PBGC

40 YEARS 1974 - 2014

PENSION BENEFIT GUARANTY CORPORATION

ANNUAL REPORT

FISCAL YEAR 2014

A MESSAGE FROM OUR CHAIR

Improving retirement security and preserving the defined benefit pension system are high priorities of the Obama Administration. The Pension Benefit Guaranty Corporation plays a key role in these efforts by working with employers to preserve their pension plans, insuring pension benefits, and paying guaranteed pension benefits on time to retirees. For 40 years, the PBGC has protected the pension benefits of millions of America's workers and retirees, and it is critical to our nation's retirement security that it does so for many more years.

On behalf of the PBGC Board of Directors, I am pleased to present the PBGC's FY 2014 Annual Report. The report provides important information about the PBGC's operations and finances for its single-employer and multiemployer programs. Today, thanks to the security provided by the PBGC's insurance programs, hundreds of thousands of retirees currently receive $5.6 billion annually from the PBGC and more than 41 million workers and retirees are in plans insured by the PBGC. The defined benefit pension system and the PBGC guarantee make a real difference in the lives of workers and retirees.

The improving economy during the past year strengthened the funding status of many defined benefit plans. Fewer underfunded single-employer plans terminated and changes in premiums improved the financial position of the single-employer program. However, despite the improving economy, an increase in probable multiemployer plan insolvencies has dramatically worsened the financial position of the multiemployer program.

The change in the deficit reflects the challenges facing the PBGC's multiemployer program as well as the broader multiemployer plan system. Some multiemployer plans that are critically underfunded have taken the steps that they can to avoid insolvency, but the steps that these plans can take on their own are not enough. Congress and stakeholders need to work together to provide solutions and additional tools to help preserve these critically important multiemployer plans.

The future of the PBGC's insurance programs is vital to the retirement security of America's middle class. To address the challenges facing the PBGC, the Administration has again proposed in its budget to reform the PBGC's premium authority. Enactment of the premium reform proposal would be an important step to ensure that the PBGC has the funds to do its job protecting workers and retirees. At the same time, the PBGC continues to work diligently to strengthen the defined benefit plan system by encouraging employers to keep their existing plans and working with multiemployer plans on potential solutions.

This year also brought the departure of Director Josh Gotbaum. Director Gotbaum provided passionate stewardship for the PBGC and his contributions are much appreciated by the Board. My fellow Board members and I are confident in the leadership that Acting Director Alice Maroni brings to the PBGC and are committed to working with her to strengthen the PBGC to meet its future challenges.

Thomas E. Perez
Secretary of Labor
Chair of the Board

A MESSAGE FROM THE ACTING DIRECTOR

The Pension Benefit Guaranty Corporation (PBGC) reached its 40th year in September. As PBGC heads into its fifth decade, the nation's retirement landscape has changed. Nevertheless a strong and effective PBGC remains more important than ever.

We have been charged with a critical responsibility to provide a safety net for people whose pensions have failed. PBGC earns their trust by providing first rate customer service and maintaining high standards of stewardship and accountability.

PBGC insures the benefits for more than 41 million workers and retirees. During the past 12 months, we became responsible for an additional 97 trusteed single-employer plans with about 53,000 participants. The agency began providing financial assistance to 9 newly insolvent multiemployer plans with about 4,300 people. We oversee the investment of about $80 billion in assets. And this year, PBGC attained its 22nd consecutive unmodified financial statement audit opinion.

We take seriously the role that we have in the personal economies of the families of the participants we serve and in the economies of the communities in which they reside. When the agency takes on a new plan, PBGC works hard to ensure that no participant ever misses a payment.

We also recognize our responsibility to respond to the needs of plan sponsors. An employer's decision to offer a pension plan is voluntary. PBGC continues to ease regulatory burdens where appropriate to make plan sponsorship less complicated and to encourage companies to provide lifetime income for their workers and retirees.

This year, for example, PBGC eliminated the need for large plans to calculate and pay premiums more than once a year. We also gave small plans additional time to calculate their variable-rate premium. Finally, we announced regulatory changes that reduce administrative costs and preserve assets for certain multiemployer plans.

However, there is still much to do.

The deficit in our multiemployer program has increased dramatically because of ongoing financial challenges in a minority of multiemployer plans. PBGC insures about 1,400 multiemployer plans covering more than 10 million people. Plans covering over 1 million participants are substantially underfunded and without legislative changes, many of these plans are likely to fail. The program's increased deficit is largely due to the expected insolvency of additional multiemployer plans within the next decade. When the program becomes insolvent, PBGC will be unable to provide financial assistance to pay guaranteed benefits for insolvent plans.

PBGC is proud of its record of paying new participants their estimated benefits immediately after a plan fails. However, there is a backlog of final benefit determination letters particularly for large and complex plans. Addressing this issue is one of PBGC's highest priorities.

In 1974, President Ford signed into law the bill that created PBGC. Much has changed since then. What remains the same is our passion and commitment to protect and preserve pension benefits for the nation's workers, retirees and their families.

Alice C. Maroni
Acting Director
November 14, 2014

FY 2014 ANNUAL REPORT

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This annual report is prepared to meet applicable legal requirements and is in accordance with and pursuant to the provisions of: the Government Corporation Control Act, 31 U.S.C. section 9106; Circular No. A-11, Revised , "Preparation, Submission and Execution of the Budget" Office of Management and Budget, July 25, 2014; and, Circular No. A-136 Revised, "Financial Reporting Requirements," Office of Management and Budget, September 18, 2014. Section 4008 of the Employee Retirement Income Security Act, 29 U.S.C. section 1308, also requires an actuarial report evaluating expected operations and claims that will be issued as soon as practicable.

ANNUAL PERFORMANCE REPORT

Forty years ago, the Pension Benefit Guaranty Corporation (PBGC) began protecting workers, who faced the possibility of reduced or no retirement security. Today, we protect more than 41 million workers and retirees in private defined benefit pension plans. PBGC continues to encourage companies to keep their plans and pays benefits when they cannot.

Today, with great pleasure, I am signing into law a landmark measure that may finally give the American worker solid protection in his pension plan.

President Ford,
September 2, 1974

We have three overarching strategic goals:

- Preserve plans and protect pensioners;
- Pay pension benefits on time and accurately; and
- Maintain high standards of stewardship and accountability.

Our annual performance report details our operations, how we measure success, and progress in achieving goals.

OPERATIONS IN BRIEF

PBGC works to enhance retirement security by preserving plans and protecting pensioners. We guarantee payment of basic pension benefits earned by more than 41 million American workers and retirees in nearly 24,000 plans. Since 1974, PBGC has become responsible for more than 1.5 million people in nearly 4,700 failed single-employer and multiemployer plans, making payments of $5.6 billion annually as of FY 2014.

To preserve plans and protect pensioners in FY 2014 we:

- Helped to protect 163,000 people by encouraging companies to keep their plans when they emerged from bankruptcy;
- Negotiated $464 million in financial assurance to protect 126,000 people in plans at risk from corporate transactions; and
- Negotiated $34 million in financial assurance to protect almost 6,000 people whose companies were downsized.

To pay timely and accurate benefits in FY 2014 we:

- Assumed responsibility for almost 53,000 people in 97 trusteed single-employer plans;
- Started paying benefits to nearly 28,000 retirees in single-employer plans; and
- Paid $5.5 billion to almost 813,000 retirees in more than 4,600 failed single-employer plans (an additional 595,000 workers will receive benefits when they retire).

To maintain high standards of stewardship and accountability in FY 2014 we:

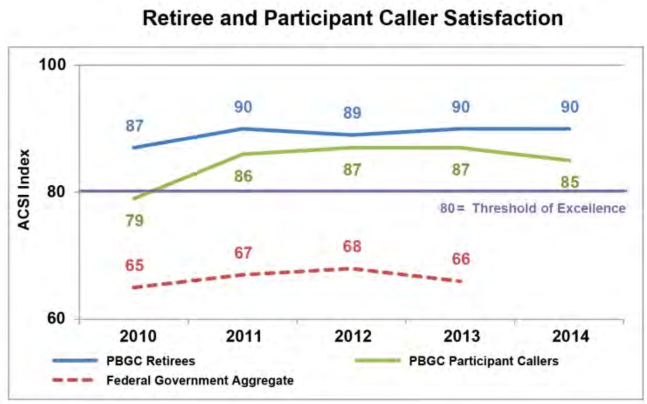
- Achieved an unmodified financial statement audit;
- Closed 97 internal control recommendations; and
- Streamlined premium payments to reduce the burden on plan sponsors.

CUSTOMER FOCUS

PBGC makes customer service a top organizational priority and collects information on the needs, expectations, and challenges of the customer. We use customer feedback to build on our service tradition and meet the increasing needs of those we serve.

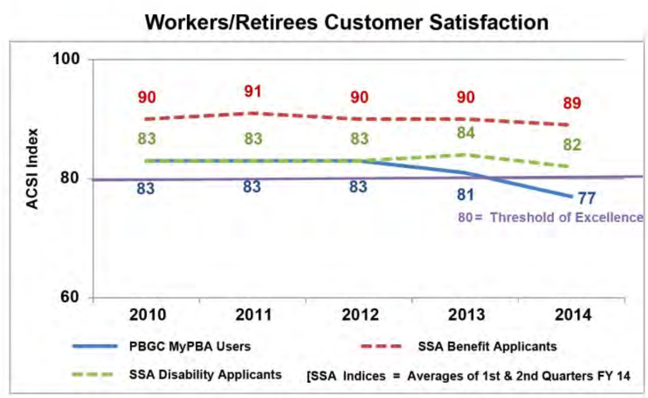
Strong Customer Satisfaction

A primary measure of overall customer satisfaction is survey results from our website PBGC.gov. Surveys focus on customer experiences and perception of how well we achieve our goals.



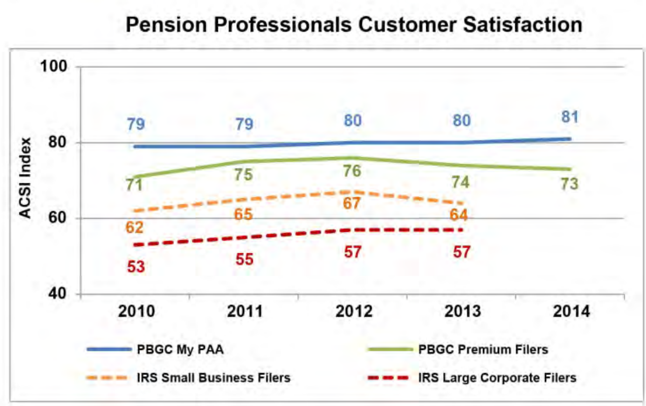
Workers and Retirees Satisfaction

Retirees receiving monthly benefits rate PBGC 90 on the American Customer Satisfaction Index (ACSI), more than 20 points above the government average. In both government and private industry, a score of 80 or higher is considered excellent.



With our online application, My Pension Benefit Account (MyPBA), customers can view information and perform transactions at any time. Based on feedback, we added new functionality to the application, including the ability for customers to generate income verification letters and to receive secure information. MyPBA scored 77 in customer satisfaction, a decrease from 2013 due to a new survey methodology which expanded the pool of respondents.

Pension Professionals Satisfaction



FY 2014 saw the implementation of several streamlined regulations designed to make pension practitioners' interactions with PBGC easier and less frequent. The satisfaction score for premium filers was 73. Satisfaction among those using the online premium filing application My Plan Administration Account (My PAA) was 81, achieving the "threshold of excellence" for a third consecutive year.

Reaching Out To Customers and Stakeholders

PBGC representatives spoke at over 225 events and discussed diverse topics such as the importance of lifetime income, technology, multiemployer plans, ERISA, investments, and actuarial matters. PBGC was represented at events including the National Coordinating Committee for Multiemployer Plans' regular meetings, the National Conference of Bankruptcy Judges, International Foundation of Employee Benefit Plans, Enrolled Actuaries, and the Conference of Consulting Actuaries.

We continue to educate the public by updating website information with the goal of increasing transparency and making resources more accessible to the public.

Online Improvements and Enhancements

In July 2014, PBGC launched a new email for customers and stakeholders called *Retirement Recap*, a collection of popular blog entries and noteworthy items. The inaugural edition was sent to nearly half a million people. Traffic to PBGC.gov more than quadrupled the day of the mailing.

In August 2014, *Retirement Recap* was honored as the recipient of the Outreach & Impact Maximizer Award from GovDelivery, a leading provider of public sector communication solutions. The Maximizer Award is for improving and increasing communication to important audiences by utilizing digital marketing best practices.

> *I am so pleased with the ease of filing for benefits on this site. Filling in the application form, printing out a copy and the email verification could not have worked better. This online access makes it easy for a long distance caregiver to help an aging parent complete this process. Thank you for a job well done in updating this site.*
>
> *Customer Comment, August 2014*

PBGC's website achieved a satisfaction score of 73, rising for the third consecutive year in response to dozens of customer-recommended improvements. Focused enhancements helped visitors more easily find information, better understand what they find, and determine sooner whether PBGC is the right organization to help them. On PBGC.gov, unclaimed pension searches continued to be our most popular section. This was followed by information related to participants, such as instructions and links to our improved online tool, MyPBA.

Participant and Plan Sponsor Advocate

In FY 2014, the PBGC Board of Directors appointed the Participant and Plan Sponsor Advocate, which is a newly created position under the Moving Ahead for Progress in the 21st Century Act of 2012. The Advocate acts as a liaison between PBGC, sponsors of defined benefit plans and participants in plans trusteed by the PBGC. The Advocate helps resolve disputes between PBGC and plan sponsors or participants and advocates for the rights of participants in plans trusteed by the PBGC. The Advocate also provides an annual report to Congress summarizing issues raised by plan sponsors and participants, and makes recommendations for legislative changes and changes to administrative practices of the Corporation to mitigate problems.

STRATEGIC GOALS AND RESULTS

This annual performance report provides information on PBGC's performance in achieving the three strategic goals outlined in our strategic plan. Performance results for FY 2014 are detailed below. This section meets the annual reporting requirement of the Government Performance and Results Act.

GOAL #1: PRESERVING PLANS AND PROTECTING PENSIONERS

PBGC engaged in a number of activities to preserve plans and protect pensioners. We administer two separate insurance programs. The single-employer program protects about 31 million workers and retirees in over 22,000 pension plans. The multiemployer program protects about 10 million workers and retirees in about 1,400 pension plans. Our 2013 Projections Report provides information on the condition of both insurance programs.

This year, the single-employer program:

- Monitored 1,500 companies for financial transactions that potentially posed risks to the financial viability of plans;
- Responded to major shutdowns and layoffs;
- Protected pensioners whose plan sponsors were in bankruptcy; and
- Ensured participants received the law's full protection in both distressed and voluntary plan terminations. The maximum guarantee increases from $59,300 in 2014 to just over $60,000 in 2015.

This year, the multiemployer program:

- Paid $97 million in financial assistance to 53 multiemployer pension plans covering the benefits of 52,000 retirees;
- Helped ensure the payment of benefits to an additional 23,000 people in these plans when they retire; and
- Assisted insolvent plans in paying their guaranteed benefits and reasonable administrative expenses.

How We Work to Preserve Plans and Protect Participants

PBGC, along with plan sponsors and other ERISA agencies, strives to find solutions to improve plan health and protect plan participants.

Multiemployer Partitions

For the third time in its history, PBGC used its partition authority. Nearly 350 former Hostess Brands employees, who were members of the Bakery and Sales Drivers Local 33 Industry Pension Fund, a distressed multiemployer plan in Baltimore, were partitioned into a separate plan.

The Bakery and Sales Drivers pension plan could not afford retirement benefits for former Hostess employees and asked PBGC to pay for them. Separating Hostess participants from the rest of the plan enabled the plan to avoid insolvency and preserve pension benefits for most of the plan's 700 participants.

Multiemployer Plan Mergers

Plan mergers are another way to protect benefits of participants in multiemployer plans. For example, in a recent merger of two plans approved by PBGC, a participating employer assisted in the transaction by moving the liabilities of its employees from the merged plan to a third multiemployer plan, consisting largely of its own participants. This transfer alleviated some of the underfunding of the newly merged plan, which is now expected to recover.

PBGC published a final rule this year that will help facilitate mergers by reducing regulatory burdens on plan sponsors undertaking these transactions.

Assistance to Multiemployer Plan Sponsors

One way to retain and attract employers is for PBGC to remain flexible when plans propose special rules for employer withdrawal liability. PBGC also provides technical assistance to multiemployer plan professionals on difficult interpretation issues arising under Title IV of ERISA.

Protecting Pensioners When Plans Are At Risk

In FY 2014, PBGC monitored more than 1,500 companies to identify transactions that potentially posed risk to the people covered under their pension plans. Where appropriate, the agency arranged for suitable protections to safeguard participant benefits. In FY 2014, we opened more than 100 such investigations.

Under a settlement with PBGC, Saint Gobain Containers, Inc. made $207.5 million of additional contributions to its pension plan. The additional contributions improved the plan's funding level to about 80 percent from 63 percent.

Protecting Pensioners Whose Plan Sponsors Are in Bankruptcy

PBGC takes an active role in bankruptcies to prevent unnecessary terminations and to obtain the maximum amount of financial recovery possible in the event a plan must terminate. In each case, PBGC works to protect participants' interests. For example:

- This year ended more than a decade of pension uncertainty for those covered by plans from W.R. Grace. The company entered bankruptcy in April 2001. In February 2014, nearly 13 years later, the company emerged from Chapter 11 with all nine of its pension plans ongoing. The 16,000 people covered by the plans still have their full benefits.
- In December 2013, American Airlines (AMR) emerged from bankruptcy with its pension plans ongoing and 130,000 people continue to be covered with full benefits. AMR entered bankruptcy in November 2011 and immediately announced plans to terminate its four pension plans. In response, PBGC worked with the company, its unions and other creditors to show AMR that it could afford to maintain its pension plans.
- Other companies that continued their pension plans following a bankruptcy emergence include USEC (7,000 people), Ally Financial (GMC/ResCap 3,800 people), Dura Automotive (3,500 people), Edison Mission Energy (1,300 people), Southwest Ambulance (1,000 people), and Brookstone, Inc. (320 people). All eligible individuals will receive full benefits.

Protecting Pensioners in Standard Terminations

A company can end a fully-funded plan in a standard termination by paying all the benefits it owes with an annuity or another form of payment. In FY 2014, 1,371 plans completed standard terminations. The number of plans filing a standard termination remains constant. However, more large plans are filing standard terminations. FY 2014 standard terminations included Freddie Mac, Fannie Mae and NBC Universal.

Because of 207 standard termination audits conducted by PBGC, 938 participants will receive an additional $6.5 million in benefits. Occasionally, PBGC's findings for pensioners are contested. For example, Powell Valley National Bank sued in U.S. district court to challenge PBGC's audit finding that Powell Valley had inappropriately decreased participants' benefits. PBGC successfully defended the standard termination and audit processes.

Significant Litigation

PBGC works to protect America's pensions in complex civil, appellate, and bankruptcy cases in federal and state courts nationwide. Some examples of decisions in FY 2014:

- In *Davis v. PBGC*, PBGC defended the denial of a number of benefit claims by a group of retired pilots. The group had challenged PBGC's benefits determinations on a number of highly technical fronts. The Court of Appeals sided with PBGC's interpretations of both the relevant ERISA provisions and the pension plan. The Court also upheld PBGC's application of those provisions, based on the administrative record. Davis sought Supreme Court review, but was unsuccessful.
- In *Sun Capital Partners III v. New England Teamsters & Trucking Industry Pension Fund*, as a friend of the court, PBGC defended the agency's interpretation of controlled group liability as applied to private equity funds. The First Circuit agreed with PBGC that at least one of the funds was a "trade or business," because it was operated, managed, and advantaged by its relationship with the operating company. Sun Capital sought Supreme Court review, but was unsuccessful.
- In *US Airline Pilots Association v. PBGC*, PBGC defended its post-termination processing of the US Airways Pilots Plan. A group of pilots claimed that the agency breached its fiduciary duty by failing to investigate alleged pre-termination breaches of fiduciary duty by US Airways. Following extensive fact and expert discovery and a trial, the court held that PBGC had fulfilled its fiduciary duties.

GOAL #2: PAYING TIMELY AND ACCURATE BENEFITS

We strive to provide quality service by paying timely and accurate benefits. More than 1.4 million current and future retirees in single-employer pension plans rely on us to pay their benefits.

Benefit Administration

When a single-employer plan ends without sufficient money to pay benefits, PBGC trustees the plan and assumes responsibility for benefit payments. PBGC became responsible for an additional 53,000 workers and retirees in 97 trusteed single-employer plans in FY 2014. The three largest plans trusteed were sponsored by Furniture Brands (19,011 participants), Greenwood Mills Inc. (5,175 participants), and Constar Inc. (4,436 participants). PBGC's newly trusteed plans included almost 28,000 retirees already receiving monthly payments.

Improving operations will remain a long-term corporate goal. But the Corporation will also continue to assess the impact, structure, and underlying principles of its current programs. PBGC studies and research reflect both a growing awareness of fundamental defects in that program and possible solutions that will add to the long-term strength of the private pension system. In pursuing these studies, PBGC has sought, and will continue to seek, meaningful involvement of all the participants in the private pension system to help assure the success of these efforts and ultimately, the success of that system as a whole.

PBGC 1978 Annual Report

PBGC paid $5.5 billion in benefits to nearly 813,000 retirees in single-employer plans, with 85 percent paid electronically. Nearly 38,000 new benefit applications were processed — 75 percent of them occurring within 45 days, which was below our target of 87 percent. A major factor influencing performance in this area is the consolidation of the work in our field offices. Initially, the consolidation will cause a lag in our processing time, but it is a necessary step which will allow us to gain efficiencies, strengthen processes, and improve outcomes over the coming years.

Nearly 65,000 final benefit determination letters were issued this fiscal year. The average time to issue a final benefit determination increased to 4.3 years from 4.0 years in FY 2013. As we continue to focus on issuing final benefit determination letters for our oldest, largest and most complex plans with hard to value assets, there will be an increase in the time to issue final benefit determinations by several years.

There are nearly 257,000 participants in PBGC trusteed plans who are still due a final benefit determination. While retired participants await their final benefit determination, PBGC ensures that they continue to receive estimated benefit payments each month. This year 97 percent of PBGC's final benefit determinations are within 10 percent of the estimated payment amount. Over the past five years, more than 90 percent of our estimated benefits have been within 10 percent of the final benefit determination.

We continued to drive organizational change through our multi-year effort to streamline and reform our operations around key functions. We are taking steps to address increasingly complex benefit calculations by consolidating our actuarial staff to one unit. Unforeseen consequences of our organizational changes may develop as we transition, but going forward we expect these changes to result in a more focused, efficient, and higher-quality organization to better serve our customers.

Reviews and Appeals

The benefits we are allowed to pay under the law may be different from the benefits promised under a terminated plan. PBGC's Appeals Board allows participants to raise concerns and obtain relief if mistakes were made in determining their benefits.

The Appeals Board closed 846 appeals in FY 2014, including a group appeal by 554 retired United Airlines (UAL) pilots. The Board granted the UAL group appeal on two of the four issues raised, and 179 retired pilots will receive an increase to their PBGC payable benefits.

While only roughly 1 percent of benefit determinations over the past five years were appealed, the process provides participants a fair and impartial review of their benefit determination. The Appeals Board ended FY 2014 with less than 200 open appeals.

GOAL #3: MAINTAINING HIGH STANDARDS OF STEWARDSHIP AND ACCOUNTABILITY

As we work with employers and employees alike, it is important that we perform our duties in ways that earn and keep the trust of our customers and the public.

Accountability: Measuring and Monitoring Performance

To gauge how well we do our jobs and serve our customers, PBGC used a wide range of performance measures. Among these measures are how quickly and seamlessly we pay retirees who are new to our system, how accurately we calculate their benefits, and how well we invest assets from trusteed plans. In FY 2014, we also continued to measure how well employees serve each other. We surveyed ourselves to improve the coordination and cooperation essential to meeting our customer service goals. On a quarterly basis, PBGC leadership participated in data-driven discussions covering our progress in pre-trustee and post-trustee operations, stewardship and accountability, customer satisfaction, and building and maintaining a model workplace.

Our strategic use of performance data better informs our planning and execution of operations, as well as our corporate and program area decision-making.

TABLE 1: SUMMARY OF PBGC MEASURES AND ACTIVITIES

	Target	2014	2013
Preserve Plan and Protect Pensioners			
People Protected in Plans Emerging from Bankruptcy		163,000	161,000
Standard Termination Audits: Additional Payments		$6.5 M to 938 people	$3.7 M to 1,539 people
Pay Timely and Accurate Benefits			
People Receiving Benefits – Single-employer		813,000	851,000
People to Receive Benefits in Future – Single-employer		595,000	596,000
People Receiving Benefits – Multiemployer		52,000	50,000
People to Receive Benefits in Future – Multiemployer		23,000	21,000
New Retiree On-time Payments	100%	100%	100%
Estimated Benefits within 10% of Final Calculation	95%	97%	96%
Average Time to Provide Benefit Determinations (years)	4.3	4.3	4.0
Improper Payment Rates within OMB Threshold [1]	<1.5%	Yes	Yes
Applications Processed in 45 days	87%	75%	88%
Maintain High Standards of Stewardship and Accountability			
Retiree Satisfaction – ACSI [2]	85	90	90
Caller Satisfaction – ACSI	81	85	87
Premium Filer Satisfaction – ACSI	72	73	74
Overall Customer Satisfaction – ACSI [3]	75	76	71
Contract Awards Fully Competed		91%	86%
Financial Surplus (Deficit) – Single-employer		($19.3B)	($27.4 B)
Financial Surplus (Deficit) - Multiemployer		($42.4B)	($8.3 B)
Unmodified Audit	Yes	Yes	Yes

[1] OMB's threshold for improper payment reporting is 1.5% of total payments and more than $10 million, or an amount more than $100 million.
[2] The American Customer Satisfaction Index (ACSI) uses a 0-100 scale; 80 or above is considered excellent.
[3] Measures customer satisfaction with information and services provided by the agency. 75 reflects target as of October 1, 2013.

PBGC's Own Finances Must Be Sound

PBGC's operations are financed by insurance premiums set by Congress and paid by sponsors of defined benefit plans, along with investment income, assets from pension plans trusteed by PBGC, and recoveries from the companies formerly responsible for the plans. PBGC receives no funds from taxpayer dollars. We pay benefits based on the law, and we do not determine the premiums we charge. In 2003, the Government Accountability Office (GAO) added PBGC to its annual "High Risk" list of agencies.

Fiscal Deficit

The financial position remains in deficit for both single-employer and multiemployer programs. The net financial position of our larger single-employer program is projected to likely improve over the next decade. As explained further in the Management's Discussion and Analysis section, the multiemployer program's net position has dramatically worsened.

Financial Soundness and Financial Integrity

We are responsible for insuring the pensions of tens of millions of participants and their pension benefits valued at hundreds of billions of dollars. In addition to collecting premiums, exercising care in management of about $90 billion in total assets, and attaining our 22nd consecutive unmodified audit opinion on PBGC's financial statements, we maintained our focus on improving management in a number of areas. For example, PBGC successfully completed its multi-year effort to develop and execute a plan to integrate its financial management systems. The effort culminated in FY 2014 with the implementation of the Premium and Practitioner System that included full integration with PBGC's core Consolidated Financial System, and resulted in the removal of a prior year significant deficiency for lack of financial systems integration.

Collecting Premiums

In 2012, Congress passed legislation that increases PBGC premiums, both single-employer and multiemployer, for plan year 2013 and thereafter. For the first time, the single-employer variable-rate premium is indexed. In FY 2014, we collected $1.8 billion in premiums for both programs.

Investing Prudently

PBGC investment assets are administered by private investment management firms, subject to PBGC's investment policies and oversight procedures. Procedures for internal controls, due diligence, and risk management are subject to periodic review. Regular and detailed communication with management firms enable us to stay informed on matters affecting our investment program.

TABLE 2: FY 2014 INVESTMENT RETURNS VERSUS BENCHMARKS

	1-Year Period	3-Year Period	5-Year Period
ERISA Benchmark[1]	**13.3%**	**14.6%**	**11.4%**
Total Fund Composite	**8.0%**	**7.7%**	**8.0%**
Total Fund Benchmark [2]	**8.0%**	**7.2%**	**7.5%**
Total Global Bonds	7.0%	4.0%	6.8%
Total Global Bonds Benchmark[3]	6.8%	3.5%	6.1%
Total Global Public Stock	11.0%	17.4%	11.0%
Total Global Public Stock Benchmark[4]	11.2%	17.2%	10.8%

[1]ERISA prescribes a benchmark under which funds are invested 60% equity and 40% fixed-income securities for 1- and 5-year periods.

[2] The Total Fund Benchmark is a dynamic weighted benchmark based upon the weights of the Total Global Public Stock Benchmark, the Total Global Bonds Benchmark, and cash benchmarks. This benchmark is used to compare against the Total Fund Composite returns shown above.

[3]The Total Global Bonds Benchmark is a dynamic weighted benchmark based upon the weights of all bond managers and the returns of their respective benchmarks.

[4]The Total Global Public Stock Benchmark is a dynamic weighted benchmark based upon the weights of the Total U.S. Public Stock composite and the Total International Public Stock composite benchmarks.

Strengthening Our Workforce and Leadership

PBGC's performance is dependent on the coordinated actions of hundreds of professionals possessing specialized skills in actuarial science, accounting, finance, and law. All managers and supervisors were required to complete 32 hours of management and leadership development training this fiscal year. The Management & Leadership (M&L) Development Program offered successful learning events to appeal to all supervisors and managers, and promoted Individual Development Plans as well as the Executive Coaching Program.

The Office of Personnel Management (OPM) recognized PBGC's performance management training curriculum as a model program. OPM referred several agencies to PBGC to learn information on our best practices. We focused on reinforcing the importance of performance management by providing basic level training to new supervisors and enhanced the advanced level training to cater to more seasoned supervisors. Additionally, we provided one-on-one assistance to managers and staff on writing performance plans and preparing for performance discussions.

