Pension Benefit Guaranty Corporation

Office of Inspector General

Audit Report

Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2010 and 2009 Financial Statements

November 12, 2010

AUD-2011-2/FA-10-69-1

PENSION BENEFIT GUARANTY CORPORATION
OFFICE OF INSPECTOR GENERAL
1200 K STREET, N.W., WASHINGTON, D.C. 20005-4026

To the Board of Directors
Pension Benefit Guaranty Corporation

The Office of Inspector General contracted with Clifton Gunderson LLP, an independent certified public accounting firm, to audit the financial statements of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) as of and for the years ended September 30, 2010 and 2009. They conducted their audits in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards,* issued by the Comptroller General of the United States; attestation standards established by the American Institute of Certified Public Accountants; and OMB audit guidance.

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

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

- PBGC did not have effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations and its operations as of September 30, 2010. Three significant deficiencies were identified in PBGC's (1) entity-wide security program planning and management, (2) access controls and configuration management, and (3) integrated financial management systems. The combination of significant deficiencies in PBGC's internal control is considered to be a material weakness.

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

Clifton Gunderson is responsible for the accompanying auditor's report dated November 12, 2010, and the conclusions expressed in the report. We do not express opinions on PBGC's financial statements or internal control, nor do we draw conclusions on compliance with laws and regulations.
This report (AUD-2011-2/FA-10-69-1) is also available on our website at http://oig.pbgc.gov.

Sincerely,

Rebecca Anne Batts

Rebecca Anne Batts
Inspector General

November 12, 2010

Audit of the Pension Benefit Guaranty Corporation's
Fiscal Year 2010 and 2009 Financial Statements

Audit Report AUD-2011-2/FA-10-69-1

Contents

Acronyms

BPD	Bureau of Public Debt
C&A	Certification and Accreditation
CAP	Corrective Action Plan
CFS	Consolidated Financial System
ERISA	Employee Retirement Income Security Act of 1974
FIPS PUB	Federal Information Processing Standards Publication
FMFIA	Federal Managers' Financial Integrity Act of 1982
FY	Fiscal Year
IAA	Interagency Agreement
ISA	Interconnection Security Agreement
IT	Information Technology
MOU	Memorandum of Understanding
NIST SP	National Institute of Standards and Technology Special Publication
OIG	Office of Inspector General
OMB	Office of Management and Budget
PBGC	Pension Benefit Guaranty Corporation
PLUS	Pension Lump Sum
SOC	Security Operation Center
U.S.C.	United States Code

Audit of the Pension Benefit Guaranty Corporation's
Fiscal Year 2010 and 2009 Financial Statements

Audit Report AUD-2011-2/FA-10-69-1

Section I

Independent Auditor's Report

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

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

In our audits of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) for fiscal years 2010 and 2009, we found:

- The financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.
- PBGC did not have effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations and its operations as of September 30, 2010.
- No reportable noncompliance in fiscal year 2010 with laws and regulations we tested.

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

Opinion on Financial Statements

The financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Single-Employer and Multiemployer Program Funds administered by PBGC as of September 30, 2010 and 2009, and the results of their operations and cash flows for the fiscal years then ended.

By law, PBGC's Single-Employer and Multiemployer Program Funds must be self-sustaining. As of September 30, 2010, PBGC reported in its financial statements net deficit positions (liabilities in excess of assets) in the Single-Employer and Multiemployer Program Funds of $21,594 million and $1,436 million, respectively. As discussed in Note 9 to the financial statements, loss exposure for the Single-Employer and Multiemployer Programs that are reasonably possible as a result of unfunded vested benefits are estimated to be $169,744 million and $20,000 million, respectively. Management based the Single-Employer Program estimate on data for fiscal years ending in calendar 2009 that was obtained from filings and submissions to the government and from corporate annual reports. A subsequent adjustment for economic conditions through

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

September 30, 2010, has not been made and as a result the exposure to loss for the Single-Employer Program as of September 30, 2010 could be substantially different. In addition, PBGC's net deficit and long-term viability could be further impacted by losses from plans classified as reasonably possible (or from other plans not yet identified as potential losses) as a result of deteriorating economic conditions, the insolvency of a large plan sponsor or other factors. PBGC has been able to meet their short-term benefit obligations. However, as discussed in Note 1 to the financial statements, management believes that neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants.

Opinion on Internal Control

Because of the effect of the material weakness described below on the achievement of the objectives of the control criteria contained in 31 U.S.C. 3512 (c), (d), the Federal Managers' Financial Integrity Act of 1982 (FMFIA), PBGC has not maintained effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations and its operations as of September 30, 2010.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We noted significant deficiencies in the following areas, which combined constitute a material weakness:

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

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

****

MATERIAL WEAKNESS

PBGC protects the pensions of approximately 44 million workers and retirees in more than 27,500 private defined benefit pension plans. Under Title IV of the Employee Retirement Income Security Act of 1974, PBGC insures, subject to statutory limits, pension benefits of participants in covered private defined benefit pension plans in the United States. To accomplish its mission and prepare its financial statements, PBGC relies extensively on information technology (IT). Internal controls over these operations are essential to ensure the confidentiality, integrity, and availability of critical data while reducing the risk of errors, fraud, and other illegal acts.

Our review of IT controls covered general and selected business process application controls. General controls are the structure, policies, and procedures that apply to an entity's overall computer systems. They include entity-wide security management, access controls, configuration management, segregation of duties and contingency planning controls. Business process application controls are those controls over the completeness, accuracy, validity, confidentiality, and availability of transactions and data during application processing.

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

PBGC's systemic security control weaknesses and the lack of an integrated financial management system continued to pose an increasing and substantial risk to PBGC's ability to carry out its mission during fiscal year 2010. PBGC's key decision makers are acutely aware of the challenges facing the Corporation in addressing fundamental weaknesses in its IT infrastructure and environment. Management has therefore taken a multiyear approach to correct these deficiencies at the root cause level. However, in past years, communication between PBGC's key decision makers did not convey the urgent need for decisive strategic decisions to correct fundamental weaknesses in PBGC's IT infrastructure and environment. Strategic IT decisions did not address these deficiencies, and significant weaknesses identified in prior years, continued to persist.

