1-15-2009

2008 Annual Report

Pension Benefit Guaranty Corporation

[Excerpt] The Pension Benefit Guaranty Corporation (PBGC or the Corporation) is a federal corporation established under the Employee Retirement Income Security Act (ERISA) of 1974, as amended. It currently guarantees payment of basic pension benefits earned by nearly 44 million American workers and retirees participating in more than 29,000 private-sector defined benefit pension plans. The Corporation receives no funds from general tax revenues. Operations are financed largely by insurance premiums paid by companies that sponsor defined benefit pension plans and by investment income and assets from terminated plans. The following constitutes PBGC's Annual Management Report for fiscal year 2008, as required under OMB Circular No. A-136 and A-11, Section 230-1.

Keywords
pensions, benefits, protections, public policy

PENSION BENEFIT
GUARANTY CORPORATION

2008 Annual Report

PBGC
Protecting America's Pensions

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The Pension Benefit Guaranty Corporation protects the pensions of nearly 44 million workers and retirees in more than 29,000 private defined benefit pension plans. These pension plans provide a specified monthly benefit at retirement, usually based on salary or a stated dollar amount and years of service. PBGC guarantees these benefits subject to the limits set by the Employee Retirement Income Security Act (ERISA), which established PBGC as a wholly owned United States Government corporation in 1974. The Corporation is administered by a Director who is appointed by the President and subject to Senate confirmation. The Director reports to a Board consisting of the Secretaries of Labor (Chair), Commerce, and Treasury.

PBGC 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.

PBGC's mission, as mandated under Title IV of ERISA, is to:

> encourage the continuation and maintenance of voluntary private pension plans for the benefit of their participants,

> provide timely and uninterrupted payments of benefits to participants in terminated pension plans, and

> maintain premiums at the lowest levels consistent with statutory responsibilities.

Chair's Message

Since taking office, the George W. Bush Administration has made the reform of the defined benefit pension system and the improvement of retirement security for America's workers and retirees top priorities. This Administration has responded to the problems facing the nation's defined benefit system with the most sweeping reform of retirement plan rules in over three decades. I am pleased with the progress that PBGC and other agencies charged with administering the federal pension laws have made in implementing these landmark reforms.

In the last eight years, PBGC's Board has been deeply committed to improving governance and the Corporation's long-term outlook. The Board has met more often and been engaged to a greater extent than any other time in the past 25 years. The Board adopted new bylaws in 2008 and worked with its executive management to implement a more diversified investment policy, which is designed to give the Corporation a better ability to meet its obligations over the long term. The Administration is acutely aware of PBGC's role as backstop to the nation's defined benefit pension plans and the retirement security of 44 million American workers and retirees. The Board has acted conscientiously and tirelessly on behalf of workers and retirees to protect the defined benefit pension system and to strengthen the capabilities of PBGC to meet its challenges, now and in the future.

As Chair of PBGC's Board of Directors, I look proudly on what PBGC has accomplished throughout this Administration.

Elaine L. Chao
Secretary of Labor
Chair of the Board

2008 Highlights

- PBGC's financial condition improved by $2.9 billion, due largely to successful negotiations in bankruptcy proceedings, a favorable change in interest factors used to value PBGC's liabilities, and the continued absence of large plan terminations.
- Premium income decreased $65 million, from $1.557 billion to $1.492 billion, primarily because improvements in plan funding reduced the Corporation's variable-rate premium income.
- PBGC paid nearly $4.3 billion in benefits to more than 640,000 people and issued more than 137,000 final benefit determinations.
- PBGC continued to provide high-quality service to its customers. In 2008, PBGC's customer satisfaction scores increased across the board among premium filers, participants, and retirees.
- PBGC's Board approved a new diversified investment policy. The Corporation took significant steps toward prudent and careful implementation of the new policy but had not yet changed its asset allocation to conform to the new policy by fiscal year's end.
- The Corporation reported a year-end deficit of $11.2 billion. PBGC's mean projection indicated a combined $26.3 billion deficit in ten years, with a 26 percent chance of reaching full funding in that period.
- PBGC received its 16th consecutive unqualified audit opinion on its financial statements and its fifth consecutive unqualified opinion on its internal control assertion.
- Additional financial highlights are presented in the Annual Management Report on pp. 11-58.

FINANCIAL STATEMENT HIGHLIGHTS

(Dollars in millions)	**2008**	2007
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Summary of Operations		
Premium Income	$ 1,492	$ 1,557
Losses (Credits) from Plan Terminations	$ (826)	$ 399
Investment Income (Loss)	$ (4,043)	$ 4,760
Actuarial Charges (Credits) and Adjustments	$ (4,814)	$ 346
Insurance Activity		
Benefits Paid	$ 4,292	$ 4,266
Retirees	640,240	631,330
Total Participants Receiving or Owed Benefits	1,274,000	1,305,000
New Underfunded Terminations	67	110
Terminated/Trusteed Plans (Cumulative)	3,860	3,793
Financial Position		
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Total Assets	$ 62,975	$ 68,438
Total Liabilities	$ 74,126	$ 82,504
Net Income	$ 2,915	$ 4,815
Net Position	$ (11,151)	$ (14,066)
SINGLE-EMPLOYER PROGRAM		
Total Assets	$ 61,648	$ 67,241
Total Liabilities	$ 72,326	$ 80,352
Net Income	$ 2,433	$ 5,031
Net Position	$ (10,678)	$ (13,111)
MULTIEMPLOYER PROGRAM		
Total Assets	$ 1,327	$ 1,197
Total Liabilities	$ 1,800	$ 2,152
Net Income (Loss)	$ 482	$ (216)
Net Position	$ (473)	$ (955)

Note: since the close of the fiscal year, there continue to be significant events in the economy and financial markets that may impact PBGC's financial condition subsequent to 2008.

Director's Message

During fiscal year 2008, PBGC improved its foundation for the future. We had very few large plan terminations and our deficit decreased by nearly $3 billion. We used this time to strengthen the Corporation and prepare for challenges that may lie ahead.

In fiscal year 2008, the Corporation:

- Reduced the deficit by $2.9 billion, through successful negotiations in bankruptcy proceedings, a favorable change in interest factors used to value PBGC's liabilities, and the continued absence of large plan terminations;
- Put in place a more diversified investment policy, increasing the likelihood that the Corporation will be able to meet its obligations in the long term;
- Took important steps toward implementation of that policy;
- Operated under new bylaws;
- Raised our already high standard of service for our customers, resulting in American Customer Satisfaction Index scores that are among the very highest in the entire government;
- Began selecting strategic partners to assist our investment team;
- Developed new transition management standards for PBGC transition managers;
- Initiated a new process to consider restoring pension plans to employers who have shed them, if they become healthy enough to afford them again;
- Streamlined processes, reducing by many months the time it will take to get crucial information and correct payments to people who count on us;
- Transformed our information technology planning, budgeting, development and management, removing PBGC from the OMB Management Watch List; and
- Implemented a new performance management program, aligning staff accountability with the Corporation's strategic goals.

It is nearly certain that PBGC and our economy will face difficult times ahead. We have taken the steps I am describing here to ensure that the Corporation will be well-prepared to meet those challenges.

Financial Condition

PBGC's deficit shrank to $11.2 billion at the end of FY 2008. In FY 2006 the deficit was $18.9 billion, and in FY 2007 it was $14.1 billion, so this is indeed a welcome change. This year's improved position is largely the result of three factors: None of the very large plans we insure terminated; the interest rate we use to measure the value of our liabilities went up, causing the present value of these liabilities to go down; and we significantly reduced our liabilities for probable terminations. The Corporation has sufficient liquidity to meet its obligations for a number of years; however, neither of its insurance programs at present has the resources to fully satisfy PBGC's long-term obligations to plan participants.

Investments

We have a serious obligation to be prudent stewards of the assets that have been placed in our care, and we have an obligation to do our best to close our deficit without taking undue risk. In February, the Board adopted a new, much more diversified investment policy. The new policy's goal is to increase the likelihood that we can meet our obligations over time and to do so with prudent levels of risk.

This new policy takes advantage of the Corporation's long-term investment horizon and substantially increases the likelihood that PBGC will be able to meet its obligations.

To implement the new investment policy, the Corporation has taken a number of important steps this year. We created the post of Chief Investment Officer and hired John Greenberg, a very accomplished investor with deep experience in a wide array of investments who had helped run the pension plan for the State of Maryland.

The Corporation has taken a slow and careful approach to the implementation of the policy, and that has helped address certain challenging market conditions. Our portfolio overall posted a total return of -6.5% for the fiscal year.

During FY 2008, the investment staff conducted and concluded two large Requests For Proposal (RFPs) to allocate fixed-income assets under the new policy and to select index managers in five different classes of public equity. We worked with consultants to develop and adopt Investment Transition Management Standards that will require greater transparency and "best practices" from transition managers. And we embarked on a process to hire Strategic Partners to assist us with allocating portions of our private equity and real estate portfolios, while also offering deep strategic assistance and resources to the Corporation's investment staff.

All of these initiatives were designed to put the Corporation on sound footing for the future and to give it the resources it will need in order to deal with challenges that lie ahead.

Risk Mitigation

In large bankruptcy cases, the stakes for PBGC can be tremendous. If the company can exit bankruptcy with its pension plans on-going, PBGC can avoid substantial liabilities. If the company is forced to shed its plan, PBGC can be saddled with the addition of billions of dollars to our deficit. In FY 2008, our team of bankruptcy litigators and negotiators worked to protect us from huge potential losses and made sure that many thousands of workers retained the full retirement security to which they are entitled.

In the Delphi bankruptcy case, we advocated successfully for Delphi and its former parent company, General Motors to reach an agreement under which certain Delphi pension liabilities were transferred to GM's much better-funded

plan. This provided billions of dollars of added security for retirees and employees of Delphi. It also reduced PBGC's exposure to Delphi by $1.7 billion.

The same group of litigators and negotiators that achieved success in the Delphi case also ensured the continuation of pension plans in numerous other bankruptcy cases such as Dana Corporation, Solutia Inc., and Federal-Mogul Corporation. These efforts safeguarded the retirement security of over 100,000 employees and retirees.

Besides preventing the termination of plans in bankruptcy, our team has also built upon a regulatory advance from 2007. PBGC can now, in certain downsizing situations, insist upon additional forms of protection for underfunded pension plans. In FY 2008 we negotiated settlements with five companies, including Electrolux Home Products Inc. and Elkem Metals Inc.

This year we also initiated a process to analyze the financial condition of former sponsors of trusteed pension plans to examine whether plan restoration may be possible. Under ERISA, PBGC has authority to restore a terminated plan to the former sponsor, and a key issue is whether the sponsor has become financially healthy enough to support the pension plan. Prior to adoption of this new process, PBGC did not systematically review the financial condition of ongoing companies that previously terminated and transferred their underfunded pension plans to PBGC. This analysis will now be a recurring operating procedure within the organization.

Operations

The Corporation received its 16th consecutive unqualified opinion on its financial statements and fifth consecutive unqualified opinion on its internal control assertion in 2008. This is among the strongest records in the entire government. Building on this impressive track record, we have continued to improve our operations.

In FY 2008, we adopted an approach to operations known as "Lean." Lean is a methodology for reviewing processes to find waste. We enlist workers, managers, and other stakeholders who are actually involved in a work process to determine what steps in that process do not add value and can be eliminated. By applying this approach to newly terminated plans, we found we could reduce lead time from 18 months to six, eliminating 44 of 66 steps. We are implementing this solution in phases, and by the end of FY 2009, the new process will be standard. We are also beginning to use the Lean approach in other operational areas.

Our information technology programs have posed a problem for a number of years, so last year we embarked upon a restructuring of our IT department, transforming the way that we plan, budget, develop and manage IT. In recent years, the weakness in our IT has been noted by the Office of Management and Budget (OMB), which had placed us on the OMB Management Watch List. Each of the senior executives that reports to me has a performance plan, and this year I asked each of them, from the Deputy Director to the General Counsel, to include in his or her performance plan "Removal from the OMB Watch List," because we all have to include intelligent and strategic use of technology in how we do our jobs, and be accountable for our use of IT resources. This led to a far more robust approach to IT in FY 2008. PBGC meets with OMB examiners on a quarterly basis to review outstanding issues and report progress against an established plan of actions and milestones. And in July, we were officially removed from the OMB list.

We did not just increase performance accountability for senior management. In May, PBGC adopted its first new Strategic Plan in four years. That Strategic Plan outlines the principal goals of PBGC: safeguarding the federal pension insurance system, providing exceptional service to customers and stakeholders, and exercising effective and efficient stewardship of PBGC resources. During this year, we also implemented a new performance management program for all employees. Under the program, each employee will have a performance plan. No matter how junior or senior the individual, he or she will have clear expectations and will be accountable for meeting these expectations. Just as important, each employee's performance plan is keyed to the Corporation's goals as stated in the Strategic Plan. So each person knows how his or her work contributes to the accomplishment of the Corporation's mission.

Governance

Our Board of Directors is composed of the Secretary of Labor, who serves as its Chair, as well as the Secretaries of Treasury and Commerce. In the last eight years the Board has met more often and been engaged to a greater extent than at any time in the past 25 years.

Involvement on the part of PBGC's Board Representatives has also increased markedly. The Board adopted new bylaws this year that clarify the roles and responsibilities of the Board and the Board Representatives. Under those bylaws numerous measures of governance have improved.

Service

We have many different customers at PBGC. A customer can be an active worker, a retiree, or a plan administrator. Whoever that customer is, we are committed to providing not only the security of our benefit guarantee, but also convenient and responsive service.

At PBGC, a participant trying to determine the status of a benefit check, a plan administrator with a need for information, or an employee who has heard PBGC might take over his plan—and is worried about the effect on his future benefits—will never take a back seat. Ensuring that pension plans are protected, and that benefit checks to participants are not interrupted, is the reason for PBGC's existence. As such, we do our utmost to provide direct answers, useful information, and timely services. When a customer contacts PBGC we make it our first priority to understand and address that customer's concern in a reasonable period of time, because at its heart, that customer is what PBGC is all about.

In this regard, we are very proud that our American Customer Satisfaction Index scores for both premium filers

and retirees have increased for a second consecutive year, both up from record highs set in 2007, and the score for participant callers to our customer contact center shows a steadily high level of customer satisfaction. We have also begun improvements to our Web site—**www.pbgc.gov**—with a special emphasis on upgrading search and navigation capabilities. Customer satisfaction with the Web site has grown markedly over the year as well.

Conclusion

After faith and family, the most rewarding aspects of my life have been work and career. The greatest experience I have had in my career is the opportunity to serve this President and the American people as the director of PBGC. I have been humbled and proud to serve and lead a team of such committed individuals. PBGC is filled with actuaries, accountants, and attorneys, as well as receptionists, secretaries, and customer service representatives who all share three things in common: They could make more money somewhere else; they are fully committed to the mission of this agency; and they are completely professional in what they do. I stand in grateful awe for the example they set. They set this example because they believe in providing retirement security for people who have earned it.

Sometimes people forget that the pensions we guarantee are not government handouts. They are payments due for work performed—the debt owed to workers by the companies that made the promises. And the people we pay are the nurses and steelworkers and flight attendants and pilots, the janitors and factory workers and assembly line mechanics who have served us all by keeping us healthy and doing the hard work that keeps our economy going. We here at PBGC are proud to serve them.

Surely there are challenges ahead for PBGC and all our stakeholders. We used FY 2008 to strengthen the Corporation and to prepare it for whatever may lie ahead.

Charles E.F. Millard

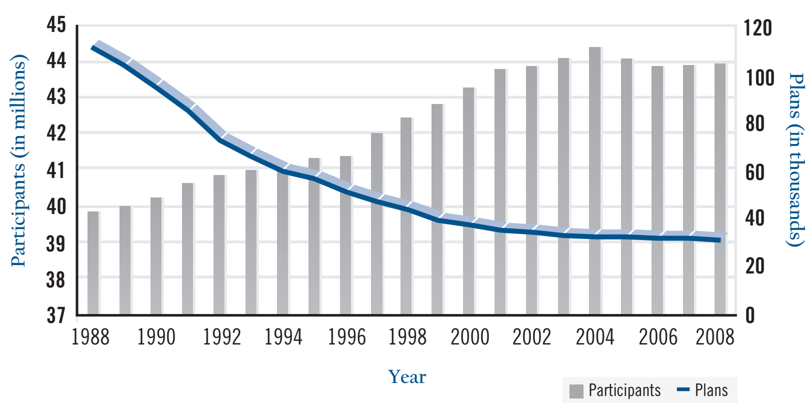
Charles E.F. Millard
Director

Summary of Operations

ERISA established two insurance programs to be administered by PBGC. The single-employer program covers plans maintained by one employer, or by a group of employers but not pursuant to a collective bargaining agreement. The other program covers multiemployer plans, which are collectively bargained and cover the employees of two or more unrelated employers. Each program is operated and financed separately from the other, and assets from one cannot be used to support the other.

The slow decline in both the number of PBGC-insured plans and the number of covered participants continued in 2008. Despite this decline, total covered participants still number about 43.9 million, more than the entire population of Canada, Spain, or Poland. Total participants owed benefits decreased to just fewer than 1.3 million, including the 122,000 participants who will receive benefit payments through PBGC assistance to multiemployer plans rather than directly from PBGC.

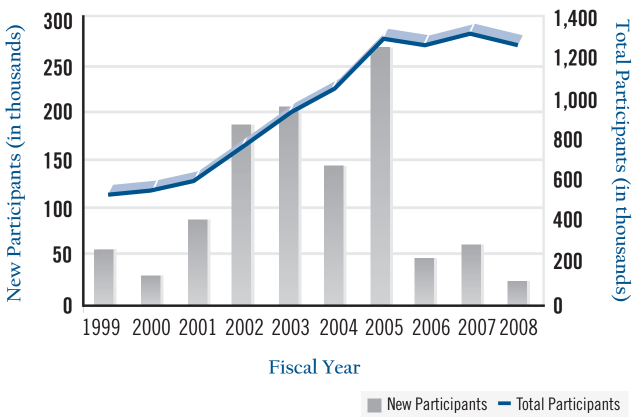
PBGC-INSURED PLANS AND PARTICIPANTS
1988-2008



Single-Employer Program

The single-employer program is by far the larger of the two programs, insuring about 33.8 million people covered by nearly 28,000 plans. This program guarantees payment of benefits, subject to limits set by law. If an insured plan is ended without enough money to pay all benefits, then PBGC takes over any assets of the plan and the responsibility to pay the participants of the plan.

PARTICIPANTS OWED BENEFITS BY PBGC
1999-2008



As of the end of 2008, PBGC had trusteed more than 3,800 terminated plans and had assumed responsibility for the benefits of nearly 1.2 million people, including about 22,000 new participants who were taken in by PBGC during the year. The new participants amounted to a little more than one-third of the 63,500 whose benefits were assumed in 2007 and far fewer than the record numbers of new participants reported annually between 2001 and 2005.

In 2008 the agency paid a total of nearly $4.3 billion in benefits, and by the end of the year it was paying retirement benefits to more than 640,000 people each month.

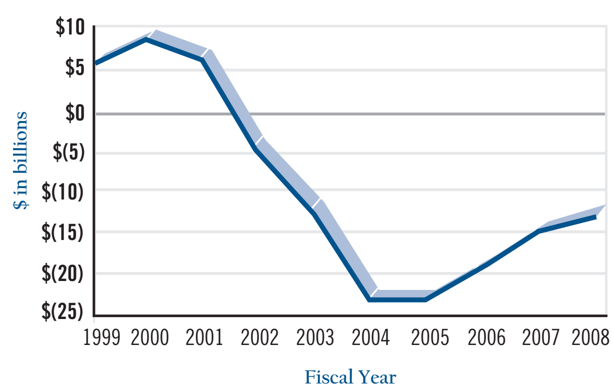
The maximum benefit guaranteed under the single-employer program is adjusted annually, but generally becomes fixed for any plan when that plan terminates. For 2008, the maximum guaranteed amount was $51,750 per year for a person retiring at age 65 and receiving a single-life annuity (a form of benefit that does not provide survivor benefits.) This amount must be adjusted down for people who retire before age 65 (or who first begin receiving benefits from PBGC before 65) and for benefit forms that include survivor benefits such as joint-and-survivor annuities. For 2009, the maximum guaranteed amount increases to $54,000 per year for a person retiring at age 65 and receiving a single-life annuity.

