Pension Benefit Guaranty Corporation

Office of Inspector General

Audit Report

Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2013 and 2012 Financial Statements

November 15, 2013

AUD-2014-2/FA-13-93-1

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

To the Board of Directors
Pension Benefit Guaranty Corporation

The Office of Inspector General (OIG) contracted with CliftonLarsonAllen LLP, an independent certified public accounting firm, to audit the financial statements of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) as of and for the years ended September 30, 2013 and 2012. They conducted their audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards* issued by the Comptroller General of the United States; attestation standards established by the American Institute of Certified Public Accountants; and OMB Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

In the audit, CliftonLarsonAllen found:

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

- PBGC did not have effective internal control over financial reporting as of September 30, 2013. Serious internal control weaknesses in PBGC's programs and operations resulted in three material weaknesses: (1) Benefits Administration and Payment Department management and oversight, (2) entity-wide security program planning and management, and (3) access controls and configuration management, and one significant deficiency related to integration of financial management systems.

- PBGC had one instance of noncompliance. It did not determine the fair market value of plan assets at the date of plan termination in accordance with the regulation established at 29 C.F.R. § 4044.41(b).

The following provides context for the two opinions on PBGC's financial statements and internal control. Only a small number of Federal entities receive an opinion on internal control as part of their financial statement audit. To express an opinion, the auditors must apply a high level of scrutiny to the agency's controls. From the inception of its audited financial statements, PBGC has always received this higher-standard opinion on internal control. For PBGC, the auditors have concluded that the financial statement audit opinion is unmodified – that is, the highest opinion – however, they have also concluded that the opinion on internal control over financial reporting is adverse.

The three material weaknesses and the significant deficiency are critical deficiencies. The existence of a material weakness is an indication that there is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by management. The material weaknesses also preclude the auditors from concluding that PBGC has effective internal controls. Because PBGC has an ineffective system of controls, it may not be

able to report accurate financial results. Because of PBGC's weak control environment, the auditors cannot rely on management's control activities; they must conduct a greater amount of substantive testing to gain assurance that the financial information is fairly presented in all material respects. Consequently, this results in a change in the nature, timing and extent of their substantive procedures. However, PBGC management was able to provide sufficient evidence in response to the auditor's substantive procedures to support the amounts reported on the financial statements and the related footnotes.

CliftonLarsonAllen is responsible for the accompanying auditor's report dated November 15, 2013 and the conclusions expressed in the report. The OIG does not express opinions on PBGC's financial statements or internal control, nor do we draw conclusions on compliance with laws and regulations.

The financial statement audit report (AUD-2014-2 / FA-13-93-1) is also available on our website at http://oig.pbgc.gov.

Sincerely,

Deborah Stover-Springer
Acting Inspector General

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Acronyms

AED	Asset Evaluation Division
ASD	Actuarial Services Division
BAPD	Benefits and Payment Department
CCRM	Configuration, Change and Release Management
CFR	Code of Federal Regulations
FMFIA	Federal Managers' Financial Integrity Act of 1982
FY	Fiscal Year
IT	Information Technology
IPVFB	Integrated Present Value of Future Benefits
NIST SP	National Institute of Standards and Technology Special Publication
OMB	Office of Management and Budget
PBGC	Pension Benefit Guaranty Corporation
PPS	Premium and Practitioner System
PRAD	Policy, Research and Analysis Department
PVFB	Present Value of Future Benefits
PVMG	Patch and Vulnerability Management Group
SA&A	Security Assessment and Authorization
TAS	Trust Accounting System
TPD	Trust Processing Division
U.S.C.	United States Code
U.S.	United States of America

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Section I

Independent Auditor's Report

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CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

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

In our audits of the Single-Employer and Multiemployer Funds administered by the Pension Benefit Guaranty Corporation (PBGC or the Corporation) for fiscal years (FY) 2013 and 2012, we found:

- The financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S.);
- PBGC did not have effective internal control over financial reporting; and
- One instance of noncompliance with certain provisions of laws and regulations tested.

The following sections and Exhibits discuss in more detail: (1) these conclusions, (2) other information included with the financial statements, (3) management's responsibility, (4) our responsibility, (5) the current status of prior year findings, and (6) management's response to findings.

Reports on the Financial Statements and Internal Control

We have audited the accompanying financial statements of the Pension Benefit Guaranty Corporation (PBGC), which comprise the financial position of the Single-Employer and Multiemployer Funds administered by the PBGC as of September 30, 2013 and 2012, and the results of their operations and cash flows for the years then ended, and the related notes to the financial statements. The objective of our audits was to express an opinion on the fairness of these financial statements. We have also audited PBGC's internal control over financial reporting as of September 30, 2013.

Management's Responsibility

PBGC management is responsible for the (1) preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the U.S.; (2) preparation and presentation of other information in documents containing the audited financial statements and auditors' report, and consistency of that information with the audited financial statements; (3) design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, including to provide reasonable assurance that the broad control objectives of FMFIA are met; and (4) compliance with other applicable laws and regulations. PBGC management evaluated the effectiveness of PBGC's internal control over financial reporting as of September 30, 2013 based on criteria established under the Federal Managers' Financial Integrity Act of 1982 (FMFIA). PBGC management's assertion based on its evaluation is included in the Annual Report.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on the PBGC's internal control over financial reporting based on our audits. We conducted our audit of the financial statements in accordance with auditing standards generally accepted in the U.S. and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted our audit of internal control over financial reporting referred to above in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to audits of internal control contained in *Government Auditing Standards*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement, and that effective internal control over financial reporting was maintained in all material respects, respectively. We also conducted our audits in accordance with OMB Bulletin No. 14-02*, Audit Requirements for Federal Financial Statements,* (OMB Bulletin 14-02).

In order to fulfill these responsibilities, we (1) obtained an understanding of PBGC and its operations, including its internal control over financial reporting; (2) assessed the risk of financial statement misstatement and the risk that a material weakness exists in internal control over financial reporting; (3) evaluated the design and operating effectiveness of internal control based on the assessed risk; (4) considered PBGC's process for evaluating and reporting on internal control under FMFIA; (5) tested compliance with certain provisions of laws and regulations; (6) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (7) evaluated the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management; (8) evaluated the overall presentation of the financial statements; (9) read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements; and (10) performed such other procedures as we considered necessary in the circumstances. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

We did not evaluate all internal controls relevant to operating objectives as broadly established by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting and may not be sufficient for other purposes.

Definition of Internal Control and Inherent Limitations

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

Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit

results to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Single-Employer and Multiemployer Program Funds administered by the PBGC as of September 30, 2013 and 2012, and the results of their operations and cash flows for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Emphasis of Matter

By law, PBGC's Single-Employer and Multiemployer Program Funds must be self-sustaining. As of September 30, 2013, PBGC reported in its financial statements net deficit positions (liabilities in excess of assets) in the Single-Employer and Multiemployer Program Funds of $27.4 billion and $8.3 billion, 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 $292 billion and $37 billion, respectively. Management calculated the Single-Employer reasonably possible exposure based on the most recent data available from filings and submissions for plan years ended on or after December 31, 2011 and adjusted the value reported for liabilities to December 31, 2012 using actuarial assumptions. PBGC did not make a subsequent adjustment for economic conditions that occurred between December 31, 2012 and September 30, 2013, and as a result the exposure to loss for the Single-Employer Program, as of September 30, 2013, could be substantially different. In addition, PBGC's net deficit and long-term viability could be further impacted by losses from plans classified as reasonably possible (or from other plans not yet identified as potential losses) as a result of deteriorating economic conditions, the insolvency of a large plan sponsor, or other factors. PBGC has been able to meet its short-term benefit obligations; however, as discussed in Note 1 to the financial statements, management believes that neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants. Our opinion is not modified with respect to this matter.

Opinion on Internal Control over Financial Reporting

In our opinion, because of the effect of material weaknesses described in Exhibit I, the PBGC has not maintained effective internal control over financial reporting as of September 30, 2013. Our opinion on internal control is based on criteria established under 31 U.S.C. 3512 (c), (d), commonly known as the FMFIA.

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

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

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

4. Integrated Financial Management Systems

Other Information

The Chair's message, Director's message, year in review, financial statement highlights, management's discussion and analysis, management representation, improper payment reporting, actuarial valuation, letter of the Inspector General, management's response and organization contains a wide range of data, some of which is not directly related to the financial statements. This information is presented by PBGC for use by readers of the annual report and is not a required part of the financial statements. Also, this information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

REPORT ON COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Report on Compliance with Laws and Regulations

In connection with our audits, we considered PBGC's compliance with certain provisions of laws and regulations. We performed tests of the PBGC's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests for the year ended September 30, 2013, disclosed one instance of noncompliance to be reported in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

Management's Responsibility

Management is responsible for ensuring PBGC's compliance with applicable laws and regulations.

Auditors' Responsibility

We are responsible for (1) testing compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements and applicable laws for which OMB Bulletin 14-02 requires testing, and (2) applying certain limited procedures with respect to other information included with the financial statements.

We did not test compliance with all laws and regulations applicable to PBGC. We limited our tests of compliance to certain provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin 14-02 that we deemed applicable to PBGC's

financial statements for the fiscal year ended September 30, 2013. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Purpose of the Report on Compliance with Laws and Regulations

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

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of PBGC's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated November 14, 2012. The status of prior year findings is presented in Exhibit II.

Management's Response to Findings

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

CliftonLarsonAllen LLP

Calverton, Maryland
November 15, 2013

EXHIBIT I

PENSION BENEFIT GUARANTY CORPORATION
OPINION ON INTERNAL CONTROL
September 30, 2013

Background

PBGC protects the pensions of approximately 42 million workers and retirees in nearly 25 thousand private defined benefit pension plans. Under Title IV of the Employee Retirement Income Security Act of 1974, PBGC insures, subject to statutory limits, pension benefits of participants in covered private defined benefit pension plans in the United States. To accomplish its mission and prepare its financial statements, PBGC relies extensively on the effective operation of the Benefits Administration and Payment Department (BAPD) and 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.

