PBGC
A Lifetime of Support

Pension Benefit Guaranty Corporation
2002 annual report

The Pension Benefit Guaranty Corporation (PBGC) protects the pensions of about 44 million working men and women in about 32,500 private defined benefit pension plans, including about 1,650 multiemployer plans. These pension plans provide a specified monthly benefit at retirement, usually based on salary or a stated dollar amount and years of service. The Employee Retirement Income Security Act of 1974 established PBGC as a federal corporation. PBGC operates under the guidance of its board of directors consisting of the Secretaries of Labor (Chair), Commerce, and the Treasury.

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

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

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

Contents

Highlights

- The single-employer program suffered its largest one-year financial loss in the 28-year history of the Corporation largely due to record losses from completed and probable plan terminations. The net loss of $11.4 billion for the year caused the program to swing from a surplus position of $7.7 billion in 2001 to a deficit position of $3.6 billion in 2002. However, the program's total assets of $25.4 billion assure the Corporation's ability to meet its obligations for the foreseeable future.

- With PBGC's termination and trusteeship of the LTV pension plans, the Corporation absorbed the largest single loss (about $1.9 billion) and number of plan participants (83,000) in its history. 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 additional substantial losses.

- PBGC paid more than $1.5 billion in benefits during the year, nearly 50 percent more than the record amount it paid during the previous year.

- In fiscal year 2002, PBGC became trustee of 144 terminated single-employer plans covering 187,000 people, up from 104 plans and 89,000 participants in fiscal year 2001. This represented the largest one-year increase in the number of people owed guaranteed benefits by the Corporation. In fiscal year 2003, PBGC projects another record number of participants coming into its system following the expected termination of several sizeable plans. This would be the third straight year of large increases in PBGC's responsibility and workload.

- At year-end, PBGC was responsible for the pensions of 783,000 participants, including those who have not yet retired. Despite its increasing workload, the Corporation further reduced the average time needed to issue final benefit determinations, approaching its annual performance target.

- PBGC responded to an unprecedented influx of new participants in recently trusteed plans with innovations that improved the quality of the Corporation's customer service. PBGC also prepared to test its first fully electronic business transactions as it continued its drive to establish an Internet-based electronic government operation.

- Despite losses from equity investments, PBGC's total return on investments was a positive 2.1% in 2002 compared to a negative 3.3% in 2001.

- The multiemployer program remained financially sound with net income of $42 million, which improved the program's net financial position to $158 million.

- PBGC's annual performance report (pp. 22-24) describes gains in both productivity and customer satisfaction.

(Dollars in millions)	**2002**	2001
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Summary of Operations		
Premium Income	**$ 812**	$ 845
Losses from Plan Terminations	**$ 9,313**	$ 705
Investment Income (Loss)	**$ 288**	$ (748)
Actuarial Charges	**$ 2,802**	$ 1,083
Insurance Activity		
Benefits Paid	**$ 1,538**	$ 1,044
Retirees	**344,770**	268,600
Total Participants in Terminated and Multiemployer Plans	**783,000**	624,000
New Underfunded Terminations	**157**	101
Terminated/Trusteed Plans (Cumulative)	**3,132**	2,975
Financial Position		
SINGLE-EMPLOYER PROGRAM		
Total Assets	**$ 25,430**	$ 21,768
Total Liabilities	**$ 29,068**	$ 14,036
Net Loss	**$ (11,370)**	$ (1,972)
Net Position	**$ (3,638)**	$ 7,732
MULTIEMPLOYER PROGRAM		
Total Assets	**$ 944**	$ 807
Total Liabilities	**$ 786**	$ 691
Net Income (Loss)	**$ 42**	$ (151)
Net Position	**$ 158**	$ 116

Chairman's Message

For the Pension Benefit Guaranty Corporation, as for our country as a whole, the past year has been a turbulent one. Corporate bankruptcies, pension plan failures, the volatility of our financial markets—all have taken a toll on the pension insurance program. The resulting losses have turned PBGC's surplus into a deficit for the first time since 1995.

We must not, however, overlook the positive signs for both our country and PBGC. Our country has responded to the tempests of the past year with unity and strength. Our economy's fundamentals are strong. Inflation is low. Consumers are benefitting from interest rates not seen since the 1960s. Productivity continues to rise, and other economic signals are equally encouraging. Just as important, the President has moved quickly to restore faith and confidence in the integrity of our financial markets and economy.

PBGC has met its challenges with a similar fervor. The Corporation has seen its workload soar amidst growing concerns about the health of our private pension system. Nearly 800,000 American workers, retirees and their families—people whose pension plans have failed—now rely on PBGC for their retirement security. And PBGC is guaranteeing their security through innovation, diligent effort and commitment to the highest standards of customer service.

For 28 years PBGC has been a stalwart protector of traditional pensions. As the Corporation faces its biggest financial challenge in a decade, it will continue to play a strong and vital role in our nation's effort to ensure the retirement security of working men and women across our country.

E.L. Chao

Elaine L. Chao
Secretary of Labor
Chairman of the Board

Executive Director's Message

The opening years of the 21st century may be the most challenging in the history of the Pension Benefit Guaranty Corporation. In my first annual message in the 2001 Annual Report, I characterized the Corporation's 2001 fiscal year as "remarkable." Perhaps I should have saved that distinction for 2002.

We coped with an unprecedented flood of terminating plans and with 187,000 additional people requiring our pension protection. In the process we handled our largest termination ever with the LTV pension plans, with underfunding of nearly $2 billion and more than 80,000 participants. In any other year this one group of plans would have constituted a full year's workload. And yet, I am proud to say that our record of premier customer service continued and we met or exceeded our performance goals while protecting benefits for more than twice as many new participants than in any year in our history.

With the plan terminations came record losses, which produced the largest one-year loss in PBGC's history (more than four times the previous record) and forced the Corporation into a deficit for the first time in seven years. On the bright side, even though our single-employer deficit totaled about $3.6 billion at fiscal year-end, we recorded a small investment gain and we still have on hand more than $25.4 billion of assets with which to meet our benefit obligations. We also remain vigilant in our efforts to preserve the solvency of the insurance program, and we are taking swift action to prevent unnecessary losses.

Our hope is that PBGC's financial position will improve over time as the economy gains strength, but we remain exposed to further losses from additional large plan terminations. It may be that PBGC's current challenges require a policy response to restore the financial strength of the pension insurance system. Accordingly, we are reviewing every option available to ensure that PBGC remains on a fiscally sustainable path.

PBGC's employees have responded to the events of the past two years with professionalism and diligence. I am confident that, as we weather the current storm, our commitment to fiscal soundness, customer service and operational efficiency will not waver.

Steven A. Kandarian

Steven A. Kandarian
Executive Director

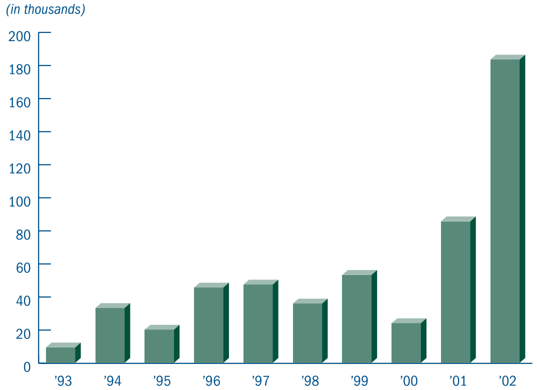
Providing Premier Customer Service

Two issues influenced the Corporation's efforts during 2002 to provide the highest quality of customer service: the recent surge of pension plan terminations and the drive to implement electronic government. While creating Internet-based business capabilities remained a priority for the Corporation, PBGC also had to contend with an unprecedented wave of plan terminations and new plan participants owed guaranteed benefits. These plans included the largest ever terminated in the history of the Corporation—the four LTV Steel plans.

LTV and Its Context

By their size alone, the LTV plans presented PBGC with an acute problem. One of those plans covered about 65,000 hourly workers and retirees, which equaled a full year's workload by itself. Even without LTV, PBGC became responsible for the benefits of over 100,000 new participants, more than the Corporation had ever absorbed in any prior year in its history. Resources had to be devoted to processing these new people quickly as well as issuing final benefit determinations to those still awaiting them.

NEW PARTICIPANTS IN TRUSTEED PLANS, 1993 – 2002



The Corporation responded to the challenge through a variety of strategies, several of which required procedural innovations. Customarily, much of PBGC's administrative work occurs after it has taken responsibility for a pension plan. This usually occurs some time after the plan's actual termination. In the case of LTV, however, PBGC began working with the company and the United Steelworkers of America several months before plan termination to ensure a seamless transition to PBGC control in the event that the Corporation had to assume responsibility for the plans. Early contact with the company and the union enabled PBGC to identify and resolve numerous policy issues before the Corporation assumed responsibility for the LTV pensions.

One of the principal services desired by participants in newly trusteed plans is information about their pension benefit and the status of their plan's termination. With LTV, PBGC introduced a new proactive communications program. Before the plans terminated, PBGC sent informational letters to all 83,000 LTV plan participants explaining the situation to them; prior to this, PBGC had never sent its initial letters until after it had trusteed a plan. Because of the size of the LTV plans, the Corporation set up a call center and toll-free telephone number just for the LTV participants and a special LTV page on the PBGC Web site to provide additional information and updates. At PBGC headquarters, special teams of employees were created to manage specific aspects of the transition such as asset management, communications, plan administration, and contracts. The Corporation also set up a special LTV document processing center at one of its field benefit offices and expanded another of the field offices to help with the LTV workload, including participant inquiries.

In a cooperative effort involving offices throughout the Corporation, more than 60 employees successfully prepared PBGC for assumption of the LTV plans. The smooth transfer of the plans from LTV to PBGC allowed more than 50,000 LTV retirees to continue to get their benefits without interruption. PBGC responded to numerous inquiries from LTV participants prior to the plans' termination. On the day after the LTV plans' termination in late March, PBGC sent out letters to all the LTV participants advising them that PBGC was now trustee of their plan. Starting in mid-April, the Corporation began mailing out "Welcome Kits" with additional information and application forms at the rate of 10,000 kits per week.

The lessons learned from the trusteeship of the LTV plans also led PBGC to initiate two knowledge management efforts to capture useful information from the experience for application to future large terminations. The goal of these efforts is to develop a "best practices toolkit" that will include checklists, schedules, documents and procedural guidelines, which PBGC staff can use to better serve participants in future cases.

While the new terminations during 2002 became a major focus of PBGC's attention and resources, the Corporation remained on track with its other principal service for participants in trusteed plans: benefit determinations. Due to the record numbers of new participants owed guaranteed benefits, the number of outstanding benefit determinations awaiting completion rose for the second year in a row, leaving about 276,000 determinations to be completed. Even so, the number of older pending determinations continued to fall; by year-end, and for the first time since the Corporation's earliest days, PBGC had essentially eliminated its inventory of over-aged determinations. Virtually all benefit determinations pending completion for more than three years had been issued and only 21,000 had been pending completion for more than two years. (PBGC pays benefits in estimated amounts when it begins payments before completion of the benefit determination.)

PBGC has now completed virtually all benefit determinations for plans trusteed prior to October 1, 1999. On average, in 2002 PBGC issued final benefit determinations 3.3 years after the date it had trusteed the participant's plan, approaching the performance goal of a 3-year average set for 2002 under PBGC's strategic plan. This was the shortest elapsed time the Corporation has ever needed to produce final benefit determinations and this result was achieved during a time when PBGC was coping with a record increase in workload unparalleled in the Corporation's history.

PBGC's accelerated processing of benefits and the automated systems installed since the mid-1990s laid the foundation for the achievements of 2002. By focusing attention on faster trusteeship of plans and faster issuance of benefit determinations, the Corporation was able to eliminate much of its backlog of older cases and pending determinations before the current rush of terminations began in 2001. This, in turn, freed resources that could be turned quickly to addressing new terminations in 2002. During the past fiscal year, the Corporation also upgraded its information technology infrastructure to increase the capacity and improve the reliability of its systems. As a result, the

Corporation has more reliable and resilient information systems that are less prone to system-wide failure.

ELECTRONIC GOVERNMENT

The influx of more than a quarter-million new participants owed guaranteed benefits over the past two years vividly illustrates the need for, and value of, the ability to conduct business electronically. Current information technology, including Web-based methods of communication, furnishes a cost-effective means of providing prompt, efficient service to a rapidly growing customer base. PBGC recognizes the advantages that electronic government, or e-Gov, offers for improving the responsiveness and quality of PBGC's service to more than 800,000 participants and plan sponsors, and is committed to realizing those advantages as quickly as possible. PBGC's priority and ultimate goal is to establish, by the end of 2003, fully personalized Web-accessible accounts that provide each customer—whether plan participant or plan administrator—with secure, fluid access to their benefit or plan information plus the ability to conduct a range of electronic business transactions. These online accounts will supplement, but not supplant, PBGC's telephone service for its customers.

