

A Pension System Workers and Retirees Can Count On



1995 Annual Report



Pension Benefit Guaranty Corporation

"I challenge every business that can possibly afford it to provide pensions for their employees We should also protect existing pension plans. Two years ago, with bipartisan support, we protected the pensions . . . Congress should not let companies endanger their workers' pension funds."

President William J. Clinton
State of the Union Address
January 23, 1996

CONTENTS

Highlights / 1
Chairman's Message / 2
Executive Director's Report / 3
Pension Funding / 6
Operations / 9
Customer Service / 13
Enforcement / 17
Management / 22
Financial Statements / 25
Actuarial Valuation / 42
Inspector General's Report / 44
Organization / 46
Financial Summary / 47

The Pension Benefit Guaranty Corporation protects the pensions of nearly 42 million working men and women in about 55,000 private defined benefit pension plans, including about 2,000 multiemployer plans. These pension plans provide a specified monthly benefit at retirement, usually based on salary or a stated dollar amount and years of service. The Employee Retirement Income Security Act of 1974 established PBGC as a federal corporation.

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

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

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

Highlights

- ◆ Total underfunding among PBGC-insured single-employer plans fell for the first time in a decade, declining from a high of \$71 billion in 1993 to \$31 billion as of the end of December 1994 because of higher interest rates and additional funding contributions by a number of companies.
- ◆ The single-employer insurance program deficit fell to \$315 million, its lowest level since 1981, largely due to the absence of major terminations during the year and to the success of PBGC's investment program.
- ◆ With lower pension underfunding, PBGC's premium revenues declined slightly as the agency collected less variable-rate premium payments from underfunded plans.
- ◆ Under the Early Warning Program, the agency has negotiated settlements valued at about \$13.5 billion over the past three years, with more than \$740 million provided during 1995. Because of the success of the program, PBGC was one of the first six federal agencies to win the 1995 Innovations in American Government Award of the Ford Foundation and Harvard University's John F. Kennedy School of Government.
- ◆ PBGC's investments benefited from strong capital markets, producing record income in excess of \$2 billion. PBGC's fixed-income investments earned 22.6% for the year while equities earned 30.9%.
- ◆ PBGC terminated 124 underfunded pension plans, bringing the total of terminated plans for which PBGC has or will become trustee to 2,094. Plans terminated in 1995 included 15 plans previously identified as probable terminations.
- ◆ PBGC paid about \$763 million in benefits to more than 182,000 people during the year. Another 210,000 people will receive benefits when they retire in the future.
- ◆ The multiemployer program continued to maintain a considerable surplus after increasing its allowance for future losses. The program's premium and investment income kept the net loss for the year to only \$5 million.

(Dollars in millions)

	1995	1994	Change
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED			
<u>Summary of Operations</u>			
Premium Income	\$ 860	\$ 978	-12%
Loss (Credit) from Plan Terminations	\$ 169	\$ (249)	168%
Investment Income (Loss)	\$ 2,039	\$ (426)	579%
Actuarial Charges (Credits)	\$ 1,563	\$ (927)	269%
<u>Insurance Activity</u>			
Benefits Paid	\$ 763	\$ 721	6%
Retirees	182,300	174,200	5%
Total Participants in Terminated and Multiemployer Plans	392,000	372,200	5%
New Underfunded Terminations	124	114	9%
Terminated/Trusteed Plans (Cumulative)	2,094	1,971	6%
<u>Financial Position</u>			
SINGLE-EMPLOYER PROGRAM			
Total Assets	\$ 10,371	\$ 8,281	25%
Total Liabilities	\$ 10,686	\$ 9,521	12%
Net Income	\$ 925	\$ 1,657	-44%
Net Position	\$ (315)	\$ (1,240)	75%
MULTIEMPLOYER PROGRAM			
Total Assets	\$ 477	\$ 378	26%
Total Liabilities	\$ 285	\$ 181	57%
Net Loss	\$ (5)	\$ (79)	94%
Net Position	\$ 192	\$ 197	-3%

Chairman's Message

When this Administration took office, one of our guiding principles was to protect our nation's private pensions. As this Annual Report shows, the reforms proposed by President Bill Clinton and enacted with bipartisan support in December 1994, in the Retirement Protection Act, are working.

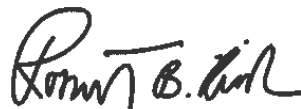
For the first time in more than a decade, pension underfunding has declined. While economic changes played a large part in this decline, increased contributions induced by the

"...we are building a pension system that workers and retirees can count on."

reforms also had an effect. Moreover, the Pension Benefit Guaranty Corporation has sharply reduced its deficit while it continues to forge agreements with employers to add valuable protection for workers and retirees in underfunded pension plans. We have gone the extra mile to put the Corporation on a sound fiscal and managerial

basis so that it can assure the hard-earned benefits of American workers.

With better funding and a stronger pension insurance program, we are building a pension system that workers and retirees can count on. The future looks bright for pension security if we remain vigilant and stand firmly against measures that would undermine the system. It should never be forgotten that interest rates and financial markets fluctuate, that pension funding is volatile, and that the assets of our nation's pension plans have been contributed for the sole benefit of workers and retirees. We must reject changes that would undo the progress we have made. Only then will American workers have confidence that the pensions promised them will be paid.



Robert B. Reich
Secretary of Labor
Chairman of the Board

Secretary of Labor Robert B. Reich (at podium) is Chairman of PBGC's Board of Directors, which includes Secretary of Commerce Ronald H. Brown (left) and Secretary of Treasury Robert E. Rubin (right).



Executive Director's Report

I am pleased to report that the past year has been one of unparalleled success and accomplishment for the Pension Benefit Guaranty Corporation. We made broad advances in the areas of enforcement, customer service, and financial management, restoring the pension insurance program to a level of financial strength unseen in more than 10 years. We have also opened a new era of enhanced service to our corporate customers and our beneficiaries. In the process, PBGC garnered a number of distinctive awards for its programs and achievements.

“The past year has been one of unparalleled success and accomplishment. . .”

The agency's financial footing improved dramatically in 1995. The single-employer program deficit now stands at \$315 million, its lowest point since 1981. The absence of major terminations and our record investment income of more than \$2 billion helped drive our deficit down.

There are ample reasons to remain cautious about the future. Even with a dramatic decline in pension underfunding, billions of dollars of underfunding remain, and a single major termination or drop in interest rates can offset the progress of the past two years. Still, through the efforts of PBGC's dedicated staff, millions of Americans can be assured that their pensions are more secure.

• Enforcement

With the passage of its pension reform package, the Retirement Protection Act, the Administration took decisive action to strengthen the private defined benefit pension system and keep retirement secure. PBGC moved quickly to

implement the reforms and make use of the new law. Within weeks of enactment, we issued detailed technical bulletins on the reforms to give employers broad guidance to assist them in planning for the new requirements. In this first year, we have issued final rules for the new disclosure notices companies must send to inform workers and retirees in certain underfunded plans about the funding of their plans and for new annual reporting to PBGC required of corporate groups with large pension underfunding. We also issued rules to establish PBGC as a clearinghouse for locating missing participants in terminating fully funded plans beginning in 1996.

We are finding that the reforms are already serving as an incentive to improve pension funding, even though the specific funding provisions may not yet have taken effect. We know of companies that have improved the funding of their plans because of the disclosure and reporting measures. And, PBGC already has begun applying its enhanced lien authority to compel companies to make good on missed contributions.

PBGC's Early Warning Program, which benefited from new tools and authority included in the reforms, also continues to spur companies to add funding and security to protect the pensions of workers and retirees in underfunded plans. Through the Early Warning Program, PBGC uses the latest information technology and financial analyses to identify its biggest risks, target resources to mitigate these risks, and prevent significant losses for workers, retirees, and the insurance program. In the last three years, this effort has enabled PBGC to negotiate 30 major settlements that provided about \$13.5 billion in new pension contributions and protections, strengthening the pensions of about 1 million people.



Vice President Al Gore and Ford Foundation President Franklin A. Thomas (right rear) presented the Innovations in American Government Award in a ceremony with Secretary of Labor Robert B. Reich, Deputy Director Robert Klein and Director Andrea Schneider of PBGC's Corporate Finance and Negotiations Department, PBGC Deputy Executive Director and Chief Negotiator Ellen Hennessy, and PBGC Executive Director Martin Slate.

In recognition of its success, the Early Warning Program received two prestigious awards during the year. It was among the first federal programs to win an Innovations in American Government Award, presented annually by the Ford Foundation and Harvard University's John F. Kennedy School of Government to honor creative government solutions to pressing social and economic problems. The program also was honored with a National Performance Review "Hammer Award" presented by Vice President Al Gore in appreciation for "building a government that works better and costs less!"

Perhaps the best news of the year was that pension underfunding in single-employer plans declined for the first time in more than a decade, falling from the \$71 billion reported in 1993 to about \$31 billion as of the end of calendar year 1994. To be sure, this improvement largely reflects economic changes beyond the scope of the insurance program, especially the rise in interest rates that led to a decline in the value of corporate pension obligations. But, it is also due in no small part to the effects of the reforms and our enforcement efforts, which are serving to remind companies that funding pensions is a part of doing business and that well-funded plans make good business sense.

Of course, underfunding has not disappeared and can easily rebound with another decrease in interest rates. We will continue to attack the remaining core of underfunding. Workers and retirees should be able to rely on the pensions promised them, and proper funding is the only long-term assurance that these pensions will be paid.

- **Customer Service**

People depend on PBGC for their pensions and top-quality customer service is a priority for PBGC. In the past two years, PBGC undertook a number of initiatives to improve our service to our customers—the workers and retirees whose plans we have taken over and the companies whose plans we insure. These efforts produced very gratifying results in 1995.

We reengineered our insurance operations, instituting more efficient team processing of plan terminations and participant benefits. We issued some 65,000 benefit determinations, over twice the number issued in 1994. We also substantially improved our telecommunications capability with the opening of our new customer service center in July. People owed benefits by PBGC now can reach us through a nationwide toll-free telephone number, and they can expect swift, sure answers to their questions. Through state-of-

the-art technology, PBGC customer service representatives can quickly access most PBGC plan and participant data as well as prepared information covering many common questions.

This year, we began to upgrade our service to our premium payers. Based on discussions with plan representatives, we established standards for our service to plan sponsors and pension practitioners that addressed their major premium concerns. We pledged to provide quicker responses to their inquiries and requests and earlier issuance of our annual premium package. We also appointed a new Problem Resolution Officer exclusively for premium complaints.

In addition to the standards, we looked for ways to provide regulatory relief for the corporate sponsors and administrators of PBGC-insured plans. We revised our penalty policy to provide lower penalties for small companies and for violations that are quickly corrected. We simplified the form for small plans to use in filing notifications of reportable events and established our first negotiated rulemaking committee to assist in developing amendments required for our reportable events regulation. The members of this committee, representing the interests of employers, employees, and pension practitioners who will be affected by the rule, are working with PBGC staff to develop rules that will be fair and acceptable to the private sector.

- **Management**

Through hard work and attention to detail, financial management has become one of PBGC's strengths. In 1995, PBGC continued to build on the achievements of the past few years. This year, PBGC's Inspector General engaged

Price Waterhouse LLP to conduct the audit of the Corporation's financial statements. The result

“Financial management has become one of PBGC's strengths.”

remained the same, as we received another unqualified opinion on our financial statements. In addition, the General Accounting Office and,

subsequently, the Office of Management and Budget, have each removed PBGC from their high-risk lists.

In other areas, we continued our efforts to improve our automated information systems. In addition to implementing our new premium accounting system, we began using three other new systems for managing our litigation and termination cases and participant data. The quality of the new case administration system, which has been in operation only since early 1995, has already been recognized with a Federal Technology Leadership Award. We also continued to work on integrating our various information systems and improving management controls over data.

- **A Glance at the Future**

We can at last look forward to the future of the pension insurance program with cautious optimism. Our financial foundation is secure and steadily improving. We are at the forefront of technological advances that are enabling us to quickly and substantially improve our service to all of our customers. We have attacked the core of underfunding, although it is still too soon to declare the battle over and the war won.

We now must be careful not to let conditions develop that will foster the growth of new underfunding. Adopting policies unrelated to retirement security can serve only to weaken pension plans in the future. Our Nation's workers and retirees deserve the assurance that their pensions are secure. They look to us for that assurance, and we must not fail them.



Martin Slate

Martin Slate
Executive Director

Pension Funding

The year saw significant improvement in pension underfunding as rising interest rates decreased pension liabilities and companies made additional contributions, reflecting PBGC's enforcement and the Administration's pension reforms. Despite this progress, the Administration faced a new challenge to pension security embodied in a legislative proposal to allow employers increased freedom to withdraw assets from their pension plans.

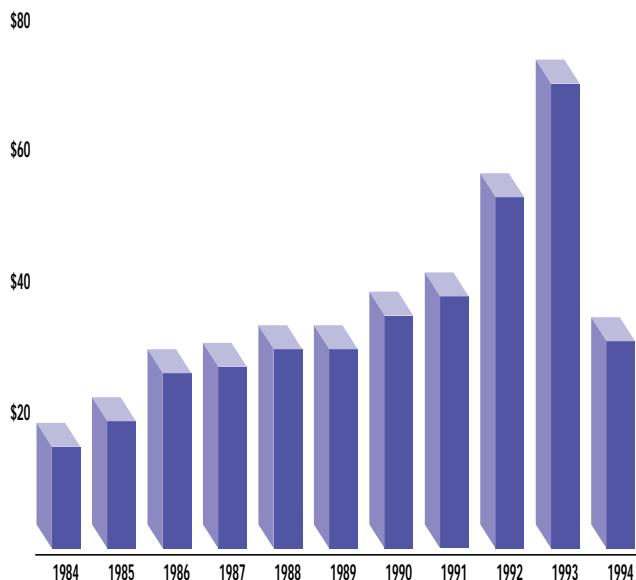
- **Single-Employer Program Exposure**

For the first time since 1983, the growth of underfunding in single-employer plans insured by PBGC has reversed. Total underfunding in single-employer

plans dropped to \$31 billion as of December 31, 1994, from the \$71 billion reported for the end of 1993. These underfunded plans, which covered about 8 million workers and retirees, had

“... significant improvement in pension underfunding...”

