuations, by swapping fixed rate obligations for floating rate obligations, or vice versa. The counterparties to the swap agree to exchange interest payments on specific dates, according to a predetermined formula. The payment flows are usually netted against each other, with one party paying the difference to the other.

A credit default swap is a contract between a buyer and seller of protection against pre-defined credit events. PBGC may buy or sell credit default swap contracts to seek to increase the portfolio's income or to mitigate the risk of default on portfolio securities.

A total return swap is a contract between a buyer and seller of exposures to certain asset classes such as equities. PBGC may buy or sell total return contracts to seek to increase or reduce the portfolio's exposure to certain asset classes.

An option contract is a contract in which the writer of the option grants the buyer of the option the right to purchase from (call option) or sell to (put option) the writer a designated instrument at a specified price within a specified period of time.

Stock warrants and rights allow PBGC to purchase securities at a stipulated price within a specified time limit.

For the fiscal years ended September 30, 2011 and 2010, gains and losses from settled margin calls are reported in Investment income on the Statements of Operations and Changes in Net Position. Securities and cash are pledged as collateral for derivative contracts (e.g., futures and swaps) are recorded as a receivable or payable.

Effective January 1, 2009, PBGC adopted the provisions of the FASB Accounting Standards Codification Section 815, *Derivatives and Hedging*. This standard requires the disclosure of fair values of derivative instruments and their gains and losses in its financial statements of both the derivative positions existing at period end and the effect of using derivatives during the reporting period. The first table below identifies the location of derivative fair market values (FMV) on the Statements of Financial Condition, as well as the notional amounts, while the second table identifies the location of derivative gains and losses on the Statements of Operations and Changes in Net Position as of September 30, 2011, and September 30, 2010.

FAIR VALUES OF DERIVATIVE INSTRUMENTS

<i>(Dollars in millions)</i>	Asset Derivative					
	September 30, 2011			September 30, 2010		
	Statements of Financial Condition Location	Notional	FMV	Statements of Financial Condition Location	Notional	FMV
Futures	Derivative Contracts	\$ 3,586	\$90	Derivative Contracts	\$ 2,211	\$2
Swap agreements						
Interest rate swaps	Investments-Fixed	1,330	(15)	Investments-Fixed	1,086	(7)
Credit default swaps	Investments-Fixed	2,150	6	Investments-Fixed	2,023	10
Option contracts	Investments-Fixed	121	1	Investments-Fixed	38	4
Forwards - foreign exchange	Investments-Fixed	3,021	26	Investments-Fixed	3,530	(32)
	Investments-Equity	45	1	Investments-Equity	0	0
<i>(Dollars in millions)</i>	Liability Derivative					
	September 30, 2011			September 30, 2010		
	Statements of Financial Condition Location	Notional	FMV	Statements of Financial Condition Location	Notional	FMV
Futures	Derivative Contracts	\$ 2,148	\$ (2)	Derivative Contracts	\$ 1,024	\$ (1)
Option contracts	Derivative Contracts	1,202	(4)	Derivative Contracts	2,591	(11)

Additional information specific to derivative instruments is disclosed in Note 4 – Derivative Contracts, and Note 5 – Fair Value Measurements.

EFFECT OF DERIVATIVE CONTRACTS ON THE STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION

<i>(Dollars in millions)</i>	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives	
		Sept. 30,	Sept. 30,
		2011	2010
Futures			
Contracts in a receivable position	Investment Income-Fixed	(\$38)	\$73
Contracts in a receivable position	Investment Income-Equity	0	0
Contracts in a payable position	Investment Income-Fixed	177	25
Contracts in a payable position	Investment Income-Equity	0	0
Swap agreements			
Interest rate swaps	Investment Income-Fixed	0	58
Credit default swaps	Investment Income-Fixed	12	19
Option contracts			
Options purchased (long)	Investment Income-Fixed	3	17
Options purchased (long)	Investment Income-Equity	0	0
Options written (sold short)	Investment Income-Fixed	2	(4)
Options written (sold short)	Investment Income-Equity	0	0
Forward contracts			
Forwards - foreign exchange*	Investment Income-Fixed	(42)	(37)
	Investment Income-Equity	1	0

Additional information specific to derivative instruments is disclosed in Note 4 - Derivative Contracts and Note 5 - Fair Value Measurements.

* For FY 2010, the value for Forwards - foreign exchange was reclassified from \$(23) million to \$(37) million, which had no impact on the FY 2010 Net loss.

Securities Lending

PBGC participates in a securities lending program administered by its custodian bank whereby the custodian bank lends PBGC's securities to third parties. The custodian bank requires initial collateral from the borrower that equals 102 percent to 105 percent of the securities lent. Collateral consisting of cash and non-cash instruments is held by the custodian bank. The custodian bank either requires additional collateral or returns collateral to cover daily market value changes. The margin call for additional collateral occurs when levels fall below the initial collateral requirement, except for US government securities and sovereign debt issued by non-US governments where the margin call may not occur until collateral held falls below certain levels depending upon the composition of collateral but never lower than 100 percent of the securities lent. Any cash collateral received is invested. The total value of securities on loan at September 30, 2011, and September 30, 2010, was \$6.125 billion and \$5.674 billion, respectively. The increase in loan balances was mainly attributable to increased allocation and utilization of PBGC's U.S. corporate bonds and U.S. equities. U.S. Government securities continue to represent PBGC's largest amount of assets on loan. The 2011 year-end lendable balance for U.S. Government securities was approximately \$8.2 billion or 33 percent of PBGC's overall lendable securities balance; while the September 30, 2010 balance for U.S. Government securities was approximately \$6.1 billion or 29 percent of PBGC's overall lendable security balance. Utilization levels of

U.S. Government securities on September 30, 2011 was lower than a year earlier, but was offset by the increased loan balances of U.S. corporate bonds and U.S. equities.

The amount of cash collateral received for these loaned securities was \$4.587 billion at September 30, 2011, and \$5.427 billion at September 30, 2010. These amounts are recorded as assets and are offset with a corresponding liability. For lending agreements collateralized by securities, no accompanying asset or liability is recorded, as PBGC does not sell or re-pledge the associated collateral. For those securities lending activities that PBGC directs through its custodian manager, the corporation chooses to invest proceeds from securities lending in the most conservative cash collateral pools available. PBGC had earned income from securities lending of \$14.5 million as of September 30, 2011. Also contributing to PBGC's securities lending income is its participation in certain pooled index funds. Net income from securities lending is included in "Investment income – Fixed" on the Statements of Operations and Changes in Net Position. As of September 30, 2011, PBGC loaned out \$6.125 billion in securities of approximately \$24.379 billion of securities available for securities lending. Of the \$6.125 billion market value of securities on loan at September 30, 2011, approximately 72 percent are lent U.S. government securities.

PBGC does not have the right by contract or custom to sell or re-pledge non-cash collateral; it is no longer reported on the Statements of Financial Condition. Non-cash collateral, which consists primarily of U.S. Treasuries, has recently increased to material levels. In that regard, non-cash collateral previously included with securities lending cash collateral was reclassified in the amount of \$364 million within the FY 2010 Statements of Financial Condition to be consistent with the FY 2011 reporting. Likewise corresponding cash flow changes have been incorporated in the FY 2010 Statements of Cash Flows. All such changes have no impact on FY 2010 or FY 2011 net positions.

Note 4: Derivative Contracts

PBGC's derivative financial instruments are recorded at fair value and are included on the Statements of Financial Condition as investments and derivative contracts. In prior years, foreign exchange forward contracts and swap contracts were recorded gross of receivables and payables. Beginning in FY 2010, foreign exchange forwards are included in "Fixed maturity securities" rather than "Receivables, net – Derivative contracts" or "Derivative contracts" (liabilities). Swaps are netted rather than recorded at gross levels for the individual contracts as "Receivables, net – Derivative contracts" and "Derivative contracts" (liabilities). Certain amounts shown as futures for receivables and payables were offset to reflect a net margin variation for one recently trusted plan. Bond forwards and TBAs have been reclassified to "Receivables, net – Sale of securities" and "Due for purchases of securities" from derivative contracts receivables and payables.

Amounts in the table below represent the derivative contracts in a receivable position at financial statement date. Collateral deposits of \$81 million, which represent cash paid as collateral on certain derivative contracts, are shown.

DERIVATIVE CONTRACTS

<i>(Dollars in millions)</i>	September 30, 2011	September 30, 2010
Open receivable trades on derivatives:		
Collateral deposits	\$81	\$76
Futures contracts	90	2
Interest rate swaps	0	0
Credit default swaps	7	0
Total	<u>\$178</u>	<u>\$78</u>

Amounts in the Derivative Contracts table below represent derivative contracts in a payable position at financial statement date which PBGC reflects as a liability. Collateral deposits of \$167 million, which represent cash received as collateral on certain derivative contracts, are included.

DERIVATIVE CONTRACTS

<i>(Dollars in millions)</i>	September 30, 2011	September 30, 2010
Open payable trades on derivatives:		
Collateral deposits	\$167	\$55
Futures contracts	2	1
Interest rate swaps	0	0
Credit default swaps	0	0
Options-fixed income	4	11
Total	<u>\$173</u>	<u>\$67</u>

Note 5: Fair Value Measurements

Effective January 1, 2009, PBGC adopted the provisions of the FASB Accounting Standards Codification Section 820, *Fair Value Measurements and Disclosures*. The standard does not require the measurement of financial assets and liabilities at fair value, but provides a consistent definition of fair value and establishes a framework for measuring fair value in accordance with GAAP. The standard is intended to increase consistency and comparability in, and disclosures about, fair value measurements, by providing users with better information about the extent to which fair value is used to measure financial assets and liabilities, the inputs used to develop those measurements and the effect of the measurements, if any, on financial condition, results of operations, liquidity and capital.

Section 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an “exit price”) in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants on the measurement date. When PBGC measures fair value for its financial assets and liabilities, PBGC considers the principal or most advantageous market in which PBGC

would transact, and PBGC considers assumptions that market participants would use when pricing the asset or liability. When possible, PBGC looks to active and observable markets to measure the fair value of identical, or similar, financial assets or liabilities. When identical financial assets and liabilities are not traded in active markets, PBGC looks to market observable data for similar assets and liabilities. In some instances, certain assets and liabilities are not actively traded in observable markets, and as a result PBGC uses alternative valuation techniques to measure their fair value.

In addition, Section 820 establishes a hierarchy for measuring fair value. The fair value hierarchy is based on the observability of inputs to the valuation of a financial asset or liability as of the measurement date. The standard requires the recognition of trading gains or losses related to certain derivative transactions whose fair value has been determined using unobservable market inputs.

PBGC believes that its valuation techniques and underlying assumptions used to measure fair value conform to the provisions of Section 820. PBGC has categorized the financial assets and liabilities that it carries at fair value in the Statements of Financial Condition based upon the standard's valuation hierarchy. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1); next highest priority to pricing methods with significant observable market inputs (Level 2); and the lowest priority to significant unobservable valuation inputs (Level 3).

If the inputs used to measure a financial asset or liability cross different levels of the hierarchy, categorization is based on the lowest level input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the overall fair value measurement of a financial asset or liability requires judgment, and considers factors specific to that asset or liability.

The three levels are described below:

Level 1 - Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market. PBGC's level 1 investments primarily included are exchange-traded equity securities and certain U.S. government securities.

Level 2 - Financial assets and liabilities whose values are based on quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability. Level 2 inputs to the valuation methodology include the following:

- a. Quoted prices for similar assets or liabilities in active markets – included are cash equivalents, securities lending collateral, U.S. government securities, asset backed securities, fixed foreign investments, corporate bonds, repos, bond forwards, and swaps;
- b. Quoted prices for identical or similar assets or liabilities in non-active markets – included are corporate stock, pooled funds fixed income, pooled funds equity, and foreign investments equity;
- c. Pricing models whose inputs are observable for substantially the full term of the asset or liability – included are insurance contracts and bank loans; and
- d. Pricing models whose inputs are derived principally from or corroborated by observable market information through correlation or other means for substantially the full term of the asset or liability.

Level 3 - Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable in the market and significant to the overall fair value measurement. These inputs reflect management's judgment about the assumptions that a market participant would use in pricing the asset or liability, and based on the best available information, some of which is internally developed. We include instruments whose values are based on a single source such as a broker, pricing service, or dealer which cannot be corroborated by recent market transactions. These include fixed maturity

securities such as corporate bonds that are comprised of securities that are no longer traded on the active market and/or not managed by any asset manager. Equity securities such as corporate stocks are also included in this level, and are comprised of securities that are no longer traded on the active market and/or not managed by any asset manager. Private equity, real estate funds, and separate accounts that invest primarily in U.S. commercial real estate, are valued based on each underlying investment within the fund/account incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information, including comparable transactions, and performance multiples, among other factors.