The establishment and implementation of the appropriate internal controls are critical to PBGC operations. Furthermore, reliable internal controls ensure that the programs achieve their intended results; resources are used consistent with agency mission, programs and resources are protected from waste, fraud, and mismanagement; laws and regulations are followed; and reliable and timely information is obtained, maintained, reported, and used for decision-making as stated in the OMB Circular A-123, *Management's Responsibility for Internal Control*. In order to mitigate operational and financial reporting risks to PBGC as a whole, active involvement from PBGC's senior leadership in the monitoring and response to such risks is warranted on a continuous basis. Based on our findings, we are reporting that the deficiencies in the following areas constitute three material weaknesses for FY 2013:

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

We are also reporting the deficiencies in the following area to be a significant deficiency for FY 2013:

4. Integrated Financial Management Systems

The serious weaknesses in BAPD's internal controls such as inadequate documentation to support the benefit and liability calculations, errors in liability calculations and valuing plan assets, as well as the limited progress of mitigating PBGC's systemic IT security control weaknesses, create an environment that could lead to improper application of benefits to plan participations, inaccurate financial reporting and fraud, waste, and abuse.

1. BAPD Management and Oversight

BAPD manages the termination process for defined benefit plans, provides participant services (including calculation and payment of benefits) for PBGC-trusteed plans, provides actuarial support for PBGC, and carries out PBGC's responsibilities under settlement agreements. BAPD has several distinct divisions including Trusteeship Processing Divisions (TPDs), the Actuarial Services Division (ASD), and the newly formed Asset Evaluation Division (AED). The TPDs are responsible for capturing the participant data for benefit determinations, managing the benefit payments to participants and

beneficiaries, and maintaining the pension plan and participant files that includes underlying documentation used to support the calculation of benefit amounts for the participant and the pension liabilities recorded on PBGC financial statements. The AED will be responsible for ensuring that the plan asset valuations meet the regulatory requirements standard for determining the fair market value of assets. The ASD is responsible for calculating the Present Value of Future Benefits (PVFB) liability, based on actuarial assumptions and methods. ASD uses the underlying documentation maintained by the TPD, as well as mortality tables and interest rate factors, as key inputs to calculate pension plan liabilities recorded on PBGC's financial statements.

In response to weaknesses previously identified, BAPD implemented corrective actions to address control weaknesses within its department. These corrective actions consisted of modifying the BAPD operations manual, issuing a records management manual, developing staff training materials, and updating technical reference guides. BAPD also took steps to improve its operations and internal control processes over the PVFB liability. Furthermore, the BAPD Director restructured the department divisions and created the AED to better align staff core competencies and skills with the intent to mitigate operational and financial reporting risks.

Even with these corrective actions, BAPD continues to have control weaknesses that increase PBGC's operational and financial reporting risks. These weaknesses are attributed to BAPD's management and oversight over the processes needed to calculate and value participant's benefits and the related liabilities, as well as to value plan assets. Such weaknesses pose significant risks to PBGC's operations including accurate calculation of plan participants' benefits, accurate financial reporting, and compliance with prescribed laws and regulations. During FY 2013, we continued to identify deficiencies in BAPD controls that included errors in their liability calculations, inadequate documentation to support the calculation of participants' benefits and liabilities, and errors in valuing plan assets.

<u>Calculation of the Present Value of Future Benefits Liability</u>

We continued to identify errors in the calculation of participant benefits and the related PVFB liability. During our testing of the PVFB liability reported at June 30 and September 30, we noted:

- errors in valuing participant benefits and associated liability that were caused by system capability limitations or programming flaws;
- archival procedures for documentation maintenance in place at the time of certain plan terminations were not adequate; and
- data entry errors and inaccurate use of plan data.

These long standing deficiencies in BAPD processes continue to impede management's ability to accurately calculate and value benefits and related future liabilities for some participants. Using a statistically based sampling technique, we noted approximately 20% of the samples tested in which the liability calculated for a plan participant was either overstated or understated. The projected value of the error to the entire PVFB liability of approximately $105 billion at September 30, 2013, had an estimated range of approximately $728 million understatement to $414 million overstatement and a point estimate of $157 million overstatement.

In addition, BAPD's maintenance of underlying documentation used to support the calculation of the PVFB continued to be a significant challenge. The information system that maintains the participant documentation needed to calculate benefits such as birth certificates, marriage certificates, participant

benefit applications, plan provisions, and salary data is the Image Viewer System. During our testing at June 30 and September 30, BAPD was not able to provide the documentation needed to support liability calculations for some samples. The lack of appropriate documentation results in limited physical and financial controls, and could lead to improper benefit payment and participant liability calculations by PBGC. As a result, we could not determine whether the benefits or the associated liability was calculated properly for those selected samples at June 30 and September 30.

Last year we reported several deficiencies in BAPD related to documentation, including the need to require archival of source documents, implementation of controls to ensure monitoring and enforcement of procedures requiring document maintenance, and to improve the training of persons tasked with calculating and reviewing benefit determinations. These deficiencies have not yet been fully corrected.

Because of errors in the liability calculations and the lack of supporting documentation, PBGC is at risk for inaccurately valuing the plan liabilities reported in its financial statements. Also, these deficiencies could impact PBGC management's ability to provide meaningful and accurate information to its key stakeholders such as the plan participants, the Board, Congress, and OMB.

Valuation of Plan Assets and Benefits

BAPD has undertaken significant efforts to revalue assets for certain pension plans trusteed by PBGC. These efforts have yet to be fully implemented and the internal control weaknesses continue to merit focus.

The fair market value of a pension plan's assets at the date a plan is terminated is an essential factor needed to determine the retirement benefit amounts owed to plan participants. BAPD's ineffective oversight of contracted reviews of asset valuations in the past continued to pose significant risks to the participants' benefit determinations. In FY 2013, BAPD hired a contractor to develop new plan asset valuation procedures for the newly formed AED. As a test, these procedures were used by the contractor to value the assets of two terminated plans. The contractor evaluated the operating effectiveness of its procedures and provided its assessment to BAPD management.

Currently, BAPD management has yet to conduct an independent evaluation of the contractor's procedures to determine their sufficiency and adequacy on valuing pension plan assets. Furthermore, BAPD did not complete the re-work of certain plan asset valuations based on its risk based approach to determine whether participant's benefits require an adjustment in FY 2013. The plan asset revaluations are expected to be completed in FY 2014.

Recommendations: We recommend that PBGC management:

Develop and/or implement the following:

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

Refine BAPD operating policies and procedures for processing plans and archiving benefit plan documentation.

Improve training for all levels of staff tasked with the calculation of benefits and the PVFB as well as the review of benefit determinations.

2. Entity-wide Security Program Planning and Management

In prior years, we reported that PBGC's entity-wide security program lacked focus and a coordinated effort to adequately resolve control deficiencies. Though progress was made as highlighted below, deficiencies persisted in FY 2013, which prevented PBGC from implementing effective security controls to protect its information from unauthorized access, modification, and disclosure. An entity-wide information security management program is the foundation of a security control structure and is a reflection of senior management's commitment to addressing security risks. The security management program should establish a framework and a continuous cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures.

PBGC has now established the foundation for implementing a more effective entity-wide security program. The *IT Security Architectural Analysis Recommendations Report* dated June 19, 2013, provides a blueprint for implementing entity-wide controls and addressing PBGC's security program's strengths, weaknesses, threats, and opportunities. PBGC also completed work on a long-standing weakness relating to Interconnection Security Agreements with all external organizations whose systems connect with PBGC systems. While the *IT Security Architectural Analysis Report* represents progress, much remains to be done to implement and ensure adequate operation of controls. PBGC is still in the process of implementing a continuous monitoring program through the implementation of automated and manual tools, processes and procedures. 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 or no longer operate as intended. Such conditions may lead to insufficient protection of sensitive or critical resources and disproportionately high expenditures for controls over low-risk resources.

The specific weaknesses we found that contributed to the material weakness are as follows:

- <u>Security Assessments and Authorizations (SA&As) for several major applications not completed</u>. SA&A serves as a control to verify and validate that system security controls are properly implemented and working correctly. While a majority of SA&As have been completed by the Bureau of Public Debt through an interagency agreement with PBGC, this long-standing weakness is critical to complete.
- <u>Less than one-half of security controls for general support systems implemented</u>. Using NIST SP 800-53, *Recommended Security Controls for Federal Information Systems*, PBGC identified 208 common security controls. PBGC stated that 93 of these controls have been implemented. While PBGC anticipates completion of their corrective actions in early 2015, as of the end of FY 2013, they have not documented the details of the specific actions needed to complete and confirm the design, implementation, and operating effectiveness of the remaining 115 identified common security controls.
- <u>Security infrastructure design and implementation weaknesses continue</u>. PBGC's ability to effectively implement common security controls across its systems and applications was adversely affected because there are weaknesses in its infrastructure design and deployment strategy for systems and applications.
- <u>Information security policies and procedures not fully disseminated and implemented</u>. PBGC is

not able to effectively enforce compliance for all needed security awareness training. PBGC will be using an automated tool, Talent Management System , to provide security awareness and role-based training.

Recommendations: We recommend that PBGC management:

Complete the process to validate the completion of SA&A packages for all major applications.

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

Complete the development and implementation of the redesign of PBGC's IT infrastructure and the procurement and implementation of technologies to support a more coherent approach to providing information services and information system management controls.

Effectively communicate to key decision-makers the state of PBGC's IT infrastructure and environment to facilitate the prioritization of resources to address fundamental weaknesses.

3. Access Controls and Configuration Management

Although access controls and configuration management controls are an integral part of an effective information security management program, access controls remain a systemic problem throughout PBGC. PBGC's past decentralized approach to system development, system deployments, and configuration management created an environment that lacks a cohesive structure in which to implement controls and best practices. Weaknesses in the IT environment contributed significantly to deficiencies in system configuration, segregation of duties, role-based access controls, and monitoring.

PBGC realizes these challenges and is implementing a disciplined and integrated approach through development of *Configuration, Change and Release Management (CCRM) Process and Procedures* consistent with NIST SP 800-53, Rev 3. PBGC has developed and is implementing additional policies and procedures, including deploying technical and configuration management tools. PBGC is in the process of procuring, implementing and deploying technical tools to better manage configuration of common operating platforms. Once these tools are fully operational in the infrastructure, they will help ensure that controls related to the configuration of infrastructure components remain consistent and provide alerting capabilities when components are changed. Other complementary processes, such as the Patch and Vulnerability Management Group (PVMG, formerly the Tiger Team) focused on system scanning and vulnerability management, supported PBGC's capability to carefully document and validate system vulnerabilities, and provided evidence as to the operating effectiveness of some technical common controls.

