2010 pbgc Annual Report

PBGC
Protecting America's Pensions

Pension Benefit Guaranty Corporation

www.pbgc.gov

A Message From Our Chair

One of the highest priorities of President Obama is improving the retirement security of American workers and retirees. This Administration responded to the financial challenges facing employers sponsoring defined benefit plans by supporting legislation that provided needed temporary pension funding relief. By making the private pension system work for both employees and employers, we can help secure both the jobs and the retirement hopes of millions of Americans.

The Pension Benefit Guaranty Corporation plays a vital role in these efforts and in safeguarding the pensions of millions of Americans. During these economically challenging times, PBGC has helped by insuring pension plans and paying benefits to workers and retirees. Nearly 1.5 million Americans today rely on PBGC for their pension benefits, and 44 million others enjoy the security of knowing PBGC is there if they need it.

On behalf of the PBGC Board, I am pleased to present this FY 2010 report, which provides important information on PBGC's operations and its finances. It highlights many of the accomplishments of PBGC over this past fiscal year that helped to preserve and protect pension benefits, most notably stepping in before pension plans failed and preserving plans in bankruptcy.

My fellow Board members and I have worked to strengthen PBGC by providing strong oversight and leadership. I am proud of PBGC's accomplishments in helping plan sponsors to preserve their pension plans and in ensuring that retirees receive their benefits on time. Along with the new PBGC Director, we will continue to dedicate our efforts to protect and strengthen Americans' retirement security.

Hilda L. Solis

Hilda L. Solis
Secretary of Labor
Chair of the Board

A MESSAGE FROM OUR DIRECTOR:
PROVIDING SECURITY IN UNCERTAIN TIMES

Even as a fledgling economic recovery slowly takes hold, Americans face uncertainty: uncertainty about the economy; uncertainty that their companies and their jobs will last beyond the next paycheck; and uncertainty about when and how government efforts to help will work.

Throughout this uncertainty, ***PBGC continues to help***. Thirty-six years ago Congress set us up to protect and insure pension plans, and make sure workers' benefits get paid. That remains our mission:

- ***We work with companies to keep their pension plans.*** Last year PBGC staff negotiated with dozens of companies, both in bankruptcy and otherwise, to preserve their plans. Partly as a result 250,000 people will keep their pension plans that otherwise might not.

- ***When plans do fail, we step in and make sure benefits keep getting paid.*** We work to ensure that retirees get the full benefits provided by law—on time. Over the years we've become responsible for almost 1.5 million people in 4,200 failed plans. Every month, on average, we pay $467 million for pensions for 801,000 retirees. PBGC is also responsible for future payments to almost 700,000 who have not yet retired. During FY 2010, we assumed responsibility for 109,000 additional workers and retirees in 172 failed plans.

- ***We implement pension laws, and work with the President and Congress to improve them.*** In FY 2010 we worked with both the private sector and other government agencies to implement the funding provisions provided by the Pension Protection Act of 2006, and, working with other agencies, helped Congress revise it. We will continue to provide policymakers with the information they need to decide if and when future changes are necessary.

We currently protect the retirement hopes of 44 million Americans in more than 27,500 ongoing pension plans. When a PBGC-insured plan cannot keep its pension promises, PBGC makes sure the plan's participants get their benefits, up to the limits of federal pension law.

Working to Preserve Pension Plans

PBGC tries, first, to preserve plans and keep pension promises in the hands of the employers who make them. Every plan retained by its sponsor is a victory both for PBGC and for the plan's participants.

Early Warning: Stepping in Before Plans Fail

When companies undertake major transactions that might threaten their ability to pay pensions, PBGC negotiates protections for their pension plans. During FY 2010, PBGC monitored more than 1,000 large companies to identify such transactions. When appropriate, PBGC works with companies to arrange additional financial protection for their plans.

Similarly, when major layoffs or plant closures threaten a plan's viability, PBGC steps in and works to negotiate protection for the plan. In FY 2010, we opened 129 such cases, and secured an additional $250 million for participants in 20 companies' pension plans. Since 2006, we have negotiated with sponsors for added protection totaling more than $644 million, strengthening the pensions of more than 76,000 workers and retirees.

Preserving Plans in Bankruptcy

If a company enters bankruptcy, PBGC becomes an active advocate, urging reorganizing sponsors to keep their plans if possible. In FY 2010, PBGC's efforts ensured that plans sponsored by LyondellBasell Industries, Smurfit-Stone, Lear Corp., and more than 30 other companies survived Chapter 11 bankruptcies. Their 250,000 employees and retirees continue to enjoy their full benefits, and are still protected by PBGC insurance coverage.

Stepping in to Ensure Pensions if Plans Fail

If a plan cannot be preserved, then PBGC will pay its beneficiaries. For 36 years we have stepped in to pay their benefits — on time, each and every month, and without interruption. In FY 2010, this proud tradition continued: we made 8.5 million payments totaling $5.6 billion.

Preserving Multiemployer Plans

Multiemployer plans are different and more complicated than single-employer plans, and PBGC's multiemployer pension insurance works very differently from our single-employer program. For decades, multiemployer plans were in relatively good health, even in the face of industry decline. Unfortunately, for many multiemployer plans, that is no longer true. By FY 2010, many multiemployer plans had become substantially underfunded.

This will, of course, increase PBGC's obligations with respect to such plans. As of September 30, 2010, our estimate of our possible future obligations increased to $20 billion.

However, our focus now is on what measures might preserve these plans. It is not yet clear what those measures will be, but PBGC has begun developing the tools to analyze them. In FY 2010, we developed and introduced a new multiemployer version of our Pension Insurance Modeling System. We have also begun discussions with multiemployer plans and others to secure the information that will be necessary to develop potential solutions.

Protecting Our Financial Integrity

Despite PBGC's efforts to preserve pensions, in FY 2010 147 underfunded single-employer plans did terminate, most often in bankruptcy. These included plans sponsored by Crucible Materials, Fraser Papers, Hartmarx, and St. Vincent Catholic Medical Centers.

When pension plan sponsors cannot maintain their plans, PBGC does more than just assume responsibility for benefit payments. We also take over the assets of those plans, and fight in court on behalf of participants and other stakeholders to recover the maximum possible amount from sponsors of those plans. In FY 2010 PBGC assumed $1.8 billion in assets from failed plans, and recovered additional assets of $246 million from plan sponsors to help pay for benefits.

Staying Accountable, to Pensioners and the Public

Throughout our 36 years, PBGC has worked to provide our assistance in ways that are not only compassionate, but also professional and accountable. In that tradition of accountability, this report offers a complete accounting of our operating and financial performance.

Measuring Our Performance

Each year, we set standards for operating performance in our annual performance plan. The included performance report describes these standards and our FY 2010 results in detail, beginning on page 2. It covers the benchmarks we use to satisfy ourselves and the public that we are:

- *Paying benefits as accurately and quickly as possible.* In FY 2010, we were able to reduce our backlog of benefit determinations and reduce the average age of unissued benefit determinations from 1.5 years to 1.2 years.

- *Meeting the needs both of pension plans and the participants in those plans.* In FY 2010, our customer satisfaction scores, measured by the independent surveys of ACSI, remained well above most federal agencies and private businesses.

- *Investing the funds entrusted to us wisely.* In FY 2010, the investment firms we chose outperformed their benchmarks. For the year, PBGC realized a 12% annualized return on total invested funds (excluding transition accounts).

- *Maintaining our status as one of the best agencies in the eyes of our employees.* In surveys performed by the US Office of Personnel Management, PBGC scored no lower than seventh among 82 federal agencies on any measure of employee satisfaction.

Financial Report

Our financial statements report on the obligations we have assumed to date for broken pension promises. During FY 2010, we paid about $5.6 billion in benefits owed to retirees and their surviving beneficiaries, because their pension plans could not.

As a result of many factors, our obligations ("liabilities") exceed the assets currently available to pay them. As of September 30, 2010, we had single-employer assets totaling $77.8 billion, an increase of $10.2 billion from the close of the previous fiscal year. Our single-employer liabilities (measured in present value though they will be paid over decades) totaled $99.4 billion; this compares to total liabilities of $88.7 billion in 2009. The net of these positions is a single-employer deficit of $21.6 billion, an increase of $500 million from the prior year. Likewise, the multiemployer insurance program experienced a $600 million decline, bringing its FY 2010 deficit to $1.4 billion, with $1.6 billion in assets to cover about $3 billion in liabilities.

In part, this financial position is the result of inadequate plan funding and misfortunes that have befallen plan sponsors. In part, it is a result of the fact that the premiums PBGC charges are insufficient to pay for all the benefits that PBGC insures, and other factors.

Since our obligations are paid out over decades, we have more than sufficient funds to pay benefits for the foreseeable future. Nonetheless, we cannot ignore PBGC's future financial condition any more than we would that of the pension plans we insure.

More details of PBGC's financial condition can be found in our financial statements and related materials. The financial and performance data included in this report are reliable and complete. The independent auditor's reports are also included.

We are particularly pleased that, in FY 2010, PBGC continued its unbroken 18-year record of unqualified (clean) audits. In addition we should note that our independent auditor and Inspector General have, appropriately, raised issues about the security of our information and the integration of our financial systems. We have begun a multi-year program to remedy these weaknesses.

An Ongoing Commitment to Help

PBGC has a long proud history of helping people in troubled times, giving them an important source of security. Our challenge is to continue to do so, professionally and accountably — to take advantage of time and technology to help millions of Americans achieve a more secure future, however uncertain that future may, at times, appear.

Josh Gotbaum

Josh Gotbaum
Director
November 12, 2010

2010 ANNUAL REPORT

Contents

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 guarantees payment of basic pension benefits earned by more than 44 million American workers and retirees participating in more than 27,000 private-sector defined benefit pension plans. The Corporation receives no funds from general tax revenues. Operations are financed by insurance premiums paid by companies that sponsor defined benefit pension plans, investment income, and assets from terminated plans. This annual report is prepared to meet applicable legal requirements and in accordance with and pursuant to the provisions of section 9106 of the Government Corporation Control Act, 31 U.S.C. section 9106, and Circular No. A-136 Revised, "Financial Reporting Requirements," Office of Management and Budget, September 29, 2010. Section 4008 of the Employee Retirement Income Security Act, 29 U.S.C. section 1308, requires further actuarial analyses that will be issued as soon as practicable.

PBGC ANNUAL PERFORMANCE REPORT

Pension Benefit Guaranty Corporation (PBGC) protects some 44 million workers and retirees in private defined benefit pension plans. We do so by paying benefits when their pension plans cannot.

In FY 2010, PBGC:

- Paid nearly $5.6 billion for approximately 801,000 retirees in 4,200 failed plans; an additional 669,000 participants will receive benefits when they retire;
- Became responsible for another 99,000 pensioners whose plans terminated;
- Equally important, helped protect another 250,000 people by encouraging companies in bankruptcy not to terminate their plans; and
- Recovered $250 million on behalf of participants and other stakeholders to help cover benefit costs.

PBGC has made uninterrupted on-time payments to pensioners for 36 years.

PBGC, a federal corporation, was established by the Employee Retirement Income Security Act of 1974 (ERISA) to protect the pensions of American workers and retirees participating in private-sector defined benefit plans.

PBGC administers two insurance programs. The single-employer program protects nearly 33.8 million workers and retirees in about 26,100 pension plans. The multiemployer program protects about 10.4 million workers and retirees in about 1,460 pension plans.

This report provides insight into PBGC's mission, operations, and progress in achieving agency priorities. During FY 2010, the Office of Management and Budget asked agencies to adopt a more dynamic framework for using and reporting performance data. In response PBGC has clarified its priorities. These priorities are to pay pension benefits on time, pay accurate benefits, protect plans and pensioners, and ensure superior stewardship and accountability in protecting the pension insurance program. PBGC is committed to pursuing excellence in each of these priorities and in FY 2011 will establish formal measures for our performance.

Throughout this report, PBGC provides contextual information used to monitor process and program improvements. We are pleased to share our FY 2010 performance results with our stakeholders and the public.

Paying Pension Benefits

PBGC must determine the benefits owed to each plan participant when it becomes responsible for a single-employer terminated plan. By law the benefit determination process is complex and customized, requiring a unique calculation for each participant. Despite this complexity, PBGC remains committed to providing exceptional service to participants—delivering accurate and timely benefit determinations and payments, and remaining responsive to participants' needs.

Continuing Benefits When Plans Fail

PBGC's first priority when a company can no longer continue its pension plan is to ensure that benefit payments to retirees and their beneficiaries continue without interruption. Newly terminating plans in FY 2010 contained nearly 40,000 participants already receiving monthly checks. People received their benefits without interruption during the transition to PBGC payment systems.

If a final benefit amount is not yet calculated when benefits are due, PBGC pays estimated benefits. Historically, more than 90 percent of estimated payments have been within 10 percent of the final benefit amount.

■

"Everything they are doing is right. They answer your questions and send you back confirmation and your check is there when they say it will be."

Participant Caller Customer Satisfaction Survey Respondent
May 2010

■

Paying Benefits on Time

PBGC paid nearly $5.5 billion in benefits in FY 2010 to over 747,000 retirees. Each and every month, PBGC processes and pays these benefits on time.

On average, we process about 3,000 benefit applications per month for new retirees, with the number varying based on participants and beneficiaries becoming eligible for retirement. Participants who have reached retirement age will often apply for their benefits at the time PBGC assumes responsibility for their plan. Nearly 85 percent of applicants receive their first payments within 45 days of PBGC receiving their completed applications. The 45 days provides time for PBGC to review applicant documentation and position the participant to be paid in the following pay cycle. PBGC monitors this activity to ensure timely benefit payments. About 81 percent of the people that we pay receive their benefits by electronic direct deposit, speeding delivery and enhancing security.

PBGC monitors the satisfaction of retirees using the American Customer Satisfaction Index (ACSI) methodology, and uses the feedback to improve performance and customer service. Retirees receiving benefits from PBGC continue to show high levels of satisfaction with our services. Our FY 2010 ACSI score of 87 continued a decade-long trend of scores in the high 80s, as shown in Chart 1 below. The survey results show that retirees continue to be especially pleased with PBGC's ability to deliver their payments on time, and that they remain confident about PBGC's ability to serve them.

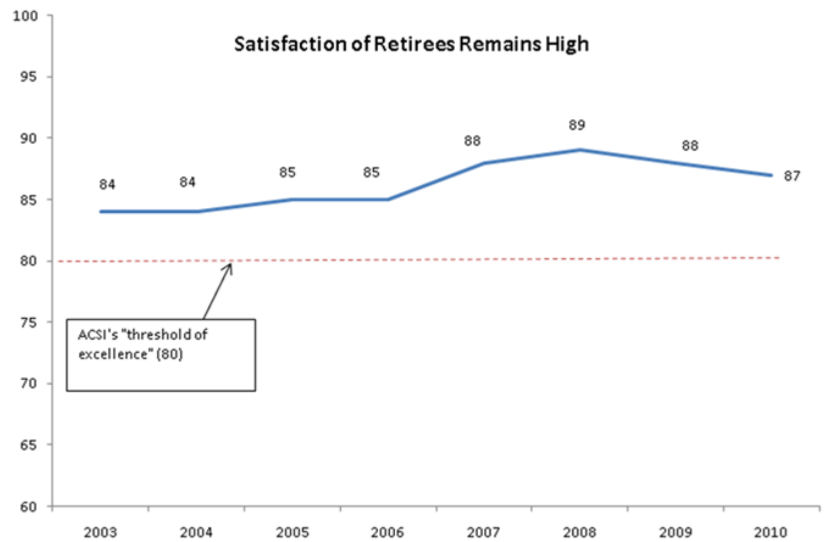

Chart 1: Retiree ACSI scores for each Fiscal Year

Paying Accurate Benefits

PBGC calculates benefits using a process spelled out in federal law. Actuaries calculate each participant's benefit according to the plan's provisions; then they must apply statutory and regulatory rules to determine how much PBGC can pay. Finally, when the benefit determination is complete, PBGC sends each participant a letter presenting the benefit amount and how it was calculated. Participants who are already getting paid may see adjustments to their benefits. In 2010, PBGC completed 93 percent of the adjustments within two months.

PBGC monitors its final benefit determinations by focusing on the average age of individual determinations issued and those to be issued. During FY 2010, we issued over 129,000 final benefit determinations at an average completion time of 3.8 years as shown in Chart 2 below. The average time to complete a determination is temporarily (we hope) growing as PBGC works through two of its most complex plans--Bethlehem Steel and United Airlines. The Bethlehem Steel Plan, trusteed in 2003, contains over 30 separate plans affected by multiple mergers and spin offs of the company. Participant calculations reflect the complexity of these company actions. The United Airlines family of plans, for which PBGC became trustee in 2005, has a high number of participants who have qualified domestic relations orders. The courts oversee qualified domestic relations orders requiring a careful division of benefits to former domestic partners and multiple payees. PBGC estimates up to 12,000 participants are still owed benefit determinations in these plans combined. We have *targeted clearing the inventory of these older plans in 2011*, and while doing so, the average age of benefit determinations issued is likely to increase. PBGC remains committed to bringing the average time to issue benefit determinations down over time. We have already begun to monitor the time it takes to issue all benefit determinations in a plan.

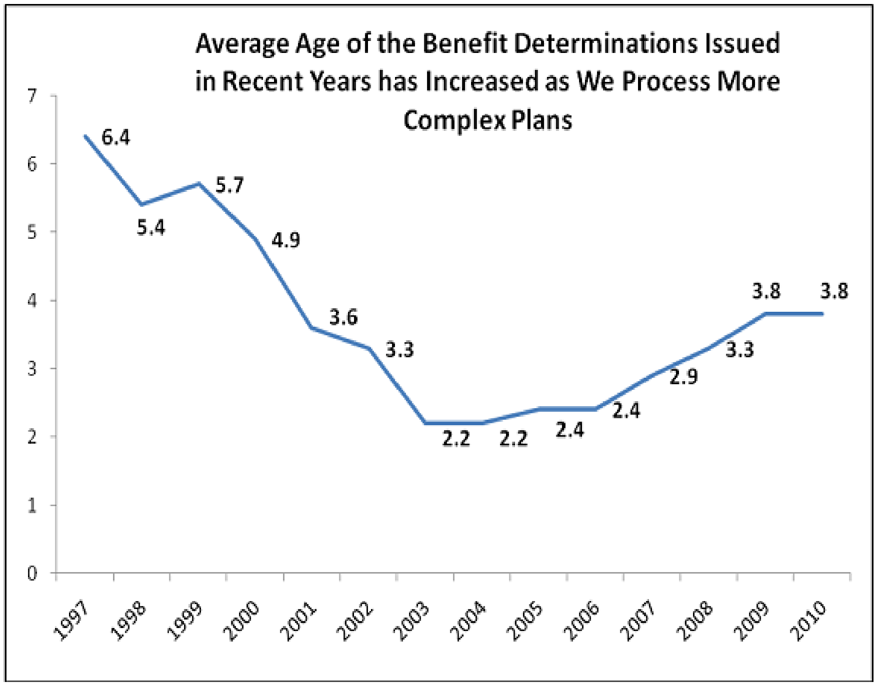

Chart 2: Average Age (in years) of Benefit Determinations Issued per Fiscal Year

PBGC ended the year with about 304,000 participants awaiting benefit determinations, about two-thirds of whom were in plans trusteed in 2009. Thus the average age of determinations yet to be issued is quite "young" — 1.21 years at the end of FY 2010. Refer to Chart 3 for a historical perspective of the end of year inventory.

