PENSION BENEFIT GUARANTY CORPORATION

Annual Management Report

Fiscal Year 2009

November 13, 2009

2009 Annual Management Report

The Pension Benefit Guaranty Corporation (PBGC or the Corporation) is a federal corporation established under the Employee Retirement Income Security Act (ERISA) of 1974, as amended. It currently guarantees payment of basic pension benefits earned by more than 44 million American workers and retirees participating in more than 29,000 private-sector defined benefit pension plans. The Corporation receives no funds from general tax revenues. Operations are financed largely by insurance premiums paid by companies that sponsor defined benefit pension plans and by investment income and assets from terminated plans. The following constitutes PBGC's Annual Management Report for fiscal year 2009, as required under OMB Circular No. A-136 and A-11, Section 230-1.

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

Protecting America's Pensions

Office of the Director

Director's AMR Transmittal Letter

I am pleased to transmit Pension Benefit Guaranty Corporation's Annual Management Report for fiscal year 2009. This report includes PBGC's financial statements, the transmittal letter of PBGC's Inspector General, and the independent auditor's combined report on the Corporation's financial statements, internal controls, and compliance with laws and regulations. Also included is the Corporation's Annual Performance Report as required under the Government Performance and Results Act.

Under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA) PBGC insures, subject to statutory limits, pension benefits of participants in covered private defined benefit pension plans in the United States. The Corporation's goals include safeguarding the federal pension insurance system for the benefit of participants, plan sponsors, and other stakeholders, providing exceptional service to customers and stakeholders, and exercising effective and efficient stewardship of PBGC resources.

Elements of President Obama's high-performing government agenda for 2010 relevant to PBGC include: (1) putting performance first; (2) transforming the federal workforce; (3) reforming federal contracting and acquisition; and (4) improving transparency, technology, and participatory democracy.

The financial and performance data included in this report are reliable and complete. PBGC's independent auditor issued the Corporation its 17th consecutive unqualified audit opinion on its financial statements.

The independent auditor's reports are included within this Annual Management Report. As further discussed in these reports, and in the Management Representation Letter and Chief Financial Officer's

Letter, the independent auditor reported on the status of three significant deficiencies in internal controls, which combined represent a material weakness. PBGC is committed to addressing the recommendations in the areas of information security, access controls, and financial management integration.

Sincerely,

Vincent K. Snowbarger

Vincent K. Snowbarger
Acting Director
November 12, 2009

Fiscal Year 2009 Financial Statement Highlights

- PBGC's combined financial condition declined by $10.80 billion, increasing the Corporation's deficit to $21.95 billion as of September 30, 2009, from $11.15 billion as of September 30, 2008.

- PBGC's portfolio achieved a return on investment of 13.2%.

- The single-employer program's net position declined by $10.40 billion, increasing the program's deficit to $21.08 billion. The multiemployer program's net position declined by $396 million, increasing that program's deficit to $869 million.

- The primary factors in the single-employer program's net loss included a charge of $10.55 billion due to an unfavorable change in interest factors, $4.23 billion in losses from completed and probable terminations, $3.92 billion in charges due to passage of time, and $383 million of administrative and other expenses. These factors were offset by $6.33 billion in investment income, $1.82 billion in net premium income, and a credit of $573 million from actuarial adjustments.

- The primary reasons for the decline in the multiemployer program's position included $614 million in losses from financial assistance, partially offset by $121 million in investment income, and $95 million in net premium income. The losses from financial assistance were due to the unfavorable decrease in interest factors and the addition of 20 new plans to the multiemployer probables inventory, which was mitigated by the deletion of six plans.

- Liability valuation interest factors decreased by 149 basis points to 5.17% at September 30, 2009, from 6.66% at September 30, 2008. This decrease in PBGC's interest factors resulted in an increase of $10.55 billion in actuarial charges due to change in interest rates. The actuarial charges for passage of time amounted to $3.92 billion.

- During FY 2009, 144 underfunded single-employer plans were terminated. Because of PBGC's previous efforts to evaluate its exposure to probable terminations, $3.08 billion of the net claims for these plans were already reflected in PBGC's 2008 results. The 144 plans had an average funded ratio of approximately 63%. Their terminations resulted in an aggregate net loss to PBGC of $5.83 billion (see Note 12).

- Twenty-seven plans with underfunding of $1.64 billion were newly classified as probable terminations in FY 2009. Probable terminations represent PBGC's best estimate of claims for plans that are likely to terminate in a future year.

- Net premium income increased by $487 million to $1.92 billion in FY 2009 from $1.43 billion in FY 2008. Higher per-participant rates for the flat-rate premium generated an increase in income of $29 million over FY 2008. In addition, the Variable Rate Premium (VRP) income increased by $458 million. The VRP increase was primarily due to estimates for plan year 2009 filings reflecting higher plan underfunding and the elimination of the variable-rate premium "full funding" exemption.

- PBGC's total benefit payments to participants increased to $4.48 billion in 2009 from $4.29 billion in 2008.

- At year-end, PBGC's estimate of its exposure from underfunding by plan sponsors whose credit ratings were below investment grade or that met one or more financial distress criteria totaled approximately $168 billion, up from $47 billion in 2008. PBGC classifies these sponsors' underfunded plans as reasonably possible terminations (see Note 9).

FINANCIAL STATEMENT HIGHLIGHTS

(Dollars in millions)	**2009**	2008
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Summary of Operations		
Premium Income, Net	**$ 1,917**	$ 1,430
Losses (Credits) from Completed and Probable Terminations	**$ 4,234**	$ (826)
Investment Income (Loss)	**$ 6,451**	$ (4,043)
Actuarial Charges (Credits) and Adjustments	**$ 13,901**	$ (4,814)
Insurance Activity		
Benefits Paid	**$ 4,478**	$ 4,292
Retirees	**743,740**	640,240
Total Participants Receiving or Owed Benefits	**1,476,000**	1,274,000
New Underfunded Terminations	**144**	67
Terminated/Trusteed Plans (Cumulative)	**4,003**	3,860
Financial Position		
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Total Assets	**$ 70,195**	$ 65,939
Total Liabilities	**$ 92,141**	$ 77,090
Net Income (Loss)	**$ (10,795)**	$ 2,915
Net Position	**$ (21,946)**	$ (11,151)
SINGLE-EMPLOYER PROGRAM		
Total Assets	**$ 68,736**	$ 64,612
Total Liabilities	**$ 89,813**	$ 75,290
Net Income (Loss)	**$ (10,399)**	$ 2,433
Net Position	**$ (21,077)**	$ (10,678)
MULTIEMPLOYER PROGRAM		
Total Assets	**$ 1,459**	$ 1,327
Total Liabilities	**$ 2,328**	$ 1,800
Net Income (Loss)	**$ (396)**	$ 482
Net Position	**$ (869)**	$ (473)

SECTION 1 – MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL STATEMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

I. Introduction

PBGC management believes that the following discussion and analysis of the Corporation's financial statements and other statistical data will enhance the reader's understanding of PBGC's financial condition and results of operations. This discussion should be read in conjunction with the financial statements beginning on page 42 and with the accompanying notes.

II. Financial and Program Risks

PBGC's operating results can change markedly from year to year depending on the severity of losses from plan terminations, changes in the interest factors used to discount future benefit payments, investment performance, general economic conditions, and other factors such as changes in law. Operating results may be more variable than those of most private insurers, in part because PBGC must provide insurance of catastrophic risk without all the tools private insurers use to address risk. Most private insurers can diversify or reinsure their catastrophic risks or apply traditional insurance underwriting methods to these risks. Unlike private insurers, the Corporation cannot decline insurance coverage regardless of the potential risk posed by an insured. Private insurers can also adjust premiums in response to actual or expected claims exposure. In contrast, PBGC's premiums are defined by statute and the Congress must approve any premium changes.

Claims against PBGC's insurance programs are highly variable. A single large pension plan termination may result in a larger claim against the Corporation than the termination of many smaller plans. Future results will continue to depend largely on the infrequent and unpredictable termination of a limited number of very large plans. Additionally, PBGC's risks are concentrated in certain industries. Finally, PBGC's financial condition is also sensitive to market risk associated with interest rates and equity returns, as those risks apply both to PBGC's own assets and liabilities and to those of PBGC-insured plans.

III. Legislative and Regulatory Developments

Pension Protection Act of 2006 (PPA): This legislation made a number of changes to the pension insurance system, including changes to premiums, guarantee rules, reporting and disclosure, multiemployer plan withdrawal liability, and the missing participants program.

During FY 2009, PBGC continued developing the numerous rules necessary to implement and comply with the PPA. In developing these regulations, PBGC seeks to ease and simplify employer compliance whenever possible, taking into account the needs of small businesses. In line with these principles, PBGC published three final rules, implementing PPA changes to disclosure, multiemployer withdrawal liability, and annual financial and actuarial information reporting under ERISA section 4010. These final rules, together with four final rules published in FY 2007 and 2008, complete a major portion of PBGC's PPA implementation plan.

PBGC also issued significant guidance in FY 2009 on several PPA implementation issues, including reportable events, annual financial and actuarial information reporting, and lump sum calculations in terminating plans.

During FY 2010, PBGC expects to finalize a proposed rule dealing with PPA changes to payment of benefits in PBGC-trusteed plans (where the plan terminates while the sponsor is in bankruptcy) and to publish proposed rules implementing the expanded missing participants program and PPA changes affecting reportable events, terminating cash balance plans and PBGC's guarantee of shutdown benefits.

Health Coverage Tax Credit (HCTC): Individuals who receive benefits from PBGC or Trade Adjustment Assistance are entitled to a tax credit for health insurance premiums. The American Recovery and Reinvestment Act of 2009 (P.L. 111-5), signed into law on February 17, 2009, increased the tax credit to 80 percent from 65 percent. The new law also temporarily provides continuation of HCTC coverage to qualified family members for up to two years. In addition, PBGC benefit recipients can receive COBRA as a lifetime benefit, and in the event of the benefit recipient's death, the surviving spouse and dependents can receive COBRA for an additional 24 months (but not beyond December 31, 2010).

Other Developments: On non-PPA matters, in FY 2009, PBGC published a proposed rule on the agency's treatment of benefits under The Uniformed Services Employment and Reemployment Rights Act of 1994, which it expects to finalize in FY 2010. PBGC is also developing a proposed rule on employer liability under ERISA section 4062(e) and a request for public comment on irrevocable commitment purchases prior to standard termination, both in anticipation of issuing guidance in FY 2010.

IV. Discussion of Insurance Programs

PBGC operates two separate insurance programs for defined benefit plans. PBGC's single-employer program guarantees payment of basic pension benefits when underfunded plans terminate. The insured event in the single-employer program is plan termination. By contrast, in the multiemployer program, the insured event is plan insolvency. PBGC's multiemployer program financially assists insolvent covered plans to pay benefits at the statutorily guaranteed level. By law, the two programs are funded and administered separately and their financial conditions, results of operations, and cash flows are reported separately.

IV.A Single-Employer Program Results of Activities and Trends

The single-employer program covers about 33.6 million participants, down from 33.9 million participants in 2008. The number of covered plans decreased from about 28,900 in 2008 to about 27,600 in 2009 (2008 numbers were revised from those reported last year). Most covered terminated plans had sufficient funding to cover future benefits. Most of these plans distributed all plan benefits as insurance company annuities or lump sums pursuant to the standard termination rules of ERISA. In contrast, when a covered underfunded plan terminates, PBGC becomes trustee of the plan, applies legal limits on payouts, and pays benefits.

In FY 2009 the drivers of the net loss of $10.399 billion included the following: a charge of $10.551 billion due to an unfavorable change in interest factors; a charge due to completed and probable terminations of $4.234 billion; $3.923 billion actuarial charge due to passage of time; and $383 million in administrative and other expenses. These amounts were offset by investment income of $6.330 billion, $1.822 billion in net premium income and a credit to actuarial adjustments of $573 million.

PBGC's single-employer program realized a net loss of $10.399 billion compared with a net gain in 2008 of $2.433 billion. The $12.832 billion year-to-year decline in net income was primarily attributable to (1) an $18.115 billion increase in actuarial charges due to change in interest rates, (2) an increase of $5.060 billion in losses from completed and probable terminations, offset by (3) an investment gain of $6.330 billion in FY 2009 up from a loss of $4.164 billion in FY 2008 and (4) a $0.482 billion increase in net premium income. Actuarial charges and adjustments arise from gains and losses from mortality and retirement assumptions, changes in interest factors, and passage of time. Passage of time refers to the interest that is assumed to be earned during the fiscal year on PBGC's liability at the end of the prior year; future benefit payments for terminated plans are discounted using an assumed interest factor which must then be earned during the year.

Underwriting Activity: PBGC's single-employer program realized a net loss to underwriting income of $2.206 billion in 2009, a significant decline from the gain of $2.483 billion in 2008. This $4.689 billion year-to-year decrease was primarily due to an increase of $5.060 billion in losses from completed and probable terminations and an increase in administrative and other expenses of $28 million, as well as the year-to-year decrease in credits from underwriting actuarial adjustments of $76 million. A $0.482 billion increase in single-employer net premium income offset these factors.

Income from underwriting activity increased (from $1.363 billion in 2008 to $1.838 billion in 2009), mirroring an increase in net premium income from plan sponsors (from $1.340 billion in 2008 to $1.822 billion in 2009). Other income, consisting of interest on recoveries from sponsors, decreased from $23 million in 2008 to $16 million in 2009.

Annual flat-rate premiums for the single-employer program increased from $33 to $34 per participant in FY 2009, contributing to an increase in flat-rate premium income to about $1.12 billion. Annual variable rate premium income, paid by underfunded single-employer plans, increased by $458 million to a total of $699 million. (Underfunded plans that meet certain minimum funding requirements are exempt from the VRP.) The VRP rate of $9 per $1,000 of underfunding remained unchanged.

For calendar-year 2008 plans, PPA eliminated the full-funding VRP exemption and changed the interest rate rules for determining a plan's present value of vested benefits for VRP purposes. Under PPA, the present value is determined using three "segment" rates. The first of these applies to benefits expected to be paid within five years of the first day of the plan year, the second applies to the following 15 years, and the third applies to benefits expected to be paid after that.

The Secretary of the Treasury determines each segment rate monthly using the portion of a corporate bond yield curve that is based on corporate bonds maturing during that segment rate period. The corporate bond yield curve, also prescribed on a monthly basis by the Secretary of the Treasury, reflects the yields for the previous month on investment-grade corporate bonds with varying maturities that are in the top three quality levels. For comparison, the segment rates for January, 2009 calendar-year plans were 6.72%, 7.12%, and 6.36% for the first, second, and third segments, respectively.

The Corporation's losses from completed and probable plan terminations declined from a credit of $826 million in 2008 to a loss of $4.234 billion in 2009. This was primarily due to charges related to new plans that terminated FYTD ($5.832 billion) offset by revaluation changes (credit of $316 million) for plans that had terminated in prior years, as well as the reduction in probable claims of $1.284 billion. (See "Subtotal terminated plans" in Note 12).

The net claim for probable terminations as of September 30, 2009, is $1.870 billion, while the net claim as of September 30, 2008, was $3.154 billion. This $1.284 billion reduction resulted primarily from the transfer of $3.077 billion of previously accrued claims to a termination status (see note 6), and a decrease in net claims of $18 million for five plans that were deleted. These factors were offset by the addition of 27 new probables with net claims of $1.643 billion and an increase in the reserve for small unidentified probables of $168 million. The actual amount of future losses remains unpredictable.

Administrative expenses increased $18 million from $350 million in 2008 to $368 million in 2009.

Financial Activity: In FY 2009 all of the $6.330 billion of the single-employer net investment gains were absorbed by the net actuarial charges of $14.474 billion for the passage of time and changes in interest rates. Single-employer financial net income decreased significantly from a loss of $50 million in FY 2008 to a loss of $8.193 billion in FY 2009. The Corporation had investment income of $6.330 billion in FY 2009, compared with an investment loss of $4.164 billion in FY 2008. This was offset by a year-over-year increase of $18.638 billion in actuarial charges. PBGC marks its assets to market, which is consistent with the FASB Accounting Standards Codification Section 820 (formerly Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*) (see Note 5).

Actuarial charges under financial activity represent the effects of changes in interest rates and the passage of time on the present value of future benefits. Passage of time refers to the interest that is assumed to be earned during the fiscal year on PBGC's liability at the end of the prior year; future benefit payments for terminated plans are discounted using an assumed interest factor which must then be earned during the year. The increase in passage of time charges is due primarily to the different interest factors in effect at the beginning of FY 2009 and FY 2008, 6.66% and 5.31%, respectively. Charges due to change in interest rates increased substantially due to the decrease in the applicable interest factors.

PBGC discounts its liabilities for future benefits with interest factors[1] that, together with the mortality table used by PBGC, approximate the price in the private-sector annuity market at which a plan sponsor or PBGC could settle its obligations. PBGC's select interest factor decreased to 5.17% (for the first 25 years after the valuation date) at September 30, 2009, from 6.66% (for the first 20 years) at September 30, 2008. The ultimate factor decreased to 5.03% at September 30, 2009, (after the first 25 years) from 6.47% (after the first 20 years) at September 30, 2008.

PBGC's single-employer PVFB (Present Value of Future Benefits) increased from $59.996 billion at September 30, 2008 to $83.035 billion at September 30, 2009. PVFB comprises the vast majority of PBGC's combined total liabilities on its Statements of Financial Condition of $92.141 billion.

[1] PBGC surveys life insurance industry annuity prices through the American Council of Life Insurers (ACLI) to obtain input needed to determine interest factors and then derives interest factors that will best match the private-sector prices from the surveys. The interest factors are often referred to as select and ultimate interest rates. Any pair of interest factors will generate liability amounts that differ from the survey prices, which cover 14 different ages or benefit timings. The PBGC process derives the interest factor pair that differs least over the range of prices in the survey.

IV.B Multiemployer Program Results of Activities and Trends

A multiemployer plan is a pension plan maintained by two or more unrelated employers under collective bargaining agreements with one or more unions. Multiemployer plans cover most unionized workers in the trucking, retail food, construction, mining and garment industries. The multiemployer program covers about 10.4 million participants (up from the revised 2008 count of 10.2 million participants) in about 1,500 insured plans. PBGC does not trustee multiemployer plans. Under this program, PBGC financially assists insolvent multiemployer plans through loans that enable them to pay guaranteed benefits and the plans' administrative expenses. Once begun, these loans generally continue year after year until the plan no longer needs assistance or has paid all promised benefits at the guaranteed level. These loans are rarely repaid.

In 2009 the multiemployer program's present value of nonrecoverable future financial assistance increased to $2.296 billion, an increase of $528 million. During the fiscal year, PBGC paid $86 million in financial assistance to 43 insolvent plans.

The multiemployer program reported a net loss of $396 million in FY 2009 compared with a net gain of $482 million in FY 2008. This resulted in a negative net position of $869 million in FY 2009 compared with a negative net position of $473 million in FY 2008. The change in net income was primarily due to the increase in expected loss from future financial assistance of $885 million offset by an increase in net premium income of $5 million.

The multiemployer program reported a net loss from underwriting activity of $517 million in FY 2009 compared with a net gain of $361 million in FY 2008. This decline of $878 million was primarily attributed to the increase in losses from financial assistance of $885 million (due to the decrease in interest factors and the addition of 20 plans to the multiemployer probable inventory, offset by the deletion of six plans) and the increase in net premium income of $5 million. Financial activity reflected financial income of $121 million from earnings on fixed income investments in both 2009 and 2008. Multiemployer program investments originate primarily from the cash receipts for premiums due from insured plans. By law, PBGC is required to invest these premiums in obligations issued or guaranteed by the United States of America. Multiemployer program assets at year-end were invested 99.5 percent in Treasury securities, as compared with 98.3 percent in Treasury securities in 2008.