The assets and liabilities that PBGC carries at fair value are summarized by the three levels in Section 820 in the following table. The fair value of the asset or liability represents the price that would be received to sell the asset or paid to transfer the liability (an exit price).

FAIR VALUE MEASUREMENTS ON A RECURRING BASIS AS OF SEPTEMBER 30, 2011

<i>(Dollars in millions)</i>	Quoted Market Prices in Active Markets (Level 1)	Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)	Total Net Carrying Value in Statements of Financial Condition
Assets				
Cash and cash equivalents	\$ 427	\$ 4,599		\$ 5,026
Securities lending collateral		4,587		4,587
Investments:				
Fixed maturity securities				
U.S. Government securities		25,495		
Commercial paper/securities purchased under resale agreements		6		
Asset backed/Mortgage backed securities		5,150		
Pooled funds				
Domestic		50	343	
International				
Global/other				
Corporate bonds and other	1	11,764	0 ***	
International securities	<u>37</u>	<u>5,131</u>	<u>0</u>	
Total fixed maturity securities	38	47,596	343	47,977
Equity securities:				
Domestic	1,607	66	8	
International	1,014	0 ***	1	
Pooled funds				
Domestic	0 ***	7,990		
International		7,308		
Global/other	<u>2</u>	<u>1</u>	<u>0</u>	
Total equity securities	2,623	15,365	9	17,997
Private equity			1,459	1,459
Real estate and real estate investment trusts	12	1	523	536
Insurance contracts and other Investments		22		22
Receivables:				
Derivative contracts*	90	88		178
Liabilities				
Payables:				
Derivative contracts**	6	167		173

* Derivative contracts receivables are comprised of open receivable trades on futures, swaps, and collateral deposits. See the Derivative Contracts table under Note 4.

** Derivative contracts payables are comprised of open payable trades on futures, swaps, options, and collateral deposits. See the Derivative Contracts table under Note 4.

*** Less than \$500,000

As of September 30, 2011, there were no significant transfers between Level 1 and Level 2. The end of the reporting period is the date used to recognize transfers between levels.

**CHANGES IN LEVEL 3 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

<i>(Dollars in millions)</i>	Fair Value at September 30, 2010	Total Realized and Unrealized Gains (Losses) included in Income	Purchases, Issuances and Settlements, Net	Transfers Into Level 3	Transfers Out of Level 3	Fair Value at September 30, 2011	Change in Unrealized Gains (Losses) Related to Financial Instruments held at September 30, 2011 **
Assets:							
Pooled funds (fixed)	\$ 331	\$12				\$ 343	\$ 12
Corporate bonds and other *	1	(1)				0***	(1)
Domestic/Int'l equity *	5	0***	4	0***	0***	9	(1)
Private equity	2,050	13	(604)		0***	1,459	166
Real estate & real estate investment trusts	450	73				523	73
Other *	0					0	

*assets which are not actively traded in the market place

** amounts included in the Total Realized and Unrealized Gains (Losses) column. Please do not use the data in this column; it solely represents unrealized gains and losses and cannot be derived from other columns from this table.

*** less than \$500,000

Pursuant to FASB Accounting Standards Codification Section 820, *Fair Value Measurements and Disclosures – Investments in Certain Entities That Calculate Net Asset Value per Share; Fair Value Measurement and Disclosures*, additional disclosures for Investments priced at Net Asset Value are discussed below.

INVESTMENTS IN CERTAIN ENTITIES THAT CALCULATE NET ASSET VALUE PER SHARE (OR ITS EQUIVALENT) FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Fair Value (in millions)	Unfunded Commitments ¹	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Real estate (a)	\$ 536	\$158	n/a	n/a
Private equity (b)	1,459	391	n/a	n/a
Pooled funds (c)	<u>15,694</u>	<u>0</u>	<u>n/a</u>	<u>n/a</u>
Total	<u>\$ 17,689</u>	<u>\$549</u>		

¹ Unfunded amounts include recallable distributions. A substantial portion of the unfunded commitments is unlikely to be called.

- a. This class includes 151 real estate investments that invest primarily in U.S. commercial real estate, and to a lesser extent, U.S. residential real estate. The fair value of each individual investment in this class has been estimated using the net asset value of the PBGC's ownership interest in partners' capital. Generally, these investments do not have redemption provisions. Distributions from each fund will be received as the underlying assets of the fund will be liquidated over the next ten years or so. In addition, distributions will also include any periodic income distributions received. No fund investments in this class are planned to be sold. Individual portfolio investments will be sold over time, however, those have not yet been determined.
- b. This class includes 526 private market investments that invest primarily in U.S. buyout and U.S. venture capital funds. A small number of those focus on natural resources. These investments do not have redemption provisions. Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the funds. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over the next twelve years. However, the individual investments that will be sold have not yet been determined. The fair value of each individual investment has been estimated using the net asset value of the PBGC's ownership interest in partners' capital.
- c. This class includes investments in unit trusts that are intended to match returns of domestic and international indices. Units reflect a pro-rata share of the fund's investments. The per unit net asset value is determined each business day based on the fair value of the fund's investments. Issuances and redemptions are possible daily when a per unit value is determined and are based upon the closing per unit net asset value.

Note 6: Present Value of Future Benefits

The following table summarizes the actuarial adjustments, charges and credits that explain how the Corporation's single-employer program liability for the present value of future benefits changed for the years ended September 30, 2011 and 2010.

For FY 2011, PBGC used a 20-year select interest factor of 4.31% followed by an ultimate factor of 4.26% for the remaining years. In FY 2010, PBGC used a 25-year select interest factor of 4.41% followed by an ultimate factor of 4.51% for the remaining years. These factors were determined to be those needed,

given the mortality assumptions, to continue to match the survey of annuity prices provided by the American Council of Life Insurers (ACLI). Both the interest factor and the length of the select period may vary to produce the best fit with these prices. The prices reflect rates at which, in the opinion of management, the liabilities (net of administrative expenses) could be settled in the market at September 30, for the respective year, for single-premium nonparticipating group annuities issued by private insurers. Many factors, including Federal Reserve policy, changing expectations about longevity risk, and competitive market conditions may affect these rates.

Beginning in FY 2006, and ending with FY 2008, a Barclays Capital Aggregate Bond Index (formerly Lehman Long Corporate A and Higher Bond index) as of the last trading day of the month was used and was applied to both the select and ultimate factors instead of the select factor only as had been prior practice. Interest factors beginning in FY 2006 are now rounded to two decimal places instead of one so as to be able to state to the level of a single basis point.

In late 2008, significant volatility in the bond markets led PBGC to research the relationship between quarterly bond yields and annuity prices. As a result of this research, PBGC ended the use of a bond index in the determination of interest factors. The quarterly interest factors now incorporate the most recent quarterly annuity price survey data. Previously, the price survey data was used only once a year with the bond index then applied to determine subsequent interest factors during the year.

Based on a 2011 study of PBGC's participant mortality, new healthy lives mortality tables have been adopted for the June 30, 2011 and subsequent valuations. For June 30, 2011, PBGC used the Retirement Plan-2000 Combined Healthy (RP-2000 CH) Male and Female Tables, each set back one year and projected 21 years to 2021 using Scale AA. The number of years that PBGC projects the mortality table reflects the number of years from the 2000 base year of the table to the end of the fiscal year (11 years in FY 2011) plus PBGC's calculated duration of its liabilities (10 years in FY 2011). The study also recommended changes in the mortality assumptions for disabled lives which will also be implemented in the June 30, 2011 and subsequent valuations. For September 30, 2010, PBGC used 1994 Group Annuity Mortality (GAM) 94 Static Table set forward one year, projected 26 years to 2020 using scale AA.

The ACLI survey of annuity prices, when combined with the mortality table, provides the basis for determining the interest factors used in calculating the PVFVB. The insurance annuity prices, when combined with the stronger mortality table (i.e., longer life expectancy), result in a higher interest factor than what we would have used with the previous mortality table.

The reserve for administrative expenses in the FY 2006 valuations was assumed to be 1.18 percent of benefit liabilities plus additional reserves for cases in which plan asset determinations, participant database audits and actuarial valuations were not yet complete. As the result of an updated study, the expense reserve factor beginning with FY 2007 has changed to 1.37 percent and carried forward to FY 2008, FY 2009, FY 2010, and FY 2011. The factors to determine the additional reserves were also re-estimated and continue to be based on plan milestone completion as well as case size, number of participants and time since trusteeship.

The present values of future benefits for trustee multiemployer plans for FY2011 and 2010 reflect the payment of assistance and the changes in interest and mortality assumptions, the passage of time and the effect of experience.

The resulting liability represents PBGC's best estimate of the measure of anticipated experience under these programs.

RECONCILIATION OF THE PRESENT VALUE OF FUTURE BENEFITS FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	September 30,	
<i>(Dollars in millions)</i>	2011	2010
Present value of future benefits, at beginning of year -- Single-Employer, net	\$90,022	\$83,035
Estimated recoveries, prior year	107	175
Assets of terminated plans pending trusteeship, net, prior year	542	820
Present value of future benefits at beginning of year, gross	<u>90,671</u>	<u>84,030</u>
Settlements and judgments, prior year	(55)	(58)
Net claims for probable terminations, prior year	(1,445)	(1,870)
Actuarial adjustments -- underwriting:		
Changes in method and assumptions	\$ 1,881	\$ (1,286)
Effect of experience	(209)	96
Total actuarial adjustments -- underwriting	<u>1,672</u>	<u>(1,190)</u>
Actuarial charges -- financial:		
Passage of time	3,880	4,215
Change in interest rates	1,009	6,396
Total actuarial charges -- financial	<u>4,889</u>	<u>10,611</u>
Total actuarial charges, current year	6,561	9,421
Terminations:		
Current year	2,363	3,130
Changes in prior year	(206)	(15)
Total terminations	<u>2,157</u>	<u>3,115</u>
Benefit payments, current year*	(5,340)	(5,467)
Estimated recoveries, current year***	(205)	(107)
Assets of terminated plans pending trusteeship, net, current year	(280)	(542)
Settlements and judgments, current year	56	55
Net claims for probable terminations:		
Future benefits**	1,379	3,073
Estimated plan assets and recoveries from sponsors	(546)	(1,628)
Total net claims, current year	<u>833</u>	<u>1,445</u>
Present value of future benefits, at end of year -- Single-Employer, net	92,953	90,022
Present value of future benefits, at end of year -- Multiemployer	1	1
Total present value of future benefits, at end of year, net	<u>\$92,954</u>	<u>\$90,023</u>

* The benefit payments of \$5,340 million and \$5,467 million include \$(42) million in 2011 and \$182 million in 2010 for benefits paid from plan assets by plans prior to trusteeship.

** The future benefits for probable terminations of \$1,379 million and \$3,073 million for fiscal years 2011 and 2010, respectively, include \$288 million and \$253 million, respectively, for probable terminations not specifically identified and \$1,091 million and \$2,820 million, respectively, for specifically identified probables.

***United Continental Holdings, Inc (UAL) is obligated under an indenture to issue to PBGC up to \$500 million aggregate principal amount of 8% Contingent Senior Notes (8% Notes) in up to eight equal tranches of \$62.5 million if certain UAL earnings related triggering events occur. As of June 30, 2011 the first triggering event under the indenture occurred, and UAL is obligated to issue one tranche of \$62.5 million of the 8% Notes no later than February 15, 2012.

The following table details the assets that make up single-employer terminated plans pending termination and trusteeship:

ASSETS OF SINGLE-EMPLOYER PLANS PENDING TERMINATION AND TRUSTEESHIP, NET

	September 30, 2011		September 30, 2010	
	Basis	Market Value	Basis	Market Value
<i>(Dollars in millions)</i>				
U.S. Government securities	\$ 0	\$ 0	\$ -	\$ -
Corporate and other bonds	148	148	353	353
Equity securities	137	139	270	270
Private equity	0	0	0	0
Insurance contracts	7	7	0	0
Other	(19)	(14)	(81)	(81)
Total, net	\$273	\$280	\$ 542	\$ 542

Net Claims for Probable Terminations

Factors that are presently not fully determinable may be responsible for these claim estimates differing from actual experience. Included in net claims for probable terminations is a provision for future benefit liabilities for plans not specifically identified.