Without appropriate access and configuration management controls, PBGC does not have assurance that financial information and financial assets are adequately safeguarded from inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction.
Among the specific weaknesses we found that contributed to the material weakness were due to a lack of following:

- Infrastructure and Configuration Management. PBGC configuration management controls are labor intensive and ineffective. PBGC's three IT environments (develop, test, and production) do not share common server configurations.
- Security configuration settings. Controls are not consistently applied to ensure that authentication parameters for general support systems and applications comply with PBGC's Information Security Policy.
- Segregation of duties-restriction of access to production environment. Some developers have access to the production environment, which exposes PBGC to the risk of unauthorized modification of the application and circumvention of critical controls, and unnecessary access to sensitive data.
- Recertification of user and system access. The OIT re-certification process remains incomplete and does not include all user and system access accounts.
- Management of user, generic and dormant accounts. PBGC's policies and practices have not effectively restricted the addition of unnecessary and generic accounts to systems in production.
- Business process controls. The Policy, Research and Analysis Department (PRAD) uses spreadsheets in the determination of the interest rate factor used for calculating PBGC's liabilities for future benefits, that do not have adequate controls over access to data, information security and changes. A contributing factor that sets the stage for this deficiency is PRAD's lack of adequate documentation of its process and procedures to ensure that spreadsheet calculations and other activities can be repeated by unassociated officials.

Recommendations: We recommend that PBGC management:

Develop and implement the following:

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

Implement controls to remedy vulnerabilities noted in key databases and applications such as weaknesses in configuration, roles, privileges, auditing, file permissions and operating system access. Also implement controls to remedy weaknesses in the deployment of servers, applications, and databases in the development, test and production environments.

Complete the recertification processes for all user and system accounts.

Complete an inventory of spreadsheets used by PRAD in its determination of the interest rate factor used for calculating PBGC's liabilities for future benefits. For these spreadsheets implement controls over access to the data, information security and change to the spreadsheets.

4. Integrated Financial Management Systems

The risk of inaccurate, inconsistent, and redundant data exists because PBGC lacks a single integrated financial management system. Part of the system requires manipulation and the use of manual procedures to upload: (1) plan PVFB liabilities; (2) the commingled funds monthly trial balance summary journal; and (3) the monthly journal entry for the premium financial activity.

OMB Circular A-127, *Financial Management Systems*, requires that federal financial management systems be designed to provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems. OMB's *Core Financial System Requirements* establishes mandatory financial management system performance goals applicable to all financial management systems. These goals include providing timely, reliable, and complete financial management information for decision making at all levels of government; and providing for "one-time" data entry and reuse of transaction data to support downstream integration, interfacing, or business and reporting requirements.

If managed effectively, IT investments can have a dramatic impact on an organization's performance and accountability. If not correctly managed, they can result in wasteful spending and lost opportunities for achieving mission goals and improving mission performance. PBGC had several false starts in modernizing its systems and applications that either have 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.

PBGC has made progress in implementing an integrated financial system. However, the implementation has not been completed. The specific weaknesses that contributed to the significant deficiency are as follows:

- Implementation of the Premium and Practitioner System (PPS). Major work remains to be completed to provide PBGC with integrated financial management capabilities. By December 2013, PBGC plans to implement the Premium and Practitioner System. With PPS, the Corporation will be integrated with the Oracle eBusiness Suite COTS solution used for PBGC's Consolidated Financial Systems.
- Lack of automated interface. Manual intervention is required to import the IPVFB plan liabilities into the Trust Accounting System (TAS). Within TAS, the plan liabilities comma separated values (CSV) file is manually uploaded into TAS for processing. A similar procedure is applied for uploading the State Street Commingled Plans monthly trial balance summary journal into TAS.

PBGC's FY 2013 accomplishments included implementation of the Trust Accounting System (TAS), an externally-hosted, commercial-off-the-shelf investment accounting package. PBGC also upgraded the current PAS by completing unique enhancements for Pension Protection Act legislative changes and high priority functions. PBGC has also identified areas of focus for its future financial management architecture, including a procurement system and an online budgeting system.

Recommendation: We recommend that PBGC management:

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

PENSION BENEFIT GUARANTY CORPORATION
INDEPENDENT AUDITOR'S REPORT
STATUS OF PRIOR YEAR'S CONTROL DEFICIENCIES AND NONCOMPLIANCE ISSUES
September 30, 2013

Prior Year Condition	Status As Reported at September 30, 2012	Status as of September 30, 2013
1. Benefit Administration and Payment Department Management and Oversight	***Material Weakness:*** PBGC has weaknesses in the following: • Calculation of the Present Value of Future Benefits Liability • Valuation of Plan Assets	Repeated as a Material Weakness number 1 and included in Exhibit I.
2. Entity-wide Security Program Planning and Management	***Material Weakness:*** PBGC has weaknesses in the following: • PBGC had not completed SA&As for its major applications. • Weaknesses in PBGC's infrastructure design and deployment strategy for systems and applications adversely affected its ability to effectively implement common security controls across its systems and applications.	Repeated as a Material Weakness number 2 and included in Exhibit I.
3. Access Controls and Configuration Management	***Material Weakness:*** Weaknesses in the IT contributed to deficiencies in system configuration, segregation of duties, role-based access controls, and monitoring.	Repeated as a Material Weakness number 3 and included in Exhibit I.
4. Integration Financial Management Systems	***Significant Deficiency:*** PBGC lacks a single integrated financial management system which increases the risk of inaccurate, inconsistent and redundant data.	Repeated as a Significant Deficiency and included in Exhibit I.
Compliance and Other Matters		
1. Noncompliance with Title 29 of the *Code of Federal Regulation (C.F.R.)*, Part 4044.41, Subpart (b), General valuation rules	Plan assets shall be based on the method of valuation that most accurately reflects such fair market value.	Repeated as a noncompliance violation.

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Audit of the Pension Benefit Guaranty Corporation's

Fiscal Year 2013 and 2012 Financial Statements

Audit Report AUD-2014-2 / FA-13-93-1

Section II

Pension Benefit Guaranty Corporation's Fiscal Year 2013 and 2012 Financial Statements

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PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF FINANCIAL POSITION

(Dollars in Millions)	Single-Employer Program September 30, **2013**	2012	Multiemployer Program September 30, **2013**	2012	Memorandum Total September 30, **2013**	2012
ASSETS						
Cash and cash equivalents	**$4,303**	$ 3,782	**$74**	$ 25	**$4,377**	$ 3,807
Securities lending collateral (Notes 3 and 5)	**3,322**	3,425	**-**	-	**3,322**	3,425
Investments, at market (Notes 3 and 5):						
Fixed maturity securities	**47,196**	48,950	**1,632**	1,767	**48,828**	50,717
Equity securities	**22,317**	21,463	**-**	-	**22,317**	21,463
Private equity	**1,228**	1,339	**-**	-	**1,228**	1,339
Real estate and real estate investment trusts	**2,373**	878	**-**	-	**2,373**	878
Other	**28**	77	**-**	-	**28**	77
Total investments	**73,142**	72,707	**1,632**	1,767	**74,774**	74,474
Receivables, net:						
Sponsors of terminated plans	**60**	41	**-**	-	**60**	41
Premiums	**1,036**	1,086	**1**	1	**1,037**	1,087
Sale of securities	**601**	1,353	**-**	-	**601**	1,353
Derivative contracts (Note 4)	**276**	83	**-**	-	**276**	83
Investment income	**436**	452	**9**	12	**445**	464
Other	**4**	4	**0**	0	**4**	4
Total receivables	**2,413**	3,019	**10**	13	**2,423**	3,032
Capitalized assets, net	**47**	40	**3**	2	**50**	42
Total assets	**$83,227**	$82,973	**$1,719**	$1,807	**$84,946**	$84,780

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

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF FINANCIAL POSITION

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in Millions)	**2013**	2012	**2013**	2012	**2013**	2012
LIABILITIES						
Present value of future benefits, net (Note 6):						
Trusteed plans	**$103,125**	$ 103,126	**$0**	$ 1	**$103,125**	$ 103,127
Plans pending termination and trusteeship	**1,091**	418	**-**	-	**1,091**	418
Settlements and judgments	**57**	56	**-**	-	**57**	56
Claims for probable terminations	**745**	2,035	**-**	-	**745**	2,035
Total present value of future benefits, net	**105,018**	105,635	**0**	1	**105,018**	105,636
Present value of nonrecoverable future financial assistance (Note 7):						
Insolvent plans	**-**	-	**1,352**	1,388	**1,352**	1,388
Probable insolvent plans	**-**	-	**8,579**	5,622	**8,579**	5,622
Total present value of nonrecoverable future financial assistance	**-**	-	**9,931**	7,010	**9,931**	7,010
Payables, net:						
Derivative contracts (Note 4):	**210**	94	**-**	-	**210**	94
Due for purchases of securities	**1,608**	2,557	**-**	-	**1,608**	2,557
Payable upon return of securities loaned	**3,322**	3,425	**-**	-	**3,322**	3,425
Unearned premiums	**377**	328	**42**	30	**419**	358
Accounts payable and accrued expenses (Note 8):	**73**	76	**4**	3	**77**	79
Total payables	**5,590**	6,480	**46**	33	**5,636**	6,513
Total liabilities	**110,608**	112,115	**9,977**	7,044	**120,585**	119,159
Net position	**(27,381)**	(29,142)	**(8,258)**	(5,237)	**(35,639)**	(34,379)
Total liabilities and net position	**$83,227**	$ 82,973	**$1,719**	$1,807	**$84,946**	$ 84,780

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)	**2013**	2012	**2013**	2012	**2013**	2012
UNDERWRITING						
Income:						
Premium, net (Note 11)	**$2,943**	$ 2,642	**$110**	$ 92	**$3,053**	$ 2,734
Other	**38**	13	**-**	0	**38**	13
Total	**2,981**	2,655	**110**	92	**3,091**	2,747
Expenses:						
Administrative	**346**	360	**25**	20	**371**	380
Other	**5**	-	**-**	0	**5**	0
Total	**351**	360	**25**	20	**376**	380
Other underwriting activity:						
Losses from completed and probable terminations (Note 12)	**468**	2,006	**-**	-	**468**	2,006
Losses from insolvent and probable plans-financial assistance (Note 7)			**2,969**	2,466	**2,969**	2,466
Actuarial adjustments (credits) (Note 6)	**(401)**	229	**(5)**	(6)	**(406)**	223
Total	**67**	2,235	**2,964**	2,460	**3,031**	4,695
Underwriting gain (loss)	**2,563**	60	**(2,879)**	(2,388)	**(316)**	(2,328)
FINANCIAL:						
Investment income (loss) (Note 13):						
Fixed	**(1,629)**	4,699	**(96)**	91	**(1,725)**	4,790
Equity	**4,157**	4,073	**-**	0	**4,157**	4,073
Private equity	**272**	42	**-**	0	**272**	42
Real estate	**(70)**	(21)	**-**	0	**(70)**	(21)
Other	**11**	(1)	**-**	0	**11**	(1)
Total	**2,741**	8,792	**(96)**	91	**2,645**	8,883
Expenses:						
Investment	**88**	83	**-**	0	**88**	83
Actuarial charges (Note 6):						
Due to expected interest	**3,388**	3,927	**44**	54	**3,432**	3,981
Due to change in interest factors	**67**	10,718	**2**	116	**69**	10,834
Total	**3,543**	14,728	**46**	170	**3,589**	14,898
Financial loss	**(802)**	(5,936)	**(142)**	(79)	**(944)**	(6,015)
Net income (loss)	**1,761**	(5,876)	**(3,021)**	(2,467)	**(1,260)**	(8,343)
Net position, beginning of year	**(29,142)**	(23,266)	**(5,237)**	(2,770)	**(34,379)**	(26,036)
Net position, end of year	**$ (27,381)**	$ (29,142)	**$ (8,258)**	$ (5,237)	**$ (35,639)**	$ (34,379)