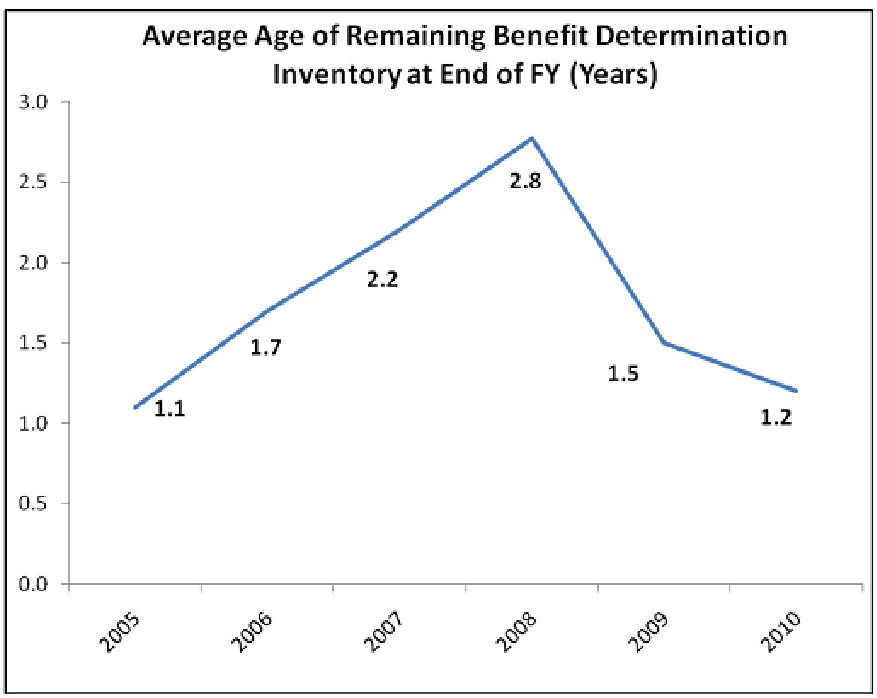

Chart 3: Average Age (in years) of Benefit Determination Inventory at end of Fiscal Year

How We Handle Appeals

Plan participants have the right to appeal PBGC's benefit determinations. An appeal or a request for more time to file an appeal must be submitted within 45 days of the benefit determination. Since 2005, PBGC has issued over 600,000 benefit determinations. On average, less than one percent of the benefit determinations issued by the PBGC are appealed.

The Appeals Board carefully examines the issues raised and makes a decision on whether the appeal should be granted. Despite an increase in workload, the average time to close appeals remained stable, as shown in Chart 4 below.

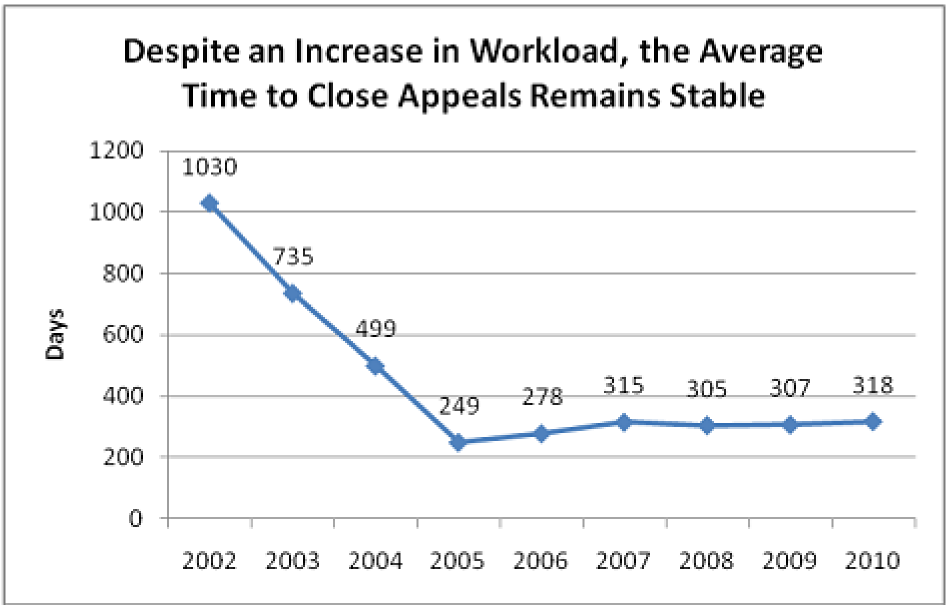

Chart 4: Average Time to Close Appeals per Fiscal Year

On average, about 25 percent of appeals result in benefit changes. Chart 5 illustrates the number of appeals that have resulted in adjustments to a participant's benefit. PBGC posts significant appeal decisions on its website for public access.

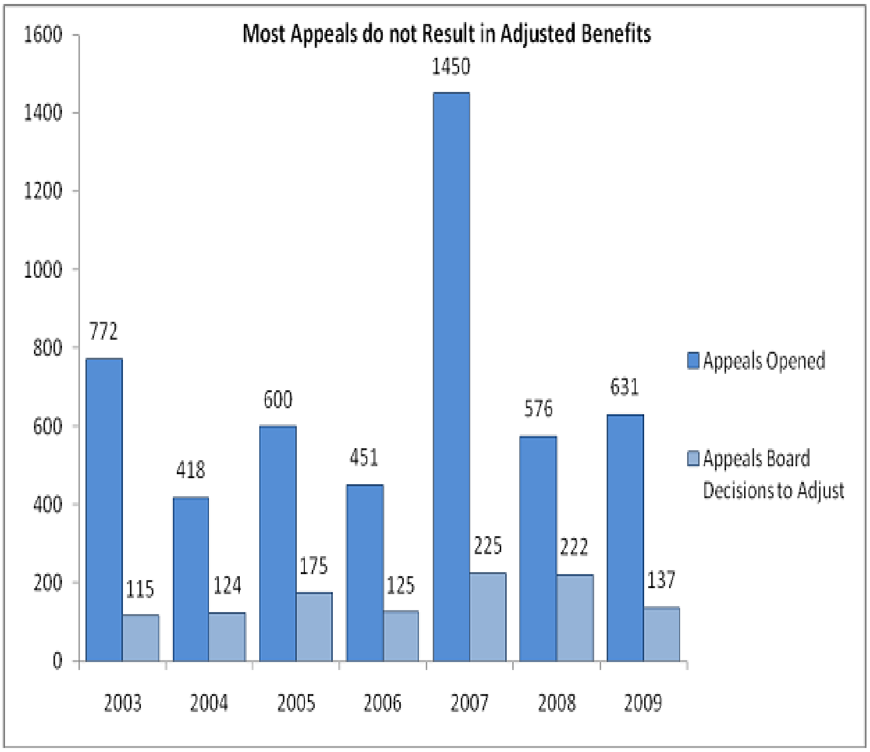

Chart 5: Appeals Resulting in Adjusted Benefits for each Fiscal Year

Customer Satisfaction

Participants are very satisfied with PBGC's efforts to provide timely, accurate and responsive services. Our independent ACSI scores remain close to 80 or better as shown in Chart 6 below. PBGC's centralized Customer Contact Center receives about 2,500 calls on an average day, and typically completes customers' inquiries within six minutes. Our participant caller satisfaction score of 79 is 10 points higher than the average survey score for federal call centers. The trajectory has leveled in the last two years while PBGC has taken in some of its more complex cases. However, retirees remain pleased with PBGC's success in delivering their checks on time and with the efficiency of the payment process. They also express confidence that PBGC will continue to do a good job.

My Pension Benefit Account (MyPBA), our primary online application for participants, allows participants to access certain forms and information, and to perform routine transactions. During FY 2010, MyPBA users executed more than 250,000 transactions, and more than 48,000 people established new accounts. Participants enjoy having the ability to execute certain transactions online and PBGC uses survey feedback to monitor customer satisfaction with the online services and to identify potential new services. The ACSI rating for MyPBA was 83, exceeding the ACSI "threshold of excellence" of 80.

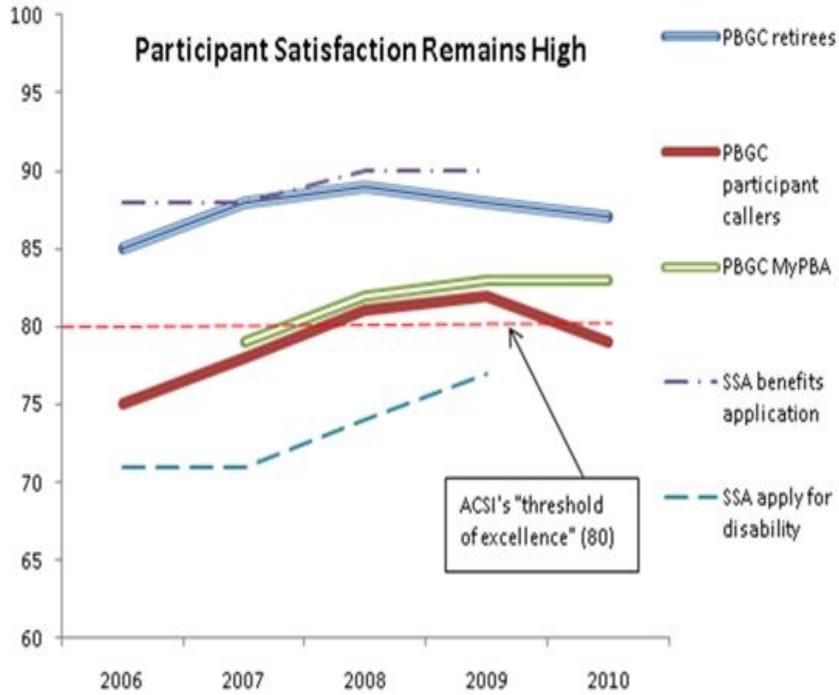

Chart 6: Participant ACSI scores per Fiscal Year

Preserving Plans and Protecting Pensioners

The most visible part of PBGC efforts occurs when the agency steps in after plans fail. Nonetheless, we also work with companies to preserve plans and prevent their failures. We do so for companies in bankruptcy and, through our Early Warning Program, with other companies when transactions may threaten their plans.

In FY 2010, PBGC continued to respond to the recent wave of corporate bankruptcies by stepping up its work to protect plans. Underfunding in plans sponsored by financially weak companies remains high, and PBGC's reviews of corporate transactions under the Early Warning Program are on the rise.

"Congress has entrusted this agency with important responsibilities – protecting the pensions of more than 40 million people – and asked it also to serve as an advocate in the deliberations on retirement security for all of us."

PBGC Director nominee Joshua Gotbaum,
before the U.S. Senate HELP Committee
January 20, 2010

Single-Employer Insurance Program

Under the single-employer insurance program, PBGC:

- monitors companies with large pension plans for risky corporate transactions, as part of PBGC's Early Warning Program;
- enforces section 4062(e) of ERISA (relating to corporate downsizing events);
- protects pensioners and the pension insurance program in plan sponsor bankruptcies;
- acts promptly to terminate plans, when necessary; and
- pursues and defends against claims in litigation.

Early Warning Program: In FY 2010, PBGC monitored more than 1,000 companies to identify transactions that could pose significant risks to underfunded plans, and to arrange for sponsors to protect those plans financially. During the last quarter, PBGC reviewed an increased number of potential early warning transactions, primarily leveraged buy-outs and companies taking on secured debt to retire unsecured debt or pay dividends.

Responding to Major Shutdowns/Layoffs: Under section 4062(e) of ERISA, a company has additional obligations and must report to PBGC when it ceases operations at a facility and more than 20 percent of a pension plan's active participants are separated from employment. In these circumstances, PBGC can negotiate agreements that provide additional protection to the plans via additional cash contributions or other means. During FY 2010, PBGC opened 129 new 4062(e) cases, as compared with 105 in 2009 and 40 in 2008, and reached settlements with 20 companies for approximately $250 million.

In FY 2010, approximately 35 companies emerged from bankruptcy protecting benefits for some 250,000 participants.

Bankruptcy: PBGC takes an active role in bankruptcies to prevent unnecessary terminations, to pursue claims on behalf of the plan and PBGC's insurance program, and to obtain the best possible financial recovery when a plan is terminated. Specifically, PBGC monitors bankruptcy proceedings, evaluates asset sales and other transactions that may affect a sponsor's ability to maintain its plan, enforces liens on non-bankrupt affiliates of a sponsor that fails to make statutorily required pension contributions, and, in the largest cases, serves on unsecured creditors committees. In FY 2010, 88 new bankruptcy cases were opened. Also during FY 2010, approximately 35 companies emerged from bankruptcy with their defined benefit pension plans ongoing. These plans have underfunding of roughly $4 billion and they cover approximately 250,000 participants. The companies include Lear Corporation, LyondellBasell Industries, and Smurfit-Stone Container Corporation.

Underfunded Plan Terminations: An underfunded plan may terminate either through a distress termination or an involuntary termination. In a distress termination the sponsor and its corporate affiliates must demonstrate that the company cannot afford to keep its plan. In an involuntary termination PBGC may terminate a plan to protect participants' benefits or PBGC's insurance program, if the plan meets certain criteria. In FY 2010, 147 underfunded plans were terminated, compared to 144 in 2009 and 67 in 2008. For

FY 2010, the largest plan terminations included plans sponsored by Crucible Materials, Fraser Papers, Hartmarx, and Saint Vincent Catholic Medical Centers.

Standard Terminations: A sponsor may terminate a plan in a standard termination only if the plan can pay all benefits. PBGC reviews all standard termination filings to ensure compliance with the law and audits a statistically significant number of these terminations to determine whether participants and beneficiaries have received their plan benefits and whether benefits of missing participants were distributed in accordance with law.

During FY 2010, PBGC received 1,441 standard termination filings for review, a 17 percent increase over 2009, completed 223 compliance audits, and took enforcement action in 48 of these cases. These enforcement actions resulted in additional payments of more than $10 million to 1,668 participants.

Multiemployer Insurance Program

In the multiemployer program, the event triggering PBGC's guarantee is plan insolvency—the inability to pay benefits when due. Insolvency usually occurs after all contributing employers have withdrawn from the plan, leaving the plan without a source of income. PBGC provides insolvent multiemployer plans with financial assistance sufficient to pay guaranteed benefits and reasonable administrative expenses.

In FY 2010, PBGC paid $97 million in financial assistance to nearly 54,000 pensioners in 50 multiemployer pension plans, up from the $86 million to 43 plans PBGC paid in 2009. Another 29,000 pensioners will receive benefits when they retire. PBGC expects that the number of insolvent plans will more than double over the next five years.

During FY 2010, PBGC helped seven small insolvent multiemployer plans close out through the purchase of annuities or payment of lump sums for participants' guaranteed benefits. Closing out small insolvent plans reduces PBGC's future financial assistance payments for plan administrative costs, and helps PBGC manage the sharp increases in its ongoing financial assistance workload. PBGC's efforts to facilitate the closeout of small insolvent plans follow recommendations made by the Inspector General in a 2007 report.

Also in FY 2010, PBGC acted to partition the Chicago Truck Drivers, Helpers & Warehouse Workers Union (Independent) Pension Fund. That action extends the solvency of the Chicago Truck Drivers' plan and preserves full benefits for about 3,700 workers and retirees.

Significant Litigation Activity

The agency had 52 open litigation matters at the close of the year. In litigation, PBGC aims to:

- achieve the best possible recovery from plan sponsors in bankruptcy (recoveries that are then shared with participants as provided by law);
- defend the agency against claims of incorrect benefit payments;
- obtain court orders to terminate plans when necessary;
- recover assets of a pension plan lost by actions of plan fiduciaries; and
- obtain rulings on issues central to PBGC's administration of Title IV.

In FY 2010, the agency defended three lawsuits challenging benefit payments under the US Airways Pilots Pension Plan. PBGC prevailed in one (*Stephens v. US Airways*) that is now on appeal to the U.S. Court of Appeals for the D.C. Circuit; the other two are pending in district court (*Davis v. PBGC* and *USAPA v. PBGC*).

PBGC won a benefit determination challenge involving the Weirton Steel Pension plan, in *Crane v. PBGC*. In *PBGC v. Rouge Steel*, the district court entered an order terminating the plan, agreeing with PBGC that termination was in the interest of the stakeholders of the pension insurance system. In *Central States v. O'Neill Bros. Storage*, the U.S. Court of Appeals for the Seventh Circuit invited PBGC to appear as "friend of the court" and acknowledged the value of PBGC's filing.

Recovering Assets for Retirees

In its role as trustee of terminated plans, PBGC files claims on behalf of the plan, such as claims against fiduciaries for breach of their duties. For example, in *PBGC v. Divin*, PBGC sued plan fiduciaries for causing losses by investing plan assets in junk bonds issued by the plan sponsor. The case is now proceeding.

Helping to Strengthen the Pension Insurance System

Pursuant to its mandate under ERISA, the PBGC remains an important source of information on defined benefit pension plans and retirement issues generally. During FY 2010, PBGC, working with other agencies, assisted the Congress in efforts to provide temporary funding relief for plan sponsors, which was enacted into law.

We also expanded our efforts and ability to analyze the issues affecting multiemployer plans. We can and do provide legal analysis, actuarial analysis, and simulation modeling. During the year, we provided technical assistance to Congress, other agencies and others within the Administration, and to GAO.

PBGC also publishes the *Pension Insurance Data Book*, an annual compendium of information on defined benefit plans and participants at http://www.pbgc.gov/docs/2009databook.pdf

PBGC speakers addressed organizations such as the American Bar Association, American Bankruptcy Institute, and American Society of Pension Professionals and Actuaries. Audiences included ERISA practitioners, plan sponsors, labor groups, retiree organizations, and financial professionals.

Collecting Premiums

PBGC collected $2.18 billion in premiums from the single-employer and multiemployer programs in FY 2010. Pension plan administrators file premiums with PBGC online using My Plan Administration Account (My PAA), accounting for nearly 36,000 electronic filings in FY 2010. As Chart 7 below indicates, premium filers rated their satisfaction with PBGC service at 71, while My PAA users have rated their satisfaction with the system a 79, just short of ACSI's "threshold of excellence" at 80. Satisfaction levels for both remain stable and compare very well with other federal agencies with regulatory collection responsibility, whose scores range from the low 50s to the low 60s. PBGC assists premium filers through extensive printed and online communications. During peak filing periods, the customer contact center servicing the premium filers expands its hours to help filers meet their filing obligations on time.