All single-employer plans must pay a basic flat-rate premium of $33 per participant per year for 2008 and $34 per participant per year for 2009 (the flat-rate premium is indexed for wage inflation). Underfunded single-employer plans also pay a variable-rate charge of $9 per $1,000 of unfunded vested benefits. In addition, certain underfunded plans terminating after 2005 must pay a "termination" premium of $1,250 per participant per year for the 3 years following plan termination.

As of September 30, 2008, the single-employer program reported a net deficit of $10.7 billion, which represented a $2.4 billion improvement in the program's financial condition since the end of the previous year. The improvement was due largely to an increase in interest rates that reduced the value of PBGC's benefit liabilities and the continued absence of major new terminations of underfunded plans. Overall, the single-employer program had assets of $61.6 billion and liabilities totaling $72.3 billion.

At fiscal year-end, PBGC's future exposure to losses from underfunded plans classified as reasonably possible terminations fell from $66 billion in 2007 to $47 billion in 2008 (see Note 8). For 2008, this exposure was concentrated in manufacturing (primarily automobile/auto parts, and primary and fabricated metals), and in transportation,

NET POSITION, SINGLE-EMPLOYER PROGRAM
1999-2008



communication, and utilities (primarily airlines). Despite this improvement, PBGC remains concerned about its exposure to potential additional losses. Moreover, the significant volatility in plan underfunding and sponsor credit quality over time makes long-term estimates of PBGC's expected claims difficult. Since the close of the fiscal year, there continue to be significant events in the economy and financial markets that may impact PBGC's financial condition subsequent to fiscal 2008.

Multiemployer Program

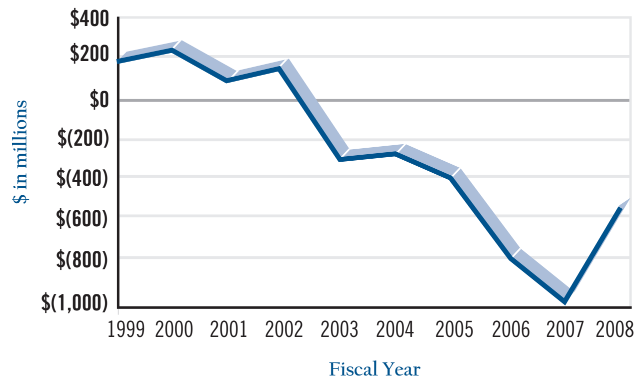
Multiemployer pension plans are maintained pursuant to collective bargaining agreements between unions and groups of employers. There are about 1,500 multiemployer plans that cover more than 10.1 million workers and retirees. Multiemployer plans cover many unionized workers in the trucking, retail food, construction, mining, and garment industries.

By law, the assets and liabilities of the multiemployer program are segregated from those of the single-employer program. Unlike the single-employer program, which guarantees payment of benefits upon termination of an underfunded plan, the multiemployer program guarantees payment of benefits if a covered plan is insolvent and unable to pay basic PBGC-guaranteed benefits when due. Also unlike the single-employer program, the multiemployer program does not trustee an insolvent plan. Rather, PBGC financially assists insolvent plans to enable them to continue paying guaranteed benefits themselves. In its history, PBGC has provided $414 million in total financial assistance, net of repayments, to 57 plans. Only one plan has ever repaid PBGC.

The multiemployer benefit guarantee differs markedly from that of the single-employer program. The benefit guarantee limit for a multiemployer plan for someone with 30 years of service is $12,870. This limit can be changed only by legislation and has not changed since December 2000.

The multiemployer program has its own premium structure—$9 per participant per year in 2009, unchanged from 2008. The multiemployer premium is indexed for wage inflation.

NET POSITION, MULTIEMPLOYER PROGRAM
1999-2008



PBGC's multiemployer program more than halved its deficit in FY 2008. As of September 30, 2008, the program reported a net deficit of $473 million, which represented a $482 million improvement over the program's 2007 position—the largest single-year improvement in the program's history.

The same favorable change in interest factors that affected the single-employer program contributed to this improvement, as did the elimination of nine plans from the program (partially offset by the addition of five plans to the probables inventory). At year-end, the program had $1.3 billion in assets and $1.8 billion in liabilities.

At the end of fiscal year 2008, the multiemployer program's exposure to additional future losses (classified as reasonably possible claims) was $30 million, compared with $73 million at the end of fiscal year 2007. The program's deficit (though decreasing) and exposure to additional losses remain a concern for the agency. PBGC continues to be mindful of a number of unfavorable long-term trends: the extensive restructuring of several industries that formerly supported large plans, a decline in the number of new firms that join multiemployer plans, and a drop in the ratio of active workers to retirees in multiemployer plans.

2008 Annual Management Report

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

Office of the Director

Director's AMR Transmittal Letter

I am pleased to transmit the Pension Benefit Guaranty Corporation's Annual Management Report for fiscal year 2008. This report includes PBGC's financial statements, the transmittal letter of PBGC's Inspector General, and the independent auditor's combined report on the Corporation's financial statements, internal controls, and compliance with laws and regulations. Also included is the Corporation's Annual Performance Report as required under the Government Performance and Results Act.

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

During FY 2008, PBGC made substantial progress toward these goals. The Corporation adopted a more diversified investment policy designed to increase the likelihood that PBGC will meet its obligations over time. PBGC has taken a slow and prudent approach to the implementation of the policy. In 2008, PBGC had a return on investment of -6.5%, even during this time of significant market turmoil. Even with this loss, PBGC reduced its deficit by more than $2.9 billion, due to prudent stewardship and diligent and assertive negotiations in bankruptcy proceedings, as well as decreases in the value of our liabilities, and other factors.

The agency also improved its Information Technology planning, budgeting, development and management, getting PBGC off the OMB Management Watch List. We implemented a new performance management program, aligning staff accountability with the Corporation's strategic goals. PBGC scored improvements in its efficiency and effectiveness in serving plan participants, retirees, and premium filers. And the agency finalized regulations implementing the premium reform provisions of the Pension Protection Act of 2006 and the Deficit Reduction Act of 2005.

The Annual Performance Report notes that PBGC has incorporated the principles of the President's Management Agenda into its strategic planning process and achieved successes in the areas of strategic management of human capital, commercial services management, improved financial management, and expanded E-Government.

The financial and performance data included in this report are reliable and complete. PBGC's independent auditor gave the Corporation its 16th consecutive unqualified audit opinion on its financial statements, and its 5th consecutive unqualified opinion on management's assertion regarding the effectiveness of PBGC's internal controls.

The independent auditor's reports are included within this Annual Management Report. As further discussed in these reports, and in the Management Representation Letter and Chief Financial Officer's Letter, the independent auditor reported on the status of three significant deficiencies and PBGC's progress made on prior year reportable conditions. PBGC is committed to addressing the recommendations in the areas of information security, access controls, and financial management integration.

Sincerely,

Charles E.F. Millard
Director

November 12, 2008

Financial Statement Highlights

- PBGC's combined financial condition improved by $2.92 billion, reducing the Corporation's deficit from $14.07 billion as of September 30, 2007, to $11.15 billion as of September 30, 2008.
- PBGC's portfolio incurred a return on investment of -6.5%, in a time of substantial market volatility.
- The single-employer program's net position improved by $2.43 billion, reducing the program's deficit to $10.68 billion. The multiemployer program's net position improved by $482 million, reducing that program's deficit to $473 million.
- The primary factors in the single-employer program's net income included a credit of $7.56 billion due to a favorable change in interest factors, $1.43 billion in premium and other income, credits of $826 million from completed and probable terminations and $649 million in actuarial adjustments, which more than offset investment losses of $4.16 billion and a $3.40 billion actuarial charge due to passage of time.
- The primary reasons for the multiemployer program's improved position included $271 million in credits from financial assistance (due to the favorable increase in interest factors and the deletion of nine plans from the multiemployer probables inventory, which was partially offset by the addition of five new plans), $121 million in investment income, and $90 million in premium income.
- Liability valuation interest factors increased by 135 basis points to 6.66% at September 30, 2008, from 5.31% at September 30, 2007. This increase in PBGC's interest factors resulted in a reduction to actuarial charges, due to change in interest rates, of $7.56 billion that more than offsets the actuarial charges for passage of time of $3.40 billion. The FY 2008 favorable impact due to changes in interest rates was strongly influenced by the unprecedented increase in highly rated long-term corporate bond yields that occurred as a result of credit market volatility at year-end. This caused a significant drop in PBGC's Present Value of Future Benefits (PVFB) at September 30, 2008, but could easily reverse itself in the future if interest factors decline.
- During FY 2008, 67 underfunded single-employer plans were terminated. As a consequence of PBGC's previous efforts to thoroughly evaluate its exposure to probable terminations, $148 million of the net claims for these plans had already been reflected in PBGC's results as of the end of 2007. The 67 plans had an average funded ratio of approximately 59% and resulted in an aggregate net loss to PBGC of $271 million (see Note 11).
- Premium income decreased during FY 2008 by $65 million. Higher per participant rates for the flat-rate premium generated an increase in income of $56 million over FY 2007. Offsetting this additional income were reductions in the Variable Rate Premium (VRP) income by $117 million and in termination premiums by $4 million. The net VRP income decline was primarily due to plan year 2007 filings reporting improved plan underfunding and an increase in the number of plans eligible for the variable-rate premium "full funding" exemption. This exemption has been eliminated for plan years starting in 2008. VRP estimates for plan year 2008 premiums reflect a modest $10 million increase in VRP over plan year 2007 levels.
- No new large plans were classified as probable terminations in 2008 although twenty smaller plans were added as new probable terminations with underfunding of $233 million. Probable terminations represent PBGC's best estimate of claims for plans that are likely to terminate in a future year.
- PBGC's total benefit payments to participants increased to $4.29 billion in 2008 from $4.27 billion in 2007.
- At year-end, PBGC's estimate of its exposure from underfunding by plan sponsors whose credit ratings were below investment grade or who met one or more financial distress criteria totaled approximately $47 billion, down from $66 billion in 2007. PBGC classifies these sponsors' underfunded plans as reasonably possible terminations (see Note 8 and Note 16).

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

I. Introduction

PBGC management believes that the following discussion and analysis of the Corporation's financial statements and other statistical data will enhance the reader's understanding of PBGC's financial condition and results of operations. This discussion should be read in conjunction with the financial statements beginning on page 28 and with the accompanying notes.

II. Financial and Program Risks

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

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

III. Recent Developments

PENSION PROTECTION ACT OF 2006 (PPA): This legislation, signed into law in 2006, by President George W. Bush, made a number of changes to the pension insurance system, including changes to premiums, guarantee rules, reporting and disclosure, multiemployer plan withdrawal liability, and the missing participants program.

During FY 2008, PBGC continued developing the numerous rules necessary to implement and comply with the PPA. In developing these regulations, PBGC seeks to ease and simplify employer compliance whenever possible, taking into account the needs of small businesses. In line with these principles, PBGC published two final rules implementing premium changes. The first implemented the new termination premium applicable to certain plan terminations, which the PPA made permanent, and the new cap on the variable-rate premium for plans of small employers. The second implemented the new provisions for calculating the variable-rate premium, effective for 2008 plan years. These final rules completed a major portion of PBGC's PPA implementation plan.

During FY 2008, PBGC also published proposed rules on PPA changes to annual financial and actuarial information reporting under ERISA section 4010, multiemployer withdrawal liability, disclosure of termination information, and payment of benefits in PBGC-trusteed plans (where the plan terminates while the sponsor is in bankruptcy). PBGC expects to finalize these rules in FY 2009. PBGC also issued significant guidance in FY 2008 on several PPA implementation issues, including lump-sum calculations in terminating plans.

During FY 2009, PBGC expects to publish proposed and/or final rules implementing the expanded missing participants program and PPA changes to terminating cash balance plans and PBGC's guarantee of shutdown benefits.

IV. Discussion of Insurance Programs

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

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

The single-employer program covers about 33.8 million participants, down from 33.9 million participants in 2007. The number of covered plans decreased from about 29,300 in 2007 to about 27,900 in 2008 (2007 numbers were revised from those reported last year). Most covered terminated plans had sufficient funding to cover future benefits. Most of these plans distributed all plan benefits as insurance company annuities or lump sums pursuant to the standard termination rules of ERISA. In contrast when a covered underfunded plan terminates, PBGC becomes trustee of the plan, applies legal limits on payouts, and pays benefits.

In FY 2008 the drivers of the net income of $2.433 billion included the following: a credit of $7.564 billion due to a favorable change in interest factors; $1.402 billion in premium income; completed and probable terminations credit of $826 million; and $649 million in actuarial adjustments. These amounts were offset by investment losses of $4.164 billion and a $3.400 billion actuarial charge due to passage of time.

PBGC's single-employer program realized a net gain of $2.433 billion compared to a net gain in 2007 of $5.031 billion. The $2.598 billion year-to-year change in net income was primarily attributable to (1) a $4.755 billion decrease in actuarial charges due to higher interest rates, (2) an increase of $1.225 billion in credits from completed and probable terminations, and (3) an increase in credits from actuarial adjustments of $535 million offset by (4) an investment loss of $4.164 billion in FY 2008 down from a gain of $4.737 billion in FY 2007 and (5) a $74 million decrease in premium income. Actuarial charges and adjustments arise from gains and losses from mortality and retirement assumptions, changes in interest factors, and passage of time. Passage of time refers to the interest that is assumed to be earned during the fiscal year; future benefit payments for terminated plans are discounted using an assumed interest factor which must then be earned during the year.

UNDERWRITING ACTIVITY: PBGC's single-employer program realized a net gain to underwriting income of $2.483 billion in 2008, a significant improvement from the gain of $804 million in 2007. This $1.679 billion year-to-year increase was primarily due to $1.225 billion in credits from completed and probable terminations, as well as the year-to-year increase in credits from underwriting actuarial adjustments of $535 million, offset by decreases in single-employer premium income of $74 million.

Income from underwriting activity decreased (from $1.531 billion in 2007 to $1.425 billion in 2008), mirroring a decrease in premium income from plan sponsors (from $1.476 billion in 2007 to $1.402 billion in 2008). Other income, consisting of interest on recoveries from sponsors, decreased from $55 million in 2007 to $23 million in 2008.

Annual flat-rate premiums for the single-employer program increased to $33 per participant. Flat-rate premium income increased to approximately $1.19 billion in 2008. Annual VRP decreased by $117 million to a total of $241 million. Underfunded single-employer plans subject to the VRP paid VRP at a rate of $9 per $1,000 of underfunding (plans that meet certain minimum funding requirements are exempt from the VRP).

The Required Interest Rate (RIR) used in calculating underfunding for purposes of determining a VRP is 100 percent of a composite corporate bond yield, which resulted in a rate of 5.75% for 2007 calendar-year plans compared to a rate of 4.86% for 2006 calendar-year plans.

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

The Secretary of the Treasury determines each segment rate monthly using the portion of a corporate bond yield curve that is based on corporate bonds maturing during that segment rate period. The corporate bond yield curve, also prescribed on a monthly basis by the Secretary of the Treasury, reflects the yields for the previous month on investment-grade corporate bonds with varying maturities that are in the top three quality levels. For comparison, the segment rates for January, 2008 calendar-year plans were 4.93%, 6.13%, and 6.69% for the first, second, and third segments, respectively. For plan year 2008, the VRP has remained steady in spite of the PPA changes and elimination of the VRP exemptions. However, the VRP from fiscal year 2007 to 2008 declined due to the higher RIR, new rate structure, stronger economy, and the effects of lower plan funding liabilities.

The Corporation's losses from completed and probable plan terminations improved from a charge of $399 million in 2007 to a credit of $826 million in 2008. This was primarily due to the reduction in probable claims of $632 million.

The net claim for probable terminations as of September 30, 2008, is $3.154 billion, while the net claim as of September 30, 2007, was $3.786 billion. This $632 million reduction resulted primarily from the transfer of $148 million of previously accrued claims to a termination status (see note 5), and a decrease in net claims of $706 million for plans remaining in the probable classification from 2007, offset by the addition of 20 new probables with net claims of $233 million. The actual amount of future losses remains unpredictable.

Administrative expenses increased $22 million from $328 million in 2007 to $350 million in 2008. The FY 2008 expense of $67 million in "Expenses: Other" includes a write-off of uncollectible premiums owed by terminated plans and a reserve for disputed or doubtful post-termination premiums.

FINANCIAL ACTIVITY: In FY 2008 all but $50 million of the single-employer net investment losses of $4.164 billion were absorbed by the net actuarial credits of $4.114 billion for the passage of time and changes in interest rates. Single-employer financial net income decreased significantly from a gain of $4.227 billion in 2007 to a loss of $50 million in 2008. The Corporation had an investment loss of $4.164 billion in FY 2008, compared with investment income of $4.737 billion in FY 2007, leading to the year-over-year decline. This was offset by a year-over-year decrease of $4.624 billion in actuarial charges. PBGC marks its assets to market.

Actuarial charges under financial activity represent the effects of changes in interest rates and the passage of time on the present value of future benefits. The passage of time charges are due to the shortening of the discount period as the valuation date moves forward in time. The increase in passage of time charges is due primarily to the different interest factors in effect at the beginning of FY 2008 and FY 2007, 5.31% and 4.85%, respectively. Charges due to change in interest rates decreased substantially due to the increase in the applicable interest factors.

PBGC discounts its liabilities for future benefits with interest factors[1] that, together with the mortality table used by PBGC, approximate the price in the private-sector annuity market at which a plan sponsor or PBGC could settle its obligations. PBGC's select interest factor increased to 6.66% (for the first 20 years after the valuation date) at September 30, 2008, from 5.31% for the first 20 years at September 30, 2007. The ultimate factor increased to 6.47% at September 30, 2008, after the first 20 years from 4.88% at September 30, 2007.

PBGC's single-employer PVFB (Present Value of Future Benefits) decreased from $69.235 billion at September 30, 2007 to $59.996 billion at September 30, 2008. PVFB comprises the vast majority of PBGC's combined total liabilities on its Statements of Financial Condition of $74.126 billion.

IV.B Multiemployer Program Results of Activities and Trends

A multiemployer plan is a pension plan sponsored by two or more unrelated employers under collective bargaining agreements with one or more unions. Multiemployer plans cover most unionized workers in the trucking, retail food, construction, mining and garment industries. The multiemployer program covers about 10.1 million participants (up from 10.0 million participants in 2007) in about 1,500 insured plans. PBGC does not trustee multiemployer plans. Under this program, PBGC financially assists insolvent multiemployer plans through loans that enable them to pay guaranteed benefits. Once begun, these loans generally continue year after year until the plan no longer needs assistance or has paid all promised benefits at the guaranteed level. These loans are rarely repaid.

In 2008 the multiemployer program's present value of nonrecoverable future financial assistance decreased to $1.768 billion, a decrease of $356 million. During the fiscal year, PBGC paid $85 million in financial assistance to 42 insolvent plans.

The multiemployer program reported a net gain of $482 million in FY 2008 compared to a net loss of $216 million in FY 2007. This resulted in a negative net position of $473 million in FY 2008 compared to a negative net position of $955 million in FY 2007. The change in net income was primarily due to the decrease in expected loss from future financial assistance of $590 million, an increase in investment income of $98 million, and an increase in premium income of $9 million.