Growth of Underfunding in Single-Employer Plans
(Dollars in billions)



total assets of \$211 billion and total liabilities for vested benefits of \$242 billion. Overall, the vast majority of single-employer plans remained fully funded, with assets of all plans totalling about \$987 billion compared to liabilities totalling about \$853 billion.

In another departure from recent years, the pension underfunding was dispersed across a wide range of industries. However, almost half of the underfunding was found in the steel, navigation/aeronautical instruments, transportation equipment, airline, and automobile industries. The automobile industry, which accounted for about a third of the underfunding in 1993, accounted for less than 5 percent of the underfunding in 1994.

Underfunding fell primarily because of higher interest rates, which reduce liabilities, and the infusion of additional contributions to pension plans. Companies contributed more than \$12 billion above their required payments, much of it due to agreements reached with PBGC under the Early Warning Program or in response to the reforms of the Retirement Protection Act. The overall funding ratio of underfunded plans also improved, increasing from 82 percent to 87 percent during the year.

PBGC's annual listing of the 50 companies with the largest underfunded plans also showed the effect of the general improvement in pension funding. Sixteen companies were removed from the list, in many cases because they contributed more than their required amounts. Other companies that remained on the list also increased their contributions to protect the pensions of their workers and retirees. In all, underfunding in the plans on the list decreased to \$13.5 billion from last year's total of \$39.7 billion.

In order to measure how much of the current total underfunding may result in future claims, PBGC categorizes underfunding into three loss contingency classifications that follow generally accepted accounting principles and are based on the financial condition of plan sponsors.

The classifications are probable, reasonably possible, and remote.

Probable claims are those that are likely to occur in a future year based on conditions that existed at PBGC's fiscal yearend. PBGC estimates and records them as liabilities as they are determined, as required by financial accounting standards.



Total underfunding in the range of \$15 billion to \$21 billion was in plans maintained by companies that may present risks to the insurance program and to workers and retirees, including companies with below-investment-grade bond ratings as of September 30, 1995. These plans represent PBGC's reasonably possible claims.

The remaining underfunding was in plans categorized as remote claims. Pension underfunding in these plans is not presently a risk to participants or PBGC.

PBGC's estimate of underfunding in single-employer plans may not reflect increases in underfunding that typically occur in plans of troubled companies. In certain cases, the underfunding that PBGC is obligated to make up will have increased substantially by the time an underfunded plan is terminated.

- **Pension Reversions**

During the 1980's, companies took advantage of the law to withdraw more than \$20 billion from the pension funds set aside for their employees' retirement. In 1990, Congress took action to halt this practice, imposing a substantial excise tax that virtually stopped the reversions of pension plan assets. In 1995, Congress proposed a change

that would again encourage employers to remove large amounts of pension assets.

The change included in the 1995 Budget Reconciliation Bill as a means to increase tax revenues would allow companies to take money from pension plans that are more than 125 percent funded using PBGC assumptions, without paying any excise tax. According to Congressional and Administration analyses, this legislation could lead to the removal of \$15–18 billion of pension assets for non-retirement purposes.

The Administration vigorously opposed the proposal. Led by Secretary of Labor Robert Reich, PBGC's Board of Directors worked with legislators from both parties, underlining the risk of the reversion proposal to pensions and to the pension insurance system. As PBGC has found, overfunded plans can quickly become underfunded as interest rates and financial markets change. A reduction in interest rates of 2 percentage points reduces a plan's funding level from 125 percent to 92 percent. Moreover, companies in financial trouble would have an incentive to strip assets from their pension plans.

The Administration was concerned that the proposal would undo the progress brought by the reforms in the past year. It would also allow long-term retirement savings to pay for current expenses and reduce savings at the very time that savings should be increased to meet the retirement needs of "Baby Boomers" and others. In December, the President vetoed the 1995 budget bill, saying that "People who work hard and save for retirement ought to be able to retire with dignity... This bill would give companies the green light to raid pension funds and put those retirements at risk..."

- **Financial Forecasts**

ERISA requires that PBGC annually provide an actuarial evaluation of its expected operations and financial status over the next five years. PBGC historically has extended these forecasts to cover 10 years.

PBGC's forecasts are subject to significant uncertainty since the amount of PBGC's future claims depends on many factors, including current underfunding among insured plans, any further erosion

in funding, bankruptcies among plan sponsors, and recoveries from these bankrupt sponsors. These factors are influenced by future economic conditions, investment results, and the legal environment that the Congress and the courts create for PBGC's insurance program. Over the longer term, PBGC also will be affected by labor force trends, global trade, and employers' preferences for the variety of pension plans available.

PBGC's current methodology for the 10-year forecasts relies on an extrapolation of the agency's claims experience and the economic conditions of the past two decades. The forecasts do not reflect a full range of economic conditions and do not measure the high degree of uncertainty surrounding PBGC's future claims. To address the limitations of the forecast methodology, PBGC is developing a simulation model, called the Pension Insurance Management System (PIMS), to examine its financial condition under a full range of economic scenarios. Until PIMS is complete, PBGC is continuing to rely on its current methodology.

Ten-Year Forecasts: PBGC has prepared three 10-year forecasts (A, B, and C) of its single-employer program using its current methodology to give a long-term view of the expected status under different loss scenarios. PBGC expects its history of significant annual variations in losses to continue. These forecasts include the significant improvement in PBGC's financial condition expected to result from the Retirement Protection Act but they are less favorable than last year primarily because lower variable-rate premium payments are projected based on the improved pension funding that is already evident. This funding, while reducing PBGC's revenues, also will reduce PBGC's exposure to loss. The forecasts also include an increase in projected claims to reflect lower interest rates.

Forecast A is based on the average annual net claims over PBGC's entire history (\$463 million per year) and assumes the lowest level of future losses. Forecast A projects net income that peaks in 1997 and results in elimination of PBGC's deficit and a surplus of \$2.4 billion at the end of 2005.

Forecast B, which assumes the mid-level of future losses, is based upon the average annual net claims over the most recent 14 fiscal years (\$608 million per year). PBGC began incurring significantly larger claims in 1982. Forecast B projects net income levels that, while lower than Forecast A, still lead to elimination of PBGC's deficit and a surplus of \$200 million at the end of 2005.

Forecast C is highly pessimistic and reflects the potential for heavy losses from the largest underfunded plans by assuming that the plans that represent reasonably possible losses will terminate uniformly over the next 10 years in addition to a modest number of lesser terminations each year. (Reasonably possible losses are discussed in Note 8 to the financial statements.) This forecast assumes \$1.39 billion of net claims each year, resulting in steady growth of PBGC's deficit throughout the 10-year period to \$11.8 billion.

The 1995 forecasts share several assumptions. Projected claims are in 1995 dollars. The present value of future benefits is valued using actuarial assumptions consistent with assumptions used to value the present value of future benefits in the financial statements as of September 30, 1995. Assets are projected to grow at 6.2% annually. Benefits for plans terminating in the future are assumed to grow at 4.9% annually until termination. Plan funding ratios are assumed to increase at 1.5% per year from historical averages and recoveries from plan sponsors are assumed to be constant at 10% of plan underfunding. The number of participants in insured single-employer plans is assumed to remain constant. The flat-rate portion of the single-employer premium is assumed to remain constant at \$19 per participant. Receipts from the variable-rate portion of the premium are projected on the basis of a constant 30-year U. S. Treasury bond rate of 6.0%. Assumed administrative expenses through 2001 are consistent with PBGC's 1997 President's Budget submission and are projected to grow 4.9% each year thereafter.

Operations

With low losses from terminating underfunded plans,

PBGC's single-employer plan insurance program grew stronger. The financial health of PBGC's separate insurance program for multiemployer plans remained stable despite a small financial loss.

- **Single-Employer Program**

The number of American workers and retirees with pensions insured under the single-employer program increased slightly to about 33 million people. At the same time, the number of single-

"...PBGC's single-employer plan insurance program grew stronger."

employer pension plans covered by PBGC fell slightly to about 53,000 as small companies continued to end their plans.

Program Finances: The single-employer program experienced two effects of a decline in interest rates—a \$1 billion increase in the value of PBGC's benefit obligations, more than offset by \$1.2 billion in income from the program's fixed-income assets. With low losses from plan terminations, PBGC's investment and premium

income enabled the agency to reduce the deficit of the single-employer program to \$315 million, the lowest deficit since 1981.

For the year, improved funding of PBGC-insured plans led to a \$117 million decrease in the program's premium revenues to \$838 million. By yearend, the single-employer program's assets had increased by 25 percent to nearly \$10.4 billion, while liabilities increased by 12 percent, to about \$10.7 billion.

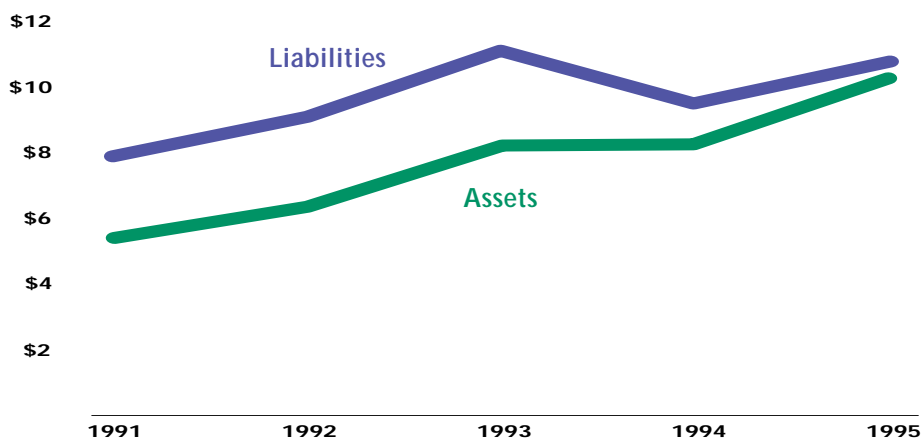
Standard Terminations: An employer may end a fully funded plan in a standard termination by purchasing annuities or paying lump sums to participants. Standard terminations are subject to legal requirements governing notifications to participants and to PBGC and payment of benefits. PBGC may disallow standard terminations that do not comply with the requirements.

There were fewer standard terminations in 1995, continuing a decline from the historically high levels reported during the late 1980's. In 1995, PBGC received about 3,870 notices of standard terminations, slightly fewer than were received in 1994 and one-third the number received annually in the years 1987–1990. The Corporation permitted completion of about 1,870 standard terminations and returned or disallowed another 1,810 cases that were

incomplete or failed to meet legal requirements.

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

Single-Employer Program Assets and Liabilities
(Dollars in billions)





9-A /FPO/4-C Process

which plan administrators are required to correct. In 1995, the audit program resulted in additional distributions totalling nearly \$3 million to more than 5,250 people. In addition, in a case found in 1992 through the audit program (Piggly Wiggly Southern, Inc.), PBGC won a court decision confirming PBGC's finding that the company owes its employees additional pension benefits from a terminated plan. PBGC estimates that the amount owed exceeds \$1 million.

Distress and Involuntary Terminations:

Defined benefit plans that are not able to pay all promised benefits may be terminated either by the plan administrator responsible for the plan or by PBGC. An employer wishing to terminate an underfunded plan generally may do so only if the employer is being liquidated or if the termination is necessary for the company's survival.

Loss Experience from Single-Employer Plans *

(Dollars in millions)

Year of Termination	Number of Plans	Benefit Liability	Trust Plan Assets	Recoveries From Employers	Net Losses	Average Net Loss per Terminated Plan
1975-1981	824	\$ 742	\$ 295	\$ 129	\$ 317	\$ 0.4
1982-1988	797	3,071	936	214	1,920	2.4
1989-1995	463	5,082	2,263	427	2,392	5.2
Subtotal	2,084	8,894	3,495	770	4,629	
Probable terminations	34	2,800	1,348	273	1,179	
Total	2,118	\$11,694	\$4,843	\$1,043	\$5,808	

Note: Numbers may not add up to totals due to rounding.

* Stated amounts are subject to change until PBGC finalizes values for liabilities, assets, and recoveries of terminated plans. Amounts in this table are valued as of the date of each plan's termination and differ from amounts reported in the financial statements and elsewhere in the Annual Report, which are valued as of the end of the stated fiscal year.

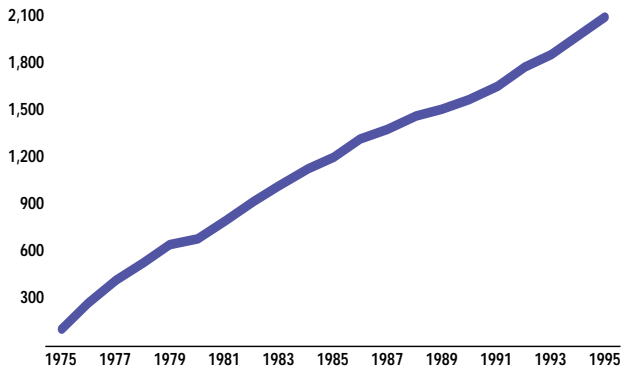
The employer must first prove to PBGC, or to a bankruptcy court if appropriate, that it and each of its affiliated companies meets one of the financial distress criteria set by law.

An underfunded plan also may be terminated involuntarily by PBGC when necessary to protect the interests of the participants or of the insurance program. PBGC must terminate any plan that does not have assets available to pay current benefits.

