PBGC

PENSION BENEFIT GUARANTY CORPORATION


2003 ANNUAL REPORT


P B G C

The Pension Benefit Guaranty Corporation (PBGC) protects the pensions of nearly 44.3 million working men and women in more than 31,000 private defined benefit pension plans, including 34.5 million people covered by 29,500 single-employer plans and more than 9.7 million people covered by over 1,600 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, which consists of the Secretaries of Labor (Chair), Commerce, and the Treasury.

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

PBGC's mission is to operate as a service-oriented, professionally managed agency that protects participants' pension benefits and supports a 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.

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Chairman's Message

Defined benefit pension plans remain the cornerstone of retirement security for millions of American workers and retirees. Unfortunately, the defined benefit system is now confronted with the most significant challenges it has faced in over a decade. As of the end of fiscal year 2003, total underfunding in America's private pension plans exceeded $350 billion, by far the largest fiscal year-end number ever recorded. At the Pension Benefit Guaranty Corporation, not only did the single-employer insurance program show a record $11.2 billion deficit, but the multiemployer insurance program fell into deficit for the first time in over 20 years.

While PBGC is not in crisis—the agency has sufficient assets to meet its obligations for a number of years into the future—it is clear that the financial integrity of the federal pension insurance system is at risk. It is equally clear that comprehensive reform of the nation's pension funding rules must be enacted to strengthen the financial health of the defined benefit pension system.

This Administration has already proposed several initiatives as a first step toward responsible reform of the pension funding rules, including a more accurate measure of pension liabilities, improved disclosure of pension information, and new safeguards against underfunding. However, more is needed. The Administration will be working closely with Congress to develop a broad package of reforms to put PBGC and the defined benefit system on a sustainable path for the long term.

Despite its growing financial concerns, PBGC is responding to its work with professionalism and a commitment to providing outstanding service to its customers. PBGC is enhancing its productivity and efficiency, and its employees continue to explore ways to improve service through better use of technology and other means.

More than 900,000 workers and retirees now rely on PBGC to pay their pensions. But the existing regime cannot protect all the benefits currently at risk in the private defined benefit pension system. For that, we need new funding rules to ensure that pension promises made are pension promises kept.

E. L. Chao

Elaine L. Chao
Secretary of Labor
Chairman of the Board

Highlights

- The single-employer program suffered significant losses from completed and probable plan terminations and interest rate changes that drove its deficit to a record high of $11.2 billion. The net loss for the year totaled $7.6 billion, down from the $11.4 billion recorded in 2002. At the same time, the program's total assets of $34.0 billion assure the Corporation's ability to meet its obligations for a number of years.

(Dollars in millions)	**2003**	2002
Single-Employer and Multiemployer Programs Combined		
Summary of Operations		
Premium Income	**$ 973**	$ 812
Losses from Plan Terminations	**$ 5,377**	$ 9,313
Investment Income	**$ 3,386**	$ 288
Actuarial Charges and Adjustments	**$ 6,162**	$ 2,802
Insurance Activity		
Benefits Paid	**$ 2,489**	$ 1,538
Retirees	**459,190**	344,770
Total Participants Receiving or Owed Benefits	**934,000**	783,000
New Underfunded Terminations	**155**	157
Terminated/Trusteed Plans (Cumulative)	**3,287**	3,132
Financial Position		
Single-Employer Program		
Total Assets	**$ 34,016**	$ 25,430
Total Liabilities	**$ 45,254**	$ 29,068
Net Loss	**$ (7,600)**	$(11,370)
Net Position	**$(11,238)**	$ (3,638)
Multiemployer Program		
Total Assets	**$ 1,000**	$ 944
Total Liabilities	**$ 1,261**	$ 786
Net Income (Loss)	**$ (419)**	$ 42
Net Position	**$ (261)**	$ 158

- PBGC absorbed the largest single plan (95,000 participants) and largest loss from one company in its history (about $3.6 billion) with its trusteeship of the Bethlehem Steel pension plan. PBGC continues to face significant exposure from troubled companies with underfunded pension plans, especially in the air transportation and steel sectors, the termination of which could produce substantial additional losses.

- PBGC paid nearly $2.5 billion in benefits during the year, a new record for annual benefit payments that exceeded the previous record amount (paid in 2002) by almost $1 billion.

- In 2003, PBGC became trustee of 152 terminated single-employer plans covering about 206,000 people, up from 144 plans and 187,000 participants in 2002. This was the largest one-year increase in the total number of people owed guaranteed benefits by the Corporation. A total of 155 underfunded plans terminated during the year.

- At year-end, PBGC was responsible for the pensions of more than 930,000 people—more than 459,000 who are currently receiving benefits, another 375,000 who will begin to receive benefits when they retire in the future, and 100,000 who are receiving or will receive benefits due to PBGC's financial assistance to multiemployer plans. Despite dramatic growth in its workload, the Corporation further reduced the average time needed to issue final benefit determinations, significantly exceeding its annual performance target.

- The multiemployer program reported a year-end deficit of $261 million, its first deficit in more than 20 years and largest deficit ever, primarily because PBGC recorded substantial additional probable losses from expected nonrecoverable future financial assistance.

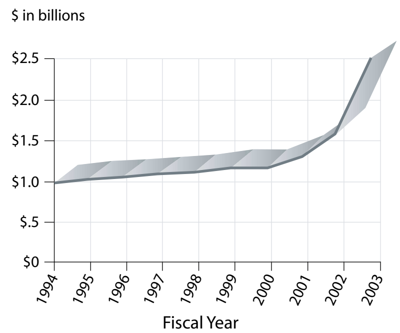
- PBGC advanced its electronic government initiatives with tests of its first online self-service centers and first fully electronic business transactions. PBGC expects to implement its initial production versions of both during 2004.

- PBGC recorded investment income of $3.4 billion in 2003 as the relative performance of equity and fixed-income investments was reversed from 2002. PBGC's total return on investments was a positive 10.3% in 2003 compared to 2.1% in 2002.

- PBGC's annual performance report (pp. 12-16) describes gains in both productivity and customer satisfaction.

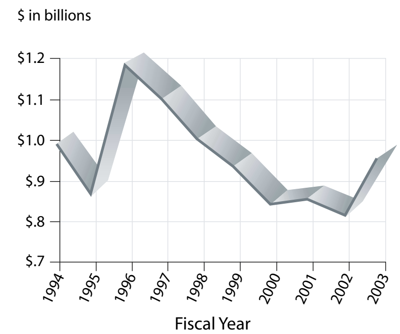
Perspectives on the Year

Annual Benefit Payments
1994-2003



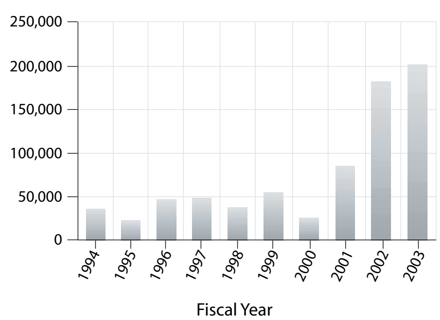
PBGC's benefit payments increased 62 percent from 2002, reaching a total of nearly $2.5 billion.

Total Premium Revenue
1994-2003



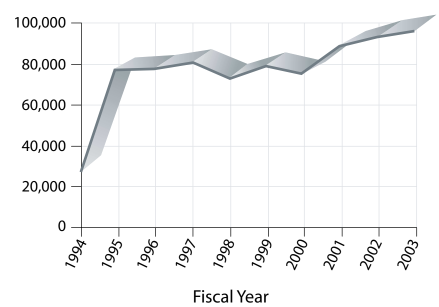
Premium revenues increased 20 percent from 2002, reaching a total of $973 million.

New Participants in Trusteed Plans
1994-2003



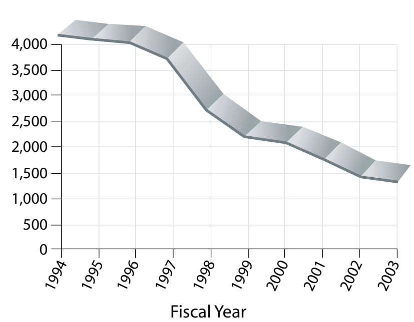
PBGC took responsibility for the benefits of a record 206,000 new participants during the year.

Benefit Determinations Issued
1994-2003



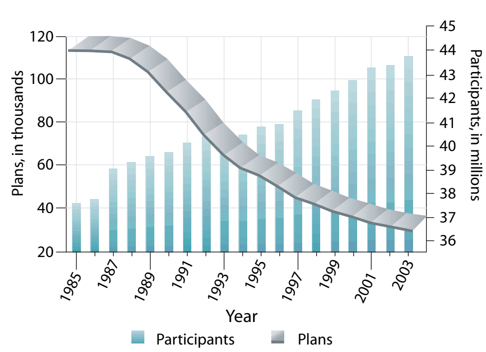
PBGC issued more final benefit determinations in 2003 than in any prior year, lowering the average age of the determinations issued to about 2.2 years.

Standard Terminations
1994-2003



Only 1,119 standard terminations were submitted to PBGC during 2003, fewer than any previous year. There have been more than 164,000 standard terminations since 1974, leaving only 31,000 plans active at present.

PBGC-Insured Plans and Participants
1985-2003



The number of PBGC-insured plans continued to decline, falling to about 31,000, although there continued to be slight growth in the number of covered participants.

Executive Director's Report

Steven A. Kandarian
Executive Director

Following the historic losses recorded by the pension insurance program in 2002, the Pension Benefit Guaranty Corporation (PBGC) sustained additional severe losses during 2003 amid deepening concern for the health of the private defined benefit pension system. Defined benefit pension plans continue to be an important source of retirement security for more than 44 million American workers. However, the funded status of these plans has deteriorated sharply and a number of plan sponsors have been unable to meet their benefit obligations, leading to record deficits in both of PBGC's insurance programs. Despite the financial pressures on the Corporation, PBGC continued to meet the growing demand placed upon it for benefit payments while making further progress in customer service.

LOSSES CONTINUED

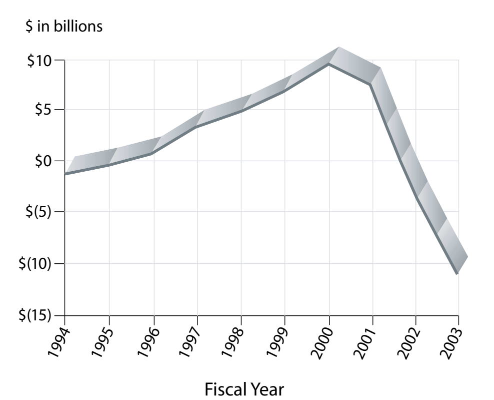
Under PBGC's single-employer plan insurance program, losses from completed and probable plan terminations totaled nearly $5.4 billion for 2003, significantly less than the record amount experienced in 2002. This represented PBGC's second largest annual loss from plan terminations in its 29-year history, continuing a three-year-old trend of steep losses for the pension insurance program.