The multiemployer program reported a net gain from underwriting activity of $361 million in FY 2008 compared to a net loss of $239 million in FY 2007. This improvement of $600 million was primarily attributed to the decrease in losses from financial assistance of $590 million (due to the deletion of nine plans from the multiemployer probable inventory and the increase in interest factors, offset by the addition of five plans) and the increase in premium income of $9 million. Financial activity reflected financial income of $121 million from earnings on fixed income investments in 2008, compared to income of $23 million in 2007. Multiemployer program investments originate primarily from the cash receipts for premiums due from insured plans. By law, PBGC is required to invest these premiums in obligations issued or guaranteed by the United States of America. Multiemployer program assets at year-end were invested 98.3 percent in Treasury securities, as compared to 99.3 percent in Treasury securities in 2007.

V. Overall Capital and Liquidity

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

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

FY 2008 combined premium cash receipts totaled $1.4 billion, a decrease of $250 million from $1.7 billion in 2007. Net cash flow provided by investment activity decreased to $1.1 billion versus $1.2 billion provided in 2007.

In 2008, PBGC's cash receipts of $3.9 billion from operating activities of the single-employer program were insufficient to cover its operating cash obligations of $5.3 billion. This resulted in net cash underperformance from operating activities of $1.4 billion (as compared to underperformance of $1.0 billion in 2007). When the single-employer cash provided through investing activities of $1.1 billion is added to this net cash underperformance, the single-employer program in the aggregate experienced a net cash decrease of $295 million. In the multiemployer program, cash receipts of $140 million from operating activities were sufficient to cover its operating cash obligations of $117 million, resulting in net cash provided by operations of $23 million, and an overall net cash increase of $13 million.

During FY 2008, PBGC recovered approximately $66 million through agreements with sponsors of terminated plans for unpaid contributions and unfunded benefits. A portion of PBGC's recoveries is paid out as additional benefits to plan participants with nonguaranteed benefits according to statutory priorities.

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

In 2008, PBGC's combined net decrease in cash and cash equivalents amounted to $282 million, arising from a decrease of $295 million for the single-employer program and an increase of $13 million for the multiemployer program.

VI. Outlook

For FY 2009, PBGC estimates $4.8 billion in single-employer benefit payments and $97 million in financial assistance payments to multi-employer plans. Under a continuing resolution for FY09, which will be in effect through March 6, 2009, PBGC will operate on 43 percent of its FY08 administrative budget of $411 million during this period.

In 2009, significant factors beyond PBGC's control (including changes in interest rates, the financial markets, plan contributions made by sponsors, and recently enacted statutory changes) will continue to influence PBGC's underwriting income and investment gains or losses. PBGC's best estimate of 2009 premium receipts ranges between $1.4 billion and $1.6 billion. No reasonable estimate can be made of 2009 terminations, effects of changes in interest rates, or investment income.

As of September 30, 2008, the single-employer and multiemployer programs reported deficits of $10.7 billion and $473 million, respectively. Notwithstanding these deficits, the Corporation has $63 billion in assets and will be able to meet its obligations for a number of years. However, neither program at present has the resources to fully satisfy PBGC's obligations in the long run.

VII. Single-Employer and Multiemployer Program Exposure

PBGC estimates its loss exposure to reasonably possible terminations (e.g., underfunded plans sponsored by companies with credit ratings below investment grade) at approximately $47 billion on September 30, 2008, and $66 billion on September 30, 2007. The comparable estimate of reasonably possible exposure for 2006 was approximately $73 billion. PBGC's exposure to loss may be less than these amounts because of the statutory guarantee limits on insured pensions, but this estimate is not available because it is difficult to prospectively determine the extent and effect of the guarantee limitations. These estimates are measured as of December 31 of the previous year (see Note 8). For FY 2008, this exposure was concentrated in the following sectors: manufacturing (primarily automobile/auto parts, and primary and fabricated metals), transportation (primarily airlines), and wholesale and retail trade.

The Corporation estimates that, as of September 30, 2008, it is reasonably possible that multiemployer plans may require future financial assistance of approximately $30 million. As of September 30, 2007 and 2006, these exposures were estimated at approximately $73 million and $83 million, respectively.

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

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

VIII. Investment Activities

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

PBGC's investment assets consist of premium revenues, accounted for in the revolving funds, and assets from trusteed plans and their sponsors, accounted for in the trust funds. By law, PBGC is required to invest certain revolving funds (i.e., Funds 1 and 2) in obligations issued or guaranteed by the United States of America. Portions of the other revolving fund (i.e., Fund 7) can be invested in other debt obligations, but under PBGC's investment policy these revolving funds are invested solely in Treasury securities. Total revolving fund investments, including cash and investment income, at September 30, 2008, were approximately $14.97 billion ($0.21 billion for Fund 1, $1.33 billion for Fund 2, and $13.43 billion for Fund 7). PBGC has never established funds 3, 4, 5 or 6, which ERISA authorized for special discretionary purposes. Trust fund investments totaled $35.80 billion as of September 30, 2008. At the end of FY 2008, PBGC's total investments consisting of cash and cash equivalents, investments, and investment income receivable as shown on the Statements of Financial Condition were $50.77 billion.

PBGC's investment program, with assets under management of approximately $49.76 billion as of September 30, 2008, is responsible for managing the vast majority of PBGC's assets utilizing private sector investment management firms. A small percentage of PBGC's investments included on the balance sheet but not managed within the investment program represent assets that are in transition from newly terminated trusteed plans or other special holdings not subject to PBGC's investment policy. The following asset allocation percentages refer to the investments within PBGC's investment program, and subject to the corporation's investment policy.

Cash and fixed income securities totaled approximately 71 percent of total assets invested at the end of FY 2008, compared to 68 percent for FY 2007. Equity securities represented 27 percent of total assets invested at the end of FY 2008, compared to 32 percent for FY 2007. The total return on investments for FY 2008 was -6.5% compared to 7.2% in 2007. Alternative investments, comprised largely of private equity acquired from trusteed plans, represented 2% of investments at the end of FY 2008.

During FY 2008, PBGC completed an investment program and policy review. As a result, PBGC adopted a new investment policy in February 2008 that utilizes a more diversified investment structure. The new investment policy allocates 45 percent to equities, 45 percent to fixed income, 5 percent to real estate, and 5 percent to private equity. The objectives of PBGC's new investment policy are: to prudently maximize investment returns; to take advantage of PBGC's long-term investment horizon; and to increase the probability of closing its current funding gap and of meeting its future obligations.

PBGC has taken a careful and deliberate approach to the implementation of this new policy. At the end of FY 2008, the Corporation had selected investment managers for its fixed income and equity allocations, and had initiated an exhaustive search for strategic partners to assist in managing PBGC's investments in both private equity and real estate.

In FY 2008, PBGC continued to hold a large portion of its investments in long duration fixed income securities, while working to transition the assets into the new target allocations. PBGC will continue to take a prudent and careful approach to the phased implementation of this long-term policy in FY 2009 and beyond.

PBGC also appointed a new Chief Investment Officer and added technical staff resources to facilitate the implementation process and to support the ongoing oversight of its investment program.

During FY 2008, there were unprecedented market developments led by the difficulties in the sub-prime mortgage market and the overall de-leveraging of the U.S. financial markets. These events triggered a spiral of significant write-downs and declines in almost all asset values. Financial markets experienced both a severe credit crunch and a liquidity crisis, which resulted in unprecedented Government interventions in the capital markets.

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

INVESTMENT PERFORMANCE

(Annual Rates of Return)

	September 30, 2008	September 30, 2007	Three and Five Years Ended September 30, 2008: 3 Years	5 Years
Total Invested Funds	(6.5)%	7.2%	1.5%	4.2%
Equities	(23.2)	16.5	(0.3)	5.6
Fixed Income	1.6	3.4	2.2	3.7
Trust Funds	(11.8)	9.5	0.9	4.7
Revolving Funds	8.3	2.0	3.6	4.6
Indices				
Dow Jones Wilshire 5000	(21.3)	17.0	0.6	6.0
MSCI All Country World ex-U.S.	(30.3)	30.5	2.6	11.3
S&P 500 Stock Index	(22.0)	16.4	0.2	5.2
Lehman Long Gov't/Credit	(0.4)	3.7	2.0	3.7
Fixed Income Composite Benchmark*	0.8	3.2	1.8	3.3
Global Equity Composite Benchmark**	(22.3)	17.9	0.4	5.9
Total Fund Benchmark***	(6.6)	7.5	1.5	4.1

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

** The Global Equity Composite Benchmark is a dynamically weighted benchmark utilizing both the Dow Jones Wilshire 5000 Index and the MSCI All Country World ex-U.S. Index.

*** The Total Fund Benchmark is a dynamically weighted benchmark based upon the weights of the equity, fixed income and cash benchmarks.

The Dow Jones Wilshire 5000 Index returned -21.3% at the end of FY 2008, and the MSCI All Country World ex-US Index returned -30.3%. The Lehman Long Government/Credit Index returned -0.4%. PBGC's fixed income investments earned a 1.6% return and contributed $698 million in investment income. PBGC's equity investments returned -23.2%, reducing investment income by $4.788 billion. PBGC's total invested fund return of -6.5% for the one-year period compares to a total fund composite benchmark return of -6.6%. The total invested fund return and total fund benchmark return are weighted average returns representing the asset allocation of the entire investment portfolio.

PBGC Management Assurances and Internal Controls Program

PBGC's Internal Controls Program provides for compliance with the Federal Managers' Financial Integrity Act (FMFIA) and Office of Management and Budget (OMB) Circular A-123 requirements. This program and the other activities described below support the Director's Assurance Statement for FY 2008:

FMFIA ASSURANCE STATEMENT PROCESS

In support of the Director's Assurance Statement, members of PBGC's executive and senior management prepared and submitted annual assurance statements regarding whether internal controls within their respective areas of responsibility were operating as intended and provided for compliance with FMFIA. For FY 2008, each member of PBGC's executive and senior management provided a positive assurance statement.

INTERNAL CONTROL COMMITTEE

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

DOCUMENTATION AND TESTING OF KEY FINANCIAL REPORTING CONTROLS

PBGC has identified 12 major business process cycles which have a significant impact on PBGC's financial reporting processes, as follows: Benefit Payments Processing, Benefit Determinations, Budget, Financial Reporting, Investments, Losses on Completed and Probable Terminations, Non-Recoverable Future Financial Assistance, Payables, Payroll, Premiums, Single-Employer Contingent Liability, and Present Value of Future Benefits. As of the end of FY 2008, PBGC had identified 157 key controls over financial reporting within these major business cycles. Employees responsible for performance of these controls maintained logs documenting control execution, and provided quarterly representations regarding the performance of those controls. These controls were also evaluated for the adequacy of control design and regularly tested to determine operating effectiveness of the controls during the year. Reports regarding results of testing were provided to PBGC management and ICC members for consideration under FMFIA.

DOCUMENTATION AND TESTING OF ENTITY-WIDE AND INFORMATION TECHNOLOGY CONTROLS

Entity-wide controls are overarching controls that support the overall effectiveness of PBGC's internal control environment. As of the end of FY 2008, PBGC had identified 42 key entity-wide controls within the following six components of its internal control environment: control environment, risk assessment, control activities, information and communication, monitoring, and anti-fraud.

Federal Information Processing Standards Publication 200 (FIPS 200)—"Minimum Security Requirements for Federal Information and Information Systems" requires that PBGC implement information technology and other controls that protect the confidentiality, integrity, and availability of federal information systems and the information processed, stored, and transmitted by those systems. National Institute of Standards and Technology Special Publication No. 800-53 (NIST 800-53) provides agencies guidance on implementation and testing of internal controls that correspond to FIPS 200 Processing Standards. During FY 2008, PBGC made a concerted effort to document and assign operational responsibility for 65 NIST 800-53 controls. The documentation and assignment of additional controls specified under NIST 800-53 will continue.

Both entity-wide and information technology controls were assessed from both a design and operating effectiveness perspective, and reports regarding results of testing were provided to PBGC management and ICC members for consideration under FMFIA.

ASSESSMENT OF IMPROPER PAYMENT RISK

Consistent with the objectives of the Improper Payments Information Act (IPIA) of 2002, PBGC conducted a risk assessment to determine whether any of its programs were considered susceptible to significant improper payments. In performing its mission, PBGC processes a variety of different types of outgoing payments, including benefit payments, financial assistance payments to certain multiemployer plans, premium insurance refunds, payroll and travel disbursements, and payments to vendors. PBGC has established internal controls over each form of outgoing payments to prevent improper payments or detect them in a timely manner. Given OMB reporting thresholds, our risk assessment efforts focused on outgoing benefit payments. PBGC had issued more than $4.2 billion in payments to over 600,000 participants and beneficiaries during FY 2008. Our assessment included a review of selected benefit payments, electronic analysis of our participant database, and discussions with appropriate PBGC management officials. PBGC has concluded that its payment processes are not susceptible to significant improper payments risks.

AUDIT COORDINATION AND FOLLOW-UP PROGRAM

During FY 2008, PBGC completed a major update to guidance provided to PBGC managers and employees in regard to the coordination and follow-up of audits of PBGC performed by the Office of Inspector General (OIG) and Government Accountability Office (GAO). A cross-section of PBGC management, as well as OIG representatives, provided input to a revised directive which implements OMB Circular A-50 requirements. PBGC views the performance of independent audits as essential to promoting its accountability to PBGC stakeholders and remains committed to timely resolution and implementation of agreed-upon recommendations. During the year, both the OIG and GAO issued a number of reports containing recommendations for PBGC management to consider, and PBGC is in the process of implementing appropriate corrective actions. To facilitate timely completion and closure of recommendations, PBGC regularly monitors implementation efforts, including regular distribution of status reports via an electronic portal and formal submission of documentation as recommendations are completed.

COMPENDIUM OF LEGAL AUTHORITY

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

Federal Managers' Financial Integrity Act Assurance Statement

In accordance with the Federal Managers' Financial Integrity Act and OMB Circular A-123, the Director's Assurance Statement for FY 2008 is presented below:

PBGC's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). PBGC conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, PBGC can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2008, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

In addition, PBGC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, PBGC can provide reasonable assurance that its internal control over financial reporting as of September 30, 2008, was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

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, 2008 and 2007, the related Statements of Operations and Changes in Net Position and the Statements of Cash Flows for the years then ended. PBGC's management is also responsible for establishing and maintaining systems of internal accounting and administrative controls that provide reasonable assurance that the control objectives, i.e., preparing reliable financial statements, safeguarding assets and complying with laws and regulations, are achieved.

In the opinion of management, the financial statements of the Single-Employer and Multiemployer Program Funds present fairly the financial position of PBGC at September 30, 2008, and September 30, 2007, and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America (GAAP) and actuarial standards applied on a consistent basis. As noted in the FMFIA Statement of Assurance above, PBGC's accounting systems and internal controls comply with the provisions of the FMFIA.

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

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

The Inspector General engaged Clifton Gunderson LLP to conduct the audit of the Corporation's fiscal years 2008 and 2007 financial statements, and Clifton Gunderson issued an unqualified opinion on those financial statements.

Charles E.F. Millard
Director

Patricia Kelly
Chief Financial Officer

November 12, 2008

Annual Performance Report

The Corporation's 2008-2013 Strategic Plan provides the framework to guide achievement of its mission and identifies the priorities for addressing challenges that lie ahead. The strategic plan is founded on three principal goals:

- Safeguard the federal pension insurance system for the benefit of participants, plan sponsors, and other stakeholders;
- Provide exceptional service to customers and stakeholders; and
- Exercise effective and efficient stewardship of PBGC resources.

PBGC serves a variety of customers and stakeholders with an interest in a strong and effective pension system. Customers and stakeholders include beneficiaries in terminated pension plans, participants in ongoing pension plans that PBGC insures, the employers that pay premiums, and the lawmakers and policymakers who oversee the federal insurance program.

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

This annual performance report provides information on PBGC's performance and progress in achieving the strategic goals outlined in the strategic plan. Performance results for FY 2008 are detailed below. These items meet the annual reporting requirement of the Government Performance and Results Act.

Overview of PBGC's Performance Measures

PBGC made significant strides toward improving the pension insurance program in 2008. PBGC:

- Finalized regulations implementing the premium reform provisions of the Pension Protection Act and the Deficit Reduction Act;
- Strengthened the information security program; and
- Exceeded performance measure targets in some areas. A summary of the performance measures, targets and results are listed in Chart 1.

CHART 1: PBGC PERFORMANCE MEASURES, TARGETS AND RESULTS

Performance Measure	2008 Target	2008 Results	Baseline Results*
Goal 1: Safeguard the federal pension insurance system for the benefits of participants, plan sponsors, and other stakeholders			
Commit to eliminate PBGC's deficit and account better for PBGC's expected losses, in order that workers and retirees can expect to receive qualified benefit payments from PBGC for the defined benefit pension plans that PBGC assumes	Produce report on options for eliminating deficit	Report drafted; will be produced when current information can be included	
Goal 2: Provide exceptional service to customers and stakeholders			
Customer Satisfaction score for **premium filers**	69	72	Baseline result in 2006: 68
Customer Satisfaction score for **retirees** receiving benefits from PBGC	85	89	Baseline result in 2004: 84
Customer Satisfaction score for trusteed plan **participant callers**	80	81	Baseline result in 2001: 73
Average time (in years) between trusteeship and benefit determination issuance	3.0 years	3.3 years	Baseline result in 2008: 3.3
Goal 3: Exercise effective and efficient stewardship of PBGC resources			
Annual Administrative cost per participant in PBGC trusteed plans at year end	$191	$207	Baseline result in 2004: $219

* Baseline year established in the first year PBGC initiated the measure or in the year of a survey method change

Achieving Performance Goals

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

Congress enacted the Deficit Reduction Act of 2005 and the Pension Protection Act in 2006, both of which contained provisions to strengthen the pension insurance system. PBGC set an aggressive schedule for implementation of the premium reforms introduced in those acts. At the end of March 2008, PBGC had published final regulations that change the flat-rate premium and implement the variable-rate premium provisions of DRA and PPA.

To safeguard the pension insurance system and protect workers' retirement benefits, PBGC employs an active program of plan monitoring, negotiation, and litigation. These proactive measures minimize risk and limit exposure to losses from plan termination. The result is a healthier pension insurance program for plan participants and sponsors.

SINGLE-EMPLOYER INSURANCE PROGRAM: During 2008, PBGC worked to mitigate risks faced by plan participants and the pension insurance program in several important cases. For example, PBGC's action in Delphi's ongoing bankruptcy helped to improve the security of benefits for Delphi's workers and retirees and substantially reduce the risk of loss faced by the insurance program. Under a court-approved agreement, Delphi will transfer up to $3.4 billion in net pension liabilities from its hourly plan to the hourly plan of General Motors, Delphi's former parent. The first segment of that transfer was made on September 29, 2008, and had the effect of reducing the Corporation's exposure to Delphi by $1.7 billion. The remaining amount will be transferred upon Delphi's emergence from bankruptcy. As part of its ongoing efforts to emerge from bankruptcy, Delphi must obtain court approval of a revised plan of reorganization and raise new capital. The pension transfer improves retirement security for over 64,000 participants in Delphi's hourly plan and contributes substantially to Delphi's restructuring. Also during fiscal year 2008, PBGC expanded its efforts to negotiate additional protections for underfunded plans in certain corporate downsizing events. PBGC negotiated five settlements that provide for additional pension contributions and other protections totaling $125 million, which will help to secure the benefits of over 13,000 participants.

