Pension Benefit Guaranty Corporation

2001 Annual Report

The Pension Benefit Guaranty Corporation (PBGC) protects the pensions of about 44 million working men and women in slightly more than 35,000 private defined benefit pension plans, including more than 1,700 multiemployer plans. These pension plans provide a specified monthly benefit at retirement, usually based on salary or a stated dollar amount and years of service. The Employee Retirement Income Security Act of 1974 established PBGC as a federal corporation. PBGC operates under the guidance of its board of directors consisting of the Secretaries of Labor (Chair), Commerce and the Treasury.

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

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

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

Highlights

The net financial position of the single-employer insurance program weakened for the first time in eight years, largely due to losses from plan terminations and equity investments. While the net position declined by $2.0 billion, the program remained financially sound as assets exceeded liabilities by more than $7.7 billion at year-end.

Subsequent to September 30, 2001, when PBGC trustees the LTV pension plans it will experience the largest single loss (over $1 billion) in its history. PBGC continues to face significant exposure from troubled companies with underfunded pension plans, especially in the steel, airline and retail sectors.

PBGC entered a new phase of customer service as it took the first steps to establish fully electronic business transactions. The Corporation's staff responded to a growing workload with markedly increased production of benefit determinations and benefit estimates.

PBGC paid more than $1 billion in benefits to 268,600 people during the year, the first year in its history benefit payments topped $1 billion. PBGC is responsible for the pensions of 624,000 participants, including those who will receive benefits when they retire in the future. The Corporation further reduced the average time needed to issue final benefit determinations, meeting its annual performance target.

PBGC has or will become trustee of 2,975 underfunded pension plans, including 101 terminated during the year.

In fiscal year 2001, PBGC became trustee of 104 terminated single-employer plans covering nearly 89,000 people. This represented the insurance program's largest one-year increase in the population of plan participants owed guaranteed benefits. In fiscal year 2002, PBGC projects about 180,000 new participants, more than double last year's record, as a result of the LTV Steel plans and other terminations.

Premium income increased slightly, to $845 million, reversing a downward trend dating back to 1996.

The multiemployer program remained financially sound despite a net loss of $151 million, due to an increased allowance for future losses. The net position declined from $267 million to $116 million.

PBGC's annual performance report describes gains in both productivity and customer satisfaction.

(Dollars in millions)	***2001***	*2000*
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
SUMMARY OF OPERATIONS		
Premium Income	**$ 845**	$ 831
Losses (Credits) from Plan Terminations	**$ 705**	$ (80)
Investment Income (Loss)	**$ (748)**	$ 2,462
Actuarial Charges	**$ 1,083**	$ 453
INSURANCE ACTIVITY		
Benefits Paid	**$ 1,044**	$ 903
Retirees	**268,600**	226,700
Total Participants in Terminated and Multiemployer Plans	**624,000**	541,000
New Underfunded Terminations	**101**	92
Terminated/Trusteed Plans (Cumulative)	**2,975**	2,874
FINANCIAL POSITION		
SINGLE-EMPLOYER PROGRAM		
Total Assets	**$21,768**	$20,830
Total Liabilities	**$14,036**	$11,126
Net Income (Loss)	**$ (1,972)**	$ 2,666
Net Position	**$ 7,732**	$ 9,704
MULTIEMPLOYER PROGRAM		
Total Assets	**$ 807**	$ 694
Total Liabilities	**$ 691**	$ 427
Net Income (Loss)	**$ (151)**	$ 68
Net Position	**$ 116**	$ 267

Chairman's Message

The Pension Benefit Guaranty Corporation makes a real difference in people's lives, without fanfare and often with very little notice. For more than 25 years, the Corporation has protected the retirement benefits of millions of America's working men and women, quietly building a record of commitment, service and achievement. PBGC now is responsible for the pensions of more than 600,000 people and pays nearly $100 million monthly in benefits. In the past year alone, PBGC took over the retirement plans of some of the best known businesses in America, including Trans World Airlines, Grand Union and Bradlees Stores. This small government corporation performs a vital function for Americans in defined benefit pension plans and seeks to provide the best possible service to those who depend upon it for their retirement security.

As our country works to recover from the horrific events of September 11, it can be reassured that the federal government is exerting its maximum effort to protect the interests of Americans. The tragedies reawakened national fervor for the values long-treasured by Americans – life, liberty and the pursuit of happiness. Armed with those values, we continue to believe that this country offers the best hope for people willing and able to reach for their dreams. In times of economic stress, it is gratifying that federal organizations like PBGC step forward to do their utmost to assist the American people.

PBGC's record of accomplishment during a difficult year is encouraging and exemplary. American workers, retirees and their families can be assured that PBGC will continue to protect their interests with diligence and energy in the years ahead.

Elaine L. Chao
Secretary of Labor
Chairman of the Board

Executive Director's Message

By any standard, the Pension Benefit Guaranty Corporation has just completed a remarkable year. Although my appointment as Executive Director came after the end of the fiscal year, I take pleasure in reporting that PBGC achieved unprecedented productivity in the face of daunting problems. The Corporation protected the retirement benefits of more workers, processed benefits for more people, and provided American workers with higher quality, more timely information than in any previous period in its history. PBGC also began an extensive effort to transform how it does business. Its redesigned Web site opens the way for electronic transactions that soon will mark a new era in customer service.

These accomplishments came despite a surge in PBGC's workload, which accompanied a rush of large plan terminations. Regrettably, I also must report that losses associated with these terminated pension plans and our equity investments resulted in a decline of the single-employer program net position from $9.7 billion to $7.7 billion.

As part of its strategic goals, the Corporation is committed to providing pension participants and practitioners the highest level of service. Among other things, this entails reduced processing times in all areas of PBGC operations, including plan termination and trusteeship, benefit determinations and premium inquiries and refunds. We have made progress in these areas, as shown by our results in the past year, and we will continue to explore ways to further improve our performance in the future.

Future challenges remain ahead, but we are well-positioned to meet those challenges. PBGC stands ready to protect the retirement security of American workers and the interests of our nation's private pension system.

Steven A. Kandarian

Steven A. Kandarian
Executive Director

Providing Premier Customer Service

PBGC's Customer Service Pledge

Our customers deserve our best effort as well as our respect and courtesy.

On the first call from you, our customer, we will say:

- *what we can do immediately and what will take longer,*
- *when it will be done, and*
- *who will handle your request.*

We will call you if anything changes from what we first said, give you a status report and explain what will happen next.

We will have staff available from 8:00 a.m. – 5:00 p.m. Eastern time to answer your calls. If you leave a message, we will return the call within one workday.

We will acknowledge your letter within one week of receipt.

"e-Gov": this cryptic shorthand describes and yet understates the thrust of PBGC's customer service activities during 2001. Under the Government Paperwork Elimination Act (GPEA), all federal agencies must provide their customers with electronic alternatives to paper forms, and use and accept electronic signatures, by October 2003. Electronic government, or e-Gov, offers vast possibilities for improving the quality and scope of PBGC's service to all of its customers. The Corporation embraced the concept and initiated extensive efforts during 2001 to meet – and exceed – the requirements spelled out in GPEA. PBGC's goal is to allow its customers to complete and submit transactions electronically through its Web site, replacing the labor-intensive paperwork of the past.

The first step in this effort was a complete redesign of the Corporation's Web site (**www.pbgc.gov**) to enable the site to handle electronic processes. The redesign was more than cosmetic; PBGC had to prepare the site's underlying structure to support electronic business transactions.

Following extensive preparations that included more than 30 requirements sessions with PBGC staff and the use of state-of-the-art Web technology, the Corporation unveiled its next-generation Web site on October 1, 2001. The new Web site lays the groundwork for PBGC to create a true e-Government site with interactive electronic versions of the Corporation's business transactions. In addition to making information easier to find, the redesign added a number of features to improve customer service. The Web site now includes more user-friendly language, a glossary explaining PBGC pension terminology, a list of plans trusteed by PBGC, a retirement planning section and a contact page listing all commonly used PBGC e-mail addresses.

While the submission of forms electronically is not possible yet, PBGC is committed to improving customer service by allowing its customers to interact with the Corporation electronically whenever feasible. Moreover, PBGC's Web site does include copies of the Corporation's most important forms used by participants in PBGC-trusteed plans and administrators of PBGC-insured plans. The forms may be downloaded to the user's personal computer, from which they may then be printed, completed and returned to PBGC. In addition, by the end of the year PBGC had developed a standardized process for converting the paper forms to electronic "business transactions" and had begun work on solutions to the issues of electronic authentication, signatures, security and privacy.

PBGC continued to explore and implement other measures to improve customer service through information technology. The Corporation upgraded its previous Web site in 2000 to make its information accessible to users with disabilities, as required by Section 508 of the Rehabilitation Act of 1973. During 2001, PBGC completed testing of its older information systems to identify any potential accessibility issues remaining to be fixed. PBGC also educated its staff on recent changes to the legal requirements for accessibility and modified its procedures to make sure that new material posted on its Web site and new applications purchased for agency use are fully compliant with the law.

In addition, the Corporation began consideration of a Customer Relations Management (CRM) system that would track and coordinate all incoming inquiries, whether by telephone, fax, correspondence, e-mail or walk-in and provide access to information throughout PBGC needed to support responses to those inquiries. In 2001 PBGC initiated an agency-wide examination of customer relations management and the appropriate approach to achieve it.

According to PBGC's surveys and focus groups, participants who have not yet retired when PBGC takes over their pension plan want one service more than virtually any other – early benefit estimates. To address this need, during 2001 PBGC initiated a pilot program of special Web sites for certain trusteed plans. PBGC used the special sites to provide targeted services, including plan-specific information and updates and one unique feature – an online benefit calculator that allowed participants in these plans to estimate their benefits. With this calculator the participants could also vary certain data such as age at retirement and expected retirement date to see the effect on their estimated benefits. Those who wished to do so could make online requests to obtain more detailed written benefit estimates from PBGC within 15 days of their request. At the end of the year, PBGC was continuing to develop the calculator feature while it consolidated the plan-specific Web sites with the newly redesigned PBGC Web site.

The plan-specific Web pages are one sign of PBGC's progress in satisfying participant requests for better quality and more timely information. An even more significant step took place during the Corporation's meetings with large groups of participants from newly trusteed plans. For the past few years, PBGC has regularly met with such groups to help ease their concerns and explain the pension insurance program. PBGC held 68 such information

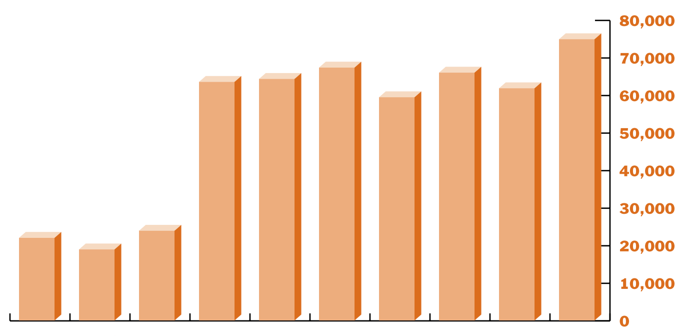
sessions across the country in 2001, which more than 11,500 plan participants attended. Senior PBGC executives, including then-Acting Executive Director John Seal and Deputy Executive Director and Chief Operating Officer Joseph Grant, attended the sessions to meet participants and answer their questions.

This was by far the largest number of participant meetings held in one year. For the largest of these meetings, with participants from the Trans World Airlines (TWA) plans, PBGC not only held the meetings shortly after taking over the plans, but also distributed written benefit estimates to all participants in the plans. PBGC had never attempted this before. In the case of TWA, the third largest group of related plans ever trusteed by PBGC, more than 30,000 written estimates had to be completed and printed out in time for the more than 30 meetings being held across the country. Because the electronic records collected by the agency were in good shape, PBGC staff were able to complete preliminary valuations of both TWA plans, reviews of plan documents, benefit calculations for all TWA plan participants and meeting preparations within a matter of weeks. The effort was so successful the Corporation repeated it in October for the 8,000 participants in the Bradlees Stores plan. In all, PBGC prepared and distributed some 40,000 benefit estimates soon after taking over responsibility for the plans, a first in the Corporation's history.

The past year saw several records set for productivity. PBGC produced more final benefit determinations and completed more plan valuations than in any previous year in the Corporation's history. Now that computerized participant records are becoming the norm, PBGC produced its final benefit determinations sooner after plan trusteeship than ever before, and the average age of unissued benefit determinations also fell to a new low of 1.5 years.

PBGC's results for 2001 are the hallmark of a deep-seated commitment to premier customer service. With faster issuance of benefit determinations, more people are finding out their benefits earlier. As a result, more people are better able to plan for their retirement and fewer people are overpaid through estimated benefits, requiring fewer and lower repayments. PBGC is providing better quality, more timely information and, at the same time, is using the Internet more extensively than ever before to provide current plan-specific information. These are among the top priorities for PBGC's customers, and PBGC is working diligently to deliver what its customers demand and expect.

BENEFIT DETERMINATIONS ISSUED
1992 - 2001



The Corporation spares no effort in communicating with and listening to its customers – participants in PBGC-trusteed plans and sponsors of PBGC-insured plans and the pension professionals who assist them. Every year PBGC conducts surveys and focus groups with both participants and practitioners. Through these focus groups and surveys, PBGC asks its customers about the quality of its service and how that service can be improved. PBGC's efforts to produce earlier benefit estimates, faster benefit determinations and improved communications all stemmed from comments PBGC received from its customers in the past.

Other comments led to changes in PBGC's policies, procedures and regulations as a means of improving customer service. Early in 2001 PBGC announced several changes in its premium regulations that simplify procedures and ease burdens for plan administrators. One of these changes allows plan administrators to pay a prorated premium for a short plan year rather than pay a full year's premium and request a refund or claim a credit against a future premium payment. Another change narrowed the definition of "participant" for PBGC premium purposes by allowing administrators to exclude from their participant counts people who have not earned benefits and for whom the plan has no other benefit liabilities. With this latter change, a new plan will not have to pay a premium for its first year unless it provides credit for service before the plan began. And, the Corporation issued a new, simplified premium payment form, the Form 1-EZ, to replace the longer, more complicated Form 1 and Schedule A for single-employer plans that are exempt from paying PBGC's variable-rate premium.