The values recorded in the following reconciliation table have been adjusted to the expected dates of termination.

RECONCILIATION OF NET CLAIMS FOR PROBABLE TERMINATIONS

<i>(Dollars in millions)</i>	September 30,	
	2011	2010
Net claims for probable terminations, at beginning of year	\$ 1,445	\$1,870
New claims	\$ 545	\$ 337
Actual terminations	(474)	(596)
Deleted probables	(718)	(376)
Change in benefit liabilities	35	186
Change in plan assets	0	24
Loss (credit) on probables	(612)	(425)
Net claims for probable terminations, at end of year	\$ 833	\$1,445

The following table itemizes the single-employer probable exposure by industry:

PROBABLES EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

<i>(Dollars in millions)</i>	FY 2011	FY 2010
Wholesale and Retail Services	\$ 602	\$ -
Health Care	231	193
Manufacturing	-	911
Services	-	341
Total	\$ 833	\$1,445

For further detail, see Note 2 subpoint (4).

The following table shows what has happened to plans classified as probables. This table does not capture or include those plans that were not previously classified as probable before they terminated.

ACTUAL PROBABLES EXPERIENCE

As Initially Recorded Beginning in 1987

<i>(Dollars in millions)</i>	Status of Probables from 1987-2010 at September 30, 2011			
	Number of Plans	Percent of Plans	Net Claim	Percent of Net Claim
Beginning in 1987, number of plans reported as Probable:				
Probables terminated	362	79%	\$28,471	73%
Probables not yet terminated or deleted	0	0	0	0
Probables deleted	94	21	10,335	27
Total	456	100%	\$38,806	100%

Note 7: Multiemployer Financial Assistance

PBGC provides financial assistance to multiemployer defined benefit pension plans in the form of loans. Since these loans are not generally repaid, an allowance is set up to the extent that repayment of these loans is not expected.

NOTES RECEIVABLE MULTIEMPLOYER FINANCIAL ASSISTANCE

<i>(Dollars in millions)</i>	September 30, 2011	September 30, 2010
Gross balance at beginning of year	\$484	\$387
Financial assistance payments - current year	115	97
Write-offs related to settlement agreements	0	0
Subtotal	599	484
Allowance for uncollectible amounts	(599)	(484)
Net balance at end of year	\$ 0	\$ 0

The losses from financial assistance reflected in the Statements of Operations and Changes in Net Position include period changes in the estimated present value of nonrecoverable future financial assistance.

As of September 30, 2011, the corporation expects 135 multiemployer plans will exhaust plan assets and need financial assistance from PBGC to pay guaranteed benefits and plan administrative expenses. The present value of nonrecoverable future financial assistance for these 135 plans is \$4.475 billion. The 135 plans fall into three categories – plans currently receiving financial assistance; plans that have terminated but have not yet started receiving financial assistance from PBGC; and ongoing plans (not terminated) that the corporation expects will require financial assistance in the future.

MULTIEMPLOYER FINANCIAL ASSISTANCE

<i>(Dollars in millions)</i>	September 30, 2011		September 30, 2010	
	Number of Plans	Net Liability	Number of Plans	Net Liability
Plans currently receiving financial assistance	41	\$1,232	41	\$1,179
Plans that have terminated but have not yet started receiving financial assistance	60	1,487	51	1,067
Ongoing plans (not terminated) that the corporation expects will require financial assistance in the future	34	1,756	29	784
Total	135	\$4,475	121	\$3,030

Of the 135 plans:

- 41 have exhausted plan assets and are currently receiving financial assistance payments from PBGC. The present value of future financial assistance payments for these insolvent 41 plans is \$1.232 billion.
- 60 plans have terminated but have not yet started receiving financial assistance payments from PBGC. Terminated multiemployer plans no longer have employers making regular contributions for covered work, though some plans continue to receive withdrawal liability payments from withdrawn employers. In general, PBGC records a loss for future financial assistance for any underfunded multiemployer plan that has terminated. The present value of future financial assistance payments to these 60 terminated plans is \$1.487 billion.
- 34 plans are ongoing (i.e., have not terminated), but PBGC expects these plans will exhaust plan assets and need financial assistance within 10 years. In this analysis, PBGC takes into account the current plan assets, future income to the plan, the statutory funding rules, and the possibility for future increases in contributions. The present value of future financial assistance payments for these 34 ongoing plans is \$1.756 billion.

PRESENT VALUE OF NONRECOVERABLE FUTURE FINANCIAL ASSISTANCE AND LOSSES FROM FINANCIAL ASSISTANCE

<i>(Dollars in millions)</i>	September 30, 2011	September 30, 2010
Balance at beginning of year	\$3,030	\$ 2,296
Changes in allowance:		
Losses (credits) from financial assistance	1,560	831
Financial assistance granted (previously accrued)	(115)	(97)
Balance at end of year	\$4,475	\$ 3,030

Note 8: Accounts Payable and Accrued Expenses

The following table itemizes accounts payable and accrued expenses reported in the Statements of Financial Condition:

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

<i>(Dollars in millions)</i>	September 30, 2011	September 30, 2010
Annual leave	\$ 8	\$ 8
Other payables and accrued expenses	62	95
Accounts payable and accrued expenses	<u>\$ 70</u>	<u>\$ 103</u>

Note 9: Reasonably Possible Contingencies

Single-employer plans sponsored by companies whose credit quality is below investment grade pose a greater risk of being terminated. In addition, there are some multiemployer plans that may require future financial assistance. The estimated unfunded vested benefits exposure amounts disclosed below represent the Corporation's estimates of the reasonably possible exposure to loss in these plans given the inherent uncertainties about these plans.

In accordance with the FASB Accounting Standards Codification Section 450, *Contingencies*, PBGC classified a number of these companies as reasonably possible rather than probable terminations as the sponsors' financial condition and other factors did not indicate that termination of their plans was likely. This classification was done based upon information about the companies as of September 30, 2011.

The estimate of unfunded vested benefits exposure to loss for the single-employer plans of these companies was measured as of December 31, 2010. The reasonably possible exposure to loss in these plans was \$227 billion for FY 2011. This is an increase of \$57 billion from the reasonably possible exposure of \$170 billion in FY 2010. This reasonably possible exposure increased primarily due to the growth in the number of companies meeting the reasonable possible criteria (see Note 2), and the decrease in the interest rate used for valuing liabilities. Although high asset returns for calendar year 2010 partially offset the increase in liabilities, the net result was an increase in unfunded liabilities.

The estimate of unfunded vested benefits exposure to loss is not based on PBGC-guaranteed benefit levels, since data is not available to determine an estimate at this level of precision. PBGC calculated this estimate, as in previous years, by using the most recent data available from filings and submissions to the Corporation for plan years ended on or after December 31, 2009. The Corporation adjusted the value reported for liabilities to December 31, 2010, using a select rate of 3.93% for the first 20 years and 4.33% thereafter and applying the expense load as defined in 29 CFR Part 4044, Appendix C. The rates were derived in conjunction with the 1994 Group Annuity Mortality Static Table (with margins) projected to 2020 using Scale AA to approximate annuity prices as of December 31, 2010. The underfunding associated with these plans could be substantially different at September 30, 2011, because of the economic conditions that existed between December 31, 2010 and September 30, 2011. The Corporation did not adjust the estimate for events that occurred between December 31, 2010, and September 30, 2011.

The following table by industry itemizes the single-employer reasonably possible exposure to loss:

REASONABLY POSSIBLE EXPOSURE TO LOSS BY INDUSTRY (PRINCIPAL CATEGORIES)

<i>(Dollars in millions)</i>	FY 2011	FY 2010
Manufacturing *	\$120,690	\$101,888
Transportation, Communication and Utilities **	50,133	30,178
Services	25,879	15,356
Wholesale and Retail Trade	12,218	12,844
Health Care	8,818	3,985
Finance, Insurance, and Real Estate	5,953	2,840
Agriculture, Mining, and Construction	3,426	2,653
Total	\$227,117	\$169,744

* Primarily automobile/auto parts and primary and fabricated metals

** Primarily airline

PBGC included amounts in the liability for the present value of nonrecoverable future financial assistance (see Note 7) for multiemployer plans that PBGC estimated may require future financial assistance. In addition, PBGC currently estimates that it is reasonably possible that other multiemployer plans may require

future financial assistance in the amount of \$23 billion, due primarily to two large plans. PBGC obtained an independent actuarial analysis of the solvency of these two large plans in both FY 2010 and FY 2011.

The Corporation calculated the future financial assistance liability for each multiemployer plan identified as probable (see Note 7), or reasonably possible as the present value of guaranteed future benefit and expense payments net of any future contributions or withdrawal liability payments as of the later of September 30, 2011, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2011. The Corporation's identification of plans that are likely to require such assistance and estimation of related amounts required consideration of many complex factors, such as an estimate of future cash flows, future mortality rates, and age of participants not in pay status. These factors are affected by future events, including actions by plans and their sponsors, most of which are beyond the Corporation's control.

Note 10: Commitments

PBGC leases its office facility under a commitment that began on January 1, 2005, and expires December 10, 2019. This lease provides for periodic rate increases based on increases in operating costs and real estate taxes over a base amount. In addition, PBGC is leasing space for field benefit administrators. These leases began in 1996 and expire in 2014. The minimum future lease payments for office facilities having noncancellable terms in excess of one year as of September 30, 2011, are as follows:

COMMITMENTS: FUTURE LEASE PAYMENTS

<i>(Dollars in millions)</i>	
Years Ending September 30,	Operating Leases
2012	\$ 18.8
2013	18.0
2014	17.7
2015	17.6
2016	17.0
Thereafter	39.0
Minimum lease payments	<u>\$128.1</u>

Lease expenses were \$18.3 million in 2011 and \$18.4 million in 2010.

Note 11: Premiums

For both the single-employer and multiemployer programs, ERISA provides that PBGC shall continue to guarantee basic benefits despite the failure of a plan administrator to pay premiums when due. PBGC assesses interest and penalties on the unpaid portion of or underpayment of premiums. Interest continues to accrue until the premium and the interest due are paid. For plan year 2010 the flat-rate premiums for single-employer pension plans was \$35 per participant and for multiemployer plans, \$9 per participant. For plan year 2011, per participant rates were \$35 for single-employer plans and \$9 for multiemployer plans. PBGC recorded net premium income of \$2.164 billion that consisted primarily of \$1.235 billion in flat-rate premiums, \$929 million in variable-rate premiums, and \$202 million in termination premiums offset by a bad debt expense of \$207 million. Bad debt expenses include a reserve for uncollectible premium receivables consisting of termination premiums that are reserved conservatively at 100 percent, as well as some write-off of interest and penalties. Net premium income for fiscal year 2010 was \$2.324 billion and consisted primarily of approximately \$1.288 billion in flat-rate premiums, \$1.030 billion in variable-rate premiums, and \$237 million in termination premiums offset by a bad debt expense of \$244 million. The termination premium applies to certain plan terminations occurring after 2005. If a pension plan terminates in a distress termination pursuant to ERISA section 4041(c)(2)(B)(ii) or (iii), or in a PBGC-initiated termination under

ERISA section 4042, the plan sponsor and its controlled group are liable to PBGC for a termination premium at the rate of \$1,250 per plan participant per year for three years.

The following table presents a year-to-year comparison of key premium information.

PREMIUMS

<i>(Dollars in millions)</i>	September 30, 2011	September 30, 2010
Flat Rate Premium:		
Single-Employer	\$1,143	\$1,194
Multiemployer	<u>92</u>	<u>94</u>
Total Flat Rate Premium	1,235	1,288
Variable Rate Premium	929	1,030
Interest and Penalty Income	5	13
Termination Premium	202	237
Less Write-offs of Interest, Penalties, and Termination Premiums	<u>(207)</u>	<u>(244)</u>
Total	<u>\$2,164</u>	<u>\$2,324</u>
Single-Employer	\$2,077	\$2,237
Termination Premium *	202	237
Less Write-offs of Interest, Penalties, and Termination Premiums	<u>(207)</u>	<u>(243)</u>
Total Single-Employer	<u>2,072</u>	<u>2,231</u>
Multiemployer	92	94
Less Write-offs of Interest and Penalties	<u>0**</u>	<u>(1)</u>
Total Multiemployer	<u>92</u>	<u>93</u>
Total	<u>\$2,164</u>	<u>\$2,324</u>

* The termination premium is reserved at 100% since no significant collection has yet been achieved.

