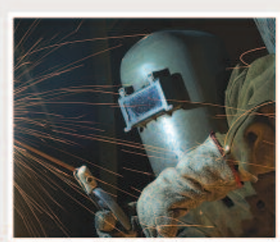
Pension Benefit Guaranty Corporation

PBGC

Protecting America's Pensions

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The Pension Benefit Guaranty Corporation protects the pensions of nearly 44 million workers and retirees in over 30,000 private defined benefit pension plans. These pension plans provide a specified monthly benefit at retirement, usually based on salary or a stated dollar amount and years of service. PBGC guarantees these benefits subject to the limits set by the Employee Retirement Income Security Act (ERISA), which established the PBGC as a wholly owned United States Government corporation in 1974. The Corporation is administered by a Director who is appointed by the President and subject to Senate confirmation and operates in accordance with policies established by its Board of Directors—the Secretaries of Labor (Chair), Commerce, and the Treasury.

PBGC receives no funds from general tax revenues. Operations are financed by insurance premiums set by Congress and paid by sponsors of defined benefit plans, investment income, assets from pension plans trusteed by the PBGC, and recoveries from the companies formerly responsible for the plans.

PBGC's mission, as mandated under Title IV of ERISA, is to:

- encourage the continuation and maintenance of voluntary private pension plans for the benefit of their participants,
- provide timely and uninterrupted payments of benefits in the case of terminated pension plans, and
- maintain premiums at the lowest levels consistent with statutory responsibilities.

CHAIR'S MESSAGE

Improving retirement security and reforming the defined benefit pension system are two of the highest priorities of this Administration. I am proud the Department has played a role in the development and passage of the Pension Protection Act of 2006, signed into law by President Bush, and pleased with the progress the Pension Benefit Guaranty Corporation (PBGC) and other agencies charged with administering the federal pension law are making to implement this landmark legislation.

Over the past 33 years, PBGC has worked to protect the interests of plan participants and to support the growth of our private pension system. Today, thanks to that system and the security provided by PBGC's insurance programs, millions of American workers and their families can look forward to a secure retirement. Hundreds of thousands of Americans currently receive over $4 billion annually from PBGC and approximately 44 million Americans are in plans insured by PBGC. The defined benefit pension system and the PBGC guarantee make a real difference in the lives of these hard-working people.

The Pension Protection Act and a solid economy during FY 2007 improved the funding status of many defined benefit plans and strengthened the pension system. PBGC's financial condition also improved. Fewer plans terminated and PBGC did not absorb any large losses. However, while PBGC's improving financial condition is welcome news, challenges facing PBGC still exist.

To be sure that PBGC can meet its long-term obligations, further reform is needed. Enactment of the Administration's premium reform proposals would be an important step to ensuring the solvency of PBGC.

E.L. Chao

Elaine L. Chao
Secretary of Labor
Chair of the Board

DIRECTOR'S MESSAGE

Two months before Fiscal Year 2007 began, President Bush signed the Pension Protection Act, stating that it "strengthens the pension insurance system." However, he also noted that much work remained to be done because "the problem of underfunded pensions will not be eliminated overnight." The Corporation's performance in FY 2007 highlights both these points: the pension insurance system is healthier than it was a year ago, but it still faces significant difficulty in coming years.

FINANCIAL CONDITION

During FY 2007—which ended September 30, 2007—the Corporation benefited from a strong and robust economy. During the year, fewer pension plan sponsors failed and passed on their liabilities to PBGC and there were relatively few large plan terminations. Consequently, the Corporation did not absorb any major losses during the year.

The strong economy and stock market performance helped improve the funded status of many defined benefit plans, and as corporations made funding and investment decisions to strengthen their plans in light of the Pension Protection Act (PPA), they improved the financial status of PBGC.

The economy also had a positive effect on the Corporation's deficit, which dropped from $18.9 billion at the end of FY 2006 to $14.1 billion at the conclusion of FY 2007. This is a welcome change, as the deficit had climbed as high as $23.5 billion in FY 2004.

These two facts—that fewer plans terminated than PBGC projected, and that PBGC's deficit shrank—indicate that the pension insurance system was healthier in 2007. However, the continued existence of a significant deficit also highlights the considerable challenges that confront PBGC and the defined benefit pension system.

The size of PBGC's deficit is an important consideration, but that number is just a snapshot that can change at any moment with movements in interest rates or asset values. The more important consideration is whether the Corporation has a realistic plan to meet its long-term obligations. Even with a strong economy and legislated increases in premiums, as of the end of FY 2007 PBGC's mean scenario projected deficits for the Corporation over all time periods. Our mean projected result, based on our investment policy in effect in FY 2007 and economic forecasts, is that our deficit will be approximately $10.9 billion in ten years and $8.8 billion in 20 years, in present value terms. Even more significantly, our figures indicate that there is only a 23% chance that PBGC could reach full funding in the next ten years.

Of course, these projections are uncertain, but this long-term measurement—the likelihood of full funding in ten years—is more useful than a single snapshot calculation of our deficit. Since ERISA, the law that created the Corporation, explicitly states that the United States government does not stand behind the liabilities of PBGC, it is the Corporation's responsibility to put itself in a position to meet its long-term obligations. With that in mind, in FY 2007 the Corporation launched a full-scale review of its investment policy to determine whether changes to the investment policy could improve the Corporation's long-term financial position.

Fortunately, the current deficit does not pose an imminent threat; PBGC has sufficient funds to meet its obligations for a number of years. We must recognize, however, that if we fail to address these issues, eventually the premium payers, participants, and possibly taxpayers will bear the burden we leave them.

Legislative change can also strengthen the PBGC. The President's budget continues to call upon Congress to grant PBGC's Board of Directors the ability to set premiums. This authority would improve PBGC's financial condition and safeguard workers' benefits.

Moreover, under current law, PBGC is required to charge the same premiums regardless of the financial health of the plan's sponsor. Normally, insurance is provided by institutions that are able to underwrite risk, and PBGC should be permitted to assess its premiums in this way. Some level of risk-based premium-setting authority would allow the PBGC to quantify and be better prepared to confront the risks it faces. To illustrate the magnitude of the current underpricing of these risks, we recently sought market quotes for credit default insurance to cover the risks that our premiums do not cover. Based on that market research, the Corporation extrapolated a price to cover just the underfunding in the plans of the riskiest employers. PBGC estimates that price to be over $4 billion annually; yet those companies paid less than $500 million for PBGC's insurance.

OPERATIONS

While attention tends to focus on PBGC's financial condition, our operations and employees continue to reach high levels of professionalism and success. The Corporation recorded numerous positive results in 2007 and continued to meet its goals for processing new trusteed plans, with more than 81,000 individuals receiving their final benefit calculations during the year. Most importantly, we continued to provide payments to 631,000 participants and beneficiaries. Our team that works with the participants continued to provide excellent service, as evidenced by the American Customer Satisfaction Index score of 88 we received—a three-point increase from FY2006. This represents the third highest score in the U.S. government.

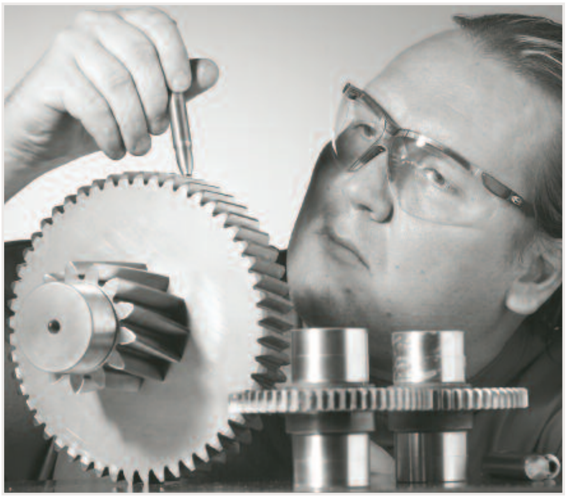
I am pleased that the Corporation received its fifteenth consecutive unqualified audit opinion on its financial statements. The Corporation's assertion regarding the adequacy of its internal controls also received its fourth consecutive unqualified audit opinion. And even though the auditing standard for removing a significant deficiency in our auditors' findings became higher in FY 2007, we were able to remove one such deficiency from our report entirely, while making substantial progress in addressing the other three.

Negotiated settlements with bankrupt sponsors of terminated plans netted about $1.2 billion in recoveries. These settlements came as a result of our team's diligent and tireless efforts in bankruptcy proceedings to obtain the maximum recovery amount for the insurance program.

Besides obtaining large payments to the PBGC, our negotiators also secured payments of hundreds of millions of dollars of contributions into ongoing pension plans covering more than 218,000 participants. These efforts helped prevent those plans from terminating. Keeping these plans going protects both participants and the insurance program. To accomplish this, the PBGC monitors hundreds of corporate transactions each year to make sure that pension plans are not weakened when companies sell off assets or take on debt. For example, when Cerberus Capital Management acquired Chrysler, our team negotiated a commitment of $1.2 billion in protections for the pension plans of Chrysler's U.S. workers.

For the first time, in FY 2007 the PBGC was able to use a new regulation to obtain a form of "intermediate relief" that had not previously been available. Normally, when an employer shuts down a plant and cuts jobs, the PBGC's sole remedy, other than the negotiations described above, is to terminate the pension plan and take it over—a very extreme action. The new regulation allows us to demand specific financial protections for a pension plan when there is a significant job loss due to a plant shutdown. The regulation was the result of careful preparation and research concerning a portion of ERISA that had been underutilized since the statute was originally drafted in 1974.

In the years leading up to the passage of the PPA, most attention was focused on policy issues and the Corporation's funded status, while attention to certain other areas of the Corporation was deferred. In FY 2007, we finally began to address these areas. For instance,



in the early part of this decade the Corporation expanded its spending on technology to meet the unprecedented increase in its workload. By necessity, much of that spending was done to meet immediate and urgent needs. Our IT portfolio is now undergoing a detailed review that will bring about better integrated systems, eliminate duplication and dedicate our resources more efficiently.

We have also focused on our contracting practices, moving away from contracts based on labor hours to performance-based contracting in line with the President's management agenda. These improvements have yielded better operation and accountability and should bring substantial cost savings.

Finally, a point about which all of PBGC is particularly proud: in April, the Corporation was ranked among the top 10 small federal agencies in American University's *Best Places to Work*. The survey draws on responses from more than 221,000 civil servants to produce detailed rankings across 283 federal agencies and subcomponents. I believe PBGC is a desirable place to work because our team is committed to the underlying mission of supporting the defined benefit insurance program and assisting the insured participants and beneficiaries of trusteed plans. We are committed to this mission because we know that the expression "insured participants and beneficiaries of trusteed plans" refers to real people—individuals with families and family obligations. These are people who have worked their entire lives to earn retirement payments. These are people who support families, who wait for their check from the PBGC so they can sit down at the kitchen table and pay their bills. They count on us every day.

We are proud to carry out this mission effectively and sensitively, and we promise to continue to do so.

Charles E F Millard

Charles E. F. Millard
Director

The Pension Protection Act of 2006 (PPA) provided that the PBGC be headed by a Director appointed by the President with the advice and consent of the United States Senate. Charles E.F. Millard is the first Director to be so appointed and confirmed.

2007 HIGHLIGHTS

- At year-end, PBGC insured the pensions of approximately 44 million Americans and was responsible for the pensions of more than 1.3 million people whose plans have terminated.
- PBGC received its 15th consecutive unqualified audit opinion on its financial statements and its fourth consecutive unqualified internal control opinion.
- Financial condition improved by $5 billion, due to investment income and lack of large plan terminations.
- Premium income increased slightly, from $1.5 billion to less than $1.6 billion. Increased premiums were largely offset by reduced variable-rate premium income as a result of improved plan funding.
- PBGC paid nearly $4.3 billion in benefits to more than 631,000 people and issued more than 81,000 final benefit determinations.
- PBGC continued to provide high quality service to its customers and achieved a customer satisfaction score of 88 from retirees, exceeding the 2006 score by three points. This represented the third-highest score in government.
- The Corporation reported a year-end deficit of $14.1 billion. PBGC's mean projection indicated an $11 billion deficit in ten years, with a 23% chance of reaching full funding in that period.
- PBGC actions in the courts and in settlement negotiations continued to result in financial recoveries that protected plan participants and the insurance program from substantial unnecessary losses.
- Additional financial highlights are presented in the Annual Management Report on pp. 13-63.

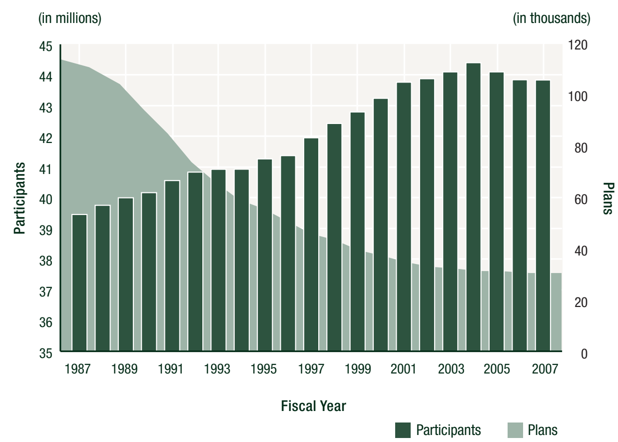
(Dollars in millions)	**2007**	2006
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Summary of Operations		
Premium Income	**$ 1,557**	$ 1,500
Losses (Credits) from Plan Terminations	**$ 399**	$ (6,155)
Investment Income	**$ 4,760**	$ 2,183
Actuarial Charges and Adjustments	**$ 346**	$ 4,819
Insurance Activity		
Benefits Paid	**$ 4,266**	$ 4,083
Retirees	**631,330**	612,870
Total Participants Receiving or Owed Benefits	**1,305,000**	1,271,000
New Underfunded Terminations	**110**	94
Terminated/Trusteed Plans (Cumulative)	**3,793**	3,683
Financial Position		
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Total Assets	**$ 68,438**	$ 61,138
Total Liabilities	**$ 82,504**	$ 80,019
Net Income	**$ 4,815**	$ 4,230
Net Position	**$ (14,066)**	$ (18,881)
SINGLE-EMPLOYER PROGRAM		
Total Assets	**$ 67,241**	$ 59,972
Total Liabilities	**$ 80,352**	$ 78,114
Net Income	**$ 5,031**	$ 4,634
Net Position	**$ (13,111)**	$ (18,142)
MULTIEMPLOYER PROGRAM		
Total Assets	**$ 1,197**	$ 1,166
Total Liabilities	**$ 2,152**	$ 1,905
Net Loss	**$ (216)**	$ (404)
Net Position	**$ (955)**	$ (739)

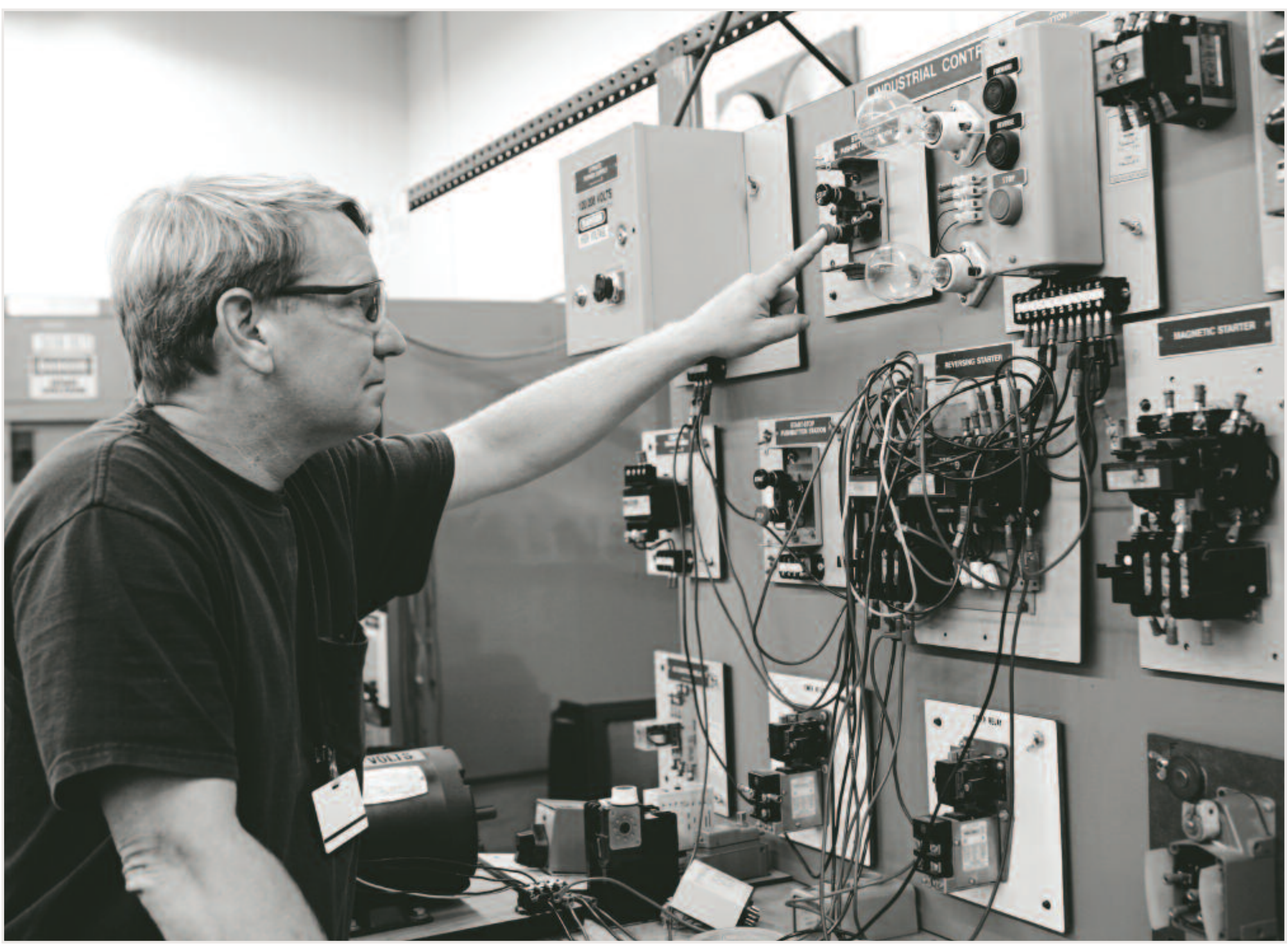
SUMMARY OF OPERATIONS

ERISA established two insurance programs to be administered by PBGC. The single-employer program covers plans maintained by one employer or by a group of employers but not pursuant to a collective bargaining agreement. The other program covers multiemployer plans, which are collectively bargained and cover the employees of two or more unrelated employers. Each program is operated and financed separately from the other and assets from one cannot be used to support the other.

Both the number of PBGC-insured plans and the number of covered participants continued to slowly decline in FY 2007. Total participants now number slightly under 44 million. The number of people insured by the PBGC is more than the entire population of Canada.

PBGC-INSURED PLANS AND PARTICIPANTS
1987 – 2007

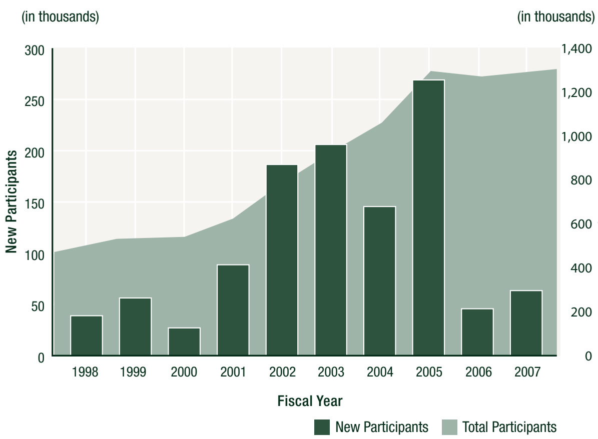




SINGLE-EMPLOYER PROGRAM

The single-employer program is by far the larger of the two programs, insuring approximately 34 million people covered by nearly 29,000 plans. This program guarantees payment of benefits, subject to limits set by law. If an insured plan is ended without enough money to pay all benefits, then PBGC takes over any assets of the plan and the responsibility to pay the participants of the plan.

PARTICIPANTS OWED BENEFITS BY PBGC
1998 – 2007



As of the end of 2007, PBGC had trusteed nearly 3,800 terminated plans and had assumed responsibility for the benefits of nearly 1.2 million people. The PBGC assumed responsibility for the benefits of about 63,500 participants during FY 2007, somewhat more than in 2006 but still well below the record numbers of participants taken in by PBGC between 2001 and 2005. Including participants who will receive benefits through PBGC assistance to multiemployer plans, total participants owed benefits increased slightly to a little more than 1.3 million.

