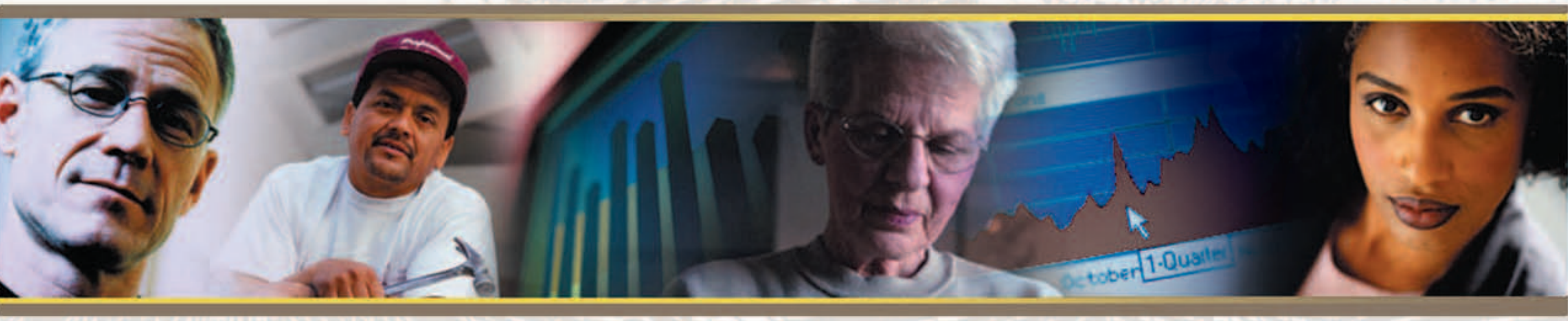
PBGC
Protecting America's Pensions

2004 ANNUAL REPORT

Pension Benefit Guaranty Corporation



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The Pension Benefit Guaranty Corporation (PBGC or the Corporation) protects the pensions of 44.4 million workers and retirees in 31,200 private defined benefit pension plans, including 34.6 million people covered by 29,651 single-employer plans and 9.8 million people covered by 1,587 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. PBGC guarantees these benefits subject to the limits set by the Employee Retirement Income Security Act, which established PBGC as a federal corporation in 1974. PBGC operates under the guidance of its Board of Directors, which consists of the Secretaries of Labor (Chair), Commerce, and the Treasury.

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

PBGC's mission is to operate as a service-oriented, professionally managed agency that protects participants' pension benefits and supports a viable retirement plan system by:

- encouraging the continuation and maintenance of voluntary private pension plans for the benefit of their participants,
- providing timely payments of benefits in the case of terminated pension plans, and
- making the maximum use of resources, and maintaining premiums and operating costs at the lowest levels consistent with statutory responsibilities.

CHAIRMAN'S MESSAGE

The recent past has been a period of great change and challenge for the federal pension insurance program. While PBGC has instituted numerous changes to better serve its current customer base, external factors and ineffective statutory provisions have resulted in a worsening long-term financial position. With its deficit more than doubling over the last year, the time has come for comprehensive reform.

The Pension Benefit Guaranty Corporation is committed to protecting the pension benefits American workers have earned and meeting its statutory responsibilities. The Corporation has undertaken strong initiatives to monitor the risks posed to the insurance program, strengthen the Corporation's financial and operational controls, and deliver even more value to its customers.

It is important to stress that, despite the financial pressures facing PBGC, the Corporation's more than $39 billion in assets enable it to continue paying participants their guaranteed benefits for a number of years. However, with more than $62 billion in liabilities, it is clear that the Corporation does not have sufficient resources to meet all of its long-term obligations. This affects not only the more than 1 million Americans who are now directly dependent on PBGC for their pension income, but the 44 million Americans whose pensions PBGC insures.

In July 2003, the Administration introduced an initial set of reforms to strengthen the financial health of the private defined benefit pension system. These reforms included a new discount rate to more accurately measure pension liabilities, better disclosure of pension information to participants and the public, and stronger safeguards against pension underfunding. The Administration has now put forward a more comprehensive pension reform proposal with the twin goals of reforming the pension system to protect workers and retirees and ensuring that PBGC can continue to fulfill its vital mission of protecting pension benefits while avoiding a taxpayer bailout.

PBGC is a critical component of ensuring workers' retirement security. If we act promptly, we can strengthen the defined benefit pension system and the insurance program that stands behind it. The Administration looks forward to working with Congress to ensure that promises made to America's workers are promises kept.

E. L. Chao

Elaine L. Chao
Secretary of Labor
Chairman of the Board

HIGHLIGHTS

Operations

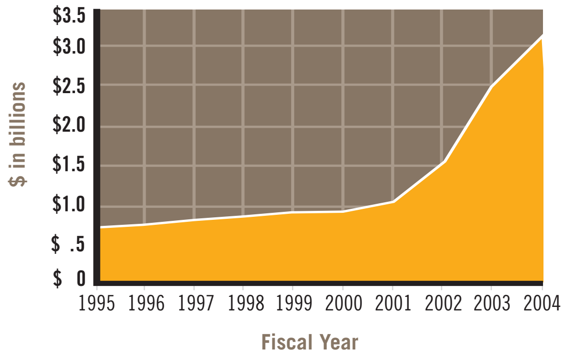
- Despite a heavy and growing workload, PBGC continued to provide high quality service to its customers as it paid more than $3 billion in benefits during 2004 to more than 518,000 people. At year-end, PBGC was responsible for the pensions of more than 1 million people, including 443,000 who will begin to receive benefits from PBGC when they retire in the future and 100,000 who are receiving or will receive benefits through PBGC's financial assistance to multiemployer plans.
- PBGC kept pace with its increasing workload by issuing a record 137,000 final benefit determinations during the year, exceeding the previous record set just one year earlier by nearly 50 percent. Final benefit determinations issued during the year exceeded the annual targets for accuracy, as only 2 percent had errors and 99.7 percent were issued with less than a 5 percent difference between the original estimate and the final benefit amount.
- PBGC introduced electronic services for its customers, with separate online facilities for plan participants and plan administrators. Internet-based electronic business transactions are now available around-the-clock for PBGC customers.
- Through litigation and negotiation, PBGC secured legal decisions and financial settlements that protected plan participants and the insurance program from millions of dollars in unnecessary losses.
- PBGC's performance management and strategic planning received high marks in the Corporation's first Program Assessment Rating Tool (PART) review by the Office of Management and Budget.
- PBGC unveiled a new Spanish-language section on its Web site to improve service to its growing population of Spanish-speaking customers.

Finances

- Losses for the single-employer program continued, more than doubling the program's deficit to a record $23.3 billion despite substantial income from premiums and investments.
- The multiemployer program reported net income of $25 million and a reduced year-end deficit of $236 million.
- PBGC received its 12th consecutive unqualified audit opinion on its financial statements, which for the first time were made available to the public 45 days after the end of the fiscal year.
- PBGC adopted and began implementing a new investment policy to better manage the financial risks facing the insurance program.

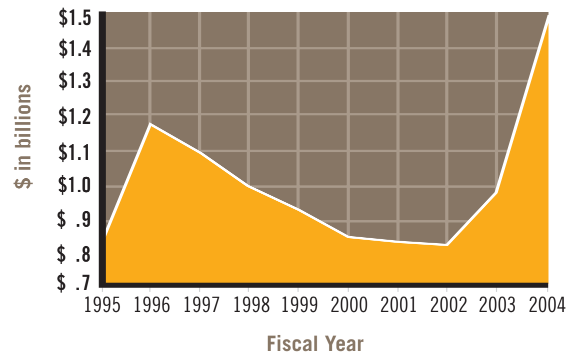
(Dollars in millions)	2004	2003
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Summary of Operations		
Premium Income	$ 1,485	$ 973
Losses from Plan Terminations	$ 14,707	$ 5,377
Investment Income	$ 3,251	$ 3,386
Actuarial Charges and Adjustments	$ 1,788	$ 6,162
Insurance Activity		
Benefits Paid	$ 3,007	$ 2,489
Retirees	518,220	459,190
Total Participants Receiving or Owed Benefits	1,061,000	934,000
New Underfunded Terminations	192	155
Terminated/Trusteed Plans (Cumulative)	3,479	3,287
Financial Position		
SINGLE-EMPLOYER PROGRAM		
Total Assets	$ 38,993	$ 34,016
Total Liabilities	$ 62,298	$ 45,254
Net Loss	$ (12,067)	$ (7,600)
Net Position	$ (23,305)	$ (11,238)
MULTIEMPLOYER PROGRAM		
Total Assets	$ 1,070	$ 1,000
Total Liabilities	$ 1,306	$ 1,261
Net Income (Loss)	$ 25	$ (419)
Net Position	$ (236)	$ (261)

ANNUAL BENEFIT PAYMENTS 1995 – 2004



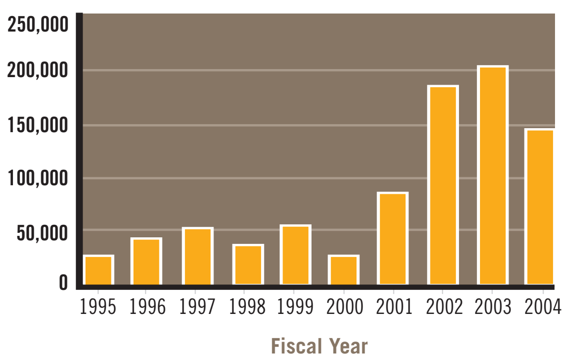
PBGC's annual benefit payments continued to rise, exceeding $3 billion for the first time as the number of people receiving monthly payments passed 500,000.

TOTAL PREMIUM REVENUE 1995 – 2004



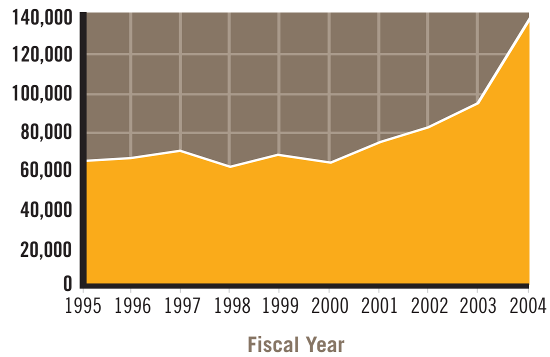
Total premium revenues increased to $1.5 billion, reflecting increases in the amount of variable-rate premiums paid by underfunded plans.

NEW PARTICIPANTS IN TRUSTEED PLANS 1995 – 2004



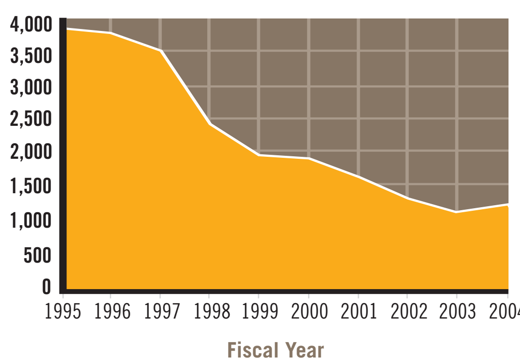
PBGC took responsibility for the benefits of 147,500 new participants during the year, well above historical norms.

BENEFIT DETERMINATIONS ISSUED 1995 – 2004



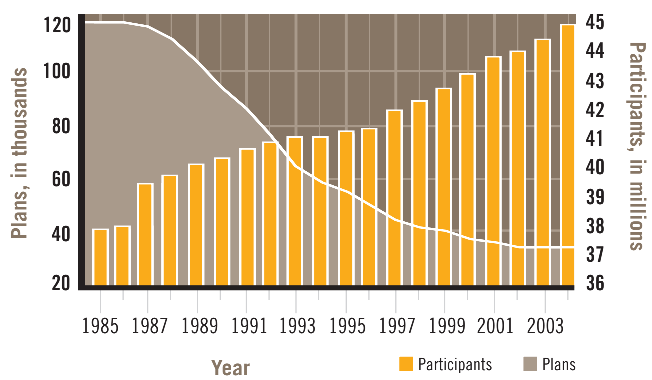
PBGC issued almost 50 percent more final benefit determinations in 2004 than in any prior year.

STANDARD TERMINATIONS 1995 – 2004



About 1,189 standard terminations were submitted to PBGC during 2004, slightly more than last year and the first increase in 14 years.

PBGC-INSURED PLANS AND PARTICIPANTS 1985 – 2004



While the number of PBGC-insured plans continued a slow decline, the number of covered participants increased slightly from 44.1 million to 44.4 million.

Bradley D. Belt, *Executive Director*

EXECUTIVE DIRECTOR'S REPORT

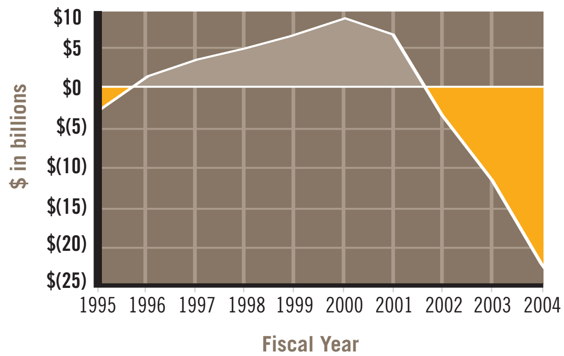
The federal pension insurance program administered by the Pension Benefit Guaranty Corporation occupies a critical position in the nation's infrastructure of retirement laws, policies and programs. As a guarantor of pensions for more than 44 million Americans, the program is the lone backstop for hundreds of billions of dollars in promised but unfunded retirement benefits. As the trustee and administrator of nearly 3,500 failed defined benefit pension plans, the program is a primary source of retirement income and security for more than 1 million Americans whose benefits would have been lost without PBGC's protection. As the defined benefit system has come under pressure—from pension underfunding, changing workforce demographics and increased competition from companies with lower cost structures that do not include defined benefit pensions—so, too, has the insurance program. This was starkly evident in 2004, as the program sustained the largest financial losses in its history.

However, these losses were only one of the challenges confronting the insurance program during 2004. PBGC also faced a swelling workload as it assumed administrative responsibility for the benefits of nearly 150,000 additional participants in failed single-employer pension plans. No less demanding were PBGC's efforts to monitor, measure and mitigate the varied and growing risks facing the pension insurance program. All of this occurred alongside the need to continue to raise the level of service PBGC provides to its customers. The financial, operational and policy challenges facing PBGC have never been greater. By improving our processes, adopting new technology solutions and strengthening our workforce, we are responding to the challenges. We are committed to providing the highest level of customer service and to ensuring a more secure retirement for American workers and retirees.