V. Overall Capital and Liquidity

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

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

FY 2009 combined premium cash receipts totaled $1.5 billion, an increase of $96 million from $1.4 billion in 2008. Net cash flow provided by investment activity increased to $3.2 billion versus $0.9 billion provided in 2008.

In 2009, PBGC's cash receipts of $4.3 billion from operating activities of the single-employer program were insufficient to cover its operating cash obligations of $5.5 billion. This resulted in net cash underperformance from operating activities of $1.2 billion (as compared with underperformance of $1.4 billion in 2008). When the single-employer cash provided through investing activities of $3.2 billion is added to this net cash underperformance, the single-employer program in the aggregate experienced a net cash increase of $2.0 billion. In the multiemployer program, cash receipts of $171 million from operating activities were sufficient to cover its operating cash obligations of $128 million, resulting in net cash provided by operations of $43 million. When this net cash performance is added to net cash underperformance through investing activities of $58 million, the multiemployer program in the aggregate experienced an overall net cash decrease of $15 million.

During FY 2009, PBGC recovered approximately $214 million through agreements with sponsors of terminated plans for unpaid contributions and unfunded benefits. A portion of PBGC's recoveries is paid out as additional benefits to plan participants with nonguaranteed benefits according to statutory priorities.

In 2009, PBGC's combined net increase in cash and cash equivalents amounted to $1.99 billion, arising from an increase of $2.01 billion for the single-employer program and a decrease of $15 million for the multiemployer program.

VI. Outlook

For FY 2010, PBGC estimates $6.0 billion in single-employer benefit payments and $97 million in financial assistance payments to multiemployer plans. The continuing resolution for FY 2009 expires midnight October 31 and an agreement is in place to extend that stopgap funding until December 18. PBGC anticipates its FY 2010 budget allocation to be $464 million. PBGC's expenses for FY 2009 were $445 million.

In 2010, significant factors beyond PBGC's control (including changes in interest rates, the financial markets, plan contributions made by sponsors, and recently enacted statutory changes) will continue to influence PBGC's underwriting income and investment gains or losses. PBGC's best estimate of 2010 premium receipts ranges between $1.9 billion and $2.1 billion. No reasonable estimate can be made of 2010 terminations, effects of changes in interest rates, or investment income.

As of September 30, 2009, the single-employer and multiemployer programs reported deficits of $21.1 billion and $869 million, respectively. Notwithstanding these deficits, the Corporation has $70 billion in assets and will be able to meet its obligations for a number of years. However, neither program at present has the resources to fully satisfy PBGC's obligations in the long run.

VII. Single-Employer and Multiemployer Program Exposure

PBGC estimates its loss exposure to reasonably possible terminations (e.g., underfunded plans sponsored by companies with credit ratings below investment grade) at approximately $168 billion on September 30, 2009, and $47 billion on September 30, 2008. The comparable estimate of reasonably possible exposure for 2007 was approximately $66 billion. PBGC's exposure to loss may be less than these amounts because of the statutory guarantee limits on insured pensions, but this estimate is not available because it is difficult to prospectively determine the extent and effect of the guarantee limitations. These estimates are measured as of December 31 of the previous year (see Note 9). For FY 2009, this exposure was concentrated in the following sectors: manufacturing (primarily automobile/auto parts, and primary and fabricated metals), transportation (primarily airlines), services, and wholesale and retail trade.

The Corporation estimates that, as of September 30, 2009, it is reasonably possible that multiemployer plans may require future financial assistance of approximately $326 million. As of September 30, 2008 and 2007, these exposures were estimated at approximately $30 million and $73 million, respectively.

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

Total underfunding reported under Section 4010 of ERISA is the most current source of individual plan underfunding information; it has accounted for over 75 percent of the estimates of total underfunding reported in the recent past. Prior to PPA, section 4010 required that companies annually provide PBGC with information on their underfunded plans if the firm's aggregate underfunding exceeds $50 million or there is an outstanding lien for missed contributions exceeding $1 million or an outstanding funding waiver of more than $1 million. However, changes to reporting requirements including some imposed by PPA that took effect in 2008 have degraded PBGC's ability to estimate total underfunding. As a result, PBGC is no longer publishing estimates of total underfunding in the Annual Management Report. However, the Corporation will continue to publish Table S-47, "Various Estimates of Underfunding in PBGC-Insured Plans," in its *Pension Insurance Data Book* where the limitations of the estimates can be fully and appropriately described.

VIII. Investment Activities

PBGC uses institutional investment management firms to invest its assets, subject to PBGC's oversight and consistent with the Corporation's investment policy statement approved by its Board of Directors. PBGC does not determine the specific investments to be made but instead relies entirely on its investment managers' discretion in executing investments appropriate for their assigned investment mandates. PBGC does ensure that each investment manager adheres to PBGC prescribed investment guidelines associated with each investment mandate.

PBGC's investment assets consist of premium revenues, accounted for in the revolving funds, and assets from trusteed plans and their sponsors, accounted for in the trust funds. By law, PBGC is required to invest certain revolving funds (i.e., Funds 1 and 2) in obligations issued or guaranteed by the United States of America. Portions of the other revolving fund (i.e., Fund 7) can be invested in other debt obligations, but under PBGC's investment policy these revolving funds are invested solely in Treasury securities. Total revolving fund investments, including cash and investment income, at September 30, 2009, were approximately $15.86 billion ($0.41 billion for Fund 1, $1.46 billion for Fund 2, and $13.99 billion for Fund 7). PBGC has never established funds 3, 4, 5 or 6, which ERISA authorized for special discretionary purposes. Trust fund investments totaled $48.05 billion as of September 30, 2009. At the end of FY 2009, PBGC's total investments consisting of cash and cash equivalents, investments, and investment income receivable as shown on the Statements of Financial Condition were $63.91 billion.

In compliance with the May 2009 board directive, PBGC ceased all further activity to implement the Investment Policy Statement approved on February 12, 2008. A Temporary Investment Policy Guidance and Transition Plan, approved on October 14, 2009, directed PBGC to prudently rebalance the PBGC portfolio and reduce PBGC's investment in public equities to no more than the percent as of March 31, 2009. PBGC will continue to take a prudent and careful approach to implement this temporary investment policy.

PBGC's investment program, with assets under management of approximately $54.05 billion as of September 30, 2009, is responsible for managing the vast majority of PBGC's assets utilizing private sector investment management firms. A small percentage of PBGC's investments (1.2% at

September 30, 2009) included on the balance sheet but not managed within the investment program represent assets that are in transition from newly terminated trusteed plans or other special holdings not subject to PBGC's investment policy. The following asset allocation percentages refer to the investments within PBGC's investment program that are subject to the corporation's investment policy.

Cash and fixed income securities totaled approximately 60 percent of total assets invested at the end of FY 2009, compared with 71 percent for FY 2008. Equity securities represented 37 percent of total assets invested at the end of FY 2009, compared with 27 percent for FY 2008. The total invested funds return (excluding alternative assets) for FY 2009 was 13.2% compared with -6.5% in 2008. Alternative investments, comprised largely of private equity acquired from trusteed plans, represented 1% of investments at the end of FY 2009, compared with 2% as of September 30, 2008. Additionally, there are approximately $8.84 billion in assets as of September 30, 2009, that have not yet been actively assigned to investment managers within PBGC's investment program. As such, the totals and percentages referenced in this section do not incorporate these assets.

The table below summarizes the performance of PBGC's investment program.

Investment Performance *(Annual Rates of Return)*	September 30, **2009**	2008	Three and Five Years Ended September 30, 2009 3 yrs	5 yrs
Total Invested Funds	**13.2**	(6.5)%	4.3%	5.2%
Total Invested Funds Incl. Transition [1]	**12.9**	n/a	4.2	5.1
Equities	**(1.6)**	(23.2)	(4.1)	2.4
Fixed Income	**16.2**	1.6	6.9	5.8
Trust Funds	**14.3**	(11.8)	3.4	5.3
Revolving Funds	**9.8**	8.3	6.7	5.5
Indices				
Dow Jones US Total Stock Market 5000 [2]	**(6.3)**	(21.3)	(4.8)	1.8
Total Int'l Equity Composite Benchmark [3]	**7.0**	n/a	(0.9)	8.3
MSCI All Country World ex-US	**5.9**	(30.3)	(1.2)	8.1
S&P 500 Stock Index	**(6.9)**	(22.0)	(5.4)	1.0
Barclays Long Gov't/Credit	**18.4**	(0.4)	6.9	6.0
Fixed Income Composite Benchmark [4]	**13.2**	0.8	5.6	4.9
Global Equity Composite Benchmark [5]	**(1.8)**	(22.3)	(3.4)	2.6
Total Fund Benchmark [6]	**11.1**	(6.6)	3.7	4.8

[1] The Transition Composite is made up of the Fixed Income Transition Account Composite and the Equity Transition Account Composite. The aggregate composite holds assets that are in the process of moving out of one of the manager portfolios either for liquidation or for transfer to another manager. During this transition period, the assets are placed in either the Fixed Income or Equity Transition Composites based on the nature of the underlying assets.

[2] The return noted represents the Dow Jones Wilshire Index 5000 index through March 31, 2009 and the Dow Jones US Total Stock Market 5000 index thereafter.

[3] The Total International Equity Composite Benchmark is a dynamic weighted benchmark based upon the weights of all the international funds and the returns of their respective benchmarks.

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

[5] The Global Equity Composite Benchmark is a dynamically weighted benchmark utilizing both the Dow Jones US Total Stock Market 5000 Index and the Total International Equity Composite Benchmark.

[6] The Total Fund Benchmark is a dynamically weighted benchmark based upon the weights of the equity, fixed income and cash benchmarks. This benchmark is utilized to compare against the Total Invested Funds returns shown above.

PBGC Management Assurances and Internal Controls Program

The PBGC's Internal Controls Program is designed to support compliance with the Federal Managers' Financial Integrity Act (FMFIA) and Office of Management and Budget (OMB) Circular A-123 requirements. As detailed below, PBGC identified one material weakness for FY 2009. The Internal Controls Program and the other related activities described below undergird the PBGC FMFIA Assurance Statement:

FMFIA Assurance Statement Process

Members of PBGC's executive and senior management prepared and submitted annual assurance statements regarding compliance with the FMFIA. These representations are based on their knowledge of PBGC operations, the results of reviews conducted by the Office of Inspector General and the Government Accountability Office, internal management assessments and evaluations, and consideration of other factors affecting the PBGC control environment.

Internal Control Committee

The PBGC Internal Control Committee (ICC) provided corporate oversight and accountability regarding internal controls over the PBGC operations, financial reporting, and compliance with laws and regulations. Chaired by the Chief Financial Officer, the committee's membership includes members from each major area of the agency, including a non-voting member of the PBGC's Office of Inspector General (OIG). The ICC approves major changes to key financial reporting controls and PBGC systems, monitors the status of internal control deficiencies and related corrective actions, and considers other matters, including controls designed to prevent or detect fraud.

Documentation and Testing of Controls

PBGC's Internal Control Program is primarily focused on documenting and testing controls within the following areas: financial reporting, entity-wide, and information technology. During the year, controls were evaluated for the adequacy of control design and regularly tested to determine operating effectiveness of the controls. Reports regarding results of testing were provided to PBGC management and ICC members for consideration under FMFIA.

- Financial Reporting Controls: PBGC has identified 12 major business process cycles which have a significant impact on PBGC's financial reporting processes: Benefit Payments, Benefit Determinations, Budget, Financial Reporting, Human Resources/Payroll, Investments, Losses on Completed and Probable Terminations, Non-Recoverable Future Financial Assistance, Payables, Premiums, Single-Employer Contingent Liability, and Present Value of Future Benefits. As of the end of FY 2009, PBGC had identified 158 key controls over financial reporting within these major business cycles. Employees responsible for performance of these controls maintained logs documenting control execution, and provided quarterly representations regarding the performance of those controls.

- Entity-Wide Controls: These controls are overarching controls which support the overall effectiveness of PBGC's internal control environment. As of the end of FY 2009, PBGC had identified 42 key entity-wide controls within the following six components of its internal control environment: control environment, risk assessment, control activities, information and communication, monitoring, and anti-fraud.

- Information Technology Controls: In order to protect the confidentiality, integrity, and availability of PBGC information systems and the information processed, stored, and transmitted by those systems, PBGC is implementing the controls provided for under National Institute of Standards and Technology Special Publication No. 800-53 (NIST 800-53), *Recommended Security Controls for Federal Information Systems and Organizations*. During FY 2009, PBGC documented and assigned operational responsibility for an additional 41 NIST 800-53 controls bringing the overall total for PBGC of such controls to 106 for FY 2009. The documentation and testing of controls in this area is expected to be significantly expanded in FY 2010.

Assessment of Improper Payment Risk

Consistent with the objectives of the Improper Payments Information Act (IPIA) of 2002, PBGC conducted a risk assessment to determine whether any of its programs were considered susceptible to significant improper payments. In performing its mission, PBGC processes a variety of different types of outgoing payments, including benefit payments, financial assistance payments to certain multiemployer plans, premium insurance refunds, payroll and travel disbursements, and payments to vendors. PBGC has established internal controls over each form of outgoing payments to prevent improper payments or to detect them in a timely manner. Given OMB reporting thresholds, PBGC's risk assessment efforts focused on outgoing benefit payments; PBGC had issued more than $4.3 billion in payments to over 700,000 participants and beneficiaries during FY 2009. Our assessment included a review of selected benefit payments, electronic analysis of our participant database, and discussions with appropriate PBGC management officials. PBGC has concluded that its payment processes are not susceptible to significant improper payments risks.

Audit Coordination and Follow-up Program

In implementing OMB Circular A-50, PBGC has established its Audit Coordination and Follow-up Directive. It is PBGC policy to fully cooperate with audits of PBGC operations and ensure the efficient tracking, resolution and implementation of agreed-upon audit recommendations contained in audit reports issued by the Office of Inspector General (OIG) and the Government Accountability Office (GAO). PBGC has dedicated staff to coordinate with OIG and GAO audit representatives in providing access to records and information needed to complete audits and ensure that management responses to draft reports are provided in a timely manner. To facilitate timely completion and closure of audit recommendations, PBGC regularly monitors implementation efforts, including regular distribution of audit follow-up status reports via a corporate-wide portal and formal submission of documentation evidencing completion of required corrective actions. Status reports document planned corrective actions and estimated completion dates, and also indicate those recommendations for which work has been completed and reported as such to the OIG and GAO.

Compendium of Legal Authority

PBGC maintains a Compendium of Legal Authority that lists laws, regulations, and other requirements which may have a significant impact on PBGC's financial statements or PBGC operations. This list identifies applicable requirements and provides a description of them. It also details the contact point and entity within PBGC that has primary compliance responsibility. PBGC annually updates and distributes this list to PBGC management to help ensure compliance with legal authority.

Federal Managers' Financial Integrity Act Assurance Statement

In accordance with the Federal Managers' Financial Integrity Act and OMB Circular A-123, the Acting Director's FMFIA Assurance Statement for FY 2009 is presented below:

PBGC's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). In accordance with OMB Circular A-123, Management's Responsibility for Internal Control, the agency conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations (FMFIA Section 2) and conformance with financial management system requirements (FMFIA Section 4). Based on the results of this evaluation for the period ending September 30, 2009, PBGC is providing a qualified statement of assurance that the agency met all the objectives of FMFIA. The results of that assessment provided reasonable assurance that, except for one noted material weakness discussed below, PBGC's internal control over the effectiveness and efficiency of operations and compliance with laws and regulations was operating effectively. Further, the assessment did not identify any non-conformances with financial management system requirements.

In addition, PBGC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, PBGC can provide reasonable assurance that its internal control over financial reporting as of September 30, 2009, was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

Summary of the Material Weakness Relating to System Security and IT Operational Effectiveness and Corrective Action Plans

PBGC has been working to implement an entity-wide security management program as part of its corrective action plans designed to address significant deficiencies noted in prior years. As part of that effort for FY 2009, PBGC initiated internal reviews of its IT operations to identify areas of risks and opportunities for improvement. As an example, PBGC contracted with a consulting firm, specializing in Oracle environments, to perform an assessment of the integrity and reliability of the Oracle databases and servers used by PBGC. This review identified concerns relating to the inherent risks associated with the large number of databases and servers supporting the PBGC computing environment, the obsolescence of certain software and hardware, inadequate configuration settings, insufficient segregation between certain development and production environments, and other issues affecting the security environment of PBGC's computer systems. In addition, as part of PBGC's implementation of requirements specified in National Institute of Standards and Technology (NIST) Special Publication No. 800-53, Recommended Security Controls for Federal Information Systems and Organizations, 106 controls were documented and tested by a public accounting firm. The results of that testing identified four key areas of concern, as follows: access controls, certain system vulnerabilities, inadequate baseline configurations, and deficiencies associated with the certification and accreditation of PBGC systems.

Based on the level of the deficiencies noted as part of the internal reviews and discussions with management representatives, and given insufficient progress in adequately addressing IT-related audit deficiencies in a timely manner, PBGC has determined that a material weakness exists with respect to System Security and IT Operational Effectiveness. PBGC is taking immediate action to address near-term risks and prior corrective action plans are being revamped to ensure development of a robust entity-wide security program, as well as developing new corrective actions plans as necessary. PBGC is fully committed to implementing those actions necessary to ensure that our IT systems are fully secure and addressing associated issues relating to data architecture, infrastructure, obsolescence, and IT management that have complicated past efforts. PBGC projects this to be a multi-year effort and that fully resolving the underlying causes of the material weakness may extend into FY 2012. Improving IT security is a top corporate priority and is being closely managed by a cross-functional team of PBGC's senior leaders with regular status reporting to the Acting Director.

Management Representation

PBGC's management is responsible for the accompanying Statements of Financial Condition of the Single-Employer and Multiemployer Funds as of September 30, 2009 and 2008, the related Statements of Operations and Changes in Net Position and the Statements of Cash Flows for the years then ended. PBGC's management is also responsible for establishing and maintaining systems of internal accounting and administrative controls that provide reasonable assurance that the control objectives, i.e., preparing reliable financial statements, safeguarding assets and complying with laws and regulations, are achieved.

In the opinion of management, the financial statements of the Single-Employer and Multiemployer Program Funds present fairly the financial position of PBGC at September 30, 2009, and September 30, 2008, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America (GAAP) and actuarial standards applied on a consistent basis. As noted in the FMFIA Statement of Assurance above, except for the material weakness related to certain systems security and related IT operational effectiveness, PBGC's accounting systems and internal controls comply with the provisions of the FMFIA. In addition, PBGC has sufficient compensating controls in place to ensure the reliability of the financial statements of the agency.

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

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

The Inspector General engaged Clifton Gunderson LLP to conduct the audit of the Corporation's fiscal years 2009 and 2008 financial statements, and Clifton Gunderson issued an unqualified opinion on those financial statements.

Vincent K. Snowbarger
Acting Director

Patricia Kelly
Chief Financial Officer

November 12, 2009

<u>SECTION 2 – ANNUAL PERFORMANCE REPORT</u>

PBGC Annual Performance Report

Three strategic goals guide PBGC in its continuing mission to protect the pension insurance system for the benefit of American workers and plan sponsors. These goals are:

- Safeguard the federal pension insurance system for the benefit of participants, plan sponsors, and other stakeholders;

- Provide exceptional service to customers and stakeholders; and

- Exercise effective and efficient stewardship of PBGC resources.

