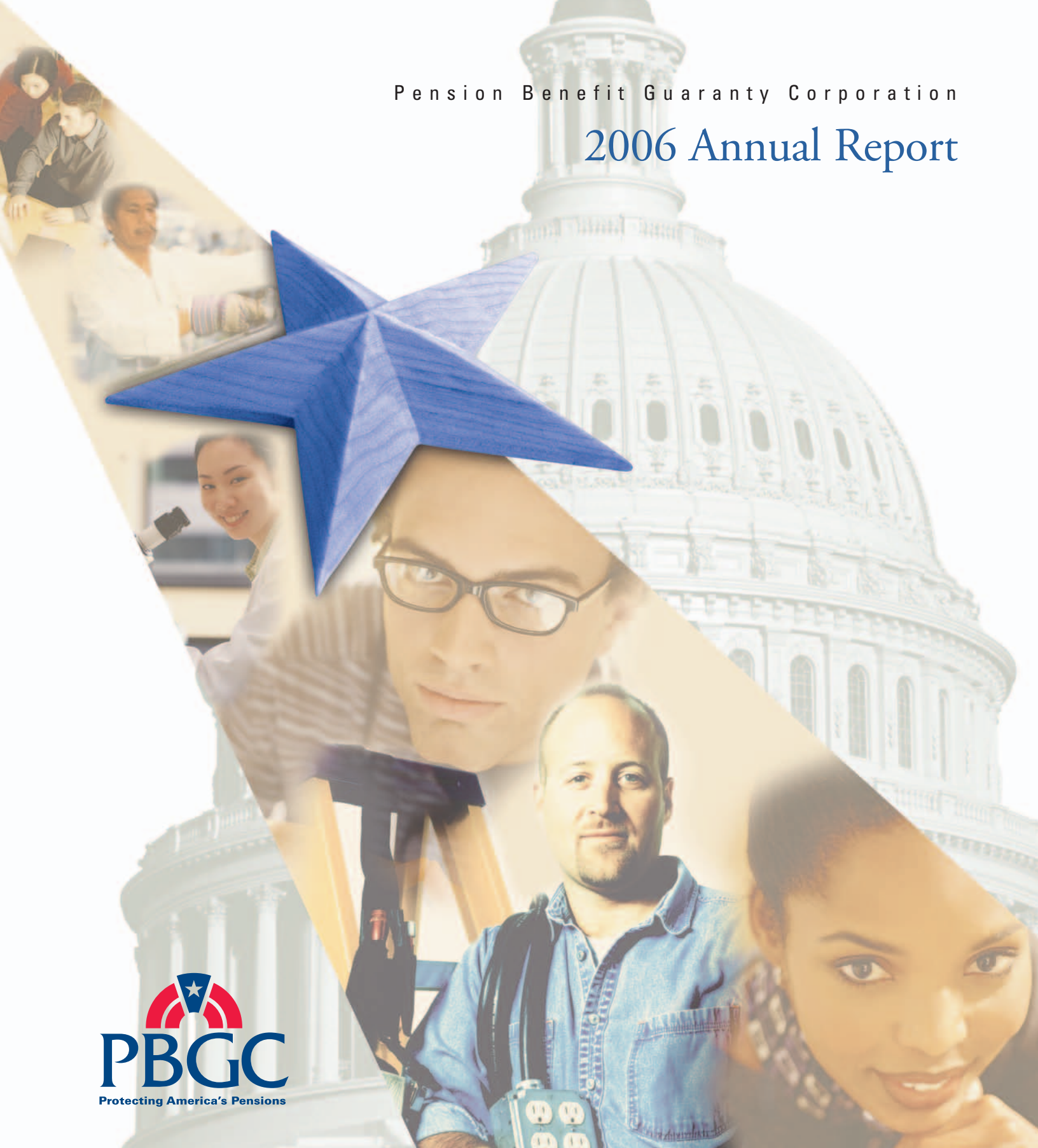




Pension Benefit Guaranty Corporation

2006 Annual Report



Contents

1	Chairman's Message
2	Highlights
3	Perspectives on the Year
4	Interim Director's Message
6	Single-Employer Program Exposure
13	2006 Annual Management Report
65	Organization

The Pension Benefit Guaranty Corporation ("the PBGC" or "the Corporation") protects the pensions of nearly 44 million workers and retirees in about 30,330 private defined benefit pension plans. These include more than 34 million people covered by nearly 28,800 single-employer plans and more than 9.9 million people covered by about 1,540 multiemployer plans. These pension plans provide a specified monthly benefit at retirement, usually based on salary or a stated dollar amount and years of service. The PBGC guarantees these benefits subject to the limits set by the Employee Retirement Income Security Act (ERISA), which established the PBGC as a wholly owned United States Government corporation in 1974. The PBGC is administered by a Director who, under the provisions of the Pension Protection Act of 2006, is appointed by the President and subject to Senate confirmation. The PBGC operates in accordance with policies established by its Board of Directors, which consists of the Secretaries of Labor (Chairman), Commerce, and the Treasury.

The 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 trusteeed by the PBGC, and recoveries from the companies formerly responsible for the plans.

The PBGC's mission, as mandated under Title IV of ERISA, is to insure, under statutory limits, pension benefits of participants in covered private defined benefit pension plans. The law specifies three purposes of the pension insurance program:

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





Chairman's Message

One of this Administration's highest priorities is protecting the retirement security of America's workers and retirees. In 2006, the President signed into law the most comprehensive reforms of America's pension laws in more than 30 years, the Pension Protection Act of 2006 (PPA) and the premium reform provisions of the Deficit Reduction Act. With the successful passage of the PPA and Deficit Reduction Act, we have taken an important step forward in improving our defined benefit pension system and the insurance program that backs it.

These laws, which incorporate many of the President's 2005 pension reform proposals, establish sound standards for pension funding, increase transparency and accountability to workers, and reinforce the pension insurance system.

Enacting pension reform is a major achievement that benefits workers, retirees, and all stakeholders in the defined benefit system. The next challenge is developing the regulatory rules and guidance needed to implement the new requirements. That process is well underway. The Pension Benefit Guaranty Corporation and other agencies charged with administering the federal pension law are working diligently to implement these crucial reforms in as clear and timely a manner as possible to ensure a strong and stable defined benefit system.

The passage of pension reform has affirmed the principle that pension promises made to workers are promises that must be kept. However, there is still much work to be done to ensure the PBGC has sufficient assets to meet its long term obligations, such as adoption of the Administration's two premium reform proposals not enacted as part of the PPA. For its part, this Administration will continue its efforts to ensure that pension promises made to America's workers and retirees are honored in full.

Elaine L. Chao
Secretary of Labor
Chairman of the Board



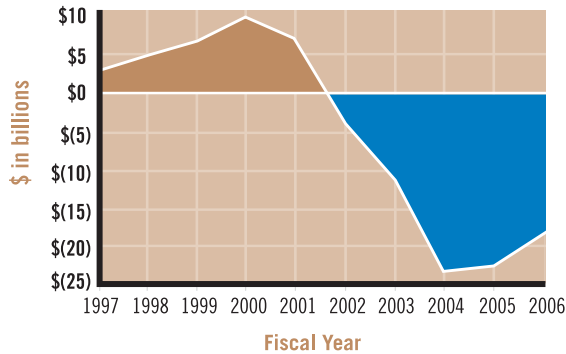
Highlights

- The single-employer program's financial condition improved by \$4.6 billion, due largely to credits for previously recorded probable losses that reflected the airline relief provisions in the Pension Protection Act of 2006. These credits, combined with premium and investment income, more than offset losses due to actuarial charges, leaving the program with a deficit of \$18.1 billion. As noted, later, in the chapter on the PBGC's single-employer program exposure, the reductions in airline industry probable claims were reclassified as reasonably possible losses and, as such, remain potential claims against the insurance program that may be expected to grow over time.
- The multiemployer program reported a net loss of \$404 million and a year-end deficit of \$739 million, largely due to an increased provision for probable losses from expected future financial assistance to troubled plans.
- The PBGC's future exposure to new probable terminations declined from the 2005 estimate of \$108 billion. The 2006 estimate is approximately \$73 billion in underfunding exposure classified as reasonably possible that is attributable to plan sponsors whose credit ratings are below investment grade or who meet one or more of the financial distress criteria. This exposure declined primarily due to a net reduction in the unfunded vested benefit liabilities of the plans whose sponsors remained at risk, largely as the result of improved economic conditions.
- The PBGC received its 14th consecutive unqualified audit opinion on its financial statements, which were released to the public 45 days after the end of the fiscal year.
- The PBGC continued to provide high quality service to its customers. It paid nearly \$4.1 billion in benefits to nearly 612,000 people and issued 152,000 final benefit determinations.
- At year-end, the PBGC was responsible for the pensions of about 1.3 million people. In addition to the 612,000 people already receiving benefits, these include 549,000 people who will begin to receive benefits from the PBGC when they retire in the future and 110,000 who are receiving or will receive benefits through the PBGC's financial assistance to multiemployer plans.
- PBGC actions in the courts and in settlement negotiations resulted in financial recoveries—including the largest in PBGC history—that protected plan participants and the insurance program from billions of dollars in unnecessary losses.
- The PBGC continued to enhance and expand electronic services for its customers through its separate Internet sites for plan participants and plan administrators.

<i>(Dollars in millions)</i>	2006	2005
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Summary of Operations		
Premium Income	\$ 1,500	\$ 1,477
Losses (Credits) from Plan Terminations	\$ (6,155)	\$ 3,954
Investment Income	\$ 2,183	\$ 3,976
Actuarial Charges and Adjustments	\$ 4,819	\$ 490
Insurance Activity		
Benefits Paid	\$ 4,083	\$ 3,686
Retirees	611,930	682,820
Total Participants Receiving or Owed Benefits	1,271,000	1,296,000
New Underfunded Terminations	94	120
Terminated/Trusteed Plans (Cumulative)	3,683	3,595
Financial Position		
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Total Assets	\$ 61,138	\$ 57,630
Total Liabilities	\$ 80,019	\$ 80,741
Net Income	\$ 4,230	\$ 430
Net Position	\$ (18,881)	\$ (23,111)
SINGLE-EMPLOYER PROGRAM		
Total Assets	\$ 59,972	\$ 56,470
Total Liabilities	\$ 78,114	\$ 79,246
Net Income	\$ 4,634	\$ 529
Net Position	\$ (18,142)	\$ (22,776)
MULTIEMPLOYER PROGRAM		
Total Assets	\$ 1,166	\$ 1,160
Total Liabilities	\$ 1,905	\$ 1,495
Net Income	\$ (404)	\$ (99)
Net Position	\$ (739)	\$ (335)

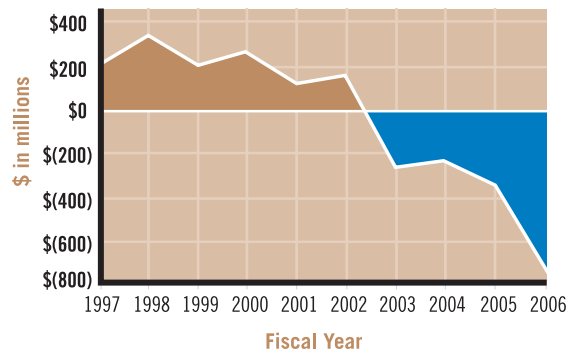
Perspectives on the Year

NET POSITION, SINGLE-EMPLOYER PROGRAM 1997 – 2006



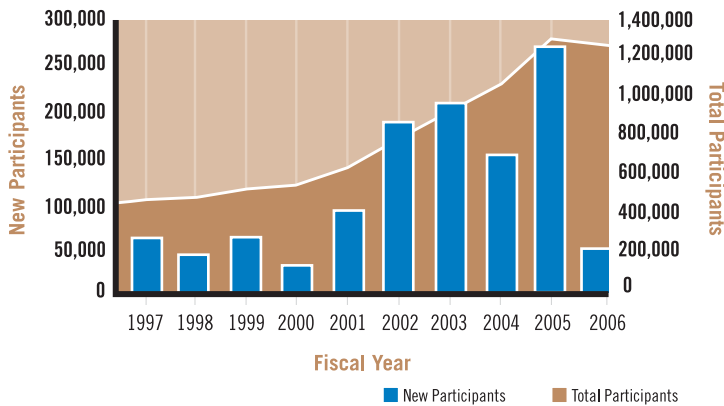
The single-employer program's deficit improved due largely to credits for previously recorded probable losses that reflected the airline relief provisions in the Pension Protection Act of 2006.

NET POSITION, MULTIEMPLOYER PROGRAM 1997 – 2006



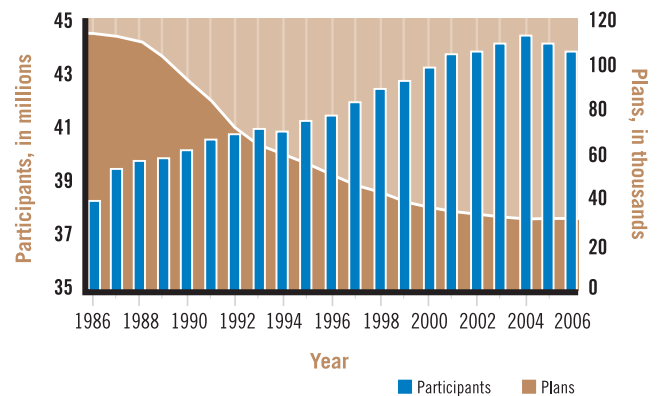
The multiemployer program recorded an additional loss for the year due to additional probable losses for expected future financial assistance, worsening the program's deficit.

PARTICIPANTS IN TRUSTEED PLANS 1997 – 2006

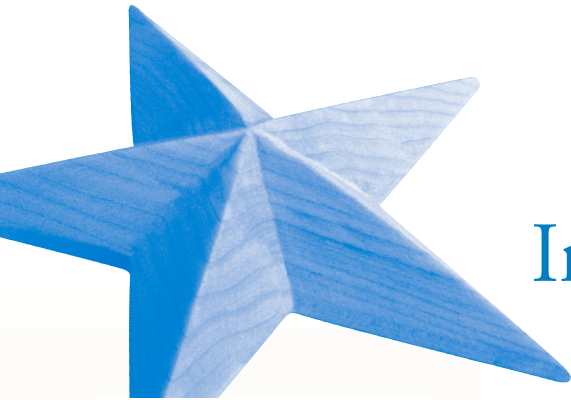


The PBGC assumed responsibility for the benefits of 46,000 new participants during the year, a sharp decline compared to the record numbers of participants taken in by the PBGC in the previous five years. Total participants owed benefits remained at about 1.3 million.

PBGC-INSURED PLANS AND PARTICIPANTS 1986 – 2006



Both the number of PBGC-insured plans and the number of covered participants continued to slowly decline. Total participants now number slightly less than 44 million.



Interim Director's Message



If one looked only at the number of participants in newly terminated plans, fiscal year 2006 would have appeared to be the quietest in recent memory for the Pension Benefit Guaranty Corporation. In all other respects, however, the PBGC's high pace of activity and level of productivity continued unabated. The result was a year in which the financial condition of the PBGC's single-employer insurance program improved while that of its separate multiemployer plan insurance program worsened, and the legal framework for the pension insurance program and defined benefit pension system underwent significant legislative changes to improve the financial health of both systems.

With fewer plan terminations than in any of the preceding five years, the PBGC took responsibility for the pensions of 46,000 people in 2006—about one-sixth the number the Corporation took in during 2005. The PBGC's workload, however, remained at peak levels as it provided for the needs of some 1.3 million people receiving or owed benefits under the pension insurance program. The PBGC's staff continued to respond effectively to this workload and issued more than 152,000 final benefit determinations. This was the second highest total of final determinations issued in one year in the PBGC's 32-year history.

I also am pleased to report that the PBGC received unqualified opinions from the Corporation's auditors on its financial statements for the 14th consecutive year and on its internal controls for the 3rd consecutive year. However, in contrast to the generally positive developments in the Corporation's insurance operations, there were mixed results on the financial front.

Claims against the single-employer insurance program were much reduced in 2006—new terminations resulted in claims against the insurance program totaling \$527 million compared to the nearly \$10.7 billion recorded in 2005. In addition, the Corporation was able to record a large credit for plans previously recorded as probable losses that are no longer classified as such due to newly enacted Pension Protection Act (PPA) provisions. Consequently, the single-employer program reported net income of more than \$4.6 billion, which reduced the program's deficit to \$18.1 billion.

The multiemployer program did not fare as well in 2006. That program reported its second largest annual net loss ever due to new probable losses from expected future financial assistance to insolvent plans. As a result, the multiemployer program's deficit increased to \$739 million. Despite this deficit, the program has enough assets to continue providing assistance for a

number of years. In addition, the pension reform legislation enacted in 2006 included provisions targeted at improving the funding of multiemployer plans and strengthening other aspects of the multiemployer plan system.

There were other noteworthy developments throughout the Corporation. The PBGC dealt with six major plan sponsor bankruptcies throughout the year and, through litigation and negotiations, achieved a number of favorable settlements. The settlement with United Airlines alone provided the PBGC and United Airlines workers with the largest recovery ever achieved by the PBGC although the case also presented the PBGC with its largest claim and loss from a single plan sponsor.

The PBGC also devoted considerable effort to its automated applications and online services. The Corporation completed the modernization of its major financial systems by implementing a new Consolidated Financial System that integrates the PBGC's various subordinate financial systems. In doing so, the Corporation has addressed a long-standing reportable condition identified by its auditors while setting the groundwork for the integration of other major information systems over the next several years. The PBGC also made progress in its development of a new automated premium accounting system. And, the utility and efficiency of the PBGC's online self-service application for electronically calculating and paying premiums due the insurance program enabled the Corporation to implement mandatory e-filing of premiums during 2006 as a means of eliminating paperwork and easing plan administrators' filing burden.

Finally, as mentioned earlier, the Administration's efforts to secure much-needed pension reforms bore fruit in 2006 with the passage of the Deficit Reduction Act of 2005 and the PPA. The Deficit Reduction Act increased premiums for both of the PBGC's insurance programs, marking the first increase in the flat-rate single-employer premium since 1991 and the first increase in the multiemployer premium since 1988. The PPA made comprehensive reforms to the nation's pension system. As President Bush stated upon signing the PPA into law, "This legislation strengthens the pension insurance system and ensures that workers will receive better information about their pension plans." The President also made an observation that bears repeating: "The problem of underfunded pensions will not be eliminated overnight. This bill establishes sound standards for pension funding yet, in the end, the primary responsibility rests with employers to fund the pension promises as soon as they can."

The hard work of implementing the new reforms is still ahead of us. The measures now being taken offer new hope for the future but, for now, the defined benefit system remains under stress. As we work to implement the reforms, I want to assure the PBGC's customers and all stakeholders in the defined benefit pension system that the PBGC will continue to act in their best interests as it carries out its mission of protecting the retirement security of America's workers and retirees.



Vincent K. Snowbarger
Interim Director





Single-Employer Program Exposure



The Employee Retirement Income Security Act requires that the PBGC annually provide an actuarial evaluation of its expected operations and financial status over the next five years. The PBGC historically has extended these forecasts to cover 10 years.

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

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

For purposes of its financial statements, the PBGC classifies the underfunding for vested benefits in the plans of financially weak companies as "reasonably possible" exposure, as required under accounting principles generally accepted in the United States of America. The "reasonably possible" exposure as of September 30, 2006, as disclosed in Note 7 of the financial statements, was \$73 billion (valued using data as of December 31, 2005), compared to \$108 billion for fiscal year 2005.

Methodology for Considering Long-Term Single-Employer Program Claims

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

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

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

PIMS starts with data on the PBGC's single-employer net position (an \$18.1 billion deficit in the case of FY 2006) 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 \$1.5 billion per year (expressed in today's dollars); that is, half of the simulations show claims above \$1.5 billion per year and half below. The mean level of claims (that is, the average claim) is higher, about \$1.9 billion per year. The mean is higher than the median because there is a chance under some simulations that claims could reach very high levels. For example, under the model there is a 10 percent chance that claims could exceed \$3.7 billion per year for a present value of \$37 billion over the 10-year period. PIMS then projects the 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.