PBGC's decentralized approach to system development and configuration management has exacerbated control weaknesses and encouraged inconsistency in implementing strong technical controls and best practices. The influx of 620 plans for over 800,000 participants from 2002-2005, contributed to PBGC's disjointed IT development and implementation strategy. The mandate to meet PBGC's mission objectives by implementing technologies to receive the influx of plans superseded proper enterprise planning and IT security controls. The result was a series of stovepipe solutions built upon unplanned and poorly integrated heterogeneous technologies with varying levels of obsolescence.

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

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

Our current year audit work continued to find deficiencies in the areas of security management, access controls, configuration management, and segregation of duties. Control deficiencies were also found in policy administration, and the C&As of major applications and general support systems. An effective entity-wide security management program requires a coherent strategy for the architecture of the IT infrastructure, and the deployment of systems. The implementation of a coherent strategy provides the basis and foundation for the consistent application of policy, controls, and best practices. PBGC first needs to develop and implement a framework to improve their security posture. This framework will require time for effective control processes to mature.

Based on our findings, we are reporting that significant deficiencies in the following areas constitute a material weakness for fiscal year 2010:

1. Entity-wide security program planning and management
2. Access controls and configuration management
3. Integrated financial management systems

A Summary of the significant deficiencies and related recommendations follows.

1. Entity-wide Security Program Planning and Management

An entity-wide information security management program is the foundation of a security control structure and a reflection of senior management's commitment to addressing security risks. The security management program should establish a framework and continuous cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures. Overall policies and plans are developed at the entity-wide level. System and application-specific procedures and controls implement the entity-wide policy. Through the Federal Information Security Management Act of 2002, Congress requires each Federal agency to establish an agency-wide information security program to provide security to the information and information systems that support the operations and assets of the agency, including those managed by a contractor or other agency. OMB Circular No. A-130, Appendix III, *Security of Federal Automated Information Resources,* requires agencies to implement and maintain a program to assure that adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications.

During fiscal year 2010, PBGC made strategic decisions to develop and implement a multi-year CAP to address fundamental weaknesses in its entity-wide security program planning and management. PBGC entered into an IAA for the services of the BPD to assist the Corporation in reassessing its security program and developing a framework for implementing a more coherent strategy for correcting fundamental IT security weaknesses at the root cause level. However, in past years, communication between PBGC's key decision makers did not convey the urgent need for decisive strategic decisions to correct fundamental weaknesses in PBGC's IT infrastructure and environment. Strategic IT decisions did not address these deficiencies, and significant weaknesses continued to persist. PBGC management realizes these weaknesses will continue to pose a threat to its environment for several years while corrective actions are being implemented.

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

In prior years, PBGC's entity-wide security program lacked focus and a coordinated effort to adequately resolve control deficiencies. These deficiencies, which continue to persist, prevent PBGC from implementing effective security controls to protect its information from unauthorized access, modification, and disclosure.

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

Recommendations:

PBGC management should develop and implement a well-designed security management program that will provide security to the information and information systems that support the operations and assets of the Corporation, including those managed by contractors or other Federal agencies.

PBGC management should effectively communicate to key decision makers the state of its IT infrastructure and environment to facilitate the prioritization of resources to address fundamental weaknesses.

2. Access Controls and Configuration Management

Although access controls and configuration management controls are an integral part of an effective information security management program, access controls remain a systemic problem throughout PBGC. PBGC's decentralized approach to system development, system deployments, and configuration management created an environment that lacks a cohesive structure in which to implement controls and best practices. Weaknesses in the IT environment contributed significantly to deficiencies in system configuration, segregation of duties, role-based access controls, and monitoring. Furthermore, PBGC's information systems are overlapping and duplicative, employing obsolete and antiquated technologies that are costly to maintain. The state of PBGC's IT environment led to increased IT staffing needs, manual workarounds, reconciliations, extensive manipulation, and excessive manual processing that have been ineffective in providing adequate compensating controls to mitigate system control weaknesses. For example, the Financial Reporting and Account Analysis Group manually records present value of future benefits liabilities for single employer and multiemployer programs in Consolidated Financial System (CFS), and the Financial Operations Department manually records Premium Income, Premium Receivables, and Unearned Premiums in CFS.

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

Industry best practices, National Institute of Standards and Technology (NIST) special publication (SP) 800-64, *Security Considerations in the System Development Life Cycle,* and other Federal guidance recognize the importance of configuration management when developing and maintaining a system or network. Through configuration management, the composition of a system is formally defined and tracked to ensure that an unauthorized change is not introduced. Changes to an information system can have a significant impact on the security of the system. Documenting information system changes and assessing the potential impact on the security of the system, on an ongoing basis, is an essential aspect of maintaining the security posture. An effective entity-wide configuration management and control policy and associated procedures are essential to ensuring adequate consideration of the potential security impact of specific changes to an information system. Configuration management and control procedures are critical to establishing an initial baseline of hardware, software, and firmware components for the entity and subsequently controlling and maintaining an accurate inventory of any changes to the system.

Inappropriate access and configuration management controls do not provide PBGC with sufficient assurance that financial information and financial assets are adequately safeguarded from inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction.

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

Recommendation:

PBGC management should develop and implement a coherent strategy for correcting IT infrastructure deficiencies and a framework for implementing common security controls, and mitigating the systemic issues related to access control by strengthening system configurations and user account management for all of PBGC's information systems.

3. Integrated Financial Management Systems

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

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

> The term "single, integrated financial management system" means a unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls and data necessary to carry out financial management functions, manage

financial operations of the agency and report on the agency's financial status to central agencies, Congress and the public. Unified means that the systems are planned for and managed together, operated in an integrated fashion, and linked together electronically in an efficient and effective manner to provide agency-wide financial system support necessary to carry out the agency's mission and support the agency's financial management needs.

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

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

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

If managed effectively, IT investments can have a dramatic impact on an organization's performance and accountability. If not correctly managed, they can result in wasteful spending and lost opportunities for achieving mission goals and improving mission performance. PBGC had several false starts in modernizing its systems and applications that have either been abandoned, such as the suspension of work on the Premium and Practitioner System to replace the Premium Accounting System, or have been ineffective in leading to the integration of its financially significant systems. Unless PBGC develops and implements a well designed IT architecture and infrastructure to guide and constrain modernization projects, it risks investing time and resources in systems that do not reflect the Corporation's priorities, are not well integrated, are potentially duplicative, and do not optimally support mission operations and performance.

To its credit, PBGC began to develop an overall strategy, but much work remains before the strategy can be completed and implemented. Steps PBGC has taken include the following:

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

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

Recommendation:

PBGC needs to develop and execute a plan to integrate its financial management systems in accordance with OMB Circular A-127.

