1997 ANNUAL REPORT

PBGC

PENSION BENEFIT GUARANTY CORPORATION

CONTENTS

The Pension Benefit Guaranty Corporation protects the pensions of about 42 million working men and women in about 45,000 private defined benefit pension plans, including about 2,000 multiemployer plans. These pension plans provide a specified monthly benefit at retirement, usually based on salary or a stated dollar amount and years of service. The Employee Retirement Income Security Act of 1974 established PBGC as a federal corporation.

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

PBGC's mission is to operate as a service-oriented, professionally managed agency that protects participants'

President Clinton announces PBGC's first positive financial condition in March 1997 after more than 20 years of deficit.

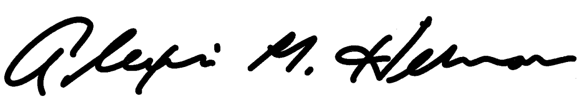
- With net income of $2.6 billion, largely due to investment earnings, assets of the single-employer insurance program exceeded liabilities by nearly $3.5 billion at yearend.
- PBGC's record investment income of nearly $2.8 billion tripled the investment income earned one year earlier.
- PBGC paid $824 million in benefits to 205,800 people during the year. Another 260,000 people will receive benefits when they retire in the future.
- PBGC has or will become trustee of 2,510 underfunded pension plans, including 165 terminated during the year.
- The multiemployer program posted a net income of $95 million, ending the year with a net surplus of $219 million.

(Dollars in millions)	**1997**	1996
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Summary of Operations		
Premium Income	**$ 1,086**	$ 1,168
Loss from Plan Terminations	**$ 489**	$ 118
Investment Income	**$ 2,755**	$ 927
Actuarial Charges	**$ 487**	$ 633
Insurance Activity		
Benefits Paid	**$ 824**	$ 792
Retirees	**205,800**	199,700
Total Participants in Terminated and Multiemployer Plans	**465,000**	441,000
New Underfunded Terminations	**165**	255
Terminated/Trusteed Plans (Cumulative)	**2,510**	2,348
Financial Position		
SINGLE-EMPLOYER PROGRAM		
Total Assets	**$15,314**	$12,043
Total Liabilities	**$11,833**	$11,174
Net Income	**$ 2,612**	$ 1,184
Net Position	**$ 3,481**	$ 869
MULTIEMPLOYER PROGRAM		
Total Assets	**$ 596**	$ 505
Total Liabilities	**$ 377**	$ 381
Net Income (Loss)	**$ 95**	$ (68)
Net Position	**$ 219**	$ 124

One of my top goals as Secretary of Labor and Chairman of PBGC's Board of Directors is to assure that working Americans are secure in retirement — because they have earned it after a lifetime of labor. That means we must also work to increase the availability of private pensions for more employed men and women. A financially strong, well-managed PBGC is clearly part of this nation's strategy for providing Americans with retirement security because it reassures both workers and employers. Workers know that with PBGC on their side they will receive the benefits they have earned; and employers know with a bottom-line professional organization in place the incentive for defined benefit pensions will continue.

Our search for solutions to the pension challenges facing us today will continue into the next century. Through increased dialogue and partnerships with the business community, organized labor, and all levels of government, we can and will find ways to expand pension coverage, increase retirement savings, and improve retirement security for all working Americans.

PBGC's progress in building a sound insurance program offers hope for the future of the private pension system.



Alexis M. Herman
Secretary of Labor
Chairman of the Board

It gives me great pleasure to report that the Pension Benefit Guaranty Corporation has concluded a very rewarding year. Record earnings on investments enabled PBGC to record significant net income for both insurance programs, further strengthening the agency's financial footing. Our highest priority now must remain PBGC's solvency.

After more than 20 years of continuous deficits, we must maintain a reserve that will be sufficient to protect the program. The most recent gains came in a good economic period marked by high investment returns and low pension losses. The agency remains vulnerable to changing economic conditions, which can significantly affect the values of both its assets and its liabilities. Even with a strong economy last year, PBGC assumed responsibility for more than 160 underfunded plans, and underfunding continues to exist among ongoing defined benefit pension plans. We have achieved a surplus which can serve as a cushion to protect workers and retirees in the event of future economic downturns.

It is very important for PBGC to remain strong. With a healthy insurance program, workers and employers can have confidence in the defined benefit pension system. Workers can be confident their pensions are secure and their benefits will be there when they are ready for them. Employers can be confident that the cost of providing insurance coverage will be kept reasonable.

Our second priority is making PBGC a premier customer service organization — not only for the workers and retirees whom we protect, but also for the companies that pay our insurance premiums and for the pension professionals who advise them. PBGC has won many awards for its service to workers and retirees. Our goal now is to make sure we pay the same attention to the employers whose payments support the insurance program and the pension professionals who rely on our agency.

Our third priority is to promote defined benefit pension coverage for American workers.

We want both workers and employers to take a new look at defined benefit pensions and to understand their value in providing American workers with a predictable, guaranteed lifetime pension. It is PBGC's mandate to promote defined benefit pensions and to bring the advantages of workplace pensions to a greater number of working Americans. I want PBGC to play a meaningful role in the ongoing public and private sector efforts to meet that challenge.

The improvement in PBGC's financial condition and service to the public is a fitting tribute to the leadership of my predecessor, Martin Slate, who passed away unexpectedly at mid-year, and to the creativity and diligence of the agency's staff. A significant number of people are affected by PBGC. We want to make sure that we continue the remarkable turnaround of the pension insurance program and serve them well.

David M. Strauss

Executive Director

PBGC's financial results for 1997 showed encouraging progress toward the agency's strategic goal of strengthening its financial programs and systems to keep the pension insurance system solvent. Record investment earnings enabled PBGC to further strengthen its financial base to support the insurance programs' long-term responsibilities. Valuable settlements generated through the Early Warning Program, in combination with the agency's vigorous litigation posture, protected the insurance program and tens of thousands of workers and retirees from pension losses.

PBGC developed a five-year Strategic Plan that provides long-term direction to the agency's activities and milestones for measuring progress along the way. The plan resulted from consultation with PBGC's stakeholders, including participants, pension professionals, and premium payers.

The Strategic Plan established four goals that support the Secretary of Labor's overall goal of enhancing retirement security. PBGC's goals are to:

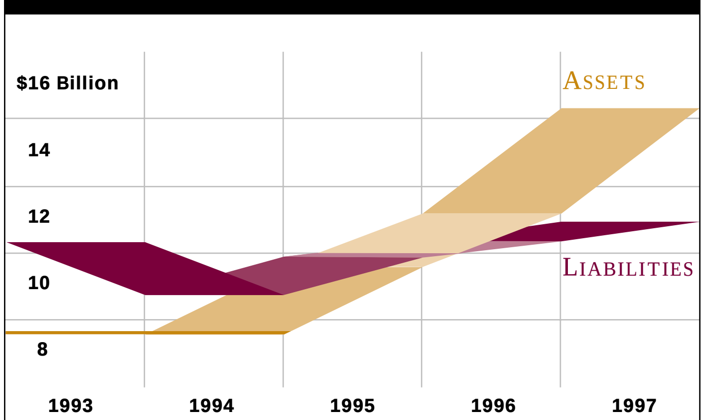
- **Strengthen financial programs and systems to keep the pension insurance system solvent;**
- **Provide high-quality services and accurate and timely payment of benefits to participants;**
- **Protect existing defined benefit plans and their participants and encourage new plans; and**
- **Improve internal management support operations.**

FINANCIAL MANAGEMENT

PBGC's financial strength rests on a foundation of skilled, professional financial management. The agency's financial statements have received their fifth straight unqualified opinion from the agency's auditors, attesting to the consistency and integrity of its financial systems. The 1997 audit was again performed by Price Waterhouse LLP under the direction and oversight of PBGC's Inspector General.

Both PBGC insurance programs recorded significant financial gains in 1997, fueled largely by investment earnings. Investments of the larger single-employer program produced record income of nearly $2.7 billion. Premium income totaled nearly $1.1 billion, down slightly from the record level reached in 1996 because reduced underfunding led to lower variable-rate premium payments to PBGC. Investment gains enabled the single-employer program to record net income of $2.6 billion. As a result, the program's net surplus grew to nearly $3.5 billion.

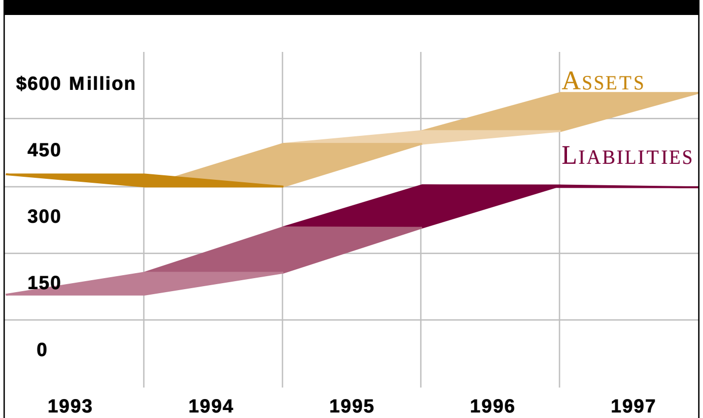
SINGLE-EMPLOYER PROGRAM ASSETS AND LIABILITIES



The multiemployer program also continued to be financially strong, with net income of $95 million and an end-of-year net surplus of $219 million, based on assets of $596 million and liabilities totaling $377 million primarily for future benefits and nonrecoverable future financial assistance. The net income, paced by investment gains, reversed a three-year period of moderate losses.

The agency took several steps during the year to improve compliance with premium obligations. Several of these initiatives were intended to create a more cooperative climate and forge a partnership with the employers who pay PBGC's premiums. With the assistance of focus groups and surveys, PBGC began to identify employers' concerns and make changes that would improve service and still ensure the agency's ability to safeguard workers' pensions and the pension insurance program. In addition to restructuring and lowering its premium penalties to encourage voluntary correction of premium payment errors, the agency set time limits to ensure that needed information is submitted timely for its premium audit program. PBGC also expanded the premium audit program nationwide after successfully testing the program in a limited geographic area. The pilot program had proven premium audits to be a cost-effective means of ensuring accuracy in premium payments.

MULTIEMPLOYER PROGRAM ASSETS AND LIABILITIES



PBGC's financial strength rests on a foundation of skilled, professional financial management.

INVESTMENT PROGRAM

The Corporation has approximately $15.6 billion of total assets available for investment, consisting of premium receipts accounted for in the Revolving Funds and assets from terminated trusteed plans and their sponsors accounted for in the Trust Funds. Under law, the Revolving Funds are required to be invested in fixed-income securities; current policy is to invest these funds only in Treasury securities. PBGC has more discretion in its investment of the Trust Funds, which are primarily invested in high-quality equities, with asset allocation designed for sound long-term performance.

The agency's investment in equities provides overall portfolio diversification and a higher long-term expected return, within prudent levels of risk. PBGC uses institutional investment management firms to invest its assets subject to PBGC oversight. PBGC's investment portfolio is structured to improve PBGC's financial condition in a stable manner over the long term. PBGC continually reviews its investment strategy to ensure that the agency maintains an investment structure that is consistent with its long-term objectives and responsibilities.

INVESTMENT PROFILE:

As of September 30, 1997, the value of PBGC's total investments, including cash, was approximately $15.6 billion. The Revolving Fund's value was $9.0 billion and the Trust Fund's value was $6.6 billion.

PBGC's fund allocation further shifted toward equities during 1997 due primarily to strong equity returns. Cash and fixed-income securities represented 61 percent of the total assets available for investment at the end of the year, as compared to 63 percent at the end of 1996, while the equity allocation stood at 38 percent of all investments compared to 36 percent one year earlier. A very small portion of the invested portfolio remains in real estate and other financial instruments.

INVESTMENT PROFILE

	September 30,	
	1997	1996
Fixed-Income Assets		
Average Quality	**AAA**	AAA
Average Maturity (years)	**21.0**	22.6
Duration (years)	**10.5**	10.1
Yield to Maturity (%)	**6.4**	7.2
Equity Assets		
Average Price/Earnings Ratio	**26.0**	19.7
Dividend Yield (%)	**1.6**	2.0
Beta	**1.04**	1.08

INVESTMENT RESULTS:

Fiscal year 1997 was a favorable year for capital market investments and PBGC's investment program. The broad stock market, as measured by the Wilshire 5000 Index that most closely reflects PBGC's equity portfolio, advanced 38.0%, while PBGC's equity portfolio returned 37.6%. PBGC's fixed-income program returned 13.5% for the year, while the Lehman Brothers Long Treasury Index gained 13.2%. For the year, PBGC reported income of nearly $1.1 billion from fixed-income investments and nearly $1.7 billion from equity investments. Other investments, including real estate and insurance contracts, produced a small gain of $8 million, for total investment income of almost $2.8 billion.

