



Pension Benefit Guaranty Corporation

***Office of Inspector General***

Audit Report

**Audit of the Pension Benefit Guaranty Corporation's  
Fiscal Year 2015 and 2014 Financial Statements**

***November 13, 2015***

***AUD 2016-2/FA-15-108-2***

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## Office of Inspector General Pension Benefit Guaranty Corporation

November 13, 2015

To the Board of Directors  
Pension Benefit Guaranty Corporation

The Office of Inspector General 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 as of and for the years ended September 30, 2015 and 2014. CLA conducted the audit in accordance with the following auditing standards: *Government Auditing Standards* issued by the Comptroller General of the United States, attestation standards established by the American Institute of Certified Public Accountants, and the Office of Management and Budget's *Audit Requirements for Federal Financial Statements*.

In their 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. This is the 23<sup>rd</sup> consecutive unmodified financial statement audit opinion.
- PBGC did not have effective internal control over financial reporting as of September 30, 2015. Serious internal control weaknesses in PBGC's programs and operations include one material weakness (Controls over the Present Value of Future Benefit Liability) and three significant deficiencies (Entity-Wide Security Program Planning and Management, Access Controls and Configuration Management, and Controls of Premium Income). This is the 7<sup>th</sup> consecutive adverse audit opinion on internal control.

An adverse audit opinion on internal control means that the auditors cannot rely on management's control activities, but must conduct more substantive testing to gain reasonable assurance that the financial information is fairly presented in all material aspects. Notwithstanding the adverse opinion, PBGC management was able to provide sufficient evidence in response to the auditors' 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 13, 2015 and the conclusions expressed in the report. We do not express opinions on PBGC's

financial statements or internal control, nor do we draw conclusions on compliance with laws and regulations. The financial statement audit report (AUD-2016-2 / FA-15-108-2) is also available on our website at [oig.pbgc.gov](http://oig.pbgc.gov).

Very truly yours,

A handwritten signature in black ink, appearing to read "Robert A. Westbrook". The signature is fluid and cursive, with a large initial "R" and a stylized "W".

Robert A. Westbrook  
Inspector General

cc: Thomas Reeder  
Patricia Kelly  
Cathleen Kronopolus  
Alice Maroni  
Ann Orr  
Michael Rae  
Robert Scherer  
Sanford Rich  
Judith Starr  
Ted Winter  
Marty Boehm



Audit of the Pension Benefit Guaranty Corporation's  
Fiscal Year 2015 and 2014 Financial Statements

Audit Report AUD-2016- 2/ FA-15-108-2

**Section I**

**Independent Auditor's Report**

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CliftonLarsonAllen LLP  
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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Pension Benefit Guaranty Corporation (PBGC), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of operations, net position and cash flows of the Single-Employer and Multiemployer Program Funds administered by the PBGC for the years then ended, and the related notes to the financial statements (financial statements).

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibilities***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the U.S.; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the U.S.; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 15-02). Those standards and OMB Bulletin 15-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

### ***Opinion on the Financial Statements***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Single-Employer and Multiemployer Program Funds administered by the PBGC as of September 30, 2015 and 2014, 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, 2015, PBGC reported in its financial statements net deficit positions (liabilities in excess of assets) in the Single-Employer and Multiemployer Program Funds of approximately \$24 billion and \$52 billion, respectively. As discussed in Note 9 to the financial statements, the potential losses from Single-Employer and Multiemployer plans whose termination is reasonably possible as a result of unfunded vested benefits are estimated to be approximately \$218 billion and \$20 billion, respectively. Management calculated the potential losses from single employer plans whose termination is reasonably possible based on the most recent data available from filings and submissions for plan years ended on or after December 31, 2013, and adjusted the value reported for liabilities to the estimated balance as of December 31, 2014, using actuarial assumptions. PBGC did not adjust the estimate for economic conditions that occurred between December 31, 2014 and September 30, 2015, and as a result, the actual loss for the Single-Employer Program as of September 30, 2015 could be substantially different. In addition, PBGC's net deficit and long-term viability could be further impacted by losses from plans classified as reasonably possible (or from other plans not yet identified as potential losses) as a result of deteriorating economic conditions, the insolvency of a large plan sponsor, or other factors. PBGC has been able to meet its short-term benefit obligations; however, as discussed in Note 1 to the financial statements, management believes that neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants. Our opinion is not modified with respect to this matter.

### ***Other Information***

The Message from Our Chair, Message from the Director, Annual Performance Report, Operations in Brief, Strategic Goals and Results, Independent Evaluation of PBGC Programs, Fiscal Year (FY) 2015 Financial Statement Highlights, Management's Discussion and Analysis, PBGC Management Assurances and Internal Control Programs, Management Representation, Improper Payment Reporting, FY 2015 Actuarial Valuation, Letter of the Inspector General, and Management's Response to the Report of Independent Auditor and Organization is presented by PBGC for use by readers of the Annual Report and is not a required part of the financial statements. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Report on Internal Control over Financial Reporting**

We have audited PBGC's internal control over financial reporting as of September 30, 2015, based on criteria established under 31 U.S.C. 3512 (c), (d), commonly known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular A-123, *Management's Responsibility for Internal Control*, as amended (OMB Circular A-123).



## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### ***Management's Responsibility for Internal Control***

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

### ***Auditors' Responsibilities***

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

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

### ***Definitions and Inherent Limitations of Internal Control over Financial Reporting***

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

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

### ***Opinion on Internal Control over Financial Reporting***

Because of the effect of the material weakness described in Exhibit I, PBGC has not maintained effective internal control over financial reporting as of September 30, 2015, based on criteria established under FMFIA and OMB Circular A-123.

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

#### Controls over the Present Value of Future Benefit Liability

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

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

governance. We consider the following deficiencies, which are described in Exhibit I, to be significant deficiencies:

1. Entity-wide Security Program Planning and Management
2. Access Controls and Configuration Management
3. Controls over Premium Income

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

#### ***Compliance with Laws, Regulations, Contracts, and Grant Agreements***

In connection with our audits, we performed tests of the PBGC's compliance with certain provisions of laws, regulations, contracts, and grant agreements. The results of our tests for the year ended September 30, 2015, continue to disclose one instance of noncompliance that is required to be reported in accordance with *Government Auditing Standards*, issued by the Comptroller General of the U.S.

This instance of non-compliance was first reported in FY 2011 and will remain until the revaluing of assets associated with prior plan terminations are completed. Title 29 of the *Code of Federal Regulation* §4044.41(b), General valuation rules, states: "Plan assets shall be valued at their fair market value, based on the method of valuation that most accurately reflects such fair market value".

#### ***Management's Responsibility***

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

#### ***Auditors' Responsibilities***

We are responsible for testing compliance with certain provisions of laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material financial statement amounts and disclosures.

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

#### ***Purpose of the Report on Compliance***

The purpose of the Report on Compliance is solely to describe the scope of our testing of compliance with laws, regulations, contracts, and grant agreements 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.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### ***Management's Response to Findings***

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

### ***Status of Prior Year's Control Deficiencies and Noncompliance Issues***

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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Calverton, Maryland  
November 13, 2015



**PENSION BENEFIT GUARANTY CORPORATION  
INTERNAL CONTROL DEFICIENCIES  
September 30, 2015**

**BACKGROUND**

PBGC protects the pensions of more than approximately 40 million workers and retirees in nearly 24 thousand private defined benefit pension plans. Under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA), PBGC insures, subject to statutory limits, pension benefits of participants in covered private defined benefit pension plans in the U.S. The establishment of a robust internal control framework and the implementation of the appropriate internal control activities are essential to PBGC operations. Internal controls include the processes and procedures that PBGC management has placed into operation to ensure that the programs achieve their intended results; resources used are consistent with agency mission; programs and resources are protected from waste, fraud, and mismanagement; laws and regulations are followed; and reliable and timely information is obtained, maintained, reported, and used for decision making, as stated in OMB Circular A-123. In order to reduce financial reporting and operational risks to PBGC as a whole, ongoing active involvement from PBGC's senior leadership in the monitoring and response to such risks is warranted.

PBGC has made significant progress in addressing conditions reported in previous years. Such progress has reduced the certain deficiencies associated with material weaknesses in (1) PBGC's entity-wide security program and (2) access controls and configuration management, which resulted in a change in classification to significant deficiencies. However, PBGC has continued to revise other planned corrective actions needed to correct long-standing control issues. Further, PBGC has revised some of the corrective action due dates by one year or more. These revisions may be necessary but impede PBGC's progress to effectively remediate the remaining control deficiencies.