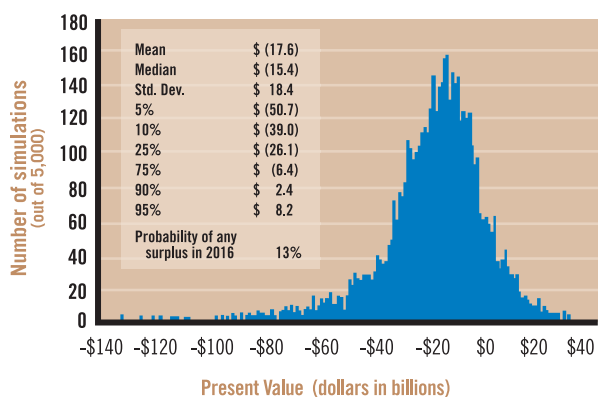
The median outcome is a \$15.4 billion deficit in 2016 (in present value terms). This means that half of the simulations show either a smaller deficit than \$15.4 billion, or a surplus, and half of the simulations show a larger deficit. The mean outcome is a \$17.6 billion deficit in 2016 (in present value terms).

The median projected financial position is a smaller deficit than shown in last year's median projection, both of which were based on a wide range of possible outcomes for each year of the projection. A number of factors contribute to the

change in the projected deficit. A primary factor is the reduction in the PBGC's deficit from 2005 to 2006, which was largely attributable to the airline relief provisions in the Pension Protection Act of 2006 (PPA). These provisions led the PBGC to sharply reduce the amount of "probable" liabilities reflected on the PBGC's balance sheet. Another factor that significantly reduces the projected deficit is an increase in projected variable-rate premium revenue due to PPA provisions that increase the amount of underfunding subject to the premium. Two other significant factors partially offset the effects of the starting deficit improvement and the variable premium revenue increase. The probable liabilities removed from the PBGC's balance sheet were subsequently returned to the PIMS projection of future claims. Those liabilities, attributable to plans of sponsors that remain financially troubled, are associated with a significant increase in projected claims. Also, the PPA changes to the funding rules (for example, measuring funding targets after 2005 based on the corporate bond rates now prescribed by the PPA rather than Treasury bond yields) are responsible for a further increase in projected claims. However, the projections do not reflect the increase in projected claims attributable to the PPA's plan-specific mortality provisions.

The following graph illustrates the wide range of outcomes that are possible for the PBGC over the next 10 years. The other statistics listed on the graph give further details on the distribution of outcomes. The standard deviation is a measure of how widely the distribution is spread over its range and the percentiles indicate the likelihood of a position below particular values. For example, the model shows a 10 percent chance that the deficit could be larger than \$39.0 billion and a 10 percent chance that the PBGC could have a surplus of \$2.4 billion or more. The probability of a surplus of any amount in 2016 is thirteen percent.

DISTRIBUTION OF THE PBGC'S POTENTIAL 2016 FINANCIAL POSITION





Additional Information Required by the Pension Protection Act of 2006

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

It also requires that this Report include a comparison of (a) the average return on investments earned with respect to assets invested by the PBGC for the year to which the report relates and (b) an amount equal to 60 percent of the average return on investment for the year in the Standard & Poor's 500 Index plus 40 percent of the average return on investment for such year in the Lehman Aggregate Bond Index (or in a similar fixed income index), and a statement regarding the deficit or surplus that the PBGC would have had for the year if it had earned the return described in (b) with respect to its invested assets.

A SUMMARY OF PIMS: The analysis of the PBGC's projected financial position was performed using the PBGC's Pension Insurance Modeling System. PIMS has a detailed database of nearly 440 actual plans, sponsored by 330 firms, which represent about 45 percent of liabilities and underfunding in the single-employer defined benefit system. The database includes the plan demographics, plan benefit structure, asset values, liabilities, and actuarial assumptions. It also includes key financial information about the employer sponsoring the plan.

The PIMS database contains pension plan information from Schedule B of the Form 5500 (Annual Return /Report of Employee Benefit Plan), generally from the 2004 plan year. In addition, more recent data available from ERISA Section 4010 filings is utilized for certain large underfunded plans.

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

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

General Assumptions

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

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

All the following variables are stochastically projected:

- Interest rates, stock returns and related variables (e.g., inflation, wage growth, and multiplier increases in flat dollar plans¹ are determined by interest rates in PIMS).
- Sponsor financial health variables (equity to debt ratio, cash flow, firm equity, and employment).

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

- **Asset returns.** At the beginning of each scenario, each plan's asset allocation is randomly selected from a pool of allocations that reflects historic differences across plans in investment strategies. Each plan's asset return also has a stochastic element that is uncorrelated with the simulated market rates and is uncorrelated across plans.
- **Plan demographics.** The number of active participants for a plan varies with its sponsor's total employment level. Age and service also vary over time due to retirement and hiring assumptions. The numbers, ages, and benefits of retired and terminated vested participants vary depending on mortality, separation and retirement assumptions.
- **Probability of bankruptcy.** Sponsors are subjected to an annual stochastic chance of bankruptcy. A plan presents a loss to participants and/or the pension insurance program if its sponsor is simulated to experience bankruptcy and the plan is less than 80 percent funded for termination liability. Losses to the insurance program are calculated by averaging the losses in all simulations across all scenarios.

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



Mortality

- For purposes of projecting plan population—the 1994 Group Annuity Mortality table (94 GAM).
- For determining the amount of underfunding at termination—94 GAM set forward one year and projected to valuation year plus 10.²
- For determining funding targets (liabilities):
 - **Prior Law (for years before 2008)**
For current liability purposes, the current table (1983 GAM) is assumed to remain in effect until 2007. For 2007, RP2000 projected with scale AA to the year of valuation plus 10 is used to determine current liability.

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

Contribution Level/Credit Balances

The credit balance at the end of the 2005 plan year was derived by reflecting available information on actual contributions made through 2005. From there, the credit balance was increased each year by the valuation interest rate and decreased by the amount assumed to be used to satisfy the minimum funding requirement. For purposes of modeling future claims in PIMS, it is assumed that employers will contribute the minimum required amount each year and that any credit balance remaining when the new rules take effect will be used to the maximum extent permitted until the balance is completely depleted.

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



Benefit Improvements

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

Benefit Restrictions Under the PPA

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

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

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

Variable-Rate Premiums

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

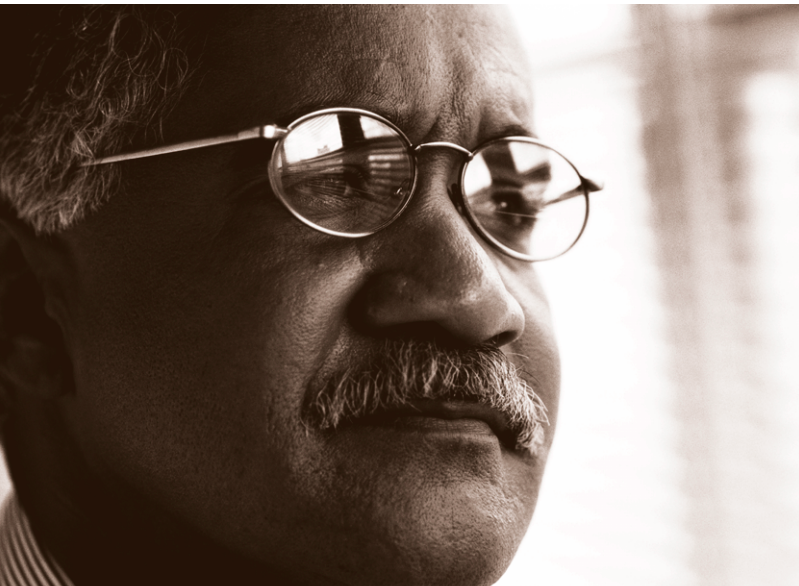
The PBGC’s Assets

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

Discounting Future Contributions/Claims

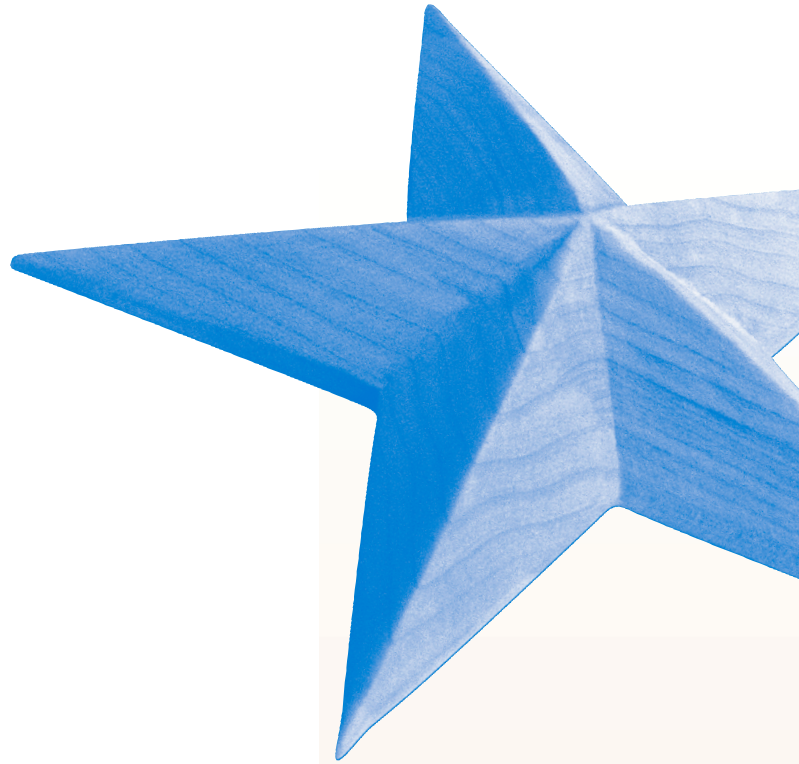
For calculations involving discounting future amounts, the discount rate used is the 30-year Treasury rate assumed to be in effect for the particular year and economic scenario.

COMPARISON OF RETURNS: The PBGC faces numerous and complex risks in its roles as a financial guaranty insurer and as an annuity provider. The investment policy governing the Corporation’s investment program addresses the economic, financial market, and interest rate risks faced by an insurer of underfunded pension plans and the somewhat similar financial market and interest rate risks of an annuity provider. Under this policy, the PBGC maintains a risk-controlled investment portfolio designed to limit exposure to changes in interest rates as well as to uncorrelated downturns in the financial markets. The policy establishes that the investment program’s primary objective is to limit volatility in the PBGC’s financial condition due to a mismatch of the interest rate risks inherent in its assets and liabilities. Although it should yield lower returns over the long run than a policy that invests more in equity instruments, the policy is intended to yield a steady, more consistent return in relationship to the liabilities that it funds.

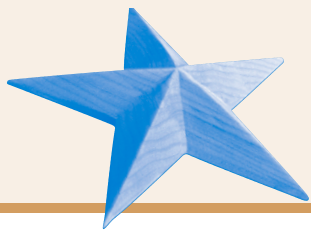


Under the provisions of the Pension Protection Act of 2006, the PBGC is required to estimate the effect of an asset allocation structure that is currently not employed by the PBGC. This suggested structure has higher interest rate and financial market risks: a 60 percent allocation to the Standard & Poor's 500 equity index and a 40 percent allocation to the Lehman Brothers Aggregate fixed income index. The PBGC has estimated that, for 2006, such an investment structure would have generated a return on total investment funds of 7.9% (compared to the 4.2% produced by the PBGC's program). This, in turn, would have increased the assets of the Corporation by approximately \$1.8 billion and reduced the deficit by a comparable amount.

Analyzing program returns over a one-year period has limited utility, however, given the long-term, cyclical nature of the capital markets. The PBGC has traditionally reported both one-year and five-year returns for its investment program. The comparable annualized returns for the five-year period ending September 30, 2006, would have been 6.4% for the hypothetical portfolio compared to 6.7% for the PBGC's actual portfolio. Over the five-year period ending September 30, 2006, the hypothetical portfolio would have increased the PBGC's assets by a modest amount, only \$300 million more than the \$10.5 billion in returns actually generated by the PBGC's risk-controlled investment program. The increase in assets for the hypothetical portfolio was higher than the actual increase in PBGC assets, despite lower five-year returns, because the bulk of the PBGC's portfolio outperformance occurred early in the five-year period when its base of invested assets was much smaller.





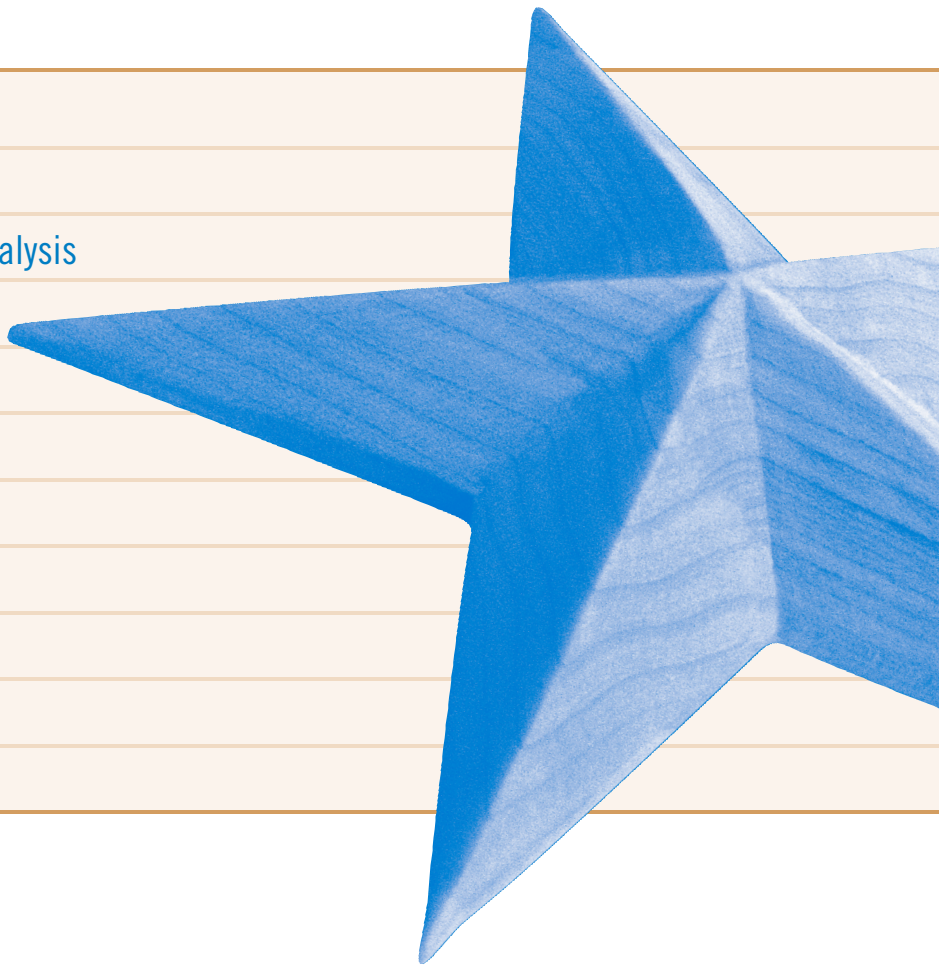


2006 Annual Management Report

The Pension Benefit Guaranty Corporation (the PBGC or the Corporation) is a federal corporation established under the Employee Retirement Income Security Act (ERISA) of 1974, as amended. It currently guarantees payment of basic pension benefits earned by 44 million American workers and retirees participating in 30,330 private-sector defined benefit pension plans. The Corporation receives no funds from general tax revenues. Operations are financed largely by insurance premiums paid by companies that sponsor defined benefit pension plans and by investment income and assets from terminated plans. The following constitutes the PBGC's annual management report for fiscal year 2006, as required under OMB Circular No. A-11, Section 230-1.

Contents

14	Director's Transmittal Letter
15	Financial Statement Highlights
16	Management's Discussion and Analysis
23	Management Representation
24	Annual Performance Report
28	Chief Financial Officer's Letter
30	Financial Statements and Notes
48	Actuarial Valuation
50	Report of the Inspector General
51	Reports of Independent Auditor
64	Financial Summary





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

Office of the Director

Director's Transmittal Letter

I am pleased to transmit the enclosed copy of the Pension Benefit Guaranty Corporation's Annual Management Report for fiscal year 2006. This report includes the PBGC's financial statements, the reports of its Inspector General and independent auditor on the Corporation's financial statements and internal controls, and the Corporation's Annual Performance Report as required under the Government Performance and Results Act.

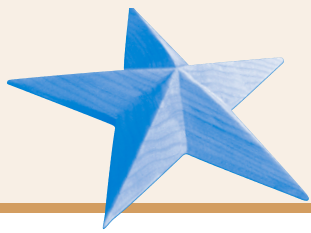
The PBGC's mission is mandated under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA) to insure, under statutory limits, pension benefits of participants in covered private defined benefit pension plans in the United States. More specifically, the Corporation's goals are to safeguard the federal pension insurance system for the benefit of participants, plan sponsors, and other stakeholders; provide exceptional service to customers and stakeholders; and exercise effective and efficient stewardship of the PBGC resources. During 2006, the PBGC achieved its goals through support for the Congressional passage of pension reforms to strengthen the private defined benefit system and the federal pension insurance program; continued prompt and accurate delivery of services to its customers; and careful management of its financial, technological, and human resources.

The financial and performance data included in this report are reliable and complete. The Corporation has received its 14th consecutive unqualified audit opinion on its financial statements and 3rd consecutive unqualified opinion on management's assertion regarding the effectiveness of the PBGC's internal controls from its independent auditor, whose reports are included within this Annual Management Report. As further discussed within these reports, as well as the enclosed Management Representation and Chief Financial Officer's letters, the independent auditor reported on the status of several prior reportable conditions. The PBGC is actively addressing these reportable conditions. None of these conditions rose to the level of a material weakness.

Sincerely,

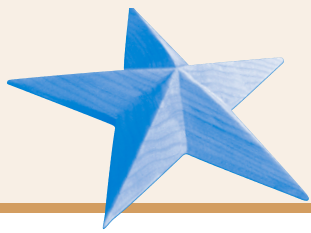
Vincent K. Snowbarger
Interim Director

November 15, 2006



Financial Statement Highlights

- Between its single-employer and multiemployer programs, the PBGC's combined net position at September 30, 2006, was \$(18.88) billion as compared to \$(23.11) billion at September 30, 2005, representing a \$4.2 billion net improvement in the PBGC's deficit. The Corporation has sufficient liquidity to meet its obligations for a number of years; however, neither program at present has the resources to fully satisfy the PBGC's long-term obligations to plan participants.
- The combined net gain of \$4.2 billion for 2006 was driven primarily by a \$5.6 billion reduction in net claims for plans classified as probable (likely to terminate), \$1.5 billion in premiums, and \$424 million credit in actuarial adjustments, offset primarily by \$3.1 billion in financial losses. Liability valuation interest factors and market based interest rates moved in opposite directions during 2006. The decline in the PBGC's interest factors increased the PBGC's liabilities while at the same time rising market interest rates negatively affected the PBGC's assets.
- As a result of the airline relief provision in the Pension Protection Act of 2006 (PPA), some large plans that were previously classified as probable terminations have been changed from the probable classification to the reasonably possible classification in FY 2006. The combination of a large credit related to reclassification of certain probables due largely to statutory pension funding relief granted to certain plan sponsors and positive investment performance offset the losses incurred by actuarial charges and the administrative expenses of the Corporation.
- During 2006, the PBGC terminated 94 plans in the single-employer program representing a total of \$0.6 billion in assets, including estimated recoveries, and \$1.1 billion of future benefit liabilities (representing net losses of \$0.5 billion). These plans had an average funded ratio of approximately 50%. All but \$0.2 billion of the unfunded terminated amounts (including those not previously recorded as probables as well as any revaluation of the probables that terminated) had been reflected in the PBGC's results as of the end of 2005.
- During 2006, the PBGC reached agreements with sponsors of terminated plans for unpaid contributions and unfunded benefits that resulted in recoveries totaling approximately \$1.8 billion. This included the largest recovery in the PBGC's history. A portion of the PBGC's recoveries is paid out as additional benefits to plan participants with nonguaranteed benefits according to statutory priorities.
- The PBGC's future exposure to new probable terminations remains high in 2006 with approximately \$73 billion in underfunding exposure to those plan sponsors, classified as reasonably possible, whose credit ratings are below investment grade or meet one or more financial distress criteria. This is down from \$108 billion in 2005 primarily due to a net reduction in the unfunded vested benefit liabilities of the plans whose sponsors remained at risk.
- Overall benefit payments increased to \$4.1 billion from \$3.7 billion in 2005.
- The PBGC's obligations for future benefits to participants remained essentially unchanged at \$69 billion.