Until 2001 PBGC had relied on its own surveys to gather comments and customer evaluations of its service. These surveys were developed in consultation with experts in the field but were conducted by agency employees. Beginning in 2001, the Corporation began participating in the American Customer Satisfaction Index (ACSI) to measure

Problem Resolution

PBGC's Problem Resolution Officers are available to help with particularly difficult issues and customer service concerns.

Participants in PBGC-trusteed plans may reach PBGC's Participant Problem Resolution Officer by calling 1-800-400-PBGC or by e-mail at ***participant.pro@pbgc.gov****.*

Plan sponsors, plan administrators and pension professionals may reach PBGC's Practitioner Problem Resolution Officer by calling 1-800-736-2444 (202-326-4242 if in the Washington, DC, metropolitan area) or by e-mail at ***practitioner.pro@pbgc.gov****.*

TTY/TDD users may call the Federal Relay Service toll-free at 1-800-877-8339 and ask the communications assistant to connect them to the appropriate telephone number.

the satisfaction of participants in PBGC-trusteed plans with the service PBGC provides. The ACSI index is a sophisticated, internationally accepted index compiled annually from surveys by a partnership that includes the University of Michigan Business School, the American Society for Quality and the CFI Group. The index, used by 170 major companies and 39 federal agencies, offers an objective third-party measure, independent of PBGC, which can help identify and prioritize areas for customer satisfaction improvement. The index will also be useful to compare PBGC to other government and private-sector organizations that provide services similar to PBGC. The Corporation will begin using ACSI to determine practitioner satisfaction with its service in 2002.

During 2001 PBGC's ACSI score for participants in plans that the Corporation has taken over was 73, compared with a government-wide score of 71. PBGC's goal is to achieve an ACSI score of 76 by 2005. In addition, according to surveys conducted by PBGC during the year, 71 percent of practitioners rated PBGC's service as "above average" or "outstanding," meeting the Corporation's 2001 goal.

Workforce Planning and Succession Management

The federal workforce is growing older. As it does, the need for agencies to plan for future changes in personnel grows more pressing, and PBGC is no exception. In a September 2000 report on PBGC's contracts management, the U.S. General Accounting Office recommended, among other actions, that PBGC conduct a comprehensive review of its future workforce needs and better link staffing and contracting decisions to its strategic planning process. Separately, in 2001 the Office of Management and Budget issued a bulletin requiring that each federal agency develop a five-year plan to change its organization to become more responsive to citizens.

To address GAO's recommendation and OMB's requirement, early in 2001 PBGC engaged the National Academy for Public Administration to assess its workforce planning and make recommendations for improvement. (NAPA is a not-for-profit, nonpartisan organization chartered by the Congress to improve government operations.) Following a review of PBGC's staffing patterns, use of contractors, future workforce projections and related issues, NAPA's report laid out a systematic six-step model for linking workforce planning with strategic planning and the assessment of needed skills. NAPA's model became the foundation of PBGC's workforce planning efforts. Analysis required under the first steps began in 2001 and will continue through 2002, development of solutions and strategies is targeted for 2002-2003, and implementation of solutions and strategies will occur in 2003 and beyond.

Through its own in-house resource, the Martin Slate Training Institute, PBGC conducts an extensive program devoted to the training and development of its staff. The Institute, established in November 1994 and subsequently named in memory of a former Executive Director, is actively engaged in a multifaceted training program to ensure that the Corporation has a core of experienced, prepared managers and staff to meet future workforce changes.

PBGC's commitment to employee development dates back several years. Throughout its history PBGC has participated in "Upward Mobility," a traditional program aimed at equipping lower-graded personnel with professional skills. This program furthers the careers of employees selected to participate, enhances their ability to contribute to PBGC's success and prepares them for future assumption of greater responsibility.

In 1996 PBGC initiated its first employee mentoring program, through which experienced managers or staff members share their knowledge and insights with less seasoned co-workers. The Corporation generally conducts one or two such programs each year; depending on the program, mentorees may be new managers, senior professional staff or non-supervisory employees. Since 1996, PBGC has had eight mentoring programs, in which 182 employees have participated, some more than once. PBGC has found that both mentors and mentorees gain from the program. Many of the mentoree graduates have gone on to more extensive developmental programs or have received more significant responsibilities within the Corporation. Mentors have become more analytical of their own decisions and have begun to look at alternatives in decision-making and problem-solving. PBGC has also begun an ongoing program for alumni of the mentoring program, which allows them to originate and participate in special projects of benefit to the Corporation, as well as pursue their own professional growth.

PBGC's latest effort, begun in 2001, is a pilot succession management program called "Leaders Growing Leaders." This competitive, two-year developmental program was designed by a workgroup of seasoned managers to develop a diverse pool of candidates who are highly qualified to compete for PBGC's leadership vacancies over the next 5 to 10 years. Of the seven employees selected for the pilot program, six have already served as mentors for other PBGC staff members. Each of the seven candidates was assigned a senior-level advisor, completed a multilevel assessment of their leadership abilities and prepared an individual development plan, and each is participating in developmental assignments, special leadership training opportunities and "action learning projects" involving real organizational problems.

Protecting Benefits

The past year was marked by significant challenges and achievements. PBGC was faced with the terminations of some of the largest underfunded pension plans ever trusteed under the pension insurance program. The Corporation responded with one of its most productive years, issuing more final benefit determinations and providing benefit estimates faster and on a larger scale than in any previous year. The Pension Search Program located its 10,000th missing participant. The Congress increased the multiemployer plan insurance program's maximum benefit guarantee for the first time since establishing the program in 1980.

Single-Employer Program

Through its single-employer program, PBGC oversees terminations of fully funded plans and guarantees payment of basic pension benefits when underfunded plans must be terminated. The single-employer program covers about 35 million workers and retirees in about 33,500 plans.

During 2001 the Corporation processed or began processing the termination of 101 underfunded plans, the vast majority of which were involuntary terminations by PBGC. In most cases termination was necessary because the sponsoring employer had gone out of business, sometimes in earlier years. Terminations processed during the year included some of the largest plans in PBGC's 27-year history, such as Trans World Airlines (36,500 workers and retirees), The Grand Union Company (17,000 workers and retirees), Outboard Marine Corporation (10,000 workers and retirees), Bradlees Stores (8,000 workers and retirees), Northwestern Steel and Wire Company (4,000 workers and retirees) and Laclede Steel Company (4,000 workers and retirees). The end of the fiscal year did not bring a halt to these large terminations, as a Payless Cashways Inc. plan covering more than 6,500 people terminated in November.

After a plan has terminated, PBGC becomes trustee of the plan and administers benefits. In 2001 PBGC became trustee of 104 terminated single-employer plans covering nearly 89,000 people. This represented the insurance program's largest one-year increase in the population of plan participants owed guaranteed benefits.

By the end of the year, PBGC was responsible for a total of 2,944 trusteed plans, including 10 multiemployer plans. An additional 31 terminated single-employer plans were pending trusteeship as the year ended.

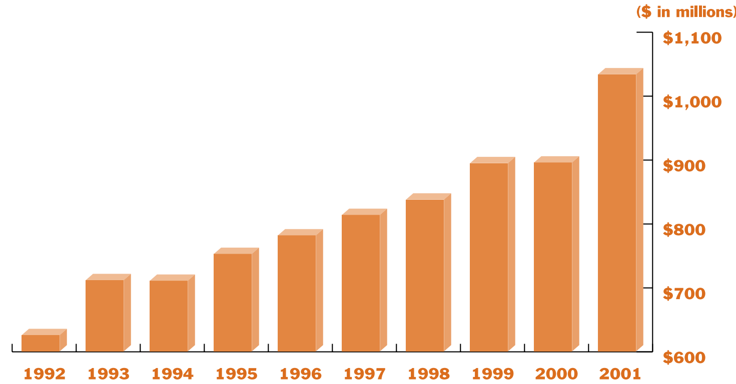
From all indications, the number of new participants owed guaranteed benefits is growing at a rate that may dwarf the Corporation's previous peak years of 1991 and 1992. During those two years, when PBGC trusteed the plans of Pan American World Airways and Eastern Air Lines, the Corporation took responsibility for the pensions of more than 140,000 people. In the 18 months since the summer of 2000, the Corporation has taken over the pensions of some 125,000 people, and the terminations of large underfunded plans show no sign of slowing up. To date PBGC has risen to meet this challenge with prompt and complete service to participants. Over the past decade, the Corporation has improved its procedures and automated systems. As a result, PBGC is better prepared to handle rapid workload increases than it was in the early 1990s, but the task that it faces will put these procedures and capabilities to the test.

Benefit Processing: By the end of the year, PBGC was responsible for the current and future pension benefits of about 624,000 participants from single-employer and multiemployer plans. These included 268,600 people who received benefit payments totaling more than $1 billion for the year. This marked the first time that the insurance program's annual benefit payments topped $1 billion.

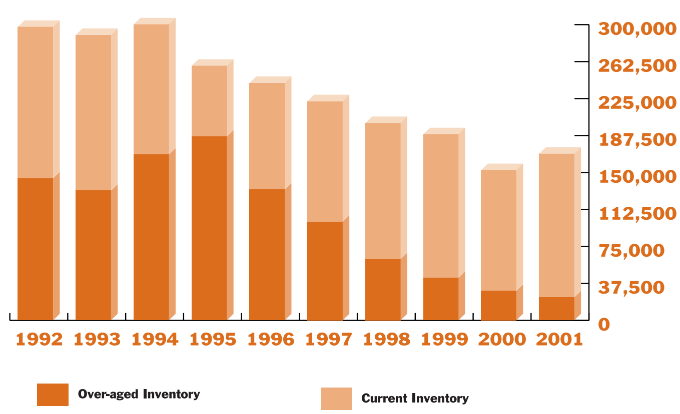
By aggressively managing its workload and its processing of plan terminations and trusteeships, PBGC achieved extraordinary productivity and progress in 2001 even while absorbing the unexpected influx of large plan terminations. During the year, the Corporation issued more than 76,500 benefit determinations, a record number for one year. In reaching this mark, PBGC exceeded 60,000 determinations for the seventh straight year.

Due to the substantial number of new participants owed benefits, the number of outstanding determinations awaiting completion rose for the first time in seven years, leaving about 169,000 determinations to be completed. However, the number of over-aged determinations (those pending completion for more than three years) continued to fall.

ANNUAL BENEFITS PAID
1992 - 2001



OUTSTANDING BENEFIT DETERMINATIONS
1992 - 2001



PBGC has now completed virtually all benefit determinations for plans trusteed prior to 1998. The average age of unissued benefit determinations is down to 1.5 years, reflecting the fact that most pending determinations are for plans trusteed within the past two to three years. On average, in 2001 PBGC issued final benefit determinations 3.6 years after the date it had trusteed the participant's plan, meeting the performance goal of 3-4 years set for 2001 under PBGC's strategic plan. This was the least amount of elapsed time the Corporation has ever needed to produce final benefit determinations and a sharp reduction from the average of 5.95 years reported as recently as 1997.

As a sign that the pace of activity will continue unabated in coming months, PBGC also completed 250 plan valuations, another record number for one year. These valuations are a necessary precursor to completing benefit determinations; the quicker they are completed, the quicker the Corporation can issue its final determinations.

PBGC routinely pays benefits in estimated amounts until final determinations are completed. Ninety-four percent of PBGC's final benefit determinations during 2001 were within 10 percent of the estimated benefit provided earlier to participants, exceeding the Corporation's goal for accuracy under its five-year strategic plan.

Appeals Processing: PBGC's Appeals Board reviews appeals of certain PBGC determinations. Most of the appeals are from people disputing PBGC's determination of their benefit entitlement. As in other years, about 2 percent of PBGC's benefit determinations in 2001 were appealed. During the year, the Appeals Board received 1,165 appeals and decided 1,502 cases, reducing its open case inventory by almost 10 percent. PBGC also began looking at ways to re-engineer its appeals process to improve organizational efficiency and customer service.

Standard Terminations of Fully Funded Plans: The marked decline in standard terminations continued, with only 1,565 submitted to PBGC in 2001 as compared to the 1,882 submitted in the prior year. About three-fourths of the fully funded plans terminated in 2001 had 50 or fewer participants.

As a result of the continued high level of compliance with the legal requirements for standard terminations and PBGC's flexible approach to resolving administrative errors, only one termination had to be canceled for failure to comply with legal requirements.

PBGC audits a statistically significant number of completed terminations to confirm compliance with the law and proper payment of benefits. These audits generally have found few and relatively small errors in benefit payments,

which plan administrators are required to correct. The errors arise primarily from use of incorrect interest-rate assumptions in valuing lump-sum distributions to plan participants. Due to PBGC's audits in 2001, some 1,460 participants (about 1.1 percent of all participants in audited plans) received more than $1.1 million of additional benefits. This is lower than in previous years, indicating a higher degree of plan administrator conformance to benefit payment requirements.

Pension Search Program: PBGC's Pension Search Program consists of three separate, coordinated efforts to locate missing people owed a pension by a terminated defined benefit plan. Historically, PBGC has conducted extensive searches for people missing from underfunded pension plans for which the Corporation has taken responsibility. Since January 1996 PBGC also has provided a "missing participants clearinghouse" to assist employers terminating fully funded plans; if an employer is unable to locate a former employee, PBGC will accept payment for the benefit and continue searching for the person to allow the employer to complete the termination. As a last means of finding people who have not been found in all previous searches by either their former employer or by PBGC, the Corporation has maintained a Pension Search listing on the Internet since December 1996. These efforts have helped PBGC locate thousands of people who were unaware they were owed a pension benefit.

During 2001, 351 companies asked the clearinghouse to find 5,453 missing participants, some 3,979 of whom were due benefit payments totaling more than $14.7 million. The other 1,474 people were covered by annuity contracts that will pay their benefits when they are found. PBGC was able to confirm addresses for 5,200 missing people in the clearinghouse and to pay 1,372 of them a total of about $4.9 million in benefits.