These losses represent more than just claims against the insurance program. When PBGC is forced to take over underfunded plans, the burden often falls heavily on workers and retirees. In some cases, participants lose benefits that were earned but not guaranteed by the insurance program. In all cases, workers lose the opportunity to earn additional benefits under the terminated plan.

PBGC's premium payers—the employers who sponsor defined benefit pension plans—also pay a price when an underfunded plan terminates. When PBGC takes over such plans, financially healthy companies with better-funded pension plans end up making transfers to financially weak companies with chronically underfunded plans.

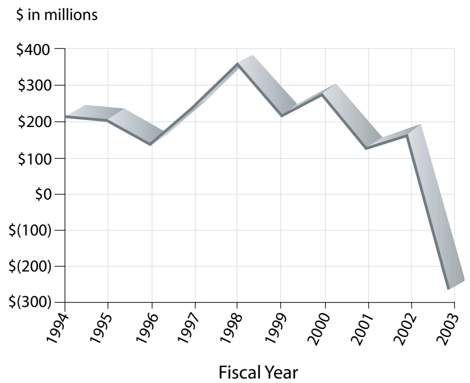
In a counterpoint to PBGC's losses from terminations, the Corporation's investment program produced income in excess of $3.3 billion. However, as substantial as it was, the Corporation's investment income only offset about half of the actuarial charges arising largely from interest rate changes. Even with the investment income, PBGC is reporting a net loss for the year of $7.6 billion primarily due to losses from terminated plans and actuarial charges, pushing the single-employer program's year-end deficit to $11.2 billion. At year-end the total liability for guaranteed benefits exceeded $44.6 billion compared to less than $29 billion one year ago.

Net Position, Single-Employer Program
1994-2003



PBGC's separate insurance program for multiemployer plans, which is vulnerable to some of the same economic and demographic pressures that have threatened the single-employer program, also sustained a substantial loss for the year. The multiemployer program reported

NET POSITION, MULTIEMPLOYER PROGRAM
1994-2003



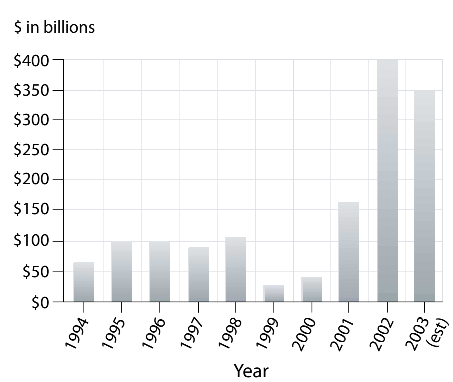
a net loss of $419 million, the largest one-year drop in the program's history. This result is largely due to PBGC's recording of new probable losses from future financial assistance for several additional plans as well as from the decline in interest rates. Consequently, the multiemployer program is reporting a year-end deficit of $261 million, the program's largest shortfall ever and its first year-end deficit in over 20 years.

The financial state of both insurance programs is cause for concern. The single-employer program's $34 billion in assets, and the multiemployer program's $1 billion in assets, provide PBGC with sufficient liquidity to pay benefits for a number of years. However, neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants. Moreover, PBGC estimates that the total underfunding in single-employer plans exceeded $350 billion as of fiscal year-end. Underfunding in multiemployer plans has increased as well, reaching an estimated $100 billion as the year closed. This underfunding prompts an additional concern for the multiemployer program because the underfunding is concentrated in mature, often declining industries. Given the limited size of the multiemployer program, the failure of a large, highly underfunded plan could overwhelm the program's financial capacity.

The Bush Administration has recognized the urgency of the financial challenges facing private pension plans and PBGC's insurance programs and has alerted the public to its concerns. The Administration's concerns were affirmed in 2003 when the General Accounting Office (GAO) placed PBGC's single-employer program on its "high-risk" list. It should be noted that GAO's action did not reflect concerns about management of the pension insurance program, as GAO pointed out in Congressional testimony. Rather, GAO's report to the Congress pointed to structural problems in the private-sector defined benefit system that pose serious risks to PBGC.

The funding of America's private pension plans is a pressing public policy issue. Financial market trends from 2000 through 2002—falling interest rates and equity returns—have exposed underlying weaknesses in the pension system, weaknesses that must be corrected if the system is to remain viable in the long run. The defined benefit system faces other challenges as well, including an asset-liability mismatch, adverse demographic trends, and weaknesses in the pension funding rules.

TOTAL UNDERFUNDING IN
INSURED SINGLE-EMPLOYER PLANS
1994-2003



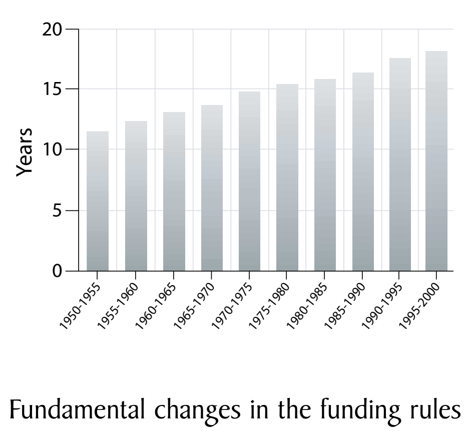
The concurrent drops in both equity values and interest rates, in particular, have undermined the financial strength of most defined benefit pension plans in recent years. Pension plan liabilities tend to be bond-like in nature. For example, both the value of bonds and the value of pension liabilities have risen in recent years as interest rates fell. Were interest rates to rise, both the value of bonds and the value of pension liabilities would fall. The value of equity investments is more volatile than the value of bonds and less correlated with interest rates. Most companies prefer equity investments because they have historically produced a higher rate of return than bonds. These companies are willing to accept the increased risk of equities and interest rate changes in exchange for expected lower pension costs over the long term. Similarly, labor unions support investing in equities because they believe it results in larger pensions for workers. Investing in equities rather than bonds shifts some of these risks to PBGC.

Demographic trends are another structural factor adversely affecting defined benefit plans. Many defined benefit plans are sponsored by employers in the nation's oldest and most capital intensive industries. These industries face growing pension and health care costs due to an increasing number of older and retired workers. Retirees already outnumber active workers in some industries with substantially underfunded plans. Furthermore, Americans are living longer in retirement as a result of earlier retirement and longer life spans. Today, an average male worker spends 18.1 years in retirement compared to 11.5 in 1950, an additional 7 years of retirement that must be funded.

Another concern is weaknesses in the current funding rules, most notably the low limits set for funding targets. Employers can stop making contributions when a pension plan is funded at 90 percent of "current liability." However, current liability doesn't reflect the plan's termination liability, which is the full cost of providing annuities as measured by group annuity prices in the private market. For example, in its last filing prior to termination, Bethlehem Steel reported that it was 84 percent funded on a current liability basis. At termination, however, the plan was only 45 percent funded on a termination basis, with total underfunding of $4.3 billion.

The funding rules also often allow "contribution holidays" even for seriously underfunded plans. For example, in the case of the U.S. Airways pension plan for pilots, which PBGC trusteed in March with unfunded benefits totaling $2.2 billion, the company made no cash contributions to the plan for four years prior to plan termination. And, because of the structure of the funding rules under ERISA and the Internal Revenue Code, defined benefit plan contributions can be extremely volatile. After years of the funding rules allowing companies to make little or no contributions, many companies are facing substantial increases in their contributions at a time when they are facing other economic pressures.

Average Number of Years Spent in Retirement (males)



Fundamental changes in the funding rules are needed to put plans on a predictable, steady path to better funding. At the same time, we must keep in mind that the defined benefit pension system is voluntary. We must balance reforms against any new disincentives for companies to maintain their pension plans. By strengthening the funding rules to minimize volatility in contribution requirements but still ensure that all companies make the contributions needed to back their pension promises, we will make it more attractive for plan sponsors to retain their defined benefit plans.

The Administration believes that the first step toward responsible reform of pension funding rules is to improve the accuracy and transparency of pension information. To this end, the Administration has proposed an initial package of legislative reforms to respond to the challenges facing the defined benefit system. The proposals include specific recommendations to more accurately value pension liabilities, to increase disclosure about the funded status of plans, and to require immediate funding of additional benefits in severely underfunded plans at high risk of termination.

In addition to these proposals, the Administration is developing comprehensive reforms to strengthen the defined benefit system by getting pension plans better funded. We also believe that PBGC's premiums should be reexamined to see whether they can better reflect the risk posed by various plans to the pension system as a whole.

BENEFIT OPERATIONS EXPANDED

In addition to our growing financial concerns, we also are coping with unprecedented growth in our benefit operations. In the past two years, PBGC has assumed responsibility for the benefits of nearly 400,000 people, equal to the number the Corporation took in during its first 21 years of operation. PBGC took on responsibility for some 206,000 workers and retirees in 152 plans trusteed during 2003 alone. This was the largest number of new beneficiaries ever absorbed in one year by the insurance program, topping the previous record set just last year. The trusteed plans also included the largest single plan ever handled by PBGC, that of Bethlehem Steel Corporation, which covered 95,000 participants including 67,000 retirees.

By the end of 2003, PBGC was responsible for a total of 3,240 trusteed plans and the current and future pension benefits of about 934,000 participants, including 100,000 participants in multiemployer plans receiving financial assistance from PBGC. An additional 47 terminated single-employer plans were pending trusteeship at year-end.

During 2003, PBGC paid benefits totaling nearly $2.5 billion to more than 459,000 people. This was up from the previous record amount of $1.5 billion, paid in 2002, and it was $1.4 billion more than we paid just two years ago.

PBGC's insurance program for multiemployer plans approved requests for financial assistance from two additional plans during 2003. These requests raised to 33 the total number of plans that have received financial assistance from PBGC, out of the more than 1,600 insured plans. Since 1980, PBGC has provided assistance with a total value of approximately $162 million net of repaid amounts. During the year, 24 plans received financial assistance totaling about $5 million.

CUSTOMER SERVICE IMPROVED

Although faced with a huge surge in new people owed guaranteed benefits, PBGC increased its performance in issuing final benefit determinations. During 2003, the

Corporation issued over 92,000 benefit determinations, more than in any previous year. On average, PBGC issued the final determinations only 2.2 years after the date it had trusteed the participant's plan, exceeding the performance goal of a 3-year average set for 2003 under PBGC's strategic plan. This was the shortest amount of time the Corporation has ever needed to produce final benefit determinations, achieved despite the historic increase in PBGC's workload.

