Pension Benefit Guaranty Corporation

Office of Inspector General

Audit Report

Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2009 and 2008 Financial Statements

Independent Auditor's Report

Pension Benefit Guaranty Corporation's
Fiscal Year 2009 and 2008 Financial Statements

November 12, 2009

AUD-2010-1 / FA-09-64-1

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, 2009 and 2008. They conducted their audits in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards,* issued by the Comptroller General of the United States; Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended; and the *Government Accountability Office / President's Council Integrity and Efficiency Financial Audit Manual*.

In 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, 2009. 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, 2009, and the conclusions expressed in the report. We do not express opinions on PBGC's financial statements or internal control, nor do we draw conclusions on compliance with laws and regulations.

Clifton Gunderson's report (AUD-2010-1/FA-09-64-1) is also available on our website at http://oig.pbgc.gov.

Sincerely,

Rebecca Anne Batts

Rebecca Anne Batts
Inspector General

November 12, 2009

Audit of the Pension Benefit Guaranty Corporation's
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Acronyms

C&A	Certification and Accreditation
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
IT	Information Technology
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
U.S.C.	United States Code

Audit of the Pension Benefit Guaranty Corporation's
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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 (FY) 2009 and 2008 we found the following:

- 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, 2009.
- No reportable noncompliance in FY 2009 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, 2009 and 2008, and the results of their operations and cash flows for the FYs then ended.

By law, PBGC's Single-Employer and Multiemployer Program Funds must be self-sustaining. As of September 30, 2009, PBGC reported in its financial statements net deficit positions (liabilities in excess of assets) in the Single-Employer and Multiemployer Program Funds of $21,077 million and $869 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 $167,864 million and $326 million, respectively. Management based the Single-Employer Program estimate on data for FYs ending in calendar 2008 that was obtained from filings and submissions to the government and from

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corporate annual reports. A subsequent adjustment for economic conditions through September 30, 2009 has not been made, and as a result the exposure to loss for the Single-Employer Program as of September 30, 2009 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, 2009.

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

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MATERIAL WEAKNESS

PBGC protects the pensions of approximately 44 million workers and retirees in more than 29,000 private defined benefit pension plans. Under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA), PBGC insures, subject to statutory limits, pension benefits of participants in covered private defined benefit pension plans in the United States. To accomplish its mission and prepare its financial statements, PBGC relies extensively on 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.

As noted in FY 2008 and previous financial statement audit reports, PBGC's systemic security control weaknesses and the lack of an integrated financial management system posed increasing and substantial risk to PBGC's ability to carry out its mission during FY 2009. 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. Furthermore, these weaknesses were not addressed in the status of corrective actions being reported. As a result, PBGC's attempt to address entity-wide security management program deficiencies and systemic security control weaknesses at the root cause level had minimal effect.

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.

PBGC's management is starting to take actions to correct control weaknesses by conducting an assessment of its Oracle database environment, initiating an IT Infrastructure modernization program, completing the Enterprise Architecture segment architecture, and implementing strategic decisions on IT sourcing.

Our current year audit work found 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 certification and accreditation 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 the significant deficiencies in the following areas constitute a material weakness for FY 2009:

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.

In FY 2009, PBGC incorrectly reported progress in addressing weaknesses noted in its entity-wide information security management program to correct systemic security control weaknesses at the root cause level. The incorrect reporting in PBGC's status report impacted strategic decisions to prioritize resources for resolving deficiencies in PBGC's IT infrastructure. PBGC has initiated efforts in the reorganization and improvement of its security planning and management through the design and implementation of a more coherent strategy to managing its information systems. However, these efforts are not completed and additional time is needed for further strategy development and implementation.

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 (FISMA), 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 FY 2009, PBGC incorrectly reported progress in addressing entity-wide security management weaknesses, which did not agree with its own assessment of the state of its IT infrastructure and environment. PBGC's assessment of its IT infrastructure and environment noted fundamental weaknesses in its architecture and design that prohibited the implementation of effective controls. Communication between PBGC's key decision makers did not convey the urgent need for decisive strategic decisions and actions to correct fundamental weaknesses in PBGC's IT infrastructure and environment. Resources were inappropriately allocated to address certain control weaknesses, even though underlying IT architecture and design issues prevented successful mitigation of these weaknesses. The sixty-five (65) common security controls PBGC previously identified and documented, were not implemented, despite PBGC's reporting to having implemented forty-five (45) of them. Furthermore, PBGC did not complete the certification and accreditation (C&A) of thirteen (13) major applications and general support systems, although management reported the C&As were completed. PBGC's quality control review of the C&A packages did not correct specific issues we identified in FY 2008. The C&A packages were deficient in their quality, accuracy, and consistency. The Information Assurance Handbook has not been updated to reflect changes in its IT policies and procedures. Consequently, management's attempt to resolve prior year control weaknesses did not achieve its objective.

PBGC's entity-wide security program lacks focus and a coordinated effort to adequately resolve control deficiencies. These deficiencies 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

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 thereby protecting against unauthorized modification, disclosure, loss, or impairment. Such controls include both logical and physical security controls to ensure that Federal employees and contractors will be given only the 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.

Access control policies and procedures should be formally developed, documented, disseminated, and periodically updated. Policies should address purpose, scope, roles, responsibility, and compliance issues. Procedures should facilitate the implementation of the policy and associated access controls. National Institute of Standards and Technology (NIST) Special Publication (SP) 800-12, *An Introduction to Computer Security: The NIST Handbook,* provides guidance on security policies and procedures.

Industry best practices, NIST SP 800-64, *Security Considerations in the System Development Life Cycle,* and other Federal guidance all 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.

PBGC's decentralized approach to system development, system deployments, and configuration management has created an environment that lacks a cohesive structure in which to implement controls and best practices. Weaknesses in the IT environment contributed 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, additional reconciliation procedures, 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 Premiums Income, Premiums Receivable, and Unearned Premiums in CFS.

Ineffective 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.

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

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

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

Until these control weaknesses are corrected, PBGC's ability to accurately and efficiently record, accumulate, and summarize information required for internal and external financial reporting is impacted.

PBGC's information systems employ unsupported technologies that pose additional risk to the availability of financially significant systems. Many of these technologies are unsupported and add to the challenges of integrating PBGC's systems in an IT infrastructure that lacks a cohesive architecture and design.

