PENSION BENEFIT GUARANTY CORPORATION

Performance and Accountability Report

Fiscal Year 2005

November 15, 2005

2005 Annual Performance and Accountability Report

The Pension Benefit Guaranty Corporation (PBGC or the Corporation) is a federal corporation established under the Employee Retirement Income Security Act (ERISA) of 1974, as amended. It currently guarantees payment of basic pension benefits earned by 44.1 million American workers and retirees participating in 30,330 private-sector defined benefit pension plans. The Corporation receives no funds from general tax revenues. Operations are financed largely by insurance premiums paid by companies that sponsor defined benefit pension plans and by investment income and assets from terminated plans. The following constitutes PBGC's annual performance and accountability report for fiscal year 2005, as required under OMB Circular No. A-11, Section 230-1.

Contents

FINANCIAL STATEMENT HIGHLIGHTS

(Dollars in millions)	**2005**	2004
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Summary of Operations		
Premium Income	**$ 1,477**	$ 1,485
Losses from Plan Terminations	**$ 3,954**	$ 14,707
Investment Income	**$ 3,976**	$ 3,251
Actuarial Charges and Adjustments	**$ 490**	$ 1,788
Insurance Activity		
Benefits Paid	**$ 3,686**	$ 3,007
Retirees	**682,820**	518,220
Total Participants Receiving or Owed Benefits	**1,296,000**	1,061,000
New Underfunded Terminations	**120**	192
Terminated/Trusteed Plans (Cumulative)	**3,595**	3,479
Financial Position		
SINGLE-EMPLOYER PROGRAM		
Total Assets	**$ 56,470**	$ 38,993
Total Liabilities	**$ 79,246**	$ 62,298
Net Income (Loss)	**$ 529**	$ (12,067)
Net Position	**$(22,776)**	$ (23,305)
MULTIEMPLOYER PROGRAM		
Total Assets	**$ 1,160**	$ 1,070
Total Liabilities	**$ 1,495**	$ 1,306
Net Income (Loss)	**$ (99)**	$ 25
Net Position	**$ (335)**	$ (236)

FINANCIAL STATEMENTS

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

General

The Pension Benefit Guaranty Corporation (PBGC) is mandated under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA) to insure, under statutory limits, participants in covered private defined benefit pension plans in the United States. As of September 30, 2005, the PBGC covered 44.1 million workers in over 30,000 active plans and was directly responsible for the future benefits of 1.3 million active and retired workers whose plans had failed. The PBGC receives no taxpayer monies and its obligations are not backed by the full faith and credit of the United States Government.

The following is a discussion and analysis of the financial statements and other statistical data that management believes will enhance the understanding of the PBGC's financial condition and results of operations. This discussion should be read in conjunction with the financial statements beginning on page 17 and the accompanying notes.

For financial statement purposes, the PBGC divides its business activity into two broad areas – *Underwriting Activity* and *Financial Activity* – covering both single-employer and multiemployer program segments. *Underwriting Activity* consists of the provision of financial guaranty insurance to the sponsors of defined benefit pension plans in return for insurance premiums. Actual and expected probable losses that result from the termination of underfunded pension plans are included in this category, as are actuarial adjustments based on changes in actuarial assumptions, such as mortality. *Financial Activity* consists of the performance of PBGC's assets and liabilities. PBGC's assets consist of premiums collected from defined benefit plan sponsors, assets from distress or involuntarily terminated plans that the PBGC has insured, and recoveries from the former sponsors of those terminated plans. The PBGC's future benefit liabilities consist of those future benefits, under statutory limits, that the PBGC has assumed following distress or involuntary terminations. Gains and losses on PBGC's investments and changes in the value of PBGC's future benefit liabilities (e.g., actuarial charges such as changes in interest rates and passage of time) are included in this area.

Overview of Financial Results

- Between its single-employer and multiemployer programs, the PBGC's combined net position at September 30, 2005, was $(23.1) billion as compared to $(23.5) billion at September 30, 2004. The combination of a reduction in liabilities due to the positive increase in interest factors and the continued strong investment returns offset the losses incurred and the administrative expenses of the Corporation.
- The combined net gain of $0.4 billion for 2005 was driven primarily by $1.5 billion in new premiums, $2.9 billion in favorable asset and liability revaluations due to changes in interest rates, $0.8 billion in net investment returns in excess of charges for the passage of time, offsetting the new charges of $4.7 billion for new probable terminations.
- During 2005, the PBGC terminated 120 plans in the single-employer program representing a total of $10.5 billion in assets, including estimated recoveries, and $21.2 billion of future benefit liabilities (representing losses of $10.7 billion). These plans had an average funded ratio of approximately 50%. All but $0.3 billion of the terminated amounts (including those not previously recorded as probables as well as any revaluation of the probables that terminated) had been accrued in PBGC's results as of the end of 2004.
- During 2005, the PBGC also significantly increased its securities lending program adding approximately $6.3 billion to both Cash and cash equivalents and Payable upon return of securities loaned.
- The PBGC's future exposure to new probable terminations remains high in 2005 with approximately $108 billion in underfunding exposure to plan sponsors, classified as reasonably possible, whose credit ratings are below investment grade or meets one or more financial distress criteria.
- Overall benefit payments increased to $3.7 billion commensurate with the 235,000 person increase in the numbers of persons owed benefits.
- Events subsequent to September 30, 2005, would have reflected a decrease of $2.9 billion in Net income and a decrease in the Net position in the same amount had these conditions occurred prior to year-end.

Financial and Program Risks

PBGC's operating results are subject to significant fluctuation from year to year depending on the severity of losses from plan terminations, changes in the interest factors used to discount liabilities, investment performance, general economic conditions and other factors such as changes in law. PBGC's operating results differ from those of most private insurers, especially in their variability. PBGC provides mandatory insurance of catastrophic risk. Most private insurers are able to diversify or reinsure their catastrophic risks or to apply traditional insurance underwriting methods to these risks. PBGC's risks are concentrated in certain industries, and the Corporation is not able to decline providing insurance coverage regardless of the potential risk of loss posed by an insured. Private insurers are able to adjust premiums in response to actual or expected claims exposure. In contrast, PBGC's premiums are fixed by statute.

PBGC operated for several years with low levels of claims and then experienced a period of record-breaking claims from FY 2002 through FY 2004. PBGC's future results will depend on the infrequent and unpredictable termination of a limited number of very large pension plans. PBGC's financial condition is also sensitive to market risk such as interest rates and equity returns, which can also be highly volatile.

Recent Developments

In 2005, companies sponsoring underfunded pension plans filing under section 4010 of ERISA, reported a record shortfall of $353.7 billion in their latest filings with the PBGC. This represents a 27% increase over the $279.0 billion in underfunding reported a year earlier. The 2005 statistics are based on 2004 information that 1,108 plans filed with the PBGC covering about 15 million workers and retirees. These underfunded plans had $786.8 billion in assets to cover more than $1.14 trillion in liabilities, for an average funded ratio of 69 percent. The filings under ERISA section 4010 are required only of companies with more than $50 million in unfunded pension liabilities. As of September 30, 2005, the PBGC estimated that the total shortfall in all insured pension plans exceeded $450 billion. This amount, in total, represents no change from our estimate as of September 30, 2004, but the amount is now concentrated among larger plans.

In late September 2005, the Congressional Budget Office (CBO) issued a report projecting that the ten year losses to the PBGC could grow significantly based on the underfunded status of many plan sponsors whose defined benefit plans the PBGC guarantees and exposures they have taken on in their own portfolios. These levels of loss, the CBO observed, would likely exceed the ability of the other private defined benefit plan sponsors in the system to cover those losses through higher premiums, raising the prospect of either the need for general taxpayer assistance or the loss of insured participant benefits.

The CBO report, Government Accountability Office's reports, and others like them have helped to describe the need for pension reform legislation, which could have a material effect on PBGC's future finances. Provisions in several bills include increases in premiums that would strengthen PBGC's financial position as well as changes that may increase exposure to PBGC due to plan failures that may weaken the PBGC's financial position. The prospects for any legislation are uncertain.

Discussion of Insurance Programs

PBGC operates two separate insurance programs for defined benefit plans involving both the underwriting and financial activity areas of the business. PBGC's single-employer program guarantees payment of basic pension benefits when underfunded plans terminate. PBGC's multiemployer program is funded and administered separately from the single-employer program. The event triggering PBGC's multiemployer guarantee is the inability of a covered plan to pay benefits when due at the guaranteed level, as opposed to plan termination as required in the single-employer program. The financial condition, results of operations, and cash flows of these two programs are reported as different business segments because the programs are separate by law.

Single-Employer Program

The single-employer program covers about 34.2 million workers and retirees in about 28,800 plans, down from the all time high of 34.6 million workers in 2004. In addition, PBGC oversees the terminations of fully funded plans and guarantees payment of basic pension benefits when underfunded plans are terminated. When a covered underfunded plan terminates, PBGC becomes trustee of the plan and administers future benefit payments.

RESULTS OF ACTIVITIES AND TRENDS: Large claims against the single-employer program continued in FY 2005 although charges related to new probable terminations decreased from the previous year. The losses incurred from plan terminations were offset by the effects of increasing interest rates and investment returns resulting in a net gain in 2005 of $529 million compared to a net loss in 2004 of $12.067 billion. The $12.596 billion year to year change in net income was primarily attributable to decreases of (1) $10.753 billion in losses from completed and probable terminations (see Note 10), (2) $1.305 billion in actuarial adjustments, due to a one time change in mortality assumptions in 2004 that were not repeated in 2005, and (3) an increase in investment income of $700 million, partially offset by an increase in administrative and other expenses of $161 million.

Actuarial charges and adjustments arise from gains and losses from mortality and retirement assumptions, changes in interest factors, and passage of time (due to the annual shortening of the discount period covering future benefits). It is important to note that the ability of PBGC's assets to counter the two primary actuarial charges, i.e., passage of time and changes in interest factors, will be increasingly constrained by PBGC's deficit.

In 2005, PBGC's assets outperformed its liabilities and have for seven of the last ten years as a result of strong equity returns and/or the favorable effect due to changes in interest rates. There is no assurance that these results will continue.

The growth in liabilities due to the passage of time cannot ordinarily be offset when the PBGC's assets are significantly lower than its liabilities and when the yields are similar. The effect of exposure to interest rate risk can be mitigated with a dollar duration asset/liability matching strategy, even with a moderate deficit. Should the deficit increase, dollar duration matching will require use of increasingly long dated fixed-income instruments or other means, such as interest rate swap contracts.

Underwriting Activity: PBGC's single-employer program experienced a net underwriting loss of $3.067 billion in 2005, a significant improvement from the loss of $14.977 billion in 2004. This $11.910 billion year to year improvement was primarily due to a significant drop in losses from new and remaining probables, as well as the year to year decrease in the 2004 underwriting actuarial adjustment (charge) of $1.305 billion. The change in actuarial adjustments is primarily attributable to the implementation of a 2004 mortality study performed by PBGC. The study improved PBGC's accuracy in projecting its mortality experience as described more fully under Note 4 of the financial statements.

Underwriting income slightly increased from $1.482 billion to $1.495 billion due to an increase in other income, consisting of interest income on recoveries from sponsors, from $24 million in 2004 to $44 million in 2005. Premium income from plan sponsors decreased slightly from $1.458 billion in 2004 to $1.451 billion in 2005.

Annual flat-rate premiums for the single-employer program are $19 per participant and income remained fairly constant for 2005, with a total of approximately $644 million. Annual Variable Rate Premiums (VRP) paid by underfunded single-employer plans at a rate of $9 per $1,000 of underfunding if not exempt (e.g., meets certain minimum funding requirements) did not increase, with a total of $787 million. Premium receivables actually fell, however, because more plans were exempt from paying VRP than was the case in the previous year.

The Required Interest Rate (RIR) used in calculating underfunding for purposes of determining a VRP has traditionally been 85 percent of the annual yield on 30-year Treasury securities; however, temporary legislation in 2004 changed the basis for plan years beginning in 2004 and 2005 to 85 percent of a composite corporate bond yield. The resulting rates for calendar-year plans for 2004 and 2005 were 4.94% and 4.73%, respectively. The rates for non-calendar year plans were also somewhat lower for 2005 than for 2004. Although a decrease in the RIR generally leads to increases in VRP premiums, the premium income accruals for plan year 2005 were lower overall. This is primarily due to more plans meeting the VRP exemption requirements, termination of large plans with prior year VRP payments and other factors in the actuarial calculation of underfunding.