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

General

The Pension Benefit Guaranty Corporation (the PBGC) is mandated under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA) to insure, under statutory limits, pension benefits of participants in covered private defined benefit pension plans in the United States. As of September 30, 2006, between its combined programs, the PBGC covered 44 million workers in over 30,000 active plans and was directly responsible for the future benefits of 1.3 million active and retired workers whose plans had failed. The PBGC receives no taxpayer monies and its obligations are not backed by the full faith and credit of the United States Government.

The following is a discussion and analysis of the financial statements and other statistical data that management believes will enhance the understanding of the PBGC's financial condition and results of operations. This discussion should be read in conjunction with the financial statements beginning on page 30 and the accompanying notes.

For financial statement purposes, the PBGC divides its business activity into two broad areas – *Underwriting Activity* and *Financial Activity* – covering both single-employer and multiemployer program segments. The PBGC's Underwriting Activity provides financial guaranty insurance in return for insurance premiums. Actual and expected probable losses that result from the termination of underfunded pension plans are included in this category, as are actuarial adjustments based on changes in actuarial assumptions, such as mortality. *Financial Activity* consists of the performance of the PBGC's assets and liabilities. The PBGC's assets consist of premiums collected from defined benefit plan sponsors, assets from distress or involuntarily terminated plans that the PBGC has insured, and recoveries from the former sponsors of those terminated plans. The PBGC's future benefit liabilities consist of those future benefits, under statutory limits, that the PBGC has assumed following distress or involuntary terminations. Gains and losses on the PBGC's investments and changes in the value of the PBGC's future benefit liabilities (e.g., actuarial charges such as changes in interest rates and passage of time) are included in this area.

Financial and Program Risks

The PBGC's operating results are subject to significant fluctuation from year to year depending on the severity of losses from plan terminations, changes in the interest factors used to discount future benefit payments, investment performance, general economic conditions and other factors such as changes in law. The PBGC's operating results differ from those of most private insurers, especially in their variability. The PBGC provides mandatory insurance of catastrophic risk. Most private insurers are able to diversify or reinsure their catastrophic risks or to apply traditional insurance underwriting methods to these risks. The PBGC's risks are concentrated in certain industries, and the Corporation is not able to decline providing insurance coverage regardless of the potential risk of loss posed by an insured. Private insurers also are able to adjust premiums in response to actual or expected claims exposure. In contrast, the PBGC's premiums are defined by statute.

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

Recent Developments

The Deficit Reduction Act of 2005 (DRA): This legislation, enacted February 8, 2006, increased the PBGC's flat-rate premium for the 2006 plan year to \$30 per participant for single-employer plans and to \$8.00 per participant for multiemployer plans. Total flat-rate premium income for FY 2006 increased by approximately 40% as a result. The DRA provides for these premium rates to be adjusted each year for inflation, based on changes in the national average wage index. The 2007 flat-rate premium for single-employer plans will increase to \$31.00 per participant and the flat-rate premium for multiemployer plans will remain at \$8.00 per participant. The DRA also created a new premium that applies in the case of certain plan terminations occurring after 2005 and before 2011. A premium of \$1,250 per participant is payable for the year of termination and each of the following two years. The 2011 sunset date was rescinded by the Pension Protection Act of 2006.

Pension Protection Act of 2006 (PPA): This legislation, enacted August 17, 2006, makes the PBGC's variable-rate premium payable by all underfunded plans, reforms the pension funding rules, imposes benefit restrictions on underfunded plans, establishes new limits on the PBGC's guarantee (e.g., shutdown benefits), provides funding relief to certain companies particularly those in the airline industry, and imposes new reporting and disclosure requirements. The PPA expands the PBGC's missing participants program to cover terminated defined contribution plans, multiemployer plans, and plans of small professional corporations. It also provides a cap on the variable-rate premium for plans maintained by small employers and permits the PBGC to pay interest on refunds of overpaid premiums. The PBGC will provide regulations and other guidance to implement these changes. Provisions of the PPA led to the reduction in probable exposure of the agency in fiscal year 2006. The PPA also made permanent the termination premium enacted in the Deficit Reduction Act of 2005.

Estimates of Underfunding: In 2006, companies sponsoring underfunded single-employer pension plans that were subject to the requirements of section 4010 of ERISA reported a shortfall of \$339.9 billion in their latest filings with the PBGC. This represented a 4.3% decrease from the \$355.2 billion in underfunding reported a year earlier (\$353.7 billion adjusted subsequently for late filings and data corrections). The 2006 statistics are based on 2005 information filed with the PBGC from 1,111 plans covering about 15 million workers and retirees. These underfunded plans had \$875.0 billion in assets to cover more than \$1.21 trillion in liabilities, for an average funded

ratio of 72 percent. The filings under ERISA section 4010 are required only of companies with more than \$50 million in unfunded pension liabilities. As of September 30, 2006, the PBGC estimated that the total shortfall in all insured single-employer pension plans was approximately \$350 billion. This amount, in total, represents a 22% decrease from our estimate as of September 30, 2005, due to improved economic conditions.

Discussion of Insurance Programs

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

Single-Employer Program

The single-employer program covers about 34.0 million workers and retirees in about 28,800 plans, down from 34.2 million workers in 2005. The PBGC oversees the terminations of fully funded plans and guarantees payment of basic pension benefits when underfunded plans terminate. When a covered underfunded plan terminates, the PBGC becomes trustee of the plan, applies statutorily defined limitations on payouts, and administers future benefit payments thereafter.

RESULTS OF ACTIVITIES AND TRENDS: There was a net gain in 2006 of \$4.634 billion compared to a net gain in 2005 of \$529 million. The \$4 billion year-to-year change in net income was primarily attributable to (1) a decrease of \$10.1 billion in losses from completed and probable terminations, \$8 billion of which was due to reclassification of several plans from probable to reasonably possible terminations as a result of airline relief options available in the PPA (see Note 10) and (2) a decrease of \$644 million in actuarial adjustments both offset by (3) a \$5.0 billion increase in actuarial charges largely due to lower interest rates and (4) a \$1.7 billion decrease in investment income. See also "Statements of Operations and Changes in Net Position" on page 32.

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

UNDERWRITING ACTIVITY: The PBGC's single-employer program experienced a net gain to underwriting income of \$7.746 billion in 2006, a significant improvement from the loss of \$3.067 billion in 2005. This \$10.813 billion year-to-year improvement was primarily due to the credit in 2006 to losses from new and previously accrued

probable terminations, as well as the year-to-year decrease in the 2005 underwriting actuarial adjustment (charge) of \$644 million.

Underwriting income increased slightly from \$1.495 billion to \$1.521 billion in 2006. Premium income from plan sponsors decreased slightly from \$1.451 billion in 2005 to \$1.442 billion in 2006. Other income, consisting of interest income on recoveries from sponsors, increased from \$44 million in 2005 to \$79 million in 2006.

Annual flat-rate premiums for the single-employer program increased to \$30 per participant and income increased for 2006, bringing the total for flat-rate premiums to approximately \$883 million. Annual Variable-Rate Premiums (VRP) paid by underfunded single-employer plans at a rate of \$9 per \$1,000 of underfunding if not exempt (e.g., meets certain minimum funding requirements) decreased to a total of \$550 million.

The Required Interest Rate (RIR) used in calculating underfunding for purposes of determining a VRP had previously been 85 percent of the annual yield on 30-year Treasury securities; however, temporary legislation in 2004 changed the basis for plan years beginning in 2004 and 2005 to 85 percent of a composite corporate bond yield. This use of a corporate bond rate was continued by the Pension Protection Act of 2006 for two additional years. The resulting rates for calendar-year plans for 2005 and 2006 were 4.73% and 4.86%, respectively. An increase in the RIR generally leads to decreases in VRP premiums. The VRP premium income accruals for plan year 2006 were lower by approximately \$237 million. This is primarily due to the higher RIR, more plans meeting the VRP exemption requirements, termination of large plans with prior year VRP payments and other factors in the actuarial calculation of underfunding. PPA eliminated the funding exemption from the VRP for plan years beginning in 2008.

The Corporation's losses from completed and probable plan terminations decreased from a loss of \$3.954 billion in 2005 to a net credit of \$6.155 billion in 2006. This decrease in 2006 was led by the credit related to the reclassification of the large probable plans (accrued) to reasonably possible (not accrued), offset by losses related to new probables of \$3.1 billion. Additional plans did become probable and were recorded as new losses in 2006; however the amounts of such new probable claims were lower in 2006 than for the comparable period in 2005. Reasonably possibles are plans that are not likely to terminate within twelve months of the financial statement date.

This credit also led to overall reductions in claims for probable terminations in the liabilities section of the Statements of Financial Condition. The net claim for probable terminations as of September 30, 2006, is \$4.9 billion, while the net claim as of September 30, 2005, was \$10.5 billion. This \$5.6 billion reduction resulted primarily from the transfer of \$8.0 billion (see Note 4) of previously accrued claims to a non-accrual status (i.e., reasonably possible), offset by the addition of new probable claims of \$3.1 billion. The amount of future losses remains unpredictable as the PBGC's loss experience is highly sensitive to losses from large claims.

Administrative expenses increased \$41 million from \$311 million in 2005 to \$352 million in 2006 due to expenses incurred in both one-time



costs of managing large bankruptcy cases as well as higher ongoing expenses to administer recently terminated large pension plans in 2006. The FY 2006 expense of \$2 million in “Expenses: Other” was due to the write-off of premium and other receivables.

FINANCIAL ACTIVITY: Though single-employer underwriting income increased for 2006, single-employer financial net income decreased from \$3.596 billion in 2005 to \$(3.112) billion in 2006. This reduction was primarily due to the effects of rising interest rates in the fixed income market and increases in annuity prices causing interest factors to decrease in the annuity market, which led to increases in actuarial charges.

Actuarial charges under Financial activity increased due to the combined effects of changes in interest rates and the passage of time. In 2006, passage of time charges increased due to the increase in the PBGC’s liabilities from newly trustee plans. Charges due to change in interest rates also increased substantially due to the decrease in the applicable interest factors.

The PBGC discounts its liabilities for future benefits with interest factors that, together with the mortality table used by the PBGC, will approximate the price in the private-sector annuity market at which a plan sponsor or the PBGC could settle its obligations. The PBGC surveys life insurance industry annuity prices through the American Council of Life Insurers (ACLI) to obtain input needed to determine interest factors and then derives interest factors that will best match the private-sector prices from the surveys. The interest factors are often referred to as select and ultimate interest rates. Any pair of interest factors will generate liability amounts that differ from the survey prices, which cover 14 different ages or benefit timings. The PBGC process derives the interest factor pair that differs least over the range of prices in the survey. The PBGC’s select interest factor (which operates over the first 25 years) decreased to 4.85% at September 30, 2006, from 5.2% at September 30, 2005. The ultimate factor (which is applied for all years after the first 25) increased to 4.82% from 4.5% over the same period.

The total return on investments was 4.2% in 2006, generating \$2.184 billion in investment income, compared to 8.9% in 2005 and \$3.897 billion of income. Equity investments within the single-employer program returned 10.7% in 2006. There was a slight decrease of \$321 million in equity income compared to 2005. Fixed income investments within the single-employer program returned 1.4% in 2006, which resulted in a decrease of \$1.361 billion in fixed income in 2006 from 2005.

In 2006, the PBGC’s investments underperformed its liabilities by \$3.112 billion. This was primarily due to the difference in the interest rate behavior between rates prevailing in the fixed income market and prices prevailing in the annuity market. The PBGC marks its assets to market.

Multiemployer Program

A multiemployer plan is a pension plan sponsored by two or more unrelated employers under collective bargaining agreements with one or more unions. Multiemployer plans cover most unionized workers in the trucking, retail food, construction, mining and garment industries. The multiemployer program, which covers about 9.9 million workers and retirees (approximately the same number of covered workers as in 2005) in about 1,540 insured plans, differs from the single-employer program in several significant ways. For multiemployer plans, the event triggering the PBGC’s guarantee is the inability of a covered plan to pay benefits when due at the statutorily guaranteed level (i.e., the plan is statutorily insolvent). Unlike the single-employer plans, the PBGC does not usually become trustee of multiemployer plans; rather, it provides financial assistance through loans to insolvent plans to enable them to pay guaranteed benefits. During fiscal 2006, the PBGC paid \$70 million in financial assistance to 33 insolvent plans. Once begun, these loans (which are typically not repaid) generally continue year after year until the plan no longer needs assistance or has paid all promised benefits at the guaranteed level. For a worker with 30 years under a plan, the maximum annual benefit guarantee is \$12,870, which is much lower than for the participants under the single-employer program. Accordingly, multiemployer premium rates are significantly lower than for the single-employer program as well. Annual flat-rate premiums for the multiemployer program increased to \$8.00 per participant for plan year 2006 pursuant to the DRA and there are no variable-rate premiums.

RESULTS OF ACTIVITIES AND TRENDS: The multiemployer program reported a net loss of \$404 million in FY 2006 compared to a net loss of \$99 million in FY 2005. This resulted in a negative net position of \$739 million in FY 2006 compared to a negative net position of \$335 million in FY 2005. The change in net income was primarily due to the increase in expected loss from future financial assistance of \$257 million plus a decrease in investment income of \$80 million, partially offset by an increase in premium income of \$32 million.

The multiemployer program reported a net loss from underwriting activity of \$403 million in FY 2006 compared to a net loss of \$178 million in FY 2005. This change in the net loss of \$225 million was attributed to the increase in losses from financial assistance of \$257 million (due to the addition of ten plans to the multiemployer probable inventory and changes in estimates) partially offset by the increase in premium income of \$32 million. Financial activity reflected financial loss of \$1 million from earnings on fixed income investments in 2006, compared to a gain of \$79 million in 2005. Multiemployer program assets at year-end were invested 99.4 percent in Treasury securities, as compared to 97.8 percent in Treasury securities in 2005.

Overall Capital and Liquidity

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

In 2006, the PBGC's cash receipts from operations of the single-employer program improved somewhat but were still insufficient to cover its operating cash disbursements of \$4.4 billion, resulting in net cash used of \$139 million, compared to \$189 million used in 2005. The multiemployer program experienced positive cash flow of \$50 million in 2006 compared to \$75 million in 2005.

Combined premium cash receipts totaled \$1.7 billion in FY 2006, a modest increase of approximately \$34 million from 2005. Most of this increase pertained to the statutorily increased premiums that were fully paid in FY 2006 but were partially applicable to FY 2007. In 2006, net cash flow used by investments was \$318 million versus \$1.3 billion provided by investments in 2005.

Outlook

For FY 2007, the PBGC estimates \$4.8 billion in single-employer benefit payments and \$93 million in financial assistance payments to multiemployer plans. The FY 2007 President's Budget request includes \$402 million for the PBGC's administrative expenses. The PBGC's expenses for FY 2006 were \$381 million.

The PBGC is a self-financing government corporation funded by premiums and the assets of plans it trustees, not general tax revenues. Unlike other Federal programs, which rely on annual appropriations for funding and spending authority, ERISA gives the PBGC its spending authority. Pursuant to Office of Management and Budget (OMB) policy, the PBGC's spending is reviewed by the Department of Labor (DOL), approved by OMB, and remains subject to Congressional oversight.

In 2007, underwriting income and investment gains or losses will continue to be influenced by significant factors beyond the PBGC's control (including changes in interest rates, financial markets, contributions made by plan sponsors as well as recently enacted statutory changes). Absent a change in law, the PBGC's best estimate of 2007 premium receipts ranges between \$1.5 billion and \$1.7 billion. No reasonable estimate can be made of 2007 terminations, effects of changes in interest rates, or investment income.

As of September 30, 2006, the single-employer and multiemployer programs reported deficits of \$18.142 billion and \$739 million, respectively. The single-employer program had assets of nearly \$60.0 billion which is offset by total liabilities of \$78.1 billion, which includes a total present value of future benefits (PVFB) of approximately \$69.1 billion.

As of September 30, 2006, the multiemployer program had assets of approximately \$1.2 billion offset by approximately \$1.9 billion in present value of nonrecoverable future financial assistance. Notwithstanding these deficits, the Corporation has sufficient liquidity to meet its obligations for a number of years; however, neither program at present has the resources to fully satisfy the PBGC's long-term obligations to plan participants.

Single-Employer and Multiemployer Program Exposure

Measures of risk in the PBGC's insured base of plan sponsors suggest that there may continue to be large claims against the single-employer pension insurance program. The PBGC's best estimate of its loss exposure to underfunded plans sponsored by companies with credit ratings

below investment grade and classified by the PBGC as reasonably possible of termination as of September 30, 2006, was \$73 billion. The comparable estimates of reasonably possible exposure for 2005 and 2004 were \$108 billion and \$96 billion, respectively. The PBGC's exposure to loss may be less than these amounts because of the statutory limits on insured pensions, but this estimate is also not available because it is difficult to prospectively determine the extent and effect of the statutory limitations. These estimates are measured as of December 31 of the previous year (see Note 7). For 2006, this exposure is concentrated in the following sectors: manufacturing; transportation, communication and utilities; services/other; and wholesale and retail trade.

The PBGC's estimate of the total underfunding in single-employer plans is approximately \$350 billion as of September 30, 2006 (see Note 1) compared to estimates that exceeded \$450 billion as of September 30, 2005. The PBGC's estimate of underfunding as of September 30, 2006, is largely (about 80%) based upon employers' reports to the PBGC under section 4010 of ERISA of their December 31, 2005, market value of assets and termination liabilities. These values were then rolled forward to September 30, 2006, 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 does not adjust for contributions, benefit payments, changes in liabilities due to the passage of time, or plan amendments that may have occurred in 2006 since this information was not readily or reliably available. For single-employer plans sponsored by employers that do not file with the PBGC under section 4010 of ERISA, the PBGC's estimates of total underfunding are based on data obtained from other filings and submissions to the government and from corporate annual reports for comparable periods. The PBGC does not have a reasonably possible exposure to termination from all of these plans as of the end of 2006 because many are sponsored by companies that had investment grade credit ratings or otherwise had not filed any reportable events.

Total underfunding of multiemployer plans is estimated to exceed \$150 billion at September 30, 2006 (see Note 1). In 2005, the PBGC estimated multiemployer underfunding exceeded \$200 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 since it comes only from Form 5500 filings.

The PBGC estimates that, as of September 30, 2006, it is reasonably possible that multiemployer plans may require future financial assistance in the amount of \$83 million. As of September 30, 2005 and 2004, this exposure was estimated at \$418 million and \$108 million, respectively.

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



Investment Activities

The Corporation's invested assets consist of premium revenues, accounted for in the revolving funds, and assets from terminated plans and their sponsors, accounted for in the trust funds. By law, the PBGC is required to invest certain of the revolving funds (i.e., Funds 1 and 2) in obligations issued or guaranteed by the United States of America. Portions of the other revolving fund (i.e., Fund 7) can be invested in other debt obligations. Current policy is to invest the revolving funds only in Treasury securities. The PBGC uses institutional investment management firms to invest trust fund assets, subject to the PBGC oversight and consistent with the Corporation's investment policy statement.

As of September 30, 2006, the value of the PBGC's total investments in the single-employer and multiemployer programs, including cash and investment income, including \$6.5 billion of cash collateral from securities lending, was approximately \$59.2 billion. The cash collateral is held separately and is reported as part of the PBGC's total "Cash and cash equivalents" of \$8.5 billion as of September 30, 2006. The revolving fund's value was \$15.2 billion and the trust fund's value was \$44.0 billion. Cash and fixed income securities represent approximately 77% of the total assets invested at the end of the year, compared to 75% at the end of 2005. Equity securities represent approximately 23% of total assets, compared to 25% at the end of 2005. A very small portion of the invested portfolio remains in real estate and other financial instruments.

As a result of the PBGC's biannual investment policy review process, the PBGC adopted enhancements in 2006 to its investment policy to better manage the financial risks facing the federal pension insurance program. The investment policy continues the PBGC's investment focus of limiting financial risk exposure by investing the majority of the PBGC's assets in long duration fixed income securities in order to reduce balance sheet volatility. The primary enhancement to the policy in 2006 allows the PBGC to further diversify its investment portfolio by including international investments.

During FY 2006 the PBGC extended the dollar duration of its assets relative to its liabilities in order to better match the interest rate sensitivity of its liabilities. The PBGC's trustee liabilities were 85% matched on a dollar duration basis at fiscal year end 2006 compared to 69% matched at the end of fiscal year 2005. However, even though the interest rate sensitivities of the PBGC's assets and liabilities were 85% matched in dollar duration terms, the PBGC's ability to limit the volatility of its assets versus its liabilities continues to be significantly affected by basic remaining differences between 1) the interest factors derived from annuity prices on which the PBGC's liabilities are valued, and 2) the interest rates reflected in the fixed income market which determine the value of the PBGC's fixed income assets. In contrast with fixed income prices, annuity prices also reflect the costs of mortality guarantees, administrative and marketing expenses, statutory reserves and surplus requirements, and other expense and profit items. These differences have had and can be expected in the future to have a material impact on the Corporation's ability to fully match off its interest rate risk, despite high levels of dollar duration matching.