PBGC serves a variety of customers and stakeholders with an interest in a strong and effective pension insurance system. Customers and stakeholders include 44 million workers whose pensions are insured by PBGC, the 29,000 pension plan sponsors whose premium payments are a primary support to the program, the 1.3 million participants whose plans are currently trusteed by PBGC, and the 700,000 retirees or their beneficiaries now receiving benefit payments. Other stakeholders include the lawmakers and policymakers who oversee the federal insurance program.

PBGC strategically allocates its resources to programs and activities that support achievement of its mission and goals. The Corporation monitors pension plan activities to mitigate pension risk and evaluates its service to customers and stakeholders. Performance measures help PBGC gauge the effectiveness of its strategies to protect the pension insurance program.

This annual performance report provides information on PBGC's performance in achieving the strategic goals outlined in the strategic plan. Performance results for FY 2009 are detailed below. These items meet the annual reporting requirement of the Government Performance and Results Act.

This is a time of great challenge for all of us in the public sector who are trying to assure American working families of financial security in retirement. Economic turmoil poses issues we have never before confronted and that do not lead to easy solutions. Despite changes in the economy, defined benefit plans will continue to play a vital role in providing retirement security.

Vince Snowbarger, Acting Director, PBGC, in testimony before Congress, May 2009

Overview of PBGC's Performance Measures

The current economic crisis had a direct impact on PBGC's financial status, workload, and infrastructure. In 2009, an unprecedented number of corporate plan sponsors sought protection under the U.S. Bankruptcy code. Some 135 sponsors filed for bankruptcy in 2009, an increase of more than threefold over 2008. Many sponsors were financially unable to maintain their plans, and in 2009 PBGC became trustee of 129 terminated plans that covered 201,000 workers and retirees. As a result of plan terminations and a drop in interest rates, PBGC ended the year with the deficit at $21.95 billion. While PBGC can continue to keep its promises to retirees for years to come, it remains concerned about a deficit position.

PBGC handled the influx of work while preparing for the possibility of even greater workload impacts. In 2009, PBGC took steps to prepare for the possible trusteeship of large auto industry plans and defined the infrastructure it would need to support the multiple large terminations that could occur. PBGC evaluated and prepared for expanded contracts with our paying agent, field benefits administration offices, actuarial firms, and customer contact center support as well as additional federal staff, space and equipment. In addition, PBGC assessed information technology systems for their capacity to handle workload increases. At the same time, PBGC maintained the high levels of customer satisfaction citizens have come to expect.

The following table provides 2009 performance achievements by strategic goal. PBGC has six corporate-level performance measures, which collectively demonstrate how well PBGC met its commitments to safeguard the pension insurance program, provide exceptional customer service, and exercise effective stewardship of its resources.

TABLE 1: PBGC PERFORMANCE MEASURES, TARGETS AND RESULTS

Performance Measure	FY 2009 Target	FY 2009 Result	Baseline Year and Result*
Goal 1: Safeguard the federal pension insurance system for the benefits of participants, plan sponsors, and other stakeholders			
Commit to eliminate PBGC's deficit and account better for PBGC's expected losses, in order that workers and retirees can expect to receive qualified benefit payments from PBGC for the defined benefit pension plans that PBGC assumes	Produce policy report on available options	Completed	Baseline 2008: Report drafted
Goal 2: Provide exceptional service to customers and stakeholders			
Customer Satisfaction score for premium filers	70	72	Baseline 2006: 68
Customer Satisfaction score for responding to trusteed plan participant callers	80	82	Baseline 2004: 73
Customer Satisfaction score for retirees receiving benefits from PBGC	85	88	Baseline 2001: 84
Average time (in years) between trusteeship and benefit determination issuance	3.0 years	3.8 years	Baseline 2008: 3.3
Goal 3: Exercise effective and efficient stewardship of PBGC resources			
Annual Administrative cost per participant in PBGC trusteed plans at year end	$185	$181	Baseline 2004: $219
* Baseline is the first year PBGC initiated the measure or the year of a method change.			

PBGC benefit payments are important, often crucial, to the retirement income security of retirees and workers in trusteed plans, many of whom worked decades for their promised benefits. Companies that sponsor pension plans have a responsibility to live up to the promises they made to their workers and retirees. But when a company cannot keep its promises, PBGC provides a dependable safety net for workers and retirees.

Vince Snowbarger, Acting Director, PBGC, in testimony before Congress, May 2009

Achieving Performance Goals

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

Throughout 2009, PBGC engaged in a number of activities to protect the pension insurance system by using traditional risk mitigation tools. PBGC concentrates its monitoring efforts towards nearly 1,400 companies that sponsor over 3,400 pension plans. These 3,400 plans cover over 80 percent of all participants in PBGC-insured single-employer plans. PBGC monitors companies to identify corporate transactions that could pose significant risk to underfunded plans, and to arrange suitable protections for those plans and the pension insurance program. In addition, PBGC takes an active role in bankruptcies to prevent unnecessary terminations, and to obtain the maximum amount of financial recovery possible in the event a plan must terminate. Table 2 depicts trends in safeguarding activities over the past five years.

TABLE 2: PENSION PLAN ACTIVITIES

Activity	2009	2008	2007	2006	2005
Reportable Events Received	1,206	793	1,045	978	603
Open Bankruptcy Matters	782	561	493	487	350

Single-Employer Insurance Program

PBGC has experienced a number of cycles during its 35-year history in which certain industries dominated both risk and loss faced by the Corporation. In the late 1980s, 1990s, and first half of this decade, steel and airline plans caused the most losses to PBGC. The wave of corporate bankruptcies that occurred in 2008-2009 posed an unusual challenge because failures occurred in virtually all segments of the economy and in all geographic areas.

The automotive industry was particularly active this year. For example, automotive giants General Motors and Chrysler both sought Chapter 11 bankruptcy protection. Both corporations emerged from bankruptcy with their pension plans ongoing. In the fourth quarter, PBGC trusteed six plans sponsored by auto parts manufacturer Delphi Corporation. Those plans covered over 70,000 participants and were underfunded by $7 billion. Calculating benefits for the Delphi plans will pose challenges because of their complex benefit structures and the availability of plan documentation for the mergers and acquisitions that have taken place throughout the life of the plans.

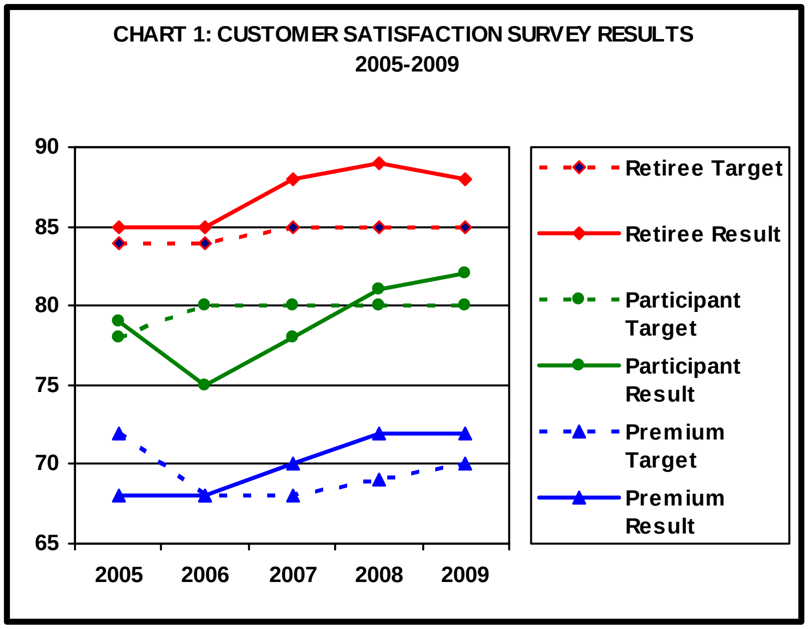
More recently, PBGC reached settlements for additional protections in several other auto related cases where plans did not terminate, e.g., Visteon Corporation and Cooper Tire & Rubber Company. Additional protection can help prevent plan termination or, in the event that the plan does terminate, reduce the risk of loss to the insurance program and participants. PBGC will continue to monitor the auto industry.

Multiemployer Insurance Program

Under the multiemployer insurance program, if a plan becomes insolvent, PBGC provides financial assistance to enable the plan to pay participants' guaranteed benefits when due. In 2007, PBGC paid $71 million in financial assistance to 34 multiemployer plans. In 2008, PBGC paid $85 million in assistance to 37 plans. In 2009, approximately $86 million was paid in assistance to 43 plans. Both the number of plans receiving financial assistance and the amount of assistance paid has increased over the last few years. PBGC facilitated the close-out of four small multiemployer plans that were receiving or expected to receive future financial assistance payments from PBGC. The plans either merged with other multiemployer plans or purchased annuities from private sector insurers for the participants. PBGC has identified five additional plans for close-out in the future. These small plan close-outs are part of an ongoing effort to reduce plan administrative costs borne by PBGC's multiemployer program.

Provide Exceptional Service to Customers and Stakeholders

PBGC is committed to achieving high levels of customer satisfaction. Its customer service organizations seek out and listen to customers, improve processes continuously, measure consistently and objectively, and monitor results of implemented changes. PBGC uses the American Customer Satisfaction Index (ACSI) survey methodology to measure customer satisfaction on a wide range of elements including professionalism, content and reader friendliness of communications, timeliness, and general quality of their interactions with PBGC.



Retirees and Participant Callers

Retirees receiving benefits from PBGC continued to show high levels of satisfaction with its services, scoring PBGC at or above 88 for the third consecutive year.

Retirees continue to have high levels of trust and confidence in the services provided to them, notably the timeliness and accuracy of benefit payments to 700,000 recipients per year.

Participants calling the Customer Contact Center provided a record high customer satisfaction score of 82 in FY 2009. Efforts to improve the participant callers' experiences continued with training as well as improving customer communications.

> *They meet my expectations. I was in human resources for 40 years. And the speed of their service and the accuracy exceeds other pension plans. I was very pleased with the service I received when I contacted them; I got an e-mail within hours responding to my concern.*
>
> *Participant Caller Customer Satisfaction Survey Respondent, July 2009*

> *When I had personal interaction on the phone with our representative, it was very enjoyable. He even went over things on the Internet with me and gave us very good service.*
>
> *Premium Filer Customer Satisfaction Survey Respondent, July 2009*

Premium Filers

Premium filers scored PBGC service at 72, tying last year's record high. In its constant effort to ease the filing burden and keep plan sponsors and other practitioners up to date on regulatory issues, PBGC mails an annual reminder with Web filing tips, and encourages practitioners to subscribe for automatic e-mail notices of filing or rule changes. PBGC's concern for its practitioners, continuous improvement and measurement programs, as well as, the training and development of a caring staff is reflected in a minimal number of complaints and increasing scores for the customer care component for premium filers.

Overall Operational Effectiveness

A key measure of PBGC's mission effectiveness is the average time required to provide participants with a final determination of their benefits. PBGC welcomed 201,000 new plan participants to its rolls this year—nine times the number in 2008 and the third highest in PBGC history. During 2009, PBGC issued nearly 103,000 final benefit determinations. The average age of benefit determinations issued in 2009 increased to 3.8 years from 3.3 years in 2008. Performance has been impacted by several large plans requiring more complex benefit calculations. Formal process improvement efforts are underway to tailor plan processing to plan size and streamline other aspects of work, in an effort to reduce process times in the future.

Exercise Effective and Efficient Stewardship of PBGC Resources

Throughout 2009, PBGC's management team provided effective and efficient stewardship of the Corporation's resources through careful allocation, monitoring and measuring of capital investments, technical infrastructure improvements, continual streamlining of operations, and discontinuation of systems or investment programs that are not performing at high standards. Measures of operational efficiency and investment portfolio performance demonstrate PBGC's effectiveness in this area.

Efficiency Measure

One measure of operational effectiveness and efficiency is the annual cost per participant in plans trusteed by PBGC. The measure is calculated using the costs allocated to pension plan termination activities against the total number of participants in those plans. In 2009, the result was $181, a decrease from $207 in 2008.

Investment Management

In 2009, PBGC established the Corporate Investment Department within the Office of the Chief Financial Officer as part of an ongoing improvement effort in the Corporation's investment management functions. The new department consolidates responsibility and accountability for managing the investment funds consistent with legal requirements and the investment policies approved by the Board of Directors. In compliance with the May 2009 board directive, PBGC ceased all further activity to implement the Investment Policy Statement approved on February 12, 2008. A Temporary Investment Policy Guidance and Transition Plan, approved on October 14, 2009, directed PBGC to prudently rebalance the PBGC portfolio and reduce PBGC's investment in public equities to no more than the percent as of March 31, 2009. PBGC will continue to take a prudent and careful approach to implement this temporary investment policy.

Another key area of PBGC's stewardship is the evaluation or performance assessment of the Corporation's investment program. One of PBGC's most fundamental operational objectives is to ensure that funds are available to fulfill the Corporation's obligations. PBGC generated a 13.2 percent return on total invested funds for FY 2009 compared with the Corporation's total fund benchmark return of 11.1 percent. The total fund return and total fund benchmark return are weighted average returns representing the asset allocation of the entire investment portfolio. A small percentage of PBGC's investments (1.2 percent at September 30, 2009) included on the balance sheet but not managed within the investment program represent assets that are in transition from newly terminated trusteed plans or other special holdings not subject to PBGC's investment policy. The return on total invested funds including these transition accounts was 12.9 percent in FY 2009. Due to the cyclical nature of capital markets, PBGC reports both one-year and five-year returns for its investment program. For the five-year period ending September 30, 2009, PBGC's return on total invested funds was 5.2 percent compared with a total fund benchmark return of 4.8 percent. Including the transition accounts, the return was 5.1 percent.

The Pension Protection Act of 2006 requires PBGC to estimate the effect of an asset allocation based on a combination of two commonly used market benchmarks. This hypothetical portfolio, with a 60 percent allocation to the Standard & Poor's 500 equity index and a 40 percent allocation to the Barclays Capital Aggregate fixed income index, while presenting a risk-return profile different from PBGC's current allocation, would have decreased the assets of the Corporation by approximately $5.5 billion (2.7% return compared with PBGC's actual return of 12.9%) for the one-year period ending September 30, 2009, and decreased the assets of the Corporation by approximately $4.7 billion (3.5% return compared with PBGC's actual return of 5.1%) over the five-year period ending September 30, 2009. For further analysis of PBGC's Investment Activities please refer to page 16 of the MD&A of Financial Condition and Results of Operations. As reported in last year's FY 2008 Annual Report, the same "60/40 portfolio" would have decreased the assets of the Corporation by approximately $3.0 billion (-12.3% return compared with PBGC's actual return of -6.5%) for the one-year period and increased the assets of the Corporation by approximately $1.5 billion (4.8% return compared with PBGC's actual return of 4.2%) for the five-year period ending FY 2008. These results are summarized in the following table.

TABLE 3: INVESTMENT PORTFOLIO ANALYSIS

60/40 Hypothetical Portfolio Analysis versus PBGC Fiscal Year Actual Return
(60/40 is comprised of S&P 500/Barclays Capital Aggregate)

	1 Year Period Ending			5 Year Period Ending		
Fiscal Year	60/40 Incremental $ Billions	60/40 % Return	PBGC Actual Return	60/40 Incremental $ Billions	60/40 % Return	PBGC Actual Return
9/30/2009	($5.5)	2.7%	12.9%	($4.8)	3.5%	5.1%
9/30/2008	($3.0)	(12.3)%	(6.5)%	$1.5	4.8%	4.2%

Building a High-Performing Government

PBGC management continued to focus on two strategic areas of concern: information technology infrastructure and human resource management. Elements of President Obama's high-performing government agenda for 2010 relevant to PBGC include: (1) putting performance first; (2) transforming the federal workforce; (3) reforming federal contracting and acquisition; and (4) improving transparency, technology, and participatory democracy.

Putting Performance First

Despite taking in plans with high numbers of participants this year, PBGC sustained its customer satisfaction levels across the board. Work groups were formed to monitor the impact of work flow through the Corporation. The groups developed models that would facilitate making changes to support such large terminations, including contracts with our paying agent, field benefits administration offices, actuarial firms, and customer contact center, additional federal staff, space and equipment.

Transforming the Federal Workforce

During the year, PBGC received results of the 2008 Federal Human Capital Survey (FHCS) and the 2009 Annual Employee Survey (AES). In the 2008 FHCS, PBGC scored well above the government-wide average in factors such as clear alignment of work with agency mission, adequacy of resources, and physical work conditions. Opportunities for improvement existed in areas of leadership accountability, training, and communications. An outcome of the survey was that management established goals to strengthen leadership training and internal communications. In the 2009 AES, PBGC had make notable improvements in the areas of leadership, performance culture, job satisfaction, and recruitment, development and retention. PBGC is hiring qualified federal employees in a cost-effective manner by converting contract dollars to funds for federal jobs. Moreover, the FY 2011 budget proposes specific actions PBGC will take over the next two years to further improve employee satisfaction.

Reforming Federal Contracting and Acquisition

PBGC continues to make strides in improving competitive contracting. The procurement office was reorganized to strengthen its ability to provide effective oversight of contracts and develop acquisition strategies. During 2009, nearly all acquisitions were fully competed, more guidance and self help tools were provided to internal customers, and a significant number of the outstanding audit issues were closed.

Transparency, Technology, and Participatory Democracy

PBGC's E-government efforts continue to ease service for our retirees, participants, and premium filers. PBGC.gov is the electronic "storefront" of the Corporation and is fast becoming the first touch-point for newcomers and experienced users. Averaging about 8,500 visitors to this site every day—a fifteen percent increase from 2008—with half of the visitors accessing the site for the first time, PBGC took steps to improve the first-time visitor experience. Enhancements, such as *Welcome to www.PBGC.gov, A New User's Guide to Our Web Site,* made it easier for users to find general information about PBGC.

> *Any website, whether in the private or public sector, with an average score of more than 80 is clearly doing a superior job in meeting site visitors' needs and expectations. For context, only the highest-caliber private sector sites score 80 and above in the official ACSI releases on e-commerce and e-business . . . . It's a remarkable accomplishment for 23 government websites to meet this threshold.*
>
> *Larry S. Freed, President and CEO, ForeSeeResults, on release of quarterly ACSI results, July 28, 2009*

The ACSI customer satisfaction rating for My Pension Benefit Account (MyPBA), PBGC's primary service site for participants, achieved a level of 82 for the second year in a row. Enhancements this year to MyPBA include the ability to see a history of benefit payments as well as the ability to update bank account information on-line. With over 37,000 new accounts set up in 2009 and 165,000 participant-initiated and completed transactions, MyPBA continues to speed processing. For example, processing a simple change of address transaction now takes only minutes to complete and confirm.

TABLE 4: WEB CUSTOMER SATISFACTION SURVEY RESULTS 2008-2009

Performance Measure	**FY 2009 Target**	**FY 2009 Results**	**FY 2008 Results**
Customer Satisfaction score for participants using My Pension Benefit Account (MyPBA)	80	83	82
Customer Satisfaction score for practitioners using My Plan Administration Account (My PAA)	76	79	80
Customer Satisfaction score for visitors to PBGC.gov	68	72	70

Pension plan professionals who file premiums with PBGC use My Plan Administration Account (My PAA) to complete their annual filings. PBGC strives to make all e-transactions simpler and easier, and provide ongoing training and reminders. As an example, PBGC conducted two Webcasts for plan professionals in FY 2009 providing tips to help premium filers improve their e-filing experience.