The Corporation's losses from completed and probable plan terminations decreased from a loss of $14.707 billion in 2004 to a loss of $3.954 billion in 2005. This decrease was primarily due to the fact that the losses for many of the plans that terminated in 2005 had already been recorded as probable as of the end of 2004. Additional plans did become probable and were recorded as new losses in 2005; however the amounts of such new probable claims were lower in 2005 than for the comparable period in 2004. Though additional plans became probable in 2005, the new net claim amounts were much lower than in 2004.

In the liabilities section of the Statements of Financial Condition, most of the decrease in claims for probable terminations was due to the transfer of those probables to pending termination or trusteed status. The net claim as of September 30, 2005, is $10.5 billion, while the net claim as of September 30, 2004, was $16.9 billion. This $6.4 billion reduction resulted primarily from the transfer of $10.6 billion (see Note 4) of previously accrued claims to pending termination and trusteeship or trusteed, offset by the addition of new probable claims $4.7 billion. The amount of future losses remains unpredictable as PBGC's loss experience is highly sensitive to losses from large claims.

Administrative expenses increased $48 million from $263 million in 2004 to $311 million in 2005 due to expenses incurred in both one-time costs of managing large bankruptcy cases as well as higher ongoing expenses to administer recently terminated airline pension plans in 2005. The FY 2005 expense of $77 million in Other expenses was due to the write-off of premium accounts receivable of $38 million and the write-off of $39 million of expected recoveries from sponsors of terminated plans.

Financial Activity: Single-employer financial net income increased from $2.910 billion in 2004 to $3.596 billion in 2005. This improvement was primarily due to an increase in investment income of $700 million and combined actuarial charges that were essentially flat over 2004. Actuarial charges under Financial activity represent the effects of changes in interest rates and the passage of time on the present value of future benefits. In 2005, passage of time charges increased due to the increase in PBGC's liabilities from newly trusteed plans and an increase in PBGC discount factors. This was substantially offset by the decrease in the present value of PBGC's liabilities due to an increase in the applicable discount factors.

The PBGC discounts its liabilities for future benefits with interest factors that, together with the mortality table used by PBGC, will approximate the price in the private-sector annuity market at which a plan sponsor or PBGC could settle its obligations. PBGC surveys life insurance industry annuity prices through the American Council of Life Insurers (ACLI) to obtain input needed to determine interest factors and then derives interest factors that will best match the private-sector prices from the surveys. The interest factors are often referred to as select and ultimate interest rates. Any pair of interest factors will generate liability amounts that differ from the survey prices, which cover 14 different ages or benefit timings. The PBGC process derives the interest factor pair that differs least over the range of prices in the survey. PBGC's select interest factor (which operates over the first 25 years) increased to 5.2% at September 30, 2005, from 4.8% at September 30, 2004. The ultimate factor (which is applied for all years after the first 25) decreased from 5.0% to 4.5% over the same period.

The total return on investments was 8.9% in 2005, generating $3.897 billion in investment income, compared to 8.0% in 2004 and $3.197 billion of income. Equity investments within the single-employer program returned 15.6% in 2005. There was a slight decrease of $82 million in equity income compared to 2004. In 2004, PBGC had a significantly higher amount of equities from trusteed plans (which were liquidated near the end of the fiscal year) which accounts for the higher level of equity income in 2004. Fixed-income investments within the single-employer program returned 6.6% in 2005 which resulted in an increase of $772 million in fixed income in 2005 from 2004. In 2005, PBGC's investments outperformed its liabilities by $3.596 billion. PBGC marks its assets to market.

Multiemployer Program

A multiemployer plan is a pension plan sponsored by two or more unrelated employers who have signed collective bargaining agreements with one or more unions. Multiemployer plans cover most unionized workers in the trucking, retail food, construction, mining and garment industries. Multiemployer plans are one of the major vehicles that provide defined benefit pensions to workers in the unionized sectors of the economy. The multiemployer program, which covers about 9.9 million workers and retirees (up from 9.8 million covered workers in 2004) in about 1,600 insured plans, differs from the single-employer program in several significant ways. 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 (insolvency). Unlike the single-employer plans, the PBGC does not become trustee of multiemployer plans; rather, it provides financial assistance through loans to insolvent plans to enable them to pay guaranteed benefits. During fiscal 2005, PBGC paid out $13.8 million in financial assistance to 29 insolvent plans. Once begun, these loans (which are typically not repaid) generally continue year after year until the plan no longer needs assistance or has paid all promised benefits. For a worker with 30 years under a plan, the maximum annual benefit guarantee is

$12,870. Multiemployer premium rates are significantly lower than for the single-employer program. Annual flat-rate premiums for the multiemployer program are $2.60 per participant and there are no variable-rate premiums.

RESULTS OF ACTIVITIES AND TRENDS: The multiemployer program reported a net loss of $99 million in FY 2005 compared to a gain of $25 million in FY 2004. This resulted in a negative net position of $335 million in FY 2005 compared to a negative net position of $236 million in FY 2004. The change in net income was primarily due to the increase in loss from future financial assistance of $149 million offset by an increase in investment income of $25 million.

The multiemployer program reported a net loss from underwriting activity of $178 million in FY 2005 compared to a net loss of $29 million in FY 2004. This change in the net loss of $149 million was attributed to the increase in losses from financial assistance of $149 million (due to the addition of eleven plans to the multiemployer probable inventory and changes in data) and by the decrease in premium income of $1 million, offset by a decrease in actuarial adjustments of $1 million. Financial activity reflected financial income of $79 million from earnings on fixed income investments in 2005, compared to $54 million in 2004. Multiemployer program assets at year-end are invested 97.8 percent in Treasury securities and were invested 97.4 percent in Treasury securities in 2004.

Overall Capital and Liquidity

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

In 2005, PBGC's cash receipts from operations of the single-employer program improved somewhat but were still insufficient to cover its operating cash disbursements of $3.630 billion, resulting in net cash used of $189 million, compared to $732 million used in 2004. The multiemployer program experienced positive cashflow of $75 million in 2005 compared to $81 million in 2004.

Combined premium receipts totaled $1.6 billion in FY 2005, an increase of approximately $500 million. Most of this increase pertained to premiums that were largely accrued as income in FY2004 but actually paid in FY 2005. In 2005, net cash flow provided from investments was $1.3 billion versus $5.2 billion in 2004.

For FY 2006, PBGC estimates $4.4 billion in single-employer benefit payments and $87 million in financial assistance payments to multiemployer plans. The FY 2006 President's Budget request includes $297 million for PBGC's administrative expenses though a heavy workload will likely require additional funds for this activity. After workload related reapportionments, PBGC's expenses for 2005 were $342 million.

The PBGC is a self-financing government corporation funded by premiums and the assets of plans it trustees, not general tax revenues. Unlike other Federal programs, which rely on annual appropriations for funding and spending authority, ERISA gives PBGC its spending authority. Pursuant to Office of Management and Budget (OMB) policy, PBGC spending is reviewed by Department of Labor (DOL), approved by OMB, and remains subject to Congressional oversight.

In 2006, underwriting income and investment gains or losses will be influenced by significant factors beyond PBGC's control (including changes in interest rates, financial markets, contributions made by plan sponsors as well as possible statutory changes currently under consideration). Absent a change in law, PBGC's best estimate of 2006 premium receipts ranges between $1.2 billion and $1.5 billion. No estimate is made of 2006 investment income.

As of September 30, 2005, the single-employer and multiemployer programs reported deficits of $22.776 billion and $335 million, respectively. The single-employer program had assets of nearly $56.5 billion which is offset by total liabilities of $79.2 billion, which includes a total present value of future benefits (PVFB) of approximately $69.7 billion. As of September 30, 2005, the multiemployer program had assets of approximately $1.2 billion offset by approximately $1.5 billion in present value of nonrecoverable future financial assistance.

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

Single-Employer and Multiemployer Program Exposure

Measures of risk in PBGC's insured base of plan sponsors suggest that there may continue to be large claims against the single-employer pension insurance program. PBGC's best estimate of its loss exposure to underfunded plans sponsored by companies with credit ratings below investment grade and classified by PBGC as reasonably possible of termination as of September 30, 2005, was $108 billion. The comparable estimates of reasonably possible exposure for 2004 and 2003 were $96 billion and $82 billion, respectively. These estimates are measured as of December 31 of the previous year (see Note 7). For 2005, this exposure is concentrated in the following sectors: manufacturing; transportation, communication and utilities; and services/other.

PBGC's estimate of the total underfunding in single-employer plans continues to exceed $450 billion as of September 30, 2005 (see Note 1). PBGC's estimate of underfunding as of September 30, 2005, is largely (about 80%) based upon employers' reports to PBGC under section 4010 of ERISA of their December 31, 2004, market value of assets and termination liability. These values were then rolled forward to September 30, 2005, on a plan-by-plan basis using an average pension asset return from published reports, an average benefit accrual increment, and a liability adjustment factor to reflect the change in interest factors. The roll forward did not adjust for contributions, benefit payments, changes in liabilities due to the passage of time, or plan amendments since this information was not readily or reliably available. PBGC's exposure to loss is less than these amounts because of the statutory limits on insured pensions. For single-employer plans sponsored by employers that do not file with PBGC under section 4010 of ERISA, PBGC's estimates are based on data obtained from other filings and submissions with the government and from corporate annual reports for comparable periods.

Total underfunding of multiemployer plans is estimated to exceed $200 billion at September 30, 2005 (see Note 1). In 2004, PBGC estimated multiemployer underfunding to exceed $150 billion. Multiemployer plan data is much less current and complete than single-employer data - it is generally two years older and in some cases three years older than single-employer data and comes only from Form 5500 filings.

PBGC estimates that, as of September 30, 2005, it is reasonably possible that multiemployer plans may require future financial assistance in the amount of $418 million. As of September 30, 2004 and 2003, these exposures were estimated at $108 million and $63 million, respectively.

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

Investment Activities

The Corporation's investment assets consist of premium revenues, accounted for in the revolving funds, and assets from terminated plans and their sponsors, accounted for in the trust funds. By law, PBGC is required to invest the revolving funds in obligations issued or guaranteed by the United States (i.e., Funds 1 and 2). Portions of the revolving fund can be invested in other debt obligations (i.e., Fund 7). Current policy is to invest these revolving funds only in Treasury securities. There are no statutory limitations on the investment of trust funds and PBGC uses institutional investment management firms to invest those assets, subject to PBGC oversight and consistent with the Corporation's investment policy statement.

As of September 30, 2005, the value of PBGC's total investments in the single-employer and multiemployer programs, including cash and investment income, net of $6.9 billion of cash collateral from securities lending, was approximately $49.0 billion. This $6.9 billion of cash collateral is held separately and is reported as part of PBGC's total "Cash and cash equivalents" of $8.9 billion as of September 30, 2005. The revolving fund's value was $16.4 billion and the trust fund's value was $32.6 billion. Cash and fixed-income securities represented about 75 percent of the total assets invested at the end of the year, compared to 70 percent at the end of 2004. Equity securities represented about 25 percent of total assets invested, compared to 30 percent at the end of 2004. A very small portion of the invested portfolio remains in real estate and other financial instruments.

During 2004, PBGC adopted a new investment policy to better manage the financial risks facing the federal pension insurance program. Implementation of this policy will reduce balance sheet volatility arising from a mismatch between assets and liabilities by (1) continuing to improve its dollar duration match of invested assets to its future benefit liabilities (2) increasing investments in duration-matched fixed-income securities and (3) decreasing the overall percentage of assets invested in equities to between 15 percent and 25 percent of total invested assets. In 2005, the PBGC continued the implementation of its investment policy and also finalized a search for asset/liability fixed-income managers and allocated funds to them. PBGC's investment focus of limiting financial risk exposure arising from a mismatch of the interest rate sensitivity of its assets and liabilities, in combination with the PBGC's managed equity and fixed income portfolios, contributed to the PBGC's asset returns exceeding its liability returns by $3.6 billion.