Administering Program Finances

PBGC's ability to manage its finances is severely limited. Unlike a private insurer, PBGC cannot control its revenues and cannot control its expenses. PBGC's premiums are set by Congress, and companies sponsoring insured pension plans can transfer their unfunded liabilities to PBGC as long as they meet the statutory criteria. In 2004, the single-employer insurance program posted its largest loss and largest year-end shortfall in the agency's 30-year history. For the year, completed and probable pension plan terminations required PBGC to record financial losses totaling $14.7 billion. By year-end, these losses had more than doubled the program's deficit to $23.3 billion.

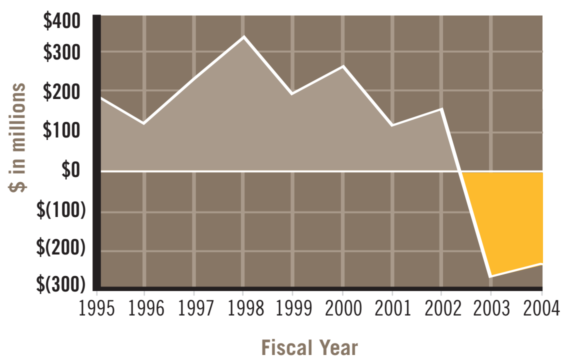
NET POSITION, SINGLE-EMPLOYER PROGRAM 1995 – 2004



It must be emphasized that PBGC has sufficient assets on hand to continue paying benefits for a number of years. However, with $62.3 billion in total liabilities against only $39 billion in total assets, the single-employer program lacks the funds to pay a significant portion of the future benefits for which it is obligated. In addition, the program remains exposed to $96 billion in potential losses from underfunded plans sponsored by non-investment-grade companies.

PBGC's separate program for multiemployer plans recorded net income of $25 million due primarily to the program's income from premiums and investments, which more than offset additional losses recorded for future nonrecoverable financial assistance. At year-end, the multiemployer program reported a reduced deficit of $236 million.

NET POSITION, MULTIEMPLOYER PROGRAM 1995 – 2004



The Corporation is doing all it can to monitor its finances and manage its resources. PBGC's 12th consecutive unqualified opinion on its financial statements from its independent auditors attests to the quality of PBGC's financial reporting. Additional validation comes from the Department of the Treasury's Financial Management Service, which monitors federal agencies' performance in meeting financial reporting standards. Using its "traffic light" grading system, FMS gave PBGC scores of "green" signifying that the agency had successfully met all standards for the accuracy and timeliness of its financial reporting.

In recognition of the evolving emphasis on financial reporting, during the year the Corporation completed an extensive review of its internal controls and the related control framework. This project was designed to identify, document, test, correct and report on all of PBGC's key financial controls. Its results provide another level of assurance about the accuracy and integrity of PBGC's financial systems and information.

PBGC also initiated changes within the past year to enable it to better manage the financial risks facing the pension insurance program. The first of these was adoption of a new investment policy that will reduce the Corporation's risks resulting from a mismatch between PBGC's assets and liabilities. The policy calls for the Corporation to increase its investment in fixed-income securities that match the duration of its liabilities. When fully implemented, PBGC's investment strategy will result in a less volatile financial performance and a reduction in the agency's overall risk. Through this strategy, any change in the value of PBGC liabilities will be more closely offset by a corresponding change in the value of the fixed-income assets, reducing the risk of an increased PBGC deficit resulting from interest rate changes. PBGC will implement the policy in 2005 by increasing its investment in fixed-income instruments as it acquires assets from newly trusteed plans.

Another initiative will improve PBGC's ability to gather, analyze and act on pension plan funding information and to respond to marketplace developments in a timely manner. As part of an overall reorganization, the Corporation is establishing a new Office of Risk Assessment to strengthen its capability to measure and manage risks to the pension insurance program. This office, which will report directly to the Executive Director, will analyze industry and economic risks to PBGC's financial strength and the pension insurance system.

The current massive underfunding of defined benefit pensions, compounded by the financial struggles of major industries that rely heavily on these pensions, has greatly increased the risk of loss for the pension insurance program. In response, PBGC is monitoring the financial condition of more plans more closely to manage its risks and minimize losses for the insurance program. When necessary, PBGC will move forcefully, in negotiation or litigation, to protect the benefits of plan participants and the interests of the insurance program.

During 2004, PBGC took action in several high-profile bankruptcies, particularly in the airline industry. In the case of United Air Lines, which is ongoing, PBGC has acted to enforce the company's obligation to continue funding its defined benefit plans while undergoing reorganization in bankruptcy. PBGC also secured an important bankruptcy court ruling in a dispute with US Airways. That court rejected the airline's challenge to the amount of PBGC's claim for underfunding in the US Airways pension plan for pilots, which PBGC trusteed in 2003. The ruling was a victory for the financial integrity of the federal pension insurance program and affirmed that PBGC's claim against sponsors who terminate their pension plans is governed by ERISA, not bankruptcy law.

PBGC's intervention in the still-pending bankruptcy of Enron Corporation promises to secure valuable additional funding for the benefits of Enron employees. Out of concern that the company's proposed plan of reorganization made inadequate provision for either maintaining four of Enron's defined benefit plans or placing the pension obligations with a private sector insurer, PBGC initiated proceedings to terminate the plans. That action, and PBGC's objection to the disposition of certain Enron assets, led Enron to agree to place several hundred million dollars in an escrow account to fund a standard termination of the plans. Standard termination would preserve full benefits for the plans' participants and protect the insurance program from any loss in this case.

While willing to negotiate appropriate settlements, PBGC continued to actively litigate cases across the country, several of which resulted in important rulings for the insurance program. For example, as the year came to a close, an appeals court ruled for PBGC in reversing an earlier district court decision setting the termination date for several plans sponsored by Republic Technologies International. PBGC had sought a termination date before the declared shutdown of the company but the district court chose a later date. The appeals court found that the lower court failed to give appropriate deference to PBGC's conclusion that it faced an unreasonable increase in liabilities if the court selected a termination date after the shutdown. By upholding the earlier date, the appeals court protected the insurance program from absorbing an additional $96 million in unfunded shutdown benefits that were neither funded nor insured by the company.

Meeting Customers' Needs

Nothing is more important to PBGC than providing the highest quality service to its customers. The Corporation has an intense focus on meeting the needs and expectations of its customers while carrying out its statutory missions. This focus enabled PBGC to improve customer service in 2004 as investments in information technology and implementation of new work procedures allowed more efficient casework without a significant increase in staff.

In recent years, a priority of PBGC has been the establishment of online services that customers could access at their convenience through the Internet. In 2004, the Corporation unveiled two types of self-service accounts, one for participants in PBGC-trusteed plans and the other for administrators of PBGC-insured plans and the pension practitioners who assist them. These new facilities, available through PBGC's Web site, enable the participants and plan practitioners to interact electronically with PBGC and conduct a range of transactions any time of day, year-round.

For participants, this service is called My Pension Benefit Account (My PBA). It allows all participants to review and change their personal information, and retirees may use it to sign up for electronic direct deposit of their benefit payments, change banking information, and change information on their federal tax withholding. Future improvements to My PBA will allow participants to electronically access, complete and submit the Corporation's most frequently used forms and to submit online requests for benefit estimates.

Plan administrators and practitioners may now use My Plan Administration Account (My PAA), the other new self-service application, to electronically create, route, sign and submit premium filings and payments to PBGC. This system, which requires no special software, offers a number of advantages over paper submissions: improved data accuracy, easier filing preparation, shared electronic access to filings (which eliminates manual routing and mailing), e-mail notification of required actions, and confirmation that the filing and payment were received by PBGC. The Corporation is examining ways to expand this service to allow, for example, the electronic filing of other required submissions.

PBGC's Web site continued to evolve in other ways. For example, the population of people owed a guaranteed benefit from PBGC includes a growing number for whom Spanish is their primary language. To improve service and the availability of understandable information to the Corporation's growing population of Spanish-speaking customers, within the past year PBGC increased the amount of translated materials and created a dedicated section on its Web site for those materials. PBGC also initiated a master redesign of its Web site to make it more user-friendly and easy to navigate. That new Web site is scheduled to go online in 2005.

The Corporation is constantly upgrading the technology used throughout its operations. During 2004, PBGC completed testing of a new application that will expedite plan valuations and benefit calculations, thus facilitating PBGC's ability both to process terminated plans and to provide benefit determinations to plan participants. The application eventually will allow non-retired participants in PBGC-trusteed plans to develop estimates of their future benefits on their own without waiting for PBGC to complete its calculations. Benefit estimates are a primary concern of many of these future retirees. By providing these estimates faster, the new application should markedly increase their satisfaction with PBGC's service.

PBGC also has begun an effort to replace its existing automated premium accounting system in order to improve service to plan administrators and pension professionals. Initial steps in 2004 included re-engineering and redesigning the current business practices involved in premium collections. Completion of the project is targeted for 2005.

While some of the changes implemented during the year resulted from technological improvements, others took place on the policy and personnel fronts. As a service to its pension practitioner customers, the Corporation announced a new, temporary Voluntary Correction Program for administrators of underfunded plans who had failed in the past to issue required notices to plan participants about the plan's funding status and limitations on PBGC's guarantee. This program allows plan administrators to provide a corrective notice and avoid the penalty that otherwise would be imposed for failure to provide the notices. In association with the VCP, PBGC proposed an expanded enforcement program, including a new penalty structure, to assure that the notices are properly provided in the future. The Voluntary Correction Program, which has the dual aim of encouraging plan administrators to correct recent compliance failures and facilitating future compliance, is intended as a transition to the new enforcement program.

Improved service leads to improved satisfaction among customers, as PBGC saw in 2004. The Corporation uses the American Customer Satisfaction Index (ACSI) to measure customers' satisfaction with its services and to gain insight into needed improvements. The ACSI index is a sophisticated, internationally accepted index compiled annually by a partnership of the University of Michigan Business School, the American Society for Quality and the CFI Group. It offers an independent, objective third-party measure that can help PBGC identify and prioritize areas needing improvement.

PBGC's latest ACSI scores, described in the Annual Performance Report later in this Annual Report, demonstrate the progress the Corporation is making in addressing its customers' needs. For example, participants who called PBGC for assistance were highly satisfied with many aspects of the service they received. As a result, they provided PBGC with an ACSI score of 78 that exceeded both PBGC's goal for the year and the score for the federal government as a whole (72). Retirees, in particular, were extremely satisfied with PBGC, providing an ACSI score of 84. During 2004, PBGC began surveying users of its Web site to test customer satisfaction across all channels of communication (telephone, mail and Web). Initial results indicated a need for further improvements to the Web site, and PBGC's implementation of better online services is expected to increase users' satisfaction significantly in coming months.

In another sign of PBGC's commitment to premier customer service, the Corporation provided final benefit determinations—perhaps its most sought-after service other than benefit payments—with heightened efficiency. During 2004, the Corporation issued more than 137,000 benefit determinations to participants in trusteed plans, nearly 50 percent more than the previous record number of 92,000 issued the previous year. PBGC issued these determinations, on average, 2.2 years after the date it had trusteed the participant's plan, maintaining the pace set in 2003. Not only did PBGC issue more determinations, but it did so with lower rates of errors and of appeals by plan participants.

Strengthening Operations

PBGC is using all means at its disposal to cope with the rising demands on the federal pension insurance program and administer the program more efficiently and effectively.

PBGC has distinguished itself by constantly evolving in response to the ever-changing challenges it faces. Two years ago, the Corporation restructured its Strategic Plan and operating budget so that they better reflected PBGC's two lines of business: 1) administering the insurance programs covering more than 44 million participants in 31,200 ongoing pension plans, and 2) providing pension benefits for the one million participants in nearly 3,500 PBGC-trusteed plans.

During 2004, the Corporation's executive management decided to realign its resources to better identify and address emerging issues in the regulated community of ongoing plans. To achieve optimal use of PBGC's resources, attorneys, financial analysts and actuaries will join together in a new Insurance Program Department. This department will handle the enforcement and bankruptcy-related functions previously assigned to several departments including the Office of the General Counsel. Final implementation of this plan will take place in 2005 following negotiations between management and the union representing PBGC's staff. As part of this restructuring, PBGC plans to create an Office of Consumer Affairs, which would conduct educational programs for the public and participants in PBGC-insured plans, develop joint ventures with outside groups, and improve the Corporation's informational literature for the public and PBGC's customers.

The insurance program continued to experience unprecedented growth in its benefit operations throughout the year as it assumed responsibility for 178 additional terminated single-employer plans and the benefits of nearly 150,000 people. Although fewer new participants were taken in by the insurance program than in 2003, the larger number of plans trusteed substantially increased PBGC's administrative workload since each plan requires its own set of audits and benefit calculations. By the end of 2004, PBGC was responsible for a total of 3,418 trusteed plans and the current and future pension benefits of about 1,061,000 participants, including 100,000 participants in multiemployer plans receiving financial assistance from PBGC. An additional 61 terminated single-employer plans were pending trusteeship at year-end. PBGC is now paying about $250 million in benefits each month, twice as much as it was paying just two years ago.

PBGC's insurance program for multiemployer plans approved requests for financial assistance from five additional plans during 2004. These requests raised to 39 the total number of plans that have received financial assistance from PBGC, out of the 1,600 insured plans. Since

1980, PBGC has provided assistance with a total value of about $174 million net of repaid amounts. During the year, 27 plans received financial assistance totaling about $10 million.

The Corporation's performance management system and strategic planning fared favorably in PBGC's first Program Assessment Rating Tool (PART) review by OMB. PART is a systematic method of assessing the performance of program activities within agencies and across the federal government with the goal of improving program performance. This review holds programs to high standards— simple adequacy or compliance with the letter of the law is not enough. Rather, a program must show it is achieving its purpose and that it is well managed. PBGC's overall PART rating of "moderately effective," the second highest rating possible, reflected the quality of PBGC's performance management and its effectiveness in meeting ambitious targets. Notably, PBGC earned high scores (greater than 85) in the areas of program management and strategic planning. While PBGC performed well in areas under the Corporation's statutory control, OMB's official summary on the PART review noted that "... ERISA (the statute under which PBGC operates) prevents it from following many insurance industry best practices regarding premium structure, risk management, funding rules and benefit determinations. The Administration supports legislative reform to remove the statutory barriers to improving in these areas."