During the year, PBGC succeeded in working with several major companies to continue their defined benefit pension plans as they emerged from bankruptcy reorganization. These included auto parts suppliers Dana Corporation with 53,000 participants, Federal Mogul Corporation with 33,000 participants, and Dura Automotive with 4,300 participants. Each of these companies made contributions required by ERISA during bankruptcy and kept their plans intact. PBGC obtained another significant victory in the bankruptcy court case of *In re Rhodes, Inc.* The court ruled in favor of PBGC on the method for determining the amount of PBGC's claim for pension underfunding in bankruptcy. The decision will help safeguard the insurance program by giving PBGC an important precedent for receiving a fair share of bankruptcy recoveries. Chart 2 depicts some of the safeguarding activities over the past four years.

CHART 2: SAFEGUARDING ACTIVITIES

Activity	2008	2007	2006	2005
Plans Monitored	3,393	3,630	3,712	4,152
Bankruptcy Cases	561	493	487	350

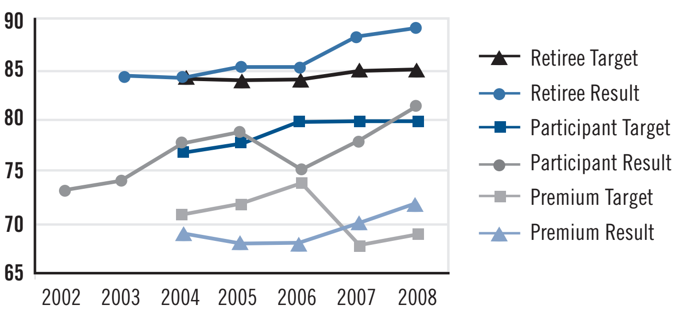
MULTIEMPLOYER INSURANCE PROGRAM: PBGC's efforts to mitigate risk and limit exposure to losses also include the multiemployer insurance program. For example, during 2008 PBGC staff worked with employer and union representatives to craft new funding and employer guarantee commitments designed to protect benefits under the Teamsters Local 863 Fund. This action will help to avoid a claim of approximately $250 million against PBGC's multiemployer insurance program and strengthen benefit security for nearly 6,000 participants. Also in the multiemployer area, PBGC facilitated the close-out of five small multiemployer plans that were receiving or expected to receive future financial assistance payments from PBGC. The plans either merged with other multiemployer plans or purchased annuities from private sector insurers for the participants. These small plan close-outs are part of an ongoing effort to reduce plan administrative costs borne by PBGC's multiemployer program.

IMPROVING FINANCIAL CONDITION: In 2008, PBGC began to explore options to reduce the gap between the Corporation's liabilities and its assets. In addition to the change in investment policy, PBGC set a goal to perform a comprehensive study of options for improving the financial condition of the single employer insurance program and issue a report. PBGC expects to issue the report early in fiscal year 2009 after projections from the Pension Insurance Modeling System (PIMS) model, which will consider the impact of the new investment policy and other factors, are completed.

Provide Exceptional Service to Customers and Stakeholders

PBGC uses the American Customer Satisfaction Index (ACSI) survey methodology to monitor its progress in meeting the needs and expectations of its customers and stakeholders, evaluating the effectiveness of its services to customers, and making targeted improvements. In 2008, PBGC's ACSI scores rose in surveys of retirees, participant callers, and premium filers, continuing an upward trend in these areas. Chart 3 below provides a history of PBGC ACSI results and targets.

CHART 3: CUSTOMER SATISFACTION SURVEY RESULTS 2002-2008



- **RETIREE SATISFACTION:** Retirees receiving benefits from the PBGC continued to show an overall high level of satisfaction with its services, scoring PBGC a record high of 89. This score exceeded the 88 scored last year, where PBGC scored among the highest in government for providing benefit services. In 2008 retirees communicated they were particularly pleased with improvements made in the timeliness of correspondence. PBGC uses customer feedback to target use of its resources in making continuous improvements in its services.

- **PARTICIPANT CALLER SATISFACTION:** The ACSI score for participant callers to the Customer Contact Center was 81, up three points from 2007 and exceeding the 2008 target of 80. This improved satisfaction can be attributed to increased training of Contact Center staff to ensure callers receive high-quality service and to additional focus on customer navigation of the automated phone system. PBGC is in the process of competing and awarding several contracts that directly impact participants. Our aim is to maintain the current high level of service we provide as we go through the transition and implementation of these contracts over the next few years.

- **PREMIUM FILER SATISFACTION:** The ACSI score for premium filers was 72, up 2 points from last year's record high of 70. This increase may be attributable to providing information to practitioners through two new avenues—a free online subscription service and frequently asked questions (FAQs) on the Web site, and expanded hours of customer support at peak filing times. Changes made to the survey questionnaire in 2006 enabled PBGC to better identify customer interest and target customer improvements, and performance targets were re-established to more accurately project reasonable stretch goals. In 2008, premium filers expressed the greatest satisfaction with PBGC's customer care, in particular with the ease of reaching the appropriate person. Targets for future years remain flat at 70, while PBGC focuses on effectively assisting premium filers with a series of new requirements, including mandatory e-filing and compliance with the Pension Protection Act.

Another key measure of PBGC's mission effectiveness is the average time required to provide participants with a final determination of their benefits. During 2008, the PBGC issued nearly 137,000 final benefit determinations, which it completed within an average of 3.3 years after the date PBGC trusteed the participant's plan. The very complex benefit determination process for plans trusteed in 2004 and 2005 adversely impacted the performance measurement and will continue to impact the 2009 performance. Process improvement efforts underway, such as the "Lean" methodology, should streamline the benefit determination process and reduce process times in the future.

Exercise Effective and Efficient Stewardship of PBGC Resources

PBGC strives to manage its resources efficiently and effectively. By aligning managers' performance agreements with the Corporation's strategic goals and performance targets, PBGC ensures that resources remain focused on performance expectations. PBGC continued to implement a long-term strategy for addressing information security and technology concerns. A concerted effort in 2008 to improve IT project management resulted in a stronger IT capital planning process that enabled PBGC to be removed from the Office of Management and Budget's Watch List. At the end of 2008, PBGC's cost per participant in trusteed plans was $207, an increase from $196 in 2007.

Another key area of PBGC's stewardship is the evaluation or performance assessment of the Corporation's investment program. One of PBGC's most fundamental operational objectives is to ensure that funds are available to fulfill the Corporation's obligations. PBGC generated a -6.5 percent return on total invested funds for FY 2008 compared to the Corporation's total fund benchmark return of -6.6 percent. The total fund return and total fund benchmark return are weighted average returns representing the asset allocation of the entire investment portfolio.

The Corporation is taking a slow and deliberate approach to the implementation of the new investment policy, and at the end of FY 2008 its allocation was approximately 71% to fixed income, including cash. Due to the cyclical nature of capital markets, PBGC reports both one-year and five-year returns for its investment program. For the five-year period ending September 30, 2008, PBGC's return on total fund investments was 4.2 percent compared to a total fund benchmark return of 4.1 percent.

The Pension Protection Act of 2006 requires PBGC to estimate the effect of an asset allocation based on a combination of two commonly used market benchmarks. This hypothetical portfolio, with a 60 percent allocation to the Standard & Poor's 500 equity index and a 40 percent allocation to the Lehman Brothers Aggregate fixed income index, while presenting a risk-return profile different from PBGC's current allocation, would have decreased the assets of the Corporation by approximately $3.0 billion (-12.3% return compared to PBGC's actual return of -6.5%) for the one-year period ending September 30, 2008 and increased the assets of the Corporation by approximately $1.5 billion (4.8% return compared to PBGC's actual return of 4.2%) over the five-year period ending September 30, 2008. For further analysis of PBGC's Investment Activities please refer to page 17. As reported in last year's FY 2007 Annual Report the same "60/40 portfolio" would have increased the assets of the Corporation by approximately $2.3 billion (11.9% return compared to PBGC's actual return of 7.2%) for the one-year period and $7.3 billion (11.0% return compared to PBGC's actual return of 7.7%) for the five-year period ending FY 2007. These results are summarized in the following table.

60/40 HYPOTHETICAL PORTFOLIO ANALYSIS VERSUS PBGC ACTUAL RETURN (60/40 is comprised of S&P 500/Lehman Aggregate)

	1 Year Period Ending			5 Year Period Ending		
Fiscal Year	60/40 Incremental $ Billions	60/40 % Return	PBGC Actual Return	60/40 Incremental $ Billions	60/40 % Return	PBGC Actual Return
9/30/2008	($3.0)	-12.3%	-6.5%	$1.5	4.8%	4.2%
9/30/2007	$2.3	11.9%	7.2%	$7.3	11.0%	7.7%

President's Management Agenda

Incorporating the principles of the President's Management Agenda into its strategic planning process further demonstrates PBGC's commitment to deliver high-quality services to American citizens and maintain a results-oriented, performance-based organization. During 2008, the PBGC achieved the following:

- **STRATEGIC MANAGEMENT OF HUMAN CAPITAL:** PBGC furthered its effort to build a results-oriented, performance-based organization. In 2008, PBGC implemented a new performance management program and began developing a strategic human capital plan that will strengthen the identification and alignment of human resources needed to support accomplishing the agency's goals.

  The Office of Government Ethics (OGE) recognized PBGC's Ethics Program with a 2008 Education and Communication Award. The award recognizes federal agencies that demonstrate strong commitment to ethics education and communication, create stronger ethical cultures as a result of these efforts, and use model practices to encourage understanding and awareness of ethical behavior. OGE singled out for special mention PBGC's interactive training entitled "Staying Off the Warning Track" and the special Hatch Act edition of the PBGC newsletter.

- **COMMERCIAL SERVICES MANAGEMENT:** PBGC continues to improve its commercial services management and procurement operations using a variety of techniques to ensure effective and efficient program delivery. PBGC contracts with private-sector entities for a wide variety of support functions, such as investment management and financial advice, benefit administration, information technology, actuarial services, and legal services. During 2008, PBGC strengthened contractor oversight through staff training and also applied performance-based contracting techniques to improve service delivery.

- **IMPROVED FINANCIAL MANAGEMENT:** For the 16th consecutive year PBGC received an unqualified audit opinion on its fiscal year 2008 Financial Statements from an independent financial auditor. A key component of the financial management structure at PBGC is an active internal controls program. For the fifth consecutive year PBGC received an unqualified opinion on management's assertion regarding the effectiveness of internal controls. PBGC's interdepartmental Internal Controls Committee oversaw the documentation and testing of key internal control activities, including testing of financial reporting controls, general information technology controls, and entity-wide controls. The testing helps management to support the "Federal Managers Financial Integrity Act" assertion that PBGC has an effective internal control system.

  Substantial efforts were made to address the three significant deficiencies that existed at the end of fiscal year 2007. Financial systems planning and design activities in fiscal year 2008 have set a stronger foundation for improved data integrity controls and for the promotion of systems integration. PBGC's Financial Systems Segment Architecture now in development will serve to strategically connect these activities going forward in an enterprise-wide, business-driven model and approach to investing in and implementing financial systems. PBGC also continued its efforts to significantly improve entity-wide security program planning and management, and embarked on a rigorous program to strengthen security access controls.

- **EXPANDED E-GOVERNMENT:** PBGC's Web site (www.pbgc.gov) serves about 7,400 visitors per day and it is the means through which all of the Corporation's other E-Gov services are accessed. Customers' satisfaction with the Web site improved significantly this year, rising from 62 in 2007 to 70 in 2008. Site enhancements such as an automatic e-mail feature that notifies pension plan practitioners of updates, a new frequently asked questions (FAQs) page that helps a customer locate desired content more quickly, and advance notices of temporary planned outages improved customers' experiences. PBGC strengthened its Web governance structure and established dedicated Web manager positions during 2008 to more closely monitor and improve PBGC.gov performance and ease of use.

  Through PBGC.gov, PBGC provides readily accessible services to customers online using My Pension Benefit Account (MyPBA) for participants and My Plan Administration Account (My PAA) for pension plan administrators. In 2008, participants used MyPBA to complete over 130,000 transactions. Since premium e-filing began in 2004, the PBGC has received more than 50,000 e-filings totaling more than $220 million of online payments.

  PBGC uses the ACSI to monitor customer satisfaction and target web site improvements. Survey scores for online Web services continued to improve in 2008. Satisfaction with MyPBA remains high and relatively stable and satisfaction with My PAA continues to trend upward. For MyPBA, the score rose three points from 79 in 2007 to 82 in 2008. Similarly for My PAA, the score rose four points from 76 in 2007 to 80 in 2008. PBGC has kept pace with customer expectations using its survey feedback to target system improvements. For example, in 2008, PBGC launched a new feature that enabled more than 7,000 participants to print their benefit tax forms. The premium filer experience on My PAA also has improved with periodic webcasts and online demonstrations supporting the e-filers.

- **PERFORMANCE IMPROVEMENT:** During 2008, senior leaders met quarterly to monitor the Corporation's budget activity and performance status. At these meetings, key performance goals, measures, and initiatives were discussed and used to evaluate the effectiveness of corporate strategies in addressing management challenges.

  The Treasury Department's Federal Consulting Group (FCG) recognized the PBGC with a 2008 Customer Satisfaction Achievement Award. The award recognizes PBGC's continuous and comprehensive use of citizen satisfaction to assess and improve programs, services, and website content. FCG found PBGC to be "among the most forward-thinking in developing performance measures and strategic plans that include citizen satisfaction."

Program Evaluation

- During 2008, the Government Accountability Office (GAO) conducted several reviews of PBGC. A review of PBGC's governance concluded that while the PBGC Board of Directors amended the bylaws to streamline processes and clarify the roles and responsibilities of the Board, Board representatives and PBGC Director, the need for improved oversight persists. Other reviews concluded that some steps have been taken to improve contracting, but a more strategic approach is needed; a more strategic approach could improve human capital management; and implementation of the new investment policy will need stronger Board oversight. Efforts are underway to address these findings.

- In fiscal year 2008, PBGC's Office of Inspector General (OIG) conducted audits and evaluations of PBGC's major management challenges. Reports included the annual audit of the PBGC financial statements, and the semi-annual reports to Congress. The OIG identified five major management challenge areas—governance, stewardship, PBGC's business model, information security, and procurement and contracting. Overall, PBGC management is taking steps to address each of the management challenge areas.

- PBGC made considerable progress in 2008 toward implementing the improvements recommended in the Program Assessment Rating Tool (PART) review completed by the Office of Management and Budget in 2007. PBGC:

  - Completed information technology (IT) certification and accreditation of its general support systems and major applications;

  - Established a new performance goal to analyze and prepare a report on options for improving the financial condition of the single employer insurance program. PBGC expects to issue its first report early in the next fiscal year;

  - Increased communication among its operating units to enable the Corporation to better prepare for workload changes and mitigate risk.

PBGC uses the American Customer Satisfaction Index survey methodology to receive feedback from its customers. In 2008, PBGC either exceeded or achieved all ACSI targets. The ACSI methodology scores on a 0-100 scale and produces indices for 10 economic sectors and 43 industries, including private and governmental entities. The ACSI provides a means for PBGC to compare its results with those of other government and private organizations, to identify areas of high value to our customers, and to benchmark best practices. Evaluation of the survey responses results in PBGC targeting its resources for service innovation and process improvements that benefit the PBGC customer.

PBGC
Protecting America's Pensions

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

Office of the Chief Financial Officer

Chief Financial Officer's Letter

Progress in Addressing Challenges

As a Significant Entity included in the *Financial Report of the United States Government* and given the important role PBGC plays in protecting America's pensions, PBGC is committed to accurate financial reporting and maintaining a strong internal control environment. I am very pleased to report that PBGC has again received an unqualified opinion on its financial statements and on PBGC management's assertion that PBGC's internal controls are effective.

As CFO, I place a strong emphasis on internal controls and accountability. The PBGC's Internal Control Committee, which I chair, continued its important role in overseeing key financial reporting controls and controls governing PBGC systems and programs. During the year, management conducted an entity-wide risk assessment, made significant progress in documenting PBGC's control structure, and subjected key controls to logging, quarterly certification, and testing. A major emphasis for the year was the enhancement of existing documentation relating to controls that help protect the confidentiality, integrity, and availability of federal information systems and the information processed, stored, and transmitted by those systems In addition, regular monitoring procedures are in place, especially for the recommendations relating to the three significant deficiencies discussed below.

During FY 2008, PBGC made significant progress addressing two of the three significant deficiencies in this year's internal control report. Although significant progress has been made, additional work is needed to address: (1) developing and implementing its security program management that will enable the completion of an effective entity-wide security management program; (2) continue on its path to mitigate the systemic issues related to access control by strengthening system configurations and user account management for all of PBGC's information systems; and (3) deficiencies in system configurations and user account management across many of PBGC's systems.

- PBGC began to design and implement an entity-wide security management program intended to correct security control weaknesses. Plans are in place to implement and complete role-based training across PBGC to effect security policies; assignment of the roles and responsibilities for security by the business units who own the major applications and general support systems; consistent controls to restrict access to information and information systems; completion of the C&A of major applications and general support systems; and central management of plans of actions and milestones to ensure effective and efficient remediation of security issues.

- Regarding access controls, PBGC has adopted a new approach by implementing a comprehensive security management program that should protect against unauthorized modification; disclosure; loss; or impairment of information and information systems. Compared to the past approach of addressing specific access control findings, PBGC management believes the new approach will take some time to implement access controls that are designed to limit, detect, and monitor access to software programs; information; equipment; and facilities.

- Lastly, PBGC deployed the Consolidated Financial Systems (CFS) in FY 2006 that integrated three stand-alone general ledger systems into one web-based application. CFS helped address: (1) security and systems integration issues and (2) compliance with OMB Circular A-127, Financial Management Systems. In 2007, the next step was to implement a new premium system that would be integrated into CFS. Due to cost and scheduling challenges, PBGC management decided to suspend development efforts on the premium system and reevaluate its investment alternatives. To facilitate this effort, PBGC management has started financial management segment architecture programs that employ a structured methodology that will lead to identifying and planning financial technology recommendations for implementation and alternatives analysis for business cases.