The number of underfunded plans completing distress or involuntary termination increased in 1995, in part due to PBGC's improved management of its case inventory. Terminations during the year included plans from United Press International; Copperweld Steel Company of Ohio; Union City Body Company, Inc., an Indiana manufacturer of truck bodies; and Hamakua Sugar Company, a Hawaiian sugar cane grower. By yearend, PBGC had approved the termination of 124 underfunded plans, in contrast to the 114 plans in 1994. The actual termination date for many of these plans occurred in earlier years.

Although more underfunded single-employer plans terminated in 1995 than in the previous year, most were small plans and losses from underfunded plans remained relatively low. PBGC's annual losses from underfunded single-employer plans have been variable throughout its history, with net losses generally increasing since 1982.

Terminated/Trusteed Plans



Trusteed Plans: During 1995, PBGC became trustee of 139 single-employer plans, one-third more than in 1994, which had terminated in either the current or prior years. The agency assumed responsibility for an additional 25,000 people in these plans. At yearend, PBGC was in the process of trusteeing an additional 101 single-employer plans. In all, including 10 multiemployer plans previously trusteeed, a total of 2,094 plans were trusteeed or were being trusteeed as of the end of the year. This total also reflects the changed circumstances of one single-employer plan, which no longer required PBGC trusteeeship.

- **Multiemployer Program**

The multiemployer program, which covers about 8.7 million workers and retirees in about 2,000 insured plans, is funded and administered separately from the single-employer program and differs from the single-employer program in several significant ways.

The multiemployer program covers only collectively bargained plans involving more than one unrelated employer. For such plans, the event triggering PBGC's guarantee is the inability of a covered plan to pay benefits when due at the guaranteed level,

rather than plan termination as required under the single-employer program. PBGC provides financial assistance through loans to insolvent plans to enable them to pay guaranteed benefits.

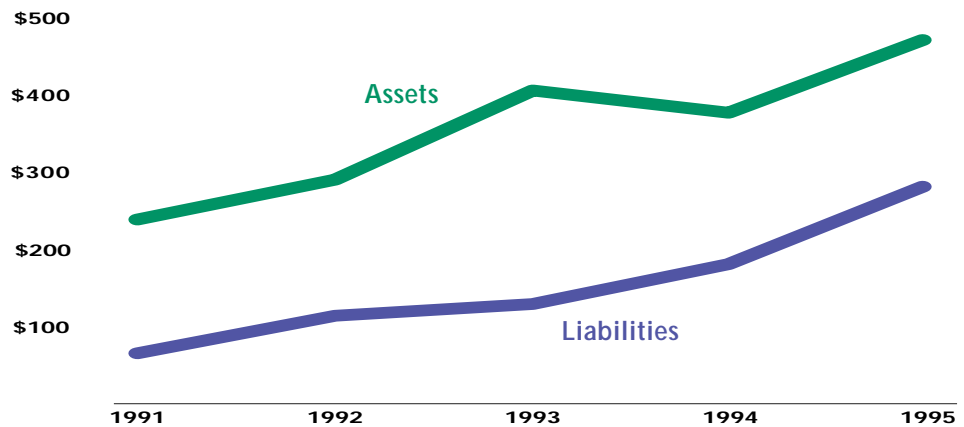
The significant reforms enacted in 1980 created several safeguards for the program, including a requirement that employers that withdraw from a plan pay a proportional share of the plan's unfunded vested benefits. These safeguards have permitted PBGC to maintain multiemployer premiums at a constant, reasonably low level.

“The program continues in sound financial condition...”

The program continues in sound financial condition, with assets of \$477 million, liabilities totalling \$285 million for future benefits and nonrecoverable future financial assistance, and a net surplus of \$192 million. The multiemployer program sustained its second consecutive loss, and only the second loss since passage of the 1980 reforms, as a result of an increase in the allowance for nonrecoverable future financial assistance for one plan that covers about 19,000 people. This reflected the withdrawal in early 1995 of substantially all the employers contributing to the plan. However, the new liability was largely offset by the program's premium and investment income, resulting in a net loss for the year of only \$5 million.

Multiemployer Program Assets and Liabilities

(Dollars in millions)



Plan Underfunding: Based on data as of the beginning of 1993—the most recent information available—multiemployer plans had total assets of \$194.6 billion and liabilities of \$199.9 billion. PBGC has determined that a small number of these plans were underfunded by a total of about \$20 billion. The rest of the multiemployer plans were overfunded by a total of about \$15 billion.

Financial Assistance: The multiemployer program has received relatively few requests for financial assistance. Since enactment of the reforms in 1980, PBGC has provided approximately \$28 million in total assistance, net of repaid amounts, to only 14 of the 2,000 insured plans. Of this amount, about \$4 million went to 9 plans in 1995. PBGC estimates that about \$268 million,

at present value, will be required to make all non-recoverable future payments to the 9 plans currently receiving assistance and to other plans expected to require assistance in the near future.

Program Administration: During 1995, the Corporation made several improvements to its automated multiemployer plan financial database, established one year earlier to capture historical data for use in assessing multiemployer plan economic trends. Based on various recommendations made by the U.S. General Accounting Office during the course of its 1994 audit of PBGC's financial statements, PBGC implemented a number of changes, including improved security controls, back-up capabilities, processing controls, and audit trail documentation.



Customer Service

PBGC dramatically improved its service to its principal customers—workers and retirees owed benefits. The agency also established its first standards for service to companies that pay federal insurance premiums and began to improve that service as well.

- **Benefit Processing**

PBGC's responsibility for benefit payments begins immediately upon becoming trustee of a terminated plan. Top priority is given to maintaining uninterrupted benefit payments to existing retirees and commencing payments to new retirees without delay. Concurrently, PBGC staff also begin intensive efforts to notify plan participants and to obtain essential data and records on each individual participant, a difficult task frequently complicated by inadequate plan and employer records.

“...a new era of faster, more responsive assistance to participants...”

PBGC pays estimated benefits to retirees until it has confirmed necessary data and valued plan assets and recoveries from

the plan's sponsor. PBGC then calculates the actual benefit payable to each participant according to the specific terms of that person's plan, statutory guarantee levels, and the funds available from plan assets and employer recoveries. Benefit calculation can be an intricate process since each trusteed plan is different and must be administered separately.

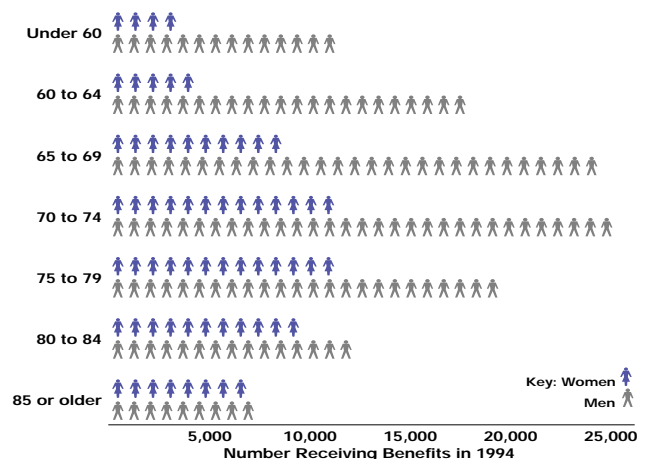
Benefit Payments: About 392,000 participants from single-employer and multiemployer plans rely on PBGC for current and future pension benefits. These include 182,000 retirees receiving pensions and another 210,000 people who are entitled to receive benefits when they

retire in the future. Benefit payments during 1995 totalled \$763 million.

Service Improvements: PBGC ushered in a new era of faster, more responsive assistance to participants when a new customer service center began operations. The center incorporates state-of-the-art features such as a new toll-free telephone number for inquiries from workers and retirees receiving PBGC benefits and provides fast access to PBGC's automated case administration, participant information, and benefit payment systems. Customer service representatives have extensive information available through their individual computer terminals to enable them to answer most inquiries within a matter of minutes. When future enhancements are completed, the customer service center will be responsible for virtually all general and participant telephone calls to the agency. PBGC projects that the center will handle about 8,000 calls per month with an average response time of about 2 minutes.

PBGC's first formal survey to determine the level of satisfaction of people in plans taken over by the agency provided useful insights. Most of the people who responded indicated that PBGC met or exceeded its published standards, but the survey results also showed that PBGC can enhance its service by improving its timeliness, helpfulness, and responsiveness. In response to

Who's Receiving PBGC Benefits, by Age and Sex



*As customers of PBGC, you deserve our best efforts. Our first goal, of course, is getting you your benefit check on time each month. We are also committed to always showing you courtesy and respect when you contact us. **We pledge that:***

- ◆ In all correspondence to you, we will give you the toll-free number of our Customer Service Center and the name of a person to contact at PBGC.
- ◆ In all communications with you, we will acknowledge your inquiry within one week.
- ◆ We will return your initial phone call within 1 workday.
- ◆ If we cannot give you an immediate answer, we will tell you when to expect it.
- ◆ If it will take us longer than expected to answer your question, we will give you a status report and tell you a new date when to expect an answer.
- ◆ If you are receiving a pension check, changes you request (such as address change, direct deposit, tax change) will be made within 30 days, if the request is received by the first of the month. It will take another month if the request is received after the first of the month.

the survey, PBGC added two service standards for telephone calls. The new customer service center and a newsletter for people not yet receiving benefits should help resolve many of the concerns expressed. PBGC also began providing customer service training to all agency employees.

Perhaps the most significant improvement of the year, both for sheer size as well as overall impact on the agency, resulted from the reengineering of PBGC's plan termination and benefit processing operations. Interdisciplinary teams combining the various actuarial, auditing, financial, and benefit processing skills now simultaneously complete both the trusteeship process and the processing of terminated plans. The reengineering makes possible more productive, efficient, customer-oriented service and already has made PBGC a better place to work. Within the first few months of operation, several hundred pending cases were processed

or recommended for termination, more than in any prior year, which contributed to the increased terminations the agency is reporting for the year.

The momentum of PBGC's drive to improve customer service carried over to other initiatives with significant results for 1995. One project to accelerate the calculation of benefits helped PBGC issue more than 65,000 individual benefit determinations, a record for one year that more than doubled the number produced just one year earlier.

Optical imaging also reached a peak, as PBGC completed scanning of all available participant documents, about 8 million pages, and began working on plan records. The agency expects to complete imaging of all plan records by mid-1996 and to begin scanning of documents as they are received or created. Optical imaging, which converts documents to computerized images accessible through personal computers, ensures secure storage and fast retrieval of participant records for the first time in the agency's history.

To improve service to people in larger terminated plans, PBGC has begun to consolidate its field operations into strategically located regional centers. This will reduce operating costs without reducing service to participants.

PBGC also moved quickly to expand its highly successful missing participant program. Over the past two years, this effort has enabled



PBGC to find addresses for about 40,000 previously unlocatable workers and retirees from terminated underfunded plans, many of whom may have been unaware they were entitled to benefits. One of the reforms of the Retirement Protection Act established PBGC as the agency responsible for locating workers who are missing from fully funded plans that terminate. The need for such a federal program emerged from discussions with employers, who have long experienced difficulty in making arrangements with insurance companies and banks to ensure that missing participants receive the benefits owed them. PBGC proposed rules for the program in August, finalized the rules in December, and set the program in motion in January 1996.

Participant Outreach: Clear, effective communications with workers and retirees remained a priority in 1995. The agency continued to publish a semiannual *Pension Newsletter* for retirees to keep them abreast of developments and to hold informational meetings with workers and retirees in large, newly trusteed plans to allay concerns. In 1995, PBGC held 34 such meetings that reached about 4,000 people in locations across the country, tripling the number of meetings held in 1994.

PBGC expanded the “Know Your Pension” information campaign—begun on a pilot basis in 1994 in Ohio and Pennsylvania—to include Illinois, Indiana, Missouri, and Wisconsin. This six-state region has about 15,000 insured plans covering nearly 9 million people, of whom about 2.5 million are in underfunded plans. Through newspaper articles, television and radio messages, posters, and readily accessible pamphlets, the campaign sought to raise awareness of participants in underfunded plans about pensions and PBGC’s guarantees. The campaign has achieved striking results in its first two years. Radio and television messages have now been carried on about 150 stations reaching almost 3 million homes. Newspaper columns have appeared in more than 100 newspapers with more than 9 million readers.

More than 300,000 pamphlets have been taken, generating about 70,000 requests for additional information.

- **Appeals of Benefit Determinations**

PBGC’s Appeals Board resolves appeals of certain PBGC initial determinations. Almost all of the appeals are from people disputing benefit determinations. Typically, about 2 percent of all benefit determinations are appealed.

Most appeals are resolved by appeals department and other PBGC staff without full Appeals Board review, as was the situation for 430 cases in 1995. The Board met to decide 120 appeals, 54 of which required changes in benefits primarily as a result of new facts or a different interpretation of plan provisions.

- **Service to Premium Payers**

PBGC’s second Customer Service Plan, announced in October 1995, focused on the needs of the companies that support PBGC’s pension insurance programs through their premium payments. With the assistance of focus groups of plan representatives, the agency evaluated

This is our pledge to you, our premium payers:

- ◆ We will mail the PBGC-1 package seven months in advance of each plan’s filing date.
- ◆ We will return your phone call within 24 hours. If we cannot immediately resolve the issue you called about, we will tell you when you can expect it to be resolved, and we will give you the name and number of the responsible person.
- ◆ When you ask for reconsideration of the imposition of a premium penalty, we will acknowledge receipt of your request within one week. We will tell you when to expect a response and include the name and phone number of a contact person.
- ◆ We will designate a Problem Resolution Officer to serve as the focal point for complaints from premium payers and their representatives.

services and designed a plan that will be communicated to PBGC's premium payers in 1996 as part of the annual premium package mailing.