PBGC recognizes that managing its workforce is as important as managing its operations. The Corporation has an active succession management program in place to assure that a cadre of managers will be prepared to compete for vacant leadership roles, and it regularly conducts mentoring programs to promote the career development of its employees. This year the Corporation completed a human capital strategic plan designed to ensure that PBGC has the employees, contract staff, work environment and operating culture necessary to accomplish its mission in the face of a rapidly changing environment with an increasing workload. The plan uses the framework recommended by the U.S. Office of Personnel Management, with an emphasis on six key areas: strategic alignment, workforce planning and deployment, leadership and knowledge management, results-oriented performance culture, talent, and accountability.

Reforming the System

While PBGC is doing all it can within the current statutory framework to protect the integrity of the federal pension insurance program, it is clear that legislative changes are necessary to ensure the program's long-term viability. For several years, the Bush Administration and PBGC have called for policy and statutory changes to ERISA. We will be working with Congress to effect the necessary reforms in 2005.

The principal structural flaw is an overly complex set of funding rules for defined benefit plans. These rules saddle financially healthy companies with perverse incentives not to fully fund their plans while allowing financially troubled companies to forgo funding their promises for many years.

A second flaw is "moral hazard." A properly constructed insurance system has mechanisms for encouraging responsible behavior and discouraging risky behavior. The federal pension insurance program lacks these basic checks and balances. There are no risk-based underwriting standards and few consequences for not funding pension promises. If a company promises more than it is able to afford, it can shift the cost of the benefits to other companies, including competitors, through the insurance program.

Another flaw is the lack of transparency in the pension system. Publicly available information about pension plans often is stale and misleading. The system's opaqueness discourages accountability and market discipline, and key stakeholders are prevented from responding effectively to current problems. Worst of all, workers are often the last to know of problems with their pension plans.

Finally, the Corporation's ability to protect the interests of plan participants and premium payers is extremely limited, especially when a plan sponsor enters bankruptcy. Currently, the agency has few tools at its disposal other than to move to terminate a plan.

Given the serious challenges facing the pension insurance program, no amount of tinkering will achieve the lasting solution needed to put the insurance program on a sound footing and to restore the confidence of workers and retirees who rely on PBGC's pension protection.

Only a considered and comprehensive approach will improve the financial health of the private defined benefit system, protect participants' benefits, and return the insurance program to financial strength.

These reforms should take several forms. We must streamline and strengthen the current funding rules to provide sounder pension funding. Weaknesses in current law should be eliminated to ensure that troubled plans are brought closer to full funding, and the rules should be simpler and provide greater flexibility to financially healthy plan sponsors.

We must implement a rational premium structure for the pension insurance program. This structure should meet the program's long-term revenue needs, provide incentives for full funding of covered plans, and appropriately reflect the risks faced by the program, including both potential claim incidence and claim severity.

We must require more timely, meaningful information on pension plans' funding levels. This will ensure that those with a stake in the pension system—workers, retirees, investors and regulators—can make decisions based on current, accurate information.

Lastly, PBGC needs better tools to carry out its statutory responsibilities in an effective way. Providing the insurance program with additional options would strengthen the program while prompting creditors to encourage better plan funding.

Closing Observations

The defined benefit system and the federal insurance program that stands behind it are being tested more severely than at any time since enactment of ERISA 30 years ago. At stake is the viability of one of the principal means of providing stable retirement income to millions of American workers. Although the challenges are multi-faceted, defy easy answers and demand a careful balancing of interests to devise workable solutions, such solutions are achievable. The time to act is now.

Bradley D. Belt
Executive Director

SINGLE-EMPLOYER PROGRAM EXPOSURE

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

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

For purposes of its financial statements, PBGC classifies the underfunding of financially weak companies as "reasonably possible" exposure, as required under accounting principles generally accepted in the United States of America. The "reasonably possible" exposure as of September 30, 2004, as disclosed in Note 7 of the financial statements, was $96 billion (valued using data as of December 31, 2003), compared to $82 billion for fiscal year 2003.

Over the longer term, exposure and expected claims are more difficult to quantify either in terms of a single number or a limited range. Claims are sensitive to changes in interest rates and stock returns, overall economic conditions, the development of underfunding in some large plans, the performance of some particular industries, and the bankruptcy of a few large companies. Large claims from a small number of terminations and volatility characterize the Corporation's historical claims experience and are likely to affect PBGC's potential future claims experience as well.

Methodology for Considering Long-Term Single-Employer Program 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 10 years. There is too much uncertainty about the future, both with respect to the performance of the economy and the performance of the companies that sponsor insured pension plans.

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

PIMS portrays future underfunding under current funding rules as a function of a variety of economic parameters. The model recognizes that all companies have some chance of bankruptcy and that these probabilities can change significantly over time. The model also recognizes the uncertainty in key economic parameters (particularly interest rates and stock returns). The model simulates the flows of claims that could develop under thousands of combinations of economic parameters and bankruptcy rates. (For additional information on PIMS and the assumptions used in running the model, see PBGC's *Pension Insurance Data Book 1998*, pages 10-17, which also can be viewed on PBGC's Web site at **www.pbgc.gov/publications/databook/databk98.pdf**.)

PIMS starts with data on PBGC's single-employer net position (a $23.3 billion deficit in the case of FY 2004) and data on the funded status of approximately 400 plans that is weighted to represent the universe of PBGC-covered plans. The model produces results under 5,000 different simulations.

Under the model, median claims over the next 10 years will be about $1.7 billion per year (expressed in today's dollars); that is, half of the simulations show claims above $1.7 billion per year and half below. The mean level of claims (that is, the average claim) is higher, about $2.0 billion per year. The mean is higher because there is a chance under some simulations that claims could reach very high levels. For example, under the model there is a 10 percent chance that claims could exceed $3.5 billion per year.

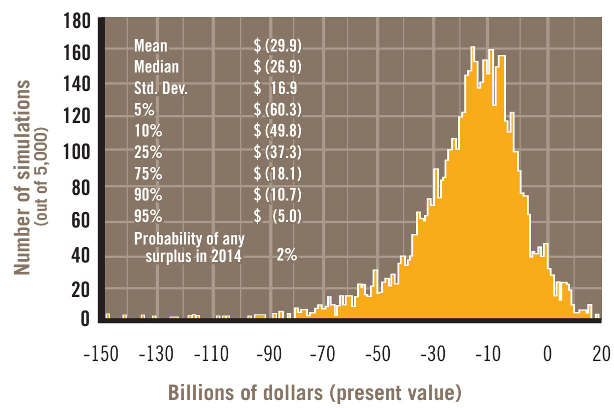
PIMS then projects PBGC's potential financial position by combining simulated claims with simulated premiums, expenses, and investment returns. The probability of a particular outcome is determined by dividing the number of simulations with that outcome by 5,000.

The median outcome is a $26.9 billion deficit in 2014 (in present value terms). This means that half of the simulations show either a smaller deficit than $26.9 billion, or a surplus, and half of the simulations show a larger deficit. The mean outcome is a $29.9 billion deficit in 2014 (in present value terms).

The median projected financial position is a larger deficit than shown in last year's median projection, both of which were based on a wide range of possible outcomes for each year of the projection. The drop in the median projection is attributable to the financial position of the single-employer program eroding by $12.1 billion during 2004.

The accompanying graph illustrates the wide range of outcomes that are possible for PBGC over the next 10 years. The other statistics listed on the graph give further details on the distribution of outcomes. The standard deviation is a measure of how widely the distribution is spread over its range and the percentiles indicate the likelihood of a position below particular values. For example, the model shows a 10 percent chance that the deficit could be as large as $49.8 billion and a 10 percent chance that PBGC could have a deficit of $10.7 billion or less. The probability of a surplus of any amount in 2014 is 2 percent.

DISTRIBUTION OF PBGC'S POTENTIAL 2014 FINANCIAL POSITION



2004 ANNUAL PERFORMANCE AND ACCOUNTABILITY REPORT

The Pension Benefit Guaranty Corporation is a federal corporation established under the Employee Retirement Income Security Act (ERISA) of 1974, as amended. It currently guarantees payment of basic pension benefits earned by 44.4 million American workers and retirees participating in 31,200 private-sector defined benefit pension plans. The Corporation receives no funds from general tax revenues. Operations are financed largely by insurance premiums paid by companies that sponsor defined benefit pension plans and by investment income and assets from terminated plans. The following constitutes PBGC's annual performance and accountability report for fiscal year 2004, as required under OMB Circular No. A-11, Section 230-1.

CONTENTS

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The financial review that follows provides information that management believes is relevant to an assessment and understanding of the Pension Benefit Guaranty Corporation's (PBGC) financial condition and results of operations. The discussion should be read in conjunction with the financial statements and the accompanying notes.

PBGC's operating results are subject to significant fluctuation from year to year depending on the severity of losses from plan terminations, changes in the interest factors used to discount liabilities, investment performance, general economic conditions and other factors such as changes in law. PBGC's operating results differ from those of most private insurers, especially in their variability. PBGC provides mandatory insurance of catastrophic risk. Most private insurers are able to diversify or reinsure their catastrophic risks or to apply traditional insurance underwriting methods to these risks.

PBGC operated for several years with virtually no claims and then experienced a period of record-breaking claims. PBGC's financial future is tied to the infrequent and unpredictable termination of a limited number of very large pension plans. PBGC's financial condition is equally sensitive to market factors such as interest rates and equity returns, which are also highly volatile. Extended periods of low interest rates and falling equity returns increase the risk of more frequent and severe plan terminations.

PBGC divides its business activity into two broad categories for the purpose of financial reporting. The first category, *Underwriting Activity*, consists of the provision of financial guaranty insurance to the sponsors of defined benefit pension plans in return for insurance premiums. Losses that result from the termination of underfunded pension plans are included in this category, as are actuarial adjustments based on changes in actuarial assumptions, such as mortality. The second category, *Financial Activity*, consists of the performance of PBGC's assets and liabilities. Gains and losses on PBGC's investments and changes in the value of PBGC's benefit liabilities (e.g., actuarial charges such as changes in interest rates and passage of time) are included in this category.

Combined Results

PBGC operates two separate insurance programs for defined benefit plans. Through its single-employer program, PBGC guarantees payment of basic pension benefits when underfunded plans terminate. PBGC's multiemployer program is funded and administered separately from the single-employer program, and the event triggering PBGC's guarantee is the inability of a covered multiemployer plan to pay benefits when due at the guaranteed level, rather than plan termination as required in the single-employer program. The financial condition, results of operations, and cash flows of these two programs are reported separately because the programs are separate by law. Combined results are also reported to provide the reader of PBGC's statements an overall understanding of PBGC's financial position.

The combined programs' underwriting and financial activities resulted in a net loss for the fiscal year of $12.042 billion and a deficit of $23.541 billion. The single-employer program posted a net loss of $12.067 billion, the largest loss in the history of the single-employer program, and a deficit of $23.305 billion. The multiemployer program reported net income of $25 million and a deficit of $236 million.

Single-Employer Program

The single-employer program covers about 34.6 million workers and retirees in about 29,600 plans. In addition, PBGC oversees terminations of fully funded plans and guarantees payment of basic pension benefits when underfunded plans must be terminated. After an underfunded plan terminates, PBGC becomes trustee of the plan and administers benefits.

RESULTS OF ACTIVITIES AND TRENDS: The trend of large claims against the pension insurance system continued in FY 2004. This resulted in a net loss in 2004 of $12.067 billion compared to a net loss in

2003 of $7.600 billion. The $4.467 billion increase in the loss was primarily attributable to an increase of $9.330 billion in losses from completed and probable terminations and actuarial adjustments of $1.417 billion due to a one-time change in mortality assumptions. PBGC changed the mortality table to reflect its most current actual experience over the period 1994 through 2001. This was partially offset by decreases in actuarial charges of $5.791 billion primarily due to an increase in interest rates and increases in premium revenue of $510 million. These actuarial charges are the net of charges and credits from actuarial methods and assumptions, changes in interest rates, and passage of time (due to the shortening of the discount period as the valuation date moves forward in time, the present value of future benefits increases).

UNDERWRITING ACTIVITY: PBGC experienced an underwriting loss of $14.977 billion in 2004, a significant increase from the loss of $4.877 billion in 2003. This $10.100 billion increase in the loss was primarily due to the largest losses from completed and probable terminations in the history of the Corporation, as well as a significant increase in actuarial adjustments due to a change in mortality assumptions, offset by an increase in premium revenue and a decrease in administrative and other charges.

Underwriting income increased largely due to an increase in premiums paid by plan sponsors from $976 million in 2003 to $1.482 billion in 2004. The $510 million change in premiums was due primarily to the increase in variable-rate premium income. Other income decreased from $28 million in 2003 to $24 million in 2004 and consists of recoveries from sponsors. Annual flat-rate premiums for the single-employer program are $19 per participant. Underfunded single-employer plans also pay variable-rate premiums of $9 per $1,000 of underfunding if not exempt (e.g., meets certain minimum funding requirements) from the variable-rate premiums. Annual flat-rate premiums for the multiemployer program are $2.60 per participant and there are no variable-rate premiums.

The Required Interest Rate (RIR) used in calculating underfunding for purposes of determining a plan's variable-rate premium (VRP) is 85 percent of the annual yield on 30-year Treasury securities. However, temporary legislation in 2002 changed this to 100 percent of the annual yield on 30-year Treasury securities for plan years beginning in 2002 and 2003. Additional temporary legislation in 2004 changed the rate to 85 percent of a composite corporate bond yield for plan years beginning in 2004 and 2005. The resulting rates for calendar-year plans for 2003 and 2004 were 4.92% and 4.94%, respectively. The rates for non-calendar year plans were somewhat lower for 2004 than for 2003.

While the RIR did not change significantly, other factors caused a net increase in PBGC's income from the VRP. The primary cause was that fewer plans were able to claim exemptions from the variable-rate premium. This resulted from an erosion of funding levels in some plans due to changes in the minimum funding requirements for 2002 and 2003 brought about by the 2002 temporary legislation. Although asset returns for 2003 were generally good, not all of this favorable experience was recognized in plans using asset smoothing methods in their actuarial calculations of underfunding. The net effect was an increase of more than 150 percent in the variable-rate premium revenue from 2003 to 2004.

The Corporation's losses from completed and probable plan terminations increased from a loss of $5.377 billion in 2003 to a loss of $14.707 billion in 2004. This year the loss was primarily due to plans newly classified as probable as well as the termination of underfunded pension plans. The loss on probables for 2004 was $11.760 billion compared to a credit of $1.115 billion for 2003. The amount of future losses remains unpredictable as PBGC's loss experience is highly sensitive to losses from large claims.

Administrative expenses decreased $8 million from $271 million in 2003 to $263 million in 2004. This was primarily due to the capitalization of the cost of internal-use software.