PBGC's trusteed liabilities were 69% matched on a dollar duration basis at year end. This means that the aggregate interest rate sensitivity of its assets is less than the interest rate sensitivity of its liabilities. Because the dollar duration of the assets improved during FY 2005, but is still currently less than the dollar duration of the liabilities, the impact of the mismatch has been lessened yet still represents a residual interest rate exposure for the Corporation. Also, PBGC's ability to limit the volatility of its assets and liabilities is also impacted by differences between PBGC's discount factor rate-setting methodology used to value PBGC's liabilities, which is based on surveys of private sector annuity pricing, and market-based interest rates, which are used to value PBGC's assets. Over shorter periods, the different rates for valuing assets and liabilities may, and have, varied significantly (relative to each other) due to the different valuation methodologies. However, over longer periods such as a three to five year market cycle, the variations may be less.

Results for 2005 were positive for capital market investments and PBGC's investment activities. During the year, PBGC achieved an 8.9% return on total invested funds compared to its liability return of 2.6%. The liability return captures the same components as the fixed income total return calculation: i.e., interest income (the yield on PBGC's trusteed liabilities as measured by the select and ultimate factors) and capital changes in the liability as measured by present value calculations of the liability distribution based on changes in those same interest factors. It also reflects the impact of changes updated on a quarterly basis to PBGC's liability term distribution (i.e., long-

INVESTMENT PERFORMANCE
(Annual Rates of Return)

	September 30, **2005**	September 30, 2004	Five Years Ended September 30, 2005
Total Invested Funds	**8.9%**	8.0%	5.1%
Equities	**15.6**	15.0	0.0
Fixed-Income	**6.6**	5.6	8.8
Trust Funds	**10.3**	11.5	-1.2
Revolving Funds	**7.0**	5.4	8.8
Indices			
Wilshire 5000	**14.7**	14.7	-0.5
S&P 500 Stock Index	**12.3**	13.9	-1.5
Lehman Brothers Long Treasury Index	**6.9**	4.9	8.7
PBGC Liability Return	**2.6**	0.5	N/A

term benefit payment stream) as new plans of differing term structure are added. A positive liability return implies an increase in PBGC's liability. The effects of additional trusteed liabilities as they are added or reduced from time to time is not a factor in liability return calculations just as fund additions and withdrawals are not a factor in fixed income return calculations.

PBGC's fixed-income program returned 6.6% while its equity program returned 15.6%. For the year, PBGC reported income of about $1.8 billion from fixed-income investments and a gain of about $2.1 billion from equity investments. PBGC's total investment income of approximately $4.0 billion was able to significantly offset PBGC's $270 million actuarial charge. This was largely attributable to increases in PBGC's select (discount) factor, which reduced PBGC's liabilities, while long-term market interest rates declined, resulting in a gain in PBGC's fixed-income investments. In addition, PBGC continued to significantly benefit from strong equity returns.

Federal Managers' Financial Integrity Act (FMFIA) Statement

Management controls in effect during fiscal year 2005 provided reasonable assurance that assets were safeguarded from material loss and that transactions were executed in accordance with management's authority and with significant provisions of selected laws and regulations. Furthermore, PBGC management controls provided reasonable assurance that transactions were properly recorded, processed and summarized to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and to maintain accountability for assets among funds.

PBGC did not identify any material weaknesses or material noncomformances as defined by FMFIA during fiscal year 2005.

Management Representation

PBGC's management is responsible for the accompanying Statements of Financial Condition of the Single-Employer and Multiemployer Funds as of September 30, 2005 and 2004, the related Statements of Operations and Changes in Net Position and the Statements of Cash Flows for the years then ended. PBGC's management is also responsible for establishing and maintaining systems of internal accounting and administrative controls that provide reasonable assurance that the control objectives, i.e., preparing reliable financial statements, safeguarding assets and complying with laws and regulations, are achieved.

In the opinion of management, the financial statements of the Single-Employer and Multiemployer Program Funds present fairly the financial position of PBGC at September 30, 2005, and September 30, 2004, and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America (GAAP) and actuarial standards applied on a consistent basis.

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

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

The Inspector General engaged Clifton Gunderson LLP to conduct the audit of the Corporation's 2005 financial statements, and PricewaterhouseCoopers LLP (PwC) to conduct the audit of the Corporation's 2004 financial statements. Clifton Gunderson issued an unqualified opinion on PBGC's September 30, 2005 financial statements and PwC issued an unqualified opinion on PBGC's September 30, 2004 financial statements.

Bradley D. Belt
Executive Director

James C. Gerber
Chief Financial Officer

November 9, 2005

PENSION BENEFIT GUARANTY CORPORATION
STATEMENTS OF FINANCIAL CONDITION

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in millions)	**2005**	2004	**2005**	2004	**2005**	2004
ASSETS						
Cash and cash equivalents	**$ 8,889**	$ 7,692	**$ 13**	$ 14	**$ 8,902**	$ 7,706
Investments, at market (Note 3):						
Fixed maturity securities	**33,160**	17,333	**1,134**	1,042	**34,294**	18,375
Equity securities	**12,284**	11,115	**0**	1	**12,284**	11,116
Real estate and real estate investment trusts	**29**	91	**0**	0	**29**	91
Other	**25**	23	**0**	0	**25**	23
Total investments	**45,498**	28,562	**1,134**	1,043	**46,632**	29,605
Receivables, net:						
Sponsors of terminated plans	**146**	129	**0**	0	**146**	129
Premiums (Note 9)	**425**	619	**0**	1	**425**	620
Sale of securities	**1,124**	1,756	**0**	0	**1,124**	1,756
Investment income	**359**	213	**13**	12	**372**	225
Other	**2**	2	**0**	0	**2**	2
Total receivables	**2,056**	2,719	**13**	13	**2,069**	2,732
Capitalized assets, net	**27**	20	**0**	0	**27**	20
Total assets	**$56,470**	$38,993	**$1,160**	$1,070	**$57,630**	$40,063

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

PENSION BENEFIT GUARANTY CORPORATION
STATEMENTS OF FINANCIAL CONDITION

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in millions)	**2005**	2004	**2005**	2004	**2005**	2004
LIABILITIES						
Present value of future benefits, net (Note 4):						
Trusteed plans	**$ 57,291**	$ 43,344	**$ 2**	$ 3	**$ 57,293**	$ 43,347
Plans pending termination and trusteeship	**1,918**	501	**0**	0	**1,918**	501
Settlements and judgments	**58**	65	**0**	0	**58**	65
Claims for probable terminations	**10,470**	16,926	**0**	0	**10,470**	16,926
Total present value of future benefits, net	**69,737**	60,836	**2**	3	**69,739**	60,839
Present value of nonrecoverable future financial assistance (Note 5)			**1,485**	1,295	**1,485**	1,295
Payable upon return of securities loaned	**6,939**	637	**0**	0	**6,939**	637
Unearned premiums	**210**	223	**8**	8	**218**	231
Due for purchases of securities	**2,290**	531	**0**	0	**2,290**	531
Accounts payable and accrued expenses (Note 6)	**70**	71	**0**	0	**70**	71
Total liabilities	**79,246**	62,298	**1,495**	1,306	**80,741**	63,604
Net position	**(22,776)**	(23,305)	**(335)**	(236)	**(23,111)**	(23,541)
Total liabilities and net position	**$ 56,470**	$ 38,993	**$1,160**	$1,070	**$ 57,630**	$ 40,063

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

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

PENSION BENEFIT GUARANTY CORPORATION
STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	For the Years Ended September 30,		For the Years Ended September 30,		For the Years Ended September 30,	
(Dollars in millions)	**2005**	2004	**2005**	2004	**2005**	2004
UNDERWRITING						
Income:						
Premium (Note 9)	**$ 1,451**	$ 1,458	**$ 26**	$ 27	**$ 1,477**	$ 1,485
Other	**44**	24	**0**	0	**44**	24
Total	**1,495**	1,482	**26**	27	**1,521**	1,509
Expenses:						
Administrative	**311**	263	**0**	0	**311**	263
Other	**77**	(36)	**0**	0	**77**	(36)
Total	**388**	227	**0**	0	**388**	227
Other underwriting activity:						
Losses from completed and probable terminations (Note 10)	**3,954**	14,707	**0**	0	**3,954**	14,707
Losses from financial assistance (Note 5)			**204**	55	**204**	55
Actuarial adjustments (Note 4)	**220**	1,525	**0**	1	**220**	1,526
Total	**4,174**	16,232	**204**	56	**4,378**	16,288
Underwriting loss	**(3,067)**	(14,977)	**(178)**	(29)	**(3,245)**	(15,006)
FINANCIAL:						
Investment income (Note 11):						
Fixed	**1,755**	983	**79**	54	**1,834**	1,037
Equity	**2,114**	2,196	**0**	0	**2,114**	2,196
Other	**28**	18	**0**	0	**28**	18
Total	**3,897**	3,197	**79**	54	**3,976**	3,251
Expenses:						
Investment	**31**	25	**0**	0	**31**	25
Actuarial charges (Note 4):						
Due to passage of time	**2,618**	1,881	**0**	0	**2,618**	1,881
Due to change in interest rates	**(2,348)**	(1,619)	**0**	0	**(2,348)**	(1,619)
Total	**301**	287	**0**	0	**301**	287
Financial income	**3,596**	2,910	**79**	54	**3,675**	2,964
Net income (loss)	**529**	(12,067)	**(99)**	25	**430**	(12,042)
Net position, beginning of year	**(23,305)**	(11,238)	**(236)**	(261)	**(23,541)**	(11,499)
Net position, end of year	**$(22,776)**	$(23,305)	**$(335)**	$(236)	**$(23,111)**	$(23,541)

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

PENSION BENEFIT GUARANTY CORPORATION
STATEMENTS OF CASH FLOWS

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	For the Years Ended September 30,		For the Years Ended September 30,		For the Years Ended September 30,	
(Dollars in millions)	**2005**	2004	**2005**	2004	**2005**	2004
OPERATING ACTIVITIES:						
Premium receipts	**$ 1,595**	$ 1,108	**$ 26**	$ 28	**$ 1,621**	$ 1,136
Interest and dividends received, net	**1,344**	1,155	**64**	64	**1,408**	1,219
Cash received from plans upon trusteeship	**218**	51	**0**	0	**218**	51
Receipts from sponsors/non-sponsors	**139**	120	**0**	0	**139**	120
Receipts from the missing participant program	**8**	3	**0**	0	**8**	3
Other receipts	**137**	4	**0**	0	**137**	4
Benefit payments - trusteed plans	**(3,301)**	(2,888)	**(1)**	(1)	**(3,302)**	(2,889)
Financial assistance payments			**(14)**	(10)	**(14)**	(10)
Settlements and judgments	**(5)**	(7)	**0**	0	**(5)**	(7)
Payments for administrative and other expenses	**(324)**	(278)	**0**	0	**(324)**	(278)
Net cash provided (used) by operating activities (Note 13)	**(189)**	(732)	**75**	81	**(114)**	(651)
INVESTING ACTIVITIES:						
Proceeds from sales of investments	**131,442**	44,332	**5,114**	1,267	**136,556**	45,599
Payments for purchases of investments	**(136,357)**	(39,497)	**(5,190)**	(1,342)	**(141,547)**	(40,839)
Change in security lending collateral	**6,301**	417	**0**	0	**6,301**	417
Net cash provided (used) by investing activities	**1,386**	5,252	**(76)**	(75)	**1,310**	5,177
Net increase (decrease) in cash and cash equivalents	**1,197**	4,520	**(1)**	6	**1,196**	4,526
Cash and cash equivalents, beginning of year	**7,692**	3,172	**14**	8	**7,706**	3,180
Cash and cash equivalents, end of year	**$ 8,889**	$ 7,692	**$ 13**	$ 14	**$ 8,902**	$ 7,706

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

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005 AND 2004

Note 1 -- Organization and Purpose

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

ERISA requires that PBGC programs be self-financing. The Corporation's principal operational resources are premiums collected from covered plans, assets assumed from terminated plans, collection of employer liability payments due under ERISA, and investment income. ERISA provides that the U.S. Government is not liable for any obligation or liability incurred by PBGC.