Analysis of the Corporation's business transactions and re-engineering of its Web site (**www.pbgc.gov**) to support electronic transactions during 2001 formed the basis for PBGC's e-Gov operation. The Corporation added the next layer of its e-Gov program during 2002. Most significantly, PBGC improved the functionality and content of its plan-specific pages, which provide targeted services and information for certain large PBGC-trusteed plans.

One new feature of these pages is a timeline that informs participants about the status of PBGC's processing of their plan and benefits and explains in detail each phase of the process. The new pages also provide more information about the benefits provided by each plan and guaranteed by PBGC. Ultimately these pages will offer another feature of great interest to participants—an online benefit calculator that will permit participants in these plans to estimate their benefits and to vary certain data such as expected retirement date to see the effect on their benefits. PBGC began testing a benefit estimator for several plans shortly before the year ended.

PBGC also is testing an online customer service center on the new page created for the LTV Steel plans (**www.pbgc.gov/ltv**). This service center enables PBGC to centralize and coordinate its management of e-mail traffic pertaining to a single plan or group of plans. Participants can use the service center to get answers to commonly asked questions, to ask questions by e-mail, and to search for specific subject areas within the database of questions and answers about their plan. This application will help PBGC track the types of questions participants are raising, provide answers through the online "library" of responses about a plan, and improve the training of PBGC staff by identifying areas in which knowledge of a plan may be lacking.

The LTV Steel page represents a transitional phase in PBGC's electronic transformation from a static

Web site to a Web-based operation. By phasing in changes incrementally, the Corporation is making sure that the changes both work and meet customer needs. The next—and ultimate—phase is fully functional online personalized self-service centers that will allow PBGC customers to access their personal information and handle a range of transactions on their own in a secure authenticated environment. The first to benefit from this new service will be participants in PBGC-trusteed plans, who eventually will have round-the-clock access to their personal data on file with PBGC, including current information on their benefit payments. They will also be able to correct their contact information to quickly reflect changes in their address or telephone number and to request electronic direct deposit of their benefit payments. As the year ended, PBGC was planning to begin testing a pilot self-service center, which it is calling "My Pension Benefit Account," on a limited basis with some of the LTV Steel plan participants early in 2003. PBGC is also working to develop a similar self-service concept for administrators of PBGC-insured plans, to be called "My Plan Administration Account."

To further improve customer service, PBGC is conducting a Customer Relationship Management (CRM) pilot project to develop and evaluate a unified means of tracking and coordinating all customer inquiries, including telephone, fax, written correspondence, e-mail or walk-in requests.

IMPROVING CUSTOMER SERVICE

PBGC has also found that policy and procedural changes can markedly improve customer service and customer satisfaction. The Corporation adopted two such changes during 2002.

First, a new regulation issued in April allows participants in PBGC-trusteed plans to choose from a menu of optional forms of benefit payments. Participants may elect one of eight optional annuity benefit forms in addition to the forms offered by their plan, and they may now designate a non-spouse beneficiary to receive survivor benefits. (Married participants will need spousal consent to elect some of the optional benefit forms or to name a non-spouse beneficiary.) The regulation also simplifies PBGC's procedures for paying amounts owed deceased participants where the amount is not an annuity benefit, and allows PBGC to offer an early retirement annuity under certain circumstances for plans that did not have an early retirement provision. The new rule is one of the most significant changes PBGC has made to its benefit payment policy and another step taken to improve the Corporation's service to plan participants.

The second change involved a re-design of the Corporation's appeals procedures to accelerate appeals processing while continuing to protect the rights of appellants. PBGC formed an interdepartmental group in 2001 to re-engineer the process of resolving appeals. The group finalized its recommendations early in 2002. Among other measures, the recommendations called for specialized processing of the existing appeals backlog to reduce it quickly and expanded use of information management technology. PBGC began implementing several of the group's ideas by the end of the year.

PBGC regularly conducts surveys and focus groups with participants, plan administrators and pension professionals to evaluate satisfaction with the Corporation's service and identify areas where performance did not meet expectations. The comments received guide PBGC as it makes policy and procedural changes to address expressed concerns and improve customer satisfaction.

Until 2001 PBGC had relied solely on its own surveys to gather comments and customer evaluations of its service. These surveys were developed in consultation with experts in the field but were conducted by PBGC employees. Beginning in

PBGC's Customer Service Pledge

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

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

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

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

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

We will acknowledge your letter within one week of receipt.

2001, the Corporation began using the American Customer Satisfaction Index (ACSI) to measure the satisfaction of participants in PBGC-trusteed plans with the service PBGC provides. The ACSI index is a sophisticated, internationally accepted index compiled annually from surveys by a partnership that includes the University of Michigan Business School, the American Society for Quality and the CFI Group. The index, used by 170 major companies and 50 federal agencies, offers an objective third-party measure, independent of PBGC, which can help identify and prioritize areas for customer satisfaction improvement. The index will also be useful to compare PBGC to other government and private-sector organizations that provide similar services. The Corporation began using ACSI in 2002 to determine practitioner satisfaction with its service and to determine users' satisfaction with PBGC's Web site.

During 2002 PBGC's ACSI score for participants in plans that the Corporation has taken over was 74, one point above the goal for the year. Its initial ACSI score for practitioners was 69. The most recent government-wide index (for 2002) was 70. In addition, during its transition to ACSI, PBGC continued to conduct surveys of practitioners throughout the year. According to these surveys, 73 percent of practitioners rated PBGC's service as "above average" or "outstanding," a result that showed improvement from 2001 but which fell just short of meeting the Corporation's 2002 goal.

Protecting Benefits

Despite having to contend with the largest termination in its history and an unprecedented number of new people to whom it owes guaranteed benefits, PBGC continued to deliver pension checks on time. The Corporation also responded to additional requests for financial assistance under its multiemployer program.

SINGLE-EMPLOYER PROGRAM

Through its single-employer program, PBGC oversees terminations of fully funded plans and guarantees payment of basic pension benefits when underfunded plans must be terminated. The single-employer program covers about 34.4 million workers and retirees in about 31,000 plans.

During 2002 the Corporation processed or began processing the termination of 157 underfunded plans, the vast majority of which were involuntary terminations by PBGC. In most cases termination was necessary because the sponsoring employer had gone out of business. Terminations processed during the year included the largest plans in PBGC's 28-year history—four plans formerly sponsored by the LTV Steel Corporation, which covered nearly 83,000 workers and retirees. However, the year was marked by many other large terminations as well, including those of Anchor Glass Container Corporation (14,000 workers and retirees), Polaroid Corporation (11,000 workers and retirees), Harvard Industries (9,100 workers and retirees), Reliance Insurance Company (8,700 workers and retirees), Durango Apparel (7,000 workers and retirees), and Payless Cashways (6,500 workers and retirees).

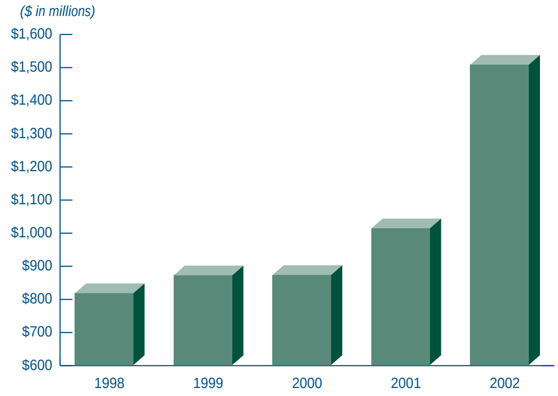
After a plan terminates, PBGC becomes trustee of the plan and administers benefits. In 2002, PBGC became trustee of 144 terminated single-employer plans covering 187,000 people. This was the largest number of new beneficiaries absorbed in one year by the insurance program since PBGC's creation in 1974, and more than double the previous record set just one year earlier.

By the end of the year, PBGC was responsible for a total of 3,087 trusteed plans, including 10 multiemployer plans. An additional 45 terminated single-employer plans were pending trusteeship as the year ended.

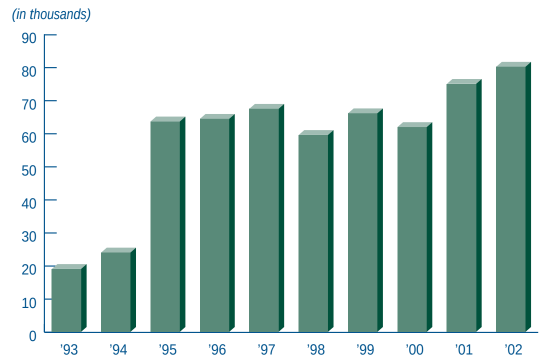
The surge in trusteed plans led to a similar increase in the frequency of the Corporation's meetings with large groups of participants from newly trusteed plans. PBGC regularly meets with such groups to address their concerns and explain the pension insurance program. PBGC held 90 such information sessions across the country in 2002, attended by more than 11,000 plan participants. This was by far the largest number of participant meetings held in one year.

Benefit Processing: By the end of the year, PBGC was responsible for the current and future pension benefits of nearly 800,000 participants from single-employer and multiemployer plans. These included about 345,000 people who received benefit payments totaling more than $1.5 billion for the year. This was half again as much as the previous record amount, paid in 2001.

BENEFITS PAID,
1998 – 2002



BENEFIT DETERMINATIONS ISSUED,
1993 – 2002



In spite of the influx of new people owed guaranteed benefits, and the associated demand for new benefit determinations, PBGC achieved a record level of productivity. During 2002, the Corporation issued more than 81,700 benefit determinations, exceeding 60,000 determinations for the eighth straight year and setting a new record for determinations issued in a single year.

PBGC routinely pays benefits in estimated amounts until final determinations are completed. Ninety-two percent of PBGC's final benefit determinations during 2002 were within 10 percent of the estimated benefit provided earlier to participants, exceeding the Corporation's goal for accuracy under its five-year strategic plan.

Appeals Processing: PBGC's Appeals Board reviews appeals of certain PBGC determinations. Most of the appeals are from people disputing PBGC's determination of their benefit entitlement. As in other years, less than two percent of PBGC's benefit determinations in 2002 were appealed. During the year, the Appeals Board received 1,235 appeals and decided 1,858 cases, reducing its open case inventory by nearly 20 percent. One aspect of the Corporation's appeals re-engineering process involved allocating additional resources to resolving backlogged appeals cases—this effort contributed 359 of the 1,858 cases decided during the year. In addition, a revised appeals brochure, which PBGC sends with its benefit determination letters, now clearly explains that appellants must provide specific grounds for an appeal. Other re-engineering activities are in various stages of development and implementation to meet a corporate goal of processing appeals on average within six months after receipt.

Standard Terminations of Fully Funded Plans: The decline in the number of standard pension plan terminations continued, with only 1,214 submitted to PBGC in 2002 as compared to the 1,565 submitted in the prior year. About three-fourths of the fully funded plans terminated in 2002 had 50 or fewer participants.

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

PBGC audits a statistically significant number of completed standard terminations to confirm compliance with the law and proper payment of benefits. These audits generally have found few and relatively small errors in benefit payments, which plan administrators are required to correct. The errors arise primarily from use of incorrect interest-rate assumptions in valuing lump-sum distributions to plan participants. Due to PBGC's audits in 2002, more than 1,600 participants (about 1.2 percent of all participants in audited plans) received more than $2.3 million of additional benefits.

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

During the fiscal year, 278 companies asked the clearinghouse to find 5,744 missing participants. Some 4,598 of these people were due benefit amounts totaling more than $8.5 million, which their former employers transferred to PBGC for payment. The other 1,146 missing people were covered by insurance annuity contracts that will pay their benefits when they are found. PBGC was able to find addresses for 4,543 missing people in the clearinghouse. The remaining people, if not found through follow-up searches, will be added to PBGC's Internet listing. In addition, during the year PBGC paid 1,844 people found through the clearinghouse a total of about $6.8 million in benefits. PBGC generally pays benefits only after it is able to fully verify the identity and address of the people it has located.

Additionally, the Pension Search listing on the Internet helped PBGC find 3,191 other people who were owed about $19.7 million. Over the

Workforce Planning

Following a review in 2001 of PBGC's staffing patterns, use of contractors, future workforce projections, and related issues, the National Academy for Public Administration designed a systematic six-step model for linking PBGC's workforce planning with strategic planning and the assessment of needed skills. The six steps consist of forecasting strategic direction, assessing business environment, assessing human capital, determining gaps between current competencies and future needs, developing solutions/strategies to address the gaps, and developing an implementation plan. (NAPA is a not-for-profit, nonpartisan organization chartered by the Congress to improve government operations.) NAPA's model became the foundation of PBGC's workforce planning efforts.

The seven initial participants in PBGC's pilot succession management program, "Leaders Growing Leaders," volunteered to serve as a Workforce Planning Team. (LGL is a special program PBGC initiated in 2001 to develop a diverse pool of candidates qualified to compete for PBGC leadership vacancies over the next five to 10 years.) Thus, the workforce planning project provided an immediate opportunity for the people viewed as PBGC's future leaders to begin thinking strategically about the Corporation's future.