The agency's ability to effectively and efficiently maintain and modernize its existing IT environment depends, in a large part, on how well it employs certain IT management controls that are embodied in statutory requirements, Federal guidance, and best practices. Among other things, these controls include strategic planning and performance measurement, portfolio-based investment management, human capital management, enterprise architecture (and supporting segment architecture) development and use, and establishing responsibility and accountability for modernization management.

If managed effectively, IT investments can have a dramatic impact on an organization's performance and accountability. If not carefully managed, they can result in wasteful spending and lost opportunities for achieving mission goals and improving mission performance. PBGC has 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 both to guide and constrain modernization projects, it risks investing further 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 has begun to develop an overall strategy to improve its IT architecture and infrastructure, but much work remains before the strategy can be completed and implemented. Steps PBGC has taken include the following:

1. PBGC has completed the identification of all systems that provide data required to prepare the financial statements.

2. PBGC has substantially completed the logical database model including standard data definitions and formats to be used throughout the Corporation.

3. PBGC has completed the development of segment architectures for CFS, and Premium Accounting. Segment Architectures will assist PBGC in identifying and planning financial technology recommendations for implementation and alternative analysis for business cases.

Major work remains to be completed to set the foundation for an integrated financial management system, including the following:

1. Incorporating the results of PBGC's Sourcing and Oracle Assessments in the Segment Architecture to support the selection of best alternative for PBGC's new IT infrastructure.

2. Completing Segment Architectures for all PBGC Architecture Segments.

3. Mapping all legacy systems to PBGC's logical database model and identifying discrepancies.

4. Developing business cases for CFS and Premium Accounting IT Investments to support budget request for system development.

5. Developing and implementing new IT system solutions/functions in accordance with the Financial Management Segment Architecture and strategic system plan.

6. Completing alternative analysis studies for CFS and Premium Accounting.

Recommendation:

PBGC management should develop and implement a coherent strategy to integrate PBGC's financial management systems in accordance with OMB Circular A-127.

Compliance with Laws and Regulations

Our tests of PBGC's compliance with selected provisions of laws and regulations for FY 2009 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 Annual Management 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, 2009 based on management's assertion included in PBGC's Annual Management Report and on the criteria contained in FMFIA, the objectives of which are the following:

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

- Compliance with applicable laws and regulations: Transactions are executed in accordance with laws and regulations that could have a direct and material effect on the financial statements and any other laws, regulations, and 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 Annual Management Report.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessed the accounting principles used and significant estimates made by management; (3) evaluated the overall presentation of the financial statements; (4) obtained an understanding of the entity and its operations, including its internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations; (5) tested relevant internal control over financial reporting (including safeguarding assets) and compliance, and evaluated the design and operating effectiveness of internal control for the FY ended September 30, 2009; (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 FY 2009 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 FY ended September 30, 2009. 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 2009 financial statements.

Management Comments and Our Evaluation

In commenting on the draft of this report (see Section II 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, 2009

Section II

Pension Benefit Guaranty Corporation’s Fiscal Year 2009 and 2008 Financial Statements

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF FINANCIAL CONDITION

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in millions)	**2009**	2008	**2009**	2008	**2009**	2008
ASSETS						
Cash and cash equivalents	**$ 3,747**	$ 1,739	**$ 5**	$ 20	**$ 3,752**	$ 1,759
Securities lending collateral (Notes 3 and 5)	**2,507**	3,772	**0**	0	**2,507**	3,772
Investments, at market (Notes 3 and 5):						
Fixed maturity securities	**32,933**	37,036	**1,436**	1,298	**34,369**	38,334
Equity securities	**24,133**	12,921	**0**	0	**24,133**	12,921
Real estate and real estate investment trusts	**596**	3	**0**	0	**596**	3
Other	**653**	23	**0**	0	**653**	23
Total investments	**58,315**	49,983	**1,436**	1,298	**59,751**	51,281
Receivables, net:						
Sponsors of terminated plans	**85**	19	**0**	0	**85**	19
Premiums (Note 11)	**601**	185	**2**	2	**603**	187
Sale of securities	**195**	1,357	**0**	0	**195**	1,357
Derivative contracts (Note 4)	**2,860**	7,124	**0**	0	**2,860**	7,124
Investment income	**394**	398	**16**	7	**410**	405
Other	**3**	3	**0**	0	**3**	3
Total receivables	**4,138**	9,086	**18**	9	**4,156**	9,095
Capitalized assets, net	**29**	32	**0**	0	**29**	32
Total assets	**$68,736**	$64,612	**$1,459**	$1,327	**$70,195**	$65,939

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

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF FINANCIAL CONDITION

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in Millions)	**2009**	2008	**2009**	2008	**2009**	2008
LIABILITIES						
Present value of future benefits, net (Note 6):						
Trusted plans	**$ 80,506**	$ 56,570	**$ 1**	$ 1	**$ 80,507**	$ 56,571
Plans pending termination and trusteeship	**601**	216	**0**	0	**601**	216
Settlements and judgments	**58**	56	**0**	0	**58**	56
Claims for probable terminations	**1,870**	3,154	**0**	0	**1,870**	3,154
Total present value of future benefits, net	**83,035**	59,996	**1**	1	**83,036**	59,997
Present value of nonrecoverable future financial assistance (Note 7)			**2,296**	1,768	**2,296**	1,768
Derivative contracts (Note 4)	**3,014**	8,338	**0**	0	**3,014**	8,338
Due for purchases of securities	**172**	1,847	**0**	0	**172**	1,847
Payable upon return of securities loaned	**2,507**	3,772	**0**	0	**2,507**	3,772
Securities sold under repurchase agreements	**643**	885	**0**	0	**643**	885
Unearned premiums	**355**	331	**31**	31	**386**	362
Accounts payable and accrued expenses (Note 8)	**87**	121	**0**	0	**87**	121
Total liabilities	**89,813**	75,290	**2,328**	1,800	**92,141**	77,090
Net position	**(21,077)**	(10,678)	**(869)**	(473)	**(21,946)**	(11,151)
Total liabilities and net position	**$ 68,736**	$ 64,612	**$1,459**	$1,327	**$ 70,195**	$ 65,939