In FY 2007 the Corporation paid a total of nearly $4.3 billion in benefits and was paying monthly retirement benefits to more than 631,000 people.

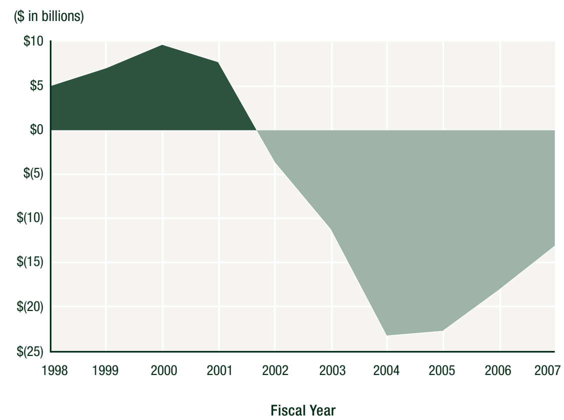
The maximum benefit guaranteed under the single-employer program is adjusted annually, but generally becomes fixed for any plan when that plan terminates. For 2007, the maximum guaranteed amount was $49,500 per year for a person retiring at age 65 and receiving a single-life annuity (a form of benefit that does not provide survivor benefits). This amount must be adjusted down for people who retire before age 65 (or who first begin receiving benefits from PBGC before 65) and for benefit forms that include survivor benefits such as joint-and-survivor annuities. For 2008, the maximum guaranteed amount increases to $51,750 per year for a person retiring at age 65 and receiving a single-life annuity.

All single-employer plans must pay a basic flat-rate premium of $31 per participant per year for 2007 and $33 per participant per year for 2008. (Under the provisions of the Deficit Reduction Act of 2005 (DRA), this premium rate has been indexed for wage inflation since 2007.) Underfunded single-employer plans also pay a variable-rate charge of $9 per $1,000 of unfunded vested benefits.

As of September 30, 2007, the single-employer program reported a net deficit of $13.1 billion, which represented a $5 billion improvement in the program's financial condition since the end of the previous year. The improvement was largely due to investment income and the continued absence of major new terminations of underfunded plans. The program had assets of $67.2 billion and liabilities totaling $80.4 billion.

Aided by a strong economy, underfunding in the defined benefit system declined for the second year in a row. As a result, PBGC's future exposure to losses from underfunded plans (classified as reasonably possible terminations) fell from $73 billion in 2006 to $66 billion at year-end. For 2007, this exposure was concentrated in manufacturing; transportation, communication and utilities; services/other; and wholesale and retail trade. Despite the decline for the year, PBGC's exposure to potential additional losses remains worrisome. Moreover, the significant volatility in plan underfunding and sponsor credit quality over time makes long-term estimates of the PBGC's expected claims difficult.

NET POSITION, SINGLE-EMPLOYER PROGRAM
1998 – 2007



MULTIEMPLOYER PROGRAM

Multiemployer pension plans are maintained pursuant to collective bargaining agreements between unions and groups of employers. There are about 1,530 multiemployer plans that cover about 10 million workers and retirees. Multiemployer plans cover many

unionized workers in the trucking, retail food, construction, mining, and garment industries.

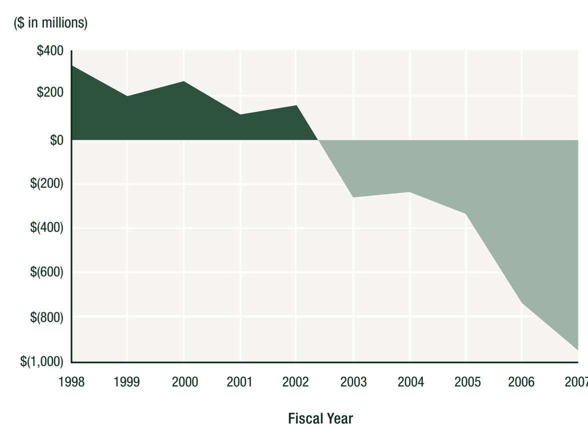
By law, the assets and liabilities of the multiemployer program are segregated from those of the single-employer program. Unlike the single-employer program, which guarantees payment of benefits upon termination of an underfunded plan, the multiemployer program guarantees payment of benefits if a covered plan is insolvent and unable to pay PBGC-guaranteed benefits when due. Also unlike the single-employer program, the multiemployer program does not trustee an insolvent plan. Rather, PBGC provides financial assistance through loans to insolvent plans to enable them to continue paying guaranteed benefits. In its history, PBGC has provided $330 million in total financial assistance, net of repayments, to 49 plans. Only one plan has ever repaid the PBGC.

The multiemployer benefit guarantee differs markedly from that of the single-employer program. The benefit guarantee limit for a multiemployer for someone with 30 years of service is $12,870. This limit can be changed only by legislation and has not changed since December 2000.

The multiemployer program has its own premium structure—$8 per participant per year for 2007 and $9 per participant per year for 2008. Under the provisions of the Deficit Reduction Act of 2005, the multiemployer premium has been indexed for wage inflation since 2007.

As of September 30, 2007, the multiemployer program reported a net deficit of $955 million, which represented a $216 million deterioration of the program's financial condition since the end of the previous year. The loss for the year was due largely to PBGC's booking of additional probable losses from expected future financial assistance to troubled plans. The program had assets of $1.2 billion and liabilities totaling about $2.2 billion.

NET POSITION, MULTIEMPLOYER PROGRAM
1998 – 2007



At the end of fiscal year 2007, the multiemployer program's exposure to additional future losses

(classified as reasonably possible claims) had fallen to $73 million from $83 million at the end of fiscal year 2006. The program's increasing deficit and continuing exposure to additional losses remain a concern for the agency, which is working to update its methodology for evaluating the future prospects of the program. While much attention has historically been focused on single-employer plans, the multiemployer deficit is mounting. The increased deficit reflects a number of unfavorable, long-term trends: the extensive restructuring of several industries that formerly supported large plans, a decline in the number of new firms that join multiemployer plans, and a drop in the ratio of active workers to retirees in multiemployer plans.

2007 FINANCIAL RESULTS AND PBGC EXPOSURE REPORT

The remainder of this Annual Report consists of two main sections: PBGC's Annual Management Report and its report on the exposure of the two insurance programs.

The 2007 Annual Management Report: The Annual Management Report details the agency's financial statements, financial results, and performance results for the year ended September 30, 2007. This information was released to the public on November 14, 2007, and is reprinted beginning on p. 13 of this Annual Report without change.

Pension Insurance System Exposure: Under Section 4008 of the Employee Retirement Income Security Act of 1974, PBGC annually must provide an actuarial evaluation of its expected operations and financial status over the next five years. PBGC historically has extended these forecasts to cover 10 years but has provided this information only for the single-employer program. This year's report, which for the first time also includes information on the multiemployer program, presents the Corporation's analysis of its projected financial condition in 2017. The discussion of PBGC's exposure begins on p. 64 of this Annual Report.

2007 ANNUAL MANAGEMENT REPORT

The Pension Benefit Guaranty Corporation (The PBGC or the Corporation) is a federal corporation established under the Employee Retirement Income Security Act (ERISA) of 1974, as amended. It currently guarantees payment of basic pension benefits earned by 44 million American workers and retirees participating in 30,460 private-sector defined benefit pension plans. The Corporation receives no funds from general tax revenues. Operations are financed largely by insurance premiums paid by companies that sponsor defined benefit pension plans and by investment income and assets from terminated plans. The following constitutes the PBGC's Annual Management Report for fiscal year 2007, as required under OMB Circular No. A-136 and A-11, Section 230-1.

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PBGC
Protecting America's Pensions
Pension Benefit Guaranty Corporation
1200 K Street, N.W., Washington, D.C. 20005-4026

Office of the Director

Director's Transmittal Letter

I am pleased to transmit the Pension Benefit Guaranty Corporation's Annual Management Report for fiscal year 2007. This report includes the PBGC's financial statements, the transmittal letter of its Inspector General, and the independent auditor's combined report on the Corporation's financial statements, internal controls, and compliance with laws and regulations. Also included is the Corporation's Annual Performance Report as required under the Government Performance and Results Act.

The PBGC is mandated under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA) to insure, subject to statutory limits, pension benefits of participants in covered private defined benefit pension plans in the United States. More specifically, the Corporation's goals are to safeguard the federal pension insurance system for the benefit of participants, plan sponsors, and other stakeholders, to provide exceptional service to customers and stakeholders, and to exercise effective and efficient stewardship of PBGC resources.

During 2007, the PBGC made substantial progress toward these goals. The agency made significant steps forward in implementing the premium reform provisions of the Pension Protection Act of 2006 and the Deficit Reduction Act of 2005. It also scored improvements in its efficiency and effectiveness in serving plan participants, retirees, and premium filers, as noted in the Office of Management and Budget's Program Assessment Rating Tool review. Moreover, the PBGC achieved nearly all of its performance measure targets for 2007.

As cited in the Annual Performance Report, the PBGC incorporated the principles of the President's Management Agenda into its strategic planning process, and achieved noteworthy results in the areas of strategic management of human capital, competitive sourcing, improved financial management, expanded electronic government and in the measuring of improvement in PBGC performance.

The financial and performance data included in this report are reliable and complete. PBGC's independent auditor gave the Corporation its 15th consecutive unqualified audit opinion on its financial statements and 4th consecutive unqualified opinion on management's assertion regarding the effectiveness of the PBGC's internal controls. The independent auditor's reports are included within this Annual Management Report. As further discussed within these reports and in the Management Representation Letter and Chief Financial Officer's Letter, the independent auditor reported on the status of several significant deficiencies, and the progress made on prior year reportable conditions. I am pleased to report that in FY 2007, PBGC significantly improved its preparedness for unanticipated incidents and disruptions to such an extent that this prior year reportable condition was completely eliminated. Further, the premium data quality concerns that were part of another prior year reportable condition were addressed as well, with remaining premium system integration issues consolidated into the significant deficiency relating to system integration. PBGC is committed to addressing this and two other significant deficiencies relating to information security and access controls.

Sincerely,

Charles E F Millard

Charles E. F. Millard
Interim Director

November 8, 2007

FINANCIAL STATEMENT HIGHLIGHTS

- The PBGC's combined financial condition improved by $4.81 billion. The combined net position at September 30, 2007 was $(14.07) billion as compared to $(18.88) billion at September 30, 2006. The combination of a reduction in liabilities due to the favorable increase in interest factors, strong investment returns, and premium income, were only partially offset by losses on plan terminations, net claims for plans likely to terminate, and expenses of the Corporation.

- Net position for the single-employer program improved in FY 2007 by $5.03 billion, while the multiemployer program's net position declined by $216 million.

- The combined net gain of $4.81 billion for 2007 was driven primarily by $4.76 billion in investment income and $1.56 billion in premiums, and were offset by $460 million in actuarial charges, $399 million in losses from plan terminations and net claims for plans classified as probable (likely to terminate), $378 million in administrative and investment charges, and $319 million in losses from financial assistance.

- Liability valuation interest factors increased by 46 basis points to 5.31% at September 30, 2007, from 4.85% at September 30, 2006. This increase in PBGC's interest factors resulted in a reduction to actuarial charges of $2.81 billion that largely offsets the actuarial charges for passage of time of $3.27 billion. (The passage of time charge is due to the shortening of the discount period as the valuation date moves forward in time. The impact is to increase the value of the Present Value of Future Benefits (PVFB)).

- During FY 2007, PBGC's single-employer deficit improvement of $5.03 billion was primarily due to investment income of $4.74 billion, premium income of $1.48 billion, and $2.81 billion due to the favorable change in interest factors, offset by $3.27 billion charge due to passage of time, $399 million due to losses from completed and probable terminations, and administrative and investment expenses of $378 million.

- During FY 2007, PBGC's multiemployer deficit declined further by $216 million primarily due to $319 million in losses from financial assistance (twelve new plans were added to the multiemployer probable inventory) offset by $81 million in premium income and $23 million in income from fixed income investments.

- Investment income of $4.76 billion is more than double the FY 2006 amount of $2.18 billion.

- During 2007, the PBGC terminated 110 plans in the single-employer program. Through PBGC's comprehensive assessment of probable future terminations in prior years, all but $178 million of the net claims for these plans were already reflected in PBGC's results as of the end of 2006. These plans had an average funded ratio of approximately 76%, resulting in an aggregated net loss to the PBGC of $1.17 billion. In total, these plans had $3.80 billion in assets, including estimated recoveries, and $4.97 billion of future benefit liabilities as of the date of plan termination.

- During 2007, the PBGC reached agreements with sponsors of terminated plans for unpaid contributions and unfunded benefits that resulted in recoveries totaling approximately $1.24 billion. A portion of the PBGC's recoveries is paid out as additional benefits to plan participants with non-guaranteed benefits according to statutory priorities.

- There were no new significant large plans classified as probable terminations in 2007. Eleven new probables were added with underfunding of $131 million. Probable terminations represent the PBGC's best estimate of claims for plans that are likely to terminate within twelve months.

- In 2007, the PBGC's future exposure remained high with approximately $66 billion in underfunding exposure to those plan sponsors, classified as reasonably possible, whose credit ratings are below investment grade or meet one or more financial distress criteria. This is down from $73 billion in 2006.

- Premium income increased during FY 2007 by $57 million. Higher per participant rates for the flat-rate premium and the new post-termination premium as authorized by the Deficit Reduction Act of 2005 generated additional income of $237 million. Partially offsetting these gains, improvements in plan underfunding and an increase in plans eligible for the variable-rate premium "full funding" exemption reduced the Variable Rate Premium (VRP) income by $192 million.

- Overall benefit payments to participants increased to $4.27 billion in 2007 from $4.08 billion in 2006.

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

I. Introduction

The Pension Benefit Guaranty Corporation (the PBGC or the Corporation) is mandated under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA) to insure, under statutory limits, pension benefits of participants in covered private defined benefit pension plans in the United States. As of September 30, 2007, between its combined programs, the PBGC covered 44 million participants in over 30,000 active plans and was directly responsible for the future benefits of 1.3 million active and retired workers whose plans had failed. The PBGC receives no taxpayer monies and ERISA explicitly provides that PBGC's obligations are not backed by the full faith and credit of the United States Government. The PBGC is a self-financing government corporation funded by premiums and the assets of plans it trustees.

The following is a discussion and analysis of the financial statements and other statistical data that management believes will enhance the understanding of the PBGC's financial condition and results of operations. This discussion should be read in conjunction with the financial statements beginning on page 32 and the accompanying notes.

II. Financial and Program Risks

The PBGC's operating results are subject to significant fluctuation 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 differ from those of most private insurers, especially in their variability. The PBGC provides mandatory insurance of catastrophic risk. Most private insurers are able to diversify or reinsure their catastrophic risks or to apply traditional insurance underwriting methods to these risks. The PBGC's risks are concentrated in certain industries, and the Corporation is not able to decline providing insurance coverage regardless of the potential risk of loss posed by an insured. Private insurers also are able to adjust premiums in response to actual or expected claims exposure. In contrast, the PBGC's premiums are defined by statute.

The PBGC operated for several years with low levels of claims and then experienced a period of record-breaking claims from FY 2002 through FY 2005. Future results will continue to depend largely on the infrequent and unpredictable termination of a limited number of very large pension plans. The PBGC's financial condition is also sensitive to market risk such as interest rates and equity returns, including those embedded in plans the PBGC insures, which can also be highly volatile.

III. Recent Developments

The Deficit Reduction Act of 2005 (DRA): Under this legislation, signed into law February 8, 2006, by President George W. Bush, flat-rate premiums are adjusted each year for inflation, based on changes in the national average wage index. PBGC's flat-rate premium for the 2007 plan year was $31 per participant for single-employer plans and $8.00 per participant for multiemployer plans. For the 2008 plan year, those amounts are increased to $33.00 for single-employer plans and $9.00 for multiemployer plans. Total flat-rate premium income for FY 07 increased by approximately 19% from FY 06.

Pension Protection Act of 2006 (PPA): This legislation, signed into law August 17, 2006, by President George W. Bush, makes a number of changes to the pension insurance system, including premiums, guarantee rules, reporting and disclosure, multiemployer plan withdrawal liability, and the missing participants program.

During FY 07, the PBGC began developing and drafting the numerous rules that would amend its regulations to comply with the PPA. In developing these regulations, the PBGC seeks to ease and simplify employer compliance whenever possible, taking into account the needs of small businesses. In line with these principles, the PBGC published two proposed rules implementing premium changes. The first would implement the new termination premium applicable to certain plan terminations, which the PPA made permanent, and the new cap on the variable rate premium for plans of small employers. The second would implement the new provisions for calculating the variable rate premium, effective for 2008 plan years. The PBGC expects to finalize both rules early in FY 08, which will complete a major portion of PBGC's PPA implementation plan.

In FY 08, the PBGC plans to publish proposed and/or final rules on PPA changes to annual financial and actuarial information reporting under ERISA section 4010, multiemployer withdrawal liability, disclosure of termination information, and payment of benefits in PBGC-trusteed plans (e.g., shutdown benefits). The PBGC also expects to publish rules implementing both the expanded missing participants program and the Corporation's new authority under PPA to pay interest on premium overpayments.

PPA allowed certain single-employer plans to elect to be multiemployer plans pursuant to procedures prescribed by the PBGC. This PPA provision was modified by an amendment contained in supplemental spending legislation, Pub L. 110028, enacted May 25, 2007. The PBGC issued procedures under these amendments prior to the August 17, 2007, statutory deadline for making the elections.

IV. Discussion of Insurance Programs

The PBGC operates two separate insurance programs for defined benefit plans involving both the underwriting and financial activity areas of the business. The PBGC's single-employer program guarantees payment of basic pension benefits when underfunded plans terminate. The PBGC's multiemployer program is funded and administered separately from the single-employer program. The event triggering the PBGC's multiemployer guarantee is the inability of a covered plan to pay benefits when due at the statutorily guaranteed level. Plan termination is the insured event in the single-employer program. The financial condition, results of operations, and cash flows of these two programs are reported as different business segments because the programs are separate by law.

The single-employer program covers about 33.8 million participants, down from 34.0 million participants in 2006. The number of plans increased slightly from 28,800 in 2006 to 28,900 in 2007. The PBGC oversees the terminations of fully funded plans and guarantees payments of basic pension benefits when underfunded plans terminate. When a covered underfunded plan terminates, the PBGC becomes trustee of the plan, applies statutorily defined limitations on payouts, and administers future benefits thereafter.

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

There was a net gain in 2007 of $5.031 billion compared to a net gain in 2006 of $4.634 billion. The $397 million year-to-year change in net income was primarily attributable to (1) a $4.8 billion decrease in actuarial charges due to higher interest rates and (2) a $2.6 billion increase in investment income offset by (3) an increase of $6.6 billion in losses from completed and probable terminations. Of this change, $6.2 billion reflects the unusual credit balance in FY 2006. (Losses from completed and probable terminations in 2006, excluding the impact of PPA, amounted to a charge of $1.8 billion. This charge was offset by a credit of $8.0 billion, reflecting a reversal of losses previously accrued due to the reclassification of several plans from probable to reasonably possible terminations as a result of airline provisions in the PPA. See Note 10). If PBGC's deficit were calculated without regard to PPA airline provisions, its net deficit shown in this report would be approximately $8 billion higher (assuming 2006 underfunding levels for the specific airline plans remained constant).

Actuarial charges and adjustments arise from gains and losses from mortality and retirement assumptions, changes in interest factors, and passage of time (due to the annual shortening of the discount period covering future benefits). It is important to note that the ability of the PBGC's assets to counter the two primary actuarial charges, i.e., passage of time and changes in interest factors, remains increasingly constrained by the PBGC's deficit.

Underwriting Activity: The PBGC's single-employer program experienced a net gain to underwriting income of $804 million in 2007, a significant decline from the gain of $7.746 billion in 2006. This $6.942 billion year-to-year decrease was primarily due to the credit in 2006 to losses from new and previously accrued probable terminations, as well as the year-to-year decrease in the 2006 underwriting actuarial adjustment (charge) of $310 million.

Underwriting income slightly increased from $1.521 billion to $1.531 billion in 2007. Premium income from plan sponsors increased slightly from $1.442 billion in 2006 to $1.476 billion in 2007. Other income, consisting of interest income on recoveries from sponsors, decreased from $79 million in 2006 to $55 million in 2007.

Annual flat-rate premiums for the single-employer program increased to $31 per participant. Flat rate premium income increased to approximately $1.0 billion in 2007. Annual Variable Rate Premiums (VRP) paid by underfunded single-employer plans at a rate of $9 per $1,000 of underfunding if not exempt (e.g., meets certain minimum funding requirements) decreased to a total of $358 million.