Our recent efforts to improve efficiency have also contributed to improved customer service. Procedural innovations applied and tested in the termination of the LTV Steel plans in 2002, such as advance coordination with the plan sponsor before the plan's actual termination, early communications with plan participants, and specialized customer contact centers, helped ensure a virtually seamless transition to PBGC trusteeship in spite of the plans' unusually large size. The new procedures and lessons learned from LTV were applied on a greater scale in 2003, allowing PBGC to absorb Bethlehem Steel's even larger plan without compromising our customer service or processing goals. Another recent improvement—accelerated issuance of benefit determinations for people whose benefits are uncomplicated or unaffected by adjustments—enabled PBGC to increase its output of final determinations to cope with the growing demand. These innovations have markedly improved productivity and efficiency. Consequently, PBGC's customers are receiving higher quality service, as their increasing satisfaction attests (please see the Annual Performance Report, later in this Annual Report, for details).

Further improvements in customer service will be achieved through greater use of information technology. Our electronic government initiative, including Web-based methods of communication, will strengthen PBGC's ability to provide premier service for its rapidly growing customer base.

Throughout 2003, PBGC continued efforts to develop fully functional online self-service centers. Once implemented, these accounts will enable participants in trusteed plans and plan practitioners to access their personal or plan-related information and conduct a range of transactions any time of day on any day of the year. Late in 2003 PBGC initiated a small-scale test of a pilot self-service center for participants called "My Pension Benefit Account" that allows online updating of certain personal information. PBGC also began testing and refining a prototype of a similar self-service facility, called "My Plan Administration Account," for administrators of PBGC-insured plans and the pension practitioners who assist them. The Corporation plans a phased rollout of initial versions of these self-service accounts to its customers beginning in 2004.

PBGC is also pressing forward with other initiatives aimed at upgrading its information technology and enhancing its service capabilities. We have begun testing a Customer Relationship Management (CRM) application that uses a combination of technology and streamlined business processes to improve PBGC's responsiveness to customer inquiries. During this past year PBGC also implemented a new Knowledge Management application that allows PBGC's operations staff to preserve and easily share knowledge about innovations and lessons learned in processing the recent large plan terminations.

Customer service at PBGC is a dynamic concept grounded on continual improvement, and we are looking ahead to other projects that have significant implications for PBGC and its customers. For example, we are re-engineering the business processes for premium payments and standard terminations as the first step in redesigning the Corporation's automated premium accounting system to better serve plan practitioners. Other projects for which planning is underway include integration of PBGC's financial systems, improved automated systems for performing plan valuations and benefit calculations, and application of independent verification and validation testing to all of the Corporation's major automated systems.

While many of our initiatives are driven by our business needs, others arise from customer comments. We now use the American Customer Satisfaction Index (ACSI) to measure our customers' satisfaction with our services and to gain insight into needed improvements. The ACSI index is a sophisticated, internationally accepted index compiled annually from surveys by a partnership of the University of Michigan Business School, the American Society for Quality and the CFI Group. It offers an independent, objective third-party measure that can help PBGC identify and prioritize areas needing improvement. PBGC's latest ACSI scores, described later in the Annual Performance Report section of this Annual Report, demonstrate the progress we are making in addressing our customers' needs and wants.

FINAL THOUGHTS

The federal pension insurance system and the pension plans it protects now face serious challenges. PBGC's staff is responding with increased efficiency, productivity, and concern for the needs of our customers. However, fundamental changes are needed to put the defined benefit system and PBGC's insurance program on a stable long-term footing. The Bush Administration is actively engaged in formulating appropriate solutions and we will be working with Congress to craft the necessary reforms. The retirement security of American workers demands no less.

Steven A. Kandarian

Steven A. Kandarian
Executive Director

Single-Employer Program Exposure

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

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

For purposes of its financial statements, PBGC classifies the underfunding of financially weak companies as "reasonably possible" exposure, as required under accounting principles generally accepted in the United States of America. The "reasonably possible" exposure as of September 30, 2003, as disclosed in Note 7 of the financial statements, ranged from $83 billion to $85 billion (valued using data as of December 31, 2002), compared to $35 billion for fiscal year 2002.

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

Methodology for Considering Long-Term Single-Employer Program Claims

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

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

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

PIMS starts with data on PBGC's net position (an $11.2 billion deficit in the case of FY 2003) and data on the funded status of approximately 350 plans that is weighted to represent the universe of PBGC-covered plans. The model produces results under 5,000 different simulations.

Under the model, median claims over the next 10 years will be about $2.2 billion per year (expressed in today's dollars); that is, half of the simulations show claims above $2.2 billion per year and half below. The mean level of claims (that is, the average claim) is higher, about $2.6 billion per year. The mean is higher because there is a chance under some simulations that claims could reach very high levels. For example, under the model there is a 10 percent chance that claims could exceed $4.7 billion per year.

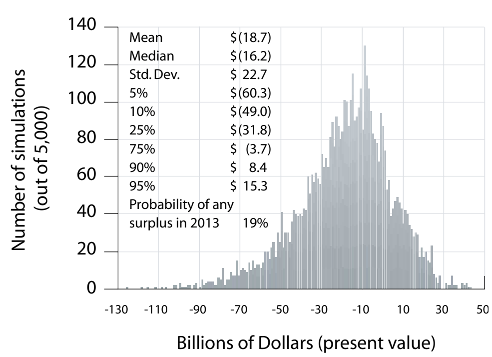
PIMS then projects PBGC's potential financial position by combining simulated claims with simulated premiums, expenses, and investment returns. The probability of a particular outcome is determined by dividing the number of simulations with that outcome by 5,000.

The median outcome is a $16.2 billion deficit in 2013 (in present value terms). This means that half of the simulations show either a smaller deficit than $16.2 billion, or a surplus, and half of the simulations show a larger deficit. The mean outcome is an $18.7 billion deficit in 2013 (in present value terms).

The median projected financial position is lower than last year's median projection, both of which were based on a wide range of possible outcomes for each year of the projection. The drop in the median projection is attributable to several factors. PBGC's own financial position eroded by $7.6 billion during 2003. Despite some improvement in plan asset returns over the year, total underfunding increased in PBGC-covered plans due to a further drop in interest rates. Further, the increase in underfunding in plans of financially weak companies—almost two and a half times the 2002 values—was even greater than the increase in total underfunding.

The graph below illustrates the wide range of outcomes that are possible for PBGC over the next 10 years. The other statistics listed on the graph give further details on the distribution of outcomes. The standard deviation is a measure of how widely the distribution is spread over its range and the percentiles indicate the likelihood of a position below particular values. For example, the model shows a 10 percent chance that the deficit could be as large as $49.0 billion and a 10 percent chance that PBGC could have a surplus of $8.4 billion or more. The probability of a surplus of any amount in 2013 is 19 percent.

Distribution of PBGC's Potential 2013 Financial Position



Annual Performance Report

PBGC's current 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:

- protect existing defined benefit plans and their participants;
- provide high quality, responsive services and accurate and timely payment of benefits to participants;
- strengthen financial programs and systems to keep the pension insurance system solvent; and
- improve internal management support operations.

PBGC's performance measures track specific results that are significant to its customers and gauge PBGC's solvency and customer service accomplishments. For 2003 PBGC added measures for benefit accuracy and monitoring ongoing pension plans. PBGC also dropped two measures where it had effectively reached the upper limit of performance: for premium collection (99 percent in 2002) and the age of pre-trusteeship inventory (an average age of well below one year in 2002).

PBGC is in the process of revising its strategic plan for fiscal years 2004-2008. That new plan will reflect two revised strategic goals and new performance measures focused on customer satisfaction, underfunding of insured pension plans and PBGC's cost-effectiveness.

PBGC's strategic plan may be found on PBGC's Web site at **www.pbgc.gov/about/stratplan.htm**. The following table shows the results achieved in 2003 and meets the annual reporting requirement of the Government Performance and Results Act.

2003 PBGC Corporate Performance Measures

Measure	Applicable Goal	2003 Milestone	2003 Result	Baseline[a]
Protect the interests of defined benefit pension plan participants by:				
▣ Monitoring companies sponsoring defined benefit pension plans, and reviewing their transactions.	(1)	b	902 controlled groups 2,917 plans	902 controlled groups 2,917 plans (2003)
▣ Resolution of bankruptcy actions with companies sponsoring plans	(1)	b	172 plans 676,899 participants	92 plans 226,000 participants (1999)
Customer Satisfaction:				
▣ American Customer Satisfaction Index of participants who contact PBGC for service	(2)	74	77	73 (2001)
▣ American Customer Satisfaction Index of pension practitioners who contact PBGC for service	(2)	70	69	69 (2002)
Operations:				
Send benefit determinations to participants in defined benefit pension plans taken over by PBGC within 3.0 years, on average	(2)	3 years	2.2 years	5.95 years (1997)
Make trusteeship decisions within one year of opening the case for non-bankruptcy reportable events	(2)	90%	92%	94% (2002)
Send the first benefit payment to an eligible person within 3 months of receiving his/her completed application	(2)	95%	97%	83% (1999)
Find and pay benefits to missing participants in terminated defined benefit plans	(2)	b	7,729 participants	1,303 participants (1999)
Assure the accuracy of benefit determinations based on an audit of benefit determination letters (BDLs) issued	(2)	c	Issued Statement of Reasonable Assurance of Accuracy	Issued Statement of Reasonable Assurance of Accuracy (2003)
Financial Management:				
Research and respond within 90 days to requests for premium refund, waiver of premium penalty, and reconsideration of a PBGC premium decision	(3)	85%	82%	26% (2001)
Approximate comparable 5-year investment indices for PBGC's portfolio performance	(3)	b	PBGC / Index *Equities* 2.1% / 2.0% *Fixed-Income* 6.5% / 6.5%	(1997) PBGC / Index *Equities* 20.6% / 20.6% *Fixed-Income* 10.9% / 8.9%

a/ Year in parenthesis 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/ New measure in 2003.

ACHIEVING PERFORMANCE TARGETS

Protecting the Interests of Defined Benefit Plan 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 system. In 2003, PBGC fulfilled this advocacy role in 172 cases involving 676,899 participants.

- PBGC protects participant interests by monitoring companies sponsoring under-funded defined benefit plans and reviewing their corporate transactions for impact on their plan participants and the pension insurance system. In 2003, PBGC monitored 902 controlled groups involving 2,917 plans.

Customer Satisfaction:

- The American Customer Satisfaction Index is the national indicator of customer satisfaction. One hundred seventy private sector companies and fifty 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. PBGC's 2003 index for participants in trusteed plans was 77, three points higher than the target of 74, and almost seven points higher than the federal government average of 70.2. The results identify causes and effects of satisfaction, and focus PBGC's efforts to improve three activities: customer care, concern resolution and written communications.

- PBGC's 2003 ACSI index for pension practitioners was 69, the same as in 2002. While one point below the 2003 combined index of all federal agencies, it was well above the indices for comparable federal collection programs.