The Federal Mediation and Conciliation Service provided quarterly conflict resolution and mediation process training sessions for managers and employees. PBGC departments worked collaboratively to: (1) select and provide agency-wide diversity and inclusion training; (2) submit and update Equal Employment Opportunity (EEO) prevention of workplace harassment policy statements; (3) implement new supervisory and senior level performance elements for EEO, diversity and inclusion; and (4) file timely annual reports with Congress, Equal Employment Opportunity Commission, and OPM.

We continued to promote and implement PBGC's Diversity and Inclusion Strategic Plan throughout the fiscal year. We offered workshops to raise awareness of equal opportunity, diversity and inclusion as well as implemented enhancements to performance measures in all supervisory and management performance plans.

PBGC was honored by the Hispanic Association of Colleges and Universities (HACU) with the Outstanding HACU Public Sector Partner Award. Since 1995, HACU and PBGC have collaborated to provide internships to 154 students in higher education degree programs. We welcomed a new employee resource group to PBGC, Caribbean Connection at PBGC, and celebrated numerous heritage month observances.

PBGC developed and piloted a Veteran's Integration Program (VIP) in March 2014. The program integrates veterans into the workplace, aids in the retention and promotion of veterans, and increases diversity and inclusion within PBGC.

We raised awareness of disability programs and recruitment strategies by providing mandatory Reasonable Accommodation (RA) training for supervisors in addition to Student Disability Program training. Contact information for our Selective Placement Program Coordinator (SPPC) is included in each vacancy announcement posted on USAjobs. The SPPC participated with the D.C. Department of Disability Services to conduct mock interviews. In collaboration with the Computer Electronic/Accommodations Program's (CAP) Public Access Division, a videophone is now available for guests in the main PBGC lobby. The videophone provides hearing impaired visitors and employees the ability to communicate seamlessly. We also continue to implement the Disabled Veterans' Affirmative Action Plan throughout the Corporation.

In implementing our programs, we believe it is essential to consider the needs of pension plan participants, sponsors and administrators, union representatives, practitioners, and others who make up the pension community. We seek input from all interested parties at every significant stage of our program planning and development. Our goal continues to be the development of equitable and administratively feasible procedures, with the minimal burdens on pension plans, consistent with our responsibilities under Title IV.

PBGC 1977 Annual Report

STEPS TO IMPROVE KEY AREAS

Continuing to Streamline Benefit Payment Operations

In FY 2014, PBGC continued to transform our benefit payment operations. We have:

- Established the Office of Benefits Administration (OBA) to oversee ongoing benefit payment processes and work management changes;
- Reorganized the Benefits Administration and Payment Department (BAPD) around key functions, such as the Actuarial Services Division (ASD); and
- Consolidated work in Field Benefit Offices by closing two of seven offices.

We took steps to address the material weakness identified by the PBGC Office of Inspector General (OIG) associated with BAPD management and oversight. We have:

- Hired asset valuation specialists and a newly established Chief Auditor;
- Reworked asset evaluation policies and procedures;

- Trained BAPD auditors, managers, and support contractors on those procedures; and
- Updated documentation and record retention processes.

Strengthening Research and Analysis Activities

Both internal and external customers depend on the Policy, Research and Analysis Department (PRAD) for timely, accurate analysis of PBGC programs and retirement policy alternatives. PRAD is a strong and proactive organization that informs the public and policy makers about retirement systems and PBGC through economic and actuarial analyses.

Improvements to Pension Insurance Modeling System (PIMS) and Related Reports

PRAD conducts forecasting and modeling activities using the Pension Insurance Modeling System (PIMS).

PIMS is used to create the projections that go into our annual Projections Report outlining the direction of PBGC's single-employer and multiemployer programs. By the end of fiscal year 2013, PIMS had been reviewed by outside experts hired by PBGC and through a congressionally-mandated peer review. A subsequent peer review is pending.

Based on those reviews, we improved PIMS to align with newly available information about the actual experience of multiemployer plans. PRAD substantially reworked its processes and procedures to assure well-documented quality reviews. PRAD has a number of projects underway to improve the information available to PBGC analysts and the public.

Regulatory Activities

In 2011, the President issued Executive Order 13563, "Improving Regulation and Regulatory Review," for agencies to consider the benefits and costs of regulations. In response, PBGC continues to focus on making regulations work better to protect people from risk to their pensions — and on eliminating burdens on pension plan sponsors where there is less risk.

As part of this initiative, we published two final rules in FY 2014 that made our premium rules more effective and less burdensome. We eliminated the early due date for large plans' flat-rate premiums, gave additional time for companies that sponsor small plans to calculate their variable-rate premium, and expanded premium penalty relief. The changes, most of which are effective for 2014 plan years, were well-received by employers, plans and practitioners. We also finalized a regulation to streamline and reform multiemployer plan notice and valuation requirements to continue to reduce reporting requirements on businesses.

PBGC published a proposed rule to clarify the treatment of benefits resulting from a rollover distribution from a defined contribution plan to a defined benefit plan if the defined benefit plan was terminated and trusteed by PBGC. Under the proposal, a benefit resulting from rollover amounts generally would not be subject to PBGC's maximum guaranteeable benefit or phase-in limitations and would be in the second highest priority category of benefits in the allocation of assets. We also published a final rule implementing Pension Protection Act of 2006 (PPA) changes to our guarantee of shutdown and similar benefits. Now that the Internal Revenue Service (IRS) and the Department of the Treasury (Treasury) have finalized their cash balance regulations, we are working on a final rule implementing PPA changes to terminations of cash-balance plans.

A major focus of our regulatory efforts in FY 2014 was the development of a proposal to improve and expand our missing participants program. The expanded program will cover terminating defined contribution plans, non-covered defined benefit plans, and multiemployer plans. PBGC is working with IRS and the Department of Labor (DOL) to coordinate government requirements for dealing with missing participant issues.

Streamlining Premium Payments

We implemented a new rule that makes premiums due on the same day in the premium payment year for all plans, with the exception of a transition rule that phases in the change for small plans.

We collaborated with the Department of the Treasury Bureau of the Fiscal Service to provide additional payment methods. In FY 2014, we made Pay.gov available for premium payments. Pay.gov is used to make secure electronic payments to PBGC at no cost to premium payers.

Strengthening E-Government and Information Technology

We published our Information Technology (IT) Strategic Plan in FY 2014. Our strategies leverage cloud-based technologies, shared services, and other government-wide standardized policies and procedures, while preserving flexibility for customized internal solutions.

PBGC's IT strategic plan places cyber and information security at the core of all systems. During FY 2014, the Office of Information Technology (OIT):

- Improved access control processes and adopted best practices from other federal agencies;
- Formed specialized teams with the specific responsibility of remediating the material weaknesses;
- Began implementing identification card requirements as part of the account certification process; and
- Continued to implement corrective action plans on recommendations underlying the IT-related material weaknesses.

We reinforced our IT security program by establishing a team of security experts to focus on addressing numerous audit findings and managing remaining security vulnerabilities. We are evaluating the Department of Homeland Security's Continuous Diagnostics and Mitigation (CDM) program, which will enable us to expand continuous diagnostic capabilities. We strengthened our system access authentication by implementing the Homeland Security Policy Directive 12 (HSPD-12) Personal Identification Verification (PIV) Initiative.

Promoting Green Practices

In FY 2014, we updated our strategic sustainability plan. This year the plan also included a Climate Adaptation Plan (CAP). PBGC will continue with the initiatives identified in the CAP to maintain a strong program – robust recycling and reducing greenhouse gas emissions through mass transit usage and telework programs.

Ensuring Ethical Practices

All financial disclosure report filers were required to receive ethics training. Additionally, certain employees, who do not file a financial disclosure report, were required to receive ethics training. We continued our computer-based ethics training, and developed and offered an in-person agency-wide training on the Hatch Act, the law that limits certain political activities for most executive branch employees.

Protecting Privacy Interests

PBGC continues to strive to have a model privacy program, protecting the personal information of its participants and beneficiaries. Reviews are continuously undertaken of PBGC's systems of records with a view to improving the protection of the information in those records. PBGC also continued its four-year tradition of Privacy Week, combining on-line training for all employees with live presentations on special topics such as "Phishing Awareness" and "Protecting Privacy in Big Data."

Strengthening Transparency and Disclosure

In FY 2014, we updated technology and improved transparency by making records available to the public online and conforming to recent Department of Justice guidance and open government initiatives. Our Disclosure Division responds to Freedom of Information Act (FOIA) requests within 10 days, on average – half the time required by FOIA. The Disclosure Division implemented a pilot program designed to improve effectiveness by incorporating a multi-track processing system and triaging requests at the beginning of the process.

INDEPENDENT EVALUATION OF PBGC PROGRAMS

In FY 2014, we bolstered our internal reviews by actively engaging several independent perspectives. We continued to work to strengthen controls over operations, financial reporting, and compliance with laws and regulations.

Office of Inspector General

PBGC places a strong emphasis on audit follow-up and addressing OIG audit recommendations. This fiscal year, the OIG has made decisions on 97 audit recommendations, closing 17 relating to material weaknesses, and closing 80 other recommendations.

In FY 2014, PBGC OIG oversaw the annual financial statement audit completed by an independent public accounting firm, CliftonLarsonAllen LLP. OIG also performed other audits and evaluations, including:

- *PBGC Lawfully Terminated the National Steel Plans, but Accepted Poor Quality Work from Contractors (EVAL-2014-01)* – The OIG assessed PBGC's termination of National Steel plans and concluded that PBGC complied with ERISA when making termination and benefit decisions.
- *Increased Oversight, Internal Controls and Performance Accountability Needed for PBGC's Monitoring, Enforcing and Modifying Negotiated Funding Agreements (AUD 2014-08)* – The OIG reviewed the effectiveness of PBGC's processes for monitoring, enforcing and modifying negotiated funding agreements that PBGC enters into with plan sponsors of defined benefit pension plans. The OIG identified the need for process improvements in the monitoring of such agreements and recommended other improvements.
- *PBGC Incentives and Compensation Flexibilities Program To Recruit and Retain a Qualified Workforce Was Administered Inconsistently (AUD-2014-10)* – The OIG reviewed PBGC compliance with Office of Personnel Management (OPM) requirements regarding incentive payments made to employees during the FY 2010 – FY 2012 audit period. On issuance, OIG closed two of six recommendations.
- *FY 2013 Audit of PBGC's Compliance with the Implementation of the Improper Payments Information Act (AUD 2014-11)* – The OIG completed its annual review of PBGC compliance with improper payment reporting requirements established by OMB and determined that PBGC instituted a systematic method to review its programs and activities for improper payments and complied with improper payment requirements detailed in OMB Circular A-123, Appendix C.
- *Security Evaluation of Pension Benefit Guaranty Corporation Information Technology Environment (EVAL-2014)* – The OIG assessed PBGC's network traffic for indicators of malicious activity. As of the date of the assessment, all was secure.

PBGC values the role of the OIG and its contributions in helping to highlight areas where PBGC can improve. Please visit http://oig.pbgc.gov for more information about the OIG.

Government Accountability Office

GAO continues to include PBGC's single-employer and multiemployer insurance programs among its biennial "High-Risk" list of 30 government programs (*GAO-13-283*). This status is due to long-term structural challenges relating to plan sponsor funding of defined benefit pension plans and the limited tools available to the agency to address PBGC's long-term financial stability. During FY 2014, GAO completed a number of reviews relating to PBGC, including:

- *Clarity of Required Reports and Disclosures Could Be Improved (GAO-14-92*) – GAO recommended that PBGC, along with the Treasury and the DOL, work together to improve their online tools for plan reporting requirements and facilitate better readability of disclosures to participants. PBGC is working with Treasury and DOL to determine what changes would be cost-effective and helpful to the plan sponsor and participant communities.
- *Pension Tax Incentives Update (GAO-14-334R)* – GAO reviewed pension tax incentives designed to encourage private-sector employers to sponsor new pension plans and U.S. workers to save for retirement. GAO stated company consolidations and bankruptcies stemming from the recent recession might have discouraged new plan formation.
- *Pension Advance Transactions: Questionable Business Practices Identified (GAO-14-420)* – GAO identified at least 38 companies that offered individuals lump-sum payments or "advances" in exchange for receiving part or all of their pension payment streams. GAO identified questionable elements of pension advance transactions related to the disclosure of rates or fees, and certain unfavorable terms of agreements. GAO recommended that the Consumer Financial Protection Bureau (CFPB) and Federal Trade Commission review this area and to work with other agencies, including PBGC, to increase consumer awareness regarding pension advances.
- *Targeted Revisions Could Improve Usefulness of the Form 5500 Information (GAO-14-441)* – GAO performed a review of the Form 5500, which is the primary means to collect information on pension plans from plan sponsors. GAO recommended changes to the Form 5500 be considered, especially in terms of providing greater transparency in regard to how plan investments and service provider fees are reported by plan sponsors. GAO also recommended that PBGC, Treasury, and DOL work together to consider advance testing when making major revisions to the Form 5500.

Please visit GAO.gov for more information about the GAO.

FINANCES

FISCAL YEAR 2014 FINANCIAL STATEMENT HIGHLIGHTS

The Pension Benefit Guaranty Corporation (PBGC or the Corporation) is a federal corporation established under the Employee Retirement Income Security Act (ERISA) of 1974, as amended. It guarantees payment of basic pension benefits earned by more than 41 million of America's workers and retirees participating in nearly 24,000 private-sector defined benefit pension plans. The Corporation receives no funds from general tax revenues. Operations are financed by insurance premiums set by Congress and paid by sponsors of defined benefit plans, investment income, assets from pension plans trusteed by PBGC, and recoveries from the companies formerly responsible for the plans.

FINANCIAL POSITION

- PBGC's combined financial position decreased by $26,133 million, increasing the deficit to $61,772 million as of September 30, 2014, from $35,639 million as of September 30, 2013.
- The multiemployer program's net position declined by $34,176 million, increasing its deficit to $42,434 million, an all-time record high for the multiemployer program. PBGC's FY 2013 Projections Report shows that the risk of insolvency rises over time, exceeding 50 percent in 2022 and reaching 90 percent by 2025. When the program becomes insolvent, PBGC will be unable to provide financial assistance to pay guaranteed benefits in insolvent plans.
- The $34,176 million increase in the multiemployer program's deficit is primarily due to losses from financial assistance stemming from the addition of two large new probables with a net claim of $26,335 million and 14 additional new probables with a net claim of $8,987 million (see Note 7). Other factors included a charge of $60 million in actuarial adjustments, a charge of $47 million due to expected interest on accrued liabilities, administrative expenses of $18 million, offset by $122 million in net premium income, $75 million in investment gains, and a credit of $12 million due to an increase of interest factors.
- The single-employer program's net position increased by $8,043 million, decreasing the program's deficit to $19,338 million.
- Pension liability valuation interest factors increased by 10 basis points to 3.35% at September 30, 2014, from 3.25% at September 30, 2013. This resulted in a combined $952 million in actuarial credits due to change in interest factors. The combined actuarial charges for expected interest on accrued liabilities amounted to $3,386 million, and represents a $46 million decrease from the prior fiscal year.
- The primary factors in the single-employer program's net income of $8,043 million included $6,439 million in investment income, $3,834 million in net premium income and other income, a credit of $940 million due to a reduction in interest factors (this represents a $1,007 million increase in credit from the prior fiscal year), a credit of $535 million from actuarial adjustments, and $115 million credit from completed and probable terminations. These factors were offset by $3,339 million in charges due to expected interest on accrued liabilities, and $481 million of administrative, investment, and other expenses.

OPERATIONS

- PBGC's combined single-employer benefit payments and multiemployer financial assistance were $5,619 million in FY 2014 and $5,538 million in FY 2013. PBGC assumed responsibility for the benefit payments of an additional 53,000 workers and retirees in the 97 single-employer plans that were trusteed during FY 2014.
- FY 2014 combined net premium income increased by $881 million to $3,934 million compared to FY 2013 net premium income of $3,053 million. The flat-rate premium generated income of $1,501 million and the variable-rate premium (VRP) income was $2,439 million. Multiemployer program premium income was $122 million.
- PBGC's portfolio achieved a return on investment of 8.0% in FY 2014. This is below the ERISA/Pension Protection Act (PPA) hypothetical portfolio benchmark return of 13.3%, but matching the benchmark return of 8%, which PBGC uses to conform with its investment policy (see Investment Performance table on page 36 for longer term comparisons).
- During FY 2014, PBGC assumed financial responsibility for 86 underfunded single-employer plans that were terminated. Several of these plans are pending the completion of a trusteeship agreement with PBGC as of year-end and are being administered by interim trustees. Because of PBGC's previous efforts to evaluate its exposure to probable terminations, $351 million of the net claims for these plans were already reflected in PBGC's FY 2013 results. These 86 terminated plans had an average funded ratio of about 52%. Their terminations resulted in an aggregate net loss to PBGC of $935 million (see Note 12).
- Two single-employer plans with underfunding of $175 million were newly classified as probable terminations in FY 2014 and this represents PBGC's total single-employer probable inventory. Probable terminations represent PBGC's best estimate of claims for plans that are likely to terminate in a future year.
- The present value of multiemployer nonrecoverable future financial assistance of $44,190 million consists of 53 insolvent plans ($1,506 million), 61 terminated plans not yet insolvent but probable ($1,756 million), and 30 ongoing plans which are projected to exhaust plan assets within 10 years and are classified as probable ($40,928 million) (see Note 7).

ESTIMATES OF REASONABLY POSSIBLE CONTINGENCIES

- At fiscal year-end, PBGC's estimate of its single-employer reasonably possible exposure decreased to $167,113 million in FY 2014, a $125,094 million decrease compared to $292,207 million into FY 2013. This decrease is primarily due to a decline in the aggregate liability for plans classified as reasonably possible.
- PBGC's estimate of its multiemployer reasonably possible exposure decreased to $17,236 million in FY 2014, a $19,482 million decrease over the $36,718 million in FY 2013. The decrease was due primarily to the movement of several large multiemployer plans from reasonably possible to probable.

KEY SINGLE-EMPLOYER AND MULTIEMPLOYER RESULTS

(Dollars in millions)	**FY 2014**	FY 2013
Insurance Activity		
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Single-employer Benefits Paid	**$ 5,522**	$ 5,449
Multiemployer Financial Assistance Paid	**$ 97**	$ 89
Retirees Receiving Benefits (at end of year)	**864,000**	849,000
Total Participants Receiving or Owed Benefits (at end of year)	**1,486,000**	1,503,000
New Underfunded Terminations	**86**	111
Terminated/Trusteed Plans (Cumulative)	**4,650**	4,567
Plans That Have Received Financial Assistance	**53**	44
Summary of Operations		
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Premium Income, Net	**$ 3,934**	$ 3,053
Losses (credits) from Completed and Probable Terminations	**$ (115)**	$ 468
Losses from Financial Assistance	**$ 34,260**	$ 2,969
Investment Income	**$ 6,514**	$ 2,645
Actuarial Charges and Adjustments	**$ 1,959**	$ 3,095
Financial Position		
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Total Assets	**$ 89,782**	$ 84,946
Total Liabilities	**$ 151,554**	$ 120,585
Net Income (Loss)	**$ (26,133)**	$ (1,260)
Net Position	**$ (61,772)**	$ (35,639)
SINGLE-EMPLOYER PROGRAM		
Total Assets	**$ 88,013**	$ 83,227
Total Liabilities	**$ 107,351**	$ 110,608
Net Income (Loss)	**$ 8,043**	$ 1,761
Net Position	**$ (19,338)**	$ (27,381)
MULTIEMPLOYER PROGRAM		
Total Assets	**$ 1,769**	$ 1,719
Total Liabilities	**$ 44,203**	$ 9,977
Net Income (Loss)	**$ (34,176)**	$ (3,021)
Net Position	**$ (42,434)**	$ (8,258)

FINANCIAL SUMMARY–SINGLE-EMPLOYER PROGRAM

(Dollars in millions)		Fiscal Year Ended September 30, **2014**	2013	2012	2011	2010	2009	2008	2007	2006	2005
Insurance Activity:											
Benefits paid	$	**5,522**	5,449	5,384	5,340	5,467	4,478	4,292	4,266	4,082	3,685
Participants receiving monthly benefits at end of year *		**812,608**	799,210	781,160	775,300	747,530	743,610	640,070	631,130	612,630	682,540
Plans trusteed and pending trusteeship by PBGC		**4,640**	4,557	4,446**	4,292	4,140	3,993	3,850	3,783	3,673	3,585
Summary of Operations:											
Premium income, net ***	$	**3,812**	2,943	2,642	2,072	2,231	1,822	1,340	1,476	1,442	1,451
Other income	$	**22**	38	13	17	30	16	23	55	79	44
Investment income (loss)	$	**6,439**	2,741	8,792	3,446	7,594	6,330	(4,164)	4,737	2,184	3,897
Actuarial charges and adjustments (credits)	$	**1,864**	3,054	14,874	6,561	9,421	13,901	(4,813)	346	4,819	490
Losses (credits) from completed and probable terminations	$	**(115)**	468	2,006	201	509	4,234	(826)	399	(6,155)	3,954
Administrative and investment expenses	$	**464**	434	443	424	449	417	400	378	405	342
Other expenses	$	**17**	5	0	21	(7)	15	5	114	2	77
Net income (loss)	$	**8,043**	1,761	(5,876)	(1,672)	(517)	(10,399)	2,433	5,031	4,634	529
Summary of Financial Position:											
Cash and investments	$	**81,215**	77,881	76,941	71,292	69,150	62,062	51,722	61,122	57,728	54,387
Total assets	$	**88,013**	83,227	82,973	78,960	77,463	68,736	64,612	67,241	59,972	56,470
Present value of future benefits	$	**102,774**	105,018	105,635	92,953	90,022	83,035	59,996	69,235	69,143	69,737
Net position	$	**(19,338)**	(27,381)	(29,142)	(23,266)	(21,594)	(21,077)	(10,678)	(13,111)	(18,142)	(22,776)

* This measure may differ from yearly performance numbers reported in PBGC's Annual Performance Report, which also include participants whose benefit payments ended during the year (for example, due to death or a final lump-sum payout).
** A plan that had terminated in FY 2012 was subsequently removed from the plan termination inventory in FY 2013.
*** Beginning in FY 2009, PBGC started to reflect premium income net of bad debt expense for premium, interest and penalties.

FINANCIAL SUMMARY–MULTIEMPLOYER PROGRAM

(Dollars in millions)		**2014**	2013	2012	2011	2010	2009	2008	2007	2006	2005
					Fiscal Year Ended September 30,						
Insurance Activity:											
Financial assistance paid	$	97	89	95	115	97	86	85	71	70	14
Plans that have received financial assistance		53	44	49	49	50	43	42	36	33	29
Summary of Operations:											
Premium Income, net *	$	**122**	110	92	92	93	95	90	81	58	26
Other income	$	**0**	0	0	0	0	2	0	0	0	0
Investment income (loss)	$	**75**	(96)	91	148	183	121	121	23	(1)	79
Actuarial charges and adjustments (credits)	$	**95**	41	164	99	0	0	(1)	0	0	0
Losses (gains) from insolvent and probable plans - financial assistance	$	**34,260**	2,969	2,466	1,461	831	614	(271)	319	461	204
Administrative and investment expenses	$	**18**	25	20	14	12	0	0	0	0	0
Net income (loss)	$	**(34,176)**	(3,021)	(2,467)	(1,334)	(567)	(396)	482	(216)	(404)	(99)
Summary of Financial Position:											
Cash and investments	$	**1,701**	1,715	1,804	1,725	1,613	1,441	1,318	1,196	1,164	1,147
Total assets	$	**1,769**	1,719	1,807	1,739	1,628	1,459	1,327	1,197	1,166	1,160
Present value of future benefits	$	**0**	0	1	1	1	1	1	2	2	2
Nonrecoverable future financial assistance, present value	$	**44,190**	9,931	7,010	4,475	3,030	2,296	1,768	2,124	1,876	1,485
Net position	$	**(42,434)**	(8,258)	(5,237)	(2,770)	(1,436)	(869)	(473)	(955)	(739)	(335)

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

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

I. INTRODUCTION

PBGC management believes its discussion and analysis of our financial statements and other statistical data will help all interested parties and readers better understand our financial condition and results of operations. Readers should consider this material in conjunction with the Annual Performance Report starting on page 1, the financial statements beginning on page 47, and the accompanying notes beginning on page 51.

II. FINANCIAL AND PROGRAM RISKS

As of September 30, 2014, the single-employer and multiemployer programs reported deficits of $19,338 million and $42,434 million, respectively. The multiemployer program's net position declined by $34,176 million, increasing its deficit to $42,434 million, an all-time record high for the multiemployer program. Notwithstanding these deficits, the Corporation has about $88,013 million in single-employer assets and $1,769 million in multiemployer assets and will be able to meet its obligations for a number of years. However, neither program at present has the resources to fully satisfy PBGC's obligations in future years.

In FY 2015, significant factors beyond PBGC's control (including the financial markets, changes in interest rates, plan contributions made by sponsors, and recently enacted statutory changes) will continue to influence PBGC's underwriting income and investment gains or losses. PBGC's best estimate of FY 2015 premium receipts ranges between $3,100 million and $3,300 million – of which only approximately $130 million will be for the multiemployer program. No reasonable estimate can be made of FY 2015 terminations, effects of changes in interest rates, or investment income.

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

Claims against PBGC's insurance programs vary greatly from year to year. A single large pension plan termination may result in a larger claim against the Corporation than the termination of many smaller plans. So future claims will continue to depend largely on the rare and unpredictable failures of a few very large plans. Additionally, PBGC's risks are concentrated in certain industries. Finally, PBGC's financial condition is also sensitive to market risk. Interest rates and equity returns affect not only PBGC's own assets and liabilities but also those of PBGC-insured plans.

III. LEGISLATIVE AND REGULATORY DEVELOPMENTS

MULTIEMPLOYER PENSIONS

On June 30, 2014, the agency issued the FY 2013 Projections Report (formerly called the Exposure Report), which projects financial outcomes for the multiemployer system and for PBGC's multiemployer insurance program over the next 10 to 20 years. That report found that, while most multiemployer plans are projected to remain solvent, research over the past year has also made clear that, for some plans, even an improving economy will not be sufficient to maintain their solvency.

The Pension Protection Act of 2006 (PPA) includes key plan funding provisions to help severely distressed plans improve their funding status; absent a legislative extension, these will generally expire for newly distressed plans in plan years beginning after December 31, 2014.

The FY 2013 Projections Report found that, at current premium levels, PBGC's multiemployer program is itself on course to become insolvent with a significant risk of running out of money in as little as five years. The risk of insolvency rises rapidly, exceeding 50 percent in 2022 and reaching 90 percent by 2025. When the program becomes insolvent, PBGC will be unable to provide financial assistance to pay guaranteed benefits for insolvent plans.

We are analyzing various policy proposals, including proposals made by the Retirement Security Review Commission (established by the National Coordinating Committee for Multiemployer Plans), to preserve multiemployer plans and the PBGC safety net for these plans.

The Administration stands ready to work with Congress on this important challenge.

PREMIUMS

The Bipartisan Budget Act of 2013, signed into law on December 26, 2013, increased the single-employer program flat-rate and variable-rate premiums for plan years beginning in 2015 and 2016 and increased the cap on the variable-rate premium for plan years beginning after 2015. There are no scheduled increases (other than indexing) after 2016. PBGC posts the premium rates on its website.

REGULATORY REVIEW AND REFORM

In 2011, the President issued Executive Order 13563, "Improving Regulation and Regulatory Review," for agencies to give careful consideration to the benefits and costs of regulations. In response, we are continuing to focus on making regulations work better to protect people from risk to their pensions and on eliminating burdens on pension plan sponsors where there is least risk. By focusing on companies that pose real risk, we hope to preserve and encourage companies to continue to offer traditional pensions. Our Plan for Regulatory Review highlights our approach to working with our stakeholders to reduce burdens in various areas, including reportable events, premiums, reporting of plan underfunding, and business shutdowns and layoffs. We have posted progress reports on our PBGC.gov website.

As part of this initiative, in FY 2014, we published two final rules that made our premium rules more effective and less burdensome. We eliminated the early due date for large plans' flat-rate premiums, gave additional time for companies that sponsor small plans to calculate their variable-rate premium, and expanded premium penalty relief.

As a further result of our review, in FY 2014 we finalized a regulation to streamline and reform multiemployer plan notice and valuation requirements to continue to reduce reporting requirements on businesses.

We are working on a final Reportable Events rule, taking into account comments on our FY 2013 proposal to exempt more than 90 percent of plans and sponsors from many reporting requirements and to target reporting to companies and plans that pose the greatest risk.

In FY 2014, we announced a six-month moratorium on the enforcement of 4062(e) cases. The moratorium will enable us to ensure that our efforts are targeted to cases where pensions are genuinely at risk. The moratorium period will also allow us to work with the business community and other stakeholders.

The PPA made many changes to the pension insurance system, including changes to premiums, guarantee rules, reporting and disclosure, multiemployer plan withdrawal liability, and the missing participants program. In FY 2014, we continued drafting rules necessary to implement and comply with PPA. In developing these regulations, we seek to simplify employer compliance when feasible, taking into account the needs of small businesses and comments from stakeholders.

In FY 2014, we published a final rule implementing PPA changes to our guarantee of shutdown and similar benefits. Now that IRS and Treasury have finalized their cash balance regulations, we are working on a final rule implementing PPA changes to terminations of cash-balance plans, which we expect to publish in FY 2015.

A major focus of our regulatory activity in FY 2014 was the development of a proposal to improve and expand our missing participants program. The expanded program will cover terminating defined contribution plans, non-covered defined benefit plans, and multiemployer plans. The proposal will take into account comments received from employers, plans, and other stakeholders in response to a 2013 Request for Information. PBGC is working with IRS and DOL to coordinate government requirements for dealing with missing participant issues. We expect to publish a proposed regulation in FY 2015.