The Required Interest Rate (RIR) used in calculating underfunding for purposes of determining a VRP has traditionally been 85 percent of the annual yield on 30-year Treasury securities; however, temporary legislation in 2004 changed the basis for the rate for plan years beginning in 2004 and 2005 to 85 percent of a composite corporate bond yield. The use of a corporate bond yield was continued by the Pension Protection Act of 2006 for two additional plan years, but a change in an IRS mortality table effective January 1, 2007, triggered a change in the RIR from 85% to 100% of the yield for 2007. The resulting rates for calendar-year plans for 2006 and 2007 were 4.86% and 5.75% respectively. An increase in the RIR generally leads to decreases in VRP premiums. The VRP premium income accruals for plan year 2007 were lower by approximately $192 million. This is primarily due to the higher RIR, more plans meeting the VRP exemption requirements, termination of large plans with prior year VRP payments and other factors in the actuarial calculation of underfunding. The PPA eliminated the full-funding exemption for plan years beginning in 2008.

The Corporation's losses from completed and probable plan terminations changed from a net credit of $6.155 billion (reversal of previously accrued losses) in 2006 to a charge of $399 million in 2007. The credit in 2006 was led by the credit related to the reclassification of the large probable plans (accrued) to reasonably possible (not accrued), offset by losses related to new probables of $3.1 billion. Additional plans did become probable and were recorded as new losses in 2007; however, the amounts of such new probable claims were lower in 2007 than for the comparable period in 2006. Reasonably possibles are plans that are not considered likely to terminate within twelve months of the financial statement date.

This credit in 2006 also led to overall reductions in claims for probable terminations in the liabilities section of the Statements of Financial Condition. The net claim for probable terminations as of September 30, 2007, is $3.8 billion, while the net claim as of September 30, 2006, was $4.9 billion. This $1.1 billion reduction resulted primarily from the transfer of $1.7 billion of previously accrued claims to a termination status (see Note 4), offset by an increase in net claims of $572 million for plans remaining in the probable classification from 2006. The amount of future losses remains unpredictable as the PBGC's loss experience is highly sensitive to losses from large claims.

Administrative expenses decreased $24 million from $352 million in 2006 to $328 million in 2007. The FY 2007 expense of $114 million in "Expenses: Other" includes a write-off of uncollectible premiums due from terminated plans and a reserve for disputed or doubtful post-termination premiums.

Financial Activity: Single-employer financial net income increased significantly from ($3.112) billion in 2006 to $4.227 billion in 2007. This improvement was primarily due to an increase in investment income of $2.553 billion and combined actuarial charges that decreased $4.783 billion over 2006. The PBGC marks its assets to market.

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. In 2007, passage of time charges increased due to the increase in the PBGC's liabilities from newly trusteed plans. Charges due to change in interest rates decreased substantially due to the increase in the applicable interest factors.

The PBGC discounts its liabilities for future benefits with interest factors[1] that, together with the mortality table used by the PBGC, will approximate the price in the private-sector annuity market at which a plan sponsor or the PBGC could settle its obligations. The PBGC's select interest factor increased to 5.31% (for the first twenty years after the valuation date) at September 30, 2007, from 4.85% for the

[1] The 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 rates. 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.

first twenty-five years at September 30, 2006. The ultimate factor increased from 4.82% after the first twenty-five years to 4.88% after the first twenty years.

This offsetting effect in actuarial charges contributed to PBGC's single-employer PVFB (Present Value of Future Benefits) remaining essentially unchanged at approximately $69 billion, comprising the vast majority of PBGC's combined total liabilities on its Statements of Financial Condition of $82.5 billion.

IV.B Multiemployer Program Results of Activities and Trends

A multiemployer plan is a pension plan sponsored 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 and garment industries. The multiemployer program, which covers about 10.0 million participants (up from 9.9 million participants in 2006) in about 1,530 insured plans, differs from the single-employer program in several significant ways. For multiemployer plans, the event triggering the PBGC's guarantee is the inability of a covered plan to pay benefits when due at the statutorily guaranteed level (i.e., the plan is statutorily insolvent). Unlike the single-employer plans, the PBGC does not become trustee of multiemployer plans; rather, it provides financial assistance through loans to insolvent plans to enable them to pay guaranteed benefits. The multiemployer program's present value of nonrecoverable future financial assistance grew to $2.124 billion, an increase of $248 million during FY 2007. During fiscal 2007, the PBGC paid $71 million in financial assistance to 36 insolvent plans. Once begun, these loans (which are typically not repaid) generally continue year after year until the plan no longer needs assistance or has paid all promised benefits at the guaranteed level. For a worker with 30 years under a plan, the maximum annual benefit guarantee is $12,870 which is much lower than for the participants under the single-employer program. Multiemployer premium rates are significantly lower than for the single-employer program. Annual flat-rate premiums for the multiemployer program increased to $8.00 per participant for plan year 2006 pursuant to the DRA. There are no variable-rate premiums.

The multiemployer program reported a net loss of $216 million in FY 2007 compared to a net loss of $404 million in FY 2006. This resulted in a negative net position of $955 million in FY 2007 compared to a negative net position of $739 million in FY 2006. The change in net income was primarily due to the decrease in expected loss from future financial assistance of $142 million, an increase in investment income of $24 million, and an increase in premium income of $23 million.

The multiemployer program reported a net loss from underwriting activity of $239 million in FY 2007 compared to a net loss of $403 million in FY 2006. This change in the net loss of $164 million was primarily attributed to the decrease in losses from financial assistance of $142 million (due to the addition of twelve plans to the multiemployer probable inventory, offset by the deletion of three plans and the increase in interest factors) and the increase in premium income of $23 million. Financial activity reflected financial income of $23 million from earnings on fixed income investments in 2007, compared to a loss of $1 million in 2006. Multiemployer program assets at year-end were invested 99.3 percent in Treasury securities, as compared to 99.4 percent in Treasury securities in 2006.

V. Overall Capital and Liquidity

The 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 the PBGC's investments, and the assets taken over from failed plans.

In FY 2007 combined premium cash receipts totaled $1.7 billion, a modest increase of approximately $24 million from 2006. Most of this increase pertained to the statutorily increased premiums that were fully paid in FY 2007 but were partially applicable to FY 2006. In 2007, net cash flow provided by investment activity rose significantly to $1.2 billion versus $130 million provided in 2006.

In 2007, the PBGC's cash receipts of $3.5 billion from operating activities of the single-employer program were insufficient to cover its operating cash obligations of $4.5 billion, resulting in net cash underperformance from operating activities of $1.0 billion (as compared to underperformance of $139 million in 2006). However, when the single-employer cash provided through investing activities is added to this net cash under-performance, the single-employer program in the aggregate experienced a net cash increase of $202 million. In the multiemployer program, cash receipts of $88 million from operating activities were sufficient to cover its operating cash obligations of $71 million, resulting in net cash provided by operations of $17 million, and experienced an overall net cash increase of $2 million.

In 2007, the PBGC combined net increase in cash and cash equivalents amounted to $204 million, and was comprised of $202 million for the single-employer program and $2 million for the multiemployer program.

VI. Outlook

For FY 2008, the PBGC estimates $4.5 billion in single-employer benefit payments and $91 million in financial assistance payments to multiemployer plans. The FY 2008 President's Budget request includes $424 million for the PBGC's administrative expenses. The PBGC's expenses for FY 2007 were $398 million.

In 2008, underwriting income and investment gains or losses will continue to be influenced by significant factors beyond the PBGC's control (including changes in interest rates, financial markets, plan contributions made by sponsors as well as recently enacted statutory changes). The PBGC's best estimate of 2008 premium receipts ranges between $1.5 billion and $1.7 billion. No reasonable estimate can be made of 2008 terminations, effects of changes in interest rates, or investment income.

As of September 30, 2007, the single-employer and multiemployer programs reported deficits of $13.1 billion and $955 million, respectively. As presented on the PBGC Statements of Financial Condition, the single-employer program had total assets of over $67.2 billion offset by total liabilities of $80.4 billion, which include a total present value of future benefits (PVFB) of approximately $69.2 billion. As of September 30, 2007, the multiemployer program had assets of approximately $1.2 billion offset by approximately $2.1 billion in present value of nonrecoverable future financial assistance. Notwithstanding these deficits, the Corporation has sufficient liquidity to meet its obligations for a number of years; however, neither program at present has the resources to fully satisfy the PBGC's long-term obligations to plan participants.

VII. Single-Employer and Multiemployer Program Exposure

Measures of risk in the PBGC's insured base of plan sponsors suggest that there may continue to be large claims against the single-employer pension insurance program. The PBGC's best estimate of its loss exposure to underfunded plans sponsored by companies with credit ratings below investment grade and classified by the PBGC as reasonably possible of termination was approximately $66 billion at September 30, 2007, and $73 billion at September 30, 2006. The comparable estimate of reasonably possible exposure for 2005 was approximately $108 billion. The PBGC's exposure to loss may be less than these amounts because of the statutory limits on insured pensions, but this estimate is not available because it is difficult to prospectively determine the extent and effect of the statutory limitations. These estimates are measured as of December 31 of the previous year (see Note 7). For 2007, this exposure is concentrated in the following sectors: manufacturing; transportation, communication and utilities; services/other; and wholesale and retail trade.

The PBGC estimates that, as of September 30, 2007, it is reasonably possible that multiemployer plans may require future financial assistance of approximately $73 million. As of September 30, 2006 and 2005, these exposures were estimated at approximately $83 million and $418 million, respectively.

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

Total underfunding reported under section 4010 is the current source of individual plan underfunding information; it has accounted for over 75% of the estimates of total underfunding reported in the recent past. Due to the degradation in the quality and reliability of the estimates resulting from the changes to section 4010 reporting requirements including the regulation-driven changes in the Required Interest Rate as well as PPA changes to who must file, the PBGC will no longer publish estimates of total underfunding in the Annual Management Report. However, the Corporation will continue to publish Table S-47, "Various Estimates of Underfunding in PBGC-Insured Plans", in its Pension Insurance Data Book where the limitations of the estimates can be fully and appropriately described.

VIII. Investment Activities

The Corporation's investment assets consist of premium revenues, accounted for in the revolving funds, and assets from terminated plans and their sponsors, accounted for in the trust funds. By law, the 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. Current policy is to invest these revolving funds only in Treasury securities. Total revolving fund investments, including cash and investment income, at September 30, 2007, were approximately $1.0 billion for Fund 1, $1.2 billion for Fund 2, and $12.3 billion for Fund 7. (ERISA also authorized the establishment of additional funds such as Fund 3, 4, 5 & 6 for special purposes that were never utilized by the PBGC). The PBGC uses institutional investment management firms to invest trust fund assets, subject to the PBGC's oversight and consistent with the Corporation's investment policy statement approved by its board.

As of September 30, 2007, the value of the PBGC's total investments in the single-employer and multiemployer programs, including cash and investment income, was approximately $62.6 billion. The revolving fund's value was $14.5 billion and the trust fund's value was $48.1 billion. Cash and fixed-income securities, including securities lending collateral, represented approximately 72% of the total assets invested at the end of FY 2007, compared to 77% at the end of FY 2006. Equity securities at the end of FY 2007 represented approximately 28% of total assets, compared to 23% at the end of FY 2006. A very small portion of the invested portfolio remains in real estate and other financial instruments. During FY 2007, the PBGC continued to diversify its investment portfolio by increasing its allocation to international securities. The total return on investments was 7.2% in 2007, generating $4.76 billion in investment income, compared to 4.2% in 2006. The current investment policy continues the PBGC's investment focus of limiting financial risk exposure by investing the majority of the PBGC's assets in long duration fixed income securities in order to reduce balance sheet volatility. As part of the PBGC's biennial investment policy review process, the PBGC has initiated a complete investment program and policy review. This review is expected to be completed during FY 2008.

The PBGC attempts to approximately match the dollar duration of its assets relative to its liabilities in order to better match the interest rate sensitivity of its liabilities as prescribed by PBGC's current investment policy. The PBGC's trusteed liabilities were 86% matched on a dollar duration basis at the end of FY 2007 compared to 85% matched at the end of FY 2006. Even though the interest rate sensitivity of the PBGC's assets and liabilities were 86% matched in dollar duration terms, the PBGC's ability to limit the volatility of its assets versus its liabilities continues to be significantly affected by fundamental differences between 1) the liability valuation interest factors derived from annuity prices on which the PBGC's liabilities are valued, and 2) the interest rates reflected in the fixed income market which determine the value of the PBGC fixed income assets. In contrast with fixed income prices, annuity prices also reflect the costs of mortality guarantees, administrative and marketing expenses, statutory reserves and surplus requirements, and other expense and profit items. These differences have had and can be expected in the future to have a material impact on the Corporation's ability to approximately match the interest rate risk of its assets and liabilities, despite high levels of dollar duration matching of its assets to its liabilities.

During the fiscal year, the PBGC's return on trusteed liabilities was 0.7%. A positive liability return implies an increase in the present value of PBGC's trusteed liabilities. The PBGC's liability valuation interest factors increased during the year (i.e., the select rate increased from 4.85% on September 30, 2006, to 5.31% on September 30, 2007), causing a decrease in the present value of the liability. This effect on the liability is similar to how a bond price reacts to a change in interest rates. However, the passage of time component of the actuarial charge (similar to coupon income on a bond) more than offset this decrease in the liability due to an increase in the interest factors. The passage of time is the effect on the liability of moving forward in time—there remains less time until each benefit payment is due. This results in an increase in the present value of the PBGC's liabilities because with less time until all benefit payments are due, the present value will be higher. The net result of the decrease to the liability related to changes due to interest factors and increase to the liability due to the passage of time was a small positive increase in the present value of the liability, which is captured in the actuarial charge.

Investment Performance

(Annual Rates of Return)

	September 30 2007	2006	Three and Five Years Ended September 30, 2007: 3 Years	5 Years
PBGC Liability Return*	**0.7%**	9.0%	3.4%	N/A%
Total Invested Funds	**7.2**	4.2	6.8	7.7
Equities	**16.5**	10.7	14.2	16.6
Fixed Income	**3.4**	1.4	3.8	4.2
Trust Funds	**9.5**	6.2	8.6	11.9
Revolving Funds	**2.0**	0.6	3.2	3.7
Indices				
Dow Jones Wilshire 5000	**17.0**	10.4	14.0	16.5
S&P 500 Stock Index	**16.4**	10.8	13.1	15.5
Lehman Long Gov't/Credit	**3.7**	2.6	5.4	7.1
Fixed Income Composite Benchmark**	**3.2**	1.5	3.6	3.9
Global Equity Composite Benchmark***	**17.9**	10.4	14.3	16.7
Total Fund Benchmark****	**7.5**	4.1	6.7	7.6

* The Liability Return represents the percentage change in the value of the PBGC's trusteed liabilities due to changes in PBGC's liability valuation interest factors and the passage of time only, excluding the effect of inflows and outflows during the period.

** The Fixed Income Composite Benchmark is a dynamically weighted benchmark based upon the weights of the PBGC's fixed income managers and the returns of their respective benchmarks.

*** The Global Equity Composite Benchmark is a dynamically weighted benchmark utilizing both the Dow Jones Wilshire 5000 Index and the MSCI All County World ex-U.S. Index.

**** The Total Fund Benchmark is a dynamically weighted benchmark based upon the weights of the equity, fixed income and cash benchmarks.

The 0.7% liability return compares to a total return on the PBGC's total invested funds of 7.2% which resulted in $4.8 billion in investment income. By the end of FY 2007 market rates rose slightly on the long end of the yield curve which had a small negative affect on the PBGC's long duration fixed income portfolio. Nevertheless, the fixed income portfolio earned a positive 3.4% return and contributed $1.8 billion in investment income due to the coupon income generated by the portfolio. Equities returned 16.5%, contributing $3.0 billion, or 63%, of total investment income. PBGC's total invested fund return of 7.2% for the one year period compares to a total fund composite benchmark return of 7.5%. The total invested fund return and total fund benchmark return are weighted average returns representing the asset allocation of the entire investment portfolio.

The PBGC's total investment income of $4.8 billion exceeded the $510 million financial expense (comprised of net actuarial charges plus investment expenses as noted in PBGC's Statements of Operations and Changes in Net Position on page 33). This resulted in a significant FY 2007 financial gain of $4.3 billion. Although market interest rates rose slightly on the long end of the yield curve, they rose substantially less than PBGC's liability valuation interest factors. This difference resulted in the fixed income portfolio earning a significantly different (higher) return than the liabilities in FY 2007 (3.4% versus 0.7%). In addition, equity returns were again significantly positive. The lack of high correlation between the fixed income market based returns of the fixed income investments and the annuity survey based liability returns for the year continues to limit the PBGC's overall ability to minimize the volatility of its assets versus its liabilities, and thus reduce balance sheet volatility for the year.

The PBGC Management Assurances and Internal Controls Program

The PBGC's Internal Controls Program was developed to comply with the Federal Managers' Financial Integrity Act (FMFIA) and Office of Management and Budget (OMB) Circular A-123 requirements. This program and other related activities described below undergird the Interim Director's FMFIA Assurance Statement for FY 2007:

- **FMFIA Assurance Statement Process**
  In support of the PBGC Interim Director's FMFIA Assurance Statement, members of PBGC's executive and senior management prepared and submitted annual assurance statements advising whether internal controls under their areas of responsibility were operating as intended and provided for compliance with FMFIA. For FY 2007, each member of PBGC's executive and senior management provided a positive assurance statement.

- **Internal Control Committee**
  The PBGC Internal Control Committee (ICC) provides corporate oversight and accountability regarding internal

controls over the PBGC operations, financial reporting, and compliance with laws and regulations. Chaired by the Acting Chief Financial Officer, the committee's membership includes members from each major area of the agency, including a member of the PBGC's Office of Inspector General (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 Key Financial Reporting Controls

The PBGC has identified 10 major business process cycles which have a significant impact on the PBGC's financial reporting processes. These include Benefit Payments, Benefit Determinations, Premiums, Investments/Treasury, Losses on Completed and Probable Terminations, Single-Employer Contingent Liability, Non-Recoverable Future Financial Assistance, Budget, Present Value of Future Benefits and Financial Reporting cycles. As of the end of FY 2007, the ICC had approved 147 key controls over financial reporting within these major business cycles. As part of the Internal Control Program, these controls were documented and evaluated for the adequacy of control design, and regularly tested to determine operating effectiveness throughout the year. In addition, the PBGC maintained logs documenting control execution, and provided written representations, on a quarterly basis, regarding the performance of these key controls over financial reporting. As input to the FMFIA assurance statement process, reports were issued to PBGC management representatives and ICC members detailing the results of testing for FY 2007.

Documentation and Testing of Entity-Wide and General IT Controls

The PBGC's Internal Control Committee approved 42 key entity-wide controls which have an overarching impact on the agency's internal control processes as a whole. In addition, the PBGC management identified 34 key General Information Technology (IT) controls to provide an appropriate control environment for the operation of the PBGC computer systems and applications. As part of the Internal Control Program, these controls were documented and tested for the adequacy of control design and operating effectiveness. As input to the FMFIA assurance statement process, reports were issued to PBGC management representatives and ICC members detailing the results of testing for FY 2007.

Assessment of Improper Payment Risk

Consistent with the objectives of the Improper Payments Information Act of 2002, the PBGC conducted a risk assessment (based on guidance issued by OMB) to determine whether any of its programs were considered susceptible to significant improper payments. This risk assessment included an evaluation of selected payment processes, and discussions with and representations from appropriate PBGC management officials. Based on this risk assessment and using OMB thresholds as criteria, the PBGC's benefit payments, premium refunds, payroll and travel disbursements, vendor payments, or other payment processes are not believed to be susceptible to significant improper payment risk.

Audit Follow-up Program

In accordance with the Office of Management and Budget (OMB) Circular A-50, the Corporation has established policies and procedures to assure the efficient resolution and implementation of audit recommendations contained in audit reports issued by the OIG and the Government Accountability Office (GAO). The PBGC works closely with both the OIG and GAO to ensure effective communication about the work needed to address their audit findings and recommendations. To facilitate timely completion and closure of recommendations, the PBGC regularly monitors implementation efforts, including regular distribution of status reports via a corporate-wide portal and formal submission of documentation evidencing completion of required corrective actions.

Compendium of Laws and Regulations

The PBGC maintains a Compendium of Legal Authority which lists laws and other requirements which may have a significant impact on PBGC's financial statements or PBGC operations or processes. This list identifies the applicable requirement, provides a short description, and cites the responsible entity within the PBGC and a point of contact. The PBGC annually updates and distributes this list to PBGC management representatives to promote awareness of and help ensure compliance with legal authority.