Operations:

- PBGC reviewed the benefit determinations issued in 2003 to verify the accuracy of its benefit calculations and issued a Statement of Reasonable Assurance of Accuracy based on the results of that review, thus meeting the goal for the year. This statement is management's confirmation that PBGC has consistently and properly applied plan formulas and actuarial factors using the best information available at the time of the calculation.

- The principal measure of operations is the average time frame needed to send benefit determinations to participants in defined benefit pension plans taken over by PBGC. PBGC's goal has been to reduce the average time frame needed to 3 years. Efforts to speed up processing have succeeded. Plans with nearly 400,000 participants were trusteed by PBGC in 2002 and 2003, compared to the 100,000 anticipated in PBGC's original projections. In spite of this significant increase in workload, in 2003 PBGC reduced the average time it takes to get benefit determinations to participants to 2.2 years, significantly exceeding the target.

- During 2003 PBGC made trusteeship decisions within one year of opening the case for non-bankruptcy reportable events 92 percent of the time.
- Of eligible participants who completed benefit applications, 97 percent received pension payments from PBGC within three months, achieving the annual target and exceeding last year's result by two percentage points.
- In 2003, PBGC located 7,729 missing participants, some of whom might otherwise lose pension benefits they earned.

Financial Management:

- Timeliness of PBGC's response to requests for premium refunds, waiver of penalties and reconsideration of premium decisions is a measure important to the practitioner community. The Corporation's target is ninety days from receipt to completion of the request. In 2003 PBGC met its target 82 percent of the time. This figure fell short of the 85 percent milestone set for the year but improved dramatically over the 41 percent result achieved in 2002.

- Investment management results are measured against recognized industry indices aggregated over a five-year period. PBGC realized investment returns in 2003 that were comparable to its industry indices. Returns on fixed-income securities, which represent 54 percent of the Corporation's portfolio, equaled the benchmark while equities slightly exceeded their index.

PROGRAM EVALUATION

PBGC annually evaluates the satisfaction of participants in plans trusteed by PBGC and of pension practitioners who have dealings with us on premium payment or standard termination matters. The American Customer Satisfaction Index provides the evaluations and a means to compare PBGC's results with those of other government and private organizations. Evaluation of the survey responses enables PBGC to continually improve its program operations.

Financial Statements

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

GENERAL

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

PBGC's operating results are subject to significant fluctuation from year to year depending on the severity of losses from plan terminations, changes in the select interest rate, 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

The combined programs' underwriting and financial activities resulted in a net loss of $8.019 billion. The single-employer program posted a net loss of $7.600 billion. The multiemployer program reported a net loss of $419 million, its largest to date. By law, these two programs are separate.

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.

PBGC uses institutional investment management firms to invest its assets subject to PBGC oversight. Under the guidance of its Board of Directors, PBGC began a review of its investment policy to ensure that it maintains an investment structure that is consistent with its long-term objectives and responsibilities.

As of September 30, 2003, the value of PBGC's total investments in the single-employer and multiemployer programs, including cash, was approximately $34.5 billion. The Revolving Fund's value was $16.4 billion and the Trust Fund's value was $18.1 billion. Cash and fixed-income securities represented 63 percent of the total assets invested at the end of the year, compared to 72 percent at the end of 2002. Equity securities represented 37 percent of total assets invested, as compared to 28 percent at the end of 2002. A very small portion of the invested portfolio remains in real estate and other financial instruments.

Results for fiscal year 2003 were generally positive for capital market investments and PBGC's investment program. During the year, PBGC achieved a 10.3% return on total invested funds. PBGC's fixed-income program returned 4.2% while its equity program returned 25.8%. 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 $1.3 billion from fixed-income investments and a gain of about $2.1 billion from equity investments.

Investment Performance

(Annual Rates of Return)

	September 30, 2003	2002	Five Years Ended September 30, 2003
Total Invested Funds	**10.3%**	2.1%	5.0%
Equities	**25.8**	-17.0	2.1
Fixed-Income	**4.2**	14.4	6.5
Trust Funds	**22.9**	-15.5	2.4
Revolving Funds	**3.8**	14.4	6.5
Indices			
Wilshire 5000	**26.3**	-17.5	2.0
S&P 500 Stock Index	**24.4**	-20.5	1.0
Lehman Brothers Long Treasury Index	**3.7**	14.5	6.5

SINGLE-EMPLOYER PROGRAM

Results of Activities and Trends: The rise in business failures in more mature industries in combination with increased pension underfunding continued the trend of large claims against the pension insurance system. This resulted in a net loss in 2003 of $7.600 billion compared to the net loss of $11.370 billion in 2002. The $3.770 billion improvement was attributable to increases in investment income of $3.179 billion, premium revenue of $161 million and the net decrease in losses from completed and probable terminations ($3.936 billion). This was offset by increases in actuarial charges of $3.359 billion and administrative and other charges of $147 million.

UNDERWRITING ACTIVITY: The loss of $4.877 billion in 2003 was a significant improvement over the loss of $8.790 billion in 2002. This $3.913 billion decrease in the loss was primarily due to positive impacts from a decrease in losses from completed and probable terminations and the increase in premium revenues, offset by the increase in administrative and other charges.

Underwriting income increased from $815 million in 2002 to $976 million in 2003. The $161 million change was due primarily to the increase in variable-rate premium income triggered by the significant decrease in interest rates as well as the drop in plan asset values.

For plan years beginning in 2002 and 2003, the Required Interest Rate (RIR) used in calculating the variable-rate premium was changed to 100 percent, rather than 85 percent, of the annual yield on 30-year Treasury securities. However, the dampening effect of the RIR change on variable-rate premium revenue in 2003 was more than offset by other factors that increased plan underfunding and, therefore, variable-rate premium payments. In particular, interest rate assumptions used by plans to calculate premiums have changed since September 30, 2002. The average 30-year Treasury rate for the month of December 2001 (which was used in the calculation of 2002 premiums) was 5.48% compared to the 4.92% rate at December 2002 (which was used to calculate 2003 premiums). This was a significant change that increased plan benefit liabilities in 2003 for calendar year plans (which comprise approximately 60% of all plans). Non-calendar year plans were generally impacted in a similar manner. Consequently, variable-rate premiums increased approximately 130 percent over 2002 because of the decline in interest rate assumptions as well as any decrease in plan asset values associated with the decline in the equity markets from December 2001 to December 2002.

The Corporation's losses from completed and probable plan terminations decreased from a loss of $9.313 billion in 2002 to a loss of $5.377 billion in 2003. As in the previous year, the loss was primarily due to new plans classified as probable and the termination of underfunded pension plans. Future losses remain unpredictable as

PBGC's loss experience is highly sensitive to losses from large claims.

Administrative expenses increased $64 million over 2002, to a total of $271 million in 2003. This was primarily due to increased plan-related termination costs and increases in PBGC administrative costs.

FINANCIAL ACTIVITY: The loss from financial activity increased from $2.580 billion in 2002 to $2.723 billion in 2003. This change was primarily due to the effect of the change in interest rates on the present value of future benefits, which was partially offset by investment income.

The total return on investments was a positive 10.3% in 2003 compared to a positive 2.1% in 2002. Equity investment returns in 2003 increased by $3.946 billion over 2002 while the gain from fixed-income investments was $767 million less in 2003 than in 2002. PBGC, in accordance with accounting principles generally accepted in the United States of America (GAAP), marks its assets to market.

Actuarial charges primarily resulted from the changes in interest rates in FY 2003 and from the aging of the present value of future benefits. The PBGC select interest rate decreased from a 25-year rate of 5.70% at September 30, 2002, to a 20-year rate of 4.40% at September 30, 2003, while the ultimate rate decreased from 4.75% to 4.50%.

Liquidity and Capital Resources: The single-employer program's net position in 2003 declined significantly to a deficit of $11.238 billion primarily as a result of completed and probable terminations and actuarial charges. Of the program's total assets of $34.016 billion, $33.489 billion (98 percent) 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 operating cash needs 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 2002 or 2003 and has no plans to use it in the future. PBGC has sufficient cash flow to cover benefit payments, other operating expenses, and other liabilities for a number of years.

The total underfunding in plans (excluding probable terminations) that are sponsored by companies with below-investment-grade bond ratings, and classified by PBGC as reasonably possible, ranges from approximately $83 billion to $85 billion (see Note 7) at the December 31, 2002, measurement date. December 31st values are the most current and complete data available. Losses from these plans are not probable at this time but GAAP requires the exposure to be disclosed in the footnotes of the financial statements. This exposure was principally in air transportation; primary metals and fabricated metal products; electronic and other electrical equipment, except computer equipment; industrial and commercial machinery and computer equipment; transportation equipment; chemicals and allied products; paper and allied products; electric, gas and sanitary services; rubber and miscellaneous plastics products; and general merchandise stores.

Expected claims in the longer term are more difficult to quantify either in terms of a single number or a limited range. The amount of PBGC's future claims depends on many factors, including current underfunding among insured plans, changes in underfunding over time and bankruptcies among sponsors. These factors are influenced by future economic conditions, most particularly those affecting interest rates, investment returns and the rate of business failures. There is significant volatility in underfunding over time, as seen over the past few years.

Claims vary substantially over time reflecting overall economic conditions, the performance of some particular industries or the bankruptcy of a few very large companies. Volatility and the concentration of claims in a small number of terminations characterize PBGC expected claims.

As discussed in Note 14 of the financial statements, the Corporation is subject to litigation that could have considerable impact on its financial condition.

Benefit payments and administrative expenses are expected to exceed $3 billion in 2004. Due to significant factors beyond PBGC's control (e.g., fluctuations in interest rates, contributions made to PBGC-insured plans by sponsors, etc.), it remains difficult to project premium receipts. PBGC's best estimate of 2004 premium receipts forecasts the amount to fall within the range of $1.0 billion to $1.1 billion.

The single-employer program's negative net position of $11.238 billion at year-end has not impacted the Corporation's ability to meet its liquidity needs and responsibilities under the Employee Retirement Income Security Act. The program's total assets of $34.016 billion assure the Corporation's ability to meet its financial obligations for a number of years.

MULTIEMPLOYER PROGRAM

Results of Activities and Trends: The 2003 multiemployer results of operations culminated in a negative net position of $261 million. The program reported a loss of $419 million in 2003 compared to a gain of $42 million in 2002. The change in net income was primarily due to the increase in the loss from future financial assistance and a decrease in investment income. The significant increase in the loss from future financial assistance resulted primarily from the reclassification of five plans as probable losses, the decrease in interest rates, and changes in plan data (e.g., updated information regarding assets, plan liabilities, contributions and withdrawal liability payments). Premium income remained stable at $25 million. Of the program's assets, PBGC invested 97.5 percent in Treasury securities in 2003 and 98.4 percent in 2002.