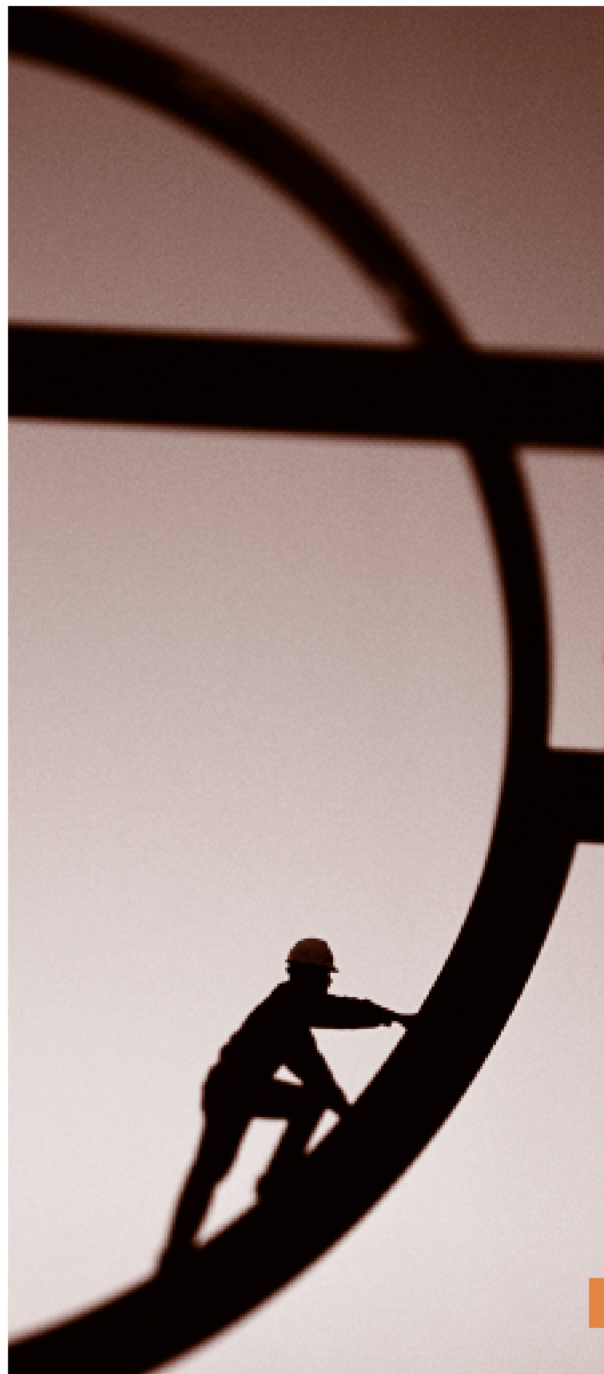
Additionally, the Pension Search listing on the Internet helped PBGC find 3,700 other people who were owed about $14 million. Over the past five years, the program has helped PBGC locate more than 10,300 people owed about $34 million from terminated plans. As of the end of the year, the total Internet list, which included people PBGC was unable to find through the clearinghouse, included another 13,300 people still to be found who were owed about $43 million in pension benefits. To assist Spanish-speaking users of the Pension Search site, PBGC now offers *Instrucciones en Español* on its Web site. (The Corporation also provides a Spanish version of its booklet, *Finding A Lost Pension.*) The Internet listing is found at **search.pbgc.gov**. During September 2001, PBGC's Internet listing was featured on the Web site FirstGov.gov, along with Internet links for five other federal agencies, under the heading "Government May Owe You Money." FirstGov.gov is the official site for U.S. Government information, services, transactions and forms.

Multiemployer Program

The multiemployer program, which covers about 9.4 million workers and retirees in more than 1,700 insured plans, is funded and administered separately from the single-employer program and differs from the single-employer program in several significant ways. The multiemployer program covers only collectively bargained plans involving two or more unrelated employers. For such plans, the event triggering PBGC's guarantee is the inability of a covered plan to pay benefits when due at the guaranteed level, rather than plan termination as required under the single-employer program. PBGC provides financial assistance through loans to insolvent plans to enable them to pay guaranteed benefits.

The past year saw the first increase to PBGC's maximum benefit guarantee for participants in multiemployer plans since the insurance program was radically reformed in 1980. A provision of the Consolidated Appropriations Act, 2001, signed into law on December 21, 2000, more than doubled PBGC's annual benefit guarantee. For a worker with 30 years of service under a PBGC-insured plan, the maximum annual guarantee increased from $5,850 to $12,870. This change will apply to any multiemployer plan that had not received financial assistance from PBGC during the one-year period prior to the enactment of the law.

Financial Assistance: The multiemployer program received two new requests for financial assistance during 2001. These requests raised to 29 the total number of plans that have received financial assistance from PBGC, out of the more than 1,700 insured plans. Since 1980 PBGC has provided assistance with a total value of approximately $154 million net of repaid amounts. In 2001, 22 plans received financial assistance totaling about $4 million.



Trends in Defined Benefit Pension Plans

Since the early 1980s, there has been a shift away from defined benefit pension plans in the private sector. The number of PBGC-insured defined benefit plans peaked in 1985 at about 114,000. Since then there has been a sharp decline to slightly more than 35,000 plans in 2001.

This reduction has not been proportional across all plan sizes. Plans with fewer than 100 participants have shown the most marked decline, from about 90,000 in 1985 to 20,500 in 2001. There also has been a sharp decline for plans with between 100 and 999 participants, from more than 19,000 in 1985 to less than 10,000 in 2001.

In marked contrast to the trends for plans with fewer than 1,000 participants, the number of plans with more than 1,000 participants has shown modest growth. Since 1980, the number of PBGC-insured plans with between 1,000 and 9,999 participants has grown by about 1 percent, from 4,017 to 4,070 in 2001. The number of plans with at least 10,000 participants has grown from 469 in 1980 to 809 in 2001, an increase of 72 percent.

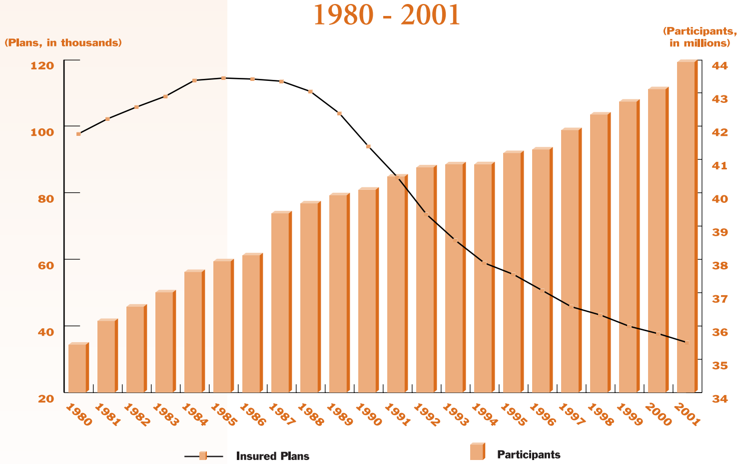
The growth in the number of large plans is attributable to two factors. First, the rapid increase in inactive participants (retirees and separated vested participants) has pushed some plans into higher size categories. Second, there has been considerable plan merger activity over the sixteen-year period from 1985 through 2001.

In contrast to the dramatic reduction in the total number of plans, the total number of participants in PBGC-insured defined benefit plans has shown modest growth. In 1980, there were 35.5 million participants. By 2001, this number had increased to about 44 million.

These numbers, however, mask the downward trend in the defined benefit system because total participants include not only active workers but also retirees (or their surviving spouses) and separated vested participants. The latter two categories of participants reflect past coverage patterns in defined benefit plans. A better forward-looking measure is the trend in the number of active participants, workers currently earning pension accruals. Here, the numbers continue to decline.

In 1988 there were 27.3 million active participants in defined benefit plans; by 1999 (the latest data available), this number had fallen to an estimated 22.4 million, a decrease of 18 percent. At the same time, the number of inactive participants has been growing. In 1980, inactive participants accounted for only 23 percent of total participants in defined benefit plans. This number had increased to 31 percent by 1988 and to 48 percent by 1999. If this trend continues, by the year 2003 the number of inactive participants will exceed the number of active workers.

PBGC-INSURED PLANS AND PARTICIPANTS 1980 - 2001



Safeguarding Solvency

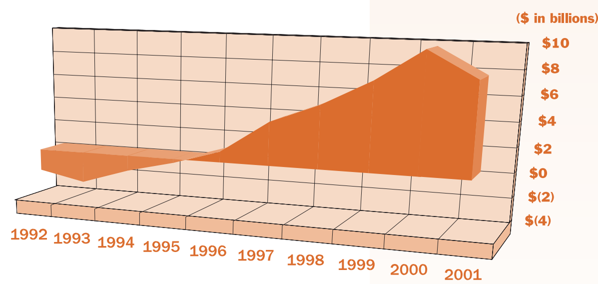
For the first time since 1993, the single-employer program sustained a net financial loss for the year. Increased losses from terminations of underfunded plans and the program's first investment loss since 1994 left the program with a reduced net surplus at year-end. The multiemployer program also recorded a significant financial loss for the year but remained financially sound, as well.

Financial Management

The net annual loss sustained by the single-employer program in 2001 resulted from terminations of underfunded plans, a loss on investments and actuarial charges. In the case of the multiemployer program, the net loss for the year was largely attributable to losses from future financial assistance.

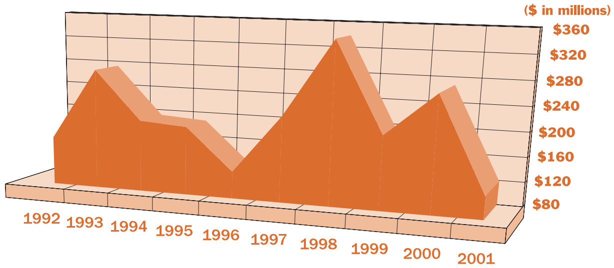
The single-employer program's loss from equity investments was partially balanced by gains from fixed-income investments. As a result, the program reported a net investment loss of $843 million, nearly offset by premium revenue of $821 million. Nevertheless, at a time when many ongoing pension plans reported investment losses of 10% or more, the PBGC investment loss was only 3.3% of total assets invested. Consistent with the record size of plan terminations during the year, losses from plan terminations also increased. The combination of significant losses from terminations and negative returns on equity investments produced a net loss for the year of almost $2 billion, reducing the program's net surplus to about $7.7 billion. Despite the loss, the current surplus continues to provide the insurance program with a cushion against future sizeable losses that are unforeseen and episodic in nature.

Net Position
Single-Employer Program
1992 - 2001



The multiemployer program reported a net loss of $151 million, due to an increased allowance for probable losses from nonrecoverable

Net Position Multiemployer Program 1992 - 2001



future financial assistance. However, with total assets of $807 million and liabilities totaling $691 million primarily for nonrecoverable future financial assistance, the multiemployer program remained financially sound with an end-of-year surplus of $116 million. Investment income increased to $95 million, partially offsetting the loss from financial assistance. Premium income from insured multiemployer plans remained stable at about $24 million.

PBGC's financial statements have received their ninth consecutive unqualified opinion from the Corporation's auditors. The 2001 audit was again performed by PricewaterhouseCoopers LLP under the direction and oversight of PBGC's Inspector General.

Investment Program: The Corporation's investable 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, PBGC is required to invest the Revolving Funds in fixed-income securities; current policy is to invest these funds only in Treasury securities. PBGC has more discretion in its management of the Trust Funds, which it invests primarily in high-quality equities. The asset allocation is designed to provide sound, long-term performance.

PBGC has structured its investment portfolio to improve its financial condition in a prudent manner. The Revolving Fund assets are invested to earn a competitive return and partially offset changes in its benefit liabilities. The Corporation's investment in equities provides overall

Information Systems and Security

PBGC made further progress in 2001 in enhancing the security of its existing information systems and data. The Corporation completed the last item on its information security action plan by adding encryption capability to its network infrastructure. Any information passing across PBGC's Wide Area Network, which connects PBGC headquarters to its field benefit administrators and custodian bank, is now encrypted for privacy. PBGC also updated its security plans, conducted system reviews and enhanced its annual security awareness training with training designed for new employees and system administrators and monthly awareness notices to all employees.

In January 2001, PBGC's Inspector General conducted a penetration test of PBGC's network security as a follow-up to earlier work done in 1999. The Inspector General found that PBGC had significantly improved its security against external and internal attacks or abuse. The Inspector General was unable to gain significant access to PBGC's systems in this round of testing.

PBGC has effectively hardened its systems against attack by virus and remains committed to actively protecting its systems. During the year, the Corporation's information security was tested through numerous attacks by "worms" and "viruses," which PBGC survived without damage.

As the year closed, PBGC successfully transferred its performance accounting system from an off-site Department of Commerce facility to an in-house client-server system. The Commerce Department had been operating the system under a special arrangement with PBGC. By moving the system (which PBGC uses to account for revolving fund activities) to PBGC headquarters, the Corporation will save $400,000 in operating expenses in the first year alone, and more in succeeding years.

PBGC continued developing and testing its Continuity Of Operations Plan, under which it would move all operations offsite in case of an emergency at PBGC headquarters. Completion of a fully functional plan is targeted for 2003.

portfolio diversification and a higher long-term expected return, within prudent levels of risk. PBGC uses institutional investment management firms to invest its assets subject to PBGC oversight. PBGC, with the advice of its Advisory Committee, continually reviews its investment strategy to ensure that it maintains an investment structure that is consistent with its long-term objectives and responsibilities.

As of September 30, 2001, the value of PBGC's total investments in the single-employer and multiemployer programs, including cash, was approximately $22 billion. The Revolving Fund's value was $14.4 billion and the Trust Fund's value was $7.6 billion. Cash and fixed-income securities represented 71 percent of the total assets invested at the end of the year, as compared to 61 percent at the end of 2000, while the equity allocation decreased to 28 percent from 38 percent of total assets invested. The current allocation to equities is the maximum currently allowable to PBGC, given legislative restrictions limiting equity investments to the Trust Funds. A very small portion of the invested portfolio remains in real estate and other financial instruments.