The team spent 2002 evaluating the key skills and capabilities among PBGC's current staff and those likely to be required in the future, and determining the gaps between current competencies and anticipated future needs. The team submitted their findings and initial suggestions for addressing the gaps at the end of the year. The next steps in the process call for PBGC to develop solutions and strategies to meet workforce needs and then implement these solutions in the months ahead.

past six years, the program has helped PBGC locate about 14,000 people owed about $58 million from terminated plans. As of the end of the year, the total Internet list, which included people PBGC was unable to find through the clearinghouse, included another 13,300 people still to be found who were owed $46 million in pension benefits. The Internet listing is found at **www.pbgc.gov/search**.

MULTIEMPLOYER PROGRAM

The multiemployer program, which covers about 9.5 million workers and retirees in about 1,650 insured plans, is funded and administered separately from the single-employer program and differs from the single-employer program in several significant ways. The multiemployer program covers only collectively bargained plans involving two or more unrelated employers. For such plans, the event triggering PBGC's guarantee is the inability of a covered plan to pay benefits when due at the guaranteed level, rather than plan termination as required under the single-employer program. PBGC provides financial assistance through loans to insolvent plans to enable them to pay guaranteed benefits. Once begun, these loans generally continue year after year until the plan no longer needs assistance or has paid all promised benefits.

Financial Assistance: The multiemployer program received two new requests for financial assistance during 2002. These requests raised to 31 the total number of plans that have received financial assistance from PBGC, out of the 1,650 insured plans. Since 1980 PBGC has provided assistance with a total value of approximately $159 million net of repaid amounts. During the year, 23 plans received financial assistance totaling about $5 million.

The President's Management Agenda

Early in the year, the President issued an agenda of five government-wide goals "to improve federal management and deliver results that matter to the American people." These goals include:

- *Strategic Management of Human Capital;*
- *Competitive Sourcing;*
- *Improved Financial Performance;*
- *Expanded Electronic Government; and*
- *Budget and Performance Integration.*

The Administration then graded a number of federal agencies, including PBGC, in each of these areas. The score card used a color-coded system, with green for success, yellow for mixed results and red for unsatisfactory results. PBGC's first score card showed green in all areas except the first, for which it received yellow due to a lack of milestones for solutions to such problems as succession planning.

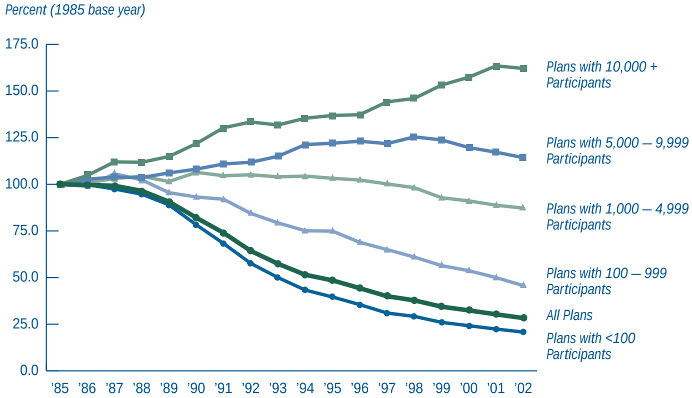
Although PBGC has not been rated since the first score card, the Corporation has continued to make progress on all of the President's goals. Developments during 2002 are described elsewhere in the Annual Report.

Trends in Defined Benefit Pension Plans

During the past year, the number of plans PBGC insured declined in each of its two insurance programs. Both programs also experienced an increase in the number of participants they covered. These changes are consistent with recent PBGC experience. However, the characteristics of the plans PBGC insures are changing, and data are now available for the first time that quantify the shift from a traditional benefit design to a hybrid design.

Since the mid-1980s, there has been a shift away from private-sector defined benefit pension plans. The combined number of PBGC-insured single-employer and multiemployer defined benefit pension plans peaked at 114,400 in 1985 but has declined sharply since then to about 32,500 plans in 2002. During the same time period total participation in PBGC-insured plans increased from 38 million to 43.9 million people. The reduction in the number of plans since 1985 has occurred primarily among small plans, those with fewer than 100 participants. However, the decline in the number of insured plans is not confined to the small plan universe.

CHANGE IN THE NUMBER OF PBGC-INSURED PLANS, BY PLAN SIZE, 1985 – 2002



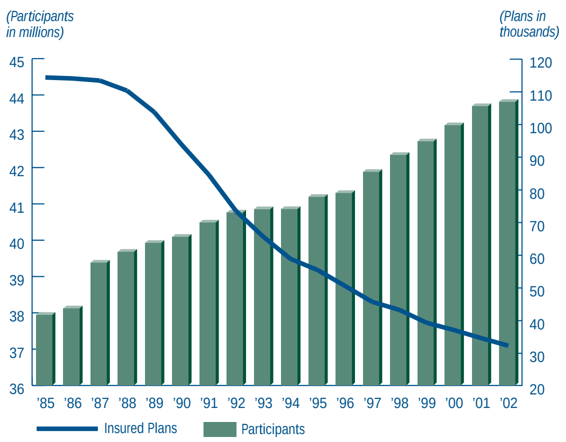
PBGC insured more than 90,000 small plans in 1985 but fewer than 19,000 in 2002. The period of greatest loss was during the early 1990s when these small plans were declining at a rate of more than 12 percent per year. In the last five years, the rate of decline has fallen to about eight percent per year. Because small plans continue to disappear at a faster rate than any other group and because 60 percent of the plans PBGC currently insures are small plans, their decline continues to be the major driver in the shrinking number of PBGC-insured plans.

The number of plans with 100 to 999 participants peaked at more than 20,000 in 1987. Since then, the number of plans in this category has fallen to just 8,800. These plans are declining at a rate of about seven percent per year, slightly faster than the average rate of five percent per year over the previous decade.

Plans with 1,000 to 4,999 participants grew from 3,800 to more than 4,000 between 1985 and 1990 but have declined to about 3,300 since. Over the past five years, these plans have been disappearing at a rate of about three percent per year compared to a rate of one percent per year from 1990 through 1997.

Larger plans continued to grow into the 1990s but their numbers, too, are now shrinking. Plans with 5,000 to 9,999 participants increased from about 560 in 1985 to 700 in 1998 but have declined by about two percent per year since then to 639. The largest plans, those with at least 10,000 participants, grew from fewer than 500 in 1985 to more than 800 in 2001. However, their numbers fell slightly to 796 in 2002. The growth through the 1990s in the number of very large plans is attributable to two factors. First, the rapid increase in the number of inactive participants (retirees, beneficiaries, and separated vested participants) moved some plans into a higher

PBGC-INSURED PLANS AND PARTICIPANTS, 1985 – 2002



size category. Second, there has been considerable merger activity since 1985, which has resulted in the formation of large plans.

Even though the number of plans PBGC insures has fallen precipitously in recent years, the increase in the number of the largest insured plans pushed the number of participants PBGC covers to 43.9 million in 2002, up slightly from the 43.8 million covered in 2001 and up substantially from the 38.0 million covered in 1985.

The growth in the number of PBGC-insured participants was caused by a near doubling in the number of inactive participants from 11 million in 1985 to almost 21 million in 2000 (the latest year this information is available from the IRS Form 5500 reports). The greatest growth in the number of PBGC-covered participants has been among the separated vested participants whose numbers increased by 6.1 million between 1985 and 2000. As a share of PBGC-covered participants, separated vested participants grew from less than 10 percent in 1985 to more than 22 percent in 2000. The number of retirees and beneficiaries of deceased participants also grew over this period, but by only 3.7 million. Their share of PBGC-covered participants increased from just under 20 percent to more than 25 percent over this period.

The number of active workers PBGC insures actually fell from almost 27 million in 1985 to less than 23 million in 2000. Meanwhile, the labor force has grown. Now only about 20 percent of private-sector wage and salaried workers are covered by PBGC-insured defined benefit pension plans, down from more than 30 percent in 1985. If the trend continues, active participants will constitute less than half of PBGC-insured participants in 2003.

During the middle and late 1990s, hybrid plans, primarily cash balance plans, became a growing percentage of the plans PBGC insures. A hybrid plan incorporates elements of defined contribution plans into its design, often expressing benefits in terms of an account balance and containing a lump sum payment option that the participant can exercise upon termination of employment with the plan's sponsor. The sponsor typically makes all contributions to the hybrid plan and bears all the plan's investment risk.

Recently available data indicate that about four percent of the single-employer plans PBGC insured in 2000 were hybrid plans. This small percentage is somewhat misleading because the estimated percentage of insured plans that were hybrid plans increases rapidly with plan size, from less than two percent of plans with fewer than 100 participants to more than 25 percent of plans with 10,000 or more participants. In 2000, hybrid plans contained an estimated 20 percent of all PBGC-insured single-employer plan participants. Not all these participants will receive benefits based on the hybrid plan design, however. Many hybrid plans converted from a more traditional defined benefit plan and most of their retired, separated, and even some active participants will receive benefits based on the original plan design.

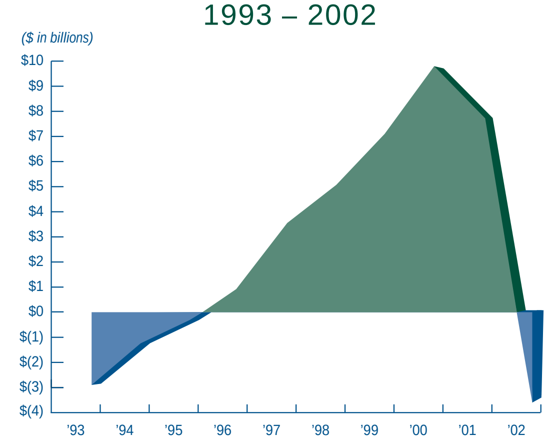
Safeguarding Solvency

Record losses from completed and probable terminations of underfunded pension plans pushed the single-employer program into a year-end deficit for the first time since 1995 and to its largest deficit since 1986, reversing six consecutive years of positive net position in a single year. The multiemployer program recorded a financial gain for the year that restored a measure of financial strength to the program.

FINANCIAL MANAGEMENT

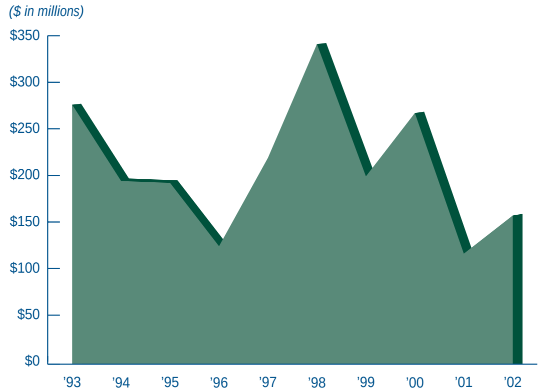
The net annual loss sustained by the single-employer program in 2002 was due primarily to losses from completed and probable terminations of underfunded plans, which accounted for more than 80 percent of the total annual loss. The Corporation's statutory restriction to fixed-income instruments for a large portion of its investments worked in PBGC's favor during 2002. Despite the volatility of the financial markets, the single-employer program more than offset its loss from equity investments with gains from fixed-income investments, providing an overall investment gain for the year. Premium revenues, which declined slightly, fell to their lowest level in 11 years while the program's benefit payments exceeded $1.5 billion for the first time in PBGC history. For the year, the record losses from plan terminations in combination with the program's other losses produced a total net loss for the year of $11.4 billion, reversing the program's financial position from a net surplus of about $7.7 billion at September 30, 2001, to a net deficit of about $3.6 billion. Despite the loss and resulting deficit, the insurance program's total assets of more than $25.4 billion assure that PBGC will be able to continue meeting its benefit and other obligations while it examines ways to restore a positive net position for the single-employer program.

NET POSITION
SINGLE-EMPLOYER PROGRAM
1993 – 2002



The multiemployer program reported a net gain of $42 million as the program benefitted from reduced losses from financial assistance and increased investment income. With total assets of $944 million and liabilities totaling $786 million, primarily for nonrecoverable future financial assistance, the multiemployer program remained financially sound with an end-of-year surplus of $158 million. Investment income totaled $118 million while premium income from insured multiemployer plans increased slightly to about $25 million.

NET POSITION
MULTIEMPLOYER PROGRAM
1993 – 2002



PBGC's financial statements have received their tenth consecutive unqualified opinion from the Corporation's auditors. The 2002 audit was again performed by

PricewaterhouseCoopers LLP under the direction and oversight of PBGC's then-Acting Inspector General.

Investment Program: The Corporation's investable assets consist of premium revenues accounted for in the Revolving Funds and assets from terminated plans and their sponsors accounted for in the Trust Funds. By law, PBGC is required to invest the Revolving Funds in fixed-income securities; current policy is to invest these funds only in Treasury securities. PBGC has more discretion in its management of the Trust Funds, which it invests primarily in high-quality equities. The asset allocation is designed to provide sound, long-term performance.