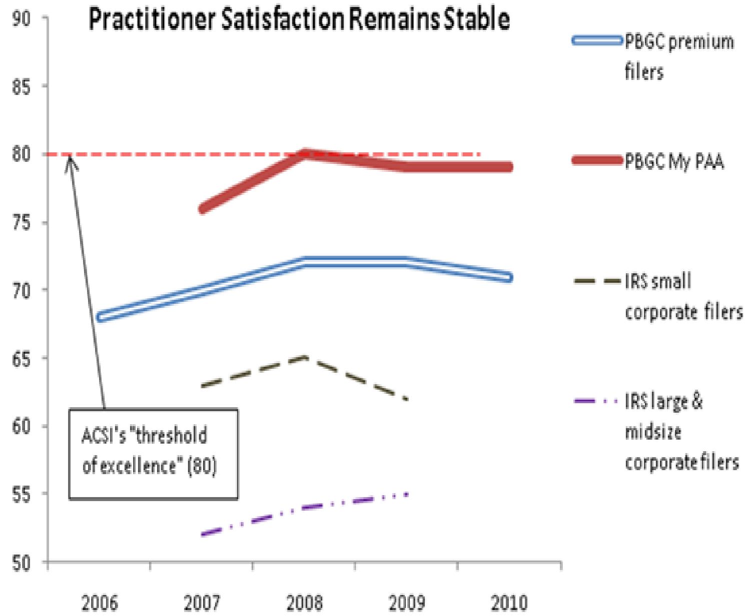

Chart 7: Practitioner ACSI scores per Fiscal Year

Being Accountable

Throughout FY 2010, PBGC was a careful steward of the Corporation's resources and investments. We increased attention to Information Technology (IT) security, infrastructure improvements and system performance; continued to streamline operations; and attained our 18th consecutive unqualified audit opinion on financial statements.

Acquisition of Assets

PBGC's investment program manages the Corporation's assets using private sector investment management firms subject to PBGC oversight and acting in accordance with the Corporation's investment policy. PBGC also acquired significant assets that are in transition from newly terminated trusteed plans. Some plans terminate holding alternative assets such as real estate, restricted stock, or derivatives with uncertain value that are difficult to liquidate during volatile market conditions. In FY 2010, several large plans terminated with assets greater than $100 million and their assets were converted to comply with PBGC's investment policy.

Investment Management

As of September 30, 2010, PBGC had an investment performance portfolio of $66.8 billion. This total of $66.8 billion of assets under performance management differs from the total investments of $71.19 billion shown on page 30 of this report. The difference is explained on page 31. Funds are derived from a combination of premiums, assets of trusteed plans, and payments from plan sponsors as settlements in bankruptcy.

- As of September 30, 2010, the percentage of the portfolio in equities was 31.1 percent as compared to 37.2 percent at September 30, 2009. Funds are invested in accordance with statutory requirements (which requires some funds in some accounts to be in government guaranteed securities and others in fixed income securities) and PBGC's investment policy as set by the Board. In FY 2009, the Board established temporary guidance pending a full review of investment policy. Since then, PBGC has been implementing the interim guidance, which provides that PBGC will prudently rebalance the portfolio and reduce PBGC's investment in public equities to no more than 26.5%, the amount as of March 31, 2009.

- Allocation decisions are made by PBGC. Investments are managed by independent professional managers under contract to PBGC. We measure the performance of these managers by comparison with negotiated benchmarks.
- In FY 2010, the total return on PBGC's investment performance portfolio was 12.1%, excluding transition accounts, and most PBGC investment managers outperformed their respective portfolio benchmarks. See Table 1 below or the Investment Activities section on page 32.

TABLE 1: FISCAL YEAR 2010 INVESTMENT RETURNS VERSUS BENCHMARKS

	1 Year Period	3 Year Period	5 Year Period
Total Invested Funds	12.1%	5.9%	5.8%
Total Fund Benchmark[1]	11.0%	4.8%	5.2%
Fixed Income	13.9%	10.4%	7.1%
Fixed Income Composite Benchmark[2]	12.3%	8.6%	6.1%
Equities	10.2%	-5.9%	1.5%
Global Equity Composite Benchmark[3]	9.5%	-5.8%	1.7%

[1]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.

[2]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.

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

PBGC generated a 12.1% annualized return on total invested funds excluding transition accounts for FY 2010 compared with the Corporation's total fund benchmark return of 11%. 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 (0.001 percent of total investment assets at September 30, 2010) predominantly represent assets that are in the process of moving out of one of the manager portfolios either for liquidation or for transfer to another manager. The return on total invested funds including these transition accounts was 11.7% in FY 2010. 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, 2010, PBGC's return on total invested funds excluding transition accounts was 5.8% compared with a total fund benchmark return of 5.2%. Including the transition accounts, the return was 5.7 %.

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 $1.3 billion (9.8% return compared with PBGC's actual return of 11.7%) for the one-year period ending September 30, 2010, and decreased the assets of the Corporation by approximately $6.2 billion (3.7% return compared with PBGC's actual return of 5.7%) over the five-year period ending September 30, 2010. As reported in last year's FY 2009 Annual Report, the same "60/40 portfolio" 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 $4.8 billion (3.5% return compared with PBGC's actual return of 5.1%) for the five-year period ending September 30, 2009. For further analysis of PBGC's Investment Activities please refer to page 30 of the MD&A of Results of Operations & Financial Condition.

Ensuring Proper Payments

Consistent with the Administration's emphasis on payment accuracy, PBGC has implemented a series of internal controls to ensure that agency payments are accurate and timely and has begun to develop baseline estimates of payment accuracy for benefit payments and certain other types of payments made in support of PBGC's mission. We focused on four types of payments: benefit payments to participants, PBGC employee payroll, payments to contractors for goods and services, and multiemployer financial assistance payments. PBGC will report the results in the annual report for FY 2011.

Internal Controls

PBGC's Internal Control Committee leverages expertise from representatives throughout the agency to manage corporate risk. Each year, the Corporation conducts an entity-wide risk assessment to support strategic planning and help improve agency controls. PBGC tests its management controls and certifies their effectiveness, as reflected in the Federal Manager's Financial Integrity Act Assurance Statement found on page 38.

Ethical Practices

PBGC leadership continues to integrate ethics into the daily work of the Corporation. In FY 2010, we expanded our ethics resources for employees, including additional Hatch Act guidance and training. We also acquired new software that allows staff to electronically update financial disclosures and implemented computer-based ethics training. The Office of Government Ethics' desk review recognized PBGC's program for incorporating best practices.

Improving Management

PBGC supports the Administration's goal of an accountable government and has made significant progress in the following areas:

- Reforming federal contracting and acquisition;
- Strengthening E-Government and information technology;
- Promoting accountability and innovation through open government;
- Transforming the federal workforce; and
- Promoting green practices.

Reforming Federal Contracting and Acquisition

PBGC strengthened acquisition strategies to improve competitive sourcing and took steps to address open audit items. Nearly all FY 2010 acquisitions were fully competed.

PBGC held bimonthly acquisition excellence workshops to communicate policies, procedures, and best practices. Contracting officers now play an integral role in developing acquisition plans, acquisition milestones, source selection methodology and selection of contract type, and contract performance metrics. PBGC implemented an aggressive program for ensuring that those handling acquisition matters--contracting officers, contracting officer's technical representatives, and program and project managers—maintain the requisite training, skills, and experience requirements for federal acquisition certification.

Strengthening E-Government and Information Technology

PBGC's IT infrastructure has been sufficient for the agency to continue to pay benefits and perform its other operations, but it fails to meet current security and control standards. In FY 2010, PBGC continued its efforts to modernize the infrastructure by using simpler and updated tools, and more importantly, to strengthen systems controls and enterprise information security. Toward these ends, PBGC is executing a five-year plan to improve its web presence, consolidate systems for manageability and scalability, and put the necessary IT security controls in place.

PBGC also took steps to improve service for its website customers—participants and workers in trusteed and ongoing plans, retirees, plan sponsors, premium filers, and other practitioners. Chart 8 below shows overall customer satisfaction with PBGC.gov compared with satisfaction scores for other organizations in similar roles. PBGC is using survey results and web analytics tools to identify areas of customer interest and possible sources of dissatisfaction. An upgraded website is targeted for deployment in FY 2011.

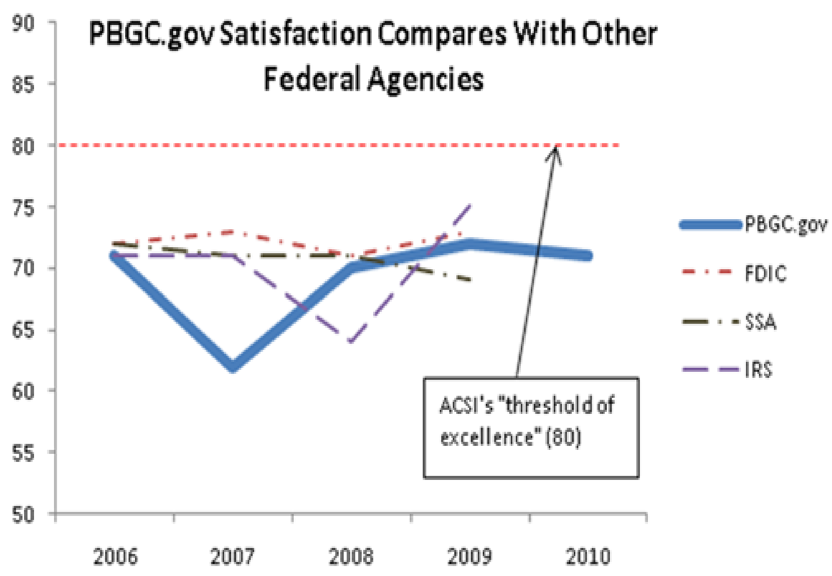

Chart 8: website ACSI scores per Fiscal Year

Open Government

PBGC has embraced Open Government, putting transparency into action. In FY 2010 we established a web page where we maintain data of value to the public at http://www.pbgc.gov/open/.

e-FOIA: PBGC first implemented an electronic system to process FOIA requests in 1997. We have continued to develop and refine processing over the years. In FY 2010, PBGC processed more than 5,800 requests, and we consistently end the year with no backlog. PBGC posts its FOIA reports at http://www.pbgc.gov/docs/foia2009.pdf

Transforming the Federal Workforce

PBGC showed significant gains in the Office of Personnel Management 2010 Federal Employee Viewpoint Survey (FedView). The survey measures employees' perceptions of leadership and management practices; rewards and recognition; opportunities for professional development and growth; and opportunity to contribute to achieving organizational mission. *PBGC scored well in all indices* of the Human Capital Accountability and Assessment Framework (HCAAF). Chart 9 below shows the percentage of positive response ratings for each index. For the first time, PBGC ranked among the top federal agencies in all indices, and also achieved 72 percent employee participation, the second highest rate in the federal government.

Chart 9: 2010 FedView Results

PBGC made significant improvements across all indices. PBGC ranked particularly high in *Results-Oriented Performance Culture*. Driving the scores were employees' perspectives that they know "how their work relates to the agency's goals and priorities" and "the supervisor supports balance in work/life issues." The largest gains were in perceptions that "co-workers cooperate to get the job done," "physical conditions allow people to perform their jobs well," and "differences in performance are recognized in a meaningful way." In FY 2010, the agency completed implementation of a new performance management program that clearly defines performance expectations and measures, and aligns individual employee goals with corporate performance. The results of these steps, along with enhanced training and effective review procedures, are reflected in the increased scores.

PBGC also ranks high in the *Talent Management Index*. The primary driver of this high score is employees' perception that they "are given a real opportunity to improve their skills in the organization," coupled with significant gains in employees' belief that "their talents are used well in the workplace."

PBGC made significant gains in *Leadership and Knowledge Management* and the primary driver is that employees believe "leaders generate high levels of motivation and commitment in the workforce." PBGC leadership targeted this as a focus area for improvement in prior employee satisfaction surveys. The scores also reflect high levels of employee satisfaction with "efforts to protect them from health and safety hazards, and potential security threats."

The most significant gains in the FedView survey were in the *Job Satisfaction Index*. Though employees continued to report they "like the kind of work they do" and "the work is important," they are significantly more "satisfied with their pay" and their "opportunity for internal promotion," and there was an increase reported in "considering everything, I am satisfied with my job."

In step with the Administration's focus on transforming the federal workforce, PBGC addressed several outstanding OPM concerns. As a result, PBGC received certification of its senior leader performance program and regained its delegated agency hiring authority. Other efforts to strengthen the workforce included targeted areas of improvement in employee training and development programs, re-classification of position descriptions, and establishment of a labor-management forum.

Promoting Green Practices

PBGC developed a strategic sustainability plan and took action to implement certain programs identified in the Federal Leadership in Environmental, Energy, and Economic Performance executive order. They include the following:

- reducing greenhouse gas emissions;
- ensuring that buildings are energy efficient;
- consolidating and reducing the "footprint" of data centers; and
- implementing green procurement.

Program Evaluation

PBGC values and actively engages with the GAO and the OIG. Their support continues to help strengthen the operation of PBGC programs.

Government Accountability Office

Below is a summary of the GAO findings and PBGC actions taken in FY 2010:

- GAO reported that PBGC communications during plan termination and trusteeship processes should be clearer and more frequent, especially when we must recoup overpayments or cannot quickly issue benefit determinations. PBGC now provides status updates on benefit determinations to participants on the plan-specific page on our website.

- GAO reviewed the Troubled Asset Relief Program assistance to the auto industry, and noted that the risks to PBGC and participants in auto-sector pension plans remain significant. GAO did not provide any recommendations to PBGC in this report.

PBGC's Office of Inspector General

PBGC recognizes the importance of the Inspector General's dual role as overseer and advisor on the agency's operations and management. Throughout the year, PBGC has worked to implement OIG recommendations concerning information security, procurement, and benefits administration, among others. Among other efforts, OIG during FY 2010 continued its oversight on the financial statement audit and associated work in the information technology area, including vulnerability testing and assessment of Financial Information Security Management Act compliance. This work led to PBGC's development of a strategic corrective action plan aimed at eliminating persistent issues reported in prior years. In addition, PBGC provided information to support the OIG's review of PBGC's processing of the United Airlines pension plans. In keeping with the IG's statutory independence, please visit http://oig.pbgc.gov for more information about the OIG reports.

The American Customer Satisfaction Index

PBGC uses ACSI survey methodology to provide an objective third-party means to gather results on PBGC's public-facing services. Since the ACSI is a recognized standard throughout government and industry, the scores allow PBGC to meaningfully compare itself to other government and private organizations, as well as to gauge the effectiveness of our efforts to better serve the public.

FINANCIAL SUMMARY–SINGLE-EMPLOYER PROGRAM

		Fiscal Year Ended September 30,								
(Dollars in millions)	**2010**	2009	2008	2007	2006	2005	2004	2003	2002	2001
Insurance Activity:										
Benefits paid	$ **5,467**	4,478	4,292	4,266	4,082	3,685	3,006	2,488	1,537	1,043
Participants receiving monthly benefits at end of year	**747,530**	743,610	640,070	631,130	612,630	682,540	517,900	458,800	344,310	268,090
Plans trusteed and pending trusteeship by PBGC	**4,140**	3,993	3,850	3,783	3,673	3,585	3,469	3,277	3,122	2,965
Summary of Operations:										
Premium income, net *	$ **2,231**	1,822	1,340	1,476	1,442	1,451	1,458	948	787	821
Other income	$ **30**	16	23	55	79	44	24	28	28	23
Investment income (loss)	$ **7,594**	6,330	(4,164)	4,737	2,184	3,897	3,197	3,349	170	(843)
Actuarial charges and adjustments (credits)	$ **9,421**	13,901	(4,813)	346	4,819	490	1,787	6,161	2,802	1,082
Losses (credits) from completed and probable terminations	$ **509**	4,234	(826)	399	(6,155)	3,954	14,707	5,377	9,313	705
Administrative and investment expenses	$ **449**	417	400	378	405	342	288	290	225	184
Other expenses	$ **(7)**	15	5	114	2	77	(36)	97	15	2
Net income (loss)	$ **(517)**	(10,399)	2,433	5,031	4,634	529	(12,067)	(7,600)	(11,370)	(1,972)
Summary of Financial Position:										
Cash and investments	$ **69,150**	62,062	51,722	61,122	57,728	54,387	36,254	33,215	24,851	21,010
Total assets	$ **77,827**	68,736	64,612	67,241	59,972	56,470	38,993	34,016	25,430	21,768
Present value of future benefits	$ **90,022**	83,035	59,996	69,235	69,143	69,737	60,836	44,641	28,619	13,497
Net position	$ **(21,594)**	(21,077)	(10,678)	(13,111)	(18,142)	(22,776)	(23,305)	(11,238)	(3,638)	7,732

* 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)		Fiscal Year Ended September 30, **2010**	2009	2008	2007	2006	2005	2004	2003	2002	2001
Insurance Activity:											
Financial assistance paid	$	**97**	86	85	71	70	14	10	5	5	4
Plans receiving financial assistance from PBGC		**50**	43	42	36	33	29	27	24	23	22
Summary of Operations:											
Premium Income, net *	$	**93**	95	90	81	58	26	27	25	25	24
Other income	$	**0**	2	0	0	0	0	0	0	0	0
Investment income (loss)	$	**183**	121	121	23	(1)	79	54	37	118	95
Actuarial charges and adjustments (credits)	$	**0**	0	(1)	0	0	0	1	1	0	1
Losses (gains) from financial assistance	$	**831**	614	(271)	319	461	204	55	480	101	269
Administrative and investment expenses	$	**12**	0	0	0	0	0	0	0	0	0
Net income (loss)	$	**(567)**	(396)	482	(216)	(404)	(99)	25	(419)	42	(151)
Summary of Financial Position:											
Cash and investments	$	**1,613**	1,441	1,318	1,196	1,164	1,147	1,057	984	933	796
Total assets	$	**1,628**	1,459	1,327	1,197	1,166	1,160	1,070	1,000	944	807
Present value of future benefits	$	**1**	1	1	2	2	2	3	3	3	4
Nonrecoverable future financial assistance, present value	$	**3,030**	2,296	1,768	2,124	1,876	1,485	1,295	1,250	775	679
Net position	$	**(1,436)**	(869)	(473)	(955)	(739)	(335)	(236)	(261)	158	116

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

Fiscal Year 2010 Financial Statement Highlights

Operations in FY 2010

- PBGC's combined benefit payments to participants increased to $5.56 billion from $4.56 billion in 2009.
- Net premium income increased by $407 million to $2.32 billion from $1.92 billion in FY 2009. The Variable Rate Premium (VRP) income increased by $331 million. In addition, higher per-participant rates for the flat-rate premium generated an increase in income of $61 million over FY 2009.
- PBGC's portfolio achieved a return on investment of 12.1% (excluding transition accounts).
- Pension liability valuation interest factors decreased by 76 basis points to 4.41% at September 30, 2010, from 5.17% at September 30, 2009. This resulted in an increase of $6.40 billion in actuarial charges. The actuarial charges for passage of time amounted to $4.22 billion.
- During FY 2010, 147 underfunded single-employer plans were terminated. Because of PBGC's previous efforts to evaluate its exposure to probable terminations, $0.60 billion of the net claims for these plans were already reflected in PBGC's 2009 results. The 147 plans had an average funded ratio of approximately 54%. Their terminations resulted in an aggregate net loss to PBGC of $1.44 billion (see Note 12).
- Five plans with underfunding of $337 million were newly classified as probable terminations in FY 2010. Probable terminations represent PBGC's best estimate of claims for plans that are likely to terminate in a future year.