In addition to the service plan, PBGC took other steps during the year to improve service for plan sponsors and plan administrators. As part of the Administration's initiative on penalty reform, PBGC revised its policy on penalties for failure to provide required information in a

timely manner. The revised policy provides for lower penalties for plans of small businesses and for violations that are quickly corrected. In addition, PBGC issued a simplified one-page form for small plans to use in notifying PBGC of reportable events that may indicate plan or employer financial problems. The new form generally will eliminate the need for more extensive reporting and documentation.



Enforcement

PBGC negotiators and litigators protected the retirement security of American working men and women across the country, ensuring that employers met their obligations to their pension plans and the insurance program. The Early Warning Program wrested additional funding and security from plan sponsors to protect the pensions of those in underfunded pension plans, winning national recognition for its success. Within weeks after enactment of the Retirement Protection Act, PBGC provided regulatory guidance on the new law while it began applying the new authority and tools provided by the reforms in specific cases.

“...we prevent losses before they occur...”

- **Early Warning Program**

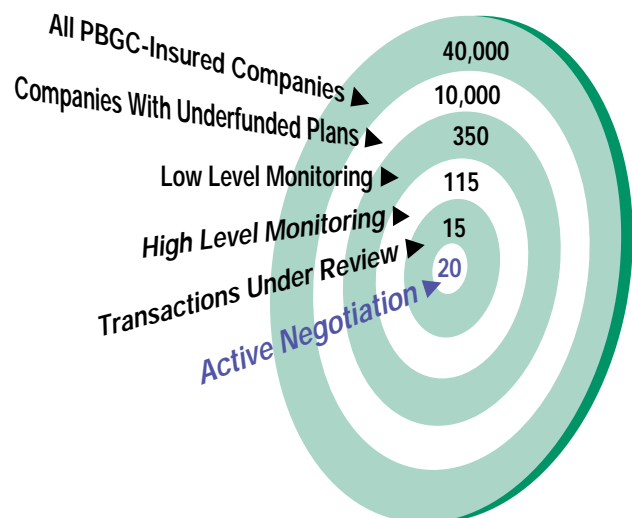
Through the Early Warning Program, PBGC seeks to identify and address concerns about large underfunded plans at an early stage, when corporate resources are available and companies have the most flexibility to strengthen their pensions. PBGC targets the greatest risks to pensions and the insurance program through the use of sophisticated financial and information technology and develops expertise on individual companies and their industries. When one of these companies restructures or otherwise engages in a major transaction, PBGC is then able to approach the employer and negotiate protection for the pensions tailored to that company and its circumstances. In doing so, we prevent losses before they occur, rather than wait to pick up the pieces when a company is in financial distress.

During the past year, PBGC financial analysts and actuaries closely monitored more than 400 companies with pension plans underfunded by at least \$25 million. While these companies represented only 1 percent of all companies

maintaining PBGC-insured plans, their plans represented over 80 percent of the total underfunding in single-employer pension plans. Through analysis of company financial statements, government reports, actuarial valuations, and public announcements of major transactions, PBGC staff identified transactions or events that could adversely affect a plan and its participants, evaluated the risks involved, and determined the measures needed to reduce the risks. This information enabled PBGC to negotiate settlements valued at more than \$740 million with 14 companies during the fiscal year.

General Motors Corporation: GM fulfilled its 1994 agreement with PBGC to contribute \$10 billion to its largest and most underfunded pension plan, covering 600,000 GM workers and retirees, by contributing more than 173 million shares of GM Class E stock, with a value of \$6.26 billion, to the plan. The stock contribution took place after the Department of Labor issued an exemption in March authorizing the transaction. GM had previously contributed \$4 billion in cash under the terms of the agreement and an additional several billion dollars to

Targeting the Universe



the plan during the course of the year. In June, the plan's independent fiduciary sold 21 percent of the GM Class E stock held by the plan, with proceeds of \$1.6 billion.

New Valley Corporation (formerly Western Union Corporation): Early in the year, PBGC action ensured that New Valley's pension plan, which covers 16,000 Western Union workers and retirees, would continue, funded by First Financial Management Corporation (FFMC). At the time, the plan was underfunded by about \$400 million and was the tenth most underfunded plan in the country. PBGC's readiness to take legal action to enforce its claims for the plan's underfunding induced FFMC to assume responsibility for the Western Union plan as part of its purchase of Western Union Financial Services, Inc., New Valley's major asset. Since then, FFMC has contributed a total of \$199 million, well in excess of mandatory minimum funding requirements.

Trans World Airlines: In January 1993, as part of a bankruptcy reorganization, TWA and PBGC reached an agreement resolving the respective liabilities of the airline and of Carl Icahn, TWA's former owner, for TWA's two substantially underfunded defined benefit plans. As part of that agreement, TWA issued \$300 million in notes, secured by its international routes and Kansas City maintenance base, to the pension plans. TWA's payments on the notes were intended to provide at least part of the plans' annual funding requirements, with the balance to be paid by an Icahn company.

In December 1994, as part of a new TWA effort to restructure its debt, PBGC and TWA reached another agreement that reduced the face amount of the airline's notes to \$244 million and gave the plans an equity stake in the airline. TWA's payments on the notes were reduced, the notes continued to be secured by the existing collateral, and the Icahn group remained responsible for any shortfall in annual pension contributions. In August 1995, TWA issued the replacement notes, provided the plans with 4.167 million shares of TWA common

stock, and completed a general financial restructuring through a successful pre-packaged bankruptcy reorganization. The agreement with PBGC provided TWA with greater flexibility and a better chance of servicing all obligations, including the pension payments.

Woodward & Lothrop Holdings, Inc.: Woodward & Lothrop, which owned department store chains in the Washington, DC, metropolitan area and elsewhere, filed for bankruptcy in January 1994. The company maintained a pension plan that was underfunded by about \$30 million. PBGC determined that Woodward & Lothrop's plan of reorganization would break up the controlled group, which had the resources necessary to fund the plan. In August 1995, after several months of negotiations, PBGC reached an agreement with A. Alfred Taubman, the company's chairman and principal shareholder, that protected the full pensions of the company's 10,530 workers and retirees. Under the agreement, The Taubman Investment Company Limited Partnership (TICLP) will contribute sufficient funds to the plan to pay all pension benefits. The A. Alfred Taubman Trust will guarantee the TICLP promise. Woodward & Lothrop will terminate the plan in a standard termination and distribute benefits to the plan's participants in lump sums or as annuities from a private insurance company.

James River Corporation: James River planned to spin off a substantial portion of its communications paper division as a new corporation, Crown Vantage Inc. As part of the spinoff, 12 pension plans covering 8,000 people, with total underfunding of about \$55 million, would be transferred to the new enterprise. The transaction posed risk for PBGC. In August, PBGC and James River reached an agreement under which the company committed to stand behind all 12 plans. James River agreed to either take back the plans or be liable for the underfunding if Crown Vantage is unable to meet their pension promises.

Ampex Corporation: Ampex maintains two pension plans that were underfunded by about \$85 million and covered some 6,000 workers and retirees. At the beginning of the year, Ampex's parent, N.H. Holding Inc., was undergoing a reorganization in bankruptcy. The resulting restructuring of Ampex's controlled group threatened to leave Ampex's pension plans less protected. In December, PBGC negotiated an agreement with Ampex, its parent, and its corporate affiliates under which several current and departing members of the controlled group will remain responsible for Ampex's pension plans in the event Ampex is unable to meet its pension obligations in the future. As a result, the plans remained ongoing and the workers, retirees, and PBGC were protected from loss.

Freedom Forge Corporation: When Freedom Forge missed a required \$3 million pension contribution early in the year, PBGC used authority granted it under the Retirement Protection Act to file liens against the company in June in order to enforce the company's funding obligation. The Freedom Forge pension plan had underfunding of about \$12 million and covered about 540 people. The liens led to a negotiated settlement under which Freedom Forge agreed to a payment schedule designed to increase the overall funding level and improve the liquidity of the company's plans. The contributions are secured by consensual liens on all of the company's assets and properties.

Pitney Bowes, Inc./Dictaphone Corporation: In August, PBGC reached an agreement with Pitney Bowes under which the company will guarantee the pension plan of its Dictaphone subsidiary, which was being acquired by another company through a highly leveraged transaction. The pension plan covers some 4,300 workers and retirees and was underfunded by about \$15 million. Pitney Bowes agreed to retain pension responsibility for 1,600 Dictaphone retirees and former workers while the new Dictaphone Corporation would assume responsibility for the pensions of about 2,700 active employees. Pitney Bowes also agreed to guarantee

the current underfunding of the portion of the pension plan being transferred to the new corporation.

- **Litigation**

When necessary, PBGC can bring to bear more than 20 years of extensive, independent litigation experience to enforce the law and protect the interests of workers, retirees, and the insurance program. PBGC prefers to negotiate settlements of pension issues with the responsible employers but will not hesitate to take legal action when negotiations fail. PBGC litigators continued to build upon the agency's successful record in federal courts across the country.

At the end of the year, PBGC had 87 active cases in state and federal courts and 705 bankruptcy cases.

Piggly Wiggly Southern, Inc.: Through a routine audit following the 1988 termination of a fully funded Piggly Wiggly pension plan, PBGC determined that the company significantly undervalued participants' lump sum benefits. In particular, PBGC determined that the company failed to use the appropriate interest rate



assumptions. As a result of the incorrect valuation, many of the plan participants failed to receive their full benefits and the company was able to recover a \$2.7 million reversion of "excess assets" from the plan. The plan covered 2,500 current and former workers of the company. When Piggly Wiggly refused to pay the additional pension benefits owed, PBGC filed suit in district court to enforce its audit findings. In April, the court upheld PBGC's determination that the participants are owed additional pension benefits. PBGC estimates that the amount owed exceeds \$1 million. The company's appeal was pending at yearend.

CF&I Steel Corporation: PBGC continued to pursue its claims against the reorganized CF&I for a CF&I plan that was underfunded by about \$220 million when terminated in March 1992. In a November 1994 ruling, a district court denied priority to most of PBGC's claims for minimum funding contributions owed CF&I's plan and for the plan's underfunding. The court also remanded the case to the bankruptcy court for reconsideration of the amount of PBGC's underfunding claim, ruling that the bankruptcy court erred in "deferring" to PBGC's interest rate assumption. In November 1995, the bankruptcy court revalued PBGC's claim for unfunded benefit liabilities from \$221 million to about \$124 million (subject to certain adjustments), based on a "discount rate" that differed from the assumptions prescribed by PBGC's regulation. PBGC intends to appeal this ruling.

White Consolidated Industries, Inc.: White continued to contest PBGC's claims for the estimated \$120 million underfunding in pension plans that White transferred to Blaw Knox Corporation in 1985. PBGC is alleging that a principal purpose of White in entering into the transaction was to evade pension liabilities. PBGC has taken over all the Blaw Knox plans either because they ran out of money or because they would have been abandoned after Blaw Knox ceased business and sold its assets in 1994. The case remained pending before a district court at yearend, with trial scheduled for December 1996.

Collins v. PBGC; Page v. PBGC: These consolidated class-action suits were filed by participants in plans that terminated before September 26, 1980, without having been amended to adopt ERISA's minimum vesting standards. The plaintiffs sought a court ruling requiring PBGC to guarantee their benefits as if their plans had been amended. PBGC had determined at the time their plans terminated that only those benefits vested under the express terms of their plans were guaranteeable. After yearend, PBGC and the plaintiffs reached a settlement, which is pending court approval. Under the settlement, people who had 10 or more years of service, or their survivors, generally will receive about 80 percent of the benefits they did not receive at the time their plans terminated. Other people with between five and nine years of service will receive lesser amounts from a separate fund. About 40,000 people may be affected. The overall cost of the settlement is projected at around \$100 million.

- **Rulemaking**

PBGC moved quickly to implement the reforms of the Retirement Protection Act (RPA) after enactment in December 1994. Detailed Technical Updates issued in January and February highlighted the major changes made by RPA and provided broad guidance on PBGC's enforcement of the new requirements until specific rules were developed. Another update issued in May alerted companies to the interest and mortality assumptions PBGC would use to calculate unfunded benefits for its 1995 listings of underfunded plans, providing more time for companies to determine if they wished to make additional contributions for the year to reduce underfunding.

RPA requires that participants in underfunded plans be notified annually about the funding status of their plan and the limits on PBGC guarantees. By July, PBGC had finalized rules to implement this requirement, including an easily understood model notice that had been tested

for readability by a focus group of workers and retirees. About 1,500 companies with large plans covering about 4 million people were affected by the notice requirement in 1995; many of them had to send their notices by December 15. The notice requirement will be extended in 1996 to 4,000 companies with small plans covering 100 or fewer people. PBGC will monitor companies' compliance with the requirement.

Another RPA reform established new annual reporting requirements for corporate groups with large underfunded pension plans. Under final rules issued in December 1995, these groups will have to provide PBGC with 1995 financial and actuarial reports on the group members and their plans. The first filings will be due in 1996. To ease the reporting burden, PBGC coordinated the reporting requirements with information that generally is already available and eliminated the

requirement where the information is publicly available from other federal agencies. Fewer than 100 corporate groups are expected to meet the reporting criteria. PBGC also issued rules implementing the missing participants clearinghouse authorized by RPA.

In addition, the agency established its first negotiated rulemaking advisory committee to develop proposed amendments to PBGC's regulation on reportable events. Through negotiations, members of the committee, representing employers, employees, and pension practitioners who will be affected by PBGC's revised reportable events rules, will attempt to reach a consensus that PBGC will use as a basis for a proposed rule. The committee, whose members receive neither compensation nor expense reimbursement, held its first meeting in October 1995 with the goal of producing a proposed regulation by the spring of 1996.