INVESTMENT PERFORMANCE

(Annual Rates of Return)

	September 30, 1997	September 30, 1996	Five Years Ended September 30, 1997
Total Invested Funds	**21.9%**	8.5%	14.4%
Equities	**37.6**	19.7	20.6
Fixed-Income	**13.5**	2.2	10.9
Trust Funds	**35.6**	18.6	19.1
Revolving Funds	**13.3**	2.3	11.6
Indices			
Wilshire 5000	**38.0**	18.9	20.6
S&P 500 Stock Index	**40.4**	20.3	20.8
Lehman Brothers Long Treasury Index	**13.2**	2.3	8.9

EARLY WARNING PROGRAM

The Early Warning Program, which helps PBGC prevent pension losses, continued to play a major role in safeguarding the solvency of the pension insurance program. Under this program, PBGC monitors companies with pension plans underfunded by at least $5 million to identify transactions that could jeopardize pensions. This effort enables PBGC to find such transactions at an early stage, when both PBGC and the company involved have the most flexibility to structure an agreement that protects the interests of the company, its workers, and the pension insurance program. During 1997, while monitoring more than 500 companies, PBGC negotiators reached agreements valued at about $760 million with 17 companies, providing contributions, security, and other protections for the pensions of about 140,000 workers and retirees. Since its inception six years ago, the program has generated more than $15 billion in additional protection for the pensions of more than 1.6 million people. Specific agreements reached in 1997 included:

NCR CORPORATION:

NCR, formerly a wholly owned subsidiary of AT&T Corporation, was responsible for underfunded pensions covering more than 57,000 workers and retirees. AT&T planned to spin off NCR at the end of 1996. Under an agreement reached in November 1996, NCR provided security interests in various NCR properties totaling $80 million to guarantee the future funding of the pensions. In addition, the company agreed to continue full minimum funding contributions without applying an existing credit balance of more than $100 million for prior funding that exceeded the contributions required by law. Without the agreement, NCR could have used the credit balance to reduce or eliminate future contributions for a number of years. The agreement will remain in effect five years, after which it will expire once NCR achieves a specified financial rating.

ANCHOR GLASS CONTAINER CORPORATION:

Anchor planned to sell its assets to a buyer who would also assume responsibility for the company's three pension plans, which covered some 15,600 workers and retirees and were underfunded by about $190 million. The sale would remove Anchor from the control of its Mexican parent, Vitro S.A., thereby relieving Vitro and its subsidiaries from responsibility for the Anchor pensions. When PBGC proposed to terminate the plans in order to preserve claims against Vitro for the pension underfunding, the buyer agreed to pay missed pension contributions totaling about $18 million at the close of the sale and to assume responsibility for all future contributions to the plans. Vitro agreed to guarantee payments of up to $70 million over 10 years should PBGC have to terminate any of the plans in the future. A separate firm acquired a smaller portion of Anchor covering about 500 workers and assumed responsibility for about $15 million of the total underfunding.

DEL MONTE CORPORATION:

Del Monte, with three pension plans that were underfunded by about $90 million and covered more than 6,700 workers and retirees, was being purchased in a leveraged buyout. In April 1997, PBGC and the company reached an agreement to compensate the pension plans for the increased risk resulting from the transaction. Under the agreement, Del Monte will add $55 million in cash to its plans over the next five years, with the funding planned for the last three years secured by an irrevocable $20 million letter of credit. As a result of the agreement, the plans are expected to be close to fully funded at the end of the five-year period.

KERR GROUP, INC.:

A leveraged buyout of Kerr would have been financed primarily through debt secured by Kerr assets. Kerr maintained a pension plan covering 5,600 workers and retirees that was underfunded by about $41 million. PBGC determined that the proposed transaction would weaken its position relative to other creditors, thereby putting the insurance program at increased risk of loss, and filed a motion in district court to terminate the plan. Subsequent negotiations led to an agreement in August 1997 under which Kerr will continue to be responsible for the pension plan while accelerating funding of the plan. Kerr paid $3.5 million into the plan at the closing of the sale and will pay an additional $35.5 million through January 2003. PBGC obtained a second security interest in substantially all Kerr assets and withdrew its pending court action to terminate the plan. The agreement will remain in effect for at least five years and until Kerr meets other conditions.

AMPHENOL CORPORATION:

Amphenol maintained eight plans that covered 6,800 workers and retirees and were underfunded by about $45 million. When bank financing for a planned leveraged buyout of Amphenol threatened to add significant debt to the company, PBGC initiated negotiations that led to a May 1997 agreement. The agreement gave PBGC a second interest for up to $45 million in stock of Amphenol's foreign subsidiaries as security for the pension underfunding. PBGC will get additional collateral for the underfunding if the banks financing the purchase later determine that they need more collateral to secure their loans. The agreement will be in effect for at least five years and will continue thereafter until the pension plans are fully funded or Amphenol debt obtains an investment-grade rating.

LOCKHEED MARTIN CORPORATION:

Lockheed spun off some of its aerospace and defense communications units to a new, highly leveraged company called L-3 Communications Corporation. As part of the transaction, Lockheed also transferred seven pension plans covering nearly 3,000 workers and retirees of the divested businesses. While four of the plans were well-funded, three were underfunded by about $40 million. In May 1997, PBGC and Lockheed negotiated a settlement under which Lockheed agreed to reassume sponsorship of the three underfunded plans if L-3 is unable to support the plans. The agreement will remain in effect until L-3 achieves an investment-grade financial rating.

LITIGATION

While preferring to negotiate solutions to pension issues, PBGC stands ready to use its independent litigation authority when necessary to enforce its legal positions and to protect the insurance program. At the end of the year, PBGC had 85 active cases in state and federal courts and 790 bankruptcy cases. Major cases in 1997 included:

Pineiro, Brooks, and Beaumont v. PBGC:

In September 1996, three former employees of Pan American World Airways filed suit in district court asking that the court replace PBGC with an independent trustee. PBGC had terminated and become trustee of three Pan Am pension plans underfunded by $914 million in 1991. The agency currently pays more than $100 million annually to 14,000 Pan Am retirees, and has issued benefit determinations to more than half of the Pan Am participants to whom PBGC owes benefits. It is expected that more than 95 percent of the Pan Am participants will receive all of their pension benefits earned under the plans.

PBGC filed a motion to dismiss the complaint and, in November 1997, the court dismissed all but one of the allegations in the suit as meritless. The court noted that there were no allegations that "estimated benefits are not being paid or that the amounts of estimated benefits that are being paid are incorrect." The only allegation the court left open, without ruling on the merits, concerns the timeliness of PBGC's notice of benefits to the Pan Am participants.

Despite complications caused by the deplorable condition of company records and the company's protracted bankruptcy proceedings, PBGC has been paying benefits to Pan Am retirees continuously since taking over the plans while making steady progress in completing its determination of the benefits owed to about 35,000 former Pan Am workers and retirees.

COPPERWELD STEEL COMPANY:

PBGC continued to pursue bankruptcy claims to recover amounts due PBGC and Copperweld's three terminated pension plans, which covered about 3,000 workers and retirees. The company's liquidation trustee contests the extent to which PBGC's claims for unpaid minimum funding contributions are entitled to priority under the Bankruptcy Code and whether the factors prescribed in PBGC's regulations appropriately measure PBGC's claims for unfunded benefit liabilities in terminated pension plans that are trusteed by PBGC. These issues are central to PBGC's ability to recover its losses from bankrupt employers. In December 1997, the bankruptcy court ruled for the liquidation trustee's positions in both issues. PBGC is determining what appropriate future steps it should take in the litigation.

CF&I STEEL CORPORATION:

PBGC continued to pursue its claims against the reorganized CF&I for a CF&I plan that was underfunded by about $221 million when terminated in March 1992. In a November 1994 ruling, a district court denied priority to most of PBGC's claims for minimum funding contributions owed to CF&I's plan and for the plan's underfunding. The court also remanded the case to the bankruptcy court for reconsideration of the amount of PBGC's underfunding claim, ruling that the bankruptcy court erred in "deferring" to PBGC's interest rate assumption. The bankruptcy court subsequently revalued PBGC's claim for unfunded benefit liabilities from about $221 million to about $123 million based on a "discount rate" that differed from the assumptions prescribed by PBGC's regulation. The district court affirmed this ruling in April 1997. PBGC's appeal was pending in the Tenth Circuit Court of Appeals at yearend.

WHITE CONSOLIDATED INDUSTRIES, INC.:

White continued to contest PBGC's claims for the estimated $120 million underfunding in pension plans that White transferred to Blaw Knox Corporation in 1985. PBGC is alleging that a principal purpose of White in entering into the transaction was to evade pension liabilities. PBGC has taken over all the Blaw Knox plans either because they ran out of money or because they would have been abandoned after Blaw Knox ceased business and sold its assets in 1994. Trial before the district court was completed during April 1997, but the court's decision was still pending at yearend.

MULTIEMPLOYER LITIGATION

Although most of the significant multiemployer plan issues, such as "arbitrate first," are now well-settled principles of law, some important questions remain.

In *Board of Trustees, Bay Area Laundry and Dry Cleaning Pension Trust Fund v. Ferbar Corp of CA, et al.*, the Supreme Court was asked to decide when the statute of limitations begins to run for an action to collect withdrawal liability under the Multiemployer Pension Plan Amendments Act of 1980. In December 1997, the Court affirmed the position advocated by PBGC and the Solicitor General, who had filed a joint brief in July 1997 as "friends of the court." The Court held that the statute of limitations begins to run when an employer fails to make a scheduled withdrawal liability payment, and not on the (earlier) date the employer withdrew from the plan. The lower court's holding to the contrary could have significantly limited the ability of multiemployer plans to collect withdrawal liability.

PBGC stands ready... to enforce its legal positions and to protect the insurance program.

PBGC's second strategic goal is to provide high-quality services and accurate and timely payment of benefits to participants. During the year, PBGC worked to improve service both to the people owed benefits and to the employers whose premium payments support the pension insurance program.

SINGLE-EMPLOYER PROGRAM

Through its single-employer program, PBGC oversees terminations of fully funded plans and guarantees payment of basic pension benefits when underfunded plans must be terminated. The single-employer program covers about 33 million workers and retirees in about 43,000 plans. While the number of people covered by the program has grown slightly over the past few years, the number of plans has decreased as small companies have terminated their plans. The decrease abated during 1997.

STANDARD TERMINATIONS:

An employer may end a fully funded plan in a standard termination by purchasing annuities or paying lump sums to participants. Standard terminations are subject to legal requirements governing notifications to participants and to PBGC and payment of benefits. PBGC may disallow standard terminations that do not comply with the requirements.

The number of standard terminations filed with PBGC continued to decline in 1997, albeit at a slower pace, falling by 8 percent to about 3,500. Most of these plans had 50 or fewer participants.

PBGC audits a statistically significant number of completed terminations to confirm compliance with the law and proper payment of benefits. These audits generally have found few and relatively small errors in benefit payments, which plan administrators are required to correct. The errors primarily are due to the use of incorrect interest-rate assumptions in valuing lump-sum distributions to plan participants. PBGC's enforcement of its audit findings in 1997 resulted in payment of nearly $4 million of additional benefits to about 4,900 participants, about 5 percent of all participants in audited plans.

Shortly after the year ended, PBGC issued final rules that extended the deadlines and simplified the procedures companies must follow in standard terminations. The changes had been developed after PBGC conducted focus groups with pension professionals and also took participant concerns and PBGC's experience into account. The final rules also provided new model notices companies may use to inform workers and retirees about the intended termination of their plan and the guarantees offered by their states for annuity benefits if their annuity provider encounters financial difficulty. The simplified requirements provided regulatory relief for employers while maintaining full protection for workers' pensions.

DISTRESS AND INVOLUNTARY TERMINATIONS:

Defined benefit plans that are not able to pay all promised benefits may be terminated either by the company responsible for the plan or by PBGC. An employer wishing to terminate an underfunded plan generally may do so only if the employer is being liquidated or if the termination is necessary for the company's survival. The employer must first prove to PBGC, or to a bankruptcy court if appropriate, that it and each of its affiliated companies meets one of the financial distress criteria set by law.

An underfunded plan also may be terminated involuntarily by PBGC when necessary to protect the interests of the participants or of the insurance program. PBGC must terminate any plan that does not have assets available to pay current benefits.

During 1997 the agency completed the termination of 165 underfunded plans, the vast majority of which were involuntary terminations by PBGC. In most cases termination was necessary because the sponsoring employer had gone out of business. Many of these plans had been under consideration for termination for a period of time and their actual termination dates occurred in earlier years, when the circumstances leading to their termination first arose.