INVESTMENT PROFILE

	September 30, 2001	2000
FIXED-INCOME ASSETS		
Average Quality	**AAA**	AAA
Average Maturity (years)	**19.2**	21.1
Duration (years)	**10.2**	10.9
Yield to Maturity (%)	**5.3**	6.0
EQUITY ASSETS		
Average Price/Earnings Ratio	**23.7**	29.7
Dividend Yield (%)	**1.6**	1.1
Beta	**1.00**	.98

Results for fiscal year 2001 were mixed for capital market investments and PBGC's investment program. During the year, PBGC maintained its long-term, diversified asset allocation strategy and achieved a -3.3% return on total invested funds. PBGC's fixed-income program returned 13.8% while its equity program declined 27.9%. PBGC's five-year returns approximated their comparable market indices, meeting the Corporation's strategic performance goal. For the year, PBGC reported a gain of about $1.8 billion from fixed-income investments and a loss of $2.5 billion from equity investments.

INVESTMENT PERFORMANCE

(Annual Rates of Return)

	September 30, 2001	2000	Five Years Ended September 30, 2001
Total Invested Funds	**-3.3%**	13.2%	9.6%
Equities	**-27.9**	18.2	8.3
Fixed-Income	**13.8**	9.8	9.9
Trust Funds	**-26.1**	18.1	8.5
Revolving Funds	**13.8**	9.7	9.9
INDICES			
Wilshire 5000	**-29.0**	17.6	8.6
S&P 500 Stock Index	**-26.6**	13.3	10.2
Lehman Brothers Long Treasury Index	**14.0**	9.8	9.8

Contract Management: A concerted effort between the Corporation's financial offices enabled PBGC to improve appreciably the timeliness of payments on vendors' bills, sharply reducing the late fees PBGC had been paying. Several elements comprised this group effort: a renewed emphasis on customer service principles resulted in a heightened responsiveness to PBGC's vendors; the new automated performance accounting system implemented during 1998 and enhanced during 2001 is providing much improved financial information, permitting better management of contracts and prompter payments on bills; and PBGC adopted a more-frequent payment schedule allowing faster payments on its bills. As a result, the amount of interest that PBGC paid due to late payment of invoices decreased by 78 percent, from about $133,000 in 2000 to less than $30,000 in 2001.

Of the contracts issued during 2001, PBGC awarded 90 percent through full and open competition. The remainder were sole-source contracts or set-asides for minority bids.

SINGLE-EMPLOYER PROGRAM EXPOSURE

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

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

For purposes of its financial statements, PBGC classifies the underfunding of financially weak companies as "reasonably possible" exposure, as required under accounting principles generally accepted in the United States of America. The "reasonably possible" exposure as of September 30, 2001, as disclosed in Note 7 of the financial statements, was $11 billion (valued using data as of December 31, 2000), compared to $5 billion for fiscal year 2000.

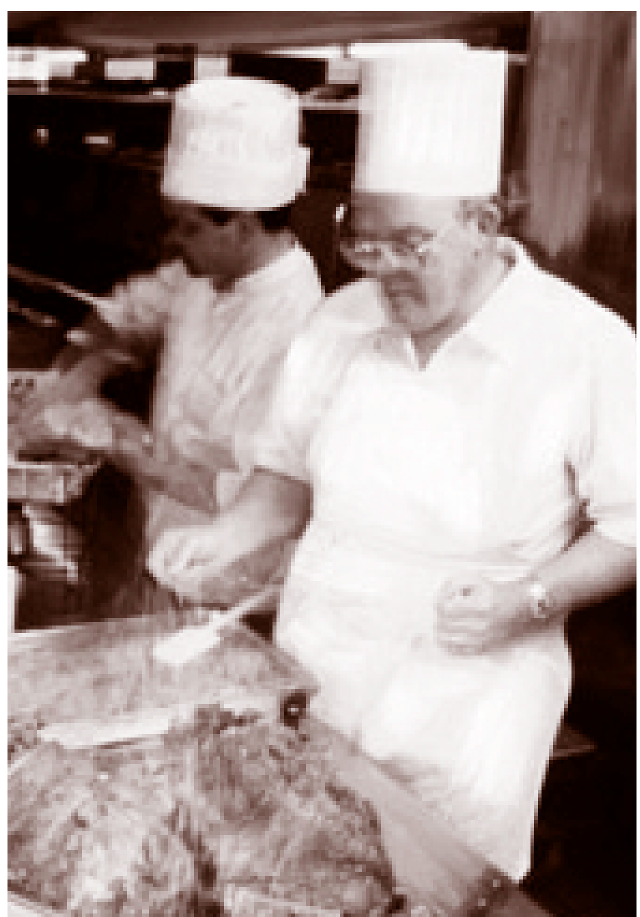
Over the longer term, exposure and expected claims are more difficult to quantify either in terms of a single number or a limited range. Claims are sensitive to changes in interest rates and stock returns, overall economic conditions, the development of underfunding in some large plans, the performance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

Methodology for Considering Long-Term Claims: No single underfunding number or range of numbers—even the reasonably possible estimate—is sufficient to evaluate PBGC's exposure and expected claims over the next 10 years. There is too much uncertainty about the future, both with respect to the performance of the economy and the performance of the companies that sponsor insured pension plans.

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

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

Under the model, median claims over the next 10 years will be about $850 million per year (expressed in today's dollars); that is, half of the scenarios show claims above $850 million per year, and half below. The mean level of claims (that is, the average claim) is much higher, more than $1,150 million per year. The mean is higher because there is a



chance under some scenarios that claims could reach very high levels. For example, under the model there is a 10 percent chance that claims could exceed $2.5 billion per year.

PIMS projects PBGC's potential financial position by combining simulated claims with simulated premiums, expenses and investment returns. The mean outcome is an $8.4 billion surplus in 2011 (in present value terms). However, the model also shows the potential for significant downside outcomes. In particular, there is more than a 25 percent chance that the Corporation could return to a deficit in the next 10 years and a 10 percent chance that the deficit could exceed $14.0 billion in 2011 (in present value terms). These outcomes are most likely if the economy performs poorly, in which case PBGC may experience large claims amounts and investment losses. PBGC is continuing to analyze the best way to manage and reduce the risk of insolvency.

Loss Prevention

Under the Early Warning Program, PBGC monitors certain companies with underfunded pension plans to identify corporate transactions that could jeopardize pensions and to arrange suitable protections for those pensions and the pension insurance program. Following a comprehensive internal review of the program, during 2000 PBGC adopted new, more-exacting screening criteria for determining when to contact companies about pending transactions. The Corporation then issued detailed guidance to help plan sponsors and pension professionals understand the scope of the program's operation, anticipate when PBGC is likely to be concerned about a business transaction and foresee the types of pension protection PBGC may seek. The new guidance reduced the number of corporate contacts PBGC made with respect to companies not in bankruptcy who were undertaking corporate transactions. Over the past year, however, loss prevention activity increased in the area of bankruptcy with the dramatic increase in bankruptcy filings during the year. The Corporation's focus remains on achieving protection for pensions acceptable to both PBGC and companies sponsoring underfunded pension plans.

Litigation

Legal challenges to PBGC policies and positions continued in courts across the country. At the end of the year, PBGC had 78 active cases in state and federal courts and 426 bankruptcy cases.

Major cases in 2001 included:

White Consolidated Industries, Inc.: In a July 1999 ruling, affirmed in June 2000 by an appellate court, a district court found White liable for the unfunded benefits of six pension plans that White transferred to the Blaw Knox Corporation in 1985. PBGC took over the plans subsequent to the transfer because they ran out of money or would have been abandoned after Blaw Knox ceased business in 1994. PBGC sought to recover approximately $120 million, plus interest, for the plans' underfunding, alleging that a principal purpose of White's transaction was to evade its pension liabilities. In July 2000 PBGC and White reached an agreement settling the litigation and White's separate administrative appeal before PBGC challenging the Corporation's calculation of the unfunded benefit liabilities. The settlement contained two alternatives, the first of which called for White to resume sponsorship of the six pension plans and pay the plan participants their full plan benefits with a 5 percent increase, plus any benefits PBGC did not pay because of the legal limits on PBGC's guarantee. Under the second alternative, PBGC would keep the plans. White would then pay the plan participants the value of their unpaid nonguaranteed benefits with interest and pay PBGC $180 million plus interest less the amount White pays directly to participants. In October 2001 White informed PBGC that it was unable to carry out the first approach due to various economic forces. As a result, PBGC will remain trustee of the plans and White will make the payments as called for under the agreement.

Raytech Corporation: In 1986 Raymark Industries, Inc., formerly known as Raybestos-Manhattan, Inc., created Raytech Corporation as a wholly owned subsidiary. In doing so, Raytech acquired Raymark's profitable assets while leaving Raymark with asbestos-related liabilities and two pension plans that are underfunded by about $19 million. In 1999, while undergoing reorganization in bankruptcy, Raytech filed for a declaration that it was not liable for any minimum funding contributions to the Raymark pension plans after it ceased being a member of Raymark's controlled group. PBGC filed a counterclaim alleging that the spin-off of Raytech and Raymark was a scheme intended to defraud creditors and asking the court to order Raytech to maintain, administer and fund the plans. In December 1999, the bankruptcy court granted PBGC's motion for summary judgment and ordered Raytech to take full responsibility for the two pension plans. The court agreed with PBGC that the transactions that separated Raytech from Raymark were intended to defraud Raymark's creditors and that PBGC was entitled to relief under fraudulent conveyance law. In March 2001 the district court affirmed the bankruptcy court's grant of summary judgment in favor of PBGC. Raytech's appeal was pending before the appellate court at year-end.

Copperweld Steel Company: PBGC continued to pursue bankruptcy claims to recover amounts due PBGC and Copperweld's three terminated pension plans, which covered about 3,000 workers and retirees. The company's liquidation trustee contested whether PBGC's claims for unpaid minimum funding contributions in excess of $1 million are entitled to tax priority and whether the assumptions PBGC prescribes in its regulations appropriately measure PBGC's claims for unfunded benefit liabilities. In December 1997 the bankruptcy court ruled for the liquidation trustee's position on both issues. On PBGC's appeal, the district court affirmed the bankruptcy court's adverse decision, and in November 2000 the Sixth Circuit Court of Appeals affirmed the lower court rulings. In October 2001 the United States Supreme Court denied PBGC's request that it review the appellate ruling regarding valuation of PBGC's benefit liability claims. PBGC did not seek review of the appellate decision that PBGC's claim for unpaid minimum funding contributions is not entitled to tax priority.

Pineiro, Brooks, and Beaumont v. PBGC: In 1991 PBGC became trustee of three Pan American World Airways pension plans underfunded by $914 million. Three former Pan Am employees later filed suit asking a district court to replace PBGC with an independent trustee. In 1997 the court initially dismissed virtually all of the allegations as meritless, leaving open only an allegation concerning the timeliness of PBGC's notices of benefit determination to the Pan Am participants. The plaintiffs filed an amended complaint in January 1998 realleging PBGC delays in issuing benefit determinations as well as most of the dismissed allegations. In March 2000 the district court issued a new decision that denied PBGC's motion to dismiss and vacated significant parts of its 1997 ruling, allowing several of the plaintiffs' claims to continue while dismissing others. The court's decision focused on the technical legal issue of whether PBGC operates as a "trustee" or as a "statutory guarantor" when calculating guaranteed benefits. While a technical issue of statutory interpretation, the issue is fundamental to PBGC's operation because different standards of conduct, and different standards of judicial review, apply depending upon whether PBGC undertakes the duty as a fiduciary or as the federal guarantor.

Following its March 2000 decision, the district court permitted PBGC to file an immediate appeal of its ruling and stayed all further proceedings in the case pending that appeal. The court of appeals initially granted PBGC's motion to appeal but in October 2001, following briefing and oral arguments, the appellate court dismissed PBGC's appeal "for lack of appellate jurisdiction." The court did not decide the case on the merits but ruled only that deciding the appeal at this stage would not "materially advance the ultimate termination of the underlying litigation. ... No matter what we do on this appeal, it seems likely that this action will proceed." The appellate court therefore returned the case to the district court for further proceedings.

Despite the exceedingly poor condition of Pan Am's pension records and the difficulties caused by the company's protracted bankruptcy proceedings, PBGC has been paying benefits to Pan Am retirees continuously since taking over the plans. Every participant entitled to receive a guaranteed benefit has received that benefit, and PBGC has completed all benefit determinations for the 53,000 former Pan Am workers and retirees. The ultimate decision in this case will not increase or decrease the benefits payable to plan participants.

Air Line Pilots Association v. PBGC: Under a January 1993 agreement between Carl Icahn, Trans World Airlines, Inc., PBGC and the unions representing affected TWA employees, TWA's pension plans for pilots and employees were frozen, with no additional benefits earned or new participants added after the date of the agreement. Pichin Corporation, owned by Icahn, assumed funding responsibility for the plans, and Icahn acquired the right to unilaterally terminate the plans at any time after January 1, 1995. The agreement's confirmation by the bankruptcy court enabled TWA to emerge from bankruptcy reorganization later in 1993. In December 2000 Icahn exercised his right, terminating the plans as of January 1, 2001. PBGC took responsibility for the plans the same day. At the time, the plans covered a total of about 36,500 people, including more than 15,000 active TWA workers, and were underfunded by about $700 million.

Despite the fact that the Air Line Pilots Association (ALPA) was a party to the 1993 settlement agreement, ALPA and two individual pilots brought suit in district court in 2001 alleging that termination of the TWA Pilots Plan was unlawful and should be enjoined. In March PBGC filed a motion to dismiss the complaint on the basis that the termination was proper under ERISA and that the complaint is barred because the propriety of the termination was already decided when the bankruptcy court approved the 1993 settlement agreement. The plaintiffs filed their own motion for summary judgment, to which PBGC responded. The motions were pending before the district court at year-end.

Coleman v. PBGC: Six former employees of McLouth Steel Products Company brought this suit claiming entitlement to shutdown benefits under their terminated plan, which PBGC trusteed in 1996. McLouth had amended those benefits out of the plan in 1995 pursuant to an agreement with the Steelworkers' union and PBGC that sought to avoid the plan's termination. The employees now claim that the agreement and the amendment were illegal. They also challenge as a prohibited transaction the transfer of $12.7 million of plan assets to PBGC as plan trustee to finalize the termination of a predecessor plan. PBGC moved to dismiss the suit, but the district court denied that motion. The court also certified the suit as a class action but granted PBGC's motion to strike the demand for a jury trial and dismissed the employees' common law claim for misrepresentation. Discovery is ongoing in the case.