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)	**2009**	2008	**2009**	2008	**2009**	2008
UNDERWRITING						
Income:						
Premium, net (Note 11)	**$ 1,822**	$ 1,340	**$ 95**	$ 90	**$ 1,917**	$ 1,430
Other	**16**	23	**2**	0	**18**	23
Total	**1,838**	1,363	**97**	90	**1,935**	1,453
Expenses:						
Administrative	**368**	350	**0**	0	**368**	350
Other	**15**	5	**0**	1	**15**	6
Total	**383**	355	**0**	1	**383**	356
Other underwriting activity:						
Losses (credits) from completed and probable terminations (Note 12)	**4,234**	(826)	**0**	0	**4,234**	(826)
Losses (credits) from financial assistance (Note 7)			**614**	(271)	**614**	(271)
Actuarial adjustments (credits) (Note 6)	**(573)**	(649)	**0**	(1)	**(573)**	(650)
Total	**3,661**	(1,475)	**614**	(272)	**4,275**	(1,747)
Underwriting gain (loss)	**(2,206)**	2,483	**(517)**	361	**(2,723)**	2,844
FINANCIAL:						
Investment income (loss) (Note 13):						
Fixed	**4,543**	577	**121**	121	**4,664**	698
Equity	**1,821**	(4,788)	**0**	0	**1,821**	(4,788)
Other	**(34)**	47	**0**	0	**(34)**	47
Total	**6,330**	(4,164)	**121**	121	**6,451**	(4,043)
Expenses:						
Investment	**49**	50	**0**	0	**49**	50
Actuarial charges (credits) (Note 6):						
Due to passage of time	**3,923**	3,400	**0**	0	**3,923**	3,400
Due to change in interest rates	**10,551**	(7,564)	**0**	0	**10,551**	(7,564)
Total	**14,523**	(4,114)	**0**	0	**14,523**	(4,114)
Financial income (loss)	**(8,193)**	(50)	**121**	121	**(8,072)**	71
Net income (loss)	**(10,399)**	2,433	**(396)**	482	**(10,795)**	2,915
Net position, beginning of year	**(10,678)**	(13,111)	**(473)**	(955)	**(11,151)**	(14,066)
Net position, end of year	**$ (21,077)**	$ (10,678)	**$ (869)**	$ (473)	**$ (21,946)**	$ (11,151)

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, 2009	2008	Multiemployer Program For the Years Ended September 30, 2009	2008	Memorandum Total For the Years Ended September 30, 2009	2008
OPERATING ACTIVITIES:						
Premium receipts	**$ 1,431**	$ 1,336	**$ 94**	$ 93	**$ 1,525**	$ 1,429
Interest and dividends received	**2,305**	2,325	**77**	47	**2,382**	2,372
Cash received from plans upon trusteeship	**368**	155	**0**	0	**368**	155
Receipts from sponsors/non-sponsors	**188**	137	**0**	0	**188**	137
Receipts from the missing participant program	**7**	7	**0**	0	**7**	7
Other receipts	**15**	1	**0**	0	**15**	1
Benefit payments – trusteed plans	**(4,337)**	(4,247)	**0**	0	**(4,337)**	(4,247)
Financial assistance payments			**(86)**	(85)	**(86)**	(85)
Settlements and judgments	**0**	(1)	**0**	0	**0**	(1)
Payments for administrative and other expenses	**(424)**	(372)	**0**	0	**(424)**	(372)
Accrued interest paid on securities purchased	**(776)**	(702)	**(42)**	(32)	**(818)**	(734)
Net cash provided (used) by operating activities (Note 15)	**(1,223)**	(1,361)	**43**	23	**(1,180)**	(1,338)
INVESTING ACTIVITIES:						
Proceeds from sales of investments	**190,411**	216,333	**3,234**	3,270	**193,645**	219,603
Payments for purchases of investments	**(187,180)**	(215,434)	**(3,292)**	(3,280)	**(190,472)**	(218,714)
Net change in investment of securities lending collateral	**(1,265)**	(1,274)	**0**	0	**(1,265)**	(1,274)
Net change in securities lending payable	**1,265**	1,274	**0**	0	**1,265**	1,274
Net cash provided (used) by investing activities	**3,231**	899	**(58)**	(10)	**3,173**	889
Net increase (decrease) in cash and cash equivalents	**2,008**	(462)	**(15)**	13	**1,993**	(449)
Cash and cash equivalents, beginning of year	**1,739**	2,201	**20**	7	**1,759**	2,208
Cash and cash equivalents, end of year	**$ 3,747**	$ 1,739	**$ 5**	$ 20	**$ 3,752**	$ 1,759

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008

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, 2009, the single-employer and multiemployer programs reported deficits of $21.1 billion and $869 million, respectively. The single-employer program had assets of over $68.7 billion offset by total liabilities of $89.8 billion, which include a total present value of future benefits (PVFB) of approximately $83.0 billion. As of September 30, 2009, the multiemployer program had assets over $1.4 billion offset by approximately $2.3 billion in present value of nonrecoverable future financial assistance.

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

<u>Single-Employer and Multiemployer Program Exposure</u>

PBGC's best estimate of the total underfunding in plans sponsored by companies with credit ratings below investment grade, and classified by PBGC as reasonably possible of termination as of September 30, 2009, was $168 billion. The comparable estimates of reasonably possible exposure for 2008 and 2007 were $47 billion and $66 billion, respectively. These estimates are measured as of December 31 of the previous year (see Note 9). For 2009, 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, 2009, it is reasonably possible that multiemployer plans may require future financial assistance in the amount of $326 million. As of September 30, 2008 and 2007, these exposures were estimated at $30 million and $73 million, respectively.

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

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

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

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

Note 2 – Significant Accounting Policies

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

Recent Accounting Developments: During FY 2009, PBGC implemented three Statement of Financial Accounting Standards (SFAS), including SFAS No. 157, "Fair Value Measurements;" SFAS No. 161 "Disclosures about Derivative Instruments and Hedging Activities;" SFAS No. 165 "Subsequent Events;" and two FASB Staff Positions (FSP) No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" and 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."

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. SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities. 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. FSP No. FAS 157-3 clarifies the application of SFAS No. 157 in an inactive market, without changing its existing principles. 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. 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.