In FY 2014, PBGC published a proposed rule that would clarify the treatment of benefits resulting from a rollover distribution from a defined contribution plan to a defined benefit plan, if the defined benefit plan was terminated and trusteed by PBGC. Under the proposal, a benefit resulting from rollover amounts generally would not be subject to PBGC's maximum guaranteeable benefit or phase-in limitations and would be in the second highest priority category of benefits in the allocation of assets. The proposed rule was well-received by the public, and PBGC expects to publish a final rule early in FY 2015. This rulemaking is part of PBGC's efforts to enhance retirement security by promoting lifetime income options.

The Highway and Transportation Funding Act of 2014 (HATFA) provides funding relief for single-employer plans that may indirectly affect variable-rate premium calculations and actuarial information reporting under ERISA section 4010. PBGC issued guidance in late FY 2014 and early FY 2015 that provides relief to plans that otherwise might need to amend premium or 4010 filings because of HATFA's retroactive applicability.

IV. DISCUSSION OF INSURANCE PROGRAMS

PBGC operates two separate insurance programs for defined benefit plans. PBGC's single-employer program guarantees basic pension benefits when underfunded plans terminate. By contrast, in the multiemployer program, the insured event is plan insolvency. PBGC's multiemployer program financially assists insolvent covered plans to pay benefits at the level the law guarantees.

By law, the two programs are funded and administered separately and their financial conditions, results of operations, and cash flows are reported separately. The accompanying financial statements for both programs, which appear on pages 47-50, have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Please refer to Note 2: "Significant Accounting Policies" for further detail including a description of PBGC's valuation method used in determining benefit liabilities.

IV.A SINGLE-EMPLOYER PROGRAM RESULTS OF ACTIVITIES AND TRENDS

The single-employer program covers about 30.9 million people (excluding those in plans that PBGC has trusteed), slightly down from 31.9 million people PBGC covered in 2013. The number of covered ongoing plans decreased from about 23,400 in 2013 to about 22,300 in 2014.

Most plans that were terminated had sufficient funding to cover future benefits and distributed all plan benefits as insurance company annuities or lump sums pursuant to the standard termination rules of ERISA. In these cases PBGC's activities are limited to ensuring compliance with standard termination regulations.

In contrast, PBGC becomes trustee when a covered underfunded plan terminates. PBGC applies legal limits to payouts and pays the benefits. To determine the amount to pay each person PBGC takes into account (a) the benefit that the participant had accrued in the terminated plan, (b) the availability of assets from the terminated plan to cover benefits, (c) how much PBGC recovers from employers for plan underfunding, and (d) the legal, maximum benefits provided under ERISA. In 2014, the maximum annual payment guaranteed under the single-employer program was about $59,300 for a retiree aged 65, up from almost $57,500 in 2013. The maximum guarantee for 2015 will increase to just over $60,000. The applicable maximum guarantee is determined by the year the retiree's plan terminated (or, if the plan terminated during the plan sponsor's bankruptcy, the year the sponsor entered bankruptcy), even if the retiree does not begin collecting benefits until a future year. In some cases, retirees can receive more than the maximum guarantee.

In FY 2014 the primary drivers of the net income of $8,043 million included the following: investment income of $6,439 million, net premium income and other income of $3,834 million, a credit of $940 million due to an increase in interest factors (which has the effect of decreasing benefit liabilities and actuarial charges), a credit for actuarial adjustments of $535 million, and a credit due to completed and probable terminations of $115 million. These amounts were offset by a $3,339 million actuarial charge due to expected interest on accrued liabilities, a charge of $385 million in administrative and other expenses, and investment expenses of $96 million.

PBGC's single-employer program realized a net gain of $8,043 million compared with a net gain in FY 2013 of $1,761 million. The $6,282 million increase to net gain was primarily attributable to (1) an increase in investment income of $3,698 million (a gain of $6,439 million compared to a gain of $2,741 million in FY

2013), (2) a $1,007 million decrease in actuarial charges due to change in interest factors, (3) an increase in net premium and other income of $853 million, (4) a decrease of $583 million in losses from completed and probable terminations, (5) a $134 million increase in credits for underwriting actuarial adjustments, (6) a $49 million decrease in charges due to expected interest, and (7) a $42 million increase to administrative, investment, and other expenses. Actuarial charges and adjustments arise from gains and losses from mortality and retirement assumptions, changes in interest factor, and expected interest. Expected interest refers to the interest that PBGC expects to accrue during the current fiscal year based on PBGC's liability and interest rates at the end of the prior year with adjustments made for new plans and benefit payments made during the year.

UNDERWRITING ACTIVITY

PBGC's single-employer program realized a net underwriting gain of $4,099 million in FY 2014, $1,536 million more than the FY 2013 gain of $2,563 million. This $1,536 million increase from the previous year was mainly due to the $869 million increase in single-employer net premium income, a decrease of $583 million in losses from completed and probable terminations, and a $134 million increase in credits for underwriting actuarial adjustments.

Premium and other income from underwriting activity increased (from $2,981 million in FY 2013 to $3,834 million in FY 2014), largely due to an increase in net premium income from plan sponsors (from $2,943 million in FY 2013 to $3,812 million in FY 2014). The increase in premium income was primarily due to the increase in the flat-rate premium and the variable-rate premium (VRP) for plan years beginning in 2014. Other income, consisting of interest on recoveries from sponsors, decreased from $38 million in FY 2013 to $22 million in FY 2014.

Annual flat-rate premiums for the single-employer program increased from $42 to $49 per participant in FY 2014, contributing to an increase in the flat-rate premium income of $104 million to a total of $1,378 million. Annual variable-rate premium income, paid by underfunded single-employer plans, increased by $859 million to a total of $2,439 million mainly due to the increase in the premium rate. The prior year's VRP rate of $9 per $1,000 of underfunding increased to $14 per $1,000 of underfunding for plan years beginning in 2014.

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

The Treasury determines each segment rate monthly using the portion of a corporate bond yield curve that is based on corporate bonds maturing during that segment rate period. The corporate bond yield curve is also prescribed every month by the Treasury. It reflects the yields for the previous month on investment-grade corporate bonds with varying maturities that are in the top three quality levels. The January 2014 segment rates for calendar-year plans were 1.25%, 4.57%, and 5.60% for the first, second, and third segments, respectively.

The Corporation's losses from completed and probable plan terminations decreased from a loss of $468 million in FY 2013 to a credit of $115 million in FY 2014. This was mainly due to a $344 million decrease in probable claims and because charges related to new plans that terminated ($935 million) were offset by a credit of $706 million from revaluations of plans that had terminated in prior years. (see "Subtotal terminated plans" in Note 12).

The net claim for probable terminations as of September 30, 2014, is $401 million, while the net claim as of September 30, 2013, was $745 million. This $344 million decrease resulted primarily from the transfer of $351 million of previously accrued claims to a termination status, and a favorable decrease in the reserve for small unidentified probables of $168 million (see Note 6). This factor was offset by the addition of two new probables with net claims of $175 million. The actual amount of future losses remains unpredictable.

Single-employer administrative expenses increased $22 million from $346 million in FY 2013 to $368 million in FY 2014.

FINANCIAL ACTIVITY

In FY 2014, single-employer financial net gain increased from a loss of $802 million in FY 2013 to a gain of $3,944 million. The single-employer program had investment income of $6,439 million in FY 2014, compared with investment income of $2,741 million in FY 2013. This gain was offset by an increase of $2,399 million in actuarial charges. PBGC marks its assets to market, which is consistent with the Financial Accounting Standards Board (FASB) Accounting Standards Codification Section 820, *Fair Value Measurements and Disclosures* (see Note 5).

Actuarial charges under financial activity represent the effects of changes in interest rates and the expected interest accrued on the present value of future benefits. The expected interest refers to the interest that PBGC expects to accrue during the fiscal year on PBGC's liability at the end of the prior year. The decrease in charges to the single-employer expected interest is due primarily to the lower interest rate in effect at the beginning of FY 2014 (3.25%) compared to FY 2013 (3.28%) (the expected interest charge is $3,339 million in FY 2014 and was $3,388 million in FY 2013). A credit to the single-employer interest factor occurred in FY 2014 due to an increase in the select interest factor from the previous year whereas, a charge occurred in FY 2013 due to a decrease in the select interest factor from the previous year (the interest factor credit is $940 million in FY 2014 and was a charge of $67 million in FY 2013).

PBGC discounts its liabilities for future benefits with interest factors[1] that, together with the mortality table used by PBGC, approximate the price in the private-sector annuity market at which a plan sponsor or PBGC could settle its obligations. In FY 2014 PBGC's select interest factor increased to 3.35% (for the first 25 years after the valuation date) at September 30, 2014, from 3.25% (for the first 20 years) at September 30, 2013. The ultimate factor decreased to 3.25% at September 30, 2014 (after the first 25 years) from 3.32% at September 30, 2013 (after the first 20 years).

PBGC's single-employer Present Value of Future Benefits (PVFB) decreased from $105,018 million at September 30, 2013 to $102,774 million at September 30, 2014. PVFB comprises the vast majority of PBGC's combined total liabilities on its Statements of Financial Position of $151,554 million.

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

IV.B MULTIEMPLOYER PROGRAM RESULTS OF ACTIVITIES AND TRENDS

During Fiscal Year 2014, PBGC's obligations for future financial assistance to multiemployer plans increased from $9,931 million at September 30, 2013 to $44,190 million at September 30, 2014, an increase of $34,259 million (345%). This increase is mainly due to the addition of two large new probables ($26,335 million net claim) and 14 additional new probables ($8,987 million net claim). PBGC paid $97 million in financial assistance to 53 insolvent plans that cover approximately 52,000 retirees.

PBGC's multiemployer program covers about 10.3 million participants (slightly down from 10.4 million participants in FY 2013) in about 1,425 insured plans. The multiemployer flat-rate premium moved from $9 per participant in FY 2012 to $12 per participant in 2013 and remained unchanged in FY 2014. This upward movement contributed to an increase in flat-rate premium income of $12 million to a total of about $122 million.

A multiemployer plan is a pension plan maintained by two or more unrelated employers under collective bargaining agreements with one or more unions. Multiemployer plans cover most unionized workers in the trucking, retail food, construction, mining, and garment industries. A person doing work for any employer contributing to the plan is usually eligible for benefits. Workers accrue pension credits in the plan even when they change employment from one contributing employer to another.

Multiemployer plans are typically governed by a board of trustees appointed in equal numbers by labor and management. Under ERISA, the trustees have a fiduciary duty to act in the best interest of participants. Multiemployer plans are subject to ERISA minimum funding requirements. Although bargaining parties negotiate over plan contributions, they usually delegate plan design to the trustees.

Most collective bargaining agreements that cover multiemployer plans provide for contributions based on time worked in a covered job. Some plans base contributions on "units of production," such as number of items produced, tons of coal mined, or gross sales achieved. In some plans, benefits depend on the level of contributions that employers make to the plan for the participant's work.

Contributions are held in a trust fund that is managed and invested by the board of trustees in accordance with ERISA's fiduciary standards. All plan assets in the trust are available to pay all benefit claims. Assets do not revert to contributing employers.

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

PBGC does not trustee multiemployer plans. In the multiemployer program, the event triggering PBGC's guarantee is plan insolvency – the inability to pay guaranteed benefits when due.

Insolvency usually occurs after all contributing employers have withdrawn from the plan, leaving the plan without a source of income. PBGC provides insolvent multiemployer plans with financial assistance, in the statutorily-required form of loans, sufficient to pay PBGC guaranteed benefits and reasonable administrative expenses. These loans generally continue until the plan no longer needs assistance or has paid all promised benefits at the guaranteed level. These loans are rarely repaid (and for that reason are fully reserved).

Benefits under the multiemployer program are calculated based on (a) the benefit a participant would have received under the insolvent plan, subject to (b) the legal multiemployer maximum under ERISA. The maximum guaranteed amount depends on the participant's years of service. In 2014, for example, the maximum annual payment for a participant with 30 years of service was approximately $12,870.

The multiemployer program reported a net loss of $34,176 million in FY 2014 compared with a net loss of $3,021 million in FY 2013. This resulted in a negative net position of $42,434 million in FY 2014 compared with a negative net position of $8,258 million in FY 2013. The change in net loss was mainly due to the increase in expected loss from future financial assistance of $31,291 million and an increase in actuarial charges and adjustment of $54 million, partially offset by an increase in net investment income of $171 million. This deficit is an all-time record high for the multiemployer program.

The multiemployer program reported a net loss from underwriting activity of $34,216 million in FY 2014 compared with a net loss of $2,879 million in FY 2013. This decline of $31,337 million was mainly due to the increase in financial assistance losses from insolvent and probable plans of $31,291 million mainly due to the addition of two large new probables with a net claim of $26,335 million and 14 additional new probables with a net claim of $8,987 million, an increase in charges to actuarial adjustments of $65 million, offset by an increase in premium income of $12 million, and the decrease in administrative expenses of $7 million. Financial activity reflected financial gain of $75 million from earnings on fixed income investments in FY 2014, compared with a loss of $96 million in FY 2013. Multiemployer program investments originate mainly from the cash receipts for premiums due from insured plans. PBGC is required to invest these premiums in obligations issued or guaranteed by the United States Government.

V. OVERALL CAPITAL AND LIQUIDITY

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

The Corporation has sufficient liquidity to meet its obligations for a number of years; however, barring changes, neither program will be able to fully satisfy PBGC's obligations to plan participants in future years. For example, the FY 2013 Projections Report showed the risk of multiemployer program insolvency rises rapidly, exceeding 50 percent in 2022 and reaching 90 percent by 2025.

FY 2014 combined premium cash receipts totaled $1,823 million, a decrease of $1,340 million from $3,163 million in FY 2013 due primarily to the shift of estimated flat-rate calendar year single-employer plan premium receipts from the end of February to October 15. Net cash flow provided by investment activity increased to $2,137 million versus $1,196 million provided in FY 2013. In FY 2014, PBGC's cash receipts of $4,210 million from operating activities of the single-employer program were insufficient to cover its operating cash obligations of $6,163 million. This resulted in net cash used by operating activities of $1,953 million (as compared to net cash used of $686 million in FY 2013). When the single-employer cash provided through investing activities of about $2,157 million is added to this net cash used, the single-employer program in the aggregate experienced a net cash increase of $204 million.

In the multiemployer program, cash receipts of $84 million from operating activities were insufficient to cover its operating cash obligations of $129 million, resulting in net cash used by operations of $45 million. When this net cash used is added to net cash used through investing activities of $20 million, the multiemployer program in the aggregate experienced an overall net cash decrease of $65 million.

During FY 2014, PBGC recovered about $96 million through agreements with sponsors of terminated plans for unpaid contributions and unfunded benefits. A portion of those recovered funds are paid out as additional benefits to plan participants with nonguaranteed benefits according to statutory priorities.

In FY 2014, PBGC's combined net increase in cash and cash equivalents amounted to $139 million, arising from an increase of $204 million for the single-employer program and a decrease of $65 million for the multiemployer program.

VI. SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAM EXPOSURE

PBGC estimates its single-employer loss exposure to reasonably possible terminations (e.g., underfunded plans sponsored by companies with credit ratings below investment grade) at about $167,113 million on September 30, 2014, and $292,207 million on September 30, 2013. The comparable estimate of reasonably possible exposure for FY 2012 was about $294,963 million. PBGC's exposure to loss may be less than these amounts because of the statutory guarantee limits on insured pensions, but PBGC is unable to estimate prospectively the extent and effect of the guarantee limitations. These estimates are measured as of December 31 of the previous year (see Note 9). For FY 2014, this exposure was concentrated in the following sectors: manufacturing (primarily automobile/auto parts, and fabricated metals), transportation (primarily airlines), services, and wholesale and retail trade.

PBGC estimates that, as of September 30, 2014, it is reasonably possible that multiemployer plans may require future financial assistance of about $17,236 million. As of September 30, 2013 and 2012, these exposures were estimated at about $36,718 million and $26,809 million, respectively. The decrease in FY 2014 from prior years is due mainly to the change in classification of several large plans from reasonably possible to probable.

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

PBGC's sources of information on plan underfunding are the most recent Section 4010 and PBGC premium filings, Form 5500, and other submissions to the Corporation. PBGC publishes Table S-49, "Various Measures of Underfunding in PBGC-Insured Plans," in its *Pension Insurance Data Book*. In that table the limitations of the estimates are fully and appropriately described.

VII. INVESTMENT ACTIVITIES

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

PBGC's investment assets consist of premium revenues, which are accounted for in the revolving funds, and assets from trusteed plans and their sponsors, which are accounted for in the trust funds. By law, PBGC is required to invest certain revolving funds (i.e., Funds 1 and 2) in obligations issued or guaranteed by the United States of America. Portions of the other revolving fund (i.e., Fund 7) can be invested in other debt obligations, but under PBGC's current investment policy these revolving funds are invested solely in Treasury securities.

Total revolving fund investments, including cash and investment income, at September 30, 2014, were $19,246 million ($996 million for Fund 1, $1,701 million for Fund 2, and $16,549 million for Fund 7). PBGC has never established funds 3, 4, 5 or 6, which ERISA authorized for special discretionary purposes. Trust fund investments totaled $63,670 million as of September 30, 2014. At the end of FY 2014, PBGC's total investments consisting of cash and cash equivalents, investments, and investment income receivable as shown on the Statements of Financial Position were $82,916 million.

The Board reaffirmed PBGC's existing investment policy in April 2013. The objective is to maximize total return within a prudent risk framework that incorporates PBGC's fixed obligations and asset composition of potential trusteed plans. The investment policy establishes a 30 percent target asset allocation for equities and other non-fixed income assets, and a 70 percent asset allocation for fixed income.

PBGC's investment program had assets under performance management of about $81,538 million as of September 30, 2014. Of the $1,400 million difference between the September 30, 2014 assets reported on the Statements of Financial Position and the assets within the PBGC's investment performance portfolio, about $500 million represent net unsettled purchases, about $500 million for funds available for the following month's benefit payments, and $400 million are newly trusteed assets that have not yet been commingled. Asset allocation percentages refer to the investments within PBGC's investment program that are subject to the Corporation's investment policy, as described below.

Cash and fixed income securities totaled about 67 percent of total assets under performance management invested at the end of FY 2014, compared with approximately 66 percent for FY 2013. Equity securities (i.e., public equities) represented about 31 percent of total assets under performance management invested at the end of FY 2014, compared with approximately 31 percent for FY 2013. The Total Fund Composite return (excluding private market assets and transition accounts) for FY 2014 was 8.0% compared with 2.6% in FY 2013. A small percentage of PBGC's investments (less than 0.1 percent of total investment assets at FY 2014 compared with 1.2 percent at FY 2013) predominantly represent assets that are in the process of moving out of one of the manager portfolios either for liquidation or for transfer to another manager. The return of the Total Fund Composite including these transition accounts was 8.0% in FY 2014 compared to 2.5% in FY 2013. Private markets assets, comprised largely of private equity, private debt, and private real estate that are currently part of the investment portfolio, represented about 1.9% of total investments at the end of FY 2014, compared with 2.4% of total investments at the end of FY 2013.

Due to the cyclical nature of capital markets, PBGC also reports five-year returns for its investment program. For the five-year period ending September 30, 2014, PBGC's return on total invested funds excluding transition accounts was 8.0% compared with a total fund benchmark return of 7.5%, a benchmark based on the relative weights of the underlying managed accounts. Including the transition accounts, the five year annualized return was 7.9%. Separately, the ERISA/PPA hypothetical portfolio benchmark return for the five-year period ending September 30, 2014 was 11.4%. (Please refer to Investment Portfolio Analysis table on page 41 for additional information).

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

INVESTMENT PERFORMANCE

(Annual Rates of Return)

	September 30, 2014	September 30, 2013	Three and Five Years Ended September 30, 2014 3 yrs	Three and Five Years Ended September 30, 2014 5 yrs
Total Fund Composite	**8.0%**	2.6%	7.7%	8.0%
Total Fund Benchmark [1]	**8.0**	2.1	7.2	7.5
ERISA/PPA Portfolio Benchmark [2]	**13.3**	10.7	14.6	11.4
Total Global Public Stock	**11.0**	18.8	17.4	11.0
Total Global Public Stock Benchmark [3]	**11.2**	18.4	17.2	10.8
Total Global Bonds	**7.0**	(4.1)	4.0	6.8
Total Global Bonds Benchmark [4]	**6.8**	(4.6)	3.5	6.1
Trust Funds	**9.3**	5.4	10.0	9.0
Revolving Funds	**4.5**	(5.3)	1.4	5.0
Indices				
Russell 3000 Index	**17.8**	21.6	23.1	15.8
MSCI ACWI ex-U.S. Standard Index	**4.8**	16.5	11.8	6.0
S&P 500 Index	**19.7**	19.3	23.0	15.7
Barclays Capital Treasury Index	**2.3**	(2.1)	1.0	3.2
Barclays Capital Aggregate Bond Index	**4.0**	(1.7)	2.4	4.1
Barclays Capital Global Aggregate ex-US Index, Hedged	**6.5**	2.1	4.8	4.2

[1] The Total Fund Benchmark is a dynamic weighted benchmark based upon the weights of the Total Global Public Stock Benchmark and the Total Global Bonds Benchmark. This benchmark is utilized to compare against the Total Fund Composite returns shown above.
[2] The ERISA/PPA Portfolio Benchmark is based upon a hypothetical portfolio with a 60% allocation to the Standard & Poor's 500 equity index and a 40% allocation to the Barclays Capital Aggregate fixed income index. See page 40 for a description of this reporting requirement.
[3] The Total Global Public Stock Benchmark is a dynamic weighted benchmark based upon the weights of the U.S. Public Stock composite and the International Public Stock composite and the returns of their respective benchmarks.
[4] The Total Global Bonds Benchmark is a dynamic weighted benchmark based upon the weights of PBGC's fixed income managers and the returns of their respective benchmarks.

FIXED INCOME

As described below, PBGC fixed income investment managers use a number of different benchmarks. Where applicable, the relative percentage that each index or benchmark represents for its respective asset class is provided. The percentage invested under each benchmark(s), in aggregate, for each asset class relative to the overall PBGC investment program at September 30, 2014 is also provided below.

The Total Global Bonds Benchmark is a dynamic weighted benchmark based on the weights of the underlying fixed income managers and the returns of their respective benchmarks. As of September 30, 2014, the weighted benchmark encompasses the Revolving Fund Treasuries Custom Benchmark (28.0%), the Barclays Capital U.S. TIPS index (9.0%), the Total Long Duration Bonds Benchmark (23.0%), the Barclays Capital Aggregate Bond index (9.6%), the Total Developed Market Bonds Benchmark (12.5%), the Total High Yield Bonds Benchmark (6.9%), and the Total Emerging Market Bonds Benchmark (11.1%). The overall Total Global Bonds composite equals 63.6 percent of the total PBGC portfolio.

Treasuries: This category includes investments in United States Dollar (USD) denominated fixed income securities managed by outside professional asset managers, and applies to 17.8 percent of PBGC's investment program assets at year-end. The Long Treasury Benchmark is the Revolving Fund Treasuries Custom Benchmark. The Revolving Fund Treasuries Custom Benchmark is a customized index made up of U.S. Treasury notes and bonds. While PBGC is able to redeem composite assets upon request, the composite assets are part of the Revolving Fund and can only be redeemed to meet pension benefit obligations and administrative expenses.

U.S. Treasury Inflation Protected Securities (TIPS): This category includes investments in USD denominated fixed income securities managed by outside professional asset managers, and applies to 5.7 percent of PBGC's investment program assets at year-end. The TIPS Benchmark is the Barclays Capital U.S. TIPS index. While PBGC is able to redeem composite assets upon request, the composite assets are part of the Revolving Fund and can only be redeemed to meet pension benefit obligations and administrative expenses.

Long Duration: This category includes investments mainly in USD-denominated fixed income securities managed by outside professional asset managers, and applies to 14.6 percent of PBGC's investment program assets at year-end. The Total Long Duration Bonds Benchmark is a dynamic weighted benchmark based on the weights of the underlying Trust Fund long duration fixed income managers and the returns of their respective benchmarks. As of September 30, 2014, the Total Long Duration Bonds Benchmark encompasses the Barclays Capital Long U.S. Government/Credit index (52.2%) and Custom Benchmarks (47.8%). The Barclays Capital Long U.S. Government/Credit index includes both government and credit securities. The Government component includes public obligations of the U.S. Treasury that have remaining maturities of more than one year and publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government. The credit component of the index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality (investment grade) requirements. The custom benchmarks include similar securities and are weighted combinations of sub-sector benchmarks. PBGC is able to redeem composite assets upon request.

Core: This category includes investments primarily in USD-denominated fixed income securities managed by outside professional asset managers, and applies to 6.1 percent of PBGC's investment program assets at year-end. The Core Fixed Income Benchmark is the Barclays Capital Aggregate Bond index. The Barclays Capital

Aggregate Bond index includes securities that are SEC-registered, taxable, and dollar-denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, asset-backed securities, and foreign securities. PBGC is able to redeem composite assets upon request.

Developed Markets: This category includes investments in USD-denominated fixed income securities and fixed income securities denominated in other foreign currencies managed by outside professional asset managers. This applies to 7.9 percent of PBGC's investment program assets at year-end. The Total Developed Market Bonds Benchmark is a dynamic weighted benchmark based on the weights of all developed market bond managers and the returns of their respective benchmarks. As of September 30, 2014, the weighted benchmark encompasses the Barclays Capital Global Aggregate index hedged (44.7%) and the Barclays Capital Global Aggregate ex-USD index hedged (55.3%). The Barclays Capital Global Aggregate index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD-denominated investment grade 144A securities. The hedged index negates exposure to foreign currencies by hedging currency exposure back to the U.S. dollar. The ex-USD index excludes USD denominated securities and provides a broad-based measure of international investment-grade fixed income markets. PBGC is able to redeem composite assets upon request.

High Yield: This category includes investments primarily in USD-denominated fixed income securities managed by outside professional asset managers, and applies to 4.4 percent of PBGC's investment program assets at year-end. The Total High Yield Bonds Benchmark is a dynamic weighted benchmark based on the weights of all high yield bond managers and the returns of their respective benchmarks. As of September 30, 2014, the weighted benchmark encompasses the Barclays Capital US High Yield Ba/B 1% Capped index (72.7%), Barclays Capital US High Yield 2% Issuer Capped index (13.7%) and Barclays Capital Global High Yield index (13.6%). The Barclays Capital U.S. High Yield Ba/B 1% Issuer Capped index includes the universe of fixed rate, non-investment grade debt securities rated Ba or B. The index also includes Canadian and global bonds (SEC registered) of issuers in non-Emerging Market countries. The index limits the size of an individual issuer to 1% of the index. The Barclays Capital U.S. High Yield 2% Issuer Capped index includes the universe of fixed rate, non-investment grade debt securities rated Ba-D. The index also includes Canadian and global bonds (SEC registered) of issuers in non-Emerging Market countries. The index limits the size of an individual issuer to 2% of the index. The Barclays Capital Global High Yield index includes non-investment grade bonds rated Ba1/BB+ or lower. The index includes debt securities from the United States as well as developed and emerging market countries. PBGC is able to redeem composite assets upon request.

Emerging Market Bonds: This category includes fixed income securities denominated in either U.S. dollars or foreign currencies, and managed by outside professional asset managers. It comprises 7.1 percent of PBGC's investment program assets at year-end. The Total Emerging Market Bonds Benchmark is a dynamic weighted benchmark based on the weights of all emerging market bond managers and the returns of their respective benchmarks. As of September 30, 2014, the weighted benchmark encompasses the JP Morgan EMBIG Diversified index (41.0%) and Custom Benchmarks (59.0%). The custom benchmarks are weighted combinations of the JP Morgan EMBIG Diversified and the JP Morgan GBI EM Global Diversified or the JP Morgan CEMBI Broad indices. The JP Morgan EMBIG Diversified index includes U.S. dollar-denominated debt instruments issued by Emerging Market countries. The index also includes U.S. dollar-denominated Brady bonds, Eurobonds, and traded loans issued by sovereign and quasi-sovereign entities. The JP Morgan GBI EM Global Diversified index includes local currency/non-U.S. dollar-denominated debt instruments issued by Emerging Market countries. The JP Morgan CEMBI Broad index includes U.S. dollar-denominated Emerging Market corporate bonds. PBGC is able to redeem composite assets upon request.

MONEY MARKET SECURITIES

This category includes investments in money market instruments managed by an outside professional asset manager that invests in a diversified portfolio of short-term obligations and deposits, including, but not limited to, U.S. Treasury and agency obligations, certificates of deposits, commercial paper, and repurchase agreements (Trust Fund Cash). In addition, the category includes overnight investments in U.S. Treasury securities held at the U.S. Treasury (Revolving Fund Cash). The Total Money Market Securities Benchmark is a dynamic weighted benchmark based on the weights of the Trust Fund Cash and the Revolving Fund Cash and the returns of their respective benchmarks. As of September 30, 2014, the weighted benchmark encompasses the 3-Month Treasury Bill (96.5%) and the 4-Week Treasury Bill (3.5%). The cash composite represents 3.2 percent of PBGC's investment program as of September 30, 2014.

GLOBAL PUBLIC STOCK

This category includes investments in the U.S. Public Stock composite and the International Public Stock composite, and applies to 31.3 percent of PBGC's investment program assets at fiscal year-end. The Total Global Public Stock Benchmark is a dynamic weighted benchmark based upon the weights of the U.S. Public Stock composite and the International Public Stock composite and the returns of their respective benchmarks. PBGC is able to redeem composite assets upon request.

As of September 30, 2014, the Total Global Public Stock Benchmark is comprised of the Total U.S. Public Stock Benchmark (54.6%), and the Total International Public Stock Benchmark (45.4%).

U.S. Public Stock: This category includes investments in U.S. publicly traded Equity securities and U.S. publicly traded Real Estate Investment Trusts (REITs) managed by outside professional asset managers, and applies to 17.1 percent of PBGC's investment program assets at year-end. The Total U.S. Public Stock Benchmark is a dynamic weighted benchmark based upon the weights of the U.S. Public Stock composite and the returns of their respective benchmarks. As of September 30, 2014, the weighted benchmark encompasses the Russell 3000 index (81.5%) and the Dow Jones U.S. Select Real Estate Securities index (18.5%). PBGC is able to redeem composite assets upon request.