Compliance with Laws and Regulations

Our tests of PBGC's compliance with selected provisions of laws and regulations for fiscal year 2010 disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or OMB audit guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

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

Objectives, Scope, and Methodology

PBGC's management is responsible for (1) preparing the financial statements in conformity with accounting principles generally accepted in the United States of America; (2) establishing, maintaining, and evaluating the effectiveness of internal control to provide reasonable assurance that the broad control objectives of FMFIA are met; its assertion of the internal control over financial reporting included in PBGC's fiscal year 2010 Annual Report; and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America; and (2) management maintained effective internal control as of September 30, 2010 based on management's assertion included in PBGC's fiscal year 2010 Annual Report and on the criteria contained in FMFIA, the objectives of which are the following:

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

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

We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements, and laws for which OMB audit guidance requires testing and performing limited procedures with respect to certain other information appearing in PBGC's fiscal year 2010 Annual Report.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessed the accounting principles used and significant estimates made by management; (3) evaluated the overall presentation of the financial statements; (4) obtained an understanding of the entity and its operations, including its internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations; (5) tested relevant internal control over financial reporting (including safeguarding assets) and compliance, and evaluated the design and operating effectiveness of internal control for the fiscal year ended September 30, 2010; (6) considered the design of the process for evaluating and reporting on internal control and financial management systems under FMFIA; and (7) tested compliance for fiscal year 2010 with selected provisions of laws and regulations that have a direct and material effect on the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We did not test compliance with all laws and regulations applicable to PBGC. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements, and to those required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal year ended September 30, 2010. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We conducted our audits and examinations in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards,* issued by the Comptroller General of the United States; attestation standards established by the American Institute of Certified Public Accountants; and OMB audit guidance. We believe that our audits and examinations provide a reasonable basis for our opinions.

We considered the material weaknesses identified above in determining the nature, timing, and extent of our audit procedures on the 2010 financial statements.

Management Comments and Our Evaluation

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

Clifton Gunderson LLP

Calverton, Maryland
November 12, 2010

Section II

Pension Benefit Guaranty Corporation’s Fiscal Year 2010 and 2009 Financial Statements

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF FINANCIAL CONDITION

(Dollars in millions)	Single-Employer Program September 30, 2010	2009	Multiemployer Program September 30, 2010	2009	Memorandum Total September 30, 2010	2009
ASSETS						
Cash and cash equivalents	**$ 4,442**	$ 3,747	**$ 6**	$ 5	**$ 4,448**	$ 3,752
Securities lending collateral (Notes 3 and 5)	**5,791**	2,507	**0**	0	**5,791**	2,507
Investments, at market (Notes 3 and 5):						
Fixed maturity securities	**39,789**	33,025	**1,607**	1,436	**41,396**	34,461
Equity securities	**22,393**	22,954	**0**	0	**22,393**	22,954
Private equity	**2,050**	1,237	**0**	0	**2,050**	1,237
Real estate and real estate investment trusts	**459**	596	**0**	0	**459**	596
Other	**17**	507	**0**	0	**17**	507
Total investments	**64,708**	58,319	**1,607**	1,436	**66,315**	59,755
Receivables, net:						
Sponsors of terminated plans	**11**	85	**0**	0	**11**	85
Premiums (Note 11)	**754**	601	**2**	2	**756**	603
Sale of securities	**1,589**	1,829	**0**	0	**1,589**	1,829
Derivative contracts (Note 4)	**78**	69	**0**	0	**78**	69
Investment income	**418**	394	**12**	16	**430**	410
Other	**5**	3	**0**	0	**5**	3
Total receivables	**2,855**	2,981	**14**	18	**2,869**	2,999
Capitalized assets, net	**31**	29	**1**	0	**32**	29
Total assets	**$77,827**	$67,583	**$1,628**	$1,459	**$79,455**	$69,042

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

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF FINANCIAL CONDITION

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

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

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION

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

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

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF CASH FLOWS

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

The accompanying notes are an integral part of these financial statements

Notes to Financial Statements

September 30, 2010 and 2009

Note 1: Organization and Purpose

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

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

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

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

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

Single-Employer and Multiemployer Program Exposure

PBGC's best estimate of the total underfunding in plans sponsored by companies with credit ratings below investment grade, and which were classified by PBGC as reasonably possible of termination as of September 30, 2010, was $170 billion. The comparable estimates of reasonably possible exposure for 2009 and 2008 were $168 billion and $47 billion, respectively. These estimates are measured as of December 31 of the previous year (see Note 9). For 2010, this exposure is concentrated in the following sectors: manufacturing (primarily automobile/auto parts, and primary and fabricated metals), transportation (primarily airlines), services, and wholesale and retail trade.

PBGC estimates that, as of September 30, 2010, it is reasonably possible that multiemployer plans may require future financial assistance in the amount of $20 billion. As of September 30, 2009 and 2008, these exposures were estimated at $326 million and $30 million, respectively. The significant increase in FY 2010 from prior years is primarily due to the addition of two large plans to the reasonably possible inventory. The sponsor of one plan, with net liability of $15.0 billion, is in the "transportation, communication, and utilities" industry category; the other, with net liability of $4.8 billion, is in the "agriculture, mining, and construction" industry category.

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

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

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

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

Note 2: Significant Accounting Policies

Basis of Presentation

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

Recent Accounting Developments

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

During FY 2009, PBGC implemented three Statement of Financial Accounting Standards (SFAS), including FASB Accounting Standards Codification (ASC), *Fair Value Measurements and Disclosures* (Topic 820), SFAS No. 157, *Fair Value Measurements*; FASB ASC, *Derivatives and Hedging* (Topic 815), SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*; FASB ASC *Subsequent Events* (Topic 855), SFAS No. 165, *Subsequent Events*; and two FASB Staff Positions (FSP), FASB ASC *Fair Value Measurements and Disclosures* (Topic 820), No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* and FASB ASC *Fair Value Measurements and Disclosures* (Topic 820), FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*.