Management

New technology improved PBGC's automated information systems and eliminated weaknesses remaining in the agency's financial operations. The agency made additional gains in its financial management, as record investment income contributed to the sharp drop in PBGC's deficit. Supporting the agency's focus on customer service, employee development included new customer service training for all PBGC staff as well as training of operations staff in new team-processing approaches.

- **Information Management**

PBGC is rapidly acquiring advanced information technology to administer the insurance programs. The past year saw implementation of new automated premium accounting and case administration systems and substantial progress on new legal management and participant information management systems. These systems augment PBGC's ability to manage growing legal and termination caseloads and participant services.

The new systems operate through networked personal and small multi-user computers, rather than large mainframe computers, to provide flexibility and ease of use. Features such as automatic letter generation, workload monitoring, and system interfaces should markedly increase the effectiveness of internal processes and customer service.

PBGC continued to work toward full integration of its automated information systems and to develop the systems architecture that will assure consistency among current and future systems. During the year the agency completed a corporate data dictionary identifying PBGC's automated information and a corporate data management system to access, compare, and report the information.

- **Financial Management**

Early in 1995, the General Accounting Office recognized PBGC's progress in improving its financial management by issuing an unqualified opinion on PBGC's 1994 financial statements and removing the pension insurance program from GAO's high-risk list. The Office of Management and Budget subsequently removed PBGC from its high-risk list as well. PBGC's 1995 financial statements have received an unqualified opinion from the agency's auditors for the third straight year, again substantiating the strength of PBGC's current financial management. This year, PBGC's Inspector General engaged Price Waterhouse LLP to conduct the audit.

PBGC continued to take corrective actions as needed to address the few remaining internal control weaknesses. A major step completed during the year involved implementation of a new "standard general ledger" to provide an automated reporting system that draws data from the agency's other financial information systems. The standard general ledger replaced labor-intensive personal computer-based applications that required redundant manual entry of data. The new reporting system provides improved quarterly financial information for management.

To ensure that all premiums due the agency are paid, PBGC began conducting field examinations of pension plans to be certain that plans are accurately counting their participants when calculating premium payments. These audits will augment the collection and compliance program that uses automated searches of Internal Revenue Service, Department of Labor, and PBGC pension files to identify nonpayers and plans that underpaid their premiums.

In its previous audits, GAO had expressed concern about PBGC's assessment of the multi-employer program's liability for financial assistance and about PBGC's database of information on the workers and retirees to whom it owes pension benefits. These concerns have now been addressed. Measures adopted during the year include new internal controls and documentation for the financial database on insured multiemployer plans and new procedures to review and confirm participant data. PBGC also has increased its efforts to collect participant data as soon as possible after taking over a terminated plan in order to ensure the greatest possible accuracy of its records and of the valuation of the agency's benefit liabilities.

- **Other Initiatives**

PBGC was one of only two small federal agencies that met a National Performance Review goal by implementing an electronic procurement system for purchases of \$25,000 or less before September 30, 1994. During 1995, PBGC received commendation from the Office of Management and Budget for its success with "electronic commerce," through which PBGC has achieved significant savings by using nationwide electronic bulletin boards to increase competition for small procurements. PBGC also was one of eight agencies that received recognition from the Joint General Services Administration/Sprint Applications and Technology Quality Team, and PBGC's telecommunications manager separately received a Small Agency Award for PBGC's innovative, effective use of telecommunications technology.

In other areas, PBGC established its initial set of corporate performance measures covering specific aspects of its service to workers and retirees. The agency also pressed forward with a comprehensive upgrading of PBGC employee training programs to meet specialized, technical, and management needs, with emphasis on customer-service and team-building.

- **Investment Program**

The Corporation has approximately \$10.5 billion of total assets available for investment, consisting of premium revenues accounted for in the Revolving Funds and assets from terminated plans and their sponsors accounted for in the Trust Funds. The Revolving Funds are required to be invested in Treasury securities; PBGC has more discretion in its investment of the Trust Funds. PBGC's investment policy aims for long-term reduction of its deficit by maximizing expected investment returns within prudent, reasonable levels of risk. Assets are primarily invested in high-quality fixed-income securities and equities, with asset allocation designed for sound long-term performance.

Investment Profile: As of September 30, 1995, the value of PBGC's total investments, including cash, was approximately \$10.5 billion. The revolving fund value was \$6.4 billion and the trust fund value was \$4.1 billion.



PBGC's fund allocation remained relatively unchanged during 1995. Cash and fixed-income securities represented 68 percent of the total fund at the end of the year, as compared to 69 percent at the end of 1994, while the equity allocation stood at 32 percent compared to 30 percent one year earlier. A small portion of the invested portfolio remains in real estate and other financial instruments.

Investment Profile

	September 30,	
	1995	1994
Fixed-Income Assets		
Average Quality	AAA	AAA
Average Maturity (years)	21.4	23.0
Duration (years)	10.3	9.9
Yield to Maturity (%)	6.6	7.8
Equity Assets		
Average Price/Earnings Ratio	18.0	18.3
Dividend Yield (%)	2.4	2.8
Beta	1.06	1.07

Investment Results: Fiscal year 1995 was a positive year for capital market investments and PBGC's investment program. The broad stock market, as measured by the Wilshire 5000 Index, advanced 29.1%, while PBGC's equity program advanced 30.9%. PBGC's fixed-income program also exhibited a strong return of 22.6% for the year, while the Lehman Brothers Long Treasury Index gained 23% and the Lehman Brothers Aggregate Bond Index gained 14.1%. For the year, PBGC reported income of about \$1.3 billion from fixed-income investments and \$780 million from equity investments. Other investments, including real estate, experienced a loss of \$10 million, for total investment income of slightly more than \$2 billion.

Investment Performance

(Annual Rates of Return)

	September 30,		Five Years Ended
	1995	1994	September 30, 1995
Total Invested Funds	24.1%	-6.4%	15.5%
Equities	30.9	4.5	18.0
Fixed-Income	22.6	-11.2	14.9
Trust Funds	26.8	1.6	16.6
Revolving Funds	22.5	-11.2	15.0

Indices

Wilshire 5000	29.1	2.5	18.1
S&P 500 Stock Index	29.7	3.7	17.2
Lehman Brothers Long Treasury Index	23.0	-10.7	12.7

Financial Statements

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

- **General**

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

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

- **Combined Results**

For 1995, PBGC's combined underwriting and financial activities resulted in a net gain of \$920 million on gross income of \$2,917 million. The single-employer program reported net income of \$925 million and the multiemployer program reported a net loss of \$5 million. By law, these two programs are separate.

- **Single-Employer Program**

Results of Activities and Trends: The net income in 1995 was \$925 million compared to net income of \$1,657 million in 1994. The \$732 million decrease was primarily attributable to the increase in the actuarial charge resulting from lower interest rates.

UNDERWRITING ACTIVITY: The gain of \$620 million in 1995 was in contrast to a gain of \$1,236 million in 1994. This \$616 million difference was primarily due to the \$418 million increase in losses from completed and probable terminations largely due to the decrease in interest rates.

Underwriting income decreased from \$997 million in 1994 to \$856 million in 1995. The \$141 million decrease is primarily due to a 12 percent decrease in premium income largely attributable to a greater number of single-employer plans approaching/achieving a "fully funded" status and/or receiving sponsor contributions at the "full funding" tax deductible limit for the year (per Section 412(c)(7) of the Internal Revenue Code). Plan underfunding decreased as a result of increased contributions, strong returns on the plans' investments, and lower liabilities due to higher interest rates, resulting in reduced variable-rate premiums as a revenue source.

The Corporation's losses from completed and probable plan terminations are \$169 million in 1995 compared to a credit of \$249 million in 1994. Losses are driven by major plan terminations, which are unpredictable.

Operating costs increased 4 percent in 1995 from \$125 million to \$130 million.

Actuarial adjustments in 1995 resulted in a gain of \$82 million versus a gain of \$115 million in 1994. The \$33 million decrease is primarily due to changes in PBGC's seriatim data.

FINANCIAL ACTIVITY: Investment income offset actuarial charges in 1995, resulting in a \$305 million gain versus a \$421 million gain in 1994. The total return on investments was 24.1% in 1995, compared to -6.4% in 1994. This was directly attributable to the decline in interest rates that produced a substantial gain in the fixed-income portfolio. In addition, the equity portfolio enjoyed gains as a result of the strongest equity market since 1991, as measured by the Standard & Poors 500. PBGC, in accordance with generally accepted accounting principles, marks its assets and liabilities to market.

Actuarial charges primarily resulted from the aging of the present value of future benefits and from changes in interest rates. In 1995, the select interest rate assumption decreased from 7.9% at September 30, 1994, to 6.5% at September 30, 1995, while the ultimate rate after 20 years decreased from 6.0% to 5.0%, resulting in an actuarial charge of \$1,001 million in 1995, compared to an actuarial credit of \$1,371 million in 1994.

Liquidity and Capital Resources: The single-employer fund's net position improved in 1995 to a negative \$315 million primarily because of the return on investments. Despite this deficit, management believes PBGC has sufficient assets to meet its liquidity requirements through operations for many years. Most new terminations bring in significant assets and the vast majority of PBGC's liabilities for benefits due to participants and their beneficiaries are paid over many years. Approximately \$10 billion (96 percent) of the fund's total assets of \$10.4 billion are in marketable assets.

PBGC's primary sources of cash are from premium receipts and investment activities. If funds generated from these sources are insufficient to meet fixed charges in any period, the Corporation has available a \$100 million line of credit from the U.S. Treasury for liquidity purposes. PBGC did not use this borrowing authority in 1994 or 1995 and has no plans to use it in the near future.

Premium receipts may decline in fiscal year 1996. Benefit payments and administrative expenses should be approximately \$900 million in 1996.

The Corporation is subject to litigation that could have considerable impact on its financial condition, as discussed in Note 17 of the financial statements. Also, the total underfunding in large plans that are sponsored by companies with below-investment-grade bond ratings ranges from approximately \$15 billion to \$21 billion (see Note 8 of the financial statements). Losses from these plans are not probable at this time and only require the exposure to be disclosed in the footnotes of the financial statements. This exposure is primarily in the steel, airline, transportation equipment, tire and rubber, industrial and commercial machinery, and navigation/aeronautical instruments and related products industries.

PBGC's ability to eliminate its deficit over the long term will depend, primarily, on its ability to avoid large losses from the termination of major companies' underfunded plans. PBGC expects the reform legislation enacted in December 1994 to result in marked, steady increases in funding levels for underfunded plans.

• Multiemployer Program

Results of Activities and Trends: The multiemployer program sustained a loss of \$5 million in 1995 compared to a loss of \$79 million in 1994. This year's loss was due to the accrual of future financial assistance for a large plan classified as a probable. The accrual of the future financial assistance resulted in a loss of \$108 million in 1995 as compared to a loss of \$57 million in 1994. Premium income declined slightly from \$23 million in 1994 to \$22 million in 1995. Investment income rebounded from a loss of \$46 million in 1994 to a gain of \$83 million in 1995. Of the fund's assets, 95.8 percent are invested in Treasury securities that are highly sensitive to interest-rate changes.

Liquidity and Capital Resources: As the multiemployer program has a positive net position and most assets are highly liquid Treasury securities, PBGC has sufficient resources to meet its liquidity requirements now and in the long-term future. Premium receipts will approximate \$22 million, while benefit payments and financial assistance will be about \$6 million for 1996.

• Federal Managers' Financial Integrity Act Statement

Management controls in effect in 1995 provided reasonable assurance that assets were safeguarded from material loss and that transactions were executed in accordance with management's authority and with significant provisions of selected laws and regulations. Furthermore, PBGC management controls provided reasonable assurance that transactions were properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with generally accepted accounting principles and to maintain accountability for assets among funds.

Although the controls were adequate to provide reasonable assurance, management has identified several weaknesses that need to be improved. Substantial improvements were made during 1995 as six weaknesses were corrected. Initiatives are underway to overcome the remaining three weaknesses, i.e., document backup and storage, strategic information management, and the integration of PBGC's financial management systems, by October 1997.

Management Representation

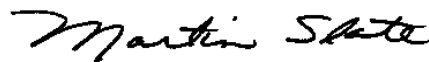
PBGC's management is responsible for the accompanying Statements of Financial Condition as of September 30, 1995 and 1994, the related Statements of Operations and Changes in Net Position, and the Statements of Cash Flows for the years then ended. PBGC's management is also responsible for establishing and maintaining systems of internal accounting and administrative controls that provide reasonable assurance that the control objectives—preparing reliable financial statements, safeguarding assets, and complying with laws and regulations—are achieved.

The financial statements of the single-employer and multiemployer programs administered by PBGC for the year ended September 30, 1994, were audited by the U.S. General Accounting Office, whose report dated February 15, 1995, expressed an unqualified opinion on those statements. The Inspector General engaged Price Waterhouse LLP (Price Waterhouse) to conduct the audit of the Corporation's 1995 financial statements. In its opinion on PBGC's financial statements, Price Waterhouse reported that the Statements of Financial Condition, Statements of Operations and Changes in Net Position, and Statements of Cash Flows for the fiscal year ended September 30, 1995, were fairly stated in all material respects.

In the opinion of management, the financial statements present fairly the financial position of PBGC at September 30, 1995, and September 30, 1994, and the results of operations and cash flows for the years then ended, in conformity with generally accepted accounting principles and actuarial standards applied on a consistent basis.

Estimates of probable terminations, nonrecoverable future financial assistance, amounts due from employers, and the present value of future benefits may have a material effect on the financial results being reported. In addition, pending litigation could have a material impact on the financial condition of the Corporation. PBGC believes, however, that its legal positions have merit and that its positions will be upheld by the courts.

As a result of the aforementioned, these statements are based, 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.