** less than \$500,000

Note 12: Losses from Completed and Probable Terminations

Amounts reported as losses are the present value of future benefits less related plan assets and the present value of expected recoveries from sponsors. The following table details the components that make up the losses:

LOSSES FROM COMPLETED AND PROBABLE TERMINATIONS SINGLE-EMPLOYER PROGRAM

<i>(Dollars in millions)</i>	For the Years Ended September 30,					
	New Terminations	2011 Changes in Prior Year Terminations	Total	New Terminations	2010 Changes in Prior Year Terminations	Total
Present value of future benefits	\$2,363	\$ (206)	\$2,157	\$ 3,130	\$ (15)	\$3,115
Less plan assets	1,173	175	1,348	1,688	474	2,162
Plan asset insufficiency	1,190	(381)	809	1,442	(489)	953
Less estimated recoveries	0	(3)	(3)	0	16	16
Subtotal	1,190*	(378)	812	1,442*	(505)	937
Settlements and judgments		1	1		(3)	(3)
Loss (credit) on probables	(474)	(138)	(612)**	(596)	171	(425)**
Total	\$ 716	\$(515)	\$ 201	\$ 846	\$(337)	\$ 509

* gross amounts for plans terminated during the year

** see Note 6 – includes a credit of \$474 million at September 30, 2011, and includes a credit of \$596 million at September 30, 2010, previously recorded relating to plans that terminated during the period

Note 13: Financial Income

The following table details the combined financial income by type of investment for both the single-employer and multiemployer programs:

INVESTMENT INCOME SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS

<i>(Dollars in millions)</i>	Single-Employer Program Sept. 30, 2011	Multiemployer Program Sept. 30, 2011	Memorandum Total Sept. 30, 2011	Single-Employer Program Sept. 30, 2010	Multiemployer Program Sept. 30, 2010	Memorandum Total Sept. 30, 2010
Fixed maturity securities:						
Interest earned	\$ 1,796	\$ 57	\$ 1,853	\$ 1,587	\$ 54	\$ 1,641
Realized gain	973	31	1,004	1,527	53	1,580
Unrealized gain	733	60	793	2,119	76	2,195
Total fixed maturity securities	3,502	148	3,650	5,233	183	5,416
Equity securities:						
Dividends earned	67	0	67	52	0	52
Realized gain	2,857	0	2,857	573	0	573
Unrealized gain (loss)	(3,200)	0	(3,200)	1,491	0	1,491
Total equity securities	(276)	0	(276)	2,116	0	2,116
Private equity:						
Distributions earned	27	0	27	19	0	19
Realized gain (loss)	(9)	0	(9)	373	0	373
Unrealized gain	126	0	126	12	0	12
Total private equity	144	0	144	404	0	404
Other income (loss)	76	0	76	(159)	0	(159)
Total investment income	\$ 3,446	\$ 148	\$ 3,594	\$ 7,594	\$ 183	\$ 7,777

Note 14: Employee Benefit Plans

All permanent full-time and part-time PBGC employees are covered by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Full-time and part-time employees with less than five years service under CSRS and hired after December 31, 1983, are automatically covered by both Social Security and FERS. Employees hired before January 1, 1984, participate in CSRS unless they elected and qualified to transfer to FERS.

The Corporation's contribution to the CSRS plan for both 2011 and 2010 was 7.0 percent of base pay for those employees covered by that system. For those employees covered by FERS, the Corporation's contribution was 11.2 percent of base pay for both 2011 and 2010. In addition, for FERS-covered employees, PBGC automatically contributes one percent of base pay to the employee's Thrift Savings account, matches the first three percent contributed by the employee and matches one-half of the next two percent contributed by the employee. Total retirement plan expenses amounted to \$19 million in 2011 and \$18 million in 2010.

These financial statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to PBGC employees. These amounts are reported by the U.S. Office of Personnel Management (OPM) and are not allocated to the individual employers. OPM accounts for federal health and life insurance programs for those eligible retired PBGC employees who had selected federal government-sponsored plans. PBGC does not offer other supplemental health and life insurance benefits to its employees.

Note 15: Cash Flows

The following two tables, one for Sales and one for Purchases, provide further details on cash flows from investment activity. Sales and purchases of investments are driven by the level of newly trusteeed plans, the unique investment strategies implemented by PBGC's investment managers, and the varying capital market conditions in which they invest during the year. These cash flow numbers can vary significantly from year to year based on the fluctuation in these three variables.

INVESTING ACTIVITIES (SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED)

<i>(Dollars in millions)</i>	September 30,	
	2011	2010
Proceeds from sales of investments:		
Fixed maturity securities	\$73,641	\$60,295
Equity securities	9,113	5,302
Other/uncategorized	3,704	6,901
Memorandum total	<u>\$86,458</u>	<u>\$72,498</u>
Payments for purchases of investments:		
Fixed maturity securities	\$(77,935)	\$(63,937)
Equity securities	(4,144)	(4,504)
Other/uncategorized	(2,248)	(1,811)
Memorandum total	<u>\$(84,327)</u>	<u>\$(70,252)</u>

The following is a reconciliation between the net income as reported in the Statements of Operations and Changes in Net Position and net cash provided by operating activities as reported in the Statements of Cash Flows.

RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

<i>(Dollars in millions)</i>	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30, 2011	2010	September 30, 2011	2010	September 30, 2011	2010
Net income (loss)	\$(1,672)	\$ (517)	\$(1,334)	\$(567)	\$(3,006)	\$(1,084)
Adjustments to reconcile net income to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	(1,634)	(6,022)	(91)	(131)	(1,725)	(6,153)
Net gain (loss) of plans pending termination and trusteeship	23	37	0	0	23	37
Losses (credits) on completed and probable terminations	201	509	0	0	201	509
Actuarial charges (credits)	6,561	9,421	0	0	6,561	9,421
Benefit payments - trustee plans	(5,382)	(5,284)	0	0	(5,382)	(5,284)
Settlements and judgments	0	0	0	0	0	0
Cash received from plans upon trusteeship	36	81	0	0	36	81
Receipts from sponsors/non-sponsors	70	241	0	0	70	241
Amortization of discounts/premiums	100	89	10	9	110	98
Changes in assets and liabilities, net of effects of trustee and pending plans:						
(Increase) decrease in receivables	144	(179)	1	4	145	(175)
Increase in present value of nonrecoverable future financial assistance			1,445	734	1,445	734
Increase in unearned premiums	2	9	0	0	2	9
Increase (decrease) in accounts payable	(33)	14	0	2	(33)	16
Net cash provided (used) by operating activities	\$(1,584)	\$(1,601)	\$ 31	\$ 51	\$(1,553)	\$(1,550)

Note 16: Litigation

Legal challenges to PBGC's policies and positions continued in 2011. At the end of the fiscal year, PBGC had 40 active cases in state and federal courts and 459 bankruptcy and state receivership cases.

PBGC records as a liability on its financial statements an estimated cost for unresolved litigation to the extent that losses in such cases are probable and estimable in amount. In addition to such recorded costs, PBGC estimates with a degree of certainty that possible losses of up to \$68 million could be incurred in the event that PBGC does not prevail in these matters.

Note 17: Subsequent Events

Management evaluated subsequent events through November 14, 2011, the date the financial statements were available to be issued. Events or transactions for either the single-employer or multiemployer program, occurring after September 30, 2011 and before the financial statements were available to be issued, that provided additional evidence about conditions that existed at September 30, 2011 have been recognized in the financial statements.

For the single-employer program, there were two nonrecognized subsequent events. Subsequent to September 30, 2011, business and financial conditions significantly declined for two single-employer plans (unfunded guaranteed liabilities of \$188 million). Had these events occurred on or prior to September 30,

2011, PBGC's financial statements would have reflected an additional loss of \$188 million resulting in a FY 2011 single-employer Net loss of \$1,860 million and a FY 2011 single-employer Net position of \$(23,454) million.

For the multiemployer program, there were no nonrecognized subsequent events or transactions that provided evidence about conditions that did not exist at September 30, 2011, and which arose before the financial statements were available to be issued.

Appendix A - Improper Payment Assessment

Introduction

The Improper Payments Information Act (IPIA) of 2002, as amended by the Improper Payments Elimination and Reporting Act (IPERA) of 2010, and OMB's implementing guidance (as implemented by OMB Circular A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments), requires Federal agencies to review their programs and activities annually, identify programs that may be susceptible to significant improper payments, perform testing of programs that may be susceptible to significant improper payments, develop and implement corrective action plans, and achieve reduction targets for programs susceptible to significant improper payments.

In compliance with Executive Order 13520, the PBGC Director serves as the agency accountable official for improper payment reporting purposes. The Deputy Director for Operations, Chief Management Officer, and Chief Insurance Program Officer will be accountable for ensuring that controls are in place to prevent and detect improper payments in their respective areas.

Risk Assessment Pilot

PBGC assessed its outgoing payment streams for improper payment risk. In order to support its improper payment reporting, PBGC engaged an international public accounting and consulting firm (Consulting Firm) to provide consulting assistance and testing support as part of a pilot. This assessment included an analysis of payment volume, dollar value, internal controls, program complexity, past Office of Inspector General (OIG) and Government Accountability (GAO) reviews, and other relevant factors. Based on this review, PBGC identified three programs that were potentially at risk of significant improper payments in accordance with OMB guidance (programs with annual potential improper payments exceeding both \$10 million and 2.5% of annual program payments), as follows:

- Benefit payments to participants in "final pay" status for plans trusted by PBGC under Title IV of ERISA;
- Financial assistance payments to insolvent multiemployer plans (plans that are unable to pay benefits when due under the requirements of Title IV of ERISA); and
- Payments to contractors for goods and services received in connection with PBGC mission accomplishment.

Results in Brief

This is the first year of reporting IPERA results for PBGC, and is considered a test year in an iterative process. As explained below, PBGC is in the process of developing a measurement that will take into account the accuracy of payments and documentation requirements.

The following tables present summary results of PBGC's improper payment risk assessment with respect to payment accuracy, all of which are below OMB thresholds. Additional details regarding the results for each payment stream are presented later in this section.

Payment Stream	2010 Actual	IP %	2011 (est.)	IP %	2012 (est.)	IP %	2013 (est.)	IP %	2014	IP %
Benefit Payments	\$3,261,780,556	NA ¹	NA ²	NA	NA	NA	NA	NA	NA ³	NA
Financial Assistance Payments	\$97,101,796	NA	\$115M	NA	\$111M	NA	\$118M	NA	NA ³	NA
Contractor Payments	\$290,293,708	NA	\$309M	NA	\$340M	NA	\$342M	NA	NA ³	NA

Benefit Payments to Participants in Final Pay Status			
Type of Error	Dollar Value of FY 2010 Payments ⁴	Estimated Improper Payment %	Estimated Improper Payment \$
Incorrect Amount	\$3,261,780,556	0.25%	\$8,297,039

Financial Assistance Payments to Insolvent Multiemployer Plans			
Type of Error	Dollar Value of FY 2010 Payments ⁴	Estimated Improper Payment %	Estimated Improper Payment \$
Incorrect Amount	\$97,101,796	0.02%	\$16,948

Payments to Contractors			
Type of Error	Dollar Value of FY 2010 Payments ⁴	Estimated Improper Payment %	Estimated Improper Payment \$
Incorrect Amount	\$290,293,708	1.0%	\$2,799,115
Ineligible Good or Service		0.04%	\$105,093

¹ “NA” is shown in these columns since this is a pilot effort and PBGC is in the process of developing a measurement that will take into account the accuracy of payments and documentation requirements.

² The benefit payment population is based on benefit payments for those participants in final pay status, not on the entire benefit payment population, and thus there is no way to project this number into the future.

³ Data not available.

⁴ PBGC requested and obtained OMB approval to analyze FY 2010 payments as part of its FY 2011 reporting process.

With regard to the benefit payment results and given that PBGC noted the existence of significant documentation issues within the benefit payment area, PBGC plans to reassess this payment stream for FY 2012 in order to develop a measurement that reviews the contribution of such documentation issues to improper payments. We determined from our initial testing that our approach for the complex benefit payment area should be refined to focus more directly on those documentation issues that could result in an actual error to a recipient (e.g., an error in payment amount). As a result, PBGC sought and obtained OMB approval to develop an alternative method of measuring documentation issues for FY 2012. PBGC will work closely with OMB to develop and gain approval of a refined testing approach that includes components related to accuracy of payments and documentation reviews. Accordingly, when this approach is approved and implemented, PBGC plans to report a comprehensive rate that incorporates accuracy and documentation reviews.