We continue to consider controls over the Present Value of Future Benefit (PVFB) liability<sup>1</sup> to be a material weakness in PBGC's internal controls over financial reporting for FY 2015.

We also are reporting the control deficiencies in the following areas to be significant deficiencies for FY 2015:

1. Entity-wide Security Program Planning and Management
2. Access Controls and Configuration Management
3. Controls over Premium Income

The following provides an overview of each of the deficiencies identified in our report.

**MATERIAL WEAKNESS****Controls over the PVFB Liability**

During FY 2015, the Benefits Administration and Payment Department (BAPD) made progress in their remediation efforts to correct long-standing deficiencies related to controls over the calculation of the PVFB liability. Some of these efforts included an organizational restructuring

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<sup>1</sup> This material weakness was reported as BAPD Management and Oversight material weakness (MW) in the FY 2014 and prior Independent Auditors' Reports (IAR). This MW is re-titled as Controls over PVFB Liability in the FY 2015 IAR.



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and refinements to operating divisions' processes within BAPD and personnel changes to key management positions. BAPD enhanced certain business processes and procedures to address prior-year control deficiencies. However, the results of our FY 2015 procedures reveal controls over the calculation of the PVFB liability requiring management's continued focus.

Calculation of the PVFB

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

- Errors caused by system limitations or programming flaws.
- Documentation procedures were not followed for plan terminations and documentation procedures used for system maintenance were inadequate.
- Data entry errors and inaccurate use of plan data provisions.

Although the Corporation continues to refine business processes related to the calculation of Individual Participant Valuation (IPV), these long-standing control deficiencies impede the Corporation's ability to accurately calculate valuations for some participants' benefits and properly estimate and report related future liabilities.

Documentation to Support Benefit Calculations

During our examination of the IPV, we continued to observe management's inability to provide documentation to support the benefit calculations for certain participants selected for testing. PBGC continues to update its documentation requirements to address the risk that individual participant's benefits are not supported by adequate documentation. However, the absence of documentation required to support participants' calculated benefits could lead to improper benefit payment and participant liability calculations by PBGC. Since these deficiencies remain, the susceptibility of inaccurate valuation of plan liabilities reported in the Corporation's financial statements exists.

Valuation of Plan Assets and Benefits

Similar to prior years, PBGC has not completed the revaluing of plan assets for certain terminated plans, which may result in adjustments to the plan participants' benefits. The valuations impact the fair market value of certain assets of trustee plans at the date of plan determination. Until these plan asset valuations are completed, significant risks to the reliability of participants' benefit determinations and PBGC reported PVFB liability remain.

**Recommendations:** We continue to recommend that PBGC management:

- Develop and/or implement:
  - Improvements to BAPD systems used to calculate benefits and liabilities (Spectrum and the Integrated Present Value of Futures Benefit Systems).
- Develop a policy to finalize management's position of the financial impact related to the lacking documentation to support IPV. The policy should also document any residual risk that PBGC may elect to accept.

**PENSION BENEFIT GUARANTY CORPORATION  
INTERNAL CONTROL DEFICIENCIES  
September 30, 2015**

**SIGNIFICANT DEFICIENCIES****1. Entity-wide Security Program Planning and Management**

PBGC made significant progress in addressing the Corporation's entity-wide security program planning and management control deficiencies. In FY 2015, new information technology (IT) security leadership provided the direction and guidance needed to implement a coherent framework of security controls to protect PBGC's information from unauthorized access, modification and disclosure. PBGC improved communication on the status and direction of IT security and introduced new policies, processes, procedures, and technology to effectively manage information security risks. We concurred with the closure of ten recommendations submitted for review. As a result, corrective actions taken by the Corporation have reduced the risk level of the entity-wide security program from a material weakness to a significant deficiency.

These efforts however, did not fully address the challenges faced by the Corporation to effectively implement an entity-wide information security program to manage its security process. OMB and the National Institute of Science and Technology (NIST) guidance requires agencies to have an effective entity-wide security program.<sup>2</sup>

These requirements provide a framework for assessing and managing risk, including developing and implementing security policies and procedures, conducting security awareness training, monitoring the adequacy of the entity's computer-related controls through security tests and evaluations, and implementing remedial actions as appropriate. Without a well-designed program, security controls may be inadequate; responsibilities may be unclear, misunderstood, and improperly implemented; and controls may be inconsistently applied. Such conditions may lead to insufficient protection of the Corporation's sensitive or critical resources.

PBGC has not fully implemented certain components of its entity-wide information security risk management program, as follows:

- Implementing common controls and remediating common control weaknesses.
- Making all common controls compliant with NIST Special Publication (SP), Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations* requirements.
- Making all common controls available to system owners for appropriate inclusion in their system security plans.

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<sup>2</sup> OMB Circular A-130, Appendix III, *Security of Federal Automated Information Resources*, and NIST SP, including SP 800-53, Revision 4 *Security and Privacy Controls for Federal Information Systems and Organizations*, SP 800-37, Revision 1, *Guide for Applying the Risk Management Framework to Federal Information Systems*, and SP 800-39, *Managing Information Security Risk*.



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- Completing the transition to the PBGC Risk Management Framework (RMF) supports PBGC organizational, mission and information system objectives, by addressing each of the six RMF phases: categorize, select, implement, assess, authorize, and monitor.
- Fully implementing a continuous monitoring program.
- Completing the transition to NIST SP 800-53, Revision 4 security controls.

PBGC is cognizant of these challenges and in July 2015, implemented NIST's RMF to establish an integrated enterprise-wide decision structure for cybersecurity risk management that includes and integrates PBGC mission and business areas. Implementation of the Framework supports PBGC organizational, mission and information system objectives, which will transition to near real-time risk management. This Framework will also address common controls weaknesses and full implementation of continuous monitoring controls. The Corporation has established a timeline for transition to the RMF requirements by September 2016.

***Recommendations:***

We recommend that PBGC management:

- Complete the PBGC RMF transition, fully implement the entity-wide information security risk management program and provide periodic updates to stakeholders.
- Complete the migration to NIST SP 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations* and provide periodic updates to stakeholders.
- Complete the implementation of NIST SP 800-53, Revision 4 controls for common controls, remediation of common controls weaknesses, and make available to system owners in Cyber Security Assessment and Management for appropriate inclusion in their system security plans.

**2. Access Controls and Configuration Management**

PBGC also made progress in addressing access controls and configuration management deficiencies noted in prior years. In FY 2015, PBGC's new IT security leadership implemented various tools and processes to establish a more coherent environment for implementing access control and configuration management security controls at the root cause level. We concurred with closing seven recommendations. As a result, corrective actions taken by the Corporation have reduced the risk level of access controls and configuration management from a material weakness to a significant deficiency.

However, this progress did not fully resolve security weaknesses. Access controls and configuration management weaknesses remain a systemic problem throughout PBGC. Weaknesses in the PBGC IT environment continue to contribute to deficiencies in system configuration, segregation of duties and role-based access controls based on least privilege. PBGC has pushed out the dates for many planned corrective actions by a year or more.

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Access controls and configuration management controls are an integral part of an effective information security management program. Access controls limit or detect inappropriate access to systems, protecting the data from unauthorized modification, loss or disclosure. Agencies should have formal policies and procedures and related control activities should be properly implemented and monitored. Configuration management ensures changes to systems are tested and approved and systems are configured securely in accordance with policy.

In addition, an information system is comprised of many components<sup>3</sup> that can be interconnected in a multitude of arrangements to meet a variety of business, mission and information security needs. How these information system components are networked, configured and managed is critical in providing adequate information security and supporting an organization's risk management process.

PBGC has not fully addressed access controls and configuration management weaknesses, including:

- Developing and implementing a coherent strategy and approach for providing information services and information system management controls, correcting IT infrastructure deficiencies, developing a framework for implementing common security controls, mitigating the systemic issues related to access control, and strengthening system configurations and user account management for all of PBGC's information systems.
- Developing and implementing an account management monitoring program that ensures that accounts are constantly maintained in accordance with PBGC account management standards and that reduces the dependency on recertification.
- Implementing infrastructure controls and access controls to restrict developers' access to the production environment.
- Developing the process and procedures for utilizing the security configuration checklists in the establishment of baseline configurations for each information system technology product.
- Developing and implementing processes and procedures for determining and documenting defined security configuration checklists for database applications.
- Implementation of requirements for the disposition of dormant accounts for all PBGC systems.
- Developing and implementing a checklist to assist contracting officers in their efforts to acquire IT assets and services that comply with both PBGC and federal policy requirements.