FINANCIAL ACTIVITY: Financial income significantly improved from a loss of $2.723 billion in 2003 to a gain of $2.910 billion in 2004. This change was primarily due to a significant decrease in actuarial charges of $5.791 billion. Actuarial charges include the effects of the changes in interest rates in 2004 and from the aging of the present value of future benefits. PBGC's select interest factor increased from a 20-year factor of 4.4% at September 30, 2003, to a 25-year factor of 4.8% at September 30, 2004, while the ultimate factor increased from 4.5% to 5.0%, resulting in an actuarial credit of $1.619 billion in 2004.

The total return on investments was a positive 8.0% in 2004, generating $3.197 billion in investment income, compared to a positive 10.3% in 2003 ($3.349 billion). Equity investment returns in 2004 increased by $137 million over 2003 while the gain from fixed-income investments was $293 million less in 2004 than in 2003. PBGC marks its assets to market.

Multiemployer Program

A multiemployer plan is a pension plan sponsored by two or more unrelated employers who have signed collective bargaining agreements with one or more unions. Multiemployer plans cover most unionized workers in the trucking, retail food, construction, mining and garment industries. Multiemployer plans are one of the major vehicles that provide defined benefit pensions to workers in the unionized sectors of the economy. The multiemployer program, which covers about 9.8 million workers and retirees in about 1,600 insured plans, differs from the single-employer program in several significant ways. 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 (insolvency), rather than plan termination as required under the single-employer program. PBGC does not become trustee of multiemployer plans; rather, it provides financial assistance through loans to insolvent plans to enable them to pay guaranteed benefits. Once begun, these loans (which are typically not repaid) generally continue year after year until the plan no longer needs assistance or has paid all promised benefits. The guarantee limit and premiums due are significantly lower than for the single-employer program.

RESULTS OF ACTIVITIES AND TRENDS: The multiemployer program reported a gain of $25 million in FY 2004 compared to a loss of $419 million in FY 2003. This resulted in a negative net position of $236 million in 2004 compared to a negative net position of $261 million in FY 2003. The change in net income was primarily due to the decrease in loss from future financial assistance of $425 million and an increase in investment income of $17 million. Of the program's assets at year-end, PBGC invested 97.4 percent in Treasury securities in 2004 and 97.5 percent in 2003.

Overall Capital and Liquidity

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

In 2004, PBGC's cash receipts from operations of the single-employer program were not sufficient to cover its operating cash obligations of $3.2 billion, resulting in net cash used of $732 million, compared to $212 million used in 2003. However, the multiemployer program experienced positive cashflow of $81 million in 2004 and $69 million in 2003.

In 2005, PBGC anticipates $3.4 billion in benefit payments, $313 million in administrative expenses, and $30 million in financial assistance payments to multiemployer plans. With respect to underwriting income and investment gains or losses, significant factors beyond PBGC's control (including changes in interest rates, financial markets, and contributions made by plan sponsors) pose a challenge in making projections. PBGC's best estimate of 2005 premium receipts ranges between $1.6 billion and $1.9 billion. No estimate is made of 2005 investment income.

As of September 30, 2004, the single-employer and multiemployer programs reported deficits of $23.305 billion and $236 million, respectively. To date, neither program's deficit has affected the Corporation's ability to maintain liquidity and meet its obligations. However, neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants. The single-employer program has assets of nearly $39 billion and the multiemployer program has assets in excess of $1 billion. Sufficient liquidity exists to meet the programs' obligations for a number of years.

Single-Employer and Multiemployer Program Exposure

Measures of risk in PBGC's insured base of plan sponsors suggest that the single-employer deficit may continue to worsen. PBGC's best estimate of the total underfunding in plans sponsored by companies with credit ratings below investment grade and classified by PBGC as reasonably possible of termination as of September 30, 2004 was $96 billion. The comparable estimates of reasonably possible exposure for 2003 and 2002 were $82 billion and $35 billion, respectively. These estimates are measured as of December 31 of the previous year (see Note 7). For 2004, this exposure is concentrated in the following sectors: manufacturing; transportation, communication and utilities; and wholesale and retail trade.

PBGC estimates that the total underfunding in single-employer plans exceeded $450 billion as of September 30, 2004, and exceeded $350 billion as of September 30, 2003. A comparable estimate was not made in 2002. PBGC's estimate of underfunding as of September 30, 2004, is largely (about 80%) based upon employers' reports to PBGC under section 4010 of ERISA of their December 31, 2003, market value of assets and termination liability. These values were then rolled forward to September 30, 2004, on a plan-by-plan basis using an average pension asset return from published reports, an average benefit accrual increment, and a liability adjustment factor to reflect the change in interest factors. The roll forward did not adjust for contributions, benefit payments, changes in liabilities due to the passage of time, or plan amendments since this information was not readily or reliably available. PBGC's exposure to loss is less than these amounts because of the statutory limits on insured pensions. For single-employer plans sponsored by employers that do not file with PBGC under section 4010 of ERISA, PBGC's estimates are based on data obtained from other filings and submissions with the government and from corporate annual reports for fiscal years ended in calendar 2003.

Total underfunding of multiemployer plans is estimated to exceed $150 billion at September 30, 2004. In 2003, PBGC estimated multiemployer underfunding at $100 billion. Multiemployer plan data is much less current and complete than single-employer data — it is generally two years older and in some cases three years older than single-employer data and comes only from Form 5500 filings.

PBGC estimates that, as of September 30, 2004, it is reasonably possible that multiemployer plans may require future financial assistance in the amount of $108 million. As of September 30, 2003 and 2002, these exposures were estimated at $63 million and $127 million, respectively.

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

Investment Activities

The Corporation's assets that are invested consist of premium revenues, accounted for in the revolving funds, and assets from terminated plans and their sponsors, accounted for in the trust funds. By law, PBGC is required to invest the revolving funds in fixed-income securities; current policy is to invest these funds only in Treasury securities. PBGC has more discretion in its management of the trust funds and uses institutional investment management firms to invest its assets, subject to PBGC oversight and consistent with the Corporation's investment policy statement.

During 2004, PBGC adopted a new investment policy to better manage the financial risks facing the federal pension insurance program. PBGC's new policy will reduce balance sheet volatility arising from a mismatch between assets and liabilities by increasing investment in duration-matched fixed-income securities and by decreasing the percentage of assets invested in equities to between 15 percent to 25 percent of total invested assets. PBGC is in the process of finalizing a search for fixed-income managers and expects to allocate funds to them in 2005. In anticipation of funding these managed portfolios, PBGC is liquidating equity assets from recently trusteed plans, which has resulted temporarily in high cash levels.

When fully implemented, PBGC's investment strategy will better match PBGC's assets and liabilities and reduce the agency's overall risk. Through this strategy, any change in the value of PBGC liabilities should be more closely offset by a corresponding change in the value of the fixed-income assets, reducing the risk of an increased PBGC deficit resulting from interest rate changes.

As of September 30, 2004, the value of PBGC's total investments in the single-employer and multiemployer programs, including cash and investment income, was approximately $37.5 billion. The revolving fund's value was $16.2 billion and the trust fund's value was $21.3 billion. Cash and fixed-income securities represented 70 percent of the total assets invested at the end of the year, compared to 63 percent at the end of 2003. Equity securities represented 30 percent of total assets invested, compared to 37 percent at the end of 2003. A very small portion of the invested portfolio remains in real estate and other financial instruments.

INVESTMENT PERFORMANCE
(Annual Rates of Return)

	September 30, 2004	September 30, 2003	Five Years Ended September 30, 2004
Total Invested Funds	**8.0%**	10.3%	5.9%
Equities	**15.0**	25.8	0.4
Fixed-Income	**5.6**	4.2	9.5
Trust Funds	**11.5**	22.9	0.2
Revolving Funds	**5.4**	3.8	9.4
Indices			
Wilshire 5000	**14.7**	26.3	-0.1
S&P 500 Stock Index	**13.9**	24.4	-1.3
Lehman Brothers Long Treasury Index	**4.9**	3.7	9.3

Results for 2004 were positive for capital market investments and PBGC's investment activities. During the year, PBGC achieved an 8.0% return on total invested funds. PBGC's fixed-income program returned 5.6% while its equity program returned 15.0%. PBGC's five-year returns approximated their comparable market indices, meeting PBGC's strategic performance goal. For the year, PBGC reported a gain of about $1.0 billion from fixed-income investments and a gain of about $2.2 billion from equity investments.

Federal Managers' Financial Integrity Act (FMFIA) Statement

Management controls in effect during fiscal year 2004 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 accounting principles generally accepted in the United States of America and to maintain accountability for assets among funds.

PBGC did not identify any material weaknesses as defined by FMFIA during fiscal year 2004.

Management Representation

PBGC's management is responsible for the accompanying Statements of Financial Condition of the Single-Employer and Multiemployer Program Funds as of September 30, 2004 and 2003, the related Statements of Operations and Changes in Net Position and the Statements of Cash Flows for the years then ended. PBGC's management is also responsible for establishing and maintaining systems of internal accounting and administrative controls that provide reasonable assurance that the control objectives, i.e., preparing reliable financial statements, safeguarding assets and complying with laws and regulations, are achieved.

In the opinion of management, the financial statements of the Single-Employer and Multiemployer Program Funds present fairly the financial position of PBGC at September 30, 2004, and September 30, 2003, and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America (GAAP) and actuarial standards applied on a consistent basis.

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

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

The Inspector General engaged PricewaterhouseCoopers LLP (PwC) to conduct the audit of the Corporation's 2004 and 2003 financial statements. PwC issued an unqualified opinion on PBGC's September 30, 2004 and 2003, financial statements.

Bradley D. Belt

Bradley D. Belt
Executive Director

Hazel Broadnax

Hazel Broadnax
Chief Financial Officer

November 15, 2004

Pension Benefit Guaranty Corporation
Statements of Financial Condition

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in millions)	**2004**	2003	**2004**	2003	**2004**	2003
ASSETS						
Cash and cash equivalents	**$ 7,692**	$ 3,172	**$ 14**	$ 8	**$ 7,706**	$ 3,180
Investments, at market (Note 3):						
Fixed maturity securities	**17,333**	17,250	**1,042**	975	**18,375**	18,225
Equity securities	**11,115**	12,641	**1**	1	**11,116**	12,642
Real estate and real estate investment trusts	**91**	93	**0**	0	**91**	93
Other	**23**	59	**0**	0	**23**	59
Total investments	**28,562**	30,043	**1,043**	976	**29,605**	31,019
Receivables, net:						
Sponsors of terminated plans	**129**	132	**0**	0	**129**	132
Premiums (Note 9)	**619**	254	**1**	0	**620**	254
Sale of securities	**1,756**	134	**0**	0	**1,756**	134
Investment income	**213**	274	**12**	16	**225**	290
Other	**2**	3	**0**	0	**2**	3
Total receivables	**2,719**	797	**13**	16	**2,732**	813
Capitalized assets, net	**20**	4	**0**	0	**20**	4
Total assets	**$38,993**	$34,016	**$1,070**	$1,000	**$40,063**	$35,016

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

Pension Benefit Guaranty Corporation
Statements of Financial Condition

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in millions)	**2004**	2003	**2004**	2003	**2004**	2003
LIABILITIES						
Present value of future benefits, net (Note 4):						
Trusteed plans	**$ 43,344**	$ 38,904	**$ 3**	$ 3	**$ 43,347**	$ 38,907
Terminated plans pending trusteeship	**501**	463	**0**	0	**501**	463
Settlements and judgments	**65**	67	**0**	0	**65**	67
Claims for probable terminations	**16,926**	5,207	**0**	0	**16,926**	5,207
Total present value of future benefits, net	**60,836**	44,641	**3**	3	**60,839**	44,644
Present value of nonrecoverable future financial assistance (Note 5)			**1,295**	1,250	**1,295**	1,250
Unearned premiums (Note 9)	**223**	207	**8**	8	**231**	215
Due for purchases of securities	**531**	127	**0**	0	**531**	127
Accounts payable and accrued expenses (Note 6)	**708**	279	**0**	0	**708**	279
Total liabilities	**62,298**	45,254	**1,306**	1,261	**63,604**	46,515
Net position	**(23,305)**	(11,238)	**(236)**	(261)	**(23,541)**	(11,499)
Total liabilities and net position	**$ 38,993**	$ 34,016	**$1,070**	$1,000	**$ 40,063**	$ 35,016

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

Commitments and contingencies
(Notes 7, 8, 14 and 15)

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

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	For the Years Ended September 30,		For the Years Ended September 30,		For the Years Ended September 30,	
(Dollars in millions)	**2004**	2003	**2004**	2003	**2004**	2003
UNDERWRITING:						
Income:						
Premium (Note 9)	**$ 1,458**	$ 948	**$ 27**	$ 25	**$ 1,485**	$ 973
Other	**24**	28	**0**	0	**24**	28
Total	**1,482**	976	**27**	25	**1,509**	1,001
Expenses:						
Administrative	**263**	271	**0**	0	**263**	271
Other	**(36)**	97	**0**	0	**(36)**	97
Total	**227**	368	**0**	0	**227**	368
Other underwriting activity:						
Losses from completed and probable terminations (Note 10)	**14,707**	5,377	**0**	0	**14,707**	5,377
Losses from financial assistance (Note 5)			**55**	480	**55**	480
Actuarial adjustments (Note 4)	**1,525**	108	**1**	1	**1,526**	109
Total	**16,232**	5,485	**56**	481	**16,288**	5,966
Underwriting loss	**(14,977)**	(4,877)	**(29)**	(456)	**(15,006)**	(5,333)
FINANCIAL:						
Investment income (Note 11):						
Fixed	**983**	1,276	**54**	37	**1,037**	1,313
Equity	**2,196**	2,059	**0**	0	**2,196**	2,059
Other	**18**	14	**0**	0	**18**	14
Total	**3,197**	3,349	**54**	37	**3,251**	3,386
Expenses:						
Investment	**25**	19	**0**	0	**25**	19
Actuarial charges (Note 4):						
Due to passage of time	**1,881**	1,770	**0**	0	**1,881**	1,770
Due to change in interest rates	**(1,619)**	4,283	**0**	0	**(1,619)**	4,283
Total	**287**	6,072	**0**	0	**287**	6,072
Financial income (loss)	**2,910**	(2,723)	**54**	37	**2,964**	(2,686)
Net income (loss)	**(12,067)**	(7,600)	**25**	(419)	**(12,042)**	(8,019)
Net position, beginning of year	**(11,238)**	(3,638)	**(261)**	158	**(11,499)**	(3,480)
Net position, end of year	**$(23,305)**	$(11,238)	**$(236)**	$(261)	**$(23,541)**	$(11,499)