Federal Managers' Financial Integrity Act Assurance Statement

In accordance with the Federal Managers' Financial Integrity Act and OMB Circular A-123, the Interim Director's FMFIA Assurance Statement for FY 2007 is as follows:

The 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). The PBGC conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, the PBGC can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2007, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

In addition, the 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, the PBGC can provide reasonable assurance that its internal control over financial reporting as of September 30, 2007, was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

MANAGEMENT REPRESENTATION

The PBGC's management is responsible for the accompanying Statements of Financial Condition of the Single-Employer and Multiemployer Funds as of September 30, 2007 and 2006, the related Statements of Operations and Changes in Net Position and the Statements of Cash Flows for the years then ended. The 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 the PBGC at September 30, 2007, and September 30, 2006, and the results of their 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, the PBGC's accounting systems and internal controls comply with the provisions of the FMFIA.

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, the 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 2007 and 2006 financial statements, and Clifton Gunderson issued an unqualified opinion on those financial statements.

Charles E. F. Millard
Interim Director

Theodore J. Winter, Jr.
Acting Chief Financial Officer

November 8, 2007

The PBGC's commitment to improving the pension insurance program is reflected in its strategic plan. The strategic plan is founded on three principal goals:

1. Safeguard the federal pension insurance system for the benefit of participants, plan sponsors, and other stakeholders;

2. Provide exceptional service to customers and stakeholders; and

3. Exercise effective and efficient stewardship of the PBGC resources.

The PBGC serves a variety of customers and stakeholders with an interest in a strong and effective pension system. They include beneficiaries in terminated pension plans, participants in ongoing pension plans that the PBGC insures, the employers that pay premiums, and the lawmakers and policymakers who oversee the federal insurance program.

The PBGC strategically allocates its resources to programs and activities that support and demonstrate achievement of its mission and goals. The Corporation monitors pension plan activities to mitigate pension risk and examines its service to customers and stakeholders. Performance measures help examine the effectiveness of the PBGC's service improvements and service delivery, which is increasingly provided via Web-based services.

This annual performance report provides information on the PBGC's performance and progress in achieving the strategic goals outlined in the strategic plan. The performance results for FY 2007 are detailed below. These items meet the annual reporting requirement of the Government Performance and Results Act.

Overview of the PBGC's Performance Measures

The PBGC's 2007 performance substantially improved compared to 2006. We:

- Made significant progress in implementing the premium reform provisions of the Pension Protection Act and the Deficit Reduction Act;

- Received a "Moderately Effective" rating in OMB's Program Assessment Rating Tool (PART) review; and

- Achieved nearly all performance measure targets for 2007. A summary of the performance measures, targets, and results are listed in Chart 1.

Chart 1: The PBGC Performance Measures, Targets and Results

Performance Measure	FY 2007 Target	FY 2007 Results	Baseline Results
Goal 1: Safeguard the federal pension insurance system for the benefits of participants, plan sponsors, and other stakeholders			
Implement premium regulations required by the Pension Protection Act (PPA) of 2006 and the Deficit Reduction Act (DRA) of 2005:			
Variable-rate premium (from the PPA)	Issue proposed regulation	Achieved	Not applicable
Flat-rate premium increase (from the DRA)	Issue proposed regulation	Achieved	Not applicable
Termination premium (new) in both the PPA and DRA	Issue proposed regulation	Achieved	Not applicable
Goal 2: Provide exceptional service to customers and stakeholders			
American Customer Satisfaction Index (ACSI) for **premium filers** who contact the PBGC for service	68	70	Baseline result in 2006: 68
ACSI for **retirees** who receive benefits from the PBGC	85	88	Baseline result in 2004: 84
ACSI for **participants** who contact the PBGC for service	80	78	Baseline result in 2001: 73
Goal 3: Exercise effective and efficient stewardship of the PBGC resources			
Administrative cost per participant in plans the PBGC trustees	$195	$196	Baseline result in 2004: $219

The following sections discuss the performance results for each of the PBGC's three strategic goals.

ACHIEVING PERFORMANCE RESULTS

Safeguard the Pension Insurance System for the Benefit of Participants, Plan Sponsors, and Other Stakeholders

The PBGC worked aggressively to implement the premium reform provisions of the Pension Protection Act (PPA) and the Deficit Reduction Act (DRA) that were signed into law in 2006. On February 20, 2007, the PBGC issued proposed regulations that change the flat-rate premium, cap the variable-rate premium, and create a new termination premium. On May 31, 2007, the PBGC issued proposed regulations which change the variable-rate premium for the plan years beginning on or after January 1, 2008. During 2008, the PBGC will publish final regulations and put supporting processes and systems in place.

In 2007, as in previous years, the PBGC engaged in a number of activities to safeguard the pension insurance system, including plan risk assessments, plan monitoring, and negotiation and litigation, to limit risk exposure and losses to pension plan participants and the PBGC. Chart 2 depicts the scale of these activities. In the bankruptcy context in particular, the PBGC seeks to minimize losses from termination of underfunded plans. The PBGC encourages plan sponsors to continue rather than terminate their pension plans. When a plan is terminated, the PBGC pursues recoveries of the underfunding from the plan sponsor and other related companies that are liable.

Chart 2: Safeguarding Activities

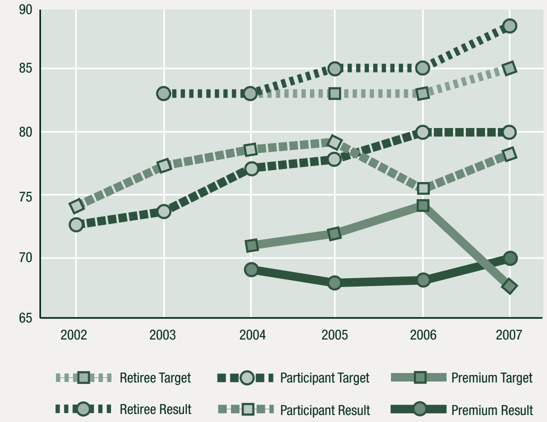
Activity	FY 2007	FY 2006	FY 2005
Controlled Groups Monitored	**2,214**	2,056	1,987
Plans Monitored	**3,630**	3,712	4,152
Bankruptcy Cases	**493**	487	350

Provide Exceptional Service to Customers and Stakeholders

The PBGC ensures its processes are customer-centric by listening to and learning from the citizens it serves. Using the American Customer Satisfaction Index (ACSI), a nationally recognized survey methodology that is used by both federal and private sector entities, the PBGC receives feedback from customers on its service delivery. It uses the feedback to evaluate the effectiveness of services to customers and stakeholders and to identify areas for improvement. Overall survey results for 2007 suggest that the PBGC met or exceeded customer expectations. A graphical presentation of the performance results is shown in Chart 3 and a more detailed discussion follows.

- **Survey of Premium Filers:** The ACSI for premium filers increased from 68 to 70 in 2007 and exceeded the target of 68—a significant achievement for the PBGC as this is the highest score since the survey began in 2002. The increase is primarily due to improved customer perceptions of the PBGC's viability and the health of the defined benefit pension insurance system. As the PBGC implements the pension reforms in PPA and mandatory electronic premium filing for all plans, sustaining the quality of service to which the PBGC's customers are accustomed is paramount. Therefore, in 2008, the PBGC will focus on 1) the new Premium and Practitioner System, which is expected to improve timeliness and accuracy of services to practitioners; and 2) assisting practitioners in their transition to premium e-filing.

Chart 3: Customer Satisfaction Survey Results FY 2002-2007



- **Survey of Retirees Receiving the PBGC Benefit Payments and Other Participants:** The 2007 ACSI for retirees receiving monthly benefit payments from the PBGC was 88, representing a three-point increase and surpassing both the 2006 results and the 2007 target of 85. Results indicate that customers are satisfied with the delivery of their benefits at a regular time each month and the efficiency of the benefit payment process. The 2007 ACSI survey of participant callers showed an improvement of three points, from 75 to 78. The target for 2007 was 80. Participants scored the PBGC higher in responsiveness and accuracy of concern resolution, timeliness of issuing benefit estimates, and ability to meet expectations. In 2008, the PBGC will focus on sustaining the current levels of satisfaction while increasing efficiency with more streamlined processing, and increasing accountability with performance-based contracting (e.g. Customer Contact Center, Field Benefit Administration offices).

Exercise Efficient and Effective Stewardship of the PBGC Resources

The PBGC strives to manage its resources efficiently and effectively. Performance targets are aligned with the PBGC's strategic goals to achieve desired results. The PBGC continued to focus on sustaining achievements in the President's Management Agenda objectives and pursuing business practices that promote organizational excellence. At the end of 2007, the PBGC's cost per participant in trusteed plans was $196, down from $203 in 2006. The benefit administration budget decreased slightly as the number of participants increased in FY 2007.

Another key area of PBGC's stewardship is the evaluation or performance assessment of the Corporation's investment program. One of PBGC's most fundamental operational objectives is to ensure that funds are available to fulfill the Corporation's obligations. PBGC generated a 7.2 percent return on total invested funds for FY 2007 compared to a liability return of 0.7 percent and compared to the Corporation's total fund benchmark return of 7.5 percent. The total fund return and total fund benchmark return are weighted average returns representing the asset allocation of the entire investment portfolio. That allocation is currently approximately 70% to fixed income. 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, 2007, PBGC's return on total fund investments was 7.7 percent compared to a total fund benchmark return of 7.6 percent.

The Pension Protection Act of 2006 requires the PBGC to estimate the effect of an asset allocation based on a combination of two commonly used market benchmarks. This portfolio with a 60 percent allocation to the Standard & Poor's 500 equity index and a 40 percent allocation to the Lehman Brothers Aggregate fixed income index, while presenting a different risk-return profile than PBGC's current allocation, would have increased the assets of the Corporation by approximately $2.3 billion (11.9% return compared to PBGC's actual return of 7.2%) for the one-year period ending September 30, 2007 and $7.3 billion (11.0% return compared to PBGC's actual return of 7.7%) over the five-year period ending September 30, 2007. For further analysis of PBGC's Investment Activities please refer to page 21. As reported in last year's FY 2006 Annual Report the same "60/40 portfolio" would have increased the assets of the Corporation by approximately $1.8 billion (7.9% return compared to PBGC's actual return of 4.2%) for the one-year period and $300 million (6.4% return compared to PBGC's actual return of 6.7%) for the five-year period ending FY 2006. These results are summarized in the following table.

60/40 Hypothetical Portfolio Analysis versus PBGC Actual Return (60/40 is comprised of S&P 500/Lehman Aggregate)

	1 Year Period Ending			5 Year Period Ending		
Fiscal Year	60/40 Incremental $ Billions	60/40 % Return	PBGC Actual Return	60/40 Incremental $ Billions	60/40 % Return	PBGC Actual Return
9/30/2007	$2.3	11.9%	7.2%	$7.3	11.0%	7.7%
9/30/2006	$1.8	7.9%	4.2%	$0.3	6.4%	6.7%

President's Management Agenda

Incorporating the principles of the President's Management Agenda into its strategic planning process demonstrates that the PBGC is focused on delivering services to customers and having a results-oriented, performance-based organization. To that end, the PBGC achieved the following in 2007:

- **Strategic Management of Human Capital:** The PBGC focused its human capital initiatives in four major areas:

  - improving the quality and timeliness of human resources services to internal and external customers;
  - linking employees' performance plans to corporate goals and objectives;
  - evaluating its succession management program; and
  - ensuring employees have the skills and competencies needed to support the mission.

  The PBGC met the OPM 45-day hiring model of filling 50 percent of vacant positions in 45 days or less. In fact, the PBGC exceeded the target by filling 65 percent of its positions in that time frame. The PBGC continued its multi-year effort to align employee performance agreements to corporate goals. Building on its previous work to align managers' and supervisors' performance agreements, the PBGC initiated a pilot for the remainder of the workforce.

  The PBGC ranked among the top ten small agencies on the 2007 *Best Places to Work* survey, which provides a comprehensive look at employee engagement in the federal government. The ranking is based on the responses of the PBGC employees to OPM's Federal Human Capital Survey, which captured the opinions of more than 221,000 federal employees. Employees scored the PBGC particularly high on questions in three survey areas: 1) recommendation as a good place to work, 2) job satisfaction, and 3) satisfaction with the organization.

- **Competitive Sourcing:** The PBGC has been a government leader in outsourcing certain of its services that can be categorized as commercial. The PBGC contracts with private-sector entities for a wide variety of support functions, such as financial advice, benefit administration, information technology, actuarial services, office services, and legal services. The PBGC relies heavily on contracting out to meet its workload challenges, and is shifting, wherever appropriate, to fixed-price and performance-based agreements. This heavy reliance on contractors does present major management challenges. In response to a recent trend analysis report, the PBGC is taking action to reduce questioned costs, improve procurement policies and training, and strengthen contractor oversight.

- **Improved Financial Management:** For the 15th consecutive year the PBGC received an unqualified audit opinion from its independent financial auditor. A key component of the financial management structure at the PBGC is an active internal controls program. For the fourth consecutive year the PBGC received an unqualified opinion on management's assertion regarding the effectiveness of internal controls. Substantial efforts were made to address the four significant deficiencies (formerly reportable conditions) that existed at the end of FY 2006. As a result of the PBGC's progress, one was closed and a second is no longer viewed separately, but instead has been included as part of another deficiency. The PBGC's interdepartmental Internal Controls Committee oversaw the documentation and testing of key internal control activities, including testing of financial reporting controls, general information technology controls, and entity-wide controls. The testing helps management to support the "Federal Managers Financial Integrity Act" assertion that the PBGC has an effective internal control system.

- **Expanded Electronic Government:** In 2007, the PBGC continued to provide readily accessible services to customers online, using My Pension Benefit Account (My PBA) for participants and My Plan Administration Account (My PAA) for pension plan administrators. The PBGC monitors customer satisfaction with these Web-based services using ACSI. The 2007 survey results show that participants scored My PBA at 79, specifically expressing satisfaction with the *search, navigation, tasks, and transactions* features. Premium filers scored My PAA services at 76, expressing satisfaction with *navigation, functionality, tasks, and transactions* features. Both scores compare favorably with other government e-commerce and transaction Web sites. The ACSI score for the PBGC.gov Web site is 62. The score for the previous year was 72, using a slightly different sampling methodology. The PBGC is exploring ways to improve the Web site.

Additionally, the PBGC enhanced roles and responsibilities for risk management and information security that resulted in an improved strategy to implement an effective entity-wide security program.

- **Performance Improvement:** The PBGC demonstrated its commitment to aligning the organization to achieve its mission and performance goals by implementing a new structured corporate planning process that culminated in a FY 2009 performance based administrative budget.

Program Evaluation

- The Government Accountability Office's reviews of the PBGC in 2007 found that:
  - the PBGC's governance structure needs improvement to ensure policy direction and oversight;
  - conflicts of interest on the part of pension consultants involving high risk or terminated plans pose enforcement challenges for the PBGC, Employee Benefits Security Administration, and Securities Exchange Commission; and
  - PPA did not fully close potential funding gaps and, therefore, its impact on the deficit is unclear.

Efforts are underway to address these findings.

- On its second Program Assessment Rating Tool (PART) review, completed by the Office of Management and Budget in 2007, the PBGC's program was again rated "moderately effective", with a score of 70. The assessment showed that the PBGC had made improvements since the 2004 PART, namely by supporting the Administration in enacting major pension reform legislation to strengthen pension plan funding rules and shore up the pension insurance system. The 2007 assessment demonstrated improved efficiency and effectiveness in serving plan participants, retirees, and premium filers.

- The PBGC uses the American Customer Satisfaction Index survey methodology to receive feedback from its customers. The ACSI methodology scores on a 0-100 scale and produces indices for 10 economic sectors and 43 industries, including private and governmental entities. The ACSI provides a means for the PBGC to compare its results with those of other government and private organizations, to identify areas of high value to our customers, and to benchmark best practices. Evaluation of the survey responses results in the PBGC targeting its resources for service innovation and process improvements that benefit the PBGC customer.

- In fiscal year 2007, the PBGC's Office of Inspector General (OIG) conducted 14 audits and evaluations of the PBGC's major management challenges. Reports included the annual audit of the PBGC financial statements, a trend analysis of procurement activities and contractor oversight, and a review that found alternatives for reducing the PBGC's costs for the multiemployer program. Overall, the PBGC management has taken significant steps to address the issues noted in the OIG's reports and welcomed the OIG's suggestions for cost savings and more efficient and effective operations.

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

Office of the Chief Financial Officer

Chief Financial Officer's Letter

Progress in Addressing Challenges

As a Significant Entity included in the *Financial Report of the United States Government* and given the important role the PBGC plays in protecting America's pensions, the PBGC is committed to accurate financial reporting and maintaining a strong internal control environment, therefore, I am very pleased to report that the PBGC has again received an unqualified opinion on its financial statements and on PBGC management's assertion that PBGC's internal controls are effective.

Over the past year, the PBGC made significant improvements with respect to two of the issues raised in last years' internal control report. Specifically, the Facilities and Services Department (FASD), working in concert with the Office of Information Technology (OIT) and other PBGC departments, redesigned the PBGC continuity of operations plans, including required contingency plans, and repeatedly tested those plans to help ensure their effectiveness. Also, the Financial Operations Department (FOD) significantly improved the overall quality of premium data within the Premium Accounting System such that the billing and suspended transaction backlogs have been resolved. As a result of these issues being addressed, the remaining elements of the reportable condition (now referred to as significant deficiencies) regarding controls over single-employer premiums were combined under a pre-existing reportable condition (integrated financial management systems).

Work remains to be done with regard to:

> **Integrated Financial Management Systems:** At the beginning of the fiscal year, FOD successfully implemented the Consolidated Financial System (CFS), utilizing Oracle Financials, a commercial off-the-shelf financial software package. This new system consolidated three general ledger systems and our budget control and administrative payments system into a single integrated environment. We will take another major step in FY 2008 by integrating CFS with the new Premium and Practitioner System which will replace the existing Premium Accounting System.
>
> **Systems Security:** While OIT and other supporting departments made progress in this area over the past year, to include completion of the certification and accreditation (C&A) of CFS, additional work is still necessary. This work will represent a corporate-wide effort focusing on two specific areas where significant deficiencies were noted for this year: 1) inconsistent remediation on agency-wide basis and deficiencies in the areas of security program management, including policy administration and the certification and accreditation of major applications and general support systems; 2) deficiencies in system configurations and user account management across many of PBGC's systems. To correct these deficiencies, OIT designed a comprehensive information security program which is currently being implemented. Additional work includes role-based training across the PBGC to effect security policies; assignment of the roles and responsibilities for security within the business units owning the information systems (major applications and general support systems); implementation of consistent controls to restrict access to information and information systems; completion of the C&A of major applications and general support systems, four of which have already been initiated; and central management of plans of actions and milestones to ensure effective and efficient remediation of security issues. Also, PBGC management has identified staff with significant security responsibilities for role-based training.

While the remaining significant deficiencies represent major challenges to the Corporation, the PBGC will continue to expend the resources to see to their complete and timely resolution.