TRUSTEED PLANS:

PBGC typically becomes trustee of a plan only after it has been terminated, although not necessarily in the same year it was terminated. During the year, PBGC became trustee of 195 single-employer plans covering 54,000 people. At yearend, the agency was in the process of becoming trustee of an additional 90 plans terminated in 1997 or earlier. In all, including 10 multiemployer plans previously trusteed, a total of 2,510 terminated plans were trusteed or were being trusteed as of the end of the year. (This total also reflects the elimination of three single-employer plans included in last year's total, which no longer required PBGC to become trustee.)

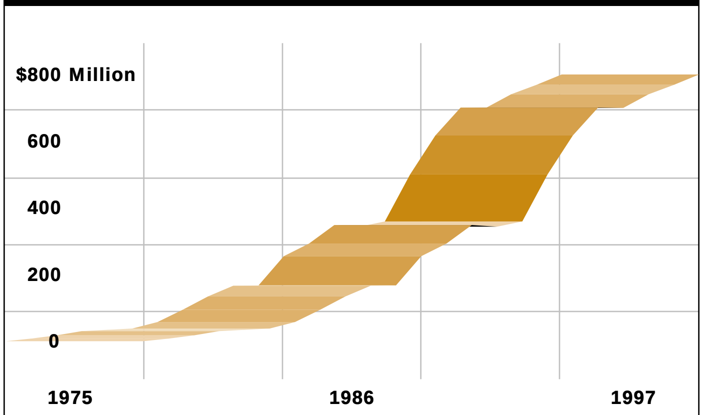
BENEFIT PROCESSING:

PBGC's responsibility for benefit payments begins immediately upon becoming trustee of a terminated plan. Top priority is given to maintaining uninterrupted benefit payments to existing retirees and commencing payments to new retirees without delay. Concurrently, PBGC staff also begin to notify plan participants of PBGC's trusteeship and to obtain essential data and records on each individual participant, a difficult task frequently complicated by inadequate plan and employer records.

PBGC pays estimated benefits to retirees until it has confirmed necessary data and valued plan assets and recoveries from the plan's sponsor. PBGC then calculates the actual benefit payable to each participant according to the specific terms of that person's plan, statutory guarantee levels, and the funds available from plan assets and employer recoveries. Benefit calculation can be an intricate process since each trusteed plan is different and must be separately administered.

Top priority is given to maintaining uninterrupted benefit payments to existing retirees and commencing payments to new retirees without delay.

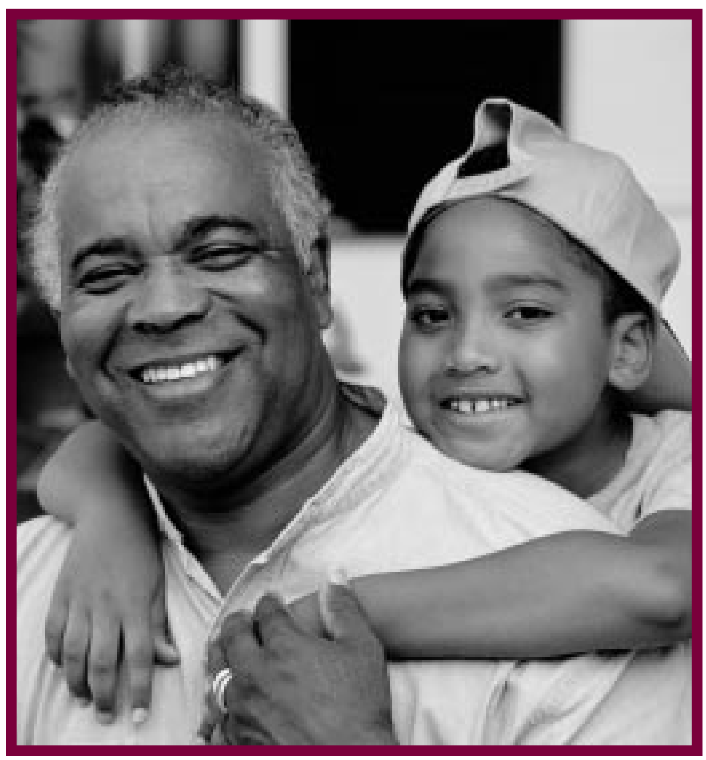
Benefits Paid



By the end of the year, PBGC was responsible for the current and future pension benefits of about 465,000 participants from single-employer and multiemployer plans. These include 205,800 retirees who received benefit payments totaling $824 million.

PBGC continued to accelerate its completion of individual benefit determinations. In 1997, PBGC issued more than 69,000 benefit determinations, exceeding the record number issued one year earlier. The heightened production is the direct result of the agency's advanced automated imaging, letter generation, and participant record management systems.

Benefit Payment Policies: PBGC announced two important changes in policies affecting benefit payments to people in PBGC-trusteed plans. In one, PBGC will no longer charge for pre-retirement survivor annuity protection for any plan terminated on or after August 23, 1984. This insurance provides benefits to surviving spouses of workers who die before they retire and begin receiving benefits. The agency had been providing this protection as an option for plan participants, who were subject to a small fee if they accepted the insurance. PBGC now provides this coverage without charge. Under the other change, announced shortly after the year ended, PBGC will be revising how it recovers benefit overpayments made after the date of plan termination from plan participants. PBGC has been giving participants the choice of repaying overpayments either in a lump sum or through a permanent reduction (generally capped at 10 percent) in their benefit payment. With the change, which is expected to be final during 1998, the reduction will cease when the total amount collected matches the amount by which the person had been overpaid.



APPEALS OF BENEFIT DETERMINATIONS:

PBGC's Appeals Board reviews appeals of certain PBGC determinations. Most of the appeals are from people disputing their benefit determinations. Typically, about 2 percent of all benefit determinations are appealed and that remained true this year. In 1997, the Appeals Board received 1,300 appeals and decided 927 appeals. Of these, the Board met to decide 122 appeals, 65 of which required changes in benefits primarily as a result of new facts, correction of calculation errors, or a different interpretation of plan provisions; the other 805 appeals were resolved based on prior Board decisions, settlements with organizations representing the appellants, Board staff efforts that led to new determinations, or more thorough explanations of the original determination.

PENSION SEARCH PROGRAM:

PBGC's efforts to link people missing from terminated pension plans with their retirement benefits continued to meet with success throughout the year. In addition to searching for workers and retirees missing in terminated underfunded plans that the agency now administers, PBGC conducts a missing participants clearinghouse to assist employers who are terminating fully funded plans to locate all people owed benefits. For the hardest-to-find people who have frustrated all previous searches by either their former employers or PBGC, the agency also maintains a listing on the Internet, which is called the Pension Search Directory.

During 1997, the second year of operation for the missing participants clearinghouse, 417 companies asked PBGC to find 4,734 missing people. Of these, 3,542 were due over $5.3 million in benefits and 1,192 were covered by annuity contracts that will pay their benefits when they are found. By yearend, PBGC had confirmed addresses for 554 of the missing people and paid nearly $1 million in benefits to 510 of them. PBGC is continuing its search for valid addresses for the remaining missing people.

In 1997, the Pension Search Directory enabled PBGC to find more than 1,000 other people who were owed over $4 million in benefits plus interest. The total listing included about 4,600 people who had worked for some 780 companies and were owed over $12 million in pension benefits. The Directory is a joint public and private sector effort that is being assisted by more than 20 organizations and unions. It may be viewed on the Internet at **http://search.pbgc.gov**.

The agency's Pension Search effort, with its innovative use of an on-line self-search listing and partnerships with private organizations, was recognized after the year ended with a Hammer Award from Vice President Al Gore's National Performance Review, the fifth such award received by PBGC. With this award, PBGC has won more Hammer Awards per employee than any other government agency.

Vice President Al Gore presents the Hammer Award to representatives of PBGC's Pension Search Team.

MULTIEMPLOYER PROGRAM

The multiemployer program, which covers about 8.8 million workers and retirees in about 2,000 insured plans, is funded and administered separately from the single-employer program and differs from the single-employer program in several significant ways. The multiemployer program covers only collectively bargained plans involving two or more unrelated employers. For such plans, the event triggering PBGC's guarantee is the inability of a covered plan to pay benefits when due at the guaranteed level, rather than plan termination as required under the single-employer program. PBGC provides financial assistance through loans to insolvent plans to enable them to pay guaranteed benefits.

The significant reforms enacted in 1980 created several safeguards for the program, including a requirement that employers who withdraw from a plan pay a proportional share of the plan's unfunded vested benefits. These safeguards have permitted PBGC to maintain multiemployer premiums at a constant, reasonably low level.

Plan Underfunding:

Based on Form 5500 data at the beginning of 1995 — the most recent information available — multiemployer plans had total assets of $202.3 billion and liabilities of $217.0 billion. Overfunding among multiemployer plans as of the beginning of 1995 totaled about $12.6 billion. Underfunding among these plans totaled $27.4 billion, a decrease of $2.6 billion from the previous year resulting mainly from the higher interest rates that prevailed in 1994. The average funding ratio of underfunded plans slipped slightly from 81 percent to 80 percent because of the effect of declining investment returns on asset values.

Future developments in multiemployer underfunding and the financial condition of the multiemployer program depend on future economic and demographic factors such as interest rates, plan experience and investment performance, and the financial health of covered industries, particularly as reflected in industry employment levels.

Financial Assistance:

The multiemployer program has received relatively few requests for financial assistance. Since enactment of the reforms in 1980, PBGC has provided assistance to only 19 of the 2,000 insured plans, with a total value of approximately $35 million net of repaid amounts. In 1997, only 14 of these plans were still receiving assistance of about $4 million annually.

CUSTOMER SERVICE

Premier customer service is a corporate priority and was a driving force behind a variety of PBGC initiatives during the year. While most of the agency's activity was aimed at those whom PBGC serves directly, two projects will also benefit the general public.

PBGC completed and issued a new reference publication, the "Pension Insurance Data Book 1996," which provides detailed statistics on the experience of the single-employer insurance program and on the pension plans that it protects. The "Data Book" is intended to contribute to informed analyses that will help ensure a sound pension system. PBGC also redesigned and expanded its Home Page and web-site on the Internet to make it more user-friendly and to highlight information of interest to workers, retirees, employers, and pension professionals.

SERVICE IMPROVEMENTS FOR PARTICIPANTS:

PBGC annually surveys a sampling of people whose plans have been taken over by the agency to determine their level of satisfaction with PBGC services and identify areas for improvement. Past surveys indicated a general desire for better and more timely communications, leading PBGC to introduce regular newsletters, a Customer Service Center with a toll-free telephone number, and more understandable form letters for regular correspondence. The most recent survey showed increased satisfaction with PBGC, as 79 percent of the surveyed participants rated PBGC's overall customer service as "above average" or "outstanding." One of PBGC's goals under its strategic plan is to satisfy 90 percent of the participants by the year 2002. In response to the latest survey, PBGC added a new standard that pledges the agency to deal with routine matters in one telephone call. The agency also expanded the availability of its toll-free telephone number so that all participants have a single telephone number with which to reach PBGC on any matter.

In other areas of communication, PBGC simplified and clarified its benefit determination letters and benefit summaries, which are used to inform people of the amount of their guaranteed benefit, and its two most important explanatory pamphlets for participants in trusteed plans. In addition, while continuing to hold informational meetings for people in large, newly trusteed plans, PBGC developed a videotape for participants of smaller plans when meetings with PBGC representatives are not feasible.

SERVICE IMPROVEMENTS FOR EMPLOYERS:

In addition to easing deadlines and simplifying rules for terminations of fully funded pension plans, PBGC adopted several measures to improve service and provide reporting relief for the business community. The agency ended publication of its annual listing of the 50 companies with the most underfunded pension plans. PBGC determined that the list was no longer needed since full implementation of the reporting and funding reforms enacted in the Retirement Protection Act has provided better enforcement tools to protect pensions.

PBGC also waived a requirement that small companies notify the agency if they fail to make quarterly pension contributions. According to PBGC analysis of reports received during the year, this change will ease reporting burdens for small companies without harm to plan participants or the insurance program. In addition, PBGC also announced shortly after the end of the year that it generally would ask employers selected for the agency's premium audit program to provide only three years of premium-related information rather than the six years of information previously required, in order to ease the burden and expense of these audits. Agency audits will extend back beyond three years only if problems appear in the initial information.

Premier customer service is a corporate priority and was a driving force behind a variety of PBGC initiatives during the year.

Only defined benefit pensions offer a predictable, guaranteed, lifetime pension for America's working men and women and their families. For a company, defined benefit plans promote worker loyalty and retain an experienced workforce, and in some cases are the most economical way to provide adequate pensions for employees.

The decline in the number of defined benefit plans continued to slow in 1997. Employers ended about 3,500 fully funded plans during the year, compared to about 3,800 such terminations in 1996. As a result of the continuing terminations and mergers of ongoing plans, the number of insured single-employer pension plans fell from a high of 112,000 in 1985 to 43,000 in 1997. The drop has been primarily among small plans — those with fewer than 100 participants. The number of larger plans — with 1,000 participants or more — has remained relatively stable.