Information Technology

As a result of urgent needs for increased capacity and improved capability over the years, PBGC's technology has grown both in size and complexity. PBGC's technological capacity has had to absorb the increase in plan terminations and the doubling of participants that occurred between 2002 and 2005, and that increased again in 2009. Necessary changes were layered on top of aging infrastructure already in need of updating. Today, the infrastructure that supports the case management tools for insuring and monitoring over 29,000 plans, the processing of benefit payments of $4.5 billion to over 700,000 retirees, the annual collection of $1.5 billion in premium receipts, and the investment management of $60 billion in assets is made up of complex structures with multiple dependencies to support business applications and systems. Establishing a more simplified and up-to-date infrastructure, segment architecture modernization, and, most importantly, strengthening of system security remain high strategic priorities for information technology, as indicated in PBGC's response to the internal control material weakness.

Program Evaluation

- During 2009, the Government Accountability Office (GAO) conducted several reviews of PBGC. Conclusions of the GAO's reports are below. Efforts are underway to address these findings.
    - The pension insurance programs that PBGC administers need urgent attention and transformation to ensure the mission set forth in ERISA is carried out effectively and efficiently.
    - Mounting financial challenges exacerbated by the economic downturn as well as governance and management challenges require stronger governance and a more strategic approach to acquisition and human capital management.
    - Processing benefit determinations in a small number of complex plans and plans with missing data takes longer. PBGC should develop a better strategy for processing benefits in complex plans, improve communications with participants and make the appeals process more accessible.

- In fiscal year 2009, PBGC's Office of Inspector General (OIG) conducted audits and evaluations of PBGC's major management challenges. Reports included the annual audit of PBGC financial statements, reports on PBGC's contracting activities and IT environment, and the review of PBGC's work on incoming pension plans. These issues were also included in the OIG's semi-annual reports to Congress. The OIG identified five major management challenge areas—governance, stewardship, PBGC's business model, information technology, and procurement and contracting. PBGC management is taking steps to address each of the management challenge areas.

- PBGC uses the American Customer Satisfaction Index survey methodology to receive feedback from its customers. In 2009, PBGC either exceeded or achieved all ACSI targets. The ACSI methodology scores on a 0-100 scale and produces indices for 10 economic sectors and 43 industries, including private and governmental entities. The ACSI provides a means for PBGC to compare its results with those of other government and private organizations, to identify areas of high value to our customers, and to benchmark best practices. Evaluation of the survey responses results in PBGC targeting its resources for service innovation and process improvements that benefit the PBGC customer.

SECTION 3 – FINANCIAL SECTION

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

Office of the Chief Financial Officer

Chief Financial Officer's Letter

As the Chief Financial Officer (CFO) of the Pension Benefit Guaranty Corporation, I recognize the important role that PBGC plays for more than 44 million American workers and retirees who participate in private sector defined benefit pension plans. Given the economic challenges that have faced our nation, the pension guarantees that PBGC provides have never been more important. We remain vigilant in working to protect PBGC's insurance programs and wisely administering the funds entrusted to us for the benefit of plan participants and their beneficiaries. The CFO organization is proud of the role it plays in producing accurate financial reports, supporting a sound internal control environment, managing PBGC's investment portfolio, and collaborating with other PBGC components in working together to accomplish PBGC's goals and objectives.

As a Significant Entity included in the Financial Report of the United States Government, and given the important role PBGC plays in protecting America's pensions, PBGC is committed to accuracy and transparency in its financial reporting. Our FY 2009 financial statement audit was conducted by Clifton Gunderson LLP, working under auspices of our independent Office of Inspector General. I am very pleased to report that PBGC has received another unqualified audit opinion – the 17th in a row – on its financial statements. Policymakers and other stakeholders can rest assured that our financial statements are accurate and reliable.

It is also noteworthy that PBGC – unlike most other agencies – has continued its tradition of receiving a separate, more rigorous audit report on its internal controls than what is legally mandated as part of the regular financial statement audit. This separate audit report helps us to discover control issues that need to be addressed in order to provide the public the assurance and integrity that it has come to expect from PBGC.

As part of our work to comply with the Federal Managers' Financial Integrity Act and OMB Circular A-123, we identified a material weakness in our internal control structure. This weakness relates to system security and operational effectiveness of information technology. In order to improve in this area, we had initiated internal reviews which indicated that the nature and scope of the problems were larger than previously known. As part of its independent audit, Clifton Gunderson LLP, found many of the same internal control concerns that we identified. The material weakness, identified by both management and the external auditors, incorporates prior significant deficiencies in system security and access controls. A dedicated team of PBGC's senior leaders is working to revise existing corrective action plans, develop new ones, and implement them. PBGC recognizes the importance of effective internal control and is fully committed to upgrading our systems to facilitate the work that we do for the American people.

Finally, I want to thank all of PBGC's employees and others who proudly work each day with extraordinary dedication to our mission – Protecting America's Pensions.

Patricia Kelly

Patricia Kelly
Chief Financial Officer

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF FINANCIAL CONDITION

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in millions)	**2009**	2008	**2009**	2008	**2009**	2008
ASSETS						
Cash and cash equivalents	**$ 3,747**	$ 1,739	**$ 5**	$ 20	**$ 3,752**	$ 1,759
Securities lending collateral (Notes 3 and 5)	**2,507**	3,772	**0**	0	**2,507**	3,772
Investments, at market (Notes 3 and 5):						
Fixed maturity securities	**32,933**	37,036	**1,436**	1,298	**34,369**	38,334
Equity securities	**24,133**	12,921	**0**	0	**24,133**	12,921
Real estate and real estate investment trusts	**596**	3	**0**	0	**596**	3
Other	**653**	23	**0**	0	**653**	23
Total investments	**58,315**	49,983	**1,436**	1,298	**59,751**	51,281
Receivables, net:						
Sponsors of terminated plans	**85**	19	**0**	0	**85**	19
Premiums (Note 11)	**601**	185	**2**	2	**603**	187
Sale of securities	**195**	1,357	**0**	0	**195**	1,357
Derivative contracts (Note 4)	**2,860**	7,124	**0**	0	**2,860**	7,124
Investment income	**394**	398	**16**	7	**410**	405
Other	**3**	3	**0**	0	**3**	3
Total receivables	**4,138**	9,086	**18**	9	**4,156**	9,095
Capitalized assets, net	**29**	32	**0**	0	**29**	32
Total assets	**$68,736**	$64,612	**$1,459**	$1,327	**$70,195**	$65,939

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)	**2009**	2008	**2009**	2008	**2009**	2008
LIABILITIES						
Present value of future benefits, net (Note 6):						
Trusteed plans	**$ 80,506**	$ 56,570	**$ 1**	$ 1	**$ 80,507**	$ 56,571
Plans pending termination and trusteeship	**601**	216	**0**	0	**601**	216
Settlements and judgments	**58**	56	**0**	0	**58**	56
Claims for probable terminations	**1,870**	3,154	**0**	0	**1,870**	3,154
Total present value of future benefits, net	**83,035**	59,996	**1**	1	**83,036**	59,997
Present value of nonrecoverable future financial assistance (Note 7)			**2,296**	1,768	**2,296**	1,768
Derivative contracts (Note 4)	**3,014**	8,338	**0**	0	**3,014**	8,338
Due for purchases of securities	**172**	1,847	**0**	0	**172**	1,847
Payable upon return of securities loaned	**2,507**	3,772	**0**	0	**2,507**	3,772
Securities sold under repurchase agreements	**643**	885	**0**	0	**643**	885
Unearned premiums	**355**	331	**31**	31	**386**	362
Accounts payable and accrued expenses (Note 8)	**87**	121	**0**	0	**87**	121
Total liabilities	**89,813**	75,290	**2,328**	1,800	**92,141**	77,090
Net position	**(21,077)**	(10,678)	**(869)**	(473)	**(21,946)**	(11,151)
Total liabilities and net position	**$ 68,736**	$ 64,612	**$1,459**	$1,327	**$ 70,195**	$ 65,939

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

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION

(Dollars in Millions)	Single-Employer Program For the Years Ended September 30, 2009	Single-Employer Program 2008	Multiemployer Program For the Years Ended September 30, 2009	Multiemployer Program 2008	Memorandum Total For the Years Ended September 30, 2009	Memorandum Total 2008
UNDERWRITING						
Income:						
Premium, net (Note 11)	**$ 1,822**	$ 1,340	**$ 95**	$ 90	**$ 1,917**	$ 1,430
Other	**16**	23	**2**	0	**18**	23
Total	**1,838**	1,363	**97**	90	**1,935**	1,453
Expenses:						
Administrative	**368**	350	**0**	0	**368**	350
Other	**15**	5	**0**	1	**15**	6
Total	**383**	355	**0**	1	**383**	356
Other underwriting activity:						
Losses (credits) from completed and probable terminations (Note 12)	**4,234**	(826)	**0**	0	**4,234**	(826)
Losses (credits) from financial assistance (Note 7)			**614**	(271)	**614**	(271)
Actuarial adjustments (credits) (Note 6)	**(573)**	(649)	**0**	(1)	**(573)**	(650)
Total	**3,661**	(1,475)	**614**	(272)	**4,275**	(1,747)
Underwriting gain (loss)	**(2,206)**	2,483	**(517)**	361	**(2,723)**	2,844
FINANCIAL:						
Investment income (loss) (Note 13):						
Fixed	**4,543**	577	**121**	121	**4,664**	698
Equity	**1,821**	(4,788)	**0**	0	**1,821**	(4,788)
Other	**(34)**	47	**0**	0	**(34)**	47
Total	**6,330**	(4,164)	**121**	121	**6,451**	(4,043)
Expenses:						
Investment	**49**	50	**0**	0	**49**	50
Actuarial charges (credits) (Note 6):						
Due to passage of time	**3,923**	3,400	**0**	0	**3,923**	3,400
Due to change in interest rates	**10,551**	(7,564)	**0**	0	**10,551**	(7,564)
Total	**14,523**	(4,114)	**0**	0	**14,523**	(4,114)
Financial income (loss)	**(8,193)**	(50)	**121**	121	**(8,072)**	71
Net income (loss)	**(10,399)**	2,433	**(396)**	482	**(10,795)**	2,915
Net position, beginning of year	**(10,678)**	(13,111)	**(473)**	(955)	**(11,151)**	(14,066)
Net position, end of year	**$ (21,077)**	$ (10,678)	**$ (869)**	$ (473)	**$ (21,946)**	$ (11,151)

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

PENSION BENEFIT GUARANTY CORPORATION
STATEMENTS OF CASH FLOWS

(Dollars in millions)	Single-Employer Program For the Years Ended September 30, 2009	2008	Multiemployer Program For the Years Ended September 30, 2009	2008	Memorandum Total For the Years Ended September 30, 2009	2008
OPERATING ACTIVITIES:						
Premium receipts	**$ 1,431**	$ 1,336	**$ 94**	$ 93	**$ 1,525**	$ 1,429
Interest and dividends received	**2,305**	2,325	**77**	47	**2,382**	2,372
Cash received from plans upon trusteeship	**368**	155	**0**	0	**368**	155
Receipts from sponsors/non-sponsors	**188**	137	**0**	0	**188**	137
Receipts from the missing participant program	**7**	7	**0**	0	**7**	7
Other receipts	**15**	1	**0**	0	**15**	1
Benefit payments – trusteed plans	**(4,337)**	(4,247)	**0**	0	**(4,337)**	(4,247)
Financial assistance payments			**(86)**	(85)	**(86)**	(85)
Settlements and judgments	**0**	(1)	**0**	0	**0**	(1)
Payments for administrative and other expenses	**(424)**	(372)	**0**	0	**(424)**	(372)
Accrued interest paid on securities purchased	**(776)**	(702)	**(42)**	(32)	**(818)**	(734)
Net cash provided (used) by operating activities (Note 15)	**(1,223)**	(1,361)	**43**	23	**(1,180)**	(1,338)
INVESTING ACTIVITIES:						
Proceeds from sales of investments	**190,411**	216,333	**3,234**	3,270	**193,645**	219,603
Payments for purchases of investments	**(187,180)**	(215,434)	**(3,292)**	(3,280)	**(190,472)**	(218,714)
Net change in investment of securities lending collateral	**(1,265)**	(1,274)	**0**	0	**(1,265)**	(1,274)
Net change in securities lending payable	**1,265**	1,274	**0**	0	**1,265**	1,274
Net cash provided (used) by investing activities	**3,231**	899	**(58)**	(10)	**3,173**	889
Net increase (decrease) in cash and cash equivalents	**2,008**	(462)	**(15)**	13	**1,993**	(449)
Cash and cash equivalents, beginning of year	**1,739**	2,201	**20**	7	**1,759**	2,208
Cash and cash equivalents, end of year	**$ 3,747**	$ 1,739	**$ 5**	$ 20	**$ 3,752**	$ 1,759

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 AND 2008

Note 1 – Organization and Purpose

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

ERISA requires that PBGC programs be self-financing. ERISA provides that the U.S. Government is not liable for any obligation or liability incurred by PBGC.

For financial statement purposes, PBGC divides its business activity into two broad areas – "Underwriting Activity" and "Financial Activity" – covering both single-employer and multiemployer program segments. PBGC's Underwriting Activity provides financial guaranty insurance in return for insurance premiums (whether actually paid or not). Actual and expected probable losses that result from the termination of underfunded pension plans are included in this category, as are actuarial adjustments based on changes in actuarial assumptions, such as mortality. Financial Activity consists of the performance of PBGC's assets and liabilities. PBGC's assets consist of premiums collected from defined benefit plan sponsors, assets from distress or involuntarily terminated plans that PBGC has insured, and recoveries from the former sponsors of those terminated plans. PBGC's future benefit liabilities consist of those future benefits, under statutory limits, that PBGC has assumed following distress or involuntary terminations. Gains and losses on PBGC's investments and changes in the value of PBGC's future benefit liabilities (e.g., actuarial charges such as changes in interest rates and passage of time) are included in this area.

As of September 30, 2009, the single-employer and multiemployer programs reported deficits of \$21.1 billion and \$869 million, respectively. The single-employer program had assets of over \$68.7 billion offset by total liabilities of \$89.8 billion, which include a total present value of future benefits (PVFB) of approximately \$83.0 billion. As of September 30, 2009, the multiemployer program had assets over \$1.4 billion offset by approximately \$2.3 billion in present value of nonrecoverable future financial assistance.

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

Single-Employer and Multiemployer Program Exposure

PBGC's best estimate of the total underfunding in plans sponsored by companies with credit ratings below investment grade, and classified by PBGC as reasonably possible of termination as of September 30, 2009, was $168 billion. The comparable estimates of reasonably possible exposure for 2008 and 2007 were $47 billion and $66 billion, respectively. These estimates are measured as of December 31 of the previous year (see Note 9). For 2009, this exposure is concentrated in the following sectors: manufacturing (primarily automobile/auto parts, and primary and fabricated metals), transportation (primarily airlines), services, and wholesale and retail trade.

PBGC estimates that, as of September 30, 2009, it is reasonably possible that multiemployer plans may require future financial assistance in the amount of $326 million. As of September 30, 2008 and 2007, these exposures were estimated at $30 million and $73 million, respectively.

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

Total underfunding reported under Section 4010 of ERISA is the most current source of individual plan underfunding information; it has accounted for over 75% of the estimates of total underfunding reported in the recent past. Prior to PPA, section 4010 required that companies annually provide PBGC with information on their underfunded plans if the firm's aggregate underfunding exceeds $50 million or there is an outstanding lien for missed contributions exceeding $1 million or an outstanding funding waiver of more than $1 million. Due to the decrease in the quality and reliability of the estimates resulting from the changes to section 4010 reporting requirements including the regulation-driven changes in the Required Interest Rate as well as PPA changes to who must file, PBGC no longer publishes estimates of total underfunding in the Annual Management Report. However, the Corporation will continue to publish Table S-47, "Various Estimates of Underfunding in PBGC-Insured Plans," in its Pension Insurance Data Book where the limitations of the estimates can be fully and appropriately described.

Under the single-employer program, PBGC is liable for the payment of guaranteed benefits with respect only to underfunded terminated plans. An underfunded plan may terminate only if

PBGC or a bankruptcy court finds that one of the four conditions for a distress termination, as defined in ERISA, is met or if PBGC involuntarily terminates a plan under one of five specified statutory tests. The net liability assumed by PBGC is generally equal to the present value of the future benefits payable by PBGC less amounts provided by the plan's assets and amounts 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.

Recent Accounting Developments: During FY 2009, PBGC implemented three Statement of Financial Accounting Standards (SFAS), including SFAS No. 157, "Fair Value Measurements;" SFAS No. 161 "Disclosures about Derivative Instruments and Hedging Activities;" SFAS No. 165 "Subsequent Events;" and two FASB Staff Positions (FSP) No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" and FSP No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly."

SFAS No. 157 defines fair value, establishes a framework for measuring fair value, outlines a fair value hierarchy based on the inputs to valuation techniques used to measure fair value, and expands financial statement disclosures about fair value measurements. See Note 5 for specifics regarding fair value measurements. SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities. SFAS No. 165, codifies the guidance regarding the disclosure of events occurring subsequent to the balance sheet date and does not change the definition of a subsequent event (i.e., an event or transaction that occurs after the balance sheet date but before the financial statements are issued) but requires disclosure of the date through which subsequent events were evaluated when determining whether adjustment to or disclosure in the financial statements is required. FSP No. FAS 157-3 clarifies the application of SFAS No. 157 in an inactive market, without changing its existing principles. FSP No. FAS 157-4, provides guidance for estimating fair value when the volume and level of activity for an asset or liability have decreased significantly.

<u>**Valuation Method:**</u> A primary objective of PBGC's financial statements is to provide information that is useful in assessing PBGC's present and future ability to ensure that its plan beneficiaries receive benefits when due. Accordingly, PBGC values its financial assets at estimated fair value, consistent with the standards for pension plans contained in the FASB Accounting Standards Codification Section 960 (formerly SFAS No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*). PBGC values its liabilities for the present value of future benefits and present value of nonrecoverable future financial assistance using assumptions derived from annuity prices from insurance companies, as described in the Statement of Actuarial Opinion. As described in Section 960, the assumptions are "those assumptions that are inherent in the estimated cost at the (valuation) date to obtain a contract with an insurance company to provide participants with their accumulated plan benefits." Also, in accordance with Section 960, PBGC selects assumptions for expected retirement ages and the cost of administrative expenses in accordance with its best estimate of anticipated experience.

The FASB Accounting Standards Codification Section 820 (formerly SFAS No. 157) defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. Section 820 applies to accounting pronouncements that require or permit fair value measurements. Prior to Section 820, there were different definitions of fair value with limited guidance for applying those definitions in GAAP; additionally, the issuance for applying fair value was dispersed among many accounting pronouncements that require fair value measurement.

<u>**Revolving and Trust Funds:**</u> 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 includes totals for both the revolving and trust funds for presentation purposes in the financial statements; however, the single-employer and multiemployer programs are separate programs by law and, therefore, PBGC also reports them separately.

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

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

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

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

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

<u>Securities Lending Collateral:</u> PBGC participates in a securities 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 securities purchased under resale agreements (an agreement with a commitment by the seller to buy a security back from the purchaser at a specified price at a designated future date), and securities sold under repurchase agreements. The manager either receives cash as collateral or pays cash out to be used as collateral. Any cash collateral received is invested by PBGC's investment agent.