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<sup>3</sup> Information system components include, for example, mainframes, workstations, servers (e.g., database, electronic mail, authentication, Web, proxy, file, domain name), network components (e.g., firewalls, routers, gateways, voice and data switches, wireless access points, network appliances, sensors), operating systems, middleware, and applications.



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**September 30, 2015**

**Recommendations:** We continue to 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 identified noted in key databases and applications such as weaknesses in configuration, roles, privileges, auditing, file permissions and operating system access.

**3. Controls Over Premium Income<sup>4</sup>**

Under Title IV of ERISA, PBGC generates income from the covered Single-Employer and Multiemployer defined benefit pension plans that are required to pay premiums. Both types of plans pay a flat rate premium; the Single-Employer plans may also pay a variable rate premium based on a dollar threshold per participant of underfunding.

The Premium Practitioner System (PPS) is the financial system used to record the Corporation's premium income transactions throughout the FY. During FY 2015, we found that certain control activities over the recording of premium income were not operating effectively. These control failures led to two misstatements of premium income.

In FY 2015, PBGC management identified a recording error to the FY 2014 premium income. This error occurred because staff did not implement new procedures relating to the newly-implemented PPS. Further, management did not perform an effective quality control supervisory review of the accrual in FY 2014 to identify the error. Also, management did not perform a comprehensive review over the premium data to determine the accuracy and completeness of premium income.

The controls deficiencies that contributed to the second premium error included the following:

- The Financial Operations Department (FOD) did not follow its own internal controls identified within system requirements and system design documentation. During the implementation of a scheduled software release, FOD implemented a particular code change that resulted in a \$250 million accounting error to premium income. PBGC's internal controls were circumvented on a number of levels. Specifically,
  - Adequate documentation and risk analyses did not occur prior to the change being implemented.
  - The code change was exclusively tested by the developer and did not undergo independent third party testing.

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<sup>4</sup> This deficiency was included in the Financial Reporting significant deficiency (SD) reported in the FY 2014 Independent Auditors' Report (IAR). Some of the conditions were resolved in FY 2015 resulting in a re-titled SD reported in the FY 2015 IAR.

**PENSION BENEFIT GUARANTY CORPORATION  
INTERNAL CONTROL DEFICIENCIES  
September 30, 2015**

- Necessary user acceptance testing scripts were not developed because this code change was not expressly included in design documentation.

PBGC management's software changes were intended to improve report processing within PPS. However, this particular code change was described as a "last minute" addition, which also contributed to the lack of documentation, testing and impact analysis. PBGC has specific IT change and release internal controls; FOD should follow the Corporation's internal controls. Had FOD followed the Corporation's specific IT change management procedures, the premium income error may have been prevented.

- The design of the control for the reconciliation of the PPS subsidiary ledger to the general ledger is still flawed. The programming logic developed for the reconciliation report purposely excluded conversion activities. As a result of PPS coding activities implemented in July 2015, certain transactions were not recording correctly, which resulted in a misstatement of premium income at September 30. Had management performed a comprehensive reconciliation of its subsidiary details to the general ledger, the error could have been detected earlier.
- FOD did not provide all the premium activities recorded in PPS for examination as requested. These activities related to system conversion efforts of the legacy Premium Accounting System to PPS that occurred in FY 2014, and a decision to treat premium activities differently that were related to premium flings for FYs 2011 and earlier. In addition, management did not disclose that PPS was designed not to automatically post certain prior-year premium income to the general ledger. These transactions are part of PBGC's premium revenue under management's monitoring and were not disclosed to the auditors.

Additionally, the following control deficiencies identified in last year's audit remain:

- PBGC management continued to perform a limited comparison to match a plan sponsor's Employer Identification Number/Plan Number between the Form 5500 and Comprehensive Premium Filing. This analysis identifies variances between key data inputs that may alert PBGC of improper premium filings. Both forms include plan participant counts and market value of the plan assets data, and are loaded into the PPS. Accurate information on participant counts and market values is essential for properly calculating the fixed and variable rate premiums.
- The PPS reporting functionality continues to have limitations. A functionality limitation we found was that PPS did not generate a detailed report that displayed the calculated fixed rate and variable rate premium for each pension plan for the period of October 1, 2014 through September 30, 2015.

**PENSION BENEFIT GUARANTY CORPORATION**  
**INTERNAL CONTROL DEFICIENCIES**  
**September 30, 2015**

***Recommendations:***

We continue to recommend that PBGC management:

- Develop controls to ensure changes in PPS are properly tested prior to being placed into production, including controls to confirm: (1) PBGC's change control processes are followed and (2) system requirements and design changes are fully documented.
- Refine the procedures to reconcile the PPS subsidiary ledger to general ledger reconciliation. The reconciliation must reflect the cumulative PPS subsidiary balance compared to the general ledger at a point in time (e.g., December 31, March 31, June 30, etc.).
- Perform a comprehensive analysis of key data inputs (e.g., participant count, market value, etc.) between Form 5500 and the Comprehensive Premium Filing to identify significant variances. In addition, management should develop a risk analysis that identifies the underlying causes of the significant variances identified from the comprehensive analysis and assess the potential impact to the completeness assertion for premiums.
- Perform a period to period (e.g., year to year, quarter to quarter) fluctuation/variance analysis of plan premium summary level data to identify anomalies, unusual trends and other critical factors evaluated by management. The underlying cause of the variances should be investigated and documented based on thresholds established by management.
- Update current PPS reporting functionality to provide a detailed summary premium report by plan for each reporting period.



**PENSION BENEFIT GUARANTY CORPORATION  
STATUS OF PRIOR YEAR'S FINDINGS**

Prior Year Condition	Status as Reported at September 30, 2014 <sup>5</sup>	Status as of September 30, 2015
1. Benefit Administration and Payment Department Management and Oversight	<p><b><u>Material Weakness:</u></b> PBGC had weaknesses in the following:</p> <ul style="list-style-type: none"> <li>• Calculation of the PVFB Liability</li> <li>• Valuation of Plan Assets</li> </ul>	Repeated as a Material Weakness and re-titled as Controls over the PVFB and included in Exhibit I.
2. Entity-wide Security Program Planning and Management	<p><b><u>Material Weakness:</u></b> PBGC had weaknesses in the following:</p> <ul style="list-style-type: none"> <li>• PBGC had not completed security assessments and authorizations for its major applications.</li> <li>• 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.</li> </ul>	Partially resolved and classified as significant deficiency number 1 and included in Exhibit I.
3. Access Controls and Configuration Management	<p><b><u>Material Weakness:</u></b> Weaknesses in the IT environment contributed to deficiencies in system configuration, segregation of duties, role-based access controls, and monitoring.</p>	Partially resolved and classified as significant deficiency number 2 and included in Exhibit I.
4. Financial Reporting	<p><b><u>Significant Deficiency:</u></b> PBGC has control deficiencies in the following:</p> <ul style="list-style-type: none"> <li>• Lack of controls over the premium process.</li> <li>• Lack of controls over the manual processes.</li> <li>• Monitoring controls over non-commingled assets.</li> </ul>	Partially resolved, re-titled as Controls over Premium Income, and classified as significant deficiency number 3 in Exhibit I.
5. Present Value of Nonrecoverable Future Financial Assistance	<p><b><u>Significant Deficiency:</u></b> PBGC lacks a robust quality control review of the PV NRFFA valuation process.</p>	Partially resolved and included in Management Letter

<sup>5</sup> Report on Internal Control Related to Pension Benefit Guaranty Corporation's Fiscal Year 2014 and 2013 Financial Statements Audit <http://oig.pbgc.gov/pdfs/FA-14-101-3.pdf>



**PENSION BENEFIT GUARANTY CORPORATION  
STATUS OF PRIOR YEAR'S FINDINGS**

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

PENSION BENEFIT GUARANTY CORPORATION  
MANAGEMENT'S RESPONSE TO FY 2015  
INDEPENDENT AUDITORS' REPORT  
September 30, 2015



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

Office of the Director

MEMORANDUM

November 13, 2015

To: Robert Westbrooks  
Inspector General

From: W. Thomas Reeder *W. Reeder*  
Director

Subject: Response to the Independent Auditor's Combined Audit Report for the  
FY 2015 Financial Statement Audit

Thank you for the opportunity to comment on the Office of Inspector General's FY 2015 audit results regarding the agency's financial statements, internal controls, and compliance with laws and regulations. Given PBGC's role as the pension guarantor for millions of Americans, we are pleased that our financial statements have once again received an unmodified opinion.