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, 2013	2012	Multiemployer Program For the Years Ended September 30, 2013	2012	Memorandum Total For the Years Ended September 30, 2013	2012
OPERATING ACTIVITIES:						
Premium receipts	**$ 3,042**	$ 2,079	**$ 121**	$ 92	**$ 3,163**	$ 2,171
Interest and dividends received	**2,310**	2,122	**61**	58	**2,371**	2,180
Cash received from plans upon trusteeship	**24**	126	**0**	0	**24**	126
Receipts from sponsors/non-sponsors	**(1)**	114	**0**	0	**(1)**	114
Receipts from the missing participant program	**7**	7	**0**	0	**7**	7
Other receipts	**0**	1	**0**	0	**0**	1
Benefit payments – trusteed plans	**(5,374)**	(5,333)	**0**	0	**(5,374)**	(5,333)
Financial assistance payments			**(89)**	(95)	**(89)**	(95)
Settlements and judgments	**0**	0	**0**	0	**0**	0
Payments for administrative and other expenses	**(418)**	(413)	**(27)**	(20)	**(445)**	(433)
Accrued interest paid on securities purchased	**(276)**	(234)	**(6)**	(3)	**(282)**	(237)
Net cash provided (used) by operating activities (Note 15)	**(686)**	(1,531)	**60**	32	**(626)**	(1,499)
INVESTING ACTIVITIES:						
Proceeds from sales of investments	**88,821**	77,382	**1,398**	667	**90,219**	78,049
Payments for purchases of investments	**(87,614)**	(77,090)	**(1,409)**	(679)	**(89,023)**	(77,769)
Net change in investment of securities lending collateral	**(103)**	(1,162)	**0**	0	**(103)**	(1,162)
Net change in securities lending payable	**103**	1,162	**0**	0	**103**	1,162
Net cash provided (used) by investing activities	**1,207**	292	**(11)**	(12)	**1,196**	280
Net increase (decrease) in cash and cash equivalents	**521**	(1,239)	**49**	20	**570**	(1,219)
Cash and cash equivalents, beginning of year	**3,782**	5,021	**25**	5	**3,807**	5,026
Cash and cash equivalents, end of year	**$ 4,303**	$ 3,782	**$ 74**	$ 25	**$ 4,377**	$ 3,807

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

NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE 1: ORGANIZATION AND PURPOSE

The Pension Benefit Guaranty Corporation (PBGC or the Corporation) is a federal corporation created by Title IV of the Employee Retirement Income Security Act of 1974 (ERISA) and is subject to the provisions of the Government Corporation Control Act. Its activities are defined by ERISA, as that act has been amended over the years. The Corporation insures the pension benefits, within statutory limits, of participants in covered single-employer and multiemployer defined benefit pension plans.

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

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

As of September 30, 2013, the single-employer and multiemployer programs reported net positions of $(27,381) million and $(8,258) million, respectively. The single-employer program had assets of $83,227 million offset by total liabilities of $110,608 million, which include a total present value of future benefits (PVFB) of about $105,018 million. As of September 30, 2013, the multiemployer program had assets of $1,719 million offset by $9,931 million in present value of nonrecoverable future financial assistance. Notwithstanding these deficits, the Corporation has sufficient liquidity to meet its obligations (liabilities) for a significant number of years; however, neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants.

PBGC's $79,596 million of total investments (including cash and investment income receivable) represents the largest component of PBGC's Statements of Financial Position combined assets of $84,946 million at September 30, 2013. This amount of $79,596 million (as compared to investments under management of $77,066 million, as reported on page 40) reflects the fact that PBGC experiences a recurring inflow of trusteed plan assets that have not yet been incorporated into the PBGC investment program. For total investments (i.e., not the investment program), cash and fixed-income securities ($53,646 million) represent 67 percent of the total investments, while equity securities ($22,321 million) represent 28 percent of total investments. Private market assets, real estate, and other investments ($3,629 million), represent five percent of the total investments.

SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAM EXPOSURE

PBGC's estimate of the total underfunding in single-employer plans was $292,207 million for those sponsored by companies with credit ratings below investment grade and that PBGC classified as reasonably possible of termination as of September 30, 2013. The comparable estimates for FY 2012 and FY 2011 were $294,963 million and $227,117 million, respectively. These estimates are measured as of December 31 of the previous year (see Note 9). For FY 2013, 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, 2013, it is reasonably possible that multiemployer plans may require future financial assistance in the amount of $36,718 million (see Note 9). The comparable estimates for FY 2012 and FY 2011 were $26,809 million and $23,097 million, respectively. The increase in FY 2013 is mainly due to the addition of 28 new plans to the reasonably possible inventory. The total reasonably possible exposure is dominated by two large multiemployer plans. The sponsor of one plan, now with net liability of $20,186 million, is in the "transportation, communication, and utilities" industry category; the other, now with net liability of $5,781 million, is in the "agriculture, mining, and construction" industry category.

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

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

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

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

RECENT ACCOUNTING DEVELOPMENTS

During FY 2012, PBGC implemented FASB Accounting Standards update No. 2011-04, Fair Value Measurement (Topic 820), *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRSs)*. This Update includes disclosure of the valuation techniques to price Level 3 fair value measurements, as well as disclosure of the sensitivity of different inputs into the valuation process. In addition, PBGC implemented FASB Accounting Standards Update No. 2011-03, Transfers and Servicing (Topic 860), *Reconsideration of Effective Control for Repurchase Agreements*. This Update, effective in FY 2012, addresses the rescission of financial reporting disclosure requirements to eliminate the collateral maintenance implementation guidance. See Note 3 for disclosures of Repurchase Agreements.

VALUATION METHOD

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

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

REVOLVING AND TRUST FUNDS

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

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

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

The trust funds reflect accounting activity associated with:

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

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

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

ALLOCATION OF REVOLVING AND TRUST FUNDS

PBGC allocates assets, liabilities, income and expenses to the single-employer and multiemployer programs' revolving and trust funds to the extent that such amounts are not directly attributable to a specific fund. Revolving fund investment income is allocated on the basis of each program's average cash and investments available during the year, while the expenses are allocated on the basis of each program's number of ongoing plans. Revolving fund assets and liabilities are allocated according to the year-end equity of each program's revolving funds. Plan assets acquired by PBGC and commingled at PBGC's custodian bank are credited directly to the appropriate fund, while the earnings and expenses on the commingled assets are allocated to each program's trust funds on the basis of each trust fund's value, relative to the total value of the commingled fund.

CASH AND CASH EQUIVALENTS

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

SECURITIES LENDING COLLATERAL

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

INVESTMENT VALUATION AND INCOME

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

SECURITIES PURCHASED UNDER RESALE AGREEMENTS

Securities purchased under resale agreements are agreements whereby the purchaser agrees to buy securities from the seller, and subsequently sell them back at a pre-agreed price and date. Those greater than one day are reported under "Fixed maturity securities" as "Securities purchased under resale agreements" in the Note 3 table entitled "Investments of Single-Employer Revolving Funds and Single-Employer Trusteed Plans," on page 68. Resale agreements that mature in one day are included in "Cash and cash equivalents" which are reported on the Statements of Financial Position.

SPONSORS OF TERMINATED PLANS

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

PREMIUMS

Premiums receivable represent the plan reported premiums owed, and the PBGC estimated amounts not collected, for plans that have a plan year commencing before the end of PBGC's fiscal year and past due

premiums deemed collectible, including penalties and interest. The liability for unearned premiums represents annual premium fees which have been received in advance of the period in which they will be earned by PBGC. They remain as liabilities until such time as they are ratably earned over the period of time to which the premium applies. "Premium income, net" represents actual and estimated revenue generated from defined benefit pension plan premium filings as required by Title IV of ERISA less bad debt expense for premiums, interest, and penalties (see Note 11).

CAPITALIZED ASSETS

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

PRESENT VALUE OF FUTURE BENEFITS (PVFB)

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

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

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

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

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

(4) Net Claims for Probable Terminations – In accordance with the FASB Accounting Standards Codification Section 450, *Contingencies*, PBGC recognizes net claims for probable terminations which represent PBGC's best estimate of the losses, net of plan assets, and the present value of expected recoveries (from sponsors and members of their controlled group) for plans that are likely to terminate in the future. The PBGC threshold for recognition of net claims for probable termination is $50 million or more of underfunding. These estimated losses are based on conditions that existed as of PBGC's fiscal year-end. Management believes it is likely that one or more events subsequent to PBGC's fiscal year-end will occur, confirming the loss.

Criteria used for classifying a specific single-employer plan as a probable termination include, but are not limited to, one or more of the following conditions: the plan sponsor is in liquidation or comparable state insolvency proceeding with no known solvent controlled group member; sponsor has filed or intends to file for distress plan termination and the criteria will likely be met; or PBGC is considering the plan for involuntary termination. In addition, management takes into account other economic events and factors in making judgments regarding the classification of a plan as a probable termination. These events and factors may include, but are not limited to: the plan sponsor is in bankruptcy or has indicated that a bankruptcy filing is imminent; the plan sponsor has stated that plan termination is likely; the plan sponsor has received a going concern opinion from its independent auditors; or the plan sponsor is in default under existing credit agreement(s).