Theodore J. Winter, Jr.
Acting Chief Financial Officer

Pension Benefit Guaranty Corporation
Statements of Financial Condition

(Dollars in millions)	Single-Employer Program September 30, 2007	2006	Multiemployer Program September 30, 2007	2006	Memorandum Total September 30, 2007	2006
ASSETS						
Cash and cash equivalents	**$ 2,201**	$ 1,999	**$ 7**	$ 5	**$ 2,208**	$ 2,004
Securities lending collateral (Note 3)	**5,045**	6,491	**0**	0	**5,045**	6,491
Investments, at market (Note 3):						
Fixed maturity securities	**36,450**	35,503	**1,189**	1,159	**37,639**	36,662
Equity securities	**17,386**	13,730	**0**	0	**17,386**	13,730
Real estate and real estate investment trusts	**3**	4	**0**	0	**3**	4
Other	**37**	1	**0**	0	**37**	1
Total investments	**53,876**	49,238	**1,189**	1,159	**55,065**	50,397
Receivables, net:						
Sponsors of terminated plans	**68**	130	**0**	0	**68**	130
Premiums (Note 9)	**151**	374	**1**	1	**152**	375
Sale of securities	**5,571**	1,440	**0**	0	**5,571**	1,440
Investment income	**286**	259	**0**	1	**286**	260
Other	**2**	3	**0**	0	**2**	3
Total receivables	**6,078**	2,206	**1**	2	**6,079**	2,208
Capitalized assets, net	**41**	38	**0**	0	**41**	38
Total assets	**$ 67,241**	$ 59,972	**$1,197**	$1,166	**$ 68,438**	$ 61,138
LIABILITIES						
Present value of future benefits, net (Note 4):						
Trusteed plans	**$ 65,096**	$ 63,949	**$ 2**	$ 2	**$ 65,098**	$ 63,951
Plans pending termination and trusteeship	**298**	277	**0**	0	**298**	277
Settlements and judgments	**55**	55	**0**	0	**55**	55
Claims for probable terminations	**3,786**	4,862	**0**	0	**3,786**	4,862
Total present value of future benefits, net	**69,235**	69,143	**2**	2	**69,237**	69,145
Present value of nonrecoverable future financial assistance (Note 5)			**2,124**	1,876	**2,124**	1,876
Payable upon return of securities loaned	**5,045**	6,491	**0**	0	**5,045**	6,491
Unearned premiums	**302**	298	**26**	27	**328**	325
Due for purchases of securities	**5,659**	2,089	**0**	0	**5,659**	2,089
Accounts payable and accrued expenses (Note 6)	**111**	93	**0**	0	**111**	93
Total liabilities	**80,352**	78,114	**2,152**	1,905	**82,504**	80,019
Net position	**(13,111)**	(18,142)	**(955)**	(739)	**(14,066)**	(18,881)
Total liabilities and net position	**$ 67,241**	$ 59,972	**$1,197**	$1,166	**$ 68,438**	$ 61,138

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

Pension Benefit Guaranty Corporation Statements of Operations and Changes in Net Position

(Dollars in millions)	Single-Employer Program For the Years Ended September 30, **2007**	2006	Multiemployer Program For the Years Ended September 30, **2007**	2006	Memorandum Total For the Years Ended September 30, **2007**	2006
UNDERWRITING:						
Income:						
Premium (Note 9)	**$ 1,476**	$ 1,442	**$ 81**	$ 58	**$ 1,557**	$ 1,500
Other	**55**	79	**0**	0	**55**	79
Total	**1,531**	1,521	**81**	58	**1,612**	1,579
Expenses:						
Administrative	**328**	352	**0**	0	**328**	352
Other	**114**	2	**1**	0	**115**	2
Total	**442**	354	**1**	0	**443**	354
Other underwriting activity:						
Losses (credits) from completed and probable terminations (Note 10)	**399**	(6,155)	**0**	0	**399**	(6,155)
Losses from financial assistance (Note 5)			**319**	461	**319**	461
Actuarial adjustments (Note 4)	**(114)**	(424)	**0**	0	**(114)**	(424)
Total	**285**	(6,579)	**319**	461	**604**	(6,118)
Underwriting gain (loss)	**804**	7,746	**(239)**	(403)	**565**	7,343
FINANCIAL:						
Investment income (Note 11):						
Fixed	**1,730**	394	**23**	(1)	**1,753**	393
Equity	**2,988**	1,793	**0**	0	**2,988**	1,793
Other	**19**	(3)	**0**	0	**19**	(3)
Total	**4,737**	2,184	**23**	(1)	**4,760**	2,183
Expenses:						
Investment	**50**	53	**0**	0	**50**	53
Actuarial charges (credits) (Note 4):						
Due to passage of time	**3,269**	3,206	**0**	0	**3,269**	3,206
Due to change in interest rates	**(2,809)**	2,037	**0**	0	**(2,809)**	2,037
Total	**510**	5,296	**0**	0	**510**	5,296
Financial income (loss)	**4,227**	(3,112)	**23**	(1)	**4,250**	(3,113)
Net income (loss)	**5,031**	4,634	**(216)**	(404)	**4,815**	4,230
Net position, beginning of year	**(18,142)**	(22,776)	**(739)**	(335)	**(18,881)**	(23,111)
Net position, end of year	**$(13,111)**	$(18,142)	**$(955)**	$(739)	**$(14,066)**	$(18,881)

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

Pension Benefit Guaranty Corporation
Statements of Cash Flows

(Dollars in millions)	Single-Employer Program For the Years Ended September 30, **2007**	2006	Multiemployer Program For the Years Ended September 30, **2007**	2006	Memorandum Total For the Years Ended September 30, **2007**	2006
OPERATING ACTIVITIES:						
Premium receipts	**$ 1,598**	$ 1,579	**$ 81**	$ 76	**$ 1,679**	$ 1,655
Interest and dividends received, net	**1,408**	1,689	**7**	44	**1,415**	1,733
Cash received from plans upon trusteeship	**165**	75	**0**	0	**165**	75
Receipts from sponsors/non-sponsors	**345**	884	**0**	0	**345**	884
Receipts from the missing participant program	**3**	7	**0**	0	**3**	7
Other receipts	**3**	9	**0**	0	**3**	9
Benefit payments—trusteed plans	**(4,170)**	(4,006)	**0**	0	**(4,170)**	(4,006)
Financial assistance payments			**(71)**	(70)	**(71)**	(70)
Settlements and judgments	**(2)**	(3)	**0**	0	**(2)**	(3)
Payments for administrative and other expenses	**(377)**	(373)	**0**	0	**(377)**	(373)
Net cash provided (used) by operating activities (Note 13)	**(1,027)**	(139)	**17**	50	**(1,010)**	(89)
INVESTING ACTIVITIES:						
Proceeds from sales of investments	**123,680**	90,261	**1,978**	2,119	**125,658**	92,380
Payments for purchases of investments	**(122,451)**	(90,073)	**(1,993)**	(2,177)	**(124,444)**	(92,250)
Net change in investment of securities lending collateral	**(1,446)**	(448)	**0**	0	**(1,446)**	(448)
Net change in securities lending payable	**1,446**	448	**0**	0	**1,446**	448
Net cash provided (used) by investing activities	**1,229**	188	**(15)**	(58)	**1,214**	130
Net increase (decrease) in cash and cash equivalents	**202**	49	**2**	(8)	**204**	41
Cash and cash equivalents, beginning of year	**1,999**	1,950	**5**	13	**2,004**	1,963
Cash and cash equivalents, end of year	**$ 2,201**	$ 1,999	**$ 7**	$ 5	**$ 2,208**	$ 2,004

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

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007 AND 2006

Note 1 — Organization and Purpose

The Pension Benefit Guaranty Corporation (The 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 the PBGC programs be self-financing. ERISA provides that the U.S. Government is not liable for any obligation or liability incurred by the PBGC.

For financial statement purposes, the PBGC divides its business activity into two broad areas—"Underwriting Activity" and "Financial Activity"—covering both single-employer and multiemployer program segments. The 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 the PBGC's assets and liabilities. The PBGC's assets consist of premiums collected from defined benefit plan sponsors, assets from distress or involuntarily terminated plans that the PBGC has insured, and recoveries from the former sponsors of those terminated plans. The PBGC's future benefit liabilities consist of those future benefits, under statutory limits, that the PBGC has assumed following distress or involuntary terminations. Gains and losses on the PBGC's investments and changes in the value of the 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, 2007, the single-employer and multiemployer programs reported deficits of $13.1 billion and $955 million, respectively. The single-employer program had assets of over $67.2 billion which is offset by total liabilities of $80.4 billion, which include a total present value of future benefits (PVFB) of approximately $69.2 billion. As of September 30, 2007, the multiemployer program had assets of approximately $1.2 billion offset by approximately $2.1 billion in present value of nonrecoverable future financial assistance.

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

Single-Employer and Multiemployer Program Exposure

Measures of risk in the PBGC's insured base of plan sponsors suggest that the single-employer deficit may begin to abate in the short term. The PBGC's best estimate of the total underfunding in plans sponsored by companies with credit ratings below investment grade, and classified by the PBGC as reasonably possible of termination as of September 30, 2007, was $66 billion. The comparable estimates of reasonably possible exposure for 2006 and 2005 were $73 billion and $108 billion, respectively. These estimates are measured as of December 31 of the previous year (see Note 7). For 2007, this exposure is concentrated in the following sectors: manufacturing; transportation, communication and utilities; services/other; and wholesale and retail trade.

The PBGC estimates that, as of September 30, 2007, it is reasonably possible that multiemployer plans may require future financial assistance in the amount of $73 million. As of September 30, 2006 and 2005, these exposures were estimated at $83 million and $418 million, respectively.

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

Total underfunding reported under section 4010 is the current source of individual plan underfunding information; it has accounted for over 75% of the estimates of total underfunding reported in the recent past. Due to the degradation in the quality and reliability of the estimates resulting from the changes to section 4010 reporting requirements including the regulation-driven changes in the Required Interest Rate as well as PPA changes to who must file, the PBGC will no longer publish estimates of total underfunding in the Annual Management Report. However, the Corporation will continue to publish Table S-47, "Various Estimates of Underfunding in PBGC-Insured Plans", in its Pension Insurance Data Book where the limitations of the estimates can be fully and appropriately described.

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

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.

Valuation Method: A primary objective of the PBGC's financial statements is to provide information that is useful in assessing the PBGC's present and future ability to ensure that its plan beneficiaries receive benefits when due. Accordingly, the PBGC values its financial assets at estimated fair value, consistent with the standards for pension plans contained in Statement of Financial Accounting Standards (FAS) No. 35 ("Accounting and Reporting by Defined Benefit Pension Plans"). The 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 Paragraph 21 of FAS No. 35, 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 Paragraph 21 of FAS No. 35, the PBGC selects assumptions for expected retirement ages and the cost of administrative expenses in accordance with its best estimate of anticipated experience.

Revolving and Trust Funds: The 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. The PBGC presents totals that include 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, the 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 trusteed 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 the 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) the PBGC assumes (or expects to assume) once a terminated plan has been trusteed, and related investment income. These assets generally are held by custodian banks. The trust funds support the operational functions of the PBGC.

The trust funds reflect accounting activity associated with: (1) trusteed plans—plans for which the PBGC has legal responsibility—the assets and liabilities are reflected separately on the 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 the 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 the PBGC determines are likely to terminate and be trusteed by the 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. The PBGC cannot exercise legal control over a plan's assets until it becomes trustee.

Allocation of Revolving and Trust Funds: The PBGC allocates assets, liabilities, income and expenses to each program's 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. Revolving fund assets and liabilities are allocated on the basis of the year-end equity of each program's revolving funds. Plan assets acquired by the PBGC and commingled at the 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 securities with a maturity of one business day.

Securities Lending Collateral: The 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. In addition to the lending program managed by the custodian bank, some of the PBGC's investment managers are authorized to invest in repurchase 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 reverse repurchase agreements. The manager either receives cash as collateral or pays cash out to be used as collateral. Any cash collateral received is invested.

Investment Valuation and Income: The 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, the PBGC invests in and discloses its derivative investments in accordance with the guidance contained in FAS No. 133 ("Accounting for Derivative Instruments and Hedging Activities"), as amended. 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. The 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 the PBGC.

Sponsors of Terminated Plans, Receivables: 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. The PBGC discounts any amounts expected to be received beyond one year for time and risk factors. Some agreements between the 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 the 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 the PBGC's fiscal year-end. Premium income represents actual and estimated revenue generated from self-assessments from defined benefit pension plans as required by Title IV of ERISA (see Note 9).

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 the PBGC is or will be obligated to pay the participants of trusteed plans and the net liability for plans pending termination and trusteeship. The PVFB liability (including trusteed 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. The 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). The 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). The PBGC also includes anticipated expenses to settle the benefit obligation in the determination of the PVFB. The PBGC's benefit payments to participants reduces 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 the PBGC's financial statements (see Note 4).

(1) Trusteed 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 trusteed by the PBGC prior to fiscal year-end. Assets are shown separately from liabilities for trusteed 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 trusteed 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 Statement of Financial Accounting Standards No. 5 (Accounting for Contingencies) the PBGC recognizes net claims for probable terminations which represent the 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 within twelve months of the financial statement issuance date. These estimated losses are based on conditions that existed as of the PBGC's fiscal year-end. Management believes it is likely that one or more events subsequent to the 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; or the PBGC seeks involuntary plan 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 (triangulation method) (see Note 4). For FY 2007, a comparable reserve for large unidentified probable losses was discontinued due to PBGC's comprehensive probables identification process.

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

(6) In accordance with Statement of Financial Accounting Standards No. 5 (Accounting for Contingencies), the 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 (IRS); sponsor missed minimum funding contribution; sponsor's bond rating is below-investment-grade for Standard & Poor's (BB+) or Moody's (Ba1); sponsor has no bond rating but unsecured debt is below investment grade; or sponsor has no bond rating but the ratio of long-term debt plus unfunded benefit liability to market value of shares is 1.5 or greater (see Note 7).

Present Value of Nonrecoverable Future Financial Assistance: In accordance with Title IV of ERISA, the 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 the 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 5).

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, the PBGC analyzes insured multiemployer plans to identify those plans that are at risk of becoming claims on the insurance program. Regulatory filings with the 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 the PBGC. In general, if a terminated plan's assets are less than the present value of its liabilities, the PBGC considers the plan a probable risk of requiring financial assistance in the future. During FY 2007, eleven underfunded multiemployer plans terminated, and thus the PBGC recorded a loss representing the present value of estimated future financial assistance payments to those plans.

The 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, the PBGC examines plans that are chronically underfunded, have poor cash flow trends, a falling contribution base, and plans 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 able maintain the plan.

Other Expenses: These expenses represent an estimate of the net amount of receivables deemed to be uncollectible during the period (e.g., reserve for disputed or doubtful termination premiums, write-off of unpaid premiums from recent large plan terminations). 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 the PBGC, less related plan assets and the present value of expected recoveries from sponsors and members of their controlled group (see Note 10). 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 the 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 the PBGC's inventory of terminated plans.

Actuarial Adjustments and Charges (Credits): The PBGC classifies actuarial adjustments related to 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 4).

Depreciation and Amortization: The PBGC calculates depreciation on the straight-line basis over estimated useful lives of 5 years for equipment and 10 years for furniture and fixtures. The 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.

Note 3 — Investments

Premium receipts are invested through the revolving fund in U.S. Treasury securities. The trust funds include assets the 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. The 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 the 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 the 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.

As the table below illustrates, the market value of investments of the single-employer program increased significantly from September 30, 2006, to September 30, 2007.

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

	September 30, 2007		September 30, 2006	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	**$ 17,658**	**$ 17,558**	$ 20,195	$ 19,838
Commercial paper	**1,188**	**1,188**	1,591	1,591
Asset backed securities	**4,544**	**4,494**	3,714	3,692
Corporate and other bonds	**13,250**	**13,210**	10,516	10,382
Subtotal	**36,640**	**36,450**	36,016	35,503
Equity securities	**10,729**	**17,386**	9,127	13,730
Real estate and real estate investment trusts	**4**	**3**	6	4
Insurance contracts and other investments	**45**	**37**	12	1
Total *	**$ 47,418**	**$ 53,876**	$ 45,161	$ 49,238

* This includes securities on loan at September 30, 2007 and September 30, 2006, with a market value of $4.939 billion and $6.352 billion, respectively.

INVESTMENTS OF MULTIEMPLOYER REVOLVING FUNDS AND MULTIEMPLOYER TRUSTEED PLANS

	September 30, 2007		September 30, 2006	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	**$ 1,199**	**$ 1,189**	$ 1,191	$ 1,159
Equity securities	**0**	**0**	0	0
Total	**$ 1,199**	**$ 1,189**	$ 1,191	$ 1,159

INVESTMENT PROFILE

	September 30,	
	2007	2006
Fixed Income Assets		
Average Quality	**AA**	AA
Average Maturity (years)	**16.7**	18.6
Duration (years)	**13.4**	13.9
Yield to Maturity (%)	**5.4**	5.3
Equity Assets		
Average Price/Earnings Ratio	**18.3**	18.7
Dividend Yield (%)	**1.8**	1.7
Beta	**1.03**	1.02

In addition, the PBGC's trusteed liability return was 0.7% and the duration (years) of these liabilities was 9.6 at the end of 2007.

Derivative Instruments: Derivatives are accounted for at market value in accordance with the Statement of Financial Accounting Standards No. 133, as amended. Derivatives are marked to market with changes in value reported within financial income. These instruments are used to (1) mitigate risk (e.g., adjust duration or currency exposures), (2) enhance investment returns, and/or (3) as liquid and cost efficient substitutes for positions in physical securities. The standard requires disclosure of fair value on these instruments. During fiscal years 2006 and 2007, the PBGC invested in investment products that used various U.S. and non-U.S. derivative instruments including but not limited to: money market, futures, options, government bond futures, forward contracts, interest rate and credit default 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 the PBGC's non-exchange-traded derivative contracts are major financial institutions. The PBGC monitors its counterparty risk and has never experienced non-performance by any of its counterparties.

A futures contract is an agreement between a buyer or seller and an established futures exchange or 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 exchange clearinghouses clear, settle, and guarantee transactions occurring through its 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. The PBGC maintains adequate liquidity in its portfolio to meet these margin calls. Futures contracts are valued at the most recent settlement price.

The PBGC also invests in forward contracts. A bond forward is an agreement whereby the short position agrees to deliver pre-specified bonds to the long at a set price and within a certain time window. A forward foreign currency exchange contract is a commitment to purchase or sell a foreign currency at the settlement date at a negotiated rate. Foreign currency forward 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 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 two major forms of swaps traded are interest rate swaps and credit default swaps. The PBGC uses swap and swaption contracts to adjust exposure to interest rates, fixed income securities exposure, credit exposure, and to generate income based on the investment views of the portfolio managers regarding interest rates, indices and debt 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.

A credit default swap is a contract between a buyer and seller of protection against a pre-defined credit event. The portfolio 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.

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 the PBGC to purchase securities at a stipulated price within a specified time limit.

For the fiscal years ended September 30, 2007 and 2006, respectively, gains and losses from settled margin calls are reported in Investment income on the Statements of Operations and Changes in Net Position.

During FY 2007, PBGC's investment managers increased their utilization of derivative instruments. Changing market conditions in FY 2007, such as the significant increase in market volatility and the substantial decrease in market liquidity, created an environment in which derivative instruments represented a more cost efficient means for implementing portfolio strategies than in FY 2006.

The following table summarizes the notional amounts and fair market values (FMV) of derivative financial instruments held or issued for trading as of September 30, 2007, and September 30, 2006. FY 2006 notional amounts for swaps and options have been revised. The notional (contractual) amount is used for computing the size of interest payments for swap agreements. It is not an amount actually at risk, nor is it an amount that is actually exchanged. Instead, it provides a basis for computing interest flows. These amounts have no impact on assets, liabilities or net position.

Securities Lending: The 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 collateral from the borrower that equals 102 percent to 105 percent of the securities lent. The collateral is held by the custodian bank. In addition to the lending program managed by the custodian bank, some of the PBGC's investment managers are authorized to invest in repurchase agreements and reverse repurchase agreements. The manager either receives cash as collateral or pays cash out to be used as collateral. Any cash collateral received is invested. The total value of securities on loan at September 30, 2007, and September 30, 2006, was $4.939 billion and $6.352 billion, respectively. Although securities on loan have decreased since September 30, 2006, there continues to be an ongoing demand for fixed income securities to lend.

The amount of cash collateral received for these loaned securities was $5.045 billion at September 30, 2007, and $6.491 billion at September 30, 2006. These amounts are recorded as assets and are offset with a corresponding liability. The PBGC had earned income from securities lending of $6.2 million as of September 30, 2007 and $5.2 million as of September 30, 2006. 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, 2007, the PBGC loaned out $4.939 billion in securities of approximately $18.210 billion of securities available for securities lending. At September 30, 2006, securities lending collateral was included in "Cash and cash equivalents"; beginning in FY 2007 securities lending collateral is shown separately on the Statements of Financial Condition. This change had no effect on net position.

Of the $4.939 billion market value of securities on loan at September 30, 2007, approximately 86% are invested in U.S. government securities and 13% in U.S. corporate securities.

DERIVATIVE CONTRACTS

	September 30, 2007		September 30, 2006	
(Dollars in millions)	**Notional**	**FMV**	Notional	FMV
Forwards	**$ 765**	**$ (3)**	$ 685	$ 2
Futures				
Contracts in a receivable position	**9,380**	**3**	2,940	0
Contracts in a payable position	**6,869**	**(14)**	7,970	(6)
Total futures	**16,249**	**(11)**	10,910	(6)
Swap agreements				
Interest rate swaps	**10,352**	**(76)**	3,116	(18)
Credit default swaps	**2,063**	**33**	130	7
Total swap agreements	**12,415**	**(43)**	3,246	(11)
Options purchased (long)	**6,425**	**76**	463	17
Options written (sold short)	**2,338**	**(49)**	704	(19)
Forwards—foreign exchange	**1,505**	**11**	1,767	1

Note 4 — 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, 2007 and 2006.

For FY 2007, the PBGC used a 20-year select interest factor of 5.31% followed by an ultimate factor of 4.88% for the remaining years. In FY 2006, the PBGC used a 25-year select interest factor of 4.85% followed by an ultimate factor of 4.82% 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.

For FY 2005, the surveys of annuity prices were used in conjunction with a Moody's bond index, averaged over the last five days of each month. Beginning in FY 2006, a Lehman's bond index is used instead; this index is as of only the last day of the month, and is applied to both the select and ultimate factors instead of the select factor only as had been prior practice. Finally, 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. For FY 2005 and prior years, the select factor was rounded to ten basis points, and the ultimate factor was rounded to 25 basis points.