PBGC's five-year strategic plan has four broad goals that form the framework of the Corporation's short-and long-term plans. The PBGC goals are to:

(1) protect existing defined benefit plans and their participants, thereby encouraging new plans;

(2) provide high quality, responsive services and accurate and timely payment of benefits to participants;

(3) strengthen financial programs and systems to keep the pension insurance system solvent; and

(4) improve internal management support operations.

The performance measures track specific results that are significant to PBGC's customers and customer service accomplishments. The following table shows the results achieved in 2001 and meets the annual reporting requirement established by the Government Performance and Results Act. PBGC will revise its performance measures during 2002 to keep them meaningful to stakeholders and will begin reporting against the revised measures in 2003. PBGC's strategic plan may be found on PBGC's Web site at **www.pbgc.gov/about/stratplan.htm**.

Achieving Performance Targets

Protecting the Interests of Participants, Thereby Encouraging New Plans:

❖ When a company sponsoring a defined benefit plan files for bankruptcy, PBGC becomes the advocate for the interests of the plan's participants and the pension insurance program. In 2001 PBGC fulfilled this advocacy role in 118 cases involving more than 122,000 participants.

❖ PBGC protects participants' interests by educating participants and pension practitioners about defined benefit plans. PBGC conducted 68 group meetings to inform participants in

PBGC-trusteed pension plans about the PBGC guarantee and what they can expect. Similarly, PBGC officials participated in meetings and conferences with pension practitioners to address issues of mutual concern and to get their feedback.

Customer Satisfaction:

- In 2001 PBGC joined the American Customer Satisfaction Index, the national indicator of customer satisfaction. One hundred and seventy private sector companies and 39 federal agencies participate in the index, which is produced by a partnership between the University of Michigan Business School, the American Society for Quality and the CFI Group. For its participant customers, PBGC's 2001 index is 73, two points higher than the combined index of all federal agencies and the index of private sector service companies. PBGC's index of confidence (a measure of PBGC customers' expectation that PBGC will do a good job in the future) is 80. The results identify causes and effects of satisfaction and focus PBGC's efforts to improve three activities: customer care, concern resolution and written communications.

2001 PBGC Corporate Performance Measures

Measure	Applicable Goal	2001 Milestone	2001 Result	Baseline [a]
PROTECTING THE INTERESTS OF PARTICIPANTS:				
Protect the interests of defined benefit pension plan participants by resolution of bankruptcy actions with companies sponsoring plans	(1)	[b]	118 plans 122,200 participants	92 plans 226,000 participants (1999)
CUSTOMER SATISFACTION:				
❖ American Customer Satisfaction Index of participants who contact PBGC for service [c]	(2)	N/A	73	73 (2001)
❖ Achieve "outstanding" or "above average" ratings (on a five-point customer satisfaction scale) for inquiries handled from pension practitioners/sponsors	(2)	71%	71%	54% (1997)
OPERATIONS:				
Provide reliable estimated benefits to participants that are within 10% of final benefits and are in clear, understandable language	(2)	90%	94%	84% (1999)
Reduce from 4-5 years to 3-4 years the average time frame to send benefit determinations to participants in defined benefit plans taken over by PBGC	(2)	3-4 years	3.6 years	5.95 years (1997)
Reduce the age of pre-trusteeship inventory to no more than one year	(2)	100% 2 years or less	98% 2 years or less	98.6% 4 years or less (1998)
Send the first benefit payment to an eligible person within three months of receiving his/her completed application	(2)	92%	92%	83% (1999)
Find and pay benefits to missing participants in terminated defined benefit plans	(2)	[b]	8,942 participants	1,303 participants (1999)
FINANCIAL MANAGEMENT:				
Collect 99% of pension insurance premiums due	(3)	99%	98%	97% (1997)
Research and respond within 90 days to requests for premium refunds, waiver of premium penalties, and reconsiderations of PBGC premium decisions [d]	(3)	N/A	26%	26% (2001)
Approximate comparable 5-year investment indices for PBGC's portfolio performance	(3)	[b]	PBGC / Index *Equities* 8.3% / 8.6% *Fixed-Income* 9.9% / 9.8%	(1997) PBGC / Index *Equities* 20.6% / 20.6% *Fixed-Income* 10.9% / 8.9%

a) Year in parentheses indicates the year in which the baseline value was set.
b) By their nature, these measures do not lend themselves to setting annual targets or milestones. PBGC measures performance annually based on actual results.
c) PBGC became a member of the American Customer Satisfaction Index (ACSI) in 2001. In 2001, as it transitioned to the ACSI, PBGC continued its own survey of participants in plans it took over who contacted PBGC with inquiries. Of those participants, 69 percent said the overall quality of PBGC's service was "outstanding" or "above average" (on a five-point customer satisfaction scale).
d) During 2001 PBGC redefined this measure to more accurately reflect customer expectations. Only four months of data are included in the baseline.

- 71 percent of pension practitioners rated PBGC's overall service "outstanding" or "above average" in 2001, achieving the 2001 goal. This significant improvement over the prior year is attributed, in part, to changes PBGC made to its premium regulations to ease the burden for plan administrators. PBGC also continued to stress the importance of delivering on its customer service pledge.

- In 2001 the 10,000th missing participant was located through PBGC's efforts. Participants thus found received pension benefits—totaling in the millions of dollars—they otherwise would have lost.

Operations:

- The principal measure of operations is to "reduce to 3 to 4 years the average time frame to send benefit determinations to participants in defined benefit pension plans taken over by PBGC." Efforts to speed up processing have succeeded. Participants received benefit determinations in 2001 more than one year faster on average than participants in the previous year. As an indication of continued improvement in processing times in the future, the average age of unissued benefit determinations was reduced again this year, from 2 years to 1.5 years.

- As occurred in 2000, participants received final benefits that were within 10 percent of the earlier estimated benefits in 94 percent of the cases, exceeding PBGC's goal for the year.

- At the end of 2001, 98 percent of cases awaiting trusteeship were two years old or less. The goal is that no pending case be more than one year old by 2002.

- 92 percent of eligible participants who completed applications received pension payments from PBGC within three months, a further improvement over the previous year.

Financial Management:

- The premium collection rate is the amount of premiums collected divided by the amount of premiums due. PBGC collected 98 percent of the premiums due in 2001, approximating its goal for the year.

- PBGC established a new definition for measuring the timely response to requests for premium refunds, waiver of penalties and reconsideration of premium decisions. The standard is 90 days from receipt to completion of the request, and in 2002 PBGC's goal is to achieve this 75 percent of the time. Practitioners said this is an important service element.

- Investment management results are measured against recognized industry indices aggregated over a five-year period. The five-year period smooths out volatility in annual market performance and provides a more realistic, long-term view of investment success. In 2001 PBGC's five-year performance approximated the indices for equities and fixed-income investments.

Program Evaluation

PBGC conducted customer satisfaction surveys of participants in plans trusteed by PBGC and of pension practitioners who have dealings with us on premium payment or standard termination matters. Evaluation of the survey responses resulted in improvements in program operations, as discussed elsewhere in the Annual Report. In 2001 the National Academy of Public Administration completed a study of PBGC's workforce planning requirements and recommended a methodology that PBGC has adopted to ensure that the skills needed to meet long-term workforce requirements are available. A PBGC team evaluated the appeals process and completed a business re-engineering study to improve the long-term efficiency of appeal resolutions.

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

General

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

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

Combined Results

For 2001, PBGC's combined underwriting and financial activities resulted in a net loss of $2.123 billion. The single-employer and multiemployer programs reported net losses of $1.972 billion and $151 million respectively. By law, these two programs are separate.

Single-Employer Program

Results of Activities and Trends: The net loss in 2001 was $1.972 billion compared to net income of $2.666 billion in 2000. The $4.638 billion decrease was primarily attributable to the net change in losses from completed and probable terminations (an increase of $785 million) and in financial activity (a decrease of $3.755 billion).

Underwriting Activity: The gain of $59 million in 2001 was a significant decrease from the gain of $942 million in 2000. This $883 million decrease was primarily due to an increase in losses from completed and probable terminations.

Underwriting income increased from $812 million in 2000 to $844 million in 2001. The $32 million change related primarily to the increase in interest income on employer liability settlements.

The Corporation's losses from completed and probable plan terminations increased from a credit of $80 million in 2000 to a loss of $705 million in 2001. The loss was primarily due to new plans classified as probable and the termination of the two Northwestern Steel pension plans. Future losses remain unpredictable.

Operating costs increased $19 million over 2000. This was primarily due to an increase of costs in insurance operations and information technology.

Financial Activity: Financial income decreased from $1.724 billion in 2000 to a loss of $2.031 billion in 2001. This change was primarily due to the loss from equity securities and the effect that the change in interest rates had on the present value of future benefits.

The total return on investments was -3.3% in 2001, compared to 13.2% in 2000. Fixed-income investment returns in 2001 increased by $588 million over 2000 while equity investment returns were $3.819 billion less in 2001 than in 2000. PBGC, in accordance with accounting principles generally accepted in the United States of America (GAAP), marks its assets and liabilities to market.

Actuarial charges primarily resulted from the aging of the present value of future benefits. The select interest rate decreased from 7.00% at September 30, 2000, to 6.70% at September 30, 2001, while the ultimate rate decreased from 6.75% to 5.25%.

Liquidity and Capital Resources: The single-employer program's net position declined in 2001 to approximately $7.7 billion primarily because of losses on equity investments and completed and probable terminations. Approximately $21.2 billion (97 percent) of the program's total assets of $21.8 billion were in marketable assets.

PBGC's primary sources of cash are from premium receipts and investment activities. If funds generated from these sources are insufficient to meet fixed charges in any period, the Corporation has available a $100 million line of credit from the U.S. Treasury for liquidity purposes. PBGC did not use this borrowing authority in 2000 or 2001 and has no plans to use it in the future.

Benefit payments and administrative expenses will approximate

$1.5 billion in 2002. Due to significant factors beyond PBGC's control (e.g., fluctuations in interest rates, contributions made to PBGC-insured plans by sponsors, etc.), it is difficult to project premium revenue with a high degree of certainty.

The Corporation is subject to litigation that could have considerable impact on its financial condition. The total underfunding in large plans that are sponsored by companies with below-investment-grade bond ratings was approximately $11 billion. Losses from these plans are not probable at this time but GAAP requires the exposure to be disclosed in the footnotes to the financial statements. This exposure was principally in primary metals and fabricated metal products, air transportation, general merchandise stores, paper and allied products, stone, clay, glass and concrete products, electronic and other electrical equipment and transportation equipment industries.

The single-employer program's positive net position of approximately $7.7 billion at year-end will help provide the financial foundation needed to support the Corporation's long-term responsibilities under the Employee Retirement Income Security Act. A properly managed insurance program must have the resources to provide for unforeseen losses from terminating pension plans.

Multiemployer Program

Results of Activities and Trends: The 2001 multiemployer results of operations culminated in a positive net position of $116 million. The program reported a loss of $151 million in 2001 compared to a net gain of $68 million in 2000. The change in net income was due to the $269 million in losses from future financial assistance which was partially offset by $95 million of investment income. Premium income remained constant at $24 million. Of the program's assets, PBGC invested 97.6 percent in Treasury securities in 2001 and 98.3 percent in 2000.

Liquidity and Capital Resources: As the multiemployer program has a positive net position and most assets are highly liquid Treasury securities, PBGC has sufficient resources to meet its liquidity requirements. In 2002, premium receipts will approximate $24 million while benefit payments and financial assistance are expected to be about $6 million.

Federal Managers' Financial Integrity Act Statement

Management controls in effect during fiscal year 2001 provided reasonable assurance that assets were safeguarded from material loss and that transactions were executed in accordance with management's authority and with significant provisions of selected laws and regulations. Furthermore, PBGC management controls provided reasonable assurance that transactions were properly recorded, processed and summarized to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and to maintain accountability for assets among funds.

PBGC did not identify any material weaknesses during fiscal year 2001.

Management Representation

PBGC's management is responsible for the accompanying Statements of Financial Condition as of September 30, 2001 and 2000, the related Statements of Operations and Changes in Net Position and the Statements of Cash Flows for the years then ended. PBGC's management is also responsible for establishing and maintaining systems of internal accounting and administrative controls that provide reasonable assurance that the control objectives, i.e., preparing reliable financial statements, safeguarding assets and complying with laws and regulations, are achieved.

The Inspector General engaged PricewaterhouseCoopers LLP (PwC) to conduct the audit of the Corporation's 2001 and 2000 financial statements. In its opinion on PBGC's financial statements, PwC reported that the Statements of Financial Condition as of September 30, 2001 and 2000, and the Statements of Operations and Changes in Net Position and Statements of Cash Flows for the fiscal years ended September 30, 2001 and 2000, were fairly stated in all material respects.

In the opinion of management, the financial statements present fairly the financial position of PBGC at September 30, 2001, and September 30, 2000, and the results of operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America (GAAP) and actuarial standards applied on a consistent basis.

Estimates of probable terminations, nonrecoverable future financial assistance, amounts due from employers and the present value of future benefits may have a material effect on the financial results being reported. In addition to litigation that has been properly disclosed and reported in accordance with GAAP, other litigation may have an effect on the financial condition of the Corporation.