<u>Investment Valuation and Income:</u> PBGC bases market values on the last sale of a listed security, on the mean of the "bid-and-ask" for nonlisted securities or on a valuation model in the case of fixed income securities that are not actively traded. These valuations are determined as of the end of each fiscal year. Purchases and sales of securities are recorded on the trade date. In addition, PBGC invests in and discloses its derivative investments in accordance with the guidance contained in the FASB Accounting Standards Codification Section 815 (formerly SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended*). Investment income is accrued as earned. Dividend income is recorded on the ex-dividend date. Realized gains and losses on sales of investments are calculated using first-in, first-out for the revolving fund and average cost for the trust fund. PBGC marks the plan's assets to market and any increase or decrease in the market value of a plan's assets occurring after the date on which the plan is terminated must, by law, be credited to or suffered by PBGC.

<u>Securities Purchased Under Resale Agreements:</u> Securities purchased under resale agreements are agreements whereby the purchaser agrees to buy securities from the seller, and subsequently sell them back at a pre-agreed price and date. Those greater than one day are reported under "Fixed maturity securities" as "Securities purchased under resale agreements" in the Note 3 table entitled "Investments of Single-Employer Revolving Funds and Single-Employer Trusteed Plans," on page 58. Resale agreements that mature in one day are included in "Cash and cash equivalents" which are reported on the Statements of Financial Condition.

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

Premiums: Premiums receivable represent the estimated earned but unpaid portion of the premiums for plans that have a plan year commencing before the end of PBGC's fiscal year and past due premiums deemed collectible, including penalties and interest. The liability for unearned premiums represents an estimate of payments received during the fiscal year that cover the portion of a plan's year after PBGC's fiscal year-end. In FY 2009, PBGC began reporting "Premium income, net" on the Statements of Operations and Changes in Net Position. "Premium income, net" represents actual and estimated revenue generated from defined benefit pension plan premium filings as required by Title IV of ERISA less bad debt expense for premium interest and penalties (see Note 11).

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

Present Value of Future Benefits (PVFB): The PVFB is the estimated liability for future pension benefits that PBGC is or will be obligated to pay the participants of trusteed plans and the net liability for plans pending termination and trusteeship. The PVFB liability (including trusteed plans as well as plans pending termination and trusteeship) is stated as the actuarial present value of estimated future benefits less the present value of estimated recoveries from sponsors and members of their controlled group and the assets of plans pending termination and trusteeship as of the date of the financial statements. PBGC also includes the estimated liabilities attributable to plans classified as probable terminations as a separate line item in the PVFB (net of estimated recoveries and plan assets). 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 reduce the PVFB liability.

The values of the PVFB are particularly sensitive to changes in underlying estimates and assumptions. These estimates and assumptions could change and the impact of these changes may be material to PBGC's financial statements (see Note 6).

(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. Assets are shown separately from liabilities for trusteed plans.

(2) Pending Termination and Trusteeship–represents the present value of future benefit payments less the plans' net assets (at fair value) anticipated to be received and the present value of expected recoveries (for which a settlement agreement has not been reached with sponsors and members of their controlled group) for plans for which termination action has been initiated and/or completed prior to fiscal year-end. Unlike trusteed plans, the liability for plans pending termination and trusteeship is shown net of plan assets.

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

(4) Net Claims for Probable Terminations–In accordance with the FASB Accounting Standards Codification Section 450 (formerly SFAS No. 5, *Accounting for Contingencies*), PBGC recognizes net claims for probable terminations with $50 million or more of underfunding, which represent PBGC's best estimate of the losses, net of plan assets and the present value of expected recoveries (from sponsors and members of their controlled group) for plans that are likely to terminate in the future. These estimated losses are based on conditions that existed as of PBGC's fiscal year-end. Management believes it is likely that one or more events subsequent to PBGC's fiscal year-end will occur, confirming the loss. Criteria used for classifying a specific plan as a probable termination include, but are not limited to, one or more of the following conditions: the plan sponsor is in liquidation or comparable state insolvency proceeding with no known solvent controlled group member; sponsor has filed or intends to file for distress plan termination and the criteria

will likely be met; or PBGC is considering the plan for involuntary termination. In addition, management takes into account other economic events and factors in making judgments regarding the classification of a plan as a probable termination. These events and factors may include, but are not limited to: the plan sponsor is in bankruptcy or has indicated that a bankruptcy filing is imminent; the plan sponsor has stated that plan termination is likely; the plan sponsor has received a going concern opinion from its independent auditors; or the plan sponsor is in default under existing credit agreement(s). In addition, a reserve for small unidentified probable losses and incurred but not reported (IBNR) claims is recorded based on an actuarial loss development methodology (ratio method) (see Note 6).

(5) PBGC identifies certain plans as high risk if the plan sponsor is in Chapter 11 proceedings or the sponsor's senior unsecured debt is rated CCC+/Caa1 or lower by S&P or Moody's respectively. PBGC specifically reviews each plan identified as high risk and classifies those plans as probable if, based on available evidence, PBGC concludes that plan termination is likely (based on criteria described in (4) above). Otherwise, high risk plans are classified as reasonably possible.

(6) In accordance with Section 450, PBGC's exposure to losses from plans of companies that are classified as reasonably possible is disclosed in the footnotes. In order for a plan sponsor to be specifically classified as reasonably possible, it must first have $5 million or more of underfunding, as well as meet additional criteria. Criteria used for classifying a company as reasonably possible include, but are not limited to, one or more of the following conditions: the plan sponsor is in Chapter 11 reorganization; funding waiver pending or outstanding with the Internal Revenue Service; sponsor missed minimum funding contribution; sponsor's bond rating is below-investment-grade for Standard & Poor's (BB+) or Moody's (Ba1); sponsor has no bond rating but unsecured debt is below investment grade; or sponsor has no bond rating but the ratio of long-term debt plus unfunded benefit liability to market value of shares is 1.5 or greater (see Note 9).

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 7).

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

Each year, PBGC analyzes insured multiemployer plans to identify those plans that are at risk of becoming claims on the insurance program. Regulatory filings with PBGC and the other ERISA agencies are important to this analysis and determination of risk. For example, a multiemployer plan that no longer has contributing employers files a notice of termination with PBGC. In general, if a terminated plan's assets are less than the present value of its liabilities, PBGC considers the plan a probable risk of requiring financial assistance in the future.

PBGC also analyzes ongoing multiemployer plans (i.e., plans that continue to have employers making regular contributions for covered work) to determine whether any such plans may be probable or possible claims on the insurance program. In conducting this analysis each year, PBGC examines plans that are chronically underfunded, have poor cash flow trends, a falling contribution base, and plans that may lack a sufficient asset cushion to weather temporarily income losses. A combination of these factors, or any one factor that is of sufficient concern, leads to a more detailed analysis of the plan's funding and the likelihood that the contributing employers will be able to maintain the plan.

Securities Sold Under Repurchase Agreements: Securities sold under repurchase agreements are agreements with a commitment by the seller to buy a security back from the purchaser at a specified price and designated future date. These agreements represent collateralized short-term loans for which the collateral may be a treasury security, money market instrument, federal agency security, or mortgage-backed security. On the Statements of Financial Condition, securities sold under repurchase agreements are reported as a liability, "Securities sold under repurchase agreements" at the amounts at which the securities will be subsequently reacquired.

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

Losses from Completed and Probable Terminations: Amounts reported as losses from completed and probable terminations represent the difference as of the actual or expected date of plan termination (DOPT) between the present value of future benefits (including amounts owed under Section 4022(c) of ERISA) assumed, or expected to be assumed, by PBGC, less related plan assets and the present value of expected recoveries from sponsors and members of their controlled group (see Note 12). When a plan terminates, the previously recorded probable net claim is reversed and newly estimated DOPT plan assets, recoveries and PVFB are netted and reported on the line PVFB - Plans pending termination and trusteeship (this value is usually different than the amount previously reported), with any change in the estimate being recorded in the Statements of Operations and Changes in Net Position. In addition, the plan's net income from date of plan termination to the beginning of PBGC's fiscal year is included as a component of losses from completed and probable terminations for plans with termination dates prior to the year in which they were added to PBGC's inventory of terminated plans.

Actuarial Adjustments and Charges (Credits): PBGC classifies actuarial adjustments related to changes in method and the effect of experience as underwriting activity; actuarial adjustments are the result of the movement of plans from one valuation methodology to another, e.g., nonseriatim (calculating the liability for the group) to seriatim (calculating separate liability for each person), and of new data (e.g., deaths, revised participant data). Actuarial charges (credits) related to changes in interest rates and passage of time is 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 6).

Depreciation and Amortization: PBGC calculates depreciation on the straight-line basis over estimated useful lives of 5 years for equipment and 10 years for furniture and fixtures. PBGC calculates amortization for capitalized software, which includes certain costs incurred for purchasing and developing software for internal use, on the straight-line basis over estimated useful lives not to exceed 5 years, commencing on the date that the Corporation determines that the internal-use software is implemented. Routine maintenance and leasehold improvements (the amounts of which are not material) are charged to operations as incurred. Capitalization of software cost occurs during the development stage and costs incurred during the preliminary project and post implementation stages are expensed as incurred.

Reclassification: Certain amounts in the 2008 financial statements have been reclassified to be consistent with the 2009 presentation. All such changes had no impact on the FY 2008 net position.

Note 3 – Investments

Premium receipts are invested through the revolving fund in U.S. Treasury securities. The trust funds include assets PBGC assumes or expects to assume with respect to terminated plans (e.g., recoveries from sponsors) and investment income thereon. These assets generally are held by custodian banks. The basis and market value of the investments by type are detailed below as well as related investment profile data. The basis indicated is cost of the asset if assumed after the date of plan termination or the market value at date of plan termination if the asset was assumed as a result of a plan's termination. 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. Investment securities denominated in foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income, and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions. The portfolio does not isolate that portion of the results of operations resulting from changes in foreign exchange rates of investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss on investments. For PBGC's securities, unrealized holding gains and losses are both recognized by including them in earnings. Unrealized holding gains and losses measure the total change in fair value – consisting of unpaid interest income earned or unpaid accrued dividend and the remaining change in fair value from holding the security. Beginning in FY 2009, PBGC began reporting "Securities sold under repurchase agreements" separately on the Statements of Financial Condition to improve transparency; previously they were included under "Fixed maturity securities." In order to support year-to-year comparisons, the FY 2008 balances were reclassified to be consistent with the FY 2009 presentation.

As the following table illustrates, the market value of investments of the single-employer program increased significantly from September 30, 2008, to September 30, 2009.

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

	September 30, 2009			September 30, 2008	
(Dollars in millions)	**Basis**	**Market Value**		Basis	Market Value
Fixed maturity securities:					
U.S. Government securities	**$16,620**	**$17,282**		$17,509	$17,587
Commercial paper/securities purchased under resale agreements*	**49**	**49**		656	656
Asset backed securities*	**2,844**	**2,728**		4,973	4,630
Corporate bonds and other *	**12,476**	**12,874**		16,835	14,163
Subtotal	**31,989**	**32,933**		39,973	37,036
Equity securities:					
Public equity*	**17,829**	**22,896**		9,287	12,007
Private equity	**1,471**	**1,237**		955	914
Subtotal	**19,300**	**24,133**		10,242	12,921
Real estate and real estate investment trusts	**637**	**596**		4	3
Insurance contracts and other investments	**479**	**653**		18	23
Total**	**$52,405**	**$58,315**	*****	$50,237	$49,983

*The reclassified FY 2008 balances include adjustments to (1) Commercial paper/securities purchased under resale agreements, (2) Asset backed securities, (3) Corporate bonds and other, and (4) Public equity. This did not result in any overall change to the FY 2008 net position as these reclassifications were offset primarily through adjustments to cash equivalents, derivative contracts payable, derivative contracts receivable, and securities sold under repurchase agreements.

**Total includes securities on loan at September 30, 2009, and September 30, 2008, with a market value of $2.450 billion and $3.623 billion, respectively.

***This total of $58,315 million of investments at market value represents the Single-Employer assets only. It differs from the total investments of $63.91 billion shown on page 16 of this report which includes investments of the Multiemployer Program, cash and cash equivalents and accrued investment income.

INVESTMENTS OF MULTIEMPLOYER REVOLVING FUNDS AND MULTIEMPLOYER TRUSTEED PLANS

	September 30, 2009		September 30, 2008	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	**$1,382**	**$1,436**	$1,296	$1,298
Equity securities	**0**	**0**	0	0
Total	**$1,382**	**$1,436**	$1,296	$1,298

INVESTMENT PROFILE

	September 30, 2009	2008
Fixed Income Assets		
Average Quality	**AA**	AA
Average Maturity (years)	**14.7**	13.3
Duration (years)	**9.7**	9.5
Yield to Maturity (%)	**4.7**	6.3
Equity Assets		
Average Price/Earnings Ratio	**25.5**	15.4
Dividend Yield (%)	**2.3**	2.4
Beta	**1.04**	1.04

Derivative Instruments: PBGC assigns investment discretion to all of its investment managers. These investment managers, who act as fiduciaries to PBGC, determine when it may or may not be appropriate to utilize derivatives in the portfolio(s) for which they are responsible. Investments in derivatives carry many of the same risks of the underlying instruments and carry additional risks that are not associated with direct investments in the securities underlying the derivatives. Furthermore, risks may arise from the potential inability to terminate or sell derivative positions, although derivative instruments are generally more liquid than physical market instruments. A liquid secondary market may not always exist for certain derivative positions at any time. Over-the-counter derivative instruments also involve counterparty risk that the other party to the derivative instrument will not meet its obligations.

The use of derivatives by PBGC investment managers is restricted in so far as portfolios cannot utilize derivatives to create leverage in the portfolios for which they are responsible. That is, the portfolios shall not utilize derivatives to leverage the portfolio beyond the maximum risk level associated with a fully invested portfolio of physical securities. Such controls are necessary because the use of leverage can magnify the effects of changes in the value of the portfolio's investments, and would make such investments more volatile.

Derivatives are accounted for at market value in accordance with the FASB Accounting Standards Codification Section 815 (formerly SFAS No. 133, as amended). Derivatives are marked to market with changes in value reported within financial income. These instruments are used to (1) mitigate risk (e.g., adjust duration or currency exposures), (2) enhance investment returns, and/or (3) as liquid and cost efficient substitutes for positions in physical securities. The standard requires disclosure of fair value on these instruments. During fiscal years 2008 and 2009, PBGC invested in investment products that used various U.S. and non-U.S. derivative instruments including but not limited to: money market, S&P 500 index futures, options, government bond futures, TBA ("to be announced") forward contracts, interest rate, credit default and total return swaps and swaption contracts, stock warrants and rights, debt option contracts, and foreign currency forward and option contracts. Some of these derivatives are traded on organized exchanges and thus bear minimal counterparty risk. The counterparties to PBGC's non-exchange-traded derivative contracts are major financial institutions subject to ISDA (International Swaps and Derivatives Association, Inc.) master agreements. PBGC monitors its counterparty risk and exchanges collateral under most contracts to further support performance by its counterparties.

A futures contract is an agreement between a buyer or seller and an established futures exchange clearinghouse in which the buyer or seller agrees to take or make a delivery of a specific amount of a financial instrument at a specified price on a specific date (settlement date). The futures exchange and clearinghouses clear, settle, and guarantee transactions occurring through its facilities. Upon entering into a futures contract, an "initial margin" amount (in cash or liquid securities) of generally one to six percent of the face value indicated in the futures contract is required to be deposited with the broker. Open futures positions are marked to market daily. Subsequent payments known as "variation margin" are made or received by the portfolio dependent upon the daily fluctuations in value of the underlying contract. PBGC maintains adequate liquidity in its portfolio to meet these margin calls. Futures contracts are valued at the most recent settlement price.

PBGC also invests in forward contracts. A bond forward is an agreement whereby the short position agrees to deliver pre-specified bonds to the long position at a set price and within a certain time window. A TBA forward instrument is an underlying contract on a mortgage backed security (MBS) to buy or sell a MBS which will be delivered at an agreed-upon date in the future. The pool of actual securities is to be announced 48 hours prior to the established trade settlement date. A forward foreign currency exchange contract is a commitment to purchase or sell a foreign currency at the settlement date at a negotiated rate. Foreign currency forward and option contracts may be used as a substitute for cash currency holdings, in order to minimize currency risk exposure to changes in foreign currency exchange rates and to adjust overall currency exposure to reflect the investment views of the fixed income portfolio managers regarding relationships between currencies.

A swap is an agreement between two parties to exchange different financial returns on a notional investment amount. The major forms of swaps traded are interest rate swaps, credit default swaps, and total return swaps. PBGC uses swap and swaption (an option on a swap) contracts to adjust exposure to interest rates, fixed income securities exposure, credit exposure, equity exposure, and to generate income based on the investment views of the portfolio managers regarding interest rates, indices and debt issues.

Interest rate swaps involve exchanges of fixed rate and floating rate interest. Interest rate swaps are often used to alter exposure to interest rate fluctuations, by swapping fixed rate obligations for floating rate obligations, or vice versa. The counterparties to the swap agree to exchange interest payments on specific dates, according to a predetermined formula. The payment flows are usually netted against each other, with one party paying the difference to the other.

A credit default swap is a contract between a buyer and seller of protection against pre-defined credit events. The portfolio may buy or sell credit default swap contracts to seek to increase the portfolio's income or to mitigate the risk of default on portfolio securities.

A total return swap is a contract between a buyer and seller of exposures to certain asset classes such as equities. The portfolio may buy or sell total return contracts to seek to increase or reduce the portfolio's exposure to certain asset classes.

An option contract is a contract in which the writer of the option grants the buyer of the option the right to purchase from (call option) or sell to (put option) the writer a designated instrument at a specified price within a specified period of time.

Stock warrants and rights allow PBGC to purchase securities at a stipulated price within a specified time limit.

For the fiscal years ended September 30, 2009 and 2008, gains and losses from settled margin calls are reported in Investment income on the Statements of Operations and Changes in Net Position. Securities pledged as collateral for derivative contracts, e.g., futures and swaps, are recorded as a receivable or payable.

During FY 2009, PBGC's investment managers decreased their utilization of derivative instruments as they became a less preferred way of implementing portfolio strategies relative to FY 2008.

The following table summarizes the notional amounts and fair market values (FMV) of all derivative financial instruments held or issued for trading as of September 30, 2009, and September 30, 2008. The dollar amounts in the FMV column represent the net theoretical amount needed or received to settle the derivative contract.

DERIVATIVE CONTRACTS	Sept. 30, 2009 Notional	Sept. 30, 2009 FMV	Sept. 30, 2008 Notional	Sept. 30, 2008 FMV
(Dollars in millions)				
Futures				
Contracts in a receivable position	**$ 4,321**	**$ 40**	$ 7,756	$155
Contracts in a payable position	**3,392**	**(46)**	7,626	(34)
Total futures	**7,713**	**(6)**	15,382	121
Swap agreements				
Interest rate swaps	**939**	**(12)**	11,211	10
Credit default swaps	**1,439**	**(18)**	6,370	(90)
Total swap agreements	**2,378**	**(30)**	17,581	(80)
Option contracts				
Options purchased (long)	**22**	**0 ***	5,501	51
Options written (sold short)	**1,186**	**(3)**	1,438	(31)
Total option contracts	**1,208**	**(3)**	6,939	20
Forward contracts				
Forwards – foreign exchange	**879**	**4**	1,790	(6)
Forwards – bonds/TBA's	**1,064**	**(7)**	2,657	(21)
Total forward contracts	**1,943**	**(3)**	4,447	(27)

* Less than $500,000

Additional information specific to derivative instruments is disclosed in Note 4 – Derivative Contracts, and Note 5 - Fair Value Measurements.