INVESTMENT PERFORMANCE

(Annual Rates of Return)

	September 30,		Three and Five Years	
	2006	2005	Ended September 30, 2006	
			3 Years	5 Years
The PBGC Liability Return*	9.0%	0.8%	3.3%	N/A
Total Invested Funds	4.2	8.9	7.0	6.7%
Equities	10.7	15.6	13.7	9.0
Fixed Income	1.4	6.6	4.5	6.4
Trust Funds	6.2	10.3	9.3	6.3
Revolving Funds	0.6	7.0	4.3	6.1
Indices				
Dow Jones Wilshire 5000	10.4	14.7	13.2	8.6
S&P 500 Stock Index	10.8	12.3	12.3	7.0
Lehman Long Government/Credit	2.6	6.6	5.0	7.1
Fixed Income Composite Benchmark**	1.5	6.3	4.2	6.1

* The Liability Return is the percent change in the value of the PBGC's trustee liabilities due to changes in the PBGC's liability valuation discount factors and the passage of time.

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

During the year, the PBGC's return on trustee liabilities was 9% due to the significant decline in the PBGC's liability valuation interest factors (i.e., the select rate dropped from 5.2% on September 30, 2005, to 4.85% on September 30, 2006). A positive liability return implies an increase in the PBGC's trustee liabilities. This major effect is captured in the actuarial charge, which increased \$5.0 billion for the year.

The 9% liability return compares to a total return on the PBGC's invested assets of 4.2% which resulted in \$2.2 billion in investment income. Rising market interest rates negatively affected the PBGC's fixed income portfolio. Nevertheless, the fixed income portfolio was able to earn a positive 1.4% and contribute \$393 million in investment income due to the coupon income generated by the portfolio. The revolving fund investments, which have the longest duration, were most negatively affected by the rising interest rate environment and returned only 0.6% for the year. However, equities continued their strong performance and returned 10.7%, contributing \$1.8 billion, or 82%, of the \$2.2 billion total investment income.

As stated above, liability valuation interest factors and market based interest rates moved in opposite directions for 2006. The decline in the PBGC's interest factors increased the PBGC's liabilities while at the same time rising market interest rates negatively affected the PBGC's assets. The PBGC's total investment income of \$2.2 billion was only able to match approximately 40% of the \$5.3 billion financial expense (includes the total of investment fees and actuarial charges) resulting in a FY 2006 financial loss of \$3.1 billion. The \$3.1 billion financial loss largely resulted because the annuity and fixed income market interest factors were uncorrelated for the year. These uncorrelated differences continue to limit the PBGC's overall ability to minimize the volatility of its assets versus its liabilities, and thus reduce balance sheet volatility for the year. However, strong equity returns in 2006 mitigated this year's financial loss.

The PBGC Management Assurances and Internal Controls

The PBGC places a significant emphasis on its Internal Controls Program, which is designed to meet the requirements of the Federal Managers' Financial Integrity Act (FMFIA) and Office of Management and Budget (OMB) Circular A-123. The PBGC has put into place a comprehensive process supporting the PBGC's FMFIA Assurance Statement below, and including the activities described as follows:

- **FMFIA Assurance Statement Process**

In support of the PBGC Interim Director's FMFIA Assurance Statement, members of the PBGC's senior management were required to prepare and submit an annual assurance statement advising whether functions and processes under their areas of responsibility were operating as intended. As input to this decision, reports issued under the PBGC's Internal Control Program, known control deficiencies (e.g., existing reportable conditions), and other related sources of information were considered. For Fiscal Year 2006, all the required assurances were positive.

- **The PBGC Internal Control Committee**

The PBGC Internal Control Committee (ICC) provides corporate oversight and accountability regarding internal controls over the PBGC operations, financial reporting, and compliance with laws and regulations. Chaired by the Chief Financial Officer, the committee's membership represents a cross-section of the agency and includes a representative from the PBGC Office of Inspector General (OIG) as a non-voting member. The ICC approves major changes to the PBGC processes and systems, reviews identified internal control deficiencies and related issues, and monitors the status of management's corrective actions.

- **Documentation and Testing of Key Financial Reporting Controls**

The PBGC has identified 10 major business process cycles which have a significant impact on the PBGC's financial reporting processes. These include Benefit Payments, Benefit Determinations, Premiums, Investments/Treasury, Losses on Completed and Probable Terminations, Single-Employer Contingent Liability, Non-Recoverable Future Financial Assistance, Budget, Present Value of Future Benefits, and Financial Reporting cycles. As of the end of FY 2006, the PBGC's Internal Control Committee had approved 159 key controls over financial reporting within these major business cycles. As part of the PBGC Internal Control Program, these controls were documented and evaluated for the adequacy of control design, and regularly tested to determine operating effectiveness throughout the year. In addition, the PBGC maintained logs documenting control execution, and provided written representations, on a quarterly basis, regarding the performance of these key controls over financial reporting.

- **Documentation and Testing of Entity-Wide and General Information Technology Controls**

The PBGC's Internal Control Committee approved 42 key entity-wide controls which have an overarching impact on the agency's internal control processes as a whole. In addition, the PBGC management identified 34 key General Information Technology controls to provide an appropriate control environment for the operation of the PBGC computer systems and applications. As part of the PBGC Internal Control Program, these controls were documented and tested for the adequacy of control design and operating effectiveness.

- **Assessment of Improper Payment Risk**

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

- **Audit Follow-up Program**

In accordance with the Office of Management and Budget (OMB) Circular A-50, the Corporation has established policies and procedures to assure the efficient resolution and implementation of audit recommendations contained in audit reports issued by the OIG and the Government Accountability Office (GAO). The PBGC works closely with both the OIG and GAO to ensure effective communication about the work needed to address the audit findings and recommendations. The PBGC regularly monitors implementation efforts to help ensure timely completion and closure of recommendations.

- **Compendium of Laws and Regulations**

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

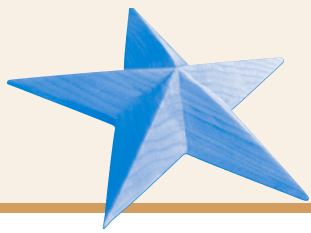


In accordance with the Federal Managers' Financial Integrity Act and OMB Circular A-123, the PBGC is pleased to present its FMFIA Assurance Statement for FY 2006:

Federal Managers' Financial Integrity Act Assurance Statement

The PBGC's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The PBGC conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, the PBGC can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2006, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

In addition, the PBGC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, the PBGC can provide reasonable assurance that its internal control over financial reporting as of September 30, 2006, was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.



Management Representation

The PBGC's management is responsible for the accompanying Statements of Financial Condition of the Single-Employer and Multiemployer Funds as of September 30, 2006 and 2005, the related Statements of Operations and Changes in Net Position and the Statements of Cash Flows for the years then ended. The PBGC's management is also responsible for establishing and maintaining systems of internal accounting and administrative controls that provide reasonable assurance that the control objectives, i.e., preparing reliable financial statements, safeguarding assets and complying with laws and regulations, are achieved.

In the opinion of management, the financial statements of the Single-Employer and Multiemployer Program Funds present fairly the financial position of the PBGC at September 30, 2006, and September 30, 2005, and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America (GAAP) and actuarial standards applied on a consistent basis. As noted in the FMFIA Statement of Assurance above, the PBGC's accounting systems and internal controls comply with the provisions of the FMFIA.

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

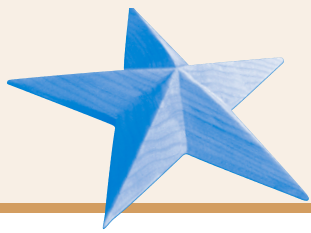
As a result of the aforementioned, the PBGC has based these statements, in part, upon informed judgments and estimates for those transactions not yet complete or for which the ultimate effects cannot be precisely measured, or for those that are subject to the effects of any pending litigation.

The Inspector General engaged Clifton Gunderson LLP to conduct the audit of the Corporation's fiscal years 2006 and 2005 financial statements and Clifton Gunderson issued an unqualified opinion on those financial statements.

Vincent Snowbarger
Interim Director

James C. Gerber
Chief Financial Officer

November 9, 2006



Annual Performance Report

The PBGC's strategic plan for fiscal years 2006-2011 reflects its commitment to improving the pension insurance program. Specifically, the PBGC's goals are to:

- safeguard the federal pension insurance system for the benefit of participants, plan sponsors, and other stakeholders;
- provide exceptional service to customers and stakeholders; and
- exercise effective and efficient stewardship of the PBGC resources.

In carrying out its mission, the PBGC interacts with a variety of customers and stakeholders with an interest in a strong and effective pension system. They include beneficiaries in terminated pension plans, participants in ongoing pension plans that the PBGC insures, the employers that pay premiums, and the lawmakers and policymakers who oversee the federal insurance programs.

The PBGC manages performance by monitoring and mitigating pension risk, examining its service to these customers and stakeholders, and strategically allocating its resources to programs and activities that support and demonstrate achievement of the PBGC's mission and goals. Performance measures help examine the effectiveness of the PBGC's service improvements, many of which are now provided via Web-based services.

The PBGC's strategic goals and objectives are published on the PBGC's Web site at www.pbgc.gov. The performance results for FY 2006 are detailed below. These items meet the annual reporting requirement of the Government Performance and Results Act.

Overview of the PBGC's Performance Measures

The PBGC's 2006 performance measures either rose or remained constant in nearly all areas compared to those reported for 2005, despite the occurrence of several events expected to have a negative effect on sponsors' and participants' views of the PBGC's operations. These included the start of mandatory premium e-filing for large plans, the workload generated by a significant increase in participants in newly trustee plans (many of whom had benefits adjusted downward from company levels to reflect ERISA guaranteed maximum benefit payments), and ongoing reported deficits in both the PBGC's single-employer and multiemployer programs.

The PBGC developed new performance measures after enactment of the Pension Protection Act that comprise activities required to implement the new premium reforms. These measures are listed in Chart 1 under the strategic goal to safeguard the pension insurance system.

CHART 1: THE PBGC PERFORMANCE MEASURES, TARGETS AND RESULTS

Goal 1: Safeguard the federal pension insurance system for the benefit of participants, plan sponsors, and other stakeholders			
Implement premium regulations required by the Pension Protection Act (PPA) of 2006 and the Deficit Reduction Act (DRA) of 2005:			
Variable-rate premium (from the PPA)	Issue proposed regulations in 2007		
Flat-rate premium increase (from the DRA)	Issue proposed regulations in 2007		
Termination premium (new) in both the PPA and DRA	Issue proposed regulations in 2007		
Goal 2: Provide exceptional service to customers and stakeholders			
Performance Measure	2006 Target	2006 Result	Baseline Result
American Customer Satisfaction Index (ACSI) for retirees who receive benefits from the PBGC	84	85	84 (2004)
ACSI for participants who contact the PBGC for service	80	75	73 (2001)
ACSI for participants who visit the PBGC Web site	67	72	60 (2004)
ACSI for premium filers who contact the PBGC for service	none	68	68 (2006)
ACSI for pension practitioners who visit the PBGC Web site	75	73	72 (2004)
Goal 3: Exercise efficient and effective stewardship of the PBGC resources			
Administrative cost per participant in plans the PBGC trustees	\$199	\$203	\$219 (2004)

The following sections discuss the performance measures for each of the PBGC's three goals in more detail.

Achieving Performance Targets

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

The PBGC engages in a number of activities to safeguard the pension insurance system for the benefit of insured pension plan participants, insured plan sponsors, and other stakeholders. These activities include plan risk assessments, plan monitoring and negotiation and litigation to limit risk exposure and losses to participants and the PBGC. In 2005, the PBGC stepped up its efforts to safeguard the pension insurance system, and continued that focus in 2006. Chart 2 depicts the scale of these activities, as well as the continuing challenges. While the number of controlled groups monitored rose only slightly and plans monitored fell during 2006, the number of active bankruptcy cases rose significantly. In addition, the amount of pension underfunding reported by companies under section 4010 of the Employee Retirement Income Security Act decreased to \$340 billion from \$355 billion in 2005.

One of the PBGC's noteworthy successes in 2006 was its intervention in avoiding losses and obtaining recoveries in bankruptcy cases involving the termination of large, poorly funded pension plans. In eight large bankruptcy cases resolved in 2006, the PBGC avoided or mitigated losses of nearly \$4 billion from an exposure approaching \$13 billion in unfunded benefit liabilities.

Proposed amendments to ERISA were included in the President's FY 2006 Budget to Congress. The PBGC actively supported the Administration's comprehensive pension reform proposal through congressional testimony, news releases, speeches and interviews. On February 8, 2006, the Deficit Reduction Act of 2005 was enacted, which increased flat-rate premiums for single-employer and multi-employer plans and established a termination premium for certain single-employer plans. On August 17, 2006, the President signed into law the Pension Protection Act, which includes new plan funding rules, new provisions for pension plan transparency, and additional reforms to the premium structure for defined benefit plans. The PBGC plans to publish regulations in 2007 implementing the flat-rate premium increase, the variable-rate premium changes, and the new termination premium requirement.

Provide Exceptional Service to Customers and Stakeholders

The PBGC measures customer satisfaction using the American Customer Satisfaction Index (ACSI), a nationally recognized survey instrument that is used by both federal and private sector entities. The PBGC obtains ACSI scores for three primary customer groups—premium filers, plan participants, and others accessing the PBGC's Web site. The PBGC uses survey results to identify the impact of specific service components on customer satisfaction, to monitor customer expectations, and to allocate resources to meet customer needs. As the PBGC expands its e-business services, tracking the satisfaction of customers and stakeholders as they use the online services becomes increasingly important in understanding and meeting customer expectations.

SURVEY OF PREMIUM FILERS: The PBGC significantly improved its performance in a number of important areas in 2005. In spite of those improvements, overall customer satisfaction among practitioners decreased by one point. In order to determine whether previously unmeasured factors were having an effect on the overall ratings, the PBGC included questions on policy and legislation in the 2006 Premium Filer survey. Though these areas are largely outside of the PBGC's control, they were thought to have a significant impact on customer views and expectations of the PBGC's performance. With the addition of these new questions, a new baseline was established for premium filers. The lowest score was in the new component, *policy and legislation*, suggesting that these factors did have a negative effect on overall premium filer satisfaction ratings. Premium filers' primary concerns are the long-term viability of the pension insurance system and long-term financial outlook of the PBGC.

The PBGC also changed the name of the survey from Pension Practitioner Survey to Premium Filer Survey to reflect more closely the characteristics of the surveyed population. This year's premium filer score was 68 out of 100, a relatively high score compared with other regulatory reporting agencies and unchanged from 2005 even though the PBGC had implemented mandatory e-filing for large plans in 2006. Maintenance of the score despite mandatory e-filing had been a primary objective and was achieved through additional customer outreach, expansion of support programs and introduction of Web-based seminars that were well attended. The surveyed components with the highest impact on customer satisfaction were *written communication*, *policy and legislation*, and *premium filing*. Premium filers found the filing process easy but wanted faster refunds for overpayment of premiums. The PBGC has already shortened the average time for refunds and waiver requests from 39 days in 2005 to 22 days in 2006. Other customer service improvements are expected with the implementation of a new premium accounting system in 2008.

CHART 2: SAFEGUARDING ACTIVITIES

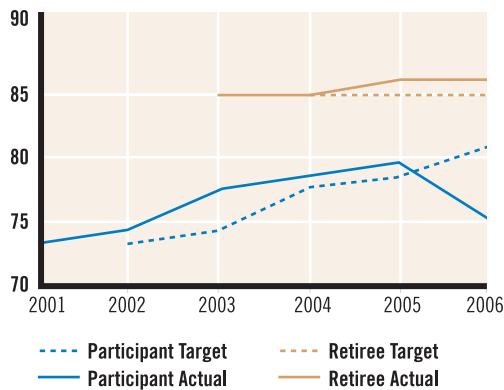
Activity	FY 2006	FY 2005
Controlled Groups Monitored	2,056	1,987
Plans Monitored	3,712	4,152
Bankruptcy Cases	487	350
Underfunding reported under Section 4010 (in billions)	\$340	\$355



SURVEY OF RETIREES RECEIVING THE PBGC BENEFIT PAYMENTS AND OTHER PARTICIPANTS:

The 2006 ACSI score for retirees who are currently receiving benefits from the PBGC was 85, one point higher than the target of 84. The retiree ACSI score remains among the highest in government. Retirees feel that the PBGC is excelling at providing their benefits in a timely, efficient, and accurate manner. For participants who contacted the PBGC via its toll free telephone number, the score was 75—lower than the past three years and breaking a four-year upward trend as shown in Chart 3. Though the score continued to be among the highest for government and exceeded the 2005 government average of 71, scores dropped in *written communication* and *concern resolution*. The PBGC had already targeted improvements in communication, specifically communications about complexities in benefit determinations for participants of recently terminated pension plans. Recent improvements in technology have also paved the way for the PBGC to institute enhancements to its call monitoring program. Participants demonstrated satisfaction with recent improvements in the *benefit estimates* area, scoring it the highest.

CHART 3: PARTICIPANT SATISFACTION TRENDS



SURVEY OF WEB SITE USERS: The 2006 ACSI score for pension practitioners who visited the PBGC’s Web site rose to 73, seven points higher than the 2005 score of 66, but two points less than the target of 75. Much of the increase is attributable to the extensively reorganized PBGC Web site launched at the end of 2005. The PBGC expected the improvements to make navigation and search easier but pension practitioners, in particular, were least satisfied with *navigation and search*.

To help users quickly find information and guidance, the PBGC established a Web page in 2006 with links to regulations, white papers, and discussion papers. The PBGC also continued to improve its online services for premium filing and payment in 2006. My Plan Administration Account (My PAA), which was implemented in 2004, now provides several e-filing options that facilitate premium filers’ compliance with the mandatory e-filing requirement that became effective in 2006. The PBGC will continue publicizing its e-filing services through Webcasts, conference demonstrations, mailings and newsletters. Efforts are also underway to improve the premium accounting system which is key to supporting future improvements to practitioner online customer services.

The 2006 ACSI score for participants visiting the Web site was 72, seven points higher than the 2005 score of 65 and twelve points higher than the baseline score of 60 in 2004. This exceeded the 2006 target of 67. The PBGC attributes the significant increase to the improved Web site launched at the end of 2005. The PBGC continues to improve My Pension Benefit Account (My PBA) online services. Planned improvements include a service that allows participants to request benefit estimates.

Exercise Efficient and Effective Stewardship of the PBGC Resources

The PBGC strives to manage its resources efficiently and effectively. Performance targets are aligned with the PBGC’s strategic goals to achieve desired results. The PBGC continued to focus on sustaining achievements in the President’s Management Agenda objectives and pursuing business practices that promote organizational excellence. At the end of FY 2006, the PBGC’s cost per participant in trustee plans was \$203, up from \$194 in 2005. The target for FY 2006 was \$199. This slight increase results from a difference in the number of participants projected at the beginning of the year versus the number at the end of the year—a factor that varies with the number of plans and participants in the inventory.

President’s Management Agenda

The PBGC goals align with the President’s Management Agenda (PMA), which focuses on improving services to customers and having a results-oriented federal government. Integrating the spirit of PMA in its strategic plans resulted in the PBGC achieving the following in 2006:

STRATEGIC MANAGEMENT OF HUMAN CAPITAL: The PBGC continued to implement its Human Capital Strategic Plan, focusing on recruiting and retaining top talent, developing emerging leaders for succession planning, promoting a results-oriented culture, developing information technology skills, and maximizing the use of information technology resources. A 5-year outreach recruitment plan was initiated in FY 2006, and management performance plans were improved to align performance expectations with organizational goals. The PBGC received the 2006 Optimas Award from *Workforce Management* magazine in the Managing Change category, which cited the PBGC’s Project Management Curriculum. In 2006, the Project Management Curriculum continued with 23 project managers earning Masters Certificates in Project Management. The Project Management Curriculum includes training in project initiation, planning, executing, monitoring, controlling, closing, and professional and social responsibility, determined by OPM and the Project Management Institute to be necessary for demonstrating knowledge and skill in effective project management. In addition, the PBGC was the first small agency and one of four agencies across the federal government to implement the Electronic Official Personnel Folder (eOPF), a paperless personnel file initiative.