We agree with your opinion on internal controls, and are committed to addressing the issues in this year's report. Your attention to reviewing our corrective actions is especially appreciated. Rest assured that we will continue working to expeditiously address the weaknesses reported.

We appreciate your report highlighting areas where we have made progress. Clearly, work remains to be done. As we continue to make progress, we will of course keep your office informed.

cc: Patricia Kelly  
Cathleen Kronopolus  
Alice Maroni  
Ann Orr  
Michael Rae  
Sanford Rich  
Robert Scherer  
Judith Starr  
Martin O. Boehm  
Christopher Bone  
Theodore J. Winter

Audit of the Pension Benefit Guaranty Corporation's  
Fiscal Year 2015 and 2014 Financial Statements

Audit Report AUD-2016-2 / FA-15-108-2

**Section II**

**Pension Benefit Guaranty Corporation's  
Fiscal Year 2015 and 2014 Financial Statements**

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**PENSION BENEFIT GUARANTY CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**

	Single-Employer Program		Multiemployer Program		Memorandum Total	
<i>(Dollars in Millions)</i>	September 30, 2015	2014	September 30, 2015	2014	September 30, 2015	2014
<b>ASSETS</b>						
Cash and cash equivalents	<b>\$3,694</b>	\$ 4,507	<b>\$11</b>	\$ 9	<b>\$3,705</b>	\$ 4,516
Securities lending collateral (Notes 3 and 5)	<b>1,245</b>	2,868	-	-	<b>1,245</b>	2,868
Investments, at market (Notes 3 and 5):						
Fixed maturity securities	<b>49,778</b>	49,203	<b>1,749</b>	1,685	<b>51,527</b>	50,888
Equity securities	<b>22,466</b>	23,049	-	-	<b>22,466</b>	23,049
Private equity	<b>895</b>	1,077	-	-	<b>895</b>	1,077
Real estate and real estate investment trusts	<b>2,855</b>	2,931	-	-	<b>2,855</b>	2,931
Other	<b>10</b>	30	-	-	<b>10</b>	30
Total investments	<b>76,004</b>	76,290	<b>1,749</b>	1,685	<b>77,753</b>	77,975
Receivables, net:						
Sponsors of terminated plans	<b>46</b>	66	-	-	<b>46</b>	66
Premiums (Note 11)	<b>3,375</b>	2,761	<b>154</b>	65	<b>3,529</b>	2,826
Sale of securities	<b>559</b>	973	-	-	<b>559</b>	973
Derivative contracts (Note 4)	<b>374</b>	78	-	-	<b>374</b>	78
Investment income	<b>392</b>	418	<b>8</b>	7	<b>400</b>	425
Other	<b>5</b>	10	<b>0</b>	0	<b>5</b>	10
Total receivables	<b>4,751</b>	4,306	<b>162</b>	72	<b>4,913</b>	4,378
Capitalized assets, net	<b>41</b>	42	<b>2</b>	3	<b>43</b>	45
Total assets	<b>\$85,735</b>	\$88,013	<b>\$1,924</b>	\$1,769	<b>\$87,659</b>	\$89,782

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,	
<i>(Dollars in Millions)</i>	2015	2014	2015	2014	2015	2014
<b>LIABILITIES</b>						
Present value of future benefits, net (Note 6):						
Trusted plans	\$105,932	\$ 102,065	\$0	\$0	\$105,932	\$ 102,065
Plans pending termination and trusteeship	383	246	-	-	383	246
Settlements and judgments	26	62	-	-	26	62
Claims for probable terminations	585	401	-	-	585	401
Total present value of future benefits, net	106,926	102,774	0	0	106,926	102,774
Present value of nonrecoverable future financial assistance (Note 7)						
Insolvent plans	-	-	1,627	1,506	1,627	1,506
Probable insolvent plans	-	-	52,559	42,684	52,559	42,684
Total present value of nonrecoverable future financial assistance	-	-	54,186	44,190	54,186	44,190
Payables, net:						
Derivative contracts (Note 4)	334	114	-	-	334	114
Due for purchases of securities	1,100	1,422	-	-	1,100	1,422
Payable upon return of securities loaned	1,245	2,868	-	-	1,245	2,868
Unearned premiums	138	94	8	7	146	101
Accounts payable and accrued expenses (Note 8)	57	79	14	6	71	85
Total payables	2,874	4,577	22	13	2,896	4,590
Total liabilities	109,800	107,351	54,208	44,203	164,008	151,554
<b>Net position</b>	<b>(24,065)</b>	<b>(19,338)</b>	<b>(52,284)</b>	<b>(42,434)</b>	<b>(76,349)</b>	<b>(61,772)</b>
Total liabilities and net position	\$85,735	\$ 88,013	\$1,924	\$1,769	\$87,659	\$ 89,782

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,	
<i>(Dollars in Millions)</i>	2015	2014	2015	2014	2015	2014
<b>UNDERWRITING:</b>						
Income:						
Premium, net (Note 11)	<b>\$4,138</b>	\$ 3,812	<b>\$212</b>	\$ 122	<b>\$4,350</b>	\$ 3,934
Other	<b>11</b>	22	<b>-</b>	0	<b>11</b>	22
Total	<b>4,149</b>	3,834	<b>212</b>	122	<b>4,361</b>	3,956
Expenses:						
Administrative	<b>354</b>	368	<b>32</b>	18	<b>386</b>	386
Other	<b>30</b>	17	<b>-</b>	0	<b>30</b>	17
Total	<b>384</b>	385	<b>32</b>	18	<b>416</b>	403
Other underwriting activity:						
Losses (credits) from completed and probable terminations (Note 12)	<b>(780)</b>	(115)	<b>-</b>	-	<b>(780)</b>	(115)
Losses from insolvent and probable plans-financial assistance (Note 7)			<b>9,963</b>	34,260	<b>9,963</b>	34,260
Actuarial adjustments (credits) (Note 6)	<b>314</b>	(535)	<b>7</b>	60	<b>321</b>	(475)
Total	<b>(466)</b>	(650)	<b>9,970</b>	34,320	<b>9,504</b>	33,670
Underwriting gain (loss)	<b>4,231</b>	4,099	<b>(9,790)</b>	(34,216)	<b>(5,559)</b>	(30,117)
<b>FINANCIAL:</b>						
Investment income (loss) (Note 13):						
Fixed	<b>1,045</b>	3,206	<b>68</b>	75	<b>1,113</b>	3,281
Equity	<b>(1,231)</b>	2,511	<b>-</b>	0	<b>(1,231)</b>	2,511
Private equity	<b>125</b>	358	<b>-</b>	0	<b>125</b>	358
Real estate	<b>379</b>	343	<b>-</b>	0	<b>379</b>	343
Other	<b>6</b>	21	<b>-</b>	0	<b>6</b>	21
Total	<b>324</b>	6,439	<b>68</b>	75	<b>392</b>	6,514
Expenses:						
Investment	<b>92</b>	96	<b>-</b>	0	<b>92</b>	96
Actuarial charges (Note 6):						
Due to expected interest	<b>3,339</b>	3,339	<b>51</b>	47	<b>3,390</b>	3,386
Due to change in interest factors	<b>5,851</b>	(940)	<b>77</b>	(12)	<b>5,928</b>	(952)
Total	<b>9,282</b>	2,495	<b>128</b>	35	<b>9,410</b>	2,530
Financial gain (loss)	<b>(8,958)</b>	3,944	<b>(60)</b>	40	<b>(9,018)</b>	3,984
Net income (loss)	<b>(4,727)</b>	8,043	<b>(9,850)</b>	(34,176)	<b>(14,577)</b>	(26,133)
Net position, beginning of year	<b>(19,338)</b>	(27,381)	<b>(42,434)</b>	(8,258)	<b>(61,772)</b>	(35,639)
Net position, end of year	<b>\$ (24,065)</b>	\$ (19,338)	<b>\$ (52,284)</b>	\$ (42,434)	<b>\$ (76,349)</b>	\$ (61,772)