Effective January 1, 2009, PBGC adopted the provisions of the FASB Accounting Standards Codification Section 815 (formerly SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities*). This standard requires the disclosure of fair values of derivative instruments and their gains and losses in its financial statements of both the derivative positions existing at period end and the effect of using derivatives during the reporting period. The first table below identifies the location of derivative fair market values on the Statements of Financial Condition while the second table identifies the location of derivative gains and losses on the Statements of Operations and Changes in Net Position.

FAIR VALUES OF DERIVATIVE INSTRUMENTS

For the year ended September 30, 2009				
	Asset Derivative		Liability Derivative	
(Dollars in millions)	Statements of Financial Condition Location	FMV	Statements of Financial Condition Location	FMV
Futures	Derivative Contracts	$40	Derivative Contracts	$ (46)
Swap agreements				
Interest rate swaps	Investments-Fixed	(12)		
Credit default swaps	Investments-Fixed	(18)		
Option contracts				
Option contracts	Investments-Fixed	(1)	Derivative Contracts	(2)
Option contracts	Investments-Equity	0		
Forwards - foreign exchange	Derivative Contracts	1,066	Derivative Contracts	(1,062)
Forwards - bonds/TBAs	Investments-Fixed *	0	Derivative Contracts	(7)

* Less than $500,000

EFFECT OF DERIVATIVE INSTRUMENTS ON THE STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION

For the year ended September 30, 2009		
(Dollars in millions)	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives
Futures		
Contracts in a receivable position	Investment Income-Fixed	($510)
Contracts in a receivable position	Investment Income-Equity	(2)
Contracts in a payable position	Investment Income-Fixed	267
Contracts in a payable position	Investment Income-Equity	0
Swap agreements		
Interest rate swaps	Investment Income-Fixed	486
Credit default swaps	Investment Income-Fixed	(72)
Option contracts		
Options purchased (long)	Investment Income-Fixed	(21)
Options purchased (long)	Investment Income-Equity*	0
Options written (sold short)	Investment Income-Fixed	27
Options written (sold short)	Investment Income-Equity	0
Forward contracts		
Forwards - foreign exchange	Investment Income-Fixed	61
Forwards - bonds/TBAs	Investment Income-Fixed	(38)

* Less than $500,000

Additional information specific to derivative instruments is disclosed in Note 4 – Derivative Contracts and Note 5 – Fair Value Measurements.

Securities Lending: PBGC participates in a securities lending program administered by its custodian bank whereby the custodian bank lends PBGC's securities to third parties. The custodian bank requires initial collateral from the borrower that equals 102 percent to 105 percent of the securities lent. The collateral is held by the custodian bank. The manager either receives cash as collateral or pays cash to cover mark-to-market changes. Any cash collateral received is invested. The total value of securities on loan at September 30, 2009, and September 30, 2008, was $2.450 billion and $3.623 billion, respectively. The decrease is primarily attributed to the lower amount of lendable assets in U.S. government securities in the PBGC investment program during FY 2009 that have historically higher percent on loan versus other asset classes. As a result, the amount of securities on loan has decreased.

The amount of cash collateral received for these loaned securities was $2.507 billion at September 30, 2009, and $3.772 billion at September 30, 2008. These amounts are recorded as assets and are offset with a corresponding liability. PBGC had earned income from securities lending of $26.2 million and $34.6 million for the years ending September 30, 2009, and September 30, 2008, respectively. Net income from securities lending is included in "Investment income – Fixed" on the Statements of Operations and Changes in Net Position. As of September 30, 2009, PBGC loaned out $2.450 billion in securities of approximately $13.740 billion of securities available for securities lending.

Of the $2.450 billion market value of securities on loan at September 30, 2009, approximately 67% are lent U.S. government securities and approximately 32% are lent U.S. corporate securities.

Note 4 – Derivative Contracts

PBGC's derivative financial instruments are recorded at fair value and are included on the Statements of Financial Condition as investments and derivative contracts. Amounts in the table below represent the derivative contracts in a receivable position at financial statement date. Included in the total of $2,860 million is $1,686 million representing securities sold but not yet settled. The securities have been removed from the market value of investments. Collateral deposits of $68 million which represents cash paid as collateral on certain derivative contracts are shown. At September 30, 2008, these collateral deposits were included in cash equivalents and investments; beginning in FY 2009, they are included in derivative contracts receivable as noted in the table below to support year-to-year comparative reporting (and which had no impact on the FY 2008 net position).

DERIVATIVE CONTRACTS--OPEN RECEIVABLES

(Dollars in millions)	**September 30, 2009**	September 30, 2008
Open receivable trades on derivatives:		
Collateral deposits	**$ 68**	$ 293
Futures contracts	**40**	155
Foreign exchange forwards	**1,066**	2,099
Bond forwards	**60**	855
To be announced (TBA) forwards*	**1,574**	2,969
Interest rate swaps	**50**	79
Credit default swaps	**2**	674
Total	**$2,860**	$ 7,124

* TBA (to be announced) is a contract for the purchase or sale of mortgage-backed securities to be delivered on a future date. The term TBA is derived from the fact that the actual mortgage-backed security that will be delivered to fulfill a TBA trade is not designated at the time the trade is made. The securities are to be announced 48 hours prior to the established trade settlement date. TBAs are issued by FHLMC, FNMA and GNMA.

Amounts in the Derivative Contracts table below represent derivative contracts in a payable position at financial statement date which PBGC reflects as a liability. Included in this total payable of $3,014 million is $659 million representing securities purchased but not yet settled. These securities have been included in the market value of investments. Collateral deposits of $102 million, which represents cash received as collateral on certain derivative contracts, are included. At September 30, 2008, these collateral deposits were included in accounts payable and investments; beginning in FY 2009, they are included in derivative contracts payable as noted in the table below to support year-to-year comparative reporting (and which had no impact on the FY 2008 net position). The To Be Announced (TBA) forward payable amount of $1,691 million on the chart on page 66 includes $1,143 million of short sales and $548 million of open trades. (The short sales represent the sale of securities that have been borrowed with the intention of buying identical assets back at a later date to return to the lender).

DERIVATIVE CONTRACTS--OPEN PAYABLES

(Dollars in millions)	**September 30, 2009**	September 30, 2008
Open payable trades on derivatives:		
Collateral deposits	**$ 102**	$ 45
Futures contracts	**46**	34
Foreign exchange forwards	**1,062**	2,105
Bond forwards	**59**	1,568
To be announced (TBA) forwards	**1,691**	3,760
Interest rate swaps	**50**	80
Credit default swaps	**2**	714
Options-fixed income	**2**	32
Total	**$ 3,014**	$8,338

Note 5 – Fair Value Measurements

Effective January 1, 2009, PBGC adopted the provisions of the FASB Accounting Standards Codification Section 820 (formerly SFAS No. 157, *Fair Value Measurements*). The standard does not require the measurement of financial assets and liabilities at fair value, but provides a consistent definition of fair value and establishes a framework for measuring fair value in accordance with GAAP. The standard is intended to increase consistency and comparability in, and disclosures about, fair value measurements, by providing users with better information about the extent to which fair value is used to measure financial assets and liabilities, the inputs used to develop those measurements and the effect of the measurements, if any, on financial condition, results of operations, liquidity and capital.

Section 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an "exit price") in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants on the measurement date. When PBGC measures fair value for its financial assets and liabilities, PBGC considers the principal or most advantageous market in which PBGC would transact, and PBGC considers assumptions that market participants would use when pricing the asset or liability. When possible, PBGC looks to active and observable markets to measure the fair value of identical, or similar, financial assets or liabilities. When identical financial assets and liabilities are not traded in active markets, PBGC looks to market observable data for similar assets and liabilities. In some instances, certain assets and liabilities are not actively traded in observable markets, and as a result PBGC uses alternative valuation techniques to measure their fair value.

In addition, Section 820 establishes a hierarchy for measuring fair value. The fair value hierarchy is based on the observability of inputs to the valuation of a financial asset or liability as of the measurement date. The standard requires the recognition of trading gains or losses related to certain derivative transactions whose fair value has been determined using unobservable market inputs.

PBGC believes that its valuation techniques and underlying assumptions used to measure fair value conform to the provisions of Section 820. PBGC has categorized the financial assets and liabilities that it carries at fair value in the Statements of Financial Condition based upon the standard's valuation hierarchy. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1); next highest priority to pricing methods with significant observable market inputs (Level 2); and the lowest priority to significant unobservable valuation inputs (Level 3).

If the inputs used to measure a financial asset or liability cross different levels of the hierarchy, categorization is based on the lowest level input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the overall fair value measurement of a financial asset or liability requires judgment, and considers factors specific to that asset or liability. The three levels are described below:

Level 1 - Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market, such as exchange traded equity securities and certain U.S. government securities.

Level 2 - Financial assets and liabilities whose values are based on quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability. Level 2 inputs include the following:

a. Quoted prices for similar assets or liabilities in active markets;
b. Quoted prices for identical or similar assets or liabilities in non-active markets;
c. Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
d. Pricing models whose inputs are derived principally from or corroborated by observable market information through correlation or other means for substantially the full term of the asset or liability.

Level 3 - Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable in the market and significant to the overall fair value measurement. These inputs reflect management's judgment about the assumptions that a market participant would use in pricing the asset or liability, and based on the best available information, some of which is internally developed.

The assets and liabilities that PBGC carries at fair value are summarized by the three levels in Section 820 in the following table. The fair value of the asset or liability represents the price that would be received to sell the asset or paid to transfer the liability (an exit price).

Fair Value Measurements on a Recurring Basis as of September 30, 2009

(Dollars in millions)	**Quoted Market Prices in Active Markets (Level 1)**	**Pricing Methods with Significant Observable Market Inputs (Level 2)**	**Pricing Methods with Significant Unobservable Market Inputs (Level 3)**	**Total Net Carrying Value in Statements of Financial Condition**
Assets				
Cash and cash equivalents	$ 392	$ 3,360		$ 3,752
Securities lending collateral		2,507		2,507
Investments:				
Fixed maturity securities	67	33,959	$ 343	34,369
Equity securities	643	21,952	1,538	24,133
Real estate and real estate investment trusts	2	100	494	596
Other		212	441	653
Receivables:				
Derivative contracts *	1,124	1,736		2,860
Liabilities				
Payables:				
Derivative contracts **	1,171	1,843		3,014

* Derivative contracts receivables are comprised of open receivable trades on futures, forwards, TBAs, swaps, and collateral deposits.
** Derivative contracts payables are comprised of open payable trades on futures, forwards, TBAs, swaps, options, and collateral deposits.

Additional information specific to derivative instruments is disclosed in Note 3 – Investments and Note 4 – Derivative Contracts.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis For the year ended September 30, 2009						
(Dollars in millions)	**Fair Value at September 30, 2008**	**Total Realized and Unrealized Gains(Losses) included in Income**	**Purchases, Issuances and Settlements, Net**	**Transfers Into and/or out of Level 3**	**Fair Value at September 30, 2009**	**Change in Unrealized Gains(Losses)Related to Financial Instruments held at September 30, 2009**
Assets:						
Fixed *	$ 1	$ 23	$319		$ 343	$ 23
Equity *	10	13	282		305	13
Private Equity	905	(245)	573		1,233	(245)
Real estate & real estate investment trusts	1	(61)	554		494	(61)
Other *	2	8	431		441	8

*assets which are not actively traded in the market place

Note 6 – 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, 2009 and 2008.

For FY 2009, PBGC used a 25-year select interest factor of 5.17% followed by an ultimate factor of 5.03% for the remaining years. In FY 2008, PBGC used a 20-year select interest factor of 6.66% followed by an ultimate factor of 6.47% for the remaining years. These factors were determined to be those needed, given the mortality assumptions, to continue to match the survey of annuity prices provided by the American Council of Life Insurers (ACLI). Both the interest factor and the length of the select period may vary to produce the best fit with these prices. The prices reflect rates at which, in the opinion of management, the liabilities (net of administrative expenses) could be settled in the market at September 30, for the respective year, for single-premium nonparticipating group annuities issued by private insurers. Many factors, including Federal Reserve policy, changing expectations about longevity risk, and competitive market conditions may affect these rates.

Beginning in FY 2006, and ending with FY 2008, a Barclays Capital Aggregate Bond Index (formerly Lehman Long Corporate A and Higher Bond index) as of the last trading day of the month was used and was applied to both the select and ultimate factors instead of the select factor only as had been prior practice. Interest factors beginning in FY 2006 are now rounded to two decimal places instead of one so as to be able to state to the level of a single basis point.

In late 2008, significant volatility in the bond markets led PBGC to research the relationship between quarterly bond yields and annuity prices. As a result of this research, PBGC ended the use of a bond index in the determination of interest factors. The quarterly interest factors now incorporate the most recent quarterly annuity price survey data. Previously, the price survey data was used only once a year with the bond index then applied to determine subsequent interest factors during the year.

For September 30, 2009, PBGC used the 1994 Group Annuity Mortality (GAM) 94 Static Table (with margins), set forward one year and projected 24 years to 2018 using Scale AA. For September 30, 2008, PBGC used the same table set forward one year, projected 24 years to 2018 using scale AA. The number of years that PBGC projects the mortality table reflects the number of years from the 1994 base year of the table to the end of the fiscal year (15 years in 2009 versus 14 years in 2008) plus PBGC's calculated duration of its liabilities (nine years in 2009 and 10 years in 2008). PBGC's procedure is based on the procedures recommended by the Society of Actuaries UP-94 Task Force (which developed the GAM94 table) for taking into account future mortality improvements.

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

The reserve for administrative expenses in the 2006 valuations was assumed to be 1.18 percent of benefit liabilities plus additional reserves for cases in which plan asset determinations, participant database audits and actuarial valuations were not yet complete. As the result of an updated study, the expense reserve factor for FY 2007 has changed to 1.37 percent and carried forward to FY 2008 and FY 2009. The factors to determine the additional reserves were also re-estimated and continue to be based on plan milestone completion as well as case size, number of participants and time since trusteeship.

The present values of future benefits for trusteed multiemployer plans for 2009 and 2008 reflect the payment of assistance and the changes in interest and mortality assumptions, the passage of time and the effect of experience.

The resulting liability represents 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, 2009 AND 2008

	September 30,			
(Dollars in millions)	2009		2008	
Present value of future benefits, at beginning of year -- Single-Employer, net		**$59,996**		$69,235
Estimated recoveries, prior year		**165**		155
Assets of terminated plans pending trusteeship, net, prior year		**313**		540
Present value of future benefits at beginning of year, gross		**60,474**		69,930
Settlements and judgments, prior year		**(56)**		(55)
Net claims for probable terminations, prior year		**(3,154)**		(3,786)
Actuarial adjustments -- underwriting:				
Changes in method and assumptions	**$ (683)**		$ (715)	
Effect of experience	**110**		66	
Total actuarial adjustments -- underwriting	**(573)**		(649)	
Actuarial charges -- financial:				
Passage of time	**3,923**		3,400	
Change in interest rates	**10,551**		(7,564)	
Total actuarial charges -- financial	**14,474**		(4,164)	
Total actuarial charges, current year		**13,901**		(4,813)
Terminations:				
Current year	**15,692**		662	
Changes in prior year	**(277)**		(382)	
Total terminations		**15,415**		280
Benefit payments, current year*		**(4,478)**		(4,292)
Estimated recoveries, current year		**(175)**		(165)
Assets of terminated plans pending trusteeship, net, current year		**(820)**		(313)
Settlements and judgments, current year		**58**		56
Net claims for probable terminations:				
Future benefits**	**4,610**		12,606	
Estimated plan assets and recoveries from sponsors	**(2,740)**		(9,452)	
Total net claims, current year		**1,870**		3,154
Present value of future benefits, at end of year -- Single-Employer, net		**83,035**		59,996
Present value of future benefits, at end of year -- Multiemployer		**1**		1
Total present value of future benefits, at end of year, net		**$83,036**		$59,997

* The benefit payments of $4,478 million and $4,292 million include $140 million in 2009 and $45 million in 2008 for benefits paid from plan assets by plans prior to trusteeship.

** The future benefits for probable terminations of $4,610 million and $12,606 million for fiscal years 2009 and 2008, respectively, include $227 million and $59 million, respectively, for probable terminations not specifically identified and $4,383 million and $12,547 million, respectively, for specifically identified probables.

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

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

	September 30, 2009		September 30, 2008	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
U.S. Government securities	**$ 12**	**$ 14**	$ 10	$ 11
Corporate and other bonds	**329**	**340**	101	101
Equity securities	**460**	**456**	117	120
Insurance contracts	**0**	**0**	0	0
Other	**10**	**10**	82	81
Total, net	**$ 811**	**$ 820**	$ 310	$ 313

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

	September 30,			
(Dollars in millions)	**2009**		2008	
Net claims for probable terminations, at beginning of year		**$ 3,154**		$3,786
New claims	**$ 1,643**		$ 233	
Actual terminations	**(3,077)**		(148)	
Deleted probables	**(18)**		0	
Change in benefit liabilities	**168**		(3,400)	
Change in plan assets	**0**		2,683	
Loss (credit) on probables		**(1,284)**		(632)
Net claims for probable terminations, at end of year		**$ 1,870**		$3,154

The following table itemizes the probable exposure by industry:

PROBABLES EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	**FY 2009**	FY 2008
Manufacturing	**$1,178**	$2,964
Services	**467**	90
Health Care	**168**	5
Wholesale and Retail Trade	**57**	49
Finance, Insurance, and Real Estate	**-**	46
Total	**$1,870**	$3,154

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

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

ACTUAL PROBABLES EXPERIENCE
As Initially Recorded Beginning in 1987

(Dollars in millions)	Status of Probables from 1987-2008 at September 30, 2009			
Beginning in 1987, number of plans reported as Probable:	Number of Plans	Percent of Plans	Net Claim	Percent of Net Claim
Probables terminated	340	80%	$27,454	75%
Probables not yet terminated or deleted	0	0	0	0
Probables deleted	84	20	9,372	25
Total	424	100%	$36,826	100%

Note 7 – 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, 2009**	September 30, 2008
Gross balance at beginning of year	**$311**	$226
Financial assistance payments - current year	**86**	85
Write-offs related to settlement agreements	**(10)**	0
Subtotal	**387**	311
Allowance for uncollectible amounts	**(387)**	(311)
Net balance at end of year	**$ 0**	$ 0

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

As of September 30, 2009, the corporation expects 104 multiemployer plans will exhaust plan assets and need financial assistance from PBGC to pay guaranteed benefits and plan administrative expenses. The present value of nonrecoverable future financial assistance for these 104 plans is $2.296 billion. The 104 plans fall into three categories – plans currently receiving financial assistance; plans that have terminated but have not yet started receiving financial assistance from PBGC; and ongoing plans (not terminated) that the corporation expects will require financial assistance in the future.

Of the 104 plans:

- 39 have exhausted plan assets and are currently receiving financial assistance payments from PBGC. The present value of future financial assistance payments for these insolvent 39 plans is $890 million.

- 52 plans have terminated but have not yet started receiving financial assistance payments from PBGC. Terminated multiemployer plans no longer have employers making regular contributions for covered work, though some plans continue to receive withdrawal liability payments from withdrawn employers. In general, PBGC records a loss for future financial assistance for any underfunded multiemployer plan that has terminated. The present value of future financial assistance payments to these 52 terminated plans is $1.037 billion.

- 13 plans are ongoing (i.e., have not terminated), but PBGC expects these plans will exhaust plan assets and need financial assistance within 10 years. In this analysis, PBGC takes into account the current plan assets, future income to the plan, the statutory funding rules, and the possibility for future increases in contributions. The present value of future financial assistance payments for these 13 ongoing plans is $369 million.