For September 30, 2007, the PBGC used the 1994 Group Annuity Mortality (GAM) 94 Static Table (with margins), set forward one year and projected 23 years to 2017 using Scale AA. For September 30, 2006, the PBGC used the same table set forward one year, projected 22 years to 2016 using scale AA. The number of years that the PBGC projects the mortality table reflects the number of years from the 1994 base year of the table to the end of the fiscal year (13 years in 2007 versus 12 years in 2006) plus the PBGC's calculated duration of its liabilities (10 years in both 2007 and 2006). The PBGC's procedure is based on the procedures recommended by the Society of Actuaries UP-94 Task Force (which developed the GAM94 table) for taking into account future mortality improvements.

The PBGC continues to utilize the results of its 2004 mortality study. The study showed that the mortality assumptions used in FY 2003 reflected higher mortality than was realized in the PBGC's seriatim population. Therefore, the PBGC adopted a base mortality table (i.e., GAM94 set forward one year instead of GAM94 set forward two years) that better reflects past mortality experience. The ACLI survey of annuity prices, when combined with the mortality table, provides the basis for determining the interest factors used in calculating the PVFB. The insurance annuity prices, when combined with the stronger mortality table, result in a higher interest factor.

The reserve for administrative expenses in the 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 for FY 2007 has changed to 1.37 percent. 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 trusteed multiemployer plans for 2007 and 2006 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 the 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, 2007 AND 2006

	September 30,			
(Dollars in millions)	**2007**		2006	
Present value of future benefits, at beginning of year — Single-Employer, net		**$ 69,143**		$ 69,737
Estimated recoveries, prior year		**62**		343
Assets of terminated plans pending trusteeship, net, prior year		**282**		3,039
Present value of future benefits at beginning of year, gross		**69,487**		73,119
Settlements and judgments, prior year		**(55)**		(58)
Net claims for probable terminations, prior year		**(4,862)**		(10,470)
Actuarial adjustments—underwriting:				
Changes in method and assumptions	**$ (88)**		$ (609)	
Effect of experience	**(26)**		185	
Total actuarial adjustments—underwriting	**(114)**		(424)	
Actuarial charges — financial:				
Passage of time	**3,269**		3,206	
Change in interest rates	**(2,809)**		2,037	
Total actuarial charges — financial	**460**		5,243	
Total actuarial charges, current year		**346**		4,819
Terminations:				
Current year	**5,548**		1,112	
Changes in prior year	**(109)**		130	
Total terminations		**5,439**		1,242
Benefit payments, current year*		**(4,266)**		(4,082)
Estimated recoveries, current year		**(155)**		(62)
Assets of terminated plans pending trusteeship, net, current year		**(540)**		(282)
Settlements and judgments, current year		**55**		55
Net claims for probable terminations:				
Future benefits**	**14,810**		17,430	
Estimated plan assets and recoveries from sponsors	**(11,024)**		(12,568)	
Total net claims, current year		**3,786**		4,862
Present value of future benefits, at end of year—Single-Employer, net		**69,235**		69,143
Present value of future benefits, at end of year—Multiemployer		**2**		2
Total present value of future benefits, at end of year, net		**$ 69,237**		$ 69,145

* The benefit payments of $4,266 million and $4,082 million include $96 million in 2007 and $76 million in 2006 for benefits paid from plan assets by plans prior to trusteeship.

** The future benefits for probable terminations of $14,810 million and $17,430 million for fiscal years 2007 and 2006, respectively, include $71 million and $87 million, respectively, in net claims (future benefits less estimated plan assets and recoveries) for probable terminations not specifically identified and $14,739 million and $17,343 million, respectively, in net claims for specifically identified probables.

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, 2007		September 30, 2006	
		Market		Market
(Dollars in millions)	**Basis**	**Value**	Basis	Value
U.S. Government securities	**$ 11**	**$ 11**	$ 0	$ 0
Corporate and other bonds	**151**	**155**	107	113
Equity securities	**172**	**187**	117	156
Insurance contracts	**1**	**0**	4	4
Other	**188**	**187**	9	9
Total, net	**$ 523**	**$ 540**	$ 237	$ 282

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

	September 30,			
(Dollars in millions)		**2007**		2006
Net claims for probable terminations, at beginning of year		**$ 4,862**		$10,470
New claims	**$ 130**		$ 3,063	
Actual terminations	**(1,745)**		(288)	
Deleted probables	**(17)**		(8,035)	
Change in benefit liabilities	**1,189**		(867)	
Change in plan assets	**(633)**		519	
Loss (credit) on probables		**(1,076)**		(5,608)
Net claims for probable terminations, at end of year		**$ 3,786**		$ 4,862

The following table itemizes the probable exposure by industry:

PROBABLES EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	**FY 2007**	FY 2006
Manufacturing	**$ 3,590**	$ 3,318
Services/Other	**150**	197
Wholesale and Retail Trade	**27**	7
Finance, Insurance, and Real Estate	**19**	20
Transportation, Communication and Utilities		1,279
Agriculture, Mining, and Construction		41
Total	**$ 3,786**	$ 4,862

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. This table incorporates the impact of the additional probable deletions of the Pension Protection Act (PPA). The second table below reflects results excluding the impact due to the PPA, which was an unpredictable factor impacting the PBGC's ability to predict probables as terminations.

ACTUAL PROBABLES EXPERIENCE
As Initially Recorded Beginning in 1987

(Dollars in millions)	Status of Probables from 1987-2006 at September 30, 2007			
Beginning in 1987, number of plans reported as Probable:	Number of Plans	Percent of Plans	Net Claim	Percent of Net Claim
Probables terminated	308	78%	$24,106	66%
Probables not yet terminated or deleted	6	2%	3,004	8%
Probables deleted*	80	20%	9,358	26%
Total	394	100%	$36,468	100%

* "Probables deleted" in the above table includes 5 plans deleted due to airline provisions pursuant to PPA. Absent passage of PPA and had these 5 plans terminated, the following values in the above table would be adjusted:

ADJUSTED PROBABLES EXPERIENCE excluding impact of Pension Protection Act of 2006

As Initially Recorded Beginning in 1987

(Dollars in millions)	Status of Probables from 1987-2006 at September 30, 2007			
Beginning in 1987, number of plans reported as Probable:	Number of Plans	Percent of Plans	Net Claim	Percent of Net Claim
Probables terminated	313	79%	$32,315	89%
Probables not yet terminated or deleted	6	2%	3,004	8%
Probables deleted*	75	19%	1,149	3%
Total	394	100%	$36,468	100%

Note 5 — Multiemployer Financial Assistance

The PBGC provides financial assistance to multiemployer defined benefit pension plans in the form of loans. An allowance is set up to the extent that repayment of these loans is not expected.

NOTES RECEIVABLE MULTIEMPLOYER FINANCIAL ASSISTANCE

(Dollars in millions)	September 30, **2007**	2006
Gross balance at beginning of year	**$ 155**	$ 85
Financial assistance payments—current year	**71**	70
Subtotal	**226**	155
Allowance for uncollectible amounts	**(226)**	(155)
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, 2007, the corporation expects 94 multiemployer plans will exhaust plan assets and need financial assistance from the PBGC to pay guaranteed benefits and plan administrative expenses. The present value of nonrecoverable future financial assistance for these 94 plans is $2.1 billion. The 94 plans fall into three categories —plans currently receiving financial assistance; plans that have terminated but have not yet started receiving financial assistance from the PBGC; and ongoing plans (not terminated) that the corporation expects will require financial assistance in the future.

Of the 94 plans:

- 34 have exhausted plan assets and are currently receiving financial assistance payments from the PBGC. The present value of future financial assistance payments for these insolvent 34 plans is $928 million.
- 49 plans have terminated but have not yet started receiving financial assistance payments from the 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, the 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 49 terminated plans is $625 million.
- 11 plans are ongoing (i.e., have not terminated), but the PBGC expects these plans will exhaust plan assets and need financial assistance within 10 years. In this analysis, the 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 11 ongoing plans is $571 million.

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

(Dollars in millions)	September 30, **2007**	2006
Balance at beginning of year	**$1,876**	$1,485
Changes in allowance:		
Loses from financial assistance	**319**	461
Financial assistance granted (previously accrued)	**(71)**	(70)
Balance at end of year	**$2,124**	$1,876

Note 6 — 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

	September 30,	
(Dollars in millions)	**2007**	2006
Annual leave	**$ 6**	$ 5
Other payables and accrued expenses	**105**	88
Accounts payable and accrued expenses	**$ 111**	$ 93

Note 7 — 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 amounts disclosed below represent the Corporation's best estimates of the reasonably possible losses in these plans given the inherent uncertainties about these plans.

In accordance with Statement of Financial Accounting Standards No. 5, the PBGC classified a number of these companies as reasonably possible terminations as the sponsors' financial condition and other factors did not indicate that termination of their plans was likely as of year-end. The best estimate of aggregate unfunded vested benefits exposure to the PBGC for the companies' single-employer plans classified as reasonably possible as of September 30, 2007, was $66 billion. This is down from $73 billion in FY 2006.

The estimated unfunded vested benefits exposure has been calculated as of December 31, 2006, and is not based on the PBGC-guaranteed levels. The PBGC calculated this estimate as in previous years by using data obtained from filings and submissions to the government and from corporate annual reports for fiscal years ending in calendar 2006. The Corporation adjusted the value reported for liabilities to a December 31, 2006, PBGC select rate of 5.02% that was derived using the 1994 Group Annuity Mortality Static Table (with margins) projected to 2016 using Scale AA. When available, data were adjusted to a consistent set of mortality assumptions. The underfunding associated with these plans would generally tend to be smaller at September 30, 2007, because of the economic conditions that existed between December 31, 2006 and September 30, 2007. The Corporation did not adjust the estimate for events that occurred between December 31, 2006, and September 30, 2007.

The following table itemizes the reasonably possible exposure by industry:

REASONABLY POSSIBLE EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	**FY 2007**	FY 2006
Manufacturing	**$ 31,364**	$ 37,634
Transportation, Communication and Utilities	**19,454**	20,509
Services/Other	**6,901**	6,969
Wholesale and Retail Trade	**5,808**	6,096
Finance, Insurance, and Real Estate	**1,153**	857
Agriculture, Mining, and Construction	**985**	1,220
Total	**$ 65,665**	$ 73,285

The PBGC included amounts in the liability for the present value of nonrecoverable future financial assistance (see Note 5) for multiemployer plans that the PBGC estimated may require future financial assistance. In addition, the PBGC currently estimates that it is reasonably possible that other multiemployer plans may require future financial assistance in the amount of $73 million.

The Corporation calculated the future financial assistance liability for each multiemployer plan identified as probable (see Note 5), 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, 2007, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2007. 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.

The PBGC used select and ultimate interest rate assumptions of 5.31% for the first 20 years after the valuation date and 4.88% thereafter. The Corporation also used the 1994 Group Annuity Mortality Static Table (with margins), set forward one year, and projected 23 years to 2017 using Scale AA.

Note 8 — Commitments

The PBGC leases its office facility under a new commitment that began on January 1, 2005, and expires December 10, 2018. The new lease agreement was entered into because of the need for additional office space. This lease provides for periodic rate increases based on increases in operating costs and real estate taxes over a base amount. In addition, the PBGC is leasing space for field benefit administrators. These leases began in 1996 and expire in 2013. The minimum future lease payments for office facilities having noncancellable terms in excess of one year as of September 30, 2007, are as follows:

COMMITMENTS: FUTURE LEASE PAYMENTS

(Dollars in millions)

Years Ending September 30,	Operating Leases
2008	$ 19.0
2009	18.3
2010	18.1
2011	19.2
2012	18.4
Thereafter	127.5
Minimum lease payments	$ 220.5

Lease expenses were $21.9 million in 2007 and $18.7 million in 2006.

Note 9 — Premiums

For both the single-employer and multiemployer programs, ERISA provides that the PBGC shall continue to guarantee basic benefits despite the failure of a plan administrator to pay premiums when due. The 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 2006 the flat-rate premiums for single-employer pension plans was $30 per participant and the multiemployer plans yearly premium was $8 per participant. For plan year 2007, per participant rates were $31 for single-employer plans and $8 for multiemployer plans. The PBGC recorded premium income, excluding interest and penalty, of approximately $1.1 billion in flat-rate premiums, $358 million in variable-rate premiums, and $61 million in termination premiums for fiscal year 2007, and approximately $941 million in flat-rate premiums and $550 million in variable-rate premiums for fiscal year 2006. The termination premium is a new $1,250 per participant annual post-termination premium payable for three years that applies to certain plan terminations occurring after 2005.

Since premium income for FY 2007 primarily consists of plan year 2007 and 2006 premiums, and revenue recognition accounting principles require partial recognition of plan year 2007 premiums as of September 30, 2007, the 2007 increase in flat-rate premium income represents approximately 65% of the full impact to the plan year 2007 flat-rate premiums due for all plans.

Note 10 — 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

	For the Years Ended September 30,					
	2007			2006		
(Dollars in millions)	**New Terminations**	**Changes in Prior Year Terminations**	**Total**	New Terminations	Changes in Prior Year Terminations	Total
Present value of future benefits	**$ 5,548**	**$ (109)**	**$ 5,439**	$ 1,112	$ 130	$ 1,242
Less plan assets	**3,802**	**69**	**3,871**	582	1,370	1,952
Plan asset insufficiency	**1,746**	**(178)**	**1,568**	530	(1,240)	(710)
Less estimated recoveries	**0**	**94**	**94**	3	(165)	(162)
Subtotal	**1,746***	**(272)**	**1,474**	527*	(1,075)	(548)
Settlements and judgments		**1**	**1**		1	1
Loss (credit) on probables	**(1,745)**	**669**	**(1,076)****	(288)	(5,320)	(5,608)**
Total	**$ 1**	**$ 398**	**$ 399**	$ 239	$ (6,394)	$ (6,155)

* gross amounts for plans terminated during the year.

** see Note 4—includes $1,745 million at September 30, 2007, and $288 million at September 30, 2006, previously recorded relating to plans that terminated during the period.

Note 11 — 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

(Dollars in millions)	**Single-Employer Fund Sept. 30, 2007**	**Multiemployer Fund Sept. 30, 2007**	**Memorandum Total Sept. 30, 2007**	Single-Employer Fund Sept. 30, 2006	Multiemployer Fund Sept. 30, 2006	Memorandum Total Sept. 30, 2006
Fixed income securities:						
Interest earned	**$ 1,992**	**$ 60**	**$ 2,052**	$ 1,756	$ 56	$ 1,812
Realized loss	**(620)**	**(62)**	**(682)**	(815)	(44)	(859)
Unrealized gain (loss)	**358**	**25**	**383**	(547)	(13)	(560)
Total fixed income securities	**1,730**	**23**	**1,753**	394	(1)	393
Equity securities:						
Dividends earned	**88**	**0**	**88**	89	0	89
Realized gain	**801**	**0**	**801**	522	0	522
Unrealized gain	**2,099**	**0**	**2,099**	1,182	0	1,182
Total equity securities	**2,988**	**0**	**2,988**	1,793	0	1,793
Other income (loss)	**19**	**0**	**19**	(3)	0	(3)
Total investment income (loss)	**$ 4,737**	**$ 23**	**$ 4,760**	$ 2,184	$ (1)	$ 2,183

Note 12 — 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 2007 and 2006 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 2007 and 2006. In addition, for FERS-covered employees, the 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 $14 million in 2007 and $13 million in 2006.

These financial statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to the 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 the PBGC employees who had selected federal government-sponsored plans. The PBGC does not offer other supplemental health and life insurance benefits to its employees.

Note 13 — 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 trusteed plans, the unique investment strategies implemented by the 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)

(Dollars in millions)	September 30, **2007**	2006
Proceeds from sales of investments:		
Fixed maturity securities	**$ 107,251**	$ 84,901
Equity securities	**3,314**	2,622
Other/uncategorized	**15,093**	4,857
Memorandum total	**$ 125,658**	$ 92,380
Payments for purchases of investments:		
Fixed maturity securities	**$ (108,530)**	$ (88,655)
Equity securities	**(4,287)**	(2,942)
Other/uncategorized	**(11,627)**	(653)
Memorandum total	**$ (124,444)**	$ (92,250)

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. Cash and cash equivalents at September 30, 2006, has been adjusted on the Statements of Financial Condition and "Cash and cash equivalents, beginning of year" on the Statements of Cash Flows due to the addition of a separate line for "Securities lending collateral" on the Statements of Financial Condition.

RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in millions)	**2007**	2006	**2007**	2006	**2007**	2006
Net income (loss)	**$ 5,031**	$ 4,634	**$(216)**	$(404)	**$ 4,815**	$ 4,230
Adjustments to reconcile net income to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	**(2,716)**	(350)	**37**	61	**(2,679)**	(289)
Net gain (loss) of plans pending termination and trusteeship	**(159)**	19	**0**	0	**(159)**	19
Losses on completed and probable terminations	**399**	(6,155)	**0**	0	**399**	(6,155)
Actuarial charges	**346**	4,819	**0**	0	**346**	4,819
Benefit payments—trusteed plans	**(4,170)**	(4,006)	**0**	0	**(4,170)**	(4,006)
Settlements and judgments	**(2)**	(3)	**0**	0	**(2)**	(3)
Cash received from plans upon trusteeship	**165**	75	**0**	0	**165**	75
Receipts from sponsors/non-sponsors	**459**	886	**1**	0	**460**	886
Amortization of discounts/premiums	**(599)**	(319)	**(53)**	(28)	**(652)**	(347)
Changes in assets and liabilities, net of effects of trusteed and pending plans:						
Decrease in receivables	**197**	150	**1**	11	**198**	161
Increase in present value of nonrecoverable future financial assistance			**248**	391	**248**	391
Increase (decrease) in unearned premiums	**4**	88	**(1)**	19	**3**	107
Increase in accounts payable	**18**	23	**0**	0	**18**	23
Net cash provided (used) by operating activities	**$ (1,027)**	$ (139)	**$ 17**	$ 50	**$(1,010)**	$ (89)

Note 14 - Litigation

Legal challenges to PBGC's policies and position continued in 2007. At the end of the fiscal year, the PBGC had 467 open, active bankruptcy cases and 82 active cases in state and federal courts (other than in bankruptcy court). The 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 cases, at September 30, 2007, the PBGC estimated that possible losses of up to $36 million could be incurred in the event that the PBGC does not prevail in these matters. These possible losses are not recognized in the financial statements.

Note 15 — Subsequent Events

For the year ended September 30, 2007, there were no subsequent events to report on either the single-employer or multiemployer program.

2007 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.

Methods and procedures for both single-employer and multiemployer plans were generally the same as those used in 2006.

PRESENT VALUE OF FUTURE BENEFITS AND NONRECOVERABLE FINANCIAL ASSISTANCE – 2007

	Number of Plans	Number of Participants (in thousands)	Liability (in millions)
I. SINGLE-EMPLOYER PROGRAM			
A. Terminated plans			
1. Seriatim at fiscal year-end (FYE)	3,444	596	$ 24,223
2. Seriatim at DOPT, adjusted to FYE	20	82	5,116
3. Nonseriatim[1]	319	486	36,761
4. Rettig Settlement (seriatim)[2]		*	1
5. Missing Participants Program (seriatim)[3]		19	43
Subtotal	3,783	1,183	66,144
B. Probable terminations (nonseriatim)[4]	17	87	14,810
Total[5]	3,800	1,270	$ 80,954
II. MULTIEMPLOYER PROGRAM			
A. Pre-MPPAA terminations (seriatim)	10	*	$ 2
B. Post-MPPAA liability (net of plan assets)	94	122	2,124
Total	104	122	$ 2,126

* Fewer than 500 participants

Notes:

1) The liability for terminated plans has been increased by $55 million for settlements.

2) The Rettig Settlement refers to the liability that the PBGC incurred due to the settlement of a class action lawsuit that increased benefits for some participants and provided new benefits to others. The remaining participants not yet paid are valued seriatim.

3) The Missing Participants Program refers to a liability that the PBGC assumed for unlocated participants in standard plan terminations.

4) The net claims for probable plans reported in the financial statements include $71 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 $11,024 million. Thus, the net claims for probables as reported in the financial statements are $14,810 million less $11,024 million, or $3,786 million.

5) The PVFB in the financial statements ($69,235 million) is net of estimated plan assets and recoveries on probable terminations ($11,024 million), estimated recoveries on terminated plans ($155 million), and estimated assets for plans pending trusteeship ($540 million), or, $80,954 million less $11,024 million less $155 million less $540 million = $69,235 million.

SINGLE-EMPLOYER PROGRAM

The 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 3,444 plans, representing about 91% of the total number of single-employer terminated plans (50% of the total participants in single-employer terminated plans), the PBGC had sufficiently accurate data to calculate the liability separately for each participant's benefit—the seriatim method. This was an increase of 144 plans over the 3,300 plans valued seriatim last year. For 20 plans whose data were not yet fully automated, the 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 2007.