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

PENSION BENEFIT GUARANTY CORPORATION

## STATEMENTS OF CASH FLOWS

	Single-Employer Program For the Years Ended September 30,		Multiemployer Program For the Years Ended September 30,		Memorandum Total For the Years Ended September 30,	
<i>(Dollars in millions)</i>	2015	2014	2015	2014	2015	2014
<b>OPERATING ACTIVITIES:</b>						
Premium receipts	\$ 3,571	\$ 1,799	\$ 125	\$ 24	\$ 3,696	\$ 1,823
Interest and dividends received	2,341	2,250	49	60	2,390	2,310
Cash received from plans upon trusteeship	22	62	0	0	22	62
Receipts from sponsors/non-sponsors	123	94	0	0	123	94
Receipts from the missing participant program	6	4	0	0	6	4
Other receipts	0	1	0	0	0	1
Benefit payments – trustee plans	(5,525)	(5,477)	0	0	(5,525)	(5,477)
Financial assistance payments			(103)	(97)	(103)	(97)
Settlements and judgments	(6)	(1)	0	0	(6)	(1)
Payments for administrative and other expenses	(441)	(423)	(28)	(25)	(469)	(448)
Accrued interest paid on securities purchased	(227)	(262)	(6)	(7)	(233)	(269)
Net cash provided (used) by operating activities (Note 15)	(136)	(1,953)	37	(45)	(99)	(1,998)
<b>INVESTING ACTIVITIES:</b>						
Proceeds from sales of investments	70,708	75,338	2,770	2,894	73,478	78,232
Payments for purchases of investments	(71,385)	(73,181)	(2,805)	(2,914)	(74,190)	(76,095)
Net change in investment of securities lending collateral	(1,623)	(454)	0	0	(1,623)	(454)
Net change in securities lending payable	1,623	454	0	0	1,623	454
Net cash provided (used) by investing activities	(677)	2,157	(35)	(20)	(712)	2,137
Net increase (decrease) in cash and cash equivalents	(813)	204	2	(65)	(811)	139
Cash and cash equivalents, beginning of year	4,507	4,303	9	74	4,516	4,377
Cash and cash equivalents, end of year	\$ 3,694	\$ 4,507	\$ 11	\$ 9	\$ 3,705	\$ 4,516

The above cash flows are for trustee plans and do not include non-trustee plans.

The accompanying notes are an integral part of these financial statements



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## NOTES TO FINANCIAL STATEMENTS

*September 30, 2015 and 2014*

### NOTE 1: ORGANIZATION AND PURPOSE

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

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

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

As of September 30, 2015, the single-employer and multiemployer programs reported net positions of \$(24,065) million and \$(52,284) million, respectively. The single-employer program had assets of \$85,735 million offset by total liabilities of \$109,800 million, which include a total present value of future benefits (PVFB) of about \$106,926 million. As of September 30, 2015, the multiemployer program had assets of \$1,924 million offset by \$54,186 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 \$81,858 million of total investments (including cash and investment income receivable) represents the largest component of PBGC’s Statements of Financial Position combined assets of \$87,659 million at September 30, 2015. This amount of \$81,858 million (as compared to investments under management of \$80,186 million, as reported on page 42) reflects the fact that PBGC experiences a recurring inflow of trusted plan assets that have not yet been incorporated into the PBGC investment program. For total investments (i.e., not the investment program), cash and fixed-income securities (\$55,630 million) represent 68 percent of the total investments, while equity securities (\$22,468 million) represent 27 percent of total investments. Private market assets, real estate, and other investments (\$3,760 million), represent 5 percent of the total investments.

### SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAM EXPOSURE

PBGC’s estimate of the total underfunding in single-employer plans was \$217,699 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, 2015. This is a significant increase of \$50,586 million from the reasonably possible exposure of \$167,113 million in FY 2014. This increase is primarily due to the growth in

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the number of companies meeting the reasonably possible criteria and the decrease in the interest rate used for valuing liabilities. These estimates are measured as of December 31 of the previous year (see Note 9). For FY 2015, this exposure is concentrated in the following sectors: manufacturing (primarily automobile/auto parts and fabricated metals), transportation (primarily airlines)/communications/utilities, services, and wholesale and retail trade.

PBGC estimates that as of September 30, 2015, it is reasonably possible that multiemployer plans may require future financial assistance in the amount of \$19,957 million (see Note 9). This is an increase of \$2,721 million from the reasonably possible exposure of \$17,236 million in FY 2014. The increase in FY 2015 was primarily due to the decrease in the select interest factor used for valuing liabilities.

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.

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## RECENT ACCOUNTING DEVELOPMENTS

In January 2013, the FASB issued Update No. 2013-01, Balance Sheet (Topic 210, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*), clarifying that the scope of this guidance is limited to derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions. PBGC has adopted this guidance effective the first quarter of fiscal year 2014. The application of this guidance only affects the disclosures of these instruments and has been applied retrospectively for all periods presented. See Note 3 for further discussion of disclosures about offsetting assets and liabilities.

## VALUATION METHOD

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

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

## REVOLVING AND TRUST FUNDS

PBGC accounts for its single-employer and multiemployer programs' revolving and trust funds on an accrual basis. Each fund is charged its portion of the benefits paid each year. PBGC includes totals for 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 trustee 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 trustee, 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.

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- 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 trusted 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 the 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 or highly liquid investments that are readily convertible into cash within one business day.

## **SECURITIES LENDING COLLATERAL**

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

## **INVESTMENT VALUATION AND INCOME**

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

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decrease in the market value of a plan's assets occurring after the date on which the plan is terminated must, by law, be credited to or suffered by PBGC.

## **SECURITIES PURCHASED UNDER REPURCHASE AGREEMENTS**

PBGC's investment managers purchase securities under repurchase agreements whereby the seller will buy the security back at a pre-agreed price and date. Those greater than one day are reported under "Fixed maturity securities" as "Securities purchased under repurchase agreements" in the Note 3 table entitled "Investments of Single-Employer Revolving Funds and Single-Employer Trusteed Plans," on page 68. Repurchase agreements that mature in one day are included in "Cash and cash equivalents" which are reported on the Statements of Financial Position (see page 54). Refer to Note 3 for further information regarding repurchase agreements.

## **SPONSORS OF TERMINATED PLANS**

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

## **PREMIUMS**

Premiums receivable represent the plan reported premiums owed, and the PBGC estimated amounts on filings not yet submitted, for plans that have a plan year commencing before the end of PBGC's fiscal year and past due premiums deemed collectible, including penalties and interest. The liability for unearned premiums represents annual premium fees which have been received in advance of the period in which they will be earned by PBGC. They remain as liabilities until such time as they are ratably earned over the period of time to which the premium applies. "Premium income, net" represents actual and estimated revenue generated from defined benefit pension plan premium filings as required by Title IV of ERISA less bad debt expense for premiums, interest, and penalties (see Note 11).

In fiscal year 2014, PBGC determined that certain Puerto Rico plans were not covered under Title IV of ERISA and partially refunded premiums paid by those plans. PBGC estimates the amount of Puerto Rican plan premium refunds to be immaterial for financial statement disclosures.

## **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, and testing including parallel the 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



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liability (including trustee 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 trustee by PBGC prior to fiscal year-end. Assets are shown separately from liabilities for trustee 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 trustee 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 (see Note 6).

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

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

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

(5) PBGC identifies certain plans as high-risk if the plan sponsor is in Chapter 11 proceedings or the sponsor's senior unsecured debt is rated CCC+/Caa1 or lower by S&P or Moody's respectively. PBGC

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specifically reviews each plan identified as high-risk and classifies those plans as probable if, based on available evidence, PBGC concludes that plan termination is likely (based on criteria described in (4) above). Otherwise, high-risk plans are classified as reasonably possible.

(6) In accordance with the FASB Accounting Standards Codification Section 450, PBGC's exposure to losses from plans of companies that are classified as reasonably possible is disclosed in the footnotes. In order for a plan sponsor to be specifically classified as reasonably possible, it must first have \$50 million or more of underfunding, as well as meet additional criteria. Criteria used for classifying a company as reasonably possible include, but are not limited to, one or more of the following conditions: the plan sponsor is in Chapter 11 reorganization; a funding waiver is pending or outstanding with the Internal Revenue Service; the sponsor missed a minimum funding contribution; sponsor's bond rating is below investment-grade for Standard & Poor's (BB+) or Moody's (Ba1); or the 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, have 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 uses specific criteria for classifying as insolvent (PBGC's insurable event for multiemployer plans), probable, and reasonably possible multiemployer plans. The criteria are as follows:

- Any multiemployer plans currently receiving financial assistance are classified as insolvent.

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- Terminated, underfunded multiemployer plans (i.e., “wasting trusts”) are classified as probable.
  - Ongoing multiemployer plans projected to become insolvent:
    - Within 10 years are classified as probable,
    - From 10 to 20 years are classified as reasonably possible.

In addition, for small plans (fewer than 2,500 participants), the estimated probable and reasonably possible losses are accrued for the estimated future contingent losses stemming from the multiemployer program. This small plan bulk reserve uses an aggregate method to estimate liability and exposure, rather than reviewing each plan individually, based on the use of seven years of plan termination history to project the current probable liability. The small plan probabilities are calculated using a seven-year ratio of new plan terminations or insolvencies to the total unfunded liability in a given year. This ratio is applied to the current unfunded liability for small plans to calculate the probable exposure.