PBGC has a statutory mandate to encourage the maintenance and continuation of defined benefit pension plans. To carry out this mandate, PBGC focused effort in 1997 in several areas.

The agency discussed with employer groups ways for small businesses, where fewer than 25 percent of the workers are covered by any retirement plan, to provide federally insured defined benefit pension coverage. As the year ended, the Administration was developing a simplified defined benefit plan — later called SMART (Secure Money Annuity or Retirement Trust) — to provide small businesses with an easy-to-administer pension option that would provide predictable, guaranteed benefits for workers. The Administration's proposal builds on the bipartisan SAFE proposal developed by Representatives Earl Pomeroy of North Dakota and Nancy Johnson of Connecticut, among others, and combines many of the best features of defined benefit and defined contribution plans. The SMART plan eliminates many of the complex rules that now apply to defined benefit plans while ensuring that the tax benefits of the plan flow primarily to low and middle-income workers. The Administration's proposed plan would cover all eligible workers in small businesses with 100 or fewer employees, and employers would have predictable funding based on conservative assumptions that would keep earned benefits fully funded at all times. Participants would be guaranteed a minimum annual retirement benefit that could be increased if the return on plan investments exceeded specified conservative assumptions, and their benefits would be protected by PBGC.

PBGC also sought to spur interest in defined benefit plans by following one of the key principles of a customer-driven organization — listening more effectively to the concerns of our customers, including the employers who provide defined benefit plans and pay insurance premiums. PBGC developed mechanisms for two-way communication with employers and pension plan practitioners through focus groups, surveys, and through the Internet via e-mail. The agency sought to identify obstacles to the creation and maintenance of defined benefit pension plans arising from PBGC rules and procedures and to take corrective action where appropriate.

To set up an environment conducive to defined benefit plans, PBGC began to ease regulatory and administrative requirements to encourage the provision of defined benefit plans, while still carrying out its mandate to protect workers' pensions and the pension insurance program. PBGC will continue to build on the achievements of 1997 to ease the burdens on providers of defined benefit pensions.

To further encourage defined benefit pensions, PBGC has begun to seek opportunities to reach out with information and education strategies to communicate the value of defined benefit pension plans to both employers and employees. Defined benefit retirement plans offer numerous advantages. Workers can earn a reasonable retirement benefit even if they were not covered by a retirement plan earlier in their career, and they can know in advance what benefits they will receive at retirement. These retirement benefits are not dependent on the amount of salary that workers are willing or able to contribute, and the retirement benefit is not subject to fluctuations of the stock market. The benefit is paid as an annuity for the life of a worker, no matter how long the worker lives. The defined benefit plan must also pay a lifetime survivor annuity to the worker's surviving spouse, unless both the worker and spouse elect otherwise.

Defined benefit plans offer distinct advantages to workers:

- **Predictable benefits**
- **Secure benefits**
- **Lifetime benefits**

Defined benefit plans provide more flexibility for employers to design different types of benefits packages for their workforces. For example, a defined benefit plan can be used to accomplish corporate workforce goals by providing early retirement incentives. Employers also can choose to add valuable benefits such as extra spousal benefits, disability benefits, or cost-of-living adjustments. There are investment advantages as well for employers. The collective investment of plan assets can result in higher plan investment returns, and favorable interest rates and economic conditions can reduce an employer's contribution. Finally, PBGC guarantees to pay most of a worker's pension benefit if the employer cannot afford to pay the benefits or goes out of business.

Defined benefit pensions have and will continue to play an important role in the effort to provide American workers with a secure retirement.

Defined benefit plans offer distinct advantages to employers:

- **Valuable retirement benefits for workers**
- **Flexible benefit options**
- **Investment advantages**

Defined benefit pensions have and will continue to play an important role in the effort to provide American workers with a secure retirement.

SINGLE-EMPLOYER PROGRAM EXPOSURE

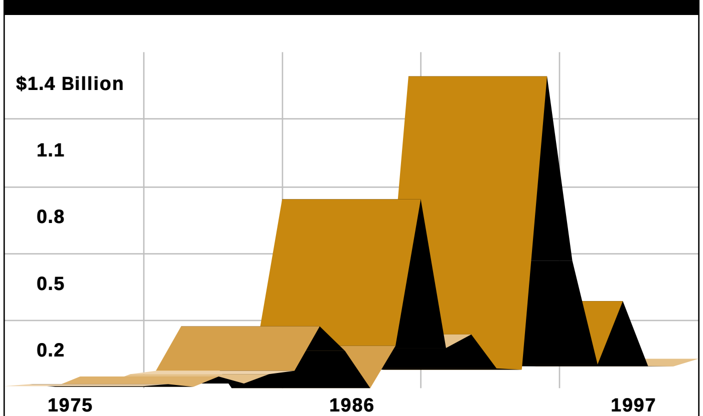
PBGC's expected future claims are dependent on two factors: the amount of underfunding in the pension plans it insures (i.e., the exposure), and the likelihood that plan sponsors encounter financial distress that results in bankruptcy and plan termination (i.e., the probability of claims).

Expected claims over the near term are related to underfunding in plans sponsored by firms that exhibit weakness in their creditworthiness. PBGC assigns plan sponsors to this category based upon factors such as whether the firm has a below-investment-grade bond rating. PBGC calculates underfunding for vested benefits using data from a variety of sources, including the annual confidential filings that companies with plans with at least $50 million in underfunding for vested benefits are required to make under Section 4010 of ERISA.

Underfunding by companies in this category is classified as PBGC's "reasonably possible" exposure, for purposes of PBGC's financial statements, as required under generally accepted accounting principles. As of December 31, 1996, baseline "reasonably possible" exposure was $21 billion, as compared to $22 billion one year earlier.

Expected claims in the longer term are more difficult to quantify either in terms of a single number or a limited range. That is, the amount of PBGC's future claims depends on many factors, including current underfunding among insured

PBGC Claims



plans, changes in underfunding over time, and bankruptcies among plan sponsors. These factors are influenced by future economic conditions, most particularly those affecting interest rates, stock returns, and the rate of business failure.

Claims also depend importantly on the financial performance and the plan funding history of the individual insureds. If firms that enter bankruptcy also are those that sponsor underfunded defined benefit plans, then claims could be high even if overall economic conditions are favorable, and vice versa. It is not possible to predict either economic conditions or which particular firms will enter bankruptcy in the future. Indeed, PBGC needs to be prepared financially to handle a range of outcomes.

In assessing the longer term, underfunding in companies with investment-grade bond ratings also must be considered because, over time, some of these companies will experience deterioration of their financial condition. Although this underfunding is referred to as "remote" (to distinguish it from "reasonably possible"), PBGC will incur claims from some of these firms over the next ten years.

In previous years, we based our estimates of total pension underfunding on information received from companies during the process of creating a list of the 50 companies with the largest underfunded pensions. With the reporting requirements in the Retirement Protection Act of 1994 fully implemented, the agency discontinued the Top 50 process in 1997.

Using data obtained for the last Top 50 list, PBGC reported overall pension underfunding of $64 billion as of the end of 1995. While the agency does not have a comparable estimate for aggregate underfunding as of the end of 1996, various other indices used by PBGC indicate that a moderate reduction in underfunding did take place in 1996.

Underfunding is sensitive to changes in interest rates or stock returns, or the development of underfunding in some large firms. There is clear volatility in underfunding over time, as seen in the period from 1980 to 1995.

Likewise, claims vary substantially over time reflecting overall economic conditions, the performance of some particular industries, or the bankruptcy of a few very large companies. Volatility and the concentration of claims in a small number of terminations characterize PBGC expected claims. This volatility is apparent in the agency's historical claims experience.

Methodology for considering long-term claims:

No single underfunding number or range of numbers — even the reasonably possible estimate — is sufficient to evaluate PBGC's exposure and expected claims over the next ten years. There is too much uncertainty about the future, whether the performance of the economy or the performance of the companies that sponsor the insured pension plans.

The proper way to assess future claims is with advanced analytic tools such as stochastic models. The agency is now in the final stages of peer review of its stochastic model, the Pension Insurance Modeling System (PIMS). PIMS models future underfunding under current funding rules as a function of a variety of economic parameters and recognizes that all companies have some chance of bankruptcy, and that these probabilities can change significantly over time. The model 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.

Until PIMS is fully peer-reviewed, we will continue to use our existing model that portrays three potential claims scenarios and does not assign probabilities to their occurrence.

Ten-Year Forecasts:

PBGC's current methodology for the ten-year forecasts relies on an extrapolation of the agency's claims experience and the economic conditions of the past two decades.

Forecast A is based on the average annual net claims over PBGC's entire history ($467 million per year) and assumes the lowest level of future losses. Forecast A projects steady improvement in PBGC's financial condition, resulting in a surplus of $8.0 billion at the end of 2007.

Forecast B, which assumes the mid-level of future losses, is based upon the average annual net claims over the most recent 11 fiscal years ($545 million per year). Forecast B projects net income levels that, while lower than Forecast A, still lead to a surplus of $6.9 billion at the end of 2007.

Forecast C is highly pessimistic and reflects the potential for heavy losses from the largest underfunded plans by assuming that the plans that represent the reasonably possible exposure will terminate uniformly over the next ten years in addition to a modest number of lesser terminations each year. This forecast assumes $2.1 billion of net claims each year, resulting in a return to a deficit position and the steady growth of PBGC's deficit throughout the ten-year period to $17.1 billion.

The 1997 forecasts share several assumptions. Average annual net claims and projected claims are in 1997 dollars. The present value of future benefits is valued at 6.18% and using other actuarial assumptions that are consistent with assumptions used to value the present value of future benefits in the financial statements as of September 30, 1997. PBGC's assets are projected to earn 6.18% annually. Benefits for plans terminating in the future are assumed to grow at 4.38% annually until termination. Plan funding ratios are assumed to increase at 1.5% per year from historical averages and recoveries from plan sponsors are assumed to be constant at 10% of plan underfunding. The number of participants in insured single-employer plans is assumed to remain constant. The flat-rate portion of the single-employer premium is assumed to remain constant at $19 per participant. Receipts from the variable-rate portion of the premium are projected on the basis of a constant 30-year U. S. Treasury bond rate of 6.5%. Assumed administrative expenses are consistent with PBGC's 1999 President's Budget submission.

With a strategic goal of improving internal management support operations, PBGC is committed to a strong infrastructure built on modern technology and comprehensive employee development.

TECHNOLOGY ADVANCES

PBGC continued to bring new automated information management systems on-line, using commercial off-the-shelf software as appropriate. Some of the new systems, such as a new trust fund accounting system, converted critical applications from outmoded mainframe computers to modern PBGC-based "client-server" systems using networked personal and small multi-user computers. Another system that will become operational in 1998 will account for revolving fund activities with the use of off-site Department of Commerce computers for which PBGC has made a special arrangement. Both of the new accounting systems will be part of PBGC's integrated core financial system.

The agency also worked to improve existing systems while applying finishing touches to the major new systems implemented within the past two years. Enhanced software for the Early Warning Program provides the program's financial analysts with easier access to the detailed information they need for their analyses, freeing them to handle more cases and address more issues. PBGC expanded the availability of the new participant information management and image processing systems that had been developed for insurance operations so that other departments could begin making use of the information in these systems. The agency also established an in-house Document Management Center to centralize and facilitate mail handling, imaging, and limited automated letter generation, and an off-site facility has been set up to handle large-scale production and mailing of automated letters.

While PBGC has not yet achieved full integration of its automated information systems, the systems it is developing do allow easier sharing of data. In addition, the agency adopted a corporate-wide systems development methodology that will ensure that all future information systems and applications will be developed consistent with existing corporate standards and systems.

PBGC's advances in technology are beginning to demonstrate value beyond the pension insurance program. During 1997, PBGC received special recognition from the Smithsonian Institution for using information technology "for the benefit of mankind." Information on the premium accounting system will be added to the Smithsonian's Permanent Research Collection of Information Technology at its National Museum of American History. Separately, in support of the President's initiative to strengthen the District of Columbia and in memory of PBGC's late Executive Director Martin Slate, the Department of Labor and PBGC donated 45 surplus computers to a local elementary school, increasing the accessibility of computers from one for every eight students to one for every four students. PBGC volunteers subsequently donated time and materials to wire the school for access to the Internet.

EMPLOYEE DEVELOPMENT

PBGC added new courses to expand its in-house employee training program, which also was renamed the Martin Slate Training Institute in memory of the late PBGC Executive Director. Secretary of Labor Alexis Herman joined PBGC's then-Acting Executive Director John Seal and Mr. Slate's widow, Dr. Caroline Poplin, in a June 1997 ceremony dedicating the newly named Training Institute in commemoration of Mr. Slate's commitment to employee training and development.