Financial Position

- PBGC's combined financial condition declined by $1.08 billion, increasing the deficit to $23.03 billion as of September 30, 2010, from $21.95 billion as of September 30, 2009. The single-employer program's net position declined by $0.52 billion, increasing the program's deficit to $21.59 billion. The multiemployer program's net position declined by $0.57 billion, increasing its deficit to $1.44 billion.
- The primary factors in the single-employer program's net loss included a charge of $6.40 billion due to a reduction in interest factors, $4.22 billion in charges due to passage of time, $0.51 billion in losses from completed and probable terminations, and $0.44 billion of administrative, investment, and other expenses. These factors were offset by $7.59 billion in investment income, $2.23 billion in net premium income, and a credit of $1.19 billion from actuarial adjustments.
- The primary reasons for the increase in the multiemployer program's deficit of $567 million included $831 million in losses from financial assistance, partially offset by $183 million in investment income, and $93 million in net premium income. The losses from financial assistance were due to the unfavorable decrease in interest factors and the addition of 25 new plans to the multiemployer probables inventory, which was mitigated by the deletion of eight plans.

Estimates of Future Exposure

- At year-end, PBGC's estimate of its single-employer exposure totaled approximately $170 billion, slightly up from $168 billion in 2009. PBGC classifies these sponsors' plans as reasonably possible terminations. PBGC's estimate of its multiemployer reasonably possible exposure increased significantly from $326 million in 2009 to $20 billion in 2010, due primarily to the addition of two large plans.

KEY SINGLE-EMPLOYER AND MULTIEMPLOYER RESULTS

(Dollars in millions)	**FY 2010**	FY 2009
Insurance Activity		
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Benefits Paid	**$ 5,467**	$ 4,478
Financial Assistance Paid	**$ 97**	$ 86
Retirees	**801,000**	796,000
Total Participants Receiving or Owed Benefits	**1,470,000**	1,421,000
New Underfunded Terminations	**147**	144
Terminated/Trusteed Plans (Cumulative)	**4,150**	4,003
Plans Receiving Financial Assistance	**50**	43
Summary of Operations		
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Premium Income, Net	**$ 2,324**	$ 1,917
Losses from Completed and Probable Terminations	**$ 509**	$ 4,234
Losses from Financial Assistance	**$ 831**	$ 614
Investment Income	**$ 7,777**	$ 6,451
Actuarial Charges and Adjustments	**$ 9,421**	$ 13,901
Financial Position		
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Total Assets	**$ 79,455**	$ 69,042
Total Liabilities	**$ 102,485**	$ 90,988
Net Income (Loss)	**$ (1,084)**	$ (10,795)
Net Position	**$ (23,030)**	$ (21,946)
SINGLE-EMPLOYER PROGRAM		
Total Assets	**$ 77,827**	$ 67,583
Total Liabilities	**$ 99,421**	$ 88,660
Net Income (Loss)	**$ (517)**	$ (10,399)
Net Position	**$ (21,594)**	$ (21,077)
MULTIEMPLOYER PROGRAM		
Total Assets	**$ 1,628**	$ 1,459
Total Liabilities	**$ 3,064**	$ 2,328
Net Income (Loss)	**$ (567)**	$ (396)
Net Position	**$ (1,436)**	$ (869)

FINANCIAL STATEMENTS

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

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 annual performance report and 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 many 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 2010, 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 when feasible, taking into account the needs of small businesses. PBGC's PPA implementation premium regulations include these small plan provisions:

- Timing of the flat-rate premium. Under the regulations, small plans (fewer than 100 participants) and mid-size plans (100 to 499 participants) have later deadlines for paying the flat-rate premium. The deadline for large plans (500 or more participants) is February 28 of the plan year; the deadline for mid-size plans is October 15 of the plan year; and the deadline for small plans is April 30 following the end of the plan year (all dates apply to calendar year plans).
- Timing of the variable-rate premium (VRP). Under the regulations, the VRP determination date is the funding valuation date, which (under Title I and the Code) is the first day of the plan year

for large plans but may be any day in the plan year for small plans. To accommodate later valuation dates, the regulations provide that the due date for all premiums of small plans is six and a half months later than for large and mid-size plans. The deadline for large and mid-size plans is October 15 of the plan year, while the deadline for small plans is April 30 following the end of the plan year.

- Amount of the VRP. Under PPA 2006 and the regulations, the variable-rate premium is capped for plans of certain small employers (generally 25 or fewer employees). Under the regulations, plans paying the VRP cap need not compute or report VRP data.

In FY 2010, PBGC published a proposed rule implementing PPA changes to reportable events, which it expects to finalize in FY 2011. During FY 2011, PBGC also 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 PPA changes to terminating cash balance plans, PBGC's guarantee of shutdown benefits, and the missing participants program. These rule-makings, together with the seven final rules published in FY 2007-2009, will complete the majority of PBGC's PPA implementation plan.

PBGC also issued significant guidance in FY 2010 on several PPA implementation issues, including reportable events, multiemployer withdrawal liability, and annual reporting (Form 5500 series).

Pension Funding Relief

The Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010, signed June 25, 2010, provides temporary funding relief for contributors to single-employer and multiemployer defined benefit plans. Plans that elect relief are required to notify PBGC of the election.

Other Developments

On non-PPA matters, in FY 2010, PBGC published a final rule on the agency's treatment of benefits under the Uniformed Services Employment and Reemployment Rights Act of 1994. PBGC also published proposed rules on employer liability under ERISA section 4062(e) and PBGC debt collection, which are expected to be finalized in FY 2011, and a request for public comment on irrevocable commitment purchases prior to standard termination.

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 33.79 million participants (from plans that PBGC has not yet assumed), slightly down from 33.83 million participants in 2009. The number of covered ongoing plans decreased from about 27,800 in 2009 to about 26,100 in 2010 (2009 numbers were revised from those reported last year). Most plans that were terminated had sufficient funding to cover future benefits and distributed all plan benefits as insurance company annuities or lump sums pursuant to the standard termination rules of ERISA; PBGC's activities related to standard terminations are limited to ensuring compliance.

In contrast, when a covered underfunded plan terminates, PBGC becomes trustee of the plan, applies legal limits on payouts, and pays benefits. The amount of benefit paid is determined after taking into account (a) the benefit that a beneficiary had accrued in the terminated plan, (b) the availability of assets from the terminated plan to cover benefits to various priority groups of beneficiaries, and (c) the legal maximum benefits provided under ERISA. In 2010, the maximum annual payment permitted under the single-employer program was $55,000, unchanged from 2009.

In FY 2010 the primary drivers of the net loss of $0.517 billion included the following: a charge of $6.396 billion due to an unfavorable reduction in interest factors (which has the effect of increasing benefit liabilities and actuarial charges); $4.215 billion actuarial charge due to passage of time; a charge due to completed and probable terminations of $0.509 billion; and $0.361 billion in administrative and other expenses. These amounts were offset by investment income of $7.594 billion, net premium income of $2.231 billion, and a credit to actuarial adjustments of $1.190 billion.

PBGC's single-employer program realized a net loss of $0.517 billion compared with a net loss in 2009 of $10.399 billion. The $9.882 billion year-to-year increase in net income was primarily attributable to (1) a $4.155 billion decrease in actuarial charges due to change in interest rates, (2) a decrease of $3.725 billion in losses from completed and probable terminations, (3) an increase in investment income of $1.264 billion (a gain of $7.594 billion compared to a gain of $6.330 billion in FY 2009) and (4) a $0.617 billion increase in actuarial credits. 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 gain to underwriting income of $2.581 billion in 2010, a significant improvement from the loss of $2.206 billion in 2009. This $4.787 billion year-to-year increase was primarily due to a decrease of $3.725 billion in losses from completed and probable terminations and the year-to-year increase in credits from underwriting actuarial adjustments of $0.617 billion, as well as a $0.409 billion increase in single-employer net premium income.

Income from underwriting activity increased (from $1.838 billion in 2009 to $2.261 billion in 2010), mirroring an increase in net premium income from plan sponsors (from $1.822 billion in 2009 to $2.231 billion in 2010). Other income, consisting of interest on recoveries from sponsors, increased from $16 million in 2009 to $30 million in 2010.

Annual flat-rate premiums for the single-employer program increased from $34 to $35 per participant in FY 2010, contributing to an increase in flat-rate premium income of $61 million to a total of about $1.194 billion. Annual variable rate premium income, paid by underfunded single-employer plans, increased by $331 million to a total of $1,030 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.

Beginning with 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 Department 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 Department 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, 2010 calendar-year plans were 2.35%, 5.65%, and 6.45% for the first, second, and third segments, respectively.

The Corporation's losses from completed and probable plan terminations declined from a loss of $4.234 billion in 2009 to a loss of $0.509 billion in 2010. This was primarily due to charges related to new plans that terminated FYTD ($1.442 billion) offset by revaluation changes (credit of $0.505 billion) for plans that had terminated in prior years, as well as the reduction in probable claims of $0.425 billion. (See "Subtotal terminated plans" in Note 12).

The net claim for probable terminations as of September 30, 2010, is $1.445 billion, while the net claim as of September 30, 2009, was $1.870 billion. This $0.425 billion reduction resulted primarily from the transfer of $0.596 billion of previously accrued claims to a termination status (see note 6), and a decrease in net claims of $0.376 billion for five plans that were deleted. These factors were offset by the increase in the net claim of $0.184 billion for the four plans remaining as probable from FY 2009 and the addition of five new probables with net claims of $0.337 billion and an increase in the reserve for small unidentified probables of $0.026 billion. The actual amount of future losses remains unpredictable.

Single-employer administrative expenses remained steady at $368 million from FY 2009.

Financial Activity

In FY 2010 all of the $7.594 billion of the single-employer net investment gains were absorbed by the net actuarial charges of $10.611 billion for the passage of time and changes in interest rates. Single-employer financial net income increased significantly from a loss of $8.193 billion in FY 2009 to a loss of $3.098 billion in FY 2010. The Corporation had investment income of $7.594 billion in FY 2010, compared with investment income of $6.330 billion in FY 2009. This was offset by a year-over-year decrease of $3.863 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 2010 and FY 2009, 5.17% and 6.66%, 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 4.41% (for the first 25 years after the valuation date) at September 30, 2010, from 5.17% (for the first 25 years) at September 30, 2009. The ultimate factor decreased to 4.51% at September 30, 2010, after the first 25 years from 5.03% at September 30, 2009.

PBGC's single-employer PVFB (Present Value of Future Benefits) increased from $83.035 billion at September 30, 2009 to $90.022 billion at September 30, 2010. PVFB comprises the vast majority of PBGC's combined total liabilities on its Statements of Financial Condition of $102.485 billion.

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. Benefit eligibility under a multiemployer plan is usually based on covered employment with any employer contributing to that plan. Workers accrue pension credits in the plan even when they change employment from one contributing employer to another.

Multiemployer plans are typically governed by a board of trustees that has equal voting representation from labor and business. Under ERISA, the trustees have a fiduciary duty to act in the best interest of participants. Multiemployer plans are subject to the minimum funding requirements of ERISA. While bargaining parties will negotiate over plan contributions, they usually delegate the design of the plan to the plan's board of trustees.

Most collective bargaining agreements that cover multiemployer plans provide for contributions based on time worked in a covered job. Some plans base contributions on "units of production," such as number of items produced, tons of coal mined, or gross sales achieved. Contributions are held in a trust fund that is managed and invested by the board of trustees in accordance with ERISA's fiduciary standards. All plan

[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 factors. 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.

assets in the trust are available to pay all benefit claims. Assets in the plan do not revert to contributing employers.

Benefits in most multiemployer plans are based on a "unit benefit" formula that establishes a monthly benefit as a dollar amount times years of service. In some plans, benefits are a function of the level of contributions made to the plan on the participant's behalf.

Employers in multiemployer plans are generally required to remain in the plan unless they go out of business, "go non-union," or move their business out of the plan coverage area. If an employer withdraws from the plan, it may be assessed withdrawal liability. Any withdrawal liability that is assessed will be based on the plan's unfunded vested benefits and the employer's share of contributions to the plan made by all contributing employers. In some instances, the employer may be assessed partial withdrawal liability.

PBGC's multiemployer program covers about 10.41 million participants (up slightly from the 2009 count of 10.40 million participants) in about 1,500 insured plans. The multiemployer flat-rate premium remained unchanged at $9.00 per participant in FY 2010. PBGC does not trustee multiemployer plans. In the multiemployer program, the event triggering PBGC's guarantee is plan insolvency – the inability to pay benefits when due. Insolvency usually occurs after all contributing employers have withdrawn from the plan, leaving the plan without a source of income. PBGC provides insolvent multiemployer plans with financial assistance, in the statutorily-required form of loans, sufficient to pay PBGC guaranteed benefits and reasonable 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 (and for that reason are fully reserved).

Benefits under the PBGC multiemployer insurance program are calculated based on (a) the benefit a participant would have received under the insolvent plan, subject to (b) the legal multiemployer maximum under ERISA. In 2010, the maximum annual payment for a participant with 30 years of service was $12,870.

In 2010 the multiemployer program's present value of nonrecoverable future financial assistance increased to $3.030 billion, an increase of $734 million. During the fiscal year, PBGC paid $97 million in financial assistance to 50 insolvent plans that cover 83,000 participants.

The multiemployer program reported a net loss of $567 million in FY 2010 compared with a net loss of $396 million in FY 2009. This resulted in a negative net position of $1.436 billion in FY 2010 compared with a negative net position of $869 million in FY 2009. The change in net income was primarily due to the increase in expected loss from future financial assistance of $217 million offset by an increase in net investment income of $62 million.

The multiemployer program reported a net loss from underwriting activity of $750 million in FY 2010 compared with a net loss of $517 million in FY 2009. This decline of $233 million was primarily attributed to the increase in losses from financial assistance of $217 million (due to the decrease in interest factors and the addition of 25 plans to the multiemployer probable inventory, offset by the deletion of eight plans) and the increase in administrative expenses of $12 million. Financial activity reflected financial income of $183 million from earnings on fixed income investments in 2010, compared to income of $121 million in 2009. 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 99.4 percent in Treasury securities, as compared with 99.5 percent in Treasury securities in 2009.

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 significant number of years; however, neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants.

FY 2010 combined premium cash receipts totaled $2.2 billion, an increase of $0.7 billion from $1.5 billion in 2009. Net cash flow provided by investment activity decreased to $2.2 billion versus $3.2 billion provided in 2009.

In 2010, PBGC's cash receipts of $4.4 billion from operating activities of the single-employer program were insufficient to cover its operating cash obligations of $6.0 billion. This resulted in net cash underperformance from operating activities of $1.6 billion (as compared with underperformance of $1.2 billion in 2009). When the single-employer cash provided through investing activities of $2.3 billion is added to this net cash underperformance, the single-employer program in the aggregate experienced a net cash increase of $0.7 billion. In the multiemployer program, cash receipts of $166 million from operating activities were sufficient to cover its operating cash obligations of $115 million, resulting in net cash provided by operations of $51 million. When this net cash performance is added to net cash underperformance through investing activities of $50 million, the multiemployer program in the aggregate experienced an overall net cash increase of $1 million.

During FY 2010, PBGC recovered approximately $246 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 2010, PBGC's combined net increase in cash and cash equivalents amounted to $696 million, arising from an increase of $695 million for the single-employer program and an increase of $1 million for the multiemployer program.

VI. Outlook for 2011

For FY 2011, PBGC estimates $6.3 billion in single-employer benefit payments and $102 million in financial assistance payments to multiemployer plans. Under a continuing resolution for FY 2011, which will be in effect through December 3, 2010, PBGC will operate on about 17.5 percent, or $81.3 million, of its FY 2010 administrative budget of $464 million during this period.

In 2011, 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 2011 premium receipts ranges between $2.4 billion and $2.7 billion. No reasonable estimate can be made of 2011 terminations, effects of changes in interest rates, or investment income.

As of September 30, 2010, the single-employer and multiemployer programs reported deficits of $21.6 billion and $1.4 billion, respectively. Notwithstanding these deficits, the Corporation has over $77.8 billion in single-employer assets and $1.6 billion in multiemployer assets and will be able to meet its obligations for a significant 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 $170 billion on September 30, 2010, and $168 billion on September 30, 2009. The comparable estimate of reasonably possible exposure for 2008 was approximately $47 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 even to estimate prospectively 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 2010, 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, 2010, it is reasonably possible that multiemployer plans may require future financial assistance of approximately $20 billion. As of September 30, 2009 and 2008, these exposures were estimated at approximately $326 million and $30 million, respectively. The significant increase in FY 2010 from prior years is due primarily to the addition of two large plans to the reasonably possible inventory. The sponsor of one plan, with a net liability of $15.0 billion, is in the "transportation, communication, and utilities" industry category; the other, with a net liability of $4.8 billion, is in the "agriculture, mining, and construction" industry category.

The significant volatility in plan underfunding and sponsor credit quality over time makes long-term estimates of PBGC's expected claims uncertain. 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.

PBGC's sources of information on plan underfunding are the most recent Section 4010 and PBGC premium filings, and other submissions to the Corporation. PBGC publishes Table S-49, "Various Measures of Underfunding in PBGC-Insured Plans," in its *Pension Insurance Data Book* where the limitations of the estimates are 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 and measures each investment manager's performance in comparison with agreed upon benchmarks.

PBGC's investment assets consist of premium revenues, which are accounted for in the revolving funds, and assets from trusteed plans and their sponsors, which are 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 current investment policy these revolving funds are invested solely in Treasury securities. Total revolving fund investments, including cash and investment income, at September 30, 2010, were approximately $17.58 billion ($0.63 billion for Fund 1, $1.63 billion for Fund 2, and $15.32 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 $53.61 billion as of September 30, 2010. At the end of FY 2010, PBGC's total investments consisting of cash and cash equivalents, investments, and investment income receivable as shown on the Statements of Financial Condition were $71.19 billion.

In 2009, the Board changed the policy of the prior Board and established temporary guidance pending a full review of investment policy. Since then, PBGC has been implementing the interim guidance, which provides that PBGC will prudently rebalance the portfolio and reduce PBGC's investment in public equities to no more than 26.5%, the amount as of March 31, 2009.