For 319 other terminated plans, the 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 2007 using certain assumptions and adjustment factors.

For the actuarial valuation, the PBGC used a select and ultimate interest rate assumption of 5.31% for the first 20 years after the valuation date and 4.88% thereafter. The mortality table used for valuing healthy lives was the 1994 Group Annuity Mortality Static Table (with margins), set forward one year, projected 23 years to 2017 using Scale AA. The projection period is determined as the sum of the elapsed time from the date of the table (1994) to the valuation date plus the period of time from the valuation date to the average date of payment of future benefits. The PBGC determined new explicit loading factors in fiscal year 2007 for expenses in all terminated plans and single-employer probable terminations. The reserve for expenses in the 2007 valuation was assumed to be 1.37% of the liability for benefits plus additional reserves for cases whose plan asset determinations, participant database audits, and actuarial valuations were not yet complete. The factors to determine the additional reserves were based on case size, number of participants, and time since trusteeship.

For non-pay-status participants, the PBGC used expected retirement ages, as explained in subpart B of the Allocation of Assets in Single-Employer Plans regulation. The 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, the 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

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

The 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's, and information provided by representatives of the affected plans. The Corporation expected 94 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, 2007.

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 the 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.

Joan M Weiss

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

We 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, 2007 and 2006. They conducted their audits 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; Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements;* and the *GAO/PCIE Financial Audit Manual.*

In the 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's assertion about internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations, as of September 30, 2007, is fairly stated in all material respects. However, they also identified three significant deficiencies regarding PBGC's need to: complete its efforts to fully implement and enforce an effective information security program, effectively implement consistent controls to restrict access to its information systems, and integrate its financial management systems.
- No instances of noncompliance with tested laws and regulations.

Clifton Gunderson is responsible for the accompanying auditor's report dated November 8, 2007, 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.

Clifton Gunderson's report (2008-1/FA-0034-1) is also available on our website at http://oig.pbgc.gov.

Sincerely,

Deborah Stover-Springer

Deborah Stover-Springer
Acting Inspector General

November 8, 2007

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

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

In our audits of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) for fiscal years (FY) 2007 and 2006, 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;
- although internal controls could be improved, PBGC had effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations as of September 30, 2007; and
- no reportable noncompliance in fiscal year 2007 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) agency 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, 2007 and 2006, and the results of their operations and cash flows for the fiscal years then ended.

By law, PBGC's Single-Employer and Multiemployer Program Funds must be self-sustaining. As of September 30, 2007, PBGC reported in its financial statements net deficit positions (liabilities in excess of assets) in the Single-Employer and Multiemployer Program Funds of $13,111 million and $955 million, respectively. As discussed in Note 7 to the

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financial statements, losses as of September 30, 2007 for the Single-Employer and Multiemployer Programs that are reasonably possible as a result of unfunded vested benefits are estimated to be $65,665 million and $73 million, respectively. 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 their 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

Management's assertion that PBGC maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations as of September 30, 2007 is fairly stated, in all material respects, based on criteria contained in 31 U.S.C. 3512 (c), (d), the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

However, 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 to be significant deficiencies which adversely affect 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. Significant deficiencies we noted are as follows:

1. PBGC needs to complete its efforts to fully implement and enforce an effective information security program.
2. PBGC needs to effectively implement consistent controls to restrict access to its information systems.
3. PBGC needs to integrate its financial management systems.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that none of the significant deficiencies described in this report are material weaknesses.

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SIGNIFICANT DEFICIENCIES

PBGC relies extensively on information technology (IT) systems to accomplish its mission and in the preparation of its financial statements. 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.

PBGC implemented significant improvements in FY 2007. Of particular note, PBGC diligently addressed the significant deficiency (formerly reportable condition) relating to its preparedness for unanticipated incidences and disruptions of its business operations. PBGC's commitment, as a whole, to correcting this deficiency resulted in its removal from the internal control report. In addition, as a result of PBGC's progress in addressing data quality issues with the single employer premium system, the deficiency is no longer viewed separately. However, since there are remaining system issues the deficiency is included as part of the Integrated Systems significant deficiency.

In the IT area, the FY 2007 improvements included hiring a new Chief Information Officer and enhancing the roles and responsibilities for risk management and information security that resulted in an improved strategy to implement an effective entity-wide security program. However, our testing revealed general control weaknesses still exist in PBGC's entity-wide security management and access controls. These weaknesses prevent PBGC from implementing effective security controls to protect its information from unauthorized access, modification, and disclosure.

While PBGC implemented a new financial management system in October 2006 to consolidate three of its subsidiary ledger systems, PBGC still lacks an integrated financial system. As a result, extensive data manipulation and excessive manual processes are required to reconcile financial statement information.

Based on our findings we are reporting as significant deficiencies for FY 2007 the lack of fully effective entity-wide security management, access controls and financial management systems integration. We note that the lack of an effective entity-wide security program and an integrated financial system were reportable conditions in prior audit reports. The designation of access controls as a significant deficiency is based on the aggregation of control weaknesses, showing a systemic problem. Our detailed findings and recommendations have been provided to management in a separate limited disclosure report dated November 8, 2007. A summary of the significant deficiencies and related recommendations follows.

1. PBGC Needs to Complete its Efforts to Fully Implement and Enforce an Effective Information Security Program

An entity-wide security program should be in place to establish a framework and continuing cycle of activity to manage security risk, develop security policies, assign responsibilities, and monitor the adequacy of computer security related controls. It should also represent the foundation for an entity's security control structure and a reflection of senior management's commitment to addressing security risks. 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 has demonstrated its ability to remediate several specific IT findings identified in prior year audits and has taken the initiative to reorganize and improve its security planning and management through the design and initial implementation of an entity-wide security program, but has not fully developed and implemented its security program. Our current year audit work found inconsistent remediation on an entity-wide basis and deficiencies in the areas of security program management, including policy administration and the certification and accreditation of major applications and general support systems. An effective entity-wide security management program demonstrates the ability to implement enhancements to an organization's control environment on all new and existing systems and platforms in use.

Although a security program exists, without full development and implementation, security controls may be inadequate; responsibilities may be unclear, misunderstood, and improperly implemented; and controls may be inconsistently applied. Such conditions may lead to insufficient protection of sensitive or critical resources and disproportionately high expenditures for controls over low risk resources. For this reason, this issue remains a significant deficiency for FY 2007.

Recommendation:

PBGC management should continue developing and implementing its security program management that will enable the completion of an effective entity-wide security program.

2. PBGC Needs to Effectively Implement Consistent Controls to Restrict Access to its Information Systems

Although access controls are an integral part of an effective information security program, access controls are a systemic problem throughout PBGC. Though PBGC has made progress in correcting access control weaknesses, there are still a significant number of outstanding audit recommendations.

Access controls should be in place to consistently limit, detect, or monitor access to computer programs, data, equipment, and facilities thereby protecting against unauthorized modification, disclosure, loss or impairment. Such controls include both logical and physical security controls to ensure that federal employees, contractors and staff will be given only the privileges necessary to perform business functions, i.e., access privileges. Federal Information Processing Standards Publication (FIPS PUB) 200, *Minimum Security Requirements for Federal Information and Information Systems,* specifies minimum access controls for federal systems. PBGC's information system owners must limit information system access to authorized users.

Although a number of prior access control findings have been addressed through the initial implementation of PBGC's new security program, additional weaknesses still exist that require management's attention. We found deficiencies in system configurations and user account management across many of PBGC's systems. Based on the number and significance of our findings in the aggregate, the implementation of PBGC's comprehensive security program that includes access control and increased management oversight is needed to fully address the administration and reliability of computerized data and to decrease the risk of destruction or inappropriate disclosure of data. For this reason, this issue is a significant deficiency for FY 2007.

Recommendation:

PBGC management and information system owners should continue on its path to mitigate the systemic issues related to access control by strengthening system configurations and user account management for all of PBGC's information systems.

3. PBGC Needs to Integrate its Financial Management Systems

As reported in prior year audits, PBGC lacks integrated financial management systems. Though PBGC implemented a financial management system in October 2006, it has not completed the integration of its financial systems. OMB Circular A-127, *Financial Management System,* 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 lack of a single integrated financial management system increases the risk of inaccurate, inconsistent, and redundant data that 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.

In the short term, PBGC's ability to accurately and efficiently accumulate and summarize information required for internal and external financial reporting may be impacted. For this reason, this issue is a significant deficiency for FY 2007.

Recommendation:

PBGC management should continue their efforts to integrate PBGC's financial management systems in accordance with OMB Circular A-127.

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In addition to the significant deficiencies described above, we noted certain matters involving PBGC's internal controls and operations that we reported to the PBGC management in a separate letter dated November 8, 2007.

Compliance with Laws and Regulations

Our tests for compliance in FY 2007 with selected provisions of laws and regulations 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.

This conclusion is intended solely for the information and use of PBGC's Office of Inspector General, Board of Directors, management of PBGC, Government Accountability Office, Office of Management and Budget, 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 financial statement highlights, management's discussion and analysis, actuarial valuation, annual performance report, and financial summary contain a wide range of data, some of which are 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 assessing internal control to provide reasonable assurance that the broad control objectives of FMFIA are met; 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, 2007 based on management's assertion included in the accompanying Annual Management 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 governmentwide 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.

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 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, 2007; and (6) tested compliance in FY 2007 with selected provisions of laws and regulations that have a direct and material effect on the financial statements.

We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with controls may deteriorate.

We did not test compliance with all laws and regulations applicable to PBGC. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal year ended September 30, 2007. 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 performed our work in accordance with U.S. generally accepted government auditing standards and OMB audit guidance.

Agency Comments and Our Evaluation

In commenting on the draft of this report (see Page 63), PBGC's management concurred with the facts and conclusions in our report. We did not perform audit procedures on PBGC's written response to the significant deficiencies and, accordingly, we express no opinion on it.

Clifton Gunderson LLP

Calverton, Maryland
November 8, 2007

PBGC

Protecting America's Pensions

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

Office of the Director

MEMORANDUM

To: Deborah Stover-Springer
Acting Inspector General

November 7, 2007

Charles E F Millard

From: Charles E. F. Millard
Interim Director

Subject: Response to Draft Independent Auditor's Combined Report Issued in Connection with the FY 2007 Financial Statement Audit

I value the work of the Office of Inspector General in overseeing the FY 2007 financial statement audit. In addition, I appreciate the opportunity to comment on the draft report containing the opinions on the agency's financial statements, management's assertion on the effectiveness of internal controls, and matters relating to compliance with laws and regulations. As a financial institution, it is noteworthy that PBGC has again received unqualified opinions on the Corporation's financial statements and its internal controls for FY 2007.

Progress in the internal controls area was commendable. In particular, I appreciate your recognition of the progress that PBGC has made in addressing last year's reportable condition relating to our preparedness for unanticipated incidences and disruptions of our business operations. In the uncertain world in which we live, the progress in this area is particularly gratifying.

The report also commendably highlights the data quality improvements made in the single-employer premium system. We look forward to working on the remaining premium system issues as part of the significant deficiency related to integrated financial management systems.

We agree with the three recommendations in the report and will work aggressively on the related areas of information security, access controls, and financial management systems integration. The Corporation is in the process of preparing formal Corrective Action Plans to address each of these conditions.

Again, the work of the OIG is sincerely appreciated, and I look forward to working with you in responding to the issues that you have called to our attention.

cc: Vincent K. Snowbarger
Stephen E. Barber
Terrence M. Deneen
Patsy A. Garnett
Richard H. Macy
Judith R. Starr
Theodore J. Winter, Jr
Martin O. Boehm

PENSION INSURANCE SYSTEM EXPOSURE

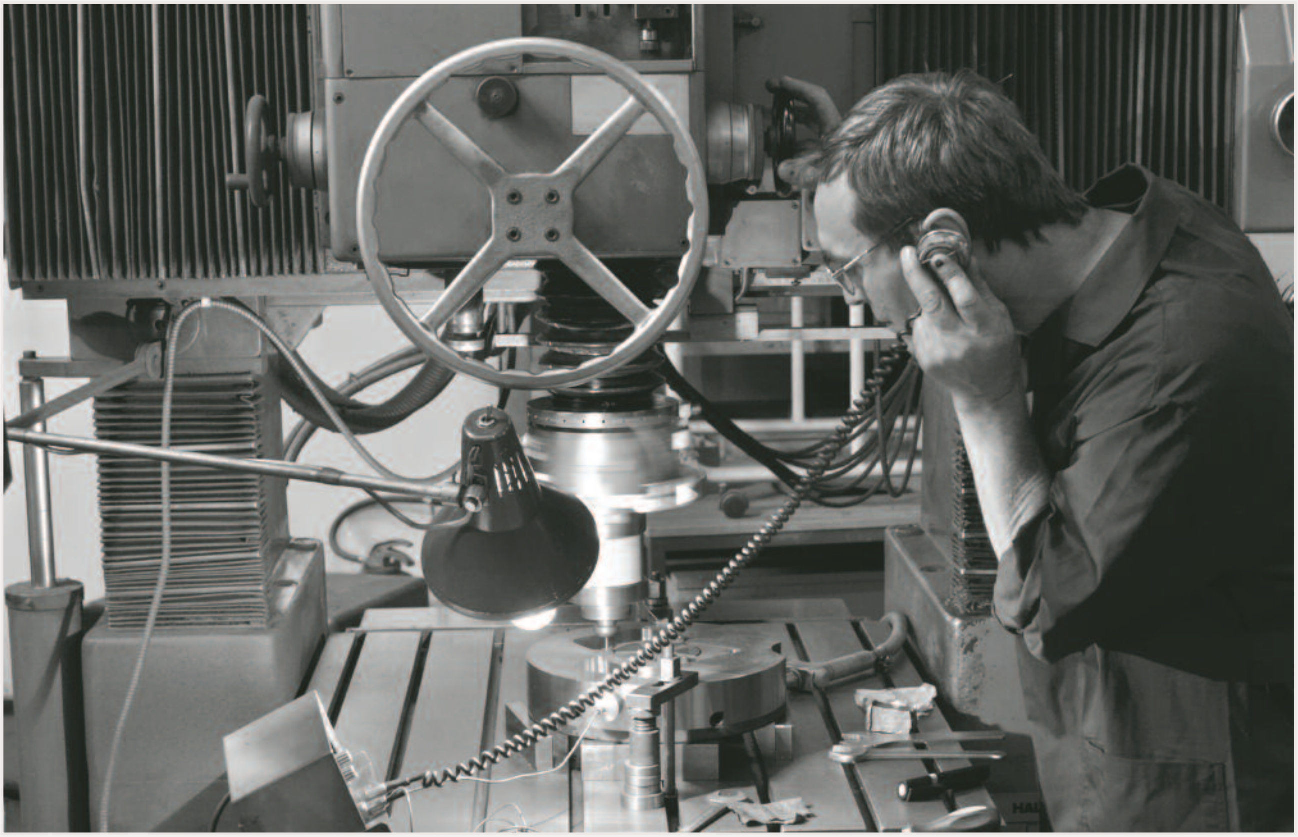
ERISA requires that the PBGC annually provide an actuarial evaluation of its expected operations and financial status over the next five years. The PBGC historically has confined its evaluation to the single-employer program while extending its forecasts to cover 10 years. This year, for the first time, the PBGC also is including a discussion of the exposure of the multiemployer program.

SINGLE-EMPLOYER PROGRAM

The PBGC's expected claims under the single-employer program are dependent on two factors: the amount of underfunding in the pension plans that the PBGC insures (i.e., exposure) and the likelihood that corporate sponsors of these underfunded plans encounter financial distress that results in bankruptcy and plan termination (i.e., the probability of claims).

Over the near term, expected claims result from underfunding in plans sponsored by financially weak firms. The financial health of a plan sponsor is reflected in factors such as whether the firm has a below-investment-grade bond rating. The amount of underfunding for plans of these financially weak companies is based on the best available data, including the annual filings that certain companies with underfunded plans are required to make to the PBGC under Section 4010 of ERISA.

For purposes of its financial statements, the PBGC classifies the underfunding for vested benefits in the plans of financially weak companies as reasonably possible exposure, as required under accounting principles generally accepted in the United States of America. The reasonably possible exposure as of September 30, 2007, as disclosed in Note 7 of the financial statements, was $66 billion (valued using data as of December 31, 2006), compared to $73 billion for fiscal year 2006.



Methodology for Considering Long-Term Single-Employer Program Claims

No single underfunding number or range of numbers is sufficient to evaluate the PBGC's exposure and expected claims over the next 10 years. Claims are sensitive to changes in interest rates and stock returns, overall economic conditions, contributions, changes in benefits, the performance of some particular industries and bankruptcies. Large claims from a small number of terminations characterize the Corporation's historical claims experience and are likely to affect the PBGC's potential future claims experience as well.

The PBGC uses a stochastic model—the Pension Insurance Modeling System (PIMS)—to evaluate its exposure and expected claims.

PIMS portrays future underfunding under current funding rules as a function of a variety of economic parameters. The model recognizes that all companies have some chance of bankruptcy and that these probabilities can change significantly over time. The model also recognizes the uncertainty in key economic parameters (particularly interest rates and stock returns). The model simulates the flows of claims that could develop under thousands of combinations of economic parameters and bankruptcy rates. PIMS is not a predictive model and it does not attempt to anticipate behavioral responses by a company to changed circumstances. (For additional information on PIMS and the assumptions used in running the model, see the PBGC's Pension Insurance Data Book 1998, pages 10-17, which also can be viewed on the PBGC's Web site at *www.pbgc.gov/publications/databook/databk98.pdf*.)

PIMS starts with data on the PBGC's single-employer net position (a $13.1 billion deficit in the case of FY 2007) and data on the funded status of approximately 460 plans that are weighted to represent the universe of PBGC-covered plans. The model produces

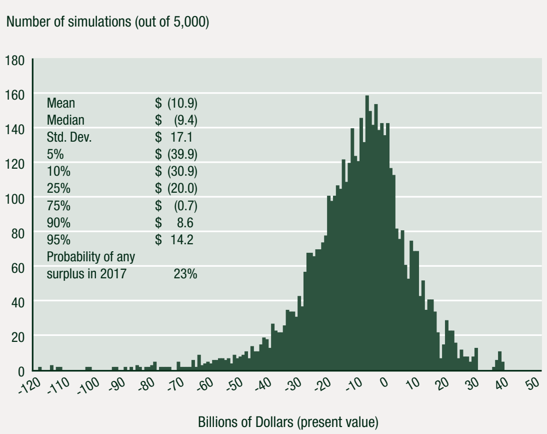
results under 5,000 different simulations. The probability of any particular outcome is determined by dividing the number of simulations with that outcome by 5,000.

Under the model, median claims over the next 10 years will be about $1.2 billion per year (expressed in today's dollars); that is, half of the simulations show claims above $1.2 billion per year and half below. The mean level of claims (that is, the average claim) is higher, about $1.5 billion per year. The mean is higher than the median because there is a chance under some simulations that claims could reach very high levels. For example, under the model there is a 10 percent chance that claims could exceed $2.9 billion per year for a present value of $29 billion over the 10-year period.

PIMS projects the PBGC's potential financial position by combining simulated claims with simulated premiums, expenses, and investment returns. The median outcome is a $9.4 billion deficit in 2017 (in present value terms). This means that half of the simulations show either a smaller deficit than $9.4 billion, or a surplus, and half of the simulations show a larger deficit. The mean outcome is a $10.9 billion deficit in 2017 (in present value terms).

The median projected financial position is a smaller deficit than shown in last year's median projection, both of which were based on a wide range of possible outcomes for each year of the projection. An important factor contributing to this change is the reduction in the PBGC's deficit from 2006 to 2007, resulting from the combination of a reduction in liabilities due to the favorable increase in interest factors, investment returns during the fiscal year and premium income. The projected deficit is also lowered by a reduced level of projected future claims. Important factors contributing to the lowered claim projection include a decrease in the aggregate level of underfunding among plans insured by PBGC, which is largely due to the higher interest factors, and improvements in the financial positions of some financially troubled sponsors of large underfunded pension plans.

DISTRIBUTION OF PBGC'S POTENTIAL 2017 FINANCIAL POSITION



The graph illustrates the wide range of outcomes that are possible for the PBGC over the next 10 years. The other statistics listed on the graph give further details on the distribution of outcomes. The standard deviation is a measure of how widely the distribution is spread over its range, and the percentiles indicate the likelihood of a position below particular values. The model's statistical median shows a $9.4 billion deficit in 2017.

Additional Information Required by the Pension Protection Act of 2006

The Pension Protection Act requires that the PBGC's Annual Report include a summary of the PIMS microsimulation model, "including the specific simulation parameters, specific initial values, temporal parameters, and policy parameters used to calculate the financial statements for the corporation."