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, **2004**	2003	Multiemployer Program For the Years Ended September 30, **2004**	2003	Memorandum Total For the Years Ended September 30, **2004**	2003
OPERATING ACTIVITIES:						
Premium receipts	**$ 1,108**	$ 828	**$ 28**	$ 25	**$ 1,136**	$ 853
Interest and dividends received, net	**1,155**	962	**64**	50	**1,219**	1,012
Cash received from plans upon trusteeship	**51**	360	**0**	0	**51**	360
Receipts from sponsors/non-sponsors	**120**	128	**0**	0	**120**	128
Receipts from the missing participant program	**3**	3	**0**	0	**3**	3
Other receipts	**4**	1	**0**	0	**4**	1
Benefit payments - trusteed plans	**(2,888)**	(2,154)	**(1)**	(1)	**(2,889)**	(2,155)
Financial assistance payments			**(10)**	(5)	**(10)**	(5)
Settlements and judgments	**(7)**	(90)	**0**	0	**(7)**	(90)
Payments for administrative and other expenses	**(278)**	(250)	**0**	0	**(278)**	(250)
Net cash provided (used) by operating activities (Note 13)	**(732)**	(212)	**81**	69	**(651)**	(143)
INVESTING ACTIVITIES:						
Proceeds from sales of investments	**71,260**	36,556	**1,269**	1,704	**72,529**	38,260
Payments for purchases of investments	**(66,008)**	(33,888)	**(1,344)**	(1,768)	**(67,352)**	(35,656)
Net cash provided (used) by investing activities	**5,252**	2,668	**(75)**	(64)	**5,177**	2,604
Net increase in cash and cash equivalents	**4,520**	2,456	**6**	5	**4,526**	2,461
Cash and cash equivalents, beginning of year	**3,172**	716	**8**	3	**3,180**	719
Cash and cash equivalents, end of year	**$ 7,692**	$ 3,172	**$ 14**	$ 8	**$ 7,706**	$ 3,180

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

Notes to Financial Statements
September 30, 2004 and 2003

Note 1 — Organization and Purpose

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

ERISA requires that PBGC programs be self-financing. The Corporation's principal sources of revenues are premiums collected from covered plans, assets assumed from terminated plans, collection of employer liability payments due under ERISA, and investment income. ERISA provides that the U.S. Government is not liable for any obligation or liability incurred by PBGC.

As of September 30, 2004, the single-employer and multiemployer programs reported deficits of $23.305 billion and $236 million, respectively. To date, neither program's deficit has affected the Corporation's ability to maintain liquidity and meet its obligations. However, neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants. The single-employer program has assets of nearly $39 billion and the multiemployer program has assets in excess of $1 billion. Sufficient liquidity exists to meet the programs' obligations for a number of years.

SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAM EXPOSURE

Measures of risk in PBGC's insured base of plan sponsors suggest that the single-employer deficit may continue to worsen. PBGC's best estimate of the total underfunding in plans sponsored by companies with credit ratings below investment grade and classified by PBGC as reasonably possible of termination as of September 30, 2004, was $96 billion. The comparable estimates of reasonably possible exposure for 2003 and 2002 were $82 billion and $35 billion, respectively. These estimates are measured as of December 31 of the previous year (see Note 7). For 2004, this exposure is concentrated in the following sectors: manufacturing; transportation, communication and utilities; and wholesale and retail trade.

PBGC estimates that the total underfunding in single-employer plans exceeded $450 billion (unaudited), as of September 30, 2004, and exceeded $350 billion (unaudited) as of September 30, 2003. A comparable estimate was not made in 2002. PBGC's estimate of underfunding as of September 30, 2004, is largely (about 80%) based upon employers' reports to PBGC under section 4010 of ERISA of their December 31, 2003, market value of assets and termination liability. These values were then rolled forward to September 30, 2004, on a plan-by-plan basis using an average pension asset return from published reports, an average benefit accrual increment, and a liability adjustment factor to reflect the change in interest factors. The roll forward did not adjust for contributions, benefit payments, changes in liabilities due to the passage of time, or plan amendments since this information was not readily or reliably available. PBGC's exposure to loss is less than these amounts because of the statutory limits on insured pensions. For single-employer plans sponsored by employers that do not file with PBGC under section 4010 of ERISA, PBGC's estimates are based on data obtained from other filings and submissions with the government and from corporate annual reports for fiscal years ended in calendar 2003.

Total underfunding of multiemployer plans is estimated to exceed $150 billion (unaudited) at September 30, 2004. In 2003, PBGC estimated multiemployer underfunding at $100 billion (unaudited). Multiemployer plan data is much less current and complete than single-employer data — it is generally two years older and in some cases three years older than single-employer data and comes only from Form 5500 filings.

PBGC estimates that, as of September 30, 2004, it is reasonably possible that multiemployer plans may require future financial assistance in the amount of $108 million. As of September 30, 2003 and 2002, these exposures were estimated at $63 million and $127 million, respectively.

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

Under the single-employer program, PBGC is liable for the payment of guaranteed benefits with respect only to underfunded terminated plans. An underfunded plan may terminate only if PBGC or a bankruptcy court finds that one of the four conditions for a distress termination, as defined in ERISA, is met or if PBGC involuntarily terminates a plan under one of five specified statutory tests. The net liability assumed by PBGC is generally equal to the present value of the future benefits payable by PBGC less (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. PBGC recognizes assistance as a loss to the extent that the plan is not expected to be able to repay these amounts from future plan contributions, employer withdrawal liability or investment earnings.

Note 2 — Significant Accounting Policies

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

VALUATION METHOD: A primary objective of PBGC's financial statements is to provide information that is useful in assessing PBGC's present and future ability to ensure that defined benefit pension plan beneficiaries receive benefits when due. Accordingly, PBGC values its financial assets at estimated fair value, consistent with the standards for pension plans contained in Statement of Financial Accounting Standards (FAS) No. 35 ("Accounting and Reporting by Defined Benefit Pension Plans"). PBGC values its liabilities for the present value of future benefits and present value of nonrecoverable future financial assistance using assumptions derived from annuity prices from insurance companies, as described in the Statement of Actuarial Opinion. As described in Paragraph 21 of FAS No. 35, the assumptions are "those assumptions that are inherent in the estimated cost at the (valuation) date to obtain a contract with an insurance company to provide participants with their accumulated plan benefits." Also, in accordance with Paragraph 21 of FAS No. 35, PBGC selects assumptions for expected retirement ages and the cost of administrative expenses in accordance with its best estimate of anticipated experience.

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

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

The trust funds 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 year-end, 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 it becomes trustee.

ALLOCATION OF REVOLVING AND TRUST FUNDS: PBGC allocates assets, liabilities, income and expenses to each program's revolving and trust funds to the extent that such amounts are not directly attributable to a specific fund. Revolving fund investment income is allocated on the basis of each program's average cash and investments available during the year while the expenses are allocated on the basis of each program's present value of future benefits. Revolving fund assets and liabilities are allocated on the basis of the year-end equity of each program's revolving funds. 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.

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: PBGC bases market values 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. In addition, PBGC invests in and discloses its derivative investments in accordance with the guidance contained in FAS No. 133 ("Accounting for Derivative Instruments and Hedging Activities"), as amended. Investment income is accrued as earned. Dividend income is recorded on the ex-dividend date. Realized gains and losses on sales of investments are calculated using first in first out for the revolving fund and average cost for the trust fund. PBGC marks the plan's assets to market and any increase or decrease in the market value of a plan's assets occurring after the date on which the plan is terminated must, by law, be credited to or suffered by PBGC.

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

PREMIUMS: Premiums receivable represent the estimated earned but unpaid portion of the premiums for plans that have a plan year commencing before the end of PBGC's fiscal year and past due premiums deemed collectible, including collectible penalties and interest. The liability for unearned premiums represents an estimate of payments received during the fiscal year that cover the portion of a plan's year after PBGC's fiscal year-end. Premium income represents actual and estimated revenue generated from self-assessments from defined benefit pension plans as required by Title IV of ERISA (see Note 9).

CAPITALIZED ASSETS: Capitalized assets include furniture and fixtures, EDP equipment and internal-use software. Beginning in Fiscal Year 2004, PBGC, in compliance with AICPA Statement Of Position 98-1 and FASB EITF 97-13 began to account for the cost of computer software developed for internal use. This includes costs for internally developed software incurred during the application development stage (system design including software configuration and software interface, coding, testing including parallel processing phase). These costs are shown net of depreciation and amortization.

PRESENT VALUE OF FUTURE BENEFITS (PVFB): The PVFB is the estimated liability for future pension benefits that PBGC is or will be obligated to pay the participants of 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 as of the date of the financial statements. PBGC also includes the estimated liabilities attributable to probable future plan terminations as a separate line item in the PVFB (net of estimated recoveries and assets). PBGC uses assumptions to adjust the value of those future payments to reflect the time value of money (by discounting) and the probability of payment (by means of decrements, such as for death or retirement). PBGC also includes anticipated expenses to settle the benefit obligation in the determination of the PVFB. PBGC's benefit payments to participants represent a reduction to the PVFB liability.

The values of the PVFB are particularly sensitive to changes in underlying estimates and assumptions. These estimates and assumptions could change and the impact of these changes may be material to PBGC's financial statements (see Note 4).

(1) Trusteed Plans — represents the present value of future benefit payments less the present value of expected recoveries (for

which a settlement agreement has not been reached with sponsors and members of their controlled group) for plans that have terminated and been trusteed by PBGC prior to fiscal year-end.

(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 year-end.

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

(4) Net Claims for Probable Terminations — In accordance with Statement of Financial Accounting Standards No. 5 (Accounting for Contingencies) PBGC recognizes net claims for probable terminations which represent PBGC's best estimate of the losses, net of plan assets and the present value of expected recoveries (from sponsors and members of their controlled group) for plans that are likely to terminate in a future year. These estimated losses are based on conditions that existed as of PBGC's fiscal year-end. Management believes it is likely that one or more events subsequent to PBGC's fiscal year-end will occur, confirming the loss. Criteria used for classifying a specific plan as a probable termination include, but are not limited to, one or more of the following conditions: the plan sponsor is in liquidation or comparable state insolvency proceeding with no known solvent controlled group member; sponsor filed or intends to file for distress plan termination; or PBGC seeks involuntary plan termination. In addition, management takes into account other economic events and factors in making judgments regarding the classification of a plan as a probable termination. These events and factors may include, but are not limited to: the plan sponsor is in bankruptcy or has indicated that a bankruptcy filing is imminent; the plan sponsor has stated that plan termination is likely; the plan sponsor has received a going concern opinion from its independent auditors; or the plan sponsor is in default under existing credit agreement(s).

In addition, a reserve for large unidentified probable losses is recorded based on actual PBGC experience, as well as the historical industry bond default rates. This reserve has been developed by segregating plan sponsors with aggregate underfunding equal to or greater than $5 million into risk bands which reflect their level of credit risk. A reserve for small unidentified probable losses and incurred but not reported claims is also recorded based on an actuarial loss development methodology (triangulation) (see Note 4).

(5) PBGC identifies certain plans as high risk if the plan sponsor meets one or more criteria that include, but are not limited to, the following conditions: sponsor is in Chapter 11 proceedings; sponsor received a minimum funding waiver within the past five years; sponsor granted security to an unsecured creditor as part of a renegotiation of debt within the past two years; sponsor is known to have been in default on existing debt within the past two years (regardless of whether it received a waiver of default); or sponsor's unsecured debt is rated CCC+/Caa1 or lower by S&P or Moody's respectively. PBGC specifically reviews each plan identified as high risk and classifies those plans as probable if, based on available evidence, PBGC concludes that plan termination is likely. Otherwise, high risk plans are classified as reasonably possible.

(6) In accordance with Statement of Financial Accounting Standards No. 5 (Accounting for Contingencies), PBGC's exposure to losses from plans of companies that are classified as reasonably possible is disclosed in footnotes. Criteria used for classifying a company as a reasonably possible include, but are not limited to, one or more of the following conditions: the plan sponsor is in Chapter 11 reorganization; funding waiver pending or outstanding with the Internal Revenue Service (IRS); sponsor missed minimum funding contribution; sponsor's bond rating is below-investment-grade for Standard & Poor's (BB+) or Moody's (Ba1); sponsor has no bond rating but unsecured debt is below investment grade; or sponsor has no bond rating but the ratio of long-term debt plus unfunded benefit liability to market value of shares is 1.5 or greater (see Note 7).

PRESENT VALUE OF NONRECOVERABLE FUTURE FINANCIAL ASSISTANCE: In accordance with Title IV of ERISA, 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 5).

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

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

LOSSES FROM COMPLETED AND PROBABLE TERMINATIONS: Amounts reported as losses from completed and probable terminations represent the difference as of the actual or expected date of plan termination 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 10). In addition, the plan's net income from date of plan termination to the beginning of PBGC's fiscal year is included as a component of losses from completed and probable terminations for plans with termination dates prior to the year in which they were added to PBGC's inventory of terminated plans.

ACTUARIAL ADJUSTMENTS AND CHARGES (CREDITS): PBGC classifies actuarial adjustments related to changes in method and the effect of experience as underwriting activity; actuarial adjustments are the result of the movement of plans from one valuation methodology to another (e.g., nonseriatim to seriatim) and of new data (e.g., deaths, revised participant data). Actuarial charges (credits) related to changes in interest rates and passage of time are classified as financial activity. These adjustments and charges (credits) represent the change in the PVFB that results from applying actuarial assumptions in the calculation of future benefit liabilities (see Note 4).

DEPRECIATION AND AMORTIZATION: PBGC calculates depreciation on the straight-line basis over estimated useful lives of 5 years for equipment and 10 years for furniture and fixtures. PBGC calculates amortization for capitalized software, which includes certain costs incurred for purchasing and developing software for internal use, on the straight-line basis over estimated useful lives not to exceed 5 years, commencing on the date that the Corporation determines that the internal-use software is implemented. Routine maintenance and leasehold improvements (the amounts of which are not material) are charged to operations as incurred.

RECLASSIFICATION: Certain amounts in the 2003 financial statements have been reclassified to be consistent with the 2004 presentation.

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 (e.g., recoveries from sponsors) and investment income thereon. These assets generally are held by custodian banks. The basis and market value of the investments by type are detailed below as well as related investment profile data. The basis indicated is cost of the asset if 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. PBGC marks the plan's assets to market and any increase or decrease in the market value of a plan's assets occurring after the date on which the plan is terminated must, by law, be credited to or suffered by PBGC. Note 11 provides the components of investment income.