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.

MPRA provides that certain plans may apply to the Department of the Treasury to suspend benefits, and provides for a participant vote on the benefit suspension. These plans also may apply to PBGC for financial assistance: either for a facilitated merger or a partition. Application for partition generally will occur in conjunction with an application to Treasury for benefit suspension. These actions are not considered in the determination of whether nonrecoverable future financial assistance is probable until the approval has been granted and the changes in benefit payments have commenced.

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

## **ADMINISTRATIVE EXPENSES**

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

## **OTHER EXPENSES**

These expenses represent an estimate of the net amount of receivables deemed 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.



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In addition, the plan's net income from date of plan termination to the beginning of PBGC's fiscal year is included as a component of losses from completed and probable terminations for plans with termination dates prior to the year in which they were added to PBGC's inventory of terminated plans.

## **ACTUARIAL ADJUSTMENTS AND CHARGES (CREDITS)**

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

## **DEPRECIATION AND AMORTIZATION**

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

## **NOTE 3: INVESTMENTS**

Premium receipts are invested through the revolving fund in U.S. Treasury securities. The trust funds include assets PBGC assumes or expects to assume with respect to terminated plans (e.g., recoveries from sponsors) and investment income thereon. These assets generally are held by custodian banks. The basis and market value of the investments by type are detailed below, as well as related investment profile data. The basis indicated is the 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 Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), and Government National Mortgage Association (GNMA). In accordance with FASB Accounting Standards

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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, 2015, TBA receivables were \$358 million and no Bond Forward receivables were reported. In addition, as of September 30, 2015, TBA payables were \$5 million and no Bond Forward payables were reported.

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

	September 30, 2015		September 30, 2014	
	Basis	Market Value	Basis	Market Value
<i>(Dollars in millions)</i>				
Fixed maturity securities:				
U.S. Government securities	\$21,106	\$21,807	\$20,827	\$21,404
Commercial paper/securities purchased under repurchase agreements	162	162	22	22
Asset backed securities	3,456	3,502	2,992	3,038
Pooled funds				
Domestic	1,969	1,822	1,140	1,011
International	1,144	1,261	1,144	1,221
Global/other	0	0	0	0
Corporate bonds and other	11,247	11,174	10,504	11,118
International securities	10,805	10,050	11,330	11,389
Subtotal	49,889	49,778	47,959	49,203
Equity securities:				
Domestic	1,379	1,662	1,877	2,468
International	770	736	779	787
Pooled funds				
Domestic	9,173	9,877	7,743	9,052
International	7,252	10,189	6,618	10,741
Global/other	2	2	1	1
Subtotal	18,576	22,466	17,018	23,049
Private equity	1,284	895	1,317	1,077
Real estate and real estate investment trusts	2,443	2,855	2,740	2,931
Insurance contracts and other investments	9	10	32	30
Total <sup>(1)</sup>	\$72,201	\$76,004 <sup>(2)</sup>	\$69,066	\$76,290

(1) Total includes securities on loan at September 30, 2015, and September 30, 2014, with a market value of \$1,894 million and \$3,281 million, respectively.

(2) This total of \$76,004 million of investments at market value represents the single-employer assets only.

## INVESTMENTS OF MULTIEMPLOYER REVOLVING FUNDS AND MULTIEMPLOYER TRUSTEED PLANS

	September 30, 2015		September 30, 2014	
	Basis	Market Value	Basis	Market Value
<i>(Dollars in millions)</i>				
Investment securities:				
Fixed U.S. Government securities	\$1,696	\$1,749	\$1,643	\$1,685
Equity securities	0	0	0	0
Total	\$1,696	\$1,749	\$1,643	\$1,685

## INVESTMENT PROFILE

	September 30,	
	2015	2014
Fixed Income Assets		
Average Quality	A	AA
Average Maturity (years)	12.5	12.0
Duration (years)	8.4	7.9
Yield to Maturity (%)	3.0	3.2
Equity Assets		
Average Price/Earnings Ratio	19.7	20.6
Dividend Yield (%)	2.7	2.5
Beta	1.0	1.0

## 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 use 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 uses 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 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 2015 and 2014, PBGC, through its investment managers, invested in investment products that used various U.S. and non-U.S. derivative instruments. Those products included, but are not limited to: index futures, options, money market futures, government bond futures, interest rate, credit default and total return swaps and swaption (an option on a swap) contracts, stock warrants and rights, debt option contracts, and foreign currency forward and option contracts. Some of these derivatives are traded on organized exchanges and thus bear minimal counterparty risk. The counterparties to PBGC's non-exchange-traded

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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 Commodity Futures Trading Commission (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 1 to 6 percent of the face value indicated in the futures contract is required to be deposited with the broker. Open futures positions are marked to market daily. Subsequent payments known as "variation margin" are made or received by the portfolio dependent upon the daily fluctuations in value of the underlying contract. PBGC maintains adequate liquidity in its portfolio to meet these margin calls.

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

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

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

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

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

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

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

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For the fiscal years ended September 30, 2015 and 2014, 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) and are recorded as a receivable or payable.

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

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

- Fair Values of Derivative Instruments – Identifies the location of derivative fair values on the Statements of Financial Position, as well as the notional amounts (See page 72).
- Offsetting of Derivative Assets – Presents the impact of legally enforceable master netting agreements on derivative assets (See page 73).
- Offsetting of Derivative Liabilities – Presents the impact of legally enforceable master netting agreements on derivative liabilities (See page 74).

## FAIR VALUES OF DERIVATIVE INSTRUMENTS

(Dollars in millions)	Asset Derivative					
	September 30, 2015			September 30, 2014		
	Statements of Financial Position Location	Notional	FMV	Statements of Financial Position Location	Notional	FMV
Futures	Derivative Contracts	\$3,453	\$13	Derivative Contracts	\$2,242	\$5
Swap contracts						
Interest rate swaps	Investments-Fixed	4,301	22	Investments-Fixed	2,533	23
Other derivative swaps	Investments-Fixed	1,365	(19)	Investments-Fixed	1,515	5
Option contracts	Investments-Fixed	48	1	Investments-Fixed	42	4
Forwards - foreign exchange	Investments-Fixed	9,166	15	Investments-Fixed	10,384	106
	Investments-Equity	0	0	Investments-Equity	0	0

(Dollars in millions)	Liability Derivative					
	September 30, 2015			September 30, 2014		
	Statements of Financial Position Location	Notional	FMV	Statements of Financial Position Location	Notional	FMV
Futures	Derivative Contracts	\$1,788	\$ (11)	Derivative Contracts	\$2,599	\$ (12)
Option contracts	Derivative Contracts	167	1	Derivative Contracts	686	(11)

\* Less than \$500,000

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

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

## OFFSETTING OF DERIVATIVE ASSETS FAIR VALUE

	September 30, 2015			September 30, 2014		
	Gross Amount of Recognized Assets	Gross Amounts Offset in Statements of Financial Position	Net Amounts of Assets Presented in Statements of Financial Position	Gross Amount of Recognized Assets	Gross Amounts Offset in Statements of Financial Position	Net Amounts of Assets Presented in Statements of Financial Position
<i>(Dollars in millions)</i>						
<b>Derivatives</b>						
Interest-rate contracts	\$ 105	\$ (83)	\$ 22	\$ 51	\$ (28)	\$ 23
Foreign exchange contracts	26	(11)	15	114	(8)	106
Other derivative contracts <sup>(1)</sup>	3	(3)	0	16	(11)	5
Cash collateral nettings	0	(1)	(1)	0	(36)	(36)
<b>Total Derivatives</b>	<b>\$ 134</b>	<b>\$ (98)</b>	<b>\$ 36</b>	<b>\$ 181</b>	<b>\$ (83)</b>	<b>\$ 98</b>
<b>Other financial instruments<sup>(2)</sup></b>						
Repurchase agreements	\$ 156	\$ 0	\$ 156	\$ 189	\$ 0	\$ 189
Securities lending collateral	1,245	0	1,245	2,868	0	2,868
<b>Total derivatives and other financial instruments</b>	<b>\$ 1,535</b>	<b>\$ (98)</b>	<b>\$ 1,437</b>	<b>\$ 3,238</b>	<b>\$ (83)</b>	<b>\$ 3,155</b>