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

(Dollars in millions)	**September 30, 2009**	September 30, 2008
Balance at beginning of year	**$ 1,768**	$ 2,124
Changes in allowance:		
Losses (credits) from financial assistance	**614**	(271)
Financial assistance granted (previously accrued)	**(86)**	(85)
Balance at end of year	**$ 2,296**	$ 1,768

Note 8 – Accounts Payable and Accrued Expenses

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

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

(Dollars in millions)	**September 30, 2009**	September 30, 2008
Annual leave	**$ 7**	$ 6
Other payables and accrued expenses	**80**	115
Accounts payable and accrued expenses	**$ 87**	$ 121

Note 9 – Contingencies

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

In accordance with the FASB Accounting Standards Codification Section 450 (formerly SFAS No. 5), PBGC classified a number of these companies as reasonably possible rather than probable terminations as the sponsors' financial condition and other factors did not indicate that termination of their plans was likely. This classification was done based upon information about the companies as of September 30, 2009.

The best estimate of unfunded vested benefits exposure to loss for the single-employer plans of these companies was measured as of December 31, 2008. The reasonably possible exposure to loss in these plans was $168 billion for FY 2009. This is a significant increase from $47 billion in FY 2008. This reasonably possible exposure to loss increased dramatically primarily due to deterioration of credit quality and poor asset returns that occurred during calendar year 2008.

The best estimate of unfunded vested benefits exposure to loss is not based on PBGC-guaranteed benefit levels. PBGC calculated this estimate, as in previous years, by using data obtained from filings and submissions to the government and from corporate annual reports for fiscal years ending in calendar 2008. The Corporation adjusted the value reported for liabilities to December 31, 2008, PBGC select rate of 5.38% that was derived using the 1994 Group Annuity Mortality Static Table (with margins) projected to 2018 using Scale AA. When available, data were adjusted to a consistent set of mortality assumptions. The underfunding associated with these plans could be substantially different at September 30, 2009, because of the economic conditions that existed between December 31, 2008 and September 30, 2009. The Corporation did not adjust the estimate for events that occurred between December 31, 2008, and September 30, 2009.

The following table by industry itemizes the reasonably possible exposure to loss:

REASONABLY POSSIBLE EXPOSURE TO LOSS BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	**FY 2009**	FY 2008
Manufacturing *	**$101,298**	$20,995
Transportation, Communication and Utilities **	**30,555**	16,161
Services	**13,314**	2,412
Wholesale and Retail Trade	**13,031**	4,495
Health Care	**4,990**	1,531
Agriculture, Mining, and Construction	**2,536**	700
Finance, Insurance, and Real Estate	**2,140**	438
Total	**$167,864**	$46,732

* For FY 2009 and FY 2008, primarily automobile/auto parts and primary and fabricated metals
** For FY 2009 and FY 2008, primarily airline

PBGC included amounts in the liability for the present value of nonrecoverable future financial assistance (see Note 7) 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 $326 million.

The Corporation calculated the future financial assistance liability for each multiemployer plan identified as probable (see Note 7), 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, 2009, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2009. 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.

Note 10 – Commitments

PBGC leases its office facility under a commitment that began on January 1, 2005, and expires December 10, 2018. This lease provides for periodic rate increases based on increases in operating costs and real estate taxes over a base amount. In addition, PBGC is leasing space for field benefit administrators. These leases began in 1996 and expire in 2013. The minimum future lease payments for office facilities having noncancellable terms in excess of one year as of September 30, 2009, are as follows:

COMMITMENTS: FUTURE LEASE PAYMENTS

(Dollars in millions)

Years Ending September 30,	Operating Leases
2010	$ 20.3
2011	19.8
2012	20.4
2013	20.0
2014	20.2
Thereafter	89.7
Minimum lease payments	$190.4

Lease expenses were $21.4 million in 2009 and $21.5 million in 2008.

Note 11 – Premiums

For both the single-employer and multiemployer programs, ERISA provides that PBGC shall continue to guarantee basic benefits despite the failure of a plan administrator to pay premiums when due. PBGC assesses interest and penalties on the unpaid portion of or underpayment of premiums.

Interest continues to accrue until the premium and the interest due are paid. For plan year 2008 the flat-rate premiums for single-employer pension plans was $33 per participant and for multiemployer plans, $9 per participant. For plan year 2009, per participant rates were $34 for single-employer plans and $9 for multiemployer plans. PBGC recorded net premium income of $1.917 billion and consisted of $1.224 billion in flat-rate premiums, $699 million in variable-rate premiums, and $590 million in termination premiums offset by a bad debt expense of $596 million. Bad debt expenses include a reserve for uncollectible premium receivables consisting of termination premiums that are reserved at 100 percent, interest and penalties. Net premium income for fiscal year 2008 was $1.430 billion and consisted of approximately $1.194 billion in flat-rate premiums, $241 million in variable-rate premiums, and $57 million in termination premiums offset by a bad debt expense of $62 million. The termination premium applies to certain plan terminations occurring after 2005 and is set at $1,250 per participant annually for three years following termination.

Note 12 – Losses from Completed and Probable Terminations

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

LOSSES FROM COMPLETED AND PROBABLE TERMINATIONS -- SINGLE-EMPLOYER PROGRAM

	For the Years Ended September 30,					
	2009			2008		
(Dollars in millions)	**New Terminations**	**Changes in Prior Year Terminations**	**Total**	New Terminations	Changes in Prior Year Terminations	Total
Present value of future benefits	**$15,692**	**$ (277)**	**$15,415**	**$ 662**	$(382)	**$ 280**
Less plan assets	**9,860**	**29**	**9,889**	**391**	74	**465**
Plan asset insufficiency	**5,832**	**(306)**	**5,526**	**271**	(456)	**(185)**
Less estimated recoveries	**0**	**10**	**10**	**0**	10	**10**
Subtotal	**5,832***	**(316)**	**5,516**	**271***	(466)	**(195)**
Settlements and judgments		**2**	**2**		1	**1**
Loss (credit) on probables	**(3,077)**	**1,793**	**(1,284)****	**(148)**	(484)	**(632)****
Total	**$ 2,755**	**$1,479**	**$ 4,234**	**$ 123**	$ (949)	**$(826)**

* gross amounts for plans terminated during the year

** see Note 6 – includes $3,077 million at September 30, 2009, and $148 million at September 30, 2008, previously recorded relating to plans that terminated during the period

Note 13 – Financial Income

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

INVESTMENT INCOME SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS

(Dollars in millions)	**Single-Employer Program Sept. 30, 2009**	**Multiemployer Program Sept. 30, 2009**	**Memorandum Total Sept. 30, 2009**	Single-Employer Program Sept. 30, 2008	Multiemployer Program Sept. 30, 2008	Memorandum Total Sept. 30, 2008
Fixed income securities:						
Interest earned	**$ 1,560**	**$ 45**	**$ 1,605**	$ 2,071	$ 63	$ 2,134
Realized gain (loss)	**(1,071)**	**24**	**(1,047)**	1,268	45	$ 1,313
Unrealized gain (loss)	**4,054**	**52**	**4,106**	(2,762)	13	$ (2,749)
Total fixed income securities	**4,543**	**121**	**4,664**	577	121	$ 698
Equity securities:						
Dividends earned	**40**	**0**	**40**	72	0	$ 72
Realized loss	**(521)**	**0**	**(521)**	(835)	0	$ (835)
Unrealized gain (loss)	**2,302**	**0**	**2,302**	(4,025)	0	$ (4,025)
Total equity securities	**1,821**	**0**	**1,821**	(4,788)	0	$ (4,788)
Other income (loss)	**(34)**	**0**	**(34)**	47	0	$ 47
Total investment income (loss)	**$ 6,330**	**$ 121**	**$ 6,451**	$ (4,164)	$ 121	$ (4,043)

Note 14 – 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 2009 and 2008 was 7.0 percent of base pay for those employees covered by that system. For those employees covered by FERS, the Corporation's contribution was 11.2 percent of base pay for both 2009 and 2008. In addition, for FERS-covered employees, PBGC automatically contributes one percent of base pay to the employee's Thrift Savings account, matches the first three percent contributed by the employee and matches one-half of the next two percent contributed by the employee. Total retirement plan expenses amounted to $16 million in 2009 and $15 million in 2008.

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 15 – Cash Flows

The following two tables, one for Sales and one for Purchases, provide further details on cash flows from investment activity. Sales and purchases of investments are driven by the level of newly trusteed plans, the unique investment strategies implemented by PBGC's investment managers, and the varying capital market conditions in which they invest during the year. These cash flow numbers can vary significantly from year to year based on the fluctuation in these three variables.

INVESTING ACTIVITIES (SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED)

	September 30,	
(Dollars in millions)	**2009**	2008
Proceeds from sales of investments:		
Fixed maturity securities	**$173,000**	$198,338
Equity securities	**5,283**	462
Other/uncategorized	**15,362**	20,803
Memorandum total	**$193,645**	$219,603
Payments for purchases of investments:		
Fixed maturity securities	**$(164,636)**	$(197,472)
Equity securities	**(13,147)**	(459)
Other/uncategorized	**(12,689)**	(20,783)
Memorandum total	**$(190,472)**	$(218,714)

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)	**2009**	2008	**2009**	2008	**2009**	2008
Net income (loss)	**$ (10,399)**	**$ 2,433**	**$(396)**	**$ 482**	**$(10,795)**	**$ 2,915**
Adjustments to reconcile net income to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	**(4,678)**	**6,268**	**(76)**	**(58)**	**(4,754)**	**6,210**
Net gain (loss) of plans pending termination and trusteeship	**(16)**	**25**	**0**	**0**	**(16)**	**25**
Losses (credits) on completed and probable terminations	**4,234**	**(826)**	**0**	**0**	**4,234**	**(826)**
Actuarial charges (credits)	**13,901**	**(4,813)**	**0**	**(1)**	**13,901**	**(4,814)**
Benefit payments - trusteed plans	**(4,337)**	**(4,247)**	**0**	**0**	**(4,337)**	**(4,247)**
Settlements and judgments	**0**	**(1)**	**0**	**0**	**0**	**(1)**
Cash received from plans upon trusteeship	**368**	**155**	**0**	**0**	**368**	**155**
Receipts from sponsors/non-sponsors	**204**	**142**	**0**	**0**	**204**	**142**
Amortization of discounts/premiums	**(39)**	**(429)**	**(4)**	**(41)**	**(43)**	**(470)**
Changes in assets and liabilities, net of effects of trusteed and pending plans:						
Increase in receivables	**(409)**	**(149)**	**(9)**	**(8)**	**(418)**	**(157)**
Increase (decrease) in present value of nonrecoverable future financial assistance			**528**	**(356)**	**528**	**(356)**
Increase in unearned premiums	**24**	**29**	**0**	**5**	**24**	**34**
Increase (decrease) in accounts payable	**(76)**	**52**	**0**	**0**	**(76)**	**52**
Net cash provided (used) by operating activities	**$(1,223)**	**$(1,361)**	**$ 43**	**$ 23**	**$(1,180)**	**$(1,338)**

Note 16 – Litigation

Legal challenges to PBGC's policies and positions continued in 2009. At the end of the fiscal year, PBGC had 51 active cases in state and federal courts and 733 bankruptcy cases.

PBGC records as a liability on its financial statements an estimated cost for unresolved litigation to the extent that losses in such cases are probable and estimable in amount. In addition to such recorded costs, PBGC estimates with a degree of certainty that possible losses of up to $68 million could be incurred in the event that PBGC does not prevail in these matters.

Note 17 – Subsequent Events

Management evaluated subsequent events through November 12, 2009, the date the financial statements were available to be issued. Events or transactions occurring after September 30, 2009, but prior to November 12, 2009 that provided additional evidence about conditions that existed at September 30, 2009, for either the single-employer or multiemployer program, have been recognized in the financial statements for the period ended September 30, 2009.

For the single-employer program, subsequent to September 30, 2009, PBGC obtained a recovery in the form of an ownership interest in a new entity, emerging from a chapter 11 bankruptcy proceeding, initially valued in the range of $550 million to $700 million. This current value estimate may change significantly over time.

For the multiemployer program, events or transactions that provided evidence about conditions that did not exist at September 30, 2009 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the period ended September 30, 2009.

2009 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 2008 with the following changes. PBGC increased its threshold for identifying and valuing single-employer probable terminations from $5 million to $50 million in unfunded vested benefits, leading to an increase in the reported net claims for not-yet-identified probable terminations and lower net claims for identified probable terminations than would have been reported under the previous methodology. Also, PBGC changed its method for estimating the aggregate amount of unfunded vested benefits in not-yet-identified probable terminations. Neither of these changes is expected to materially change the reported liability. PBGC will provide a more detailed description of these changes in the complete actuarial valuation report that is available upon request.

PRESENT VALUE OF FUTURE BENEFITS AND NONRECOVERABLE FINANCIAL ASSISTANCE - 2009

		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)	3,693	813	$36,848
	2. Seriatim at DOPT, adjusted to FYE	39	45	3,545
	3. Nonseriatim[1]	261	461	41,715
	4. Missing Participants Program (seriatim)[2]		21	52
	Subtotal	3,993	1,340	82,160
	B. Probable terminations (nonseriatim)[3]	27	83	4,610
	Total[4]	4,020	1,423	$86,770
II.	**MULTIEMPLOYER PROGRAM**			
	A. Pre-MPPAA terminations (seriatim)	10	*	$ 1
	B. Post-MPPAA liability (net of plan assets)	104	136	2,296
	Total	114	136	$2,297

* Fewer than 500 participants

Notes:

1. The liability for terminated plans has been increased by $58 million for settlements.

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

3. The net claims for probable plans reported in the financial statements include $227 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 $2,740 million. Thus, the net claims for probable terminations as reported in the financial statements are $4,610 million less $2,740 million, or $1,870 million.

4. The PVFB in the financial statements ($83,035 million) is net of estimated plan assets and recoveries on probable terminations ($2,740 million), estimated recoveries on terminated plans ($175 million), and estimated assets for plans pending trusteeship ($820 million), or, $86,770 million less $2,740 million less $175 million less $820 million = $83,035 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 3,693 plans, representing about 92 percent of the total number of single-employer terminated plans (61 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 144 plans over the 3,549 plans valued seriatim last year. For 39 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 2009.

For 261 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 2009 using certain assumptions and adjustment factors.

For the actuarial valuation, PBGC used a select and ultimate interest rate assumption of 5.17% for the first 25 years after the valuation date and 5.03% thereafter. The mortality table used for valuing healthy lives was the 1994 Group Annuity Mortality Static Table (with margins), set forward one year, projected 24 years to 2018 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.

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

Multiemployer Program

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

PBGC based its valuation of the post-MPPAA liability for nonrecoverable future financial assistance on the most recent available actuarial reports, Form 5500 Schedule B or Schedule MB as applicable, and information provided by representatives of the affected plans. The Corporation expected 104 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, 2009.

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

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

Joan M. Weiss

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

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

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

To the Board of Directors
Pension Benefit Guaranty Corporation

The Office of Inspector General contracted with Clifton Gunderson LLP, an independent certified public accounting firm, to audit the financial statements of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) as of and for the years ended September 30, 2009 and 2008. They conducted their audits in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards,* issued by the Comptroller General of the United States; Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended; and the *Government Accountability Office / President's Council Integrity and Efficiency Financial Audit Manual.*

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

- The financial statements were presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;

- PBGC did not have effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations and its operations as of September 30, 2009. Three significant deficiencies were identified in PBGC's (1) entity-wide security program planning and management, (2) access controls and configuration management, and (3) integrated financial management systems. The combination of significant deficiencies in PBGC's internal control is considered to be a material weakness.

- No instances of reportable noncompliance with tested laws and regulations.

Clifton Gunderson is responsible for the accompanying auditor's report dated November 12, 2009, and the conclusions expressed in the report. We do not express opinions on PBGC's financial statements or internal control, nor do we draw conclusions on compliance with laws and regulations.

Clifton Gunderson's report (AUD-2010-1/FA-09-64-1) is also available on our website at http://oig.pbgc.gov.

Sincerely,

Rebecca Anne Batts

Rebecca Anne Batts
Inspector General

November 12, 2009

Independent Auditor's Report

To the Board of Directors, Management,
and Inspector General of the
Pension Benefit Guaranty Corporation
Washington, DC

In our audits of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) for fiscal years (FY) 2009 and 2008 we found the following:

- The financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.
- PBGC did not have effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations and its operations as of September 30, 2009.
- No reportable noncompliance in FY 2009 with laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions, (2) our conclusions on other accompanying information, (3) our audit objectives, scope, and methodology, and (4) management comments and our evaluation.

Opinion on Financial Statements

The financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Single-Employer and Multiemployer Program Funds administered by PBGC as of September 30, 2009 and 2008, and the results of their operations and cash flows for the FYs then ended.

By law, PBGC's Single-Employer and Multiemployer Program Funds must be self-sustaining. As of September 30, 2009, PBGC reported in its financial statements net deficit positions (liabilities in excess of assets) in the Single-Employer and Multiemployer Program Funds of $21,077 million and $869 million, respectively. As discussed in Note 9 to the financial statements, loss exposure for the Single-Employer and Multiemployer Programs that are reasonably possible as a result of unfunded vested benefits are estimated to be $167,864 million and $326 million, respectively. Management based the Single-Employer Program estimate on data for FYs ending in calendar 2008 that was obtained from filings and submissions to the government and from corporate annual reports. A subsequent adjustment for economic conditions through September 30, 2009 has not been made, and as a result the exposure to loss for the Single-Employer Program as of September 30, 2009 could be substantially different. In addition, PBGC's net deficit and long-term viability could be further impacted by losses from plans classified as reasonably possible (or from other plans not yet identified as potential losses) as a result of deteriorating economic conditions, the insolvency of a large plan sponsor or other factors. PBGC has been able to meet their short-term benefit obligations. However, as discussed in Note 1 to the financial statements, management believes that neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants.

Opinion on Internal Control

Because of the effect of the material weakness described below on the achievement of the objectives of the control criteria contained in 31 U.S.C. 3512 (c), (d), the Federal Managers' Financial Integrity Act of 1982 (FMFIA), PBGC has not maintained effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations and its operations as of September 30, 2009.

We identified certain deficiencies in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations and its operation that we consider significant deficiencies, which combined constitute a material weakness. This material weakness adversely affects PBGC's ability to meet the internal control objectives listed in the objectives, scope, and methodology section of this report, or meet Office of Management and Budget (OMB) criteria for reporting matters under FMFIA.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We noted significant deficiencies in the following areas, which combined constitute a material weakness:

1. Entity-wide Security Program Planning and Management
2. Access Controls and Configuration Management
3. Integrated Financial Management Systems

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

****

MATERIAL WEAKNESS

PBGC protects the pensions of approximately 44 million workers and retirees in more than 29,000 private defined benefit pension plans. Under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA), PBGC insures, subject to statutory limits, pension benefits of participants in covered private defined benefit pension plans in the United States. To accomplish its mission and prepare its financial statements, PBGC relies extensively on information technology (IT). Internal controls over these operations are essential to ensure the confidentiality, integrity, and availability of critical data while reducing the risk of errors, fraud, and other illegal acts.

Our review of IT controls covered general and selected business process application controls. General controls are the structure, policies, and procedures that apply to an entity's overall computer systems. They include entity-wide security management, access controls, configuration management, segregation of duties and contingency planning controls. Business process application controls are those controls over the completeness, accuracy, validity, confidentiality, and availability of transactions and data during application processing.