Patricia Kelly

Patricia Kelly
Chief Financial Officer

Pension Benefit Guaranty Corporation
Statements of Financial Condition

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in millions)	**2008**	2007	**2008**	2007	**2008**	2007
ASSETS						
Cash and cash equivalents	$ 1,906	$ 2,201	$ 20	$ 7	$ 1,926	$ 2,208
Securities lending collateral (Note 3)	3,772	5,045	0	0	3,772	5,045
Investments, at market (Note 3):						
Fixed maturity securities	34,075	36,450	1,298	1,189	35,373	37,639
Equity securities	13,044	17,386	0	0	13,044	17,386
Real estate and real estate investment trusts	3	3	0	0	3	3
Other	23	37	0	0	23	37
Total investments	47,145	53,876	1,298	1,189	48,443	55,065
Receivables, net:						
Sponsors of terminated plans	19	68	0	0	19	68
Premiums (Note 10)	185	151	2	1	187	152
Sale of securities	1,357	937	0	0	1,357	937
Derivative contracts (Note 4)	6,831	4,634	0	0	6,831	4,634
Investment income	398	286	7	0	405	286
Other	3	2	0	0	3	2
Total receivables	8,793	6,078	9	1	8,802	6,079
Capitalized assets, net	32	41	0	0	32	41
Total assets	$61,648	$67,241	$1,327	$1,197	$62,975	$68,438

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

Pension Benefit Guaranty Corporation
Statements of Financial Condition

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in millions)	**2008**	2007	**2008**	2007	**2008**	2007
LIABILITIES						
Present value of future benefits, net (Note 5):						
Trusteed plans	**$ 56,570**	$65,096	**$ 1**	$ 2	**$ 56,571**	$ 65,098
Plans pending termination and trusteeship	**216**	298	**0**	0	**216**	298
Settlements and judgments	**56**	55	**0**	0	**56**	55
Claims for probable terminations	**3,154**	3,786	**0**	0	**3,154**	3,786
Total present value of future benefits, net	**59,996**	69,235	**1**	2	**59,997**	69,237
Present value of nonrecoverable future financial assistance (Note 6)			**1,768**	2,124	**1,768**	2,124
Payable upon return of securities loaned	**3,772**	5,045	**0**	0	**3,772**	5,045
Unearned premiums	**331**	302	**31**	26	**362**	328
Due for purchases of securities	**1,847**	814	**0**	0	**1,847**	814
Derivative contracts (Note 4)	**6,217**	4,845	**0**	0	**6,217**	4,845
Accounts payable and accrued expenses (Note 7)	**163**	111	**0**	0	**163**	111
Total liabilities	**72,326**	80,352	**1,800**	2,152	**74,126**	82,504
Net position	**(10,678)**	(13,111)	**(473)**	(955)	**(11,151)**	(14,066)
Total liabilities and net position	**$ 61,648**	$ 67,241	**$1,327**	$ 1,197	**$62,975**	$ 68,438

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)	**2008**	2007	**2008**	2007	**2008**	2007
UNDERWRITING:						
Income:						
Premium (Note 10)	$ 1,402	$ 1,476	$ 90	$ 81	$ 1,492	$ 1,557
Other	23	55	0	0	23	55
Total	1,425	1,531	90	81	1,515	1,612
Expenses:						
Administrative	350	328	0	0	350	328
Other	67	114	1	1	68	115
Total	417	442	1	1	418	443
Other underwriting activity:						
Losses (credits) from completed and probable terminations (Note 11)	(826)	399	0	0	(826)	399
Losses (credits) from financial assistance (Note 6)			(271)	319	(271)	319
Actuarial adjustments (credits) (Note 5)	(649)	(114)	(1)	0	(650)	(114)
Total	(1,475)	285	(272)	319	(1,747)	604
Underwriting gain (loss)	2,483	804	361	(239)	2,844	565
FINANCIAL:						
Investment income (Note 12):						
Fixed	577	1,730	121	23	698	1,753
Equity	(4,788)	2,988	0	0	(4,788)	2,988
Other	47	19	0	0	47	19
Total	(4,164)	4,737	121	23	(4,043)	4,760
Expenses:						
Investment	50	50	0	0	50	50
Actuarial charges (credits) (Note 5):						
Due to passage of time	3,400	3,269	0	0	3,400	3,269
Due to change in interest rates	(7,564)	(2,809)	0	0	(7,564)	(2,809)
Total	(4,114)	510	0	0	(4,114)	510
Financial income (loss)	(50)	4,227	121	23	71	4,250
Net income (loss)	2,433	5,031	482	(216)	2,915	4,815
Net position, beginning of year	(13,111)	(18,142)	(955)	(739)	(14,066)	(18,881)
Net position, end of period	$(10,678)	$ (13,111)	$(473)	$(955)	$ (11,151)	$(14,066)

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, 2008	2007	Multiemployer Program For the Years Ended September 30, 2008	2007	Memorandum Total For the Years Ended September 30, 2008	2007
OPERATING ACTIVITIES:						
Premium receipts	$ 1,336	$ 1,598	$ 93	$ 81	$ 1,429	$ 1,679
Interest and dividends received	2,325	1,714	47	7	2,372	1,721
Cash received from plans upon trusteeship	155	165	0	0	155	165
Receipts from sponsors/non-sponsors	137	345	0	0	137	345
Receipts from the missing participant program	7	3	0	0	7	3
Other receipts	1	3	0	0	1	3
Benefit payments—trusteed plans	(4,247)	(4,170)	0	0	(4,247)	(4,170)
Financial assistance payments			(85)	(71)	(85)	(71)
Settlements and judgments	(1)	(2)	0	0	(1)	(2)
Payments for administrative and other expenses	(372)	(377)	0	0	(372)	(377)
Accrued interest paid on securities purchased	(702)	(306)	(32)	0	(734)	(306)
Net cash provided (used) by operating activities (Note 14)	(1,361)	(1,027)	23	17	(1,338)	(1,010)
INVESTING ACTIVITIES:						
Proceeds from sales of investments	216,225	123,680	3,270	1,978	219,495	125,658
Payments for purchases of investments	(215,159)	(122,451)	(3,280)	(1,993)	(218,439)	(124,444)
Net change in investment of securities lending collateral	(1,274)	(1,446)	0	0	(1,274)	(1,446)
Net change in securities lending payable	1,274	1,446	0	0	1,274	1,446
Net cash provided (used) by investing activities	1,066	1,229	(10)	(15)	1,056	1,214
Net increase (decrease) in cash and cash equivalents	(295)	202	13	2	(282)	204
Cash and cash equivalents, beginning of year	2,201	1,999	7	5	2,208	2,004
Cash and cash equivalents, end of period	$ 1,906	$ 2,201	$ 20	$ 7	$ 1,926	$ 2,208

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

Notes to Financial Statements September 30, 2008 and 2007

Note 1 — Organization and Purpose

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

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

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

As of September 30, 2008, the single-employer and multiemployer programs reported deficits of $10.7 billion and $473 million, respectively. The single-employer program had assets of over $61.6 billion offset by total liabilities of $72.3 billion, which include a total present value of future benefits (PVFB) of approximately $60.0 billion. As of September 30, 2008, the multiemployer program had assets over $1.3 billion offset by approximately $1.8 billion in present value of nonrecoverable future financial assistance.

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

SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAM EXPOSURE: PBGC's best estimate of the total underfunding in plans sponsored by companies with credit ratings below investment grade, and classified by PBGC as reasonably possible of termination as of September 30, 2008, was $47 billion. The comparable estimates of reasonably possible exposure for 2007 and 2006 were $66 billion and $73 billion, respectively. These estimates are measured as of December 31 of the previous year (see Note 8). For 2008, this exposure is concentrated in the following sectors: manufacturing (primarily automobile/auto parts, and primary and fabricated metals), transportation (primarily airlines), and wholesale and retail trade.

PBGC estimates that, as of September 30, 2008, it is reasonably possible that multiemployer plans may require future financial assistance in the amount of $30 million. As of September 30, 2007 and 2006, these exposures were estimated at $73 million and $83 million, respectively.

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

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

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

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

Note 2 — Significant Accounting Policies

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

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

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS No. 157 applies to accounting pronouncements that require or permit fair value measurements. Prior to SFAS No. 157, there were different definitions of fair value with limited guidance for applying those definitions in GAAP; additionally, the issuance for applying fair value was dispersed among many accounting pronouncements that require fair value measurement. SFAS No. 157 is effective for accounting periods beginning after November 15, 2007, which will be PBGC's FY 2009 financial statements. PBGC is currently evaluating the impact that the adoption of SFAS No. 157 will have on the financial statements.

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 presents totals that include both the revolving and trust funds for presentation purposes in the financial statements; however, the single-employer and multiemployer programs are separate programs by law and, therefore, PBGC also reports them separately.

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

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

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

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

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

SECURITIES LENDING COLLATERAL: PBGC participates in a securities lending program administered by its custodian bank. The custodian bank requires collateral that equals 102 percent to 105 percent of the securities lent. The collateral is held by the custodian bank. In addition to the lending program managed by the custodian bank, some of PBGC's investment managers are authorized to invest in repurchase 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 reverse repurchase agreements. The manager either receives cash as collateral or pays cash out to be used as collateral. Any cash collateral received is invested by PBGC's investment agent.

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

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

PREMIUMS: Premiums receivable represent the estimated earned but unpaid portion of the premiums for plans that have a plan year commencing before the end of PBGC's fiscal year and past due premiums deemed collectible, including penalties and interest. The liability for unearned premiums represents an estimate of payments received during the fiscal year that cover the portion of a plan's year after PBGC's fiscal year-end. Premium income represents actual and estimated revenue generated from self-assessments from defined benefit pension plans as required by Title IV of ERISA (see Note 10).

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 reduces the PVFB liability.

The values of the PVFB are particularly sensitive to changes in underlying estimates and assumptions. These estimates and assumptions could change and the impact of these changes may be material to PBGC's financial statements (see Note 5).

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

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

plans, the liability for plans pending termination and trusteeship is shown net of plan assets.

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

(4) Net Claims for Probable Terminations—In accordance with Statement of Financial Accounting Standards No. 5 (Accounting for Contingencies) PBGC recognizes net claims for probable terminations which represent PBGC's best estimate of the losses, net of plan assets and the present value of expected recoveries (from sponsors and members of their controlled group) for plans that are likely to terminate in the future. These estimated losses are based on conditions that existed as of PBGC's fiscal year-end. Management believes it is likely that one or more events subsequent to PBGC's fiscal year-end will occur, confirming the loss. Criteria used for classifying a specific plan as a probable termination include, but are not limited to, one or more of the following conditions: the plan sponsor is in liquidation or comparable state insolvency proceeding with no known solvent controlled group member; sponsor has filed or intends to file for distress plan termination and the criteria will likely be met; or PBGC is considering the plan for involuntary termination. In addition, management takes into account other economic events and factors in making judgments regarding the classification of a plan as a probable termination. These events and factors may include, but are not limited to: the plan sponsor is in bankruptcy or has indicated that a bankruptcy filing is imminent; the plan sponsor has stated that plan termination is likely; the plan sponsor has received a going concern opinion from its independent auditors; or the plan sponsor is in default under existing credit agreement(s).

    In addition, a reserve for small unidentified probable losses and incurred but not reported (IBNR) claims is recorded based on an actuarial loss development methodology (triangulation method) (see Note 5).

(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 Statement of Financial Accounting Standards No. 5 (Accounting for Contingencies), PBGC's exposure to losses from plans of companies that are classified as reasonably possible is disclosed in the footnotes. In order for a plan sponsor to be specifically classified as reasonably possible, it must first have $5 million or more of underfunding, as well as meet additional criteria. Criteria used for classifying a company as reasonably possible include, but are not limited to, one or more of the following conditions: the plan sponsor is in Chapter 11 reorganization; funding waiver pending or outstanding with the Internal Revenue Service (IRS); sponsor missed minimum funding contribution; sponsor's bond rating is below-investment-grade for Standard & Poor's (BB+) or Moody's (Ba1); sponsor has no bond rating but unsecured debt is below investment grade; or sponsor has no bond rating but the ratio of long-term debt plus unfunded benefit liability to market value of shares is 1.5 or greater (see Note 8).

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 6).

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

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

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

OTHER EXPENSES: These expenses represent an estimate of the net amount of receivables deemed to be uncollectible during the period (e.g., reserve for disputed or doubtful termination premiums, write-off of unpaid premiums from recent large plan terminations). 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 11). When a plan terminates, the previously recorded probable net claim is reversed and newly estimated DOPT plan assets, recoveries and PVFB are netted and reported on the line PVFB - Plans pending termination and trusteeship (this value is usually different than the amount previously reported), with any change in the estimate being recorded in the Statements of Operations and Changes in Net Position. In addition, the plan's net income from date of plan termination to the beginning of PBGC's fiscal year is included as a component of losses from completed and probable terminations for plans with termination dates prior to the year in which they were added to PBGC's inventory of terminated plans.

ACTUARIAL ADJUSTMENTS AND CHARGES (CREDITS): PBGC classifies actuarial adjustments related to changes in method and the effect of experience as underwriting activity; actuarial adjustments are the result of the movement of plans from one valuation methodology to another, e.g., non-seriatim (calculating the liability for the group) to seriatim (calculating separate liability for each person), and of new data (e.g., deaths, revised participant data). Actuarial charges (credits) related to changes in interest rates and passage of time is classified as financial activity. These adjustments and charges (credits) represent the change in the PVFB that results from applying actuarial assumptions in the calculation of future benefit liabilities (see Note 5).

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.

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.

As the following table illustrates, the market value of investments of the single-employer program decreased significantly from September 30, 2007, to September 30, 2008.

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

	September 30, 2008		September 30, 2007	
(Dollars in millions)	Basis	Market Value	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	$17,509	$17,587	$17,658	$17,558
Commercial paper	636	636	1,188	1,188
Repo/reverse repo*	(865)	(865)	0	0
Asset backed securities	3,683	3,330	4,544	4,494
Corporate and other bonds	16,037	13,387	13,250	13,210
Subtotal	37,000	34,075	36,640	36,450
Equity securities:				
Public equity	9,410	12,130	9,662	16,310
Private equity	955	914	1,067	1,076
Subtotal	10,365	13,044	10,729	17,386
Real estate and real estate investment trusts	4	3	4	3
Insurance contracts and other investments	18	23	45	37
Total **	$47,387	$47,145***	$47,418	$53,876

* A repo is a contract in which the seller of securities, such as Treasury Bills, agrees to buy them back at a specified time and price.
A reverse repo is a purchase of securities with an agreement to resell them at a higher price at a specific future date. As of September 30, 2008, PBGC investment manager positions in reverse repos exceeded the amounts invested in repurchased agreements, thereby creating a credit balance in the above table for the net overall value of repo and reverse repo positions. Reverse repurchase agreements provide a means for PBGC to maintain ownership rights to specific mortgage pass-through securities, at times when cash is required and the manager believes alternative means of funding (e.g., the sale of other portfolio holdings or deferral of a purchased security's settlement date) are less favorable.

** Total includes securities on loan at September 30, 2008, and September 30, 2007, with a market value of $3.623 billion and $4.939 billion, respectively.

*** This total of $47,145 million of investments at market value represents the Single-Employer assets only. It differs from the total investments of $50.77 billion shown on page 17 of this report which includes investments of the Multiemployer Program, cash and accrued investment income.

INVESTMENTS OF MULTIEMPLOYER REVOLVING FUNDS AND MULTIEMPLOYER TRUSTEED PLANS

(Dollars in millions)	September 30, 2008 Basis	September 30, 2008 Market Value	September 30, 2007 Basis	September 30, 2007 Market Value
Fixed maturity securities:				
U.S. Government securities	$1,296	$1,298	$1,199	$1,189
Equity securities	0	0	0	0
Total	$1,296	$1,298	$1,199	$1,189

INVESTMENT PROFILE

	September 30, 2008	2007
Fixed Income Assets		
Average Quality	AA	AA
Average Maturity (years)	13.3	16.7
Duration (years)	9.5	13.4
Yield to Maturity (%)	6.3	5.4
Equity Assets		
Average Price/Earnings Ratio	15.4	18.3
Dividend Yield (%)	2.4	1.8
Beta	1.04	1.03

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

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

Derivatives are accounted for at market value in accordance with the Statement of Financial Accounting Standards No. 133, as amended. Derivatives are marked to market with changes in value reported within financial income. These instruments are used to (1) mitigate risk (e.g., adjust duration or currency exposures), (2) enhance investment returns, and/or (3) as liquid and cost efficient substitutes for positions in physical securities. The standard requires disclosure of fair value on these instruments. During fiscal years 2007 and 2008, PBGC invested in investment products that used various U.S. and non-U.S. derivative instruments including but not limited to: money market, futures, options, government bond futures, forward contracts, interest rate, credit default and total return swaps and swaption contracts, stock warrants and rights, debt option contracts, and foreign currency forward and option contracts. Some of these derivatives are traded on organized exchanges and thus bear minimal counterparty risk. The counterparties to PBGC's non-exchange-traded derivative contracts are major financial institutions. PBGC monitors its counterparty risk and exchanges collateral to further support performance by its counterparties.

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

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

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

Interest rate swaps involve exchanges of fixed rate and floating rate interest. Interest rate swaps are often used to alter exposure to interest rate fluctuations, by swapping fixed rate obligations for floating rate obligations, or vice versa. The counterparties to the swap agree to exchange interest payments on specific dates, according to a predetermined formula.

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

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

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

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

For the fiscal years ended September 30, 2008 and 2007, respectively, gains and losses from settled margin calls are reported in Investment income on the Statements of Operations and Changes in Net Position. Securities pledged by PBGC as collateral for derivative contracts, e.g., futures and swaps, are recorded in investments by PBGC's custodian bank.

During FY 2008, PBGC's investment managers increased their utilization of derivative instruments. Changing market conditions in FY 2008, such as the significant increase in market volatility and the substantial decrease in market liquidity, created an environment in which derivative instruments represented a more cost efficient means for implementing portfolio strategies than in FY 2007.

The following table summarizes the notional amounts and fair market values (FMV) of all derivative financial instruments held or issued for trading as of September 30, 2008, and September 30, 2007.

DERIVATIVE CONTRACTS

	September 30, 2008		September 30, 2007	
(Dollars in millions)	**Notional**	**FMV**	Notional	FMV
Futures				
Contracts in a receivable position	$ 7,756	$ 155	$ 9,380	$ 3
Contracts in a payable position	7,626	(34)	6,869	(14)
Total Futures	15,382	121	16,249	(11)
Swap agreements				
Interest rate swaps	11,211	10	10,352	(76)
Credit default swaps	6,370	(90)	2,063	33
Total swap agreements	17,581	(80)	12,415	(43)
Option contracts				
Options purchased (long)	5,501	51	6,425	76
Options written (sold short)	1,438	(31)	2,338	(49)
Total option contracts	6,939	20	8,763	27
Forward contracts				
Forwards—foreign exchange	1,790	(6)	1,505	11
Forwards—bonds/TBA's	2,657	(21)	765	(3)
Total forward contracts	4,447	(27)	2,270	8

SECURITIES LENDING: PBGC participates in a securities lending program administered by its custodian bank whereby the custodian bank lends PBGC's securities to third parties. The custodian bank requires collateral from the borrower that equals 102 percent to 105 percent of the securities lent. The collateral is held by the custodian bank. In addition to the lending program managed by the custodian bank, some of PBGC's investment managers are authorized to invest in repurchase agreements and reverse repurchase agreements. The manager either receives cash as collateral or pays cash out to be used as collateral. Any cash collateral received is invested. The total value of securities on loan at September 30, 2008, and September 30, 2007, was $3.623 billion and $4.939 billion, respectively. Although securities on loan have decreased since September 30, 2007, there continues to be an ongoing demand for fixed income securities to lend.

The amount of cash collateral received for these loaned securities was $3.772 billion at September 30, 2008, and $5.045 billion at September 30, 2007. These amounts are recorded as assets and are offset with a corresponding liability. PBGC had earned income from securities lending of $34.6 million and $6.2 million for the years ending September 30, 2008, and September 30, 2007, respectively. Net income from securities lending is included in "Investment income—Fixed" on the Statements of Operations and Changes in Net Position. As of September 30, 2008, PBGC loaned out $3.623 billion in securities of approximately $17.913 billion of securities available for securities lending.

Of the $3.623 billion market value of securities on loan at September 30, 2008, approximately 84% are invested in U.S. government securities and 16% in U.S. corporate securities.

Note 4 — Derivative Contracts

PBGC's derivative financial instruments are recorded at fair value and are included on the Statements of Financial Condition as investments and derivative contracts. Amounts in the table below represent the derivative contracts in a receivable position at financial statement date. Included in the total of $6,831 million is $4,577 million representing trades sold and removed from the market value of investments (i.e., bond forwards, TBA's, interest rate swaps, credit default swaps) on the Statements of Financial Condition and shown below as derivative contracts receivable. The balance of $2,254 million represents contracts sold which have longer settlement dates to maturity.

DERIVATIVE CONTRACTS

(Dollars in millions)	**September 30, 2008**	September 30, 2007
Open trades on derivatives:		
Futures contracts	$ 155	$ 8
Foreign exchange forwards	2,099	1,770
Bond forwards	855	243
To be announced (TBA) forwards *	2,969	2,169
Interest rate swaps	79	380
Credit default swaps	674	64
Total	$6,831	$4,634

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

Amounts in the following Derivative Contracts table represent derivative contracts in a payable position at financial statement date which PBGC reflects as a contracts liability. Included in this total payable of $6,217 million is $4,078 million representing the market value of investments (i.e., bond forwards, TBA's, interest rate swaps, credit default swaps) which are included in amounts shown as investments at market on the Statements of Financial Condition. The balance of $2,139 million reflects the market value of investments purchased with settlement dates in the future and are shown in the following table as derivative contracts payable.