International Public Stock: This category includes investments in International Equity securities managed by outside professional asset managers, and applies to 14.2 percent of PBGC's investment program assets at year-end. The Total International Public Stock Benchmark is a dynamic weighted benchmark based upon the weights of all the international funds and the returns of their respective benchmarks. As of September 30, 2014, the weighted benchmark encompasses the MSCI EAFE index (61.6%), the MSCI EAFE Small Cap index (8.3%), the MSCI Emerging Markets index (22.2%), and the MSCI Canada index (7.8%). The MSCI EAFE index (Europe, Australasia, Far East) is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. The MSCI EAFE Small Cap index is designed to measure the developed markets small capitalization equity performance, excluding the U.S. and Canada. The

MSCI Emerging Markets index is designed to measure equity market performance of emerging markets and the MSCI Canada index is designed to measure the equity market performance of Canada. PBGC is able to redeem composite assets upon request.

PRIVATE MARKETS

This category includes private equity, private debt, and private real estate funds that invest mainly in buyouts, venture capital, distressed debt, and commercial real estate, and applies to 1.9 percent of PBGC's investment program assets at year-end. Private investments are difficult to benchmark due to their illiquid nature. Typical benchmarks utilized for private equity include universe comparisons where funds which have the same original investment date are compared against the performance of a similar fund. For direct private real estate investments, many institutions use the National Council of Real Estate Investment Funds (NCREIF) index, which includes U.S. commercial real estate properties acquired in the private market for investment purposes. For investments in private equity real estate, peer universe comparisons based on similar funds with the same original investment date are often utilized. Private Market investments typically do not have redemption provisions. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the funds. It is estimated that the majority of the underlying assets of the funds will be liquidated over the next ten years. The fair values of the investments in this category have been estimated using the net asset value of the PBGC's ownership interest in partners' capital.

THE PENSION PROTECTION ACT OF 2006 REPORTING REQUIREMENT

The Pension Protection Act of 2006 requires PBGC to estimate the effect of an asset allocation based on a combination of two commonly used market benchmarks. This hypothetical portfolio (used as a benchmark for a typical pension plan, rather than an insurer), with a 60 percent allocation to the Standard & Poor's 500 equity index and a 40 percent allocation to the Barclays Capital Aggregate Bond index would have increased the assets of the Corporation by about $4.1 billion (13.3% return compared with PBGC's Total Fund Composite return including transition accounts of 8.0%) for the one-year period ending September 30, 2014, and increased the assets of the Corporation by about $10.9 billion (11.4% return compared with PBGC's Total Fund Composite return including transition accounts of 7.9%) over the five-year period ending September 30, 2014. For further analysis of PBGC's Investment Activities please refer to page 33 of the MD&A of Financial Condition and Results of Operations. As reported in last year's FY 2013 Annual Report, the same "60/40 portfolio" would have increased the assets of the Corporation by about $6.9 billion (10.7% return compared with PBGC's Total Fund Composite return including transition accounts of 2.5%) for the one-year period ending September 30, 2013 and increased the assets of the Corporation by about $0.1 billion (9.2% return compared with PBGC's Total Fund Composite return including transition accounts of 8.9%) for the five-year period ending September 30, 2013.

These results are summarized in the following table.

INVESTMENT PORTFOLIO ANALYSIS

60/40 Hypothetical Portfolio Analysis versus PBGC Fiscal Year Actual Return (60/40 is comprised of S&P 500 Index/Barclays Capital Aggregate Bond Index)						
	1 Year Period Ending			5 Year Period Ending		
Fiscal Year	60/40 Incremental $ Billions	60/40 % Return	PBGC Actual Return[1]	60/40 Incremental $ Billions	60/40 % Return	PBGC Actual Return[1]
9/30/2013	$6.9	10.7%	2.5%	$ 0.1	9.2%	8.9%
9/30/2014	$4.1	13.3%	8.0%	$10.9	11.4%	7.9%

[1] PBGC Actual Return is the PBGC's Total Fund Composite return including transition accounts. If transition accounts were excluded, the Total Fund Composite returns are 8.0% and 8.0% on an annualized basis for the one and five year periods ending September 30, 2014, respectively.

PBGC MANAGEMENT ASSURANCES AND INTERNAL CONTROLS PROGRAM

The PBGC's Internal Controls Program is designed to support compliance with the Federal Managers' Financial Integrity Act (FMFIA) and Office of Management and Budget (OMB) Circular A-123 requirements. The Internal Controls Program and the other related activities described below undergird PBGC's FMFIA Assurance Statement. For FY 2014, PBGC provided a qualified Statement of Assurance due to two material weaknesses relating to a) System Security and IT Operational Effectiveness, and b) Operational Audit Processes and Records Management.

FMFIA ASSURANCE STATEMENT PROCESS

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

INTERNAL CONTROL COMMITTEE

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

DOCUMENTATION AND TESTING OF CONTROLS

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

Financial Reporting Controls: The PBGC has identified 12 major business process cycles which have a significant impact on the PBGC's financial reporting processes: Benefit Payments, Benefit Determinations, Budget, Financial Reporting, Human Resources/Payroll, Investments, Losses on Completed and Probable Terminations, Non-Recoverable Future Financial Assistance, Payables, Premiums, Single-Employer Contingent Liability, and Present Value of Future Benefits. As of the end of FY 2014, PBGC had identified 147 key controls over financial reporting for testing within these major business cycles. Employees responsible for performance of these controls maintained logs documenting control execution, and provided quarterly representations regarding the performance of those controls.

Entity-Wide Controls: These controls are overarching controls which support the overall effectiveness of PBGC's internal control environment. As of the end of FY 2014, PBGC had identified 46 key entity-wide controls for testing within the following six components of its internal control environment: control environment, risk assessment, control activities, information and communication, monitoring, and anti-fraud.

Information Technology Controls: In order to protect the confidentiality, integrity, and availability of PBGC information systems and the information processed, stored, and transmitted by those systems, PBGC implements the controls required by National Institute of Standards and Technology Special Publication No. 800-53 Revision No. 3 (NIST 800-53), Recommended Security Controls for Federal Information Systems and Organizations. During FY 2014, PBGC performed testing of 165 controls relating to Trust Accounting System and 99 controls relating to Consolidated Financial System, both of which support the activities of the Financial Operations Department.

ASSESSMENT OF IMPROPER PAYMENT RISK

Based on the requirements of OMB Circular A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments and related improper payment legislation, PBGC performed risk assessments of two payment streams for FY 2014: 1) payments made to eligible multiemployer pension plans receiving financial assistance from PBGC, and 2) payments to federal employees. Please refer to the Improper Payment Assessment section of this report for additional information.

AUDIT COORDINATION AND FOLLOW-UP PROGRAM

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

COMPLIANCE WITH LAWS, REGULATIONS, AND OTHER REQUIREMENTS

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

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT STATEMENT OF ASSURANCE

PBGC's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). In accordance with OMB Circular A-123, Management's Responsibility for Internal Control, the agency conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations (FMFIA Section 2) and conformance with financial management system requirements (FMFIA Section 4). Based on the results of this evaluation for the period ending September 30, 2014, PBGC is providing a qualified statement of assurance that the agency met all the objectives of FMFIA. The results of that assessment provided reasonable assurance that, except for the two noted material weaknesses discussed below, PBGC's internal control over the effectiveness and efficiency of operations and compliance with laws and regulations was operating effectively. Further, the assessment did not identify any non-conformances with financial management system requirements.

In addition, PBGC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. The results of our assessment provide a basis for a qualified statement of assurance. The results provide reasonable assurance that internal controls over financial reporting were operating effectively, except for the two noted material weaknesses discussed below.

SUMMARY OF THE MATERIAL WEAKNESS RELATING TO SYSTEM SECURITY AND IT OPERATIONAL EFFECTIVENESS AND CORRECTIVE ACTION PLANS

PBGC continues to address the material weakness relating to System Security and IT Operational Effectiveness which was first reported for FY 2009. PBGC has combined the issues raised as part of the two IT-related material weaknesses identified by CLA: Entity-wide Security Program Planning and Management, and Access Controls and Configuration Management into this single material weakness for FMFIA presentation purposes.

After being appointed in March 2013, PBGC's Chief Information Officer published a new IT Strategic Plan on December 31, 2013. It prioritizes IT security and addresses the material weakness as PBGC's number one IT priority. Other FY 2014 accomplishments of the Office of Information Technology (OIT) include:

- OIT completed corrective actions on, as part of this annual audit cycle, twelve OIG audit recommendations that were directly related to this material weakness;
- IT Infrastructure Operations Department (ITIOD) successfully completed a Security Assessment & Authorization (SA&A) for PBGC's General Support System to retain its Authority to Operate (ATO);
- PBGC signed on as an adopter of Department of Homeland Security's Continuous Diagnostics and Mitigation (CDM) Program designed to fill gaps of monitoring tools and dashboards to federal agencies;

- Worked to implement Department of Justice's Cyber Security Assessment and Management tool for automation of system inventory, security documentation, controls management, and plan of action and milestone tracking including a management dashboard; and
- Continued to develop and improve IT security procedures and ensure that appropriate monitoring is in place, especially in regard to incident response and remediation processes.

In addition, late in FY 2014, PBGC welcomed a new Chief Information Security Officer (CISO) who has an established track record and successfully led efforts that resulted in the removal of an information technology security-related material weakness at a Cabinet-level agency. Leading the Enterprise Cybersecurity Division (ECD), the CISO is directly accountable to the Chief Information Officer. A comprehensive analysis of ECD activities is underway to identify how to improve the structure and alignment of IT security efforts at PBGC. An IT Security Tiger Team has been established to ensure that IT security practice are appropriately implemented and applied throughout the agency.

SUMMARY OF MATERIAL WEAKNESS RELATED TO OPERATIONAL AUDIT PROCESSES AND RECORDS MANAGEMENT

Corrective actions continue regarding this material weakness which was first reported in FY 2011. It relates to the need to improve audits of plan assets and plan participant databases, the acquisition, storage and retention of records, and the oversight of work performed by contractors working in support of the Benefits Administration and Payment Department (BAPD). BAPD is working to transform its operations as part of its ongoing Strategic Review. Implementing the recommendations resulting from this review is a multi-year effort and remains a top priority for PBGC. The following highlights specific accomplishments for FY 2014:

- Gained closure of an OIG audit recommendation regarding updating the BAPD Operations Manual to formally document procedures for the archiving of source document records;
- Fully-staffed its Asset Evaluation Division with 20 employees that have the qualifications necessary to perform plan assets audits in a timely and professional manner; and
- Continued to strengthen audit and actuarial staff training; for instance, BAPD held workshops and training sessions on the performance of plan asset audits, participant data and source document reviews. In addition, specialized training on the identification of fiduciary breaches and the form and structure of limited partnerships was also offered.

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, 2014, and 2013, 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.

PBGC management believes the financial statements of the Single-Employer and Multiemployer Program Funds present fairly the financial position of PBGC as September 30, 2014, and September 30, 2013, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and actuarial standards applied on a consistent basis. As noted in the FMFIA Statement of Assurance above, except for two material weaknesses: a) system security and IT operational effectiveness, and b) benefits administration audit processes and records management, PBGC's accounting systems and internal controls comply with the provisions of FMFIA. In addition, PBGC has sufficient compensating controls in place to ensure the reliability of the Corporation's financial statements and its notes.

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 U.S. 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 CliftonLarsonAllen LLP to conduct the audit of the Corporation's fiscal years 2014 and 2013 financial statements, and CliftonLarsonAllen LLP issued an unmodifed opinion on those financial statements.

Alice Maroni
Acting Director

Patricia Kelly
Chief Financial Officer

November 14, 2014

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF FINANCIAL POSITION

(Dollars in Millions)	Single-Employer Program September 30, 2014	2013	Multiemployer Program September 30, 2014	2013	Memorandum Total September 30, 2014	2013
ASSETS						
Cash and cash equivalents	**$4,507**	$ 4,303	**$9**	$ 74	**$4,516**	$ 4,377
Securities lending collateral (Notes 3 and 5)	**2,868**	3,322	**-**	-	**2,868**	3,322
Investments, at market (Notes 3 and 5):						
Fixed maturity securities	**49,203**	47,196	**1,685**	1,632	**50,888**	48,828
Equity securities	**23,049**	22,317	**-**	-	**23,049**	22,317
Private equity	**1,077**	1,228	**-**	-	**1,077**	1,228
Real estate and real estate investment trusts	**2,931**	2,373	**-**	-	**2,931**	2,373
Other	**30**	28	**-**	-	**30**	28
Total investments	**76,290**	73,142	**1,685**	1,632	**77,975**	74,774
Receivables, net:						
Sponsors of terminated plans	**66**	60	**-**	-	**66**	60
Premiums (Note 11)	**2,761**	1,036	**65**	1	**2,826**	1,037
Sale of securities	**973**	601	**-**	-	**973**	601
Derivative contracts (Note 4)	**78**	276	**-**	-	**78**	276
Investment income	**418**	436	**7**	9	**425**	445
Other	**10**	4	**0**	0	**10**	4
Total receivables	**4,306**	2,413	**72**	10	**4,378**	2,423
Capitalized assets, net	**42**	47	**3**	3	**45**	50
Total assets	**$88,013**	$83,227	**$1,769**	$1,719	**$89,782**	$84,946

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

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF FINANCIAL POSITION

(Dollars in Millions)	Single-Employer Program September 30, **2014**	2013	Multiemployer Program September 30, **2014**	2013	Memorandum Total September 30, **2014**	2013
LIABILITIES						
Present value of future benefits, net (Note 6):						
Trusteed plans	**$102,065**	$ 103,125	**$0**	$0	**$102,065**	$ 103,125
Plans pending termination and trusteeship	**246**	1,091	**-**	-	**246**	1,091
Settlements and judgments	**62**	57	**-**	-	**62**	57
Claims for probable terminations	**401**	745	**-**	-	**401**	745
Total present value of future benefits, net	**102,774**	105,018	**0**	0	**102,774**	105,018
Present value of nonrecoverable future financial assistance (Note 7)						
Insolvent plans	**-**	-	**1,506**	1,352	**1,506**	1,352
Probable insolvent plans	**-**	-	**42,684**	8,579	**42,684**	8,579
Total present value of nonrecoverable future financial assistance	**-**	-	**44,190**	9,931	**44,190**	9,931
Payables, net:						
Derivative contracts (Note 4)	**114**	210	**-**	-	**114**	210
Due for purchases of securities	**1,422**	1,608	**-**	-	**1,422**	1,608
Payable upon return of securities loaned	**2,868**	3,322	**-**	-	**2,868**	3,322
Unearned premiums	**94**	377	**7**	42	**101**	419
Accounts payable and accrued expenses (Note 8)	**79**	73	**6**	4	**85**	77
Total payables	**4,577**	5,590	**13**	46	**4,590**	5,636
Total liabilities	**107,351**	110,608	**44,203**	9,977	**151,554**	120,585
Net position	**(19,338)**	(27,381)	**(42,434)**	(8,258)	**(61,772)**	(35,639)
Total liabilities and net position	**$88,013**	$ 83,227	**$1,769**	$1,719	**$89,782**	$ 84,946

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

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	For the Years Ended September 30,		For the Years Ended September 30,		For the Years Ended September 30,	
(Dollars in Millions)	**2014**	2013	**2014**	2013	**2014**	2013
UNDERWRITING						
Income:						
Premium, net (Note 11)	**$3,812**	$ 2,943	**$122**	$ 110	**$3,934**	$ 3,053
Other	**22**	38	**-**	0	**22**	38
Total	**3,834**	2,981	**122**	110	**3,956**	3,091
Expenses:						
Administrative	**368**	346	**18**	25	**386**	371
Other	**17**	5	**-**	0	**17**	5
Total	**385**	351	**18**	25	**403**	376
Other underwriting activity:						
Losses (credits) from completed and probable terminations (Note 12)	**(115)**	468	**-**	-	**(115)**	468
Losses from insolvent and probable plans-financial assistance (Note 7)			**34,260**	2,969	**34,260**	2,969
Actuarial adjustments (credits) (Note 6)	**(535)**	(401)	**60**	(5)	**(475)**	(406)
Total	**(650)**	67	**34,320**	2,964	**33,670**	3,031
Underwriting gain (loss)	**4,099**	2,563	**(34,216)**	(2,879)	**(30,117)**	(316)
FINANCIAL:						
Investment income (loss) (Note 13):						
Fixed	**3,206**	(1,629)	**75**	(96)	**3,281**	(1,725)
Equity	**2,511**	4,157	**-**	0	**2,511**	4,157
Private equity	**358**	272	**-**	0	**358**	272
Real estate	**343**	(70)	**-**	0	**343**	(70)
Other	**21**	11	**-**	0	**21**	11
Total	**6,439**	2,741	**75**	(96)	**6,514**	2,645
Expenses:						
Investment	**96**	88	**-**	0	**96**	88
Actuarial charges (Note 6):						
Due to expected interest	**3,339**	3,388	**47**	44	**3,386**	3,432
Due to change in interest factors	**(940)**	67	**(12)**	2	**(952)**	69
Total	**2,495**	3,543	**35**	46	**2,530**	3,589
Financial gain (loss)	**3,944**	(802)	**40**	(142)	**3,984**	(944)
Net income (loss)	**8,043**	1,761	**(34,176)**	(3,021)	**(26,133)**	(1,260)
Net position, beginning of year	**(27,381)**	(29,142)	**(8,258)**	(5,237)	**(35,639)**	(34,379)
Net position, end of year	**$ (19,338)**	$ (27,381)	**$ (42,434)**	$ (8,258)	**$ (61,772)**	$ (35,639)

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

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF CASH FLOWS

(Dollars in millions)	Single-Employer Program For the Years Ended September 30, 2014	2013	Multiemployer Program For the Years Ended September 30, 2014	2013	Memorandum Total For the Years Ended September 30, 2014	2013
OPERATING ACTIVITIES:						
Premium receipts	**$ 1,799**	$ 3,042	**$ 24**	$ 121	**$ 1,823**	$ 3,163
Interest and dividends received	**2,250**	2,310	**60**	61	**2,310**	2,371
Cash received from plans upon trusteeship	**62**	24	**0**	0	**62**	24
Receipts from sponsors/non-sponsors	**94**	(1)	**0**	0	**94**	(1)
Receipts from the missing participant program	**4**	7	**0**	0	**4**	7
Other receipts	**1**	0	**0**	0	**1**	0
Benefit payments – trusteed plans	**(5,477)**	(5,374)	**0**	0	**(5,477)**	(5,374)
Financial assistance payments			**(97)**	(89)	**(97)**	(89)
Settlements and judgments	**(1)**	0	**0**	0	**(1)**	0
Payments for administrative and other expenses	**(423)**	(418)	**(25)**	(27)	**(448)**	(445)
Accrued interest paid on securities purchased	**(262)**	(276)	**(7)**	(6)	**(269)**	(282)
Net cash provided (used) by operating activities (Note 15)	**(1,953)**	(686)	**(45)**	60	**(1,998)**	(626)
INVESTING ACTIVITIES:						
Proceeds from sales of investments	**75,338**	88,821	**2,894**	1,398	**78,232**	90,219
Payments for purchases of investments	**(73,181)**	(87,614)	**(2,914)**	(1,409)	**(76,095)**	(89,023)
Net change in investment of securities lending collateral	**(454)**	(103)	**0**	0	**(454)**	(103)
Net change in securities lending payable	**454**	103	**0**	0	**454**	103
Net cash provided (used) by investing activities	**2,157**	1,207	**(20)**	(11)	**2,137**	1,196
Net increase (decrease) in cash and cash equivalents	**204**	521	**(65)**	49	**139**	570
Cash and cash equivalents, beginning of year	**4,303**	3,782	**74**	25	**4,377**	3,807
Cash and cash equivalents, end of year	**$ 4,507**	$ 4,303	**$ 9**	$ 74	**$ 4,516**	$ 4,377

The above cash flows are for trusteed plans and do not include non-trusteed plans.
The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

September 30, 2014 and 2013

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 by ERISA, as that act has been amended over the years. The Corporation insures the pension benefits, within statutory limits, of participants in covered single-employer and multiemployer defined benefit pension plans.

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

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

As of September 30, 2014, the single-employer and multiemployer programs reported net positions of $(19,338) million and $(42,434) million, respectively. The single-employer program had assets of $88,013 million offset by total liabilities of $107,351 million, which include a total present value of future benefits (PVFB) of about $102,774 million. As of September 30, 2014, the multiemployer program had assets of $1,769 million offset by $44,190 million in present value of nonrecoverable future financial assistance. Notwithstanding these deficits, the Corporation has sufficient liquidity to meet its obligations (liabilities) for a significant number of years; however, neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants.

PBGC's $82,916 million of total investments (including cash and investment income receivable) represents the largest component of PBGC's Statements of Financial Position combined assets of $89,782 million at September 30, 2014. This amount of $82,916 million (as compared to investments under management of $81,538 million, as reported on page 34) reflects the fact that PBGC experiences a recurring inflow of trusteed plan assets that have not yet been incorporated into the PBGC investment program. For total investments (i.e., not the investment program), cash and fixed-income securities ($55,826 million) represent 67 percent of the total investments, while equity securities ($23,052 million) represent 28 percent of total investments. Private market assets, real estate, and other investments ($4,038 million), represent 5 percent of the total investments.

SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAM EXPOSURE

PBGC's estimate of the total underfunding in single-employer plans was $167,113 million for those sponsored by companies with credit ratings below investment grade and that PBGC classified as reasonably possible of termination as of September 30, 2014. The comparable estimates for FY 2013 and FY 2012 were $292,207 million and $294,963 million, respectively. These estimates are measured as of December 31 of the previous year (see Note 9). For FY 2014, this exposure is concentrated in the following sectors: manufacturing (primarily automobile/auto parts and fabricated metals), transportation (primarily airlines), services, and wholesale and retail trade.

PBGC estimates that, as of September 30, 2014, it is reasonably possible that multiemployer plans may require future financial assistance in the amount of $17,236 million (see Note 9). The comparable estimates for FY 2013 and FY 2012 were $36,718 million and $26,809 million, respectively. The decrease in FY 2014 was primarily due to the movement of two large multiemployer plans from the reasonably possible list to the probables list.

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

PBGC's sources of information on plan underfunding are the most recent Section 4010 and PBGC premium filings, and other submissions to the Corporation. PBGC publishes Table S-49, "Various Measures of Underfunding in PBGC-Insured Plans," in its *Pension Insurance Data Tables* where the limitations of the estimates are fully and appropriately described.

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

Under the multiemployer program, if a plan becomes insolvent, it receives financial assistance from PBGC to allow the plan to continue to pay participants their guaranteed benefits. PBGC recognizes assistance as a loss to the extent that the plan is not expected to be able to repay these amounts from future plan contributions, employer withdrawal liability or investment earnings. Since multiemployer plans do not receive PBGC assistance until fully insolvent, financial assistance is almost never repaid; for this reason such assistance is fully reserved.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

RECENT ACCOUNTING DEVELOPMENTS

In December 2011, the FASB issued Update No. 2011-11, Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities, that requires new disclosures about offsetting of financial instruments that are subject to enforceable master netting agreements or similar agreements or offset in the balance sheet under existing accounting guidance. In January 2013, the FASB issued Update No. 2013-01, Balance Sheet (Topic 210, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities), clarifying that the scope of this guidance is limited to derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions. PBGC has adopted this guidance effective the first quarter of fiscal year 2014. The application of this guidance only affects the disclosures of these instruments and has been applied retrospectively for all periods presented. See Note 3 for further discussion of disclosures about offsetting assets and liabilities.

VALUATION METHOD

A primary objective of PBGC's financial statements is to provide information that is useful in assessing PBGC's present and future ability to ensure that its plan beneficiaries receive benefits when due. Accordingly, PBGC values its financial assets at estimated fair value, consistent with the standards for pension plans contained in the FASB Accounting Standards Codification Section 960, *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 market-based (fair value) annuity prices from insurance companies, as described in the Statement of Actuarial Opinion. As described in Section 960, the assumptions are "those assumptions that are inherent in the estimated cost at the (valuation) date to obtain a contract with an insurance company to provide participants with their accumulated plan benefits." Also, in accordance with Section 960, PBGC selects assumptions for expected retirement ages and the cost of administrative expenses in accordance with its best estimate of anticipated experience.

The FASB Accounting Standards Codification Section 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value in U.S. GAAP, and expands disclosures about fair value measurements. Section 820 applies to accounting pronouncements that require or permit fair value measurements.

REVOLVING AND TRUST FUNDS

PBGC accounts for its single-employer and multiemployer programs' revolving and trust funds on an accrual basis. Each fund is charged its portion of the benefits paid each year. PBGC includes totals for both the revolving and trust funds for presentation purposes in the financial statements; however, the single-employer and multiemployer programs are separate programs by law and, therefore, PBGC also reports them separately.

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

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

The trust funds reflect accounting activity associated with:

1) Trusteed plans — plans for which PBGC has legal responsibility — the assets and liabilities are reflected separately on PBGC's Statements of Financial Position, the income and expenses are included in the Statements of Operations and Changes in Net Position, and the cash flows from these plans are included in the Statements of Cash Flows.

2) Plans pending termination and trusteeship — plans for which PBGC has begun the process for termination and trusteeship by fiscal year-end — the assets and liabilities for these plans are reported as a net amount on the liability side of the Statements of Financial Position under "Present value of future benefits, net." For these plans, the income and expenses are included in the Statements of Operations and Changes in Net Position, but the cash flows are not included in the Statements of Cash Flows.

3) Probable terminations — plans that PBGC determines are likely to terminate and be trusteed by PBGC — the assets and liabilities for these plans are reported as a net amount on the liability side of the Statements of Financial Position under "Present value of future benefits, net." The accrued loss from these plans is included in the Statements of Operations and Changes in Net Position as part of "Losses from completed and probable terminations." The cash flows from these plans are not included in the Statements of Cash Flows. PBGC cannot exercise legal control over a plan's assets until it becomes trustee.

ALLOCATION OF REVOLVING AND TRUST FUNDS

PBGC allocates assets, liabilities, income and expenses to the single-employer and multiemployer programs' 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 number of ongoing plans. Revolving fund assets and liabilities are allocated according to 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. Cash equivalents are investments with original maturities of one business day and highly liquid investments that are readily convertible into cash within one business day.

SECURITIES LENDING COLLATERAL

PBGC participates in a securities lending program administered by its custodian bank. The custodian bank requires collateral that equals 102 percent to 105 percent of the securities lent. The collateral is held by the custodian bank. The custodian bank either receives cash or non-cash as collateral or returns collateral to cover mark-to-market changes. Any cash collateral received is invested by PBGC's investment agent. In addition to the lending program managed by the custodian bank, some of PBGC's investment managers are authorized to invest in securities purchased under resale agreements (an agreement with a commitment by the seller to buy a security back from the purchaser at a specified price at a designated future date), and securities sold under repurchase agreements.

INVESTMENT VALUATION AND INCOME

PBGC bases market values on the last sale of a listed security, on the mean of the "bid-and-ask" for nonlisted securities, or on a valuation model in the case of fixed income securities that are not actively traded. These valuations are determined as of the end of each fiscal year. Purchases and sales of securities are recorded on the trade date. In addition, PBGC invests in and discloses its derivative investments in accordance with the guidance contained in the FASB Accounting Standards Codification Section 815, *Derivatives and Hedging*. 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 weighted average cost for the trust fund. PBGC marks the plan's assets to market and any increase or decrease in the market value of a plan's assets occurring after the date on which the plan is terminated must, by law, be credited to or suffered by PBGC.

SECURITIES PURCHASED UNDER REPURCHASE AGREEMENTS

PBGC's investment managers purchase securities under repurchase agreements whereby the seller will buy the security back at a pre-agreed price and date. Those greater than one day are reported under "Fixed maturity securities" as "Securities purchased under repurchase agreements" in the Note 3 table entitled "Investments of Single-Employer Revolving Funds and Single-Employer Trusteed Plans," on page 61. Repurchase agreements that mature in one day are included in "Cash and cash equivalents" which are reported on the Statements of Financial Position (see page 47). Refer to Note 3 for further information regarding repurchase agreements.

SPONSORS OF TERMINATED PLANS

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

PREMIUMS

Premiums receivable represent the plan reported premiums owed, and the PBGC estimated amounts not yet due or submitted 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 annual premium fees which have been received in advance of the period in which they will be earned by PBGC. They remain as liabilities until such time as they are ratably earned over the period of time to which the premium applies. "Premium income, net" represents actual and estimated revenue generated from defined benefit pension plan premium filings as required by Title IV of ERISA less bad debt expense for premiums, interest, and penalties (see Note 11).

Recently, PBGC determined that certain Puerto Rico plans were not covered under Title IV of ERISA and partially refunded premiums paid by those plans. These non-coverage determinations were fact-based, case specific, and legally complex (for example, factual and legal factors include: the type of election under ERISA § 1022(i), the plan's trust situs, the existence of a trust substitute like a Group Annuity Contract, and the residency of plan participants). Because of the factual and legal complexity, PBGC cannot reasonably estimate the amount of potential Puerto Rican plan premium refunds before completing its coverage determinations. In addition, even if PBGC determines that a Puerto Rico plan does not satisfy the factual and legal criteria for Title IV coverage, the plan may elect to be covered.

CAPITALIZED ASSETS

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

PRESENT VALUE OF FUTURE BENEFITS (PVFB)

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

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

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

(2) Pending Termination and Trusteeship – represents the present value of future benefit payments less the plans' net assets (at fair value) anticipated to be received and the present value of expected recoveries (for which a settlement agreement has not been reached with sponsors and members of their controlled group)

for plans for which termination action has been initiated and/or completed prior to fiscal year-end. Unlike trusteed plans, the liability for plans pending termination and trusteeship is shown net of plan assets.