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

<u>Securities Lending Collateral:</u> 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.

<u>Investment Valuation and Income:</u> 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.

<u>Securities Purchased Under Resale Agreements:</u> 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 58. 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, Receivables: The amounts due from sponsors of terminated plans or members of their controlled group represent the settled, but uncollected, claims for employer liability (underfunding as of date of plan termination) and for contributions due their plan less an allowance for estimated uncollectible amounts. PBGC discounts any amounts expected to be received beyond one year for time and risk factors. Some agreements between PBGC and plan sponsors provide for contingent payments based on future profits of the sponsors. The Corporation will report any such future amounts in the period they are realizable. Income and expenses related to amounts due from sponsors are reported in the underwriting section of the Statements of Operations and Changes in Net Position. Interest earned on settled claims for employer liability and due and unpaid employer contributions (DUEC) is reported as "Income: Other." The change in the allowances for uncollectible employer liability and DUEC is reported as "Expenses: Other."

Premiums: Premiums receivable represent the estimated earned but unpaid portion of the premiums for plans that have a plan year commencing before the end of PBGC's fiscal year and past due premiums deemed collectible, including penalties and interest. The liability for unearned premiums represents an estimate of payments received during the fiscal year that cover the portion of a plan's year after PBGC's fiscal year-end. 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 premium 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).

<u>Present Value of Nonrecoverable Future Financial Assistance:</u> 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 plans that may lack a sufficient asset cushion to weather temporarily income losses. A combination of these factors, or any one factor that is of sufficient concern, leads to a more detailed analysis of the plan's funding and the likelihood that the contributing employers will be able to maintain the plan.

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.

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 2008 financial statements have been reclassified to be consistent with the 2009 presentation. All such changes had no impact on the FY 2008 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. Beginning in FY 2009, PBGC began reporting "Securities sold under repurchase agreements" separately on the Statements of Financial Condition to improve transparency; previously they were included under "Fixed maturity securities." In order to support year-to-year comparisons, the FY 2008 balances were reclassified to be consistent with the FY 2009 presentation.

As the following table illustrates, the market value of investments of the single-employer program increased significantly from September 30, 2008, to September 30, 2009.

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

	September 30, 2009			September 30, 2008	
(Dollars in millions)	**Basis**	**Market Value**		Basis	Market Value
Fixed maturity securities:					
U.S. Government securities	**$16,620**	**$17,282**		$17,509	$17,587
Commercial paper/securities purchased under resale agreements*	**49**	**49**		656	656
Asset backed securities*	**2,844**	**2,728**		4,973	4,630
Corporate bonds and other *	**12,476**	**12,874**		16,835	14,163
Subtotal	**31,989**	**32,933**		39,973	37,036
Equity securities:					
Public equity*	**17,829**	**22,896**		9,287	12,007
Private equity	**1,471**	**1,237**		955	914
Subtotal	**19,300**	**24,133**		10,242	12,921
Real estate and real estate investment trusts	**637**	**596**		4	3
Insurance contracts and other investments	**479**	**653**		18	23
Total**	**$52,405**	**$58,315**	*****	$50,237	$49,983

*The reclassified FY 2008 balances include adjustments to (1) Commercial paper/securities purchased under resale agreements, (2) Asset backed securities, (3) Corporate bonds and other, and (4) Public equity. This did not result in any overall change to the FY 2008 net position as these reclassifications were offset primarily through adjustments to cash equivalents, derivative contracts payable, derivative contracts receivable, and securities sold under repurchase agreements.
**Total includes securities on loan at September 30, 2009, and September 30, 2008, with a market value of $2.450 billion and $3.623 billion, respectively.
***This total of $58,315 million of investments at market value represents the Single-Employer assets only. It differs from the total investments of $63.91 billion shown on page 16 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

	September 30, 2009		September 30, 2008	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	**$1,382**	**$1,436**	$1,296	$1,298
Equity securities	**0**	**0**	0	0
Total	**$1,382**	**$1,436**	$1,296	$1,298

INVESTMENT PROFILE

	September 30, 2009	2008
Fixed Income Assets		
Average Quality	**AA**	AA
Average Maturity (years)	**14.7**	13.3
Duration (years)	**9.7**	9.5
Yield to Maturity (%)	**4.7**	6.3
Equity Assets		
Average Price/Earnings Ratio	**25.5**	15.4
Dividend Yield (%)	**2.3**	2.4
Beta	**1.04**	1.04

Derivative Instruments: PBGC assigns investment discretion to all of its investment managers. These investment managers, who act as fiduciaries to PBGC, determine when it may or may not be appropriate to utilize derivatives in the 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. Such controls are necessary because the use of leverage can magnify the effects of changes in the value of the portfolio's investments, and would make such investments more volatile.

Derivatives are accounted for at market value in accordance with the FASB Accounting Standards Codification Section 815 (formerly SFAS No. 133, as amended). Derivatives are marked to market with changes in value reported within financial income. These instruments are used to (1) mitigate risk (e.g., adjust duration or currency exposures), (2) enhance investment returns, and/or (3) as liquid and cost efficient substitutes for positions in physical securities. The standard requires disclosure of fair value on these instruments. During fiscal years 2008 and 2009, PBGC invested in investment products that used various U.S. and non-U.S. derivative instruments including but not limited to:

money market, S&P 500 index futures, options, government bond futures, TBA ("to be announced") forward contracts, interest rate, credit default and total return swaps and swaption contracts, stock warrants and rights, debt option contracts, and foreign currency forward and option contracts. Some of these derivatives are traded on organized exchanges and thus bear minimal counterparty risk. The counterparties to PBGC's non-exchange-traded derivative contracts are major financial institutions 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 bond forward is an agreement whereby the short position agrees to deliver pre-specified bonds to the long position at a set price and within a certain time window. A TBA forward instrument is an underlying contract on a mortgage backed security (MBS) to buy or sell a MBS which will be delivered at an agreed-upon date in the future. The pool of actual securities is to be announced 48 hours prior to the established trade settlement date. A forward foreign currency exchange contract is a commitment to purchase or sell a foreign currency at the settlement date at a negotiated rate. Foreign currency forward and option contracts may be used as a substitute for cash currency holdings, in order to minimize currency risk exposure to changes in foreign currency exchange rates and to adjust overall currency exposure to reflect the investment views of the fixed income portfolio managers regarding relationships between currencies.