DERIVATIVE CONTRACTS

(Dollars in millions)	**September 30, 2008**	September 30, 2007
Open trades on derivatives:		
Futures contracts	$ 34	$ 19
Foreign exchange forwards	2,105	1,759
Bond forwards	823	283
To be announced (TBA) forwards	2,461	2,340
Interest rate swaps	80	378
Credit default swaps	714	66
Total	$6,217	$4,845

Note 5 — Present Value of Future Benefits

The following table summarizes the actuarial adjustments, charges and credits that explain how the Corporation's single-employer program liability for the present value of future benefits changed for the years ended September 30, 2008 and 2007.

For FY 2008, PBGC used a 20-year select interest factor of 6.66% followed by an ultimate factor of 6.47% for the remaining years. In FY 2007, PBGC used a 20-year select interest factor of 5.31% followed by an ultimate factor of 4.88% for the remaining years. These factors were determined to be those needed, given the mortality assumptions, to continue to match the survey of annuity prices provided by the American Council of Life Insurers (ACLI). Both the interest factor and the length of the select period may vary to produce the best fit with these prices. The prices reflect rates at which, in the opinion of management, the liabilities (net of administrative expenses) could be settled in the market at September 30, for the respective year, for single-premium nonparticipating group annuities issued by private insurers. Many factors, including Federal Reserve policy, changing expectations about longevity risk, and competitive market conditions may affect these rates.

Beginning in FY 2006, a Lehman Long Corporate A and Higher bond index as of the last trading day of the month is used and is applied to both the select and ultimate factors instead of the select factor only as had been prior practice. Finally, interest factors beginning in FY 2006 are now rounded to two decimal places instead of one so as to be able to state to the level of a single basis point.

For September 30, 2008, PBGC used the 1994 Group Annuity Mortality (GAM) 94 Static Table (with margins), set forward one year and projected 24 years to 2018 using Scale AA. For September 30, 2007, PBGC used the same table set forward one year, projected 23 years to 2017 using scale AA. The number of years that PBGC projects the mortality table reflects the number of years from the 1994 base year of the table to the end of the fiscal year (14 years in 2008 versus 13 years in 2007) plus PBGC's calculated duration of its liabilities (10 years in both 2008 and 2007). PBGC's procedure is based on the procedures recommended by the Society of Actuaries UP-94 Task Force (which developed the GAM94 table) for taking into account future mortality improvements.

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

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

The present values of future benefits for trusteed multiemployer plans for 2008 and 2007 reflect the payment of assistance and the changes in interest and mortality assumptions, the passage of time and the effect of experience.

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

RECONCILIATION OF THE PRESENT VALUE OF FUTURE BENEFITS FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

(Dollars in millions)	September 30, 2008		2007	
Present value of future benefits, at beginning of year—Single-Employer, net		$69,235		$69,143
Estimated recoveries, prior year		155		62
Assets of terminated plans pending trusteeship, net, prior year		540		282
Present value of future benefits at beginning of year, gross		69,930		69,487
Settlements and judgments, prior year		(55)		(55)
Net claims for probable terminations, prior year		(3,786)		(4,862)
Actuarial adjustments—underwriting:				
Changes in method and assumptions	$ (715)		$ (88)	
Effect of experience	66		(26)	
Total actuarial adjustments—underwriting	(649)		(114)	
Actuarial charges—financial:				
Passage of time	3,400		3,269	
Change in interest rates	(7,564)		(2,809)	
Total actuarial charges—financial	(4,164)		460	
Total actuarial charges, current year		(4,813)		346
Terminations:				
Current year	662		5,548	
Changes in prior year	(382)		(109)	
Total terminations		280		5,439
Benefit payments, current year*		(4,292)		(4,266)
Estimated recoveries, current year		(165)		(155)
Assets of terminated plans pending trusteeship, net, current year		(313)		(540)
Settlements and judgments, current year		56		55
Net claims for probable terminations:				
Future benefits**	12,606		14,810	
Estimated plan assets and recoveries from sponsors	(9,452)		(11,024)	
Total net claims, current year		3,154		3,786
Present value of future benefits, at end of year—Single-Employer, net		59,996		69,235
Present value of future benefits, at end of year—Multiemployer		1		2
Total present value of future benefits, at end of year, net		$59,997		$69,237

* The benefit payments of $4,292 million and $4,266 million include $45 million in 2008 and $96 million in 2007 for benefits paid from plan assets by plans prior to trusteeship.

** The future benefits for probable terminations of $12,606 million and $14,810 million for fiscal years 2008 and 2007, respectively, include $59 million and $71 million, respectively, for probable terminations not specifically identified and $12,547 million and $14,739 million, respectively, for specifically identified probables.

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

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

(Dollars in millions)	September 30, 2008 Basis	September 30, 2008 Market Value	September 30, 2007 Basis	September 30, 2007 Market Value
U.S. Government securities	$ 10	$ 11	$ 11	$ 11
Corporate and other bonds	101	101	151	155
Equity securities	117	120	172	187
Insurance contracts	0	0	1	0
Other	82	81	188	187
Total, net	$310	$313	$523	$540

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

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

RECONCILIATION OF NET CLAIMS FOR PROBABLE TERMINATIONS

(Dollars in millions)	September 30, 2008		2007	
Net claims for probable terminations, at beginning of year		$3,786		$ 4,862
New claims	$ 233		$ 130	
Actual terminations	(148)		(1,745)	
Deleted probables	0		(17)	
Change in benefit liabilities	(3,400)		1,189	
Change in plan assets	2,683		(633)	
Loss (credit) on probables		(632)		(1,076)
Net claims for probable terminations, at end of year		$3,154		$ 3,786

The following table itemizes the probable exposure by industry:

PROBABLES EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	FY 2008	FY 2007
Manufacturing	$2,964	$3,590
Services	90	71
Wholesale and Retail Trade	49	27
Finance, Insurance, and Real Estate	46	19
Health Care	5	79
Total	$3,154	$3,786

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. This table incorporates the impact of the additional probable deletions of the Pension Protection Act (PPA). The second table following reflects results excluding the impact due to the PPA, which was an unpredictable factor impacting PBGC's ability to predict probables as terminations.

ACTUAL PROBABLES EXPERIENCE
As Initially Recorded Beginning in 1987

(Dollars in millions)	Status of Probables from 1987 - 2007 at September 30, 2008			
Beginning in 1987, number of plans reported as Probable:	Number of Plans	Percent of Plans	Net Claim	Percent of Net Claim
Probables terminated	318	78%	$24,251	66%
Probables not yet terminated or deleted	7	2	2,990	8
Probables deleted*	80	20	9,358	26
Total	**405**	**100%**	**$36,599**	**100%**

*"Probables deleted" in the above table includes five plans deleted due to airline relief provisions pursuant PPA. Absent passage of PPA and had these five plans terminated, the following values in the above table would be adjusted:

ADJUSTED PROBABLES EXPERIENCE—excluding impact of Pension Protection Act of 2006 As Initially Recorded Beginning in 1987

(Dollars in millions)	Status of Probables from 1987 - 2007 at September 30, 2008			
Beginning in 1987, number of plans reported as Probable:	Number of Plans	Percent of Plans	Net Claim	Percent of Net Claim
Probables terminated	323	80%	$32,461	89%
Probables not yet terminated or deleted	7	2	2,990	8
Probables deleted*	75	18	1,148	3
Total	**405**	**100%**	**$36,599**	**100%**

Note 6 — Multiemployer Financial Assistance

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

NOTES RECEIVABLE MULTIEMPLOYER FINANCIAL ASSISTANCE

(Dollars in millions)	September 30, 2008	2007
Gross balance at beginning of year	$ 226	$ 155
Financial assistance payments—current year	85	71
Subtotal	311	226
Allowance for uncollectible amounts	(311)	(226)
Net balance at end of period	$ 0	$ 0

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

As of September 30, 2008, the corporation expects 90 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 90 plans is $1.8 billion. The 90 plans fall into three categories—plans currently receiving financial assistance; plans that have terminated but have not yet started receiving financial assistance from PBGC; and ongoing plans (not terminated) that the corporation expects will require financial assistance in the future.

Of the 90 plans:

- 37 have exhausted plan assets and are currently receiving financial assistance payments from PBGC. The present value of future financial assistance payments for these insolvent 37 plans is $841 million.
- 47 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 47 terminated plans is $639 million.
- 6 plans are ongoing (i.e., have not terminated), but PBGC expects these plans will exhaust plan assets and need financial assistance within 10 years. In this analysis, PBGC takes into account the current plan assets, future income to the plan, the statutory funding rules, and the possibility for future increases in contributions. The present value of future financial assistance payments for these 6 ongoing plans is $289 million.

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

(Dollars in millions)	September 30, 2008	2007
Balance at beginning of year	$2,124	$1,876
Changes in allowance:		
Losses (credits) from financial assistance	(271)	319
Financial assistance granted (previously accrued)	(85)	(71)
Balance at end of period	$1,768	$2,124

Note 7 — Accounts Payable and Accrued Expenses

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

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

(Dollars in millions)	September 30, 2008	2007
Annual leave	$ 6	$ 6
Other payables and accrued expenses	157	105
Accounts payable and accrued expenses	$163	$ 111

Note 8 — Contingencies

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

In accordance with Statement of Financial Accounting Standards No. 5, PBGC classified a number of these companies as reasonably possible rather than probable terminations as the sponsors' financial condition and other factors did not indicate that termination of their plans was likely. This classification was done based upon information about the companies as of September 30, 2008.

The best estimate of unfunded vested benefits exposure to loss for the single-employer plans of these companies was measured as of December 31, 2007. The reasonably possible exposure to loss in these plans was $47 billion for FY 2008. This is down from $66 billion in FY 2007. This reasonably possible exposure to loss declined primarily due to a net reduction in the unfunded vested benefit liabilities of the plans whose sponsors remained at risk and improved credit ratings and/or other measures of risk for others.

The best estimate of unfunded vested benefits exposure to loss is not based on PBGC-guaranteed benefit levels. PBGC calculated this estimate, as in previous years, by using data obtained from filings and submissions to the government and from corporate annual reports for fiscal years ending in calendar 2007. The Corporation adjusted the value reported for liabilities to December 31, 2007, PBGC select rate of 5.37% that was derived using the 1994 Group Annuity Mortality Static Table (with margins) projected to 2017 using Scale AA. When available, data were adjusted to a consistent set of mortality assumptions. The underfunding associated with these plans could be substantially different at September 30, 2008, because of the economic conditions that existed between December 31, 2007 and September 30, 2008. The Corporation did not adjust the estimate for events that occurred between December 31, 2007, and September 30, 2008.

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

REASONABLY POSSIBLE EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	**FY 2008**	FY 2007
Manufacturing*	**$20,995**	$31,364
Transportation, Communication and Utilities**	**16,161**	19,454
Wholesale and Retail Trade	**4,495**	5,808
Services	**2,412**	4,273
Health Care	**1,531**	2,628
Agriculture, Mining, and Construction	**700**	985
Finance, Insurance, and Real Estate	**438**	1,153
Total	**$46,732**	$65,665

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

** For FY 2008, primarily airline

PBGC included amounts in the liability for the present value of nonrecoverable future financial assistance (see Note 6) for multiemployer plans that PBGC estimated may require future financial assistance. In addition, PBGC currently estimates that it is reasonably possible that other multiemployer plans may require future financial assistance in the amount of $30 million.

The Corporation calculated the future financial assistance liability for each multiemployer plan identified as probable (see Note 6), or reasonably possible as the present value of guaranteed future benefit and expense payments net of any future contributions or withdrawal liability payments as of the later of September 30, 2008, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2008. The Corporation's identification of plans that are likely to require such assistance and estimation of related amounts required consideration of many complex factors, such as an estimate of future cash flows, future mortality rates, and age of participants not in pay status. These factors are affected by future events, including actions by plans and their sponsors, most of which are beyond the Corporation's control.

Note 9 — Commitments

PBGC leases its office facility under a commitment that began on January 1, 2005, and expires December 10, 2018. This lease provides for periodic rate increases based on increases in operating costs and real estate taxes over a base amount. In addition, PBGC is leasing space for field benefit administrators. These leases began in 1996 and expire in 2013. The minimum future lease payments for office facilities having noncancellable terms in excess of one year as of September 30, 2008, are as follows:

COMMITMENTS: FUTURE LEASE PAYMENTS

(Dollars in millions)

Years Ending September 30,	Operating Leases
2009	**$ 19.9**
2010	**18.9**
2011	**19.8**
2012	**18.4**
2013	**19.1**
Thereafter	**108.4**
Minimum lease payments	**$204.5**

Lease expenses were $21.5 million in 2008 and $21.9 million in 2007.

Note 10 — Premiums

For both the single-employer and multiemployer programs, ERISA provides that PBGC shall continue to guarantee basic benefits despite the failure of a plan administrator to pay premiums when due. PBGC assesses interest and penalties on the unpaid portion of or underpayment of premiums. Interest continues to accrue until the premium and the interest due are paid. For plan year 2007 the flat-rate premiums for single-employer pension plans was $31 per participant and for multiemployer plans, $8 per participant. For plan year 2008, per participant rates were $33 for single-employer plans and $9 for multiemployer plans. PBGC recorded premium income, excluding interest and penalty, of approximately $1.171 billion in flat-rate premiums, $241 million in variable-rate premiums, and $57 million in termination premiums for fiscal year 2008, and approximately $1.117 billion in flat-rate premiums, $358 million in variable-rate premiums, and $61 million in terminated premiums for fiscal year 2007. The termination premium is a $1,250 per participant annual post-termination premium payable for three years that applies to certain plan terminations occurring after 2005.

Since premium income for FY 2008 primarily consists of plan year 2008 and 2007 premiums, and revenue recognition accounting principles require partial recognition of plan year 2008 premiums as of September 30, 2008, the 2008 increase in flat-rate premium income represents approximately 66% of the full impact to the plan year 2008 flat-rate premiums due for all plans.

Note 11 – 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,					
	2008			2007		
(Dollars in millions)	New Terminations	Changes in Prior Year Terminations	Total	New Terminations	Changes in Prior Year Terminations	Total
Present value of future benefits	$ 662	$(382)	$ 280	$ 5,548	$(109)	$ 5,439
Less plan assets	391	74	465	3,802	69	3,871
Plan asset insufficiency	271	(456)	(185)	1,746	(178)	1,568
Less estimated recoveries	0	10	10	0	94	94
Subtotal	271*	(466)	(195)	1,746*	(272)	1,474
Settlements and judgments		1	1		1	1
Loss (credit) on probables	(148)	(484)	(632)**	(1,745)	669	(1,076)**
Total	$ 123	$(949)	$(826)	$ 1	$ 398	$ 399

* gross amounts for plans terminated during the year

** see Note 5 – includes $148 million at September 30, 2008, and $1,745 million at September 30, 2007, previously recorded relating to plans that terminated during the period

Note 12 — 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, 2008	Multiemployer Program Sept. 30, 2008	Memorandum Total Sept. 30, 2008	Single-Employer Program Sept. 30, 2007	Multiemployer Program Sept. 30, 2007	Memorandum Total Sept. 30, 2007
Fixed income securities:						
Interest earned	$ 2,071	$ 63	$ 2,134	$1,992	$ 60	$2,052
Realized gain (loss)	1,268	45	1,313	(620)	(62)	(682)
Unrealized gain (loss)	(2,762)	13	(2,749)	358	25	383
Total fixed income securities	577	121	698	1,730	23	1,753
Equity securities:						
Dividends earned	72	0	72	88	0	88
Realized gain (loss)	(835)	0	(835)	801	0	801
Unrealized gain (loss)	(4,025)	0	(4,025)	2,099	0	2,099
Total equity securities	(4,788)	0	(4,788)	2,988	0	2,988
Other income	47	0	47	19	0	19
Total investment income (loss)	$(4,164)	$121	$(4,043)	$4,737	$ 23	$4,760

Note 13 — Employee Benefit Plans

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

The Corporation's contribution to the CSRS plan for both 2008 and 2007 was 7.0 percent of base pay for those employees covered by that system. For those employees covered by FERS, the Corporation's contribution was 11.2 percent of base pay for both 2008 and 2007. In addition, for FERS-covered employees, PBGC automatically contributes one percent of base pay to the employee's Thrift Savings account, matches the first three percent contributed by the employee and matches one-half of the next two percent contributed by the employee. Total retirement plan expenses amounted to $15 million in 2008 and $14 million in 2007.

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

Note 14 — Cash Flows

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

INVESTING ACTIVITIES (SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED)

(Dollars in millions)	September 30, 2008	2007
Proceeds from sales of investments:		
Fixed maturity securities	$ 198,230	$ 107,251
Equity securities	462	3,314
Other/uncategorized	20,803	15,093
Memorandum total	$ 219,495	$ 125,658
Payments for purchases of investments:		
Fixed maturity securities	$ (197,197)	$(108,530)
Equity securities	(459)	(4,287)
Other/uncategorized	(20,783)	(11,627)
Memorandum total	$(218,439)	$(124,444)

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)	**2008**	2007	**2008**	2007	**2008**	2007
Net income (loss)	**$ 2,433**	$ 5,031	**$ 482**	$ (216)	**$ 2,915**	$ 4,815
Adjustments to reconcile net income to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	**6,268**	(2,658)	**(58)**	38	**6,210**	(2,620)
Net gain (loss) of plans pending termination and trusteeship	**25**	(107)	**0**	0	**25**	(107)
Losses (credits) on completed and probable terminations	**(826)**	399	**0**	0	**(826)**	399
Actuarial charges (credits)	**(4,813)**	346	**(1)**	0	**(4,814)**	346
Benefit payments—trusteed plans	**(4,247)**	(4,170)	**0**	0	**(4,247)**	(4,170)
Settlements and judgments	**(1)**	(2)	**0**	0	**(1)**	(2)
Cash received from plans upon trusteeship	**155**	165	**0**	0	**155**	165
Receipts from sponsors/non-sponsors	**142**	349	**0**	0	**142**	349
Amortization of discounts/premiums	**(429)**	(599)	**(41)**	(53)	**(470)**	(652)
Changes in assets and liabilities, net of effects of trusteed and pending plans:						
(Increase) decrease in receivables	**(149)**	197	**(8)**	1	**(157)**	198
Increase (decrease) in present value of nonrecoverable future financial assistance			**(356)**	248	**(356)**	248
Increase (decrease) in unearned premiums	**29**	4	**5**	(1)	**34**	3
Increase in accounts payable	**52**	18	**0**	0	**52**	18
Net cash provided (used) by operating activities	**$ (1,361)**	$ (1,027)	**$ 23**	$ 17	**$ (1,338)**	$ (1,010)

Note 15 — Litigation

Legal challenges to PBGC's policies and position continued in 2008. At the end of the fiscal year, PBGC had 561 open, active bankruptcy cases and 80 active cases in state and federal courts (other than in bankruptcy court). PBGC records as a liability on its financial statements an estimated cost for unresolved litigation to the extent that losses in such cases are probable and estimable in amount. In addition to such recorded cases, at September 30, 2008, PBGC estimated with a degree of certainty that possible losses of up to $104 million could be incurred in the event that PBGC does not prevail in these matters. These possible losses are not recognized in the financial statements.

Note 16 — Subsequent Events

PBGC's financial statements are as of September 30, 2008. Since the close of the fiscal year, there continue to be significant events in the economy and financial markets that may impact the financial statement measurements going forward.