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

(4) Net Claims for Probable Terminations – In accordance with the FASB Accounting Standards Codification Section 450, *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 members of their controlled group) for plans that are likely to terminate in the future. Under a specific identification process, PBGC evaluates each controlled group having $50 million or more of underfunding and recognizes a contingent loss for the estimated net claim of those plans meeting the probable termination criteria. 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 single-employer plan as a probable termination include, but are not limited to, one or more of the following conditions: the plan sponsor is in liquidation or comparable state insolvency proceeding with no known solvent controlled group member; sponsor has filed or intends to file for distress plan termination and the criteria will likely be met; or PBGC is considering the plan for involuntary termination. In addition, management takes into account other economic events and factors in making judgments regarding the classification of a plan as a probable termination. These events and factors may include, but are not limited to: the plan sponsor is in bankruptcy or has indicated that a bankruptcy filing is imminent; the plan sponsor has stated that plan termination is likely; the plan sponsor has received a going concern opinion from its independent auditors; or the plan sponsor is in default under existing credit agreement(s).

In addition, a reserve for small unidentified probable losses is recorded for the estimated future contingent losses stemming from insured single-employer plans with an aggregate underfunding of less than $50 million. The reserve is based on the historic three-year rolling average of actual plan terminations (with an aggregate underfunding of less than $50 million) and indexed to the S&P 500 to reflect changes in economic conditions. (See Note 6 for further information on Net Claims for Probable Terminations).

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

(6) In accordance with the FASB Accounting Standards Codification Section 450, PBGC's exposure to losses from plans of companies that are classified as reasonably possible is disclosed in the footnotes. In order for a plan sponsor to be specifically classified as reasonably possible, it must first have $50 million or more of underfunding, as well as meet additional criteria. Criteria used for classifying a company as reasonably possible include, but are not limited to, one or more of the following conditions: the plan sponsor is in Chapter 11 reorganization; funding waiver pending or outstanding with the Internal Revenue Service; sponsor missed minimum funding contribution; sponsor's bond rating is below-investment-grade for Standard & Poor's (BB+) or Moody's (Ba1); or sponsor has no bond rating but the Dun & Bradstreet Financial Stress Score is below the threshold considered to be investment grade (see Note 9).

PRESENT VALUE OF NONRECOVERABLE FUTURE FINANCIAL ASSISTANCE

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

The present value of nonrecoverable future financial assistance represents the estimated nonrecoverable payments to be provided by PBGC in the future to multiemployer plans that will not be able to meet their benefit obligations. The present value of nonrecoverable future financial assistance is based on the difference between the present value of future guaranteed benefits and expenses and the market value of plan assets, including the present value of future amounts expected to be paid by employers, for those plans that are expected to require future assistance. The amount reflects the rates at which, in the opinion of management, these liabilities (net of expenses) could be settled in the market for single-premium nonparticipating group annuities issued by private insurers (see Note 7).

A liability for a particular plan is included in the "Present Value of Nonrecoverable Future Financial Assistance" when it is determined that the plan is currently, or will likely become in the future, insolvent and will require assistance to pay the participants their guaranteed benefit. In accordance with the FASB Accounting Standards Codification Section 450, *Contingencies*, PBGC recognizes net claims for probable insolvencies for plans that are likely to become insolvent and may require future financial assistance. Projecting a future insolvency requires considering several complex factors, such as an estimate of future cash flows, future mortality rates, and age of participants not in pay status.

Each year, PBGC analyzes insured multiemployer plans to identify those plans that are at risk of becoming claims on the insurance program. Regulatory filings with PBGC and the other ERISA agencies are important to this analysis and determination of risk. In general, if a terminated plan's assets are less than the present value of its liabilities, PBGC considers the plan a probable risk of requiring financial assistance in the future.

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

PBGC utilizes specific criteria for insolvent (PBGC's insurable event for multiemployer plans), probable, and reasonably possible classification of multiemployer plans. The criteria are as follows:

- Any multiemployer plans currently receiving financial assistance are classified as insolvent.
- Terminated, underfunded multiemployer plans (i.e., "wasting trusts") are classified as probable.
- Ongoing multiemployer plans projected to become insolvent:
    - within ten years are classified as probable,
    - from ten to twenty years are classified as reasonably possible.

In general, the date of insolvency is estimated by projecting plan cash flows using PBGC's actuarial assumptions for terminated plans, but also considered are projections based on other assumptions, such as those used by the plan actuary.

PBGC periodically reviews important accounting policies. Given the complexities and changes in the economy and in multiemployer plans in recent years, PBGC decided to re-examine the policy and procedures used to quantify the level of liability under the multiemployer guarantee program, to determine whether any changes should be made. After a review that involved a national independent financial advisory firm and included many possible alternatives, PBGC decided to enhance the existing methodology for determining the probable liability for ongoing plans by dividing the plans into segments based on the number of plan participants with different processes by plan size. See Note 7 for further methodology details. PBGC will continue to review multiemployer policy and procedures in the future.

The present value of nonrecoverable future financial assistance is presented in the Liability section of the Statements of Financial Position (see Note 7).

SECURITIES SOLD UNDER RESALE AGREEMENTS

PBGC's investment managers no longer sell securities under resale agreements whereby PBGC's investment managers would buy the security back at a pre-agreed price and date.

ADMINISTRATIVE EXPENSES

These operating expenses (for either the single-employer or multiemployer insurance programs) are amounts paid and accrued for services rendered or while carrying out other activities that constitute PBGC's ongoing operations, e.g., payroll, contractual services, office space, materials and supplies, etc. An expense allocation methodology is used to fully capture the administrative expenses attributable to either the single-employer or multiemployer insurance programs. All indirect administrative expenses associated with the single-employer and multiemployer programs are being allocated using the number of ongoing plans in each program.

OTHER EXPENSES

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

LOSSES FROM COMPLETED AND PROBABLE TERMINATIONS

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

ACTUARIAL ADJUSTMENTS AND CHARGES (CREDITS)

PBGC classifies actuarial adjustments related to insurance based changes in method and the effect of experience as underwriting activity; actuarial adjustments are the result of the movement of plans from one valuation methodology to another, e.g., nonseriatim (calculating the liability for the group) to seriatim (calculating separate liability for each person), and of new updated data (e.g., deaths, revised participant data). Actuarial charges (credits) are related to changes in interest factors and expected interest is classified as financial activity. These adjustments and charges (credits) represent the change in the PVFB that results from applying actuarial assumptions in the calculation of future benefit liabilities (see Note 6).

DEPRECIATION AND AMORTIZATION

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

NOTE 3: INVESTMENTS

Premium receipts are invested through the revolving fund in U.S. Treasury securities. The trust funds include assets PBGC assumes or expects to assume with respect to terminated plans (e.g., recoveries from sponsors) and investment income thereon. These assets generally are held by custodian banks. The basis and market value of the investments by type are detailed below as well as related investment profile data. The basis indicated is cost of the asset if assumed after the date of plan termination or the market value at date of plan termination if the asset was assumed as a result of a plan's termination. PBGC marks the plan's assets to market and any increase or decrease in the market value of a plan's assets occurring after the date on which the plan is terminated must, by law, be credited to or suffered by PBGC. Investment securities denominated in foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income, and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions. The portfolio does not isolate that portion of the results of operations resulting from changes in foreign exchange rates of investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss on investments. For PBGC's securities, unrealized holding gains and losses are both recognized by including them in earnings. Unrealized holding gains and losses measure the total change in fair value – consisting of unpaid interest income earned or unpaid accrued dividend and the remaining change in fair value from holding the security.

To Be Announced (TBA) and Bond Forward transactions are recorded as regular buys and sells of investments and not as derivatives. TBA is a contract for the purchase or sale of mortgage-backed securities to be delivered on a future date. The term TBA is derived from the fact that the actual mortgage-backed security that will be delivered to fulfill a TBA trade is not designated at the time the trade is made. The securities are to be announced 48 hours prior to the established trade settlement date. TBAs are issued by FHLMC, FNMA, and GNMA. In accordance with FASB Accounting Standards Codification Section 815, *Derivatives and Hedging*, TBA and Bond Forward contracts are deemed regular way trades as they are completed within the time frame generally established by regulations and conventions in the market place or by the exchange on which they are executed. Thus, recording of TBA and Bond Forward contracts recognizes the acquisition or disposition of the securities at the full contract amounts on day one of the trade.

Bond forwards and TBAs are reported to "Receivables, net – Sale of securities" and "Due for purchases of securities" from derivative contracts receivables and payables. As of September 30, 2014, TBA receivables were approximately $179 million and no Bond Forward receivables were reported. In addition, as of September 30, 2014, TBA payables were approximately $481 million and no Bond Forward payables were reported.

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

	September 30, 2014			September 30, 2013	
(Dollars in millions)	**Basis**	**Market Value**		Basis	Market Value
Fixed maturity securities:					
U.S. Government securities	**$20,827**	**$21,404**		$22,141	$22,132
Commercial paper/securities purchased under repurchase agreements	**22**	**22**		54	54
Asset backed securities	**2,992**	**3,038**		2,937	2,999
Pooled funds					
Domestic	**1,140**	**1,011**		1,239	1,131
International	**1,144**	**1,221**		495	503
Global/other	**0**	**0**		0	0
Corporate bonds and other	**10,504**	**11,118**		9,840	10,309
International securities	**11,330**	**11,389**		10,211	10,068
Subtotal	**47,959**	**49,203**		46,917	47,196
Equity securities:					
Domestic	**1,877**	**2,468**		2,168	2,719
International	**779**	**787**		1,291	1,469
Pooled funds					
Domestic	**7,743**	**9,052**		5,519	8,740
International	**6,618**	**10,741**		5,731	9,389
Global/other	**1**	**1**		0 *	0 *
Subtotal	**17,018**	**23,049**		14,709	22,317
Private equity	**1,317**	**1,077**		1,355	1,228
Real estate and real estate investment trusts	**2,740**	**2,931**		2,364	2,373
Insurance contracts and other investments	**32**	**30**		35	28
Total**	**$69,066**	**$76,290**	*****	$65,380	$73,142

* Less than $500,000

** Total includes securities on loan at September 30, 2014, and September 30, 2013, with a market value of $3,281 million and $4,230 million, respectively.

*** This total of $76,290 million of investments at market value represents the single-employer assets only.

INVESTMENTS OF MULTIEMPLOYER REVOLVING FUNDS AND MULTIEMPLOYER TRUSTEED PLANS

	September 30, 2014		September 30, 2013	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	**$1,643**	**$1,685**	$1,626	$1,632
Equity securities	**0**	**0**	0	0
Total	**$1,643**	**$1,685**	$1,626	$1,632

INVESTMENT PROFILE

	September 30, 2014	2013
Fixed Income Assets		
Average Quality	**AA**	AA
Average Maturity (years)	**12.0**	13.3
Duration (years)	**7.9**	8.5
Yield to Maturity (%)	**3.2**	3.4
Equity Assets		
Average Price/Earnings Ratio	**20.6**	20.1
Dividend Yield (%)	**2.5**	2.6
Beta	**1.01**	1.06

DERIVATIVE INSTRUMENTS

PBGC assigns investment discretion and grants specific authority to all of its investment managers to invest according to specific portfolio investment guidelines PBGC has established. PBGC further limits the use of derivatives by investment managers through tailored provisions in the investment guidelines with investment managers consistent with PBGC's investment policy statement and overall risk tolerance. These investment managers, who act as fiduciaries to PBGC, determine when it may or may not be appropriate to utilize derivatives in the portfolio(s) for which they are responsible. Investments in derivatives carry many of the same risks of the underlying instruments and carry additional risks that are not associated with direct investments in the securities underlying the derivatives.

Risks may arise from the potential inability to terminate or sell derivative positions, although derivative instruments are generally more liquid than physical market instruments. A liquid secondary market may not always exist for certain derivative positions. Over-the-counter derivative instruments also involve counterparty risk that the other party to the derivative instrument will not meet its obligations.

The use of derivatives by PBGC investment managers is restricted in-so-far as portfolios cannot utilize derivatives to create leverage in the portfolios for which they are responsible. Thus, the portfolios shall not utilize derivatives to leverage the portfolio beyond the maximum risk level associated with a fully invested portfolio of physical securities.

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

During fiscal years 2014 and 2013, PBGC, through its investment managers, invested in investment products that used various U.S. and non-U.S. derivative instruments. Those products included, but are not limited to: index futures, options, money market futures, government bond futures, interest rate, credit default and total return swaps and swaption (an option on a swap) contracts, stock warrants and rights, debt option contracts, and foreign currency forward and option contracts. Some of these derivatives are traded on organized exchanges and thus bear minimal counterparty risk. The counterparties to PBGC's non-exchange-traded derivative contracts are major financial institutions subject to ISDA (International Swaps and Derivatives Association, Inc.) master agreements. PBGC monitors PBGC's counterparty risk and exchanges collateral under most contracts to further support performance by counterparties. Some of PBGC's non-exchange traded derivative contracts are centrally cleared through a CFTC-recognized clearinghouse and the required margin (collateral) is maintained by the clearinghouse to support the performance by counterparties, which are members of the clearinghouse. A clearinghouse reduces the settlement risks by netting offsetting transactions between multiple counterparties, by requiring higher levels of collateral deposits or margin requirements compared to bilateral arrangements. Settlement risks are reduced also by the clearinghouse providing independent valuation of trades and margin, monitoring the credit worthiness of the clearing firms, and providing a guarantee fund, which could be used to cover losses that exceed a defaulting clearing firm's margin on deposit.

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

PBGC also invests in forward contracts. A forward foreign currency contract is a commitment to purchase or sell a foreign currency at the settlement date (in the future) at a negotiated rate. Foreign currency forward, futures, and option contracts may be used as a substitute for cash currency holdings. This is in order to minimize currency risk exposure to changes in foreign currency exchange rates and to adjust overall currency exposure to reflect the investment views of the fixed income and equity portfolio managers regarding relationships between currencies.

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

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

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

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

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

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

For the fiscal years ended September 30, 2014 and 2013, gains and losses from settled margin calls are reported in Investment income on the Statements of Operations and Changes in Net Position. Securities and cash are pledged as collateral for derivative contracts (e.g., futures and swaps) are recorded as a receivable or payable.

Pursuant to the provisions of the FASB Accounting Standards Codification Section 815, *Derivatives and Hedging*, this standard requires the disclosure of fair values of derivative instruments and their gains and losses in its financial statements of both the derivative positions existing at period end and the effect of using derivatives during the reporting period.

The following three key tables present PBGC's use of derivative instruments and its impact on PBGC's financial statements:

- Fair Values of Derivative Instruments – Identifies the location of derivative fair market values (FMV) on the Statements of Financial Position, as well as the notional amounts (See page 65).
- Offsetting of Derivative Assets – Presents the impact of legally enforceable master netting agreements on derivative assets (See page 66).
- Offsetting of Derivative Liabilities – Presents the impact of legally enforceable master netting agreements on derivative liabilities (See page 67).

FAIR VALUES OF DERIVATIVE INSTRUMENTS

	Asset Derivative					
	September 30, 2014			September 30, 2013		
(Dollars in millions)	Statements of Financial Position Location	Notional	FMV	Statements of Financial Position Location	Notional	FMV
Futures	Derivative Contracts	**$2,242**	**$5**	Derivative Contracts	$1,859	$17
Swap contracts						
Interest rate swaps	Investments-Fixed	**2,533**	**23**	Investments-Fixed	6,536	19
Other derivative swaps	Investments-Fixed	**1,515**	**5**	Investments-Fixed	1,702	(6)
Option contracts	Investments-Fixed	**42**	**4**	Investments-Fixed	46	1
Forwards - foreign exchange	Investments-Fixed	**10,384**	**106**	Investments-Fixed	8,759	(65)
	Investments-Equity	**0**	**0**	Investments-Equity	0	0

	Liability Derivative					
	September 30, 2014			September 30, 2013		
(Dollars in millions)	Statements of Financial Position Location	Notional	FMV	Statements of Financial Position Location	Notional	FMV
Futures	Derivative Contracts	**$2,599**	**$ (12)**	Derivative Contracts	$2,016	$ (13)
Option contracts	Derivative Contracts	**686**	**(11)**	Derivative Contracts	107	0 *

* Less than $500,000

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

PBGC utilizes a net presentation on the Statements of Financial Position for those derivative financial instruments entered into with counterparties under legally enforceable master netting agreements. Derivative receivables and derivative payables are netted on the Statements of Financial Position with the same counterparty and the related cash collateral receivables and payables when a legally enforceable master netting agreement exists (i.e., for over-the-counter derivatives). Master netting agreements are used to mitigate counterparty credit risk in certain transactions, including derivatives transactions, repurchase agreements and reverse repurchase agreements. The master netting agreement also may require the exchange of cash or marketable securities to collateralize either party's net position. Any cash collateral exchanged with counterparties under these master netting agreements is also netted against the applicable derivative fair values on the Statements of Financial Position.

OFFSETTING OF DERIVATIVE ASSETS FAIR VALUE

(Dollars in millions)	September 30, 2014 Gross Amount of Recognized Assets	September 30, 2014 Gross Amounts Offset in Statements of Financial Position	September 30, 2014 Net Amounts of Assets Presented in Statements of Financial Position	September 30, 2013 Gross Amount of Recognized Assets	September 30, 2013 Gross Amounts Offset in Statements of Financial Position	September 30, 2013 Net Amounts of Assets Presented in Statements of Financial Position
Derivatives						
Interest-rate contracts	$ 51	$ (28)	$ 23	$ 39	$ (20)	$ 19
Foreign exchange contracts	114	(8)	106	4	(4)	0
Other derivative contracts[1]	16	(11)	5	17	(17)	0
Cash collateral nettings	0	(36)	(36)	0	0	0
Total Derivatives	$ 181	$ (83)	$ 98	$ 60	$ (41)	$ 19
Other financial instruments[2]						
Repurchase agreements	$ 189	$ 0	$ 189	$ 19	$ 0	$ 19
Securities lending collateral	2,868	0	2,868	3,322	0	3,322
Total derivatives and other financial instruments	$ 3,238	$ (83)	$ 3,155	$ 3,401	$ (41)	$ 3,360

(Dollars in millions)	September 30, 2014 Gross Amounts Not Offset in Statements of Financial Position			September 30, 2013 Gross Amounts Not Offset in Statements of Financial Position		
	Net Amount of Assets Presented in Statements of Financial Position	Collateral Received	Net Amount	Net Amount of Assets Presented in Statements of Financial Position	Collateral Received	Net Amount
Repurchase agreements	189	0	189	19	0	19
Security lending collateral	2,868	(2,868)	0	3,322	(3,322)	0
Total	$ 3,057	$ (2,868)	$ 189	$ 3,341	$ (3,322)	$ 19

(1) Other derivative contracts include total return swaps, currency swaps, and credit default swaps.

(2) Under subheading "Other financial instruments", repurchase agreements and securities lending collateral are presented on a gross basis within the table and on the Statements of Financial Position.

OFFSETTING OF DERIVATIVE LIABILITIES FAIR VALUE

	September 30, 2014			September 30, 2013		
(Dollars in millions)	**Gross Amount of Recognized Liabilities**	**Gross Amounts Offset in Statements of Financial Position**	**Net Amounts of Assets Presented in Statements of Financial Position**	Gross Amount of Recognized Liabilities	Gross Amounts Offset in Statements of Financial Position	Net Amounts of Assets Presented in Statements of Financial Position
Derivatives						
Interest-rate contracts	**$ 28**	**$ (28)**	**$ 0**	$ 20	$ (20)	$ 0
Foreign exchange contracts	**8**	**(8)**	**0**	69	(4)	65
Other derivative contracts[1]	**11**	**(11)**	**0**	23	(17)	6
Cash collateral nettings	**0**	**0**	**0**	0	(8)	(8)
Total Derivatives	**$ 47**	**$ (47)**	**$ 0**	$ 112	$ (49)	$ 63
Other financial instruments[2]						
Resale agreements	**$ 0**	**$ 0**	**$ 0**	$ 0	$ 0	$ 0
Securities lending collateral	**2,868**	**0**	**2,868**	3,322	0	3,322
Total derivatives and other financial instruments	**$ 2,915**	**$ (47)**	**$ 2,868**	$ 3,434	$ (49)	$ 3,385

	September 30, 2014 — Gross Amounts Not Offset in Statements of Financial Position			September 30, 2013 — Gross Amounts Not Offset in Statements of Financial Position		
(Dollars in millions)	**Net Amount of Liabilities Presented in Statements of Financial Position**	**Collateral Received**	**Net Amount**	Net Amount of Liabilities Presented in Statements of Financial Position	Collateral Received	Net Amount
Resale agreements	**0**	**0**	**0**	0	0	0
Security lending collateral	**2,868**	**(2,868)**	**0**	3,322	(3,322)	0
Total	**$ 2,868**	**$ (2,868)**	**$ 0**	$ 3,322	$ (3,322)	$ 0

(1) Other derivative contracts include total return swaps, currency swaps, and credit default swaps.
(2) Under subheading "Other financial instruments", repurchase agreements and securities lending collateral are presented on a gross basis within the table and on the Statements of Financial Position.

The following table identifies the location of derivative gains and losses on the Statements of Operations and Changes in Net Position as of September 30, 2014, and September 30, 2013.

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

(Dollars in millions)	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives **Sept. 30, 2014**	Sept. 30, 2013
Futures			
Contracts in a receivable position	Investment Income-Fixed	**($41)**	($142)
Contracts in a receivable position	Investment Income-Equity	**0**	0
Contracts in a payable position	Investment Income-Fixed	**104**	75
Contracts in a payable position	Investment Income-Equity	**0**	0
Swap agreements			
Interest rate swaps	Investment Income-Fixed	**15**	36
Other derivative swaps	Investment Income-Fixed	**28**	(16)
Option contracts			
Options purchased (long)	Investment Income-Fixed	**0** *	17
Options purchased (long)	Investment Income-Equity	**0**	0
Options written (sold short)	Investment Income-Fixed	**3**	(7)
Options written (sold short)	Investment Income-Equity	**0**	0
Forward contracts			
Forwards - foreign exchange	Investment Income-Fixed	**225**	(94)
	Investment Income-Equity	**0** *	0

* Less than $500,000

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

SECURITIES LENDING

PBGC participates in a securities lending program administered by its custodian bank. The custodian bank requires initial collateral that equals 102 percent to 105 percent of the securities lent. The collateral is held by the custodian bank or its agent. The custodian bank either receives cash or non-cash as collateral or returns collateral to cover mark-to-market changes. Any cash collateral received is invested by PBGC's investment agent. In addition to the lending program managed by the custodian bank, some of PBGC's investment managers are authorized to invest in securities purchased under resale agreements (an agreement with a commitment by the seller to buy a security back from the purchaser at a specified price at a designated future date), and securities sold under repurchase agreements.

The total value of securities on loan at September 30, 2014, and September 30, 2013, was $3,281 million and $4,230 million, respectively. The total amount of securities available for loan were $26,719 million as of September 30, 2014 and $26,311 million as of September 30, 2013. The ratio of the market value of the securities on loan and the market value of the lendable securities is the utilization rate which declined year over year, moving from 16.1% in September 30, 2013 to 12.3% in September 30, 2014.

U.S. Corporate Bonds and Equity securities represent the largest portion of PBGC's assets on loan on September 30, 2014; of the $3,281 million market value of securities on loan, approximately 50 percent are U.S. Corporate Bonds and Equity securities. The 2014 year-end lendable balance for U.S. Corporate Bonds and Equity securities was approximately $16,373 million or 61 percent of PBGC's overall lendable securities balance; while the September 30, 2013 balance for U.S. Corporate Bonds and Equity securities was approximately $14,331 million or 54 percent of PBGC's overall lendable security balance. Utilization of U.S. Corporate Bonds and Equity securities decreased year over year from 11% to 10%. The reduction in the utilization level is driven by a decrease in demand for Corporate Bond and Equity borrowing secured by cash collateral or non-equity non-cash collateral. Borrowers would increasingly prefer to pledge equities as non-cash collateral when they borrow Corporate Bond and Equity securities, but the PBGC's agent lender does not accept equities as collateral per PBGC's direction. Utilization declined as a result of this constraint.

U.S. Government securities continue to represent a large portion of PBGC's assets on loan; of the $3,281 million market value of securities on loan at September 30, 2014, approximately 45 percent are lent U.S. Government securities. The 2014 year-end lendable balance for U.S. Government securities was approximately $5,005 million or 19 percent of PBGC's overall lendable securities balance; while the September 30, 2013 balance for U.S. Government securities was approximately $6,151 million or 23 percent of PBGC's overall lendable security balance. Utilization of U.S. Government securities decreased year over year from 39% to 29%. The decline in on-loan balances is associated with updated regulatory requirements that are limiting the size of broker's (the borrowing party in a securities loan) balance sheets, therefore, reducing their need for borrowed securities.

The amount of cash collateral received for these loaned securities was $2,868 million at September 30, 2014, and $3,322 million at September 30, 2013. These amounts are recorded as assets and are offset with a corresponding liability. For lending agreements collateralized by securities, no accompanying asset or liability is recorded, as PBGC does not sell or re-pledge the associated collateral. For those securities lending activities that PBGC directs through its custodian manager, the corporation chooses to invest proceeds from securities lending in the Quality A cash collateral pool. PBGC earned $15 million from its agency securities lending programs as of September 30, 2014. Also contributing to PBGC's securities lending income is its participation in certain pooled index funds. Net income from securities lending is included in "Investment income – Fixed" on the Statements of Operations and Changes in Net Position.

PBGC does not have the right by contract or custom to sell or re-pledge non-cash collateral and therefore is not reported on the Statements of Financial Position. Non-cash collateral, which consists of highly rated debt instruments, remains at significant levels.

REPURCHASE AGREEMENTS

PBGC's repurchase agreements entitle and obligate us to repurchase or redeem the same or substantially the same securities that were previously transferred as collateralized securities. In addition, its repurchase agreements require us to redeem the collateralized securities, before maturity at a fixed determinable price.

As of September 30, 2014, PBGC had $189 million in Repurchase Agreements. This amount represents maturities of one day and is reported as an asset and included in the "Cash and cash equivalents" balance. There was no associated liability for these secured borrowings reported as "Securities sold under repurchase agreements." PBGC has no restrictions placed on the cash received for all of its outstanding repurchase agreements as of September 30, 2014.

NOTE 4: DERIVATIVE CONTRACTS

PBGC's derivative financial instruments are recorded at fair value and are included on the Statements of Financial Position as investments and derivative contracts. Foreign exchange forwards are included in "Fixed maturity securities." Swaps are netted for the individual contracts as "Receivables, net – Derivative contracts" and "Derivative contracts" (liabilities). Bond forwards and TBAs are reclassified as "Receivables, net – Sale of securities" and "Due for purchases of securities" from derivative contracts receivables and payables. The amounts subject to credit risk related to derivative instruments are generally limited to the amounts, if any, by which the counterparty's obligations exceed our obligations with that counterparty. PBGC considers this risk remote and does not expect the settlement of these transactions to have a material effect in our Statements of Operations or Changes in Net Position and Statements of Financial Position.

Amounts in the table below represent the derivative contracts in a receivable position at financial statement date. Collateral deposits of $59 million, which represent cash paid as collateral on certain derivative contracts, are shown below.

DERIVATIVE CONTRACTS

(Dollars in millions)	**September 30, 2014**	September 30, 2013
Open receivable trades on derivatives:		
Collateral deposits	**$59** (1)	$103 (2)
Futures contracts	**5**	16
Interest rate swaps	**0** *	77
Other derivative swaps	**14**	80
Total	**$78**	$276

* Less than $500,000

(1) For fiscal year 2014, the collateral deposits receivable for the derivative contracts include counterparty netting where a legally enforceable master netting agreement exists. Collateral deposits receivable of $59 million are the result of $64 million gross collateral deposits payable less $5 million collateral deposits payable from derivative counterparties.

(2) For the fiscal year ended September 30, 2013, for all non-exchange traded derivatives, derivative cash collateral receivables and derivative cash collateral payables for swap agreements and foreign exchange forward contracts were presented on a gross basis. This resulted in an immaterial decrease to Open receivable trades on derivatives-Collateral deposits of $18 million and a corresponding decrease to Open payable trades on derivatives-Collateral deposits of $18 million from what was previously reported in the FY 2013 Statements of Financial Position. These changes have no impact on the FY 2013 net position. Beginning with fiscal year 2014, derivative cash collateral receivables and derivative cash collateral payables are netted with the same counterparty when a legally enforceable master netting agreement exists (i.e., over-the-counter derivatives, swap agreements, and foreign exchange forward contracts).

Amounts in the Derivative Contracts table below represent derivative contracts in a payable position at financial statement date which PBGC reflects as a liability. Collateral deposits of $80 million, which represent cash received as collateral on certain derivative contracts, are included.

DERIVATIVE CONTRACTS

(Dollars in millions)	**September 30, 2014**	September 30, 2013
Open payable trades on derivatives:		
Collateral deposits	**$80** [1]	$51 [2]
Futures contracts	**12**	13
Interest rate swaps	**(1)**	66
Other derivative swaps	**12**	80
Options-fixed income	**11**	0 *
Total	**$114**	$210

* Less than $500,000

[1] For fiscal year 2014, the collateral deposits payable for the derivative contracts include counterparty netting where a legally enforceable master netting agreement exists. Collateral deposits payable of $80 million are the result of $85 million gross collateral deposits payable less $5 million collateral deposits receivable from derivative counterparties.

[2] For the fiscal year ended September 30, 2013, for all non-exchange traded derivatives, derivative cash collateral receivables and derivative cash collateral payables for swap agreements and foreign exchange forward contracts were presented on a gross basis. This resulted in an immaterial decrease to Open receivable trades on derivatives-Collateral deposits of $18 million and a corresponding decrease to Open payable trades on derivatives-Collateral deposits of $18 million from what was previously reported in the FY 2013 Statements of Financial Position. These changes have no impact on the FY 2013 net position. Beginning with fiscal year 2014, derivative cash collateral receivables and derivative cash collateral payables are netted with the same counterparty when a legally enforceable master netting agreement exists (i.e., over-the-counter derivatives, swap agreements, and foreign exchange forward contracts).