Martin Slate
Executive Director



N. Anthony Calhoun
*Deputy Executive Director
and Chief Financial Officer*

December 22, 1995

Pension Benefit Guaranty Corporation
Statements of Financial Condition

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
<i>(Dollars in millions)</i>	1995	1994	1995	1994	1995	1994
Assets						
Cash and cash equivalents	\$ 437	\$ 627	\$ 12	\$ 22	\$ 449	\$ 649
Investments, at market (Note 3):						
Fixed maturity securities	6,177	4,690	457	349	6,634	5,039
Equity securities	3,270	2,418	3	3	3,273	2,421
Real estate	62	66	0	0	62	66
Other	80	56	0	0	80	56
Total investments	9,589	7,230	460	352	10,049	7,582
Receivables, net:						
Sponsors of terminated plans	76	172	0	0	76	172
Sponsors of restored plans (Note 4)	49	0	0	0	49	0
Premiums	27	37	0	0	27	37
Sale of securities	25	32	0	0	25	32
Notes receivable (Note 18)	82	80	0	0	82	80
Investment income	69	60	5	4	74	64
Other	13	40	0	0	13	40
Total receivables	341	421	5	4	346	425
Furniture and fixtures, net	4	3	0	0	4	3
Total assets	\$10,371	\$8,281	\$477	\$378	\$10,848	\$8,659

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

Pension Benefit Guaranty Corporation
Statements of Financial Condition

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
<i>(Dollars in millions)</i>	1995	1994	1995	1994	1995	1994
Liabilities						
Present value of future benefits, net (Note 5):						
Trusteed plans	\$ 9,016	\$ 7,874	\$ 10	\$ 10	\$ 9,026	\$ 7,884
Terminated plans pending trusteeship	193	175	0	0	193	175
Claims for probable terminations	1,179	1,166	0	0	1,179	1,166
Total present value of future benefits, net	10,388	9,215	10	10	10,398	9,225
Present value of nonrecoverable future financial assistance (Note 6)			268	164	268	164
Unearned premiums	197	229	7	7	204	236
Accounts payable and accrued expenses (Note 7)	101	77	0	0	101	77
Commitments and contingencies (Notes 8, 9, and 17)						
Total liabilities	10,686	9,521	285	181	10,971	9,702
Net position	(315)	(1,240)	192	197	(123)	(1,043)
Total liabilities and net position	\$ 10,371	\$ 8,281	\$ 477	\$ 378	\$ 10,848	\$ 8,659

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	
	September 30,		September 30,		September 30,	
<i>(Dollars in millions)</i>	1995	1994	1995	1994	1995	1994
Underwriting:						
Income:						
Premium income (Note 10)	\$ 838	\$ 955	\$ 22	\$ 23	\$ 860	\$ 978
Other income (Note 11)	18	42	0	0	18	42
Total	856	997	22	23	878	1,020
Expenses:						
Administrative expenses	130	125	0	0	130	125
Other expenses	19	0	0	0	19	0
Total	149	125	0	0	149	125
Other underwriting activity:						
Losses (credits) from completed and probable terminations (Note 12)	169	(249)	0	0	169	(249)
Losses from financial assistance (Note 6)			108	57	108	57
Actuarial adjustments (Note 5)	(82)	(115)	0	(1)	(82)	(116)
Total	87	(364)	108	56	195	(308)
Underwriting income (loss)	620	1,236	(86)	(33)	534	1,203
Financial:						
Investment income (loss) (Note 13):						
Fixed	1,187	(490)	82	(46)	1,269	(536)
Equity	779	74	1	0	780	74
Other	(10)	36	0	0	(10)	36
Total	1,956	(380)	83	(46)	2,039	(426)
Expenses:						
Investment expenses	8	10	0	0	8	10
Actuarial charges (credits) (Note 5):						
Due to passage of time	642	560	1	1	643	561
Due to change in interest rates	1,001	(1,371)	1	(1)	1,002	(1,372)
Total	1,651	(801)	2	0	1,653	(801)
Financial income (loss)	305	421	81	(46)	386	375
Net income (loss)	925	1,657	(5)	(79)	920	1,578
Net position, beginning of year	(1,240)	(2,897)	197	276	(1,043)	(2,621)
Net position, end of year	\$ (315)	\$(1,240)	\$192	\$197	\$ (123)	\$(1,043)

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

Pension Benefit Guaranty Corporation
Statements of Cash Flows

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
<i>(Dollars in millions)</i>	1995	1994	1995	1994	1995	1994
Operating Activities:						
Premium receipts	\$ 836	\$ 1,008	\$ 23	\$ 23	\$ 859	\$ 1,031
Interest and dividends received, net	465	347	28	8	493	355
Cash received from plans upon trusteeship	42	66	0	0	42	66
Receipts from sponsors	189	33	0	0	189	33
Other receipts	19	25	0	0	19	25
Receipts of notes receivable	6	5	0	0	6	5
Benefit payments—trusteed plans	(737)	(693)	(2)	(2)	(739)	(695)
Payment of LTV Contingent Value Rights	0	(96)	0	0	0	(96)
Payment of Pan Am annuities settlement	(25)	0	0	0	(25)	0
Financial assistance payments			(4)	(4)	(4)	(4)
Payments for administrative and other expenses	(141)	(124)	0	0	(141)	(124)
Net cash provided by operating activities (Note 16)	654	571	45	25	699	596
Investing Activities:						
Proceeds from sales of investments	2,646	11,024	86	270	2,732	11,294
Payments for purchases of investments	(3,490)	(11,281)	(141)	(292)	(3,631)	(11,573)
Net cash used in investing activities	(844)	(257)	(55)	(22)	(899)	(279)
Net increase (decrease) in cash and cash equivalents	(190)	314	(10)	3	(200)	317
Cash and cash equivalents, beginning of year	627	313	22	19	649	332
Cash and cash equivalents, end of year	\$ 437	\$ 627	\$ 12	\$ 22	\$ 449	\$ 649

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

Notes to Financial Statements September 30, 1995 and 1994

Note 1—Organization and Purpose

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

ERISA requires that PBGC programs be self-financing. The Corporation finances its operations through premiums collected from covered plans, assets assumed from terminated plans, collection of employer liability payments due under ERISA as amended, and investment income. In addition, PBGC may borrow up to \$100 million from the U.S. Treasury to finance its operations. The Corporation did not use this borrowing authority during the years ended September 30, 1995, or September 30, 1994, nor is use of this authority currently planned. ERISA provides that the U.S. Government is not liable for any obligation or liability incurred by PBGC.

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

Under the multiemployer program, if a plan becomes insolvent, it receives financial assistance from PBGC to allow the plan to continue to pay participants their guaranteed benefits. Such assistance is recognized as a loss to the extent that the plan is expected to be unable to repay these amounts from future plan contributions, employer withdrawal liability, or investment earnings.

Note 2—Significant Accounting Policies

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 a pro rata portion of the benefits paid each year. The revolving and trust funds have been combined for presentation purposes in the financial statements. The single-employer and multiemployer programs are separate entities by law and, therefore, are reported separately.

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

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

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

Valuation Method: Consistent with generally accepted accounting principles outlined in Statements of Financial

Accounting Standards Nos. 35, 60, and 87, PBGC reports its assets and liabilities at fair value. A primary objective of PBGC's financial statements is to provide financial information that is useful in assessing PBGC's present and future ability to ensure that defined benefit beneficiaries receive benefits when due. PBGC believes that measuring its assets and liabilities at fair value provides the most relevant information to the reader.

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

Investment Valuation and Income: Fair values are based on the last sale of a listed security, on the mean of the "bid-and-asked" for nonlisted securities, or on a valuation model in the case of fixed-income securities that are not actively traded. These valuations are determined as of the end of each fiscal year. Purchases and sales of securities are recorded on the trade date. Investment income is accrued as earned. Dividend income is recorded on the ex-dividend date. Realized gains and losses on sales of investments are calculated using an average cost basis. Any increase or decrease in the market value of a plan's assets occurring after the date on which the plan is terminated must, by law, be credited to or suffered by PBGC (see Notes 3, 5, and 13).

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

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

Present Value of Future Benefits (PVFB): The PVFB is the estimated liability for future pension benefits that PBGC is or will be obligated to pay with respect to trustee plans and terminated plans pending trusteeship.

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

- (1) **Trusteed Plans**—represents the present value of future payments of benefits less the present value of expected recoveries, for which an agreement has not been reached, from sponsors, and members of their controlled group, of plans that have terminated and been trustee by PBGC prior to fiscal yearend.
- (2) **Terminated Plans Pending Trusteeship**—represents the present value of future payments of benefits 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, from sponsors, and members of their controlled group, of plans that have terminated but have not been trustee by PBGC prior to fiscal yearend.
- (3) **Net Claims for Probable Terminations**—includes reasonable estimates of the losses, net of plan assets and the present value of expected recoveries from sponsors and members of their controlled group, for plans that are likely to terminate in a future year. These estimated losses are based on conditions that existed as of PBGC's fiscal yearend. It is likely that one or more events subsequent to PBGC's fiscal yearend will occur, confirming the fact of the loss.

Benefit payments to participants of pension plans trustee by PBGC, or that are terminated and pending trusteeship, represent a reduction to the PVFB (see Note 5).

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, 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 future 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 6).

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

Losses from Completed and Probable Terminations: Amounts reported as losses from completed and probable terminations in the Statements of Operations and Changes in Net Position represent the difference as of the date of plan termination between the present value of future benefits (including amounts owed under Section 4022(c) of ERISA) assumed, or expected to be assumed, by PBGC, less related plan assets and the present value of expected recoveries from sponsors and members of their controlled group (see Note 12). In addition, the plans' net income from date of plan termination to the beginning of the fiscal year is included as a component of losses from completed and probable terminations for plans with termination dates prior to the year in which they were added to PBGC's inventory of terminated plans.

Actuarial Adjustments and Charges: Actuarial adjustments related to changes in method and the effect of experience are classified as underwriting activity. Actuarial charges related to changes in interest rates and passage of time are classified as financial activity. These adjustments and charges represent the change in the PVFB that results from applying actuarial assumptions in the calculation of future benefit liabilities (see Note 5).

Depreciation: Depreciation of PBGC's furniture and equipment is calculated on a straight-line basis over the estimated useful lives of the assets. The useful lives range from 5 to 10 years. Routine maintenance repairs and leasehold improvements (the amounts of which are not material) are charged to operations as incurred.

Note 3—Investments

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

The trust funds include assets PBGC acquires or expects to acquire with respect to terminated plans and

investment income thereon. These assets generally are held by custodian banks.

The basis and market value of the investments by type are detailed below. The basis indicated is cost of the asset if acquired after the date of plan termination or the market value at date of plan termination if the asset was acquired as a result of a plan's termination. Realized and unrealized gains and losses, in addition to interest and dividends earned on these investments, are disclosed in Note 13.

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

(Dollars in millions)

	September 30, 1995		September 30, 1994	
	Basis	Market Value	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	\$5,555	\$6,143	\$4,764	\$4,609
Commercial paper	0	0	1	1
Corporate bonds	28	34	93	80
Subtotal	5,583	6,177	4,858	4,690
Equity securities	2,395	3,270	2,114	2,418
Real estate	64	62	71	66
Other:				
Insurance contracts	70	41	26	25
Mortgages	1	1	6	6
Foreign securities	31	38	25	25
Total	\$8,144	\$9,589	\$7,100	\$7,230

Investments of Multiemployer Revolving Funds and Multiemployer Trusteed Plans

(Dollars in millions)

	September 30, 1995		September 30, 1994	
	Basis	Market Value	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	\$412	\$457	\$359	\$349
Corporate bonds	0	0	0	0
Subtotal	412	457	359	349
Equity securities	2	3	3	3
Total	\$414	\$460	\$362	\$352

Note 4—Receivables, Net: Sponsors of Restored Plans

LTV re-purchased \$724 million (face value) of its own zero coupon bonds from PBGC (with a \$75 million book value) in exchange for \$39 million in cash and a \$48 million, 8 1/2% interest-bearing note maturing on December 31, 2020. The current balance includes accrued interest of \$1 million. PBGC recorded a \$12 million gain from the result of this transaction, which occurred during fiscal year 1995.

Note 5—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, 1995 and 1994.

PBGC used a 20-year select interest rate of 6.5% followed by an ultimate rate of 5% for 1995 and a 20-year select interest rate of 7.9% followed by an ultimate rate of 6% for 1994. These rates were determined as those needed to continue to match the survey of insurance company prices provided by the American Council of Life Insurance (ACLI). The prices reflect the rates at which, in the opinion of management, the liabilities (net of expenses) could be settled in the market at September 30, for single-premium nonparticipating group annuities issued by private insurers. These rates are impacted by many factors including Federal Reserve policy.

In both years, PBGC used the 83GAM mortality table with margins, projected to 1993 by Scale H. PBGC has found that this table is generally consistent with its experience.

For 1995 and 1994, the administrative expense assumption consists of (1) an initial case processing cost of \$10,800 per plan plus \$270 per plan participant, both of which are phased out over four years following the date of trusteeship; and (2) a flat 1.35 percent of total benefit liability. PBGC derived this formula from its own experience.