PBGC's investment program, with assets under performance management of approximately $66.8 billion as of September 30, 2010, is responsible for managing the vast majority of PBGC's assets. Of the approximately $4.4 billion difference between the September 30, 2010 assets reported on the Statements of Financial Condition and the assets within the PBGC's investment performance portfolio, approximately $1.5 billion represent net unsettled purchases, approximately $1.2 billion are special situations assets which generally represent illiquid assets received from terminated pension plans, bankruptcy proceedings, or settlements, and $0.7 billion represent newly trusteed assets that have not yet been commingled. Asset allocation percentages refer to the investments within PBGC's investment program that are subject to the corporation's investment policy, as described below.

Cash and fixed income securities totaled approximately 66 percent of total assets under performance management invested at the end of FY 2010, compared with 60 percent for FY 2009. Equity securities (i.e., public equities) represented approximately 31 percent of total assets under performance management invested at the end of FY 2010, compared with 37 percent for FY 2009. The total fiscal year to date invested funds return (excluding private market assets and transition accounts) for FY 2010 was 12.1% compared with 13.2% in FY 2009. A small percentage of PBGC's investments (.001 percent of total investment assets at FY 2010 compared with 1.2% at FY 2009) predominantly represent assets that are in the process of moving out of one of the manager portfolios either for liquidation or for transfer to another manager. The total fiscal year to date return on invested funds including these transition accounts was 11.7 percent in FY 2010 compared to 12.9% in FY 2009. Private markets assets, comprised largely of private equity, private debt, and real estate that are currently part of the investment portfolio, represented approximately 3% of total investments at the end of FY 2010, compared with 1% as of September 30, 2009.

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

INVESTMENT PERFORMANCE
(Annual Rates of Return)

	September 30, 2010	September 30, 2009	Three and Five Years Ended September 30, 2010: 3 yrs	Three and Five Years Ended September 30, 2010: 5 yrs
Total Invested Funds	**12.1%**	13.2%	5.9%	5.8%
Total Fund Benchmark [1]	**11.0**	11.1	4.8	5.2
Equities	**10.2**	(1.6)	(5.9)	1.5
Global Equity Composite Benchmark [2]	**9.5**	(1.8)	(5.8)	1.7
Fixed Income	**13.9**	16.2	10.4	7.1
Fixed Income Composite Benchmark [3]	**12.3**	13.2	8.6	6.1
Trust Funds	**11.6**	14.3	4.0	5.5
Revolving Funds	**12.4**	9.8	10.2	6.5
Indices				
Dow Jones US Total Stock Market 5000	**11.3**	(6.3)	(6.3)	1.2
MSCI All Country World ex-US Index	**7.6**	5.9	(7.4)	4.3
S&P 500 Stock Index	**10.2**	(6.9)	(7.2)	0.6
Barclays Capital Long Government/Credit Index	**13.6**	18.4	10.2	7.3

[1] 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.
[2] 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.
[3] 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.

Fixed Income

As described below, PBGC fixed income investment managers utilize a number of different benchmarks. Where applicable, the relative percentage that each index or benchmark represents for its respective asset class is provided. The percentage invested under each benchmark(s), in aggregate, for each asset class relative to the overall PBGC investment program at September 30, 2010 is also provided below.

The Fixed Income Composite Benchmark is a dynamically weighted benchmark based on the weights of the underlying fixed income managers and the returns of their respective benchmarks. As of September 30, 2010, the weighted benchmark encompasses the Barclays Capital U.S. Treasury 7+ Year index (36.8%), the Barclays Capital U.S. TIPS index (6.2%), the Long Duration Trust Fund Composite Benchmark (36.1%), the Barclays Capital U.S. Aggregate Bond index (9.1%), the Global Fixed Income Composite Benchmark (3.7%), the Barclays Capital U.S. High Yield BB/B 1% Constrained index (2.9%), and the Emerging Market Debt Composite Benchmark (5.2%). The overall fixed income composite equals 61.0 percent of the total PBGC portfolio.

Treasuries: This category includes investments in United States Dollar (USD) denominated fixed income securities managed by outside professional asset managers, and applies to 22.5 percent of PBGC's investment program assets at year-end. The Long Treasury Benchmark is the Barclays Capital U.S. Treasury 7+ Year index. The Barclays Capital U.S. Treasury 7+ Year index includes 7+ year maturity U.S. Treasury Notes. While PBGC is able to redeem composite assets upon request, the composite assets are part of the Revolving Fund and can only be redeemed to meet pension benefit obligations or administrative expenses.

TIPS: This category includes investments in USD denominated fixed income securities managed by outside professional asset managers, and applies to 3.8 percent of PBGC's investment program assets at year-end. The TIPS Benchmark is the Barclays Capital U.S. TIPS index. The Barclays Capital U.S. TIPS index includes U.S. Treasury Inflation Protected Securities ("TIPS"). While PBGC is able to redeem composite assets upon request, the composite assets are part of the Revolving Fund and can only be redeemed to meet pension benefit obligations or administrative expenses.

Long Duration: This category includes investments primarily in USD denominated fixed income securities managed by outside professional asset managers, and applies to 22.0 percent of PBGC's investment program assets at year-end. The Long Duration Trust Fund Composite Benchmark is a dynamically weighted benchmark based on the weights of the underlying Trust Fund long duration fixed income managers and the returns of their respective benchmarks. As of September 30, 2010, the Long Duration Trust Fund Composite Benchmark encompasses the Barclays Capital Long U.S. Government/Credit index (41.0%) and Custom Benchmarks (59.0%). The Barclays Capital Long U.S. Government/Credit index includes both government and credit securities. The Government component includes public obligations of the U.S. Treasury that have remaining maturities of more than one year and publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government. The credit component of the index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. The custom benchmarks include similar securities and are weighted combinations of sub-sector benchmarks. PBGC is able to redeem composite assets upon request.

Core: This category includes investments primarily in USD denominated fixed income securities managed by outside professional asset managers, and applies to 5.5 percent of PBGC's investment program assets at year-end. The Core Fixed Income Benchmark is the Barclays Capital U.S. Aggregate Bond index. The Barclays Capital U.S. Aggregate Bond index includes securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. PBGC is able to redeem composite assets upon request.

Global: This category includes investments in USD denominated and International/Non-USD denominated fixed income securities managed by outside professional asset managers, and applies to 2.2 percent of PBGC's investment program assets at year-end. The Global Bonds Composite Benchmark is a dynamically weighted benchmark based on the weights of the underlying fixed income managers and the returns of their respective benchmarks. As of September 30, 2010, the weighted benchmark encompasses the Barclays Capital Global Core Aggregate index hedged (56.0%) and un-hedged (44.0%). The Barclays Capital Global Aggregate index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD investment grade 144A securities. The hedged index negates exposure to foreign currencies by hedging currency exposure back to the USD. The un-hedged index is exposed to the foreign currency returns of the underlying securities. PBGC is able to redeem composite assets upon request.

High Yield: This category includes investments primarily in USD denominated fixed income securities managed by outside professional asset managers, and applies to 1.8 percent of PBGC's investment program assets at year-end. The High Yield Benchmark is the Barclays Capital U.S. High Yield Ba/B 1% Issuer Constrained index. The Barclays Capital U.S. High Yield Ba/B 1% Issuer Constrained index includes the universe of fixed rate, non-investment grade debt securities rated Ba or B. The index also includes Canadian and global bonds (SEC registered) of issuers in non-Emerging Market countries. The index limits the size of an individual issuer to 1% of the index. PBGC is able to redeem composite assets upon request.

Emerging Market Debt: This category includes investments in USD denominated and International/Non-USD denominated fixed income securities managed by outside professional asset managers, and applies to 3.2 percent of PBGC's investment program assets at year-end. The Emerging Market Debt Composite Benchmark is a dynamically weighted benchmark based on the weights of the underlying fixed income managers and the returns of their respective benchmarks. As of September 30, 2010, the weighted benchmark encompasses the JP Morgan EMBIG Diversified index (59.5%) and a Custom Benchmark (40.5%). The JP Morgan EMBIG Diversified index includes U.S. dollar-denominated debt instruments issued by Emerging Market countries. The EMBI Global Diversified index includes USD denominated Brady bonds, Eurobonds, and traded loans issued by sovereign and quasi-sovereign entities. PBGC is able to redeem composite assets upon request.

Cash

This category includes an investment in a money market instrument managed by an outside professional asset manager that invests in a diversified portfolio of short-term obligations and deposits, including, but not limited to, U.S. Treasury and agency obligations, certificates of deposits, commercial paper, and repurchase agreements (Trust Fund Cash). In addition, the category includes overnight investments in U.S. Treasury securities held at the U.S. Treasury (Revolving Fund Cash). The Cash Composite Benchmark is a dynamically weighted benchmark based on the weights of the Trust Fund Cash and the Revolving Fund Cash and the returns of their respective benchmarks. As of September 30, 2010, the weighted benchmark encompasses the 3-Month Treasury Bill (98.4%) and the 4-Week Treasury Bill (1.6%). The cash composite represents 4.5 percent of PBGC's investment program as of September 30, 2010.

Equities

As described below, PBGC equity income investment managers utilize a number of different benchmarks. Where applicable, the relative percentage that each index or benchmark represents for its respective asset class is provided. The percentage invested under each benchmark(s), in aggregate, for each asset class relative to the overall PBGC investment program at September 30, 2010 is also provided below.

Domestic Equities: This category includes investments in U.S. Equity securities managed by outside professional asset managers, and applies to 16.5 percent of PBGC's investment program assets at year-end. The U.S. Equity Composite Benchmark is the Dow Jones U.S. Total Stock Market 5000 index. The Dow Jones U.S. Total Stock Market 5000 Index represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. PBGC is able to redeem composite assets upon request.

International Equities: This category includes investments in International Equity securities managed by outside professional asset managers, and applies to 14.6 percent of PBGC's investment program assets at year-end. The International Equity Composite Benchmark is a dynamically weighted benchmark based upon the weights of all the international funds and the returns of their respective benchmarks. As of September 30, 2010, the weighted benchmark encompasses the MSCI EAFE index (75.5%), the MSCI Emerging Markets index (19.4%), and MSCI Canada index (5.1%). The MSCI EAFE index (Europe, Australasia, Far East) is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada. The MSCI Emerging Markets index is designed to measure equity market performance of emerging markets and the MSCI Canada index is designed to measure the equity market performance of Canada. PBGC is able to redeem composite assets upon request.

Global Equities: This category includes investments in the U.S. Equity Composite and the International Equity Composite, and applies to 31.1 percent of PBGC's investment program assets at year-end. The Global Equity Composite Benchmark is a dynamically weighted benchmark based upon the weights of the U.S. Equity Composite Benchmark and the International Equity Composite Benchmark. PBGC is able to redeem composite assets upon request.

As of September 30, 2010, the Global Equity Composite Benchmark is comprised of the Dow Jones U.S. Total Stock Market 5000 index (53.1%) and the International Equity Composite Benchmark (46.9%).

Private Markets

This category includes private equity, debt, and real estate funds that invest primarily in buyouts, venture capital, distressed debt, and commercial real estate, and applies to 3.1 percent of PBGC's investment program assets at year-end. Private investments are difficult to benchmark due to their illiquid nature. Typical benchmarks utilized for private equity include universe comparisons where funds which have the same original investment date are compared against the performance of a similar fund. For direct Private real estate investments, many institutions use the National Council of Real Estate Investment Funds (NCREIF) index, which includes U.S. commercial real estate properties acquired in the private market for investment purposes. For investments in private equity real estate, peer universe comparisons based on similar funds with the same original investment date are often utilized. Private Market investments do not have redemption provisions. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the funds. It is estimated that the majority of the underlying assets of the funds will be liquidated over the next twelve years. No fund investments in this category are planned to be sold. The fair values of the investments in this category have been estimated using the net asset value of the PBGC's ownership interest in partners' capital.

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. The Internal Controls Program and the other related activities described below undergird PBGC's FMFIA Assurance Statement. For FY 2010, PBGC provided a qualified Statement of Assurance due to a material weakness relating to System Security and IT Operational Effectiveness.

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 (OIG) and the Government Accountability Office (GAO), 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 representative of the PBGC's OIG as a non-voting member. 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, selected controls were evaluated for the adequacy of control design and 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:** The PBGC has identified 12 major business process cycles which have a significant impact on the 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 2010, PBGC had identified 164 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 2010, PBGC had identified 46 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 required by 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 2010, PBGC documented and tested an additional 43 NIST 800-53 information technology controls. As a result, PBGC has documented a total of 149 information technology controls relating to PBGC's overall computing environment. In addition, PBGC also documented and tested 69 NIST 800-53 information technology controls specifically relating to the Integrated Present Value of Future Benefits (IPVFB) System used to estimate PBGC benefit liabilities.

Assessment of Improper Payment Risk

PBGC takes seriously its obligation to issue accurate payments and comply with the Improper Payments Information Act of 2002. In working to accomplish its mission, PBGC issues a variety of different types of outgoing payments, including benefit payments to participants of terminated plans, financial assistance to eligible multiemployer plans, payments to firms for goods and services, and payroll payments to employees. PBGC has established internal controls to help prevent or detect improper payments in a timely manner, including pre-payment authorizations, selected database checks, and data analysis controls. Based on these controls, testing of selected payments, and discussions with PBGC program managers, PBGC has concluded that its payment processes are not susceptible to significant improper payment risk under OMB reporting thresholds.

Given the Administration's payment accuracy initiatives, issuance of supplemental improper payment guidance by OMB, and passage of the Improper Payments Elimination and Recovery Act of 2010, PBGC has begun an effort to more formally assess the risk of improper payments for FY 2011. PBGC has contracted with an independent public accounting firm to perform statistically-significant samples of benefit payments and other types of outgoing payments, and to develop baseline error rates.

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 OIG and the 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, staff regularly monitors implementation efforts, including regular distribution of audit follow-up status reports to executive management 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.

Compliance with Laws, Regulations, and Other Requirements

To foster an environment that promotes compliance with laws and regulations, the PBGC maintains two legal compendia: the Compendium of Legal Authority lists laws which may have a significant impact on PBGC's financial statements or PBGC operations, and the Compendium of Executive Orders and OMB Requirements details other requirements applicable to PBGC. These lists provide a brief description of each applicable requirement and identify the PBGC department or other component with primary compliance responsibility. PBGC updates and maintains this list to help ensure compliance with applicable laws, regulations, and other requirements.

Federal Managers' Financial Integrity Act Assurance Statement

In accordance with the Federal Managers' Financial Integrity Act and OMB Circular A-123, the PBGC's FMFIA Assurance Statement for FY 2010 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, 2010, 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, 2010, 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 continues to address the material weakness relating to System Security and IT Operational Effectiveness we first reported on for FY 2009. In January 2010, the PBGC's Office of Information Technology began work on an enterprise-wide corrective action plan (CAP) effort. The CAP project represented a collaborative effort of subject matter experts from across OIT. The resulting plan was published in March 31, 2010, and focused on the root causes of findings noted both as part of the Office of Inspector General's work as well as internal assessments. The plan was distributed to executive PBGC management and to the Office of Inspector General for further distribution to their external auditors, Clifton

Gunderson LLP. The plan used NIST 800-53 as a framework and provided a timeline to holistically address configuration, access controls, infrastructure, and other security issues over the next several years. As a first step, and in order to provide additional resources to support the implementation of the CAP, PBGC engaged the Bureau of Public Debt's (BPD) Federal Information System Security Line of Business. During the year, BPD consultants worked alongside PBGC federal staff and others to begin analyzing and re-categorizing the current system inventory under the Federal Information Security Management Act of 2002, developing policies and supporting security procedures, identifying common security control improvements, and providing a timeline for certification and accreditation (C&A) of PBGC systems. We are pleased with feedback we have received from the Office of Inspector General regarding the CAP, and its continued implementation is a top agency priority.

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, 2010 and 2009, 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, 2010, and September 30, 2009, 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 2010 and 2009 financial statements, and Clifton Gunderson issued an unqualified opinion on those financial statements.

Joshua Gotbaum

Joshua Gotbaum
Director

Patricia Kelly

Patricia Kelly
Chief Financial Officer
November 12, 2010

Pension Benefit Guaranty Corporation
Protecting America's Pensions
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 over 44 million American workers and retirees who participate in private sector defined benefit pension plans and the more than 800,000 retirees from terminated plans who rely on PBGC for a monthly check. PBGC is also responsible for future payments to almost 700,000 people who have not yet retired. Our stakeholders should be assured that our financial statements are accurate and reliable, so I am pleased to report that for the 18th year in a row, PBGC's financial statements again received an unqualified opinion from its external auditors, working under the auspices of our independent Office of Inspector General.

The CFO organization is proud of the role it plays in producing accurate financial reports, supporting a sound internal control environment, and managing PBGC's investment portfolio. Yet, it bears noting that nearly every aspect of PBGC operations affect the financial statements in some way, and the preparation of our financial statements and the support of the annual audit is truly a corporate effort. I would like to thank all those involved for their dedication and commitment to excellence in financial reporting.

As noted in the FY 2010 Clifton Gunderson LLP audit report, much more remains to be done to address IT security as well as financial system integration issues. It is important to note that many Federal agencies face these issues, and that corrective actions are underway. PBGC certainly recognizes the importance of effective internal controls and is fully committed to upgrading our systems to better support our customers.