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

Interest rate swaps involve exchanges of fixed rate and floating rate interest. Interest rate swaps are often used to alter exposure to interest rate fluctuations, by swapping fixed rate obligations for floating rate obligations, or vice versa. The counterparties to the swap agree to exchange interest payments on specific dates, according to a predetermined formula. 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, 2009 and 2008, 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.

During FY 2009, PBGC's investment managers decreased their utilization of derivative instruments as they became a less preferred way of implementing portfolio strategies relative to FY 2008.

The following table summarizes the notional amounts and fair market values (FMV) of all derivative financial instruments held or issued for trading as of September 30, 2009, and September 30, 2008. The dollar amounts in the FMV column represent the net theoretical amount needed or received to settle the derivative contract.

	Sept. 30, 2009		Sept. 30, 2008	
DERIVATIVE CONTRACTS	**Notional**	**FMV**	Notional	FMV
(Dollars in millions)				
Futures				
Contracts in a receivable position	**$ 4,321**	**$ 40**	$ 7,756	$155
Contracts in a payable position	**3,392**	**(46)**	7,626	(34)
Total futures	**7,713**	**(6)**	15,382	121
Swap agreements				
Interest rate swaps	**939**	**(12)**	11,211	10
Credit default swaps	**1,439**	**(18)**	6,370	(90)
Total swap agreements	**2,378**	**(30)**	17,581	(80)
Option contracts				
Options purchased (long)	**22**	**0 ***	5,501	51
Options written (sold short)	**1,186**	**(3)**	1,438	(31)
Total option contracts	**1,208**	**(3)**	6,939	20
Forward contracts				
Forwards – foreign exchange	**879**	**4**	1,790	(6)
Forwards – bonds/TBA's	**1,064**	**(7)**	2,657	(21)
Total forward contracts	**1,943**	**(3)**	4,447	(27)

* Less than $500,000

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

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 on the Statements of Financial Condition while the second table identifies the location of derivative gains and losses on the Statements of Operations and Changes in Net Position.

FAIR VALUES OF DERIVATIVE INSTRUMENTS

For the year ended September 30, 2009				
	Asset Derivative		Liability Derivative	
(Dollars in millions)	Statements of Financial Condition Location	FMV	Statements of Financial Condition Location	FMV
Futures	Derivative Contracts	$40	Derivative Contracts	$ (46)
Swap agreements				
Interest rate swaps	Investments-Fixed	(12)		
Credit default swaps	Investments-Fixed	(18)		
Option contracts				
Option contracts	Investments-Fixed	(1)	Derivative Contracts	(2)
Option contracts	Investments-Equity	0		
Forwards - foreign exchange	Derivative Contracts	1,066	Derivative Contracts	(1,062)
Forwards - bonds/TBAs	Investments-Fixed *	0	Derivative Contracts	(7)

* Less than $500,000

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

For the year ended September 30, 2009		
(Dollars in millions)	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives
Futures		
Contracts in a receivable position	Investment Income-Fixed	($510)
Contracts in a receivable position	Investment Income-Equity	(2)
Contracts in a payable position	Investment Income-Fixed	267
Contracts in a payable position	Investment Income-Equity	0
Swap agreements		
Interest rate swaps	Investment Income-Fixed	486
Credit default swaps	Investment Income-Fixed	(72)
Option contracts		
Options purchased (long)	Investment Income-Fixed	(21)
Options purchased (long)	Investment Income-Equity*	0
Options written (sold short)	Investment Income-Fixed	27
Options written (sold short)	Investment Income-Equity	0
Forward contracts		
Forwards - foreign exchange	Investment Income-Fixed	61
Forwards - bonds/TBAs	Investment Income-Fixed	(38)

* Less than $500,000

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

Securities Lending: PBGC participates in a securities lending program administered by its custodian bank 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, 2009, and September 30, 2008, was $2.450 billion and $3.623 billion, respectively. The decrease is primarily attributed to the lower amount of lendable assets in U.S. government securities in the PBGC investment program during FY 2009 that have historically higher percent on loan versus other asset classes. As a result, the amount of securities on loan has decreased.

The amount of cash collateral received for these loaned securities was $2.507 billion at September 30, 2009, and $3.772 billion at September 30, 2008. These amounts are recorded as assets and are offset with a corresponding liability. PBGC had earned income from securities lending of $26.2 million and $34.6 million for the years ending September 30, 2009, and September 30, 2008, respectively. Net income from securities lending is included in "Investment income – Fixed" on the Statements of Operations and Changes in Net Position. As of September 30, 2009, PBGC loaned out $2.450 billion in securities of approximately $13.740 billion of securities available for securities lending.

Of the $2.450 billion market value of securities on loan at September 30, 2009, approximately 67% are lent U.S. government securities and approximately 32% 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. Amounts in the table below represent the derivative contracts in a receivable position at financial statement date. Included in the total of $2,860 million is $1,686 million representing securities sold but not yet settled. The securities have been removed from the market value of investments. Collateral deposits of $68 million which represents cash paid as collateral on certain derivative contracts are shown. At September 30, 2008, these collateral deposits were included in cash equivalents and investments; beginning in FY 2009, they are included in derivative contracts receivable as noted in the table below to support year-to-year comparative reporting (and which had no impact on the FY 2008 net position).

DERIVATIVE CONTRACTS--OPEN RECEIVABLES

(Dollars in millions)	**September 30, 2009**	September 30, 2008
Open receivable trades on derivatives:		
Collateral deposits	**$ 68**	$ 293
Futures contracts	**40**	155
Foreign exchange forwards	**1,066**	2,099
Bond forwards	**60**	855
To be announced (TBA) forwards*	**1,574**	2,969
Interest rate swaps	**50**	79
Credit default swaps	**2**	674
Total	**$2,860**	$ 7,124

* 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.