The PBGC’s formal succession management program, Leaders Growing Leaders (LGL), is midway through its third two-year cycle with 7 candidates. To date, 15 candidates have graduated from the two-year program. In addition, the PBGC offers a robust formal mentoring program to its employees at all levels. Roughly one-quarter of the PBGC’s workforce has participated in the program.

The PBGC conducted the *Gallup Q12 Employee Engagement Survey* again in 2006, and is now in the 58th percentile of the U.S. overall working population. The most beneficial part of the process is when employees and managers work together to develop very specific roadmaps for improving engagement in the local work unit.

COMPETITIVE SOURCING: As a government corporation, the PBGC is not subject to the FAIR Act competitive sourcing process. For many years though, the PBGC has been a government leader in outsourcing certain of its services. The PBGC uses private sector entities for a wide variety of support functions, including financial advice, benefit administration, information technology, actuarial, office services, and legal services. The PBGC's commitment towards a competitive-based work environment is reflected in the PBGC's budget where two-thirds of its funds are allocated to contracts employing some 1,400 contract staff to supplement the PBGC's 870 Federal staff.

IMPROVED FINANCIAL MANAGEMENT: For the 14th consecutive year the PBGC received an unqualified "clean" audit opinion from its independent financial auditor. The interdepartmental Internal Controls Committee, established in 2005, oversaw the documentation and testing of key internal control activities, including testing of controls over financial reporting, general information technology controls, and entity-wide controls. The testing helps management to support the "Federal Managers Financial Integrity Act" assertion that the PBGC has an effective internal control system.

EXPANDED ELECTRONIC GOVERNMENT: The PBGC continued to improve its Web site and expanded Web-based services for pension plan administrators and trustee plan participants, as mentioned in the foregoing section on providing exceptional service to customers and stakeholders. Participants can use the PBGC's online services to apply for benefits, designate a beneficiary, submit a request for a benefit estimate, make address changes and request electronic funds deposit and they will soon be able to calculate benefit estimates online. Information for individual trustee plans is available to participants in those plans. In addition, pension practitioners and plan sponsors can file and pay premiums electronically as well as file important compliance documents such as e-4010 filings. In 2006, the PBGC established a Web page with links to regulations, white papers, and discussion papers to enable customers and stakeholders to quickly find information and guidance.

BUDGET AND PERFORMANCE INTEGRATION: The PBGC has continued to refine its strategic planning and budget processes to ensure alignment with its mission and to support achievement of performance goals. Through the electronic Corporate Performance Reporting System (CPRS), to which significant progress was made in automating performance measurement information in 2006, the PBGC fosters transparency in corporate-wide information sharing and accountability.

Program Evaluation

- The Government Accountability Office issued a report entitled "Opportunities Exist to Further Improve the Transparency of the PBGC's Financial Disclosures" in March 2006. As a result, the PBGC now publishes its interest rate methodology on its Web site (www.pbgc.gov) and information to determine the financial impact of terminated plans on the PBGC. These efforts enhance the transparency of the PBGC's operations for its stakeholders and the public.
- The PBGC had its first Program Assessment Rating Tool (PART) review by the Office of Management and Budget (OMB) in 2004. OMB rated the PBGC's program as "moderately effective" overall with a score of 79. The PBGC received scores of 80 and higher (fully effective) for the three assessed areas of *Program Purpose and Design*, *Strategic Planning*, and *Program Management*. The *Program Results/Accountability* area scored 75. OMB's PART analysis reflected its view that the PBGC performed well in areas that are under its control, but that a rating of "effective" was not possible for the *Program Results/Accountability* area unless and until the statutory mandate under which the PBGC operates is modified to strengthen pension plan funding rules and the premium structure is altered to more accurately reflect the risks posed by individual plans. In 2006, the President signed the Deficit Reduction Act and the Pension Protection Act, which address, in part, concerns regarding the PBGC's statutory environment identified as part of the 2004 PART assessment.
- The PBGC uses American Customer Satisfaction Index survey methodology to receive feedback from its customers. The feedback is used to evaluate the effectiveness of services to customers and stakeholders. The ACSI provides a means for the PBGC to compare its results with those of other government and private organizations, to continue to improve performance in high value areas to our customers, and to benchmark best practices. Evaluation of the survey responses results in service innovations and process improvements that benefit the PBGC customers.
- The PBGC's Office of the Inspector General conducted several audits and evaluations of the PBGC's governance, financial management, information technology, procurement and contracting, and program performance during FY 2006. Reports included the annual audit of the PBGC's financial statements; a review of the PBGC's costs associated with an interagency development effort; and evaluations of the PBGC's compliance with the Federal Information Security Management Act, policies established for the use of various electronic communication devices, and policies governing the PBGC's resolution of pension settlement claims. The PBGC has a cooperative relationship with the OIG and is working to address the issues raised in its reports.



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

Office of the Chief Financial Officer

Chief Financial Officer's Letter

Progress in Addressing Challenges

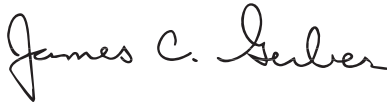
As a Significant Entity included in the *Financial Report of the United States Government*, the PBGC takes the integrity and thoroughness of its internal controls very seriously. Management has made significant progress in addressing our four reportable conditions and is fully committed to completing action on them further improving our internal processes and systems. In accordance with guidance provided by the Office of Management and Budget in OMB Circular A-136, the following provides a summary of actions that management is taking to correct each reportable condition:

- **Systems Integration** - In FY 2006, the PBGC completed the first phase of a multiyear effort to consolidate and improve core financial management systems. On October 1, 2006, Consolidated Financial System (CFS) became the new system of record consolidating three general ledger systems and our budget execution and administrative payments system into a single integrated environment. The passing of this major milestone positions the PBGC closer to the resolution of this reportable condition. The second phase will focus on Business Process Re-engineering (BPR) for increased integration between this system and others in the Corporation. The PBGC plans to complete corrective action on this major effort by FY 2009.
- **System Security** - The PBGC has added resources to develop an enterprise-wide system security program. Significant progress has been made in developing the Enterprise Information Security Policies and an Enterprise-wide Security Plan with implementation in the final stages. Through the internal controls program, deficiencies in critical processes across the Agency are being corrected or mitigated. Risk assessment and system security plans for all significant financial management applications and general support systems have either been completed or initiated. The PBGC is working on a comprehensive framework to formalize its progress under the Certification and Accreditation program to ensure compliance with NIST Special Publication 800-37, Guide for the Security Certification and Accreditation of Federal Information Systems. The PBGC expects to fully complete Certification and Accreditation on two of its significant financial management applications (including the consolidated general ledger and budget system) as well as on its most critical general support systems in FY 2007 with Certification and Accreditation to follow on its two other primary significant financial systems when they are placed into operation in early FY 2008.
- **Premiums** - The PBGC's Financial Operations Department has made considerable progress by implementing a new data capture process, improved image capture systems, a new e-filing system, and additional manual controls. For example, in the past, a significant number of premium payment transactions were suspended because the payments could not be initially associated with an existing customer account or failed other validation tests. As a result of an increased emphasis in this area and process improvements, the backlog of unresolved suspended transactions that existed at the end of FY 2004 has been eliminated, and the time required resolving such transactions has been greatly reduced. As of October 31, 2004, there were \$66.5 million in suspended transactions, and two years later, these amounts have been reduced to \$3.3 million (a 95% reduction). As of the same time periods, the dollar value associated with suspended transactions which were not resolved within a 60-day window has been reduced from \$5.2 million to \$41,000 (a 99% reduction). A new system, Premium and Practitioner System (PPS), to be

fully integrated with the new Consolidated Financial System, has been designed to further improve timeliness and accuracy in premium operations. The new system will strengthen financial management and customer service capabilities, and will be supplemented with updated documentation of procedures for processing and estimating premiums. The contract to implement PPS was awarded at the end of FY 2006, and implementation will occur in FY 2008.

- **Continuity of Operations Plan** - The PBGC's Facilities and Services Department, along with the Office of Information Technology, worked to address this reportable condition by conducting an internal review of the causes of a disruption in the availability of the PBGC computer network at the end of FY 2005 last year. A contingency planning policy statement that addresses a comprehensive set of objectives for the establishment of the organizational framework and responsibilities for comprehensive contingency planning was established and implemented. The policy's objectives are comprised of ten (10) components. The PBGC has completed its efforts on the Continuity of Operations, Occupant, Emergency, and Pandemic Influenza Plans. Work continues on the remaining components which include, but are not limited to, a Business Impact Analysis (BIA), an IT Risk Assessment, and various other recovery/communication plans. In addition, the PBGC has a testing and exercise plan, which includes participation in government-wide Forward Challenge COOP exercises. Management plans to complete work on this condition in FY 2007.

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



James C. Gerber
Chief Financial Officer



Pension Benefit Guaranty Corporation

Statements of Financial Condition

<i>(Dollars in millions)</i>	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
	2006	2005	2006	2005	2006	2005
ASSETS						
Cash and cash equivalents	\$ 8,490	\$ 8,889	\$ 5	\$ 13	\$ 8,495	\$ 8,902
Investments, at market (Note 3):						
Fixed maturity securities	35,503	33,160	1,159	1,134	36,662	34,294
Equity securities	13,730	12,284	0	0	13,730	12,284
Real estate and real estate investment trusts	4	29	0	0	4	29
Other	1	25	0	0	1	25
Total investments	49,238	45,498	1,159	1,134	50,397	46,632
Receivables, net:						
Sponsors of terminated plans	130	146	0	0	130	146
Premiums (Note 9)	374	425	1	0	375	425
Sale of securities	1,440	1,124	0	0	1,440	1,124
Investment income	259	359	1	13	260	372
Other	3	2	0	0	3	2
Total receivables	2,206	2,056	2	13	2,208	2,069
Capitalized assets, net	38	27	0	0	38	27
Total assets	\$59,972	\$56,470	\$1,166	\$1,160	\$61,138	\$57,630

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

Pension Benefit Guaranty Corporation Statements of Financial Condition

<i>(Dollars in millions)</i>	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
	2006	2005	2006	2005	2006	2005
LIABILITIES						
Present value of future benefits, net (Note 4):						
Trusteed plans	\$ 63,949	\$ 57,291	\$ 2	\$ 2	\$ 63,951	\$ 57,293
Plans pending termination and trusteeship	277	1,918	0	0	277	1,918
Settlements and judgments	55	58	0	0	55	58
Claims for probable terminations	4,862	10,470	0	0	4,862	10,470
Total present value of future benefits, net	69,143	69,737	2	2	69,145	69,739
Present value of nonrecoverable future financial assistance (Note 5)			1,876	1,485	1,876	1,485
Payable upon return of securities loaned	6,491	6,939	0	0	6,491	6,939
Unearned premiums	298	210	27	8	325	218
Due for purchases of securities	2,089	2,290	0	0	2,089	2,290
Accounts payable and accrued expenses (Note 6)	93	70	0	0	93	70
Total liabilities	78,114	79,246	1,905	1,495	80,019	80,741
Net position	(18,142)	(22,776)	(739)	(335)	(18,881)	(23,111)
Total liabilities and net position	\$ 59,972	\$ 56,470	\$ 1,166	\$ 1,160	\$ 61,138	\$ 57,630

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

Commitments and contingencies are discussed in the following:
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,	
	2006	2005	2006	2005	2006	2005
<i>(Dollars in millions)</i>						
UNDERWRITING:						
Income:						
Premium (Note 9)	\$ 1,442	\$ 1,451	\$ 58	\$ 26	\$ 1,500	\$ 1,477
Other	79	44	0	0	79	44
Total	1,521	1,495	58	26	1,579	1,521
Expenses:						
Administrative	352	311	0	0	352	311
Other	2	77	0	0	2	77
Total	354	388	0	0	354	388
Other underwriting activity:						
Losses (credits) from completed and probable terminations (Note 10)	(6,155)	3,954	0	0	(6,155)	3,954
Losses from financial assistance (Note 5)			461	204	461	204
Actuarial adjustments (Note 4)	(424)	220	0	0	(424)	220
Total	(6,579)	4,174	461	204	(6,118)	4,378
Underwriting gain (loss)	7,746	(3,067)	(403)	(178)	7,343	(3,245)
FINANCIAL:						
Investment income (Note 11):						
Fixed	394	1,755	(1)	79	393	1,834
Equity	1,793	2,114	0	0	1,793	2,114
Other	(3)	28	0	0	(3)	28
Total	2,184	3,897	(1)	79	2,183	3,976
Expenses:						
Investment	53	31	0	0	53	31
Actuarial charges (Note 4):						
Due to passage of time	3,206	2,618	0	0	3,206	2,618
Due to change in interest rates	2,037	(2,348)	0	0	2,037	(2,348)
Total	5,296	301	0	0	5,296	301
Financial income (loss)	(3,112)	3,596	(1)	79	(3,113)	3,675
Net income (loss)	4,634	529	(404)	(99)	4,230	430
Net position, beginning of year	(22,776)	(23,305)	(335)	(236)	(23,111)	(23,541)
Net position, end of year	\$(18,142)	\$(22,776)	\$(739)	\$(335)	\$(18,881)	\$(23,111)

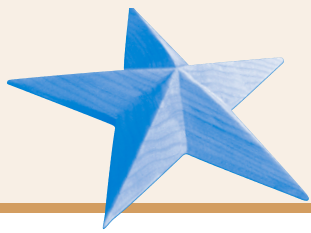
The accompanying notes are an integral part of these financial statements.

Pension Benefit Guaranty Corporation

Statements of Cash Flows

	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,	
	2006	2005	2006	2005	2006	2005
<i>(Dollars in millions)</i>						
OPERATING ACTIVITIES:						
Premium receipts	\$ 1,579	\$ 1,595	\$ 76	\$ 26	\$ 1,655	\$ 1,621
Interest and dividends received, net	1,689	1,344	44	64	1,733	1,408
Cash received from plans upon trusteeship	75	218	0	0	75	218
Receipts from sponsors/non-sponsors	884	139	0	0	884	139
Receipts from the missing participant program	7	8	0	0	7	8
Other receipts	9	137	0	0	9	137
Benefit payments—trusteed plans	(4,006)	(3,301)	0	(1)	(4,006)	(3,302)
Financial assistance payments			(70)	(14)	(70)	(14)
Settlements and judgments	(3)	(5)	0	0	(3)	(5)
Payments for administrative and other expenses	(373)	(324)	0	0	(373)	(324)
Net cash provided (used) by operating activities (Note 13)	(139)	(189)	50	75	(89)	(114)
INVESTING ACTIVITIES:						
Proceeds from sales of investments	90,261	131,442	2,119	5,114	92,380	136,556
Payments for purchases of investments	(90,073)	(136,357)	(2,177)	(5,190)	(92,250)	(141,547)
Change in security lending collateral	(448)	6,301	0	0	(448)	6,301
Net cash provided (used) by investing activities	(260)	1,386	(58)	(76)	(318)	1,310
Net increase (decrease) in cash and cash equivalents	(399)	1,197	(8)	(1)	(407)	1,196
Cash and cash equivalents, beginning of year	8,889	7,692	13	14	8,902	7,706
Cash and cash equivalents, end of year	\$ 8,490	\$ 8,889	\$ 5	\$ 13	\$ 8,495	\$ 8,902

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



Notes to Financial Statements September 30, 2006 and 2005

Note 1—Organization and Purpose

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

ERISA requires that the PBGC programs be self-financing. The Corporation's principal operational resources 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 the PBGC.

As of September 30, 2006, the single-employer and multiemployer programs reported deficits of \$18.142 billion and \$739 million, respectively. The single-employer program had assets of nearly \$60.0 billion which is offset by total liabilities of \$78.1 billion, which includes a total present value of future benefits (PVFB) of approximately \$69.1 billion. As of September 30, 2006, the multiemployer program had assets of approximately \$1.2 billion offset by approximately \$1.9 billion in present value of nonrecoverable future financial assistance.

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

SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAM EXPOSURE:

Measures of risk in the PBGC's insured base of plan sponsors suggest that the single-employer deficit may begin to abate in the short term. The PBGC's best estimate of the total underfunding in plans sponsored by companies with credit ratings below investment grade, and classified by the PBGC as reasonably possible of termination as of September 30, 2006, was \$73 billion. The comparable estimates of reasonably possible exposure for 2005 and 2004 were \$108 billion and \$96 billion, respectively. These estimates are measured as of December 31 of the previous year (see Note 7). For 2006, this exposure is concentrated in the following sectors: manufacturing; transportation, communication and utilities; services/other; and wholesale and retail trade.

The PBGC estimates that the total underfunding in single-employer plans was approximately \$350 billion (unaudited) as of September 30, 2006, and exceeded \$450 billion (unaudited) as of September 30, 2005. The 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 the PBGC under section 4010 of ERISA, the 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 2005.

Total underfunding of multiemployer plans is estimated to exceed \$150 billion (unaudited) at September 30, 2006. In 2005, the PBGC estimated that multiemployer underfunding exceeded \$200 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.

The PBGC estimates that, as of September 30, 2006, it is reasonably possible that multiemployer plans may require future financial assistance in the amount of \$83 million. As of September 30, 2005 and 2004, this exposure was estimated at \$418 million and \$108 million, respectively.

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

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

Under the multiemployer program, if a plan becomes insolvent, it receives financial assistance from the PBGC to allow the plan to continue to pay participants their guaranteed benefits. The PBGC recognizes assistance as a loss to the extent that the plan is not expected to be able to repay these amounts from future plan contributions, employer withdrawal liability or investment earnings.

Note 2—Significant Accounting Policies

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

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

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

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

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

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

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

CASH AND CASH EQUIVALENTS: Cash includes cash on hand and demand deposits as well as cash collateral retained as security for securities lent. Cash equivalents are securities with a maturity of one business day.

INVESTMENT VALUATION AND INCOME: The PBGC bases market values on the last sale of a listed security, on the mean of the "bid-and-ask" for nonlisted securities or on a valuation model in the case of fixed income securities that are not actively traded. These valuations are determined as of the end of each fiscal year. Purchases and sales of securities are recorded on the trade date. In addition, the PBGC invests in and discloses its derivative investments in accordance with the guidance contained in FAS No. 133 ("Accounting for Derivative Instruments and Hedging Activities"), as amended. Investment income is accrued as earned. Dividend income is recorded on the ex-dividend date. Realized gains and losses on sales of investments are calculated using first-in, first-out for the revolving fund and average cost for the trust fund. The PBGC marks the plan's assets to market and any increase or decrease in the market value of a plan's assets occurring after the date on which the plan is terminated must, by law, be credited to or suffered by the PBGC.



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

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

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

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

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

- (1) **Trusteed Plans**—represents the present value of future benefit payments less the present value of expected recoveries (for which a settlement agreement has not been reached with sponsors and members of their controlled group) for plans that have terminated and been trustee by the PBGC prior to fiscal year-end. Assets are shown separately from liabilities for trustee plans.
- (2) **Pending Termination and Trusteeship**—represents the present value of future benefit payments less the plans’ net assets (at fair value) anticipated to be received and the present value of expected recoveries (for which a settlement agreement has not been reached with sponsors and members of their controlled group) for plans for which termination action has been initiated and/or completed prior to fiscal year-end. Unlike trustee plans, the liability for plans pending termination and trusteeship is shown net of plan assets.
- (3) **Settlements and Judgments**—represents estimated liabilities related to settled litigation.
- (4) **Net Claims for Probable Terminations**—in accordance with Statement of Financial Accounting Standards No. 5 (“Accounting for Contingencies”) the PBGC recognizes net claims for probable terminations which represent the PBGC’s best estimate of the losses, net of plan assets and the present value of expected recoveries (from sponsors and members of their controlled group) for plans that are likely to terminate within twelve months of the financial statement issuance date. These estimated losses are based on conditions that existed as of the PBGC’s fiscal year-end. Management believes it is likely that one or more events subsequent to the PBGC’s fiscal year-end will occur, confirming the loss. Criteria used for classifying a specific plan as a probable termination include, but are not limited to, one or more of the following conditions: the plan sponsor is in liquidation or comparable state insolvency proceeding with no known solvent controlled group member; sponsor has filed or intends to file for distress plan termination; or the PBGC seeks involuntary plan termination. In addition, management takes into account other economic events and factors in making judgments regarding the classification of a plan as a probable termination. These events and factors may include, but are not limited to: the plan sponsor is in bankruptcy or has indicated that a bankruptcy filing is imminent; the plan sponsor has stated that plan termination is likely; the plan sponsor has received a going concern opinion from its independent auditors; or the plan sponsor is in default under existing credit agreement(s).