Liquidity and Capital Resources: Despite the multiemployer program having a negative net position, PBGC has sufficient resources to meet its liquidity requirements as most assets are highly liquid Treasury securities. In 2004, premium receipts will approximate $25 million while benefit payments and financial assistance are expected to be about $12 million.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT STATEMENT

Management controls in effect during fiscal year 2003 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 identify a fiscal year 2003 material weakness related to the methodology used in estimating multiemployer plan liabilities. The Corporation will correct this in fiscal year 2004.

Management Representation

PBGC's management is responsible for the accompanying Statements of Financial Condition of the Single-Employer and Multiemployer Program Funds as of September 30, 2003 and 2002, the related Statements of Operations and Changes in Net Position and the Statements of Cash Flows for the years then ended. PBGC's management is also responsible for establishing and maintaining systems of internal accounting and administrative controls that provide reasonable assurance that the control objectives, i.e., preparing reliable financial statements, safeguarding assets and complying with laws and regulations, are achieved.

In the opinion of management, the financial statements of the Single-Employer and Multiemployer Program Funds present fairly the financial position of PBGC at September 30, 2003, and September 30, 2002, and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America (GAAP) and actuarial standards applied on a consistent basis.

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

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

The Inspector General engaged Pricewaterhouse Coopers LLP (PwC) to conduct the audit of the Corporation's 2003 and 2002 financial statements. PwC issued an unqualified opinion on PBGC's September 30, 2003 and 2002, financial statements.

Steven A. Kandarian

Executive Director

Hazel Broadnax

Deputy Executive Director
and Chief Financial Officer

December 22, 2003

Pension Benefit Guaranty Corporation
Statements of Financial Condition

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in millions)	**2003**	2002	**2003**	2002	**2003**	2002
ASSETS						
Cash and cash equivalents	**$ 3,172**	$ 716	**$ 8**	$ 3	**$ 3,180**	$ 719
Investments, at market (Note 3):						
Fixed maturity securities	**17,250**	16,742	**975**	929	**18,225**	17,671
Equity securities	**12,641**	7,349	**1**	1	**12,642**	7,350
Real estate and real estate investment trusts	**93**	38	**0**	0	**93**	38
Other	**59**	6	**0**	0	**59**	6
Total investments	**30,043**	24,135	**976**	930	**31,019**	25,065
Receivables, net:						
Sponsors of terminated plans	**132**	209	**0**	0	**132**	209
Premiums (Note 9)	**254**	121	**0**	0	**254**	121
Sale of securities	**134**	45	**0**	0	**134**	45
Investment income	**274**	197	**16**	11	**290**	208
Other	**3**	3	**0**	0	**3**	3
Total receivables	**797**	575	**16**	11	**813**	586
Furniture and fixtures, net	**4**	4	0	0	**4**	4
Total assets	**$34,016**	$25,430	$1,000	$944	**$35,016**	$26,374

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

Pension Benefit Guaranty Corporation
Statements of Financial Condition

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in millions)	**2003**	2002	**2003**	2002	**2003**	2002
LIABILITIES						
Present value of future benefits, net (Note 4):						
Trusteed plans	**$ 38,945**	$21,660	**$ 3**	$ 3	**$ 38,948**	$21,663
Terminated plans pending trusteeship	**463**	476	**0**	0	**463**	476
Settlements and judgments	**67**	161	**0**	0	**67**	161
Claims for probable terminations	**5,166**	6,322	**0**	0	**5,166**	6,322
Total present value of future benefits, net	**44,641**	28,619	**3**	3	**44,644**	28,622
Present value of nonrecoverable future financial assistance (Note 5)			**1,250**	775	**1,250**	775
Unearned premiums (Note 9)	**207**	193	**8**	8	**215**	201
Due for purchases of securities	**127**	83	**0**	0	**127**	83
Accounts payable and accrued expenses (Note 6)	**279**	173	**0**	0	**279**	173
Total liabilities	**45,254**	29,068	**1,261**	786	**46,515**	29,854
Net position	**(11,238)**	(3,638)	**(261)**	158	**(11,499)**	(3,480)
Total liabilities and net position	**$ 34,016**	$25,430	**$1,000**	$944	**$ 35,016**	$26,374

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

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

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

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	For the Years Ended September 30,		For the Years Ended September 30,		For the Years Ended September 30,	
(Dollars in millions)	**2003**	2002	**2003**	2002	**2003**	2002
UNDERWRITING:						
Income:						
Premium (Note 9)	**$ 948**	$ 787	**$ 25**	$ 25	**$ 973**	$ 812
Other	**28**	28	**0**	0	**28**	28
Total	**976**	815	**25**	25	**1,001**	840
Expenses:						
Administrative	**271**	207	**0**	0	**271**	207
Other	**97**	15	**0**	0	**97**	15
Total	**368**	222	**0**	0	**368**	222
Other underwriting activity:						
Losses from completed and probable terminations (Note 10)	**5,377**	9,313	**0**	0	**5,377**	9,313
Losses from financial assistance (Note 5)			**480**	101	**480**	101
Actuarial adjustments (Note 4)	**108**	70	**1**	0	**109**	70
Total	**5,485**	9,383	**481**	101	**5,966**	9,484
Underwriting loss	**(4,877)**	(8,790)	**(456)**	(76)	**(5,333)**	(8,866)
FINANCIAL:						
Investment income (loss) (Note 11):						
Fixed	**1,276**	2,043	**37**	118	**1,313**	2,161
Equity	**2,059**	(1,887)	**0**	0	**2,059**	(1,887)
Other	**14**	14	**0**	0	**14**	14
Total	**3,349**	170	**37**	118	**3,386**	288
Expenses:						
Investment	**19**	18	**0**	0	**19**	18
Actuarial charges (Note 4):						
Due to passage of time	**1,770**	1,077	**0**	0	**1,770**	1,077
Due to change in interest rates	**4,283**	1,655	**0**	0	**4,283**	1,655
Total	**6,072**	2,750	**0**	0	**6,072**	2,750
Financial income (loss)	**(2,723)**	(2,580)	**37**	118	**(2,686)**	(2,462)
Net income (loss)	**(7,600)**	(11,370)	**(419)**	42	**(8,019)**	(11,328)
Net position, beginning of year	**(3,638)**	7,732	**158**	116	**(3,480)**	7,848
Net position, end of year	**$(11,238)**	$ (3,638)	**$ (261)**	$158	**$(11,499)**	$ (3,480)

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

Pension Benefit Guaranty Corporation
Statements of Cash Flows

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	For the Years Ended September 30,		For the Years Ended September 30,		For the Years Ended September 30,	
(Dollars in millions)	**2003**	2002	**2003**	2002	**2003**	2002
OPERATING ACTIVITIES:						
Premium receipts	**$ 828**	$ 819	**$ 25**	$ 26	**$ 853**	$ 845
Interest and dividends received, net	**962**	964	**50**	50	**1,012**	1,014
Cash received from plans upon trusteeship	**360**	662	**0**	0	**360**	662
Receipts from sponsors/non-sponsors	**128**	367	**0**	0	**128**	367
Receipts from the missing participant program	**3**	9	**0**	0	**3**	9
Other receipts	**1**	4	**0**	0	**1**	4
Benefit payments - trusteed plans	**(2,154)**	(1,482)	**(1)**	(1)	**(2,155)**	(1,483)
Financial assistance payments			**(5)**	(5)	**(5)**	(5)
Settlements and judgments	**(90)**	(393)	**0**	0	**(90)**	(393)
Payments for administrative and other expenses	**(250)**	(216)	**0**	0	**(250)**	(216)
Net cash provided (used) by operating activities (Note 13)	**(212)**	734	**69**	70	**(143)**	804
INVESTING ACTIVITIES:						
Proceeds from sales of investments	**36,556**	23,207	**1,704**	643	**38,260**	23,850
Payments for purchases of investments	**(33,888)**	(24,001)	**(1,768)**	(727)	**(35,656)**	(24,728)
Net cash provided (used) by investing activities	**2,668**	(794)	**(64)**	(84)	**2,604**	(878)
Net increase (decrease) in cash and cash equivalents	**2,456**	(60)	**5**	(14)	**2,461**	(74)
Cash and cash equivalents, beginning of year	**716**	776	**3**	17	**719**	793
Cash and cash equivalents, end of year	**$ 3,172**	$ 716	**$ 8**	$ 3	**$ 3,180**	$ 719

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

Notes to Financial Statements September 30, 2003 and 2002

NOTE 1—ORGANIZATION AND PURPOSE

The Pension Benefit Guaranty Corporation (PBGC or the Corporation) is a federal corporation created by Title IV of the Employee Retirement Income Security Act of 1974 (ERISA) and is subject to the provisions of the Government Corporation Control Act. Its activities are defined in ERISA as amended by the Multiemployer Pension Plan Amendments Act of 1980, the Single-Employer Pension Plan Amendments Act of 1986, the Pension Protection Act of 1987, the Retirement Protection Act of 1994 and the Consolidated Appropriations Act, 2001. The Corporation insures 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, 2003, or September 30, 2002, 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. As of September 30, 2003, the single-employer and multiemployer funds reported deficits of $11.238 billion and $261 million, respectively. PBGC's operating results are subject to significant fluctuation from year to year depending on the severity of losses from plan terminations, changes in the select interest rate, general economic conditions and other factors such as changes in law. PBGC estimates that the total underfunding in single-employer plans exceeded $350 billion (unaudited), and in multiemployer plans approximated $100 billion (unaudited), as of September 30, 2003. PBGC's exposure to loss is less than these amounts because of the statutory limits of insured pensions. As disclosed in Note 7, the total underfunding in single-employer plans classified by PBGC as reasonably possible of termination as of September 30, 2003, was $85 billion. PBGC also estimates that, as of September 30, 2003, it is reasonably possible that multiemployer plans may require future financial assistance in the amount of $63 million.

Neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants. However, the single-employer program's $34 billion in assets, and the multiemployer program's $1 billion in assets, provide PBGC with sufficient liquidity to pay benefits for a number of years.

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.

Valuation Method: A primary objective of PBGC's financial statements is to provide information that is useful in assessing PBGC's present and future ability to ensure that defined benefit pension plan beneficiaries receive benefits when due. Accordingly, PBGC values its financial assets at estimated fair value, consistent with the standards for pension plans contained in Statement of Financial Accounting Standards (FAS) No. 35 ("Accounting and Reporting by Defined Benefit Pension Plans"). PBGC values its liabilities for the present value of future benefits and present value of nonrecoverable future financial assistance at their estimated cost of settlement using the measurement principles of FAS No. 87 ("Employers' Accounting for Pensions").

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, and its share of earnings from investments. This fund may not be used to pay PBGC's administrative costs or the benefits of any plan terminated prior to October 1, 1988, unless no other amounts are available.