Assessment Overview and Measurement Approach

The following presents an overall description of the testing approach PBGC performed as part of its improper payment risk assessment and measurement.

Improper Payment Definitions

PBGC gathered a cross-section of subject matter experts from each program area, as well as other stakeholders and consulting firm representatives to develop improper payment descriptions for each payment stream and to cross-walk those descriptions with OMB guidance. These definitions were presented to and approved by PBGC Management.

Statistical Sampling

The universe of outgoing FY 2010 payments from each payment stream was obtained and analyzed by a professional statistician employed by the Consulting Firm. Consistent with OMB guidance, a sample size was designed to yield an improper payment estimate with a 90% confidence interval of plus or minus 2.5%. A stratified random sampling methodology was used to help ensure appropriate coverage and to improve reliability.

Testing

Consulting Firm representatives performed testing and coordinated with PBGC stakeholders regarding specific sample transactions, obtained and analyzed responses and related supporting documentation. Adjustments to initial results were made where appropriate. Also, in some cases, significant legal or policy issues were raised to PBGC Management for a final determination, after research and recommendations from a dedicated legal team. Sample results were then developed and finalized.

Results

The sample results were presented to the Consulting Firm statistician for projection to the payment universe. A stratified ratio estimator was then used to extrapolate improper amounts to the sampled population.

Benefit Payments

Within this section we provide additional detail on the risk assessment of benefit payments, as follows: 1) background, 2) payment population and sampling, 3) error definitions, 4) inaccurate payments and documentation issues, 5) causes of improper payments and corrective action plans, 6) payment recovery, 7) barriers to compliance, and 8) availability of resources.

Background

PBGC provides guaranteed benefits to participants in terminated single-employer pension plans covered under Title IV of ERISA. When an underfunded plan terminates, PBGC trustees the plan and becomes responsible for administering participants' benefits. Under ERISA, PBGC must provide for the timely and uninterrupted payment of pension benefits to participants of single-employer pension plans. Upon trusteeship of a terminated plan, participants already retired and receiving monthly benefits continue to receive those benefits subject to adjustments for PBGC guarantee limits specified in ERISA or for other reasons.

PBGC pays benefits according to the terms of each pension plan. For most participants in trusted plans, PBGC guarantees the full benefits promised by their plans. For some participants, however, the benefits employers have promised under the unique terms of each plan may be higher than the guarantee limits. After we finish our examination of plan and participant records, we issue, to each participant, a final benefit determination letter which details the amount they are eligible to receive. Participants have the opportunity to appeal their benefit determination. Those participants that are receiving benefits and have received a final benefit determination letter are considered to be in "final pay" status. Benefits are paid on a monthly basis, except for monthly benefits of \$50 or less which are paid on an annual basis. PBGC pays most benefits that have a total value of \$5,000 or less in a lump sum.

Payment Population and Sample Statistics

For FY 2010, of the \$5.47 billion in total benefit payments, \$3.26 billion was paid to participants in "final pay" status (this refers to those participants that had received a final benefit determination letter). PBGC made 6.96 million payments to these participants in FY 2010. From these payments, a sample of 596 payments representing a total of \$2.19 million was selected for testing.

Error Definitions

PBGC developed 13 improper payment error definitions for the benefit payments component of the risk assessment, as follows:

- Benefit payment is based on inaccurate/unsupported determination of benefits;
- Benefit payment is processed for unauthorized benefit amount;
- Benefit payment includes amounts in excess of guaranteed amounts/statutory limitations;
- Benefit payment amount does not reflect appropriate application of required deductions (e.g. recoupment of overpayment, tax withholdings, qualified domestic relations order);
- Benefit payment is processed based on inaccurate/unsupported payee eligibility determination;
- Continuation of benefit payments without receipt of required eligibility documentation;
- Benefit payment is delivered beyond the period of payee eligibility;
- Benefit payment is processed to a deceased payee;

- Benefit payment is processed to payee with an invalid social security/tax ID number;
- Benefit payment is processed based on inaccurate/ unsupported payee bank information/ mailing address;
- Benefit payment is delayed;
- Benefit payment is issued to an incorrect payee; and
- Duplicate payment of benefits to payee.

Results Regarding Inaccurate Payments and Documentation Issues

The following represents the results of PBGC’s improper payment risk assessment for the benefit payment area:

Benefit Payments to Participants in Final Pay Status			
Type of Error	Dollar Value of FY 2010 Payments	Estimated Improper Payment %	Estimated Improper Payment \$
Incorrect Amount	\$3,261,780,556	0.25%	\$8,297,039

Of the 596 transactions sampled, PBGC identified 9 payments that were considered to be inaccurate, as follows (the net impacts are based on the actual sampled items, and do not represent projected totals):

- 2 payments used an incorrect benefit formula, with a net impact of (\$2.25),
- 3 payments were based on incorrect compensation data, with a net impact of \$3,061.57,
- 2 payments related to an incorrect form of benefit, with a net impact of \$586.10, and
- 2 payments differed from amounts listed in benefit determination letters, with a net impact of \$150.33.

This was the first year that PBGC performed an improper payment measurement using statistical projections. PBGC noted significant documentation issues within the benefit payment area. For example, PBGC was not able to timely locate documentation to support the current bank account or address to which certain payments are being sent. We also noted documentation issues relating to benefit payment calculations, confirmation of participant eligibility, payment approval, and missing benefit determination letters and statements. As noted earlier in this report, PBGC will develop a measurement component that takes into account these documentation issues.

Causes of Improper Payments and Corrective Action Plans

With respect to causes of noted inaccurate payments, PBGC continues to research these individual cases to determine root causes, and if adjustments to benefits are deemed to be appropriate, PBGC will issue updated benefit determination letters. As part of a strategic review of the Benefits Administration program, senior management is reviewing the need for additional training and improved processes to improve accuracy in this department.

With regard to documentation issues, PBGC has not completed a formal root cause analysis; however, a significant component appears to relate to legacy data issues. These legacy data issues are affected by a number of factors, including incomplete or undocumented electronic data received from prior plan administrators and plan sponsors during the plan termination and trusteeship process, earlier PBGC systems,

processes, and policies that governed retention of data and documentation, and reliance on sampling to determine accuracy of plan databases. It should be noted that since its inception in 1974, PBGC has trusteeed over 4,000 plans that have unique plan provisions, and each of those plans require various types of documentation as part of the benefit determination process. PBGC has no authority to regulate how plans maintain this data, and many plan sponsors are in financial distress when PBGC takes over pension plan records.

PBGC is exploring different options to improve its operations in the benefit payment area, and the benefit administration and payment function is currently undergoing a strategic review of its internal processes. The results of this review should be available in the coming months. PBGC will also explore ways to reduce opportunities for improper payments, such as enhancing procedures for performing and reviewing plan asset and participant data audits, increasing use of scanning and indexing technology to capture and cross-reference more plan and participant records, and seeking ways to increase the use of government database matching.

Payment Recovery

In instances where a participant has been overpaid and has future annuity payments owed, PBGC usually collects such amounts by *recoupment*. This term refers to collection of the net overpayment by reductions to future payments until repaid. Normally, the collected amount is 10 percent of the participant's gross monthly payment. In situations where there is no future benefit payment stream relating to a particular participant and there is an overpayment, PBGC normally will take other steps to recover payments (e.g., contacting estate representatives).

Barriers to Compliance

PBGC faces a number of challenges relating to compliance with IPIA and IPERA. PBGC relies heavily on incoming data and records received from the plan administrators and plan sponsors of trusteeed pension plans. However, ERISA generally limits access to those records until such time as the plan has been terminated and trusteeed by PBGC. Further, ERISA provides PBGC with no enforcement authority regarding the format or quality of those records.

Under ERISA, PBGC must “provide for the timely and uninterrupted payment of pension benefits to participants”, and keep premiums “at the lowest level consistent with carrying out its obligations.” Together, these two objectives require PBGC to service its participants in a cost-effective manner. As a result, over time, PBGC management has had to, consider cost/benefit factors in regard to amount of data and records to be obtained from pension plans and participants and the evaluation of that information. Further, PBGC must consider burdens of data collection in regard to the Paperwork Reduction Act and other regulatory actions.

PBGC does utilize third-party databases, including government databases, to help identify errors in its participant databases; however, in some cases, existing statutes and regulations limit PBGC's ability to make full use of those records for comparisons and reconciliations of participant data. PBGC is working with other government agencies to determine ways to improve PBGC access to and use of information contained in government databases.

Availability of Resources

As noted above, PBGC has significant documentation issues primarily relating to legacy data issues. PBGC anticipates that addressing its legacy issues will be a long-term effort and require additional funding. PBGC

will be developing, in concert with OMB, an alternative testing methodology to better identify those documentation issues that would have a direct and material impact on payment accuracy (e.g., paying the right amount to the right participant).

Multiemployer Plan Financial Assistance Payments

Within this section we provide additional detail on the risk assessment of multiemployer plan financial assistance payments, as follows: 1) background, 2) payment population and sampling, 3) error definitions, 4) inaccurate payments and documentation issues, 5) causes of improper payments and corrective action plans, 6) payment recovery, 7) barriers to compliance, and 8) availability of resources.

Background

A multiemployer plan is a collectively bargained pension arrangement involving unrelated employers, usually in a common industry, such as construction, trucking, textiles, or mining. In contrast to PBGC's single employer program, the insurable event triggering PBGC's guarantee under the multiemployer program is plan insolvency. Also, PBGC does not trustee multiemployer plans and does not make payments directly to participants in those plans. Instead, PBGC provides financial assistance to insolvent multiemployer plans to enable them to pay benefits at the guaranteed level and pay reasonable administrative expenses. Insolvent plans submit requests for financial assistance to PBGC. After receipt of this request, PBGC and the trustees of the multiemployer pension plan enter into a security agreement which governs the payment process and other matters. PBGC then provides periodic financial assistance payments to insolvent multiemployer plans. Insolvent plans suspend payment of all benefits in excess of the multiemployer guarantee levels specified by ERISA. Most insolvent plans receive payments from PBGC on a quarterly or monthly basis, and these payments are based on each plan's estimated cash needs. Estimated amounts are later reconciled with actual results, and variances are factored in to payments for subsequent periods.

Payment Population and Sample Statistics

During FY 2010, PBGC issued 202 multiemployer plan financial assistance payments totaling \$97.1 million to 50 multiemployer plans. From these payments, a sample of 75 payments representing a total of \$79.28 million was selected for testing.

Error Definitions

PBGC developed 10 improper payment error definitions for the multiemployer plan financial assistance payments component of the risk assessment, as follows:

- The financial assistance payment includes amounts for benefits in excess of levels guaranteed by ERISA,
- The financial assistance payment was not disbursed to cover plan obligations,
- The financial assistance payment includes unsupported/inaccurate plan financial information,
- The financial assistance payment includes inaccurate/unsupported amounts for benefits due to participants,
- The financial assistance payment includes inaccurate/unsupported administrative expenses,
- Financial assistance is disbursed on inaccurate/unsupported eligibility information,
- Financial assistance is processed for a plan that is not insolvent for the plan year,
- The plan does not qualify for financial assistance per ERISA requirements (other than insolvency),
- Payments are processed for unauthorized financial assistance, and

- The financial assistance disbursement is processed with incorrect/unsupported ACH/FedWire information.

Inaccurate Payment Results and Documentation Issues

The following represents the results of PBGC’s improper payment risk assessment for the multi-employer plan financial assistance payment area:

Financial Assistance Payments to Insolvent Multiemployer Plans			
Type of Error	Dollar Value of FY 2010 Payments	Estimated Improper Payment %	Estimated Improper Payment \$
Incorrect Amount	\$97,101,796	0.02%	\$16,948

Of the 75 transactions sampled, PBGC identified 18 payments where PBGC’s oversight of the payment process did not identify that ERISA guarantee limitations had not been applied to some of the benefits paid, and 19 payments where the benefit eligibility of plan participants had not been confirmed. The net impact of these findings was \$1,201.69, and \$11,089.19, respectively (the net impact is based on the actual sampled items, and does not represent projected totals).