As of September 30, 2005, the single-employer and multiemployer programs reported deficits of $22.776 billion and $335 million, respectively. The single-employer program had assets of nearly $56.5 billion which is offset by total liabilities of $79.2 billion, which includes a total present value of future benefits (PVFB) of approximately $69.7 billion. As of September 30, 2005, multiemployer program had assets of approximately $1.2 billion offset by approximately $1.5 billion in present value of nonrecoverable future financial assistance.

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

Single-Employer and Multiemployer Program Exposure

Measures of risk in PBGC's insured base of plan sponsors suggest that the single-employer deficit may continue to worsen. PBGC's best estimate of the total underfunding in plans sponsored by companies with credit ratings below investment grade and classified by PBGC as reasonably possible of termination as of September 30, 2005, was $108 billion. The comparable estimates of reasonably possible exposure for 2004 and 2003 were $96 billion and $82 billion, respectively. These estimates are measured as of December 31 of the previous year (see Note 7). For 2005, this exposure is concentrated in the following sectors: manufacturing; transportation, communication and utilities; and services/other.

PBGC estimates that the total underfunding in single-employer plans exceeded $450 billion (unaudited), as of September 30, 2005, and as of September 30, 2004. PBGC's estimate of underfunding as of September 30, 2005, is largely (about 80%) based upon employers' reports to PBGC under section 4010 of ERISA of their December 31, 2004, market value of assets and termination liability. These values were then rolled forward to September 30, 2005, on a plan-by-plan basis using an average pension asset return from published reports, an average benefit accrual increment, and a liability adjustment factor to reflect the change in interest factors. The roll forward did not adjust for contributions, benefit payments, changes in liabilities due to the passage of time, or plan amendments since this information was not readily or reliably available. PBGC's exposure to loss is less than these amounts because of the statutory limits on insured pensions. For single-employer plans sponsored by employers that do not file with PBGC under section 4010 of ERISA, PBGC's estimates are based on data obtained from other filings and submissions with the government and from corporate annual reports for fiscal years ended in calendar 2004.

Total underfunding of multiemployer plans is estimated to exceed $200 billion (unaudited) at September 30, 2005. In 2004, PBGC estimated that multiemployer underfunding exceeded $150 billion (unaudited). Multiemployer plan data is much less current and complete than single-employer data--it is generally two years older and in some cases three years older than single-employer data and comes only from Form 5500 filings.

PBGC estimates that, as of September 30, 2005, it is reasonably possible that multiemployer plans may require future financial assistance in the amount of $418 million. As of September 30, 2004 and 2003, these exposures were estimated at $108 million and $63 million, respectively.

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

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

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

Note 2 -- Significant Accounting Policies

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

Valuation Method: A primary objective of PBGC's financial statements is to provide information that is useful in assessing PBGC's present and future ability to ensure that its plan beneficiaries receive benefits when due. Accordingly, PBGC values its financial assets at estimated fair value, consistent with the standards for pension plans contained in Statement of Financial Accounting Standards (FAS) No. 35 ("Accounting and Reporting by Defined Benefit Pension Plans"). PBGC values its liabilities for the present value of future benefits and present value of nonrecoverable future financial assistance using assumptions derived from annuity prices from insurance companies, as described in the Statement of Actuarial Opinion. As described in Paragraph 21 of FAS No. 35, the assumptions are "those assumptions that are inherent in the estimated cost at the (valuation) date to obtain a contract with an insurance company to provide participants with their accumulated plan benefits." Also, in accordance with Paragraph 21 of FAS No. 35, PBGC selects assumptions for expected retirement ages and the cost of administrative expenses in accordance with its best estimate of anticipated experience.

Revolving and Trust Funds: PBGC accounts for its single-employer and multiemployer programs' revolving and trust funds on an accrual basis. Each fund is charged its portion of the benefits paid each year. PBGC has combined the revolving and trust funds for presentation purposes in the financial statements. The single-employer and multiemployer programs are separate programs by law and, therefore, PBGC reports them separately.

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

The trust funds include assets PBGC acquires or expects to acquire with respect to terminated plans (e.g., investments) and investment income thereon. These assets generally are held by custodian banks. The trust funds support the operational functions of PBGC.

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

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

Cash and Cash Equivalents: Cash includes cash on hand and demand deposits as well as cash collateral retained as security for securities lent. Cash equivalents are securities with a maturity of one business day.

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

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

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

Capitalized Assets: Capitalized assets include furniture and fixtures, EDP equipment and internal-use software. Beginning in fiscal year 2004, PBGC, in compliance with AICPA Statement Of Position 98-1 and FASB EITF 97-13 began to account for the cost of computer software developed for internal use. This includes costs for internally developed software incurred during the application development stage (system design including software configuration and software interface, coding, testing including parallel processing phase). These costs are shown net of depreciation and amortization.

Present Value of Future Benefits (PVFB): The PVFB is the estimated liability for future pension benefits that PBGC is or will be obligated to pay the participants of trusteed plans and the net liability for plans pending termination and trusteeship. The PVFB liability (including trusteed plans as well as plans pending termination and trusteeship) is stated as the actuarial present value of estimated future benefits less the present value of estimated recoveries from sponsors and members of their controlled group and the assets of plans pending termination and trusteeship as of the date of the financial statements. PBGC also includes the estimated liabilities attributable to plans classified as probable terminations as a separate line item in the PVFB (net of estimated recoveries and plan assets). PBGC uses assumptions to adjust the value of those future payments to reflect the time value of money (by discounting) and the probability of payment (by means of decrements, such as for death or retirement). PBGC also includes anticipated expenses to settle the benefit obligation in the determination of the PVFB. PBGC's benefit payments to participants reduces the PVFB liability.

The values of the PVFB are particularly sensitive to changes in underlying estimates and assumptions. These estimates and assumptions could change and the impact of these changes may be material to PBGC's financial statements (see Note 4).

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

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

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

(4) Net Claims for Probable Terminations-- In accordance with Statement of Financial Accounting Standards No. 5 (Accounting for Contingencies) PBGC recognizes net claims for probable terminations which represent PBGC's best estimate of the losses, net of plan assets and the present value of expected recoveries (from sponsors and member controlled group) for plans that are likely to terminate within twelve months of the financial statement issuance date. These estimated losses are based on conditions that existed as of PBGC's fiscal year-end. Management believes it is likely that one or more events subsequent to PBGC's fiscal year-end will occur, confirming the loss. Criteria used for classifying a specific plan as a probable termination include, but are not limited to, one or more of the following conditions: the plan sponsor is in liquidation or comparable state insolvency proceeding with no known solvent controlled group member; sponsor has filed or intends to file for distress plan termination; or PBGC seeks involuntary plan termination. In addition, management takes into account other economic events and factors in making judgments regarding the classification of a plan as a probable termination. These events and factors may include, but are not limited to: the plan

sponsor is in bankruptcy or has indicated that a bankruptcy filing is imminent; the plan sponsor has stated that plan termination is likely; the plan sponsor has received a going concern opinion from its independent auditors; or the plan sponsor is in default under existing credit agreement(s).

In addition, a reserve for large unidentified probable losses is recorded based on actual PBGC experience, as well as the historical industry bond default rates. This reserve has been developed by segregating plan sponsors listed on the contingency list, with plan funding ratios less than or equal to 80%, with aggregate underfunding equal to or greater than $50 million into risk bands which reflect their level of credit risk. A reserve for small unidentified probable losses and incurred but not reported (IBNR) claims is also recorded based on an actuarial loss development methodology (triangulation method) (see Note 4).

(5) PBGC identifies certain plans as high risk if the plan sponsor meets one or more criteria that include, but are not limited to, the following conditions: sponsor is in Chapter 11 proceedings; sponsor received a minimum funding waiver within the past five years; sponsor granted security to an unsecured creditor as part of a renegotiation of debt within the past two years; sponsor is known to have been in default on existing debt within the past two years (regardless of whether it received a waiver of default); or sponsor's unsecured debt is rated CCC+/Caa1 or lower by S&P or Moody's respectively. PBGC specifically reviews each plan identified as high risk and classifies those plans as probable if, based on available evidence, PBGC concludes that plan termination is likely. Otherwise, high risk plans are classified as reasonably possible.

(6) In accordance with Statement of Financial Accounting Standards No. 5 (Accounting for Contingencies), PBGC's exposure to losses from plans of companies that are classified as reasonably possible is disclosed in footnotes. In order for a plan sponsor to be specifically classified as reasonably possible, it must first have $5 million or more of underfunding, as well as meet additional criteria. Criteria used for classifying a company as reasonably possible include, but are not limited to, one or more of the following conditions: the plan sponsor is in Chapter 11 reorganization; funding waiver pending or outstanding with the Internal Revenue Service (IRS); sponsor missed minimum funding contribution; sponsor's bond rating is below-investment-grade for Standard & Poor's

(BB+) or Moody's (Ba1); sponsor has no bond rating but unsecured debt is below investment grade; or sponsor has no bond rating but the ratio of long-term debt plus unfunded benefit liability to market value of shares is 1.5 or greater (see Note 7).

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

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

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

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

Losses from Completed and Probable Terminations: Amounts reported as losses from completed and probable terminations represent the difference as of the actual or expected date of plan termination (DOPT) between the present value of future benefits (including amounts owed under Section 4022(c) of ERISA) assumed, or expected to be assumed, by PBGC, less related plan assets and the present value of expected recoveries from sponsors and members of their controlled group (see Note 10). When a plan terminates, the previously recorded probable Net claim is reversed and newly estimated DOPT plan assets, recoveries and PVFB are netted and reported on the line PVFB - Plans pending termination and trusteeship (this value is usually different than the amount previously reported), with any change in the estimate being recorded in the Statements of Operations and Changes in Position. In addition, the plan's net income from date of plan termination to the beginning of PBGC's fiscal year is included as a component of losses from completed and probable terminations for plans with termination dates prior to the year in which they were added to PBGC's inventory of terminated plans.

Actuarial Adjustments and Charges (Credits): PBGC classifies actuarial adjustments related to changes in method and the effect of experience as underwriting activity; actuarial adjustments are the result of the movement of plans from one valuation methodology to another (e.g., nonseriatim to seriatim) and of new data (e.g., deaths, revised participant data). Actuarial charges (credits) related to changes in interest rates and passage of time are classified as financial activity. These adjustments and charges (credits) represent the change in the PVFB that results from applying actuarial assumptions in the calculation of future benefit liabilities (see Note 4).

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

Reclassification: Certain amounts in the 2004 financial statements have been reclassified to be consistent with the 2005 presentation.

Note 3 -- Investments

Premium receipts are invested in U.S. Treasury securities.

The trust funds include assets PBGC acquires or expects to acquire with respect to terminated plans (e.g., recoveries from sponsors) and investment income thereon. These assets generally are held by custodian banks. The basis and market value of the investments by type are detailed below as well as related investment profile data. The basis indicated is cost of the asset if acquired after the date of plan termination or the market value at date of plan termination if the asset was acquired as a result of a plan's termination. PBGC marks the plan's assets to market and any increase or decrease in the market value of a plan's assets occurring after the date on which the plan is terminated must, by law, be credited to or suffered by PBGC. As the table below illustrates, the market value of investments of the single-employer program increased significantly from September 30, 2004, to September 30, 2005. This was primarily due to (1) a large amount of cash available at September 30, 2004, which was deployed to the new fixed income managers early in FY 2005 and (2) significant inflow of assets from trusteed plans in 2005. This resulted in a significant increase in income from fixed income securities. Note 11 provides the components of investment income.

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

	September 30, 2005		September 30, 2004	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	**$21,562**	**$21,417**	$15,095	$15,667
Commercial paper	**336**	**336**	188	188
Asset backed securities	**3,286**	**3,265**	399	396
Corporate and other bonds	**8,194**	**8,142**	1,050	1,082
Subtotal	**33,378**	**33,160**	16,732	17,333
Equity securities	**8,565**	**12,284**	7,536	11,115
Real estate and real estate investment trusts	**33**	**29**	83	91
Insurance contracts and other investments	**32**	**25**	38	23
Total *	**$42,008**	**$45,498**	$24,389	$28,562

* This includes securities on loan at September 30, 2005, and September 30, 2004, with a market value of $6.769 billion and $622 million, respectively.