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

Allocation of Revolving and Trust Funds:

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

Cash and Cash Equivalents:

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

Investment Valuation and Income:

PBGC bases market values on the last sale of a listed security, on the mean of the "bid-and-asked" for nonlisted securities or on a valuation model in the case of fixed-income securities that are not actively traded. These valuations are determined as of the end of each fiscal year. Purchases and sales of securities are recorded on the trade date. In addition, PBGC invests in and discloses its derivative investments in accordance with the guidance contained in FAS No. 133 ("Accounting for Derivative Instruments and Hedging Activities"). Investment income is accrued as earned. Dividend income is recorded on the ex-dividend date. Realized gains and losses on sales of investments are calculated using first in first out for the revolving fund and average cost for the trust fund. PBGC marks the plan's assets to market and any increase or decrease in the market value of a plan's assets occurring after the date on which the plan is terminated must, by law, be credited to or suffered by PBGC (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 in the period they are realizable. Income and expenses related to amounts due from sponsors are reported in the underwriting section of the Statements of Operations and Changes in Net Position. Interest earned on settled claims for employer liability and due and unpaid employer contributions (DUEC) is reported as "Income: Other." The change in the allowances for uncollectible employer liability and DUEC is reported as "Expenses: Other."

Premiums:

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

Present Value of Future Benefits (PVFB):

The PVFB is the estimated liability for future pension benefits that PBGC is or will be obligated to pay the participants of trusteed plans and terminated plans pending trusteeship. This liability is stated as the actuarial present value of estimated future benefits less the present value of estimated recoveries from sponsors and members of their controlled group and the assets of terminated plans pending trusteeship. 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 uses assumptions to adjust the value of those future payments to reflect the time value of money (by discounting) and the probability of payment (by means of decrements, such as for death or retirement). PBGC also includes anticipated expenses to settle the benefit obligation in the determination of the PVFB. PBGC's benefit payments to participants represent a reduction to the PVFB liability.

The values of the PVFB are particularly sensitive to changes in underlying estimates and assumptions. It is likely that these estimates and assumptions will change in the near term and the impact of these changes may be material to PBGC's financial statements (see Note 4).

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

(2) Terminated Plans Pending Trusteeship—represents the present value of future benefit payments less the plans' net assets (at fair value) anticipated to be received and the present value of expected recoveries (for which a settlement agreement has not

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

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

(4) Net Claims for Probable Terminations—represents PBGC's best estimate of the losses, net of plan assets and the present value of expected recoveries (from sponsors and members of their controlled group) for plans that are likely to terminate in a future year. These estimated losses are based on conditions that existed as of PBGC's fiscal year-end. Management believes it is likely that one or more events subsequent to PBGC's fiscal year-end will occur, confirming the loss. Criteria used for classifying a plan as probable include: the plan sponsor is in chapter 11 liquidation or comparable state insolvency proceeding with no known solvent controlled group member; sponsor files for distress plan termination; or PBGC seeks involuntary plan termination.

In addition, PBGC provides a reserve for probable losses for plans not specifically identified and for plans with estimated underfunding less than $5 million. The reserve for unidentified losses is based on PBGC's historical experience (see Note 4).

(5) In accordance with Statement of Financial Accounting Standards No. 5, PBGC's exposure to losses from plans of companies that are classified as reasonably possible is disclosed in the footnotes. Criteria used for classifying a company as reasonably possible include: the plan sponsor in Chapter 11 reorganization; funding waiver pending or outstanding with the Internal Revenue Service (IRS); minimum funding contribution missed; below-investment-grade bond rating for Standard & Poor's (BB+) or Moody's (Ba1); no bond rating but unsecured debt below investment grade; or no bond rating but the ratio of long-term debt plus unfunded benefit liability to market value of shares is 1.5 or greater (see Note 7).

(6) In addition, PBGC identifies certain plans as high risk if the plan sponsor meets the following criteria: the company is currently in Chapter 11 proceedings; has received a minimum funding waiver within the past five years; has granted security to an unsecured creditor as part of a renegotiation of debt within the past two years; is known to have been in default on existing debt within the past two years (regardless of whether it received a waiver of default); the company's unsecured debt is now rated CCC+/Caa1 or lower by S&P or Moody's, respectively; or any other set of circumstances that in the analyst's judgment constitutes a high risk situation.

PBGC specifically reviews each plan identified as high risk and classifies those plans as probable if, based on available evidence, PBGC concludes that plan termination is likely. Otherwise, high risk plans are classified as reasonably possible.

Present Value of Nonrecoverable Future Financial Assistance:

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

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

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

Other Expenses:

These expenses represent 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 actual or expected date of plan termination between the present value of future benefits (including amounts owed under Section 4022(c) of ERISA) assumed, or expected to be assumed, by PBGC, less related plan assets and the present value of expected recoveries from sponsors and members of their controlled group (see Note 10). In addition, the plan's net income from date of plan termination to the beginning of 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 adjustments are the result of the movement of plans from one valuation methodology to another (e.g., nonseriatim to seriatim) and of new data (e.g., deaths, revised participant data). Actuarial charges (credits) related to changes in interest rates and passage of time are classified as financial activity. These adjustments and charges (credits) represent the change in the

PVFB that results from applying actuarial assumptions in the calculation of future benefit liabilities (see Note 4).

Depreciation: 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.

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. PBGC marks the plan's assets to market and any increase or decrease in the market value of a plan's assets occurring after the date on which the plan is terminated must, by law, be credited to or suffered by PBGC. Note 11 provides the components of investment income.

Investments of Single-Employer Revolving Funds and Single-Employer Trusteed Plans

	September 30, 2003		September 30, 2002	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	**$14,997**	**$15,450**	$14,165	$15,796
Commercial paper	**87**	**87**	28	28
Asset backed securities	**937**	**942**	440	447
Corporate and other bonds	**740**	**771**	478	471
Subtotal	**16,761**	**17,250**	15,111	16,742
Equity securities	**10,040**	**12,641**	6,847	7,349
Real estate and real estate investment trusts	**97**	**93**	42	38
Insurance contracts and other investments	**74**	**59**	15	6
Total *	**$26,972**	**$30,043**	$22,015	$24,135

* This includes securities on loan at September 30, 2003, and September 30, 2002, with a market value of $213 million and $122 million, respectively.

Investments of Multiemployer Revolving Funds and Multiemployer Trusteed Plans

	September 30, 2003		September 30, 2002	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	**$946**	**$975**	$832	$929
Equity securities	**1**	**1**	1	1
Total	**$947**	**$976**	$833	$930

Derivative Investments: Derivatives are accounted for at market value in accordance with Statement of Financial Accounting Standards No. 133, as amended. Derivatives are marked to market with changes in value reported within financial income. During fiscal years 2002 and 2003, 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 implementing the strategy. Beginning September 24, 2003, PBGC invested in an investment product that contained U.S. government bond futures and a swaption contract. The objective of this investment strategy is to exceed, net of fees, the total rate of return of a customized benchmark for a long duration fixed income mandate. This benchmark proxies the expected behavior of PBGC's liabilities and reflects the objective of mitigating interest rate sensitivity. Government bond futures are held to adjust interest rate exposure (duration). Swaptions are held (or sold) to adjust interest rate exposure (duration) and to generate income to reflect the investment views of the portfolio managers regarding relationships between interest rates. At September 30, 2003, PBGC had one written swaption with a notional amount of $59,000,000. In 2002 and 2003, PBGC also invested in an investment product that contained U.S. and non-U.S. stock index futures contracts, U.S. and non-U.S. government bond futures and forward contracts, U.S. stock warrants, non-U.S. government debt option contracts and foreign currency forward and option 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. Stock index futures contracts are held to affect asset allocation and country equity exposure. Government bond futures and forward contracts are held to affect sector asset allocation and to adjust interest rate (duration) and country exposure. U.S. stock warrants are held as a result of a corporate action. Non-U.S. government debt option contracts are held to reflect the investment views of the portfolio managers regarding government debt issues. Foreign currency forward and option contracts are held 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, 2003, and September 30, 2002, gains and losses from settled margin calls are reported in Investment income on the Statements of Operations and Changes in Net Position. The fair value of the derivative instruments (the amount needed to settle at September 30) reported on the Statements of Financial Condition as part of "Sale of securities" was $2 million at September 30, 2003, as compared to less than $1 million at September 30, 2002, and $7 million as part of "Due for purchases of securities" at September 30, 2003, as compared to $6 million at September 30, 2002.

Fair Value of Financial Instruments

	Notional Value at September 30,		Fair Value at September 30,	
(Dollars in millions)	**2003**	2002	**2003**	2002
Financial futures contracts	**$662**	$264	**$(393)**	$(335)
Open currency forward contracts				
U.S. Dollar long/short foreign currencies	**132**	136	**135**	136
U.S. Dollar short/long foreign currencies	**135**	106	**139**	106

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, 2003, and September 30, 2002, was $213 million and $122 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, 2003 and 2002.

For FY 2003, PBGC used a 20-year select interest rate of 4.40% followed by an ultimate rate of 4.50% for the remaining years and for FY 2002, a 25-year select interest rate of 5.70% followed by an ultimate rate of 4.75% for the remaining years. 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 the respective year, for single-premium nonparticipating group annuities issued by private insurers. Many factors, including Federal Reserve policy, may impact these rates.

For September 30, 2003, PBGC used the 1994 Group Annuity Mortality (GAM) Static Table (with margins), set forward two years and projected 18 years to 2012 using Scale AA. For September 30, 2002, PBGC used the same table, set forward two years but projected 16 years to 2010 using Scale AA. The number of years that PBGC projects the mortality table reflects the number of years from the 1994 base year of the table to the end of the fiscal year (9 years in 2003 versus 8 years in 2002) plus PBGC's calculated duration of its liabilities (9 years in 2003 versus 8 years in 2002). PBGC's procedure is based on the procedures recommended by the Society of Actuaries UP-94 Task Force (which developed the GAM94 table) for taking into account future mortality improvements.

The reserve for administrative expenses in the 2003 and 2002 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 expense assumption was based on a study performed for PBGC in 2000 by a major accounting firm. The factors to determine the additional reserves were based on case size, number of participants and time since trusteeship.