The present values of future benefits for trustee multiemployer plans for 1995 and 1994 reflect changes due to benefit payments, change in interest assumption, passage of time, and 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, 1995 and 1994 (Dollars in millions)

	1995	September 30,	1994
Present value of future benefits, at beginning of year — Single-Employer, net	\$ 9,215		\$10,693
Estimated recoveries	74		115
Assets of terminated plans pending trusteeship, net	108		154
PVFB at beginning of year, gross	9,397		10,962
Net claims for probable terminations, prior year	(1,166)		(1,627)
Actuarial adjustments — underwriting:			
Changes in method and assumptions	\$ (54)	\$ (83)	
Effect of experience	(28)	(32)	
Total actuarial adjustments — underwriting	(82)	(115)	
Actuarial charges (credits) — financial:			
Passage of time	642	560	
Changes in interest rate	1,001	(1,371)	
Total actuarial charges (credits) — financial	1,643	(811)	
Total actuarial charges (credits)	1,561		(926)
Terminations:			
Current year	463	564	
Changes in prior year	(15)	(23)	
Total terminations	448		541
Benefit payments*	(761)		(719)
Estimated recoveries	(58)		(74)
Assets of terminated plans pending trusteeship, net	(212)		(108)
Net claims for probable terminations:			
Future benefits**	2,800	2,699	
Estimated plan assets and recoveries from sponsors	(1,621)	(1,533)	
Total net claims, current year	1,179		1,166
Present value of future benefits, at end of year — Single-Employer, net	10,388		9,215
Present value of future benefits, at end of year — Multiemployer	10		10
Total present value of future benefits, at end of year, net	\$10,398		\$ 9,225

* The benefit payments of \$761 million and \$719 million include \$24 million in 1995 and \$26 million in 1994 for benefits paid from plan assets by plans prior to trusteeship.

** The future benefits for probable terminations of \$2,800 million and \$2,699 million for fiscal years 1995 and 1994, respectively, include \$111 million and \$121 million, respectively, in net claims (future benefits less estimated plan assets and recoveries) for probable terminations not specifically identified.

Assets of Single-Employer Terminated Plans Pending Trusteeship, Net
(Dollars in millions)

	September 30,			
	1995		1994	
	Basis	Market Value	Basis	Market Value
U. S. Government securities	\$ 56	\$ 59	\$ 16	\$ 15
Corporate bonds	40	43	28	28
Equity securities	55	70	14	15
Insurance contracts	14	10	28	17
Other	14	15	2	3
Cash and cash equivalents	15	15	30	30
Total, net	\$194	\$212	\$118	\$108

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,			
	1995		1994	
Net claims for probable terminations, at beginning of year		\$1,166		\$1,627
New claims	\$ 121		\$ 82	
Actual terminations	(116)		(149)	
Eliminated probables	(11)		(164)	
Change in benefit liabilities	90		(263)	
Change in plan assets	(140)		58	
Change in expected recoveries	69		(25)	
Loss on probables		13*		(461)*
Net claims for probable terminations, at end of year		\$1,179		\$1,166

* See Note 12

Note 6—Multiemployer Financial Assistance

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

Notes Receivable Multiemployer Financial Assistance (Dollars in millions)

	September 30,	
	1995	1994
Gross balance at beginning of year	\$ 22	\$ 18
Financial assistance payments— current year	4	4
Subtotal	26	22
Allowance for uncollectible amounts	(26)	(22)
Net balance at end of year	<u>\$ 0</u>	<u>\$ 0</u>

The losses from financial assistance reflected in the Statements of Operations and Changes in Net Position include annual changes in the estimated present value of nonrecoverable future financial assistance and assistance granted that was not previously accrued.

Present Value of Nonrecoverable Future Financial Assistance and Losses from Financial Assistance (Dollars in millions)

	September 30,	
	1995	1994
Balance at beginning of year	\$164	\$110
Changes in allowance:		
Losses from financial assistance	108	57
Financial assistance granted (previously accrued)	(4)	(3)
Balance at end of year	<u>\$268</u>	<u>\$164</u>

Note 7—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,	
	1995	1994
Due for purchase of securities	\$ 37	\$22
Annual leave	3	3
Other payables and accrued expenses	61	52
Accounts payable and accrued expenses	<u>\$101</u>	<u>\$77</u>

Note 8—Contingencies

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

PBGC estimates that total unfunded vested benefits on termination of single-employer plans that represent reasonably possible exposure as of September 30, 1995, range from \$15 billion to \$21 billion. This exposure is primarily in the steel, airline, transportation equipment, tire and rubber, industrial and commercial machinery, and navigation/aeronautical instruments and related products industries. The estimate has been calculated as in previous years by using data obtained from corporate annual reports for fiscal years ending in calendar 1994. The value reported for liabilities has been adjusted to the December 31, 1994, PBGC select interest rate of 7.15%. When available, data has been adjusted to a consistent set of mortality assumptions. Plans not insured by PBGC have been eliminated from the data. Since these figures are generally based on the reporting requirements in the Financial Accounting Standards Board's Statement of Financial Accounting Standard #87 ("Employers' Accounting for Pensions"), no provision has been made for the possible failure of the plan sponsor to make subsequent contributions or for plan liabilities that would be incurred after that date. The total underfunding in single-employer plans is estimated at \$31 billion as of December 31, 1994.

PBGC has included amounts in the liability for the present value of nonrecoverable future financial assistance (see Note 6) for multiemployer plans that PBGC estimates may require future financial assistance. In addition, PBGC currently estimates that it is reasonably possible that other multiemployer plans may require future financial assistance ranging from \$261 million to \$318 million.

The future financial assistance liability for each multiemployer plan identified as probable or reasonably possible was calculated as the present value of guaranteed future benefit and expense payments as of the later of September 30, 1995, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 1995, using interest only. The Corporation's identification of plans that are likely to require such assistance and estimation of related amounts require consideration of many complex factors. These factors are affected by future events, including actions by plans and their sponsors, most of which are beyond the Corporation's control.

A select and ultimate interest rate assumption of 6.5% for the first 20 years after October 1, 1995, and 5% thereafter was used. The 83GAM mortality table with margins, projected to 1993 using Scale H, also was used.

Note 9—Commitments

PBGC leases its office facility under a commitment that began on December 11, 1993, and expires December 10, 2008. The lease provides for periodic rate increases based on increases in operating costs and real estate taxes over a base amount. In addition, PBGC will be leasing space for field benefit administrators. These leases begin in 1996 and expire in 2005. The minimum future lease payments for office facilities having noncancellable terms in excess of one year at September 30, 1995, are as follows:

Commitments: Future Lease Payments (Dollars in millions)

Year Ending September 30,	Operating Leases
1996	\$ 10.6
1997	11.5
1998	12.4
1999	13.4
2000	14.4
Thereafter	135.1
Minimum lease payments	<u>\$197.4</u>

Lease expenditures were \$9.6 million in 1995 and \$9.2 million in 1994.

Note 10—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 up to 100 percent of the unpaid amount for late payment or underpayment (see Note 11). Annual premiums for the single-employer program are

\$19 per participant for a fully funded plan. Underfunded single-employer plans pay an additional variable-rate charge, previously capped at \$53 per participant, based on funding levels. The Retirement Protection Act signed into law on December 8, 1994, phases out the cap on the variable-rate charge for most plans over three plan years, effective for plan years commencing on or after July 1, 1994. The multiemployer premium is \$2.60 per participant.

Note 11—Underwriting: Other Income

Underwriting: Other Income (Dollars in millions)

	For the Years Ended September 30,	
	1995	1994
Interest income—premiums	\$ 2	\$ 1
Penalty income—premiums	3	17
Interest income—employer liability	5	13
Interest income—due and unpaid contributions	3	11
Other	5	0
Total	<u>\$18</u>	<u>\$42</u>

Note 12—Losses from Completed and Probable Terminations

Amounts reported as losses are the present value of future benefits (including amounts owed under

Section 4022(c)) less related plan assets and the present value of expected recoveries from sponsors. The following table details the components that make up the losses:

Losses from Completed and Probable Terminations—Single-Employer Program (Dollars in millions)

	1995			1994		
	New Terminations	Changes in Prior Year Terminations	Total	New Terminations	Changes in Prior Year Terminations	Total
Present value of future benefits	\$463	\$ (15)	\$ 448	\$564	\$ (23)	\$ 541
Less plan assets	275	36	311	239	129	368
Plan asset insufficiency	188	(51)	137	325	(152)	173
Less estimated recoveries	7	(26)	(19)	6	(45)	(39)
Subtotal	\$181	\$ (25)	156	\$319	\$(107)	212
Probables			13*			(461)*
Total			\$169			\$(249)

* See Note 5

Note 13—Financial Income

Financial Income (Dollars in millions)

	1995			1994		
	Terminated Plans Pending Trusteeship	Revolving Funds and Trusteed Plans	Total	Terminated Plans Pending Trusteeship	Revolving Funds and Trusteed Plans	Total
Fixed-income securities:						
Interest earned	\$ 7	\$ 460	\$ 467	\$ 3	\$ 359	\$ 362
Realized gain (loss)	0	(13)	(13)	3	688	691
Unrealized gain (loss)	7	808	815	(2)	(1,587)	(1,589)
Total fixed-income securities	14	1,255	1,269	4	(540)	(536)
Equity securities:						
Dividends earned	1	52	53	0	42	42
Realized gain	2	134	136	1	64	65
Unrealized gain (loss)	14	577	591	1	(34)	(33)
Total equity securities	17	763	780	2	72	74
Other income (loss)	(3)	(7)	(10)	0	36	36
Total financial income (loss)	\$28	\$2,011	\$2,039	\$ 6	\$ (432)	\$ (426)

Note 14—President’s Budget

The Chief Financial Officers Act of 1990 mandates the preparation of a reconciliation to the Budget. The reconciliation adjusts the operating expenses as reported in the Fiscal Year 1995 Statements of Operations and Changes in Net Position to selected budgetary accounts—obligations, budget authority, and outlays—reported in the program and financing accounts as actual for fiscal year 1995 in the President’s Fiscal Year 1996 Budget.

Reconciliation of Operating Expenses to the Budget for the Years Ended September 30, 1995 and 1994 (Dollars in millions)

	September 30,	
	1995	1994
Underwriting expenses	\$ 344	\$ (183)
Financial expenses	1,653	(801)
Total operating expenses as reported in Statements of Operations and Changes in Net Position	<u>1,997</u>	<u>(984)</u>
Add adjustments for:		
Current year benefit payments	763	721
Prior year benefit payments	21	43
Financial assistance payments	4	4
Adjustments added	<u>788</u>	<u>768</u>
Less adjustments for:		
Loss from completed terminations	156	212
Loss from probable terminations	13	(461)
Loss from financial assistance	108	57
Loss on U.S. Government securities	(2)	(143)
Other trust fund expenses	24	0
Benefit payments from plan assets	51	0
Actuarial adjustments—underwriting	(82)	(116)
Actuarial charges (credits) due to:		
Passage of time	643	561
Changes in interest rate	1,002	(1,372)
Prior year adjusting entries	0	29
Adjustments subtracted	<u>1,913</u>	<u>(1,233)</u>
Total obligations per the budget	<u>\$ 872</u>	<u>\$ 1,017</u>
Total obligations per the budget	\$ 872	\$ 1,017
Plus: Obligated balance, start of year	106	150
Less: Obligated balance, end of year	<u>(308)</u>	<u>106</u>
Outlays (gross)	<u>1,286</u>	<u>1,061</u>
Adjustments to gross budget authority from offsetting collections:		
U.S. securities	397	59
Premium income	866	996
Other income	1	1
Reimbursements from trust funds	452	390
Total offsetting collections	<u>1,716</u>	<u>1,446</u>
Outlays (net)	<u>\$ (430)</u>	<u>\$ (385)</u>

Note 15—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 to transfer to FERS by June 30, 1988.

The Corporation’s contribution to the CSRS plan equals the 7 percent of base pay contributed by employees covered by that system. For those employees covered by FERS, the Corporation’s contribution was 12.2 percent of base pay for 1995 and 13.7 percent of base pay for 1994. In addition, for FERS-covered employees, PBGC automatically contributes 1 percent of base pay to the employee’s Thrift Savings account, matches the first 3 percent contributed by the employee, and matches one-half of the next 2 percent contributed by the employee. Total retirement plan expenses amounted to \$5 million in both 1995 and 1994.

These financial statements do not reflect CSRS or FERS assets, accumulated plan benefits, or any unfunded plan liabilities 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 retired PBGC eligible employees who had selected federal government-sponsored plans. PBGC does not offer other supplemental health and life insurance benefits to its employees.

Note 16—Cash Flows

The following is a reconciliation between the net income (loss) 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 (Loss) to Net Cash Provided by Operating Activities for the Years Ended September 30, 1995 and 1994 (Dollars in millions)

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	1995	1994	1995	1994	1995	1994
Net income (loss)	\$ 925	\$1,657	\$ (5)	\$(79)	\$ 920	\$1,578
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	(1,395)	750	(53)	56	(1,448)	806
Net income of terminated plans pending trusteeship	(30)	(5)	0	0	(30)	(5)
Loss on completed and probable terminations	169	(249)	0	0	169	(249)
Actuarial charges (credits)	1,561	(926)	2	(1)	1,563	(927)
Benefit payments—trusteed plans	(737)	(693)	(2)	(2)	(739)	(695)
Cash received from plans upon trusteeship	42	66	0	0	42	66
Changes in assets and liabilities, net of effects of trustee and pending plans:						
(Increase) decrease in receivables	142	30	(1)	(2)	141	28
Increase in present value of nonrecoverable future financial assistance			104	54	104	54
Decrease in contingent value rights	0	(96)	0	0	0	(96)
Increase (decrease) in unearned premiums	(32)	22	0	(1)	(32)	21
Increase in accounts payable	9	15	0	0	9	15
Net cash provided by operating activities	\$ 654	\$ 571	\$ 45	\$ 25	\$ 699	\$ 596

Note 17—Litigation

PBGC records as a liability on its financial statements an estimated cost for unresolved litigation to the extent that losses in such cases are probable and estimable in amount. PBGC estimates that the resolution of other litigation matters will not have a material adverse effect on PBGC's financial position.

Note 18—Notes Receivable

During fiscal year 1993, PBGC received a series of 14 secured notes from Continental Airlines as part of the settlement for underfunding in certain terminated plans. These 3- to 15-year notes mature between 1996 and 2007. The net present values of the notes as of September 30, 1995 and 1994, are \$82 million and \$80 million, respectively.