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

(Dollars in millions)	September 30, 2004 Basis	September 30, 2004 Market Value	September 30, 2003 Basis	September 30, 2003 Market Value
Fixed maturity securities:				
U.S. Government securities	**$15,095**	**$15,667**	$14,997	$15,450
Commercial paper	**188**	**188**	87	87
Asset backed securities	**399**	**396**	937	942
Corporate and other bonds	**1,050**	**1,082**	740	771
Subtotal	**16,732**	**17,333**	16,761	17,250
Equity securities	**7,536**	**11,115**	10,040	12,641
Real estate and real estate investment trusts	**83**	**91**	97	93
Insurance contracts and other investments	**38**	**23**	74	59
Total *	**$24,389**	**$28,562**	$26,972	$30,043

* This includes securities on loan at September 30, 2004, and September 30, 2003, with a market value of $622 million and $213 million, respectively.

INVESTMENTS OF MULTIEMPLOYER REVOLVING FUNDS AND MULTIEMPLOYER TRUSTEED PLANS

(Dollars in millions)	September 30, 2004 Basis	September 30, 2004 Market Value	September 30, 2003 Basis	September 30, 2003 Market Value
Fixed maturity securities:				
U.S. Government securities	**$1,006**	**$1,042**	$946	$975
Equity securities	**0**	**1**	1	1
Total	**$1,006**	**$1,043**	$947	$976

INVESTMENT PROFILE

	September 30, 2004	September 30, 2003
Fixed-Income Assets		
Average Quality	**AAA**	AAA
Average Maturity (years)	**15.2**	17.2
Duration (years)	**9.1**	10.1
Yield to Maturity (%)	**4.4**	4.6
Equity Assets		
Average Price/Earnings Ratio	**20.4**	24.2
Dividend Yield (%)	**1.7**	1.7
Beta	**0.98**	0.96

DERIVATIVE INVESTMENTS: Derivatives are accounted for at market value in accordance with Statement of Financial Accounting Standards No. 133, as amended. Derivatives are marked to market with changes in value reported within financial income. The standard requires disclosure of fair value of these instruments. During fiscal years 2003 and 2004, PBGC invested in investment products, which used various U.S. and non-U.S. derivative instruments including but not limited to: equity index futures contracts, money market and government bond futures contracts, swap contracts, swaption contracts, stock warrants and rights, debt option contracts and foreign currency forward and option contracts. Some of these derivatives are traded on organized exchanges and thus bear minimal credit risk. The counterparties to PBGC's non-exchange-traded derivative contracts are major financial institutions. PBGC has never experienced non-performance by any of its counterparties.

Futures are exchange-traded contracts specifying a future date of delivery or receipt of a certain amount of a specific tangible or intangible product. The futures exchange's clearinghouses clear, settle, and guarantee transactions occurring through its facilities. Institutional investors hold these future contracts on behalf of PBGC as efficient and liquid substitutes for purchases and sales of financial market indices and securities. Open futures positions are marked to market daily. An initial margin of generally 1 to 6 percent is maintained with the broker in Treasury bills or similar instruments. In addition, futures contracts require daily settlement of variation margin resulting from the marks to market. In periods of extreme volatility, margin calls may create a high liquidity demand on the underlying portfolio. To mitigate this, PBGC maintains adequate liquidity in its portfolio to meet these margin calls.

The table below summarizes the Corporation's financial futures positions at September 30, 2004 and 2003. The table includes the notional and fair value of the instrument. The notional is the theoretical cost of a futures contract defined as the number of contracts held times trade price times a multiplier. The fair value is the market value (amount needed to settle) of a financial instrument contract.

FAIR VALUE OF FINANCIAL FUTURES

	Notional at September 30,		Fair Value at September 30,	
(Dollars in millions)	**2004**	2003	**2004**	2003
Financial futures contracts	**$2,025**	$1,023	**$16**	$(4)

Foreign currency forward and option contracts are used to hedge currency exposure (i.e., minimize currency risk) of certain assets and to adjust overall currency exposure to reflect the investment views of the portfolio managers regarding relationships between currencies. Other investments held by the Corporation include swap contracts and swaption (i.e., option on swap) contracts. A swap is an agreement between two parties to exchange different financial returns on a notional investment amount. For example, an interest rate swap involves exchanges of fixed rate and floating rate interest. There is no exchange of the underlying principal. PBGC uses swap and swaption contracts to adjust exposure to interest rates, fixed income securities exposure, and to generate income based on the investment views of the portfolio managers regarding interest rates, indices and debt issues. Stock warrants and rights allow PBGC to purchase securities at a stipulated price within a specified time limit. For the fiscal years ended September 30, 2004, and September 30, 2003, gains and losses from settled margin calls are reported in Investment income on the Statements of Operations and Changes in Net Position.

SECURITY LENDING: PBGC participates in a security lending program administered by its custodian bank. The custodian bank requires collateral that equals 102 percent to 105 percent of the securities lent. The collateral is held by the custodian bank. In addition to the lending program managed by the custodian bank, some of PBGC's investment managers are authorized to invest in repurchase agreements and reverse repurchase agreements. The manager either receives cash as collateral or pays cash out to be used as collateral. Any cash collateral received is invested. The total value of securities on loan at September 30, 2004, and September 30, 2003, was $622 million and $213 million, respectively.

Note 4 — Present Value of Future Benefits

The following table summarizes the actuarial adjustments, charges and credits that explain how the Corporation's single-employer program liability for the present value of future benefits changed for the years ended September 30, 2004 and 2003.

For FY 2004, PBGC used a 25-year select interest factor of 4.8% followed by an ultimate factor of 5.0% for the remaining years and for FY 2003, a 20-year select interest factor of 4.4% followed by an ultimate factor of 4.5% for the remaining years. These factors were determined to be those needed, given the mortality assumptions, to continue to match the survey of annuity prices provided by the American Council of Life Insurers (ACLI). PBGC's regulations state that both the interest factor and the length of the select period may vary to produce the best fit with these prices. The prices reflect rates at which, in the opinion of management, the liabilities (net of administrative expenses) could be settled in the market at September 30, for the respective year, for single-premium nonparticipating group annuities issued by private insurers. Many factors, including Federal Reserve policy, may impact these rates.

For September 30, 2004, PBGC used the 1994 Group Annuity Mortality (GAM) Static Table (with margins), set forward 1 year and projected 20 years to 2014 using Scale AA. For September 30, 2003, PBGC used the same table, set forward two years but projected 18 years to 2012 using Scale AA. The number of years that PBGC projects the mortality table reflects the number of years from the 1994 base year of the table to the end of the fiscal year (10 years in 2004 versus 9 years in 2003) plus PBGC's calculated duration of its liabilities (10 years in 2004 versus 9 years in 2003). PBGC's procedure is based on the procedures recommended by the Society of Actuaries UP-94 Task Force (which developed the GAM94 table) for taking into account future mortality improvements.

During FY 2004, PBGC conducted a mortality study. The study showed that the mortality assumptions used in FY 2003 reflected higher mortality than was realized in PBGC's seriatim population. Therefore, PBGC adopted a base mortality table (i.e., GAM94 set forward one year instead of GAM94 set forward two years) that better reflects past mortality experience. The ACLI survey of annuity prices, when combined with the mortality table, provides the basis for determining the interest factors used in calculating the PVFB. The insurance annuity prices, when combined with the stronger mortality table, result in a higher interest factor. The increase in the liability due to the change in the mortality table is included in the actuarial adjustments. There is a compensating decrease in the actuarial charge due to the change in interest rates.

The reserve for administrative expenses in the 2004 and 2003 valuations was assumed to be 1.18 percent of benefit liabilities plus additional reserves for cases whose plan asset determinations, participant database audits and actuarial valuations were not yet complete. The expense assumption was based on a study performed for PBGC in 2000 by a major accounting firm. The factors to determine the additional reserves were based on case size, number of participants and time since trusteeship.

The present values of future benefits for trusteed multiemployer plans for 2004 and 2003 reflect the payment of assistance and the changes in interest and mortality assumptions, passage of time and the effect of experience.

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

RECONCILIATION OF THE PRESENT VALUE OF FUTURE BENEFITS FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	September 30,			
(Dollars in millions)	2004		2003	
Present value of future benefits, at beginning of year — Single-Employer, net		**$44,641**		$28,619
Estimated recoveries, prior year		**68**		38
Assets of terminated plans pending trusteeship, net, prior year		**172**		323
Present value of future benefits at beginning of year, gross		**44,881**		28,980
Settlements and judgments, prior year		**(67)**		(161)
Net claims for probable terminations, prior year		**(5,207)**		(6,322)
Actuarial adjustments — underwriting:				
Changes in method and assumptions	**$ 1,340**		$ 21	
Effect of experience	**185**		87	
Total actuarial adjustments — underwriting	**1,525**		108	
Actuarial charges — financial:				
Passage of time	**1,881**		1,770	
Change in interest rates	**(1,619)**		4,283	
Total actuarial charges — financial	**262**		6,053	
Total actuarial charges, current year		**1,787**		6,161
Terminations:				
Current year	**6,926**		13,428	
Changes in prior year	**(427)**		9	
Total terminations		**6,499**		13,437
Benefit payments, current year*		**(3,006)**		(2,488)
Estimated recoveries, current year		**(364)**		(68)
Assets of terminated plans pending trusteeship, net, current year		**(678)**		(172)
Settlements and judgments, current year		**65**		67
Net claims for probable terminations:				
Future benefits**	**30,953**		9,735	
Estimated plan assets and recoveries from sponsors	**(14,027)**		(4,528)	
Total net claims, current year		**16,926**		5,207
Present value of future benefits, at end of year — Single-Employer, net		**60,836**		44,641
Present value of future benefits, at end of year — Multiemployer		**3**		3
Total present value of future benefits, at end of year, net		**$60,839**		$44,644

* The benefit payments of $3,006 million and $2,488 million include $119 million in 2004 and $334 million in 2003 for benefits paid from plan assets by plans prior to trusteeship.

** The future benefits for probable terminations of $30,953 million and $9,735 million for fiscal years 2004 and 2003, respectively, include $431 million and $214 million, respectively, in net claims (future benefits less estimated plan assets and recoveries) for probable terminations not specifically identified and $30,522 million and $9,521 million, respectively, in net claims for specifically identified probables.

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

ASSETS OF SINGLE-EMPLOYER TERMINATED PLANS PENDING TRUSTEESHIP, NET

(Dollars in millions)	September 30, 2004 Basis	September 30, 2004 Market Value	September 30, 2003 Basis	September 30, 2003 Market Value
U.S. Government securities	$ 3	$ 3	$ 0	$ 0
Corporate and other bonds	265	281	83	88
Equity securities	364	382	66	75
Insurance contracts	2	2	4	4
Other	10	10	5	5
Total, net	$644	$678	$158	$172

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, 2004		September 30, 2003	
Net claims for probable terminations, at beginning of year		$ 5,207		$ 6,322
Change in IBNR		(41)		0
New claims	$14,407		$ 4,211	
Actual terminations	(3,258)		(5,448)	
Deleted probables	(243)		(228)	
Change in benefit liabilities	929		270	
Change in plan assets	(75)		80	
Loss (credit) on probables		11,760		(1,115)
Net claims for probable terminations, at end of year		$16,926		$ 5,207

The following table itemizes the probable exposure by industry:

PROBABLES EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	FY 2004	FY 2003
Transportation, Communication and Utilities	$15,057	$1,290
Manufacturing	630	2,725
Finance, Insurance, and Real Estate	569	31
Wholesale and Retail Trade	219	573
Agriculture, Mining, and Construction	0	237
Services/Other	451	351
Total	$16,926	$5,207

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

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

PROBABLES EXPERIENCE
As Initially Recorded Beginning in 1987

(Dollars in millions) Beginning in 1987, number of plans reported as Probable:	Status of Probables from 1987 - 2003 at September 30, 2004: Number of Plans	Percent of Plans	Net Claim	Percent of Net Claim
Probables terminated	237	76%	$11,746	82%
Probables not yet terminated or deleted	11	4	1,486	11
Probables deleted	62	20	1,021	7
Total	310	100%	$14,253	100%

Note 5 — Multiemployer Financial Assistance

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

NOTES RECEIVABLE
MULTIEMPLOYER FINANCIAL ASSISTANCE

(Dollars in millions)	September 30, 2004	2003
Gross balance at beginning of year	**$ 61**	$ 56
Financial assistance payments—current year	**10**	5
Subtotal	**71**	61
Allowance for uncollectible amounts	**(71)**	(61)
Net balance at end of year	**$ 0**	$ 0

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

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

(Dollars in millions)	September 30, 2004	2003
Balance at beginning of year	**$1,250**	$ 775
Changes in allowance:		
Losses from financial assistance	**55**	480
Financial assistance granted (previously accrued)	**(10)**	(5)
Balance at end of year	**$1,295**	$1,250

Note 6 — Accounts Payable and Accrued Expenses

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

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

(Dollars in millions)	September 30, 2004	2003
Annual leave	**$ 5**	$ 5
Collateral held for loaned securities	**637**	220
Other payables and accrued expenses	**66**	54
Accounts payable and accrued expenses	**$708**	$279

Note 7 — Contingencies

There are a number of single-employer plans that are sponsored by companies whose credit quality is below investment grade which poses a greater risk of being terminated. In addition, there are some multiemployer plans that may require future financial assistance. The amounts disclosed below represent the Corporation's best estimates of the possible losses in these plans given the inherent uncertainties about these plans.

In accordance with Statement of Financial Accounting Standards No. 5, PBGC classified a number of these companies as reasonably possible terminations as the sponsors' financial condition and other factors did not indicate that termination of their plans was likely as of year-end. The best estimate of aggregate unfunded vested benefits exposure to PBGC for the companies' single-employer plans classified as reasonably possible with an underfunding of $5 million or greater as of September 30, 2004, was $96 billion.

The estimated unfunded vested benefits exposure has been calculated as of December 31, 2003. PBGC calculated this estimate as in previous years by using data obtained from filings and submissions with the government and from corporate annual reports for fiscal years ending in calendar 2003. The Corporation adjusted the value reported for liabilities to the December 31, 2003, PBGC select interest rate of 4.0% (the liabilities are not valued at September 30 as the information is not available). When available, data were adjusted to a consistent set of mortality assumptions. The underfunding associated with these sponsors' plans would generally tend to be greater at September 30, 2004, because of the economic conditions (e.g., lower interest rate factors and/or low investment returns on plan assets) that existed between December 31, 2003, and September 30, 2004. The Corporation did not adjust the estimate for events that occurred between December 31, 2003, and September 30, 2004.