FASB ASC *Fair Value Measurements and Disclosures* (Topic 820), SFAS No. 157 defines fair value, establishes a framework for measuring fair value, outlines a fair value hierarchy based on the inputs to valuation techniques used to measure fair value, and expands financial statement disclosures about fair value measurements. See Note 5 for specifics regarding fair value measurements. FASB ASC *Derivatives and Hedging* (Topic 815), SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities. FASB ASC *Subsequent Events* (Topic 855), SFAS No. 165 codifies the guidance regarding the disclosure of events occurring subsequent to the balance sheet date and does not change the definition of a subsequent event (i.e., an event or transaction that occurs after the balance sheet date but before the financial statements are issued) but requires disclosure of the date through which subsequent events were evaluated when determining whether adjustment to or disclosure in the financial statements is required. FASB ASC *Fair Value Measurements and Disclosures* (Topic 820), FSP No. FAS 157-3 clarifies the application of FASB ASC *Fair Value Measurements and Disclosures* (Topic 820), SFAS No. 157 in an inactive market, without changing its existing principles. FASB ASC *Fair Value Measurements and Disclosures* (Topic 820), FSP No. FAS 157-4 provides guidance for estimating fair value when the volume and level of activity for an asset or liability have decreased significantly.

Valuation Method

A primary objective of PBGC's financial statements is to provide information that is useful in assessing PBGC's present and future ability to ensure that its plan beneficiaries receive benefits when due. Accordingly, PBGC values its financial assets at estimated fair value, consistent with the standards for pension plans contained in the FASB Accounting Standards Codification Section 960 (formerly SFAS No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*). PBGC values its liabilities for the present value of future benefits and present value of nonrecoverable future financial assistance using assumptions derived from annuity prices from insurance companies, as described in the

Statement of Actuarial Opinion. As described in Section 960, the assumptions are "those assumptions that are inherent in the estimated cost at the (valuation) date to obtain a contract with an insurance company to provide participants with their accumulated plan benefits." Also, in accordance with Section 960, PBGC selects assumptions for expected retirement ages and the cost of administrative expenses in accordance with its best estimate of anticipated experience.

The FASB Accounting Standards Codification Section 820 (formerly SFAS No. 157) defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. Section 820 applies to accounting pronouncements that require or permit fair value measurements. Prior to Section 820, there were different definitions of fair value with limited guidance for applying those definitions in GAAP; additionally, the issuance for applying fair value was dispersed among many accounting pronouncements that require fair value measurement.

Revolving and Trust Funds

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

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

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

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

Allocation of Revolving and Trust Funds

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

Cash and Cash Equivalents

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

Securities Lending Collateral

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

Investment Valuation and Income

PBGC bases market values on the last sale of a listed security, on the mean of the "bid-and-ask" for nonlisted securities or on a valuation model in the case of fixed income securities that are not actively traded. These valuations are determined as of the end of each fiscal year. Purchases and sales of securities are recorded on the trade date. In addition, PBGC invests in and discloses its derivative investments in accordance with the guidance contained in the FASB Accounting Standards Codification Section 815 (formerly SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended*). Investment income is accrued as earned. Dividend income is recorded on the ex-dividend date. Realized gains and losses on sales of investments are calculated using first-in, first-out for the revolving fund and average cost for the trust fund. PBGC marks the plan's assets to market and any increase or decrease in the market value of a plan's assets occurring after the date on which the plan is terminated must, by law, be credited to or suffered by PBGC.

Securities Purchased Under Resale Agreements

Securities purchased under resale agreements are agreements whereby the purchaser agrees to buy securities from the seller, and subsequently sell them back at a pre-agreed price and date. Those greater than one day are reported under "Fixed maturity securities" as "Securities purchased under resale agreements" in the Note 3 table entitled "Investments of Single-Employer Revolving Funds and Single-Employer Trusteed Plans," on page 56. Resale agreements that mature in one day are included in "Cash and cash equivalents" which are reported on the Statements of Financial Condition.

Sponsors of Terminated Plans

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

Premiums

Premiums receivable represent the estimated earned but unpaid portion of the premiums for plans that have a plan year commencing before the end of PBGC's fiscal year and past due premiums deemed collectible, including penalties and interest. The liability for unearned premiums represents an estimate of payments received during the fiscal year that cover the portion of a plan's year after PBGC's fiscal year-end. In FY 2009, PBGC began reporting "Premium income, net" on the Statements of Operations and Changes in Net Position. "Premium income, net" represents actual and estimated revenue generated from defined benefit pension plan premium filings as required by Title IV of ERISA less bad debt expense for termination premiums that are reserved at 100 percent, interest, and penalties (see Note 11).

Capitalized Assets

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

Present Value of Future Benefits (PVFB)

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

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

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

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

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

(4) Net Claims for Probable Terminations–In accordance with the FASB Accounting Standards Codification Section 450 (formerly SFAS No. 5, *Accounting for Contingencies*), PBGC recognizes net claims for probable terminations with $50 million or more of underfunding, which represent PBGC's best estimate of the losses, net of plan assets and the present value of expected recoveries (from sponsors and members of their controlled group) for plans that are likely to terminate in the future. These estimated losses are based on conditions that existed as of PBGC's fiscal year-end. Management believes it is likely that one or more events subsequent to PBGC's fiscal year-end will occur, confirming the loss. Criteria used for classifying a specific plan as a probable termination include, but are not limited to, one or more of the following conditions: the plan sponsor is in liquidation or comparable state insolvency proceeding with no known solvent controlled group member; sponsor has filed or intends to file for distress plan termination and the criteria will likely be met; or PBGC is considering the plan for involuntary termination. In addition, management takes into account other economic events and factors in making judgments regarding the classification of a plan as a probable termination. These events and factors may include, but are not limited to: the plan sponsor is in bankruptcy or has indicated that a bankruptcy filing is imminent; the plan sponsor has stated that plan termination is likely; the plan sponsor has received a going concern opinion from its independent auditors; or the plan sponsor is in default under existing credit agreement(s).

In addition, a reserve for small unidentified probable losses and incurred but not reported (IBNR) claims is recorded based on an actuarial loss development methodology (ratio method) (see Note 6).

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

(6) In accordance with Section 450, PBGC's exposure to losses from plans of companies that are classified as reasonably possible is disclosed in the footnotes. In order for a plan sponsor to be specifically classified as reasonably

possible, it must first have $5 million or more of underfunding, as well as meet additional criteria. Criteria used for classifying a company as reasonably possible include, but are not limited to, one or more of the following conditions: the plan sponsor is in Chapter 11 reorganization; funding waiver pending or outstanding with the Internal Revenue Service; sponsor missed minimum funding contribution; sponsor's bond rating is below-investment-grade for Standard & Poor's (BB+) or Moody's (Ba1); sponsor has no bond rating but unsecured debt is below investment grade; or sponsor has no bond rating but the ratio of long-term debt plus unfunded benefit liability to market value of shares is 1.5 or greater (see Note 9).