In addition, a reserve for small unidentified probable losses 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 the FASB Accounting Standards Codification Section 450, PBGC's exposure to losses from plans of companies that are classified as reasonably possible is disclosed in the footnotes. In order for a plan sponsor to be specifically classified as reasonably possible, it must first have $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); or sponsor has no bond rating but the Dun & Bradstreet Financial Stress Score is below the threshold considered to be investment grade (see Note 9).

PRESENT VALUE OF NONRECOVERABLE FUTURE FINANCIAL ASSISTANCE

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

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

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

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

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

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

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

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

PBGC periodically reviews important accounting policies. Given the complexities and changes in the economy and in multiemployer plans in recent years, PBGC decided to re-examine the policy and procedures used to quantify the level of liability under the ME guarantee program, to determine whether any changes should be made. After a review that involved a national independent financial advisory firm and included possible alternatives, PBGC decided to retain our current policy and procedures. PBGC will continue to review multiemployer policy and procedures in the future.

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

SECURITIES SOLD UNDER 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 Position, securities sold under repurchase agreements are reported as a liability, "Securities sold under repurchase agreements" at the amounts at which the securities will be subsequently reacquired.

ADMINISTRATIVE EXPENSES

These operating expenses (for either the single-employer or multiemployer insurance programs) are amounts paid and accrued for services rendered or while carrying out other activities that constitute PBGC's ongoing operations, e.g., payroll, contractual services, office space, material and supplies, etc. The expense allocation methodology fully captures the administrative expenses attributable to either the single-employer or

multiemployer insurance programs. In Fiscal Year 2013, PBGC has revised its administrative expense allocation methodology to ensure each insurance program continues to receive its fair share of administrative expenses. This revision was made to capture a more consistent and reliable allocation. All indirect administrative expenses associated with the SE and ME programs are being allocated using the number of ongoing plans in each program.

OTHER EXPENSES

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

LOSSES FROM COMPLETED AND PROBABLE TERMINATIONS

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

ACTUARIAL ADJUSTMENTS AND CHARGES (CREDITS)

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

DEPRECIATION AND AMORTIZATION

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

PRIOR YEAR RECLASSIFICATION

In FY 2012, cash associated with the foreign currency exchange was recorded to Fixed maturity securities on the Statements of Financial Position, and the Payments for purchases of investments on the Statements of Cash Flows. Beginning FY 2013, PBGC adopted a new policy for cash associated with foreign currency exchange is to be recorded to Cash and cash equivalents. This resulted in an immaterial increase to Cash and cash equivalents of $15 million and a corresponding decrease to Fixed maturity securities from what was previously reported in the FY 2012 Statements of Financial Position. This resulted in an increase of $15 million and a corresponding net decrease to Payments for purchases of investments from what was previously reported in the FY 2012 Statements of Cash Flows. These changes were reclassified within the FY 2012 Statements of Financial Position and FY 2012 Statements of Cash Flows, and have no impact on FY 2012 net position.

NOTE 3: INVESTMENTS

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

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

Bond forwards and TBAs are reported to "Receivables, net – Sale of securities" and "Due for purchases of securities" from derivative contracts receivables and payables. As of September 30, 2013, Bond Forwards receivable was approximately $133 million and TBA's receivable was approximately $175 million. In addition, as of September 30, 2013, Bond Forwards payable was approximately $145 million and TBA's were approximately $576 million.

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

(Dollars in millions)	**September 30, 2013** Basis	**Market Value**	September 30, 2012 Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	**$22,141**	**$22,132**	$21,122	$23,629
Commercial paper/securities purchased under resale agreements	**54**	**54**	442	442
Asset backed securities	**2,937**	**2,999**	3,350	3,509
Pooled funds				
Domestic	**1,239**	**1,131**	1,138	1,197
International	**495**	**503**	0 *	0 *
Global/other	**0**	**0**	0 *	0 *
Corporate bonds and other	**9,840**	**10,309**	9,798	11,073
International securities	**10,211**	**10,068**	8,429	9,100
Subtotal	**46,917**	**47,196**	44,279	48,950
Equity securities:				
Domestic	**2,168**	**2,719**	2,047	2,417
International	**1,291**	**1,469**	575	670
Pooled funds				
Domestic	**5,519**	**8,740**	7,440	9,642
International	**5,731**	**9,389**	5,805	8,733
Global/other	**0 ***	**0 ***	1	1
Subtotal	**14,709**	**22,317**	15,868	21,463
Private equity	**1,355**	**1,228**	1,398	1,339
Real estate and real estate investment trusts	**2,364**	**2,373**	445	878
Insurance contracts and other investments	**35**	**28**	84	77
Total**	**$65,380**	**$73,142 *** **	$62,074	$72,707

* Less than $500,000

** Total includes securities on loan at September 30, 2013, and September 30, 2012, with a market value of $4,230 million and $4,298 million, respectively.

*** This total of $73,142 million of investments at market value represents the single-employer assets only.

INVESTMENTS OF MULTIEMPLOYER REVOLVING FUNDS AND MULTIEMPLOYER TRUSTEED PLANS

(Dollars in millions)	**September 30, 2013** Basis	**Market Value**	September 30, 2012 Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	**$1,626**	**$1,632**	$1,568	$1,767
Equity securities	**0**	**0**	0	0
Total	**$1,626**	**$1,632**	$1,568	$1,767

INVESTMENT PROFILE

	September 30,	
	2013	2012
Fixed Income Assets		
Average Quality	**AA**	AA
Average Maturity (years)	**13.3**	14.0
Duration (years)	**8.5**	9.3
Yield to Maturity (%)	**3.4**	2.7
Equity Assets		
Average Price/Earnings Ratio	**20.1**	15.6
Dividend Yield (%)	**2.6**	2.6
Beta	**1.06**	1.03

DERIVATIVE INSTRUMENTS

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

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

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

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

During fiscal years 2013 and 2012, PBGC, through its investment managers, invested in investment products that used various U.S. and non-U.S. derivative instruments. Those products included, but are not limited to, equity index futures, options, money market futures, government bond futures, interest rate, credit default and total return swaps and swaption contracts, stock warrants and rights, debt option contracts, and foreign currency forward and option contracts. Some of these derivatives are traded on organized exchanges and

thus bear minimal counterparty risk. The counterparties to PBGC's non-exchange-traded derivative contracts are major financial institutions subject to ISDA (International Swaps and Derivatives Association, Inc.) master agreements. PBGC monitors PBGC's counterparty risk and exchanges collateral under most contracts to further support performance by counterparties. Some of PBGC's non-exchange traded derivative contracts are centrally cleared through a CFTC-recognized clearinghouse and the required margin (collateral) is maintained by the clearinghouse to support the performance by counterparties, which are members of the clearinghouse. A clearinghouse reduces the settlement risks by netting offsetting transactions between multiple counterparties, by requiring higher levels of collateral deposits or margin requirements compared to bilateral arrangements. Settlement risks are reduced also by the clearinghouse providing independent valuation of trades and margin, monitoring the credit worthiness of the clearing firms, and providing a guarantee fund, which could be used to cover losses that exceed a defaulting clearing firm's margin on deposit.

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

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

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

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

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

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

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

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

For the fiscal years ended September 30, 2013 and 2012, gains and losses from settled margin calls are reported in Investment income on the Statements of Operations and Changes in Net Position. Securities and cash are pledged as collateral for derivative contracts (e.g., futures and swaps) are recorded as a receivable or payable.

Pursuant to the provisions of the FASB Accounting Standards Codification Section 815, *Derivatives and Hedging*, this standard requires the disclosure of fair values of derivative instruments and their gains and losses in its financial statements of both the derivative positions existing at period end and the effect of using derivatives during the reporting period. The first table below identifies the location of derivative fair market values (FMV) on the Statements of Financial Position, as well as the notional amounts. The second table identifies the location of derivative gains and losses on the Statements of Operations and Changes in Net Position as of September 30, 2013, and September 30, 2012.

FAIR VALUES OF DERIVATIVE INSTRUMENTS

	Asset Derivative					
		September 30, 2013			September 30, 2012	
(Dollars in millions)	Statements of Financial Position Location	**Notional**	**FMV**	Statements of Financial Position Location	Notional	FMV
Futures	Derivative Contracts	**$1,859**	**$17**	Derivative Contracts	$1,323	$4
Swap agreements						
Interest rate swaps	Investments-Fixed	**6,536**	**19**	Investments-Fixed	1,904	12
Credit default swaps	Investments-Fixed	**1,702**	**(6)**	Investments-Fixed	2,180	14
Option contracts	Investments-Fixed	**46**	**1**	Investments-Fixed	146	2
Forwards - foreign exchange	Investments-Fixed	**8,759**	**(65)**	Investments-Fixed	4,650	(27)
	Investments-Equity	**0**	**0**	Investments-Equity	0 *	0 *

	Liability Derivative					
		September 30, 2013			September 30, 2012	
(Dollars in millions)	Statements of Financial Position Location	**Notional**	**FMV**	Statements of Financial Position Location	Notional	FMV
Futures	Derivative Contracts	**$2,016**	**$ (13)**	Derivative Contracts	$2,283	$ (9)
Option contracts	Derivative Contracts	**107**	**0 ***	Derivative Contracts	1,042	(11)

* Less than $500,000

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

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

(Dollars in millions)	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives	
		Sept. 30, 2013	Sept. 30, 2012
Futures			
Contracts in a receivable position	Investment Income-Fixed	**($142)**	$9
Contracts in a receivable position	Investment Income-Equity	**0**	0
Contracts in a payable position	Investment Income-Fixed	**75**	69
Contracts in a payable position	Investment Income-Equity	**0**	0
Swap agreements			
Interest rate swaps	Investment Income-Fixed	**36**	14
Credit default swaps	Investment Income-Fixed	**(16)**	38
Option contracts			
Options purchased (long)	Investment Income-Fixed	**17**	(14)
Options purchased (long)	Investment Income-Equity	**0**	0
Options written (sold short)	Investment Income-Fixed	**(7)**	4
Options written (sold short)	Investment Income-Equity	**0**	0
Forward contracts			
Forwards - foreign exchange	Investment Income-Fixed	**(94)**	14
	Investment Income-Equity	**0**	0

* Less than $500,000

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

SECURITIES LENDING

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

The total value of securities on loan at September 30, 2013, and September 30, 2012, was $4,230 million and $4,298 million, respectively. The total amount of securities available for loan were $26,311 million as of September 30, 2013 and $26,934 million as of September 30, 2012. The ratio of the market value of the securities on loan and the market value of the lendable securities is the utilization rate which was relatively unchanged year over year, moving from 15.9% in September 30, 2012 to 16.1% in September 30, 2013.