INVESTMENTS OF MULTIEMPLOYER REVOLVING FUNDS AND MULTIEMPLOYER TRUSTEED PLANS

	September 30, 2005		September 30, 2004	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	**$1,151**	**$1,134**	$1,006	$1,042
Equity securities	**0**	**0**	0	1
Total	**$1,151**	**$1,134**	$1,006	$1,043

INVESTMENT PROFILE

	September 30, 2005	2004
Fixed-Income Assets		
Average Quality	**AAA**	AAA
Average Maturity (years)	**16.6**	15.2
Duration (years)	**10.4**	9.1
Yield to Maturity (%)	**4.8**	4.4
Equity Assets		
Average Price/Earnings Ratio	**20.2**	20.4
Dividend Yield (%)	**1.6**	1.7
Beta	**1.03**	0.98

In addition, PBGC's trusteed liability return was 2.6% and the duration (years) of these liabilities was 9.93 in 2005.

Derivative Instruments: Derivatives are accounted for at market value in accordance with Statement of Financial Accounting Standards No. 133, as amended. Derivatives are marked to market with changes in value reported within financial income. These instruments are used to mitigate risk and/or enhance PBGC's investment returns. The standard requires disclosure of fair value of these instruments. During fiscal years 2004 and 2005, PBGC invested in investment products, which used various U.S. and non-U.S. derivative instruments including but not limited to: equity index futures contracts, money market and government bond futures contracts, swap contracts, swaption contracts, stock warrants and rights, debt option contracts and foreign currency forward and option contracts. Some of these derivatives are traded on organized exchanges and thus bear minimal credit risk. The counterparties to PBGC's non-exchange-traded derivative contracts are major financial institutions. PBGC has never experienced non-performance by any of its counterparties.

Futures are exchange-traded contracts specifying a future date of delivery or receipt of a certain amount of a specific tangible or intangible product. The futures exchange's clearinghouses clear, settle, and guarantee transactions occurring through its facilities. Institutional investors hold these future contracts on behalf of PBGC as efficient and liquid substitutes for purchases and sales of financial market indices and securities. Open futures positions are marked to market daily. An initial margin of generally 1 to 6 percent is maintained with the broker in Treasury bills or similar instruments. In addition, futures contracts require daily settlement of variation margin resulting from the marks to market. In periods of extreme volatility, margin calls may create a high liquidity demand on the underlying portfolio. To mitigate this, PBGC maintains adequate liquidity in its portfolio to meet these margin calls.

A swap is an agreement between two parties to exchange different financial returns on a notional investment amount. For example, an interest rate swap involves exchanges of fixed rate and floating rate interest. There is no exchange of the underlying principal. During fiscal years 2004 and 2005, gains and losses from settled margin calls (e.g., from futures, swaps, and options) are reported in Investment income on the Statement of Operations and Changes in Net Position.

PBGC's investment managers employ a variety of derivative investment strategies including: investment of foreign currency forward and option contracts used to adjust overall currency exposure to reflect the investment views of the portfolio managers regarding relationships between currencies; investment in swap and swaption contracts to adjust exposure to interest rates, fixed income securities exposure, and to generate income based on the investment views of the portfolio managers regarding interest rates, indices and debt issues; and investment in stock warrants and rights that allow the purchase of securities at a stipulated price within a specified time limit. Derivative instruments are not used to create leverage in PBGC's investment portfolio.

The following table summarizes the notional amounts and fair market values of derivative financial instruments held or issued for trading as of September 30, 2005, and September 30, 2004.

INTEREST RATE CONTRACTS (IRC)	9/30/05 Notional	9/30/05 FMV	9/30/04 Notional	9/30/04 FMV
(Dollars in millions)				
Forwards	$ 149	$ 0	$ 20	$ 0
Futures	5,098	6	2,254	15
Contracts in a receivable position	1,645	15	1,807	16
Contracts in a payable position	3,453	(9)	447	(1)
Swap Agreements	4,385	38	223	5
Options purchased (long)	2	0	0	0
Options written (sold short)	80	0	135	(1)
FOREIGN EXCHANGE CONTRACTS (FEC)	**9/30/05 Notional**	**9/30/05 FMV**	**9/30/04 Notional**	**9/30/04 FMV**
Forwards	$1,129	$ (3)	$ 322	$ 2
Options purchased (long)	0	0	1	0

Security Lending: PBGC participates in a security lending program administered by its custodian bank. The custodian bank requires collateral that equals 102 percent to 105 percent of the securities lent. The collateral is held by the custodian bank. In addition to the lending program managed by the custodian bank, some of PBGC's investment managers are authorized to invest in repurchase agreements and reverse repurchase agreements. The manager either receives cash as collateral or pays cash out to be used as collateral. Any cash collateral received is invested. The total value of securities on loan at September 30, 2005, and September 30, 2004, was $6.769 billion and $622 million, respectively. Securities on loan have increased significantly since September 30, 2004, due to an ongoing demand for fixed-income securities to lend and the new capacity to lend such securities provided by approximately $12.833 billion of new fixed-income securities as of September 30, 2005.

The amount of cash collateral received for these loaned securities was $6.939 billion at September 30, 2005, and $637 million at September 30, 2004. These amounts are recorded in cash and are offset with a corresponding liability. PBGC had earned income from securities lending of $4.0 million as of September 30, 2005 and $1.1 million as of September 30, 2004.

Of the $6.769 billion market value of securities on loan at September 30, 2005, approximately 92% are invested in U.S. government securities and 8% in U.S. corporate securities. PBGC had available approximately $15.960 billion of securities available for securities lending at September 30, 2005.

Note 4 -- Present Value of Future Benefits

The following table summarizes the actuarial adjustments, charges and credits that explain how the Corporation's single-employer program liability for the present value of future benefits changed for the years ended September 30, 2005 and 2004.

For FY 2005, PBGC used a 25-year select interest factor of 5.2% followed by an ultimate factor of 4.5% for the remaining years. In FY 2004, PBGC used a 25-year select interest factor of 4.8% followed by an ultimate factor of 5.0% for the remaining years. These factors were determined to be those needed, given the mortality assumptions, to continue to match the survey of annuity prices provided by the American Council of Life Insurers (ACLI). Both the interest factor and the length of the select period may vary to produce the best fit with these prices. The prices reflect rates at which, in the opinion of management, the liabilities (net of administrative expenses) could be settled in the market at September 30, for the respective year, for single-premium nonparticipating group annuities issued by private insurers. Many factors, including Federal Reserve policy, may impact these rates.

For September 30, 2005, PBGC used the 1994 Group Annuity Mortality (GAM) 94 Static Table (with margins), set forward one year and projected 22 years to 2016 using Scale AA. For September 30, 2004, PBGC used the same table, set forward one year, projected 20 years to 2014 using Scale AA. The number of years that PBGC projects the mortality table reflects the number of years from the 1994 base year of the table to the end of the fiscal year (11 years in 2005 versus 10 years in 2004) plus PBGC's calculated duration of its liabilities (11 years in 2005 versus 10 years in 2004). PBGC's procedure is based on the procedures recommended by the Society of Actuaries UP-94 Task Force (which developed the GAM94 table) for taking into account future mortality improvements.

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

The reserve for administrative expenses in the 2005 and 2004 valuations were assumed to be 1.18 percent of benefit liabilities plus additional reserves for cases whose plan asset determinations, participant database audits and actuarial valuations were not yet complete. The expense assumption was based on a study performed for PBGC in 2000 by a major accounting firm. The factors to determine the additional reserves were based on case size, number of participants and time since trusteeship.

The present values of future benefits for trusteed multiemployer plans for 2005 and 2004 reflect the payment of assistance and the changes in interest and mortality assumptions, passage of time and the effect of experience.

The resulting liability represents PBGC's best estimate of the measure of anticipated experience under these programs.

RECONCILIATION OF THE PRESENT VALUE OF FUTURE BENEFITS FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

(Dollars in millions)		September 30, 2005		2004
Present value of future benefits, at beginning of year -- Single-Employer, net		**$ 60,836**		$44,641
Estimated recoveries, prior year		**364**		68
Assets of terminated plans pending trusteeship, net, prior year		**678**		172
Present value of future benefits at beginning of year, gross		**61,878**		44,881
Settlements and judgments, prior year		**(65)**		(67)
Net claims for probable terminations, prior year		**(16,926)**		(5,207)
Actuarial adjustments -- underwriting:				
Changes in method and assumptions	**$ 17**		$ 1,340	
Effect of experience	**203**		185	
Total actuarial adjustments -- underwriting	**220**		1,525	
Actuarial charges -- financial:				
Passage of time	**2,618**		1,881	
Change in interest rates	**(2,348)**		(1,619)	
Total actuarial charges -- financial	**270**		262	
Total actuarial charges, current year		**490**		1,787
Terminations:				
Current year	**21,191**		6,926	
Changes in prior year	**(292)**		(427)	
Total terminations		**20,899**		6,499
Benefit payments, current year*		**(3,685)**		(3,006)
Estimated recoveries, current year		**(343)**		(364)
Assets of terminated plans pending trusteeship, net, current year		**(3,039)**		(678)
Settlements and judgments, current year		**58**		65
Net claims for probable terminations:				
Future benefits**	**23,918**		30,953	
Estimated plan assets and recoveries from sponsors	**(13,448)**		(14,027)	
Total net claims, current year		**10,470**		16,926
Present value of future benefits, at end of year -- Single-Employer, net		**69,737**		60,836
Present value of future benefits, at end of year -- Multiemployer		**2**		3
Total present value of future benefits, at end of year, net		**$ 69,739**		$60,839

* The benefit payments of $3,685 million and $3,006 million include $384 million in 2005 and $119 million in 2004 for benefits paid from plan assets by plans prior to trusteeship.

** The future benefits for probable terminations of $23,918 million and $30,953 million for fiscal years 2005 and 2004, respectively, include $137 million and $431 million, respectively, in net claims (future benefits less estimated plan assets and recoveries) for probable terminations not specifically identified and $23,781 million and $30,522 million, respectively, in net claims for specifically identified probables.

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

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

	September 30, 2005		September 30, 2004	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
U.S. Government securities	**$ 0**	**$ 0**	$ 3	$ 3
Corporate and other bonds	**1,043**	**1,053**	265	281
Equity securities	**1,968**	**1,992**	364	382
Insurance contracts	**2**	**2**	2	2
Other	**(7)**	**(8)**	10	10
Total	**$3,006**	**$3,039**	$644	$678

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, 2005		2004	
Net claims for probable terminations, at beginning of year		**$16,926**		$ 5,207
Change in IBNR				(41)
New claims	**$ 4,738**		$14,407	
Actual terminations	**(10,637)**		(3,258)	
Deleted probables	**(83)**		(243)	
Change in benefit liabilities	**(205)**		929	
Change in plan assets	**(269)**		(75)	
Loss (credit) on probables		**(6,456)**		11,760
Net claims for probable terminations, at end of year		**$10,470**		$16,926

The following table itemizes the probable exposure by industry:

PROBABLES EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	**FY 2005**	FY 2004
Transportation, Communication and Utilities	**$ 9,570**	$15,057
Manufacturing	**612**	630
Agriculture, Mining, and Construction	**37**	-
Wholesale and Retail Trade	**18**	219
Finance, Insurance, and Real Estate	**-**	569
Services/Other	**233**	451
Total	**$10,470**	$16,926

For further detail, see Note 2 subpoint (4)

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

PROBABLES EXPERIENCE
As Initially Recorded Beginning in 1987

(Dollars in millions)	Status of Probables from 1987-2004 at September 30, 2005			
Beginning in 1987, number of plans reported as Probable:	Number of Plans	Percent of Plans	Net Claim	Percent of Net Claim
Probables terminated	271	79%	$21,788	76%
Probables not yet terminated or deleted	6	2	5,774	20
Probables deleted	67	19	1,105	4
Total	344	100%	$28,667	100%

Note 5 -- Multiemployer Financial Assistance

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

NOTES RECEIVABLE
MULTIEMPLOYER FINANCIAL ASSISTANCE

(Dollars in millions)	September 30, **2005**	2004
Gross balance at beginning of year	**$ 71**	$ 61
Financial assistance payments-current year	**14**	10
Subtotal	**85**	71
Allowance for uncollectible amounts	**(85)**	(71)
Net balance at end of year	**$ 0**	$ 0

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

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

(Dollars in millions)	September 30, **2005**	2004
Balance at beginning of year	**$1,295**	$1,250
Changes in allowance:		
Losses from financial assistance	**204**	55
Financial assistance granted (previously accrued)	**(14)**	(10)
Balance at end of year	**$1,485**	$1,295

Note 6 -- Accounts Payable and Accrued Expenses

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

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

(Dollars in millions)	September 30, **2005**	2004
Annual leave	**$ 5**	$ 5
Other payables and accrued expenses	**65**	66
Accounts payable and accrued expenses	**$70**	$71

Note 7 -- Contingencies

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

In accordance with Statement of Financial Accounting Standards No. 5, PBGC classified a number of these companies as reasonably possible terminations as the sponsors' financial condition and other factors did not indicate that termination of their plans was likely as of year-end. The best estimate of aggregate unfunded vested benefits exposure to PBGC for the companies' single-employer plans classified as reasonably possible as of September 30, 2005, was $108 billion.