I am honored to work at an agency that plays a critical role in the retirement security of the American people, and with our employees and others that 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)	**2010**	2009	**2010**	2009	**2010**	2009
ASSETS						
Cash and cash equivalents	**$ 4,442**	$ 3,747	**$ 6**	$ 5	**$ 4,448**	$ 3,752
Securities lending collateral (Notes 3 and 5)	**5,791**	2,507	**0**	0	**5,791**	2,507
Investments, at market (Notes 3 and 5):						
Fixed maturity securities	**39,789**	33,025	**1,607**	1,436	**41,396**	34,461
Equity securities	**22,393**	22,954	**0**	0	**22,393**	22,954
Private equity	**2,050**	1,237	**0**	0	**2,050**	1,237
Real estate and real estate investment trusts	**459**	596	**0**	0	**459**	596
Other	**17**	507	**0**	0	**17**	507
Total investments	**64,708**	58,319	**1,607**	1,436	**66,315**	59,755
Receivables, net:						
Sponsors of terminated plans	**11**	85	**0**	0	**11**	85
Premiums (Note 11)	**754**	601	**2**	2	**756**	603
Sale of securities	**1,589**	1,829	**0**	0	**1,589**	1,829
Derivative contracts (Note 4)	**78**	69	**0**	0	**78**	69
Investment income	**418**	394	**12**	16	**430**	410
Other	**5**	3	**0**	0	**5**	3
Total receivables	**2,855**	2,981	**14**	18	**2,869**	2,999
Capitalized assets, net	**31**	29	**1**	0	**32**	29
Total assets	**$77,827**	$67,583	**$1,628**	$1,459	**$79,455**	$69,042

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

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF FINANCIAL CONDITION

(Dollars in Millions)	Single-Employer Program September 30, **2010**	2009	Multiemployer Program September 30, **2010**	2009	Memorandum Total September 30, **2010**	2009
LIABILITIES						
Present value of future benefits, net (Note 6):						
Trusteed plans	**$ 88,021**	$ 80,506	**$ 1**	$ 1	**$ 88,022**	$ 80,507
Plans pending termination and trusteeship	**501**	601	**0**	0	**501**	601
Settlements and judgments	**55**	58	**0**	0	**55**	58
Claims for probable terminations	**1,445**	1,870	**0**	0	**1,445**	1,870
Total present value of future benefits, net	**90,022**	83,035	**1**	1	**90,023**	83,036
Present value of nonrecoverable future financial assistance (Note 7)			**3,030**	2,296	**3,030**	2,296
Derivative contracts (Note 4)	**67**	111	**0**	0	**67**	111
Due for purchases of securities	**3,076**	1,922	**0**	0	**3,076**	1,922
Payable upon return of securities loaned	**5,791**	2,507	**0**	0	**5,791**	2,507
Securities sold under repurchase agreements	**0**	643	**0**	0	**0**	643
Unearned premiums	**364**	355	**31**	31	**395**	386
Accounts payable and accrued expenses (Note 8)	**101**	87	**2**	0	**103**	87
Total liabilities	**99,421**	88,660	**3,064**	2,328	**102,485**	90,988
Net position	**(21,594)**	(21,077)	**(1,436)**	(869)	**(23,030)**	(21,946)
Total liabilities and net position	**$ 77,827**	$ 67,583	**$ 1,628**	$1,459	**$ 79,455**	$ 69,042

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

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	For the Years Ended September 30,		For the Years Ended September 30,		For the Years Ended September 30,	
(Dollars in Millions)	**2010**	2009	**2010**	2009	**2010**	2009
UNDERWRITING						
Income:						
Premium, net (Note 11)	**$ 2,231**	$ 1,822	**$ 93**	$ 95	**$ 2,324**	$ 1,917
Other	**30**	16	**0**	2	**30**	18
Total	**2,261**	1,838	**93**	97	**2,354**	1,935
Expenses:						
Administrative	**368**	368	**12**	0	**380**	368
Other	**(7)**	15	**0**	0	**(7)**	15
Total	**361**	383	**12**	0	**373**	383
Other underwriting activity:						
Losses from completed and probable terminations (Note 12)	**509**	4,234	**0**	0	**509**	4,234
Losses from financial assistance (Note 7)			**831**	614	**831**	614
Actuarial adjustments (credits) (Note 6)	**(1,190)**	(573)	**0**	0	**(1,190)**	(573)
Total	**(681)**	3,661	**831**	614	**150**	4,275
Underwriting gain (loss)	**2,581**	(2,206)	**(750)**	(517)	**1,831**	(2,723)
FINANCIAL:						
Investment income (loss) (Note 13):						
Fixed	**5,233**	4,479	**183**	121	**5,416**	4,600
Equity	**2,116**	2,015	**0**	0	**2,116**	2,015
Private equity	**404**	(158)	**0**	0	**404**	(158)
Other	**(159)**	(6)	**0**	0	**(159)**	(6)
Total	**7,594**	6,330	**183**	121	**7,777**	6,451
Expenses:						
Investment	**81**	49	**0**	0	**81**	49
Actuarial charges (Note 6):						
Due to passage of time	**4,215**	3,923	**0**	0	**4,215**	3,923
Due to change in interest rates	**6,396**	10,551	**0**	0	**6,396**	10,551
Total	**10,692**	14,523	**0**	0	**10,692**	14,523
Financial income (loss)	**(3,098)**	(8,193)	**183**	121	**(2,915)**	(8,072)
Net loss	**(517)**	(10,399)	**(567)**	(396)	**(1,084)**	(10,795)
Net position, beginning of year	**(21,077)**	(10,678)	**(869)**	(473)	**(21,946)**	(11,151)
Net position, end of year	**$ (21,594)**	$ (21,077)	**$ (1,436)**	$ (869)	**$ (23,030)**	$ (21,946)

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, 2010	2009	Multiemployer Program For the Years Ended September 30, 2010	2009	Memorandum Total For the Years Ended September 30, 2010	2009
OPERATING ACTIVITIES:						
Premium receipts	**$ 2,086**	$ 1,431	**$ 93**	$ 94	**$ 2,179**	$ 1,525
Interest and dividends received	**1,989**	2,305	**73**	77	**2,062**	2,382
Cash received from plans upon trusteeship	**81**	368	**0**	0	**81**	368
Receipts from sponsors/non-sponsors	**241**	188	**0**	0	**241**	188
Receipts from the missing participant program	**3**	7	**0**	0	**3**	7
Other receipts	**5**	15	**0**	0	**5**	15
Benefit payments – trusteed plans	**(5,284)**	(4,337)	**0**	0	**(5,284)**	(4,337)
Financial assistance payments			**(97)**	(86)	**(97)**	(86)
Settlements and judgments	**0**	0	**0**	0	**0**	0
Payments for administrative and other expenses	**(409)**	(424)	**(11)**	0	**(420)**	(424)
Accrued interest paid on securities purchased	**(313)**	(776)	**(7)**	(42)	**(320)**	(818)
Net cash provided (used) by operating activities (Note 15)	**(1,601)**	(1,223)	**51**	43	**(1,550)**	(1,180)
INVESTING ACTIVITIES:						
Proceeds from sales of investments	**71,459**	152,267	**1,039**	3,234	**72,498**	155,501
Payments for purchases of investments	**(69,163)**	(149,036)	**(1,089)**	(3,292)	**(70,252)**	(152,328)
Net change in investment of securities lending collateral	**3,284**	(1,265)	**0**	0	**3,284**	(1,265)
Net change in securities lending payable	**(3,284)**	1,265	**0**	0	**(3,284)**	1,265
Net cash provided (used) by investing activities	**2,296**	3,231	**(50)**	(58)	**2,246**	3,173
Net increase (decrease) in cash and cash equivalents	**695**	2,008	**1**	(15)	**696**	1,993
Cash and cash equivalents, beginning of year	**3,747**	1,739	**5**	20	**3,752**	1,759
Cash and cash equivalents, end of year	**$ 4,442**	$ 3,747	**$ 6**	$ 5	**$ 4,448**	$ 3,752

The accompanying notes are an integral part of these financial statements

Notes to Financial Statements

September 30, 2010 and 2009

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, 2010, the single-employer and multiemployer programs reported net positions of $(21.6) billion and $(1.4) billion, respectively. The single-employer program had assets of over $77.8 billion offset by total liabilities of $99.4 billion, which include a total present value of future benefits (PVFB) of approximately $90.0 billion. As of September 30, 2010, the multiemployer program had assets over $1.6 billion offset by approximately $3.0 billion in present value of nonrecoverable future financial assistance. Notwithstanding these deficits, the Corporation has sufficient liquidity to meet its obligations for a significant number of years; however, neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants.

PBGC's $71.2 billion of total investments (including cash and investment income) represents the largest component of PBGC's Statements of Financial Condition combined assets of $79.5 billion at September 30, 2010. This amount of $71.2 billion (as compared to investments under management of $66.8 billion, as reported on page 31) reflects the fact that PBGC experiences a recurring inflow of trusteed plan assets that have not yet been incorporated into the PBGC investment program. For total investments (i.e., not the investment program), cash and fixed-income securities ($46.3 billion) represents 65 percent of the total investments, while equity securities ($22.4 billion) represents 31 percent of total investments. Private market assets ($2.5 billion), comprised largely of private equity, private debt, and real estate, represent 4 percent of the total investments.

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 which were classified by PBGC as reasonably possible of termination as of September 30, 2010, was $170 billion. The comparable estimates of reasonably possible exposure for 2009 and 2008 were $168 billion and $47 billion, respectively. These estimates are measured as of December 31 of the previous year (see Note 9). For 2010, 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, 2010, it is reasonably possible that multiemployer plans may require future financial assistance in the amount of $20 billion. As of September 30, 2009 and 2008, these exposures were estimated at $326 million and $30 million, respectively. The significant increase in FY 2010 from prior years is primarily due to the addition of two large plans to the reasonably possible inventory. The sponsor of one plan, with net liability of $15.0 billion, is in the "transportation, communication, and utilities" industry category; the other, with net liability of $4.8 billion, is in the "agriculture, mining, and construction" industry category.

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.

PBGC's sources of information on plan underfunding are the most recent Section 4010 and PBGC premium filings, and other submissions to the Corporation. PBGC publishes Table S-49, "Various Measures of Underfunding in PBGC-Insured Plans," in its *Pension Insurance Data Book* where the limitations of the estimates are 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. Since multiemployer plans do not receive PBGC assistance until fully insolvent, financial assistance is almost never repaid; for this reason such assistance is fully reserved.

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 2010, PBGC implemented FASB Accounting Standards Update No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements* (ASU 2010-06) and FASB Accounting Standards Update No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820) – Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent),* as amended (ASU 2009-12). ASU 2010-06 added disclosures for significant transfers between Levels 1 and 2; separate presentation for transfers into and transfers out of Level 3; class of assets and liabilities; and valuation techniques for Levels 2 and 3. ASU 2009-12 permits, as a practical expedient, a reporting entity to measure the fair value of an investment on the basis of net asset value (NAV) per share. ASU 2009-12 requires disclosures by class of NAV investment including the attributes of the investments, such as: the nature of any restrictions on the investor's ability to redeem its investments at the measurement date; any unfunded commitments; and the investment strategies of the investees.

During FY 2009, PBGC implemented three Statement of Financial Accounting Standards (SFAS), including FASB Accounting Standards Codification (ASC), *Fair Value Measurements and Disclosures* (Topic 820), SFAS No. 157, *Fair Value Measurements*; FASB ASC, *Derivatives and Hedging* (Topic 815), SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*; FASB ASC *Subsequent Events* (Topic 855), SFAS No. 165, *Subsequent Events*; and two FASB Staff Positions (FSP), FASB ASC *Fair Value Measurements and Disclosures* (Topic 820), No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* and FASB ASC *Fair Value Measurements and Disclosures* (Topic 820), 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*.

FASB ASC *Fair Value Measurements and Disclosures* (Topic 820), 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. FASB ASC *Derivatives and Hedging* (Topic 815), SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities. FASB ASC *Subsequent Events* (Topic 855), 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. FASB ASC *Fair Value Measurements and Disclosures* (Topic 820), FSP No. FAS 157-3 clarifies the application of FASB ASC *Fair Value Measurements and Disclosures* (Topic 820), SFAS No. 157 in an inactive market, without changing its existing principles. FASB ASC *Fair Value Measurements and Disclosures* (Topic 820), 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.

Valuation Method

A primary objective of PBGC's financial statements is to provide information that is useful in assessing PBGC's present and future ability to ensure that 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.

Revolving and Trust Funds

PBGC accounts for its single-employer and multiemployer programs' revolving and trust funds on an accrual basis. Each fund is charged its portion of the benefits paid each year. PBGC 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 and present value of nonrecoverable future financial assistance. 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.

Cash and Cash Equivalents

Cash includes cash on hand and demand deposits. Cash equivalents are investments with original maturities of one business day and highly liquid investments that are readily convertible into cash within one business day.

Securities Lending Collateral

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.

Investment Valuation and Income

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.

Securities Purchased Under Resale Agreements

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 56. 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

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 termination premiums that are reserved at 100 percent, 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 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 willing and 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.

Administrative Expenses

These operating expenses (for either the single-employer or multiemployer insurance programs) are amounts paid and accrued for services rendered or while carrying out other activities that constitute PBGC's ongoing operations, e.g., payroll, contractual services, office space, material and supplies, etc. In FY 2010, PBGC revised its administrative expense allocation methodology to ensure each insurance program continued to receive its fair share of administrative expenses. (This resulted in some prior single-employer indirect costs being moved to the multiemployer program). During FY 2010, resource activity levels in the multiemployer program rose significantly in the areas of financial assistance processing, field audits of newly insolvent plans, additional actuarial analysis of ongoing and terminated multiemployer plans, and responding to a growing number of technical and legal requests from plan administrators and practitioners. The revised expense allocation methodology fully captures these and all other administrative expenses attributable to either the single-employer or multiemployer insurance programs.

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 FY 2009 single-employer financial statements have been reclassified to be consistent with the FY 2010 presentation. All such changes had no impact on the FY 2009 single-employer 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.

To Be Announced (TBA) and Bond Forward transactions are recorded as regular buys and sells of investments and not as derivatives. 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. In accordance with FASB Accounting Standards Codification Section 815 (formerly SFAS No. 133, paragraphs 275 and 276), TBA and Bond Forward contracts are deemed regular way trades as they are completed within the time frame generally established by regulations and conventions in the market place or by the exchange on which they are executed. Thus, recording of TBA and Bond Forward contracts recognizes the acquisition or disposition of the securities at the full contract amounts on day one of the trade.

In prior years, foreign exchange forward contracts and swap contracts were recorded gross of receivables and payables. Beginning in FY 2010, foreign exchange forwards are included in "Fixed maturity securities" rather than "Receivables, net – Derivative contracts" or "Derivative contracts" (liabilities). Swaps are netted rather than recorded at gross levels for the individual contracts as "Receivables, net – Derivative contracts" and "Derivative contracts" (liabilities). Certain amounts shown as futures for receivables and payables were offset to reflect a net margin variation for one recently trusteed plan. Bond forwards and TBAs have been reclassified to "Receivables, net – Sale of securities" and "Due for purchases of securities" from derivative contracts receivables and payables. In order to support year-to-year comparisons, the FY 2009 balances were reclassified to be consistent with the FY 2010 presentation. All such changes had no impact on the FY 2009 net income or net position.

Certain investments (i.e., public equities and other investments) for two recently trusteed plans have been reclassified at September 30, 2009. However, there was no change in the yearend amount of total investments. In addition, investment income (i.e., fixed income, public equities, and other investments) for two recently trusteed plans has been reclassified at September 30, 2009 without any change in either overall FY 2009 investment income or in overall net position at 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. As of September 30, 2010, this interest was valued as private equity in the amount of $702 million. This current valuation may change significantly over time.

As the following table illustrates, the market value of investments of the single-employer program increased significantly from September 30, 2009, to September 30, 2010.

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

	September 30, 2010			September 30, 2009	
(Dollars in millions)	**Basis**	**Market Value**		Basis	Market Value
Fixed maturity securities:					
U.S. Government securities	**$19,652**	**$21,288**		$16,620	$17,282
Commercial paper/securities purchased under resale agreements	**199**	**199**		49	49
Asset backed securities	**2,681**	**2,733**		2,844	2,728
Pooled funds					
Domestic	**476**	**481**		1,306	1,359
International	**0**	**0**		0	0
Global/other	**0**	**0**		0	0
Corporate bonds and other	**9,250**	**10,168**		8,450	8,633
International securities	**4,492**	**4,920**		2,720	2,974
Subtotal	**36,750**	**39,789**		31,989	33,025
Equity securities:					
Domestic	**1,760**	**1,824**		888	857
International	**940**	**1,083**		374	386
Pooled funds					
Domestic	**7,256**	**10,778**		9,639	12,726
International	**5,765**	**8,691**		6,928	8,985
Global/other	**15**	**17**		0	0
Subtotal	**15,736**	**22,393**		17,829	22,954
Private equity	**2,169**	**2,050**		1,471	1,237
Real estate and real estate investment trusts	**441**	**459**		637	596
Insurance contracts and other investments	**22**	**17**		479	507
Total*	**$55,118**	**$64,708**	**	$52,405	$58,319

*Total includes securities on loan at September 30, 2010, and September 30, 2009, with a market value of $5.674 billion and $2.450 billion, respectively.

**This total of $64,708 million of investments at market value represents the single-employer assets only. It differs from the total investments of $71.19 billion shown on page 30 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, 2010		September 30, 2009	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	**$1,478**	**$1,607**	$1,382	$1,436
Equity securities	**0**	**0**	0	0
Total	**$1,478**	**$1,607**	$1,382	$1,436

INVESTMENT PROFILE

	September 30, 2010	2009
Fixed Income Assets		
Average Quality	**AA**	AA
Average Maturity (years)	**15.5**	14.7
Duration (years)	**9.9**	9.7
Yield to Maturity (%)	**3.8**	4.7
Equity Assets		
Average Price/Earnings Ratio	**18.4**	25.5
Dividend Yield (%)	**2.3**	2.3
Beta	**1.03**	1.04

Derivative Instruments

PBGC assigns investment discretion and grants specific authority to all of its investment managers to invest according to specific portfolio investment guidelines established with PBGC. PBGC further limits the use of derivatives by investment managers through tailored provisions in the investment guidelines with investment managers consistent with PBGC's investment policy statement and overall risk tolerance. 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.

Derivative instruments are used (1) to mitigate risk (e.g., adjust duration or currency exposures), (2) to enhance investment returns, and/or (3) as liquid and cost-efficient substitutes for positions in physical securities. These derivative instruments are not designated as accounting hedges consistent with FASB Accounting Standards Codification Section 815 (formerly SFAS No. 133, as amended), which requires an active designation as a prerequisite for any hedge accounting. PBGC utilizes a no hedging designation which results in the gain or loss on a derivative instrument to be recognized currently in earnings Derivatives are accounted for at fair 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 as a component of financial income on the Statements of Operations and Changes in Net Position. PBGC presents all derivatives at fair value on the Statements of Financial Condition.

During fiscal years 2009 and 2010, PBGC, through its investment managers, invested in investment products that used various U.S. and non-U.S. derivative instruments including but not limited to: S&P 500 index futures, options, government bond futures, 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 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, and 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, 2010 and 2009, 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.

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 (FMV) on the Statements of Financial Condition, as well as the notional amounts, while the second table identifies the location of derivative gains and losses on the Statements of Operations and Changes in Net Position as of September 30, 2010, and September 30, 2009.