Present Value of Nonrecoverable Future Financial Assistance

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

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

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

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

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

Securities Sold Under Repurchase Agreements

Securities sold under repurchase agreements are agreements with a commitment by the seller to buy a security back from the purchaser at a specified price and designated future date. These agreements represent collateralized short-term loans for which the collateral may be a treasury security, money market instrument, federal agency security, or mortgage-backed security. On the Statements of Financial Condition, securities sold under repurchase agreements are reported as a liability, "Securities sold under repurchase agreements" at the amounts at which the securities will be subsequently reacquired.

Administrative Expenses

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

Other Expenses

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

Losses from Completed and Probable Terminations

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

Actuarial Adjustments and Charges (Credits)

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

Depreciation and Amortization

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

Reclassification

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

Note 3: Investments

Premium receipts are invested through the revolving fund in U.S. Treasury securities. The trust funds include assets PBGC assumes or expects to assume with respect to terminated plans (e.g., recoveries from sponsors) and investment income thereon. These assets generally are held by custodian banks. The basis and market value of the investments by type are detailed below as well as related investment profile data. The basis indicated is cost of the asset if assumed after the date of plan termination or the market value at date of plan termination if the asset was assumed as a result of a plan's termination. PBGC marks the plan's assets to market and any increase or decrease in the market value of a plan's assets occurring after the date on which the plan is terminated must, by law, be credited to or suffered by PBGC.

Investment securities denominated in foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income, and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions. The portfolio does not isolate that portion of the results of operations resulting from changes in foreign exchange rates of investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss on investments. For PBGC's securities, unrealized holding gains and losses are both recognized by including them in earnings. Unrealized holding gains and losses measure the total change in fair value – consisting of unpaid interest income earned or unpaid accrued dividend and the remaining change in fair value from holding the security.

To Be Announced (TBA) and Bond Forward transactions are recorded as regular buys and sells of investments and not as derivatives. TBA (to be announced) is a contract for the purchase or sale of mortgage-backed securities to be delivered on a future date. The term TBA is derived from the fact that the actual mortgage-backed security that will be delivered to fulfill a TBA trade is not designated at the time the trade is made. The securities are to be announced 48 hours prior to the established trade settlement date. TBAs are issued by FHLMC, FNMA, and GNMA. In accordance with FASB Accounting Standards Codification Section 815 (formerly SFAS No. 133, paragraphs 275 and 276), TBA and Bond Forward contracts are deemed regular way trades as they are completed within the time frame generally established by regulations and conventions in the market place or by the exchange on which they are executed. Thus, recording of TBA and Bond Forward contracts recognizes the acquisition or disposition of the securities at the full contract amounts on day one of the trade.

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

Certain investments (i.e., public equities and other investments) for two recently trusteed plans have been reclassified at September 30, 2009. However, there was no change in the yearend amount of total investments. In addition, investment income (i.e., fixed income, public equities, and other investments) for two recently trusteed plans has been reclassified at September 30, 2009 without any change in either overall FY 2009 investment income or in overall net position at September 30, 2009.

PBGC obtained a recovery in the form of an ownership interest in a new entity, emerging from a chapter 11 bankruptcy proceeding. As of September 30, 2010, this interest was valued as private equity in the amount of $702 million. This current valuation may change significantly over time.

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

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

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

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

**This total of $64,708 million of investments at market value represents the single-employer assets only. It differs from the total investments of $71.19 billion shown on page 30 of this report which includes investments of the multiemployer program, cash and cash equivalents and accrued investment income.

INVESTMENTS OF MULTIEMPLOYER REVOLVING FUNDS AND MULTIEMPLOYER TRUSTEED PLANS

(Dollars in millions)	September 30, 2010 Basis	September 30, 2010 Market Value	September 30, 2009 Basis	September 30, 2009 Market Value
Fixed maturity securities:				
U.S. Government securities	**$1,478**	**$1,607**	$1,382	$1,436
Equity securities	**0**	**0**	0	0
Total	**$1,478**	**$1,607**	$1,382	$1,436

INVESTMENT PROFILE

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

Derivative Instruments

PBGC assigns investment discretion and grants specific authority to all of its investment managers to invest according to specific portfolio investment guidelines established with PBGC. PBGC further limits the use of derivatives by investment managers through tailored provisions in the investment guidelines with investment managers consistent with PBGC's investment policy statement and overall risk tolerance. These investment managers, who act as fiduciaries to PBGC, determine when it may or may not be appropriate to utilize derivatives in the portfolio(s) for which they are responsible. Investments in derivatives carry many of the same risks of the underlying instruments and carry additional risks that are not associated with direct investments in the securities underlying the derivatives. Furthermore, risks may arise from the potential inability to terminate or sell derivative positions, although derivative instruments are generally more liquid than physical market instruments. A liquid secondary market may not always exist for certain derivative positions at any time. Over-the-counter derivative instruments also involve counterparty risk that the other party to the derivative instrument will not meet its obligations.

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

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

During fiscal years 2009 and 2010, PBGC, through its investment managers, invested in investment products that used various U.S. and non-U.S. derivative instruments including but not limited to: S&P 500 index futures, options, government bond futures, interest rate, credit default and total return swaps and swaption contracts, stock warrants and rights, debt option contracts, and foreign currency forward and option contracts. Some of these derivatives are traded on organized exchanges and thus bear minimal counterparty risk. The counterparties to PBGC's non-exchange-traded derivative contracts are major financial institutions subject to ISDA (International Swaps and Derivatives Association, Inc.) master agreements. PBGC monitors its counterparty risk and exchanges collateral under most contracts to further support performance by its counterparties.

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

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

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

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

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

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

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

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

For the fiscal years ended September 30, 2010 and 2009, gains and losses from settled margin calls are reported in Investment income on the Statements of Operations and Changes in Net Position. Securities pledged as collateral for derivative contracts, e.g., futures and swaps, are recorded as a receivable or payable.