PBGC has structured its investment portfolio to improve its financial condition in a prudent manner. The Revolving Fund assets are invested to earn a competitive return and partially offset changes in its benefit liabilities. The Corporation's investment in equities provides overall portfolio diversification and a higher long-term expected return, within prudent levels of risk. PBGC uses institutional investment management firms to invest its assets subject to PBGC oversight. PBGC, with the advice of its Advisory Committee, continually reviews its investment strategy to ensure that it maintains an investment structure that is consistent with its long-term objectives and responsibilities.

INVESTMENT PROFILE

	September 30, 2002	2001
Fixed-Income Assets		
Average Quality	**AAA**	AAA
Average Maturity (years)	**18.1**	19.2
Duration (years)	**10.3**	10.2
Yield to Maturity (%)	**4.5**	5.3
Equity Assets		
Average Price/Earnings Ratio	**24.6**	23.7
Dividend Yield (%)	**1.9**	1.6
Beta	**0.96**	1.00

As of September 30, 2002, the value of PBGC's total investments in the single-employer and multiemployer programs, including cash, was approximately $26 billion. The Revolving Fund's value was $17 billion and the Trust Fund's value was $9 billion. Cash and fixed-income securities represented 72 percent of the total assets invested at the end of the year, as compared to 71 percent at the end of 2001, while the equity allocation remained at 28 percent of total assets invested. PBGC's current allocation to equities is the maximum currently allowable to PBGC within its investment portfolio structure, given legislative restrictions limiting equity investments to the Trust Funds. A very small portion of the invested portfolio remains in real estate and other financial instruments.

INVESTMENT PERFORMANCE

(Annual Rates of Return)

	September 30, 2002	2001	Five Years Ended September 30, 2002
Total Invested Funds	**2.1**%	-3.3%	5.8%
Equities	**-17.0**	-27.9	-2.1
Fixed-Income	**14.4**	13.8	10.1
Trust Funds	**-15.5**	-26.1	-1.3
Revolving Funds	**14.4**	13.8	10.1
Indices			
Wilshire 5000	**-17.5**	-29.0	-2.0
S&P 500 Stock Index	**-20.5**	-26.6	-1.6
Lehman Brothers Long Treasury Index	**14.5**	14.0	10.1

Results for fiscal year 2002 were mixed for capital market investments and PBGC's investment program. During the year, PBGC maintained its long-term, diversified asset allocation strategy and achieved a 2.1% return on total invested funds. PBGC's fixed-income program returned 14.4% while its equity program declined 17.0%. 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 $2.2 billion from fixed-income investments and a loss of about $1.9 billion from equity investments.

Contract Management: Of the contracts issued during 2002, PBGC awarded 89 percent through full and open competition. This is a slightly lower percentage than in recent years due to the Corporation's need to increase certain existing contracts in order to respond quickly to the unanticipated workload, particularly plan-processing obligations, that arose during the year. The remainder of PBGC's contracts were sole-source contracts or set-asides for minority bids.

In a departure from past practice, during the year PBGC developed a solicitation for a performance-based contract. Prior to 2002, PBGC's contracts essentially had been fee-for-service arrangements where contractors were paid for work without reference to measurable standards for quality. Under a performance-based contract, contractor payment will be based upon performance in relation to a measurable standard. The performance standard will be based on the services being provided. PBGC is reviewing all of its new contractual activities for applicability of performance-based contracting and will apply the new type of contract on a case-by-case basis. The Corporation intends to expand use of this form of contract in 2003 and future years.

The Corporation continued its emphasis on timely payments to vendors in order to reduce the late fees that PBGC has been paying. Through this effort, the amount of interest that PBGC paid due to late payment of invoices fell from about $29,000 in 2001 to less than $900 in 2002, a decrease of 97 percent.

As another means of improving service to PBGC vendors, PBGC created an e-mail address specifically for vendors (**invoicemanager@pbgc.gov**). The address provides vendors an easy way to submit questions and receive responses concerning invoices and payments.

Information Systems and Security

During 2002, PBGC appointed its first Chief Technology Officer, who has overall responsibility for improving the Corporation's information technology to better serve PBGC's own needs and those of its customers.

PBGC neared completion of its Continuity Of Operations Plan, under which it would move all operations offsite in case of an emergency at PBGC headquarters. The Corporation enhanced its ability to back-up its major information systems, completed individual plans for each of its departments, and established an alternate location for emergency relocation of critical PBGC personnel. Final testing and implementation of the plan is targeted for 2003.

For security purposes, the Corporation expanded its efforts to perform background checks on contractors, a process initiated in 2001. PBGC now obtains security clearances for virtually all contractors working with PBGC information systems.

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, 2002, as disclosed in Note 7 of the financial statements, was $35 billion (valued using data as of December 31, 2001), compared to $11 billion for fiscal year 2001.

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.

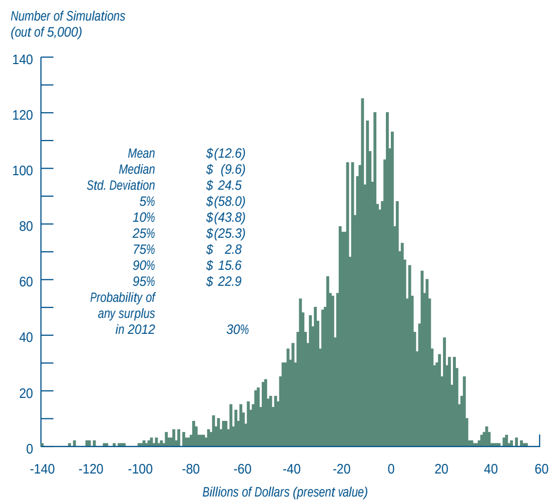
PIMS portrays future underfunding under current funding rules as a function of a variety of economic parameters. The model recognizes that all companies have some chance of bankruptcy and that these probabilities can change significantly over time. The model also recognizes the uncertainty in key economic 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 (a $3.6 billion deficit in the case of FY 2002) 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 $1.85 billion per year (expressed in today's dollars); that is, half of the simulations show claims above $1.85 billion per year and half below. The mean level of claims (that is, the average claim) is higher, about $2.25 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 $4.3 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.

DISTRIBUTION OF PBGC'S POTENTIAL 2012 FINANCIAL POSITION



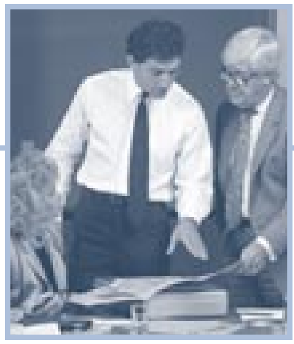
The median outcome is a $9.6 billion deficit in 2012 (in present value terms). This means that half of the simulations show either a smaller deficit than $9.6 billion, or a surplus, and half of the simulations show a larger deficit. The mean outcome is a $12.6 billion deficit in 2012 (in present value terms).

The median projected financial position is considerably lower than last year's median projection, which was based on a wide range of possible outcomes for each year of the projection. The actual experience of the last year approaches the most severe end of the range. For example, last year's combination of poor financial returns in PBGC-covered plans with a decline in interest rates generated an increase in underfunding that was exceeded in less than five percent of last year's simulations of the year 2002.

The poor returns and interest rate drop also worsened PBGC's own financial position. In addition, record terminations of underfunded pension plans and financial weakness among many plan sponsors further eroded PBGC's financial position and significantly increased PBGC's exposure to future claims. These factors, together, produced a substantial change in the starting point of the projections, which led directly to a significant change in the median projection.

The graph illustrates the wide range of outcomes that are possible for PBGC over the next 10 years. The other statistics listed on the graph give further details on the distribution of outcomes. The standard deviation is a measure of how widely the distribution is spread over its range and the percentiles indicate the likelihood of a position below particular values. For example, the model shows a 10 percent chance that the deficit could be as large as $43.8 billion and a 10 percent chance that PBGC could have a surplus of $15.6 billion or more. The probability of a surplus of any amount in 2012 is 30 percent.

LOSS PREVENTION



Under the Early Warning Program, PBGC monitors certain companies with underfunded pension plans. Through this effort, PBGC identifies corporate transactions that could jeopardize pensions and works with companies sponsoring underfunded pension plans to arrange suitable protections for those pensions and the pension insurance program. One important source of information about underfunded plans is the report that must be filed annually with PBGC under Section 4010 of ERISA by companies that sponsor plans with significant amounts of underfunding. While PBGC does not confine its analyses simply to the information submitted under Section 4010, the Corporation continues to find this information to be extremely useful.

Loss prevention activities during 2002 continued to be dominated by bankruptcies as PBGC faced an escalating number of cases featuring more difficult issues and substantially increased amounts of pension underfunding. PBGC participated in more bankruptcies through membership on creditors' committees in order to keep adequately informed on cases of importance to the pension insurance program and to make a difference where possible in the treatment of pension plans. The information it obtained through these committees enabled the Corporation to take timely action to protect the pension insurance program and the underfunded pensions of affected plan participants.

Despite its focus on bankruptcies, the Corporation also completed non-bankruptcy-related agreements valued at about $454 million. These agreements provided contributions, security, and other protections for the pensions of about 57,000 workers and retirees.

LITIGATION

Legal challenges to PBGC policies and positions continued in 2002. At the end of the year, PBGC had 86 active cases in state and federal courts and 527 bankruptcy cases.

Major cases in 2002 included:

Raytech Corporation: In 1986 Raymark Industries Inc., formerly known as Raybestos-Manhattan Inc., created Raytech Corporation as a wholly owned subsidiary. In doing so, Raytech acquired Raymark's profitable assets while leaving Raymark with asbestos-related liabilities and two pension plans that were underfunded by about $19 million as of 1999. While undergoing reorganization in bankruptcy in 1999, Raytech filed for a declaration that it was not liable for any minimum funding contributions to the Raymark pension plans after it ceased being a member of Raymark's controlled group. PBGC filed a counterclaim alleging that the spin-off of Raytech and Raymark was a scheme intended to defraud creditors and asking the court to order Raytech to maintain, administer and fund the plans. In December 1999, the bankruptcy court granted PBGC's motion for summary judgment and ordered Raytech to take full responsibility for the two pension plans. The court agreed with PBGC that the transactions that separated Raytech from Raymark were intended to defraud Raymark's creditors and that PBGC was entitled to relief under fraudulent conveyance law. In March 2001 the district court affirmed the bankruptcy court's grant of summary judgment in favor of PBGC. During 2002, Raytech withdrew its appeal of that decision and agreed to assume, maintain and fund the plans. The bankruptcy court approved the agreement shortly after year-end.

Pineiro, Brooks, and Beaumont v. PBGC: In 1991, PBGC became trustee of three Pan American World Airways pension plans underfunded by $914 million. Three former Pan Am employees filed suit in 1996 alleging that PBGC breached its fiduciary duties, primarily by delaying issuance of participants' pension benefit determination letters. Plaintiffs sought to replace PBGC with a new trustee. PBGC moved to dismiss. After issuing three conflicting decisions over a period of three years on PBGC's motion, the district court certified the case for immediate appeal to the Second Circuit. The Second Circuit initially took the case but, after full briefing and oral argument, the court reversed itself and dismissed PBGC's appeal for lack of appellate jurisdiction. The case returned to district court for further proceedings. The issues in the district court include the technical legal issue of whether PBGC operates as a "trustee" or a "statutory guarantor" when calculating guaranteed benefits, and whether PBGC has certain duties to provide information to participants. Pre-trial discovery is scheduled to conclude in November 2002, after which PBGC will seek summary judgment.

Despite the exceedingly poor condition of Pan Am's pension records and the difficulties caused by the company's protracted bankruptcy proceedings, PBGC has been paying benefits to Pan Am retirees continuously since taking over the plans. The ultimate decision in this case will not increase or decrease the benefits payable to the plan's 35,000 participants, virtually all of whom have now been sent their benefit determinations.

Air Line Pilots Association v. PBGC: Under a January 1993 agreement between Carl Icahn, Trans World Airlines Inc., PBGC and the unions representing affected TWA employees, TWA's pension plans for pilots and employees were frozen, with no additional benefits earned or new participants added after the date of the agreement. Pichin Corporation, owned by Icahn, assumed funding responsibility for the plans, and Icahn acquired the right to unilaterally terminate the plans at any time after January 1, 1995. The agreement's confirmation by the bankruptcy court enabled TWA to emerge from bankruptcy reorganization later in 1993. In December 2000

Icahn exercised his right, terminating the plans as of January 1, 2001. PBGC took responsibility for the plans the same day. The plans cover about 36,500 people, including more than 15,000 active TWA workers, and were underfunded by about $700 million.