In addition, a reserve for 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 listed on the contingency list, with plan funding ratios less than or equal to 80%, with aggregate underfunding equal to or greater than \$50 million into risk bands that reflect their level of credit risk. A reserve for small unidentified probable losses and incurred but not reported (IBNR) claims is also recorded based on an actuarial loss development methodology (triangulation method) (see Note 4).

- (5) The PBGC identifies certain plans as high risk if the plan sponsor is in Chapter 11 proceedings or sponsor's unsecured debt is rated CCC+/Caa1 or lower by S&P or Moody's respectively. The PBGC specifically reviews each plan identified as high risk and classifies those plans as probable if, based on available evidence, the PBGC concludes that plan termination is likely. Otherwise, high risk plans are classified as reasonably possible.
- (6) In accordance with Statement of Financial Accounting Standards No. 5 ("Accounting for Contingencies"), the PBGC's exposure to losses from plans of companies that are classified as reasonably possible is disclosed in footnotes. In order for a plan sponsor to be specifically classified as reasonably possible, it must first have \$5 million or more of underfunding, as well as meet additional criteria. Criteria used for classifying a company as reasonably possible include, but are not limited to, one or more of the following conditions: the plan sponsor is in Chapter 11 reorganization; funding waiver pending or outstanding with the Internal Revenue Service (IRS); sponsor missed minimum funding contribution; sponsor's bond rating is below-investment-grade for Standard & Poor's (BB+) or Moody's (Ba1); sponsor has no bond rating but unsecured debt is below investment grade; or sponsor has no bond rating but the ratio of long-term debt plus unfunded benefit liability to market value of shares is 1.5 or greater (see Note 7).

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

The present value of nonrecoverable future financial assistance represents the estimated nonrecoverable payments to be provided by the PBGC in the future to multiemployer plans that will not be able to meet their benefit obligations. The present value of nonrecoverable future financial assistance is based on the difference between the present value of future guaranteed benefits and expenses and the market value of plan assets, including the present value of future amounts expected to be paid by employers, for those plans that are expected to require future assistance. The amount reflects the rates at which, in the opinion of management, these liabilities (net of expenses) could be settled in the market for single-premium nonparticipating group annuities issued by private insurers (see Note 5).

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

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

LOSSES FROM COMPLETED AND PROBABLE TERMINATIONS: Amounts reported as losses from completed and probable terminations represent the difference as of the actual or expected date of plan termination (DOPT) between the present value of future benefits (including amounts owed under Section 4022(c) of ERISA) assumed, or expected to be assumed, by the PBGC, less related plan assets and the present value of expected recoveries from sponsors and members of their controlled group (see Note 10). When a plan terminates, the previously recorded probable Net claim is reversed and newly estimated DOPT plan assets, recoveries and PVFB are netted and reported on the line PVFB - Plans pending termination and trusteeship (this value is usually different from the amount previously reported), with any change in the estimate being recorded in the Statements of Operations and Changes in Net Position. In addition, the plan's net income from date of plan termination to the beginning of the PBGC's fiscal year is included as a component of losses from completed and probable terminations for plans with termination dates prior to the year in which they were added to the PBGC's inventory of terminated plans.

ACTUARIAL ADJUSTMENTS AND CHARGES (CREDITS): The PBGC classifies actuarial adjustments related to changes in method and the effect of experience as underwriting activity; actuarial adjustments are the result of the movement of plans from one valuation methodology to another, e.g., nonseriatim (calculating the liability for the group) to seriatim (calculating separate liability for each person), and of new data (e.g., deaths, revised participant data). Actuarial charges (credits) related to changes in interest rates and passage of time 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: The PBGC calculates depreciation on the straight-line basis over estimated useful lives of 5 years for equipment and 10 years for furniture and fixtures. The PBGC calculates amortization for capitalized software, which includes certain costs incurred for purchasing and developing software for internal use, on the straight-line basis over estimated useful lives not to exceed 5 years, commencing on the date that the Corporation determines that the internal-use software is implemented. Routine maintenance and leasehold improvements (the amounts of which are not material) are charged to operations as incurred.



Note 3—Investments

Premium receipts are invested through the revolving fund in U.S. Treasury securities. The trust funds include assets the PBGC assumes or expects to assume with respect to terminated plans (e.g., recoveries from sponsors) and investment income thereon. These assets generally are held by custodian banks. The basis and market value of the investments by type are detailed below as well as related investment profile data. The basis indicated is cost of the asset if assumed after the date of plan termination or the market value at date of plan termination if the asset was assumed as a result of a plan's termination. The PBGC marks the plan's assets to market and any increase or decrease in the market value of a plan's assets occurring after the date on which the plan is terminated must, by law, be credited to or suffered by the PBGC. For the PBGC's securities, unrealized holding gains and losses are both recognized by including them in earnings. Unrealized holding gains and losses measure the total change in fair value—consisting of unpaid interest income earned or unpaid accrued dividend and the remaining change in fair value from holding the security. As the table below illustrates, the market value of investments of the single-employer program increased significantly from September 30, 2005, to September 30, 2006.

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

<i>(Dollars in millions)</i>	September 30, 2006		September 30, 2005	
	Basis	Market Value	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	\$20,195	\$19,838	\$21,562	\$21,417
Commercial paper	1,591	1,591	336	336
Asset backed securities	3,714	3,692	3,286	3,265
Corporate and other bonds	10,516	10,382	8,194	8,142
Subtotal	36,016	35,503	33,378	33,160
Equity securities	9,127	13,730	8,565	12,284
Real estate and real estate investment trusts	6	4	33	29
Insurance contracts and other investments	12	1	32	25
Total *	\$45,161	\$49,238	\$42,008	\$45,498

* This includes securities on loan at September 30, 2006, and September 30, 2005, with a market value of \$6.352 billion and \$6.769 billion, respectively.

INVESTMENTS OF MULTIEMPLOYER REVOLVING FUNDS AND MULTIEMPLOYER TRUSTEED PLANS

<i>(Dollars in millions)</i>	September 30, 2006		September 30, 2005	
	Basis	Market Value	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	\$1,191	\$1,159	\$1,151	\$1,134
Equity securities	0	0	0	0
Total	\$1,191	\$1,159	\$1,151	\$1,134

INVESTMENT PROFILE

	September 30, 2006	September 30, 2005
Fixed Income Assets		
Average Quality	AA	AAA
Average Maturity (years)	18.6	16.6
Duration (years)	13.9	10.4
Yield to Maturity (%)	5.3	4.8
Equity Assets		
Average Price/Earnings Ratio	18.7	20.2
Dividend Yield (%)	1.7	1.6
Beta	1.02	1.03

In addition, the PBGC's trustee liability return was 9.0% and the duration (years) of these liabilities was 9.95 at the end of 2006.

DERIVATIVE INSTRUMENTS: 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. These instruments are used to mitigate risk and/or enhance the PBGC's investment returns. The standard requires disclosure of fair value of these instruments. During fiscal years 2005 and 2006, the PBGC invested in investment products that used various U.S. and non-U.S. derivative instruments including but not limited to: money market and government bond futures and forward 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 counterparty risk. The counterparties to the PBGC's non-exchange-traded derivative contracts are major financial institutions. The PBGC monitors its counterparty risk and has never experienced non-performance by any of its counterparties.

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. Futures contracts are held 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, the PBGC maintains adequate liquidity in its portfolio to meet these margin calls.

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. The PBGC uses swap and swaption contracts to adjust exposure to interest rates, fixed income securities exposure and credit 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 the PBGC to purchase securities at a stipulated price within a specified time limit. For the fiscal years ended September 30, 2005 and 2006, respectively, gains and losses from settled margin calls are reported in Investment income on the Statements of Operations and Changes in Net Position.

The following table summarizes the notional amounts and fair market values of derivative financial instruments held or issued for trading as of September 30, 2006, and September 30, 2005.

Interest Rate Contracts (IRC)	September 30, 2006		September 30, 2005	
	Notional	FMV	Notional	FMV
<i>(Dollars in millions)</i>				
Forwards	\$ 685	\$ 2	\$ 149	\$ 0
Futures	10,910	(6)	5,098	6
Contracts in a receivable position	2,940	0	1,645	15
Contracts in a payable position	7,970	(6)	3,453	(9)
Swap agreements	5,440	(11)	4,385	38
Options purchased (long)	110	17	2	0
Options written (sold short)	651	(19)	80	0
Foreign Exchange Contracts (FEC)				
<i>(Dollars in millions)</i>				
Forwards	\$ 1,767	\$ 1	\$1,129	\$(3)

SECURITY LENDING: The 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 the PBGC's investment managers are authorized to invest in repurchase agreements and reverse repurchase agreements. The manager either receives cash as collateral or pays cash out to be used as collateral. Any cash collateral received is invested. The total value of securities on loan at September 30, 2006, and September 30, 2005, was \$6.352 billion and \$6.769 billion, respectively. Although securities on loan have decreased slightly since September 30, 2005, there continues to be an ongoing demand for fixed income securities to lend.

The amount of cash collateral received for these loaned securities was \$6.491 billion at September 30, 2006, and \$6.939 billion at September 30, 2005. These amounts are recorded in cash and are offset with a corresponding liability. The PBGC had earned income from securities lending of \$5.2 million as of September 30, 2006, and \$4.0 million as of September 30, 2005.

Of the \$6.352 billion market value of securities on loan at September 30, 2006, approximately 88% are invested in U.S. government securities and 9% in U.S. corporate securities. The PBGC had approximately \$16.588 billion of securities available for securities lending at September 30, 2006.



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, 2006 and 2005.

For FY 2006, the PBGC used a 25-year select interest factor of 4.85% followed by an ultimate factor of 4.82% for the remaining years. For FY 2005, the PBGC used a 25-year select interest factor of 5.2% 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). Both the interest factor and the length of the select period may vary to produce the best fit with these prices. The prices reflect rates at which, in the opinion of management, the liabilities (net of administrative expenses) could be settled in the market at September 30, for the respective year, for single-premium nonparticipating group annuities issued by private insurers. Many factors, including Federal Reserve policy, changing expectations about longevity risk, and competitive market conditions may affect these rates.

For FY 2005, the surveys of annuity prices were used in conjunction with a Moody's bond index, averaged over the last five days of each month. For FY 2006, a Lehman's bond index is used instead; this index is as of only the last day of the month, and is applied to both the select and ultimate factors instead of the select factor only as had been prior practice. Finally, interest factors for FY 2006 are now rounded to two decimal places instead of one so as to be able to state to the level of a single basis point. For FY 2005 and prior years, the select factor was rounded to ten basis points, and the ultimate factor was rounded to 25 basis points.

For September 30, 2006, the PBGC used the 1994 Group Annuity Mortality (GAM) 94 Static Table (with margins), set forward one year and projected 22 years to 2016 using Scale AA, the same as the table used in the September 30, 2005, valuation. The number of years that

the PBGC projects the mortality table reflects the number of years from the 1994 base year of the table to the end of the fiscal year (12 years in 2006 versus 11 years in 2005) plus the PBGC's calculated duration of its liabilities (10 years in 2006 versus 11 years in 2005). The PBGC's procedure is based on the procedures recommended by the Society of Actuaries UP-94 Task Force (which developed the GAM94 table) for taking into account future mortality improvements.

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

The reserve for administrative expenses in the 2006 and 2005 valuations were 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 the 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 trustee multiemployer plans for 2006 and 2005 reflect the payment of assistance and the changes in interest and mortality assumptions, the passage of time and the effect of experience.

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

RECONCILIATION OF THE PRESENT VALUE OF FUTURE BENEFITS FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

<i>(Dollars in millions)</i>	2006	September 30, 2005
Present value of future benefits, at beginning of year—Single-Employer, net	\$ 69,737	\$ 60,836
Estimated recoveries, prior year	343	364
Assets of terminated plans pending trusteeship, net, prior year	3,039	678
Present value of future benefits at beginning of year, gross	73,119	61,878
Settlements and judgments, prior year	(58)	(65)
Net claims for probable terminations, prior year	(10,470)	(16,926)
Actuarial adjustments—underwriting:		
Changes in method and assumptions	\$ (609)	\$ 17
Effect of experience	185	203
Total actuarial adjustments—underwriting	(424)	220
Actuarial charges—financial:		
Passage of time	3,206	2,618
Change in interest rates	2,307	(2,348)
Total actuarial charges—financial	5,243	270
Total actuarial charges, current year	4,819	490
Terminations:		
Current year	1,112	21,191
Changes in prior year	130	(292)
Total terminations	1,242	20,899
Benefit payments, current year*	(4,082)	(3,685)
Estimated recoveries, current year	(62)	(343)
Assets of terminated plans pending trusteeship, net, current year	(282)	(3,039)
Settlements and judgments, current year	55	58
Net claims for probable terminations:		
Future benefits**	17,430	23,918
Estimated plan assets and recoveries from sponsors	(12,568)	(13,448)
Total net claims, current year	4,862	10,470
Present value of future benefits, at end of year—Single-Employer, net	69,143	69,737
Present value of future benefits, at end of year—Multiemployer	2	2
Total present value of future benefits, at end of year, net	\$ 69,145	\$ 69,739

* The benefit payments of \$4,082 million and \$3,685 million include \$76 million in 2006 and \$384 million in 2005 for benefits paid from plan assets by plans prior to trusteeship.

** The future benefits for probable terminations of \$17,430 million and \$23,918 million for fiscal years 2006 and 2005, respectively, include \$87 million and \$137 million, respectively, in net claims (future benefits less estimated plan assets and recoveries) for probable terminations not specifically identified and \$17,343 million and \$23,781 million, respectively, in net claims for specifically identified probables.



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

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

<i>(Dollars in millions)</i>	September 30, 2006		September 30, 2005	
	Basis	Market Value	Basis	Market Value
Corporate and other bonds	\$107	\$113	\$1,043	\$1,053
Equity securities	117	156	1,968	1,992
Insurance contracts	4	4	2	2
Other	9	9	(7)	(8)
Total, net	\$237	\$282	\$3,006	\$3,039

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

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

RECONCILIATION OF NET CLAIMS FOR PROBABLE TERMINATIONS

<i>(Dollars in millions)</i>	2006	September 30, 2005
Net claims for probable terminations, at beginning of year	\$10,470	\$16,926
New claims	\$ 3,063	\$ 4,738
Actual terminations	(288)	(10,637)
Deleted probables	(8,035)	(83)
Change in benefit liabilities	(867)	(205)
Change in plan assets	519	(269)
Loss (credit) on probables	(5,608)	(6,456)
Net claims for probable terminations, at end of year	\$ 4,862	\$10,470

The following table itemizes the probable exposure by industry:

PROBABLES EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

<i>(Dollars in millions)</i>	FY 2006	FY 2005
Manufacturing	\$3,318	\$ 612
Transportation, Communication and Utilities	1,279	9,570
Services/Other	197	233
Agriculture, Mining, and Construction	41	37
Finance, Insurance, and Real Estate	20	-
Wholesale and Retail Trade	7	18
Total	\$4,862	\$10,470

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

The following table shows what has happened to plans classified as probables. This table does not capture or include those plans that were not previously classified as probable before they terminated. This table incorporates the impact of the PPA legislation which was an unpredictable factor impacting the PBGC's ability to predict probables as terminations.

PROBABLES EXPERIENCE – Actual

As Initially Recorded Beginning in 1987

<i>(Dollars in millions)</i>	Status of Probables from 1987 - 2005 at September 30, 2006			
	Number of Plans	Percent of Plans	Net Claim	Percent of Net Claim
Beginning in 1987, number of plans reported as Probable:				
Probables terminated	290	76%	\$22,057	66%
Probables not yet terminated or deleted	15	4	2,004	6
Probables deleted*	77	20	9,344	28
Total	382	100%	\$33,405	100%

* "Probables deleted" in the above table includes 5 plans deleted due to airline relief provisions pursuant to PPA, causing the percent of plans to increase from 19% to 20% and the percent of net claims to increase from 3% to 28%.

Note 5—Multiemployer Financial Assistance

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

NOTES RECEIVABLE MULTIEMPLOYER FINANCIAL ASSISTANCE

<i>(Dollars in millions)</i>	September 30,	
	2006	2005
Gross balance at beginning of year	\$ 85	\$ 71
Financial assistance payments—current year	70	14
Subtotal	155	85
Allowance for uncollectible amounts	(155)	(85)
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

<i>(Dollars in millions)</i>	September 30,	
	2006	2005
Balance at beginning of year	\$1,485	\$1,295
Changes in allowance:		
Losses from financial assistance	461	204
Financial assistance granted (previously accrued)	(70)	(14)
Balance at end of year	\$1,876	\$1,485

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

<i>(Dollars in millions)</i>	September 30,	
	2006	2005
Annual leave	\$ 5	\$ 5
Other payables and accrued expenses	88	65
Accounts payable and accrued expenses	\$93	\$70

Note 7—Contingencies

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

In accordance with Statement of Financial Accounting Standards No. 5, the PBGC classified a number of these companies as reasonably possible terminations as the sponsors' financial condition and other factors did not indicate that termination of their plans was likely as of year-end. The best estimate of aggregate unfunded vested benefits exposure to the PBGC for the companies' single-employer plans classified as reasonably possible as of September 30, 2006, was \$73 billion. The drop from \$108 billion in FY 2005 to \$73 billion in FY 2006 is primarily attributable to a net reduction in the unfunded vested benefit liabilities of the plans whose sponsors remained at risk.

The estimated unfunded vested benefits exposure has been calculated as of December 31, 2005, and is not based on the PBGC guaranteed levels. The PBGC calculated this estimate as in previous years by using data obtained from filings and submissions to the government and from corporate annual reports for fiscal years ending in calendar 2005. The Corporation adjusted the value reported for liabilities to a December 31, 2005, PBGC select rate of 4.5% that was derived using 83 GAM mortality. When available, data were adjusted to a consistent set of mortality assumptions. The underfunding associated with these plans would generally tend to be greater at September 30, 2006, because of the economic conditions that existed between December 31, 2005, and September 30, 2006. During this nine month period, the PBGC estimates that the aggregate Unfunded Vested Benefits increased approximately within a range of 15% to 25%. The Corporation did not adjust the estimate for events that occurred between December 31, 2005, and September 30, 2006.

The following table itemizes the reasonably possible exposure by industry:

REASONABLY POSSIBLE EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

<i>(Dollars in millions)</i>	FY 2006	FY 2005
Manufacturing	\$37,634	\$ 71,332
Transportation, Communication and Utilities	20,509	17,567
Services/Other	6,969	8,623
Wholesale and Retail Trade	6,096	7,296
Agriculture, Mining and Construction	1,220	1,731
Finance, Insurance, and Real Estate	857	1,490
Total	\$73,285	\$108,039



The PBGC included amounts in the liability for the present value of nonrecoverable future financial assistance (see Note 5) for multiemployer plans that the PBGC estimated may require future financial assistance. In addition, the PBGC currently estimates that it is reasonably possible that other multiemployer plans may require future financial assistance in the amount of \$83 million.

The Corporation calculated the future financial assistance liability for each multiemployer plan identified as probable (see Note 5), or reasonably possible as the present value of guaranteed future benefit and expense payments net of any future contributions or withdrawal liability payments as of the later of September 30, 2006, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2006. The Corporation's identification of plans that are likely to require such assistance and estimation of related amounts required consideration of many complex factors, such as an estimate of future cash flows, future mortality rates, and age of participants not in pay status. These factors are affected by future events, including actions by plans and their sponsors, most of which are beyond the Corporation's control.

The PBGC used select and ultimate interest rate assumptions of 4.85% for the first 25 years after the valuation date and 4.82% thereafter. The Corporation also used the 1994 Group Annuity Mortality Static Table (with margins), set forward one year, projected 22 years to 2016 using Scale AA.

Note 8—Commitments

The PBGC leases its office facility under a new commitment that began on January 1, 2005, and expires December 10, 2018. The new lease agreement was entered into because of the need for additional office space. This lease provides for periodic rate increases based on increases in operating costs and real estate taxes over a base amount. In addition, the PBGC is leasing space for field benefit administrators. These leases began in 1996 and expire in 2013. The minimum future lease payments for office facilities having noncancellable terms in excess of one year as of September 30, 2006, are as follows:

COMMITMENTS: FUTURE LEASE PAYMENTS

(Dollars in millions)

Years Ending September 30,	Operating Leases
2007	\$ 19.4
2008	19.0
2009	18.3
2010	18.1
2011	19.2
Thereafter	145.9
Minimum lease payments	\$239.9

Lease expenses were \$18.7 million in 2006 and \$18.0 million in 2005.