FAIR VALUES OF DERIVATIVE INSTRUMENTS

	Asset Derivative					
	September 30, 2010			September 30, 2009		
(Dollars in millions)	Statements of Financial Condition Location	**Notional**	**FMV**	Statements of Financial Condition Location	Notional	FMV
Futures	Derivative Contracts	**$ 2,211**	**$2**	Derivative Contracts	$4,321	$1
Swap agreements						
Interest rate swaps	Investments-Fixed	**1,086**	**(7)**	Investments-Fixed	939	(12)
Credit default swaps	Investments-Fixed	**2,023**	**10**	Investments-Fixed	1,439	(18)
Option contracts	Investments-Fixed	**38**	**4**	Investments-Fixed	22	(1)
Forwards - foreign exchange	Investments-Fixed	**3,530**	**(32)**	Investments-Fixed	1,062	4

	Liability Derivative					
	September 30, 2010			September 30, 2009		
(Dollars in millions)	Statements of Financial Condition Location	**Notional**	**FMV**	Statements of Financial Condition Location	Notional	FMV
Futures	Derivative Contracts	**$1,024**	**$ (1)**	Derivative Contracts	$3,392	$ (7)
Option contracts	Derivative Contracts	**2,591**	**(11)**	Derivative Contracts	1,186	(2)

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

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

(Dollars in millions)	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives	
		Sept. 30, 2010	Sept. 30, 2009
Futures			
Contracts in a receivable position	Investment Income-Fixed	**$73**	($510)
Contracts in a receivable position	Investment Income-Equity	**0**	(2)
Contracts in a payable position	Investment Income-Fixed	**25**	267
Contracts in a payable position	Investment Income-Equity	**0**	0
Swap agreements			
Interest rate swaps	Investment Income-Fixed	**58**	486
Credit default swaps	Investment Income-Fixed	**19**	(72)
Option contracts			
Options purchased (long)	Investment Income-Fixed	**17**	(21)
Options purchased (long)	Investment Income-Equity	**0**	0
Options written (sold short)	Investment Income-Fixed	**(4)**	27
Options written (sold short)	Investment Income-Equity	**0**	0
Forward contracts			
Forwards - foreign exchange	Investment Income-Fixed	**(23)**	61

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, 2010, and September 30, 2009, was $5.674 billion and $2.450 billion, respectively. The increase in loan balances is a direct result of PBGC's increased asset allocation to U.S. Government securities. The 2009 year end balance for U.S. government securities was approximately $2.2 billion or ten percent of PBGC's overall lendable security balance; while the 2010 year end balance for U.S. Government securities was approximately $5.2 billion or twenty-five percent of PBGC's overall lendable security balance. The increased asset allocation and higher utilization levels of U.S. government securities, as compared to other lendable asset classes, resulted in the increased on loan balance on September 30, 2010.

The amount of cash collateral received for these loaned securities was $5.791 billion at September 30, 2010, and $2.507 billion at September 30, 2009. These amounts are recorded as assets and are offset with a corresponding liability. For those securities lending activities that PBGC directs through its custodian manager, the corporation chooses to invest proceeds from securities lending in the most conservative cash collateral pools available. PBGC had earned income from securities lending of $10.3 million and $26.2 million for the years ending September 30, 2010, and September 30, 2009, respectively. Also contributing to PBGC's securities lending income is its participation in certain pooled index funds. 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, 2010, PBGC loaned out $5.674 billion in securities of approximately $21.076 billion of securities available for securities lending.

Of the $5.674 billion market value of securities on loan at September 30, 2010, approximately 75 percent are lent U.S. government securities and approximately 23 percent 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. In prior years, foreign exchange forward contracts and swap contracts were recorded gross of receivables and payables. Beginning in FY 2010, foreign exchange forwards are included in "Fixed maturity securities" rather than "Receivables, net – Derivative contracts" or "Derivative contracts" (liabilities). Swaps are netted rather than recorded at gross levels for the individual contracts as "Receivables, net – Derivative contracts" and "Derivative contracts" (liabilities). Certain amounts shown as futures for receivables and payables were offset to reflect a net margin variation for one recently trusteed plan. Bond forwards and TBAs have been reclassified to "Receivables, net – Sale of securities" and "Due for purchases of securities" from derivative contracts receivables and payables. In order to support year-to-year comparisons, the FY 2009 balances were reclassified to be consistent with the FY 2010 presentation. All such changes had no impact on the FY 2009 net income or net position.

Amounts in the table below represent the derivative contracts in a receivable position at financial statement date. Collateral deposits of $76 million, which represent cash paid as collateral on certain derivative contracts, are shown.

DERIVATIVE CONTRACTS

(Dollars in millions)	**September 30, 2010**	September 30, 2009
Open receivable trades on derivatives:		
Collateral deposits	**$76**	$68
Futures contracts	**2**	1
Interest rate swaps	**0**	0
Credit default swaps	**0**	0
Total	**$78**	$69

Amounts in the Derivative Contracts table below represent derivative contracts in a payable position at financial statement date which PBGC reflects as a liability. Collateral deposits of $55 million, which represent cash received as collateral on certain derivative contracts, are included.

DERIVATIVE CONTRACTS

(Dollars in millions)	**September 30, 2010**	September 30, 2009
Open payable trades on derivatives:		
Collateral deposits	**$55**	$102
Futures contracts	**1**	7
Interest rate swaps	**0**	0
Credit default swaps	**0**	0
Options-fixed income	**11**	2
Total	**$67**	$111

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. PBGC's level 1 investments primarily included are 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 to the valuation methodology include the following:

a. Quoted prices for similar assets or liabilities in active markets – included are cash equivalents, securities lending collateral, U.S. government securities, asset backed securities, fixed foreign investments, corporate bonds, repos, bond forwards, and swaps;

b. Quoted prices for identical or similar assets or liabilities in non-active markets – included are corporate stock, pooled funds fixed income, pooled funds equity, and foreign investments equity;

c. Pricing models whose inputs are observable for substantially the full term of the asset or liability – included are insurance contracts and bank loans; 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. We include instruments whose values are based on a single source such as a broker, pricing service, or dealer which cannot be corroborated by recent market transactions. These include fixed maturity securities such as corporate bonds that are comprised of securities that are no longer traded on the active market and/or not managed by any asset manager. Equity securities such as corporate stocks are also included in this level, and are comprised of securities that are no longer traded on the active market and/or not managed by any asset manager. Private equity, real estate funds, and separate accounts that invest primarily in U.S. commercial real estate, are valued based on each underlying investment within the fund/account incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information, including comparable transactions, and performance multiples, among other factors.

The assets and liabilities that PBGC carries at fair value are summarized by the three levels in Section 820 in the following table.

FAIR VALUE MEASUREMENTS ON A RECURRING BASIS AS OF SEPTEMBER 30, 2010

(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	$ 450	$ 3,998		$ 4,448
Securities lending collateral		5,791		5,791
Investments:				
Fixed maturity securities				
U.S. Government securities		22,895		
Commercial paper/securities purchased under resale agreements		199		
Asset backed/Mortgage backed securities		2,733		
Pooled funds				
Domestic		150	331	
International				
Global/other				
Corporate bonds and other	3	10,164	1	
International securities	(16)	4,936	-	
Total fixed maturity securities	(13)	41,077	332	41,396
Equity securities:				
Domestic	1,677	142	5	
International	1,083			
Pooled funds				
Domestic		10,778		
International		8,691		
Global/other	17	-	-	
Total equity securities	2,777	19,611	5	22,393
Private equity			2,050	2,050
Real estate and real estate investment trusts	7	2	450	459
Insurance contracts and other Investments		17		17
Receivables:				
Derivative contracts*	2	76		78
Liabilities				
Payables:				
Derivative contracts**	12	55		67

* 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.

As of September 30, 2010, there were no significant transfers between Level 1 and Level 2. The end of the reporting period is the date used to recognize transfers between levels.

CHANGES IN LEVEL 3 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS FOR THE YEAR ENDED SEPTEMBER 30, 2010

(Dollars in millions)	Fair Value at September 30, 2009	Total Realized and Unrealized Gains (Losses) included in Income	Purchases, Issuances and Settlements, Net	Transfers Into Level 3	Transfers Out of Level 3	Fair Value at September 30, 2010	Change in Unrealized Gains (Losses) Related to Financial Instruments held at September 30, 2010 **
Assets:							
Pooled funds (fixed)	$ 328	$40	$ (37)			$ 331	$ 3
Corporate bonds and other *	15	0 ***	(1)		(13)	1	0***
Domestic equity *	305	21	(321)		0***	5	0***
Private equity	1,233	83	734	0***		2,050	51
Real estate & real estate investment trusts	494	(20)	(24)			450	18
Other *	441	11	(452)			0	

*assets which are not actively traded in the market place

** amounts included in the Total Realized and Unrealized Gains (Losses) column

*** less than $500,000

Pursuant to FASB Accounting Standards Update No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820) – Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* and amended by Update No. 2010-06, Fair Value Measurement and Disclosures, additional disclosures for Investments priced at Net Asset Value are discussed below.

INVESTMENTS IN CERTAIN ENTITIES THAT CALCULATE NET ASSET VALUE PER SHARE (OR ITS EQUIVALENT) FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Fair Value (in millions)	Unfunded Commitments [1]	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Real estate (a)	$ 459	$214	n/a	n/a
Private equity (b)	2,050	507	n/a	n/a
Pooled funds (c)	19,967	0	n/a	n/a
Total	$ 22,476	$721		

[1] Unfunded amounts include recallable distributions. A substantial portion of the unfunded commitments is unlikely to be called.

a. This class includes 169 real estate investments that invest primarily in U.S. commercial real estate, and to a lesser extent, U.S. residential real estate. The fair value of each individual investment in this class has been estimated using the net asset value of the PBGC's ownership interest in partners' capital. Generally, these investments do not have redemption provisions. Distributions from each fund will be received as the underlying assets of the fund will be liquidated over the next ten years or so. In addition, distributions will also include any periodic income distributions received. No fund investments in this class are planned to be sold. Individual portfolio investments will be sold over time, however, those have not yet been determined.

b. This class includes 548 private market investments that invest primarily in U.S. buyout and U.S. venture capital funds. A small number of those focus on natural resources. These investments do not have redemption provisions. Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the funds. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over the next twelve years. However, the individual investments that will be sold have not yet been determined. The fair value of each individual investment has been estimated using the net asset value of the PBGC's ownership interest in partners' capital.

c. This class includes investments in unit trusts that are intended to match returns of domestic and international indices. Units reflect a pro-rata share of the fund's investments. The per unit net asset value is determined each business day based on the fair value of the fund's investments. Issuances and redemptions are possible daily when a per unit value is determined and are based upon the closing per unit net asset value.

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, 2010 and 2009.

For FY 2010, PBGC used a 25-year select interest factor of 4.41% followed by an ultimate factor of 4.51% for the remaining years. In 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. 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, 2010, PBGC used the 1994 Group Annuity Mortality (GAM) 94 Static Table (with margins), set forward one year and projected 26 years to 2020 using Scale AA. For September 30, 2009, 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 (16 years in 2010 versus 15 years in 2009) plus PBGC's calculated duration of its liabilities (ten years in 2010 and nine years in 2009). 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, FY 2009 and FY 2010. 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 2010 and 2009 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, 2010 AND 2009

	September 30,			
(Dollars in millions)	**2010**		2009	
Present value of future benefits, at beginning of year -- Single-Employer, net		**$83,035**		$59,996
Estimated recoveries, prior year		**175**		165
Assets of terminated plans pending trusteeship, net, prior year		**820**		313
Present value of future benefits at beginning of year, gross		**84,030**		60,474
Settlements and judgments, prior year		**(58)**		(56)
Net claims for probable terminations, prior year		**(1,870)**		(3,154)
Actuarial adjustments -- underwriting:				
Changes in method and assumptions	**$ (1,286)**		$ (683)	
Effect of experience	**96**		110	
Total actuarial adjustments -- underwriting	**(1,190)**		(573)	
Actuarial charges -- financial:				
Passage of time	**4,215**		3,923	
Change in interest rates	**6,396**		10,551	
Total actuarial charges -- financial	**10,611**		14,474	
Total actuarial charges, current year		**9,421**		13,901
Terminations:				
Current year	**3,130**		15,692	
Changes in prior year	**(15)**		(277)	
Total terminations		**3,115**		15,415
Benefit payments, current year*		**(5,467)**		(4,478)
Estimated recoveries, current year		**(107)**		(175)
Assets of terminated plans pending trusteeship, net, current year		**(542)**		(820)
Settlements and judgments, current year		**55**		58
Net claims for probable terminations:				
Future benefits**	**3,073**		4,610	
Estimated plan assets and recoveries from sponsors	**(1,628)**		(2,740)	
Total net claims, current year		**1,445**		1,870
Present value of future benefits, at end of year -- Single-Employer, net		**90,022**		83,035
Present value of future benefits, at end of year -- Multiemployer		**1**		1
Total present value of future benefits, at end of year, net		**$90,023**		$83,036

* The benefit payments of $5,467 million and $4,478 million include $182 million in 2010 and $140 million in 2009 for benefits paid from plan assets by plans prior to trusteeship.

** The future benefits for probable terminations of $3,073 million and $4,610 million for fiscal years 2010 and 2009, respectively, include $253 million and $227 million, respectively, for probable terminations not specifically identified and $2,820 million and $4,383 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

(Dollars in millions)	September 30, 2010 Basis	September 30, 2010 Market Value	September 30, 2009 Basis	September 30, 2009 Market Value
U.S. Government securities	**$ 0**	**$ 0**	$ 12	$ 14
Corporate and other bonds	**353**	**353**	329	340
Equity securities	**270**	**270**	459	455
Private equity	**0**	**0**	1	1
Insurance contracts	**0**	**0**	0	0
Other	**(81)**	**(81)**	10	10
Total, net	**$542**	**$542**	$811	$820

Net Claims for Probable Terminations

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

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

RECONCILIATION OF NET CLAIMS FOR PROBABLE TERMINATIONS

(Dollars in millions)	September 30, 2010		September 30, 2009	
Net claims for probable terminations, at beginning of year		**$ 1,870**		$3,154
New claims	**$ 337**		$ 1,643	
Actual terminations	**(596)**		(3,077)	
Deleted probables	**(376)**		(18)	
Change in benefit liabilities	**186**		168	
Change in plan assets	**24**		0	
Loss (credit) on probables		**(425)**		(1,284)
Net claims for probable terminations, at end of year		**$ 1,445**		$1,870

The following table itemizes the single-employer probable exposure by industry:

PROBABLES EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	**FY 2010**	FY 2009
Manufacturing	**$ 911**	$1,178
Services	**341**	467
Health Care	**193**	168
Wholesale and Retail Trade	**-**	57
Total	**$1,445**	$1,870

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 1987-2009 at September 30, 2010			
Beginning in 1987, number of plans reported as Probable:	Number of Plans	Percent of Plans	Net Claim	Percent of Net Claim
Probables terminated	358	79%	$28,050	73%
Probables not yet terminated or deleted	4	1	671	2
Probables deleted	89	20	9,748	25
Total	451	100%	$38,469	100%

Note 7: Multiemployer Financial Assistance

PBGC provides financial assistance to multiemployer defined benefit pension plans in the form of loans. Since these loans are not generally repaid, 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, 2010**	September 30, 2009
Gross balance at beginning of year	**$387**	$311
Financial assistance payments - current year	**97**	86
Write-offs related to settlement agreements	**0**	(10)
Subtotal	**484**	387
Allowance for uncollectible amounts	**(484)**	(387)
Net balance at end of year	**$ 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, 2010, the corporation expects 121 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 121 plans is $3.030 billion. The 121 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 121 plans:

- 41 have exhausted plan assets and are currently receiving financial assistance payments from PBGC. The present value of future financial assistance payments for these insolvent 41 plans is $1.179 billion.

- 51 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 51 terminated plans is $1.067 billion.

- 29 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 29 ongoing plans is $784 million.

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

(Dollars in millions)	**September 30, 2010**	September 30, 2009
Balance at beginning of year	**$2,296**	$1,768
Changes in allowance:		
Losses (credits) from financial assistance	**831**	614
Financial assistance granted (previously accrued)	**(97)**	(86)
Balance at end of year	**$3,030**	$2,296

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, 2010**	September 30, 2009
Annual leave	**$ 8**	$ 7
Other payables and accrued expenses	**95**	80
Accounts payable and accrued expenses	**$ 103**	$ 87

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 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, 2010.

The estimate of unfunded vested benefits exposure to loss for the single-employer plans of these companies was measured as of December 31, 2009. The reasonably possible exposure to loss in these plans was $170 billion for FY 2010. This is slightly more than the reasonably possible exposure of $168 billion in FY 2009. This reasonably possible exposure remained substantially unchanged, possibly because the increase in liability due to the decrease in the interest rate from the prior year was offset by high asset returns during calendar year 2009.

The estimate of unfunded vested benefits exposure to loss is not based on PBGC-guaranteed benefit levels, since data is not available to determine an estimate at this level of precision. PBGC calculated this estimate, as in previous years, by using the most recent data available from filings and submissions to the Corporation for plan years ended on or after December 31, 2008. The Corporation adjusted the value reported for liabilities to December 31, 2009, using a select rate of 4.52% that was derived in conjunction with the 1994 Group Annuity Mortality Static Table (with margins) projected to 2019 using Scale AA to approximate annuity prices as of December 31, 2009, with administrative expenses added. The underfunding associated with these plans could be substantially different at September 30, 2010, because of the economic conditions that existed between December 31, 2009 and September 30, 2010. The Corporation did not adjust the estimate for events that occurred between December 31, 2009, and September 30, 2010.

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

REASONABLY POSSIBLE EXPOSURE TO LOSS BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	**FY 2010**	FY 2009
Manufacturing *	**$101,888**	$101,298
Transportation, Communication and Utilities **	**30,178**	30,555
Services	**15,356**	13,314
Wholesale and Retail Trade	**12,844**	13,031
Health Care	**3,985**	4,990
Finance, Insurance, and Real Estate	**2,840**	2,140
Agriculture, Mining, and Construction	**2,653**	2,536
Total	**$169,744**	$167,864

* For FY 2010 and FY 2009, primarily automobile/auto parts and primary and fabricated metals

** For FY 2010 and FY 2009, 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 $20 billion, due primarily to the addition of two large plans.

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, 2010, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2010. 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, 2019. 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 2014. The minimum future lease payments for office facilities having noncancellable terms in excess of one year as of September 30, 2010, are as follows:

COMMITMENTS: FUTURE LEASE PAYMENTS

(Dollars in millions)

Years Ending September 30,	Operating Leases
2011	$ 18.3
2012	17.4
2013	16.6
2014	16.2
2015	16.5
Thereafter	69.4
Minimum lease payments	$154.4

Lease expenses were $18.4 million in 2010 and $21.4 million in 2009.

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 2009 the flat-rate premiums for single-employer pension plans was $34 per participant and for multiemployer plans, $9 per participant. For plan year 2010, per participant rates were $35 for single-employer plans and $9 for multiemployer plans. PBGC recorded net premium income of $2.324 billion and consisted primarily of $1.288 billion in flat-rate premiums, $1.030 billion in variable-rate premiums, and $237 million in termination premiums offset by a bad debt expense of $244 million. Bad debt expenses include a reserve for uncollectible premium receivables consisting of termination premiums that are reserved conservatively at 100 percent, as well as some write-off of interest and penalties. Net premium income for fiscal year 2009 was $1.917 billion and consisted primarily of approximately $1.227 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. The termination premium applies to certain plan terminations occurring after 2005. If a pension plan terminates in a distress termination pursuant to ERISA section 4041(c)(2)(B)(ii) or (iii), or in a PBGC-initiated termination under ERISA section 4042, the plan sponsor and its controlled group are liable to PBGC for a termination premium at the rate of $1,250 per plan participant per year for three years.

The following table presents a year-to-year comparison of key premium information.