A Summary of PIMS: The analysis of the PBGC's projected financial position was performed using the PBGC's Pension Insurance Modeling System. PIMS has a detailed database of nearly 460 actual plans, sponsored by about 350 firms, which represent about 50 percent of liabilities and underfunding in the single-employer defined benefit system. The database includes the plan demographics, plan benefit structure, asset values, liabilities, and actuarial assumptions. It also includes key financial information about the employer sponsoring the plan.

The PIMS database contains pension plan information from Schedule B of the Form 5500 (Annual Return/Report of Employee Benefit Plan), generally from the 2005 plan year. In addition, more recent data available from ERISA Section 4010 filings is utilized for certain large underfunded plans.

PIMS simulates contributions, premiums, and underfunding for these plans using the minimum funding and premium rules as modified by the PPA, and then extrapolates the results to the universe of single-employer plans. It also uses the employer's financial information as the starting point for assigning probabilities of bankruptcy, from which it projects losses to the insurance program.

The PIMS model is not predictive. That is, it is not intended to provide a single best estimate of future events. When used in a stochastic (random) mode, PIMS provides a range of possible future outcomes and quantifies the likelihood of these outcomes.

General Assumptions

Projections of claims against the insurance program are made stochastically. Claims against the pension insurance program are modeled by simulating the occurrence of bankruptcy for plan sponsors. The model reflects the historical relationship between the probability of bankruptcy and the firms' financial health variables (equity to debt ratio, cash flow, firm equity, and employment). For each period, the model assigns a random change in each of these variables to each firm correlated with changes in the economy. The simulated financial health variables determine the probability of bankruptcy for that year.

The model assumes, with the exception noted below regarding variable-rate premiums, that all plan sponsors contribute the minimum amount each year. The model runs 500 economic scenarios (varying interest rates and equity returns), with each plan sponsor's being "cycled" through each economic scenario 10 times (with varying financial health experiences, bankruptcy probabilities, etc.) for a total of 5,000 different simulations. PIMS then extrapolates the results of these simulations to the universe of insured single-employer plans.

All of the following variables are stochastically projected:

- Interest rates, stock returns and related variables (e.g., inflation, wage growth, and multiplier increases in flat dollar plans[1] are determined by interest rates in PIMS).
- Sponsor financial health variables (equity to debt ratio, cash flow, firm equity, and employment).
- Asset returns. At the beginning of each scenario, each plan's asset allocation is randomly selected from a pool of allocations that reflects historic differences across plans in investment strategies. Each plan's asset return also has a stochastic element that is uncorrelated with the simulated market rates and is uncorrelated across plans.
- Plan demographics. The number of active participants for a plan varies with its sponsor's total employment level. Age and service also vary over time due to retirement and hiring assumptions. The numbers, ages, and benefits of retired and terminated vested participants vary depending on mortality, separation and retirement assumptions.
- Probability of bankruptcy. Sponsors are subjected to an annual stochastic chance of bankruptcy. A plan presents a loss to participants and/or the pension insurance program if its sponsor is simulated to experience bankruptcy and the plan is less than 80 percent funded for termination liability. Losses to the insurance program are calculated by averaging the losses in all simulations across all scenarios.

The most important variables in the stochastic simulations are stock returns and interest rates. Stock returns are independent from one period to the next. To determine a simulated sequence of stock returns, the model randomly draws returns from a distribution that reflects historical experience going back to 1926. Unlike stock returns, interest rates are correlated over time. With the model, the interest rate for a given period is expected to be equal to the interest rate for the prior period, plus or minus some random amount. The random draws affecting the bond yield and stock returns are correlated according to an historical estimate. Stock returns are more likely to be high when the bond yield is falling and vice versa.

Mortality

- For purposes of projecting plan population—the 1994 Group Annuity Mortality table (94 GAM).
- For determining the amount of underfunding at termination—94 GAM set forward one year and projected to valuation year plus 10.[2]
- For determining funding targets (liabilities):
  - **Prior Law (for years before 2008)**
    For current liability purposes, the current table (1983 GAM) is assumed to remain in effect until 2007. For 2007, RP2000 projected with scale AA to the year of valuation plus 10 is used to determine current liability.

    For purposes of the current funding rules, the plan actuary's selected table is assumed to remain unchanged throughout the projection period.
  - **PPA (for 2008 and later years)**
    The PPA provides that the Department of the Treasury will prescribe a table. For this purpose, we assumed the prescribed table will be the RP2000 table projected with scale AA to the year of valuation plus 10.

[1] In a flat-dollar plan, the pension benefit is determined by multiplying a fixed amount by the participant's years of service. In a salary-related plan, the benefit is determined by multiplying a percentage of the participant's salary by the years of service.

[2] Setting a mortality table forward one year means that the table's life expectancy for someone who is X+1 years old is used to represent the life expectancy of someone who is X years old. For example, for this purpose, the life expectancy of a 65 year old is what the table would assign to a 64 year old. "Projecting" a mortality table means reducing mortality rates each year to reflect anticipated improvements in longevity.

Contribution Level/Credit Balances

The credit balance at the end of the 2006 plan year was derived by reflecting available information on actual contributions made through 2006. From there, the credit balance was increased each year by the valuation interest rate and decreased by the amount assumed to be used to satisfy the minimum funding requirement. For purposes of modeling future claims in PIMS, it is assumed that employers will contribute the minimum required amount each year and that any credit balance remaining when the new rules take effect will be used to the maximum extent permitted until the balance is completely depleted.

Benefit Improvements

For flat-dollar plans, benefit multipliers are assumed to increase annually by the rate of inflation and productivity growth. For salary-related plans, the benefit formula is assumed to remain constant, but annual salary increases are reflected based on the rate of inflation, productivity growth, and a factor measuring merit and/or seniority.

Benefit Restrictions Under the PPA

Accrual restriction: Plans with funded percentages below 60 percent must cease benefit accruals. PIMS reflects this rule, and assumes that once a plan is frozen, it will remain frozen, even if the percentage increases above 60 percent at some future time.

The PPA requires that when determining funding percentages for triggering benefit restrictions, assets are reduced by credit balances. The PPA also provides that sponsors have the option of “de-classifying” credit balance assets at any time. By de-classifying a credit balance, a sponsor may be able to raise the funded percentage to the level needed to avoid a benefit restriction. For modeling purposes, it is assumed that sponsors will choose to “de-classify” credit balances to the extent necessary to avoid the benefit freeze restriction.

Benefit improvement restriction: As noted earlier, PIMS assumes that salary-related plans will not increase benefits and that hourly plans will increase benefits to reflect the rate of inflation plus productivity growth. But, under the PPA, benefit increases that do not exceed the average wage increase of affected employees are not subject to the benefit improvement restriction. Therefore, this provision was assumed to have no effect.

Variable-Rate Premiums

The PBGC’s experience has been that many companies make contributions in excess of the minimum, in part to avoid or reduce their variable-rate premium payments. Virtually all of these companies have been at a low risk of bankruptcy and their plans have not accounted for a material portion of the PBGC’s claims. In contrast, the relatively small number of plans that result in claims are sponsored by companies that historically have not made contributions above the required minimum. Accordingly, variable-rate premium projections are modeled assuming aggregate contribution levels above the minimum levels, with an adjustment for additional future aggregate contributions that is based on the PBGC’s historical premium experience.

The PBGC’s Assets

Consistent with the PBGC’s investment policy in effect in FY 2007, PIMS assumes that the PBGC allocates 20 percent of its assets to equity securities (the mid-point of the policy’s target range) and that it maintains a bond portfolio that minimizes the volatility of the PBGC’s assets and liabilities due to interest-rate risk.

Discounting Future Contributions/Claims

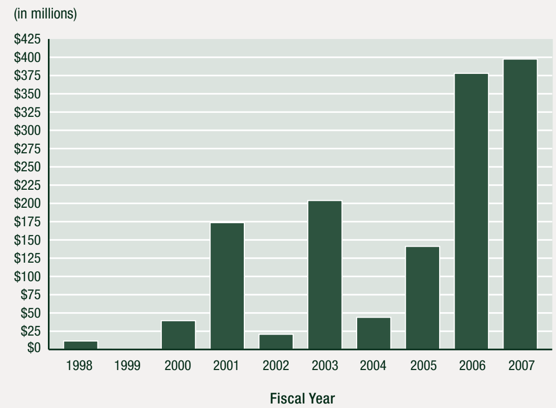
For calculations involving discounting future amounts, the discount rate used is the 30-year Treasury rate assumed to be in effect for the particular year and economic scenario.

MULTIEMPLOYER PROGRAM

A multiemployer plan is a collectively bargained plan that is maintained by two or more unrelated companies. PBGC does not become trustee of failed multiemployer plans as it does in the single-employer program. Instead, PBGC provides financial assistance in the form of loans to multiemployer plans that become insolvent and unable to pay PBGC-guaranteed benefits when due.

There are currently approximately 10 million individuals covered by about 1,500 insured multiemployer plans. Every year, the PBGC reviews each of these plans to determine probable and reasonably possible future claims against the multiemployer insurance program. Most of the initial data used in this exercise is derived from the plans' Form 5500 filings. Probable claims are recorded as liabilities on PBGC's financial statements as the present value of nonrecoverable future financial assistance. Reasonably possible claims are disclosed in the footnotes to the financial statements, but are not booked as liabilities.

LIABILITIES FOR NEW PROBABLE CLAIMS FOR FUTURE FINANCIAL ASSISTANCE
FY 1998 – 2007



Probable Claims (Present Value of Future Financial Assistance)

In recent years the multiemployer program has experienced sharp increases in liabilities for new probable claims for future financial assistance. The Pension Protection Act of 2006 included provisions intended to shore up underfunded multiemployer plans, but it is too early to draw conclusions about the effect of these changes on the insurance program. As of September 30, 2007, PBGC had recorded liabilities for future financial assistance payments of $2.1 billion for 94 plans. These 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 PBGC expects will require financial assistance in the future.

Of the 94 plans, 34 were receiving financial assistance payments from PBGC at the close of fiscal year 2007. The present value of future financial assistance payments to these 34 plans (i.e., the stream of future payments over the lives of plan participants and beneficiaries) is $928 million. During fiscal year 2007, PBGC paid $71 million in financial assistance to insolvent plans.

Some 49 of the 94 plans have terminated but have not yet started receiving financial assistance payments from PBGC. These plans do not have sufficient assets on hand to pay all benefit liabilities. Because they will have no new assets from future employer contributions, at some point in the future, assets will be exhausted and PBGC will provide financial assistance to pay PBGC-guaranteed benefits. At the close of the 2007 fiscal year, PBGC had recorded liabilities of $625 million for the 49 plans in this group.

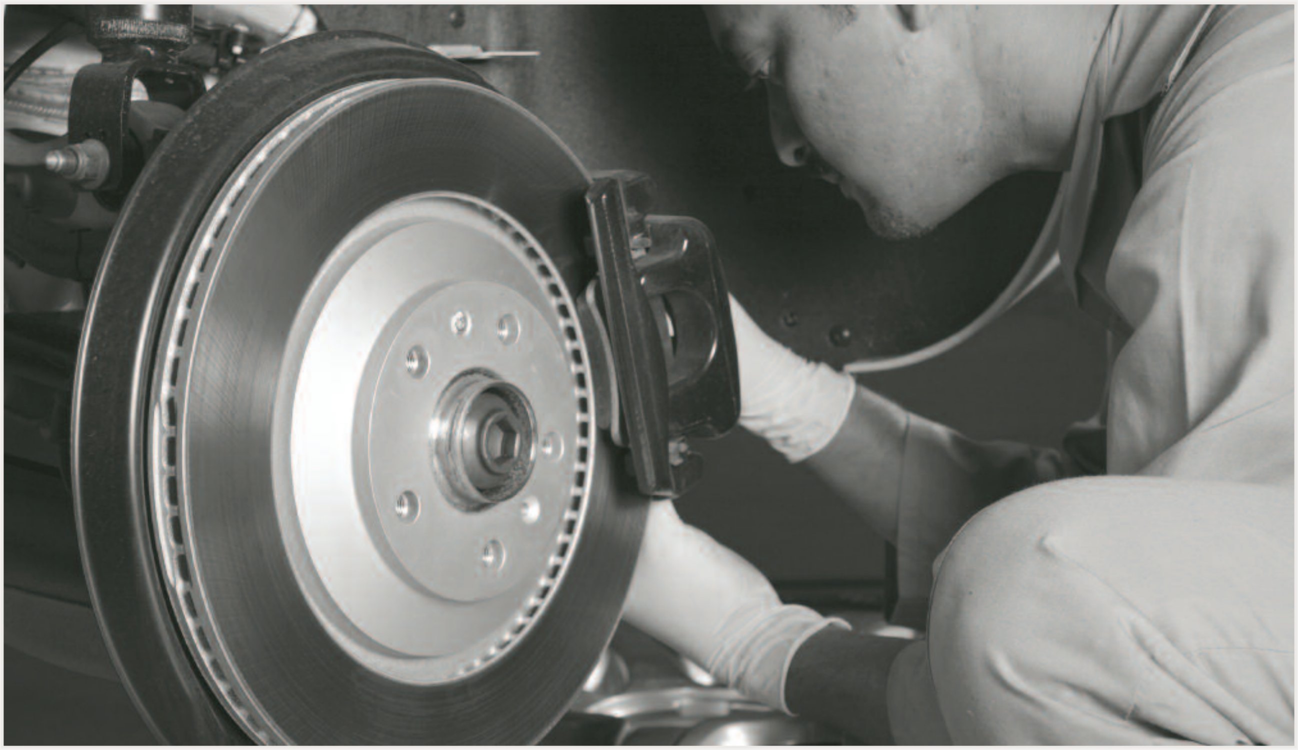
Lastly, 11 of the 94 plans are ongoing (have not terminated), but PBGC expects these plans will exhaust plan assets and need financial assistance within 10 years. At the close of the 2007 fiscal year, the present value of future financial assistance payments for these 11 ongoing plans was $571 million.

Reasonably Possible Claims

Multiemployer plans classified as reasonably possible claims show serious financial problems but are not classified as probable claims for this year because, under the particular circumstances of the plans, they may not require PBGC financial assistance to pay PBGC-guaranteed benefits. At the close of fiscal year 2007, the PBGC estimated that it is reasonably possible that a number of multiemployer plans may require future financial assistance in the amount of $73 million. In comparison, PBGC had estimated the multiemployer program reasonably possible exposure at $83 million and $418 million at the end of 2006 and 2005, respectively. The reduction in reasonably possible claims is largely attributable to the deterioration of certain plans and their reclassification as probable claims.

Methodology

PBGC uses a number of financial and demographic screening tests to identify multiemployer plans for further study and to determine whether any such plans should be classified as probable or reasonably possible claims against the multiemployer insurance program. These screening tests generate a list of all plans that



- are less than 60 percent funded,
- are not fully funded for retiree benefits,
- lack assets sufficient to pay at least six years of current benefit payments,
- have less than four active participants for every three inactive participants with a vested benefit, or
- have annual income that is not at least 30 percent higher than the plan's annual benefit and administrative expenses.

This process was first developed as part of studies conducted by the Government Accountability Office and others that led to the passage of multiemployer amendments to ERISA in 1980. PBGC has subsequently refined the tests to reflect experience and trends since that time. The screens allow the PBGC to focus attention on plans whose condition warrants a more detailed and fact-specific analysis of actuarial and financial information.

Experience has shown that no one screen will yield reliable evidence about the likelihood of plan failure and a subsequent charge against PBGC funds. Further, it often takes several years of experience to confirm the long-term prospects of any given plan. When used in combination, however, the tests have allowed the PBGC to predict, with a high degree of success, which plans are likely to fail. The PBGC will also devote attention to a plan that shows an unusual change in any one screen. For example, if a plan's ratio of active to inactive participants drops significantly, the plan may have lost a major contributing employer, a factor that is often associated with plan termination and insolvency.

In performing its financial and demographic tests, to date the PBGC has relied upon the data derived

from the plans' Form 5500 filings. This information can be more than two years old when the PBGC receives it. The Pension Protection Act of 2006 greatly enhanced the timeliness and the quality of certain plan funding information. Beginning in 2008, the Corporation will receive the data on the riskiest plans that shows the plans' financial condition as of the end of the previous plan year. This will enable the PBGC to be much more current in its monitoring and reporting activities.

In addition, for over 10 years the PBGC has utilized the sophisticated modeling methods incorporated into its Pension Insurance Modeling System (PIMS) when it has reported on the exposure that it faces in the single-employer program. This year, the Corporation will complete the development of a multiemployer version of the PIMS forecasting model. The new version will enable the PBGC to perform in-depth analyses of the future financial condition of the multiemployer program and the impact of the new funding rules under the Pension Protection Act. Beginning with the 2008 Annual Report, the PBGC will be able to show the wide range of projected financial positions that are possible under the multiemployer program over the subsequent 10 years.

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Vacancy

Vacancy

* Joined PBGC after year-end

FINANCIAL SUMMARY

SINGLE-EMPLOYER PROGRAM

	Fiscal Year Ended September 30,									
(Dollars in millions)	**2007**	2006	2005	2004	2003	2002	2001	2000	1999	1998
Summary of Operations:										
Premium income	**$ 1,476**	1,442	1,451	1,458	948	787	821	807	902	966
Other income	**$ 55**	79	44	24	28	28	23	5	3	10
Investment income (loss)	**$ 4,737**	2,184	3,897	3,197	3,349	170	(843)	2,392	728	2,118
Actuarial charges and adjustments (credits)	**$ 346**	4,819	490	1,787	6,161	2,802	1,082	453	(602)	815
Losses (credits) from completed and probable terminations	**$ 399**	(6,155)	3,954	14,707	5,377	9,313	705	(80)	49	584
Administrative and investment expenses	**$ 378**	405	342	288	290	225	184	167	161	158
Other expenses	**$ 114**	2	77	(36)	97	15	2	(2)	(1)	6
Net income (loss)	**$ 5,031**	4,634	529	(12,067)	(7,600)	(11,370)	(1,972)	2,666	2,026	1,531
Summary of Financial Position:										
Cash and investments	**$ 61,122**	57,728	54,387	36,254	33,215	24,851	21,010	20,409	17,965	17,345
Total assets	**$ 67,241**	59,972	56,470	38,993	34,016	25,430	21,768	20,830	18,431	17,631
Present value of future benefits	**$ 69,235**	69,143	69,737	60,836	44,641	28,619	13,497	10,631	11,073	12,281
Net Position	**$ (13,111)**	(18,142)	(22,776)	(23,305)	(11,238)	(3,638)	7,732	9,704	7,038	5,012
Insurance Activity:										
Benefits paid	**$ 4,266**	4,082	3,685	3,006	2,488	1,537	1,043	902	901	847
Participants receiving monthly benefits at end of year	**631,130**	612,630	682,540	517,900	458,800	344,310	268,090	226,080	214,160	208,450
Plans trusteed and pending trusteeship by the PBGC	**3,783**	3,673	3,585	3,469	3,277	3,122	2,965	2,864	2,775	2,655

MULTIEMPLOYER PROGRAM

	Fiscal Year Ended September 30,									
(Dollars in millions)	**2007**	2006	2005	2004	2003	2002	2001	2000	1999	1998
Summary of Operations:										
Premium Income	**$ 81**	58	26	27	25	25	24	24	23	23
Other income	**$ 0**	0	0	0	0	0	0	0	0	0
Investment income (loss)	**$ 23**	(1)	79	54	37	118	95	70	(56)	133
Actuarial charges and adjustments	**$ 0**	0	0	1	1	0	1	0	0	0
Losses from financial assistance	**$ 319**	461	204	55	480	101	269	26	109	34
Administrative and investment expenses	**$ 0**	0	0	0	0	0	0	0	0	0
Net income (loss)	**$ (216)**	(404)	(99)	25	(419)	42	(151)	68	(142)	122
Summary of Financial Position:										
Cash and investments	**$ 1,196**	1,164	1,147	1,057	984	933	796	682	681	736
Total assets	**$ 1,197**	1,166	1,160	1,070	1,000	944	807	694	692	745
Present value of future benefits	**$ 2**	2	2	3	3	3	4	4	5	6
Nonrecoverable future financial assistance, present value	**$ 2,124**	1,876	1,485	1,295	1,250	775	679	414	479	389
Net position	**$ (955)**	(739)	(335)	(236)	(261)	158	116	267	199	341
Insurance Activity:										
Benefits paid	**$ 0**	1	1	1	1	1	1	1	1	1
Participants receiving monthly benefits from the PBGC at end of year	**200**	240	280	320	390	460	510	620	730	850
Plans receiving financial assistance from the PBGC	**36**	33	29	27	24	23	22	21	21	18

Protecting America's Pensions

Pension Benefit Guaranty Corporation
1200 K Street NW, Washington DC 20005-4026

www.pbgc.gov