U.S. Government securities continue to represent PBGC's largest amount of assets on loan; of the $4,230 million market value of securities on loan at September 30, 2013, approximately 57 percent are lent U.S. Government securities. The 2013 year-end lendable balance for U.S. Government securities was approximately $6,151 million or 23 percent of PBGC's overall lendable securities balance; while the September 30, 2012 balance for U.S. Government securities was approximately $7,011 million or 26 percent of PBGC's overall lendable security balance. Utilization of U.S. Government securities increased year over year from 32.7% to 39.2%.

The amount of cash collateral received for these loaned securities was $3,322 million at September 30, 2013, and $3,425 million at September 30, 2012. These amounts are recorded as assets and are offset with a corresponding liability. For lending agreements collateralized by securities, no accompanying asset or liability is recorded, as PBGC does not sell or re-pledge the associated collateral. For those securities lending activities that PBGC directs through its custodian manager, the corporation chooses to invest proceeds from securities lending in the Quality A cash collateral pool. PBGC earned $19 million from it's agency securities lending programs as of September 30, 2013. Also contributing to PBGC's securities lending income is its participation in certain pooled index funds. Net income from securities lending is included in "Investment income – Fixed" on the Statements of Operations and Changes in Net Position.

PBGC does not have the right by contract or custom to sell or re-pledge non-cash collateral; it is no longer reported on the Statements of Financial Position. Non-cash collateral, which consists of highly rated debt instruments, remains at material levels.

REPURCHASE AGREEMENTS

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

As of September 30, 2013, PBGC had $19 million in Repurchase Agreements. This amount represents maturities of one day and is reported as an asset and included in the "Cash and cash equivalents" balance. There was no associated liability for these secured borrowings reported as "Securities sold under repurchase agreements." PBGC has no restrictions placed on the cash received for all of its outstanding repurchase agreements as of September 30, 2013.

NOTE 4: DERIVATIVE CONTRACTS

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

Amounts in the table below represent the derivative contracts in a receivable position at financial statement date. Collateral deposits of $103 million, which represent cash paid as collateral on certain derivative contracts, are shown below.

DERIVATIVE CONTRACTS

(Dollars in millions)	**September 30, 2013**	September 30, 2012
Open receivable trades on derivatives:		
Collateral deposits	**$103**	$79
Futures contracts	**16**	4
Interest rate swaps	**77**	0 *
Credit default swaps	**80**	0
Total	**$276**	$83

* Less than $500,000

Amounts in the Derivative Contracts table below represent derivative contracts in a payable position at financial statement date which PBGC reflects as a liability. Collateral deposits of $51 million, which represent cash received as collateral on certain derivative contracts, are included.

DERIVATIVE CONTRACTS

(Dollars in millions)	**September 30, 2013**	September 30, 2012
Open payable trades on derivatives:		
Collateral deposits	**$51**	$72
Futures contracts	**13**	9
Interest rate swaps	**66**	0
Credit default swaps	**80**	2
Options-fixed income	**0** *	11
Total	**$210**	$94

* Less than $500,000

NOTE 5: FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

FAIR VALUE MEASUREMENTS ON A RECURRING BASIS AS OF SEPTEMBER 30, 2013

(Dollars in millions)	Quoted Market Prices in Active Markets (Level 1)	Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)	Total Net Carrying Value in Statements of Financial Position
Assets				
Cash and cash equivalents	$ 559	$ 3,818		$ 4,377
Securities lending collateral		3,322		3,322
Investments:				
Fixed maturity securities				
U.S. Government securities		23,764		
Commercial paper/securities purchased under resale agreements		54		
Asset backed/Mortgage backed securities		2,999		
Pooled funds				
Domestic	2	897	232	
International		503		
Global/other				
Corporate bonds and other	1	10,308		
International securities	(65)	10,133		
Total fixed maturity securities	(62)	48,658	232	48,828
Equity securities:				
Domestic	2,604	115	0***	
International	1,465	4		
Pooled funds				
Domestic	16	8,724		
International	2	9,387		
Global/other	0***	-	0	
Total equity securities	4,087	18,230	0***	22,317
Private equity			1,228	1,228
Real estate and real estate investment trusts	10	1,904	459	2,373
Insurance contracts and other Investments		21	7	28
Receivables:				
Derivative contracts*	16	260		276
Liabilities				
Payables:				
Derivative contracts**	13	197		210

* Derivative contracts receivables are comprised of open receivable trades on futures, swaps, and collateral deposits. See the Derivative Contracts table under Note 4.
** Derivative contracts payables are comprised of open payable trades on futures, swaps, options, and collateral deposits. See the Derivative Contracts table under Note 4.
*** Less than $500,000.

As of September 30, 2013, there were no significant transfers between Level 1 and Level 2. The end of the reporting period is the date used to recognize transfers between levels.

CHANGES IN LEVEL 3 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS FOR THE YEAR ENDED SEPTEMBER 30, 2013

(Dollars in millions)	Fair Value at September 30, 2012	Total Realized and Unrealized Gains (Losses) included in Income	Purchases	Sales	Transfers Into Level 3	Transfers Out of Level 3	Fair Value at September 30, 2013	Change in Unrealized Gains (Losses) Related to Financial Instruments held at September 30, 2013 **
Assets:								
Pooled funds (fixed)	$ 277	$(45)					$ 232	$ (45)
Corporate bonds and other *	0	0	0	0			0	0
Domestic/Int'l equity *	7	(1)	4	(15)	5		0***	1
Private equity	1,339	(79)	54	(86)	0***		1,228	(68)
Real estate & real estate investment trusts	508	(55)	15	(9)			459	(55)
Other *	2	0***	6	(1)			7	0***

*Assets which are not actively traded in the market place.

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

*** Less than $500,000.

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

INVESTMENTS IN CERTAIN ENTITIES THAT CALCULATE NET ASSET VALUE PER SHARE (OR ITS EQUIVALENT) FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Fair Value (in millions)	Unfunded Commitments [1]	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Real estate (a)	$ 2,373	$ 92	n/a	n/a
Private equity (b)	1,228	246	n/a	n/a
Pooled funds (c)	19,763	0	n/a	n/a
Total	$ 23,364	$338		

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

a. This class includes 150 real estate investments that invest primarily in U.S. commercial real estate, and to a lesser extent, U.S. residential real estate. The fair value of each individual investment in this class has been estimated using the net asset value of the PBGC's ownership interest in partners' capital. Generally, these investments do not have redemption provisions. Distributions from each fund will be received as the underlying assets of the fund will be liquidated over the next ten years or so. In addition, distributions will also include any periodic income distributions received. No fund investments in this class are planned to be sold. Individual portfolio investments will be sold over time, however, those have not yet been determined.

b. This class includes 602 private market investments that invest primarily in U.S. buyout and U.S. venture capital funds. A small number of those focus on natural resources. These investments do not have redemption provisions. Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the funds. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over the next twelve years. However, the individual investments that will be sold have not yet been determined. The fair value of each individual investment has been estimated using the net asset value of the PBGC's ownership interest in partners' capital.

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

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

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

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

September 30, 2013 *(Dollars in millions)*	**Hypothetical Rates** **2.25% for 20 years,** **2.32% thereafter**	**Actual Rates**** **3.25% for 20 years,** **3.32% thereafter**	**Hypothetical Rates** **4.25% for 20 years,** **4.32% thereafter**
Single-Employer Program	$115,375	**$103,170**	$93,062
Multiemployer Program	11,527	**9,931**	8,599
Total	$126,902	**$113,101**	$101,661

*Level 3 Fair Value Measurements
**Actual rates and PVFB amounts calculated for September 30, 2013 quarterly financial statements.

NOTE 6: PRESENT VALUE OF FUTURE BENEFITS

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

For FY 2013, PBGC used a 20 year select interest factor of 3.25% followed by an ultimate factor of 3.32% for as long as benefits are to be paid. In FY 2012, PBGC used a 25-year select interest factor of 3.28% followed by an ultimate factor of 2.97% for the remaining years. These factors were determined to be those needed (given the mortality assumptions), to continue to match the survey of annuity prices provided by the American Council of Life Insurers (ACLI). Both the interest factor and the length of the select period may vary to produce the best fit with these prices. The prices reflect rates at which, in PBGC's opinion, the liabilities (net of administrative expenses) could be settled in the market at September 30, for the respective year, for single-premium nonparticipating group annuities issued by private insurers. Many factors may affect these rates, including Federal Reserve policy, changing expectations about longevity risk, and competitive market conditions.

For FY 2013, PBGC used the Retirement Plan-2000 Combined Healthy (RP-2000 CH) Male and Female Tables, each set back one year and projected 24 years to 2024 using Scale AA. For September 30, 2012, PBGC used the same table, set back one year and projected 22 years to 2022 using Scale AA. The number of years that PBGC projects the mortality table reflects the number of years from the 2000 base year of the table to the end of the fiscal year (13 years in FY 2013, 12 years in FY 2012) plus PBGC's calculated duration of its liabilities (11 years in FY 2013 and 10 years in FY 2012).

The ACLI survey of annuity prices, when combined with the mortality table, provides the basis for determining the interest factors used in calculating the PVFB. The insurance company prices, when combined with the stronger mortality table, results in a higher interest factor.

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

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

The present values of future benefits for trusteed multiemployer plans for FY 2013 and FY 2012 reflect the payment of benefits and the changes in interest and mortality assumptions, expected interest and the effect of experience.

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

The table on the following page summarizes the actuarial adjustments, charges and credits that explain how the Corporation's single-employer program liability for the present value of future benefits changed for the years ended September 30, 2013 and for the fiscal year ended September 30, 2012.