PREMIUMS

(Dollars in millions)	September 30, 2010	September 30, 2009
Flat Rate Premium:		
Single-Employer	**$1,194**	$1,133
Multiemployer	**94**	94
Total Flat Rate Premium	**1,288**	1,227
Variable Rate Premium	**1,030**	699
Interest and Penalty Income	**13**	(3)
Termination Premium	**237**	590
Less Write-offs of Interest, Penalties, and Termination Premiums	**(244)**	(596)
Total	**$2,324**	$1,917
Single-Employer	**$2,237**	$1,828
Termination Premium	**237**	590
Less Write-offs of Interest, Penalties, and Termination Premiums	**(243)**	(596)
Total Single-Employer	**2,231**	1,822
Multiemployer	**94**	95
Less Write-offs of Interest and Penalties	**(1)**	0
Total Multiemployer	**93**	95
Total	**$2,324**	$1,917

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,					
	2010			2009		
(Dollars in millions)	**New Terminations**	**Changes in Prior Year Terminations**	**Total**	New Terminations	Changes in Prior Year Terminations	Total
Present value of future benefits	**$ 3,130**	**$ (15)**	**$3,115**	$15,692	$ (277)	$15,415
Less plan assets	**1,688**	**474**	**2,162**	9,860	29	9,889
Plan asset insufficiency	**1,442**	**(489)**	**953**	5,832	(306)	5,526
Less estimated recoveries	**0**	**16**	**16**	0	10	10
Subtotal	**1,442***	**(505)**	**937**	5,832*	(316)	5,516
Settlements and judgments		**(3)**	**(3)**		2	2
Loss (credit) on probables	**(596)**	**171**	**(425)****	(3,077)	1,793	(1,284)**
Total	**$ 846**	**$(337)**	**$ 509**	$ 2,755	$1,479	$ 4,234

* gross amounts for plans terminated during the year

** see Note 6 – includes $596 million at September 30, 2010, and $3,077 million at September 30, 2009, 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, 2010**	**Multiemployer Program Sept. 30, 2010**	**Memorandum Total Sept. 30, 2010**	Single-Employer Program Sept. 30, 2009	Multiemployer Program Sept. 30, 2009	Memorandum Total Sept. 30, 2009
Fixed maturity securities:						
Interest earned	**$ 1,587**	**$ 54**	**$ 1,641**	$ 1,560	$ 45	$ 1,605
Realized gain (loss)	**1,527**	**53**	**1,580**	(1,071)	24	(1,047)
Unrealized gain	**2,119**	**76**	**2,195**	3,990	52	4,042
Total fixed maturity securities	**5,233**	**183**	**5,416**	4,479	121	4,600
Equity securities:						
Dividends earned	**52**	**0**	**52**	30	0	30
Realized gain (loss)	**573**	**0**	**573**	(545)	0	(545)
Unrealized gain	**1,491**	**0**	**1,491**	2,530	0	2,530
Total equity securities	**2,116**	**0**	**2,116**	2,015	0	2,015
Private equity:						
Distributions earned	**19**	**0**	**19**	10	0	10
Realized gain	**373**	**0**	**373**	24	0	24
Unrealized gain (loss)	**12**	**0**	**12**	(192)	0	(192)
Total private equity	**404**	**0**	**404**	(158)	0	(158)
Other income (loss)	**(159)**	**0**	**(159)**	(6)	0	(6)
Total investment income	**$ 7,594**	**$ 183**	**$ 7,777**	$ 6,330	$ 121	$ 6,451

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 2010 and 2009 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 2010 and 2009. 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 $18 million in 2010 and $16 million in 2009.

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)	**2010**	2009
Proceeds from sales of investments:		
Fixed maturity securities	**$60,295**	$134,856
Equity securities	**5,302**	5,283
Other/uncategorized	**6,901**	15,362
Memorandum total	**$72,498**	$155,501
Payments for purchases of investments:		
Fixed maturity securities	**$(63,937)**	$(126,492)
Equity securities	**(4,504)**	(13,147)
Other/uncategorized	**(1,811)**	(12,689)
Memorandum total	**$(70,252)**	$(152,328)

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)	**2010**	2009	**2010**	2009	**2010**	2009
Net income (loss)	**$ (517)**	(10,399)	**$(567)**	$(396)	**$(1,084)**	$(10,795)
Adjustments to reconcile net income to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	**(6,022)**	(4,662)	**(131)**	(76)	**(6,153)**	(4,738)
Net gain (loss) of plans pending termination and trusteeship	**37**	(16)	**0**	0	**37**	(16)
Losses (credits) on completed and probable terminations	**509**	4,234	**0**	0	**509**	4,234
Actuarial charges (credits)	**9,421**	13,901	**0**	0	**9,421**	13,901
Benefit payments - trusteed plans	**(5,284)**	(4,337)	**0**	0	**(5,284)**	(4,337)
Settlements and judgments	**0**	0	**0**	0	**0**	0
Cash received from plans upon trusteeship	**81**	368	**0**	0	**81**	368
Receipts from sponsors/non-sponsors	**241**	188	**0**	0	**241**	188
Amortization of discounts/premiums	**89**	(39)	**9**	(4)	**98**	(43)
Changes in assets and liabilities, net of effects of trusteed and pending plans:						
(Increase) decrease in receivables	**(179)**	(409)	**4**	(9)	**(175)**	(418)
Increase in present value of nonrecoverable future financial assistance			**734**	528	**734**	528
Increase in unearned premiums	**9**	24	**0**	0	**9**	24
Increase (decrease) in accounts payable	**14**	(76)	**2**	0	**16**	(76)
Net cash provided (used) by operating activities	**$(1,601)**	$(1,223)	**$ 51**	$ 43	**$(1,550)**	$(1,180)

Note 16: Litigation

Legal challenges to PBGC's policies and positions continued in 2010. At the end of the fiscal year, PBGC had 52 active cases in state and federal courts and 630 bankruptcy and state receivership 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, 2010, the date the financial statements were available to be issued. Events or transactions occurring after September 30, 2010, but prior to November 12, 2010 that provided additional evidence about conditions that existed at September 30, 2010, for either the single-employer or multiemployer program, have been recognized in the financial statements for the period ended September 30, 2010.

For the single-employer program, subsequent to September 30, 2010, business and financial conditions significantly improved for a sponsor of two large single-employer plans which were classified as Probable at September 30, 2010. Had these plan sponsor events occurred prior to FY 2010 year-end, PBGC's financial statements would have reflected an improvement of $550 million in the single-employer Net loss of $517 million, resulting in a Net gain of $33 million, and an increase in the Net position of $550 million (from $(21,594) million to $(21,044) million).

For the multiemployer program, events or transactions that provided evidence about conditions that did not exist at September 30, 2010 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, 2010.

2010 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 2009.

PRESENT VALUE OF FUTURE BENEFITS AND NONRECOVERABLE FINANCIAL ASSISTANCE - 2010

		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)	3,823	957	$57,647
	2. Seriatim at DOPT, adjusted to FYE	40	105	7,534
	3. Nonseriatim[1]	277	304	23,990
	4. Missing Participants Program (seriatim)[2]		21	55
	Subtotal	4,140	1,387	89,226
	B. Probable terminations (nonseriatim)[3]	9	42	3,073
	Total[4]	4,149	1,429	$92,299
II.	**MULTIEMPLOYER PROGRAM**			
	A. Pre-MPPAA terminations (seriatim)	10	*	$ 1
	B. Post-MPPAA liability (net of plan assets)	121	168	3,030
	Total	131	168	$3,031

* Fewer than 500 participants

Notes:

1. The liability for terminated plans has been increased by $55 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 $253 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 $1,628 million. Thus, the net claims for probable terminations as reported in the financial statements are $3,073 million less $1,628 million, or $1,445 million.
4. The PVFB in the financial statements ($90,022 million) is net of estimated plan assets and recoveries on probable terminations ($1,628 million), estimated recoveries on terminated plans ($107 million), and estimated assets for plans pending trusteeship ($542 million), or, $92,299 million less $1,628 million less $107 million less $542 million = $90,022 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 3,823 plans, representing about 92 percent of the total number of single-employer terminated plans (69 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 130 plans over the 3,693 plans valued seriatim last year. For 40 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 2010.

For 277 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 2010 using certain assumptions and adjustment factors.

For the actuarial valuation, PBGC used a select and ultimate interest rate assumption of 4.41% for the first 25 years after the valuation date and 4.51% thereafter. The mortality table used for valuing healthy lives was the 1994 Group Annuity Mortality Static Table (with margins), set forward one year, projected 26 years to 2020 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 121 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, 2010.

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, 2010 and 2009. 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; attestation standards established by the American Institute of Certified Public Accountants; and OMB audit guidance.

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, 2010. 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, 2010, 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.

This report (AUD-2011-2/FA-10-69-1) is also available on our website at http://oig.pbgc.gov.

Sincerely,

Rebecca Anne Batts

Rebecca Anne Batts
Inspector General

November 12, 2010

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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 2010 and 2009, we found:

- 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, 2010.

- No reportable noncompliance in fiscal year 2010 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, 2010 and 2009, and the results of their operations and cash flows for the fiscal years then ended.

By law, PBGC's Single-Employer and Multiemployer Program Funds must be self-sustaining. As of September 30, 2010, PBGC reported in its financial statements net deficit positions (liabilities in excess of assets) in the Single-Employer and Multiemployer Program Funds of $21,594 million and

11710 Beltsville Drive, Suite 300
Calverton, MD 20705-3106
tel: 301-931-2050
fax: 301-931-1710
www.cliftoncpa.com

Member of HLB International

$1,436 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 $169,744 million and $20,000 million, respectively. Management based the Single-Employer Program estimate on data for fiscal years ending in calendar 2009 that was obtained from filings and submissions to the government and from corporate annual reports. A subsequent adjustment for economic conditions through September 30, 2010, has not been made and as a result the exposure to loss for the Single-Employer Program as of September 30, 2010 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, 2010.

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 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 deficiency in internal control 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 and correct misstatements on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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 deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

****

MATERIAL WEAKNESS

PBGC protects the pensions of approximately 44 million workers and retirees in more than 27,500 private defined benefit pension plans. Under Title IV of the Employee Retirement Income Security Act of 1974, 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.

PBGC's systemic security control weaknesses and the lack of an integrated financial management system continued to pose an increasing and substantial risk to PBGC's ability to carry out its mission during fiscal year 2010. PBGC's key decision makers are acutely aware of the challenges facing the Corporation in addressing fundamental weaknesses in its IT infrastructure and environment. Management has therefore taken a multiyear approach to correct these deficiencies at the root cause level. However, in past years, 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 identified in prior years, continued to persist.

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.

The Corporation has now embarked on a more coherent strategy and cost effective approach to resolving and correcting these fundamental IT weaknesses. PBGC has developed and is implementing a multi-year corrective action plan (CAP) to address security issues at the root cause level. However, PBGC management realizes these weaknesses will continue to pose a threat to its environment for several years while corrective actions are being implemented. PBGC will need to implement interim corrective actions to ensure fundamental security weaknesses do not worsen as the CAP is being implemented.

PBGC has entered into an interagency agreement (IAA) with the Bureau of Public Debt (BPD) of the Department of the Treasury to assist PBGC in revising and strengthening its security management program and certification and accreditation process. The multi-year CAP includes the implementation of a more effective Certification and Accreditation (C&A) process, addressing fundamental security weaknesses and initiating an IT infrastructure modernization program. In fiscal year 2010, PBGC procured and implemented new hardware in its infrastructure, as it works towards modernization of its IT infrastructure. Additional future actions include completing PBGC's Enterprise Architecture segment.

Our current year audit work continued to find 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 C&As 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 significant deficiencies in the following areas constitute a material weakness for fiscal year 2010:

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.

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, 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 fiscal year 2010, PBGC made strategic decisions to develop and implement a multi-year CAP to address fundamental weaknesses in its entity-wide security program planning and management. PBGC entered into an IAA for the services of the BPD to assist the Corporation in reassessing its security program and developing a framework for implementing a more coherent strategy for correcting fundamental IT security weaknesses at the root cause level. However, in past years, 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 continued to persist. PBGC management realizes these weaknesses will continue to pose a threat to its environment for several years while corrective actions are being implemented.

PBGC abandoned its C&A documentation and is working with BPD to revise and strengthen its C&A process to ensure security weaknesses are addressed at the root cause level. PBGC did not conduct any C&As in fiscal year 2010. The Corporation has implemented a multi-year plan to correct its C&As.

In prior years, PBGC's entity-wide security program lacked focus and a coordinated effort to adequately resolve control deficiencies. These deficiencies, which continue to persist, 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

Although access controls and configuration management controls are an integral part of an effective information security management program, access controls remain a systemic problem throughout PBGC. PBGC's decentralized approach to system development, system deployments, and configuration management created an environment that lacks a cohesive structure in which to implement controls and best practices. Weaknesses in the IT environment contributed significantly 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, reconciliations, 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 Premium Income, Premium Receivables, and Unearned Premiums in CFS.

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. These controls protect 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.

Industry best practices, National Institute of Standards and Technology (NIST) special publication (SP) 800-64, *Security Considerations in the System Development Life Cycle,* and other Federal guidance 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.

Inappropriate 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.

PBGC management realizes these weaknesses will continue to pose a threat to its environment for several years while corrective actions are being implemented. PBGC developed a CAP that is a three to five year holistic approach starting in July 2010. The CAP has been broken into several process families to address the underlying root causes of the findings.

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

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 Systems*, 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. This Circular states:

> The term "single, integrated financial management system" means a unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls and data necessary to carry out financial management functions, manage financial operations of the agency and report on the agency's financial status to central agencies, Congress and the public. Unified means that the systems are planned for and managed together, operated in an integrated fashion, and linked together electronically in an efficient and effective manner to provide agency-wide financial system support necessary to carry out the agency's mission and support the agency's financial management needs.

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

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

Because PBGC has not integrated its financial systems, PBGC's ability to accurately and efficiently accumulate and summarize information required for internal and external financial reporting is impacted.

If managed effectively, IT investments can have a dramatic impact on an organization's performance and accountability. If not correctly managed, they can result in wasteful spending and lost opportunities for achieving mission goals and improving mission performance. PBGC 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 to guide and constrain modernization projects, it risks investing 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 began to develop an overall strategy, but much work remains before the strategy can be completed and implemented. Steps PBGC has taken include the following:

1. PBGC identified all systems that provide data required to prepare the financial statements.
2. PBGC substantially completed the logical database model including standard data definitions and formats to be used throughout the Corporation.
3. PBGC completed alternative analysis studies for Premium Accounting and CFS.

Major work remains to be completed to set the foundation for an integrated financial management system, including the development and implementation of new IT system solutions/functions in accordance with the Financial Management Segment Architecture and strategic system plan.

Recommendation:

PBGC needs to develop and execute a plan to integrate its 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 fiscal year 2010 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 Chair's message, Director's message, annual performance report, summary of historical financial performance, financial statement highlights, management's discussion and analysis, management representation, Chief Financial Officer's letter, actuarial valuation, letter of the inspector general, and organization 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 PBGC's fiscal year 2010 Annual 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, 2010 based on management's assertion included in PBGC's fiscal year 2010 Annual 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 PBGC's fiscal year 2010 Annual 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 fiscal year ended September 30, 2010; (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 fiscal year 2010 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 fiscal year ended September 30, 2010. 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 2010 financial statements.

Management Comments and Our Evaluation

In commenting on the draft of this report (see page 93 of the PBGC's fiscal year 2010 Annual Report), 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, 2010

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

PBGC Protecting America's Pensions

Office of the Executive Director

MEMORANDUM

November 8, 2010

To: Rebecca Anne Batts
Inspector General

From: Josh Gotbaum
Director

Subject: Response to Draft Independent Auditor's Combined Report on the FY 2010 Financial Statement Audit

Thank you for the opportunity to comment on the Office of Inspector General's FY 2010 combined report, including the opinions on PBGC's financial statements, internal controls, and compliance with laws and regulations.

We appreciate the work your office performs in overseeing this audit. Given the importance of the work that PBGC performs daily for millions of Americans, it is heartening that the Corporation has once again received an unqualified opinion on our financial statements for FY 2010.

We also recognize and concur with your opinion on internal controls. This year's audit reiterated the finding of a material weakness in last year's report, encompassing the significant deficiencies of information security, access controls, and financial systems integration. Management does not consider financial systems integration to constitute a material weakness in and of itself. Nonetheless, after consulting with OIG, we have begun a long-term corrective action plan, and we have made measured progress in FY 2010.

We concur with the audit results and are committed to carrying out our Corrective Action Plans. Your office will be kept apprised of our progress, and we welcome your comments along the way.

cc: Terrence M. Deneen
Patricia Kelly
Richard H. Macy
Vince Snowbarger
Judith R. Starr
Martin O. Boehm

ORGANIZATION

Board of Directors

Hilda L. Solis, *Chair*
Secretary of Labor

Timothy F. Geithner
Secretary of the Treasury

Gary Locke
Secretary of Commerce

Executive Management

Josh Gotbaum
Director

Vincent K. Snowbarger
Deputy Director Operations and
Acting Chief Management Officer

Terrence Deneen
Chief Insurance Program Officer

Patricia Kelly
Chief Financial Officer

Richard Macy
Chief Operating Officer and
Acting Chief Information Officer

Judith R. Starr
General Counsel

Office of Inspector General

Rebecca Anne Batts

Inspector General
[reports directly to the Board through its Chair]

Board Representatives

Phyllis C. Borzi
Assistant Secretary of Labor,
Employee Benefits Security Administration

Michael S. Barr
Assistant Secretary of the Treasury
for Financial Institutions

Rebecca M. Blank
Under Secretary of Commerce
for Economic Affairs

Senior Corporate Management

Robert Bacon,
Acting Director

Department of Insurance Supervision and Compliance

Edgar Bennett,
Director

Budget and Organizational Performance Department

Arthur S. Block,
Director

Procurement Department

Martin O. Boehm,
Director

Contracts and Controls Review Department

Patricia Davis,
Director

Facilities and Services Department

Arrie Etheridge,
Director

Human Resources Department

Israel Goldowitz,
Chief Counsel

Office of the Chief Counsel

John Greenberg
Chief Investment Officer

Corporate Investments Department

David Gustafson,
Director

Policy, Research and Analysis Department

Bennie Hagans,
Director

Benefits Administration and Payment Department

John H. Hanley,
Director

Legislative and Regulatory Department

Deborah Herald,
Director

IT Infrastructure Operations Department

Anand Kothari,
Acting Director

IT & Business Modernization Department

Jeffrey Speicher,
Acting Director

Communications and Public Affairs Department

Theodore J. Winter, Jr.,
Director

Financial Operations Department

The PBGC Advisory Committee

Appointed by the President of the United States

Representing the Interests of the General Public

David M. Strauss, *Chairman*
Bismarck, ND

Dana M. Muir
Ann Arbor, Michigan
Stephen M. Ross School of Business
University of Michigan

Representing the Interests of Employers

No current members

Representing the Interests of Employee Organizations

B. Jack Miller
Darien, Connecticut

John J. Szczur
Rockville, Maryland