The present values of future benefits for trusteed multiemployer plans for 2003 and 2002 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, 2003 and 2002

(Dollars in millions)	2003		2002	
	September 30,			
Present value of future benefits, at beginning of year—Single-Employer, net		**$28,619**		$13,497
Estimated recoveries, prior year		**38**		19
Assets of terminated plans pending trusteeship, net, prior year		**323**		577
Present value of future benefits at beginning of year, gross		**28,980**		14,093
Settlements and judgments, prior year		**(161)**		(177)
Net claims for probable terminations, prior year		**(6,322)**		(411)
Actuarial adjustments—underwriting:				
Changes in method and assumptions	**$ 21**		$ (67)	
Effect of experience	**87**		137	
Total actuarial adjustments—underwriting	**108**		70	
Actuarial charges—financial:				
Passage of time	**1,770**		1,077	
Change in interest rates	**4,283**		1,655	
Total actuarial charges—financial	**6,053**		2,732	
Total actuarial charges, current year		**6,161**		2,802
Terminations:				
Current year	**13,431**		7,704	
Changes in prior year	**47**		23	
Total terminations		**13,478**		7,727
Benefit payments, current year*		**(2,488)**		(1,537)
Estimated recoveries, current year		**(68)**		(38)
Assets of terminated plans pending trusteeship, net, current year		**(172)**		(323)
Settlements and judgments, current year		**67**		161
Net claims for probable terminations:				
Future benefits**	**9,694**		12,392	
Estimated plan assets and recoveries from sponsors	**(4,528)**		(6,070)	
Total net claims, current year		**5,166**		6,322
Present value of future benefits, at end of year—Single-Employer, net		**44,641**		28,619
Present value of future benefits, at end of year—Multiemployer		**3**		3
Total present value of future benefits, at end of year, net		**$44,644**		$28,622

* The benefit payments of $2,488 million and $1,537 million include $334 million in 2003 and $55 million in 2002 for benefits paid from plan assets by plans prior to trusteeship.

** The future benefits for probable terminations of $9,694 million and $12,392 million for fiscal years 2003 and 2002, respectively, include $173 million and $70 million, respectively, in net claims (future benefits less estimated plan assets and recoveries) for probable terminations not specifically identified and $9,521 million and $12,322 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, 2003		September 30, 2002	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
Corporate and other bonds	**$ 84**	**$ 89**	$225	$225
Equity securities	**66**	**75**	165	86
Insurance contracts	**4**	**4**	4	4
Other	**4**	**4**	8	8
Total, net	**$158**	**$172**	$402	$323

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, 2003**		2002	
Net claims for probable terminations, at beginning of year		**$ 6,322**		$ 411
New claims	**$ 4,211**		$6,232	
Actual terminations	**(5,448)**		(338)	
Deleted probables	**(228)**		(1)	
Change in benefit liabilities	**229**		23	
Change in plan assets	**80**		(5)	
Loss (credit) on probables		**(1,156)***		5,911*
Net claims for probable terminations, at end of year		**$ 5,166**		$6,322

* See Note 10

The following table itemizes the probable exposure by industry:

Probables Exposure by Industry (Principal Categories)

(Dollars in millions)	**FY 2003**	FY 2002
Primary Metals and Fabricated Metal Products	**$2,062**	$5,831
Air Transportation	**1,290**	*
Wholesale Trade - Non-Durable Goods	**372**	*
Apparel and Other Finished Products Made from Fabrics	**231**	*
Food Stores	**201**	*
Chemicals and Allied Products	**125**	*
Heavy Construction Other Than Building Construction - Contractors	**112**	*
Others	**773**	491
Total	**$5,166**	$6,322

* included in Others

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

Probables Experience As Initially Recorded Beginning in 1987

(Dollars in millions)	Status of Probables from 1987-2002 at September 30, 2003			
Beginning in 1987, number of plans reported as Probable:	Number of Plans	Percent of Plans	Net Claim	Percent of Net Claim
Probables terminated	185	75%	$ 8,707	86%
Probables current	16	6	573	6
Probables deleted	47	19	783	8
Total	248	100%	$10,063	100%

NOTE 5—MULTIEMPLOYER FINANCIAL ASSISTANCE

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

Notes Receivable Multiemployer Financial Assistance

(Dollars in millions)	September 30, **2003**	2002
Gross balance at beginning of year	**$ 56**	$ 51
Financial assistance payments—current year	**5**	5
Subtotal	**61**	56
Allowance for uncollectible amounts	**(61)**	(56)
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, **2003**	2002
Balance at beginning of year	**$ 775**	$679
Changes in allowance:		
Losses from financial assistance	**480**	101
Financial assistance granted (previously accrued)	**(5)**	(5)
Balance at end of year	**$1,250**	$775

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, **2003**	2002
Annual leave	**$ 5**	$ 4
Collateral held for loaned securities	**220**	128
Other payables and accrued expenses	**54**	41
Accounts payable and accrued expenses	**$279**	$173

NOTE 7—CONTINGENCIES

There are a number of large single-employer plans that are sponsored by companies whose credit quality is below investment grade and 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.

In accordance with Statement of Financial Accounting Standards No. 5, PBGC classified a number of these companies as reasonably possible terminations as the sponsors' financial condition and other factors did not indicate that termination of their plans was likely as of year-end. The estimated aggregate unfunded vested benefits exposure to PBGC for the companies' single-employer plans classified as reasonably possible as of September 30, 2003, ranged from $83 to $85 billion.

The estimated unfunded vested benefits exposure has been calculated as of December 31, 2002. PBGC calculated this estimate as in previous years by using data obtained from filings and submissions with the government and from corporate annual reports for fiscal years ending in calendar 2002. The Corporation adjusted the value reported for liabilities to the December 31, 2002, PBGC select interest rate of 5.00% (the liabilities are not valued at September 30 as the information is not available). When available, data were adjusted to a consistent set of mortality assumptions. The underfunding associated with these sponsors' plans would generally tend to be greater at September 30, 2003, because of the economic conditions (e.g., lower interest rates and/or low investment returns on plan assets) that existed between December 31, 2002, and September 30, 2003. The Corporation did not adjust the estimate for events that occurred between December 31, 2002, and September 30, 2003.

The following table itemizes the reasonably possible exposure by industry:

Reasonably Possible Exposure by Industry (Principal Categories)

(Dollars in billions)	**FY 2003**	FY 2002
Air Transportation	**$23.4**	$11.4
Primary Metals and Fabricated Metal Products	**10.2**	5.7
Electronic and Other Electrical Equipment, except Computer Equipment	**7.0**	1.3
Industrial and Commercial Machinery and Computer Equipment	**5.3**	1.8
Transportation Equipment	**4.0**	*
Chemicals and Allied Products	**3.9**	1.4
Paper and Allied Products	**3.7**	1.2
Electric, Gas and Sanitary Services	**2.8**	*
Rubber and Miscellaneous Plastics Products	**2.7**	1.4
General Merchandise Stores	**2.5**	1.3
Others	**20.0**	9.9
Total	**$85.5**	$35.4

* included in Others

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 $63 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, 2003, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2003, using interest only. The Corporation's identification of plans that are likely to require such assistance and estimation of related amounts required consideration of many complex factors, such as an estimate of future cash flows, future mortality rates, and age of participants not in pay status. These factors are affected by future events, including actions by plans and their sponsors, most of which are beyond the Corporation's control.

PBGC used select and ultimate interest rate assumptions of 4.40% for the first 20 years after the valuation date and 4.50% thereafter. The Corporation also used the 1994 Group Annuity Mortality Static Table (with margins), set forward two years, projected 18 years to 2012 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, 2003, are as follows:

Commitments: Future Lease Payments

(Dollars in millions)

Years Ending September 30,	Operating Leases
2004	$15.6
2005	15.8
2006	16.2
2007	16.4
2008	16.2
Thereafter	8.3
Minimum lease payments	$88.5

Lease expenditures were $14.6 million in 2003 and $12.2 million in 2002.

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 or underpayment of premiums. Interest continues to accrue until the premium and the interest due are paid. The amount of penalty that can be levied is capped at 100 percent of the premium late payment or underpayment. Annual 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 FROM COMPLETED AND PROBABLE TERMINATIONS

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

Losses From Completed and Probable Terminations—Single-Employer Program

(Dollars in millions)	2003 New Terminations	2003 Changes in Prior Year Terminations	2003 Total	2002 New Terminations	2002 Changes in Prior Year Terminations	2002 Total
Present value of future benefits	**$13,431**	**$ 47**	**$13,478**	$7,704	$23	$7,727
Less plan assets	**6,963**	**(79)**	**6,884**	4,664	8	4,672
Plan asset insufficiency	**6,468**	**126**	**6,594**	3,040	15	3,055
Less estimated recoveries	**61**	**(3)**	**58**	27	3	30
Subtotal	**$ 6,407**	**$129**	**6,536**	$3,013	$12	3,025
Settlements and judgments			**(3)**			377
Loss (credit) on probables			**(1,156)***			5,911*
Total			**$ 5,377**			$9,313

* See Note 4

NOTE 11—FINANCIAL INCOME

The following tables detail the combined financial income by type of investment as well as the investment profile for both the single-employer and multiemployer programs:

Financial Income

(Dollars in millions)	2003	2002
Fixed-income securities:		
Interest earned	**$ 941**	$ 985
Realized gain	**1,599**	315
Unrealized gain (loss)	**(1,227)**	861
Total fixed-income securities	**1,313**	2,161
Equity securities:		
Dividends earned	**75**	34
Realized loss	**(134)**	(382)
Unrealized gain (loss)	**2,118**	(1,539)
Total equity securities	**2,059**	(1,887)
Other income	**14**	14
Total financial income	**$ 3,386**	$ 288

For the Years Ended September 30,

Investment Profile

	2003	2002
Fixed-Income Assets		
Average Quality	**AAA**	AAA
Average Maturity (years)	**17.2**	18.1
Duration (years)	**10.1**	10.3
Yield to Maturity (%)	**4.6**	4.5
Equity Assets		
Average Price/Earnings Ratio	**24.2**	24.6
Dividend Yield (%)	**1.7**	1.9
Beta	**0.96**	0.96

September 30,

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 the first three months of 2003 was 7.5 percent and 7.0 percent for the remainder of the year and 8.51 percent for 2002 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 2003 and 2002. In addition, for FERS-covered employees, PBGC automatically contributes 1 percent of base pay to the employee's Thrift Savings account, matches the first 3 percent contributed by the employee and matches one-half of the next 2 percent contributed by the employee. Total retirement plan expenses amounted to $10 million in 2003 and $8 million in 2002.