The estimated unfunded vested benefits exposure has been calculated as of December 31, 2004. PBGC calculated this estimate as in previous years by using data obtained from filings and submissions with the government and from corporate annual reports for fiscal years ending in calendar 2004. The Corporation adjusted the value reported for liabilities to the December 31, 2004, PBGC select interest rate of 3.9%. When available, data were adjusted to a consistent set of mortality assumptions. The underfunding associated with these sponsors' plans would generally tend to be greater at September 30, 2005, because of the economic conditions that existed between December 31, 2004, and September 30, 2005. The Corporation did not adjust the estimate for events that occurred between December 31, 2004, and September 30, 2005.

The following table itemizes the reasonably possible exposure by industry:

REASONABLY POSSIBLE EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	**FY 2005**	FY 2004
Manufacturing	**$ 71,332**	$51,325
Transportation, Communication and Utilities	**17,567**	26,985
Services/Other	**8,623**	8,725
Wholesale and Retail Trade	**7,296**	5,674
Agriculture, Mining and Construction	**1,731**	1,866
Finance, Insurance, and Real Estate	**1,490**	1,098
Total	**$108,039**	$95,673

FY 2004 amounts were reclassified to conform to the NAIC classification codes

PBGC included amounts in the liability for the present value of nonrecoverable future financial assistance (see Note 5) for multiemployer plans that PBGC estimated may require future financial assistance. In addition, PBGC currently estimates that it is reasonably possible that other multiemployer plans may require future financial assistance in the amount of $418 million.

The Corporation calculated the future financial assistance liability for each multiemployer plan identified as probable (see Note 5), or reasonably possible as the present value of guaranteed future benefit and expense payments net of any future contributions or withdrawal liability payments as of the later of September 30, 2005, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2005. The Corporation's identification of plans that are likely to require such assistance and estimation of related amounts required consideration of many complex factors, such as an estimate of future cash flows, future mortality rates, and age of participants not in pay status. These factors are affected by future events, including actions by plans and their sponsors, most of which are beyond the Corporation's control.

PBGC used select and ultimate interest rate assumptions of 5.2% for the first 25 years after the valuation date and 4.5% thereafter. The Corporation also used the 1994 Group Annuity Mortality Static Table (with margins), set forward one year, projected 22 years to 2016 using Scale AA.

Note 8 -- Commitments

PBGC leases its office facility under a new commitment that began on January 1, 2005, and expires December 10, 2018. The new lease agreement was entered into because of the need for additional office space. This lease provides for periodic rate increases based on increases in operating costs and real estate taxes over a base amount. In addition, PBGC is leasing space for field benefit administrators.

These leases began in 1996 and expire in 2013. The minimum future lease payments for office facilities having noncancellable terms in excess of one year as of September 30, 2005, are as follows:

COMMITMENTS: FUTURE LEASE PAYMENTS
(Dollars in millions)

Years Ending September 30,	Operating Leases
2006	$ 18.7
2007	18.7
2008	18.0
2009	17.5
2010	17.3
Thereafter	118.6
Minimum lease payments	$208.8

Lease expenses were $18.0 million in 2005 and $15.6 million in 2004.

Note 9 -- Premiums

For both the single-employer and multiemployer programs, ERISA provides that PBGC shall continue to guarantee basic benefits despite the failure of a plan administrator to pay premiums when due. PBGC assesses interest and penalties on the unpaid portion of or underpayment of premiums. Interest continues to accrue until the premium and the interest due are paid. The amount of penalty that can be levied is capped at 100 percent of the premium late payment or underpayment. Annual flat-rate premiums for the single-employer program are $19 per participant. Underfunded single-employer plans also pay variable-rate premiums of $9 per $1,000 of underfunding if not exempt from the variable-rate premiums. Annual flat-rate premiums for the multiemployer program are $2.60 per participant and there are no variable-rate premiums. PBGC recorded premium income, excluding interest and penalty, of approximately $670 million in flat-rate premiums and $787 million in variable-rate premiums for fiscal year 2005, and approximately $677 million in flat-rate premiums and $804 million in variable-rate premiums for fiscal year 2004.

Note 10 -- Losses from Completed and Probable Terminations

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

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

For the Years Ended September 30,

(Dollars in millions)	2005 New Terminations	2005 Changes in Prior Year Terminations	2005 Total	2004 New Terminations	2004 Changes in Prior Year Terminations	2004 Total
Present value of future benefits	**$21,191**	**$(292)**	**$20,899**	$6,926	$(427)	$ 6,499
Less plan assets	**10,516**	**0**	**10,516**	3,137	125	3,262
Plan asset insufficiency	**10,675**	**(292)**	**10,383**	3,789	(552)	3,237
Less estimated recoveries	**9**	**(37)**	**(28)**	280	11	291
Subtotal	**$10,666**	**$(255)**	**10,411**	$3,509	$(563)	2,946
Settlements and judgments			**(1)**			1
Loss (credit) on probables			**(6,456)***			11,760 *
Total			**$ 3,954**			$14,707

* See Note 4

Note 11 -- Financial Income

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

Investment Income - Single-Employer and Multiemployer Programs

(Dollars in millions)	Single-Employer Program Sept 30, 2005	Multiemployer Program Sept 30, 2005	Memorandum Total Sept 30, 2005	Single-Employer Program Sept 30, 2004	Multiemployer Program Sept 30, 2004	Memorandum Total Sept 30, 2004
Fixed-income securities:						
Interest earned	**$1,270**	**$ 53**	**$1,323**	$ 858	$50	$ 908
Realized gain (loss)	**1,361**	**82**	**1,443**	(18)	(2)	(20)
Unrealized gain (loss)	**(876)**	**(56)**	**(932)**	143	6	149
Total fixed-income securities	**1,755**	**79**	**1,834**	983	54	1,037
Equity securities:						
Dividends earned	**81**	**0**	**81**	104	0	104
Realized gain	**1,540**	**0**	**1,540**	1,044	0	1,044
Unrealized gain	**493**	**0**	**493**	1,048	0	1,048
Total equity securities	**2,114**	**0**	**2,114**	2,196	0	2,196
Other income	**28**	**0**	**28**	18	0	18
Total investment income	**$3,897**	**$ 79**	**$3,976**	$3,197	$54	$3,251

Note 12 -- Employee Benefit Plans

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

The Corporation's contribution to the CSRS plan for both 2005 and 2004 was 7.0 percent of base pay for those employees covered by that system. For those employees covered by FERS, the Corporation's contribution was 10.7 percent of base pay for both 2005 and 2004. 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 $11 million in 2005 and $10 million in 2004.

These financial statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to PBGC employees. These amounts are reported by the U.S. Office of Personnel Management (OPM) and are not allocated to the individual employers. OPM accounts for federal health and life insurance programs for those eligible retired PBGC employees who had selected federal government-sponsored plans. PBGC does not offer other supplemental health and life insurance benefits to its employees.

Note 13 -- Cash Flows

The following two tables, one for Sales and one for Purchases, provide further details on cash flows from investment activity. Sales and purchases of investments are driven by the level of newly trusteed plans, the unique investment strategies implemented by PBGC's investment managers, and the varying capital market conditions in which they invest during the year. Several investment strategies in use in 2005 involved higher volume short term investments, particularly in the fixed income area, as shown in the Investing Activities table below. These cash flow numbers can vary significantly from year to year based on the fluctuation in these three variables.

INVESTING ACTIVITIES

(Dollars in millions)	September 30, **2005**	2004
Proceeds from sales of investments:		
Fixed maturity securities	**$125,646**	$37,929
Equity securities	**8,515**	4,677
Other/uncategorized	**2,395**	2,993
Total	**$136,556**	$45,599
Payments for purchases of investments:		
Fixed maturity securities	**$(139,681)**	$(38,872)
Equity securities	**(7,022)**	(2,013)
Other/uncategorized	**5,156**	46
Total	**$(141,547)**	$(40,839)

The following is a reconciliation between the net income as reported in the Statements of Operations and Changes in Net Position and net cash provided by operating activities as reported in the Statements of Cash Flows.

RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in millions)	**2005**	2004	**2005**	2004	**2005**	2004
Net income (loss)	**$ 529**	$(12,067)	**$(99)**	$25	**$ 430**	$(12,042)
Adjustments to reconcile net income to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	**(2,481)**	(2,160)	**(26)**	(3)	**(2,507)**	(2,163)
Net gain of plans pending termination and trusteeship	**46**	(84)	**0**	0	**46**	(84)
Losses on completed and probable terminations	**3,954**	14,707	**0**	0	**3,954**	14,707
Actuarial charges	**490**	1,787	**0**	1	**490**	1,788
Benefit payments - trusteed plans	**(3,301)**	(2,888)	**(1)**	(1)	**(3,302)**	(2,889)
Settlements and judgments	**(5)**	(7)	**0**	0	**(5)**	(7)
Cash received from plans upon trusteeship	**218**	51	**0**	0	**218**	51
Receipts from sponsors/non-sponsors	**216**	84	**0**	0	**216**	84
Amortization of discounts/premiums	**128**	128	**11**	11	**139**	139
Changes in assets and liabilities, net of effects of trusteed and pending plans:						
(Increase) decrease in receivables	**31**	(311)	**0**	3	**31**	(308)
Increase in present value of nonrecoverable future financial assistance			**190**	45	**190**	45
Increase (decrease) in unearned premiums	**(13)**	16	**0**	0	**(13)**	16
Increase (decrease) in accounts payable	**(1)**	12	**0**	0	**(1)**	12
Net cash provided (used) by operating activities	**$ (189)**	$ (732)	**$ 75**	$81	**$ (114)**	$ (651)

Note 14 -- Litigation

PBGC was involved in numerous litigation matters in 2005. At the end of the fiscal year, PBGC had 383 open, active bankruptcy cases and 45 active litigation matters (other than in bankruptcy court). PBGC records as a liability on its financial statements an estimated cost for unresolved litigation to the extent that losses in such cases are probable and estimable in amount. PBGC estimates that possible losses of up to $180 million (due primarily to new issues in active litigation) could be incurred in the event that PBGC does not prevail in these matters. These possible losses are not recognized in the financial statements.

Note 15 -- Subsequent Events

Changed business and financial conditions subsequent to September 30, 2005, will result in the PBGC adding plans to its probable or terminated inventory in the single-employer program in FY 2006. If these changed business and financial conditions had occurred prior to FY 2005 year-end, PBGC's financial statements would have reflected a decrease of $2.9 billion in Net income and a decrease in the Net position in the same amount.

There was no subsequent event to report on the multiemployer program.

ACTUARIAL VALUATION

PBGC calculated and validated the present value of future PBGC-payable benefits (PVFB) for both the single-employer and multiemployer programs and of nonrecoverable future financial assistance under the multiemployer program. Methods and procedures for both single-employer and multiemployer plans were generally the same as those used in 2004.