Note 9—Premiums

For both the single-employer and multiemployer programs, ERISA provides that the PBGC shall continue to guarantee basic benefits despite the failure of a plan administrator to pay premiums when due. The PBGC assesses interest and penalties on the unpaid portion of or underpayment of premiums. Interest continues to accrue until the premium and the interest due are paid. Due to the enactment of the Deficit Reduction Act of 2005, flat-rate premiums for single-employer pension plans increased from \$19 to \$30 per participant and the multiemployer plans yearly premium increased from \$2.60 to \$8 per participant. The new rates are effective for plan year 2006, and will be indexed for wage inflation beginning in plan year 2007. The PBGC recorded premium income, excluding interest and penalty, of approximately \$941 million in flat-rate premiums and \$550 million in variable-rate premiums for fiscal year 2006, and approximately \$670 million in flat-rate premiums and \$787 million in variable-rate premiums for fiscal year 2005.

Since premium income for FY 2006 primarily consists of plan year 2006 and 2005 premiums, and revenue recognition accounting principles require partial recognition of plan year 2006 premiums as of September 30, 2006, the 2006 increase in flat-rate premium income represents approximately 65% of the full impact to the plan year 2006 flat-rate premiums due for all plans.

Note 10—Losses from Completed and Probable Terminations

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

LOSSES FROM COMPLETED AND PROBABLE TERMINATIONS—SINGLE-EMPLOYER PROGRAM

(Dollars in millions)	2006			2005		
	New Terminations	Changes in Prior Year Terminations	Total	New Terminations	Changes in Prior Year Terminations	Total
Present value of future benefits	\$1,112	\$ 130	\$ 1,242	\$ 21,191	\$ (292)	\$20,899
Less plan assets	582	1,370	1,952	10,516	0	10,516
Plan asset insufficiency	530	(1,240)	(710)	10,675	(292)	10,383
Less estimated recoveries	3	(165)	(162)	9	(37)	(28)
Subtotal terminated plans	527*	(1,075)	(548)	10,666*	(255)	10,411
Settlements and judgments		1	1		(1)	(1)
Loss (credit) on probables	(288)	(5,320)	(5,608)**	(10,637)	4,181	(6,456)**
Total	\$ 239	\$(6,394)	\$(6,155)	\$ 29	\$3,925	\$ 3,954

* Gross amounts for plans terminated during the year

** See Note 4 - includes \$288 million at September 30, 2006, and \$10,637 million at September 30, 2005, previously recorded relating to plans that terminated during the period

Note 11—Financial Income

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

INVESTMENT INCOME—SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS

(Dollars in millions)	Single-Employer Program	Multiemployer Program	Memorandum Total	Single-Employer Program	Multiemployer Program	Memorandum Total
	Sept. 30, 2006	Sept. 30, 2006	Sept. 30, 2006	Sept. 30, 2005	Sept. 30, 2005	Sept. 30, 2005
Fixed income securities:						
Interest earned	\$1,756	\$ 56	\$1,812	\$1,270	\$ 53	\$1,323
Realized gain (loss)	(815)	(44)	(859)	1,361	82	1,443
Unrealized loss	(547)	(13)	(560)	(876)	(56)	(932)
Total fixed income securities	394	(1)	393	1,755	79	1,834
Equity securities:						
Dividends earned	89	0	89	81	0	81
Realized gain	522	0	522	1,540	0	1,540
Unrealized gain	1,182	0	1,182	493	0	493
Total equity securities	1,793	0	1,793	2,114	0	2,114
Other income	(3)	0	(3)	28	0	28
Total investment income (loss)	\$2,184	\$ (1)	\$2,183	\$3,897	\$ 79	\$3,976



Note 12—Employee Benefit Plans

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

The Corporation's contribution to the CSRS plan for both 2006 and 2005 was 7.0 percent of base pay for those employees covered by that system. For those employees covered by FERS, the Corporation's contribution was 10.7 percent of base pay for both 2006 and 2005. In addition, for FERS-covered employees, the PBGC automatically contributes one percent of base pay to the employee's Thrift Savings account, matches the first three percent contributed by the employee and matches one-half of the next two percent contributed by the employee. Total retirement plan expenses amounted to \$13 million in 2006 and \$11 million in 2005.

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

Note 13—Cash Flows

The following two tables, one for Sales and one for Purchases, provide further details on cash flows from investment activity. Sales and purchases of investments are driven by the level of newly trustee plans, the unique investment strategies implemented by the PBGC's investment managers, and the varying capital market conditions in which they invest during the year. Several investment strategies in use in 2006 involved higher volume short term investments, particularly in the fixed income area, as shown in the Investing Activities table below. These cash flow numbers can vary significantly from year to year based on the fluctuation in these three variables.

INVESTING ACTIVITIES

<i>(Dollars in millions)</i>	September 30,	
	2006	2005
Proceeds from sales of investments:		
Fixed maturity securities	\$ 84,901	\$ 125,646
Equity securities	2,622	8,515
Other/uncategorized	4,857	2,395
Total	\$ 92,380	\$ 136,556
Payments for purchases of investments:		
Fixed maturity securities	\$(88,655)	\$(139,681)
Equity securities	(2,942)	(7,022)
Other/uncategorized	(653)	5,156
Total	\$(92,250)	\$(141,547)

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

RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

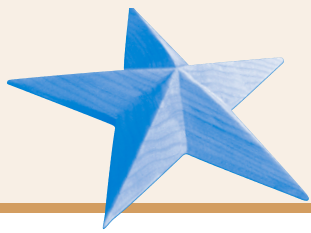
<i>(Dollars in millions)</i>	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
	2006	2005	2006	2005	2006	2005
Net income (loss)	\$ 4,634	\$ 529	\$(404)	\$(99)	\$ 4,230	\$ 430
Adjustments to reconcile net income to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	(350)	(2,481)	61	(26)	(289)	(2,507)
Net gain of plans pending termination and trusteeship	19	46	0	0	19	46
Losses on completed and probable terminations	(6,155)	3,954	0	0	(6,155)	3,954
Actuarial charges	4,819	490	0	0	4,819	490
Benefit payments—trusteed plans	(4,006)	(3,301)	0	(1)	(4,006)	(3,302)
Settlements and judgments	(3)	(5)	0	0	(3)	(5)
Cash received from plans upon trusteeship	75	218	0	0	75	218
Receipts from sponsors/non-sponsors	886	216	0	0	886	216
Amortization of discounts/premiums	(319)	128	(28)	11	(347)	139
Changes in assets and liabilities, net of effects of trustee and pending plans:						
Decrease in receivables	150	31	11	0	161	31
Increase in present value of nonrecoverable future financial assistance			391	190	391	190
Increase (decrease) in unearned premiums	88	(13)	19	0	107	(13)
Increase (decrease) in accounts payable	23	(1)	0	0	23	(1)
Net cash provided (used) by operating activities	\$ (139)	\$ (189)	\$ 50	\$ 75	\$ (89)	\$ (114)

Note 14—Litigation

The PBGC was involved in numerous litigation matters in 2006. At the end of the fiscal year, the PBGC had 487 open, active bankruptcy cases and 64 active litigation matters (other than in bankruptcy court). The PBGC records as a liability on its financial statements an estimated cost for unresolved litigation to the extent that losses in such cases are probable and estimable in amount. At September 30, 2006, the PBGC estimated that possible losses of up to \$269.2 million could be incurred in the event that the PBGC does not prevail in these matters. In October 2006, the PBGC received a favorable decision in one of these litigation matters in the amount of \$84.2 million. These possible losses are not recognized in the financial statements.

Note 15—Subsequent Events

For the year ended September 30, 2006, there were no subsequent events to report on either the single-employer or multiemployer program.



Actuarial Valuation

The 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 2005.

PRESENT VALUE OF FUTURE BENEFITS AND NONRECOVERABLE FINANCIAL ASSISTANCE - 2006

	Number of Plans	Number of Participants <i>(in thousands)</i>	Liability <i>(in millions)</i>
I. SINGLE-EMPLOYER PROGRAM			
A. Terminated plans			
1. Seriatim at fiscal year-end (FYE)	3,300	540	\$20,598
2. Seriatim at DOPT, adjusted to FYE	53	106	7,433
3. Nonseriatim ¹	320	496	36,549
4. Rettig Settlement (seriatim) ²		*	1
5. Missing Participants Program (seriatim) ³		19	44
Subtotal	3,673	1,161	64,625
B. Probable terminations (nonseriatim) ⁴	27	128	17,430
Total ⁵	3,700	1,289	\$82,055
II. MULTIEMPLOYER PROGRAM			
A. Pre-MPPAA terminations (seriatim)	10	*	\$ 2
B. Post-MPPAA liability (net of plan assets)	85	110	1,876
Total	95	110	\$ 1,878

* Fewer than 500 participants

Notes:

- 1) The liability for terminated plans has been increased by \$55 million for settlements.
- 2) The Rettig Settlement refers to the liability that the PBGC incurred due to the settlement of a class action lawsuit that increased benefits for some participants and provided new benefits to others. The remaining participants not yet paid are valued seriatim.
- 3) The Missing Participants Program refers to a liability that the PBGC assumed for unlocated participants in standard plan terminations.
- 4) The net claims for probable plans reported in the financial statements include \$87 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 \$12,568 million. Thus, the net claims for probable terminations as reported in the financial statements are \$17,430 million less \$12,568 million, or \$4,862 million.
- 5) The PVFB in the financial statements (\$69,143 million) is net of estimated plan assets and recoveries on probable terminations (\$12,568 million), estimated recoveries on terminated plans (\$62 million), and estimated assets for plans pending trusteeship (\$282 million), or, \$82,055 million less \$12,568 million less \$62 million less \$282 million = \$69,143 million.

Single-Employer Program

The PBGC calculated the single-employer program's liability for benefits in the terminated plans and probable terminations, as defined in Note 2 to the financial statements, using a combination of two methods: seriatim and nonseriatim. For 3,300 plans, representing about 90% of the total number of single-employer terminated plans (47% of the total participants in single-employer terminated plans), the PBGC had sufficiently accurate data to calculate the liability separately for each participant's benefit—the seriatim method. This was an increase of 191 plans over the 3,109 plans valued seriatim last year. For 53 plans whose data were not yet fully automated, the PBGC calculated the benefits and liability seriatim as of the date of plan termination (DOPT) and brought the total amounts forward to the end of fiscal year 2006.

For 320 other terminated plans, the PBGC did not have sufficiently accurate or complete data to value individual benefits. Instead, the Corporation used a “nonseriatim” method that brought the liabilities from the plan's most recent actuarial valuation forward to the end of fiscal year 2006 using certain assumptions and adjustment factors.

For the actuarial valuation, the PBGC used a select and ultimate interest rate assumption of 4.85% for the first 25 years after the valuation date and 4.82% thereafter. The mortality table used for valuing healthy lives was the 1994 Group Annuity Mortality Static Table (with margins), set forward one year, projected 22 years to 2016 using Scale AA, the same as the table used in the September 30, 2005, 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. The PBGC assumed an explicit loading for expenses in all terminated plans and single-employer probable terminations. The reserve for expenses in the 2006 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, the PBGC used expected retirement ages, as explained in subpart B of the Allocation of Assets in Single-Employer Plans regulation. The PBGC assumed that participants who had attained their expected retirement age were in pay status. In seriatim plans, for participants who were older than their plan's normal retirement age, were not in pay status, and were unlocated at the valuation date, the PBGC reduced the value of their future benefits to zero over the three years succeeding normal retirement age to reflect the lower likelihood of payment.

Multiemployer Program

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

The PBGC based its valuation of the post-MPPAA liability for nonrecoverable future financial assistance on the most recent available actuarial reports, Form 5500 Schedule B's, and information provided by representatives of the affected plans. The Corporation expected 85 plans to need financial assistance because severe industrial declines have left them with inadequate contribution bases and they had insufficient assets for current payments or were expected to run out of assets in the foreseeable future.

Statement of Actuarial Opinion

This valuation has been prepared in accordance with generally accepted actuarial principles and practices and, to the best of my knowledge, fairly reflects the actuarial present value of the Corporation's liabilities for the single-employer and multiemployer plan insurance programs as of September 30, 2006.

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

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



Joan M. Weiss, FSA, EA
Chief Valuation Actuary, PBGC
Member, American Academy of Actuaries

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



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

To the Board of Directors
Pension Benefit Guaranty Corporation

We contracted with Clifton Gunderson LLP, an independent certified public accounting firm, to audit the financial statements of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) as of and for the years ended September 30, 2006 and 2005. The audits were 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, OMB's Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*, and the *GAO/PCIE Financial Audit Manual*.

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

- The financial statements were presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- PBGC's assertion about internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations, as of September 30, 2006, is fairly stated in all material respects. However, four reportable conditions were repeated from Fiscal Year 2005 regarding the lack of integrated financial management systems, improvements needed in PBGC's information security program, weaknesses related to single-employer premiums, and PBGC's need to strengthen its preparedness for unanticipated incidences and disruptions;
- No instances of noncompliance with tested laws and regulations.

Clifton Gunderson is responsible for the accompanying auditor's report dated November 9, 2006, and the conclusions expressed in the report. We do not express opinions on PBGC's financial statements or internal control, nor do we draw conclusions on compliance with laws and regulations.

Clifton Gunderson's reports (2007-1/FA-0024-1) are also available on our website at <http://oig.pbgc.gov>.

Sincerely,

Robert L. Emmons
Inspector General

November 9, 2006



Independent Auditor's Report

To the Inspector General of the
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, 2006 and 2005, and the related statements of operations and changes in net position and 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; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. 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 as of September 30, 2006 and 2005, 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 must be self-sustaining. As of September 30, 2006, PBGC reported in its financial statements net deficit positions (liabilities in excess of assets) in the Single-Employer and Multiemployer Program Funds of \$18,142 million and \$739 million, respectively. As discussed in Note 7 to the financial

Centerpark I
4041 Powder Mill Road, Suite 410
Calverton, Maryland 20705-3106
tel: 301-931-2050
fax: 301-931-1710

www.cliftoncpa.com

Offices in 15 states and Washington, DC





statements, losses as of September 30, 2006 for the Single-Employer and Multiemployer Programs that are reasonably possible as a result of unfunded vested benefits are estimated to be \$73,000 million and \$83 million, respectively. The PBGC's net deficit, and long-term viability, could be further impacted by losses from plans classified as reasonably possible (or from other plans not yet identified as potential losses) as a result of deteriorating economic conditions, the insolvency of a large plan sponsor or other factors. PBGC has been able to meet their short-term benefit obligations. However, as discussed in Note 1 to the financial statements, management believes that neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 9, 2006 on our consideration of PBGC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Clifton Henderson LLP

Calverton, Maryland
November 9, 2006



Independent Auditor's Report on Internal Control

To the Inspector General of the
Pension Benefit Guaranty Corporation

We have examined management's assertion included in the accompanying Annual Management Report, that the Pension Benefit Guaranty Corporation (PBGC) maintained effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations as of September 30, 2006, based on the criteria contained in the Federal Managers' Financial Integrity Act of 1982 (FMFIA) (31 U.S.C. 3512). PBGC's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*, and, accordingly, included obtaining an understanding of the internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in any internal control, misstatements due to error, fraud, losses, or noncompliance may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that PBGC maintained effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations as of September 30, 2006 is fairly stated, in all material respects, based on criteria contained in FMFIA.

Centerpark I
4041 Powder Mill Road, Suite 410
Calverton, Maryland 20705-3106
tel: 301-931-2050
fax: 301-931-1710

www.cliftoncpa.com

Offices in 15 states and Washington, DC





However, we noted certain matters involving the internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations that, in our judgment, could adversely affect PBGC's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions we noted are as follows:

1. PBGC needs to integrate its financial management systems (Repeat Condition).
2. PBGC needs to complete its efforts to fully implement and enforce an effective information security program (Repeat Condition).
3. PBGC needs to improve controls related to single-employer premiums (Repeat Condition).
4. PBGC needs to strengthen its preparedness for unanticipated incidences and disruptions (Repeat Condition).

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe that none of the reportable conditions described in this report are material weaknesses.

REPORTABLE CONDITIONS

1. PBGC Needs to Integrate Its Financial Management Systems (Repeat Condition)

A lack of integration of PBGC's significant financial management systems was identified in prior year audits. These systems include: Financial Reporting System (FRS), Performance Accounting (PA) System, Trust Accounting System (TAS), Participant Records Information System Management (PRISM), Premium Accounting System (PAS), Integrated Present Value of Future Benefits (IPVFB), and Pension and Lump Sum System (PLUS).

OMB Circular A-127, *Financial Management System*, requires that financial management systems should be designed to provide for effective and efficient interrelationships between systems. This Circular states the following:

“The term "single, integrated financial management system" means a unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls and data necessary to carry out financial management functions, manage financial operations of the

agency and report on the agency's financial status to central agencies, Congress and the public. Unified means that the systems are planned for and managed together, operated in an integrated fashion, and linked together electronically in an efficient and effective manner to provide agency-wide financial system support necessary to carry out the agency's mission and support the agency's financial management needs.”

OMB's Office of Federal Financial Management's (OFFM – formerly the Joint Financial Management Improvement Program – JFMIP) *Core Financial System Requirements* document, lists the following integrated financial management system attributes:

- ❑ Standard data classifications (definition and formats) established and used for recording financial events.
- ❑ Common processes used for processing similar kinds of transactions.
- ❑ Internal controls over data entry, transaction processing, and reporting applied consistently.
- ❑ A system design that eliminates unnecessary duplication of transaction entry.

PBGC has manual controls related to its significant financial management systems and is making progress to further improve data integrity controls and promote further integration of systems, as evidenced by the following:

- ❑ The system interface controls, used to reconcile data transmitted to and from the three general ledger applications, TAS, PA, and FRS, appear to be operating effectively.
- ❑ The manual interface controls, used to reconcile data between IPVFB and FRS, appear to be operating effectively.

Additionally, management stated that:

- ❑ PBGC performed testing of its commercially based general ledger system, Consolidated Financial System (CFS), which integrates the three previously separate ledger systems (TAS, PA and FRS), and incorporates full budget execution and administrative payment processes. This Oracle Enterprise Resources Planning software system allows organizations to be compliant with OFFM's *Core Financial System Requirements*. PBGC will make CFS its system of record, effective October 1, 2006.
- ❑ PBGC also integrated the design of its premium system upgrade, Premium Payment System (PPS), into the design of CFS. During FY 2006 a contract was awarded for the design and implementation of that critical element as a sub-ledger with an anticipated completion date of October 2007.

Despite the above, we believe more needs to be done to integrate PBGC's existing significant financial management systems. We identified the following factors relevant to the integration of systems:



Lack of standard data classifications and common data elements:

- PBGC management has indicated that a logical database model is being developed. Therefore, no centralized data catalog defining data elements or data access method was available for current databases.
- The current decentralized database structure may lead to erroneous financial and participant data. For example, the same data elements are required to be reformatted or are used for different purposes across PBGC's various applications.
- The current decentralized database structure may lead to untimely financial or participant data. Participant data must be reformatted and distributed to multiple PBGC systems; therefore, users may be relying on outdated information to make business decisions.

Duplication of transaction entry:

- PBGC uses three general ledger systems, TAS, PA, and FRS, to track and record trust, revolving, and consolidated transactions, respectively, rather than one system to track and record all three. Therefore, manual processes and adjustments are required to synchronize the data from TAS and PA to FRS; however, it is anticipated by management that CFS will address these issues for FY 2007.
- Probable and multiemployer plan data initially entered into IPVFB must be manually re-entered into a spreadsheet and then manually entered into FRS as adjusting journal entries.
- Plan data initially entered into the Case Administration System (CAS) application must be re-entered into the TAS application's portfolio header.
- Plan contingency listings are determined using data extracted from PAS. However, plans with multiple filings must be manually aggregated before the plans can be classified.
- Plan sponsor data initially entered into PAS to process receivables must also be entered into PA to process refunds. Management stated that this has been addressed in the design of the new CFS/PPS system.

Poor data integrity:

- The data in PAS requires significant manual review and adjustment before it can be used for the purpose of reporting the premium income and receivables in PBGC's financial statements.

In the short term, PBGC's ability to accurately and efficiently accumulate and summarize information required for internal and external financial reporting may be impacted. For this reason, this issue remains a reportable condition for fiscal year (FY) 2006.