2008 Actuarial Valuation

PBGC calculated and validated the present value of future PBGC-payable benefits (PVFB) for both the single-employer and multiemployer programs and of nonrecoverable future financial assistance under the multiemployer program. Methods and procedures for both single-employer and multiemployer plans were generally the same as those used in 2007.

PRESENT VALUE OF FUTURE BENEFITS AND NONRECOVERABLE FINANCIAL ASSISTANCE—2008

	Number of Plans	Number of Participants	Liability
		(in thousands)	*(in millions)*
I. SINGLE-EMPLOYER PROGRAM			
A. Terminated plans			
1. Seriatim at fiscal year-end (FYE)	3,549	705	$ 27,038
2. Seriatim at DOPT, adjusted to FYE	48	40	1,875
3. Nonseriatim[1]	253	388	28,361
4. Missing Participants Program (seriatim)[2]		19	46
Subtotal	3,850	1,152	57,320
B . Probable terminations (nonseriatim)[3]	27	117	12,606
Total[4]	3,877	1,269	$69,926
II. MULTIEMPLOYER PROGRAM			
A. Pre-MPPAA terminations (seriatim)	10	*	$ 1
B. Post-MPPAA liability (net of plan assets)	90	122	1,768
Total	100	122	$ 1,769

* Fewer than 500 participants

Notes:

1) The liability for terminated plans has been increased by $56 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 $59 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 $9,452 million. Thus, the net claims for probable terminations as reported in the financial statements are $12,606 million less $9,452 million, or $3,154 million.

4) The PVFB in the financial statements ($59,996 million) is net of estimated plan assets and recoveries on probable terminations ($9,452 million), estimated recoveries on terminated plans ($165 million), and estimated assets for plans pending trusteeship ($313 million), or, $69,926 million less $9,452 million less $165 million less $313 million = $59,996 million.

Single-Employer Program

PBGC calculated the single-employer program's liability for benefits in the terminated plans and probable terminations, as defined in Note 2 to the financial statements, using a combination of two methods: seriatim and nonseriatim. For 3,549 plans, representing about 92 percent of the total number of single-employer terminated plans (61 percent of the total participants in single-employer terminated plans), PBGC had sufficiently accurate data to calculate the liability separately for each participant's benefit—the seriatim method. This was an increase of 105 plans over the 3,444 plans valued seriatim last year. For 48 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 2008.

For 253 other terminated plans, PBGC did not have sufficiently accurate or complete data to value individual benefits. Instead, the Corporation used a "nonseriatim" method that brought the liabilities from the plan's most recent actuarial valuation forward to the end of fiscal year 2008 using certain assumptions and adjustment factors.

For the actuarial valuation, PBGC used a select and ultimate interest rate assumption of 6.66% for the first 20 years after the valuation date and 6.47% thereafter. The mortality table used for valuing healthy lives was the 1994 Group Annuity Mortality Static Table (with margins), set forward one year, projected 24 years to 2018 using Scale AA. The projection period is determined as the sum of the elapsed time from the date of the table (1994) to the valuation date plus the period of time from the valuation date to the average date of payment of future benefits.

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

Multiemployer Program

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

PBGC based its valuation of the post-MPPAA liability for nonrecoverable future financial assistance on the most recent available actuarial reports, Form 5500 Schedule B's, and information provided by representatives of the affected plans. The Corporation expected 90 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, 2008.

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

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

Joan M Weiss

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

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

Pension Benefit Guaranty Corporation

Office of Inspector General

1200 K Street, N.W., Washington, D.C. 20005-4026

To the Board of Directors
Pension Benefit Guaranty Corporation

The Office of Inspector General contracted with Clifton Gunderson LLP, an independent certified public accounting firm, to audit the financial statements of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) as of and for the years ended September 30, 2008 and 2007. They conducted their audits in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards,* issued by the Comptroller General of the United States; Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended; and the *Government Accountability Office / President's Council Integrity and Efficiency Financial Audit Manual*.

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

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

- PBGC's assertion about internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations, as of September 30, 2008, is fairly stated in all material respects. However, Clifton Gunderson also identified three significant deficiencies regarding PBGC's need to complete its efforts to fully implement and enforce an effective information security program, effectively implement consistent controls to restrict access to its information systems, and integrate its financial management systems.

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

Clifton Gunderson is responsible for the accompanying auditor's report dated November 12, 2008, and the conclusions expressed in the report. We do not express opinions on PBGC's financial statements or internal control, nor do we draw conclusions on compliance with laws and regulations.

Clifton Gunderson's report (2009-1/FA-0049-1) is also available on our website at http://oig.pbgc.gov.

Sincerely,

Rebecca Anne Batts

Rebecca Anne Batts
Inspector General

November 13, 2008

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

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

In our audits of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) for fiscal years 2008 and 2007, we found:

- the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- although internal controls could be improved, PBGC had effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations as of September 30, 2008; and
- no reportable noncompliance in fiscal year 2008 with laws and regulations we tested.

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

Opinion on Financial Statements

The financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Single-Employer and Multiemployer Program Funds administered by PBGC as of September 30, 2008 and 2007, and the results of their operations and cash flows for the fiscal years then ended.

By law, PBGC's Single-Employer and Multiemployer Program Funds must be self-sustaining. As of September 30, 2008, PBGC reported in its financial statements net deficit positions (liabilities in excess of assets) in the Single-Employer and Multiemployer Program Funds of $10,678 million and $473 million, respectively. As discussed in Note 8 to the financial statements, loss exposure for the Single-Employer and Multiemployer Programs that are reasonably possible as a result of unfunded vested benefits are estimated to be $46,732 million and $30 million, respectively. Management based the Single-Employer Program estimate on data for fiscal years ending in calendar 2007 that was obtained from filings and submissions to the

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government and from corporate annual reports. Subsequent adjustment for economic conditions through September 30, 2008, has not been made and as a result the exposure to loss for the Single-Employer Program as of September 30, 2008 could be substantially different. In addition, PBGC's net deficit and long-term viability could be further impacted by losses from plans classified as reasonably possible (or from other plans not yet identified as potential losses) as a result of deteriorating economic conditions, the insolvency of a large plan sponsor or other factors. PBGC has been able to meet their short-term benefit obligations. However, as discussed in Note 1 to the financial statements, management believes that neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants.

Opinion on Internal Control

Management's assertion that PBGC maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations as of September 30, 2008 is fairly stated, in all material respects, based on criteria contained in 31 U.S.C. 3512 (c), (d), the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

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

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

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that none of the significant deficiencies described in this report are material weaknesses.

****

SIGNIFICANT DEFICIENCIES

PBGC relies extensively on information technology (IT) systems to accomplish its mission and in the preparation of its financial statements. Internal controls over these operations are essential to ensure the confidentiality, integrity, and availability of critical data while reducing the risk of errors, fraud, and other illegal acts.

Our review of IT controls covered general and selected application controls. General controls are the structure, policies, and procedures that apply to an entity's overall computer systems. They include entity-wide security management, access controls, system software controls, application software development and change controls, segregation of duties and service continuity controls. Application controls involve input, processing, and output controls related to specific IT applications.

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

In fiscal year (FY) 2008, PBGC embarked on a concerted entity-wide security management program to correct systemic security control weaknesses at the root cause level. However, these efforts have not been completed and additional time will be needed to adequately implement the audit recommendations noted in the FY 2007 report. PBGC has initiated the reorganization and improvement of its security planning and management through the design and initial implementation of an entity-wide security management program. Our current year audit work found deficiencies in the areas of security management, including policy administration and the certification and accreditation of major applications and general support systems. An effective entity-wide security management program demonstrates the ability to implement enhancements to an organization's control environment on all new and existing systems and platforms in use. The process for effective entity-wide security management and access controls will require time to mature, but the framework that PBGC has developed should significantly improve its security posture, if properly implemented and monitored.

Based on our findings we are reporting as significant deficiencies for FY 2008, (1) entity-wide security program planning and management, (2) access controls and (3) integrated financial management systems. The designation of access controls as a significant deficiency is based on the aggregation of control weaknesses, showing a systemic problem. Our detailed findings and recommendations have been provided to management in a separate limited disclosure report dated November 12, 2008. A summary of the significant deficiencies and related recommendations follows.

1. Entity-wide Security Program Planning and Management

An entity-wide security management program should be in place to establish a framework and continuing cycle of activity to manage security risk, develop security policies, assign responsibilities, and monitor the adequacy of computer security related controls. It should also represent the foundation for an entity's security control structure and reflect senior management's commitment to addressing security risks. OMB Circular No. A-130, Appendix III, *Security of Federal Automated Information Resources,* requires agencies to implement and maintain a program to assure that adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications.

During FY 2008, PBGC made significant progress in strengthening the design and implementation of their entity-wide security management program. This program was designed to address previously identified security weaknesses at the root cause level. Management corrected four prior year's internal control weaknesses. First, they completed categorizing their general support systems and major applications in accordance with Federal Standards; second, PBGC identified and documented 65 common security controls; third, they completed a process to conduct certification and accreditation (C&A) procedures; and fourth, they completed security awareness training for employees and contractors.

PBGC made progress on other internal control weaknesses. PBGC has identified and documented 65 common security controls organized into the 17 security control families noted in the National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, *Recommended Security Controls for Federal Information Systems.* However, PBGC needs to fully implement and confirm the adequacy of design and operating effectiveness of the 65 common controls for all 17 families. PBGC completed the development and implementation of a formal C&A process, using it to complete a review of 13 major applications and general support systems. However, although PBGC conducted a quality control review of the C&A packages, the review did not identify issues with quality, accuracy, and consistency. Lastly, PBGC developed a role-based training program. However, this effort is still in process.

Despite progress in these areas, continued improvements are needed to resolve the control deficiencies. These deficiencies prevent PBGC from implementing effective security controls to protect its information from unauthorized access, modification, and disclosure.

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

Recommendation:

PBGC management should continue developing and implementing its security program management that will enable the completion of an effective entity-wide security management program.

2. Access Controls

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

PBGC is in the process of implementing a program to address access control weaknesses at the root cause level. PBGC has acknowledged that this approach will require additional time to fully address access control weaknesses. The former approach of addressing specific access control findings did not adequately correct and/or mitigate known control weaknesses. PBGC implemented intensive manual controls in order to compensate for the access control deficiencies. Additionally, management stated that they are evaluating new technology to help enhance their access controls. We continue to find deficiencies in system configurations and user account management across many of PBGC's systems. Until PBGC consistently implements all key elements of its information security program, PBGC will not have sufficient assurance that financial information and financial assets are adequately safeguarded from inadvertent or deliberate misuse. fraudulent use, improper disclosure, or destruction.

Recommendation:

PBGC management and information system owners should continue to mitigate the systemic issues related to access control by strengthening system configurations and user account management for all of PBGC's information systems.

3. Integrated Financial Management Systems

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

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

In the short term, PBGC's ability to accurately and efficiently record, accumulate and summarize information required for internal and external financial reporting may be impacted. For this reason, this issue is a significant deficiency for FY 2008.

Recommendation:

PBGC management should continue their efforts to integrate PBGC's financial management systems in accordance with OMB Circular A-127.

Compliance with Laws and Regulations

Our tests of PBGC's compliance with selected provisions of laws and regulations for fiscal year 2008 disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or OMB audit guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

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

Consistency of Other Information

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

Objectives, Scope, and Methodology

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

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America; and (2) management maintained effective internal control as of September 30, 2008 based on management's assertion included in the accompanying Annual Management Report and on the criteria contained in FMFIA, the objectives of which are the following:

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

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

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

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessed the accounting principles used and significant estimates made by management; (3) evaluated the overall presentation of the financial statements; (4) obtained an understanding of the entity and its operations, including its internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations; (5) tested relevant internal control over financial reporting (including safeguarding assets) and compliance, and evaluated the design and operating effectiveness of internal control for the fiscal year ended September 30, 2008; (6) considered the design of the process for evaluating and reporting on internal control and financial management systems under FMFIA; and (7) tested compliance for fiscal year 2008 with selected provisions of laws and regulations that have a direct and material effect on the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation 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.

We did not test compliance with all laws and regulations applicable to PBGC. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and to those required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal year ended September 30, 2008. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our work in accordance with U.S. generally accepted government auditing standards and OMB audit guidance.

Agency Comments and Our Evaluation

In commenting on the draft of this report (see Page 58), PBGC's management concurred with the facts and conclusions in our report. We did not perform audit procedures on PBGC's written response to the significant deficiencies and, accordingly, we express no opinion on it.

Clifton Gunderson LLP

Calverton, Maryland
November 12, 2008

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 5, 2008

To: Rebecca Anne Batts
Inspector General

From: Charles E. F. Millard
Director

Subject: Response to Draft Independent Auditor's Combined Report Issued in Connection with the FY 2008 Financial Statement Audit

I welcome the opportunity to comment on the Office of Inspector General's FY 2008 combined report, which includes the opinions on PBGC's financial statements, management's assertion on the effectiveness of internal controls, and matters relating to compliance with laws and regulations.

Management sincerely appreciates the work of your office in overseeing this audit. As PBGC has become an increasingly important financial institution, it is worthy of note that the Corporation has once again received unqualified opinions on our financial statements and internal controls for FY 2008.

We appreciate the report's acknowledgement of the progress we have made over the past year in addressing our significant deficiencies. We concur with the three related recommendations in the areas of information security, access controls, and financial management systems integration. These represent issues that need to be addressed in a measured, rational way, and we look forward to working with you as we update and work through our Corrective Action Plans.

Again, I value the work of the OIG, and PBGC management stands ready to work with your office in fully addressing the issues that you have called to our attention.

cc: Vincent K. Snowbarger
Stephen E. Barber
Terrence M. Deneen
Patsy A. Garnett
Patricia Kelly
Richard H. Macy
Judith R. Starr
Martin O. Boehm

Pension Insurance System Exposure

ERISA requires that PBGC annually provide an actuarial evaluation of its expected operations and financial status over the next five years. PBGC historically has confined its evaluation to the single-employer program while extending its forecasts to cover 10 years. In FY 2007, PBGC began including a discussion of the exposure of the multiemployer program.

Single-Employer Program

PBGC's expected claims under the single-employer program are dependent on two factors: the amount of underfunding in the pension plans that PBGC insures (i.e., exposure) and the likelihood that corporate sponsors of these underfunded plans encounter financial distress that results in bankruptcy and plan termination (i.e., the probability of claims).

Over the near term, expected claims result from underfunding in plans sponsored by financially weak firms. The financial health of a plan sponsor is reflected in factors such as whether the firm has a below-investment-grade bond rating. The amount of underfunding for plans of these financially weak companies is based on the best available data, including the annual filings that certain companies with underfunded plans are required to make to PBGC under Section 4010 of ERISA.

For purposes of its financial statements, PBGC classifies the underfunding for vested benefits in the plans of financially weak companies as reasonably possible exposure, as required under accounting principles generally accepted in the United States of America. The reasonably possible exposure as of September 30, 2008, as disclosed in Note 8 of PBGC's 2008 financial statements, was $47 billion, compared to $66 billion for fiscal year 2007.

PBGC's classification of reasonably possible and probable terminations depends both on the credit quality of a plan's sponsor and the funded status of the plan itself. Plan funding data (asset and liability amounts) for this estimate was collected as of December 31, 2007. The Corporation did not adjust this plan funding data for events that occurred between December 31, 2007 and September 30, 2008. Data relating to plan sponsors' credit quality were updated September 30, 2008. Neither the results presented here nor the accompanying discussion reflect the events in the financial and credit markets, or in specific sectors, since September 30, 2008.

Methodology for Considering Long-Term Single-Employer Program Claims

No single underfunding number or range of numbers is sufficient to evaluate PBGC's exposure and expected claims over the next 10 years. Claims are sensitive to changes in interest rates and stock returns, overall economic conditions, contributions, changes in benefits, the performance of some particular industries and bankruptcies. Large claims from a small number of terminations characterize the Corporation's historical claims experience and are likely to affect PBGC's potential future claims experience as well.

PBGC uses a stochastic model—the Pension Insurance Modeling System (PIMS)—to evaluate its exposure and expected claims.

PIMS portrays future underfunding under current funding rules as a function of a variety of economic parameters. The model recognizes that all companies have some chance of bankruptcy and that these probabilities can change significantly over time. The model also recognizes the uncertainty in key economic parameters (particularly interest rates and stock returns). The model simulates the flows of claims that could develop under thousands of combinations of economic parameters and bankruptcy rates. PIMS is not a predictive model and it does not attempt to anticipate behavioral responses by a company to changed circumstances. (For additional information on PIMS and the assumptions used in running the model, see PBGC's *Pension Insurance Data Book 1998*, pages 10-17, which also can be viewed on PBGC's Web site at **www.pbgc.gov/publications/databook/databk98.pdf**.)

PIMS starts with data on PBGC's single-employer net position (a $10.7 billion deficit in the case of FY 2008) and data on the funded status of approximately 450 plans that are weighted to represent the universe of PBGC-covered plans. The model produces results under 5,000 different simulations. The probability of any particular outcome is determined by dividing the number of simulations with that outcome by 5,000.

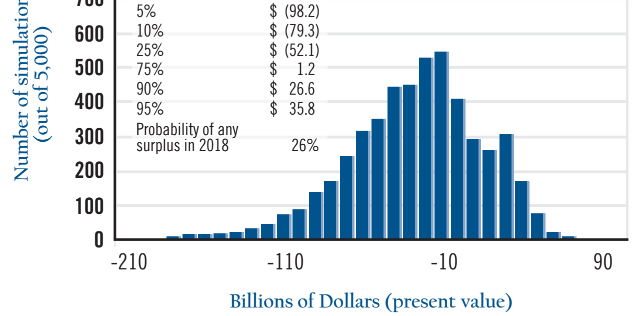
Under the model, the median claim amount over the next 10 years is about $3.2 billion per year (expressed in today's dollars); that is, half of the simulations show claims above $3.2 billion per year and half below. The mean level of claims (that is, the average level of claims) is higher, about $3.6 billion per year. The mean is higher than the median because there is a chance under some simulations that claims could reach very high levels. For example, under the model there is a 10 percent chance that claims could exceed $6.5 billion per year for a present value of $65 billion over the 10-year period.

PIMS projects PBGC's potential financial position by combining simulated claims with simulated premiums, expenses, and investment returns. The median outcome is a $22.6 billion deficit in 2018 (in present value terms). This means that half of the simulations show either a smaller deficit than $22.6 billion, or a surplus, and half of the simulations show a larger deficit. The mean outcome is a $26.3 billion deficit in 2018 (in present value terms).

The median projected financial position is a larger deficit than shown in last year's median projection, both of which were based on a wide range of possible outcomes for each year of the projection. An important factor contributing to this change is a significant increase in the level of projected future claims. Projected claims have increased due to poor financial market conditions that have resulted in increased pension underfunding and in an increased likelihood of default for many plan sponsors. The median projected deficit has increased less than the increase in median projected claims primarily due to changes in PBGC's investment policy. The new investment policy (described in the Investment Activities section of the Annual Management Report) increases median projected future returns, and thus reduces the deficit that would have been projected without a change in investment policy. Under this investment policy, the likelihood that PBGC will have a surplus of any size in 10 years is 26 percent. Under the prior investment policy, that likelihood would be less than five percent.