By yearend the agency had completed development of ten new technical courses and was in the process of developing six additional courses. The new courses focus on such areas as the agency's new information systems, pension law, and the processing and administration of terminated plans. Other innovations during the year included a new mentoring program for professional staff and an expert witness-attorney trial advocacy training program to sharpen the expert testimony skills of PBGC analysts and actuaries and the trial skills of PBGC attorneys.

PBGC's advances in technology are beginning to demonstrate value beyond the pension insurance program.

CONTENTS OF FINANCIAL STATEMENTS

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

GENERAL

The following discussion and analysis provide information that management believes is relevant to an assessment and understanding of the Corporation's financial condition and results of operations. The discussion should be read in conjunction with the financial statements and notes thereto.

PBGC's operating results are subject to significant fluctuation from year to year depending on the frequency and severity of losses from terminating pension plans, general economic conditions, and other factors such as changes in law. Consequently, certain traditional financial ratios and measurements are not meaningful and, therefore, not presented.

COMBINED RESULTS

For 1997, PBGC's combined underwriting and financial activities resulted in a net gain of $2.707 billion on gross income of $3.864 billion. The single-employer and multiemployer programs reported a net income of $2.612 billion and $95 million respectively. By law, these two programs are separate.

SINGLE-EMPLOYER PROGRAM

Results of Activities and Trends:

The net income in 1997 was $2.612 billion compared to net income of $1.184 billion in 1996. The $1.428 billion increase was primarily attributable to the increase in investment income.

Underwriting Activity: The gain of $897 million in 1997 was up from a gain of $760 million in 1996. This $137 million increase was primarily due to the change in actuarial adjustments related to (1) finalizing of benefits for a large number of plans and (2) a change in the method of calculating expenses incurred in determining and paying a participant's benefits, to more closely match the agency's annual claims-related expenses.

Underwriting income decreased from $1.172 billion in 1996 to $1.086 billion in 1997. The $86 million decrease relates primarily to the decrease in variable-rate premium payments.

The Corporation's losses from completed and probable plan terminations increased from $118 million in 1996 to $489 million in 1997. Although there were no major plan terminations in 1997, losses are unpredictable.

Operating costs remained relatively level, increasing only $3 million from 1996.

Financial Activity: Investment income offset actuarial charges in 1997, resulting in a $1.715 billion gain versus a $424 million gain in 1996. The total return on investments was 21.9% in 1997, compared to 8.5% in 1996. Both equity and fixed-income investments experienced higher returns in 1997 than in 1996 due to the strong performance of the capital markets. PBGC, in accordance with generally accepted accounting principles, marks its assets and liabilities to market.

Actuarial charges primarily resulted from the aging of the present value of future benefits and from changes in interest rates. In 1997, the select interest rate assumption decreased from 6.6% at September 30, 1996, to 6.2% at September 30, 1997, while the ultimate rate increased from 4.75% to 5.5%. The passage of time and change in the interest rates resulted in an actuarial charge of $960 million in 1997, compared to an actuarial charge of $481 million in 1996.

Liquidity and Capital Resources:

The single-employer fund's net position improved in 1997 to nearly $3.5 billion primarily because of a strong return on investments. Approximately $15.1 billion (99 percent) of the fund's total assets of $15.3 billion are in marketable assets.

PBGC's primary sources of cash are from premium receipts and investment activities. If funds generated from these sources are insufficient to meet fixed charges in any period, the Corporation has available a $100 million line of credit from the U.S. Treasury for liquidity purposes. PBGC did not use this borrowing authority in 1996 or 1997 and has no plans to use it in the near future.

Benefit payments and administrative expenses should again approximate $1 billion in 1998. Due to significant factors beyond PBGC's control (e.g., interest rates, contributions made to the plans by sponsors, etc.), it is difficult to project premium revenue with a high degree of certainty.

The Corporation is subject to litigation that could have considerable impact on its financial condition. Also, the total underfunding in large plans that are sponsored by companies with below-investment-grade bond ratings ranges from approximately $21 billion to $23 billion. Losses from these plans are not probable at this time but generally accepted accounting principles require the exposure to be disclosed in the footnotes of the financial statements. This exposure is primarily in the steel, airline, industrial and commercial equipment, and transportation equipment industries.

The single-employer program's positive net position of nearly $3.5 billion at yearend will help provide the financial foundation needed to support the Corporation's long-term responsibilities under the Employee Retirement Income Security Act. A properly managed insurance program must have the resources to provide for unforeseen losses from terminating pension plans.

MULTIEMPLOYER PROGRAM

Results of Activities and Trends:

The multiemployer program reported a net gain of $95 million in 1997 compared to a loss of $68 million in 1996. This year's gain was primarily due to the increase in investment income and the lack of any new plans requiring future financial assistance. Premium income remained constant at $22 million. Investment income increased from $12 million in 1996 to $68 million in 1997. Of the fund's assets, 94.1 percent and 93.3 percent were invested in Treasury securities in 1997 and 1996, respectively.

Liquidity and Capital Resources:

As the multiemployer program has a positive net position and most assets are highly liquid Treasury securities, PBGC has sufficient resources to meet its liquidity requirements now and in the long-term future. Premium receipts will approximate $22 million, while benefit payments and financial assistance will be about $18 million.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT STATEMENT

Management controls in effect in 1997 provided reasonable assurance that assets were safeguarded from material loss and that transactions were executed in accordance with management's authority and with significant provisions of selected laws and regulations. Furthermore, PBGC management controls provided reasonable assurance that transactions were properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with generally accepted accounting principles and to maintain accountability for assets among funds.

Only one of two previously identified weaknesses remains. PBGC actions have overcome the weakness in strategic information management. The remaining financial management system weakness will be corrected by integrating the new revolving fund system in 1998.

MANAGEMENT REPRESENTATION

PBGC's management is responsible for the accompanying Statements of Financial Condition as of September 30, 1997 and 1996, the related Statements of Operations and Changes in Net Position, and the Statements of Cash Flows for the years then ended. PBGC's management is also responsible for establishing and maintaining systems of internal accounting and administrative controls that provide reasonable assurance that the control objectives — preparing reliable financial statements, safeguarding assets, and complying with laws and regulations — are achieved.

The Inspector General engaged Price Waterhouse LLP (Price Waterhouse) to conduct the audit of the Corporation's 1997 and 1996 financial statements. In its opinion on PBGC's financial statements, Price Waterhouse reported that the Statements of Financial Condition as of September 30, 1997 and 1996, and the Statements of Operations and Changes in Net Position and Statements of Cash Flows for the fiscal years ended September 30, 1997 and 1996, were fairly stated in all material respects.

In the opinion of management, the financial statements present fairly the financial position of PBGC at September 30, 1997, and September 30, 1996, and the results of operations and cash flows for the years then ended, in conformity with generally accepted accounting principles and actuarial standards applied on a consistent basis.

Estimates of probable terminations, nonrecoverable future financial assistance, amounts due from employers, and the present value of future benefits may have a material effect on the financial results being reported. In addition, pending litigation could have a material impact on the financial condition of the Corporation.

As a result of the aforementioned, these statements are based, 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.

David M. Strauss
Executive Director

N. Anthony Calhoun
Deputy Executive Director
and Chief Financial Officer

January 30, 1998

PENSION BENEFIT GUARANTY CORPORATION
STATEMENTS OF FINANCIAL CONDITION

(Dollars in millions)

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
	1997	1996	**1997**	1996	**1997**	1996
ASSETS						
Cash and cash equivalents	**$ 553**	$ 674	**$ 20**	$ 24	**$ 573**	$ 698
Investments, at market (Note 3):						
Fixed maturity securities	**8,340**	6,479	**561**	471	**8,901**	6,950
Equity securities	**5,974**	4,369	**4**	3	**5,978**	4,372
Real estate	**83**	53	**0**	0	**83**	53
Other	**38**	90	**0**	0	**38**	90
Total investments	**14,435**	10,991	**565**	474	**15,000**	11,465
Receivables, net:						
Sponsors of terminated plans	**52**	44	**0**	0	**52**	44
Sponsors of restored plans (Note 4)	**56**	51	**0**	0	**56**	51
Premiums	**59**	63	**1**	1	**60**	64
Sale of securities	**33**	28	**0**	0	**33**	28
Notes receivable (Note 5)	**3**	86	**0**	0	**3**	86
Investment income	**114**	97	**7**	6	**121**	103
Other	**4**	5	**3**	0	**7**	5
Total receivables	**321**	374	**11**	7	**332**	381
Furniture and fixtures, net	**5**	4	**0**	0	**5**	4
Total assets	**$15,314**	$12,043	**$596**	$505	**$15,910**	$12,548

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

PENSION BENEFIT GUARANTY CORPORATION
STATEMENTS OF FINANCIAL CONDITION

(Dollars in millions)

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
	1997	1996	**1997**	1996	**1997**	1996
LIABILITIES						
Present value of future benefits, net (Note 6):						
Trusteed plans	**$ 9,994**	$ 9,520	**$ 7**	$ 9	**$10,001**	$ 9,529
Terminated plans pending trusteeship	**147**	223	**0**	0	**147**	223
Settlements and judgments	**248**	62	**0**	0	**248**	62
Claims for probable terminations	**1,108**	955	**0**	0	**1,108**	955
Total present value of future benefits, net	**11,497**	10,760	**7**	9	**11,504**	10,769
Present value of nonrecoverable future financial assistance (Note 7)			**361**	365	**361**	365
Unearned premiums	**271**	296	**9**	7	**280**	303
Accounts payable and accrued expenses (Note 8)	**65**	118	**0**	0	**65**	118
Commitments and contingencies (Notes 9, 10, and 17)						
Total liabilities	**11,833**	11,174	**377**	381	**12,210**	11,555
NET POSITION	**3,481**	869	**219**	124	**3,700**	993
Total liabilities and net position	**$15,314**	$12,043	**$596**	$505	**$15,910**	$12,548

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,		Multiemployer Program For the Years Ended September 30,		Memorandum Total For the Years Ended September 30,	
	1997	1996	**1997**	1996	**1997**	1996
UNDERWRITING:						
Income:						
Premium (Note 11)	**$1,064**	$1,146	**$ 22**	$ 22	**$1,086**	$1,168
Other (Note 12)	**22**	26	**1**	1	**23**	27
Total	**1,086**	1,172	**23**	23	**1,109**	1,195
Expenses:						
Administrative	**143**	140	**0**	0	**143**	140
Other	**29**	3	**0**	0	**29**	3
Total	**172**	143	**0**	0	**172**	143
Other underwriting activity:						
Losses from completed and probable terminations (Note 13)	**489**	118	**0**	0	**489**	118
Losses (gains) from financial assistance (Note 7)			**(3)**	102	**(3)**	102
Actuarial adjustments (Note 6)	**(472)**	151	**(2)**	0	**(474)**	151
Total	**17**	269	**(5)**	102	**12**	371
Underwriting income (loss)	**897**	760	**28**	(79)	**925**	681
FINANCIAL:						
Investment income (Note 14):						
Fixed	**1,000**	191	**67**	11	**1,067**	202
Equity	**1,679**	694	**1**	1	**1,680**	695
Other	**8**	30	**0**	0	**8**	30
Total	**2,687**	915	**68**	12	**2,755**	927
Expenses:						
Investment	**12**	10	**0**	0	**12**	10
Actuarial charges (credits) (Note 6):						
Due to passage of time	**654**	615	**1**	1	**655**	616
Due to change in interest rates	**306**	(134)	**0**	0	**306**	(134)
Total	**972**	491	**1**	1	**973**	492
Financial income	**1,715**	424	**67**	11	**1,782**	435
Net income (loss)	**2,612**	1,184	**95**	(68)	**2,707**	1,116
Net position, beginning of year	**869**	(315)	**124**	192	**993**	(123)
Net position, end of year	**$3,481**	$ 869	**$219**	$124	**$3,700**	$ 993

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,		Multiemployer Program For the Years Ended September 30,		Memorandum Total For the Years Ended September 30,	
	1997	1996	**1997**	1996	**1997**	1996
OPERATING ACTIVITIES:						
Premium receipts	**$ 1,047**	$ 1,191	**$ 24**	$ 21	**$ 1,071**	$ 1,212
Interest and dividends received, net	**597**	509	**36**	32	**633**	541
Cash received from plans upon trusteeship	**29**	47	**0**	0	**29**	47
Receipts from sponsors	**25**	47	**0**	0	**25**	47
Other receipts	**8**	17	**0**	0	**8**	17
Receipts of notes receivable	**79**	8	**0**	0	**79**	8
Benefit payments - trusteed plans	**(792)**	(778)	**(1)**	(2)	**(793)**	(780)
Financial assistance payments			**(4)**	(5)	**(4)**	(5)
Settlements and judgments	**(5)**	(35)	**0**	0	**(5)**	(35)
Payments for administrative and other expenses	**(154)**	(158)	**0**	0	**(154)**	(158)
Net cash provided by operating activities (Note 16)	**834**	848	**55**	46	**889**	894
INVESTING ACTIVITIES:						
Proceeds from sales of investments	**3,680**	5,093	**23**	176	**3,703**	5,269
Payments for purchases of investments	**(4,635)**	(5,704)	**(82)**	(210)	**(4,717)**	(5,914)
Net cash used in investing activities	**(955)**	(611)	**(59)**	(34)	**(1,014)**	(645)
Net increase (decrease) in cash and cash equivalents	**(121)**	237	**(4)**	12	**(125)**	249
Cash and cash equivalents, beginning of year	**674**	437	**24**	12	**698**	449
Cash and cash equivalents, end of year	**$ 553**	$ 674	**$ 20**	$ 24	**$ 573**	$ 698

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

NOTE 1 — ORGANIZATION AND PURPOSE

The Pension Benefit Guaranty Corporation (PBGC or the Corporation) is a federal corporation created by Title IV of the Employee Retirement Income Security Act of 1974 (ERISA) and is subject to the provisions of the Government Corporation Control Act. Its activities are defined in ERISA as amended by the Multiemployer Pension Plan Amendments Act of 1980, the Single-Employer Pension Plan Amendments Act of 1986, the Pension Protection Act of 1987, and the Retirement Protection Act of 1994. The Corporation insures pensions, within statutory limits, of participants in covered single-employer and multiemployer defined benefit pension plans that meet the criteria specified in Section 4021 of ERISA.