RECONCILIATION OF THE PRESENT VALUE OF FUTURE BENEFITS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	September 30,

(Dollars in millions)	2013		2012	
Present value of future benefits, at beginning of year -- Single-Employer, net		**$105,635**		$92,953
Estimated recoveries, prior year		**243**		205
Assets of terminated plans pending trusteeship, net, prior year		**271**		280
Present value of future benefits at beginning of year, gross		**106,150**		93,438
Settlements and judgments, prior year		**(56)**		(56)
Net claims for probable terminations, prior year		**(2,035)**		(833)
Actuarial adjustments -- underwriting:				
Changes in method and assumptions	**$ 332**		$ 76	
Effect of experience	**(733)**		153	
Total actuarial adjustments -- underwriting	**(401)**		229	
Actuarial charges -- financial:				
Expected interest	**3,388**		3,927	
Change in interest factors	**67**		10,718	
Total actuarial charges -- financial	**3,455**		14,645	
Total actuarial charges, current year		**3,054**		14,874
Terminations:				
Current year	**4,246**		2,035	
Changes in prior year	**(132)**		(16)	
Total terminations		**4,114**		2,019
Benefit payments, current year*		**(5,449)**		(5,384)
Estimated recoveries, current year**		**(44)**		(243)
Assets of terminated plans pending trusteeship, net, current year		**(1,517)**		(271)
Settlements and judgments, current year		**57**		56
Net claims for probable terminations:				
Future benefits***	**1,166**		7,686	
Estimated plan assets and recoveries from sponsors	**(421)**		(5,651)	
Total net claims, current year		**745**		2,035
Present value of future benefits, at end of year -- Single-Employer, net		**105,018**		105,635
Present value of future benefits, at end of year -- Multiemployer		**0**		1
Total present value of future benefits, at end of year, net		**$105,018**		$105,636

* The benefit payments of $5,449 million and $5,384 million include $75 million in FY 2013 and $51 million in FY 2012 for benefits paid from plan assets by plans prior to trusteeship.

** On December 31, 2012, PBGC entered into an agreement with United Continental Holdings, Inc. (UAL) providing for, among other things, the replacement of (i) UAL's contingent obligation to issue up to $500 million principal amount of 8% Contingent Senior Notes if certain financial triggers were met, of which $188 million had been incurred as of December 31, 2012, with $400 million principal amount of new 8% Notes due 2024 and (ii) the $652 million outstanding of UAL's 6% Senior Notes due 2031 with $326 million principal amount of new 6% Notes due 2026 and $326 million principal amount of new 6% Notes due 2028.

*** The future benefits for probable terminations of $1,166 million and $7,686 million for fiscal years 2013 and 2012, respectively, include $394 million and $299 million, respectively, for probable terminations not specifically identified and $772 million and $7,387 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, 2013		September 30, 2012	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
U.S. Government securities	**$ 0**	**$ 0**	$ 0	$ 0
Corporate and other bonds	**703**	**701**	108	109
Equity securities	**825**	**840**	164	170
Private equity	**0**	**0**	0	0
Insurance contracts	**1**	**1**	0 *	0 *
Other	**(52)**	**(25)**	(8)	(8)
Total, net	**$1,477**	**$1,517**	$264	$271

* Less than $500,000

NET CLAIMS FOR PROBABLE TERMINATIONS

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

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)	**2013**	2012
Net claims for probable terminations, at beginning of year	**$ 2,035**	$ 833
New claims	**$ 352**	$ 1,736
Actual terminations	**(492)**	(150)
Deleted probables	**(1,245)**	(394)
Change in benefit liabilities	**95**	10
Change in plan assets	**0**	0
Loss (credit) on probables	**(1,290)**	1,202
Net claims for probable terminations, at end of year	**$ 745**	$ 2,035

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

PROBABLES EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	**FY 2013**	FY 2012
Manufacturing	**$ 268**	$ 1,900
Health Care	**83**	135
Wholesale and Retail Services	**-**	-
Services	**-**	-
Total	**$ 351**	$ 2,035

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 1987-2012 at September 30, 2013			
Beginning in 1987, number of plans reported as Probable:	Number of Plans	Percent of Plans	Net Claim	Percent of Net Claim
Probables terminated	367	78%	$29,113	71%
Probables not yet terminated or deleted	0	0	0	0
Probables deleted	101	22	11,974	29
Total	468	100%	$41,087	100%

NOTE 7: MULTIEMPLOYER FINANCIAL ASSISTANCE

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

NOTES RECEIVABLE MULTIEMPLOYER FINANCIAL ASSISTANCE

(Dollars in millions)	**September 30, 2013**	September 30, 2012
Gross balance at beginning of year	**$694**	$599
Financial assistance payments - current year	**89**	95
Write-offs related to settlement agreements	**0**	0
Subtotal	**783**	694
Allowance for uncollectible amounts	**(783)**	(694)
Net balance at end of year	**$ 0**	$ 0

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

Operations and Changes in Net Position. This valuation data change is a separate line item from actuarial adjustments and actuarial charges.

As of September 30, 2013, the Corporation expects 173 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 173 plans is $9,931 million. The 173 plans fall into three categories: (1) plans currently receiving financial assistance; (2) plans that have terminated but have not yet started receiving financial assistance from PBGC; and (3) ongoing plans (not terminated) that the Corporation expects will require financial assistance in the future. The latter two categories are comprised of multiemployer probables as defined by the following classification criteria:

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

MULTIEMPLOYER FINANCIAL ASSISTANCE

	September 30, 2013		September 30, 2012	
(Dollars in millions)	**Number of Plans**	**Net Liability**	Number of Plans	Net Liability
Plans currently receiving financial assistance	**44**	**$1,352**	41	$1,388
Plans that have terminated but have not yet started receiving financial assistance (classified as probable)	**65**	**1,895**	61	1,725
Ongoing plans (not terminated) that the Corporation expects will require financial assistance in the future (classified as probable)	**64**	**6,684**	46	3,897
Total	**173**	**$9,931**	148	$7,010

Of the 173 plans:

1) 44 have exhausted plan assets and are currently receiving financial assistance payments from PBGC. The present value of future financial assistance payments for these insolvent 44 plans is $1,352 million.

2) 65 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 65 terminated plans is $1,895 million.

3) 64 plans are ongoing (i.e., have not terminated), but PBGC expects they will exhaust plan assets and need financial assistance within 10 years. In this analysis, PBGC takes into account the current plan assets, future income to the plan, the statutory funding rules, and the possibility for future increases

in contributions. The present value of future financial assistance payments for these 64 ongoing plans is $6,684 million.

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

(Dollars in millions)	**September 30, 2013**	September 30, 2012
Balance at beginning of year	**$7,010**	$4,475
Changes in allowance:		
Losses from insolvent and probable plans - financial assistance	**2,969**	2,466
Actuarial adjustments	**(5)**	(6)
Actuarial charges (credits):		
Due to expected interest	**44**	54
Due to change in interest factors	**2**	116
Financial assistance granted (previously accrued)	**(89)**	(95)
Balance at end of period	**$9,931**	$7,010

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

NOTE 8: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

(Dollars in millions)	**September 30, 2013**	September 30, 2012
Annual leave	**$9**	$ 9
Other payables and accrued expenses	**68**	70
Accounts payable and accrued expenses	**$77**	$ 79

NOTE 9: REASONABLY POSSIBLE CONTINGENCIES

SINGLE-EMPLOYER PLANS

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

In accordance with the FASB Accounting Standards Codification Section 450, *Contingencies*, PBGC classified a number of these companies as reasonably possible rather than probable terminations, reflecting the sponsors' financial condition and other factors did not indicate that termination of their plans was likely. This classification was done based upon information about the companies as of September 30, 2013. PBGC criteria for a single-employer plan sponsor to be classified as Reasonably Possible are:

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

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

c. A minimum funding contribution has been missed.

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

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

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

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

The estimate of unfunded vested benefits exposure to loss for the single-employer plans of these companies was measured as of December 31, 2012. The reasonably possible exposure to loss in these plans was $292,207 million for FY 2013. This is a slight decrease of $2,756 million from the reasonably possible exposure of $294,963 million in FY 2012. This decrease is primarily due to a decline in the aggregate liability for plans classified as reasonably possible.

Except in the rare circumstances as indicated earlier in this footnote, the estimate of unfunded vested benefits exposure to loss is not generally based on PBGC-guaranteed benefit levels, since data is not available to determine an estimate at this level of precision. PBGC calculated this estimate, as in previous years, by using

the most recent data available from filings and submissions to us for plan years ended on or after December 31, 2011. PBGC adjusted the value reported for liabilities to December 31, 2012, using a select rate of 2.47% for the first 20 years and 3.22% thereafter and applying the expense load as defined in 29 CFR Part 4044, Appendix C. The rates were derived in conjunction with the 1994 Group Annuity Mortality Static Table (with margins) projected to 2022 using Scale AA to approximate annuity prices as of December 31, 2012. The underfunding associated with these plans could be substantially different at September 30, 2013, because of the economic conditions that changed between December 31, 2012 and September 30, 2013. PBGC did not adjust the estimate for events that occurred between December 31, 2012, and September 30, 2013.

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

REASONABLY POSSIBLE EXPOSURE TO LOSS BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	**FY 2013**	FY 2012
Manufacturing *	**$150,564**	$155,857
Transportation, Communication and Utilities **	**67,419**	67,355
Services	**34,740**	29,795
Wholesale and Retail Trade	**16,721**	17,199
Health Care	**9,576**	12,089
Finance, Insurance, and Real Estate	**8,495**	8,463
Agriculture, Mining, and Construction	**4,692**	4,205
Total	**$292,207**	$294,963

* Primarily automobile/auto parts and primary and fabricated metals
** Primarily airline

MULTIEMPLOYER PLANS

There are some multiemployer plans that may require future financial assistance. PBGC included amounts in the liability for the present value of nonrecoverable future financial assistance (see Note 7) for multiemployer plans that PBGC estimated may require future financial assistance. In addition, PBGC estimated as of September 30, 2013, that it is reasonably possible that other multiemployer plans may require future financial assistance in the amount of $36,718 million.

PBGC calculated the future financial assistance liability for each multiemployer plan identified as probable (see Note 7), or reasonably possible. PBGC used a formula taking the present value of guaranteed future benefits and expense payments net of any future contributions or withdrawal liability payments. These amounts were as of the later of September 30, 2013, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2013. PBGC's identification of plans that are likely to require such assistance and estimation of related amounts required consideration of many complex factors, including estimating future cash flows, future mortality rates, and age of participants not in pay status. These factors are affected by future events, including actions by plans and their sponsors, most of which are beyond PBGC's control. Reasonably possible multiemployer classification is defined as an ongoing plan with a projected insolvency date between 10 and 20 years from the valuation date.

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 2018. The minimum future lease payments for office facilities having noncancellable terms in excess of one year as of September 30, 2013, are:

COMMITMENTS: FUTURE LEASE PAYMENTS

(Dollars in millions)	
Years Ending September 30,	Operating Leases
2014	$ 21.7
2015	21.7
2016	21.6
2017	21.5
2018	19.4
Thereafter	6.0
Minimum lease payments	$111.9

Lease expenses were $19.4 million in FY 2013 and $17.6 million in FY 2012.