Recommendation:

We are encouraged by the improvement made and direction taken by PBGC in the areas noted above. However, we recommend that PBGC continue its efforts in this area by doing the following:

- Integrate its financial management systems, in accordance with OMB Circular A-127. **(OIG Control Number FOD-268)**

2. PBGC Needs to Complete its Efforts to Fully Implement and Enforce an Effective Information Security Program (Repeat Condition)

Improvement is needed in PBGC's enterprise-wide security management program as indicated in prior year audits. During our FY 2006 review of PBGC's existing security program, we noted that PBGC made the following progress:

- PBGC has developed and granted interim approval for its Enterprise Information Security Policy in June 2006, pending (a) review of other existing directives for possible conflict and overlaps, and (b) circulation for comments by PBGC offices. The purpose of PBGC's information security policy document is to identify and disseminate the principles and framework that guide the secure usage of information at PBGC.

Our review of PBGC's existing security program revealed continuing weaknesses in controls that expose PBGC's significant financial management systems and data to unauthorized access and/or modification. Weaknesses included the following:

- Weaknesses in PBGC's certification and accreditation (C&A) program impact the reporting of accurate and complete information required for PBGC to make credible, risk-based decisions related to production system operations. These weaknesses compromise PBGC's ability to accept and manage the risk to PBGC's operations, agency assets, and personnel. Without an effective C&A program, there will be no reasonable assurance that PBGC's information systems are able to meet both their functional requirements and provide adequate security to protect PBGC's operations, assets, and personnel. For example, PBGC had not completed effective security plans, risk assessments, and testing as part of its C&A program. The National Institute of Standards and Technology (NIST) Special Publication 800-37, *Guide for the Security Certification and Accreditation of Federal Information Systems*, provides the framework under the Federal Information Security Management Act (FISMA) of 2002, Public Law 107-347, for how PBGC's C&A program is to be implemented.
- PBGC's current information security policy and plan do not comply with standards and guidance issued by NIST in furtherance of its statutory responsibilities under FISMA. NIST has developed standards and guidelines, including minimum requirements for providing adequate information security for all agency operations and assets.



- ❑ The 2006 reorganization of the Office of Information Technology (OIT) has severely impacted the Information System Security Officer's (ISSO) ability to ensure appropriate operational security for PBGC's information system security program. The change in organizational structure further demotes the ISSO function in establishing security policies and procedures and reduces clarity on the ISSO's responsibility and accountability. The ISSO function at PBGC has not been placed organizationally in a position to effectively carry out PBGC's responsibilities under FISMA.
- ❑ OIT's process for reviewing, approving and disseminating policies and procedures needs improvement. Certain policies presented as approved referenced outdated or non-existent policies and procedures. In some cases, PBGC policies and procedures were not implemented and enforced because responsible officials were not aware of their existence.
- ❑ PBGC has not consistently deployed security configurations across its significant financial management applications and general support systems.
- ❑ PBGC has not formalized effective processes for granting, removing, and recertifying user access to significant financial management applications and general support systems.
- ❑ Application owners or administrators do not perform periodic auditing and monitoring of user access and sensitive transactions for significant financial management systems.
- ❑ OIT management's, application owners', and application administrators' duties are not clearly defined regarding user and security administration for significant financial management systems.
- ❑ PBGC has granted developers inappropriate access to the production environment.
- ❑ OIT has not developed a process that would allow the ISSO to manage and monitor the effectiveness of the entity-wide security program.

Until PBGC implements a complete and effective enterprise-wide information security program that complies with FISMA and NIST standards and guidance, its ability to mitigate and appropriately manage the risk of unauthorized access to, and/or modification or disclosure of sensitive PBGC financial information will be impaired.

Recommendations:

We recommend that PBGC management perform the following:

- ❑ Assign specific resources to 1) update the general security plan and associated security policies to reflect the current operating environment, and 2) complete the implementation of a fully functional and integrated enterprise-wide information security program, with priority given to implementation and monitoring of technical security standards. **(OIG Control Number CTO-5)**
- ❑ Develop enforcement mechanisms to ensure that all departments comply with the enterprise-wide information security program, as well as consistently enforce

policies and procedures for logical access to information resources that are based on the concepts of "least possible privilege". **(OIG Control Number CTO-6)**

- ❑ Implement an organization structure that promotes independence and reporting with regard to PBGC's information security program. **(OIG Control Number CIO-1)**
- ❑ Implement a certification and accreditation program that is in full compliance with NIST Special Publication 800-37, *Guide for the Security Certification and Accreditation of Federal Information Systems*. **(OIG Control Number OIT-86)**
- ❑ Strengthen the OIT process for reviewing, approving and disseminating policies and procedures to ensure documents are 1) accurate, consistent, and properly approved, and 2) properly disseminated to the officials and responsible parties for their implementation and enforcement. **(OIG Control Number OIT-87)**

3. **PBGC Needs to Improve Controls Related to Single-Employer Premiums** (Repeat Condition)


Management has acknowledged the weaknesses associated with the single-employer premiums and has taken steps to improve the internal controls for premiums including the FY 2006 award of a contract for the design and implementation of a new premium accounting system with an anticipated completion date of October 2007. However, we noted continued internal control weaknesses in our 2006 audit.

The control weaknesses we identified relate to the following internal control objectives:

- ❑ Safeguarding of Assets - Ensuring PBGC collects all premiums due under statute. OMB Circular A-123, *Management's Responsibility for Internal Control*, requires that: "The agency head must establish controls that reasonably ensure that: i) obligations and costs are in compliance with applicable law; (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation."
- ❑ Financial Reporting - Ensuring PBGC reports complete and reliable premium revenue and receivables in the financial statements. OMB Circular A-123 states that: "The agency head must establish controls that reasonably ensure that: ... iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets."

Data quality weaknesses:

During PAS conversion from the legacy Premium Processing System, PBGC experienced difficulty in migrating data. In addition, errors due to incorrect data entry, adjustments, and system-generated balances while not identified as an ongoing issue during the FY 2006 audit were noted as issues in the FY 2004 audit and prior years. These difficulties are the underlying cause of several of the control weaknesses noted during our testing.



PBGC's ability to identify plans that have a premium filing requirement and to collect premiums owed is limited because the Audit and Enforcement module within PAS to compare Form 1 (premium filing form) filings to pension plan Form 5500 filings with the Department of Labor is not currently functional and will not be until the new premium system is implemented. A match of this data was performed outside of PAS during FY 2006; however, the results of this process have not yet been analyzed. Completing this analysis would enable PBGC to potentially identify plans which had not filed or paid their associated premiums.

Impact of data quality weaknesses:

Because of the data quality issues noted, PBGC is unable to efficiently utilize two of its primary tools, Past Due Filing Notices (PDFN) and Statements of Account (SOA), to ensure the accuracy and completeness of premium data. The PDFN is a PAS-generated notice mailed to plans that have not submitted premium filings. The SOA is also a PAS-generated notice used to ensure that underpaid or overpaid premiums from a plan sponsor are effectively rectified. We noted during the audit that PDFNs and SOAs are not mailed timely in accordance with PBGC policy because significant resources must be expended prior to mailing each notice to validate the information. Because these notices are not mailed in a timely manner, the potential exists that premiums will not be collected or that errors in amounts reflected in PAS will not be detected.

Other control matters:

Finally, we noted that all of the pertinent policies and procedures related to the premium accounting cycle have not been documented, communicated, or implemented throughout PBGC.

Recommendations:

While we acknowledge that PBGC is currently working toward the implementation of a new premium system with an implementation date currently scheduled for October 2007, we continue to recommend that PBGC:

- ❑ Implement controls to reconcile Form 1 information received by PBGC to Form 5500 information received by the Department of Labor as a means of identifying plans that have not filed or paid their associated premiums. **(OIG Control Number FOD-334)**
- ❑ Compile a comprehensive policies and procedures manual for processing and accounting for premium revenue. **(OIG Control Number FOD-335)**

4. PBGC Needs to Strengthen Its Preparedness for Unanticipated Incidences and Disruptions (Repeat Condition)

PBGC has developed a Continuity of Operations Plan (COOP) that identifies and exercises its ability to respond to a limited number and type of incidents that impact

operations. However the COOP is just one component of a full spectrum of service continuity controls that would allow PBGC to reduce the impact on its operations due to unexpected events. For example, just as losing the capability to process and protect information maintained on PBGC's computer systems can significantly impact PBGC's ability to accomplish its mission, maintain productivity, and ensure financial integrity, so would safely evacuating staff from a building due to a fire or similar emergency and relocating operations or dealing with a pandemic flu outbreak have a comparable impact.

Strong service continuity controls should identify and address adequate procedures to minimize the risk of unplanned interruptions and be included in a plan to recover critical operations should such interruptions occur. This plan should consider the impact on and recovery of all facilities, personnel, and information systems as they relate to PBGC's mission and business objectives. These procedures and plan should be tested periodically to ensure they will work as intended, and if not, timely corrections can be made before the next test.

During our FY 2006 review of PBGC's ability to develop and implement a contingency plan, we noted that PBGC made the following progress:

- PBGC has drafted its contingency planning policy statement which is in the process of being approved, disseminated and implemented. The contingency planning policy statement will be effective in FY 2007. The policy addresses a comprehensive set of objectives for the establishment of the organizational framework and responsibilities for comprehensive contingency planning at PBGC, of which COOP is one component.
- PBGC is in the process of conducting a business impact analysis (BIA) that will address a comprehensive set of contingency planning scenarios to further direct its development and implementation of a more robust contingency planning process.

We identified the following service continuity control deficiencies in PBGC's completion of key elements required in establishing a comprehensive contingency plan:

- PBGC's current BIA addressed items necessary to develop its COOP. The BIA did not address all significant recovery issues related to contingency planning.
- PBGC's COOP policy statement was too narrow to meet the needs of PBGC. This was the only contingency related policy statement in effect during FY 2006. It only establishes one objective (e.g. to continue to perform certain critical functions of PBGC in the event that an emergency renders or threatens to render the PBGC sites unusable). PBGC did not have an approved contingency planning policy statement in FY 2006 that addresses a comprehensive set of objectives for the establishment of the organizational framework and responsibilities for comprehensive contingency planning of which COOP is one component.
- PBGC's recovery strategies do not address prioritized recovery scenarios based on disruption impacts and allowable outage times for the failure and/or



degradation of critical system components at headquarters. The current strategy does not include a combination of methods that complement one another to provide recovery capability over the full spectrum of incidents.

- Although PBGC conducts at least two (2) tests of its COOP annually, PBGC has not demonstrated its ability to successfully recover its major business processes. For example, PBGC could not recover and process several major applications during its August 2006 COOP test. The COOP test did not meet intended objectives and did not achieve the level of recovery envisaged in the COOP test plan. PBGC’s participation in the federal “Forward Challenge” exercise also did not demonstrate PBGC’s ability to successfully operate from an alternative site.

Recommendations:

- First, establish and implement a contingency planning policy statement that addresses a comprehensive set of objectives for the establishment of the organizational framework and responsibilities for comprehensive contingency planning. **(OIG Control Number FASD-130)**
- Second, conduct a BIA that addresses a full set of contingencies, including system outages and degradation issues at headquarters. **(OIG Control Number FASD-131)**
- Finally, develop, document, implement, and test recovery strategies as part of PBGC’s COOP to achieve the comprehensive set of objectives in PBGC’s contingency planning policy statement and address the disruption impacts and allowable outage times identified in PBGC’s comprehensive BIA. **(OIG Control Number FASD-132)**

In addition to the reportable conditions described above, we noted certain matters involving internal control and its operation that we reported to the management of PBGC in a separate letter dated November 9, 2006.

This report is intended solely for the information and use of PBGC’s Office of Inspector General, Board of Directors, management of PBGC, Government Accountability Office, Office of Management and Budget, the United States Congress, and the President and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Henderson LLP

Calverton, Maryland
November 9, 2006



Independent Auditor's Report on Compliance and Other Matters

To the Inspector General of the
Pension Benefit Guaranty Corporation

We have audited the financial statements of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) as of and for the year ended September 30, 2006, and have issued our report thereon dated November 9, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

The management of PBGC is responsible for complying with laws and regulations applicable to PBGC. As part of obtaining reasonable assurance about whether PBGC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to PBGC. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed no instances of noncompliance with laws and regulations discussed in the preceding paragraph or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03.

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

Clifton Gunderson LLP

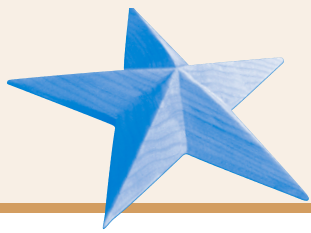
Calverton, Maryland
November 9, 2006

Centerpark I
4041 Powder Mill Road, Suite 410
Calverton, Maryland 20705-3106
tel: 301-931-2050
fax: 301-931-1710

www.cliftoncpa.com

Offices in 15 states and Washington, DC





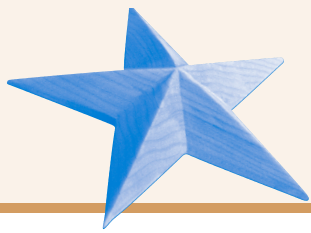
Financial Summary

SINGLE-EMPLOYER PROGRAM

<i>(Dollars in millions)</i>	Fiscal Year Ended September 30,									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Summary of Operations:										
Premium income	\$ 1,442	1,451	1,458	948	787	821	807	902	966	1,067
Other income	\$ 79	44	24	28	28	23	5	3	10	19
Investment income (loss)	\$ 2,184	3,897	3,197	3,349	170	(843)	2,392	728	2,118	2,687
Actuarial charges and adjustments (credits)	\$ 4,819	490	1,787	6,161	2,802	1,082	453	(602)	815	488
Losses (credits) from completed and probable terminations	\$ (6,155)	3,954	14,707	5,377	9,313	705	(80)	49	584	489
Administrative and investment expenses	\$ 405	342	288	290	225	184	167	161	158	155
Other expenses	\$ 2	77	(36)	97	15	2	(2)	(1)	6	29
Net income (loss)	\$ 4,634	529	(12,067)	(7,600)	(11,370)	(1,972)	2,666	2,026	1,531	2,612
Summary of Financial Position:										
Cash and investments	\$ 57,728	54,387	36,254	33,215	24,851	21,010	20,409	17,965	17,345	14,988
Total assets	\$ 59,972	56,470	38,993	34,016	25,430	21,768	20,830	18,431	17,631	15,314
Present value of future benefits	\$ 69,143	69,737	60,836	44,641	28,619	13,497	10,631	11,073	12,281	11,497
Net position	\$ (18,142)	(22,776)	(23,305)	(11,238)	(3,638)	7,732	9,704	7,038	5,012	3,481
Insurance Activity:										
Benefits paid	\$ 4,082	3,685	3,006	2,488	1,537	1,043	902	901	847	823
Participants receiving monthly benefits at end of year	611,690	682,540	517,900	458,800	344,310	268,090	226,080	214,160	208,450	204,800
Plans trustee and pending trusteeship by the PBGC	3,673	3,585	3,469	3,277	3,122	2,965	2,864	2,775	2,655	2,500

MULTIEMPLOYER PROGRAM

<i>(Dollars in millions)</i>	Fiscal Year Ended September 30,									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Summary of Operations:										
Premium income	\$ 58	26	27	25	25	24	24	23	23	23
Other income	\$ 0	0	0	0	0	0	0	0	0	0
Investment income (loss)	\$ (1)	79	54	37	118	95	70	(56)	133	68
Actuarial charges and adjustments (credits)	\$ 0	0	1	1	0	1	0	0	0	(1)
Losses (gains) from financial assistance	\$ 461	204	55	480	101	269	26	109	34	(3)
Administrative and investment expenses	\$ 0	0	0	0	0	0	0	0	0	0
Net income (loss)	\$ (404)	(99)	25	(419)	42	(151)	68	(142)	122	95
Summary of Financial Position:										
Cash and investments	\$1,164	1,147	1,057	984	933	796	682	681	736	585
Total assets	\$1,166	1,160	1,070	1,000	944	807	694	692	745	596
Present value of future benefits	\$ 2	2	3	3	3	4	4	5	6	7
Nonrecoverable future financial assistance, present value	\$1,876	1,485	1,295	1,250	775	679	414	479	389	361
Net position	\$ (739)	(335)	(236)	(261)	158	116	267	199	341	219
Insurance Activity:										
Benefits paid	\$ 1	1	1	1	1	1	1	1	1	1
Participants receiving monthly benefits from the PBGC at end of year	240	280	320	390	460	510	620	730	850	1,000
Plans receiving financial assistance from the PBGC	33	29	27	24	23	22	21	21	18	14



Organization

Board of Directors

Elaine L. Chao, *Chairman*
Secretary of Labor

Henry M. Paulson, Jr.
Secretary of the Treasury

Carlos M. Gutierrez
Secretary of Commerce

Executive Management

Vincent K. Snowbarger
Interim Director and Deputy Director,
Office of Policy and External Affairs



Stephen E. Barber
Chief Management Officer



Terrence M. Deneen
Chief Insurance Program Officer



Patsy A. Garnett *
Chief Information Officer



Richard Macy
Chief Operating Officer



Judith R. Starr
General Counsel

Theodore J. Winter, Jr. **
Acting Chief Financial Officer

* Appointed after year-end

** Replaced James C. Gerber after year-end

Office of Inspector General

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

Senior Corporate Management

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

Patricia Davis, *Director*
Facilities and Services Department

Israel Goldowitz, *Chief Counsel* *
Office of the Chief Counsel

Wilmer Graham, *Director*
Strategic Planning and Evaluation
Department

David Gustafson, *Director*
Policy, Research and Analysis Department

Bennie Hagans, *Director*
Benefits Administration and Payment
Department

John R. Hanley, *Director*
Legislative and Regulatory Department

Walter A. Luiza, *Acting Director* **
Financial Operations Department

Michele Pilipovich, *Director*
Human Resources Department

Jeffrey Speicher, *Acting Director*
Communications and Public Affairs
Department

John Spencer, *Director*
Department of Insurance Supervision and
Compliance

Susan Taylor, *Director* ***
Procurement Department

Henry R. Thompson, *Director*
Budget Department

* Replaced Jeffrey B. Cohen after year-end

** Replaced Theodore J. Winter, Jr., who was named
Acting Chief Financial Officer after year-end

*** Replaced Robert Herting after year-end

The PBGC Advisory Committee

Appointed by the President of the United States

REPRESENTING THE INTERESTS OF THE GENERAL PUBLIC

Leopoldo E. Guzman
Coral Gables, Florida
Guzman and Company

Nelson W. Wolff
San Antonio, Texas
Bexar County Courthouse

Vacancy

REPRESENTING THE INTERESTS OF EMPLOYERS

R. Todd Gardenhire
Chattanooga, Tennessee
Citigroup Global Markets Inc.

Vacancy

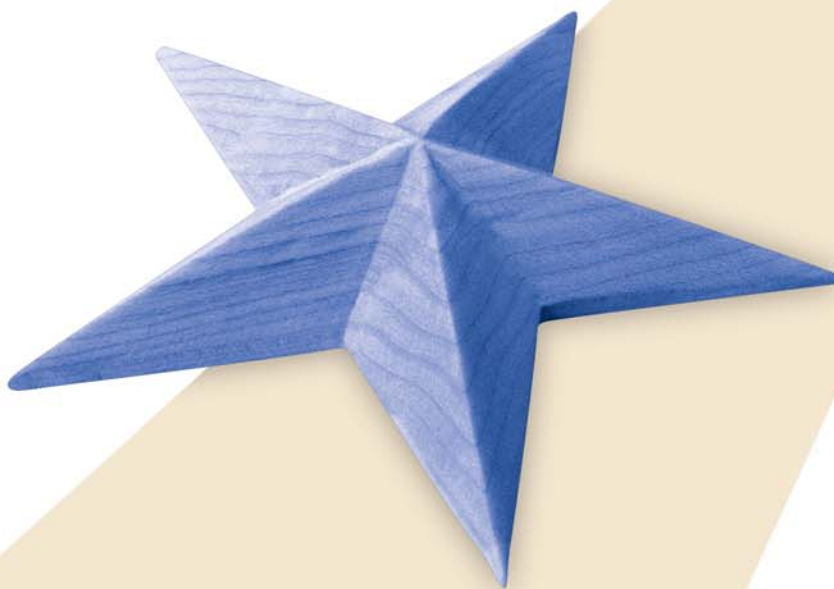
REPRESENTING THE INTERESTS OF EMPLOYEE ORGANIZATIONS

A. Norman Crowder III
Naples, Florida

Robert Gordan
San Ramon, California
ChevronTexaco







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

www.pbgc.gov