Even though the Air Line Pilots Association (ALPA) was a party to the 1993 settlement agreement, ALPA and two individual pilots brought suit in district court in 2001 alleging that termination of the TWA Pilots Plan was unlawful and should be enjoined. In March 2002 the district court dismissed the complaint, finding that PBGC's termination of the Pilots Plan pursuant to the terms of the 1993 settlement agreement did not violate ERISA and was not arbitrary or capricious. The plaintiffs have appealed the district court decision to the U.S. Court of Appeals for the District of Columbia, and their appeal is pending.

On May 15, 2002, eight former TWA pilots filed another lawsuit challenging the termination. The plaintiffs in this second suit allege essentially the same set of facts as ALPA did in the first case and make the same legal claim—that the termination was contrary to ERISA. On July 19, the district court stayed proceedings in the second suit pending the decision of the Court of Appeals in the earlier-filed ALPA case.

Coleman v. PBGC: Six former employees of McLouth Steel Products Company brought this suit claiming entitlement to shutdown benefits under their terminated plan, which PBGC trusteed in 1996. McLouth had amended those benefits out of the plan in 1995 pursuant to an agreement with the Steelworkers' union and PBGC that sought to avoid the plan's termination. The union also told PBGC that there had been no "permanent shutdown" as of the proposed plan termination date, and PBGC relied on that representation in establishing the termination date. The employees now claim that they are entitled to the benefits. They also challenge as a prohibited transaction the transfer of $12.7 million of plan assets to PBGC as plan trustee to finalize the termination of a predecessor plan. PBGC moved to dismiss the suit, but the district court denied that motion. The court also certified the suit as a class action but granted PBGC's motion to strike the demand for a jury trial and dismissed the employees' common law claim for misrepresentation. Discovery ended on August 31 and dispositive motions are expected to be due in November 2002.

PBGC v. Republic Technologies International: RTI filed for bankruptcy in Ohio in April 2001. Subsequently, RTI negotiated a sale of its principal assets to a buyer who would not assume its four pension plans but would hire approximately 2,500 people covered by the two pension plans negotiated with the United Steelworkers of America (USWA). RTI and the USWA negotiated an agreement requiring RTI to declare a shutdown for purposes of triggering certain shutdown benefits under the pension plans upon the closing of the sale. RTI's pension plans are underfunded by approximately $310 million, not including $170 million in the additional unfunded shutdown benefits. The sale and the shutdown agreement with the USWA were approved by the bankruptcy court and the sale closed in August 2002.

On June 14, 2002, PBGC published notices of intent to terminate RTI's pension plans and filed a lawsuit in federal district court in Ohio seeking to terminate the plans, appoint PBGC as statutory trustee, and establish June 14, 2002, as the date of plan termination. PBGC acted to protect the insurance program from unreasonable losses, amounting in this case to about an additional 50 percent of an already substantial amount of underfunding.

The bankruptcy court found that the negotiated shutdown agreement between the company and the union did not bind PBGC. RTI and USWA are contesting the termination action and the June 14 date of plan termination. The termination action was still pending at year-end.

Annual Performance Report

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

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

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

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

(4) improve internal management support operations.

The performance measures track specific results that are significant to PBGC's customers and gauge the effectiveness of PBGC operations. The following table shows the results achieved in 2002 and meets the annual reporting requirement of the Government Performance and Results Act. PBGC replaced one measure and added another in 2002. The American Customer Satisfaction Index of pension practitioner satisfaction replaced the previous measure that was based on a survey conducted by PBGC. The percentage of pension plans trusteed within one year of the opening of the case is the new measure. To better reflect the interests of stakeholders, PBGC plans to make additional changes to the measures in 2003. PBGC's strategic plan may be found on PBGC's Web site at **www.pbgc.gov/about/STRATPLAN.htm**.

ACHIEVING PERFORMANCE TARGETS

Protecting the Interests of Participants:

- 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 2002, PBGC fulfilled this advocacy role in 146 cases involving over 306,900 participants.

- PBGC protects participant interests by educating participants and pension practitioners about defined benefit plans. PBGC conducted 90 group meetings to inform participants in PBGC-trusteed pension plans about the PBGC guarantee and what they can expect. Similarly, PBGC officials participated in 16 meetings and conferences with pension practitioners to address issues of mutual concern and to get their feedback.

Customer Satisfaction:

- The American Customer Satisfaction Index is the national indicator of customer satisfaction. One hundred and seventy private sector companies and 50 federal agencies participate in the index, which is produced by a partnership between the University of Michigan Business School, the American Society for Quality, and the CFI Group. For its participant customers, PBGC's 2002 index was 74, four points higher than the combined index of all federal agencies and one point higher than the most recent (i.e., 2001) combined index of all participating private-sector service companies. PBGC's index of confidence (a measure of PBGC

2002 PBGC CORPORATE PERFORMANCE MEASURES

Measure	Applicable Goal	2002 Milestone	2002 Result	Baseline [a]
Protecting the Interests of Participants:				
Protect the interests of defined benefit pension plan participants by resolution of bankruptcy actions with companies sponsoring plans	(1)	[b]	146 plans 306,900 participants	92 plans 226,000 participants (1999)
Customer Satisfaction:				
■ American Customer Satisfaction Index of participants who contact PBGC for service	(2)	73	74	73 (2001)
■ American Customer Satisfaction Index of pension practitioners who contact PBGC for service [c]	(2)	N/A	69	69 (2002)
Operations:				
Provide reliable estimated benefits to participants that are within 10% of final benefits and are in clear, understandable language	(2)	90%	92%	84% (1999)
Reduce from 3-4 years to 3 years the average time frame to send benefit determinations to participants in defined benefit plans taken over by PBGC	(2)	3 years	3.3 years	6.0 years (1997)
Reduce the age of pre-trusteeship inventory to no more than 1 year	(2)	100% 1 year or less	93% 1 year or less	99% 4 years or less (1998)
Make trusteeship decisions within one year of opening the case for non-bankruptcy cases [d]	(2)	90%	94%	94% (2002)
Send the first benefit payment to an eligible person within 3 months of receiving his/her completed application	(2)	95%	95%	83% (1999)
Find and pay benefits to missing participants in terminated defined benefit plans	(2)	[b]	7,734 participants	1,303 participants (1999)
Financial Management:				
Collect 99% of pension insurance premiums due	(3)	99%	99%	97% (1997)
Research and respond within 90 days to requests for premium refunds, waiver of premium penalties, and reconsiderations of PBGC premium decisions	(3)	75%	41%	26% (2001)
Approximate comparable 5-year investment indices for PBGC's portfolio performance	(3)	[b]	PBGC / Index *Equities* -2.1% / -2.0% *Fixed-Income* 10.1% / 10.1%	(1997) PBGC / Index *Equities* 20.6% / 20.6% *Fixed-Income* 10.9% / 8.9%

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

b/ By their nature, these measures do not lend themselves to setting annual targets or milestones. PBGC measures performance annually based on actual results.

c/ PBGC added a pension practitioner segment to the American Customer Satisfaction Index (ACSI) in 2002 and the baseline results are reported here. PBGC will measure pension practitioner satisfaction henceforth by means of the ACSI. In 2002, as it transitioned to the ACSI, PBGC continued its own survey of pension practitioners who contacted PBGC on a premium matter or who filed a standard termination notice. In this survey, 73 percent said the overall quality of PBGC's service was "outstanding" or "above average" (on a five-point customer satisfaction scale) compared to 71 percent in 2001. The target for 2002 was 75 percent.

d/ New measure in 2002.

customers' expectation that PBGC will do a good job in the future) was 81. The results identify causes and effects of satisfaction and focus PBGC's efforts in three areas of great concern to participants: customer care, concern resolution, and written communications.

- PBGC added a pension practitioner segment to the ACSI in 2002. The baseline index of practitioners' satisfaction was 69. While two points below the 2001 combined index of federal agencies, this result was well above the indices for comparable federal collection programs. Henceforth, the ACSI will be the principal tool for measuring the satisfaction of practitioners. PBGC previously measured satisfaction through a survey mailed to practitioners who had contacted the Corporation on a premium matter or who had filed a standard termination notice. During 2002, 73 percent of respondents rated the overall quality of PBGC's service "outstanding" or "above average" on a five-point scale, an increase of two percentage points over 2001. The target for the year was 75 percent.

- In 2002, PBGC located 7,734 missing participants who otherwise would not have received pension benefits they had earned from former employers.

Operations:

- The principal measure of operations is to "reduce to three years the average time frame to send benefit determinations to participants in defined benefit pension plans taken over by PBGC." Efforts to speed up processing have succeeded. PBGC issued benefit determinations to 81,700 participants in 2002, 36 percent more than planned. In spite of the significant increase in new workload, PBGC reduced the average time it takes to issue benefit determinations to participants to 3.3 years. As an indication of continued improvement in processing times in the future, the average age of unissued benefit determinations was reduced again this year, from 1.5 years to 0.9 years.

- In 2002, participants received final benefits that were within 10 percent of the earlier estimated benefits in 92 percent of the cases, exceeding PBGC's goal for the year.

- At the end of 2002, 93 percent of cases awaiting trusteeship were one year old or less.

- During 2002 PBGC made trusteeship decisions within one year of opening the case 94 percent of the time.

- Of eligible participants who completed benefit applications, 95 percent received pension payments from PBGC within three months, achieving the annual target and exceeding last year's result by three percentage points.

Financial Management:

- The premium collection rate is the amount of premiums collected divided by the amount of premiums due. PBGC collected 99 percent of the premiums due in 2002, achieving its goal for the year.

- A measure important to the practitioner community is the timely response to requests for premium refunds, waiver of penalties, and reconsideration of premium decisions. The standard is 90 days from receipt to completion of the request, and in 2002 PBGC accomplished this 41 percent of the time. The target for the year was 75 percent but correspondence carried over from the prior year revealed a large number of requests for reconsiderations and waivers that directly affected PBGC's ability to reach the target. As the year closed, PBGC improved its record for achieving the 90-day standard, reaching it 57 percent of the time in September. Improving on this result will be a focus of attention in 2003, with additional resources committed.

- Investment management results are measured against recognized industry indices aggregated over a five-year period. The five-year period smooths out the volatility in annual market performance and provides a more realistic, long-term view of investment success. In 2002 PBGC's five-year performance approximated the indices for equities and fixed-income investments.

PROGRAM EVALUATION

PBGC annually evaluates satisfaction with the Corporation's services provided to participants in plans trusteed by PBGC, to pension practitioners who have dealings with us on premium payment or standard termination matters, and to all who visit PBGC's Web site. PBGC's survey efforts now cover all customer segments and all the modes by which they contact the Corporation (i.e., mail, telephone, and Internet). 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 make improvements in program operations.

Contents of Financial Statements

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

GENERAL

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

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

COMBINED RESULTS

PBGC's combined net loss of $11.328 billion from underwriting and financial activities resulted in the Corporation's first deficit net position since fiscal year 1995. The single-employer program reported a net loss of $11.370 billion. The multiemployer program reported net income of $42 million, which was a reversal from last year's net loss. By law, these two programs are separate.

SINGLE-EMPLOYER PROGRAM

Results of Activities and Trends: The rise in business failures coupled with pension plan losses in the equity markets and declines in the interest rates have led to growing claims against the pension insurance system. This resulted in a net loss in 2002 of $11.370 billion compared to the net loss of $1.972 billion in 2001. The $9.398 billion increase was primarily attributable to the net change in losses from completed and probable terminations (an increase of $8.608 billion) and in actuarial charges (an increase of $1.720 billion), offset by an increase in investment income of $1.013 billion.

UNDERWRITING ACTIVITY: The loss of $8.790 billion in 2002 was a significant decrease from the income of $59 million in 2001. This $8.849 billion decrease was due to the largest losses from completed and probable terminations in the history of the Corporation.

Underwriting income decreased from $844 million in 2001 to $815 million in 2002. The $29 million change was due primarily to the decrease in premium income. A statutory change in the calculation of variable-rate premiums for plan years beginning in 2002 and 2003 contributed to the slight decrease in premium income for FY 2002. The Required Interest Rate (RIR) was changed to 100 percent, rather than 85 percent, of the annual yield on 30-year Treasury securities. Variable-rate premiums decreased because of this change.

The Corporation's losses from completed and probable plan terminations increased from a loss of $705 million in 2001 to a loss of $9.313 billion in 2002. The loss was primarily due to new plans classified as probable and the termination of 157 underfunded pension plans. Future losses remain unpredictable as PBGC's loss experience is highly sensitive to losses from large claims.

Administrative expenses increased $36 million over 2001, to a total of $207 million in 2002. This was primarily due to costs incurred from the termination of the LTV pension plans.

FINANCIAL ACTIVITY: The loss from financial activity increased from $2.031 billion in 2001 to $2.580 billion in 2002. 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 2.1% in 2002, compared to a negative 3.3% in 2001. Fixed-income investment returns in 2002 increased by $374 million over 2001 while the loss from equity investments was $622 million less in 2002 than in 2001. PBGC, in accordance with accounting principles generally accepted in the United States of America (GAAP), marks its assets and liabilities to market.