Effective January 1, 2009, PBGC adopted the provisions of the FASB Accounting Standards Codification Section 815 (formerly SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities*). This standard requires the disclosure of fair values of derivative instruments and their gains and losses in its financial statements of both the derivative positions existing at period end and the effect of using derivatives during the reporting period. The first table below identifies the location of derivative fair market values (FMV) on the Statements of Financial Condition, as well as the notional amounts, while the second table identifies the location of derivative gains and losses on the Statements of Operations and Changes in Net Position as of September 30, 2010, and September 30, 2009.

FAIR VALUES OF DERIVATIVE INSTRUMENTS

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

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

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

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

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

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

Securities Lending

PBGC participates in a securities lending program administered by its custodian bank whereby the custodian bank lends PBGC's securities to third parties. The custodian bank requires initial collateral from the borrower that equals 102 percent to 105 percent of the securities lent. The collateral is held by the custodian bank. The manager either receives cash as collateral or pays cash to cover mark-to-market changes. Any cash collateral received is invested. The total value of securities on loan at September 30, 2010, and September 30, 2009, was $5.674 billion and $2.450 billion, respectively. The increase in loan balances is a direct result of PBGC's increased asset allocation to U.S. Government securities. The 2009 year end balance for U.S. government securities was approximately $2.2 billion or ten percent of PBGC's overall lendable security balance; while the 2010 year end balance for U.S. Government securities was approximately $5.2 billion or twenty-five percent of PBGC's overall lendable security balance. The increased asset allocation and higher utilization levels of U.S. government securities, as compared to other lendable asset classes, resulted in the increased on loan balance on September 30, 2010.

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

Of the $5.674 billion market value of securities on loan at September 30, 2010, approximately 75 percent are lent U.S. government securities and approximately 23 percent are lent U.S. corporate securities.

Note 4: Derivative Contracts

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

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

DERIVATIVE CONTRACTS

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

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

DERIVATIVE CONTRACTS

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

Note 5: Fair Value Measurements

Effective January 1, 2009, PBGC adopted the provisions of the FASB Accounting Standards Codification Section 820 (formerly SFAS No. 157, *Fair Value Measurements*). The standard does not require the measurement of financial assets and liabilities at fair value, but provides a consistent definition of fair value and establishes a framework for measuring fair value in accordance with GAAP. The standard is intended to increase consistency and comparability in, and disclosures about, fair value measurements, by providing users with better information about the extent to which fair value is used to measure financial assets and liabilities, the inputs used to develop those measurements and the effect of the measurements, if any, on financial condition, results of operations, liquidity and capital.

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

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

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

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

The three levels are described below:

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

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

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

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

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

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

Level 3 - Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable in the market and significant to the overall fair value measurement. These inputs reflect management's judgment about the assumptions that a market participant would use in pricing the asset or liability, and based on the best available information, some of which is internally developed. We include instruments whose values are based on a single source such as a broker, pricing service, or dealer which cannot be corroborated by recent market transactions. These include fixed maturity securities such as corporate bonds that are comprised of securities that are no longer traded on the active market and/or not managed by any asset manager. Equity securities such as corporate stocks are also included in this level, and are comprised of securities that are no longer traded on the active market and/or not managed by any asset manager. Private equity, real estate funds, and separate accounts that invest primarily in U.S. commercial real estate, are valued based on each underlying investment within the fund/account incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information, including comparable transactions, and performance multiples, among other factors.

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

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

(Dollars in millions)	Quoted Market Prices in Active Markets (Level 1)	Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)	Total Net Carrying Value in Statements of Financial Condition
Assets				
Cash and cash equivalents	$ 450	$ 3,998		$ 4,448
Securities lending collateral		5,791		5,791
Investments:				
Fixed maturity securities				
U.S. Government securities		22,895		
Commercial paper/securities purchased under resale agreements		199		
Asset backed/Mortgage backed securities		2,733		
Pooled funds				
Domestic		150	331	
International				
Global/other				
Corporate bonds and other	3	10,164	1	
International securities	(16)	4,936	-	
Total fixed maturity securities	(13)	41,077	332	41,396
Equity securities:				
Domestic	1,677	142	5	
International	1,083			
Pooled funds				
Domestic		10,778		
International		8,691		
Global/other	17	-	-	
Total equity securities	2,777	19,611	5	22,393
Private equity			2,050	2,050
Real estate and real estate investment trusts	7	2	450	459
Insurance contracts and other Investments		17		17
Receivables:				
Derivative contracts*	2	76		78
Liabilities				
Payables:				
Derivative contracts**	12	55		67

* Derivative contracts receivables are comprised of open receivable trades on futures, forwards, TBAs, swaps, and collateral deposits.

** Derivative contracts payables are comprised of open payable trades on futures, forwards, TBAs, swaps, options, and collateral deposits.

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

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

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

*assets which are not actively traded in the market place

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

*** less than $500,000

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

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

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

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

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

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

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

Note 6: Present Value of Future Benefits

The following table summarizes the actuarial adjustments, charges and credits that explain how the Corporation's single-employer program liability for the present value of future benefits changed for the years ended September 30, 2010 and 2009.

For FY 2010, PBGC used a 25-year select interest factor of 4.41% followed by an ultimate factor of 4.51% for the remaining years. In FY 2009, PBGC used a 25-year select interest factor of 5.17% followed by an ultimate factor of 5.03% for the remaining years. These factors were determined to be those needed, given the mortality assumptions, to continue to match the survey of annuity prices provided by the American Council of Life Insurers (ACLI). Both the interest factor and the length of the select period may vary to produce the best fit with these prices. The prices reflect rates at which, in the opinion of management, the liabilities (net of administrative expenses) could be settled in the market at September 30, for the respective year, for single-premium nonparticipating group annuities issued by private insurers. Many factors, including Federal Reserve policy, changing expectations about longevity risk, and competitive market conditions may affect these rates.

Beginning in FY 2006, and ending with FY 2008, a Barclays Capital Aggregate Bond Index (formerly Lehman Long Corporate A and Higher Bond index) as of the last trading day of the month was used and was applied to both the select and ultimate factors instead of the select factor only as had been prior practice. Interest factors beginning in FY 2006 are now rounded to two decimal places instead of one so as to be able to state to the level of a single basis point.

In late 2008, significant volatility in the bond markets led PBGC to research the relationship between quarterly bond yields and annuity prices. As a result of this research, PBGC ended the use of a bond index in the determination of interest factors. The quarterly interest factors now incorporate the most recent quarterly annuity price survey data. Previously, the price survey data was used only once a year with the bond index then applied to determine subsequent interest factors during the year.