Amounts in the Derivative Contracts table below represent derivative contracts in a payable position at financial statement date which PBGC reflects as a liability. Included in this total payable of $3,014 million is $659 million representing securities purchased but not yet settled. These securities have been included in the market value of investments. Collateral deposits of $102 million, which represents cash received as collateral on certain derivative contracts, are included. At September 30, 2008, these collateral deposits were included in accounts payable and investments; beginning in FY 2009, they are included in derivative contracts payable as noted in the table below to support year-to-year comparative reporting (and which had no impact on the FY 2008 net position). The To Be Announced (TBA) forward payable amount of $1,691 million on the chart on page 66 includes $1,143 million of short sales and $548 million of open trades. (The short sales represent the sale of securities that have been borrowed with the intention of buying identical assets back at a later date to return to the lender).

DERIVATIVE CONTRACTS--OPEN PAYABLES

(Dollars in millions)	**September 30, 2009**	September 30, 2008
Open payable trades on derivatives:		
Collateral deposits	**$ 102**	$ 45
Futures contracts	**46**	34
Foreign exchange forwards	**1,062**	2,105
Bond forwards	**59**	1,568
To be announced (TBA) forwards	**1,691**	3,760
Interest rate swaps	**50**	80
Credit default swaps	**2**	714
Options-fixed income	**2**	32
Total	**$ 3,014**	$8,338

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, such as 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 include the following:

a. Quoted prices for similar assets or liabilities in active markets;

b. Quoted prices for identical or similar assets or liabilities in non-active markets;

c. Pricing models whose inputs are observable for substantially the full term of the asset or liability; 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.

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

Fair Value Measurements on a Recurring Basis as of September 30, 2009

(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	$ 392	$ 3,360		$ 3,752
Securities lending collateral		2,507		2,507
Investments:				
Fixed maturity securities	67	33,959	$ 343	34,369
Equity securities	643	21,952	1,538	24,133
Real estate and real estate investment trusts	2	100	494	596
Other		212	441	653
Receivables:				
Derivative contracts *	1,124	1,736		2,860
Liabilities				
Payables:				
Derivative contracts **	1,171	1,843		3,014

* 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.

Additional information specific to derivative instruments is disclosed in Note 3 – Investments and Note 4 – Derivative Contracts.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis For the year ended September 30, 2009						
(Dollars in millions)	**Fair Value at September 30, 2008**	**Total Realized and Unrealized Gains(Losses) included in Income**	**Purchases, Issuances and Settlements, Net**	**Transfers Into and/or out of Level 3**	**Fair Value at September 30, 2009**	**Change in Unrealized Gains(Losses)Related to Financial Instruments held at September 30, 2009**
Assets:						
Fixed *	$ 1	$ 23	$319		$ 343	$ 23
Equity *	10	13	282		305	13
Private Equity	905	(245)	573		1,233	(245)
Real estate & real estate investment trusts	1	(61)	554		494	(61)
Other *	2	8	431		441	8

*assets which are not actively traded in the market place

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, 2009 and 2008.

For 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. In FY 2008, PBGC used a 20-year select interest factor of 6.66% followed by an ultimate factor of 6.47% for the remaining years. 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, 2009, PBGC used the 1994 Group Annuity Mortality (GAM) 94 Static Table (with margins), set forward one year and projected 24 years to 2018 using Scale AA. For September 30, 2008, 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 (15 years in 2009 versus 14 years in 2008) plus PBGC's calculated duration of its liabilities (nine years in 2009 and 10 years in 2008). 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 and FY 2009. 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 2009 and 2008 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, 2009 AND 2008

	September 30,			
(Dollars in millions)		**2009**		2008
Present value of future benefits, at beginning of year -- Single-Employer, net		**$59,996**		$69,235
Estimated recoveries, prior year		**165**		155
Assets of terminated plans pending trusteeship, net, prior year		**313**		540
Present value of future benefits at beginning of year, gross		**60,474**		69,930
Settlements and judgments, prior year		**(56)**		(55)
Net claims for probable terminations, prior year		**(3,154)**		(3,786)
Actuarial adjustments -- underwriting:				
Changes in method and assumptions	**$ (683)**		$ (715)	
Effect of experience	**110**		66	
Total actuarial adjustments -- underwriting	**(573)**		(649)	
Actuarial charges -- financial:				
Passage of time	**3,923**		3,400	
Change in interest rates	**10,551**		(7,564)	
Total actuarial charges -- financial	**14,474**		(4,164)	
Total actuarial charges, current year		**13,901**		(4,813)
Terminations:				
Current year	**15,692**		662	
Changes in prior year	**(277)**		(382)	
Total terminations		**15,415**		280
Benefit payments, current year*		**(4,478)**		(4,292)
Estimated recoveries, current year		**(175)**		(165)
Assets of terminated plans pending trusteeship, net, current year		**(820)**		(313)
Settlements and judgments, current year		**58**		56
Net claims for probable terminations:				
Future benefits**	**4,610**		12,606	
Estimated plan assets and recoveries from sponsors	**(2,740)**		(9,452)	
Total net claims, current year		**1,870**		3,154
Present value of future benefits, at end of year -- Single-Employer, net		**83,035**		59,996
Present value of future benefits, at end of year -- Multiemployer		**1**		1
Total present value of future benefits, at end of year, net		**$83,036**		$59,997

* The benefit payments of $4,478 million and $4,292 million include $140 million in 2009 and $45 million in 2008 for benefits paid from plan assets by plans prior to trusteeship.

** The future benefits for probable terminations of $4,610 million and $12,606 million for fiscal years 2009 and 2008, respectively, include $227 million and $59 million, respectively, for probable terminations not specifically identified and $4,383 million and $12,547 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, 2009		September 30, 2008	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
U.S. Government securities	**$ 12**	**$ 14**	$ 10	$ 11
Corporate and other bonds	**329**	**340**	101	101
Equity securities	**460**	**456**	117	120
Insurance contracts	**0**	**0**	0	0
Other	**10**	**10**	82	81
Total, net	**$ 811**	**$ 820**	$ 310	$ 313

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)	**2009**		2008	
Net claims for probable terminations, at beginning of year		**$ 3,154**		$3,786
New claims	**$ 1,643**		$ 233	
Actual terminations	**(3,077)**		(148)	
Deleted probables	**(18)**		0	
Change in benefit liabilities	**168**		(3,400)	
Change in plan assets	**0**		2,683	
Loss (credit) on probables		**(1,284)**		(632)
Net claims for probable terminations, at end of year		**$ 1,870**		$3,154

The following table itemizes the probable exposure by industry:

PROBABLES EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	**FY 2009**	FY 2008
Manufacturing	**$1,178**	$2,964
Services	**467**	90
Health Care	**168**	5
Wholesale and Retail Trade	**57**	49
Finance, Insurance, and Real Estate	**-**	46
Total	**$1,870**	$3,154

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 1987-2008 at September 30, 2009			
Beginning in 1987, number of plans reported as Probable:	Number of Plans	Percent of Plans	Net Claim	Percent of Net Claim
Probables terminated	340	80%	$27,454	75%
Probables not yet terminated or deleted	0	0	0	0
Probables deleted	84	20	9,372	25
Total	424	100%	$36,826	100%

Note 7 – Multiemployer Financial Assistance

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

NOTES RECEIVABLE MULTIEMPLOYER FINANCIAL ASSISTANCE

(Dollars in millions)	**September 30, 2009**	September 30, 2008
Gross balance at beginning of year	**$311**	$226
Financial assistance payments - current year	**86**	85
Write-offs related to settlement agreements	**(10)**	0
Subtotal	**387**	311
Allowance for uncollectible amounts	**(387)**	(311)
Net balance at end of year	**$ 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, 2009, the corporation expects 104 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 104 plans is $2.296 billion. The 104 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 104 plans:

- 39 have exhausted plan assets and are currently receiving financial assistance payments from PBGC. The present value of future financial assistance payments for these insolvent 39 plans is $890 million.

- 52 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 52 terminated plans is $1.037 billion.

- 13 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 13 ongoing plans is $369 million.

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

(Dollars in millions)	**September 30, 2009**	September 30, 2008
Balance at beginning of year	**$ 1,768**	$ 2,124
Changes in allowance:		
Losses (credits) from financial assistance	**614**	(271)
Financial assistance granted (previously accrued)	**(86)**	(85)
Balance at end of year	**$ 2,296**	$ 1,768

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, 2009**	September 30, 2008
Annual leave	**$ 7**	$ 6
Other payables and accrued expenses	**80**	115
Accounts payable and accrued expenses	**$ 87**	$ 121

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 best 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, 2009.

The best estimate of unfunded vested benefits exposure to loss for the single-employer plans of these companies was measured as of December 31, 2008. The reasonably possible exposure to loss in these plans was $168 billion for FY 2009. This is a significant increase from $47 billion in FY 2008. This reasonably possible exposure to loss increased dramatically primarily due to deterioration of credit quality and poor asset returns that occurred during calendar year 2008.

The best estimate of unfunded vested benefits exposure to loss is not based on PBGC-guaranteed benefit levels. PBGC calculated this estimate, as in previous years, by using data obtained from filings and submissions to the government and from corporate annual reports for fiscal years ending in calendar 2008. The Corporation adjusted the value reported for liabilities to December 31, 2008, PBGC select rate of 5.38% that was derived using the 1994 Group Annuity Mortality Static Table (with margins) projected to 2018 using Scale AA. When available, data were adjusted to a consistent set of mortality assumptions. The underfunding associated with these plans could be substantially different at September 30, 2009, because of the economic conditions that existed between December 31, 2008 and September 30, 2009. The Corporation did not adjust the estimate for events that occurred between December 31, 2008, and September 30, 2009.

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

REASONABLY POSSIBLE EXPOSURE TO LOSS BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	**FY 2009**	FY 2008
Manufacturing *	**$101,298**	$20,995
Transportation, Communication and Utilities **	**30,555**	16,161
Services	**13,314**	2,412
Wholesale and Retail Trade	**13,031**	4,495
Health Care	**4,990**	1,531
Agriculture, Mining, and Construction	**2,536**	700
Finance, Insurance, and Real Estate	**2,140**	438
Total	**$167,864**	$46,732

* For FY 2009 and FY 2008, primarily automobile/auto parts and primary and fabricated metals
** For FY 2009 and FY 2008, 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 $326 million.

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, 2009, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2009. 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, 2018. This lease provides for periodic rate increases based on increases in operating costs and real estate taxes over a base amount. In addition, PBGC is leasing space for field benefit administrators. These leases began in 1996 and expire in 2013. The minimum future lease payments for office facilities having noncancellable terms in excess of one year as of September 30, 2009, are as follows:

COMMITMENTS: FUTURE LEASE PAYMENTS

(Dollars in millions)

Years Ending September 30,	Operating Leases
2010	$ 20.3
2011	19.8
2012	20.4
2013	20.0
2014	20.2
Thereafter	89.7
Minimum lease payments	$190.4

Lease expenses were $21.4 million in 2009 and $21.5 million in 2008.

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 2008 the flat-rate premiums for single-employer pension plans was $33 per participant and for multiemployer plans, $9 per participant. For plan year 2009, per participant rates were $34 for single-employer plans and $9 for multiemployer plans. PBGC recorded net premium income of $1.917 billion and consisted of $1.224 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. Bad debt expenses include a reserve for uncollectible premium receivables consisting of termination premiums that are reserved at 100 percent, interest and penalties. Net premium income for fiscal year 2008 was $1.430 billion and consisted of approximately $1.194 billion in flat-rate premiums, $241 million in variable-rate premiums, and $57 million in termination premiums offset by a bad debt expense of $62 million. The termination premium applies to certain plan terminations occurring after 2005 and is set at $1,250 per participant annually for three years following termination.

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,					
	2009			2008		
(Dollars in millions)	**New Terminations**	**Changes in Prior Year Terminations**	**Total**	New Terminations	Changes in Prior Year Terminations	Total
Present value of future benefits	**$15,692**	**$ (277)**	**$15,415**	**$ 662**	$(382)	**$ 280**
Less plan assets	**9,860**	**29**	**9,889**	**391**	74	**465**
Plan asset insufficiency	**5,832**	**(306)**	**5,526**	**271**	(456)	**(185)**
Less estimated recoveries	**0**	**10**	**10**	**0**	10	**10**
Subtotal	**5,832***	**(316)**	**5,516**	**271***	(466)	**(195)**
Settlements and judgments		**2**	**2**		1	**1**
Loss (credit) on probables	**(3,077)**	**1,793**	**(1,284)****	**(148)**	(484)	**(632)****
Total	**$ 2,755**	**$1,479**	**$ 4,234**	**$ 123**	$ (949)	**$(826)**