PRESENT VALUE OF FUTURE BENEFITS AND NONRECOVERABLE FINANCIAL ASSISTANCE - 2005

		Number of Plans	Number of Participants *(in thousands)*	Liability *(in millions)*
I.	**SINGLE-EMPLOYER PROGRAM**			
	A. Terminated plans			
	1. Seriatim at fiscal year-end (FYE)	3,109	448	$14,521
	2. Seriatim at DOPT, adjusted to FYE	66	47	2,334
	3. Nonseriatim[1]	410	679	45,751
	4. Rettig Settlement (seriatim)[2]		*	1
	5. Missing Participants Program (seriatim)[3]		19	42
	Subtotal	3,585	1,193	62,649
	B. Probable terminations (nonseriatim)[4]	44	222	23,918
	Total [5]	3,629	1,415	$86,567
II.	**MULTIEMPLOYER PROGRAM**			
	A. Pre-MPPAA terminations (seriatim)	10	*	$ 2
	B. Post-MPPAA liability (net of plan assets)	77	103	1,485
	Total	87	103	$1,487

* Fewer than 500 participants

Notes:

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

2) The Rettig Settlement refers to the liability that PBGC incurred due to the settlement of a class action lawsuit that increased benefits for some participants and provided new benefits to others. The remaining participants not yet paid are valued seriatim.

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

4) The net claims for probable plans reported in the financial statements include $137 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 $13,448 million. Thus, the net claims for probable terminations as reported in the financial statements are $23,918 million less $13,448 million, or $10,470 million.

5) The PVFB in the financial statements ($69,737 million) is net of estimated plan assets and recoveries on probable terminations ($13,448 million), estimated recoveries on terminated plans ($343 million), and estimated assets for plans pending trusteeship ($3,039 million), or, $86,567 million less $13,448 million less $343 million less $3,039 million = $69,737 million.

SINGLE-EMPLOYER PROGRAM

PBGC calculated the single-employer program's liability for benefits in the terminated plans and probable terminations, as defined in Note 2 to the financial statements, using a combination of two methods: seriatim and nonseriatim. For 3,109 plans, representing about 87% of the total number of single-employer terminated plans (38% of the total participants in single-employer terminated plans), PBGC had sufficiently accurate data to calculate the liability separately for each participant's benefit - the seriatim method. This was an increase of 157 plans over the 2,952 plans valued seriatim last year. For 66 plans whose data were not yet fully automated, PBGC calculated the benefits and liability seriatim as of the date of plan termination (DOPT) and brought the total amounts forward to the end of fiscal year 2005.

For 410 other terminated plans, PBGC did not have sufficiently accurate or complete data to value individual benefits. Instead, the Corporation used a "nonseriatim" method that brought the liabilities from the plan's most recent actuarial valuation forward to the end of fiscal year 2005 using certain assumptions and adjustment factors.

For the actuarial valuation, PBGC used a select and ultimate interest rate assumption of 5.2% for the first 25 years after the valuation date and 4.5% thereafter. The mortality table used for valuing healthy lives was the 1994 Group Annuity Mortality Static Table (with margins), set forward one year, projected 22 years to 2016 using Scale AA (compared to the 1994 Group Annuity Mortality Static Table (with margins) , set forward one year, projected 20 years to 2014 using Scale AA used in the September 30, 2004 valuation). The projection period is determined as the sum of the elapsed time from the date of the table (1994) to the valuation date plus the period of time from the valuation date to the average date of payment of future benefits. PBGC assumed an explicit loading for expenses in all terminated plans and single-employer probable terminations. The reserve for expenses in the 2005 valuation was assumed to be 1.18% of the liability for benefits plus additional reserves for cases whose plan asset determinations, participant database audits, and actuarial valuations were not yet complete. The factors to determine the additional reserves were based on case size, number of participants, and time since trusteeship.

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

MULTIEMPLOYER PROGRAM

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

PBGC based its valuation of the post-MPPAA liability for nonrecoverable future financial assistance on the most recent available actuarial reports, Form 5500 Schedule B's, and information provided by representatives of the affected plans. The Corporation expected 77 plans to need financial assistance because severe industrial declines have left them with inadequate contribution bases and they had insufficient assets for current payments or were expected to run out of assets in the foreseeable future.

STATEMENT OF ACTUARIAL OPINION

This valuation has been prepared in accordance with generally accepted actuarial principles and practices and, to the best of my knowledge, fairly reflects the actuarial present value of the Corporation's liabilities for the single-employer and multiemployer plan insurance programs as of September 30, 2005.

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

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

Joan M Weiss

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

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

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

To the Board of Directors
Pension Benefit Guaranty Corporation

We contracted with Clifton Gunderson LLP, an independent certified public accounting firm, to audit the financial statements of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) as of September 30, 2005. The audit was performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, and the *GAO/PCIE Financial Audit Manual*.

Clifton Gunderson's financial statement audit of PBGC's Single-Employer and Multiemployer Program Funds found:

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

- PBGC's assertion about internal control over financial reporting and compliance with laws and regulations is fairly stated in all material respects;

- Four reportable conditions, including three repeated from Fiscal Year 2004: financial management systems integration, information security, and single-employer premiums; and a new reportable condition: preparedness for unanticipated incidences and disruptions;

- No instances of noncompliance with tested laws and regulations.

Clifton Gunderson is responsible for the accompanying auditor's report dated November 9, 2005, and the conclusions expressed in the report. We do not express opinions on PBGC's financial statements or internal control, nor do we draw conclusions on compliance with laws and regulations.

Clifton Gunderson's reports (2006-1/FA-0014-1) are available on our website at http://oig.pbgc.gov.

The financial statements of the Single-Employer and Multiemployer Program Funds administered by PBGC as of September 30, 2004 were audited by other auditors whose report dated November 12, 2004 expressed an unqualified opinion on those financial statements. Their reports (2005-2/23182-2) are also available on our website.

Sincerely,

Robert L. Emmons
Inspector General

November 9, 2005

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

To the Inspector General of the
Pension Benefit Guaranty Corporation

We have audited the accompanying statements of financial condition of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) as of September 30, 2005, and the related statements of operations and changes in net position and 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 Program Funds administered by the PBGC as of September 30, 2004 were audited by other auditors whose report dated November 12, 2004, expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 fiscal year 2005 financial statements referred to above present fairly, in all material respects, the financial position of the Single-Employer and Multiemployer Program Funds administered by PBGC as of September 30, 2005, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

By law, PBGC's Single-Employer and Multiemployer Program Funds must be self-sustaining. As of September 30, 2005, PBGC reported in its financial statements net deficit positions (liabilities in excess of assets) in the Single-Employer and Multiemployer Program Funds of $22,776 million and $335 million, respectively. As discussed in Note 7 to the financial statements, losses as of September 30, 2005 for the Single-Employer and Multiemployer Programs that are reasonably possible as a result of unfunded vested benefits are estimated to be $108,000 million and $418 million, respectively. In addition, as discussed in Note 15 to the financial statements, subsequent to September 30, 2005, business and financial conditions significantly deteriorated for a sponsor of two large single-employer plans that may terminate. Had these plan sponsor events occurred prior to September 30, 2005, PBGC's Single-Employer Program net deficit would have increased by $2,900 million. The PBGC's net deficit, and long-term viability, could be further impacted by losses from plans classified as reasonably possible (or from other plans not yet identified as potential losses) as a result of deteriorating economic conditions, the insolvency of a large plan sponsor or other factors. PBGC has been able to meet their short-term benefit obligations. However, as discussed in Note 1 to the financial statements, management believes that neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants.

In accordance with *Government Auditing Standards,* we have also issued our reports dated November 9, 2005 on our consideration of PBGC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The financial statement highlights, management's discussion and analysis, actuarial valuation, annual performance report, and financial summary contain a wide range of data, some of which is not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with PBGC officials. Based on this limited work, we found no material inconsistencies with the financial statements.

Clifton Gunderson LLP

Calverton, Maryland
November 9, 2005

ANNUAL PERFORMANCE REPORT

PBGC's strategic plan for fiscal years 2005-2008 reflects the Corporation's commitment to safeguarding the interests of the federal pension insurance system, sharpening its focus as a customer-centric organization, and efficiently and cost-effectively administering the federal pension insurance programs. Specifically, the PBGC goals are to:

1) safeguard the federal pension insurance system for the benefit of participants, plan sponsors, and other stakeholders;
2) provide exceptional service to customers and stakeholders; and
3) exercise effective and efficient stewardship of PBGC resources

In carrying out its mission, PBGC interacts with a variety of customers and stakeholders with an interest in the pension insurance programs, including beneficiaries in terminated pension plans, participants in ongoing pension plans that PBGC insures, the employers that pay premiums, the lawmakers and policymakers who oversee the federal insurance programs, and the public that has an interest in a strong and effective pension system.

PBGC's performance measures track and gauge customer service accomplishments, success at managing and mitigating risk exposure, and the efficiency with which the agency administers the insurance programs. PBGC measures customer satisfaction through all modes of contact, including its Web site. This is important because several business transactions with customers are now performed through the Web, and these will be expanded in the future.

PBGC's strategic plan may be found on PBGC's Web site at www.pbgc.gov/about/stratplan.htm. The following table shows the results achieved in 2005. This meets the annual reporting requirement of the Government Performance and Results Act.

2005 PBGC Corporate Performance Measures

Measures	2005 Target	2005 Result	Baseline Results
Goal 1: Safeguard the federal pension insurance system for the benefit of participants, plan sponsors, and other stakeholders			
● Promote better funding of insured plans by monitoring unfunded benefit liabilities in insured plans and supporting pension reform legislation *- Refer to note a below*		● Promoted the Administration's pension reform proposals through testimony, speeches, interviews, news releases and statements. The reform proposals were included in the Administration FY 2006 budget request to Congress. ● Expanded capacity to monitor underfunded plans and respond to risks by developing new models to quantify risks, establishing an Office of Risk Assessment, and increasing financial analysis, negotiation and litigation resources.	
Goal 2: Provide exceptional service to customers and stakeholders			
● American Customer Satisfaction Index of ***retirees*** who receive benefits from PBGC	84	85	84 (2004)
● American Customer Satisfaction Index of ***participants*** who contact PBGC for service	78	79	73 (2001)
● American Customer Satisfaction Index of ***participants*** who visit the PBGC Web site	63	65	60 (2004)
● American Customer Satisfaction Index of ***pension practitioners*** who contact PBGC for service	72	68	69 (2002)
● American Customer Satisfaction Index of ***pension*** *practitioners* who visit the PBGC Web site	74	66	72 (2004)
Goal 3: Exercise efficient and effective stewardship of PBGC resources			
● Administrative cost per participant in ongoing plans insured by PBGC - *Refer to note b and c below*	$1.89	$1.89	$1.55 (2004)
● Administrative cost per participant in plans PBGC trustees *- Refer to note c below*	$194	$194	$219 (2004)

a By its nature, this measure does not lend itself to setting annual targets or milestones. PBGC is working to develop new measures that better reflect results associated with this goal.

b This measure was developed in 2003 and was reported in PBGC's FY 2004 Annual Performance Report to reflect the cost efficiency of the underwriting, monitoring, and risk mitigation activities relating to insured plans. In FY 2004 and 2005, airlines with over $25 billion in additional pension underfunding filed for Chapter 11 bankruptcy, significantly increasing the risk facing the pension insurance program and the resources necessary to respond to those risks, affecting the measure in ways it was not initially designed to capture. For continuity and comparison purposes, this measure has been included for FY 2005; however, PBGC is working to develop new measures that better reflect the risk based drivers associated with its expenditures needed to monitor, respond to, and mitigate risks to the pension insurance program.

c Data sources for the two measures are the funding amounts budgeted for pension insurance and administering plan terminations, divided by the numbers for participants in ongoing plans and trusteed plans respectively. The 2004 baseline results have been restated to reflect a reclassification of some plan termination activities to pension insurance activities.