PBGC also noted documentation issues within the multiemployer financial assistance payment area. However, these issues were not considered to be significant relative to OMB thresholds. For example, PBGC identified certain financial spreadsheets that had supported the approval of payments had not been maintained in the payment files. We also noted instances where the financial spreadsheet had been maintained, but documentation supporting its contents had not been provided by the plan or had not been maintained within the file after review. We also noted documentation issues related to maintenance of applications for financial assistance.

Causes of Improper Payments and Corrective Action Plans

With respect to causes of noted inaccurate payments, PBGC is following up with the affected multiemployer plans to ensure that appropriate corrective actions are taken. PBGC is also revising its audit procedures to improve verification of participants' eligibility for benefits and plans' compliance with ERISA guarantee limitations.

With regard to documentation issues, PBGC believes that additional attention by staff on file maintenance will address these issues. We have also revised procedures to require that all requests for authorization of payments must include a copy of the financial spreadsheet summarizing the plan’s cash flows. With regard to documentation not received from plans, staff have been instructed to regularly follow-up with plans that have not provided documentation supporting actual benefit payments and incurred administrative expenses. If plans continue to be noncompliant, this will be raised to PBGC Management for immediate resolution and action.

Payment Recovery

Financial assistance payments to insolvent multiemployer plans enable the plan to fund benefit payments and administrative expenses expected to be incurred in a future month or quarter. Plans are required to submit documentation that details actual benefit payments and expenses on a periodic basis. In instances where the plan's projected cash needs for a period varies from actual payments, PBGC adjusts future payments to the plan to reconcile the difference.

Barriers to Compliance

While the documentation issues noted were not significant, it should be noted that under ERISA, PBGC must continue to make payments to multiemployer plans, even in instances where plans have not submitted all requisite information that could impact the analysis of a plan's financial assistance request. In extreme cases, PBGC may petition a court to remove a trustee and identify a new trustee that will comply with PBGC's regulations in this area.

Availability of Resources

PBGC recently assigned additional resources to its Multiemployer Program Division. As a result, existing resources are adequate to maintain improper payment rates below OMB thresholds. As described elsewhere in the Annual Report, however, PBGC's financial assistance payment workload will increase substantially over the next several years, as more financially troubled multiemployer plans become insolvent. Accordingly, PBGC will reassess needed resources as part of its budget process.

Contractor Payments

Within this section we provide additional detail on the risk assessment of contractor payments, as follows: 1) background, 2) payment population and sampling, 3) error definitions, 4) inaccurate payments and documentation issues, 5) causes of improper payments and corrective action plans, 6) payment recovery, 7) barriers to compliance, and 8) availability of resources.

Background

PBGC regularly engages contractors to provide essential goods and services to support PBGC mission accomplishment. PBGC uses the Federal Acquisition Regulation as the basis for its contracting activities. Examples include investment management, actuarial, legal, and benefit administration services. PBGC also procures computers, software licenses, etc.). When the purchase of a good or service is required, the requiring activity within PBGC will contact a Contracting Officer within PBGC's Procurement Department and a request for proposal will be developed and issued. Contractors submit proposals to PBGC for evaluation. PBGC will then select a contractor based on established source selection criteria. The required good or service is then provided and the contractor will submit an invoice for reimbursement. The Contracting Officer's Representative (COR) reviews the invoice and either approves or disapproves the invoice and forwards it to PBGC's Financial Operations Department for processing.

Payment Population and Sample Statistics

During FY 2010, PBGC issued over 6,500 payments to contractors for goods and services totaling over \$290 million dollars. From these payments, a sample of 300 payments representing a total of \$129 million was selected for testing.

Error Definitions

PBGC developed 17 improper payment error definitions for the contractor payments component of the risk assessment, as follows:

- Vendor payment does not reflect application of payment discounts,
- Vendor payment includes amounts billed for costs unallowable (goods/services) according to contract specifications,
- Vendor payment includes amounts billed for costs unallowable under the FAR (i.e. contributions, entertainment, fines/penalties, alcoholic beverages, contract losses, first class travel),
- Vendor payment is based on inaccurate/unsupported amounts for quantities delivered/services rendered,
- Vendor payment includes services/goods received prior to execution of the contract,
- Vendor payment does not include interest for late payments,
- A contract for goods services is awarded to a contractor that is listed on the "Do Not Pay List" or the debarred contractor list,
- A contract for goods/services is awarded contractor that is not registered with the Central Contractor Registration (CCR),
- Contract award is unsupported,
- The acquisition of goods/services was not authorized or within the scope of services of the contract with vendor,
- Vendor payment is processed for time incurred by contractor personnel that do not meet minimum qualification requirements specified in the contract,
- Vendor payment is processed for worked performed by an unauthorized sub-contractor,
- Vendor is paid using prior year obligations,
- Vendor payment does not occur within 30 days of invoice receipt or (if no date stamp is available) 30 days of invoice date,
- Vendor payment is processed based on incorrect/unsupported ACH information,
- Vendor payment is processed based on incorrect/unsupported payment address, and
- Payment is processed against the incorrect contract number.

Inaccurate Payment Results and Documentation Issues

The following represents the results of PBGC's improper payment risk assessment for the contractor payment area:

Payments to Contractors			
Type of Error	Dollar Value of FY 2010 Payments	Estimated Improper Payment %	Estimated Improper Payment \$
Incorrect Amount	\$290,293,708	1.0%	\$ 2,799,115
Ineligible Good or Service		0.04%	\$ 105,093

Of the 300 transactions sampled, PBGC identified the following instances of ineligible goods or services (the net impacts are based on the actual sampled items, and does not represent projected totals):

- one payment that incorrectly contained payment for a holiday (net impact was \$93.60), and
- two payments that included costs associated with a subcontractor that had not been appropriately authorized (net impact was \$15,903.93).

We also identified the following in regard to incorrect payments (the net impacts are based on the actual sampled items, and do not represent projected totals):

- one payment was authorized for an amount above the accurate amount (net impact is \$270.00),
- 11 payments where PBGC did not appropriately pay late payment interest (net impact is \$6,752.52), and
- three payments where goods or services were provided or performed after expiration of the applicable contract (net impact is \$91,212.00).

With regard to documentation issues, we noted one instance where the approval of an invoice by a COR had not been documented.

Causes of Improper Payments and Corrective Action Plans,

With respect to causes of noted inaccurate payments, PBGC continues to research these individual items and is in the process of determining whether any adjustments to amounts previously paid are appropriate. If adjustments to benefits are deemed to be appropriate, PBGC will coordinate with the appropriate contractors to work to resolve the matter.

With respect to the noted documentation issue, PBGC will remind staff to ensure that all invoices require COR reviews before a payment can be certified.

Payment Recovery

As permitted by the Federal Acquisition Regulation, prior overpayments made by PBGC can be netted against future payments. PBGC contract provisions permit the PBGC Office of Inspector General to conduct audits which may identify overbillings or questioned costs. Depending on contract type, contractors may have funds withheld from invoices which are normally returned upon satisfaction of contract and related contract closeout requirements. Overpayments can also be netted against these funds. Finally, funds owed to PBGC by contractors can be offset against amounts due to the contractor by other agencies (e.g., tax refunds).

Barriers to Compliance

PBGC notes no barriers to compliance for contractor payments.

Availability of Resources

PBGC believes that its existing resources for this payment type are sufficient to maintain improper payment rates under OMB thresholds.

2011 ACTUARIAL VALUATION

PBGC calculated and validated the present value of future PBGC-payable benefits (PVFB) for both the single-employer and multiemployer programs and of nonrecoverable future financial assistance under the multiemployer program. Generally, we used the same methods and procedures as in 2010 except that we updated the mortality assumption based on an experience study.

PRESENT VALUE OF FUTURE BENEFITS AND NONRECOVERABLE FINANCIAL ASSISTANCE - 2011

	Number of Plans	Number of Participants <i>(in thousands)</i>	Liability <i>(in millions)</i>
I. SINGLE-EMPLOYER PROGRAM			
A. Terminated plans			
1. Seriatim at fiscal year-end (FYE)	3,940	988	\$60,258
2. Seriatim at DOPT, adjusted to FYE	31	86	6,844
3. Nonseriatim ¹	321	305	25,448
4. Missing Participants Program (seriatim) ²		22	55
Subtotal	4,292	1,401	\$92,605
B. Probable terminations (nonseriatim) ³	6	33	1,379
Total ⁴	4,298	1,434	\$93,984
II. MULTIEMPLOYER PROGRAM			
A. Pre-MPPAA terminations (seriatim)	10	*	\$ 1
B. Post-MPPAA liability (net of plan assets)			
1. Currently Receiving Assistance	41	78	1,232
2. Probable for Assistance	94	118	3,243
Total	145	196	\$4,476

* Fewer than 500 participants

Notes:

1. The liability for terminated plans has been increased by \$56 million for settlements.
2. The Missing Participants Program refers to a liability that PBGC assumed for unlocated participants in standard plan terminations.
3. The net claims for probable plans reported in the financial statements include \$288 million for not-yet-identified probable terminations. The assets for the probable plans, including the expected value of recoveries on employer liability and due-and-unpaid employer contributions claims, are \$546 million. Thus, the net claims for probable terminations as reported in the financial statements are \$1,379 million less \$546 million, or \$833 million.
4. The PVFB in the financial statements (\$92,953 million) is net of estimated plan assets and recoveries on probable terminations (\$546 million), estimated recoveries on terminated plans (\$205 million), and estimated assets for plans pending trusteeship (\$280 million), or, \$93,984 million less \$546 million less \$205 million less \$280 million = \$92,953 million.

Single-Employer Program

PBGC calculated the single-employer program's liability for benefits in the terminated plans and probable terminations, as defined in Note 2 to the financial statements, using a combination of two methods: seriatim and nonseriatim. For 3,940 plans, representing about 92 percent of the total number of single-employer terminated plans (71 percent of the total participants in single-employer terminated plans), PBGC had sufficiently accurate data to calculate the liability separately for each participant's benefit—the seriatim method. This was an increase of 117 plans over the 3,823 plans valued seriatim last year. For 31 plans whose data were not yet fully automated, PBGC calculated the benefits and liability seriatim as of the date of plan termination (DOPT) and brought the total amounts forward to the end of fiscal year 2011.

For 321 other terminated plans, PBGC did not have sufficiently accurate or complete data to value individual benefits. Instead, the Corporation used a "nonseriatim" method that brought the liabilities from the plan's most recent actuarial valuation forward to the end of fiscal year 2011 using certain assumptions and adjustment factors.

For the actuarial valuation, PBGC used a select and ultimate interest rate assumption of 4.31% for the first 20 years after the valuation date and 4.26% thereafter. The mortality tables used for valuing healthy lives were the RP-2000 Combined Healthy Male and Female Tables, each projected 21 years to 2021 using Scale AA and set back one year. The projection period is determined as the sum of the elapsed time from the date of the table (2000) to the valuation date plus the period of time from the valuation date to the average date of payment of future benefits. In fiscal year 2010, the mortality table used for valuing healthy lives was the 1994 Group Annuity Mortality Static Table (with margins), set forward one year, projected 26 years to 2020 using Scale AA.

For non-pay-status participants, PBGC used expected retirement ages, as explained in subpart B of the Allocation of Assets in Single-Employer Plans regulation. PBGC assumed that participants who had attained their expected retirement age were in pay status. In seriatim plans, for participants who were older than their plan's normal retirement age, were not in pay status, and were unlocated at the valuation date, PBGC reduced the value of their future benefits to zero over the three years succeeding normal retirement age to reflect the lower likelihood of payment.

Multiemployer Program

PBGC calculated the liability for the 10 pre-MPPAA terminations using the same assumptions and methods applied to the single-employer program.

PBGC based its valuation of the post-MPPAA liability for nonrecoverable future financial assistance on the most recent available actuarial reports, Form 5500 Schedule B or Schedule MB, as applicable, and information provided by representatives of the affected plans. The Corporation expected 135 plans to need financial assistance because severe industrial declines have left them with inadequate contribution bases and they had insufficient assets for current payments or were expected to run out of assets in the foreseeable future.

Statement of Actuarial Opinion

This valuation has been prepared in accordance with generally accepted actuarial principles and practices and, to the best of my knowledge, fairly reflects the actuarial present value of the Corporation's liabilities for the single-employer and multiemployer plan insurance programs as of September 30, 2011.

In preparing this valuation, I have relied upon information provided to me regarding plan provisions, plan participants, plan assets, and other matters, some of which are detailed in a complete Actuarial Report available from PBGC.