Actuarial charges primarily resulted from the changes in interest rates in FY 2002 and from the aging of the present value of future benefits. The select interest rate decreased from 6.70% at September 30, 2001, to 5.70% at September 30, 2002, while the ultimate rate decreased from 5.25% to 4.75%.

Liquidity and Capital Resources: The single-employer program's net position in 2002 declined significantly to a deficit of approximately $3.6 billion primarily as a result of completed and probable terminations and actuarial charges. Approximately $25.0 billion (98 percent) of the program's total assets of $25.4 billion were in marketable assets.

PBGC's primary sources of cash are from premium receipts and investment activities. If funds generated from these sources are insufficient to meet 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 has never used this borrowing authority and has no plans to use it in the future. In any case, PBGC has enough cash flow to cover benefit payments, other operating expenses, and other liabilities in the foreseeable future.

Benefit payments and administrative expenses will approximate $2.5 billion in 2003. 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 2003 premium receipts forecasts the amount to fall within the range of $785 million to $805 million.

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, was approximately $35 billion at the December 31, 2001, measurement date. December 31st values are the most current and complete data available. Because of the economic conditions that existed between December and September, the underfunding associated with these sponsors would tend to be greater at September 30, 2002. 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; industrial and commercial machinery and computer equipment; chemicals and allied products; electronic and other electrical equipment, except computer equipment; general merchandise stores; rubber and miscellaneous plastics products; and paper and allied products.

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 clear 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. For example, as of December 2002, with the assumption of the Bethlehem Steel and National Steel pension plans, the steel industry accounted for more than half of all of the Corporation's claims but only two percent of covered workers. PBGC's historical claims experience also shows that less than 10 percent of companies classified as reasonably possible have had their classification subsequently changed to probable.

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

The single-employer program's negative net position of approximately $3.6 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 $25.4 billion assure the Corporation's ability to meet its obligations.

MULTIEMPLOYER PROGRAM

Results of Activities and Trends: The 2002 multiemployer results of operations culminated in a positive net position of $158 million. The program reported a gain of $42 million in 2002 compared to a net loss of $151 million in 2001. The change in net income was due to a smaller loss from future financial assistance and an increase in investment income. Premium income increased slightly to $25 million. Of the program's assets, PBGC invested 98.4 percent in Treasury securities in 2002 and 97.6 percent in 2001.

Liquidity and Capital Resources: As the multiemployer program has a positive net position and most assets are highly liquid Treasury securities, PBGC has sufficient resources to meet its liquidity requirements. In 2003, premium receipts will approximate $25 million while benefit payments and financial assistance are expected to be about $6 million.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT STATEMENT

Management controls in effect during fiscal year 2002 provided reasonable assurance that assets were safeguarded from material loss and that transactions were executed in accordance with management's authority and with significant provisions of selected laws and regulations. Furthermore, PBGC management controls provided reasonable assurance that transactions were properly recorded, processed and summarized to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and to maintain accountability for assets among funds.

PBGC did not identify any material weaknesses during fiscal year 2002.

Management Representation

PBGC's management is responsible for the accompanying Statements of Financial Condition as of September 30, 2002 and 2001, 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 present fairly the financial position of PBGC at September 30, 2002, and September 30, 2001, and the results of operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America (GAAP) and actuarial standards applied on a consistent basis.

Estimates of probable terminations, nonrecoverable future financial assistance, amounts due from employers and the present value of future benefits may have a material effect on the financial results being reported. 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 PricewaterhouseCoopers LLP (PwC) to conduct the audit of the Corporation's 2002 and 2001 financial statements. PwC issued an unqualified opinion on PBGC's September 30, 2002 and 2001, financial statements.

Steven A. Kandarian

Steven A. Kandarian
Executive Director

Hazel Broadnax

Hazel Broadnax
Deputy Executive Director
and Chief Financial Officer

January 14, 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)	**2002**	2001	**2002**	2001	**2002**	2001
ASSETS						
Cash and cash equivalents	**$ 716**	$ 776	**$ 3**	$ 17	**$ 719**	$ 793
Investments, at market (Note 3):						
Fixed maturity securities	**16,742**	13,829	**929**	777	**17,671**	14,606
Equity securities	**7,349**	6,245	**1**	2	**7,350**	6,247
Real estate and real estate investment trusts	**38**	40	**0**	0	**38**	40
Other	**6**	120	**0**	0	**6**	120
Total investments	**24,135**	20,234	**930**	779	**25,065**	21,013
Receivables, net:						
Sponsors of terminated plans	**209**	367	**0**	0	**209**	367
Premiums (Note 9)	**121**	153	**0**	1	**121**	154
Sale of securities	**45**	50	**0**	0	**45**	50
Investment income	**197**	182	**11**	10	**208**	192
Other	**3**	3	**0**	0	**3**	3
Total receivables	**575**	755	**11**	11	**586**	766
Furniture and fixtures, net	**4**	3	**0**	0	**4**	3
Total assets	**$25,430**	$21,768	**$944**	$807	**$26,374**	$22,575

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)	**2002**	2001	**2002**	2001	**2002**	2001
LIABILITIES						
Present value of future benefits, net (Note 4):						
Trusted plans	**$21,660**	$12,694	**$ 3**	$ 4	**$21,663**	$12,698
Terminated plans pending trusteeship	**476**	215	**0**	0	**476**	215
Settlements and judgments	**161**	177	**0**	0	**161**	177
Claims for probable terminations	**6,322**	411	**0**	0	**6,322**	411
Total present value of future benefits, net	**28,619**	13,497	**3**	4	**28,622**	13,501
Present value of nonrecoverable future financial assistance (Note 5)			**775**	679	**775**	679
Unearned premiums (Note 9)	**193**	191	**8**	8	**201**	199
Due for purchases of securities	**83**	195	**0**	0	**83**	195
Accounts payable and accrued expenses (Note 6)	**173**	153	**0**	0	**173**	153
Commitments and contingencies (Notes 7, 8, 14 and 15)						
Total liabilities	**29,068**	14,036	**786**	691	**29,854**	14,727
Net position	**(3,638)**	7,732	**158**	116	**(3,480)**	7,848
Total liabilities and net position	**$25,430**	$21,768	**$944**	$807	**$26,374**	$22,575

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

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)	**2002**	2001	**2002**	2001	**2002**	2001
UNDERWRITING:						
Income:						
Premium (Note 9)	**$ 787**	$ 821	**$ 25**	$ 24	**$ 812**	$ 845
Other	**28**	23	**0**	0	**28**	23
Total	**815**	844	**25**	24	**840**	868
Expenses:						
Administrative	**207**	171	**0**	0	**207**	171
Other	**15**	2	**0**	0	**15**	2
Total	**222**	173	**0**	0	**222**	173
Other underwriting activity:						
Losses from completed and probable terminations (Note 10)	**9,313**	705	**0**	0	**9,313**	705
Losses from financial assistance (Note 5)			**101**	269	**101**	269
Actuarial adjustments (Note 4)	**70**	(93)	**0**	1	**70**	(92)
Total	**9,383**	612	**101**	270	**9,484**	882
Underwriting income (loss)	**(8,790)**	59	**(76)**	(246)	**(8,866)**	(187)
FINANCIAL:						
Investment income (loss) (Note 11):						
Fixed	**2,043**	1,669	**118**	96	**2,161**	1,765
Equity	**(1,887)**	(2,509)	**0**	(1)	**(1,887)**	(2,510)
Other	**14**	(3)	**0**	0	**14**	(3)
Total	**170**	(843)	**118**	95	**288**	(748)
Expenses:						
Investment	**18**	13	**0**	0	**18**	13
Actuarial charges (Note 4):						
Due to passage of time	**1,077**	780	**0**	0	**1,077**	780
Due to change in interest rates	**1,655**	395	**0**	0	**1,655**	395
Total	**2,750**	1,188	**0**	0	**2,750**	1,188
Financial income (loss)	**(2,580)**	(2,031)	**118**	95	**(2,462)**	(1,936)
Net income (loss)	**(11,370)**	(1,972)	**42**	(151)	**(11,328)**	(2,123)
Net position, beginning of year	**7,732**	9,704	**116**	267	**7,848**	9,971
Net position, end of year	**$ (3,638)**	$ 7,732	**$158**	$ 116	**$ (3,480)**	$ 7,848

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)	**2002**	2001	**2002**	2001	**2002**	2001
OPERATING ACTIVITIES:						
Premium receipts	**$ 819**	$ 794	**$ 26**	$ 25	**$ 845**	$ 819
Interest and dividends received, net	**964**	861	**50**	46	**1,014**	907
Cash received from plans upon trusteeship	**662**	592	**0**	0	**662**	592
Receipts from sponsors/non-sponsors	**367**	22	**0**	0	**367**	22
Receipts from the missing participant program	**9**	14	**0**	0	**9**	14
Other receipts	**4**	2	**0**	0	**4**	2
Benefit payments—trusteed plans	**(1,482)**	(1,027)	**(1)**	(1)	**(1,483)**	(1,028)
Financial assistance payments			**(5)**	(4)	**(5)**	(4)
Settlements and judgments	**(393)**	(156)	**0**	0	**(393)**	(156)
Pretermination payments	**0**	(11)	**0**	0	**0**	(11)
Payments for administrative and other expenses	**(216)**	(180)	**0**	0	**(216)**	(180)
Net cash provided by operating activities (Note 13)	**734**	911	**70**	66	**804**	977
INVESTING ACTIVITIES:						
Proceeds from sales of investments	**23,207**	13,623	**643**	384	**23,850**	14,007
Payments for purchases of investments	**(24,001)**	(14,214)	**(727)**	(441)	**(24,728)**	(14,655)
Net cash used in investing activities	**(794)**	(591)	**(84)**	(57)	**(878)**	(648)
Net increase (decrease) in cash and cash equivalents	**(60)**	320	**(14)**	9	**(74)**	329
Cash and cash equivalents, beginning of year	**776**	456	**17**	8	**793**	464
Cash and cash equivalents, end of year	**$ 716**	$ 776	**$ 3**	$ 17	**$ 719**	$ 793

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

Notes to Financial Statements September 30, 2002 and 2001

NOTE 1: ORGANIZATION AND PURPOSE

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

ERISA requires that PBGC programs be self-financing. The Corporation finances its operations through premiums collected from covered plans, assets assumed from terminated plans, collection of employer liability payments due under ERISA as amended and investment income. In addition, PBGC may borrow up to $100 million from the U.S. Treasury to finance its operations. The Corporation did not use this borrowing authority during the years ended September 30, 2002, or September 30, 2001, nor is use of this authority currently planned. ERISA provides that the U.S. Government is not liable for any obligation or liability incurred by PBGC.

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

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

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

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

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 PBGC becomes trustee, which may be several years after the date of plan termination.

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

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. Investment income is accrued as earned. Dividend income is recorded on the ex-dividend date. Realized gains and losses on sales of investments are calculated using an average cost basis. 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 realized in the period in which they accrue or are received.

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

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

Actuarial Adjustments and Charges (Credits): PBGC classifies actuarial adjustments related to changes in method and the effect of experience as underwriting activity. Actuarial charges (credits) related to changes in interest rates and passage of time are classified as financial activity. These adjustments and charges (credits) represent the change in the PVFB that results from applying actuarial assumptions in the calculation of future benefit liabilities (see Note 4).

Depreciation: PBGC calculates depreciation of its furniture and equipment on a straight-line basis over the estimated useful lives of the assets. The useful lives range from five to 10 years. Routine maintenance and leasehold improvements (the amounts of which are not material) are charged to operations as incurred.

Reclassifications: Certain amounts in the 2001 financial statements have been reclassified to be consistent with the 2002 presentation.

NOTE 3: INVESTMENTS

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

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

The basis and market value of the investments by type are detailed below. The basis indicated is cost of the asset if acquired after the date of plan termination or the market value at date of plan termination if the asset was acquired as a result of a plan's termination. 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, 2002		September 30, 2001	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	**$14,165**	**$15,796**	$12,399	$13,206
Commercial paper	**28**	**28**	0	0
Asset backed securities	**440**	**447**	333	338
Corporate and other bonds	**478**	**471**	286	285
Subtotal	**15,111**	**16,742**	13,018	13,829
Equity securities	**6,847**	**7,349**	4,283	6,245
Real estate and real estate investment trusts	**42**	**38**	39	40
Insurance contracts	**15**	**6**	119	120
Total *	**$22,015**	**$24,135**	$17,459	$20,234

* This includes securities on loan at September 30, 2002, and September 30, 2001, with a market value of $122 million and $119 million, respectively.