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)	**2003**	2002	**2003**	2002	**2003**	2002
Net income (loss)	**$(7,600)**	$(11,370)	**$(419)**	$ 42	**$(8,019)**	$(11,328)
Adjustments to reconcile net income to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	**(2,308)**	701	**11**	(67)	**(2,297)**	634
Net (gain) loss of terminated plans pending trusteeship	**(108)**	79	**0**	0	**(108)**	79
Losses on completed and probable terminations	**5,377**	9,313	**0**	0	**5,377**	9,313
Actuarial charges	**6,161**	2,802	**1**	0	**6,162**	2,802
Benefit payments - trusteed plans	**(2,154)**	(1,482)	**(1)**	(1)	**(2,155)**	(1,483)
Settlements and judgments	**(90)**	(393)	**0**	0	**(90)**	(393)
Cash received from plans upon trusteeship	**360**	662	**0**	0	**360**	662
Receipts from sponsors/non-sponsors	**225**	383	**0**	0	**225**	383
Amortization of discounts/premiums	**108**	(15)	**7**	0	**115**	(15)
Changes in assets and liabilities, net of effects of trusteed and pending plans:						
(Increase) decrease in receivables	**(210)**	39	**(5)**	0	**(215)**	39
Increase in present value of nonrecoverable future financial assistance			**475**	96	**475**	96
Increase in unearned premiums	**14**	2	**0**	0	**14**	2
Increase in accounts payable	**13**	13	**0**	0	**13**	13
Net cash provided (used) by operating activities	**$ (212)**	$ 734	**$ 69**	$ 70	**$ (143)**	$ 804

NOTE 14—LITIGATION

Legal challenges to PBGC policies and positions continued in 2003. At the end of the fiscal year, PBGC had 119 active cases in state and federal courts and 633 bankruptcy cases. PBGC records as a liability on its financial statements an estimated cost for unresolved litigation to the extent that losses in such cases are probable and estimable in amount. PBGC estimates that possible losses of up to $47 million could be incurred in the event that PBGC does not prevail in these matters.

NOTE 15—SUBSEQUENT EVENTS

Subsequent to September 30, 2003, business and financial conditions significantly deteriorated for some sponsors of large single-employer plans that may terminate. These plans will be added as probables or to the terminated inventory in FY 2004. Had these plan sponsor events occurred prior to FY 2003 year-end, PBGC's financial statements would have reflected an increase of $48 million in the Net loss and a decrease in the Net position in the same amount.

Subsequent to September 30, 2003, a buyer for a company whose plan is classified as probable entered into an agreement to purchase the company and assume the pension plan. This plan has been removed from probables in FY 2004. Had this occurred prior to FY 2003 year-end, PBGC's single-employer financial statements would have reflected a decrease of $125 million in the Net loss and an increase in the Net position of the same amount.

The total effect of all of the afore-mentioned subsequent events would have resulted in a decrease of $77 million in the Net loss and an increase in the Net position of the same amount.

There were no subsequent events to report on the multiemployer program.

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 2002.

Present Value of Future Benefits and Nonrecoverable Financial Assistance – 2003

	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)	2,825	345	$10,205
2. Seriatim at DOPT, adjusted to FYE	86	25	1,017
3. Nonseriatim[1]	366	446	28,454
4. Rettig Settlement (seriatim)[2]		*	1
5. Missing Participants Program (seriatim)[3]		18	38
Subtotal	3,277	834	39,715
B. Probable terminations (nonseriatim)[4]	78	198	9,694
Total[5]	3,355	1,032	$49,409
II. MULTIEMPLOYER PROGRAM			
A. Pre-MPPAA terminations (seriatim)	10	*	$ 3
B. Post-MPPAA liability (net of plan assets)	62	100	1,250
Total	72	100	$ 1,253

* Fewer than 500 participants

Notes:

1) The liability for terminated plans has been increased by $108 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 $173 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 $4,528 million. Thus, the net claims for probable terminations as reported in the financial statements are $9,694 million less $4,528 million, or $5,166 million.

5) The PVFB in the financial statements ($44,641 million) is net of estimated plan assets and recoveries on probable terminations ($4,528 million), estimated recoveries on terminated plans ($68 million), and estimated assets for plans pending trusteeship ($172 million), or, $49,409 million less $4,528 million less $68 million less $172 million = $44,641 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 2,825 plans, representing about 86 percent of the total number of single-employer terminated plans (41 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 275 plans over the 2,550 plans valued seriatim last year. For 86 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 2003.

For 366 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 2003 using certain assumptions and adjustment factors.

For the actuarial valuation, PBGC used a select and ultimate interest rate assumption of 4.4% for the first 20 years after the valuation date and 4.5% thereafter. The mortality assumption used for valuing healthy lives was the 1994 Group Annuity Mortality Static Table (with margins), set forward two years, projected 18 years to 2012 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 2003 valuation was assumed to be 1.18% of the liability for benefits plus additional reserves for cases whose plan asset determinations, participant database audits, and actuarial valuations were not yet complete. The factors to determine the additional reserves were based on case size, number of participants, and time since trusteeship.

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

Multiemployer Program

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

PBGC based its valuation of the post-MPPAA liability for nonrecoverable future financial assistance on the most recent available actuarial reports, Form 5500 Schedule B's, and information provided by representatives of the affected plans. The Corporation expected 62 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, 2003.

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

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

Joan M Weiss

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

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

Pension Benefit Guaranty Corporation

Office of Inspector General

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

To the Board of Directors
Pension Benefit Guaranty Corporation

We contracted with the independent certified public accounting firm of PricewaterhouseCoopers LLP to audit the financial statements of Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) as of the Fiscal Year (FYs) 2003 and 2002. This audit is performed 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 and the *GAO/PCIE Financial Audit Manual.*

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

- The financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- PBGC maintained effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations, except for a material weakness related to the methodology used in estimating multiemployer plan liabilities.
- No reportable noncompliance with laws and regulations it tested.

In addition, PricewaterhouseCoopers described significant matters in the following areas where PBGC needs to:

- integrate its financial management systems;
- complete its efforts to fully implement and enforce an effective information security program;
- improve controls related to single-employer premiums;
- continue to improve its controls over the identification and measurement of Single-Employer Program Fund contingent liabilities;
- improve controls over the estimation of reserves for Single-Employer Program Fund losses incurred but not reported or not specifically identified; and
- strengthen controls over the identification and classification of Multiemployer plans probable of receiving financial assistance.

PricewaterhouseCoopers is responsible for the accompanying auditor's report dated December 22, 2003 and the conclusions expressed in the report. We do not express opinions on PBGC's financial statements or internal control or conclusions on compliance with laws and regulations.

A set of PricewaterhouseCoopers' reports (2004-2/23176-2) is available upon request from the PBGC's Office of Inspector General.

Sincerely,

Robert L. Emmons

Robert L. Emmons
Inspector General

December 22, 2003

PRICEWATERHOUSECOOPERS

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

Report of Independent Auditors

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, 2003 and 2002, and the related statements of operations and changes in net position and of cash flows for the years then ended. These financial statements are the responsibility of PBGC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Single-Employer and Multiemployer Program Funds administered by PBGC at September 30, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

By law, PBGC's Single-Employer and Multiemployer Program Funds (the Funds) must be self-sustaining, and therefore their premiums must be sufficient to cover both their short and long-term obligations. The Funds have been able to meet their short-term benefit obligations, and PBGC internal analyses project that they will be able to do so for a number of years. However, as discussed in Note 1, management believes that neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants. The Funds' statements of financial condition report a net deficit position (liabilities in excess of assets) of the Single-Employer and Multiemployer Program Funds of $11.2 billion and $261 million, respectively, at September 30, 2003. Losses that are "reasonably possible" as a result of unfunded vested benefits are estimated to be $85.5 billion and $63 million for Single-Employer and Multiemployer Program Funds, respectively, at September 30, 2003, as discussed in Note 7. The Funds' net position, and long-term viability, could be further impacted by losses from plans classified as reasonably possible (or from other plans not yet identified as potential losses) as a result of deteriorating economic conditions, the insolvency of a large plan sponsor or other factors.

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

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 22, 2003 on the effectiveness of PBGC's internal control and on our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

PricewaterhouseCoopers LLP

December 22, 2003 2004-1/23176-1

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Financial Summary

Single-Employer Program

(Dollars in millions)	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
	Fiscal Year Ended September 30,									
Summary of Operations:										
Premium income	$ **948**	787	821	807	902	966	1,067	1,146	838	955
Other income	$ **28**	28	23	5	3	10	19	26	18	42
Investment income (loss)	$ **3,349**	170	(843)	2,392	728	2,118	2,687	915	1,956	(380)
Actuarial charges (credits)	$ **6,161**	2,802	1,082	453	(602)	815	488	632	1,561	(926)
Losses (credits) from completed and probable terminations	$ **5,377**	9,313	705	(80)	49	584	489	118	169	(249)
Administrative and investment expenses	$ **290**	225	184	167	161	158	155	150	138	135
Other expenses	$ **97**	15	2	(2)	(1)	6	29	3	19	0
Net income (loss)	$ **(7,600)**	(11,370)	(1,972)	2,666	2,026	1,531	2,612	1,184	925	1,657
Summary of Financial Position:										
Cash and investments	$ **33,215**	24,851	21,010	20,409	17,965	17,345	14,988	11,665	10,026	7,857
Total assets	$ **34,016**	25,430	21,768	20,830	18,431	17,631	15,314	12,043	10,371	8,281
Present value of future benefits	$ **44,641**	28,619	13,497	10,631	11,073	12,281	11,497	10,760	10,388	9,215
Net position	**$(11,238)**	(3,638)	7,732	9,704	7,038	5,012	3,481	869	(315)	(1,240)
Insurance Activity:										
Benefits paid	$ **2,488**	1,537	1,043	902	901	847	823	790	761	719
Participants receiving monthly benefits at end of year	**458,800**	344,310	268,090	226,080	214,160	208,450	204,800	198,600	181,000	172,800
Plans trusteed and pending trusteeship by PBGC	**3,277**	3,122	2,965	2,864	2,775	2,655	2,500	2,338	2,084	1,961

Multiemployer Program

(Dollars in millions)	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
	Fiscal Year Ended September 30,									
Summary of Operations:										
Premium income	$ **25**	25	24	24	23	23	23	22	22	23
Other income	$ **0**	0	0	0	0	0	0	1	0	0
Investment income (loss)	$ **37**	118	95	70	(56)	133	68	12	83	(46)
Actuarial charges (credits)	$ **1**	0	1	0	0	0	(1)	1	2	(1)
Losses (gains) from financial assistance	$ **480**	101	269	26	109	34	(3)	102	108	57
Administrative and investment expenses	$ **0**	0	0	0	0	0	0	0	0	0
Net income (loss)	$ **(419)**	42	(151)	68	(142)	122	95	(68)	(5)	(79)
Summary of Financial Position:										
Cash and investments	$ **984**	933	796	682	681	736	585	498	472	374
Total assets	$ **1,000**	944	807	694	692	745	596	505	477	378
Present value of future benefits	$ **3**	3	4	4	5	6	7	9	10	10
Nonrecoverable future financial assistance, present value	$ **1,250**	775	679	414	479	389	361	365	268	164
Net position	$ **(261)**	158	116	267	199	341	219	124	192	197
Insurance Activity:										
Benefits paid	$ **1**	1	1	1	1	1	1	2	2	2
Participants receiving monthly benefits from PBGC at end of year	**390**	460	510	620	730	850	1,000	1,100	1,300	1,400
Plans receiving financial assistance from PBGC	**24**	23	22	21	21	18	14	12	9	8

Pension Benefit Guaranty Corporation

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