For September 30, 2010, PBGC used the 1994 Group Annuity Mortality (GAM) 94 Static Table (with margins), set forward one year and projected 26 years to 2020 using Scale AA. For September 30, 2009, PBGC used the same table set forward one year, projected 24 years to 2018 using scale AA. The number of years that PBGC projects the mortality table reflects the number of years from the 1994 base year of the table to the end of the fiscal year (16 years in 2010 versus 15 years in 2009) plus PBGC's calculated duration of its liabilities (ten years in 2010 and nine years in 2009). PBGC's procedure is based on the procedures recommended by the Society of Actuaries UP-94 Task Force (which developed the GAM94 table) for taking into account future mortality improvements.

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

The reserve for administrative expenses in the 2006 valuations was assumed to be 1.18 percent of benefit liabilities plus additional reserves for cases in which plan asset determinations, participant database audits and actuarial valuations were not yet complete. As the result of an updated study, the expense reserve factor for FY 2007 has changed to 1.37 percent and carried forward to FY 2008, FY 2009 and FY 2010. The factors to determine the additional reserves were also re-estimated and continue to be based on plan milestone completion as well as case size, number of participants and time since trusteeship.

The present values of future benefits for trusteed multiemployer plans for 2010 and 2009 reflect the payment of assistance and the changes in interest and mortality assumptions, the passage of time and the effect of experience.

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

RECONCILIATION OF THE PRESENT VALUE OF FUTURE BENEFITS FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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

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

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

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

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

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

Net Claims for Probable Terminations

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

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

RECONCILIATION OF NET CLAIMS FOR PROBABLE TERMINATIONS

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

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

PROBABLES EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

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

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

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

ACTUAL PROBABLES EXPERIENCE
As Initially Recorded Beginning in 1987

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

Note 7: Multiemployer Financial Assistance

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

NOTES RECEIVABLE MULTIEMPLOYER FINANCIAL ASSISTANCE

(Dollars in millions)	**September 30, 2010**	September 30, 2009
Gross balance at beginning of year	**$387**	$311
Financial assistance payments - current year	**97**	86
Write-offs related to settlement agreements	**0**	(10)
Subtotal	**484**	387
Allowance for uncollectible amounts	**(484)**	(387)
Net balance at end of year	**$ 0**	$ 0

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

As of September 30, 2010, the corporation expects 121 multiemployer plans will exhaust plan assets and need financial assistance from PBGC to pay guaranteed benefits and plan administrative expenses. The present value of nonrecoverable future financial assistance for these 121 plans is $3.030 billion. The 121 plans fall into three categories – plans currently receiving financial assistance; plans that have terminated but have not yet started receiving financial assistance from PBGC; and ongoing plans (not terminated) that the corporation expects will require financial assistance in the future.

Of the 121 plans:

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

- 51 plans have terminated but have not yet started receiving financial assistance payments from PBGC. Terminated multiemployer plans no longer have employers making regular contributions for covered work, though some plans continue to receive withdrawal liability payments from withdrawn employers. In general, PBGC records a loss for future financial assistance for any underfunded multiemployer plan that has terminated. The present value of future financial assistance payments to these 51 terminated plans is $1.067 billion.

- 29 plans are ongoing (i.e., have not terminated), but PBGC expects these plans will exhaust plan assets and need financial assistance within 10 years. In this analysis, PBGC takes into account the current plan assets, future income to the plan, the statutory funding rules, and the possibility for future increases in contributions. The present value of future financial assistance payments for these 29 ongoing plans is $784 million.

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

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

Note 8: Accounts Payable and Accrued Expenses

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

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

Note 9: Contingencies

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

In accordance with the FASB Accounting Standards Codification Section 450 (formerly SFAS No. 5), PBGC classified a number of these companies as reasonably possible rather than probable terminations as the sponsors' financial condition and other factors did not indicate that termination of their plans was likely. This classification was done based upon information about the companies as of September 30, 2010.

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

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

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

REASONABLY POSSIBLE EXPOSURE TO LOSS BY INDUSTRY (PRINCIPAL CATEGORIES)

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

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

** For FY 2010 and FY 2009, primarily airline

PBGC included amounts in the liability for the present value of nonrecoverable future financial assistance (see Note 7) for multiemployer plans that PBGC estimated may require future financial assistance. In addition, PBGC currently estimates that it is reasonably possible that other multiemployer plans may require future financial assistance in the amount of $20 billion, due primarily to the addition of two large plans.

The Corporation calculated the future financial assistance liability for each multiemployer plan identified as probable (see Note 7), or reasonably possible as the present value of guaranteed future benefit and expense payments net of any future contributions or withdrawal liability payments as of the later of September 30, 2010, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2010. The Corporation's identification of plans that are likely to require such assistance and estimation of related amounts required consideration of many complex factors, such as an estimate of future cash flows, future mortality rates, and age of participants not in pay status. These factors are affected by future events, including actions by plans and their sponsors, most of which are beyond the Corporation's control.

Note 10: Commitments

PBGC leases its office facility under a commitment that began on January 1, 2005, and expires December 10, 2019. This lease provides for periodic rate increases based on increases in operating costs and real estate taxes over a base amount. In addition, PBGC is leasing space for field benefit administrators. These leases began in 1996 and expire in 2014. The minimum future lease payments for office facilities having noncancellable terms in excess of one year as of September 30, 2010, are as follows:

COMMITMENTS: FUTURE LEASE PAYMENTS

(Dollars in millions)

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

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

Note 11: Premiums

For both the single-employer and multiemployer programs, ERISA provides that PBGC shall continue to guarantee basic benefits despite the failure of a plan administrator to pay premiums when due. PBGC assesses interest and penalties on the unpaid portion of or underpayment of premiums. Interest continues to accrue until the premium and the interest due are paid. For plan year 2009 the flat-rate premiums for single-employer pension plans was $34 per participant and for multiemployer plans, $9 per participant. For plan year 2010, per participant rates were $35 for single-employer plans and $9 for multiemployer plans. PBGC recorded net premium income of $2.324 billion and consisted primarily of $1.288 billion in flat-rate premiums, $1.030 billion in variable-rate premiums, and $237 million in termination premiums offset by a bad debt expense of $244 million. Bad debt expenses include a reserve for uncollectible premium receivables consisting of termination premiums that are reserved conservatively at 100 percent, as well as some write-off of interest and penalties. Net premium income for fiscal year 2009 was $1.917 billion and consisted primarily of approximately $1.227 billion in flat-rate premiums, $699 million in variable-rate premiums, and $590 million in termination premiums offset by a bad debt expense of $596 million. The termination premium applies to certain plan terminations occurring after 2005. If a pension plan terminates in a distress termination pursuant to ERISA section 4041(c)(2)(B)(ii) or (iii), or in a PBGC-initiated termination under ERISA section 4042, the plan sponsor and its controlled group are liable to PBGC for a termination premium at the rate of $1,250 per plan participant per year for three years.