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 2013, the flat-rate premium for single-employer pension plans was $42 per participant and for multiemployer plans, $12 per participant. For plan years 2012 and 2011, the flat-rate premiums for single-employer pension plans were $35 per participant and for multiemployer plans, $9 per participant. PBGC recorded net premium income of $3,053 million that consisted mainly of $1,385 million in flat-rate premiums, $1,580 million in variable-rate premiums, and $177 million in termination premiums.

Those amounts were offset by a bad debt expense of $94 million. Bad debt expenses include a reserve for uncollectible premium receivables (including flat, variable, and termination premiums), interest, and penalties. Net premium income for FY 2012 was $2,734 million and consisted mainly of about $1,215 million in flat-rate premiums, $1,495 million in variable-rate premiums, and $33 million in termination premiums, offset by a bad debt expense of $14 million. The termination premium applies to certain plan terminations occurring after 2005. If a pension plan terminates in a distress termination pursuant to ERISA section 4041(c)(2)(B)(ii) or (iii), or in a PBGC-initiated termination under ERISA section 4042, the plan sponsor and its controlled group are liable to PBGC for a termination premium at the rate of $1,250 per plan participant per year for three years.

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

PREMIUMS

(Dollars in millions)	September 30, 2013	September 30, 2012
Flat-Rate Premium:		
Single-Employer	**$1,274**	$1,123
Multiemployer	**111**	92
Total Flat-Rate Premium	**1,385**	1,215
Variable-Rate Premium	**1,580**	1,495
Interest and Penalty Income	**5**	5
Termination Premium	**177**	33
Less Changes in the Allowance Reserve for Bad Debts for Interest, Penalties, and Premiums	**(94)**	(14)
Total	**$3,053**	$2,734
Single-Employer	**$2,859**	$2,623
Termination Premium	**177**	33
Less Changes in the Allowance Reserve for Bad Debts for Interest, Penalties, and Premiums	**(93)**	(14)
Total Single-Employer	**2,943**	2,642
Multiemployer	**111**	92
Less Changes in the Allowance Reserve for Bad Debts for Interest and Penalties	**(1)**	0*
Total Multiemployer	**110**	92
Total	**$3,053**	$2,734

* Less than $500,000

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,					
(Dollars in millions)	**2013 New Terminations**	**2013 Changes in Prior Year Terminations**	**2013 Total**	2012 New Terminations	2012 Changes in Prior Year Terminations	2012 Total
Present value of future benefits	**$4,246**	**$ (132)**	**$ 4,114**	$2,035	$ (16)	$2,019
Less plan assets	**2,367**	**87**	**2,454**	1,027	228	1,255
Plan asset insufficiency	**1,879**	**(219)**	**1,660**	1,008	(244)	764
Less estimated recoveries	**0**	**(98)**	**(98)**	0	(39)	(39)
Subtotal	**1,879[1]**	**(121)**	**1,758**	1,008[1]	(205)	803
Settlements and judgments		**0***	**0***		1	1
Loss (credit) on probables	**(492)[2]**	**(798)[3]**	**(1,290)[4]**	(150)[2]	1,352[3]	1,202[4]
Total	**$1,387**	**$ (919)**	**$ 468**	$ 858	$1,148	$2,006

* Less than $500,000

[1] Gross amounts for plans terminated during the period, including plans previously recorded as probables.
[2] Net claims for plans previously recorded as probables that terminated.
[3] Includes changes to old and new probables.
[4] See Note 6 - includes $492 million at September 30, 2013, and $150 million at September 30, 2012, previously recorded relating to plans that terminated during the period ("Actual terminations").

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, 2013**	**Multiemployer Program Sept. 30, 2013**	**Memorandum Total Sept. 30, 2013**	Single-Employer Program Sept. 30, 2012	Multiemployer Program Sept. 30, 2012	Memorandum Total Sept. 30, 2012
Fixed maturity securities:						
Interest earned	**$1,781**	**$40**	**$1,821**	$1,800	$44	$1,844
Realized gain	**859**	**58**	**917**	2,005	36	2,041
Unrealized gain	**(4,269)**	**(194)**	**(4,463)**	894	11	905
Total fixed maturity securities	**(1,629)**	**(96)**	**(1,725)**	4,699	91	4,790
Equity securities:						
Dividends earned	**84**	**0**	**84**	66	0	66
Realized gain	**2,476**	**0**	**2,476**	1,385	0	1,385
Unrealized gain (loss)	**1,597**	**0**	**1,597**	2,622	0	2,622
Total equity securities	**4,157**	**0**	**4,157**	4,073	0	4,073
Private equity:						
Distributions earned	**24**	**0**	**24**	27	0	27
Realized gain (loss)	**315**	**0**	**315**	81	0	81
Unrealized gain	**(67)**	**0**	**(67)**	(66)	0	(66)
Total private equity	**272**	**0**	**272**	42	0	42
Real estate:						
Distributions earned	**0**	**0**	**0**	0	0	0
Realized gain (loss)	**(12)**	**0**	**(12)**	2	0	2
Unrealized gain	**(58)**	**0**	**(58)**	(23)	0	(23)
Total real estate	**(70)**	**0**	**(70)**	(21)	0	(21)
Other income:						
Distributions earned	**3**	**0**	**3**	0	0	0
Realized gain (loss)	**7**	**0**	**7**	0 *	0	0*
Unrealized gain	**1**	**0**	**1**	(1)	0	(1)
Total other income	**11**	**0**	**11**	(1)	0	(1)
Total investment income	**$2,741**	**($96)**	**$2,645**	$8,792	$91	$8,883

* Less than $500,000

NOTE 14: EMPLOYEE BENEFIT PLANS

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

PBGC's contribution to the CSRS plan for both FY 2013 and FY 2012 was 7.0 percent of base pay for those employees covered by that system. For those employees covered by FERS, the Corporation's contribution was 11.9 percent of base pay for FY 2013, up from 11.7 percent for FY 2012. 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 $21 million in FY 2013 and $20 million in FY 2012.These financial statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to PBGC's employees. These amounts are reported by the U.S. Office of Personnel Management (OPM) and are not allocated to the individual employers. OPM accounts for federal health and life insurance programs for those eligible retired PBGC employees who had selected federal government-sponsored plans. PBGC does not offer other supplemental health and life insurance benefits to its employees.

NOTE 15: CASH FLOWS

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

INVESTING ACTIVITIES (SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED)

(Dollars in millions)	September 30, **2013**	2012
Proceeds from sales of investments:		
Fixed maturity securities	**$74,456**	$70,055
Equity securities	**12,904**	6,120
Other/uncategorized	**2,859**	1,874
Memorandum total	**$90,219**	$78,049
Payments for purchases of investments:		
Fixed maturity securities	**$(76,266)**	$(69,841)
Equity securities	**(10,988)**	(6,681)
Other/uncategorized	**(1,769)**	(1,262)
Memorandum total	**$(89,023)**	$(77,784)

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)	**2013**	2012	**2013**	2012	**2013**	2012
Net income (loss)	**$ 1,761**	$(5,876)	**$(3,021)**	$(2,467)	**$(1,260)**	$(8,343)
Adjustments to reconcile net income to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	**(808)**	(6,958)	**131**	(46)	**(677)**	(7,004)
Net gain (loss) of plans pending termination and trusteeship	**(49)**	(27)	**0**	0	**(49)**	(27)
Losses (credits) on completed and probable terminations	**468**	2,006	**0**	0	**468**	2,006
Actuarial charges (credits)	**3,054**	14,874	**0**	0	**3,054**	14,874
Benefit payments - trusteed plans	**(5,374)**	(5,333)	**0***	0*	**(5,374)**	(5,333)
Settlements and judgments	**0***	0*	**0**	0	**0***	0*
Cash received from plans upon trusteeship	**24**	126	**0**	0	**24**	126
Receipts from sponsors/non-sponsors	**(1)**	114	**0**	0	**(1)**	114
Amortization of discounts/premiums	**131**	99	**13**	10	**144**	109
Changes in assets and liabilities, net of effects of trusteed and pending plans:						
(Increase) decrease in receivables	**62**	(510)	**3**	0*	**65**	(510)
Increase in present value of nonrecoverable future financial assistance			**2,921**	2,535	**2,921**	2,535
Increase in unearned premiums	**49**	(38)	**12**	(1)	**61**	(39)
Increase (decrease) in accounts payable	**(3)**	(8)	**1**	1	**(2)**	(7)
Net cash provided (used) by operating activities	**$ (686)**	$(1,531)	**$ 60**	$ 32	**$ (626)**	$(1,499)

*Less than $500,000

NOTE 16: LITIGATION

Legal challenges to PBGC's policies and positions continued in FY 2013. At the end of the fiscal year, PBGC had 53 active cases in state and federal courts and 350 bankruptcy and state receivership cases.

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

NOTE 17: SUBSEQUENT EVENTS

Management evaluated subsequent events through publication on November 15, 2013, the date the financial statements were available to be issued. Events or transactions for either the single-employer or multiemployer program, occurring after September 30, 2013 and before the financial statements were available to be issued, that provided additional evidence about conditions that existed at September 30, 2013 have been recognized in the financial statements.

For the fiscal year ended September 30, 2013, there were no nonrecognized subsequent events or transactions to report for both the single-employer and multiemployer programs that provided evidence about conditions that did not exist at September 30, 2013, and which arose before the financial statements were available to be issued.

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Audit of the Pension Benefit Guaranty Corporation's

Fiscal Year 2013 and 2012 Financial Statements

Audit Report AUD-2014-2 / FA-13-93-1

Section III

Management Comments

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

Office of the Director

November 15, 2013

To: Deborah Stover-Springer
Acting Inspector General

From: Josh Gotbaum

Subject: Response to the Independent Auditor's Combined Audit Report for the FY 2013 Financial Statement Audit

Thank you for the opportunity to comment on the Office of Inspector General's FY 2013 audit results regarding the agency's financial statements, internal controls, and compliance with laws and regulations. As PBGC is responsible for issuing payments of over $5 billion in benefits each year, managing over $70 billion in investments, and undergirding America's pension system, we are pleased that our financial statements have once again received an unqualified opinion. Audited financial statements are a cornerstone of accountability.

We agree with your opinion on internal controls, and are committed to addressing the issues raised in your report. Work continues on the implementation of the corrective action plans that were developed to address the three material weaknesses and one significant deficiency. We appreciate your report highlighting areas where we have made progress. Clearly, much remains to be done. As we continue to make progress, we will of course keep your office informed.

cc: Patricia Kelly
Alice Maroni
Ann Orr
J. Jioni Palmer
Sanford Rich
Judith Starr
Martin Boehm
Theodore Winter

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