The following table itemizes the reasonably possible exposure by industry:

REASONABLY POSSIBLE EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	FY 2004	FY 2003
Manufacturing	**$48,444**	$39,470
Transportation, Communication and Utilities	**30,480**	32,937
Services/Other	**7,926**	2,501
Wholesale and Retail Trade	**5,806**	4,346
Agriculture, Mining and Construction	**1,866**	1,762
Finance, Insurance, and Real Estate	**1,151**	1,079
Total	**$95,673**	$82,095

PBGC included amounts in the liability for the present value of nonrecoverable future financial assistance (see Note 5) for multiemployer plans that PBGC estimated may require future financial assistance. In addition, PBGC currently estimates that it is reasonably possible that other multiemployer plans may require future financial assistance in the amount of $108 million.

The Corporation calculated the future financial assistance liability for each multiemployer plan identified as probable or reasonably possible as the present value of guaranteed future benefit and expense payments net of any future contributions or withdrawal liability payments as of the later of September 30, 2004, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2004. The Corporation's identification of plans that are likely to require such assistance and estimation of related amounts required consideration of many complex factors, such as an estimate of future cash flows, future mortality rates, and age of participants not in pay status. These factors are affected by future events, including actions by plans and their sponsors, most of which are beyond the Corporation's control.

PBGC used select and ultimate interest rate assumptions of 4.8% for the first 25 years after the valuation date and 5.0% thereafter. The Corporation also used the 1994 Group Annuity Mortality Static Table (with margins), set forward 1 year, projected 20 years to 2014 using Scale AA.

Note 8 — Commitments

PBGC leases its office facility under a commitment that began on December 11, 1993, and expires December 10, 2008. However, a new lease will take effect on January 1, 2005. The new lease agreement was entered into because of the need for additional office space. 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 2013. The minimum future lease payments for office facilities having noncancellable terms in excess of one year as of September 30, 2004, are as follows:

COMMITMENTS: FUTURE LEASE PAYMENTS

(Dollars in millions)

Years Ending September 30,	Operating Leases
2005	$ 16.7
2006	17.3
2007	17.3
2008	17.0
2009	14.2
Thereafter	125.0
Minimum lease payments	$207.5

Lease expenses were $15.6 million in 2004 and $14.6 million in 2003.

Note 9 — Premiums

For both the single-employer and multiemployer programs, ERISA provides that PBGC shall continue to guarantee basic benefits despite the failure of a plan administrator to pay premiums when due. PBGC assesses interest and penalties on the unpaid portion of or underpayment of premiums. Interest continues to accrue until the premium and the interest due are paid. The amount of penalty that can be levied is capped at 100 percent of the premium late payment or underpayment. Annual flat-rate premiums for the single-employer program are $19 per participant. Underfunded single-employer plans also pay variable-rate premiums of $9 per $1,000 of underfunding if not exempt from the variable-rate premiums. Annual flat-rate premiums for the multiemployer program are $2.60 per participant and there are no variable-rate premiums. PBGC recorded premium income, excluding interest and penalty, of approximately $677 million in flat-rate premiums and $804 million in variable-rate premiums for fiscal year 2004, and approximately $676 million in flat-rate premiums and $301 million in variable-rate premiums for fiscal year 2003.

Note 10 —
Losses from Completed and Probable Terminations

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

LOSSES FROM COMPLETED AND PROBABLE TERMINATIONS — SINGLE-EMPLOYER PROGRAM

	For the Years Ended September 30,					
	2004			2003		
(Dollars in millions)	New Terminations	Changes in Prior Year Terminations	Total	New Terminations	Changes in Prior Year Terminations	Total
Present value of future benefits	$6,926	$(427)	$ 6,499	$13,428	$ 9	$13,437
Less plan assets	3,137	125	3,262	6,963	(79)	6,884
Plan asset insufficiency	3,789	(552)	3,237	6,465	88	6,553
Less estimated recoveries	280	11	291	61	(3)	58
Subtotal	$3,509	$(563)	2,946	$ 6,404	$ 91	6,495
Settlements and judgments			1			(3)
Loss (credit) on probables			11,760*			(1,115)*
Total			$14,707			$ 5,377

* See Note 4

Note 11 — Financial Income

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

FINANCIAL INCOME

	For the Years Ended September 30,	
(Dollars in millions)	2004	2003
Fixed-income securities:		
Interest earned	$ 908	$ 941
Realized gain (loss)	(20)	1,599
Unrealized gain (loss)	149	(1,227)
Total fixed-income securities	1,037	1,313
Equity securities:		
Dividends earned	104	75
Realized gain (loss)	1,044	(134)
Unrealized gain	1,048	2,118
Total equity securities	2,196	2,059
Other income	18	14
Total financial income	$3,251	$ 3,386

Note 12 — Employee Benefit Plans

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

The Corporation's contribution to the CSRS plan for 2004 was 7.0 percent of base pay for those employees covered by that system. For FY 2003, the rate for the first three months was 7.5 percent and 7.0 percent for the remainder of that year. For those employees covered by FERS, the Corporation's contribution was 10.7 percent of base pay for both 2004 and 2003. 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 $10 million in both 2004 and 2003.

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

Note 13 — Cash Flows

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

RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in millions)	**2004**	2003	**2004**	2003	**2004**	2003
Net income (loss)	**$(12,067)**	$(7,600)	**$25**	$(419)	**$(12,042)**	$(8,019)
Adjustments to reconcile net income to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	**(2,160)**	(2,308)	**(3)**	11	**(2,163)**	(2,297)
Net gain of terminated plans pending trusteeship	**(84)**	(108)	**0**	0	**(84)**	(108)
Losses on completed and probable terminations	**14,707**	5,377	**0**	0	**14,707**	5,377
Actuarial charges	**1,787**	6,161	**1**	1	**1,788**	6,162
Benefit payments — trusteed plans	**(2,888)**	(2,154)	**(1)**	(1)	**(2,889)**	(2,155)
Settlements and judgments	**(7)**	(90)	**0**	0	**(7)**	(90)
Cash received from plans upon trusteeship	**51**	360	**0**	0	**51**	360
Receipts from sponsors/non-sponsors	**84**	225	**0**	0	**84**	225
Amortization of discounts/premiums	**128**	108	**11**	7	**139**	115
Changes in assets and liabilities, net of effects of trusteed and pending plans:						
(Increase) decrease in receivables	**(311)**	(210)	**3**	(5)	**(308)**	(215)
Increase in present value of nonrecoverable future financial assistance			**45**	475	**45**	475
Increase in unearned premiums	**16**	14	**0**	0	**16**	14
Increase in accounts payable	**12**	13	**0**	0	**12**	13
Net cash provided (used) by operating activities	**$ (732)**	$ (212)	**$81**	$ 69	**$ (651)**	$ (143)

Note 14 — Litigation

Legal challenges to PBGC policies and positions continued in 2004. At the end of the fiscal year, PBGC had 158 active cases in state and federal courts and 698 bankruptcy cases. PBGC records as a liability on its financial statements an estimated cost for unresolved litigation to the extent that losses in such cases are probable and estimable in amount. PBGC estimates that possible losses in the range of $26 - $30 million could be incurred in the event that PBGC does not prevail in these matters. These possible losses are not recognized in the financial statements.

Note 15 — Subsequent Events

Subsequent to September 30, 2004, business and financial conditions significantly deteriorated for a sponsor of a large single-employer plan that may terminate. This plan will be added as probable or to the terminated inventory in FY 2005. Had these plan sponsor events occurred prior to FY 2004 year-end, PBGC's financial statements would have reflected an increase of $25 million in the Net loss and a decrease in the Net position in the same amount.

There was no subsequent event to report on the multiemployer program.

ACTUARIAL VALUATION

PBGC calculated and validated the present value of future PBGC-payable benefits (PVFB) for both the single-employer and multiemployer programs and of nonrecoverable future financial assistance under the multiemployer program. Methods and procedures for both single-employer and multiemployer plans were generally the same as those used in 2003, although PBGC updated its mortality assumptions based on an experience study.

PRESENT VALUE OF FUTURE BENEFITS AND NONRECOVERABLE FINANCIAL ASSISTANCE - 2004

	Number of Plans	Number of Participants	Liability
		(in thousands)	*(in millions)*
I. SINGLE-EMPLOYER PROGRAM			
A. Terminated plans			
1. Seriatim at fiscal year-end (FYE)	2,952	374	$11,531
2. Seriatim at DOPT, adjusted to FYE	59	55	2,577
3. Nonseriatim[1]	458	514	30,807
4. Rettig Settlement (seriatim)[2]		*	1
5. Missing Participants Program (seriatim)[3]		18	36
Subtotal	3,469	961	44,952
B . Probable terminations (nonseriatim)[4]	45	335	30,953
Total[5]	3,514	1,296	$75,905
II. MULTIEMPLOYER PROGRAM			
A. Pre-MPPAA terminations (seriatim)	10	*	$ 3
B. Post-MPPAA liability (net of plan assets)	67	100	1,295
Total	77	100	$ 1,298

* Fewer than 500 participants

Notes:

1) The liability for terminated plans has been increased by $65 million for settlements.

2) The Rettig Settlement refers to the 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 assumed for unlocated participants in standard plan terminations.

4) The net claims for probable plans reported in the financial statements include $431 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 $14,027 million. Thus, the net claims for probable terminations as reported in the financial statements are $30,953 million less $14,027 million, or $16,926 million.

5) The PVFB in the financial statements ($60,836 million) is net of estimated plan assets and recoveries on probable terminations ($14,027 million), estimated recoveries on terminated plans ($364 million), and estimated assets for plans pending trusteeship ($678 million), or, $75,905 million less $14,027 million less $364 million less $678 million = $60,836 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 2,952 plans, representing about 85% of the total number of single-employer terminated plans (39% 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 127 plans over the 2,825 plans valued seriatim last year. For 59 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 2004.

For 458 other terminated plans, PBGC did not have sufficiently accurate or complete data to value individual benefits. Instead, the Corporation used a "nonseriatim" method that brought the liabilities from the plan's most recent actuarial valuation forward to the end of fiscal year 2004 using certain assumptions and adjustment factors.

For the actuarial valuation, PBGC used a select and ultimate interest factor assumption of 4.8% for the first 25 years after the valuation date and 5.0% thereafter. The mortality table used for valuing healthy lives was the 1994 Group Annuity Mortality Static Table (with margins), set forward one year, projected 20 years to 2014 using Scale AA (compared to the 1994 Group Annuity Mortality Static Table (with margins), set forward two years, projected 18 years to 2012 using Scale AA used in the September 30, 2003, valuation). The projection period is determined as the sum of the elapsed time from the date of the table (1994) to the valuation date plus the period of time from the valuation date to the average date of payment of future benefits. PBGC assumed an explicit loading for expenses in all terminated plans and single-employer probable terminations. The reserve for expenses in the 2004 valuation was assumed to be 1.18% of the liability for benefits plus additional reserves for cases whose plan asset determinations, participant database audits, and actuarial valuations were not yet complete. The factors to determine the additional reserves were based on case size, number of participants, and time since trusteeship.

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

Multiemployer Program

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

PBGC based its valuation of the post-MPPAA liability for nonrecoverable future financial assistance on the most recent available actuarial reports, Form 5500 Schedule B's, and information provided by representatives of the affected plans. The Corporation expected 67 plans to need financial assistance either because severe industrial declines have left them with inadequate contribution bases, or they had terminated, and they had insufficient assets for current payments or were expected to run out of assets in the foreseeable future.

Statement of Actuarial Opinion

This valuation has been prepared in accordance with generally accepted actuarial principles and practices and, to the best of my knowledge, fairly reflects the actuarial present value of the Corporation's liabilities for the single-employer and multiemployer plan insurance programs as of September 30, 2004.

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

To the Board of Directors
Pension Benefit Guaranty Corporation

We contracted with the independent certified public accounting firm of PricewaterhouseCoopers LLP to audit the financial statements of Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) as of the Fiscal Years 2004 and 2003. This audit is performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, and the *GAO/PCIE Financial Audit Manual*.

In its audit of the financial statements of Single-Employer and Multiemployer Program Funds administered by PBGC, PricewaterhouseCoopers found:

- The financial statements were fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- PBGC's assertion about internal controls over financial reporting and compliance with laws and regulations is fairly stated, however;
- Five reportable conditions relating to financial management systems integration, information security, single-employer premiums, contingent liabilities for the Single-Employer Program Fund, and identifying and classifying probable Multiemployer plans; and
- No reportable noncompliance with laws and regulations it tested.

PricewaterhouseCoopers is responsible for the accompanying auditor's report dated November 12, 2004, and the conclusions expressed in the report. We do not express opinions on PBGC's financial statements or internal control or conclusions on compliance with laws and regulations.

PricewaterhouseCoopers' reports (2005-2/23182-2) are available on our Web site at http://oig.pbgc.gov.

Sincerely,

Robert L. Emmons

Robert L. Emmons
Inspector General

November 12, 2004

PRICEWATERHOUSECOOPERS

Report of Independent Auditors

PricewaterhouseCoopers LLP
1301 K Street, N.W. 800W
Washington DC 20005-3333
Telephone (202) 414 1000

To the Inspector General
Pension Benefit Guaranty Corporation

We have audited the accompanying statements of financial condition of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) as of September 30, 2004 and 2003, and the related statements of operations and changes in net position and 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits provide 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 Program Funds administered by PBGC at September 30, 2004 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

By law, PBGC's Single-Employer and Multiemployer Program Funds (the Funds) must be self-sustaining, and therefore their premiums must be sufficient to cover both their short and long-term obligations. The Funds have been able to meet their short-term benefit obligations. However, as discussed in Note 1, management believes that neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants. The Funds' statements of financial condition report a net deficit position (liabilities in excess of assets) of the Single-Employer and Multiemployer Program Funds of $23.3 billion and $236 million, respectively, at September 30, 2004. The Single-Employer Program reported net losses of $12 billion and $7.6 billion and the Multiemployer Program reported net income of $25 million and a net loss of $419 million for 2004 and 2003, respectively. Losses for the Single-Employer Program that are reasonably possible as a result of unfunded vested benefits are estimated to be $96 billion as of September 30, 2004. Losses for the Multiemployer Program that are reasonably possible are estimated to be $108 million as of September 30, 2004. The Funds' net deficits, and long-term viability, could be further impacted by losses from plans classified as reasonably possible (or from other plans not yet identified as potential losses) as a result of deteriorating economic conditions, the insolvency of a large plan sponsor or other factors.