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

PREMIUMS

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

Note 12: Losses from Completed and Probable Terminations

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

LOSSES FROM COMPLETED AND PROBABLE TERMINATIONS SINGLE-EMPLOYER PROGRAM

	For the Years Ended September 30,					
	2010			2009		
(Dollars in millions)	**New Terminations**	**Changes in Prior Year Terminations**	**Total**	New Terminations	Changes in Prior Year Terminations	Total
Present value of future benefits	**$ 3,130**	**$ (15)**	**$3,115**	$15,692	$ (277)	$15,415
Less plan assets	**1,688**	**474**	**2,162**	9,860	29	9,889
Plan asset insufficiency	**1,442**	**(489)**	**953**	5,832	(306)	5,526
Less estimated recoveries	**0**	**16**	**16**	0	10	10
Subtotal	**1,442***	**(505)**	**937**	5,832*	(316)	5,516
Settlements and judgments		**(3)**	**(3)**		2	2
Loss (credit) on probables	**(596)**	**171**	**(425)****	(3,077)	1,793	(1,284)**
Total	**$ 846**	**$(337)**	**$ 509**	$ 2,755	$1,479	$ 4,234

* gross amounts for plans terminated during the year

** see Note 6 – includes $596 million at September 30, 2010, and $3,077 million at September 30, 2009, previously recorded relating to plans that terminated during the period

Note 13: Financial Income

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

INVESTMENT INCOME SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS

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

Note 14: Employee Benefit Plans

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

The Corporation's contribution to the CSRS plan for both 2010 and 2009 was 7.0 percent of base pay for those employees covered by that system. For those employees covered by FERS, the Corporation's contribution was 11.2 percent of base pay for both 2010 and 2009. In addition, for FERS-covered employees, PBGC automatically contributes one percent of base pay to the employee's Thrift Savings account, matches the first three percent contributed by the employee and matches one-half of the next two percent contributed by the employee. Total retirement plan expenses amounted to $18 million in 2010 and $16 million in 2009.

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

Note 15: Cash Flows

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

INVESTING ACTIVITIES (SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED)

	September 30,	
(Dollars in millions)	**2010**	2009
Proceeds from sales of investments:		
Fixed maturity securities	**$60,295**	$134,856
Equity securities	**5,302**	5,283
Other/uncategorized	**6,901**	15,362
Memorandum total	**$72,498**	$155,501
Payments for purchases of investments:		
Fixed maturity securities	**$(63,937)**	$(126,492)
Equity securities	**(4,504)**	(13,147)
Other/uncategorized	**(1,811)**	(12,689)
Memorandum total	**$(70,252)**	$(152,328)

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

RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in millions)	**2010**	2009	**2010**	2009	**2010**	2009
Net income (loss)	**$ (517)**	(10,399)	**$(567)**	$(396)	**$(1,084)**	$(10,795)
Adjustments to reconcile net income to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	**(6,022)**	(4,662)	**(131)**	(76)	**(6,153)**	(4,738)
Net gain (loss) of plans pending termination and trusteeship	**37**	(16)	**0**	0	**37**	(16)
Losses (credits) on completed and probable terminations	**509**	4,234	**0**	0	**509**	4,234
Actuarial charges (credits)	**9,421**	13,901	**0**	0	**9,421**	13,901
Benefit payments - trusteed plans	**(5,284)**	(4,337)	**0**	0	**(5,284)**	(4,337)
Settlements and judgments	**0**	0	**0**	0	**0**	0
Cash received from plans upon trusteeship	**81**	368	**0**	0	**81**	368
Receipts from sponsors/non-sponsors	**241**	188	**0**	0	**241**	188
Amortization of discounts/premiums	**89**	(39)	**9**	(4)	**98**	(43)
Changes in assets and liabilities, net of effects of trusteed and pending plans:						
(Increase) decrease in receivables	**(179)**	(409)	**4**	(9)	**(175)**	(418)
Increase in present value of nonrecoverable future financial assistance			**734**	528	**734**	528
Increase in unearned premiums	**9**	24	**0**	0	**9**	24
Increase (decrease) in accounts payable	**14**	(76)	**2**	0	**16**	(76)
Net cash provided (used) by operating activities	**$(1,601)**	$(1,223)	**$ 51**	$ 43	**$(1,550)**	$(1,180)

Note 16: Litigation

Legal challenges to PBGC's policies and positions continued in 2010. At the end of the fiscal year, PBGC had 52 active cases in state and federal courts and 630 bankruptcy and state receivership cases.

PBGC records as a liability on its financial statements an estimated cost for unresolved litigation to the extent that losses in such cases are probable and estimable in amount. In addition to such recorded costs, PBGC estimates with a degree of certainty that possible losses of up to $68 million could be incurred in the event that PBGC does not prevail in these matters.

Note 17: Subsequent Events

Management evaluated subsequent events through November 12, 2010, the date the financial statements were available to be issued. Events or transactions occurring after September 30, 2010, but prior to November 12, 2010 that provided additional evidence about conditions that existed at September 30, 2010, for either the single-employer or multiemployer program, have been recognized in the financial statements for the period ended September 30, 2010.

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

For the multiemployer program, events or transactions that provided evidence about conditions that did not exist at September 30, 2010 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the period ended September 30, 2010.

Section III

Management Comments

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 8, 2010

To: Rebecca Anne Batts
Inspector General

From: Josh Gotbaum
Director

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

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

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

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

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

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

If you want to report or discuss confidentially any instance of misconduct, fraud, waste, abuse, or mismanagement, please contact the Office of Inspector General.

Telephone:
The Inspector General's HOTLINE
1-800-303-9737

The deaf or hard of hearing, dial FRS (800) 877-8339 and give the Hotline number to the relay operator.

Web:
http://oig.pbgc.gov/investigation/details.html

Or Write:
Pension Benefit Guaranty Corporation
Office of Inspector General
PO Box 34177
Washington, DC 20043-4177