ACHIEVING PERFORMANCE TARGETS

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

Financial and operational risks facing the pension insurance system increased significantly in 2005. Since 2002, underfunding in financially weak companies (reasonably possible exposure) increased three-fold. In 2005, PBGC saw a 27 percent increase in unfunded benefit liabilities reported in Section 4010 filings during 2005. The number of missed funding contributions exceeding $1 million more than doubled from 25 in FY 2004 to 55 in FY 2005. PBGC also faced a record number of bankruptcies which significantly increased the number of controlled groups now monitored. Overall PBGC is monitoring 1,987 controlled groups with 4,152 pension plans where the financial condition of the plan sponsor poses a potential risk to the pension insurance system. The Corporation also undertook a substantial amount of litigation involving the largest pension default in the agency's history, in addition to managing more than 350 active bankruptcy cases.

While the funding levels for insured plans are largely outside of PBGC's control, the Corporation undertook several steps to improve its ability to monitor and respond to risks facing the insurance programs, including developing new models to quantify program risks, and establishing an Office of Risk Assessment. Early investigations, negotiations, and litigation, form the core of PBGC's response to the broader solvency issues impacting the pension insurance program.

PBGC actively promoted comprehensive reform of the pension insurance system to address system underfunding through congressional testimony, news releases and statements, speeches and interviews. PBGC continues to make the case for new rules to ensure that pension plans are better funded and that the pension insurance system remains viable over the long-term. During 2005, the PBGC remained visible as an advocate for the Administration's proposals to improve liability measures, enhance disclosure, and strengthen safeguards against underfunding.

Provide Exceptional Service to Customers and Stakeholders

PBGC uses the American Customer Satisfaction Index (ACSI), a national indicator of customer satisfaction, to measure whether customer expectations are being met and to identify the impact of service elements on customer satisfaction. PBGC obtains ACSI scores for three primary customer groups—pension practitioners, plan participants, and those accessing the PBGC Web site.

- The 2005 ACSI index for pension practitioners dropped to 68, one point less than the previous index of 69 sustained from 2002-2004, and lower than the 2004 composite satisfaction index of 72 for all participating federal agencies. ACSI results for 2005 show improvements in customer care, and timeliness and accuracy of refunds of premium overpayments.

- The 2005 ACSI index for participants who contacted the PBGC Customer Contact Center was 79. This was one point higher than the target of 78 and considerably higher than the 2004 composite satisfaction index of 72 for all participating federal agencies. For retirees who are currently receiving benefits from PBGC, the 2005 ACSI index was 85, one point higher than the target of 84. This was the highest score among the federal agencies that provide benefits to the American public and thirteen points higher than the federal average of 72.

- The 2005 ACSI index for pension practitioners who visited PBGC's Web site dropped to 66, six points less than the 2004 baseline score of 72 and eight points less than the target of 74. Some of the reduction may be attributable to the fact that PBGC launched a new Web site to which customers were still becoming oriented. The PBGC expects that its new Web site, with its better organization and greater ease of navigation, will result in improved scores over time. In addition, PBGC made substantial improvements to its online services in 2005. For example, online filing of premium payments through the self-service system called My Plan Administration Account (My PAA), and electronic filing of financial information are now available. Efforts are also underway to improve the premium accounting system which is a key system to support practitioner online customer service related activities.

- The 2005 ACSI index for participants visiting the Web site was 65, five points higher than the 2004 baseline score of 60. This exceeded the target of 63. During 2005, PBGC expanded online business transactions for participants. In addition to making address changes and requesting electronic funds deposit, participants who access their benefit accounts electronically through the Web-based My Pension Benefit Account (My PBA) can now apply for benefits, designate a beneficiary and submit a request for a benefit estimate.

Exercise efficient and effective stewardship of PBGC resources

Achieving the Corporation's performance goals requires effective management of resources–financial, human capital, and information technology. PBGC continued to maintain a cost-efficient operation with an administrative cost per participant in trusteed plans at $194.

President's Management Agenda

The President's Management Agenda (PMA) focuses on five areas to promote a customer-centric, results-oriented federal government. PBGC met this challenge in 2005 by:

- Strategic Management of Human Capital: PBGC continued to implement its Human Capital Strategic Plan, taking steps to enhance its ability to recruit and retain top talent and close critical competency gaps. These included establishing the Corporate Outreach Recruitment Team and a Career Intern Program. PBGC has now addressed four of five core competency gaps through highly focused internal training programs: Contract Management, Project Management, Data Management, and a "Big Picture" perspective of the agency's mission, operations and environment. The first 30 employees completed the two-year Project Management Core Curriculum Program in 2005, with 81 percent of program participants achieving Project Management Professional certification this year. The fifth competency gap, Information Technology, will be addressed in 2007.

  In promoting a performance-based culture, PBGC was among the first federal agencies to begin aligning performance expectations with organizational goals, and was given full certification by the Office of Personnel Management for its executive performance system. PBGC also conducted the *Gallup Q12 Survey* early in 2005 to assess the level of employee engagement. PBGC's results were in the 61st percentile of the U.S. overall working population. Employees and managers worked together to implement Impact Plans, which are specific roadmaps to improving engagement in the workplace.

  PBGC continued to build its program of professional employee development through enhanced succession planning and expanded mentoring programs. The Leaders Growing Leaders program entered its third two-year cycle in 2005.

Finally, PBGC effectively leveraged technology to improve management of its personnel, harnessing business intelligence tools for workforce analysis, forecasting and trends.

- Competitive Sourcing: As a Government Corporation, PBGC is not subject to the FAIR Act competitive sourcing process. For many years PBGC has been a government leader in outsourcing certain of its services making use of an internal process to evaluate whether workload requirements are best addressed via Federal staff or contract support. PBGC uses many private sector entities for a wide variety of functions, including a number of benefit payment and benefits administration services, information technology, actuarial services, money management, office space, legal services, financial advisory services, etc. PBGC's commitment towards a competitive based work environment has resulted in approximately two-thirds of PBGC's administrative budget being in the form of procurements along with outsourced services employing some 1,400 contract staff to supplement PBGC's 851 Federal staff.

- Improved Financial Management: PBGC's management internal controls program was strengthened through the establishment of an Internal Controls Committee to oversee the effectiveness of key management controls, which are tested for design and operating effectiveness. Testing is conducted to strengthen the supporting evidence for the PBGC FMFIA assurance statement. PBGC also completed the 2005 Performance and Accountability Report in 45 days for the second consecutive year.

- Expanded Electronic Government: PBGC made significant improvements to its Web site and expanded Web-based services available for pension plan administrators and trusteed plan participants. The redesigned Web site, www.pbgc.gov, significantly improves site navigation, enabling users to quickly find information and guidance related to PBGC.

  Plan administrators can now file financial information electronically through PBGC e-4010 application and file premium payments electronically, improving data accuracy and reducing filing preparation.

  Participants in trusteed plans can now apply for benefits, designate a beneficiary, and submit a request for a benefit estimate, in addition to making address changes and requesting electronic funds deposit. Plan level information for trusteed plans has also now been made available to trusteed participants.

- Budget and Performance Integration: PBGC modified its strategic planning and budget process to ensure alignment with the Corporation's strategic direction, and to identify new outcome goals and objectives. These goals and objectives address the challenges PBGC now faces and those anticipated in the future. The Performance Budget for 2007 includes the modified goals and objectives.

PROGRAM EVALUATION

- PBGC annually evaluates the satisfaction of participants in plans trusteed by PBGC and of pension practitioners. The American Customer Satisfaction Index provides a means to compare PBGC's results with those of other government and private organizations. Evaluation of the survey responses results in service innovations and process improvements that benefit PBGC customers.

- PBGC had its first Program Assessment Rating Tool (PART) review by the Office of Management and Budget (OMB) in 2004. OMB rated PBGC's program as "moderately effective" overall with a score of 79. PBGC received scores of 80 or higher, "fully effective", for the three assessed areas of Program Purpose and Design, Strategic Planning, and Program Management.

  The Program Results/Accountability area scored 75. OMB's PART analysis reflected its view that PBGC performed well in areas that are under PBGC's statutory control, but that a rating of "effective" was not possible for the Program Results/Accountability area unless and until the statutory mandate under which PBGC operates is modified to strengthen pension plan funding rules and the premium structure is altered to more accurately reflect the risks posed by individual plans. Nonetheless PBGC is working to improve Program Results/Accountability which focuses on financial conditions of the pension system. PBGC worked closely with the Department of Labor (DOL), Department of Treasury and other executive branch agencies promoting comprehensive pension reform. The proposed reforms which strengthen plan funding rules, enhance transparency of plan information, and reform the premium structure for defined benefit plans. Comprehensive pension reform was included in the President's FY 2006 Budget to Congress. In response to a GAO report in June 2005, PBGC is continuing to work with DOL and IRS to collect pension plan information more efficiently. PBGC continues to aggressively explore opportunities to strengthen its pension plan monitoring and encourage better funding of the defined benefit system.

FINANCIAL SUMMARY

Single-Employer Program

		Fiscal Year Ended September 30,								
(Dollars in millions)		**2005**	2004	2003	2002	2001	2000	1999	1998	1997	1996
Summary of Operations:											
Premium income	$	**1,451**	1,458	948	787	821	807	902	966	1,067	1,146
Other income	$	**44**	24	28	28	23	5	3	10	19	26
Investment income (loss)	$	**3,897**	3,197	3,349	170	(843)	2,392	728	2,118	2,687	915
Actuarial charges and adjustments (credits)	$	**490**	1,787	6,161	2,802	1,082	453	(602)	815	488	632
Losses (credits) from completed and probable terminations	$	**3,954**	14,707	5,377	9,313	705	(80)	49	584	489	118
Administrative and investment expenses	$	**342**	288	290	225	184	167	161	158	155	150
Other expenses	$	**77**	(36)	97	15	2	(2)	(1)	6	29	3
Net income (loss)	$	**529**	(12,067)	(7,600)	(11,370)	(1,972)	2,666	2,026	1,531	2,612	1,184
Summary of Financial Position:											
Cash and investments	$	**54,387**	36,254	33,215	24,851	21,010	20,409	17,965	17,345	14,988	11,665
Total assets	$	**56,470**	38,993	34,016	25,430	21,768	20,830	18,431	17,631	15,314	12,043
Present value of future benefits	$	**69,737**	60,836	44,641	28,619	13,497	10,631	11,073	12,281	11,497	10,760
Net Position	$	**(22,776)**	(23,305)	(11,238)	(3,638)	7,732	9,704	7,038	5,012	3,481	869
Insurance Activity:											
Benefits paid	$	**3,685**	3,006	2,488	1,537	1,043	902	901	847	823	790
Participants receiving monthly benefits at end of year		**682,540**	517,900	458,800	344,310	268,090	226,080	214,160	208,450	204,800	198,600
Plans trusteed and pending trusteeship by PBGC		**3,585**	3,469	3,277	3,122	2,965	2,864	2,775	2,655	2,500	2,338

FINANCIAL SUMMARY

Multiemployer Program

(Dollars in millions)		Fiscal Year Ended September 30, **2005**	2004	2003	2002	2001	2000	1999	1998	1997	1996
Summary of Operations:											
Premium Income	$	**26**	27	25	25	24	24	23	23	23	22
Other income	$	**0**	0	0	0	0	0	0	0	0	1
Investment income (loss)	$	**79**	54	37	118	95	70	(56)	133	68	12
Actuarial charges and adjustments (credits)	$	**0**	1	1	0	1	0	0	0	(1)	1
Losses (gains) from financial assistance	$	**204**	55	480	101	269	26	109	34	(3)	102
Administrative and investment expenses	$	**0**	0	0	0	0	0	0	0	0	0
Net income (loss)	$	**(99)**	25	(419)	42	(151)	68	(142)	122	95	(68)
Summary of Financial Position:											
Cash and investments	$	**1,147**	1,057	984	933	796	682	681	736	585	498
Total Assets	$	**1,160**	1,070	1,000	944	807	694	692	745	596	505
Present value of future benefits	$	**2**	3	3	3	4	4	5	6	7	9
Nonrecoverable future financial assistance, present value	$	**1,485**	1,295	1,250	775	679	414	479	389	361	365
Net position	$	**(335)**	(236)	(261)	158	116	267	199	341	219	124
Insurance Activity:											
Benefits paid	$	**1**	1	1	1	1	1	1	1	1	2
Participants receiving monthly benefits from PBGC at end of year		**280**	320	390	460	510	620	730	850	1,000	1,100
Plans receiving financial assistance from PBGC		**29**	27	24	23	22	21	21	18	14	12