ERISA requires that PBGC programs be self-financing. The Corporation finances its operations through premiums collected from covered plans, assets assumed from terminated plans, collection of employer liability payments due under ERISA as amended, and investment income. In addition, PBGC may borrow up to $100 million from the U.S. Treasury to finance its operations. The Corporation did not use this borrowing authority during the years ended September 30, 1997, or September 30, 1996, nor is use of this authority currently planned. ERISA provides that the U.S. Government is not liable for any obligation or liability incurred by PBGC.

Under the single-employer program, PBGC is liable for the payment of guaranteed benefits with respect only to underfunded terminated plans. An underfunded plan may terminate only if PBGC or a bankruptcy court finds that one of the four conditions for a distress termination, as defined in ERISA, is met or if PBGC involuntarily terminates a plan under one of five specified statutory tests. The net liability assumed by PBGC is generally equal to the present value of the future benefits (including amounts owed under Section 4022(c) of ERISA) less (1) the amounts that are provided by the plan's assets and (2) the amounts that are recoverable by PBGC from the plan sponsor and members of the plan sponsor's controlled group, as defined by ERISA.

Under the multiemployer program, if a plan becomes insolvent, it receives financial assistance from PBGC to allow the plan to continue to pay participants their guaranteed benefits. Such assistance is recognized as a loss to the extent that the plan is expected to be unable to repay these amounts from future plan contributions, employer withdrawal liability, or investment earnings.

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES

Revolving and Trust Funds:

PBGC accounts for its single-employer and multiemployer programs' revolving and trust funds on an accrual basis. Each fund is charged its portion of the benefits paid each year. The revolving and trust funds have been combined for presentation purposes in the financial statements. The single-employer and multiemployer programs are separate programs by law and, therefore, are reported separately.

ERISA provides for the establishment of revolving funds to be used by PBGC in carrying out its duties. The revolving funds support the operational and administrative functions of PBGC and fund any deficits incurred by PBGC in trusteeing plans or providing financial assistance. Premiums collected from ongoing plans are accounted for through the revolving funds. The Pension Protection Act of 1987 created a single-employer revolving fund that is credited with all premiums in excess of $8.50 per participant, including all penalties and interest charged on these amounts, as well as investment income. This fund may not be used to pay PBGC's administrative costs or the benefits of any plan terminated prior to October 1, 1988, unless no other amounts are available.

The trust funds reflect accounting activity associated with: (1) trusteed plans — plans for which PBGC has legal responsibility, (2) plans pending trusteeship — terminated plans for which PBGC has not become legal trustee by fiscal yearend, and (3) probable terminations — plans that PBGC determines are likely to terminate and be trusteed by PBGC. PBGC cannot exercise legal control over a plan's assets until PBGC becomes trustee, which may be several years after the date of plan termination.

Allocation of Revolving and Trust Funds:

Revolving and trust fund assets, liabilities, income, and expenses are allocated to each program's revolving and trust funds to the extent that such amounts are not directly attributable to a specific fund. Revolving fund income is allocated on the basis of each program's average cash available for investment 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 yearend equity of each program's revolving funds. The plan assets acquired by PBGC and commingled at PBGC's custodian bank are credited directly to the appropriate fund while the earnings and expenses on the commingled assets are allocated to each program's trust funds on the basis of each trust fund's value, relative to the total value of the commingled fund.

Valuation Method:

Consistent with generally accepted accounting principles outlined in Statements of Financial Accounting Standards Nos. 35 ("Accounting and Reporting by Defined Benefit Pension Plans"), 60 ("Accounting and Reporting by Insurance Enterprises"), and 87 ("Employers' Accounting for Pensions"), PBGC reports its assets and liabilities at fair value. A primary objective of PBGC's financial statements is to provide financial information that is useful in assessing PBGC's present and future ability to ensure that defined benefit pension plan beneficiaries receive benefits when due. PBGC believes that measuring its assets and liabilities at fair value provides the most relevant information to the reader.

Cash and Cash Equivalents:

Cash includes cash on hand and demand deposits. Cash equivalents are securities with a maturity of one business day.

Investment Valuation and Income:

Fair values are based on the last sale of a listed security, on the mean of the "bid-and-asked" 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. 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 an average cost basis. Any increase or decrease in the market value of a plan's assets occurring after the date on which the plan is terminated must, by law, be credited to or suffered by PBGC (see Notes 3, 6, and 14).

Sponsors of Terminated Plans, Receivables:

The amounts due from sponsors of terminated plans or members of their controlled group represent the settled claims for employer liability (underfunding as of date of plan termination) and for contributions due their plan less an allowance for uncollectible amounts. Any amounts expected to be received beyond one year are discounted for time and risk factors. Some agreements between PBGC and plan sponsors provide for contingent payments based on future profits of the sponsors. Any such future amounts realized will be reported in the period in which they accrue or are received.

Premiums:

Premiums receivable represent the earned but unpaid portion of the premiums for plans that have a plan year commencing before the end of PBGC's fiscal year and past due premiums deemed collectible, including collectible penalties and interest. Unearned premiums represent an estimate of payments received during the fiscal year that cover the portion of a plan's year after the Corporation's fiscal yearend. Premium income represents revenue generated from self-assessments from defined benefit pension plans as required by Title IV of ERISA.

Present Value of Future Benefits (PVFB):

The PVFB is the estimated liability for future pension benefits that PBGC is or will be obligated to pay with respect to trusteed plans and terminated plans pending trusteeship. This liability 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 terminated plans pending trusteeship. The estimated liabilities attributable to probable future plan terminations are also included in the PVFB as a separate line item (net of estimated recoveries and assets). To measure the actuarial present value, PBGC used assumptions to adjust the value of those future payments to reflect the time value of money (by discounting) and the probability of payment (by means of decrements, such as for death or retirement). PBGC also included anticipated expenses to settle the benefit obligation in the determination of the PVFB.

(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 PBGC prior to fiscal yearend.

(2) Terminated Plans Pending 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 that have terminated but have not been trusteed by PBGC prior to fiscal yearend.

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

(4) Net Claims for Probable Terminations — includes reasonable estimates of the losses, net of plan assets and the present value of expected recoveries (from sponsors and members of their controlled group) for plans that are likely to terminate in a future year. These estimated losses are based on conditions that existed as of PBGC's fiscal yearend. It is likely that one or more events subsequent to PBGC's fiscal yearend will occur, confirming the fact of the loss.

PBGC's benefit payments to participants represent a reduction to the PVFB (see Note 6).

Present Value of Nonrecoverable Future Financial Assistance:

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

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

Other Expenses:

These expenses represent a current period estimate of the net amount of receivables deemed to be uncollectible. 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 date of plan termination between the present value of future benefits (including amounts owed under Section 4022(c) of ERISA) assumed, or expected to be assumed, by PBGC, less related plan assets and the present value of expected recoveries from sponsors and members of their controlled group (see Note 13). In addition, the plans' net income from date of plan termination to the beginning of the fiscal year is included as a component of losses from completed and probable terminations for plans with termination dates prior to the year in which they were added to PBGC's inventory of terminated plans.

Actuarial Adjustments and Charges:

Actuarial adjustments related to changes in method and the effect of experience are classified as underwriting activity. Actuarial charges related to changes in interest rates and passage of time are classified as financial activity. These adjustments and charges represent the change in the PVFB that results from applying actuarial assumptions in the calculation of future benefit liabilities (see Note 6).

Depreciation:

Depreciation of PBGC's furniture and equipment is calculated on a straight-line basis over the estimated useful lives of the assets. The useful lives range from 5 to 10 years. 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 in securities issued by the U.S. Government.

The trust funds include assets PBGC acquires or expects to acquire with respect to terminated plans 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. The basis indicated is cost of the asset if acquired after the date of plan termination or the market value at date of plan termination if the asset was acquired as a result of a plan's termination. Realized and unrealized gains and losses, in addition to interest and dividends earned on these investments, are disclosed in Note 14.

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

(Dollars in millions)

	September 30, 1997		September 30, 1996	
	Basis	**Market Value**	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	**$ 7,710**	**$ 8,122**	$6,440	$ 6,462
Certificates of deposit	**1**	**1**	1	1
Corporate bonds	**195**	**217**	15	16
Subtotal	**7,906**	**8,340**	6,456	6,479
Equity securities	**3,443**	**5,974**	3,096	4,369
Real estate	**73**	**83**	57	53
Other:				
Insurance contracts	**44**	**36**	37	36
Mortgages	**2**	**2**	1	1
Foreign securities	**0**	**0**	58	53
Total	**$11,468**	**$14,435**	$9,705	$10,991

INVESTMENTS OF MULTIEMPLOYER REVOLVING FUNDS AND MULTIEMPLOYER TRUSTEED PLANS

(Dollars in millions)

	September 30, 1997		September 30, 1996	
	Basis	**Market Value**	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	$**532**	$**561**	$469	$471
Corporate bonds	**0**	**0**	0	0
Subtotal	**532**	**561**	469	471
Equity securities	**2**	**4**	2	3
Total	**$534**	**$565**	$471	$474

NOTE 4 — RECEIVABLES, NET: SPONSORS OF RESTORED PLANS

The $56 million receivable consists of the original $48 million, 8 1/2% interest-bearing note from the LTV Corporation that matures on December 31, 2020, $4 million of interest owed for 1997 and $3 million of interest owed for prior years that were added to the principal balance, and approximately $1 million in interest accrued at yearend.

NOTE 5 — RECEIVABLES, NET: NOTES RECEIVABLE

In fiscal year 1997, PBGC received $73 million from Continental Airlines to liquidate 10 secured notes with a face value of $82 million. There are four remaining 12% secured notes that mature in 1999. These notes had a net present value of $3 million at September 30, 1997, and the 14 notes had a net present value of $86 million at September 30, 1996.

NOTE 6 — PRESENT VALUE OF FUTURE BENEFITS

The following table summarizes the actuarial adjustments, charges, and credits that explain how the Corporation's single-employer program liability for the present value of future benefits changed for the years ended September 30, 1997 and 1996.

PBGC used a 25-year select interest rate of 6.2% followed by an ultimate rate of 5.5% for 1997 and a 25-year select interest rate of 6.6% followed by an ultimate rate of 4.75% for 1996. These rates were determined to be those needed to continue to match the survey of annuity prices provided by the American Council of Life Insurance. PBGC's regulations state that both the interest rate 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 expenses) could be settled in the market at September 30, for single-premium nonparticipating group annuities issued by private insurers. These rates are impacted by many factors including Federal Reserve policy.

In 1997, PBGC adopted the 1994 Group Annuity Mortality (GAM) Static Table (with margins), set forward two years and projected 12 years to 2006 using Scale AA, based on the recommendation of a study conducted by an outside consultant. In 1996, PBGC used the 1983 GAM table with margins projected to 1993 by Scale H.

The reserve for administrative expenses in the 1997 valuation was assumed to be 1.3 percent of benefit liabilities 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 1996, this assumption consisted of (1) an initial case processing cost of $26,000 per plan plus $650 per participant, both of which were phased out over four years following the date of trusteeship; and (2) a flat 3.25 percent of benefit liabilities. The expense formula used to calculate the PVFB was modified for 1997 to more accurately reflect PBGC's claims-related expenses, as determined by a study conducted by an outside consultant.

The present values of future benefits for trusteed multiemployer plans for 1997 and 1996 reflect changes due to benefit payments, change in interest assumption, passage of time, and effect of experience.