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 single-employer plans and for multiemployer plans that

terminated before the Multiemployer Pension Plan Amendments Act of 1980 (MPPAA) are generally the same as those used in 1994. Calculations of the post-MPPAA liability for multiemployer plans have been automated and now reflect a cashflow approach for all plans. Internal controls over the process for calculating the PVFB reflected continued automation.

Present Value of Future Benefits and Nonrecoverable Future Financial Assistance—1995 (Dollars in millions)

	Number of Plans	Number of Participants (000)	Liability
I. Single-Employer Program			
A. Terminated plans			
1. Seriatim at fiscal yearend (FYE)	1,422	124	\$ 2,804
2. Seriatim at DOPT, adjusted to FYE	93	11	165
3. Hybrid plans	8		
a. Benefits valued seriatim		13	924
b. Benefits valued nonseriatim		38	1,414
4. Nonseriatim ¹	561	163	4,167
5. Rettig settlement ² (nonseriatim)	—	1	5
Subtotal	2,084	350	9,479
B. Probable terminations (nonseriatim) ³	34	77	2,800
Total ⁴	2,118	427	\$12,279
II. Multiemployer Program			
A. Pre-MPPAA terminations (seriatim)	10	1	\$ 10
B. Post-MPPAA liability (net of plan assets)	36	41	268
Total	46	42	\$ 278

Notes:

- 1) The liability for terminated plans has been increased by \$25 million for terminated plans not yet reported.
- 2) The Rettig settlement refers to the extra benefit liability that PBGC incurred due to a settlement of a class action lawsuit that increased benefits for some participants and provided new benefits to others.
- 3) The net claims for probable plans reported in the financial statements include \$111 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 \$1,621 million. Thus, the net claims for probables as reported in the financial statements are \$2,800 million less \$1,621 million, or \$1,179 million.
- 4) The PVFB in the financial statements (\$10,388 million) is net of estimated plan assets and recoveries on probables (\$1,621 million), estimated recoveries on terminated plans (\$58 million), and estimated assets for plans pending trusteeship (\$212 million), or, \$12,279 million less \$1,621 million less \$58 million less \$212 million = \$10,388 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 three methods: seriatim, nonseriatim, and hybrid. For 1,422 plans, representing about 68 percent of the total number of single-employer terminated plans (35 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 is an increase of 78 plans over the 1,344 plans valued seriatim last year. For 93 plans whose data were not yet fully automated, PBGC calculated the benefits and liability seriatim as of the date of plan termination and brought the total amounts forward to the end of fiscal year 1995.

For 561 other plans, PBGC did not have sufficiently accurate or complete data to value individual benefits. Instead, the Corporation used a "nonseriatim" method that brings the liabilities from the plan's most recent available actuarial valuation forward to the end of fiscal year 1995 using certain assumptions and adjustment factors.

For eight very large plans, PBGC had sufficient data to calculate the liability for certain retirees using the seriatim method and the liability for the remaining participants using the nonseriatim method—a hybrid of the two methods that enhanced the overall accuracy of the valuation.

For the actuarial valuation, PBGC used a select and ultimate interest rate assumption of 6.5% for the first 20 years after the valuation date and 5.0% thereafter. The mortality assumptions used for the valuation are the same as for the 1994 valuation: (1) for healthy lives—the 1983 Group Annuity Table (83GAM) with margins projected to 1993 using Scale H, with a 6-year age setback for females; (2) for disabled lives not receiving Social Security benefits—the healthy lives tables set forward 3 years; and (3) for disabled lives receiving Social Security benefits—the Social Security disability table as described in the PBGC regulation on Valuation of Plan Benefits (29 CFR 2619) for persons up to age 65, adjusted to parallel healthy mortality for ages above 65. PBGC assumed an explicit loading for expenses, in all terminated plans and single-employer probable terminations, equal to:

- (a) \$10,800 per plan, plus
- (b) \$270 per participant, plus
- (c) 1.35% of benefit liability.

The expense elements (a) and (b) are phased out over the first four years from the plan's date of PBGC trusteeship.

For non-pay-status participants, PBGC used expected retirement ages, as explained in the Valuation of Plan

Benefits 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 unlocatable at September 30, 1995, PBGC reduced the value of their future benefits to zero over the three years succeeding normal retirement age to reflect the lower likelihood of payment.

• Multiemployer Program

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

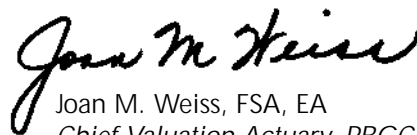
PBGC based its valuation of the post-MPPAA liability for nonrecoverable future financial assistance on the most recent available actuarial reports, Form 5500 Schedule B's, and information provided by representatives of the affected plans. The Corporation expected 36 plans to need financial assistance because severe industrial declines have left them with inadequate contribution bases and they have either run out of assets or are 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, 1995.

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

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



Joan M. Weiss, FSA, EA

Chief Valuation Actuary, PBGC

Member, American Academy of Actuaries

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



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

Office of Inspector General

To the Board of Directors
Pension Benefit Guaranty Corporation

Under the direction of the Office of Inspector General, Price Waterhouse LLP (Price Waterhouse) conducted an audit and reported on the Fiscal Year 1995 financial statements of the Pension Benefit Guaranty Corporation (PBGC). The United States General Accounting Office expressed an unqualified opinion on PBGC's Fiscal Year 1994 financial statements (GAO/AIMD-95-83).

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576) requires PBGC's Office of Inspector General or an independent external auditor, as determined by the Inspector General, to audit the Agency's financial statements in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Under a contract monitored by the Office of Inspector General, Price Waterhouse issued an unqualified opinion on PBGC's Fiscal Year 1995 financial statements.

To fulfill our audit responsibilities under the CFO Act for ensuring the quality of the audit work performed, we conducted a quality review of Price Waterhouse's audit engagement in accordance with *Government Auditing Standards*. Specifically, we:

- reviewed Price Waterhouse's approach and planning of the audit;
- evaluated the qualifications and independence of its auditors;
- monitored the progress of the audit at key points;
- examined its working papers and reports to evaluate compliance with *Government Auditing Standards*; and
- performed other procedures we deemed necessary.

Based on our quality review, we determined that Price Waterhouse planned, executed, and reported the results of its audit of PBGC's Fiscal Year 1995 financial statements in accordance with applicable audit standards. Therefore, in our opinion, Price Waterhouse's audit work provided a reliable basis on which to render their opinion, and we concur with its report.

In accordance with *Government Auditing Standards*, Price Waterhouse has also issued reports dated December 22, 1995 on PBGC management's assertion about the effectiveness of its internal control structure (an unqualified opinion) and on its compliance with laws and regulations. The complete set of Price Waterhouse's reports (96-4/23093-2) are available upon request from the PBGC's Office of Inspector General.

Sincerely,

Wayne Robert Poll
Inspector General

February 8, 1996

Price Waterhouse LLP



Report of Independent Accountants

To the Inspector General
Pension Benefit Guaranty Corporation

We have audited the accompanying statements of financial condition as of September 30, 1995, of the Single-Employer and Multiemployer Funds administered by the Pension Benefit Guaranty Corporation (PBGC or the Corporation) and the related statements of operations and changes in net position and statements of cash flows for the year then ended. These financial statements are the responsibility of PBGC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Single-Employer and Multiemployer Funds administered by PBGC for the year ended September 30, 1994 were audited by the U. S. General Accounting Office (GAO) whose report dated February 15, 1995 expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Single-Employer and Multiemployer Funds administered by PBGC as of September 30, 1995, and the results of their operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

GAO expressed concerns about the long-term viability of PBGC's Single-Employer Fund (the Fund) in its 1994 report on the Corporation's financial statements (GAO/AIMD-95-83). For the reasons discussed below, we believe GAO's concerns remain valid to PBGC's 1995 financial statements. By law, PBGC's Single-Employer Fund must be self-sustaining and therefore its premiums must be sufficient to cover both its short and long-term obligations. The Fund is able to meet its short-term benefit obligations, and internal analyses indicate that the combined effect of future premium revenue and reduced underfunding of single-employer plans may allow the Fund to meet its future obligations as well. However, the Fund's Statement of Financial Condition continues to show a deficit, amounting to \$315 million at September 30, 1995, and the Fund reports "reasonably possible" losses ranging from \$15 billion to \$21 billion as a result of unfunded vested benefits. Further, PBGC's financial condition could be adversely affected because plan underfunding and PBGC's exposure to loss remain highly sensitive to interest rate volatility and poor economic conditions.

The overview of PBGC, the Actuarial Valuation, and other supplemental information contain a wide range of data, some of which are not directly related to the principal financial statements. We do not express an overall opinion on this information. However, we compared this information for consistency with the principal 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 principal financial statements.

Price Waterhouse LLP

December 22, 1995
Washington, D.C.

96-3/23093-1

Organization

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Secretary of Labor

Robert E. Rubin
Secretary of Treasury

Ronald H. Brown
Secretary of Commerce

EXECUTIVE MANAGEMENT

Martin Slate
Executive Director



N. Anthony Calhoun
Deputy Executive Director and Chief Financial Officer



Ellen A. Hennessy
Deputy Executive Director and Chief Negotiator



William Posner*
Deputy Executive Director and Chief Operating Officer



John Seal
Deputy Executive Director and Chief Management Officer

Judy Schub
Assistant Executive Director for Legislative Affairs

James J. Keightley
General Counsel

Judith Welles, *Director*
Communications and Public Affairs Department

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Information Resources Management Department

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

Dale Williams, *Director*
Contracts and Controls Review Department

Richard A. Ippolito
Chief Economist

Wayne Robert Poll**
Inspector General

* Retired after yearend. Joseph Grant was named Deputy Executive Director and Chief Operating Officer. Sharon Barbee Fletcher was named Director of the Human Resources Department.

** The Inspector General reports directly to the Chairman of the Board.

THE PBGC ADVISORY COMMITTEE

Appointed by the President of the United States

Representing the Interests of the General Public

Milton M. Irvin, *Chairman*
Managing Director
Salomon Brothers, Inc.
New York, New York

Joseph A. Perkins
Vice President
American Association of Retired Persons
Danvers, Massachusetts

One vacancy to be filled.

Representing the Interests of Employers

M. Sharon Cassidy
General Counsel
United States Steel and Carnegie Pension Fund
Millwood, New York

One vacancy to be filled.

Representing the Interests of Employee Organizations

Judith A. Scott
General Counsel
International Brotherhood of Teamsters
Washington, D.C.

Teresa Ghilarducci
AFL-CIO
South Bend, Indiana

Financial Summary

(Dollars in millions)

Single-Employer Fund	Year Ended September 30,									
	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
Summary of Operations:										
Premium income	\$ 838	955	890	875	741	659	603	465	268	201
Other income	\$ 18	42	38	118	45	5	—	—	—	—
Investment income (losses)	\$ 1,956	(380)	1,538	614	860	(109)	387	5	261	262
Actuarial charges (credits)	\$ 1,561	(926)	1,680	848	905	181	362	359	87	524
Losses from completed and probable terminations	\$ 169	(249)	743	896	1,049	938	163	58	(1,872)	2,407
Loss on contingent value rights	\$ 0	0	96							
Administrative and investment expenses	\$ 138	135	107	97	71	63	45	48	36	33
Other expenses	\$ 19	0	0	0	212	162	0	0	0	0
Net income (loss)	\$ 925	1,657	(160)	(234)	(591)	(789)	420	5	2,278	(2,501)
Summary of Financial Position:										
Cash and investments	\$10,026	7,857	7,866	5,897	4,562	2,408	2,356	1,817	1,728	1,410
Total assets	\$10,371	8,281	8,267	6,381	5,422	2,797	3,059	2,422	2,163	1,740
Present value of future benefits	\$10,388	9,215	10,693	8,790	7,594	4,476	3,984	3,806	3,629	5,492
Net position	\$ (315)	(1,240)	(2,897)	(2,737)	(2,503)	(1,913)	(1,124)	(1,543)	(1,549)	(3,826)
Insurance Activity:										
Benefits paid	\$ 761	719	720	634	514	369	353	357	300	261
Participants receiving monthly benefits at end of year	181,000	172,800	156,800	150,200	140,100	110,380	106,770	110,300	109,700	90,750
Plans trustee and pending trusteeship from PBGC	2,084	1,961	1,848	1,760	1,644	1,558	1,501	1,455	1,376	1,315

(Dollars in millions)

Multiemployer Fund	Year Ended September 30,									
	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
Summary of Operations:										
Premium income	\$ 22	23	23	23	23	21	20	17	17	15
Other income (losses)	\$ 0	0	(1)	1	1	1	—	—	—	—
Investment income (losses)	\$ 83	(46)	107	27	38	13	16	7	3	14
Actuarial charges (credits)	\$ 2	(1)	2	(1)	3	1	1	3	2	1
Losses (gains) from financial assistance	\$ 108	57	20	46	21	23	1	(6)	(9)	6
Administrative and investment expenses	\$ 0	0	0	0	0	2	3	3	3	4
Net income (loss)	\$ (5)	(79)	107	6	38	9	31	24	24	18
Summary of Financial Position:										
Cash and investments	\$ 472	374	405	279	236	183	154	122	106	92
Total assets	\$ 477	378	407	283	238	190	161	129	114	98
Present value of future benefits	\$ 10	10	13	13	16	15	17	19	19	20
Nonrecoverable future financial assistance, present value	\$ 268	164	110	94	52	33	11	11	19	29
Net position	\$ 192	197	276	169	163	132	123	92	68	45
Insurance Activity:										
Benefits paid	\$ 2	2	2	2	2	2	3	3	3	3
Participants receiving monthly benefits from PBGC at end of year	1,300	1,400	1,590	1,760	1,990	2,170	2,310	2,500	2,800	3,250
Plans receiving financial assistance from PBGC	9	8	6	6	5	3	3	3	6	5

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