* gross amounts for plans terminated during the year

** see Note 6 – includes $3,077 million at September 30, 2009, and $148 million at September 30, 2008, 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, 2009**	**Multiemployer Program Sept. 30, 2009**	**Memorandum Total Sept. 30, 2009**	Single-Employer Program Sept. 30, 2008	Multiemployer Program Sept. 30, 2008	Memorandum Total Sept. 30, 2008
Fixed income securities:						
Interest earned	**$ 1,560**	**$ 45**	**$ 1,605**	$ 2,071	$ 63	$ 2,134
Realized gain (loss)	**(1,071)**	**24**	**(1,047)**	1,268	45	$ 1,313
Unrealized gain (loss)	**4,054**	**52**	**4,106**	(2,762)	13	$ (2,749)
Total fixed income securities	**4,543**	**121**	**4,664**	577	121	$ 698
Equity securities:						
Dividends earned	**40**	**0**	**40**	72	0	$ 72
Realized loss	**(521)**	**0**	**(521)**	(835)	0	$ (835)
Unrealized gain (loss)	**2,302**	**0**	**2,302**	(4,025)	0	$ (4,025)
Total equity securities	**1,821**	**0**	**1,821**	(4,788)	0	$ (4,788)
Other income (loss)	**(34)**	**0**	**(34)**	47	0	$ 47
Total investment income (loss)	**$ 6,330**	**$ 121**	**$ 6,451**	$ (4,164)	$ 121	$ (4,043)

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 2009 and 2008 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 2009 and 2008. 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 $16 million in 2009 and $15 million in 2008.

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)	**2009**	2008
Proceeds from sales of investments:		
Fixed maturity securities	**$173,000**	$198,338
Equity securities	**5,283**	462
Other/uncategorized	**15,362**	20,803
Memorandum total	**$193,645**	$219,603
Payments for purchases of investments:		
Fixed maturity securities	**$(164,636)**	$(197,472)
Equity securities	**(13,147)**	(459)
Other/uncategorized	**(12,689)**	(20,783)
Memorandum total	**$(190,472)**	$(218,714)

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)	**2009**	2008	**2009**	2008	**2009**	2008
Net income (loss)	**$ (10,399)**	**$ 2,433**	**$(396)**	**$ 482**	**$(10,795)**	**$ 2,915**
Adjustments to reconcile net income to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	**(4,678)**	**6,268**	**(76)**	**(58)**	**(4,754)**	**6,210**
Net gain (loss) of plans pending termination and trusteeship	**(16)**	**25**	**0**	**0**	**(16)**	**25**
Losses (credits) on completed and probable terminations	**4,234**	**(826)**	**0**	**0**	**4,234**	**(826)**
Actuarial charges (credits)	**13,901**	**(4,813)**	**0**	**(1)**	**13,901**	**(4,814)**
Benefit payments - trusteed plans	**(4,337)**	**(4,247)**	**0**	**0**	**(4,337)**	**(4,247)**
Settlements and judgments	**0**	**(1)**	**0**	**0**	**0**	**(1)**
Cash received from plans upon trusteeship	**368**	**155**	**0**	**0**	**368**	**155**
Receipts from sponsors/non-sponsors	**204**	**142**	**0**	**0**	**204**	**142**
Amortization of discounts/premiums	**(39)**	**(429)**	**(4)**	**(41)**	**(43)**	**(470)**
Changes in assets and liabilities, net of effects of trusteed and pending plans:						
Increase in receivables	**(409)**	**(149)**	**(9)**	**(8)**	**(418)**	**(157)**
Increase (decrease) in present value of nonrecoverable future financial assistance			**528**	**(356)**	**528**	**(356)**
Increase in unearned premiums	**24**	**29**	**0**	**5**	**24**	**34**
Increase (decrease) in accounts payable	**(76)**	**52**	**0**	**0**	**(76)**	**52**
Net cash provided (used) by operating activities	**$(1,223)**	**$(1,361)**	**$ 43**	**$ 23**	**$(1,180)**	**$(1,338)**

Note 16 – Litigation

Legal challenges to PBGC's policies and positions continued in 2009. At the end of the fiscal year, PBGC had 51 active cases in state and federal courts and 733 bankruptcy 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, 2009, the date the financial statements were available to be issued. Events or transactions occurring after September 30, 2009, but prior to November 12, 2009 that provided additional evidence about conditions that existed at September 30, 2009, for either the single-employer or multiemployer program, have been recognized in the financial statements for the period ended September 30, 2009.

For the single-employer program, subsequent to 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, initially valued in the range of $550 million to $700 million. This current value estimate may change significantly over time.

For the multiemployer program, events or transactions that provided evidence about conditions that did not exist at September 30, 2009 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, 2009.

Audit of the Pension Benefit Guaranty Corporation's
Fiscal Year 2009 and 2008 Financial Statements

Audit Report AUD-2010-1 / FA-09-64-1

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 12, 2009

To: Rebecca Anne Batts
Inspector General

From: Vincent K. Snowbarger
Acting Director

Vincent K. Snowbarger

Subject: Response to Draft Independent Auditor's Combined Report Issued in Connection with the FY 2009 Financial Statement Audit

I appreciate the opportunity to comment on the Office of Inspector General's FY 2009 combined report, which includes the opinions on PBGC's financial statements, internal controls, and matters relating to compliance with laws and regulations.

Management appreciates the work of your office in overseeing this audit. Given PBGC's increasing importance as a significant government entity, it is noteworthy that the Corporation has once again received an unqualified opinion on our financial statements for FY 2009.

Your work in providing a separate opinion on internal controls is especially valued, as it affords PBGC the more rigorous audit work needed to discover critical issues. This year's audit yielded just such a result in finding a material weakness in the combined areas of information security, access controls, and financial systems integration. While management does not consider financial systems integration to constitute a material weakness in and of itself, and has made measured progress in this area, we concur with the audit results and are committed to addressing the reported issues promptly. In doing so, we look forward to working with you as we craft and implement our Corrective Action Plans.

Again, the work of your office is sincerely appreciated, and PBGC management stands ready to work with you in responding to the issues presented in this year's audit.

cc: Stephen E. Barber
Terrence M. Deneen
Patricia Kelly
Richard H. Macy
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