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

	September 30,			
	1997		1996	
Present value of future benefits, at beginning of year — Single-Employer, net		**$10,760**		$10,388
Estimated recoveries		**36**		58
Assets of terminated plans pending trusteeship, net		**119**		212
Present value of future benefits at beginning of year, gross		**10,915**		10,658
Settlements and judgments		**(62)**		0
Net claims for probable terminations, prior year		**(955)**		(1,179)
Actuarial adjustments — underwriting:				
Changes in method and assumptions	**$ (454)**		$ (44)	
Effect of experience	**(18)**		195	
Total actuarial adjustments — underwriting	**(472)**		151	
Actuarial charges (credits) — financial:				
Passage of time	**654**		615	
Change in interest rates	**306**		(134)	
Total actuarial charges — financial	**960**		481	
Total actuarial charges		**488**		632
Terminations:				
Current year	**870**		675	
Changes in prior year	**(177)**		(98)	
Total terminations		**693**		577
Benefit payments*		**(823)**		(790)
Estimated recoveries		**(12)**		(36)
Assets of terminated plans pending trusteeship, net		**(103)**		(119)
Settlements and judgments		**248**		62
Net claims for probable terminations:				
Future benefits**	**2,593**		2,680	
Estimated plan assets and recoveries from sponsors	**(1,485)**		(1,725)	
Total net claims, current year		**1,108**		955
Present value of future benefits, at end of year — Single-Employer, net		**11,497**		10,760
Present value of future benefits, at end of year — Multiemployer		**7**		9
Total present value of future benefits, at end of year, net		**$11,504**		$10,769

* The benefit payments of $823 million and $790 million include $31 million in 1997 and $12 million in 1996 for benefits paid from plan assets by plans prior to trusteeship.

** The future benefits for probable terminations of $2,593 million and $2,680 million for fiscal years 1997 and 1996, respectively, include $140 million and $118 million, respectively, in net claims (future benefits less estimated plan assets and recoveries) for probable terminations not specifically identified.

ASSETS OF SINGLE-EMPLOYER TERMINATED PLANS PENDING TRUSTEESHIP, NET

(Dollars in millions)

	September 30, 1997		September 30, 1996	
	Basis	**Market Value**	Basis	Market Value
U.S. Government securities	**$ 19**	**$ 19**	$ 29	$ 28
Corporate bonds	**27**	**27**	26	27
Equity securities	**35**	**35**	27	29
Insurance contracts	**6**	**6**	25	16
Other	**5**	**5**	0	0
Cash and cash equivalents	**11**	**11**	19	19
Total, net	**$103**	**$103**	$126	$119

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

(Dollars in millions)

	September 30, 1997		September 30, 1996	
Net claims for probable terminations, at beginning of year		**$ 955**		$1,179
New claims	**$ 95**		$ 144	
Actual terminations	**(127)**		(113)	
Eliminated probables	**(32)**		(73)	
Change in benefit liabilities	**331**		(30)	
Change in plan assets	**(198)**		(102)	
Change in expected recoveries	**84**		(50)	
Loss on probables		**153***		(224)*
Net claims for probable terminations, at end of year		**$1,108**		$ 955

* See Note 13

NOTE 7 — MULTIEMPLOYER FINANCIAL ASSISTANCE

Financial assistance is granted 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. Prior to September 30, 1997, PBGC was in negotiations with a multiemployer plan for the repayment of financial assistance. A final agreement was reached in December 1997 and $3.2 million was repaid in January 1998.

NOTES RECEIVABLE MULTIEMPLOYER FINANCIAL ASSISTANCE

(Dollars in millions)

	September 30, 1997	September 30, 1996
Gross balance at beginning of year	**$ 31**	$ 26
Financial assistance payments-current year	**4**	5
Subtotal	**35**	31
Allowance for uncollectible amounts	**(32)**	(31)
Net balance at end of year	**$ 3**	$ 0

The losses (gains) from financial assistance reflected in the Statements of Operations and Changes in Net Position include annual changes in the estimated present value of nonrecoverable future financial assistance and assistance granted that was not previously accrued.

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

(Dollars in millions)

	September 30,	
	1997	1996
Balance at beginning of year	**$365**	$268
Changes in allowance:		
Losses from financial assistance	**0**	102
Financial assistance granted (previously accrued)	**(4)**	(5)
Balance at end of year	**$361**	$365

NOTE 8 — ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

(Dollars in millions)

	September 30,	
	1997	1996
Due for purchase of securities	**$36**	$ 91
Annual leave	**3**	3
Other payables and accrued expenses	**26**	24
Accounts payable and accrued expenses	**$65**	$118

NOTE 9 — CONTINGENCIES

There are a number of large single-employer plans that may terminate. In addition, there are some multiemployer plans that may require future financial assistance. The amounts disclosed below represent the Corporation's best estimates given the inherent uncertainties about these plans.

PBGC estimates that total unfunded vested benefits on termination of single-employer plans that represent reasonably possible exposure as of September 30, 1997, range from $21 billion to $23 billion. This exposure is primarily in the steel, airline, industrial and commercial equipment, and transportation equipment industries. The estimate has been calculated as in previous years by using data obtained from filings with the government and corporate annual reports for fiscal years ending in calendar 1996. The value reported for liabilities in the $21 billion estimate has been adjusted to the December 31, 1996, PBGC select interest rate of 5.8%. When available, data has been adjusted to a consistent set of mortality assumptions. Plans not insured by PBGC have been eliminated from the data. Since these figures are generally based on the reporting requirements in the Financial Accounting Standards Board's Statement of Financial Accounting Standard No. 87 ("Employers' Accounting for Pensions"), no provision has been made for the possible failure of the plan sponsor to make subsequent contributions or for plan liabilities that would be incurred after that date.

PBGC has included amounts in the liability for the present value of nonrecoverable future financial assistance (see Note 7) for multiemployer plans that PBGC estimates may require future financial assistance. In addition, PBGC currently estimates that it is reasonably possible that other multiemployer plans may require future financial assistance in the amount of $314 million.

The future financial assistance liability for each multiemployer plan identified as probable or reasonably possible was calculated as the present value of guaranteed future benefit and expense payments as of the later of September 30, 1997, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 1997, using interest only. The Corporation's identification of plans that are likely to require such assistance and estimation of related amounts require consideration of many complex factors. These factors are affected by future events, including actions by plans and their sponsors, most of which are beyond the Corporation's control.

A select and ultimate interest rate assumption of 6.2% for the first 25 years after the valuation date and 5.5% thereafter was used. The 1994 Group Annuity Mortality Static Table (with margins), set forward two years, projected 12 years to 2006 using Scale AA, was also used.

NOTE 10 — COMMITMENTS

PBGC leases its office facility under a commitment that began on December 11, 1993, and expires December 10, 2008. The lease provides for periodic rate increases based on increases in operating costs and real estate taxes over a base amount. In addition, PBGC is leasing space for field benefit administrators. These leases began in 1996 and expire in 2005. The minimum future lease payments for office facilities having noncancellable terms in excess of one year as of September 30, 1997, are as follows:

COMMITMENTS: FUTURE LEASE PAYMENTS

(Dollars in millions)

Years Ending September 30,	Operating Leases
1998	$ 12.0
1999	12.4
2000	12.1
2001	12.3
2002	12.5
Thereafter	84.7
Minimum lease payments	$146.0

Lease expenditures were $11.3 million in 1997 and $10.7 million in 1996.

NOTE 11 — PREMIUMS

For both the single-employer and multiemployer programs, ERISA provides that PBGC shall continue to guarantee basic benefits despite the failure of a plan administrator to pay premiums when due. PBGC assesses interest and penalties on the unpaid amount for late payment or underpayment of premiums. Late payment interest continues to accrue until the premium due is paid, while the amount of penalty that can be levied is capped at 100 percent of the premium late payment or underpayment (see Note 12). Annual premiums for the single-employer program are $19 per participant for a fully funded plan. Underfunded single-employer plans pay an additional variable-rate charge, previously capped at $53 per participant, based on funding levels. The Retirement Protection Act, signed into law on December 8, 1994, phased out the cap on the variable-rate charge for most plans by the end of the 1996 calendar year. The multiemployer premium is $2.60 per participant.

NOTE 12 — UNDERWRITING: OTHER INCOME

UNDERWRITING: OTHER INCOME

(Dollars in millions)

	For the Years Ended September 30,	
	1997	1996
Interest income-premiums	**$ 2**	$ 1
Penalty income-premiums	**2**	15
Interest income-employer liability	**6**	4
Interest income-due and unpaid contributions	**8**	2
Other	**5**	5
Total	**$23**	$27

NOTE 13 — LOSSES FROM COMPLETED AND PROBABLE TERMINATIONS

Amounts reported as losses are the present value of future benefits (including amounts owed under Section 4022(c)) 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

(Dollars in millions)

	For the Years Ended September 30,					
	1997			1996		
	New Terminations	**Changes in Prior Year Terminations**	**Total**	New Terminations	Changes in Prior Year Terminations	Total
Present value of future benefits	**$870**	**$(177)**	**$693**	$675	$ (98)	$ 577
Less plan assets	**536**	**35**	**571**	340	13	353
Plan asset insufficiency	**334**	**(212)**	**122**	335	(111)	224
Less estimated recoveries	**0**	**(24)**	**(24)**	3	(25)	(22)
Subtotal	**$334**	**$(188)**	**146**	$332	$ (86)	246
Settlements and judgments			**190**			96
Probables			**153***			(224)*
Total			**$489**			$ 118

* See Note 6

NOTE 14 — FINANCIAL INCOME

FINANCIAL INCOME

(Dollars in millions)

	For the Years Ended September 30,					
	1997			1996		
	Terminated Plans Pending Trusteeship	**Revolving Funds and Trusteed Plans**	**Total**	Terminated Plans Pending Trusteeship	Revolving Funds and Trusteed Plans	Total
Fixed-income securities:						
Interest earned	**$1**	**$ 596**	**$ 597**	$ 3	$ 513	$ 516
Realized gain	**1**	**29**	**30**	0	306	306
Unrealized gain (loss)	**0**	**440**	**440**	0	(620)	(620)
Total fixed-income securities	**2**	**1,065**	**1,067**	3	199	202
Equity securities:						
Dividends earned	**1**	**64**	**65**	0	57	57
Realized gain	**1**	**351**	**352**	0	261	261
Unrealized gain	**0**	**1,263**	**1,263**	0	377	377
Total equity securities	**2**	**1,678**	**1,680**	0	695	695
Other income (loss)	**0**	**8**	**8**	(5)	35	30
Total financial income (loss)	**$4**	**$2,751**	**$2,755**	$(2)	$ 929	$ 927

NOTE 15 — 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 to transfer to FERS by June 30, 1988.

The Corporation's contribution to the CSRS plan equals the 7 percent of base pay contributed by employees covered by that system. For those employees covered by FERS, the Corporation's contribution was 12.2 percent of base pay for both 1997 and 1996. In addition, for FERS-covered employees, PBGC automatically contributes 1 percent of base pay to the employee's Thrift Savings account, matches the first 3 percent contributed by the employee, and matches one-half of the next 2 percent contributed by the employee. Total retirement plan expenses amounted to $6 million in both 1997 and 1996.

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

NOTE 16 — CASH FLOWS

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

RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES

(Dollars in millions)

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
	1997	1996	**1997**	1996	**1997**	1996
Net income (loss)	**$ 2,612**	$1,184	**$ 95**	$(68)	**$ 2,707**	$1,116
Adjustments to reconcile net income (loss)						
to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	**(2,010)**	(379)	**(32)**	21	**(2,042)**	(358)
Net (income) loss of terminated plans						
pending trusteeship	**(36)**	3	**0**	0	**(36)**	3
Loss on completed and probable terminations	**489**	118	**0**	0	**489**	118
Actuarial charges (credits)	**488**	632	**(1)**	1	**487**	633
Benefit payments-trusteed plans	**(792)**	(778)	**(1)**	(2)	**(793)**	(780)
Cash received from plans upon trusteeship	**29**	47	**0**	0	**29**	47
Changes in assets and liabilities, net of effects						
of trusteed and pending plans:						
(Increase) decrease in receivables	**77**	(41)	**(4)**	(3)	**73**	(44)
Increase (decrease) in present value of						
nonrecoverable future financial assistance			**(4)**	97	**(4)**	97
Increase (decrease) in unearned premiums	**(25)**	99	**2**	0	**(23)**	99
Increase (decrease) in accounts payable	**2**	(37)	**0**	0	**2**	(37)
Net cash provided by operating activities	**$ 834**	$ 848	**$ 55**	$ 46	**$ 889**	$ 894

NOTE 17 — LITIGATION

PBGC records as a liability on its financial statements an estimated cost for unresolved litigation to the extent that losses in such cases are probable and estimable in amount. In addition to such recorded costs, PBGC estimates that possible losses of up to $70 million could be incurred in the event that PBGC does not prevail in these matters.