	September 30, 2015			September 30, 2014		
	Gross Amounts Not Offset in Statements of Financial Position			Gross Amounts Not Offset in Statements of Financial Position		
<i>(Dollars in millions)</i>						
	Net Amount of Assets Presented in Statements of Financial Position			Net Amount of Assets Presented in Statements of Financial Position		
	Financial Position	Collateral Received	Net Amount	Financial Position	Collateral Received	Net Amount
Repurchase agreements	156	0	156	189	0	189
Security lending collateral	1,245	(1,245)	0	2,868	(2,868)	0
<b>Total</b>	<b>\$ 1,401</b>	<b>\$ (1,245)</b>	<b>\$ 156</b>	<b>\$ 3,057</b>	<b>\$ (2,868)</b>	<b>\$ 189</b>

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

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



## OFFSETTING OF DERIVATIVE LIABILITIES FAIR VALUE

	September 30, 2015			September 30, 2014		
	Gross Amounts	Net Amounts of		Gross Amounts	Net Amounts of	
	Offset in	Assets Presented		Offset in	Assets Presented	
	Gross Amount of Recognized Liabilities	Statements of Financial Position	in Statements of Financial Position	Gross Amount of Recognized Liabilities	Statements of Financial Position	in Statements of Financial Position
<i>(Dollars in millions)</i>						
<u>Derivatives</u>						
Interest-rate contracts	\$ 83	\$ (83)	\$ 0	\$ 28	\$ (28)	\$ 0
Foreign exchange contracts	11	(11)	0	8	(8)	0
Other derivative contracts <sup>(1)</sup>	22	(3)	19	11	(11)	0
Cash collateral nettings	0	0	0	0	0	0
<b>Total Derivatives</b>	<b>\$ 116</b>	<b>\$ (97)</b>	<b>\$ 19</b>	<b>\$ 47</b>	<b>\$ (47)</b>	<b>\$ 0</b>
<u>Other financial instruments<sup>(2)</sup></u>						
Resale agreements	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Securities lending collateral	1,245	0	1,245	2,868	0	2,868
<b>Total derivatives and other financial instruments</b>	<b>\$ 1,361</b>	<b>\$ (97)</b>	<b>\$ 1,264</b>	<b>\$ 2,915</b>	<b>\$ (47)</b>	<b>\$ 2,868</b>

	September 30, 2015			September 30, 2014		
	Gross Amounts Not Offset in Statements of Financial Position			Gross Amounts Not Offset in Statements of Financial Position		
	Net Amount of Liabilities Presented in Statements of Financial Position	Collateral Received	Net Amount	Net Amount of Liabilities Presented in Statements of Financial Position	Collateral Received	Net Amount
	Position	Received	Net Amount	Position	Received	Net Amount
<i>(Dollars in millions)</i>						
Resale agreements	0	0	0	0	0	0
Security lending collateral	1,245	(1,245)	0	2,868	(2,868)	0
<b>Total</b>	<b>\$ 1,245</b>	<b>\$ (1,245)</b>	<b>\$ 0</b>	<b>\$ 2,868</b>	<b>\$ (2,868)</b>	<b>\$ 0</b>

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

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

The following table identifies the location of derivative gains and losses on the Statements of Operations and Changes in Net Position as of September 30, 2015, and September 30, 2014.

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

	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives	
<i>(Dollars in millions)</i>		Sept. 30, 2015	Sept. 30, 2014
Futures			
Contracts in a receivable position	Investment Income-Fixed	(\$69)	(\$41)
Contracts in a receivable position	Investment Income-Equity	0	0
Contracts in a payable position	Investment Income-Fixed	138	104
Contracts in a payable position	Investment Income-Equity	0	0
Swap agreements			
Interest rate swaps	Investment Income-Fixed	(18)	15
Other derivative swaps	Investment Income-Fixed	(5)	28
Option contracts			
Options purchased (long)	Investment Income-Fixed	(1)	0 *
Options purchased (long)	Investment Income-Equity	0	0
Options written (sold short)	Investment Income-Fixed	7	3
Options written (sold short)	Investment Income-Equity	0	0
Forward contracts			
Forwards - foreign exchange	Investment Income-Fixed	419	225
	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.

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## SECURITIES LENDING

PBGC participates in a securities lending program administered by its custodian bank. The custodian bank requires initial collateral that equals 102 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).

The average value of securities on loan through September 30, 2015, and through September 30, 2014, was \$2,443 million and \$4,147 million, respectively. The average value of lendable securities was \$26,099 million through September 30, 2015, and \$27,265 million through September 30, 2014. The ratio of the average value of securities on loan and the average value of lendable securities is the average utilization rate. This average utilization rate for the fiscal year ending September 30, 2015, was 9%, whereas the average utilization rate for the fiscal year ending September 30, 2014, was 15%. Much of this decline in average program utilization was driven by a decline in the average utilization of U.S. Government securities which is discussed below.

The average value of U.S. Corporate Bonds and Equity securities on loan through September 30, 2015 was \$1,456 million, as compared to \$1,589 million through September 30, 2014. The average value of U.S. Corporate Bonds and Equity securities on loan is 60% of the \$2,443 million average value of securities on loan through September 30, 2015, as compared to 38% of the \$4,147 million average value of securities on loan through September 30, 2014. The average value of lendable U.S. Corporate Bonds and Equity securities was \$15,876 million through September 30, 2015 or 61 percent of PBGC's overall average value of lendable securities; while the average value of lendable U.S. Corporate Bonds and Equity securities was \$15,600 million through September 30, 2014, or 57 percent of PBGC's overall average value of lendable securities. The average utilization of U.S. Corporate Bonds and Equity securities was 9% through September 30, 2015 and 10% through September 30, 2014.

The average value of U.S. Government securities on loan through September 30, 2015, was \$786 million, as compared to \$2,370 million through September 30, 2014. The average value of U.S. Government securities on loan was 32% of the \$2,443 million average value of securities on loan through September 30, 2015, as compared to 57% of the \$4,147 million average value of securities on loan through September 30, 2014. The average value of lendable U.S. Government securities through September 30, 2015, was \$4,833 million or 19 percent of PBGC's overall average value of lendable securities; whereas the average value of lendable U.S. Government securities through September 30, 2014, was \$5,577 million, or 20 percent of PBGC's overall average value of lendable securities. The average utilization of U.S. Government securities decreased from 42% through September 30, 2014, to 16% through September 30, 2015. The declines in both the average utilization of U.S. Government securities and the average value of U.S. Government securities on loan are associated with updated regulatory requirements that are limiting the size of broker's (the borrowing party in a securities loan) balance sheets, therefore reducing its capacity to borrow securities.

The following table presents utilization rates of investment securities in the Security Lending Collateral Program.

### Utilization Rates of Security Lending Collateral

	Daily Utilization Rates at Sept. 30, 2015	Sept. 30, 2015 Average Utilization Rates	Sept. 30, 2014 Average Utilization Rates
U.S. Corporate Bond & Equity	8%	9%	10%
U.S. Government Securities	12%	16%	42%
Non-U.S. Corporate Bond & Equity	3%	2%	3%
Non- U.S. Fixed Income	3%	4%	3%
Total PBGC Program	8%	9%	15%

The amount of cash collateral received for securities on loan at September 30, 2015, and September 30, 2014 was \$1,245 million and \$2,868 million, respectively. 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 \$11 million from its agency securities lending programs as of September 30, 2015. Also contributing to PBGC's securities lending income is its participation in certain pooled index funds. Net income from securities lending is included in "Investment income – Fixed" on the Statements of Operations and Changes in Net Position.

PBGC does not have the right by contract or custom to sell or re-pledge non-cash collateral, and therefore it is not reported on the Statements of Financial Position. Non-cash collateral, which consists of highly rated debt instruments, has increased year over year. This is caused by regulatory changes affecting the brokers who borrow securities that have made the use of cash collateral less attractive and non-cash collateral somewhat more attractive than in prior periods.

### REPURCHASE AGREEMENTS

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

As of September 30, 2015, PBGC had \$156 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, 2015.

#### 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 the 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 \$100 million, which represent cash paid as collateral on certain derivative contracts, are shown below.

#### DERIVATIVE CONTRACTS

<i>(Dollars in millions)</i>	September 30, 2015	September 30, 2014
Open receivable trades on derivatives:		
Collateral deposits	\$100 <sup>(1)</sup>	\$59 <sup>(2)</sup>
Futures contracts	13	5
Interest rate swaps	111	0 *
Other derivative swaps	150	14
Total	<u>\$374</u>	<u>\$78</u>

\* Less than \$500,000

<sup>(1)</sup> Where a legally enforceable master netting agreement exists, collateral deposits receivable for derivative contracts will include counterparty netting. Collateral deposits receivable of \$100 million are the result of \$122 million gross collateral deposits receivable less \$22 million collateral deposits receivable netted for swap derivative counterparties.