NOTE 5: FAIR VALUE MEASUREMENTS

Pursuant to the provisions of the FASB Accounting Standards Codification Section 820, *Fair Value Measurements and Disclosures*, the standard provides a consistent definition of fair value and establishes a framework for measuring fair value in accordance with U.S. GAAP. It does not require the measurement of financial assets and liabilities at fair value. The standard is intended to increase consistency and comparability in, and disclosures about, fair value measurements, by giving users better information about how extensively PBGC uses fair value to measure financial assets and liabilities, the inputs PBGC used to develop those measurements and the effect of the measurements, if any, on financial condition, results of operations, liquidity and capital.

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

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

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

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

Level 1 - Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market. PBGC's Level 1 investments primarily included are exchange-traded equity securities and certain U.S. Government securities.

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

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

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

c. Pricing models whose inputs are observable for substantially the full term of the asset or liability – included are insurance contracts and bank loans.

d. Pricing models whose inputs are derived principally from or are corroborated by observable market information through correlation or other means for substantially the full term of the asset or liability.

Level 3 - Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable in the market and significant to the overall fair value measurement. These inputs reflect PBGC's judgment about the assumptions that a market participant would use in pricing the asset or liability, and based on the best available information. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. PBGC includes instruments whose values are based on a single source such as a broker, pricing service, or dealer which cannot be corroborated by recent market transactions. These include fixed maturity securities such as corporate bonds that are comprised of securities that are no longer traded on the active market and/or not managed by any asset manager. Equity securities such as corporate stocks are also included, comprised of securities that are no longer traded on the active market and/or not managed by any asset manager. Real estate funds that invest primarily in U.S. commercial real estate, are valued based on each underlying investment within the fund/account; they incorporate valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information, including comparable transactions, and performance multiples, among other factors.

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

FAIR VALUE MEASUREMENTS ON A RECURRING BASIS AS OF SEPTEMBER 30, 2014

(Dollars in millions)	Quoted Market Prices in Active Markets (Level 1)	Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)	Total Net Carrying Value in Statements of Financial Position
Assets				
Cash and cash equivalents	$ 533	$ 3,983		$ 4,516
Securities lending collateral		2,868		2,868
Investments:				
Fixed maturity securities				
U.S. Government securities		23,089		
Commercial paper/securities purchased under repurchase agreements		22		
Asset backed/Mortgage securities		3,038		
Pooled funds				
Domestic	1	831	179	
International		1,221		
Global/other				
Corporate bonds and other	4	11,114		
International securities	106	11,283	-	
Total fixed maturity securities	111	50,598	179	50,888
Equity securities:				
Domestic	2,402	63	3	
International	781	6	0*	
Pooled funds				
Domestic	14	9,038		
International	1	10,740		
Global/other	1	-	-	
Total equity securities	3,199	19,847	3	23,049
Private equity			1,077	1,077
Real estate and real estate investment trusts	1	2,584	346	2,931
Insurance contracts and other Investments		5	25	30
Receivables:				
Derivative contracts[1]	5	73		78
Liabilities				
Payables:				
Derivative contracts[2]	22	92		114

* Less than $500,000.

[1] Derivative contracts receivables are comprised of open receivable trades on futures, swaps, and collateral deposits. See the Derivative Contracts table under Note 4.

[2] Derivative contracts payables are comprised of open payable trades on futures, swaps, options, and collateral deposits. See the Derivative Contracts table under Note 4.

(1) The amounts for the Receivables: Derivative contracts and Payables: Derivative contracts include counterparty netting of $5 million against Level 2 financial assets and liabilities, where a legally enforceable master netting agreement exists. The Collateral deposits associated with these related open receivables are $59 million ($64 million gross collateral deposits receivable less $5 million collateral deposits payable to derivative counterparties). The Collateral deposits associated with the related open payables are $80 million ($85 million gross collateral deposits payable less $5 million collateral deposits receivable from derivative counterparties).

As of September 30, 2014, there were no significant transfers between Level 1 and Level 2. The end of the reporting period is the date used to recognize transfers between levels.

CHANGES IN LEVEL 3 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS FOR THE YEAR ENDED SEPTEMBER 30, 2014

(Dollars in millions)	Fair Value at September 30, 2013	Total Realized and Unrealized Gains (Losses) included in Income	Purchases	Sales	Transfers Into Level 3	Transfers Out of Level 3	Fair Value at September 30, 2014	Change in Unrealized Gains (Losses) Related to Financial Instruments held at September 30, 2014(2)
Assets:								
Pooled funds (fixed)	$ 232	$(53)					$ 179	$ (54)
Corporate bonds and other *	0	0	0	0			0	0
Domestic/Int'l equity (1)	0*	0*	4	(1)			3	0*
Private equity	1,228	(35)	9	(125)			1,077	(113)
Real estate & real estate investment trusts	459	(104)	10	(19)			346	(114)
Other *	7	(3)	21	0*			25	(1)

* Less than $500,000.

(1) Assets which are not actively traded in the market place.

(2) Amounts included in this column solely represent unrealized gains and losses and cannot be derived from other columns from this table.

Pursuant to FASB Accounting Standards Codification Section 820, *Fair Value Measurements and Disclosures – Investments in Certain Entities That Calculate Net Asset Value per Share;* additional disclosures for Investments priced at Net Asset Value are discussed below.

INVESTMENTS IN CERTAIN ENTITIES THAT CALCULATE NET ASSET VALUE PER SHARE (OR ITS EQUIVALENT) FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Fair Value (in millions)	Unfunded Commitments [1]	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Real estate (a)	$ 2,931	$ 72	n/a	n/a
Private equity (b)	1,077	188	n/a	n/a
Pooled funds (c)	22,026	0	n/a	n/a
Total	$ 26,034	$260		

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

a. This class includes 143 real estate investments that invest primarily in U.S. commercial real estate, and to a lesser extent, U.S. residential real estate. The fair value of each individual investment in this class has been estimated using the net asset value of the PBGC's ownership interest in partners' capital. Generally, these investments do not have redemption provisions. Distributions from each fund will be received as the underlying assets of the fund will be liquidated over the next ten years or so. In addition, distributions will also include any periodic income distributions received. No fund investments in this class are planned to be sold. Individual portfolio investments will be sold over time, however, those have not yet been determined.

b. This class includes 590 private market investments that invest primarily in U.S. buyout and U.S. venture capital funds. A small number of those focus on natural resources. These investments do not have redemption provisions. Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the funds. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over the next twelve years. However, the individual investments that will be sold have not yet been determined. The fair value of each individual investment has been estimated using the net asset value of the PBGC's ownership interest in partners' capital.

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

PBGC uses recent prices of group annuities to derive the interest factors used to calculate the present value of future benefit-payment obligations. PBGC determines the interest-factor set that, when combined with a specified mortality table, produces present values that approximate the prices private insurers would charge to annuitize the same benefit-payment obligations.

Based on this valuation and in accordance with the provisions of the FASB Accounting Standards Codification Section 820, *Fair Value Measurements and Disclosures*, the significant unobservable inputs for the liability is the interest rate risk for Level 3 fair value measurements. A change in interest factors has an impact to the calculation of PBGC's present value of future benefits (PVFB) and the impact will be reflected in the Change due to interest factors. The table below summarizes the hypothetical results of using a 100 basis point difference causing the PVFB liability to increase (decrease) with a corresponding decrease (increase) in the interest rates. Furthermore, any such hypothetical change in the PVFB liability would have a corresponding effect on "Due to change in interest factors" expense.

HYPOTHETICAL AND ACTUAL INTEREST RATE SENSITIVITY CALCULATIONS OF PVFB SINGLE-EMPLOYER TRUSTEED PLANS AND THE MULTIEMPLOYER PROGRAM(1)

September 30, 2014 *(Dollars in millions)*	**Hypothetical Rates 2.35% for 25 years, 2.25% thereafter**	**Actual Rates(2) 3.35% for 25 years, 3.25% thereafter**	**Hypothetical Rates 4.35% for 25 years, 4.25% thereafter**
Single-Employer Program	$113,951	**$102,065**	$92,304
Multiemployer Program	53,597	**44,190**	36,523
Total	$167,548	**$146,255**	$128,827

(1) Level 3 Fair Value Measurements
(2) Actual rates and PVFB amounts calculated for September 30, 2014 quarterly financial statements.

NOTE 6: PRESENT VALUE OF FUTURE BENEFITS

The PVFB is the estimated liability for future pension benefits that PBGC is or will be obligated to pay for trusteed plans and plans pending termination and trusteeship. For financial statement purposes, the net assets of plans pending termination and trusteeship (including estimated recoveries, assets, and miscellaneous liabilities) are included in the line item "Plans Pending Termination and Trusteeship." The estimated losses on probable future plan terminations are also included in the PVFB. The PVFB liability is stated as the actuarial present value of estimated future benefit payments.

For FY 2014, PBGC used a 25 year select interest factor of 3.35% followed by an ultimate factor of 3.25% for as long as benefits are to be paid. In FY 2013, PBGC used a 20-year select interest factor of 3.25% followed by an ultimate factor of 3.32% 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 PBGC's opinion, the liabilities (net of administrative expenses) could be settled in the market at September 30, for the respective year, for single-premium nonparticipating group annuities issued by private insurers. Many factors including Federal Reserve policy, changing expectations about longevity risk, and competitive market conditions may affect these rates.

For FY 2014, PBGC used the Retirement Plan-2000 Combined Healthy (RP-2000 CH) Male and Female Tables, each set back one year and projected 25 years to 2025 using Scale AA. For September 30, 2013, PBGC used the same table, set back one year and projected 24 years to 2024 using Scale AA. The number of years that PBGC projects the mortality table reflects the number of years from the 2000 base year of the table to the end of the fiscal year (14 years in FY 2014, 13 years in FY 2013) plus PBGC's calculated duration of its liabilities (11 years in FY 2014 and FY 2013).

PBGC continues to utilize the results of its 2011 mortality study. The study showed that the mortality assumptions used in FY 2010 reflected higher mortality than was realized in PBGC's seriatim population. Therefore, PBGC adopted a base mortality table (i.e. RP2000 set back one year instead of GAM 94 set forward one year) that better reflects 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 company prices, when combined with the stronger mortality table, results in a higher interest factor.

The expense reserve factor for administrative expenses beginning with the FY 2007 valuation is 1.37 percent plus additional reserves for cases in which plan asset determinations, participant database audits and actuarial valuations were not yet complete. In addition to the completion of these milestones, PBGC continues to base the reserve on case size, number of participants and time since trusteeship.

PBGC has in place a policy that allows the Corporation to not decrease a final benefit determination that is overstated by $5 or less. The effect of this policy is carried through to the calculation of the PVFB liability.

The present values of future benefits for trusteed multiemployer plans for FY 2014 and FY 2013 reflect the payment of benefits and the changes in interest and mortality assumptions, expected interest and the effect of experience.

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

The table on the following page 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, 2014 and for the fiscal year ended September 30, 2013.

RECONCILIATION OF THE PRESENT VALUE OF FUTURE BENEFITS FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	September 30,			
(Dollars in millions)		**2014**		2013
Present value of future benefits, at beginning of year -- Single-Employer, net		**$105,018**		$105,635
Estimated recoveries, prior year		**44**		243
Assets of terminated plans pending trusteeship, net, prior year		**1,517**		271
Present value of future benefits at beginning of year, gross		**106,579**		106,149
Settlements and judgments, prior year		**(57)**		(56)
Net claims for probable terminations, prior year		**(745)**		(2,035)
Actuarial adjustments -- underwriting:				
Changes in method and assumptions	**$ (168)**		$ 332	
Effect of experience	**(368)**		(733)	
Total actuarial adjustments -- underwriting	**(536)**		(401)	
Actuarial charges -- financial:				
Expected interest	**3,339**		3,388	
Change in interest factors	**(940)**		67	
Total actuarial charges -- financial	**2,399**		3,455	
Total actuarial charges, current year		**1,863**		3,054
Terminations:				
Current year	**1,928**		4,246	
Changes in prior year	**(1,453)**		(132)	
Total terminations		**475**		4,114
Benefit payments, current year[1]		**(5,522)**		(5,449)
Estimated recoveries, current year		**(56)**		(44)
Assets of terminated plans pending trusteeship, net, current year		**(226)**		(1,517)
Settlements and judgments, current year		**62**		57
Net claims for probable terminations:				
Future benefits[2]	**759**		1,166	
Estimated plan assets and recoveries from sponsors	**(358)**		(421)	
Total net claims, current year		**401**		745
Present value of future benefits, at end of year -- Single-Employer, net		**102,774**		105,018
Present value of future benefits, at end of year -- Multiemployer		**0***		0*
Total present value of future benefits, at end of year, net		**$102,774**		$105,018

* Less than $500,000 (actual amount is $369,259 and $476,192 for the ten Pre-MPPA trusteed Multiemployer Plans at September 30, 2014 and September 30, 2013, respectively).

(1) The benefit payments of $5,522 million at September 30, 2014, and $5,449 million at September 30, 2013, include $45 million in FY 2014 and $75 million in FY 2013, respectively, for benefits paid from plan assets prior to trusteeship.

(2) The future benefits for probable terminations of $759 million and $1,166 million for the periods ending September 30, 2014, and September 30, 2013, respectively, include $226 million for September 30, 2014 and $394 million for FY 2013 for probable terminations not specifically identified and $533 million and $772 million, respectively, for specifically identified probables.

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

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, 2014		September 30, 2013	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
U.S. Government securities	**$ 0**	**$ 0**	$ 0	$ 0
Corporate and other bonds	**104**	**105**	703	701
Equity securities	**122**	**126**	825	840
Private equity	**0**	**0**	0	0
Insurance contracts	**0 ***	**0 ***	1	1
Other	**(5)**	**(5)**	(52)	(25)
Total, net	**$221**	**$226**	$1,477	$1,517

* Less than $500,000

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. This reserve for small unidentified probable losses is recorded for the estimated future contingent losses stemming from insured single-employer plans with an aggregate underfunding of less than $50 million. The reserve is based on the historic three-year rolling average of actual plan terminations (with an aggregate underfunding of less than $50 million) and indexed to the S&P 500 to reflect changes in economic conditions. The September 30, 2014 Net Claims for Probable Terminations is $401 million, of which $226 million is from the small unidentified probable losses and $175 million is from a specific identification process.

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

RECONCILIATION OF NET CLAIMS FOR PROBABLE TERMINATIONS

	September 30,			
(Dollars in millions)	**2014**		2013	
Net claims for probable terminations, at beginning of year		**$ 745**		$ 2,035
New claims	**$ 175**		$ 352	
Actual terminations	**(351)**		(492)	
Deleted probables	**0**		(1,245)	
Change in benefit liabilities	**(168)**		95	
Change in plan assets	**0**		0	
Loss (credit) on probables		**(344)**		(1,290)
Net claims for probable terminations, at end of year		**$ 401**		$ 745

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

PROBABLES EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	**FY 2014**	FY 2013
Manufacturing	**$ 175**	$ 268
Health Care	**-**	83
Total	**$ 175**	$ 351

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

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

ACTUAL PROBABLES EXPERIENCE

As Initially Recorded Beginning in 1987

(Dollars in millions)	Status of Probables from 1987-2013 at September 30, 2014			
Beginning in 1987, number of plans reported as Probable:	Number of Plans	Percent of Plans	Net Claim	Percent of Net Claim
Probables terminated	369	79%	$29,464	71%
Probables not yet terminated or deleted	0	0	0	0
Probables deleted	101	21	11,974	29
Total	470	100%	$41,438	100%

NOTE 7: MULTIEMPLOYER FINANCIAL ASSISTANCE

PBGC provides financial assistance to multiemployer defined benefit pension plans in the form of loans. Since these loans are not generally repaid, an allowance is set up to the extent that repayment of these loans is not expected.

NOTES RECEIVABLE MULTIEMPLOYER FINANCIAL ASSISTANCE

(Dollars in millions)	**September 30, 2014**	September 30, 2013
Gross balance at beginning of year	**$783**	$694
Financial assistance payments - current year	**97**	89
Write-offs related to settlement agreements	**0**	0
Subtotal	**880**	783
Allowance for uncollectible amounts	**(880)**	(783)
Net balance at end of year	**$ 0**	$ 0

Losses from financial assistance and probable financial assistance are reflected in the Statements of Operations and Changes in Net Position and include period changes in the estimated present value of nonrecoverable future financial assistance. Losses from financial assistance are presented as actuarial charges, credits, and adjustments for plans that are known to be insolvent as of the valuation date and/or have or about to begin receiving financial assistance. In addition, a change in the valuation of the liability due to new data received (e.g., new plan expenses, more recent valuation liabilities, and new withdrawal payment schedules) is included as financial assistance from insolvent and probable plans on the Statements of Operations and Changes in Net Position. This valuation data change is a separate line item from actuarial adjustments and actuarial charges.

To enhance an existing methodology for determining the probable liability, effective with FY 2014, ongoing plans are divided into segments based on the number of plan participants with different processes by plan size. The reserve for small ongoing plan (less than 2,500 participants) probable losses not individually identified uses an aggregate method to estimate liability and exposure, rather than reviewing each plan individually, based on the use of seven years of plan termination history to project the current probable liability. For mid-sized plans (2,500 to 35,000 participants), risk-based rules are applied using a cash-flow model. For large plans (more than 35,000 participants), PBGC identifies ongoing high risk plans for a projection of the date of insolvency to measure the probable liability.

This change in estimate described in the paragraph above applies to FY 2014 and has no effect for FY 2013. Hypothetically, if this change in estimate was not applied to FY 2014, the result would be a decrease to the reserve for medium plans and large plans of approximately $7.8 billion.

As of September 30, 2014, the Corporation expects 144 individually identified multiemployer plans will exhaust plan assets and need financial assistance from PBGC to pay guaranteed benefits and plan administrative expenses. The present value of nonrecoverable future financial assistance for these 144 plans is $44,190 million (inclusive of the reserve for small ongoing plan losses not individually identified). The 144 plans fall into three categories: (1) plans currently receiving financial assistance; (2) plans that have terminated but have not yet started receiving financial assistance from PBGC; and (3) ongoing plans (not terminated) that the Corporation expects will require financial assistance in the future. The latter two categories are comprised of multiemployer probables as defined by the following classification criteria:

- Probable insolvent plan-terminated future probables – A plan that may still have assets but the combination of plan assets and collectible payments of withdrawal liability are projected to be insufficient to cover plan benefits plus expenses.
- Probable insolvent plan-ongoing future probables – An ongoing plan with a projected date of insolvency within 10 years.

MULTIEMPLOYER FINANCIAL ASSISTANCE

(Dollars in millions)	**September 30, 2014** Number of Plans	**September 30, 2014** Net Liability	September 30, 2013 Number of Plans	September 30, 2013 Net Liability
Plans currently receiving financial assistance	**53**	**$1,506**	44	$1,352
Plans that have terminated but have not yet started receiving financial assistance (classified as probable)	**61**	**1,756**	65	1,895
Ongoing plans (not terminated) that the Corporation expects will require financial assistance in the future (classified as probable)	**30** [1]	**40,928** [2]	64	6,684
Total	**144** [1]	**$44,190**	173	$9,931

[1] 44 Plans have been removed from the plan count and replaced with the Small Plan Bulk Reserve (SPBR) which is reflected in the net liability of ongoing plans.

[2] Ongoing plans include a small probable bulk reserve of $1,408 million. The significant increase in ongoing future probables net liability from $6,684 million in FY 2013 to $40,928 million in FY 2014 is mainly due to the addition of two large new probables with a net claim of $26,335 million and 14 additional new individually identified probables with a net claim of $8,987 million.

Of the 144 plans:

1) 53 have exhausted plan assets and are currently receiving financial assistance payments from PBGC. The present value of future financial assistance payments for these insolvent 53 plans is $1,506 million.

2) 61 plans have terminated but have not yet started receiving financial assistance payments from PBGC. Terminated multiemployer plans no longer have employers making regular contributions for covered work, though some plans continue to receive withdrawal liability payments from withdrawn employers. In general, PBGC records a loss for future financial assistance for any underfunded multiemployer plan that has terminated. The present value of future financial assistance payments to these 61 terminated plans is $1,756 million.

3) 30 plans are ongoing (i.e., have not terminated), but PBGC expects they will exhaust plan assets and need financial assistance within 10 years. In this analysis, PBGC takes into account the current plan assets, future income to the plan, the statutory funding rules, and the possibility for future increases in contributions. The present value of future financial assistance payments for these 30 ongoing plans is $40,928 million.

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

(Dollars in millions)	**September 30, 2014**	September 30, 2013
Balance at beginning of year	**$9,931**	$7,010
Changes in allowance:		
Losses from insolvent and probable plans - financial assistance	**34,260**	2,969
Actuarial adjustments	**60**	(5)
Actuarial charges (credits):		
Due to expected interest	**47**	44
Due to change in interest factors	**(11)**	2
Financial assistance granted (previously accrued)	**(97)**	(89)
Balance at end of period	**$44,190**	$9,931

In the table above, actuarial charges are reported separately from Losses from insolvent and probable plans-financial assistance. As a result, the table includes the following new lines: Actuarial adjustments, Due to expected interest, and Due to change in interest factors. Insolvent plans are presented within these three new actuarial charges (credits) lines. Losses from insolvent and probable plans-financial assistance include plans that terminated but have not yet received financial assistance, ongoing plans that PBGC expects will require financial assistance in the future, and those insolvent plans that have a change in liability due to new plan data included in the valuation.

NOTE 8: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

(Dollars in millions)	**September 30, 2014**	September 30, 2013
Annual leave	**$9**	$ 9
Other payables and accrued expenses	**76**	68
Accounts payable and accrued expenses	**$85**	$ 77

NOTE 9: REASONABLY POSSIBLE CONTINGENCIES

SINGLE-EMPLOYER PLANS

Single-employer plans sponsored by companies whose credit quality is below investment grade pose a greater risk of being terminated. The estimated unfunded vested benefits exposure amounts disclosed below represent PBGC's estimates of the reasonably possible exposure to loss given the inherent uncertainties about these plans. In rare circumstances for certain large companies, the reasonably possible exposure calculation reflects the estimated unfunded guaranteed benefit determination rather than the estimated unfunded vested benefit determination.

In accordance with the FASB Accounting Standards Codification Section 450, *Contingencies*, PBGC classified a number of these companies who sponsor plans with total unfunded vested benefits of $50 million or greater as reasonably possible rather than probable terminations, reflecting the sponsors' financial condition and other factors did not indicate that termination of their plans was likely. This classification was done based upon information about the companies as of September 30, 2014. PBGC criteria for a single-employer plan sponsor to be classified as Reasonably Possible are:

a. The sponsor(s) or significant member(s) of its controlled group (e.g., a parent or major subsidiary) is in reorganization under Title 11 of the United States code.

b. An application for a funding waiver is pending or outstanding with the IRS.

c. A minimum funding contribution has been missed.

d. The sponsor(s) has an S&P senior unsecured credit rating or an issuer credit rating less two notches of BB+ or below, or a Moody's senior unsecured credit rating or a corporate family rating less one notch of Ba1 or below. If the controlled group is not rated by Moody's and S&P, PBGC will use the Dun & Bradstreet Financial Stress Score (if available) to classify the controlled group as Reasonably Possible or Remote.

e. The sponsor(s) has no bond rating, but analysis indicates that its unsecured debt would be below investment grade.

f. The sponsor(s) meet at least one of the PBGC "high risk" criteria.

g. Other (detailed explanation must be provided and be approved by PBGC's Contingency Working Group).

Effective with FY 2014, the reserve for the small unidentified reasonably possible exposure (companies who sponsor plans with less than $50 million in unfunded vested benefits) is calculated using an aggregate method to estimate liability and exposure, rather than reviewing each company individually. Hypothetically, if this change was not applied to FY 2014, the result would be a decrease to the reasonably possible exposure of approximately $9 billion.

The estimate of the reasonably possible exposure was measured as of December 31, 2013. The reasonably possible exposure to loss was $167,113 million for FY 2014. This is a significant decrease of $125,094 million from the reasonably possible exposure of $292,207 million in FY 2013. This decrease is primarily due to a decline in the aggregate liability for plans classified as reasonably possible.

Except in the rare circumstances as indicated earlier in this footnote, the estimate of unfunded vested benefits exposure to loss is not generally based on PBGC-guaranteed benefit levels, since data is not available to determine an estimate at this level of precision. PBGC calculated this estimate, as in previous years, by using the most recent data available from filings and submissions to us for plan years ended on or after December 31, 2012. PBGC adjusted the value reported for liabilities to December 31, 2013, using a select rate of 3.44% for the first 20 years and 3.65% thereafter and applying the expense load as defined in 29 CFR Part 4044, Appendix C. The rates were derived in conjunction with the 1994 Group Annuity Mortality Static Table (with margins) projected to 2023 using Scale AA to approximate annuity prices as of December 31, 2013. The underfunding associated with these plans could be substantially different at September 30, 2014, because of the economic conditions that changed between December 31, 2013 and September 30, 2014. PBGC did not adjust the estimate for events that occurred between December 31, 2013, and September 30, 2014.

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

REASONABLY POSSIBLE EXPOSURE TO LOSS BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	**FY 2014**	FY 2013
Manufacturing *	**$84,020**	$150,564
Transportation, Communication and Utilities **	**45,545**	67,419
Services	**19,805**	34,740
Wholesale and Retail Trade	**8,371**	16,721
Health Care	**4,517**	9,576
Finance, Insurance, and Real Estate	**2,741**	8,495
Agriculture, Mining, and Construction	**2,114**	4,692
Total	**$167,113**	$292,207

* Primarily automobile/auto parts and fabricated metals

** Primarily airline

MULTIEMPLOYER PLANS

There are some multiemployer plans that may require future financial assistance. PBGC included amounts in the liability for the present value of nonrecoverable future financial assistance (see Note 7) for multiemployer plans that PBGC estimated may require future financial assistance. In addition, PBGC estimated as of September 30, 2014, that it is reasonably possible that other multiemployer plans may require future financial assistance in the amount of $17,236 million.

PBGC calculated the future financial assistance liability for each multiemployer plan identified as probable (see Note 7), or reasonably possible. PBGC used a formula taking the present value of guaranteed future benefits and expense payments net of any future contributions or withdrawal liability payments. These amounts were as of the later of September 30, 2014, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2014. PBGC's identification of plans that are likely to require such assistance and estimation of related amounts required consideration of many complex factors, including estimating 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 PBGC's control. Reasonably possible multiemployer classification is defined as an ongoing plan with a projected insolvency date between 10 and 20 years from the valuation date.

To enhance an existing methodology for determining the probable liability, effective with FY 2014, ongoing plans are divided into segments based on the number of plan participants with different processes by plan size (see Note 7). The reserve for small unidentified probable losses (less than 2,500 participants) uses an aggregate method to estimate liability and exposure, rather than reviewing each plan individually, based on the use of seven years of plan termination history to project the current probable liability. The reasonably possible exposure is derived from the total exposure for high risk plans by subtracting the probable liability for small plans. For mid-sized plans (2,500 to 35,000 participants), risk-based rules are applied using a cash-flow model. For large plans (more than 35,000 participants), PBGC identifies ongoing high risk plans for a projection of the date of insolvency to measure the reasonably possible exposure.

This change described in the paragraph above applies to FY 2014. Hypothetically, if this change was not applied to FY 2014, the result would be an increase to the reasonably possible exposure for medium plans and large plans of approximately $7.6 billion.

NOTE 10: COMMITMENTS

PBGC leases its office facility under a commitment that began on January 1, 2005, and expires December 10, 2019. This lease provides for periodic rate increases based on increases in operating costs and real estate taxes over a base amount. In addition, PBGC is leasing space for field benefit administrators. These leases began in 1996 and expire in 2019. The minimum future lease payments for office facilities having noncancellable terms in excess of one year as of September 30, 2014, are:

COMMITMENTS: FUTURE LEASE PAYMENTS

(Dollars in millions) Years Ending	Operating
2015	$ 20.1
2016	19.9
2017	19.8
2018	19.0
2019	5.2
Minimum lease payments	$84.0

Lease expenses were $19.7 million in FY 2014 and $19.4 million in FY 2013.

NOTE 11: PREMIUMS

For both the single-employer and multiemployer programs, ERISA provides that PBGC shall continue to guarantee basic benefits despite the failure of a plan administrator to pay premiums when due. PBGC assesses interest and penalties on the unpaid portion of or underpayment of premiums. Interest continues to accrue until the premium and the interest due are paid. See Note 2, *Premiums* for PBGC's premium revenue accounting policy. For plan year 2014, the flat-rate premium for single-employer pension plans was $49 per participant and for multiemployer plans, $12 per participant. For plan years 2013 and 2012, the flat-rate premiums for single-employer pension plans were $42 and $35, respectively, per participant and for multiemployer plans, $12 and $9, respectively, per participant. The variable-rate premium for single-employer plans was $9 per $1,000 of unfunded vested benefits for plan years 2012 and 2013, and $14 for plan years 2014.

Net premium income for FY 2014 was $3,934 million and consisted of $2,439 million in variable-rate premiums, $1,501 million in flat-rate premiums, a credit to bad debt expense of $24 million, and $3 million interest and penalty income, offset by $(33) million in termination premiums (primarily due to the revenue adjustment reducing termination premiums by $48 million relating to the removal of one large single-employer plan from termination inventory). Bad debt expenses include a reserve for uncollectible premium receivables (including flat, variable, and termination premiums), interest, and penalties.

Net premium income for FY 2013 was $3,053 million and consisted of about $1,580 million in variable-rate premiums, $1,385 million in flat-rate premiums, $177 million in termination premiums, and $5 million interest and penalty income, offset by a bad debt expense of $94 million. The termination premium applies to certain plan terminations occurring after 2005. If a pension plan terminates in a distress termination pursuant to ERISA section 4041(c)(2)(B)(ii) or (iii), or in a PBGC-initiated termination under ERISA section 4042, the plan sponsor and its controlled group are liable to PBGC for a termination premium at the rate of $1,250 per plan participant per year for three years.