In my opinion, (1) the techniques and methodology used for valuing these liabilities are generally acceptable within the actuarial profession; (2) the assumptions used are appropriate for the purposes of this statement and are individually my best estimate of expected future experience discounted using current settlement rates from insurance companies; and (3) the resulting total liability represents my best estimate of anticipated experience under these programs.

I, Joan M. Weiss, am the Chief Valuation Actuary of PBGC. I am a Member of the American Academy of Actuaries, a Fellow of the Society of Actuaries and an Enrolled Actuary. I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report.



Joan M. Weiss, FSA, EA

Chief Valuation Actuary, PBGC

Member, American Academy of Actuaries

A complete actuarial valuation report, including additional actuarial data tables, is available from PBGC upon request.



Pension Benefit Guaranty Corporation
Office of Inspector General
1200 K Street, N.W., Washington, D.C. 20005-4026

To the Board of Directors
Pension Benefit Guaranty Corporation

The Office of Inspector General contracted with Clifton Gunderson LLP, an independent certified public accounting firm, to audit the financial statements of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) as of and for the years ended September 30, 2011 and 2010. They conducted their audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards* issued by the Comptroller General of the United States; attestation standards established by the American Institute of Certified Public Accountants; and OMB audit guidance.

In their audit of PBGC's Single-Employer and Multiemployer Program Funds, Clifton Gunderson found:

- The financial statements were presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- PBGC did not have effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations and its operations as of September 30, 2011. Serious internal control weaknesses in PBGC's programs and operations resulted in three material weaknesses: (1) entity-wide security program planning and management, (2) access controls and configuration management, and (3) Benefits Administration and Payment Department operations. A significant deficiency was also identified in integrated financial management systems.
- PBGC did not determine the fair market value of plan assets at the date of plan termination in accordance with the regulation established at Title 29 of the Code of Federal Regulation Part 4044.41(b) in certain instances.

Clifton Gunderson is responsible for the accompanying auditor's report dated November 14, 2011 and the conclusions expressed in the report. We do not express opinions on PBGC's financial statements or internal control, nor do we draw conclusions on compliance with laws and regulations.

The financial statement audit report (AUD-2012-1 / FA-11-82-1) is also available on our website at <http://oig.pbgc.gov>.

Sincerely,

Rebecca Anne Batts
Inspector General
November 14, 2011



To the Board of Directors, Management,
and Inspector General of the
Pension Benefit Guaranty Corporation
Washington, DC

Independent Auditor's Report

In our audits of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC or the Corporation) for fiscal years (FY) 2011 and 2010, we found:

- The financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.
- PBGC did not have effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations and its operations as of September 30, 2011.
- Reportable noncompliance with laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions, (2) our conclusions on other accompanying information, (3) our audit objectives, scope, and methodology, and (4) management comments and our evaluation.

Opinion on Financial Statements

The financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Single-Employer and Multiemployer Program Funds administered by PBGC as of September 30, 2011 and 2010, and the results of their operations and cash flows for the FYs then ended.

By law, PBGC's Single-Employer and Multiemployer Program Funds must be self-sustaining. As of September 30, 2011, PBGC reported in its financial statements net deficit positions (liabilities in excess of assets) in the Single-Employer and Multiemployer Program Funds of \$23.27 billion and \$2.77 billion, respectively. As discussed in Note 9 to the financial statements, loss exposure for the Single-Employer and Multiemployer Programs that are reasonably possible as a

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result of unfunded vested benefits are estimated to be \$227 billion and \$23 billion, respectively. Management based the Single-Employer Program estimate on data for FYs ending in calendar year 2010 that was obtained from filings and submissions to the government and from corporate annual reports. A subsequent adjustment for economic conditions through September 30, 2011, has not been made and as a result the exposure to loss for the Single-Employer Program as of September 30, 2011 could be substantially different. In addition, PBGC's net deficit and long-term viability could be further impacted by losses from plans classified as reasonably possible (or from other plans not yet identified as potential losses) as a result of deteriorating economic conditions, the insolvency of a large plan sponsor or other factors. PBGC has been able to meet its short-term benefit obligations. However, as discussed in Note 1 to the financial statements, management believes that neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants.

Opinion on Internal Control

Because of the effect of the material weaknesses described below on the achievement of the objectives of the control criteria contained in the Federal Managers' Financial Integrity Act of 1982 (FMFIA) at 31 U.S.C. 3512(c) and (d), PBGC did not maintain effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations and its operations as of September 30, 2011.

We identified certain deficiencies in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations and its operation that we consider material weaknesses, and other deficiencies that we consider to be significant deficiencies. These material weaknesses adversely affected PBGC's ability to meet the internal control objectives listed in the objectives, scope, and methodology section of this report, or meet Office of Management and Budget (OMB) criteria for reporting matters under FMFIA.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the following areas material weaknesses:

1. Entity-wide Security Program Planning and Management
2. Access Controls and Configuration Management
3. Benefits Administration and Payment Department Operations

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in the following area a significant deficiency:

4. Integrated Financial Management Systems

PBGC protects the pensions of more than 44 million workers and retirees in more than 27 thousand private defined benefit pension plans. Under Title IV of the Employee Retirement Income Security Act of 1974, PBGC insures, subject to statutory limits, pension benefits of participants in covered private defined benefit pension plans in the United States. To accomplish its mission and prepare its financial statements, PBGC relies extensively on information technology (IT) and the effective operation of the Benefits Administration and Payment Department (BAPD). Internal controls over these operations are essential to ensure the confidentiality, integrity, and availability of critical data while reducing the risk of errors, fraud, and other illegal acts.

The slow progress of mitigating PBGC's systemic security control weaknesses and the serious internal control weaknesses in BAPD posed an increasing and substantial risk to PBGC's ability to carry out its mission during FY 2011. The extended time required and the lack of meaningful progress in PBGC's multiyear approach to correct previously reported deficiencies at the root cause level, introduced additional risks. These include technological obsolescence, inability to execute corrective actions, breakdown in communications and poor monitoring. BAPD's weak internal controls create an environment that could lead to fraud, waste, and abuse.

PBGC's historical decentralized approach to system development and configuration management exacerbated control weaknesses and encouraged inconsistency in implementing strong technical controls and best practices. The influx of 620 plans for over 800,000 participants from 2002-2005 contributed to PBGC's disjointed IT development and implementation strategy. The mandate to meet PBGC's mission objectives by implementing technologies to receive the influx of plans superseded proper enterprise planning and IT security controls. The result was a series of stovepipe solutions built upon unplanned and poorly integrated heterogeneous technologies with varying levels of obsolescence.

The Corporation continued its implementation of an enterprise multi-year corrective action plan (CAP) to address IT security issues at the root cause level. PBGC management realizes these weaknesses will continue to pose a threat to its environment for several years while corrective actions are being implemented. PBGC needs to implement interim corrective actions to ensure fundamental security weaknesses do not worsen as the CAP is being implemented.

PBGC performed a more rigorous and thorough assessment and authorization (A&A) process, formerly referred to as a certification and accreditation process. This process identified significant fundamental security control weaknesses for its general support systems, many of which were reported in prior year's audits. These weaknesses remain unresolved. PBGC reports that the Corporation is in the process of performing A&As on its major applications.

We continued to find deficiencies in the areas of security management, access controls, configuration management, and segregation of duties. Control deficiencies were also found in policy administration and the A&As.

An effective entity-wide security management program requires a coherent strategy for the architecture of the IT infrastructure, and the deployment of systems. The implementation of a coherent strategy provides the basis and foundation for the consistent application of policy, controls, and best practices. PBGC first needs to develop and implement a framework to improve its security posture. This framework will require time for effective control processes to mature.

Additionally, serious internal control weaknesses in the BAPD's operations were identified by the Office of the Inspector General (OIG) and others during FY 2011. These significant control weaknesses introduced additional risks to PBGC. Specific deficiencies included errors in valuation of plan assets, lack of documentation supporting benefit payments, errors in benefit calculations, and poor oversight of the Pension and Lump Sum System (PLUS). In response to weaknesses identified by OIG, BAPD is currently undergoing a strategic review that may address organizational structure and operational issues. BAPD stated it will develop a plan in FY 2012 that will address the deficiencies noted in the financial statement audit, Improper Payments Elimination and Recovery Act (IPERA) mandated review, and other internal reviews. This plan is intended to focus on fundamental issues such as internal controls, processes, contractor oversight, and training and staff competencies.

Based on our findings, we are reporting that the deficiencies in the following areas constitute three material weaknesses for FY 2011:

1. Entity-wide Security Program Planning and Management
2. Access Controls and Configuration Management
3. Benefits Administration and Payment Department Operations

We are also reporting the deficiencies in the following area to be a significant deficiency for FY 2011:

4. Integrated Financial Management Systems

Detailed findings and recommendations follow.

1. Entity-wide Security Program Planning and Management

An entity-wide information security management program is the foundation of a security control structure and a reflection of senior management's commitment to addressing security risks. The security management program should establish a framework and continuous cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures. Overall policies and plans are developed at the entity-wide level. System and application-specific procedures and controls implement the entity-wide policy. Through the Federal Information Security Management Act of 2002, Congress requires each Federal agency to establish an agency-wide information security program to provide security to the information and information systems that support the operations and assets of the agency, including those managed by a contractor or other agency. OMB Circular No. A-130, Appendix III, *Security of Federal Automated Information Resources*, requires agencies to implement and maintain a program to assure that adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications.

PBGC continued the implementation of its CAP to address fundamental weaknesses in its entity-wide security program planning and management. During FY 2011 PBGC began the implementation of a more rigorous and thorough A&A process. Through this process PBGC identified significant fundamental security control weaknesses for its general support systems, many of which were reported on in prior years' audits. While this is an important step in the planning process, these security control weaknesses remain unresolved and

PBGC's efforts lack sufficient meaningful incremental progress. PBGC reports that they are in the process of performing A&As on its major applications. The slow rate of progress has introduced additional risks including technological obsolescence, inability to execute corrective actions, breakdown in communications and poor monitoring.

In prior years, PBGC's entity-wide security program lacked focus and a coordinated effort to adequately resolve control deficiencies. These deficiencies, which continue to persist, prevent PBGC from implementing effective security controls to protect its information from unauthorized access, modification, and disclosure.

Without a well-designed and fully implemented information security management program, there is increased risk that security controls are inadequate; responsibilities are unclear, misunderstood, and improperly implemented; and controls are inconsistently applied. Such conditions may lead to insufficient protection of sensitive or critical resources and disproportionately high expenditures for controls over low-risk resources.

Recommendations:

PBGC management should continue to develop and implement a well-designed security management program that will provide security to the information and information systems that support the operations and assets of the Corporation, including those managed by contractors or other Federal agencies.

PBGC should accelerate the rate of meaningful progress in mitigating the Corporation's systemic security control weaknesses, and address the additional risks of technological obsolescence, inability to execute corrective actions, breakdown in communications and poor monitoring.

PBGC management should effectively communicate to key decision makers the state of its IT infrastructure and environment to facilitate the prioritization of resources to address fundamental weaknesses.

2. Access Controls and Configuration Management

Although access controls and configuration management controls are an integral part of an effective information security management program, access controls remain a systemic problem throughout PBGC. PBGC's historical decentralized approach to system development, system deployments, and configuration management created an environment that lacks a cohesive structure in which to implement controls and best practices. Weaknesses in the IT environment contributed significantly to deficiencies in system configuration, segregation of duties, role-based access controls, and monitoring. Furthermore, PBGC's information systems are overlapping and duplicative, employing obsolete and antiquated technologies that are costly to maintain. The state of PBGC's IT environment led to increased IT staffing needs, manual workarounds, reconciliations, extensive manipulation, and excessive manual processing that have been ineffective in providing adequate compensating controls to mitigate system control weaknesses.

Access controls should be in place to consistently limit and detect inappropriate access to computer resources (data, equipment, and facilities), or monitor access to computer programs, data, equipment, and facilities. These controls protect against unauthorized

modification, disclosure, loss, or impairment. Such controls include both logical and physical security controls to ensure that Federal employees and contractors will be given only the access privileges necessary to perform business functions. Federal Information Processing Standards Publication (FIPS PUB) 200, *Minimum Security Requirements for Federal Information and Information Systems*, specifies minimum access controls for Federal systems. FIPS PUB 200 requires PBGC's information system owners to limit information system access to authorized users.