INVESTMENTS OF MULTIEMPLOYER REVOLVING FUNDS AND MULTIEMPLOYER TRUSTEED PLANS

	September 30, 2002		September 30, 2001	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	**$832**	**$929**	$729	$777
Equity securities	**1**	**1**	1	2
Total	**$833**	**$930**	$730	$779

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 2001 and 2002, PBGC invested in an investment product that contained Standard & Poor's (S&P) 500 financial futures contracts. The objective of this investment strategy is to exceed, net of fees, the total rate of return of the S&P 500 Index while maintaining a very similar risk level to that of the index. S&P 500 Index futures are used to obtain cost-effective equity exposure for the strategy. In 2002 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 in a portfolio to affect asset allocation and country equity exposure. Government bond futures and forward contracts are held in a portfolio to affect sector asset allocation and to adjust interest rate (duration) and country exposure. U.S. stock warrants are held in a portfolio as a result of a corporate action. Non-U.S. government debt option contracts are held in a portfolio to reflect the investment views of the portfolio managers regarding government debt issues. Foreign currency forward and option contracts are held in a portfolio to hedge currency exposure (i.e., minimize currency risk) of certain assets and to adjust overall currency exposure to reflect the investment views of the portfolio managers regarding relationships between currencies. PBGC is accomplishing these objectives typically, but not exclusively, by holding long and short positions in stock index futures, government bond futures, foreign currency forward contracts and other derivative instruments. The counterparties to PBGC's foreign currency exchange contracts are major financial institutions. PBGC has never experienced nonperformance 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, 2002, and September 30, 2001, gains and losses from settled margin calls are reported in Investment Income on the Statements of Operations and Changes in Net Position. PBGC limits its investment in these derivative instruments to the investments in two portfolios. At September 30, 2002, and September 30, 2001, the notional cost amount of the financial futures contracts was approximately $264 million and $253 million, respectively. Open currency forward contracts as of September 30, 2002, in U.S. dollar terms were approximately $136 million long U.S. dollar/short foreign currencies and approximately $106 million long foreign currencies/short U.S. dollar. The fair value of the derivative instruments (the amount needed to settle at September 30) reported on the Statements of Financial Condition as part of "Sale of securities" was less than $1 million at September 30, 2002, as compared to approximately $5 million at September 30, 2001, and $6 million as part of "Due for purchases of securities" at September 30, 2002.

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, 2002, and September 30, 2001, was $122 million and $119 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, 2002 and 2001.

For FY 2002, PBGC used a 25-year select interest rate of 5.70% followed by an ultimate rate of 4.75% for the remaining years and for FY 2001, a 20-year select interest rate of 6.70% followed by an ultimate rate of 5.25% 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 single-premium nonparticipating group annuities issued by private insurers. Many factors, including Federal Reserve policy, may impact these rates.

For September 30, 2002, PBGC used the 1994 Group Annuity Mortality (GAM) Static Table (with margins), set forward two years and projected 16 years to 2010 using Scale AA. For September 30, 2001, PBGC used the same table, set forward two years but projected 15 years to 2009 using Scale AA.

The reserve for administrative expenses in the 2002 and 2001 valuation was assumed to be 1.18 percent of benefit liabilities plus additional reserves for cases whose plan asset determinations, participant database audits and actuarial valuations were not yet complete. The factors to determine the additional reserves were based on case size, number of participants and time since trusteeship.

The present values of future benefits for trusteed multiemployer plans for 2002 and 2001 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, 2002 AND 2001

	September 30,			
(Dollars in millions)	**2002**		2001	
Present value of future benefits, at beginning of year — Single-Employer, net		**$13,497**		$10,631
Estimated recoveries, prior year		**19**		205
Assets of terminated plans pending trusteeship, net, prior year		**577**		84
Present value of future benefits at beginning of year, gross		**14,093**		10,920
Settlements and judgments, prior year		**(177)**		(242)
Net claims for probable terminations, prior year		**(411)**		(901)
Actuarial adjustments — underwriting:				
Changes in method and assumptions	**$ (67)**		$ (63)	
Effect of experience	**137**		(30)	
Total actuarial adjustments — underwriting	**70**		(93)	
Actuarial charges — financial:				
Passage of time	**1,077**		780	
Change in interest rates	**1,655**		395	
Total actuarial charges — financial	**2,732**		1,175	
Total actuarial charges, current year		**2,802**		1,082
Terminations:				
Current year	**7,704**		3,726	
Changes in prior year	**23**		(37)	
Total terminations		**7,727**		3,689
Benefit payments, current year*		**(1,537)**		(1,043)
Estimated recoveries, current year		**(38)**		(19)
Assets of terminated plans pending trusteeship, net, current year		**(323)**		(577)
Settlements and judgments, current year		**161**		177
Net claims for probable terminations:				
Future benefits**	**12,392**		1,350	
Estimated plan assets and recoveries from sponsors	**(6,070)**		(939)	
Total net claims, current year		**6,322**		411
Present value of future benefits, at end of year — Single-Employer, net		**28,619**		13,497
Present value of future benefits, at end of year — Multiemployer		**3**		4
Total present value of future benefits, at end of year, net		**$28,622**		$13,501

* The benefit payments of $1,537 million and $1,043 million include $55 million in 2002 and $16 million in 2001 for benefits paid from plan assets by plans prior to trusteeship.

** The future benefits for probable terminations of $12,392 million and $1,350 million for fiscal years 2002 and 2001, respectively, include $70 million and $55 million, respectively, in net claims (future benefits less estimated plan assets and recoveries) for probable terminations not specifically identified and $12,322 million and $1,295 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, 2002		September 30, 2001	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
U.S. Government securities	**$ 0**	**$ 0**	$ 26	$ 26
Corporate and other bonds	**225**	**225**	197	195
Equity securities	**165**	**86**	338	338
Insurance contracts	**4**	**4**	1	1
Other	**8**	**8**	17	17
Total, net	**$402**	**$323**	$579	$577

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, 2002		2001	
Net claims for probable terminations, at beginning of year		**$ 411**		$901
New claims	**$6,232**		$ 318	
Actual terminations	**(338)**		(734)	
Eliminated probables	**(1)**		0	
Change in benefit liabilities	**23**		(15)	
Change in plan assets	**(5)**		(59)	
Change in expected recoveries	**0**		0	
Loss (credit) on probables		**5,911***		(490)*
Net claims for probable terminations, at end of year		**$6,322**		$ 411

*See Note 10

The following table itemizes the probable exposure by industry:

PROBABLES EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	**FY 2002**	FY 2001
Primary Metals and Fabricated Metal Products	**$5,831**	$184
Insurance Carriers	*****	107
Others	**491**	120
Total	**$6,322**	$411

* not included in principal category for the year but 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 1987-2001 at September 30, 2002			
Beginning in 1987, number of plans reported as Probable:	Number of Plans	Percent of Plans	Net Claim	Percent of Net Claim
Probables that have terminated	164	78%	$3,038	83%
Probables still on list	5	2	76	2
Probables dropped from list	43	20	554	15
Total	212	100%	$3,668	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, 2002	2001
Gross balance at beginning of year	**$ 51**	$ 47
Financial assistance payments—current year	**5**	4
Subtotal	**56**	51
Allowance for uncollectible amounts	**(56)**	(51)
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

	September 30,	
(Dollars in millions)	**2002**	2001
Balance at beginning of year	**$679**	$414
Changes in allowance:		
Losses from financial assistance	**101**	269
Financial assistance granted (previously accrued)	**(5)**	(4)
Balance at end of year	**$775**	$679

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

	September 30,	
(Dollars in millions)	**2002**	2001
Annual leave	**$ 4**	$ 4
Collateral held for loaned securities	**128**	121
Other payables and accrued expenses	**41**	28
Accounts payable and accrued expenses	**$173**	$153

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, 2002, was approximately $35 billion.

The estimated unfunded vested benefits exposure has been calculated as of December 31, 2001. 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 2001. The Corporation adjusted the value reported for liabilities to the December 31, 2001, PBGC select interest rate of 5.70% (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, 2002, because of the economic conditions (e.g., lower interest rates and/or low investment returns on plan assets) that existed between December 31, 2001, and September 30, 2002. The Corporation did not adjust the estimate for events that occurred between December 31, 2001, and September 30, 2002.

The following table itemizes the reasonably possible exposure by industry:

REASONABLY POSSIBLE EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in billions)	**FY 2002**	FY 2001
Air Transportation	**$11.4**	$ 2.8
Primary Metals and Fabricated Metal Products	**5.7**	3.5
Industrial and Commercial Machinery and Computer Equipment	**1.8**	*
Chemicals and Allied Products	**1.4**	*
Rubber and Miscellaneous Plastics Products	**1.4**	*
Electronic and Other Electrical Equipment, except Computer Equipment	**1.3**	0.3
General Merchandise Stores	**1.3**	0.4
Paper and Allied Products	**1.2**	0.3
Stone, Clay, Glass and Concrete Products	*****	0.3
Transportation Equipment	*****	0.2
Others	**9.9**	3.1
Total	**$35.4**	$10.9

* not included in principal category for the year but 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 $127 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, 2002, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2002, 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 5.70% for the first 25 years after the valuation date and 4.75% thereafter. The Corporation also used the 1994 Group Annuity Mortality Static Table (with margins), set forward two years, projected 16 years to 2010 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, 2002, are as follows:

COMMITMENTS: FUTURE LEASE PAYMENTS

(Dollars in millions)

Years Ending September 30,	Operating Leases
2003	$13.3
2004	13.5
2005	13.7
2006	14.1
2007	14.3
Thereafter	17.9
Minimum lease payments	$86.8

Lease expenditures were $12.2 million in 2002 and $12.1 million in 2001.

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

	For the Years Ended September 30,					
	2002			2001		
(Dollars in millions)	**New Terminations**	**Changes in Prior Year Terminations**	**Total**	New Terminations	Changes in Prior Year Terminations	Total
Present value of future benefits	**$7,704**	**$23**	**$7,727**	$3,726	$ (37)	$3,689
Less plan assets	**4,664**	**8**	**4,672**	2,624	143	2,767
Plan asset insufficiency	**3,040**	**15**	**3,055**	1,102	(180)	922
Less estimated recoveries	**27**	**3**	**30**	0	(182)	(182)
Subtotal	**$3,013**	**$12**	**3,025**	$1,102	$ 2	1,104
Settlements and judgments			**377**			91
Loss (credit) on probables			**5,911***			(490)*
Total			**$9,313**			$ 705

* See Note 4

NOTE 11: FINANCIAL INCOME

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

FINANCIAL INCOME

	For the Years Ended September 30,	
(Dollars in millions)	**2002**	2001
Fixed-income securities:		
Interest earned	**$ 985**	$ 885
Realized gain	**315**	225
Unrealized gain	**861**	655
Total fixed-income securities	**2,161**	1,765
Equity securities:		
Dividends earned	**34**	26
Realized loss	**(382)**	(458)
Unrealized loss	**(1,539)**	(2,078)
Total equity securities	**(1,887)**	(2,510)
Other income (loss)	**14**	(3)
Total financial income (loss)	**$ 288**	$ (748)

NOTE 12: EMPLOYEE BENEFIT PLANS

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

The Corporation's contribution to the CSRS plan, for both 2002 and 2001, was 8.51 percent of base pay for those employees covered by that system. For those employees covered by FERS, the Corporation's contribution was 10.7 percent of base pay for both 2002 and 2001. In addition, for FERS-covered employees, PBGC automatically contributes 1 percent of base pay to the employee's Thrift Savings account, matches the first 3 percent contributed by the employee and matches one-half of the next 2 percent contributed by the employee. Total retirement plan expenses amounted to $8 million in 2002 and 2001.

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)	**2002**	2001	**2002**	2001	**2002**	2001
Net income (loss)	**$ (11,370)**	$ (1,972)	**$ 42**	$ (151)	**$ (11,328)**	$ (2,123)
Adjustments to reconcile net income to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	**701**	1,709	**(67)**	(48)	**634**	1,661
Net loss of terminated plans pending trusteeship	**79**	5	**0**	0	**79**	5
Losses on completed and probable terminations	**9,313**	705	**0**	0	**9,313**	705
Actuarial charges	**2,802**	1,082	**0**	1	**2,802**	1,083
Benefit payments–trusteed plans	**(1,482)**	(1,027)	**(1)**	(1)	**(1,483)**	(1,028)
Settlements and judgments	**(393)**	(156)	**0**	0	**(393)**	(156)
Cash received from plans upon trusteeship	**662**	592	**0**	0	**662**	592
Pretermination payments	**0**	(11)	**0**	0	**0**	(11)
Receipts from sponsors/non-sponsors	**383**	24	**0**	0	**383**	24
Amortization of discounts	**(15)**	(2)	**0**	0	**(15)**	(2)
Changes in assets and liabilities, net of effects of trusteed and pending plans:						
(Increase) decrease in receivables	**39**	(26)	**0**	1	**39**	(25)
Increase in present value of nonrecoverable future financial assistance			**96**	265	**96**	265
Increase (decrease) in unearned premiums	**2**	(15)	**0**	(1)	**2**	(16)
Increase in accounts payable	**13**	3	**0**	0	**13**	3
Net cash provided by operating activities	**$ 734**	$ 911	**$ 70**	$ 66	**$ 804**	$ 977

NOTE 14: LITIGATION

PBGC records as a liability on its financial statements an estimated cost for unresolved litigation to the extent that losses in such cases are probable and estimable. Management believes that PBGC will prevail in these litigation proceedings but, in the unlikely event any such losses are incurred, they could have a material impact on the financial statements. No such costs have been recorded, but PBGC estimates that possible losses of up to $126 million could be incurred in the unlikely event that PBGC does not prevail in these matters.