Illustrated in the table below, on a plan year basis, is the flat-rate and variable-rate premium information for the single-employer and multiemployer programs:

	Single-Employer Plans			Multiemployer Plans
	Flat-Rate Premium	Variable-Rate Premium		
Plan Years Beginning on or after January 1	Rate Per Participant	Rate per $1,000 UVBs	Per Participant Cap	Flat-Rate Premium Rate Per Participant
2014	$49	$14	$412	$12
2013	$42	$ 9	$400	$12
2012	$35	$ 9	N/A	$ 9

Based on Executive Order 13563, "Improving Regulation and Regulatory Review," PBGC moved the flat-rate premium due date for large plans to the same date as the variable-rate premium due date for such plans starting with the 2014 plan year. The due date change of 7.5 months will result in a one-time shift of the premium payment cash collections of large plans between the old and new premium filing due dates. This will cause an increase in the related premium receivables for the current accounting period and thereafter.

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

Net Premiums Receivable

(Dollars in Million)	Single-Employer Sept. 30, 2014	Single-Employer Sept. 30, 2013	Multiemployer Sept. 30, 2014	Multiemployer Sept. 30, 2013	Memorandum Sept. 30, 2014	Memorandum Sept. 30, 2013
Premiums Not Yet Due:						
Estimated Flat-Rate Premiums	**$882**	$26	**$60**	$0 *	**$942**	$26
Estimated Variable-Rate Premiums	**1,723**	947	**0**	0 *	**1,723**	947
Total Net Premiums Not Yet Due	**2,605**	973	**60**	0 *	**2,665**	973
Premiums Past Due:						
Flat-Rate Premiums	**86**	6	**6**	1	**92**	7
Allowance for Bad Debt-Flat-Rate	**(10)**	(1)	**(1)**	0 *	**(11)**	(1)
Variable-Rate Premiums	**74**	49	**0**	0	**74**	49
Allowance for Bad Debt-Variable-Rat	**(9)**	(7)	**0**	0	**(9)**	(7)
Total Net Premiums Past Due	**141**	47	**5**	1	**146**	48
Termination Premiums:[1]						
Termination Premiums	**227**	265	**0**	0	**227**	265
Allowance for Bad Debt-Termination	**(213)**	(251)	**0**	0	**(213)**	(251)
	14	14	**0**	0	**14**	14
Interest and Penalty:						
Interest and Penalty Due	**2**	3	**0 ***	0 *	**2**	3
Allowance for Bad Debt-Interest	**(1)**	(1)	**0 ***	0 *	**(1)**	(1)
Total Net Interest and Penalty Due	**1**	2	**0 ***	0 *	**1**	2
Grand Total Net Premiums Receivable	**$2,761**	$1,036	**$65**	$1	**$2,826**	$1,037

* Less than $500,000

(1) All termination premiums are due from plan sponsors who are either in distress or under Chapter 11 reorganization. In these cases, PBGC files claims in accordance with bankruptcy law along with all other creditors and is entitled only to a pro-rata share of any remaining assets. Depending on the circumstances of the bankruptcy proceedings, it can be years before PBGC receives its pro-rata distribution from the bankruptcy estate. In most cases, PBGC ultimately receives either nothing or only a very small fraction of its total claims files.

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

PREMIUM INCOME

(Dollars in millions)	September 30, 2014	September 30, 2013
Flat-Rate Premium:		
Single-Employer	**$1,378**	$1,274
Multiemployer	**123**	111
Total Flat-Rate Premium	**1,501**	1,385
Variable-Rate Premium	**2,439**	1,580
Interest and Penalty Income	**3**	5
Termination Premium	**(33)**	177
Less Changes in the Allowance Reserve for Bad Debts for Interest, Penalties, and Premiums	**24**	(94)
Total	**$3,934**	$3,053
Single-Employer	**$3,820**	$2,859
Termination Premium	**(33)**	177
Less Changes in the Allowance Reserve for Bad Debts for Interest, Penalties, and Premiums	**25**	(93)
Total Single-Employer	**3,812**	2,943
Multiemployer	**123**	111
Less Changes in the Allowance Reserve for Bad Debts for Interest and Penalties	**(1)**	(1)
Total Multiemployer	**122**	110
Total	**$3,934**	$3,053

NOTE 12: LOSSES FROM COMPLETED AND PROBABLE TERMINATIONS

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

LOSSES FROM COMPLETED AND PROBABLE TERMINATIONS SINGLE-EMPLOYER PROGRAM

	For the Years Ended September 30,					
		2014			2013	
(Dollars in millions)	**New Terminations**	**Changes in Prior Years Terminations[5]**	**Total**	New Terminations	Changes in Prior Year Terminations	Total
Present value of future benefits	**$1,928**	**$(1,453)**	**$ 475**	$4,246	$ (132)	$ 4,114
Less plan assets	**993**	**(748)**	**245**	2,367	87	2,454
Plan asset insufficiency	**935**	**(705)**	**230**	1,879	(219)	1,660
Less estimated recoveries	**0**	**7**	**7**	0	(98)	(98)
Subtotal	**935[1]**	**(712)**	**223**	1,879[1]	(121)	1,758
Settlements and judgments		**6**	**6**		0*	0*
Loss (credit) on probables	**(351)[2]**	**7[3]**	**(344)[4]**	(492)[2]	(798)[3]	(1,290)[4]
Total	**$ 584**	**$ (699)**	**$(115)**	$1,387	$ (919)	$ 468

* Less than $500,000

[1] Gross amounts for plans terminated during the period, including plans previously recorded as probables.

[2] Net claims for plans previously recorded as probables that terminated.

[3] Includes changes to old and new probables.

[4] See Note 6 - includes $351 million at September 30, 2014, and $492 million at September 30, 2013, previously recorded relating to plans that terminated during the period ("Actual terminations").

[5] Changes in prior years' terminations result from revaluations of DOPT assets (e.g., as identified in the plan asset reconciliation process), changes in plan recoveries at DOPT (e.g., from an estimated recovery amount to an expected recovery amount), and changes in DOPT PVFB (e.g., new liability data) for plans with termination dates prior to the current fiscal year in which they were added to PBGC's inventory of terminated plans.

NOTE 13: FINANCIAL INCOME

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

INVESTMENT INCOME SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS

(Dollars in millions)	**Single-Employer Program Sept. 30, 2014**	**Multiemployer Program Sept. 30, 2014**	**Memorandum Total Sept. 30, 2014**	Single-Employer Program Sept. 30, 2013	Multiemployer Program Sept. 30, 2013	Memorandum Total Sept. 30, 2013
Fixed maturity securities:						
Interest earned	**$1,733**	**$39**	**$1,772**	$1,781	$40	$1,821
Realized gain (loss)	**790**	**(1)**	**789**	859	58	917
Unrealized gain (loss)	**683**	**37**	**720**	(4,269)	(194)	(4,463)
Total fixed maturity securities	**3,206**	**75**	**3,281**	(1,629)	(96)	(1,725)
Equity securities:						
Dividends earned	**100**	**0**	**100**	84	0	84
Realized gain (loss)	**3,979**	**0**	**3,979**	2,476	0	2,476
Unrealized gain (loss)	**(1,568)**	**0**	**(1,568)**	1,597	0	1,597
Total equity securities	**2,511**	**0**	**2,511**	4,157	0	4,157
Private equity:						
Distributions earned	**7**	**0**	**7**	24	0	24
Realized gain (loss)	**465**	**0**	**465**	315	0	315
Unrealized gain (loss)	**(114)**	**0**	**(114)**	(67)	0	(67)
Total private equity	**358**	**0**	**358**	272	0	272
Real estate:						
Distributions earned	**1**	**0**	**1**	0	0	0
Realized gain (loss)	**159**	**0**	**159**	(12)	0	(12)
Unrealized gain (loss)	**183**	**0**	**183**	(58)	0	(58)
Total real estate	**343**	**0**	**343**	(70)	0	(70)
Other income:						
Distributions earned	**10**	**0**	**10**	3	0	3
Realized gain (loss)	**10**	**0**	**10**	7	0	7
Unrealized gain (loss)	**1**	**0**	**1**	1	0	1
Total other income	**21**	**0**	**21**	11	0	11
Total investment income	**$6,439**	**$75**	**$6,514**	$2,741	($96)	$2,645

NOTE 14: EMPLOYEE BENEFIT PLANS

All of PBGC's permanent full-time and part-time 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 of 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. Additionally, under the Middle Class Tax Relief and Job Creation Act of 2012, a new category of FERS employees was created: FERS-Revised Annuity Employees (FERS-RAE), which applies to employees who are newly hired on or after January 1, 2013, or rehired with less than five years of civilian service that is potentially creditable under FERS.

PBGC's contribution to the CSRS plan for both FY 2014 and FY 2013 was 7.0 percent of base pay for those employees covered by that system. For those employees covered by FERS, the Corporation's contribution was 11.9 percent of base pay for both FY 2014 and FY 2013. For employees covered by FERS-RAE, the Corporation's contribution was 9.6 percent of base pay for FY 2014. In addition, for both FERS-covered employees and FERS-RAE covered employees, PBGC automatically contributes one percent of base pay to the employee's Thrift Savings account, matches the first three percent contributed by the employee and matches one-half of the next two percent contributed by the employee. Total retirement plan expenses amounted to $21 million in FY 2014, unchanged from FY 2013. These financial statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to PBGC's employees. These amounts are reported by the U.S. Office of Personnel Management (OPM) and are not allocated to the individual employers. OPM accounts for federal health and life insurance programs for those eligible retired PBGC employees who had selected federal government-sponsored plans. PBGC does not offer other supplemental health and life insurance benefits to its employees.

NOTE 15: CASH FLOWS

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

INVESTING ACTIVITIES (SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED)

	September 30,	
(Dollars in millions)	**2014**	2013
Proceeds from sales of investments:		
Fixed maturity securities	**$68,613**	$74,456
Equity securities	**7,143**	12,904
Other/uncategorized	**2,476**	2,859
Memorandum total	**$78,232**	$90,219
Payments for purchases of investments:		
Fixed maturity securities	**$(68,627)**	$(76,266)
Equity securities	**(6,242)**	(10,988)
Other/uncategorized	**(1,226)**	(1,769)
Memorandum total	**$(76,095)**	$(89,023)

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)	**2014**	2013	**2014**	2013	**2014**	2013
Net income (loss)	**8,043**	1,761	**(34,176)**	(3,021)	**(26,133)**	(1,260)
Adjustments to reconcile net income to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	**(4,607)**	(793)	**(45)**	131	**(4,652)**	(662)
Net gain (loss) of plans pending termination and trusteeship	**35**	(49)	**0**	0	**35**	(49)
Losses (credits) on completed and probable terminations	**(115)**	468	**0**	0	**(115)**	468
Actuarial charges (credits)	**1,864**	3,054	**0**	0	**1,864**	3,054
Benefit payments - trusteed plans	**(5,477)**	(5,374)	**0**	0*	**(5,477)**	(5,374)
Settlements and judgments	**(1)**	0	**0**	0	**(1)**	0
Cash received from plans upon trusteeship	**62**	24	**0**	0	**62**	24
Receipts from sponsors/non-sponsors	**94**	(1)	**0**	0	**94**	(1)
EL/DUEC Trusteeship interest (non-cash)	**(17)**	(30)	**0**	0	**(17)**	(30)
Amortization of discounts/premiums	**122**	131	**12**	13	**134**	144
Amortization and Depreciation expense	**12**	10	**0**	0	**12**	10
Bad debt expense/Write-offs (net)	**17**	5	**0**	0	**17**	5
Changes in assets and liabilities, net of effects of trusteed and pending plans:						
(Increase) decrease in receivables	**(1,708)**	62	**(62)**	3	**(1,770)**	65
Increase in present value of nonrecoverable future financial assistance			**34,259**	2,921	**34,259**	2,921
Increase in unearned premiums	**(283)**	49	**(35)**	12	**(318)**	61
Increase (decrease) in accounts payable	**6**	(3)	**2**	1	**8**	(2)
Net cash provided (used) by operating activities	**(1,953)**	(686)	**(45)**	60	**(1,998)**	(626)

* Less than $500,000

NOTE 16: LITIGATION

Legal challenges to PBGC's policies and positions continued in FY 2014. At the end of the fiscal year, PBGC had 32 active cases in state and federal courts and 319 bankruptcy and state receivership cases.

PBGC records as a liability on its financial statements an estimated cost for unresolved litigation to the extent that losses in such cases are probable and estimable in amount. PBGC cannot estimate with any degree of certainty the possible losses it could incur in the event it does not prevail in these matters.

NOTE 17: SUBSEQUENT EVENTS

Management evaluated subsequent events through publication on November 14, 2014, the date the financial statements were available to be issued. Events or transactions for either the single-employer or multiemployer program, occurring after September 30, 2014 and before the financial statements were available to be issued, that provided additional evidence about conditions that existed at September 30, 2014 have been recognized in the financial statements.

For the fiscal year ended September 30, 2014, there were no nonrecognized subsequent events or transactions to report for both the single-employer and multiemployer programs that provided evidence about conditions that did not exist at September 30, 2014, and which arose before the financial statements were available to be issued.

IMPROPER PAYMENT REPORTING

INTRODUCTION

OMB Circular A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments and related improper payment statutes[1] require Federal agencies to conduct improper payment risk assessments. In compliance with Executive Order 13520, the PBGC Director serves as the agency official accountable for improper payment reporting purposes.

OMB's Memorandum No. M-11-16, dated April 14, 2011, specifies that in performing a Step 1 risk assessment of improper payments, agencies must institute a systematic method of reviewing all programs or payment streams and identifying those that may be susceptible to significant improper payments.

PBGC performs risk assessments of its payment streams using a rotational strategy based on a three-year cycle. The four largest payments streams for PBGC are: 1) benefit payments to participants in "final pay" status for plans trusteed by PBGC under Title IV of ERISA (Benefit Payments), 2) payments to contractors for goods and services, including government credit card transactions (Payments to Contractors), 3) payments made to federal employees, including payroll and travel reimbursements (Payments to Federal Employees), and 4) financial assistance payments to insolvent multiemployer plans that are unable to pay benefits when due under the requirements of Title IV of ERISA (Multiemployer Plan Financial Assistance Payments).

To date, none of PBGC's payment streams have been determined to be susceptible to significant improper payments as defined by OMB.

RESULTS OF THE FY 2014 IMPROPER PAYMENT RISK ASSESSMENT

For FY 2014, PBGC performed two improper payment risk assessments with the support of an international public accounting and consulting firm. Due to a change in law and OMB guidance, PBGC performed a risk assessment related to Payments to Federal Employees for the first time. In addition, PBGC also performed a risk assessment of financial assistance payments made to eligible multiemployer plans by PBGC (Multiemployer Plan Financial Assistance). As detailed below, PBGC determined that neither of these payment streams is susceptible to significant risk of improper payments.

Scope and Methodology

In performing its Step 1 risk assessments for both Payments to Federal Employees and Multiemployer Plan Financial Assistance, PBGC considered a number of factors, including the complexity of the payment stream, the volume of payments, recent major changes in program funding, authorities, practices, or procedures; the level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate; inherent risks of improper payments due to the nature of agency programs or operations; and any significant deficiencies in the audit reports issued by the

[1] This references the Improper Payments Information Act of 2002 (IPIA), the Improper Payments Elimination and Recovery Act of 2010 (IPERA), and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA).

PBGC Office of Inspector General (OIG) and the Government Accountability Office (GAO), and results from prior risk assessments. To be considered susceptible to significant risk of improper payments, OMB guidance specifies that gross annual improper payments (i.e., the total amount of overpayments plus underpayments) within a payment stream would have to exceed (1) both 1.5 percent of program outlays and $10,000,000 of payments made during the reporting period or (2) $100,000,000 (regardless of the improper payment percentage of total program outlays).

PBGC analyzed payments made in FY 2013 in performing the Step 1 risk assessments. During that year, PBGC issued approximately 24 thousand payments valued at nearly $133 million for the Payments to Federal Employees payment stream, and for Multiemployer Plan Financial Assistance, PBGC issued 162 payments amounting to approximately $89 million.

In addition to assessing the quantitative and qualitative factors referenced above, PBGC supplemented its analysis of Multiemployer Financial Assistance with optional statistical sampling.

Statistical Sampling and Testing Information

In designing the sampling plan for Multiemployer Financial Assistance, PBGC followed OMB statistical sampling guidance regarding minimum sample sizes and took steps to ensure that the resulting sample would be representative of the payment population being tested, including the use of sample stratification techniques. For the purposes of our sample universe, PBGC issued 162 payments to 44 eligible multiemployer plans for a total of $89,340,090 during FY 2013.

Of the 162 payments issued, PBGC selected 24 payments to eligible multiemployer plans, totaling $22,002,500, for detailed testing. PBGC performed tests of these selected payments to assess whether payments complied with the improper payment definitions applicable to the Multiemployer Plan Financial Assistance payments stream. For example, we tested whether PBGC officials approved the payment, whether there was documentation supporting the insolvency of the multiemployer plan, whether the administrative expenses of the plan were valid, whether active participants were receiving monthly benefits, and whether deceased participants were removed from pay status and the related payment reconciliation.

Statistical Sampling Results

Of the 24 payments and $22,002,500 tested as part of the sample, actual gross improper payments noted for Multiemployer Plan Financial Assistance totaled $34,500. The issues noted were not significant and primarily related to minor payment errors and documentation issues. As detailed further below, the estimated improper payments was 0.38 percent and $336,649, based on a sampling projection of actual gross improper payments. These amounts are below OMB thresholds for improper payment reporting. In addition, the achieved precision or accuracy levels were within the levels specified by OMB in its statistical sampling guidance.

Additional details regarding the sampling projections are presented in the following three tables: a) estimated gross improper payments (over-payments and under-payments added together), b) net improper payments (under-payments subtracted from over-payments), and c) improper payments by OMB error type.

ESTIMATED GROSS IMPROPER PAYMENTS FOR MULTIEMPLOYER FINANCIAL ASSISTANCE PAYMENTS[2]						
FY 2014 Outlays	**Gross IP %**	**Gross IP $**	**Over-payments IP %**	**Over-Payments IP $**	**Under-payments IP %**	**Under-payments IP $**
$ 89,340,090	0.38%	$ 336,649	0.31%	$ 277,499	0.07%	$ 59,150

ESTIMATED NET IMPROPER PAYMENTS FOR MULTIEMPLOYER FINANCIAL ASSISTANCE PAYMENTS[3]		
FY 2014 Outlays	**Net IP %**	**Net IP $**
$89,340,090	0.24%	$ 218,349

ESTIMATED GROSS IMPROPER PAYMENTS BY OMB ERROR TYPE			
Type of Error	**Actual Gross IP $**	**Estimated Gross IP %**	**Estimated Gross IP $**
Incorrect Amount	$ 19,160	0.07%	$ 63,371
Lack of Documentation	$ 15,340	0.31%	$ 273,278
All Issues Noted	**$ 34,500**	**0.38%**	**$ 336,649**

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[2] The "Gross IP %" figure represents the 'gross improper payment (IP) rate' and is calculated by dividing "Gross IP $" by the "FY 2014 Outlays" figure. In accordance with OMB guidance, the "Gross IP $" or 'gross improper payment dollars' is equal to the sum of gross overpayments plus underpayments.

[3] The 'net improper payment rate' or "Net IP %" is calculated in a manner similar to "Gross IP %", except that the numerator is the difference between gross overpayments and underpayments.

CONCLUSION

Based on the results of the risk assessment of Multiemployer Financial Assistance, including the results of the statistical sampling, PBGC determined that this payment stream is not susceptible to significant risk of improper payments. For Payments to Federal Employees, PBGC determined that this payment stream is also not susceptible to significant risk of improper payments.

FOLLOW-UP ON CORRECTIVE ACTIONS RELATING TO PRIOR RISK ASSESSMENTS

In completing risk assessments in prior years, PBGC identified certain corrective actions that would serve to improve PBGC's ability to prevent or detect improper payments in a timely manner. An update regarding corrective actions relating to prior improper payment assessments is presented below:

- FY 2013 Risk Assessment of Contractor Payments - The Procurement Department continues to develop training materials and checklists regarding invoice processing by Contracting Officer Representatives and approval of subcontractors. In addition, the Procurement Department is working with contractors on the follow-up to questioned costs identified during the FY 2013 risk assessment and is seeking reimbursement, where appropriate.

- FY 2012 Risk Assessment of Benefit Payments – The Benefits Administration and Payments Department (BAPD) continues to implement corrective actions to address legacy documentation issues associated with terminated pension plans that were noted in the FY 2011 pilot risk assessment. At that time, OMB advised that PBGC should focus its improper payment testing on payment accuracy and to implement strategies to improve pension documentation over time. During the fiscal year, BAPD performed a detailed analysis of its participant data audit process and developed new training workshops for its auditors. BAPD continues to improve procedures over its plan assumption process to ensure that required documents are identified and obtained. BAPD is also working to upgrade procedures relating to its document imaging system and how that system can be used to better organize and store participant and plan documentation obtained during the plan assumption process.

- FY 2012 Risk Assessment of Multiemployer Future Financial Assistance Payments - The Multiemployer Program Division (MEPD) is continuing to work with plans to ensure that participant listings are consistently provided, and is reviewing options on how best to automate the process by which financial assistance payments and related supporting documentation are submitted to PBGC.

PREVENTING AND DETECTING IMPROPER PAYMENTS

In addition to its periodic improper payment testing and in support of the Administration's Do Not Pay Initiative, PBGC employs a variety of means to prevent and detect improper payments on an ongoing basis:

- For all of its payment streams, PBGC has established controls to help ensure that payments are accurate and approved. For instance, pre-payment checks include ensuring that documentation for the payment is available for review by the approving official. On a post-payment basis, payment reconciliations are performed to help ensure completeness of payment processing and to identify errors. In addition, payments are subject to periodic compliance reviews.

- For Benefit Payments, the largest payment stream, PBGC checks its participant database against the Social Security Administration's Death Master File (DMF) just prior to the monthly check run to help prevent sending out checks or automated deposits to payees that are deceased and should no longer be receiving benefits. After signing a memorandum of understanding with the Social Security Administration, PBGC upgraded its access from the public version of the DMF to the complete version of the DMF in July 2013. This change has significantly improved PBGC's ability to identify payments that should not be sent out. For FY 2014, PBGC screened nearly 9.5 million payments valued at $5.48 billion using the complete version of the DMF. As a result of this enhanced pre-payment screening, PBGC avoided sending out approximately 15,000 potential improper payments, with a value of over $6 million. Performing this check on a pre-payment basis avoids costs associated with PBGC seeking payments from the estates of deceased participants. This also avoids the potential for checks to be stolen or for automated deposits to be fraudulently withdrawn from the accounts of deceased persons.

- PBGC regularly performs electronic data analysis of payment transactions associated with Benefit Payments and Payments to Contractors – the two largest payment streams. This process helps us identify potential duplicate payments, other overpayments, and different types of payment anomalies. When warranted, selected payments are subjected to additional research and analysis.

- PBGC participates in the Department of Treasury's Do Not Pay (DNP) portal program. For example, under the Payments to Contractors stream, payments are screened to assess whether that companies receiving payments for work performed under PBGC contracts were properly registered in the General Service Administration's System for Award Management (SAM), have not been debarred or suspended from contracting in the federal sector, and do not have federal debts that have been referred to the Department of Treasury for collection. From October 2013 through July 2014, the latest time period for which data is available, approximately 5,700 payments, representing nearly $414 million, were screened using DNP on a post-payment basis. While no payments were identified as being improper as part of this process, it provides a level of assurance that contract administration and payment processes are working. PBGC will be exploring ways to further improve its use of the DNP portal to prevent and detect improper payments.

RECAPTURING IMPROPER PAYMENTS

Potential improper payments are selected for further analysis based on the amount of the payment, the nature of the potential error, and other risk factors. When warranted, payment recapture efforts are initiated. This is normally accomplished by sending a request for an overpayment to be returned. Additional steps can be taken depending on the payment stream. For example, under the Payment to Contractors stream, amounts can also be set off against future billings or collected during the contract closeout process. For the Benefit Payments stream, if a participant is unable to pay the entire amount owed right away, payments can be recouped by offsetting a portion (normally 10%) of a future monthly benefit until such time as the amount owed is satisfied.

If it is suspected that PBGC funds were obtained in a fraudulent manner, PBGC works closely with the PBGC's Office of Inspector General (OIG). The OIG performs investigations, and when appropriate, refers matters to the Department of Justice to determine whether there is a sufficient basis to initiate a criminal prosecution, or to seek other remedies, including repayment of the amounts involved.

2014 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 (NRFFA) under the multiemployer program. Generally, we used the same methods and procedures as in 2013 for the Single-Employer and Pre-MPPAA Multiemployer Programs. As noted in Note 7, PBGC has adopted new procedures for NRFFA liabilities under the Multiemployer program. These results incorporate the impact of those new procedures.

PRESENT VALUE OF FUTURE BENEFITS AND NONRECOVERABLE FINANCIAL ASSISTANCE – 2014

	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)	4,165	1,051	$71,079
2. Seriatim at DOPT, adjusted to FYE	28	48	3,230
3. Nonseriatim[1]	447	288	28,284
4. Missing Participants Program (seriatim)[2]	——	23	62
Subtotal	4,640	1,410	$102,655
B. Probable terminations (nonseriatim)[3]	2	7	759
Total[4]	4,642	1,417	$103,414
II. **MULTIEMPLOYER PROGRAM**			
A. Pre-MPPAA terminations (seriatim)	10	*	$0
B. Post-MPPAA liability (net of plan assets)			
1. Currently Receiving Assistance	53	76	1,506
2. Probable for Assistance	91	892	42,684
Total	154	968	$44,190

* Fewer than 500 participants

Notes:

1) The liability for terminated plans has been increased by $62 million for settlements.

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

3) The net claims for probable plans reported in the financial statements include $226 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 $358 million. Thus, the net claims for probable terminations as reported in the financial statements are $759 million less $358 million, or $401 million.

4) The PVFB in the financial statements ($102,774 million) is net of estimated plan assets and recoveries on probable terminations ($358 million), estimated recoveries on terminated plans ($56 million), and estimated assets for plans pending trusteeship ($226 million), or, $103,414 million less $358 million less $56 million less $226 million = $102,774 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 4,165 plans, representing about 90 percent of the total number of single-employer terminated plans (75 percent of the total participants in single-employer terminated plans), PBGC had sufficiently accurate data to calculate the liability separately for each participant's benefit (seriatim method). This was an increase of 79 plans over the 4,086 plans valued seriatim last year. For 28 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 2014 on a nonseriatim basis.

For 447 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 plan liabilities from the plan's most recent actuarial valuation forward to the end of fiscal year 2014 using certain assumptions and adjustment factors.

For the actuarial valuation, PBGC used a select and ultimate interest rate assumption of 3.35% for the first 25 years after the valuation date and 3.25% thereafter. The mortality tables used for valuing healthy lives were the RP-2000 Combined Healthy Male and Female Tables, each projected 25 years to 2025 using Scale AA and set back one year. The projection period is determined as the sum of the elapsed time from the date of the table (2000) to the valuation date plus the period of time from the valuation date to the average date of payment of future benefits. In fiscal year 2013, the mortality table used for valuing healthy lives were the RP-2000 Combined Healthy Male and Female Tables, each projected 24 years to 2024 using Scale AA and set back one year.

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 age 65, 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 age 65 to reflect the lower likelihood of payment. Similarly, for located participants over age 70 and not in pay status, PBGC reduced the value of their future benefits to zero. For deferred participants who were older than age 70 in the Missing Participant Program, PBGC reduced the value of their future benefits to zero over the ten years succeeding age 70 to reflect the lower likelihood of payment.

MULTIEMPLOYER PROGRAM

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

PBGC based its valuation of the post-MPPAA liability for nonrecoverable future financial assistance on the most recent available actuarial reports, Form 5500 Schedule B or Schedule MB, as applicable, and information provided by representatives of the affected plans. The Corporation expected 144 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, 2014.

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 as determined by PBGC's Policy Research and Analysis Department; and (3) the resulting total liability represents my best estimate of anticipated experience under these programs.

I, Scott Young, am the Chief Valuation Actuary of the PBGC. I am a Member of the American Academy of Actuaries, a Fellow of the Society of Actuaries and an Enrolled Actuary. I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report.

Scott G. Young, FSA, EA, MAAA
Fellow of the Society of Actuaries
Enrolled Actuary
Member of the American Academy of Actuaries
Chief Valuation Actuary
Actuarial Services Division, Benefits Administration and Payment Department
Pension Benefit Guaranty Corporation

INDEPENDENT AUDIT AND MANAGEMENT RESPONSE

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

To the Board of Directors
Pension Benefit Guaranty Corporation

The Office of Inspector General (OIG) contracted with CliftonLarsonAllen LLP, an independent certified public accounting firm, to audit the financial statements of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) as of and for the years ended September 30, 2014 and 2013. In the audit, CliftonLarsonAllen found:

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

- PBGC did not have effective internal control over financial reporting as of September 30, 2014.

    - Though some progress was made in addressing the three material weaknesses, serious internal control vulnerabilities in PBGC's programs and operations persist. Thus, the three material weaknesses remain: (1) Benefits Administration and Payment Department management and oversight, (2) entity-wide security program planning and management, and (3) access controls and configuration management.

    - Two new significant deficiencies are reported – a combination of flaws in financial reporting controls to assure data completeness and accuracy, and robust quality review process needed for the present value of nonrecoverable future financial assistance liability calculation.

- PBGC had one instance of noncompliance relating to the regulatory requirement to determine the fair market value of plan assets at the date of plan termination.

As a result, the auditors have concluded that the financial statement audit opinion is unmodified – that is, the highest opinion – however, they have also concluded that the opinion on internal control over financial reporting is adverse.

The three material weaknesses and the two new significant deficiencies are critical deficiencies. The existence of a material weakness is an indication that there is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by management. Because of PBGC's weak control environment, the auditors cannot rely on management's control activities; they must conduct a greater amount of substantive testing to gain assurance that the financial information is fairly presented in all material respects. Consequently, this results in a change in the nature, timing and extent of their substantive procedures.