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

Steven A. Kandarian
Executive Director

Hazel Broadnax
Deputy Executive Director
and Chief Financial Officer

January 24, 2002

Pension Benefit Guaranty Corporation Statements of Financial Condition

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in millions)	***2001***	*2000*	***2001***	*2000*	***2001***	*2000*
ASSETS						
Cash and cash equivalents	**$ 776**	$ 456	**$ 17**	$ 8	**$ 793**	$ 464
Investments, at market (Note 3):						
Fixed maturity securities	**13,829**	11,719	**777**	671	**14,606**	12,390
Equity securities	**6,245**	8,186	**2**	3	**6,247**	8,189
Real estate and real estate investment trusts	**40**	16	**0**	0	**40**	16
Other	**120**	32	**0**	0	**120**	32
Total investments	**20,234**	19,953	**779**	674	**21,013**	20,627
Receivables, net:						
Sponsors of terminated plans	**367**	28	**0**	0	**367**	28
Premiums (Note 9)	**153**	143	**1**	1	**154**	144
Sale of securities	**45**	57	**0**	0	**45**	57
Investment income	**182**	189	**10**	11	**192**	200
Other	**8**	2	**0**	0	**8**	2
Total receivables	**755**	419	**11**	12	**766**	431
Furniture and fixtures, net	**3**	2	**0**	0	**3**	2
Total assets	**$21,768**	$20,830	**$807**	$694	**$22,575**	$21,524

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

Pension Benefit Guaranty Corporation
Statements of Financial Condition

(Dollars in millions)	Single-Employer Program September 30, 2001	2000	Multiemployer Program September 30, 2001	2000	Memorandum Total September 30, 2001	2000
LIABILITIES						
Present value of future benefits, net (Note 4):						
Trusteed plans	**$12,694**	$ 9,426	**$ 4**	$ 4	**$12,698**	$ 9,430
Terminated plans pending trusteeship	**215**	62	**0**	0	**215**	62
Settlements and judgments	**177**	242	**0**	0	**177**	242
Claims for probable terminations	**411**	901	**0**	0	**411**	901
Total present value of future benefits, net	**13,497**	10,631	**4**	4	**13,501**	10,635
Present value of nonrecoverable future financial assistance (Note 5)			**679**	414	**679**	414
Unearned premiums (Note 9)	**191**	206	**8**	9	**199**	215
Due for purchases of securities	**195**	144	**0**	0	**195**	144
Accounts payable and accrued expenses (Note 6)	**153**	145	**0**	0	**153**	145
Commitments and contingencies (Notes 7, 8, 14 and 15)						
Total liabilities	**14,036**	11,126	**691**	427	**14,727**	11,553
Net position	**7,732**	9,704	**116**	267	**7,848**	9,971
Total liabilities and net position	**$21,768**	$20,830	**$807**	$694	**$22,575**	$21,524

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

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

(Dollars in millions)	*Single-Employer Program For the Years Ended September 30,* **2001**	*2000*	*Multiemployer Program For the Years Ended September 30,* **2001**	*2000*	*Memorandum Total For the Years Ended September 30,* **2001**	*2000*
UNDERWRITING:						
Income:						
Premium (Note 9)	**$ 821**	$ 807	**$ 24**	$ 24	**$ 845**	$ 831
Other	**23**	5	**0**	0	**23**	5
Total	**844**	812	**24**	24	**868**	836
Expenses:						
Administrative	**171**	152	**0**	0	**171**	152
Other	**2**	(2)	**0**	0	**2**	(2)
Total	**173**	150	**0**	0	**173**	150
Other underwriting activity:						
Losses (credits) from completed and probable terminations (Note 10)	**705**	(80)	**0**	0	**705**	(80)
Losses from financial assistance (Note 5)			**269**	26	**269**	26
Actuarial adjustments (Note 4)	**(93)**	(200)	**1**	0	**(92)**	(200)
Total	**612**	(280)	**270**	26	**882**	(254)
Underwriting income (loss)	**59**	942	**(246)**	(2)	**(187)**	940
FINANCIAL:						
Investment income (loss) (Note 11):						
Fixed	**1,669**	1,081	**96**	69	**1,765**	1,150
Equity	**(2,509)**	1,310	**(1)**	1	**(2,510)**	1,311
Other	**(3)**	1	**0**	0	**(3)**	1
Total	**(843)**	2,392	**95**	70	**(748)**	2,462
Expenses:						
Investment	**13**	15	**0**	0	**13**	15
Actuarial charges (credits) (Note 4):						
Due to passage of time	**780**	658	**0**	0	**780**	658
Due to change in interest rates	**395**	(5)	**0**	0	**395**	(5)
Total	**1,188**	668	**0**	0	**1,188**	668
Financial income (loss)	**(2,031)**	1,724	**95**	70	**(1,936)**	1,794
Net income (loss)	**(1,972)**	2,666	**(151)**	68	**(2,123)**	2,734
Net position, beginning of year	**9,704**	7,038	**267**	199	**9,971**	7,237
Net position, end of year	**$ 7,732**	$9,704	**$ 116**	$267	**$7,848**	$9,971

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

Pension Benefit Guaranty Corporation
Statements of Cash Flows

(Dollars in millions)	Single-Employer Program For the Years Ended September 30, **2001**	2000	Multiemployer Program For the Years Ended September 30, **2001**	2000	Memorandum Total For the Years Ended September 30, **2001**	2000
OPERATING ACTIVITIES:						
Premium receipts	**$ 794**	$ 902	**$ 25**	$ 24	**$ 819**	$ 926
Interest and dividends received, net	**861**	775	**46**	49	**907**	824
Cash received from plans upon trusteeship	**592**	32	**0**	0	**592**	32
Receipts from sponsors	**22**	28	**0**	0	**22**	28
Other receipts	**16**	10	**0**	0	**16**	10
Benefit payments - trusteed plans	**(1,027)**	(895)	**(1)**	(1)	**(1,028)**	(896)
Financial assistance payments			**(4)**	(91)	**(4)**	(91)
Settlements and judgments	**(156)**	(162)	**0**	0	**(156)**	(162)
Pretermination payments	**(11)**	(25)	**0**	0	**(11)**	(25)
Payments for administrative and other expenses	**(180)**	(175)	**0**	0	**(180)**	(175)
Net cash provided (used) by operating activities (Note 13)	**911**	490	**66**	(19)	**977**	471
INVESTING ACTIVITIES:						
Proceeds from sales of investments	**13,623**	12,824	**384**	401	**14,007**	13,225
Payments for purchases of investments	**(14,214)**	(13,353)	**(441)**	(383)	**(14,655)**	(13,736)
Net cash provided (used) by investing activities	**(591)**	(529)	**(57)**	18	**(648)**	(511)
Net increase (decrease) in cash and cash equivalents	**320**	(39)	**9**	(1)	**329**	(40)
Cash and cash equivalents, beginning of year	**456**	495	**8**	9	**464**	504
Cash and cash equivalents, end of year	**$ 776**	$ 456	**$ 17**	$ 8	**$ 793**	$ 464

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

Notes to Financial Statements September 30, 2001 and 2000

NOTE 1: ORGANIZATION AND PURPOSE

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

ERISA requires that PBGC programs be self-financing. The Corporation finances its operations through premiums collected from covered plans, assets assumed from terminated plans, collection of employer liability payments due under ERISA as amended and investment income. In addition, PBGC may borrow up to $100 million from the U.S. Treasury to finance its operations. The Corporation did not use this borrowing authority during the years ended September 30, 2001, or September 30, 2000, nor is use of this authority currently planned. ERISA provides that the U.S. Government is not liable for any obligation or liability incurred by PBGC.

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

Under the multiemployer program, if a plan becomes insolvent, it receives financial assistance from PBGC to allow the plan to continue to pay participants their guaranteed benefits. 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.

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

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

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

Allocation of Revolving and Trust Funds: PBGC allocates revolving and trust fund 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 income is allocated on the basis of each program's average cash available for investment during the year while the expenses are allocated on the basis of each program's present value of future benefits. Revolving fund assets and liabilities are allocated on the basis of the year-end equity of each program's revolving funds. The plan assets acquired by PBGC and commingled at PBGC's custodian bank are credited directly to the appropriate fund while the earnings and expenses on the commingled assets are allocated to each program's trust funds on the basis of each trust fund's value, relative to the total value of the commingled fund.

Valuation Method: Consistent with accounting principles generally accepted in the United States of America outlined in Statements of Financial Accounting Standards Nos. 35 ("Accounting and Reporting by Defined Benefit Pension Plans"), 60 ("Accounting and Reporting by Insurance Enterprises"), 87 ("Employers' Accounting for Pensions") and 133 ("Accounting for Derivative Instruments and Hedging Activities"), as amended, PBGC reports its assets and liabilities at fair value. A primary objective of PBGC's financial statements is to provide financial information that is useful in assessing PBGC's present and future ability to ensure that defined benefit pension plan beneficiaries receive benefits when due. PBGC believes that measuring its assets and liabilities at fair value provides the most relevant information to the reader.

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

Investment Valuation and Income: PBGC bases fair values on the last sale of a listed security, on the mean of the "bid-and-asked" for nonlisted securities or on a valuation model in the case of fixed-income securities that are not actively traded. These valuations are determined as of the end of each fiscal year. Purchases and sales of securities are recorded on the trade date. Investment income is accrued as earned. Dividend income is recorded on the ex-dividend date. Realized gains and losses on sales of investments are calculated using an average cost basis. Any increase or decrease in the market value of a plan's assets occurring after the date on which the plan is terminated must, by law, be credited to or suffered by PBGC (see Notes 3, 4 and 11).

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

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

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

(1) Trusteed Plans – represents the present value of future benefit payments less the present value of expected recoveries (for which a settlement agreement has not been reached with sponsors and members of their controlled group) for plans that have terminated and been trusteed by PBGC prior to fiscal year-end.

(2) Terminated Plans Pending Trusteeship – represents the present value of future benefit payments less the plans' net assets (at fair value) anticipated to be received and the present value of expected recoveries (for which a settlement agreement has not been reached with sponsors and members of their controlled group) for plans that have terminated but have not been trusteed by PBGC prior to fiscal year-end.

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

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

PBGC's benefit payments to participants represent a reduction to the PVFB (see Note 4).

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

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

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

Losses from Completed and Probable Terminations: Amounts reported as losses from completed and probable terminations represent the difference as of the date of plan termination between the present value of future benefits (including amounts owed under Section 4022(c) of ERISA) assumed, or expected to be assumed, by PBGC, less related plan assets and the present value of expected recoveries from sponsors and members of their controlled group (see Note 10). In addition, the plan's net income from date of plan termination to the beginning of the fiscal year is included as a component of losses from completed and probable terminations for plans with termination dates prior to the year in which they were added to PBGC's inventory of terminated plans.

Actuarial Adjustments and Charges (Credits): PBGC classifies actuarial adjustments related to changes in method and the effect of experience as underwriting activity. 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: PBGC calculates depreciation of its furniture and equipment on a straight-line basis over the estimated useful lives of the assets. The useful lives range from 5 to 10 years. Routine maintenance and leasehold improvements (the amounts of which are not material) are charged to operations as incurred.

Reclassifications: Certain amounts in the 2000 financial statements have been reclassified to be consistent with the 2001 presentation.

NOTE 3: INVESTMENTS

Premium receipts are invested in securities issued by the U.S. Government.

The trust funds include assets PBGC acquires or expects to acquire with respect to terminated plans and investment income thereon. These assets generally are held by custodian banks.

The basis and market value of the investments by type are detailed below. The basis indicated is cost of the asset if acquired after the date of plan termination or the market value at date of plan termination if the asset was acquired as a result of a plan's termination. Realized and unrealized gains and losses, in addition to interest and dividends earned on these investments, are disclosed in Note 11.

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

	September 30, 2001		*September 30, 2000*	
(Dollars in millions)	***Basis***	***Market Value***	*Basis*	*Market Value*
Fixed maturity securities:				
U.S. Government securities	**$12,399**	**$13,206**	$11,110	$11,299
Commercial paper	**0**	**0**	27	27
Asset backed securities	**333**	**338**	176	175
Corporate and other bonds	**286**	**285**	217	218
Subtotal	**13,018**	**13,829**	11,530	11,719
Equity securities	**4,283**	**6,245**	4,150	8,186
Real estate and real estate investment trusts	**39**	**40**	15	16
Other:				
Insurance contracts	**119**	**120**	35	31
Other investments	**0**	**0**	1	1
Total *	**$17,459**	**$20,234**	$15,731	$19,953

* This includes securities on loan at September 30, 2001, and September 30, 2000, with a market value of $119 million and $109 million, respectively.

INVESTMENTS OF MULTIEMPLOYER REVOLVING FUNDS AND MULTIEMPLOYER TRUSTEED PLANS

	September 30, 2001		*September 30, 2000*	
(Dollars in millions)	***Basis***	***Market Value***	*Basis*	*Market Value*
Fixed maturity securities:				
U.S. Government securities	**$729**	**$777**	$660	$671
Equity securities	**1**	**2**	2	3
Total	**$730**	**$779**	$662	$674

Derivative Investments: Financial Accounting Standard No. 133, as amended, is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. PBGC elected early adoption beginning with fiscal year 2000. During fiscal years 2000 and 2001, PBGC invested in an investment product that contained Standard & Poor's (S&P) 500 financial futures contracts. The objective of this investment strategy is to exceed, net of fees, the total rate of return of the S&P 500 Index while maintaining a very similar risk level to that of the index. S&P 500 Index futures are used to obtain cost-effective equity exposure for the strategy. In 2001 PBGC also invested in an investment product that contained U.S. Treasury bond futures contracts, Euro government bond futures contracts and foreign currency forward contracts. The objective of this investment strategy is to exceed, net of fees, the total rate of return of a customized benchmark for a global balanced mandate while maintaining a very similar risk level to that benchmark. U.S. Treasury Note futures were held in a portfolio to affect sector allocation and to adjust interest rate exposure (duration). Foreign futures were held in a portfolio to obtain government debt exposure (duration) in a timely and efficient manner. Foreign currency forwards were held in a portfolio 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. PBGC is accomplishing these objectives typically, but not exclusively, by holding long and short positions in stock index futures, government bond futures, foreign currency forward contracts and other derivative instruments. The counterparties to PBGC's foreign currency exchange contracts are major financial institutions. PBGC has never experienced non-performance by any of its counterparties.

In addition to the initial margin of generally 1 to 6 percent maintained with the broker in Treasury bills or similar instruments, financial futures contracts require daily settlement of variation margin. For the fiscal years ended September 30, 2001, and September 30, 2000, gains and losses from settled margin calls are reported in Investment Income on the Statements of Operations and Changes in Net Position. PBGC limits its investment in these derivative instruments to the investments in two portfolios. At September 30, 2001 and September 30, 2000, the notional cost amount (not an amount actually at risk, nor is it an amount that is actually exchanged) of the financial futures contracts was approximately $253 million and $371 million, respectively. Open currency forward contracts as of September 30, 2001, in U.S. dollar terms were approximately $120 million long U.S. dollar/short foreign currencies and approximately $75 million long foreign currencies/short U.S. dollar. The fair value of the derivative instruments (the amount needed to settle at September 30) reported on the Statements of Financial Condition was approximately $5 million in Receivables, net: Other at September 30, 2001, and $5 million in Accounts payable and accrued expenses at September 30, 2000.