Management's discussion and analysis, the Actuarial Valuation, and other supplemental information contain a wide range of data, some of which are not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with PBGC officials. Based on this limited work, we found no material inconsistencies with the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 12, 2004, on our consideration of PBGC's internal control and a report dated November 12, 2004, on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

PricewaterhouseCoopers LLP

November 12, 2004

2005-1/23182-1

ANNUAL PERFORMANCE REPORT

PBGC updated its strategic plan for fiscal years 2004-2008. The updated plan reflects two revised strategic goals and new performance measures focused on customer satisfaction, underfunding of insured pension plans and PBGC's cost-effectiveness. The PBGC goals, aligned with its mission, are to:

- encourage a stable, adequately funded system of private pension plans; and
- provide responsive, timely and accurate service to participants in trusteed plans.

PBGC's new performance measures build on customer service strategies and performance measures initiated in the late 1990's. These measures track and gauge PBGC's customer service accomplishments and the cost efficiency of its insurance programs. In addition to measuring the satisfaction of participants who call the Corporation and pension professionals who submit filings, PBGC now measures customer satisfaction through all modes of contact, including its Web site.

PBGC's strategic plan may be found on PBGC's Web site at **www.pbgc.gov/about/stratplan.htm**.

The following table shows the results achieved in 2004. This meets the annual reporting requirement of the Government Performance and Results Act.

Measure	Applicable Goal	2004 Milestone	2004 Result	Baseline[a]
Encourage a stable, adequately funded system of private pension plans				
• Promote better funding of insured plans by supporting pension reform legislation and monitoring unfunded benefit liabilities in insured plans making 4010 filings.	1	[b]	• Level of underfunding of insured plans continued to increase. • Legislative Reform: Promoted Administration proposals for better measurement, funding and disclosure through testimony, speeches, interviews, news releases and statements. Continued analytical work in support of Administration's comprehensive pension reform proposal. • Early Warning Program: Using 4010 Filings, monitored 68 plans with over 1.1 million participants and $17.3 billion in unfunded benefit liabilities (UBL).	2004
• American Customer Satisfaction Index of *pension practitioners* who contact PBGC for service	1	71	69	69 (2002)
• American Customer Satisfaction Index of *pension practitioners* who visit PBGC's Web site	1	Baseline	72	72 (2004)
• Administrative cost per participant in plans insured by PBGC	1	Baseline	Less than $1.00[c]	<$1 (2004)
Provide responsive, timely and accurate service to participants in trusteed plans				
• American Customer Satisfaction Index of *retirees* who receive benefits from PBGC	2	Baseline	84	84 (2004)
• American Customer Satisfaction Index of *participants* who contact PBGC for service	2	77	78	73 (2001)
• American Customer Satisfaction Index of *participants* who visit PBGC's Web site	2	Baseline	60	60 (2004)
• Administrative cost per participant in plans PBGC trustees	2	Baseline	$285[c]	$285 (2004)

a Year in parenthesis indicates the year in which the baseline value was set.

b By its nature, this measure does not lend itself to setting annual targets or milestones. PBGC assesses performance annually based on actual results.

c This amount is based on budgeted numbers.

Achieving Performance Targets

ENCOURAGING A STABLE, ADEQUATELY FUNDED SYSTEM OF PRIVATE PENSION PLANS

- Underfunding of the insured defined benefit plans continued to increase in 2004. While the funding levels for insured plans is largely outside of PBGC's control, the Corporation has attempted to improve the overall administration of the defined benefit insurance system through review of its rules and regulations, intensified monitoring of risks to the insurance system and improved interaction with key stakeholders in the defined benefit pension community.

- PBGC actively promoted comprehensive reform of the pension insurance system to address system underfunding through congressional testimony, news releases and statements, speeches and interviews. In each of these instances, PBGC has forcefully made the case for new rules to ensure that pension plans are better funded and that the pension insurance system remains viable over the long-term. During 2004, PBGC was a highly visible advocate for the Administration's proposals to improve liability measures, enhance disclosure, and strengthen safeguards against underfunding. PBGC performed all of the computational analysis in support of the Administration's ongoing development of a comprehensive reform proposal, and monitored 25 controlled groups involving 68 plans that had requested a minimum funding waiver in excess of $1 million. These plans covered over 1.1 million participants and had a total $17.3 billion in unfunded benefit liabilities. In addition, PBGC monitored 942 controlled groups with 2,918 pension plans to analyze the financial conditions of the companies and plans that pose a risk to the insurance system.

PROVIDE RESPONSIVE, TIMELY AND ACCURATE SERVICE TO PARTICIPANTS IN TRUSTEED PLANS

- The American Customer Satisfaction Index (ACSI) is a national indicator of customer satisfaction. More than 200 private sector companies and 70 federal agencies participate in the index. PBGC's 2004 index for pension practitioners was 69, the same as in 2003 and 2002. While slightly lower than the 2003 combined index of 71 for all federal agencies, it was well above the indices for comparable federal collection programs. ACSI results identify causes and effects of satisfaction and focus PBGC's efforts on improving three activities: customer care, forms and instructions, and refunds of premium overpayments. The 2004 index for pension practitioners who visited PBGC's Web site was 72. This was two points higher than the combined average of 70 for federal government Web sites.

- PBGC's 2004 ACSI index for participants who contacted the Corporation for service was 78. This was one point higher than the target of 77 and seven points higher than the 2003 federal government average of 71. For retirees who receive benefits from PBGC, the 2004 ACSI index was 84. This was the second highest score among the federal agencies that provide benefits to the American public and considerably higher than the federal average of 71. The 2004 ACSI index for participants visiting the Web site was 60. PBGC has identified and is implementing measures to better serve participants through the Internet by expanding electronic business transactions, increasing plan-specific information, and providing online benefit calculators.

- In 2004, PBGC developed measures of the costs to administer its insurance programs. The administrative budgeted cost per participant in covered ongoing plans is less than $1.00, markedly less than other insurance programs. The budgeted cost to trustee a defined benefit plan and pay benefits to participants was $285 per participant.

President's Management Agenda

The President's Management Agenda focuses on five areas of improvement to promote a citizen-centric, results-oriented federal government. PBGC met this challenge in 2004 by:

- **STRATEGIC MANAGEMENT OF HUMAN CAPITAL:** PBGC developed and implemented a Human Capital Strategic Plan that is aligned with its overall strategic plan. Knowledge management and succession management programs were institutionalized at PBGC, and a survey will be conducted early in 2005 to assess the level of employee engagement with PBGC's mission. Acting upon a workforce planning review, PBGC addressed three of the five identified core competency gaps through training: contract management, project management and "big picture" perspective to help staff acquire broader knowledge of PBGC's operations and environment. Programs for the other two competency gaps (data management and information technology) will be developed by 2006.

- **COMPETITIVE SOURCING:** PBGC awarded 87% of its contract dollars competitively in 2004. Most of PBGC's total workforce is made up of contract staff. PBGC is now focused on awarding performance-based and fixed price contracts whenever appropriate. In addition, PBGC conducted a workforce utilization study to determine criteria for the optimal use of federal employees and contract employees.

- **IMPROVED FINANCIAL MANAGEMENT:** PBGC completed the 2003 Annual Report in 90 days and the 2004 Performance and

Accountability Report in 45 days. In recognition of the evolving emphasis on financial reporting, PBGC management further strengthened its existing control environment documentation through specific testing of control activities and the related control framework. This testing focused on the design and operating effectiveness of financial controls in the operational areas that form the basis of PBGC's financial reporting and was conducted by management as a basis for strengthening the supporting evidence for our FMFIA assurance statement.

- **EXPANDED ELECTRONIC GOVERNMENT:** PBGC designed and implemented separate online service centers for participants in trusteed plans and for pension plan administrators. Participants can now complete certain transactions online: contact information (address and telephone number), changes of electronic direct deposit and those in pay status can also sign up for or edit federal tax withholdings. Online premium filing is now available to pension practitioners and plan sponsors. PBGC's efforts to enhance its Web site have meant greater ease of use for its customers, and improved timeliness and accuracy of the transactions completed.
- **BUDGET AND PERFORMANCE INTEGRATION:** PBGC improved its strategic planning and budget process to identify new outcome goals, performance indicators and initiatives and produced an integrated Performance Budget for 2006. PBGC uses a balanced scorecard approach measuring customer satisfaction, process effectiveness, financial management and employee engagement.

Program Evaluation

- PBGC annually evaluates the satisfaction of participants in plans trusteed by PBGC and of pension practitioners who have dealings with PBGC on premium payment or standard termination matters. The American Customer Satisfaction Index provides the evaluations and a means to compare PBGC's results with that of other government and private organizations. Evaluation of the survey responses resulted in improvements in program operations.
- In 2004, PBGC had its first Program Assessment Rating Tool (PART) review by the Office of Management and Budget (OMB). The PART evaluates the effectiveness and efficiency of an agency using a scale of 0-100. OMB rated PBGC's program as "moderately effective" overall with a score of 79. PBGC received scores of 80 or higher for the three assessed areas of Program Purpose and Design, Strategic Planning and Program Management. Because the private defined benefit pension system has become seriously underfunded during the past two years, a condition largely outside of PBGC's control, OMB rated the Corporation a score of 75 for Program Results/Accountability. To address this problem, PBGC is aggressively exploring opportunities to strengthen its pension plan monitoring program, and through legislative and regulatory reform, encourage better funding of the defined benefit system.

FINANCIAL SUMMARY

SINGLE-EMPLOYER PROGRAM

(Dollars in millions)	**2004**	2003	2002	2001	2000	1999	1998	1997	1996	1995
	Fiscal Year Ended September 30,									
Summary of Operations:										
Premium income	**$ 1,458**	948	787	821	807	902	966	1,067	1,146	838
Other income	**$ 24**	28	28	23	5	3	10	19	26	18
Investment income (loss)	**$ 3,197**	3,349	170	(843)	2,392	728	2,118	2,687	915	1,956
Actuarial charges (credits)	**$ 1,787**	6,161	2,802	1,082	453	(602)	815	488	632	1,561
Losses (credits) from completed and probable terminations	**$ 14,707**	5,377	9,313	705	(80)	49	584	489	118	169
Administrative and investment expenses	**$ 288**	290	225	184	167	161	158	155	150	138
Other expenses	**$ (36)**	97	15	2	(2)	(1)	6	29	3	19
Net income (loss)	**$(12,067)**	(7,600)	(11,370)	(1,972)	2,666	2,026	1,531	2,612	1,184	925
Summary of Financial Position:										
Cash and investments	**$ 36,254**	33,215	24,851	21,010	20,409	17,965	17,345	14,988	11,665	10,026
Total assets	**$ 38,993**	34,016	25,430	21,768	20,830	18,431	17,631	15,314	12,043	10,371
Present value of future benefits	**$ 60,836**	44,641	28,619	13,497	10,631	11,073	12,281	11,497	10,760	10,388
Net position	**$(23,305)**	(11,238)	(3,638)	7,732	9,704	7,038	5,012	3,481	869	(315)
Insurance Activity:										
Benefits paid	**$ 3,006**	2,488	1,537	1,043	902	901	847	823	790	761
Participants receiving monthly benefits at end of year	**517,900**	458,800	344,310	268,090	226,080	214,160	208,450	204,800	198,600	181,000
Plans trusteed and pending trusteeship by PBGC	**3,469**	3,277	3,122	2,965	2,864	2,775	2,655	2,500	2,338	2,084

MULTIEMPLOYER PROGRAM

(Dollars in millions)	**2004**	2003	2002	2001	2000	1999	1998	1997	1996	1995
	Fiscal Year Ended September 30,									
Summary of Operations:										
Premium income	**$ 27**	25	25	24	24	23	23	23	22	22
Other income	**$ 0**	0	0	0	0	0	0	0	1	0
Investment income (loss)	**$ 54**	37	118	95	70	(56)	133	68	12	83
Actuarial charges (credits)	**$ 1**	1	0	1	0	0	0	(1)	1	2
Losses (gains) from financial assistance	**$ 55**	480	101	269	26	109	34	(3)	102	108
Administrative and investment expenses	**$ 0**	0	0	0	0	0	0	0	0	0
Net income (loss)	**$ 25**	(419)	42	(151)	68	(142)	122	95	(68)	(5)
Summary of Financial Position:										
Cash and investments	**$1,057**	984	933	796	682	681	736	585	498	472
Total assets	**$1,070**	1,000	944	807	694	692	745	596	505	477
Present value of future benefits	**$ 3**	3	3	4	4	5	6	7	9	10
Nonrecoverable future financial assistance, present value	**$1,295**	1,250	775	679	414	479	389	361	365	268
Net position	**$ (236)**	(261)	158	116	267	199	341	219	124	192
Insurance Activity:										
Benefits paid	**$ 1**	1	1	1	1	1	1	1	2	2
Participants receiving monthly benefits from PBGC at end of year	**320**	390	460	510	620	730	850	1,000	1,100	1,300
Plans receiving financial assistance from PBGC	**27**	24	23	22	21	21	18	14	12	9

ORGANIZATION

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John W. Snow
Secretary of the Treasury

Donald L. Evans *
Secretary of Commerce

* Resigned after year-end

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Executive Director

Hazel Broadnax **
Deputy Executive Director and Chief Financial Officer

Joseph Grant
Deputy Executive Director and Chief Operating Officer

John Seal
Deputy Executive Director and Chief Management Officer

Randolph Clerihue
Assistant Executive Director for Communications and Public Affairs

Richard W. Hartt
Assistant Executive Director/Chief Technology Officer

Vincent Snowbarger
Assistant Executive Director for Legislative Affairs

James J. Keightley **
General Counsel

Robert Joy, *Acting Director* **
Corporate Finance and Negotiations Department

** Retired after year-end

Office of Inspector General

Robert L. Emmons
Inspector General
[reports directly to the Chairman of the Board]

Senior Corporate Management

Harold Ashner, *Acting Director* **
Participant and Employer Appeals Department and *Appeals Board Chair*

Kathleen M. Blunt, *Director* **
Strategic Planning

Martin O. Boehm, *Director*
Contracts and Controls Review Department

Bennie Hagans, *Director*
Insurance Operations Department

Robert Herting, *Director*
Procurement Department

Michele Pilipovich, *Director*
Human Resources Department

Stuart A. Sirkin, *Director*
Corporate Policy and Research Department

Janet Smith, *Director* **
Facilities and Services Department

Henry R. Thompson, *Director*
Budget Department

Theodore J. Winter, Jr., *Director*
Financial Operations Department and *Treasurer*

** Retired after year-end

The PBGC Advisory Committee

Appointed by the President of the United States

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