PBGC needs to focus on a control consciousness throughout the organization. Controls are vital to manage programs efficiently and effectively – they are not because the auditors say so. To be effective, those responsible for executing the controls must understand the control activities' purposes, and the control activities to monitor staff execution, evaluate anomalous results for root cause, and document corrective action taken.

When examining financial reporting activities in FY 2014, information that should have been ready for examination if controls were being performed in the ordinary course of business was not consistently available. Some controls were not institutionalized but executed in response to audit requests, resulting in delays in the audit and difficulty obtaining answers. Inadequate controls and control failures create risk and impact the validity, completeness and accuracy of information. Notwithstanding these difficulties, PBGC management was able to provide sufficient evidence in response to the auditor's substantive procedures to support the amounts reported on the financial statements and the related footnotes.

CliftonLarsonAllen is responsible for the accompanying auditor's report dated November 14, 2014 and the conclusions expressed in the report. The OIG does not express opinions on PBGC's financial statements or internal control, nor do we draw conclusions on compliance with laws and regulations. CliftonLarsonAllen conducted their audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards* issued by the Comptroller General of the United States; attestation standards established by the American Institute of Certified Public Accountants; and OMB Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

The financial statement audit report (AUD-2015-2 / FA-14-101-2) is also available on our website at http://oig.pbgc.gov.

Sincerely,

Deborah Stover-Springer

Deborah Stover-Springer
Acting Inspector General

November 14, 2014

CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Pension Benefit Guaranty Corporation (PBGC), which comprise the statements of financial position as of September 30, 2014 and 2013, and the related statements of operations, net position and cash flows of the Single-Employer and Multiemployer Program Funds administered by the PBGC for the years then ended, and the related notes to the financial statements (financial statements).

Management's Responsibility for the Financial Statements

PBGC management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.); including the design, implementation and maintenance of internal control over financial reporting relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the U.S.; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02*, Audit Requirements for Federal Financial Statements* (OMB Bulletin 14-02). Those standards and OMB Bulletin 14-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements,

NEXIA INTERNATIONAL An independent member of Nexia International whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Single-Employer and Multiemployer Program Funds administered by the PBGC as of September 30, 2014 and 2013, and the results of their operations and cash flows for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Emphasis of Matter

By law, PBGC's Single-Employer and Multiemployer Program Funds must be self-sustaining. As of September 30, 2014, PBGC reported in its financial statements net deficit positions (liabilities in excess of assets) in the Single-Employer and Multiemployer Program Funds of $19.3 billion and $42.4 billion, respectively. As discussed in Note 9 to the financial statements, the potential losses from single-employer and multiemployer plans whose termination is reasonably possible as a result of unfunded vested benefits are estimated to be $167.1 billion and $17.2 billion, respectively. Management calculated the potential losses from single employer plans whose termination is reasonably possible based on the most recent data available from filings and submissions for plan years ended on or after December 31, 2012, and adjusted the value reported for liabilities to the estimated balance as of December 31, 2013, using actuarial assumptions. PBGC did not adjust the estimate for economic conditions that occurred between December 31, 2013 and September 30, 2014, and as a result, the actual loss for the Single-Employer Program as of September 30, 2014 could be substantially different. In addition, PBGC's net deficit and long-term viability could be further impacted by losses from plans classified as reasonably possible (or from other plans not yet identified as potential losses) as a result of deteriorating economic conditions, the insolvency of a large plan sponsor, or other factors. PBGC has been able to meet its 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. Our opinion is not modified with respect to this matter.

Other Information

The Message from our Chair, Message from the Acting Director, Annual Performance Report, Operations in Brief, Customer Focus, Strategic Goals and Results, Steps to Improve Key Areas, Independent Evaluation of PBGC Programs, Fiscal Year 2014 Financial Statement Highlights, Management's Discussion and Analysis, PBGC Management Assurances and Internal Control Programs, Management Representation, Improper Payment Reporting, 2014 Actuarial Valuation, Letter of the Inspector General, Management's Response to Report of Independent

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor and Organization contain a wide range of data, some of which is not directly related to the financial statements. This information is presented by PBGC for use by readers of the Annual Report and is not a required part of the financial statements. Also, this information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Internal Control over Financial Reporting

We have audited PBGC's internal control over financial reporting as of September 30, 2014, based on criteria established under 31 U.S.C. 3512 (c), (d), commonly known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular A-123, *Management's Responsibility for Internal Control*, as amended (OMB Circular A-123).

Management's Responsibility for Internal Control

PBGC management is responsible for maintaining effective internal control over financial reporting, and for its assertion of the effectiveness of internal control over financial reporting, included in the Annual Report.

Auditor's Responsibilities

Our responsibility is to express an opinion on PBGC's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants and the attestation standards contained in *Government Auditing Standards*.

An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, evaluating the design, and testing the operating effectiveness of internal control over financial reporting based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances.

Definitions and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged by governance, management and other personnel, designed to provide reasonable assurance that (1) transactions are properly recorded, processed and summarized to permit the preparation of financial statements in accordance with accounting principles generally accepted in the U.S.;(2) assets are safeguarded against loss from unauthorized acquisition, use or disposition; and (3) transactions are executed in accordance with laws governing the use of budget authority and other applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. We also caution that projecting our audit results to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinion on Internal Control over Financial Reporting

Because of the effect of material weaknesses described in Exhibit I, the PBGC has not maintained effective internal control over financial reporting as of September 30, 2014, based on criteria established under FMFIA and OMB Circular A-123.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the PBGC's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies listed below and described in Exhibit I to be material weaknesses:

1. Benefits Administration and Payment Department (BAPD) Management and Oversight
2. Entity-wide Security Program Planning and Management
3. Access Controls and Configuration Management

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies which are described in Exhibit I, to be significant deficiencies:

4. Financial Reporting
5. Present Value of Nonrecoverable Future Financial Assistance (PV NRFFA)

Report on Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Compliance with Laws, Regulations, Contracts and Grant Agreements

In connection with our audits, we performed tests of the PBGC's compliance with certain provisions of laws, regulations, contracts and grant agreements. The results of our tests for the year ended September 30, 2014, disclosed one instance of noncompliance that is required to be reported in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In material weakness number one, we noted instances where PBGC failed to determine the fair market value of plan assets at the date of plan termination as required by federal regulation. Title 29 of the *Code of Federal Regulation* §4044.41(b), General valuation rules, states: "Plan assets shall be valued at their fair market value, based on the method of valuation that most accurately reflects such fair market value."

Management's Responsibility

Management is responsible for complying with applicable laws, regulations, contracts and grant agreements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's Responsibilities

We are responsible for (1) testing compliance with certain provisions of laws, regulations, contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts and applicable laws for which OMB Bulletin 14-02 requires testing.

We did not test compliance with all laws, regulations, contracts and grant agreements applicable to PBGC. We limited our tests of compliance to certain provisions of laws, regulations, contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts and those laws and regulations required by OMB Bulletin 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. We caution that noncompliance with laws, regulations, contracts and grant agreements may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Purpose of the Report on Compliance

The purpose of the Report on Compliance is solely to describe the scope of our testing of compliance with laws, regulations, contracts and grant agreement and the result of that testing, and not to provide an opinion on the PBGC's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PBGC's compliance. Accordingly, this report is not suitable for any other purpose.

Management's Response to Findings

Management's response to the findings identified in our report is presented in Exhibit III. We did not audit PBGC's response and, accordingly, we express no opinion on it.

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of PBGC's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated November 14, 2014. The status of prior year findings is presented in Exhibit II.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Calverton, Maryland
November 14, 2014

EXHIBIT I

PENSION BENEFIT GUARANTY CORPORATION
INTERNAL CONTROL DEFICIENCIES
September 30, 2014

Background

PBGC protects the pensions of approximately 41 million workers and retirees in nearly 24 thousand private defined benefit pension plans. Under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA), PBGC insures, subject to statutory limits, pension benefits of participants in covered private defined benefit pension plans in the United States. To accomplish its mission and prepare its financial statements, PBGC relies extensively on the effective operation of the Benefits Administration and Payment Department (BAPD), Financial Operations Department (FOD), and information technology (IT). Internal controls over these operations are essential to ensure the confidentiality, integrity, and availability of critical financial and operational data while mitigating the risk of errors, fraud, and other illegal acts.

The establishment of a robust internal control framework and the implementation of the appropriate internal control activities are essential to PBGC operations. Internal controls include the processes and procedures that PBGC management has placed into operation to ensure that the programs achieve their intended results; resources used are consistent with agency mission; programs and resources are protected from waste, fraud, and mismanagement; laws and regulations are followed; and reliable and timely information is obtained, maintained, reported, and used for decision making, as stated in the OMB Circular A-123, *Management's Responsibility for Internal Control*. In order to reduce financial reporting and operational risks to PBGC as a whole, active involvement from PBGC's senior leadership in the monitoring and response to such risks is needed on a daily basis. Based on our findings, we are reporting that the deficiencies in the following areas constitute three material weaknesses for FY 2014:

1. BAPD Management and Oversight
2. Entity-wide Security Program Planning and Management
3. Access Controls and Configuration Management

We also are reporting the deficiencies in the following areas to be new significant deficiencies for FY 2014:

4. Financial Reporting
5. Present Value of Nonrecoverable Future Financial Assistance (PV NRFFA)

PBGC continued to remediate conditions that contribute to the previously identified deficiencies with its internal controls. We observed improvements to the BAPD operations and the IT environment. PBGC continued to lay the groundwork in the deployment of tools, acquisition of staff, and development of approaches that will enable PBGC to better manage the design, implementation, and operational effectiveness of its IT security controls. Also, PBGC continued to develop and implement procedures and processes for the consistent implementation of common security and configuration management controls to minimize security weaknesses. However, the agency is still developing and implementing corrective actions for some of these long-standing operational and IT security weaknesses, some of which are not scheduled for completion until FY 2018.

EXHIBIT I

PENSION BENEFIT GUARANTY CORPORATION
INTERNAL CONTROL DEFICIENCIES
September 30, 2014

1. BAPD Management and Oversight

BAPD's control weaknesses over their valuation of plan benefits and related liabilities continue to merit senior leadership's focus. Although BAPD initiated corrective actions to address control weaknesses, a number of control deficiencies remain and continue to pose significant risks to PBGC's operations. These control deficiencies include inaccurate calculation of plan participants' benefits, inaccurate financial reporting, and noncompliance with prescribed laws and regulations. BAPD's management has taken a multi-year approach to remediate control weaknesses, but significant challenges remain as it undergoes leadership changes and significant restructuring.

We continue to identify the following control deficiencies:

A. Calculation of the Present Value of Future Benefits (PVFB) Liability

The PVFB liability had errors that impacted the participant benefits and the related liability. Some of these errors were attributed to BAPD's systems (Integrated Present Value of Future Benefits (IPVFB) and Spectrum) limitations and data entry errors. The internal control activities were ineffective in identifying these errors in the calculation of the PVFB liability.

B. Documentation to Support Benefit Calculations

We continued to observe that management could not provide appropriate documentation to support, substantiate, and validate the benefit calculation for certain participants in our sample. Documentation to support benefit calculations should be readily available for examination. This lack of documentation increases a risk of misstatement of the PVFB liability.

C. Valuation of Plan Assets and Benefits

In prior years, we found that PBGC did not properly determine the fair market value of certain assets of trusteed plans at the date of plan termination as required by its regulation. As a result of this deficiency in the assets valuation process, certain plan participants' benefits may have been misstated.

Recommendations: We recommend that PBGC management:

- Develop and/or implement:
  - improvements to BAPD systems used to calculate benefits and liabilities (Spectrum and the Integrated Present Value of Futures Benefit Systems); and
  - procedures to verify that future contracts for plan asset valuations clearly outline expectations and deliverables in the statement of work.

PENSION BENEFIT GUARANTY CORPORATION
INTERNAL CONTROL DEFICIENCIES
September 30, 2014

- Continue to train all levels of staff tasked with the calculation of benefits and the PVFB as well as the review of benefit determinations.
- Refine BAPD operating policies and procedures for processing plans and archiving benefit plan documentation.
- Develop a policy to finalize management's position of the financial impact related to the financial impact of lacking documentation. Further actions should be taken to address the systematic issues associated with documentation deficiencies. The policy should also document any residual risk that PBGC may elect to accept.

2. Entity-wide Security Program Planning and Management

In prior years, we reported that PBGC's entity-wide security program lacked focus and a coordinated effort to adequately mitigate certain information system security control deficiencies. Though progress had been made, control deficiencies continued in FY 2014. These control deficiencies hindered PBGC from implementing effective security controls to protect its information from unauthorized access, modification, and disclosure. The security management program should establish a framework and a continuous cycle for assessing risk, developing and implementing effective procedures, and monitoring the effectiveness of these procedures.

We continue to identify security control weaknesses in the following:

A. Security Management

An effective information security management program should have a framework and process for assessing risk, effective security procedures, and processes for monitoring and reporting the effectiveness of these procedures. Though progress was made, PBGC did not completely establish and implement tools and processes needed to obtain performance measures and information on security progress to facilitate decision making and management, including:

- Finalizing metrics and security progress information to indicate the effectiveness of its security controls applied to information systems and supporting information security programs.
- Collecting, analyzing, and reporting all relevant performance-related data to facilitate decision making, improve performance, and increase accountability.
- Collecting all relevant performance data on implementation measures to determine the level of execution of its security policy; effectiveness/efficiency measures to evaluate results of security services delivery; and impact measures to assess business or mission consequences of security events.
- Demonstrating how implementation, efficiency, and effectiveness of its information system and program security controls contribute to the Corporation's success in achieving its mission.

EXHIBIT I

PENSION BENEFIT GUARANTY CORPORATION
INTERNAL CONTROL DEFICIENCIES
September 30, 2014

B. Common Security Controls

Common security controls provide the foundation for the effectiveness of enterprise-wide system security operations. In FY 2014, PBGC continued to change its common controls, which did not allow adequate time for the controls to mature in the environment and operate effectively. Specifically, during FY 2014, PBGC consolidated its two general support systems which decreased the number of common controls from 208 to 118. However, PBGC did not document this consolidation of controls. In addition, the Corporation is considering adding 67 new controls to the set of common controls. Furthermore, PBGC did not communicate the new strategy and change in common controls to system owners of PBGC's major applications, who relied on these controls.

PBGC tested 108 of the 118 common controls for effectiveness. We found 55 of the common controls tested were effective and 53 common controls were ineffective.

C. Security Assessments and Authorization (SA&A)

In June 2014, PBGC consolidated multiple inventory lists into one (1) authoritative list to track the Federal Information Security Management Act of 2002 (FISMA) inventory, subsystem components, Interconnection Security Agreements (ISAs), and SA&A schedules. The FISMA inventory list is scheduled to be updated monthly. PBGC acknowledges that it will require time to demonstrate the effectiveness of the new process.

PBGC continued to enhance its SA&A quality control process to address weaknesses noted in prior years. In FY 2014, the Corporation performed a deeper analysis of their SA&A packages; standardized the quality control review approach; and determined the level of inspection to be performed. PBGC applied this enhanced quality control review process to one system and uncovered deficiencies which were resolved before the SA&A package was submitted and approved. PBGC plans to use this new quality control process to review future SA&A packages. Currently, three systems have not been authorized to operate, based on the SA&A process.

Recommendations: We recommend that PBGC management:

- Develop and implement a well-designed security management program that will provide security to the information and information systems that support the operations and assets of PBGC, including those managed by contractors or other federal agencies.
- Complete the development and implementation of the redesign of PBGC's IT infrastructure and the procurement and implementation of technologies to support a more coherent approach to providing information services and information system management controls.

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- Effectively communicate to key decision-makers the state of PBGC's IT infrastructure and environment to facilitate the prioritization of resources to address fundamental weaknesses.
- Complete the process to validate the completion of SA&A packages for all major applications.

3. Access Controls and Configuration Management

Access controls and configuration management controls are an integral part of an effective information security management program. Access controls limit or detect inappropriate access to systems, protecting the data within them from unauthorized modification, loss or disclosure. Configuration management ensures changes to systems are tested and approved and systems are configured securely in accordance with policy.

Access controls and configuration management remain a systemic problem throughout PBGC. In FY 2014, PBGC submitted documentation and evidence to support the closure of fourteen access and configuration management prior year recommendations. However, based on our current year testing, we could only close five of these recommendations. The documentation provided for the nine recommendations that will remain open did not demonstrate that controls were properly implemented, repeatable, and maintained. Furthermore, documentation in certain cases did not address the root cause of the weakness. Weaknesses in the PBGC IT environment contributed significantly to deficiencies in system configuration, segregation of duties, role-based access controls, and monitoring.

We continue to identify the following control weaknesses in access controls and configuration management. Specifically:

A. Configuration Management

Although PBGC has defined baseline configurations for its systems, tools, and applications, and modified common configuration management security controls, they require time to demonstrate operational effectiveness. Automated tools to manage configuration infrastructure were not fully operational. For FY 2014, unresolved vulnerabilities still remained in key databases and applications, such as weaknesses in configuration, roles, privileges, auditing, file permissions, and operating system access. Prior weaknesses in authentication parameters for general support systems and applications were not adequately addressed.

B. Access Controls and Account Management

Failure to control access, identify and remove unnecessary accounts from the system put PBGC's systems at an increased risk of unauthorized access/modification/deletion of sensitive system and/or participant information.

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1) Segregation of Duties

PBGC did not effectively restrict developers' access to production applications. We found that for one of the seven applications tested developers were provided more than read-only access to production. After PBGC was informed, PBGC removed the developers' access.

PBGC did not clearly define the duration and procedures surrounding the use of temporary access. Temporary/emergency access procedures did not establish a timeline and/or duration to remove the emergency access.

2) Account Management

Account Dormancy

PBGC's practice for disabling and removing dormant accounts were not in compliance with its policy. In FY 2014, PBGC assessed compliance with authentication and dormancy standards and found that automated controls were not implemented to enforce/adhere to PBGC's dormancy standards for twelve major applications and five sub-components of the General Support System.

For nine of the major applications, risk acceptance forms addressed account configuration settings; however, eight of them did not address account dormancy.

Generic Accounts

In FY 2013, we recommended that PBGC continue to remove unnecessary user and generic accounts. For FY2014, PBGC established formal policies regarding user access and generic accounts, but did not provide evidence that it had removed unnecessary user and generic accounts.

C. Incident Handling and Security Monitoring

We identified deficiencies in PBGC's Incident Response Program in our FY 2013 FISMA report. For FY 2014, we found that while PBGC had defined Incident Response Procedures, those procedures did not provide clear and detailed guidance on how to: monitor information systems; detect, identify, document, and report incidents; as well as when to elevate incidents. This lack of clear guidance had and may lead to future mismanagement of incidents.

PBGC purchased an automated tool to collect, analyze, search, and monitor information system security logs across the enterprise. This tool will enhance PBGC's detection of security events in applications, operating systems, databases, and network monitoring tools. However, this tool was not fully implemented. Specifically, this automated tool was

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not fully configured to collect data enterprise-wide. Progress was slow and not all information system owners provided a timeline for implementation.

Recommendations: We recommend that PBGC management:

- Develop and implement the following:
  - a coherent strategy for correcting IT infrastructure deficiencies.
  - a framework for implementing common security controls and mitigating the systemic issues related to access control by strengthening system configurations and user account management for all of PBGC's information systems.
- Implement controls to remedy vulnerabilities noted in key databases and applications such as weaknesses in configuration, roles, privileges, auditing, file permissions and operating system access. Also implement controls to remedy weaknesses in the deployment of servers, applications, and databases in the development, test and production environments.
- Complete the recertification processes for all user and system accounts.
- Review, update, and approve Directive IM 10-3, Protecting Sensitive Information.
- Update and document the security event categorization procedures and decision process to better define the thresholds where security events are categorized as suspicious and are recorded in a ticketing system as an incident for escalation and further analysis.
- Develop and implement controls to enhance PBGC's ability to identify inappropriate or unusual activity, integrate the analysis of vulnerability scanning information, performance data, network monitoring, and system audit record (log) information.

4. Financial Reporting

The financial reporting process is at the forefront of preparing accurate and timely financial statements. Effective internal controls over financial reporting requires a strong environment under which all internal control components are implemented to meet the objectives of accurate financial reporting, compliance with laws and regulations and effective and efficient operations. Those responsible for executing the control activities should understand the control activities' purposes, and the activities should include monitoring staff execution, evaluating anomalous results for root cause, and documenting corrective action taken. The Financial Operations Department (FOD) is principally responsible for PBGC's accounting activities, financial reporting and maintenance of the financial and accounting systems. During FY 2014, we found that certain controls were not in place. These control deficiencies create risk and could impact the validity, completeness and accuracy of financial reporting. In FY 2014, we found a combination of deficiencies that collectively represent a new significant deficiency in financial reporting.

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A. Lack of Controls over the Premium Process

PBGC lacked effective controls surrounding the completeness and accuracy of the premium revenue balance reported in the general ledger. For example, PBGC does not perform a comprehensive analysis of key data inputs from the Form 5500 and the Comprehensive Premium Filing (CPF). All pension plans are required to file a Form 5500 annually to report specific data on plan activities. Both forms include plan participant counts and market value of the plan assets data, and are loaded into Premium and Practitioner System (PPS). These inputs are essential to calculate the fixed rate and variable rate premiums. Comparing the data for significant variances and evaluating the root cause would be an effective control to identify premiums owed to PBGC.

In addition, the design of the manual reconciliation between the PPS premium subsidiary ledger to the general ledger is flawed. We found the following reconciliation design deficiencies:

- The PPS subsidiary balance reported in the reconciliation does not match the underlying details because it included manual activities recorded outside PPS.
- While management characterizes the aforementioned schedule as reconciliation, it actually represents a calculation of the projected general ledger balance at a point in time. Therefore, the PPS subsidiary ledger could not be reconciled to the general ledger.
- The reconciliation did not show evidence of a preparer sign-off and supervisory review and approval.

Finally, there is a system limitation with the PPS reporting functionality. During our substantive testing at June 30, 2014 and September 30, 2014, we found that PPS functionality is limited because it could not generate a detailed report that displayed the calculated fixed rate and variable rate premium for each pension plan for the period of October 1, 2013 through September 30, 2014.

B. Lack of Controls over Manual Processes

PBGC places reliance on a number of manual processes to record financial events in its general ledger. The inherent risks associated with manual processes require effective and reliable controls to mitigate such risks. We found that PBGC did not have effective internal controls throughout the fiscal year over manual journal entries and certain manual spreadsheets used to record or support financial transactions. Specifically, PBGC did not consistently employ a sequential numbering scheme to assign journal entry numbers, and did not assign common numbers to routine or recurring journal entries to ensure that each routine or recurring entry is prepared each month. In addition, PBGC did not maintain a journal entry log for all manual journal entries to

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ensure that the journal entry population is complete and that no unauthorized entries have been made in CFS. Management recognized the benefit of sequentially numbering journal entries and a journal entry log and both tools were placed in operation by year-end.

PBGC did not have effective integrity and access controls over key financial spreadsheets that support the Corporation's financial reporting. Further, PBGC did not have adequate integrity controls to guard against improper modification, access or degradation of key financial spreadsheets.

C. Monitoring Controls over Non-Commingled Assets

PBGC's monitoring process over the valuation of the Non-Commingled Assets is deficient. We found those responsible for recording plan asset activities performed inadequate reviews of plan asset transactions recorded into the general ledger, processed untimely transfers of non-commingled assets to commingled assets, and did not maintain the case file documentation needed to support plan asset transactions.

Recommendations: We recommend that PBGC management:

- Perform a comprehensive analysis of similar key data inputs between independent sources used to calculate premium amounts to identify significant various. A risk analysis should be developed that focuses on evaluating the underlying causes of the significant variances and assess the potential impact to the completeness assertion for premiums.
- Develop a procedure to reconcile the Premium and Practitioner System (PPS) subsidiary ledger to general ledger reconciliation. The reconciliation must reflect the cumulative PPS subsidiary balance compared to the general ledger at a point in time (e.g., December 31, March 31, June 30, etc). Each reconciliation must show evidence of preparer and supervisory review.
- Update current Premium and Practitioner System reporting functionality to provide a detailed summary premium report by plan for each reporting period.
- Develop a sequential numbering scheme to label all manual entries recorded into the financial system. In addition, a journal entry log should be maintained to monitor all manual entries recorded into the financial system.
- Maintain a complete listing of all key financial spreadsheets. Also, PBGC should conduct a risk assessment to evaluate PBGC's reliance on key financial spreadsheets that support the Corporation's financial reporting.
- Develop and implement procedures that require business owners who prepare key financial spreadsheets to document and provide evidence of their implementation of integrity and access controls.
- Strengthen internal control procedures by establishing steps to ensure all Trust Accountants (TAs) are recording non-commingled account balances appropriately and consistently.

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5. Present Value of Nonrecoverable Future Financial Assistance

The Present Value of Nonrecoverable Future Financial Assistance liability calculation lacks a robust quality control review process to verify inputs to the Integrated Present Value of Future Benefit (IPVFB) system. For example, PBGC omitted a small plan terminated during 2009 into its tool for the PV NRFFA Probable and Reasonably Possible Small Plan Bulk Reserves. Further the adjustment factor was incorrect because the SPBR tool had not been updated with the current data definition requirements for small plans.

We identified five control deficiencies during our September 30, 2014 testing that resulted in a new significant deficiency:

- Inappropriate use or misinterpretation of underlying documentation supporting the valuation.
- Errors in data entered into the IPVFB system.
- Misstatements in the expected employer withdrawal liability payments in the cash flows projection.
- Failure to use the most recent data available.
- Missing documentation for IPVFB data.

Recommendations: We recommend that PBGC management:

- Strengthen its quality control review process over the Present Value of Nonrecoverable Future Financial Assistance to verify that all key data is properly supported and reasonable.
- Undertake training of staff to ensure implementation of the established policy for obtaining up-to-date plan and valuation data for all cases.
- Develop a comprehensive policy that describes specific acceptable documentation requirements used to support plan liability valuation. In addition, the policy should include documentation retention requirements.
- Implement a tracking system to monitor request for the most recent data to ensure timely response.
- Implement a process to monitor the raw data entered into the tool to identify missing plan data and supplement as needed. In addition, any identified flaws to the tool should be corrected promptly.

EXHIBIT II

PENSION BENEFIT GUARANTY CORPORATION
STATUS OF PROIR YEAR'S FINDINGS

Prior Year Condition	Status As Reported at September 30, 2013	Status as of September 30, 2014
1. Benefit Administration and Payment Department Management and Oversight	***Material Weakness:*** PBGC had weaknesses in the following: • Calculation of the Present Value of Future Benefits Liability • Valuation of Plan Assets	Repeated as a Material Weakness No. 1 and included in Exhibit I.
2. Entity-wide Security Program Planning and Management	***Material Weakness:*** PBGC had weaknesses in the following: • PBGC had not completed SA&As for its major applications. • Weaknesses in PBGC's infrastructure design and deployment strategy for systems and applications adversely affected its ability to effectively implement common security controls across its systems and applications.	Repeated as a Material Weakness No. 2 and included in Exhibit I.
3. Access Controls and Configuration Management	***Material Weakness:*** Weaknesses in the IT environment contributed to deficiencies in system configuration, segregation of duties, role-based access controls, and monitoring.	Repeated as a Material Weakness No. 3 and included in Exhibit I.
4. Integration Financial Management Systems	***Significant Deficiency:*** PBGC lacks a single integrated financial management system which increases the risk of inaccurate, inconsistent and redundant data.	Resolved
5. Financial Reporting	***Significant Deficiency:*** PBGC has control deficiencies in the following: • Lack of Controls over the Premium Process • Lack of Controls over the Manual Processes • Monitoring controls over Non-Commingled Assets	New significant deficiency in FY 2014 and included as item 4 in Exhibit I.
6. Present Value of Nonrecoverable Future Financial Assistance	***Significant Deficiency:*** PBGC lacks a robust quality control review of the PV NRFFA valuation process.	New significant deficiency in FY 2014 and included as item 5 in Exhibit I.

EXHIBIT II

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STATUS OF PROIR YEAR'S FINDINGS

Compliance and Other Matters		
Noncompliance with Title 29 of the *Code of Federal Regulation (C.F.R.)*, Part 4044.41, Subpart (b), General valuation rules	Plan assets shall be based on the method of valuation that most accurately reflects such fair market value.	Repeated as a noncompliance violation.

PBGC
Protecting America's Pensions
Pension Benefit Guaranty Corporation
1200 K Street, N.W., Washington, D.C. 20005-4026

Office of the Director

MEMORANDUM

November 14, 2014

To: Deborah Stover-Springer
Acting Inspector General

From: Alice C. Maroni
Acting Director

Subject: Response to the Independent Auditor's Combined Audit Report for the FY 2014 Financial Statement Audit

Thank you for the opportunity to comment on the Office of Inspector General's FY 2014 audit results regarding the agency's financial statements, internal controls, and compliance with laws and regulations. As PBGC is responsible for issuing payments of over $5 billion in benefits each year, managing over $80 billion in investments, and undergirding America's pension system, we are pleased that our financial statements have once again received an unmodified opinion. Audited financial statements are a cornerstone of accountability.

We agree with your opinion on internal controls, and appreciate your highlighting areas where we made progress in the past year. Addressing the material weaknesses noted in your report is a top corporate priority. As we implement corrective actions, we will, of course, keep your office informed.

We appreciate the role of the Office of Inspector General, and value the important work it performs.

cc: Edgar Bennett
Patricia Kelly
Cathleen Kronopolus
Ann Orr
Michael Rae
Sanford Rich
Judith Starr
Martin Boehm
Theodore Winter

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ORGANIZATION

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Constance A. Donovan

About the Cover: With members from Congress, President Gerald Ford signed the Employee Retirement Income Security Act (ERISA) of 1974 on Monday, September 2, 1974, which established the Pension Benefit Guaranty Corporation.

Photo courtesy of Gerald R. Ford Presidential Library.