Financial futures contracts are traded on organized exchanges and thus bear minimal credit risk. The exchange clears, settles and guarantees transactions occurring through its facilities. Institutional investors hold these futures contracts on behalf of PBGC and mark to market daily. In periods of extreme volatility, margin calls may create a high liquidity demand on the underlying portfolio. To mitigate this, PBGC maintains adequate liquidity in its portfolio to meet these margin calls.

Security Lending: PBGC participates in a security lending program administered by its custodian bank. The custodian bank requires collateral that equals 102 percent to 105 percent of the securities lent. The collateral is held by the custodian bank. In addition to the lending program managed by the custodian bank, some of PBGC's investment managers are authorized to invest in repurchase agreements and reverse repurchase agreements. The manager either receives cash as collateral or pays cash out to be used as collateral. Any cash collateral received is invested. The total value of securities on loan at September 30, 2001, and September 30, 2000, was $119 million and $109 million, respectively.

NOTE 4: PRESENT VALUE OF FUTURE BENEFITS

The following table summarizes the actuarial adjustments, charges and credits that explain how the Corporation's single-employer program liability for the present value of future benefits changed for the years ended September 30, 2001 and 2000.

PBGC used a 20-year select interest rate of 6.70% followed by an ultimate rate of 5.25% for 2001 and a 25-year select interest rate of 7.00% followed by an ultimate rate of 6.75% for 2000. These rates were determined to be those needed to continue to match the survey of annuity prices provided by the American Council of Life Insurers. PBGC's regulations state that both the interest rate and the length of the select period may vary to produce the best fit with these prices. The prices reflect rates at which, in the opinion of management, the liabilities (net of expenses) could be settled in the market at September 30, for single-premium nonparticipating group annuities issued by private insurers. Many factors, including Federal Reserve policy, may impact these rates.

For September 30, 2001, PBGC used the 1994 Group Annuity Mortality (GAM) Static Table (with margins), set forward two years and projected 15 years to 2009 using Scale AA. For September 30, 2000, PBGC used the same table, set forward two years but projected 14 years to 2008 using Scale AA.

The reserve for administrative expenses in the 2001 and 2000 valuation was assumed to be 1.18 percent of benefit liabilities plus additional reserves for cases whose plan asset determinations, participant database audits and actuarial valuations were not yet complete. The factors to determine the additional reserves were based on case size, number of participants and time since trusteeship. PBGC updated the expense model in 2000 based on a study prepared by an independent consultant.

The present values of future benefits for trusteed multiemployer plans for 2001 and 2000 reflect the payment of benefits and the changes in interest assumptions, passage of time and the effect of experience.

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

RECONCILIATION OF THE PRESENT VALUE OF FUTURE BENEFITS FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

	September 30,			
(Dollars in millions)		***2001***		*2000*
Present value of future benefits, at beginning of year — Single-Employer, net		**$10,631**		$11,073
Estimated recoveries		**205**		30
Assets of terminated plans pending trusteeship, net		**84**		41
Present value of future benefits, at beginning of year, gross		**10,920**		11,144
Settlements and judgments		**(242)**		(228)
Net claims for probable terminations, prior year		**(901)**		(1,087)
Actuarial adjustments — underwriting:				
Changes in method and assumptions	**$ (63)**		$ (109)	
Effect of experience	**(30)**		(91)	
Total actuarial adjustments — underwriting	**(93)**		(200)	
Actuarial charges (credits) — financial:				
Passage of time	**780**		658	
Change in interest rates	**395**		(5)	
Total actuarial charges — financial	**1,175**		653	
Total actuarial charges		**1,082**		453
Terminations:				
Current year	**3,726**		439	
Changes in prior year	**(37)**		(42)	
Total terminations		**3,689**		397
Benefit payments*		**(1,043)**		(902)
Estimated recoveries		**(19)**		(205)
Assets of terminated plans pending trusteeship, net		**(577)**		(84)
Settlements and judgments		**177**		242
Net claims for probable terminations:				
Future benefits**	**1,350**		2,752	
Estimated plan assets and recoveries from sponsors	**(939)**		(1,851)	
Total net claims, current year		**411**		901
Present value of future benefits, at end of year — Single-Employer, net		**13,497**		10,631
Present value of future benefits, at end of year — Multiemployer		**4**		4
Total present value of future benefits, at end of year, net		**$13,501**		$10,635

* The benefit payments of $1,043 million and $902 million include $16 million in 2001 and $7 million in 2000 for benefits paid from plan assets by plans prior to trusteeship.

** The future benefits for probable terminations of $1,350 million and $2,752 million for fiscal years 2001 and 2000, respectively, include $55 million and $119 million, respectively, in net claims (future benefits less estimated plan assets and recoveries) for probable terminations not specifically identified and $1,295 million and $2,633 million, respectively, in net claims for specifically identified probables.

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

ASSETS OF SINGLE-EMPLOYER TERMINATED PLANS PENDING TRUSTEESHIP, NET

	September 30, 2001		September 30, 2000	
(Dollars in millions)	**Basis**	**Market Value**	*Basis*	*Market Value*
U.S. Government securities	**$ 26**	**$ 26**	$ 2	$ 2
Corporate bonds	**197**	**195**	14	14
Equity securities	**338**	**338**	36	37
Insurance contracts	**1**	**1**	3	3
Other	**17**	**17**	28	28
Total, net	**$579**	**$577**	$ 83	$ 84

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

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

RECONCILIATION OF NET CLAIMS FOR PROBABLE TERMINATIONS

(Dollars in millions)	September 30, **2001**		*2000*	
Net claims for probable terminations, at beginning of year		**$ 901**		$1,087
New claims	**$ 318**		$ 36	
Actual terminations	**(734)**		(99)	
Eliminated probables	**0**		(53)	
Change in benefit liabilities	**(15)**		27	
Change in plan assets	**(59)**		(35)	
Change in expected recoveries	**0**		(62)	
Loss (credit) on probables		**(490)***		(186)*
Net claims for probable terminations, at end of year		**$ 411**		$ 901

* See Note 10

NOTE 5: MULTIEMPLOYER FINANCIAL ASSISTANCE

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

NOTES RECEIVABLE
MULTIEMPLOYER FINANCIAL ASSISTANCE

(Dollars in millions)	September 30, **2001**	*2000*
Gross balance at beginning of year	**$47**	$ 43
Financial assistance payments— current year	**4**	4
Subtotal	**51**	47
Allowance for uncollectible amounts	**(51)**	(47)
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 annual changes in the estimated present value of nonrecoverable future financial assistance and assistance granted that was not previously accrued.

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

(Dollars in millions)	September 30, **2001**	*2000*
Balance at beginning of year	**$414**	$479
Changes in allowance:		
Losses from financial assistance	**269**	26
Financial assistance granted (previously accrued)	**(4)**	(91)
Balance at end of year	**$679**	$414

NOTE 6: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

(Dollars in millions)	*September 30,* **2001**	*2000*
Annual leave	**$ 4**	$ 4
Collateral held for loaned securities	**121**	115
Other payables and accrued expenses	**28**	26
Accounts payable and accrued expenses	**$153**	$145

NOTE 7: CONTINGENCIES

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

PBGC estimated that total unfunded vested benefits on termination of single-employer plans that represented reasonably possible exposure as of September 30, 2001, was approximately $11 billion. This exposure was principally in primary metals and fabricated metal products, air transportation, general merchandise stores, paper and allied products, stone, clay, glass and concrete products, electronic and other electrical equipment and transportation equipment industries. PBGC calculated this estimate as in previous years by using data obtained from filings with the government and corporate annual reports for fiscal years ending in calendar 2000. The Corporation adjusted the value reported for liabilities to the December 31, 2000, PBGC select interest rate of 6.40%. When available, data were adjusted to a consistent set of mortality assumptions. The Corporation eliminated plans not insured by PBGC from the data. PBGC made no provision for the possible failure of the plan sponsor to make subsequent contributions or for plan liabilities that would be incurred after that date.

PBGC included amounts in the liability for the present value of nonrecoverable future financial assistance (see Note 5) for multiemployer plans that PBGC estimated may require future financial assistance. In addition, PBGC currently estimates that it is reasonably possible that other multiemployer plans may require future financial assistance in the amount of $2 million.

The Corporation calculated the future financial assistance liability for each multiemployer plan identified as probable or reasonably possible as the present value of guaranteed future benefit and expense payments net of any future contributions or withdrawal liability payments as of the later of September 30, 2001, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2001, using interest only. The Corporation's identification of plans that are likely to require such assistance and estimation of related amounts require consideration of many complex factors. These factors are affected by future events, including actions by plans and their sponsors, most of which are beyond the Corporation's control.

PBGC used select and ultimate interest rate assumptions of 6.70% for the first 20 years after the valuation date and 5.25% thereafter. The Corporation also used the 1994 Group Annuity Mortality Static Table (with margins), set forward two years, projected 15 years to 2009 using Scale AA.

NOTE 8: COMMITMENTS

PBGC leases its office facility under a commitment that began on December 11, 1993, and expires December 10, 2008. The lease provides for periodic rate increases based on increases in operating costs and real estate taxes over a base amount. In addition, PBGC is leasing space for field benefit administrators. These leases began in 1996 and expire in 2010. The minimum future lease payments for office facilities having noncancellable terms in excess of one year as of September 30, 2001, are as follows:

COMMITMENTS: FUTURE LEASE PAYMENTS

(Dollars in millions)

Years Ending September 30,	*Operating Leases*
2002	$12.4
2003	12.3
2004	12.6
2005	12.7
2006	13.0
Thereafter	30.2
Minimum lease payments	$93.2

Lease expenditures were $12.1 million in 2001 and $11.8 million in 2000.

NOTE 9: PREMIUMS

For both the single-employer and multiemployer programs, ERISA provides that PBGC shall continue to guarantee basic benefits despite the failure of a plan administrator to pay premiums when due. PBGC assesses interest and penalties on the unpaid amount for late payment or underpayment of premiums. Late payment interest continues to accrue until the premium and the interest due are paid, while the amount of penalty that can be levied is capped at 100 percent of the premium late payment or underpayment. Annual premiums for the single-employer program are $19 per participant for a fully funded plan. Underfunded single-employer plans pay an additional variable-rate charge, based on funding levels. The multiemployer premium is $2.60 per participant.

NOTE 10: LOSSES (CREDITS) FROM COMPLETED AND PROBABLE TERMINATIONS

Amounts reported as losses are the present value of future benefits (including amounts owed under Section 4022(c)) less related plan assets and the present value of expected recoveries from sponsors. The following table details the components that make up the losses:

LOSSES (CREDITS) FROM COMPLETED AND PROBABLE TERMINATIONS — SINGLE-EMPLOYER PROGRAM

	For the Years Ended September 30,					
	2001			*2000*		
(Dollars in millions)	***New Terminations***	***Changes in Prior Year Terminations***	***Total***	*New Terminations*	*Changes in Prior Year Terminations*	*Total*
Present value of future benefits	**$3,726**	**$ (37)**	**$3,689**	$439	$ (42)	$ 397
Less plan assets	**2,624**	**143**	**2,767**	302	(9)	293
Plan asset insufficiency	**1,102**	**(180)**	**922**	137	(33)	104
Less estimated recoveries	**0**	**(182)**	**(182)**	11	163	174
Subtotal	**$1,102**	**$ 2**	**1,104**	$126	$(196)	(70)
Settlements and judgments			**91**			176
Loss (credit) on probables			**(490)***			(186)*
Total			**$ 705**			$ (80)

* See Note 4

NOTE 11: FINANCIAL INCOME

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

FINANCIAL INCOME

	For the Years Ended September 30,	
(Dollars in millions)	***2001***	*2000*
Fixed-income securities:		
Interest earned	**$ 885**	$ 826
Realized gain (loss)	**225**	(73)
Unrealized gain	**655**	397
Total fixed-income securities	**1,765**	1,150
Equity securities:		
Dividends earned	**26**	33
Realized gain (loss)	**(458)**	207
Unrealized gain (loss)	**(2,078)**	1,071
Total equity securities	**(2,510)**	1,311
Other income (loss)	**(3)**	1
Total financial income (loss)	**$ (748)**	$2,462

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 2001 and 2000, was 8.51 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 2001 and 2000. In addition, for FERS-covered employees, PBGC automatically contributes 1 percent of base pay to the employee's Thrift Savings account, matches the first 3 percent contributed by the employee and matches one-half of the next 2 percent contributed by the employee. Total retirement plan expenses amounted to $8 million in 2001 and 2000.

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

NOTE 13: CASH FLOWS

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

RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	Single-Employer Program		*Multiemployer Program*		*Memorandum Total*	
	September 30,		*September 30,*		*September 30,*	
(Dollars in millions)	***2001***	*2000*	***2001***	*2000*	***2001***	*2000*
Net income (loss)	**$(1,972)**	$ 2,666	**$ (151)**	$ 68	**$(2,123)**	$2,734
Adjustments to reconcile net income to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	**1,712**	(1,567)	**(48)**	(20)	**1,664**	(1,587)
Net (income) loss of terminated plans pending trusteeship	**5**	(1)	**0**	0	**5**	(1)
Losses (credits) on completed and probable terminations	**705**	(80)	**0**	0	**705**	(80)
Actuarial charges	**1,082**	453	**1**	0	**1,083**	453
Benefit payments - trusteed plans	**(1,027)**	(895)	**(1)**	(1)	**(1,028)**	(896)
Settlements and judgments	**(156)**	(162)	**0**	0	**(156)**	(162)
Cash received from plans upon trusteeship	**592**	32	**0**	0	**592**	32
Pretermination payments	**(11)**	(25)	**0**	0	**(11)**	(25)
Receipts from settlements	**24**	26	**0**	0	**24**	26
Changes in assets and liabilities, net of effects of trusteed and pending plans:						
(Increase) decrease in receivables	**(31)**	69	**1**	(1)	**(30)**	68
(Increase) decrease in present value of nonrecoverable future financial assistance			**265**	(65)	**265**	(65)
Decrease in unearned premiums	**(15)**	(2)	**(1)**	0	**(16)**	(2)
Increase (decrease) in accounts payable	**3**	(24)	**0**	0	**3**	(24)
Net cash provided (used) by operating activities	**$ 911**	$ 490	**$ 66**	$(19)	**$ 977**	$ 471

NOTE 14: LITIGATION

PBGC records as a liability on its financial statements an estimated cost for unresolved litigation to the extent that losses in such cases are probable and estimable in amount. Management believes that any losses from litigation will not have a material impact on the financial statements.