Industry best practices, National Institute of Standards and Technology (NIST) special publication (SP) 800-64, *Security Considerations in the System Development Life Cycle*, and other Federal guidance recognize the importance of configuration management when developing and maintaining a system or network. Through configuration management, the composition of a system is formally defined and tracked to ensure that an unauthorized change is not introduced. Changes to an information system can have a significant impact on the security of the system. Documenting information system changes and assessing the potential impact on the security of the system, on an ongoing basis, is an essential aspect of maintaining the security posture. An effective entity-wide configuration management and control policy and associated procedures are essential to ensuring adequate consideration of the potential security impact of specific changes to an information system. Configuration management and control procedures are critical to establishing an initial baseline of hardware, software, and firmware components for the entity and subsequently controlling and maintaining an accurate inventory of any changes to the system.

Inappropriate access and configuration management controls do not provide PBGC with sufficient assurance that financial information and financial assets are adequately safeguarded from inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction.

Recommendation:

PBGC management should develop and implement a coherent strategy for correcting IT infrastructure deficiencies and a framework for implementing common security controls, and mitigating the systemic issues related to access control by strengthening system configurations and user account management for all of PBGC's information systems.

3. Benefit Administration and Payment Department Operations

BAPD had serious internal control weaknesses identified by OIG and others during FY 2011 that introduced additional risks to PBGC. Specific deficiencies included errors in valuation of plan assets, lack of documentation supporting benefit payments, errors in benefit calculations, and poor oversight of PLUS. In response to weaknesses identified by OIG, BAPD is currently undergoing a strategic review that may address organizational structure and operational issues. BAPD stated it will develop a plan in FY 2012 that will address the deficiencies noted in the financial statement audit, IPERA mandated review, and other internal reviews. This plan is intended to focus on fundamental issues such as internal controls, processes, contractor oversight, and training and staff competencies.

Internal control weaknesses were pervasive throughout BAPD; however, many of the weaknesses identified as part of our financial statement audit stemmed from poor management of contractors. Effective oversight requires good communications with

contractors on their responsibilities for contract compliance and providing timely information to PBGC that may affect the controls and/or PBGC's environment. Contracted services are an extension of PBGC's internal controls. PBGC's management does not always consider the exposure and risk that contractors introduce into its environment and how to manage that risk. PBGC does not properly review, assess, and monitor contractor's internal controls related to contracted services.

During FY 2011 we noted deficiencies in BAPD's oversight of contracted reviews of asset values at the date of plan termination (DoPT). These deficiencies were caused by a failure to establish and apply a quality review process to verify and validate the satisfactory completion of contracted DoPT plan asset valuation audits, and a failure to establish a detailed process to ensure the consistent application of a methodology to determine the fair market value of plan assets at DoPT as required by regulation.

We noted deficiencies in BAPD's oversight of the benefit payment determination and disbursement processes. These deficiencies included failures to maintain sufficient documentation necessary to verify the accuracy of benefit payments, and to document appropriate review and approval of benefit payment calculations; and improper benefit determinations resulting in errors in benefits paid.

We also noted deficiencies in BAPD's oversight of the service provider for the PLUS application. These deficiencies included a lack of an executed document between PBGC and the service provider regarding the service provider's responsibilities and security requirements for PLUS; a lack of review by BAPD over the service provider personnel's access to the PLUS system to ensure the personnel were appropriately recertified; a lack of review by BAPD of the PLUS System Contingency Plan to assess the plan's compliance with NIST SP 800-34 requirements; and an inadequate assessment of security risks associated with operations performed in a foreign country.

Recommendations:

PBGC should develop and implement procedures to ensure that future contracts for plan asset valuations clearly outline expectations and deliverables in the statement of work, that plan asset valuations meet the regulatory standard of determining fair market value based on the method that most accurately reflects fair market value, that the results of valuation reviews are credible and reliable, and that errors in benefit determinations caused by deficiencies in plan asset valuations are identified and corrected.

PBGC should develop and adopt explicit requirements to obtain and archive source documents, as well as a process to monitor and enforce these requirements to ensure documentation is maintained to support benefit payments.

PBGC should strengthen controls over the determination of benefits to ensure the accuracy of the amounts paid and recorded in the financial statements.

4. Integrated Financial Management Systems

The risk of inaccurate, inconsistent, and redundant data is increased because PBGC lacks a single integrated financial management system. The current system cannot be readily accessed and used by financial and program managers without extensive manipulation,

excessive manual processing, and inefficient balancing of reports to reconcile disbursements, collections, and general ledger data.

OMB Circular A-127, *Financial Management Systems*, requires that Federal financial management systems be designed to provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems. The Circular states:

A financial system, hereafter referred to as a core financial system, is an information system that may perform all financial functions including general ledger management, funds management, payment management, receivable management, and cost management. The core financial system is the system of record that maintains all transactions resulting from financial events. It may be integrated through a common database or interfaced electronically to meet defined data and processing requirements. The core financial system is specifically used for collecting, processing, maintaining, transmitting, and reporting data regarding financial events. Other uses include supporting financial planning, budgeting activities, and preparing financial statements. Any data transfers to the core financial system must be: traceable to the transaction source; posted to the core financial system in accordance with applicable guidance from the Federal Accounting Standards Advisory Board; and in the data format of the core financial system.

OMB's Office of Federal Financial Management (OFFM), *Core Financial System Requirements*, lists the following financial management system performance goals, outlined in the Framework document, applicable to all financial management systems. All financial management systems must do the following:

- Demonstrate compliance with accounting standards and requirements.
- Provide timely, reliable, and complete financial management information for decision making at all levels of government.
- Meet downstream information and reporting requirements with transaction processing data linked to transaction engines.
- Accept standard information integration and electronic data to and from other internal, government-wide, or private-sector processing environments.
- Provide for "one-time" data entry and reuse of transaction data to support downstream integration, interfacing, or business and reporting requirements.
- Build security, internal controls, and accountability into processes and provide an audit trail.
- Be modular in design and built with reusability as an objective.
- Meet the needs for greater transparency and ready sharing of information.
- Scale to meet internal and external operational, reporting, and information requirements for both small and large entities.

Because PBGC has not fully integrated its financial systems, PBGC's ability to accurately and efficiently accumulate and summarize information required for internal and external financial reporting is impacted.

If managed effectively, IT investments can have a dramatic impact on an organization's performance and accountability. If not correctly managed, they can result in wasteful spending and lost opportunities for achieving mission goals and improving mission

performance. PBGC had several false starts in modernizing its systems and applications that have either been abandoned, such as the suspension of work on the Premium and Practitioner System to replace the Premium Accounting System, or have been ineffective in leading to the integration of its financially significant systems. Unless PBGC develops and implements a well designed IT architecture and infrastructure to guide and constrain modernization projects, it risks investing time and resources in systems that do not reflect the Corporation's priorities, are not well integrated, are potentially duplicative, and do not optimally support mission operations and performance.

To its credit, PBGC began to develop an overall strategy, but much work remains before the strategy can be completed and implemented. Steps PBGC has taken include the following:

- Continued work on its Enterprise Target Architecture (ETA), which provides the road map for all PBGC system development and integration, including financial management system integration.
- Implemented interface enhancements for CFS, including the payroll interface modernization, procurement interface, travel interface, and invoice automation. These interfaces provide additional automated capabilities for CFS and reduce the amount of manual data inputs for certain transactions.

However, major work remains to be completed to provide PBGC with integrated financial management capabilities. PBGC plans to implement the Trust Accounting and FY File System (TAS), which is currently in the design phase. TAS will replace existing financial applications Portfolio Accounting and Management (PAM), FY File, TIS, and TIS Transfer. Additionally, TAS will have automated interfaces with the CMS, CFS, and Integrated Present Value of Future Benefits (IPVFB). TAS implementation is currently planned for August 2012. Additionally, PBGC has identified future capabilities in its financial management to-be architecture including a procurement system and an online budgeting system.

Recommendation:

PBGC needs to develop and execute a plan to integrate its financial management systems in accordance with OMB Circular A-127.

Compliance with Laws and Regulations

Except as discussed below, our tests of PBGC's compliance with selected provisions of laws and regulations for FY 2011 disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or OMB audit guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Title 29 of the Code of Federal Regulation (C.F.R.) Part 4044.41 Subpart (b), General valuation rules, states "Plan assets shall be valued at their fair market value, based on the method of valuation that most accurately reflects such fair market value."

As reported above in material weakness number three, BAPD Operations, we noted instances where PBGC failed to determine the fair market value of plan assets at DoPT as required by this regulation.

This conclusion is intended solely for the information and use of PBGC's OIG, Board of Directors, management of PBGC, Government Accountability Office, OMB, the United States Congress, and the President and is not intended to be and should not be used by anyone other than these specified parties.

Consistency of Other Information

The Chair's message, Director's message, annual performance report, summary of historical financial performance, financial statement highlights, management's discussion and analysis, management representation, improper payment assessment, actuarial valuation, letter of the inspector general, and organization contain a wide range of data, some of which is not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with PBGC officials. Based on this limited work, we found no material inconsistencies with the financial statements.

Objectives, Scope, and Methodology

PBGC's management is responsible for (1) preparing the financial statements in conformity with accounting principles generally accepted in the United States of America; (2) establishing, maintaining, and evaluating the effectiveness of internal control to provide reasonable assurance that the broad control objectives of FMFIA are met; its assertion of the internal control over financial reporting included in PBGC's FY 2011 Annual Report; and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America; and (2) management maintained effective internal control as of September 30, 2011 based on management's assertion included in PBGC's FY 2011 Annual Report and on the criteria contained in FMFIA, the objectives of which are the following:

- Financial reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- Compliance with applicable laws and regulations: Transactions are executed in accordance with laws and regulations that could have a direct and material effect on the financial statements and any other laws, regulations, and government wide policies identified by OMB audit guidance.

We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements, and laws for which OMB audit guidance requires testing and performing limited procedures with respect to certain other information appearing in PBGC's FY 2011 Annual Report.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessed the accounting principles used and significant estimates made by management; (3) evaluated the overall presentation of

the financial statements; (4) obtained an understanding of the entity and its operations, including its internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations; (5) tested relevant internal control over financial reporting (including safeguarding assets) and compliance, and evaluated the design and operating effectiveness of internal control for the FY ended September 30, 2011; (6) considered the design of the process for evaluating and reporting on internal control and financial management systems under FMFIA; and (7) tested compliance for FY 2011 with selected provisions of laws and regulations that have a direct and material effect on the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance.

We did not test compliance with all laws and regulations applicable to PBGC. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements, and to those required by OMB audit guidance that we deemed applicable to the financial statements for the FY ended September 30, 2011. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We conducted our audits and examinations in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; attestation standards established by the American Institute of Certified Public Accountants; and OMB audit guidance. We believe that our audits and examinations provide a reasonable basis for our opinions.

We considered the material weaknesses identified above in determining the nature, timing, and extent of our audit procedures on the 2011 financial statements.

Management Comments and Our Evaluation

In commenting on the draft of this report (see page 108 of the PBGC's FY 2011 Annual Report), PBGC's management concurred with the facts and conclusions in our report. We did not perform audit procedures on PBGC's written response and, accordingly, we express no opinion on it.




Calverton, Maryland
November 14, 2011

MEMORANDUM

November 9, 2011

To: Rebecca Anne Batts
Inspector General

From: Josh Gotbaum 
Director

Subject: Response to the Independent Auditor's Combined Audit Report on the
FY 2011 Financial Statement Audit

Thank you for the opportunity to comment on the Office of Inspector General's FY 2011 combined audit report, including the opinions on PBGC's financial statements, internal controls, and compliance with laws and regulations.

Management appreciates the work your office performs in your oversight of this audit. As PBGC's work involves billions of dollars and affects millions of Americans, it is especially noteworthy that the Corporation has once again received an unqualified opinion on our financial statements for FY 2011.

We also recognize and concur with your opinion on internal controls. Management has already set the foundation and continues its work for addressing the two material weaknesses (entity-wide security program planning and management, and access controls and configuration management) and the significant deficiency (integration of financial management systems) that were recognized in previous audits. Regarding the new material weakness in benefits administration and payment department operations, as you know we have begun work on reviewing these findings and will be developing a corrective action plan.

We are committed to addressing the findings in our corrective action plans, and will keep you informed of our progress.

cc: Laricke Blanchard
Patricia Kelly
Richard H. Macy
Alice Maroni
Ann Orr
Michael Rae
Vince Snowbarger
Judith Starr
Martin O. Boehm

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Office of Inspector General

Rebecca Anne Batts
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