Our review also included the integration of financial management systems to ensure effective and efficient interrelationships. These interrelationships include common data elements, common transaction processing, consistent internal controls, and transaction entry.

As noted in FY 2008 and previous financial statement audit reports, PBGC's systemic security control weaknesses and the lack of an integrated financial management system posed increasing and substantial risk to PBGC's ability to carry out its mission during FY 2009. Communication between PBGC's key decision makers did not convey the urgent need for decisive strategic decisions to correct fundamental weaknesses in PBGC's IT infrastructure and environment. Strategic IT decisions did not address these deficiencies and significant weaknesses. Furthermore, these weaknesses were not addressed in the status of corrective actions being reported. As a result, PBGC's attempt to address entity-wide security management program deficiencies and systemic security control weaknesses at the root cause level had minimal effect.

PBGC's decentralized approach to system development and configuration management has exacerbated control weaknesses and encouraged inconsistency in implementing strong technical controls and best practices. The influx of 620 plans for over 800,000 participants from 2002-2005, contributed to PBGC's disjointed IT development and implementation strategy. The mandate to meet PBGC's mission objectives by implementing technologies to receive the influx of plans superseded proper enterprise planning and IT security controls. The result was a series of stovepipe solutions built upon unplanned and poorly integrated heterogeneous technologies with varying levels of obsolescence.

PBGC's management is starting to take actions to correct control weaknesses by conducting an assessment of its Oracle database environment, initiating an IT Infrastructure modernization program, completing the Enterprise Architecture segment architecture, and implementing strategic decisions on IT sourcing.

Our current year audit work found deficiencies in the areas of security management, access controls, configuration management, and segregation of duties. Control deficiencies were also found in policy administration, and the certification and accreditation of major applications and general support systems. An effective entity-wide security management program requires a coherent strategy for the architecture of the IT infrastructure, and the deployment of systems. The implementation of a coherent strategy provides the basis and foundation for the consistent application of policy, controls, and best practices. PBGC first needs to develop and implement a framework to improve their security posture. This framework will require time for effective control processes to mature.

Based on our findings, we are reporting that the significant deficiencies in the following areas constitute a material weakness for FY 2009:

1. Entity-wide security program planning and management
2. Access controls and configuration management
3. Integrated financial management systems

A summary of the significant deficiencies and related recommendations follows.

In FY 2009, PBGC incorrectly reported progress in addressing weaknesses noted in its entity-wide information security management program to correct systemic security control weaknesses at the root cause level. The incorrect reporting in PBGC's status report impacted strategic decisions to prioritize resources for resolving deficiencies in PBGC's IT infrastructure. PBGC has initiated efforts in the reorganization and improvement of its security planning and management through the design and implementation of a more coherent strategy to managing its information systems. However, these efforts are not completed and additional time is needed for further strategy development and implementation.

1. Entity-wide Security Program Planning and Management

An entity-wide information security management program is the foundation of a security control structure and a reflection of senior management's commitment to addressing security risks. The security management program should establish a framework and continuous cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures. Overall policies and plans are developed at the entity-wide level. System and application-specific procedures and controls implement the entity-wide policy. Through the Federal Information Security Management Act of 2002 (FISMA), Congress requires each Federal agency to establish an agency-wide information security program to provide security to the information and information systems that support the operations and assets of the agency, including those managed by a contractor or other agency. OMB Circular No. A-130, Appendix III, *Security of Federal Automated Information Resources,* requires agencies to implement and maintain a program to assure that adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications.

During FY 2009, PBGC incorrectly reported progress in addressing entity-wide security management weaknesses, which did not agree with its own assessment of the state of its IT infrastructure and environment. PBGC's assessment of its IT infrastructure and environment noted fundamental weaknesses in its architecture and design that prohibited the implementation of effective controls. Communication between PBGC's key decision makers did not convey the urgent need for decisive strategic decisions and actions to correct fundamental weaknesses in PBGC's IT infrastructure and environment. Resources were inappropriately allocated to address certain control weaknesses, even though underlying IT architecture and design issues prevented successful mitigation of these weaknesses. The sixty-five (65) common security controls PBGC previously identified and documented, were not implemented, despite PBGC's reporting to having implemented forty-five (45) of them. Furthermore, PBGC did not complete the certification and accreditation (C&A) of thirteen (13) major applications and general support systems, although management reported the C&As were completed. PBGC's quality control review of the C&A packages did not correct specific issues we identified in FY 2008. The C&A packages were deficient in their quality, accuracy, and consistency. The Information Assurance Handbook has not been updated to reflect changes in its IT policies and procedures. Consequently, management's attempt to resolve prior year control weaknesses did not achieve its objective.

PBGC's entity-wide security program lacks focus and a coordinated effort to adequately resolve control deficiencies. These deficiencies prevent PBGC from implementing effective security controls to protect its information from unauthorized access, modification, and disclosure.

Without a well-designed and fully implemented information security management program, there is increased risk that security controls are inadequate; responsibilities are unclear, misunderstood, and improperly implemented; and controls are inconsistently applied. Such conditions may lead to insufficient protection of sensitive or critical resources and disproportionately high expenditures for controls over low-risk resources.

Recommendations:

PBGC management should develop and implement a well-designed security management program that will provide security to the information and information systems that support the operations and assets of the Corporation, including those managed by contractors or other Federal agencies.

PBGC management should effectively communicate to key decision makers the state of its IT infrastructure and environment to facilitate the prioritization of resources to address fundamental weaknesses.

2. Access Controls and Configuration Management

Access controls should be in place to consistently limit, detect inappropriate access to computer resources (data, equipment, and facilities), or monitor access to computer programs, data, equipment, and facilities thereby protecting against unauthorized modification, disclosure, loss, or impairment. Such controls include both logical and physical security controls to ensure that Federal employees and contractors will be given only the access privileges necessary to perform business functions. Federal Information Processing Standards Publication (FIPS PUB) 200, *Minimum Security Requirements for Federal Information and Information Systems,* specifies minimum access controls for Federal systems. FIPS PUB 200 requires PBGC's information system owners to limit information system access to authorized users.

Access control policies and procedures should be formally developed, documented, disseminated, and periodically updated. Policies should address purpose, scope, roles, responsibility, and compliance issues. Procedures should facilitate the implementation of the policy and associated access controls. National Institute of Standards and Technology (NIST) Special Publication (SP) 800-12, *An Introduction to Computer Security: The NIST Handbook,* provides guidance on security policies and procedures.

Industry best practices, NIST SP 800-64, *Security Considerations in the System Development Life Cycle,* and other Federal guidance all recognize the importance of configuration management when developing and maintaining a system or network. Through configuration management, the composition of a system is formally defined and tracked to ensure that an unauthorized change is not introduced. Changes to an information system can have a significant impact on the security of the system. Documenting information system changes and assessing the potential impact on the security of the system on an ongoing basis is an essential aspect of maintaining the security posture. An effective entity-wide configuration management and control policy and associated procedures are essential to ensuring adequate consideration of the potential security impact of specific changes to an information system. Configuration management and control procedures are critical to establishing an initial baseline of hardware, software, and firmware components for the entity and subsequently controlling and maintaining an accurate inventory of any changes to the system.

PBGC's decentralized approach to system development, system deployments, and configuration management has created an environment that lacks a cohesive structure in which to implement controls and best practices. Weaknesses in the IT environment contributed to deficiencies in system configuration, segregation of duties, role-based access controls, and monitoring. Furthermore, PBGC's information systems are overlapping and duplicative, employing obsolete and antiquated technologies that are costly to maintain. The state of PBGC's IT environment led to increased IT staffing needs, manual workarounds, additional reconciliation procedures, extensive manipulation, and excessive manual processing that have been ineffective in providing adequate compensating controls to mitigate system control weaknesses. For example, the Financial Reporting and Account Analysis Group manually records present value of future benefits liabilities for single-employer and multiemployer programs in Consolidated Financial System (CFS), and the Financial Operations Department manually records Premiums Income, Premiums Receivable, and Unearned Premiums in CFS.

Ineffective access and configuration management controls do not provide PBGC with sufficient assurance that financial information and financial assets are adequately safeguarded from inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction.

Recommendation:

PBGC management should develop and implement a coherent strategy for correcting IT infrastructure deficiencies and a framework for implementing common security controls, and mitigating the systemic issues related to access control by strengthening system configurations and user account management for all of PBGC's information systems.

3. Integrated Financial Management Systems

As reported in prior year audits, the risk of inaccurate, inconsistent, and redundant data is increased because PBGC lacks a single integrated financial management system. The current system cannot be readily accessed and used by financial and program managers without extensive manipulation, excessive manual processing, and inefficient balancing of reports to reconcile disbursements, collections, and general ledger data.

OMB Circular A-127, *Financial Management System*, requires that Federal financial management systems be designed to provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems.

Until these control weaknesses are corrected, PBGC's ability to accurately and efficiently record, accumulate, and summarize information required for internal and external financial reporting is impacted.

PBGC's information systems employ unsupported technologies that pose additional risk to the availability of financially significant systems. Many of these technologies are unsupported and add to the challenges of integrating PBGC's systems in an IT infrastructure that lacks a cohesive architecture and design.

The agency's ability to effectively and efficiently maintain and modernize its existing IT environment depends, in a large part, on how well it employs certain IT management controls that are embodied in statutory requirements, Federal guidance, and best practices. Among other things, these controls include strategic planning and performance measurement, portfolio-based investment management, human capital management, enterprise architecture (and supporting segment architecture) development and use, and establishing responsibility and accountability for modernization management.

If managed effectively, IT investments can have a dramatic impact on an organization's performance and accountability. If not carefully managed, they can result in wasteful spending and lost opportunities for achieving mission goals and improving mission performance. PBGC has had several false starts in modernizing its systems and applications that have either been abandoned, such as the suspension of work on the Premium and Practitioner System to replace the Premium Accounting System, or have been ineffective in leading to the integration of its financially significant systems. Unless PBGC develops and implements a well designed IT architecture and infrastructure both to guide and constrain modernization projects, it risks investing further time and resources in systems that do not reflect the Corporation's priorities, are not well integrated, are potentially duplicative, and do not optimally support mission operations and performance.

To its credit, PBGC has begun to develop an overall strategy to improve its IT architecture and infrastructure, but much work remains before the strategy can be completed and implemented. Steps PBGC has taken include the following:

1. PBGC has completed the identification of all systems that provide data required to prepare the financial statements.

2. PBGC has substantially completed the logical database model including standard data definitions and formats to be used throughout the Corporation.

3. PBGC has completed the development of segment architectures for CFS, and Premium Accounting. Segment Architectures will assist PBGC in identifying and planning financial technology recommendations for implementation and alternative analysis for business cases.

Major work remains to be completed to set the foundation for an integrated financial management system, including the following:

1. Incorporating the results of PBGC's Sourcing and Oracle Assessments in the Segment Architecture to support the selection of best alternative for PBGC's new IT infrastructure.

2. Completing Segment Architectures for all PBGC Architecture Segments.

3. Mapping all legacy systems to PBGC's logical database model and identifying discrepancies.

4. Developing business cases for CFS and Premium Accounting IT Investments to support budget request for system development.

5. Developing and implementing new IT system solutions/functions in accordance with the Financial Management Segment Architecture and strategic system plan.

6. Completing alternative analysis studies for CFS and Premium Accounting.

Recommendation:

PBGC management should develop and implement a coherent strategy to integrate PBGC's financial management systems in accordance with OMB Circular A-127.

Compliance with Laws and Regulations

Our tests of PBGC's compliance with selected provisions of laws and regulations for FY 2009 disclosed no instances of noncompliance that would be reportable under U.S. Generally Accepted Government Auditing Standards or OMB audit guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

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

Consistency of Other Information

The financial statement highlights, management's discussion and analysis, actuarial valuation, annual performance report, and financial summary contain a wide range of data, some of which is 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.

Objectives, Scope, and Methodology

PBGC's management is responsible for (1) preparing the financial statements in conformity with accounting principles generally accepted in the United States of America; (2) establishing, maintaining, and evaluating the effectiveness of internal control to provide reasonable assurance that the broad control objectives of FMFIA are met; its assertion of the internal control over financial reporting included in the accompanying Annual Management Report; and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America; and (2) management maintained effective internal control as of September 30, 2009 based on management's assertion included in the accompanying Annual Management Report and on the criteria contained in FMFIA, the objectives of which are the following:

- Financial reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

- Compliance with applicable laws and regulations: Transactions are executed in accordance with laws and regulations that could have a direct and material effect on the financial statements and any other laws, regulations, and government wide policies identified by OMB audit guidance.

We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements, and laws for which OMB audit guidance requires testing and performing limited procedures with respect to certain other information appearing in the accompanying Annual Management Report.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessed the accounting principles used and significant estimates made by management; (3) evaluated the overall presentation of the financial statements; (4) obtained an understanding of the entity and its operations, including its internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations; (5) tested relevant internal control over financial reporting (including safeguarding assets) and compliance, and evaluated the design and operating effectiveness of internal control for the FY ended September 30, 2009; (6) considered the design of the process for evaluating and reporting on internal control and financial management systems under FMFIA; and (7) tested compliance for FY 2009 with selected provisions of laws and regulations that have a direct and material effect on the financial statements.

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

We did not test compliance with all laws and regulations applicable to PBGC. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements, and to those required by OMB audit guidance that we deemed applicable to the financial statements for the FY ended September 30, 2009. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We conducted our audits and examinations in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards,* issued by the Comptroller General of the United States; attestation standards established by the American

Institute of Certified Public Accountants; and OMB audit guidance. We believe that our audits and examinations provide a reasonable basis for our opinions.

We considered the material weaknesses identified above in determining the nature, timing, and extent of our audit procedures on the 2009 financial statements.

Management Comments and Our Evaluation

In commenting on the draft of this report (see Page 96), PBGC's management concurred with the facts and conclusions in our report. We did not perform audit procedures on PBGC's written response and, accordingly, we express no opinion on it.

Clifton Gunderson LLP

Calverton, Maryland
November 12, 2009

PBGC
Protecting America's Pensions

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

Office of the Director

MEMORANDUM

November 12, 2009

To: Rebecca Anne Batts
Inspector General

From: Vincent K. Snowbarger
Acting Director

Vincent K. Snowbarger

Subject: Response to Draft Independent Auditor's Combined Report Issued in Connection with the FY 2009 Financial Statement Audit

I appreciate the opportunity to comment on the Office of Inspector General's FY 2009 combined report, which includes the opinions on PBGC's financial statements, internal controls, and matters relating to compliance with laws and regulations.

Management appreciates the work of your office in overseeing this audit. Given PBGC's increasing importance as a significant government entity, it is noteworthy that the Corporation has once again received an unqualified opinion on our financial statements for FY 2009.

Your work in providing a separate opinion on internal controls is especially valued, as it affords PBGC the more rigorous audit work needed to discover critical issues. This year's audit yielded just such a result in finding a material weakness in the combined areas of information security, access controls, and financial systems integration. While management does not consider financial systems integration to constitute a material weakness in and of itself, and has made measured progress in this area, we concur with the audit results and are committed to addressing the reported issues promptly. In doing so, we look forward to working with you as we craft and implement our Corrective Action Plans.

Again, the work of your office is sincerely appreciated, and PBGC management stands ready to work with you in responding to the issues presented in this year's audit.

cc: Stephen E. Barber
Terrence M. Deneen
Patricia Kelly
Richard H. Macy
Judith R. Starr
Martin O. Boehm

FINANCIAL SUMMARY

Single-Employer Program

(*Dollars in millions*)		Fiscal Year Ended September 30, **2009**	2008	2007	2006	2005	2004	2003	2002	2001	2000
Summary of Operations:											
Premium income, net *	$	**1,822**	1,340	1,476	1,442	1,451	1,458	948	787	821	807
Other income	$	**16**	23	55	79	44	24	28	28	23	5
Investment income (loss)	$	**6,330**	(4,164)	4,737	2,184	3,897	3,197	3,349	170	(843)	2,392
Actuarial charges and adjustments (credits)	$	**13,901**	(4,813)	346	4,819	490	1,787	6,161	2,802	1,082	453
Losses (credits) from completed and probable terminations	$	**4,234**	(826)	399	(6,155)	3,954	14,707	5,377	9,313	705	(80)
Administrative and investment expenses	$	**417**	400	378	405	342	288	290	225	184	167
Other expenses	$	**15**	5	114	2	77	(36)	97	15	2	(2)
Net income (loss)	$	**(10,399)**	2,433	5,031	4,634	529	(12,067)	(7,600)	(11,370)	(1,972)	2,666
Summary of Financial Position:											
Cash and investments	$	**62,062**	51,722	61,122	57,728	54,387	36,254	33,215	24,851	21,010	20,409
Total assets	$	**68,736**	64,612	67,241	59,972	56,470	38,993	34,016	25,430	21,768	20,830
Present value of future benefits	$	**83,035**	59,996	69,235	69,143	69,737	60,836	44,641	28,619	13,497	10,631
Net position	$	**(21,077)**	(10,678)	(13,111)	(18,142)	(22,776)	(23,305)	(11,238)	(3,638)	7,732	9,704
Insurance Activity:											
Benefits paid	$	**4,478**	4,292	4,266	4,082	3,685	3,006	2,488	1,537	1,043	902
Participants receiving monthly benefits at end of year		**743,610**	640,070	631,130	612,630	682,540	517,900	458,800	344,310	268,090	226,080
Plans trusteed and pending trusteeship by PBGC		**3,993**	3,850	3,783	3,673	3,585	3,469	3,277	3,122	2,965	2,864

* Beginning in FY 2009, PBGC started to reflect premium income net of bad debt expense for premium, interest and penalties.

FINANCIAL SUMMARY

Multiemployer Program

(*Dollars in millions*)		**2009**	2008	2007	2006	2005	2004	2003	2002	2001	2000
		Fiscal Year Ended September 30,									
Summary of Operations:											
Premium Income, net *	$	**95**	90	81	58	26	27	25	25	24	24
Other income	$	**2**	0	0	0	0	0	0	0	0	0
Investment income (loss)	$	**121**	121	23	(1)	79	54	37	118	95	70
Actuarial charges and adjustments (credits)	$	**0**	(1)	0	0	0	1	1	0	1	0
Losses (gains) from financial assistance	$	**614**	(271)	319	461	204	55	480	101	269	26
Administrative and investment expenses	$	**0**	0	0	0	0	0	0	0	0	0
Net income (loss)	$	**(396)**	482	(216)	(404)	(99)	25	(419)	42	(151)	68
Summary of Financial Position:											
Cash and investments	$	**1,441**	1,318	1,196	1,164	1,147	1,057	984	933	796	682
Total assets	$	**1,459**	1,327	1,197	1,166	1,160	1,070	1,000	944	807	694
Present value of future benefits	$	**1**	1	2	2	2	3	3	3	4	4
Nonrecoverable future financial assistance, present value	$	**2,296**	1,768	2,124	1,876	1,485	1,295	1,250	775	679	414
Net position	$	**(869)**	(473)	(955)	(739)	(335)	(236)	(261)	158	116	267
Insurance Activity:											
Benefits paid	$	**0**	0	0	1	1	1	1	1	1	1
Participants receiving monthly benefits from PBGC at end of year		**130**	170	200	240	280	320	390	460	510	620
Plans receiving financial assistance from PBGC		**43**	42	36	33	29	27	24	23	22	21

* Beginning in FY 2009, PBGC started to reflect premium income net of bad debt expense for premium, interest and penalties.