NOTE 15: SUBSEQUENT EVENTS

Subsequent to September 30, 2002, business and financial conditions significantly deteriorated for some sponsors of large single-employer plans that may terminate. Had these plan sponsor events occurred prior to FY 2002 year-end, PBGC's financial statements would have reflected an increase of $2.0 billion in the Net loss and a decrease in the Net position in the same amount.

There were no subsequent events to report on the multi-employer program.

Actuarial Valuation

PBGC calculated and validated the present value of future PBGC-payable benefits (PVFB) for both the single-employer and multiemployer programs and of nonrecoverable future financial assistance under the multiemployer program. Methods and procedures for both single-employer and multiemployer plans were generally the same as those used in 2001.

PRESENT VALUE OF FUTURE BENEFITS AND NONRECOVERABLE FINANCIAL ASSISTANCE – 2002

	Number of Plans	Number of Participants	Liability
		(in thousands)	*(in millions)*
I. SINGLE-EMPLOYER PROGRAM			
A. Terminated plans			
1. Seriatim at fiscal year-end (FYE)	2,550	314	$ 8,632
2. Seriatim at DOPT, adjusted to FYE	267	58	1,540
3. Nonseriatim[1]	305	299	12,449
4. Rettig Settlement (seriatim)[2]	–	*	1
5. Missing Participants Program (seriatim)[3]	–	17	36
Subtotal	3,122	688	22,658
B. Probable terminations (nonseriatim)[4]	41	196	12,392
Total[5]	3,163	884	$35,050
II. MULTIEMPLOYER PROGRAM			
A. Pre-MPPAA terminations (seriatim)	10	1	$ 3
B. Post-MPPAA liability (net of plan assets)	58	93	775
Total	68	94	$ 778

* Fewer than 500 participants

Notes:

1) The liability for terminated plans has been increased by $199 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 $70 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 $6,070 million. Thus, the net claims for probables as reported in the financial statements are $12,392 million less $6,070 million, or $6,322 million.

5) The PVFB in the financial statements ($28,619 million) is net of estimated plan assets and recoveries on probable terminations ($6,070 million), estimated recoveries on terminated plans ($38 million), and estimated assets for plans pending trusteeship ($323 million), or, $35,050 million less $6,070 million less $38 million less $323 million = $28,619 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 2,550 plans, representing about 82 percent of the total number of single-employer terminated plans (46 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 235 plans over the 2,315 plans valued seriatim last year. For 267 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 2002.

For 305 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 2002 using certain assumptions and adjustment factors.

For the actuarial valuation, PBGC used a select and ultimate interest rate assumption of 5.70% for the first 25 years after the valuation date and 4.75% thereafter. The mortality assumption used for valuing healthy lives was the 1994 Group Annuity Mortality Static Table (with margins), set forward two years, projected 16 years to 2010 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 2002 valuation was assumed to be 1.18 percent of the liability for benefits plus additional reserves for cases whose plan asset determinations, participant database audits, and actuarial valuations were not yet complete. The factors to determine the additional reserves were based on case size, number of participants, and time since trusteeship.

For non-pay-status participants, PBGC used expected retirement ages, as explained in subpart B of the Allocation of Assets in Single-Employer Plans regulation. PBGC assumed that participants who had attained their expected retirement age were in pay status. In seriatim plans, for participants who were older than their plan's normal retirement age, were not in pay status, and were unlocated at September 30, 2002, 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 58 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, 2002.

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, FSA, EA
Chief Valuation Actuary, PBGC
Member, American Academy of Actuaries

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

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

Office of Inspector General

To the Board of Directors
Pension Benefit Guaranty Corporation

This letter transmits the PricewaterhouseCoopers LLP report on the audit of the Fiscal Years (FYs) 2002 and 2001 financial statements of Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC). Section 9105 of 31 U.S.C., as amended, requires PBGC's Inspector General or an independent external auditor, as determined by the Inspector General, to audit PBGC's financial statements. 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.

PricewaterhouseCoopers issued an unqualified opinion on the FYs 2002 and 2001 financial statements of Single-Employer and Multiemployer Program Funds administered by PBGC. In addition, PricewaterhouseCoopers issued two other reports—an unqualified opinion on PBGC management's assertion about the effectiveness of its internal control and a report on PBGC's compliance with laws and regulations.

Two reportable conditions were carried forward from prior financial statement audits. Though audit work during FY 2002 showed that PBGC had made progress in addressing these reportable conditions, it was not sufficient to remove them and they remain:

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

In addition, the FY 2002 audit work identified three other reportable conditions:

3. PBGC needs to continue its efforts to implement an effective fully integrated and functional enterprise-wide security program.
4. PBGC needs to improve its controls over the identification and measurement of estimated liabilities for probable plan terminations.
5. PBGC needs to enhance controls over measurement of asset values for non-commingled assets of trusteed plans, plans pending trusteeship and plans probable for termination.

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

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

Based on results of our oversight review, we determined that PricewaterhouseCoopers planned, executed, and reported the results of its audit of FYs 2002 and 2001 financial statements of Single-Employer and Multiemployer Program Funds administered by PBGC in accordance with applicable standards. Therefore, we conclude that PricewaterhouseCoopers' audit work provides a reasonable basis on which to render its January 14, 2003 opinion.

A set of PricewaterhouseCoopers' reports (2003-3/23168-2) is available upon request from the PBGC's Office of Inspector General.

Sincerely,

Deborah Stover-Springer

Deborah Stover-Springer
Deputy Inspector General

January 24, 2003

PricewaterhouseCoopers LLP
[illegible]
[illegible]
[illegible]

Report of Independent Accountants

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, 2002 and 2001, and the related statements of operations and changes in net position and statements of cash flows for the years then ended. These financial statements are the responsibility of PBGC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Single-Employer and Multiemployer Program Funds administered by the PBGC at September 30, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

By law, PBGC's Single-Employer Program Fund (the Fund) must be self-sustaining, and therefore its premiums must be sufficient to cover both its short and long-term obligations. The Fund has been able to meet its short-term benefit obligations, and PBGC internal analyses project that it will be able to do so for the foreseeable future. However, the Fund's statement of financial condition reports a net deficit position (liabilities in excess of assets) of $3.6 billion at September 30, 2002. Losses that are "reasonably possible" as a result of unfunded vested benefits are estimated to be $35.4 billion at September 30, 2002, as discussed in Note 7. The Fund's net position, and long-term viability, could be negatively 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 addition, in accordance with *Government Auditing Standards*, we have issued reports dated January 14, 2003, on management's assertion about the effectiveness of its internal control and on its compliance with laws and regulations. These reports are integral parts of an audit conducted in accordance with *Government Auditing Standards*, and, in considering the results of the audit, these reports should be read along with the Report of Independent Accountants on the financial statements.

PricewaterhouseCoopers LLP

January 14, 2003

2003-2/23168-1

Organization

BOARD OF DIRECTORS

Elaine L. Chao, Chairman
Secretary of Labor

Kenneth W. Dam*
Acting Secretary of the Treasury

Donald L. Evans
Secretary of Commerce

Paul H. O'Neill resigned after year-end

EXECUTIVE MANAGEMENT

Steven A. Kandarian
Executive Director

Hazel Broadnax
Deputy Executive Director and Chief Financial Officer

Joseph Grant
Deputy Executive Director and Chief Operating Officer

John Seal
Deputy Executive Director and Chief Management Officer

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

Richard W. Hartt
Assistant Executive Director and Chief Technology Officer

Vincent Snowbarger
Assistant Executive Director for Legislative Affairs

Randolph Clerihue, *Director*
Communications and Public Affairs Department

OFFICE OF INSPECTOR GENERAL

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

* *appointed after year-end*

SENIOR CORPORATE MANAGEMENT

Sharon Barbee Fletcher, *Director*
Human Resources Department

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

Kathleen M. Blunt, *Director*
Strategic Planning

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

Bennie Hagans, *Director*
Insurance Operations Department

Robert Herting, *Director*
Procurement Department

James J. Keightley
General Counsel

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

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

Henry R. Thompson, *Director*
Budget Department

Harriet D. Verburg, *Director*
Participant and Employer Appeals Department and *Appeals Board Chair*

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

THE PBGC ADVISORY COMMITTEE

Appointed by the President of the United States

Representing the Interests of the General Public

Matthew K. Fong, *Chairman*
City of Industry, California
Strategic Advisory Group

Charles H. Cole
Oakton, Virginia

Melody L. McDonald
San Francisco, California
Dresdner RCM Global Investors LLC

Representing the Interests of Employers

Betsy S. Atkins
Coral Gables, Florida
Baja LLC

Barry D. Wynn
Spartanburg, South Carolina
Colonial Trust Company

Representing the Interests of Employee Organizations

George M. Kraw
San Jose, California
Kraw & Kraw

Judith F. Mazo
Washington, DC
The Segal Company

Financial Summary

Single-Employer Program

	Fiscal Year Ended September 30,									
(Dollars in millions)	**2002**	2001	2000	1999	1998	1997	1996	1995	1994	1993
Summary of Operations:										
Premium income	**$ 787**	821	807	902	966	1,067	1,146	838	955	890
Other income	**$ 28**	23	5	3	10	19	26	18	42	38
Investment income (loss)	**$ 170**	(843)	2,392	728	2,118	2,687	915	1,956	(380)	1,538
Actuarial charges (credits)	**$ 2,802**	1,082	453	(602)	815	488	632	1,561	(926)	1,680
Losses (credits) from completed and probable terminations	**$ 9,313**	705	(80)	49	584	489	118	169	(249)	743
Loss on contingent value rights	**$ 0**	0	0	0	0	0	0	0	0	96
Administrative and investment expenses	**$ 225**	184	167	161	158	155	150	138	135	107
Other expenses	**$ 15**	2	(2)	(1)	6	29	3	19	0	0
Net income (loss)	**$ (11,370)**	(1,972)	2,666	2,026	1,531	2,612	1,184	925	1,657	(160)
Summary of Financial Position:										
Cash and investments	**$ 24,851**	21,010	20,409	17,965	17,345	14,988	11,665	10,026	7,857	7,866
Total assets	**$ 25,430**	21,768	20,830	18,431	17,631	15,314	12,043	10,371	8,281	8,267
Present value of future benefits	**$ 28,619**	13,497	10,631	11,073	12,281	11,497	10,760	10,388	9,215	10,693
Net position	**$ (3,638)**	7,732	9,704	7,038	5,012	3,481	869	(315)	(1,240)	(2,897)
Insurance Activity:										
Benefits paid	**$ 1,537**	1,043	902	901	847	823	790	761	719	720
Participants receiving monthly benefits at end of year	**344,310**	268,090	226,080	214,160	208,450	204,800	198,600	181,000	172,800	156,800
Plans trusteed and pending trusteeship by PBGC	**3,122**	2,965	2,864	2,775	2,655	2,500	2,338	2,084	1,961	1,848

Multiemployer Program

	Fiscal Year Ended September 30,									
(Dollars in millions)	**2002**	2001	2000	1999	1998	1997	1996	1995	1994	1993
Summary of Operations:										
Premium income	**$ 25**	24	24	23	23	23	22	22	23	23
Other income (loss)	**$ 0**	0	0	0	0	0	1	0	0	(1)
Investment income (loss)	**$ 118**	95	70	(56)	133	68	12	83	(46)	107
Actuarial charges (credits)	**$ 0**	1	0	0	0	(1)	1	2	(1)	2
Losses (gains) from financial assistance	**$ 101**	269	26	109	34	(3)	102	108	57	20
Administrative and investment expenses	**$ 0**	0	0	0	0	0	0	0	0	0
Net income (loss)	**$ 42**	(151)	68	(142)	122	95	(68)	(5)	(79)	107
Summary of Financial Position:										
Cash and investments	**$ 933**	796	682	681	736	585	498	472	374	405
Total assets	**$ 944**	807	694	692	745	596	505	477	378	407
Present value of future benefits	**$ 3**	4	4	5	6	7	9	10	10	13
Nonrecoverable future financial assistance, present value	**$ 775**	679	414	479	389	361	365	268	164	110
Net position	**$ 158**	116	267	199	341	219	124	192	197	276
Insurance Activity:										
Benefits paid	**$ 1**	1	1	1	1	1	2	2	2	2
Participants receiving monthly benefits from PBGC at end of year	**460**	510	620	730	850	1,000	1,100	1,300	1,400	1,590
Plans receiving financial assistance from PBGC	**23**	22	21	21	18	14	12	9	8	6

Pension Benefit Guaranty Corporation 1200 K Street, NW Washington, DC 20005-4026 **www.pbgc.gov**