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 are generally the same as those used in 1996. The valuation assumptions for 1997 reflect the results of comprehensive expense and mortality studies conducted during the year.

PRESENT VALUE OF FUTURE BENEFITS AND NONRECOVERABLE FINANCIAL ASSISTANCE - 1997

(Dollars in millions)

	Number of Plans	Number of Participants (000)	Liability
I. SINGLE-EMPLOYER PROGRAM			
A. Terminated plans			
1. Seriatim at fiscal yearend (FYE)	1,609	168	$ 4,279
2. Seriatim at DOPT, adjusted to FYE	150	37	1,309
3. Nonseriatim[1]	741	206	4,908
4. Rettig Settlement (seriatim)[2]	—	*	2
5. Missing Participants Program (seriatim)[3]	—	4	6
Subtotal	2,500	415	10,504
B. Probable terminations (nonseriatim)[4]	23	92	2,593
Total [5]	2,523	507	$13,097
II. MULTIEMPLOYER PROGRAM			
A. Pre-MPPAA terminations (seriatim)	10	1	$ 7
B. Post-MPPAA liability (net of plan assets)	45	49	361
Total	55	50	$ 368

* Fewer than 500 participants

Notes:

1) The liability for terminated plans has been increased by $280 million for terminated plans not yet reported and for other settlements.

2) The Rettig settlement refers to the extra benefit liability that 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 PBGC has assumed for unlocated participants in standard plan terminations.

4) The net claims for probable plans reported in the financial statements include $140 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 $1,485 million. Thus, the net claims for probables as reported in the financial statements are $2,593 million less $1,485 million, or $1,108 million.

5) The PVFB in the financial statements ($11,497 million) is net of estimated plan assets and recoveries on probables ($1,485 million), estimated recoveries on terminated plans ($12 million), and estimated assets for plans pending trusteeship ($103 million), or, $13,097 million less $1,485 million less $12 million less $103 million = $11,497 million.

SINGLE-EMPLOYER PROGRAM

PBGC calculated the single-employer program's liability for benefits in the terminated plans and probable terminations, as defined in Note 2 to the financial statements, using a combination of two methods: seriatim and nonseriatim. For 1,609 plans, representing about 64 percent of the total number of single-employer terminated plans (40 percent of the total participants in single-employer terminated plans), PBGC had sufficiently accurate data to calculate the liability separately for each participant's benefit — the seriatim method. This was an increase of 140 plans over the 1,469 plans valued seriatim last year. For 150 plans whose data were not yet fully automated, PBGC calculated the benefits and liability seriatim as of the date of plan termination (DOPT) and brought the total amounts forward to the end of fiscal year 1997.

For 741 other terminated plans, PBGC did not have sufficiently accurate or complete data to value individual benefits. Instead, the Corporation used a "nonseriatim" method that brings the liabilities from the plan's most recent actuarial valuation forward to the end of fiscal year 1997 using certain assumptions and adjustment factors.

For the actuarial valuation, PBGC used a select and ultimate interest rate assumption of 6.2% for the first 25 years after the valuation date and 5.5% thereafter. The mortality assumptions used for the valuation, which differed from those used in 1996, were as follows: (1) for healthy lives — the 1994 Group Annuity Mortality Static Table (with margins), set forward two years, projected 12 years to 2006 using Scale AA; (2) for disabled lives not receiving Social Security benefits — the healthy lives table set forward 3 years; and (3) for disabled lives receiving Social Security benefits — the Social Security disability table as described in subpart B of the PBGC regulation on Allocation of Assets in Single-Employer Plans for persons up to age 64, adjusted to parallel the table for disabled lives not receiving Social Security benefits for ages above 64. PBGC assumed an explicit loading for expenses in all terminated plans and single-employer probable terminations. The reserve for expenses in the 1997 valuation was assumed to be 1.3 percent of benefit liabilities 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. This expense formula represented a newly designed model that reflected more accurately PBGC's actual structure of expenses.

For non-pay-status participants, PBGC used expected retirement ages, as explained in subpart B of the Allocation of Assets in Single-Employer Plans regulation. PBGC assumed that participants who had attained their expected retirement age were in pay status. In seriatim plans, for participants who were older than their plan's normal retirement age, were not in pay status, and were unlocatable at September 30, 1997, PBGC reduced the value of their future benefits to zero over the three years succeeding normal retirement age to reflect the lower likelihood of payment.

MULTIEMPLOYER PROGRAM

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

PBGC based its valuation of the post-MPPAA liability for nonrecoverable future financial assistance on the most recent available actuarial reports, Form 5500 Schedule B's, and information provided by representatives of the affected plans. The Corporation expected 45 plans to need financial assistance because severe industrial declines have left them with inadequate contribution bases and they have either run out of assets or are 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, 1997.

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

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

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
1200 K Street, N.W., Washington, D.C. 20005-4026

Office of Inspector General

To the Board of Directors
Pension Benefit Guaranty Corporation

Under the direction of the Office of Inspector General, Price Waterhouse LLP (Price Waterhouse) conducted an audit and expressed an unqualified opinion on the Fiscal Years 1997 and 1996 financial statements of the Pension Benefit Guaranty Corporation (PBGC).

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576) requires PBGC's Office of Inspector General or an independent external auditor, as determined by the Inspector General, to audit the Agency's financial statements in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our responsibility under the CFO Act was fulfilled by evaluating the quality of the audit work performed in accordance with *Government Auditing Standards*. Specifically, we:

- reviewed Price Waterhouse's approach and planning of the audit;
- evaluated the qualifications and independence of its auditors;
- monitored the progress of the audit at key points;
- examined its working papers and reports to evaluate compliance with *Government Auditing Standards;* and
- performed other procedures we deemed necessary.

Based on our quality review, we determined that Price Waterhouse planned, executed, and reported the results of its audit of PBGC's Fiscal Year 1997 and 1996 financial statements in accordance with *Government Auditing Standards*. Therefore, in our opinion, Price Waterhouse's audit work provided a reasonable and reliable basis on which to render its January 30, 1998 opinion, and we concur with its report.

On the same date, Price Waterhouse also issued two reports — an unqualified opinion on PBGC management's assertion about the effectiveness of its internal controls and a report on PBGC's compliance with laws and regulations. A complete set of Price Waterhouse's reports (98-3/23126-2) are available upon request from the PBGC's Office of Inspector General.

Sincerely,

Wayne Robert Poll

Wayne Robert Poll
Inspector General

February 27, 1998

1616 North Fort Myer Drive
Arlington, VA 22209-3195

Telephone 703 741 1000
Facsimile 703 741 1616

Price Waterhouse LLP

Report of Independent Accountants

To the Inspector General
Pension Benefit Guaranty Corporation

We have audited the accompanying statements of financial condition as of September 30, 1997 and 1996, of the Single-Employer and Multiemployer Funds administered by the Pension Benefit Guaranty Corporation (PBGC or the Corporation) and the related statements of operations and changes in net position and statements of cash flows for the years then ended. These financial statements are the responsibility of PBGC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Single-Employer and Multiemployer Funds administered by PBGC at September 30, 1997 and 1996, and the results of their operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

By law, PBGC's Single-Employer Fund (the Fund) must be self-sustaining and as such, its premiums must be sufficient to cover both its short and long-term obligations. The Fund is able to meet its short-term benefit obligations and internal analyses indicate that the combined effect of future premium revenue and reduced underfunding of single-employer plans may allow the Fund to meet its future obligations as well. While the Fund's Statement of Financial Condition reports a net position (assets in excess of liabilities) of $3.5 billion at September 30, 1997, losses that are "reasonably possible" as a result of unfunded vested benefits are estimated to be in the range of $21 billion to $23 billion, as discussed in Note 9. To the extent contingent losses currently classified as "reasonably possible" become more likely, such as from deteriorating economic conditions or from insolvency of a large plan sponsor, the Fund's net position could be depleted.

The overview of PBGC, the Actuarial Valuation, and other supplemental information contain a wide range of data, some of which are not directly related to the principal financial statements. We do not express an overall opinion on this information. However, we compared this information for consistency with the principal 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 principal financial statements.

In addition, in accordance with *Government Auditing Standards*, we have issued reports dated January 30, 1998 on PBGC management's assertion about the effectiveness of its internal controls and on its compliance with laws and regulations.

Price Waterhouse LLP

January 30, 1998
Arlington, Virginia

98-2/23126-1

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Wayne Robert Poll *
Inspector General

* The Inspector General reports directly to the Chairman of the Board.

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Appointed by the President of the United States

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Blaylock & Partners
New York, New York
(term expired, reappointment pending)

Joseph A. Perkins
Vice President
American Association of Retired Persons
Danvers, Massachusetts

Beverly Fisher White
International Trade and Development Coordinator
Executive Office of the Governor
Tallahassee, Florida

Representing the Interests of Employers

M. Sharon Cassidy
General Counsel
United States Steel and Carnegie Pension Fund
Millwood, New York

One vacancy to be filled.

Representing the Interests of Employee Organizations

Judith A. Scott
General Counsel
Service Employees International Union
Washington, DC

Teresa Ghilarducci
University of Notre Dame
South Bend, Indiana

FINANCIAL SUMMARY

(Dollars in millions)

SINGLE-EMPLOYER PROGRAM	Fiscal Year Ended September 30, 1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Summary of Operations:										
Premium income	**$ 1,064**	1,146	838	955	890	875	741	659	603	465
Other income	**$ 22**	26	18	42	38	118	45	5	—	—
Investment income (losses)	**$ 2,687**	915	1,956	(380)	1,538	614	860	(109)	387	5
Actuarial charges (credits)	**$ 488**	632	1,561	(926)	1,680	848	905	181	362	359
Losses from completed and probable terminations	**$ 489**	118	169	(249)	743	896	1,049	938	163	58
Loss on contingent value rights	**$ 0**	0	0	0	96					
Administrative and investment expenses	**$ 155**	150	138	135	107	97	71	63	45	48
Other expenses	**$ 29**	3	19	0	0	0	212	162	0	0
Net income (loss)	**$ 2,612**	1,184	925	1,657	(160)	(234)	(591)	(789)	420	5
Summary of Financial Position:										
Cash and investments	**$ 14,988**	11,665	10,026	7,857	7,866	5,897	4,562	2,408	2,356	1,817
Total assets	**$ 15,314**	12,043	10,371	8,281	8,267	6,381	5,422	2,797	3,059	2,422
Present value of future benefits	**$ 11,497**	10,760	10,388	9,215	10,693	8,790	7,594	4,476	3,984	3,806
Net position	**$ 3,481**	869	(315)	(1,240)	(2,897)	(2,737)	(2,503)	(1,913)	(1,124)	(1,543)
Insurance Activity:										
Benefits paid	**$ 823**	790	761	719	720	634	514	369	353	357
Participants receiving monthly benefits at end of year	**204,800**	198,600	181,000	172,800	156,800	150,200	140,100	110,380	106,770	110,300
Plans trusteed and pending trusteeship by PBGC	**2,500**	2,338	2,084	1,961	1,848	1,760	1,644	1,558	1,501	1,455

(Dollars in millions)

MULTIEMPLOYER PROGRAM	Fiscal Year Ended September 30, 1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Summary of Operations:										
Premium income	**$ 22**	22	22	23	23	23	23	21	20	17
Other income (losses)	**$ 1**	1	0	0	(1)	1	1	1	—	—
Investment income (losses)	**$ 68**	12	83	(46)	107	27	38	13	16	7
Actuarial charges (credits)	**$ (1)**	1	2	(1)	2	(1)	3	1	1	3
Losses (gains) from financial assistance	**$ (3)**	102	108	57	20	46	21	23	1	(6)
Administrative and investment expenses	**$ 0**	0	0	0	0	0	0	2	3	3
Net income (loss)	**$ 95**	(68)	(5)	(79)	107	6	38	9	31	24
Summary of Financial Position:										
Cash and investments	**$ 585**	498	472	374	405	279	236	183	154	122
Total assets	**$ 596**	505	477	378	407	283	238	190	161	129
Present value of future benefits	**$ 7**	9	10	10	13	13	16	15	17	19
Nonrecoverable future financial assistance, present value	**$ 361**	365	268	164	110	94	52	33	11	11
Net position	**$ 219**	124	192	197	276	169	163	132	123	92
Insurance Activity:										
Benefits paid	**$ 1**	2	2	2	2	2	2	2	3	3
Participants receiving monthly benefits from PBGC at end of year	**1,000**	1,100	1,300	1,400	1,590	1,760	1,990	2,170	2,310	2,500
Plans receiving financial assistance from PBGC	**14**	12	9	8	6	6	5	3	3	3

U.S. GOVERNMENT AGENCY

PENSION

BENEFIT

GUARANTY

CORPORATION

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