NOTE 15: SUBSEQUENT EVENT

Subsequent to September 30, 2001, business and financial conditions significantly deteriorated for some sponsors of large single-employer plans that may terminate. Consequently, PBGC reclassified the likely termination of these pension plans to probable. Had these plan sponsor events occurred prior to year-end, PBGC's financial statements would reflect an increase in the Net loss of $1.9 billion and a decrease in the Net position of the same amount.

Additionally, PBGC received notices that two multiemployer plans were terminated by amendment in January 2002. Had these events occurred prior to September 30, 2001, PBGC's financial statements would reflect a decrease in the Net loss of $18 million and an increase in the Net position of the same amount.

Actuarial Valuation

PBGC calculated and validated the present value of future PBGC-payable benefits (PVFB) for both the single-employer and multiemployer programs and of nonrecoverable future financial assistance under the multiemployer program. Methods and procedures for both single-employer and multiemployer plans were generally the same as those used in 2000.

PRESENT VALUE OF FUTURE BENEFITS AND NONRECOVERABLE FINANCIAL ASSISTANCE - 2001

	Number of Plans	*Number of Participants (in thousands)*	*Liability (in millions)*
I. SINGLE-EMPLOYER PROGRAM			
A. Terminated plans			
1. Seriatim at fiscal year-end (FYE)	2,315	288	$ 7,638
2. Seriatim at DOPT, adjusted to FYE	282	51	839
3. Nonseriatim[1]	368	176	5,171
4. Rettig Settlement (seriatim)[2]	—	*	1
5. Missing Participants Program (seriatim)[3]	—	14	33
Subtotal	2,965	529	13,682
B. Probable terminations (nonseriatim)[4]	21	43	1,350
Total [5]	2,986	572	$15,032
II. MULTIEMPLOYER PROGRAM			
A. Pre-MPPAA terminations (seriatim)	10	1	$ 4
B. Post-MPPAA liability (net of plan assets)	56	94	679
Total	66	95	$ 683

* Fewer than 500 participants

Notes:

1) The liability for terminated plans has been increased by $214 million for terminated plans not yet reported and for other settlements.

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

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

4) The net claims for probable plans reported in the financial statements include $55 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 $939 million. Thus, the net claims for probables as reported in the financial statements are $1,350 million less $939 million, or $411 million.

5) The PVFB in the financial statements ($13,497 million) is net of estimated plan assets and recoveries on probables ($939 million), estimated recoveries on terminated plans ($19 million) and estimated assets for plans pending trusteeship ($577 million) or, $15,032 million less $939 million less $19 million less $577 million = $13,497 million.

SINGLE-EMPLOYER PROGRAM

PBGC calculated the single-employer program's liability for benefits in the terminated plans and probable terminations, as defined in Note 2 to the financial statements, using a combination of two methods: seriatim and nonseriatim. For 2,315 plans, representing about 78 percent of the total number of single-employer terminated plans (54 percent of the total participants in single-employer terminated plans), PBGC had sufficiently accurate data to calculate the liability separately for each participant's benefit — the seriatim method. This was an increase of 201 plans over the 2,114 plans valued seriatim last year. For 282 plans whose data were not yet fully automated, PBGC calculated the benefits and liability seriatim as of the date of plan termination (DOPT) and brought the total amounts forward to the end of fiscal year 2001.

For 368 other terminated plans, PBGC did not have sufficiently accurate or complete data to value individual benefits. Instead, the Corporation used a "nonseriatim" method that brought the liabilities from the plan's most recent actuarial valuation forward to the end of fiscal year 2001 using certain assumptions and adjustment factors.

For the actuarial valuation, PBGC used a select and ultimate interest rate assumption of 6.70% for the first 20 years after the valuation date and 5.25% thereafter. The mortality assumption used for valuing healthy lives was the 1994 Group Annuity Mortality Static Table (with margins), set forward two years, projected 15 years to 2009 using Scale AA. The projection period is determined as the sum of the elapsed time from the date of the table (1994) to the valuation date plus the period of time from the valuation date to the average date of payment of future benefits. PBGC assumed an explicit loading for expenses in all terminated plans and single-employer probable terminations. The reserve for expenses in the 2001 valuation was assumed to be 1.18 percent of the liability for benefits plus additional reserves for cases whose plan asset determinations, participant database audits and actuarial valuations were not yet complete. The factors to determine the additional reserves were based on case size, number of participants and time since trusteeship.

For non-pay-status participants, PBGC used expected retirement ages, as explained in subpart B of the Allocation of Assets in Single-Employer Plans regulation. PBGC assumed that participants who had attained their expected retirement age were in pay status. In seriatim plans, for participants who were older than their plan's normal retirement age, were not in pay status, and were unlocated at September 30, 2001, PBGC reduced the value of their future benefits to zero over the three years succeeding normal retirement age to reflect the lower likelihood of payment.

MULTIEMPLOYER PROGRAM

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

PBGC based its valuation of the post-MPPAA liability for nonrecoverable future financial assistance on the most recent available actuarial reports, Form 5500 Schedule B's and information provided by representatives of the affected plans. The Corporation expected 56 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, 2001.

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

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

Joan M Weiss

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

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

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

Office of Inspector General

To the Board of Directors
Pension Benefit Guaranty Corporation

This letter transmits the PricewaterhouseCoopers LLP report on the audit of the Fiscal Years (FYs) 2001 and 2000 financial statements of Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC). Section 9105 of 31 U.S.C., as amended, requires PBGC's Inspector General or an independent external auditor, as determined by the Inspector General, to audit PBGC's financial statements. The audit is to be performed in accordance with *Government Auditing Standards* as issued by the Comptroller General of the United States and other applicable audit requirements.

PricewaterhouseCoopers issued an unqualified opinion on the FYs 2001 and 2000 financial statements of Single-Employer and Multiemployer Program Funds administered by PBGC. In addition, PricewaterhouseCoopers issued two other reports – an unqualified opinion on PBGC management's assertion about the effectiveness of its internal control and a report on PBGC's compliance with laws and regulations.

The FY 2000 audit identified three reportable conditions within PBGC's internal control. Audit work during FY 2001 confirmed that PBGC had strengthened its controls surrounding the Participant Records Information Systems Management application to warrant downgrading the reportable condition to a less significant management letter comment. However, two other reportable conditions remain.

1. PBGC needs to integrate its financial management systems and improve its systems development life cycle methodology; and
2. PBGC needs to improve and fully test its plan for maintaining continuity of operations.

To fulfill our statutory responsibility, we monitored the quality of PricewaterhouseCoopers' audit work to ensure it was in accordance with *Government Auditing Standards*. Specifically, we:

- reviewed the audit approach and planning;
- evaluated the qualifications and independence of auditors;
- monitored the progress of the audit at key points;
- examined the working papers and reports; and
- performed other procedures that we deemed necessary.

Based on results of our oversight review, the OIG determined that PricewaterhouseCoopers planned, executed and reported the results of its audit of FYs 2001 and 2000 financial statements of Single-Employer and Multiemployer Program Funds administrated by PBGC in accordance with applicable standards. Therefore, we conclude that PricewaterhouseCoopers' audit work provides a reasonable basis on which to render its January 24, 2002 opinion.

A set of PricewaterhouseCoopers' reports (2002-3/23157-2) is available upon request from the PBGC's Office of Inspector General.

Sincerely,

Wayne Robert Poll

Wayne Robert Poll
Inspector General

February 25, 2002

Report of Independent Accountants

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

To the Inspector General
Pension Benefit Guaranty Corporation

We have audited the accompanying statements of financial condition of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) as of September 30, 2001 and 2000, and the related statements of operations and changes in net position and statements of cash flows for the years then ended. These financial statements are the responsibility of PBGC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Single-Employer and Multiemployer Program Funds administered by PBGC at September 30, 2001 and 2000, 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 Program Fund (the Fund) must be self-sustaining and as such, its premiums must be sufficient to cover both its short and long-term obligations. The Fund is able to meet its short-term benefit obligations and internal analyses indicate that the combined effect of future premium revenue and reduced underfunding of Single-Employer plans may allow the Fund to meet its future obligations as well. While the Fund's statement of financial condition reports a net position (assets in excess of liabilities) of $7.7 billion at September 30, 2001, losses that are "reasonably possible" as a result of unfunded vested benefits are estimated to be $11 billion at September 30, 2001, as discussed in Note 7. To the extent contingent losses currently classified as "reasonably possible" become probable, such as from deteriorating economic conditions or from insolvency of a large plan sponsor, the Fund's net position could be depleted.

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

In addition, in accordance with *Government Auditing Standards*, we have issued reports dated January 24, 2002, on management's assertion about the effectiveness of its internal control and on its compliance with laws and regulations. These reports are integral parts of an audit conducted in accordance with *Government Auditing Standards*, and, in considering the results of the audit, these reports should be read along with the Report of Independent Accountants on the financial statements.

PricewaterhouseCoopers LLP

January 24, 2002

2002-2/23157-1

Organization

BOARD OF DIRECTORS

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Secretary of Labor

Paul H. O ' Neill
Secretary of the Treasury

Donald L. Evans
Secretary of Commerce

EXECUTIVE MANAGEMENT

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Executive Director

Hazel Broadnax
Deputy Executive Director and Chief Financial Officer

Joseph Grant
Deputy Executive Director and Chief Operating Officer

John Seal
Deputy Executive Director and Chief Management Officer

Andrea E. Schneider
Chief Negotiator and
Director, Corporate Finance and Negotiations Department

James Marion
Acting Assistant Executive Director for Legislative Affairs

OFFICE OF INSPECTOR GENERAL

Wayne Robert Poll
Inspector General
[reports directly to the Chairman of the Board]

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Sharon Barbee Fletcher, *Director*
Human Resources Department

Cristin M. Birch, *Director*
Information Resources Management Department

Kathleen M. Blunt, *Director*
Strategic Planning

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

E. William FitzGerald, *Director*
Communications and Public Affairs Department

Bennie Hagans, *Director*
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Financial Operations Department and *Treasurer*

THE PBGC ADVISORY COMMITTEE

Appointed by the President of the United States

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University Park, Maryland
O ' Donoghue & O'Donoghue and George Washington University School of Public Health and Health Services

Teresa Ghilarducci
South Bend, Indiana
University of Notre Dame

Financial Summary

Single-Employer Program

(Dollars in millions)	***2001***	*2000*	*1999*	*1998*	*1997*	*1996*	*1995*	*1994*	*1993*	*1992*
	Fiscal Year Ended September 30,									
SUMMARY OF OPERATIONS:										
Premium income	**$ 821**	807	902	966	1,067	1,146	838	955	890	875
Other income	**$ 23**	5	3	10	19	26	18	42	38	118
Investment income (loss)	**$ (843)**	2,392	728	2,118	2,687	915	1,956	(380)	1,538	614
Actuarial charges (credits)	**$ 1,082**	453	(602)	815	488	632	1,561	(926)	1,680	848
Losses (credits) from completed and probable terminations	**$ 705**	(80)	49	584	489	118	169	(249)	743	896
Loss on contingent value rights	**$ 0**	0	0	0	0	0	0	0	96	
Administrative and investment expenses	**$ 184**	167	161	158	155	150	138	135	107	97
Other expenses	**$ 2**	(2)	(1)	6	29	3	19	0	0	0
Net income (loss)	**$ (1,972)**	2,666	2,026	1,531	2,612	1,184	925	1,657	(160)	(234)
SUMMARY OF FINANCIAL POSITION:										
Cash and investments	**$21,010**	20,409	17,965	17,345	14,988	11,665	10,026	7,857	7,866	5,897
Total assets	**$21,768**	20,830	18,431	17,631	15,314	12,043	10,371	8,281	8,267	6,381
Present value of future benefits	**$13,497**	10,631	11,073	12,281	11,497	10,760	10,388	9,215	10,693	8,790
Net position	**$ 7,732**	9,704	7,038	5,012	3,481	869	(315)	(1,240)	(2,897)	(2,737)
INSURANCE ACTIVITY:										
Benefits paid	**$ 1,043**	902	901	847	823	790	761	719	720	634
Participants receiving monthly benefits at end of year	**268,090**	226,080	214,160	208,450	204,800	198,600	181,000	172,800	156,800	150,200
Plans trusteed and pending trusteeship by PBGC	**2,965**	2,864	2,775	2,655	2,500	2,338	2,084	1,961	1,848	1,760

Multiemployer Program

(Dollars in millions)	***2001***	*2000*	*1999*	*1998*	*1997*	*1996*	*1995*	*1994*	*1993*	*1992*
	Fiscal Year Ended September 30,									
SUMMARY OF OPERATIONS:										
Premium income	**$ 24**	24	23	23	23	22	22	23	23	23
Other income (loss)	**$ 0**	0	0	0	0	1	0	0	(1)	1
Investment income (loss)	**$ 95**	70	(56)	133	68	12	83	(46)	107	27
Actuarial charges (credits)	**$ 1**	0	0	0	(1)	1	2	(1)	2	(1)
Losses (gains) from financial assistance	**$ 269**	26	109	34	(3)	102	108	57	20	46
Administrative and investment expenses	**$ 0**	0	0	0	0	0	0	0	0	0
Net income (loss)	**$ (151)**	68	(142)	122	95	(68)	(5)	(79)	107	6
SUMMARY OF FINANCIAL POSITION:										
Cash and investments	**$ 796**	682	681	736	585	498	472	374	405	279
Total assets	**$ 807**	694	692	745	596	505	477	378	407	283
Present value of future benefits	**$ 4**	4	5	6	7	9	10	10	13	13
Nonrecoverable future financial assistance, present value	**$ 679**	414	479	389	361	365	268	164	110	94
Net position	**$ 116**	267	199	341	219	124	192	197	276	169
INSURANCE ACTIVITY:										
Benefits paid	**$ 1**	1	1	1	1	2	2	2	2	2
Participants receiving monthly benefits from PBGC at end of year	**510**	620	730	850	1,000	1,100	1,300	1,400	1,590	1,760
Plans receiving financial assistance from PBGC	**22**	21	21	18	14	12	9	8	6	6

PBGC
U.S. GOVERNMENT AGENCY

Pension Benefit Guaranty Corporation
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