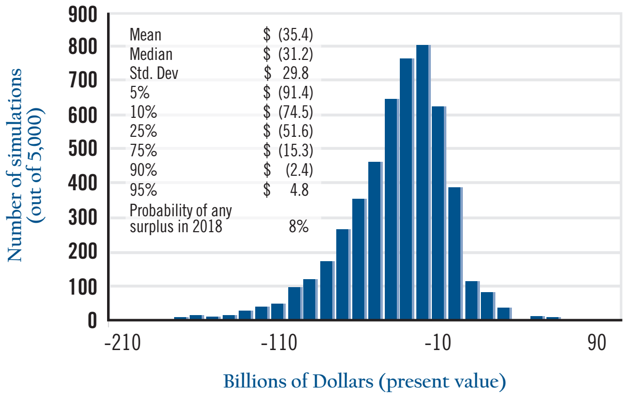
The following graph illustrates the wide range of outcomes that are possible for PBGC over the next 10 years. The other statistics listed on the graph give further details on the distribution of outcomes. The standard deviation is a measure of how widely the distribution is spread over its range, and the percentiles indicate the likelihood of a position below particular values. The model's statistical median shows a $22.6 billion deficit in 2018.

DISTRIBUTION OF PBGC'S POTENTIAL 2018 FINANCIAL POSITION



As the following graph shows, the PIMS results would have been less favorable had it assumed continuation of the old investment policy rather than implementation of the new policy.

DISTRIBUTION OF PBGC'S POTENTIAL 2018 FINANCIAL POSITION (FY07 INVESTMENT POLICY)



Additional Information Required by the Pension Protection Act of 2006

The Pension Protection Act requires that PBGC's Annual Report include a summary of the PIMS microsimulation model, "including the specific simulation parameters, specific initial values, temporal parameters, and policy parameters used to calculate the financial statements for the corporation."

A SUMMARY OF PIMS: The analysis of PBGC's projected financial position was performed using PBGC's Pension Insurance Modeling System. PIMS has a detailed database of about 450 actual plans, sponsored by about 350 firms, which represent about half of PBGC's insurance exposure in the single-employer defined benefit system measured from the 2006 Form 5500 filings (the most recent year of complete Form 5500 filing data). The database includes the plan demographics, plan benefit structure, asset values, liabilities, and actuarial assumptions. It also includes key financial information about the employer sponsoring the plan.

The PIMS database contains pension plan information from Schedule B of the Form 5500 (Annual Return/Report of Employee Benefit Plan), generally from the 2006 plan year. In addition, more recent data available from ERISA Section 4010 filings is utilized for certain large underfunded plans.

PIMS simulates contributions, premiums, and underfunding for these plans using the minimum funding and premium rules as required by the PPA, and then extrapolates the results to the universe of single-employer plans. Recent changes to funding rules (the Worker, Retiree and Employer Recovery Act of 2008) are not reflected in the modeling. PIMS also uses the employer's financial information as the starting point for assigning probabilities of bankruptcy, from which it projects losses to the insurance program.

The PIMS model is not predictive. That is, it is not intended to provide a single best estimate of future events. When used in a stochastic (random) mode, PIMS provides a range of possible future outcomes and quantifies the likelihood of these outcomes.

GENERAL ASSUMPTIONS: Projections of claims against the insurance program are made stochastically. Claims against the pension insurance program are modeled by simulating the occurrence of bankruptcy for plan sponsors. The model reflects the historical relationship between the probability of bankruptcy and the firms' financial health variables (equity to debt ratio, cash flow, firm equity, and employment). For each period, the model assigns a random change in each of these variables to each firm correlated with changes in the economy. The simulated financial health variables determine the probability of bankruptcy for that year.

The model assumes, with the exception noted below regarding variable-rate premiums, that all plan sponsors contribute the minimum amount each year. The model runs 500 economic scenarios (varying interest rates and equity returns), with each plan's sponsor being "cycled" through each economic scenario 10 times (with varying financial health experiences, bankruptcy probabilities, etc.) for a total of 5,000 different simulations. PIMS then extrapolates the results of these simulations to the universe of insured single-employer plans.

All of the following variables are stochastically projected:

- Interest rates, stock returns and related variables (e.g., inflation, wage growth, and multiplier increases in flat dollar plans[1] are determined by interest rates in PIMS).
- Sponsor financial health variables (equity to debt ratio, cash flow, firm equity, and employment).
- Asset returns. At the beginning of each scenario, each plan's asset allocation is randomly selected from a pool of allocations that reflects historic differences across plans in investment strategies. Each plan's asset return also has a stochastic element that is uncorrelated with the simulated market rates and is uncorrelated across plans.
- Plan demographics. The number of active participants for a plan varies with its sponsor's total employment level. Age and service also vary over time due to retirement and hiring assumptions. The numbers, ages, and benefits of retired and terminated vested participants vary depending on mortality, separation and retirement assumptions.
- Probability of bankruptcy. Sponsors are subjected to an annual stochastic chance of bankruptcy. A plan presents a loss to participants and/or the pension insurance program if its sponsor is simulated to

[1] In a flat-dollar plan, the pension benefit is determined by multiplying a fixed amount by the participant's years of service. In a salary-related plan, the benefit is determined by multiplying a percentage of the participant's salary by the years of service.

experience bankruptcy and the plan is less than 80 percent funded for termination liability. Losses to the insurance program are calculated by averaging the losses in all simulations across all scenarios.

Two of the most important variables in the stochastic simulations are stock returns and interest rates. Stock returns are independent from one period to the next. To determine a simulated sequence of stock returns, the model randomly draws returns from a distribution that reflects historical experience going back to 1926. Unlike stock returns, interest rates are correlated over time. With the model, the Treasury yield for a given period is expected to be equal to the yield for the prior period, plus or minus some random amount. The random draws affecting the bond yields and stock returns are correlated according to an historical estimate. Stock returns are more likely to be high when the Treasury yield is falling and vice versa.

Other important variables are the returns on assets incorporated in PBGC's new investment policy. In addition to stocks and bonds, the new policy includes investments in non-U.S. (developed markets) equities, emerging market equities, Treasury Inflation Protected Securities (TIPS), high-yield fixed income, emerging market debt, real estate and private equity. Random draws of returns for these asset classes are based on historic estimates of their average returns, return volatilities and their correlations with other assets classes. As noted, the new policy increases median projected future returns, and thus reduces the deficit that would have been projected without a change in investment policy.

Current financial conditions include credit spreads on investment grade corporate bond yields that are much larger than their historical averages. In recognition of the extraordinary current economic conditions, PIMS has assumed mean reversion of projected credit spreads based on analysis of historic spreads. Simulations with the assumption that projected spreads remain at current levels result in lower levels of projected claims and PBGC deficits. The median level of claims would be reduced to $1.7 billion per year (in present value terms). The median projected 2018 deficit would be $15.4 billion (in present value terms), with a 32% chance of a surplus in 2018.

Mortality

- For purposes of projecting plan population—the 1994 Group Annuity Mortality table (94 GAM).
- For determining the amount of underfunding at termination—94 GAM set forward one year and projected to valuation year plus 10.[2]
- For determining funding targets (liabilities):

  > **Prior Law (for years before 2008)**
  For current liability purposes, the current table (1983 GAM) is assumed to remain in effect until 2007. For 2007, RP2000 projected with scale AA to the year of valuation plus 10 is used to determine current liability.

  For purposes of the current funding rules, the plan actuary's selected table is assumed to remain unchanged throughout the projection period.

  > **PPA (for 2008 and later years)**
  The PPA provides that the Department of the Treasury will prescribe a table. For this purpose, we assumed the prescribed table will be the RP2000 table projected with scale AA to the year of valuation plus 10.

Contribution Level/Credit Balances

The credit balance at the end of the 2006 plan year was derived by reflecting available information on actual contributions made through 2006. From there, the credit balance was increased each year by the valuation interest rate and decreased by the amount assumed to be used to satisfy the minimum funding requirement. For purposes of modeling future claims in PIMS, it is assumed that employers will contribute the minimum required amount each year and that any credit balance remaining when the new rules take effect will be used to the maximum extent permitted until the balance is completely depleted.

Benefit Improvements

For flat-dollar plans, benefit multipliers are assumed to increase annually by the rate of inflation and productivity growth. For salary-related plans, the benefit formula is assumed to remain constant, but annual salary increases are reflected based on the rate of inflation, productivity growth, and a factor measuring merit and/or seniority.

Benefit Restrictions Under the PPA

Accrual restriction: Plans with funded percentages below 60 percent must cease benefit accruals. PIMS reflects this rule, and assumes that once a plan is frozen, it will remain frozen, even if the percentage increases above 60 percent at some future time.

The PPA requires that when determining funding percentages for triggering benefit restrictions, assets are reduced by credit balances. The PPA also provides that sponsors have the option of "de-classifying" credit balance assets at any time. By de-classifying a credit balance, a sponsor may be able to raise the funded percentage to the level needed to avoid a benefit restriction. For modeling purposes, it is assumed that sponsors will choose to "de-classify" credit balances to the extent necessary to avoid the benefit freeze restriction.

Benefit improvement restriction: As noted earlier, PIMS assumes that salary-related plans will not increase benefits and that hourly plans will increase benefits to reflect the rate of inflation plus productivity growth. But, under the PPA, benefit increases that do not exceed the average wage increase of affected employees are not subject to the benefit improvement restriction. Therefore, this provision was assumed to have no effect.

Variable-Rate Premiums

PBGC's experience has been that many companies make plan contributions in excess of the minimum, in part to avoid or reduce their variable-rate premium payments. Virtually all of these companies have been at a low risk of bankruptcy and their plans have not accounted for a material portion of PBGC's claims. In contrast, the relatively small number of plans that result in claims are sponsored by companies that historically have not made contributions above the required minimum. Accordingly, variable-rate premium projections are modeled assuming

[2] Setting a mortality table forward one year means that the table's life expectancy for someone who is X+1 years old is used to represent the life expectancy of someone who is X years old. For example, for this purpose, the life expectancy of a 65-year-old is what the table would assign to a 64-year-old. "Projecting" a mortality table means reducing mortality rates each year to reflect anticipated improvements in longevity.

aggregate contribution levels above the minimum levels, with an adjustment for additional future aggregate contributions that is based on PBGC's historical premium experience.

PBGC's Assets

PIMS assumes full implementation of the new investment policy (described in the Investment Activities section of the Annual Management Report) as of the beginning of 2009. Projected returns are based on analysis of historical returns, return volatilities and correlations between the different asset class returns.

Discounting Future Contributions/Claims

For calculations involving discounting future amounts, the discount rate used is the 30-year Treasury rate assumed to be in effect for the particular year and economic scenario.

Multiemployer Program

A multiemployer plan is a collectively bargained plan that is maintained by two or more unrelated companies. PBGC does not become trustee of failed multiemployer plans as it does in the single-employer program. Instead, PBGC provides financial assistance in the form of loans to multiemployer plans that become insolvent and unable to pay PBGC-guaranteed benefits when due.

There are currently approximately 10 million individuals covered by about 1,500 insured multiemployer plans. Every year, PBGC reviews each of these plans to determine probable and reasonably possible future claims against the multiemployer insurance program. Most of the initial data used in this exercise is derived from the plans' Form 5500 filings. Probable claims are recorded as liabilities on PBGC's financial statements as the present value of nonrecoverable future financial assistance. Reasonably possible claims are disclosed in the footnotes to the financial statements, but are not booked as liabilities.

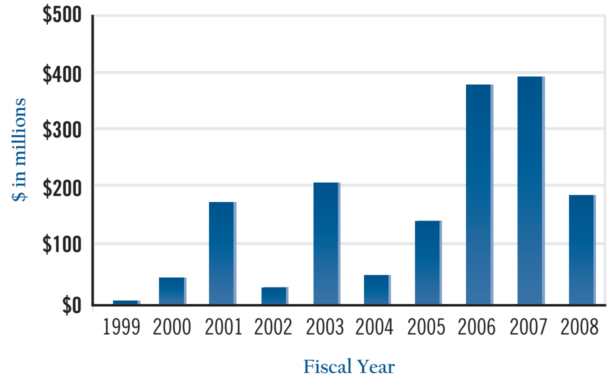
Probable Claims (Present Value of Future Financial Assistance)

Prior to FY 2008, the multiemployer program had experienced sharp increases in liabilities for new probable claims for future financial assistance. The Pension Protection Act of 2006 included provisions intended to shore up underfunded multiemployer plans, and while liabilities for new probable claims decreased in FY 2008, it is too early to draw conclusions about the effect of the PPA changes on the insurance program. As of September 30, 2008, PBGC had recorded liabilities for future financial assistance payments of $1.77 billion for 90 plans. These plans fall into three categories—plans currently receiving financial assistance; plans that have terminated but have not yet started receiving financial assistance from PBGC; and ongoing plans (not terminated) that PBGC expects will require financial assistance in the future.

Of the 90 plans, 37 were receiving financial assistance payments from PBGC at the close of fiscal year 2008. The present value of future financial assistance payments to these 37 plans (i.e., the stream of future payments over the lives of plan participants and beneficiaries) is $841 million. During fiscal year 2008, PBGC paid $85 million in financial assistance to insolvent plans.

Some 47 of the 90 plans have terminated but have not yet started receiving financial assistance payments from PBGC. These plans do not have sufficient assets on hand to pay all benefit liabilities. Because they will have no new assets from future employer contributions, at some point in the future, assets will be exhausted and PBGC will provide financial assistance to pay PBGC-guaranteed benefits. At the close of the 2008 fiscal year, PBGC had recorded liabilities of $639 million for the 47 plans in this group.

LIABILITIES FOR NEW PROBABLE CLAIMS
FOR FUTURE FINANCIAL ASSISTANCE FY1999 - 2008



Six of the 90 plans are ongoing (have not terminated), but PBGC expects these plans will exhaust plan assets and need financial assistance within 10 years. At the close of the 2008 fiscal year, the present value of future financial assistance payments for these six ongoing plans was $289 million.

Of the ninety plans accounted for in PBGC's probable claims, five are new this year, representing future liabilities of $184 million.

Reasonably Possible Claims

Multiemployer plans classified as reasonably possible claims show serious financial problems but are not classified as probable claims for this year because, under the particular circumstances of the plans, they may not require PBGC financial assistance to pay PBGC-guaranteed benefits. At the close of fiscal year 2008, PBGC estimated that it is reasonably possible that the Corporation would be required to pay future financial assistance in the amount of $30 million. In comparison, PBGC had estimated the multiemployer program reasonably possible exposure at $73 million and $83 million at the end of 2007 and 2006, respectively. The reduction in reasonably possible claims is largely attributable to the deterioration of certain plans and their reclassification as probable claims.

Methodology

PBGC uses a number of financial and demographic screening tests to identify multiemployer plans for further study and to determine whether any such plans should be classified as probable or reasonably possible claims against the multiemployer insurance program. These screening tests generate a list of all plans that

- are less than 60 percent funded,
- are not fully funded for retiree benefits,
- lack assets sufficient to pay at least six years of current benefit payments,
- have fewer than four active participants for every three inactive participants with a vested benefit, or
- have annual income that is not at least 30 percent higher than the plan's annual benefit and administrative expenses.

This process was first developed as part of studies conducted by the Government Accountability Office and others that led to the passage of multiemployer amendments to ERISA in 1980. PBGC has subsequently refined the tests to reflect experience and trends since that time. The screens allow PBGC to focus attention on plans whose condition warrants a more detailed and fact-specific analysis of actuarial and financial information.

Experience has shown that no one screen will yield reliable evidence about the likelihood of plan failure and a subsequent charge against PBGC funds. Further, it often takes several years of experience to confirm the long-term prospects of any given plan. When used in combination, however, the tests have allowed PBGC to predict, with a high degree of success, which plans are likely to fail. PBGC will also devote attention to a plan that shows an unusual change in any one screen. For example, if a plan's ratio of active to inactive participants drops significantly, the plan may have lost a major contributing employer, a factor that is often associated with plan termination and insolvency.

In performing its financial and demographic tests, to date PBGC has relied upon the data derived from the plans' Form 5500 filings. This information can be more than two years old when PBGC receives it. The Pension Protection Act of 2006 greatly enhanced the timeliness and the quality of certain plan funding information. In 2008, the Corporation began to receive data on the riskiest plans that shows the plans' financial condition as of the end of the previous plan year. This has enabled PBGC to be much more current in its monitoring and reporting activities.

In 2007, PBGC reported that a Multiemployer version of the PIMS stochastic modeling software would be available for the Corporation's 2008 Annual Report. Difficulties in adapting the PIMS system to the universe of multiemployer plans have slowed development of the new version of PIMS. The Multiemployer PIMS results will be made available for the 2009 Annual Report.

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Financial Summary

SINGLE-EMPLOYER PROGRAM

(Dollars in millions)	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
				Fiscal Year Ended September 30,						
Summary of Operations:										
Premium income	$ 1,402	1,476	1,442	1,451	1,458	948	787	821	807	902
Other income	$ 23	55	79	44	24	28	28	23	5	3
Investment income (loss)	$ (4,164)	4,737	2,184	3,897	3,197	3,349	170	(843)	2,392	728
Actuarial charges and adjustments (credits)	$ (4,813)	346	4,819	490	1,787	6,161	2,802	1,082	453	(602)
Losses (credits) from completed and probable terminations	$ (826)	399	(6,155)	3,954	14,707	5,377	9,313	705	(80)	49
Administrative and investment expenses	$ 400	378	405	342	288	290	225	184	167	161
Other expenses	$ 67	114	2	77	(36)	97	15	2	(2)	(1)
Net income (loss)	$ 2,433	5,031	4,634	529	(12,067)	(7,600)	(11,370)	(1,972)	2,666	2,026
Summary of Financial Position:										
Cash and investments	$ 49,051	61,122	57,728	54,387	36,254	33,215	24,851	21,010	20,409	17,965
Total assets	$ 61,648	67,241	59,972	56,470	38,993	34,016	25,430	21,768	20,830	18,431
Present value of future benefits	$ 59,996	69,235	69,143	69,737	60,836	44,641	28,619	13,497	10,631	11,073
Net position	$ (10,678)	(13,111)	(18,142)	(22,776)	(23,305)	(11,238)	(3,638)	7,732	9,704	7,038
Insurance Activity:										
Benefits paid	$ 4,292	4,266	4,082	3,685	3,006	2,488	1,537	1,043	902	901
Participants receiving monthly benefits at end of year	640,070	631,130	612,630	682,540	517,900	458,800	344,310	268,090	226,080	214,160
Plans trusteed and pending trusteeship by PBGC	3,850	3,783	3,673	3,585	3,469	3,277	3,122	2,965	2,864	2,775

MULTIEMPLOYER PROGRAM

(Dollars in millions)	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
				Fiscal Year Ended September 30,						
Summary of Operations:										
Premium income	$ 90	81	58	26	27	25	25	24	24	23
Other income	$ 0	0	0	0	0	0	0	0	0	0
Investment income (loss)	$ 121	23	(1)	79	54	37	118	95	70	(56)
Actuarial charges and adjustments (credits)	$ (1)	0	0	0	1	1	0	1	0	0
Losses (gains) from financial assistance	$ (271)	319	461	204	55	480	101	269	26	109
Administrative and investment expenses	$ 0	0	0	0	0	0	0	0	0	0
Net income (loss)	$ 482	(216)	(404)	(99)	25	(419)	42	(151)	68	(142)
Summary of Financial Position:										
Cash and investments	$ 1,318	1,196	1,164	1,147	1,057	984	933	796	682	681
Total assets	$ 1,327	1,197	1,166	1,160	1,070	1,000	944	807	694	692
Present value of future benefits	$ 1	2	2	2	3	3	3	4	4	5
Nonrecoverable future financial assistance, present value	$ 1,768	2,124	1,876	1,485	1,295	1,250	775	679	414	479
Net position	$ (473)	(955)	(739)	(335)	(236)	(261)	158	116	267	199
Insurance Activity:										
Benefits paid	$ 0	0	1	1	1	1	1	1	1	1
Participants receiving monthly benefits from PBGC at end of year	170	200	240	280	320	390	460	510	620	730
Plans receiving financial assistance from PBGC	42	36	33	29	27	24	23	22	21	21

PBGC
Protecting America's Pensions

Pension Benefit Guaranty Corporation

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