<sup>(2)</sup> For fiscal year 2014, where a legally enforceable master netting agreement exists, the collateral deposits receivable for derivative contracts will include counterparty netting. Collateral deposits receivable of \$59 million are the result of \$64 million gross collateral deposits receivable less \$5 million collateral deposits receivable netted for swap derivative counterparties.

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 \$59 million, which represent cash received as collateral on certain derivative contracts, are included.

## DERIVATIVE CONTRACTS

<i>(Dollars in millions)</i>	September 30, 2015	September 30, 2014
Open payable trades on derivatives:		
Collateral deposits	\$59 <sup>(1)</sup>	\$80 <sup>(2)</sup>
Futures contracts	11	12
Interest rate swaps	113	(1)
Other derivative swaps	150	12
Options-fixed income	1	11
Total	<b>\$334</b>	<b>\$114</b>

<sup>(1)</sup> Where a legally enforceable master netting agreement exists, collateral deposits payable for derivative contracts will include counterparty netting. Collateral deposits payable of \$59 million are the result of \$81 million gross collateral deposits payable less \$22 million collateral deposits receivable netted for swap derivative counterparties.

<sup>(2)</sup> For fiscal year 2014, where a legally enforceable master netting agreement exists, the collateral deposits payable for derivative contracts will include counterparty netting. Collateral deposits payable of \$80 million are the result of \$85 million gross collateral deposits payable less \$5 million collateral deposits receivable netted for swap derivative counterparties.

## 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 the 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 the Corporation 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).

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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, 2015

<i>(Dollars in millions)</i>	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
<b>Assets</b>				
Cash and cash equivalents	\$ 500	\$ 3,205		\$ 3,705
Securities lending collateral		1,245		1,245
Investments:				
Fixed maturity securities				
U.S. Government securities		23,556		
Commercial paper/securities purchased under repurchase agreements		162		
Asset backed/Mortgage backed securities		3,502		
Pooled funds				
Domestic	1	1,678	143	
International	0*	1,261		
Global/other				
Corporate bonds and other	1	11,173		
International securities	<u>15</u>	<u>10,035</u>	<u>-</u>	
Total fixed maturity securities	17	51,367	143	51,527
Equity securities:				
Domestic	1,399	263	0*	
International	731	5	0*	
Pooled funds				
Domestic	2	9,875		
International	64	10,125		
Global/other	<u>2</u>	<u>-</u>	<u>-</u>	
Total equity securities	2,198	20,268	0*	22,466
Private equity			895	895
Real estate and real estate investment trusts	4	2,512	339	2,855
Insurance contracts and other Investments		1	9	10
Receivables: <sup>(1)</sup>				
Derivative contracts <sup>(2)</sup>	13	361		374
<b>Liabilities</b>				
Payables: <sup>(1)</sup>				
Derivative contracts <sup>(3)</sup>	12	322		334

\* Less than \$500,000.

(1) Where a legally enforceable master netting agreement exists, amounts for "Receivables: Derivative contracts" and "Payables: Derivative contracts" will include counterparty netting against Level 2 financial assets and liabilities. The Collateral deposits associated with these related open receivables are \$100 million (\$122 million gross collateral deposits receivable less \$22 million collateral deposits receivable to derivative counterparties). The Collateral deposits associated with the related open payables are \$59 million (\$81 million gross collateral deposits payable less \$22 million collateral deposits receivable from derivative counterparties).

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

(3) Derivative contracts payables are comprised of open payable trades on futures, swaps, options, and collateral deposits. See the



Derivative Contracts table under Note 4.

As of September 30, 2015, 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, 2015**

<i>(Dollars in millions)</i>	Fair Value at September 30, 2014	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, 2015	Change in Unrealized Gains (Losses) Related to Financial Instruments held at September 30, 2015 <sup>(2)</sup>
<b>Assets:</b>								
Pooled funds (fixed) Corporate bonds and other *	\$ 179	\$(36)					\$ 143	\$ (36)
Domestic/Int'l equity <sup>(1)</sup>	0	0	0	0			0	0
Private equity	3	0*	0*	(3)			0*	0*
	1,077	(118)	21	(85)			895	(149)
Real estate & real estate investment trusts	346	(4)	1	(4)			339	(4)
Other *	25	0*	7	(23)			9	2

\* Less than \$500,000.

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

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

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

**INVESTMENTS IN CERTAIN ENTITIES THAT CALCULATE NET ASSET VALUE PER SHARE (OR ITS EQUIVALENT) FOR THE YEAR ENDED SEPTEMBER 30, 2015**

	Fair Value (in millions)	Unfunded Commitments <sup>1</sup>	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Real estate (a)	\$ 2,855	\$ 61	n/a	n/a
Private equity (b)	895	144	n/a	n/a
Pooled funds (c)	<u>23,152</u>	<u>0</u>	n/a	n/a
Total	<u>\$ 26,902</u>	<u>\$205</u>		

<sup>1</sup> Unfunded amounts include recallable distributions. A substantial portion of the unfunded commitments is unlikely to be called.

- a. This class includes 141 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 10 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 585 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 12 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 PVFB and the impact will be reflected in the "Due to 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<sup>(1)</sup>**

<b>September 30, 2015</b> <i>(Dollars in millions)</i>	<b>Hypothetical Rates</b> <b>1.80% for 25 years, 1.86%</b> <b>thereafter</b>	<b>Actual Rates<sup>(2)</sup></b> <b>2.80% for 25 years, 2.86%</b> <b>thereafter</b>	<b>Hypothetical Rates</b> <b>3.80% for 25 years,</b> <b>3.86% thereafter</b>
Single-Employer Program	\$118,994	<b>\$106,409</b>	\$ 95,992
Multiemployer Program	65,216	<b>54,186</b>	45,279
Total	\$184,210	<b>\$160,595</b>	\$141,271

(1) Level 3 Fair Value Measurements.

(2) Actual rates and PVFB amounts calculated for September 30, 2015, fiscal year-end 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 trusted plans and plans pending termination and trusteeship. For financial statement purposes, the net assets of plans pending termination and trusteeship (including estimated recoveries, assets, and miscellaneous liabilities) are included in the line item "Plans Pending Termination and Trusteeship." The estimated losses on probable future plan terminations are also included in the PVFB. The PVFB liability is stated as the actuarial present value of estimated future benefit payments.

For FY 2015, PBGC used a 25-year select interest factor of 2.80% followed by an ultimate factor of 2.86% for as long as benefits are to be paid. In FY 2014, PBGC used a 25-year select interest factor of 3.35% followed by an ultimate factor of 3.25% for the remaining years. These factors were determined to be those needed (given the mortality assumptions), to continue to match the survey of annuity prices provided by the American Council of Life Insurers (ACLI). Both the interest factor and the length of the select period may vary to produce the best fit with these prices. The prices reflect rates at which, in PBGC's opinion, the liabilities (net of administrative expenses) could be settled in the market at September 30, for the respective year, for single-premium nonparticipating group annuities issued by private insurers. Many factors including Federal Reserve policy, changing expectations about longevity risk, and competitive market conditions may affect these rates.

For FY 2015, PBGC used the Retirement Plan-2000 Combined Healthy (RP-2000 CH) Male and Female Tables, each set back one year and projected 28 years to 2028 using Scale AA. For September 30, 2014, PBGC used the same table, set back one year and projected 25 years to 2025 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 (15 years in FY 2015, 14 years in FY 2014), plus PBGC's calculated duration of its liabilities (13 years in FY 2015 and 11 years in FY 2014).

PBGC continues to use the results of its 2011 mortality study. The study showed that the mortality assumptions used in FY 2010 reflected higher mortality than was realized in PBGC's seriatim population. Therefore, PBGC adopted a base mortality table (i.e., RP-2000 set back one year instead of GAM 94 set forward one year) that better reflects mortality experience. The ACLI survey of annuity prices, when combined with the mortality table, provides the basis for determining the interest factors used in calculating the PVFB. The insurance company prices, when combined with the stronger mortality table, results in a higher interest factor.

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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 PVFB for trustee multiemployer plans for FY 2015 and FY 2014 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 PVFB changed for the years ended September 30, 2015, and for the fiscal year ended September 30, 2014.

**RECONCILIATION OF THE PRESENT VALUE OF FUTURE BENEFITS  
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014**

	September 30,	
<i>(Dollars in millions)</i>	2015	2014
Present value of future benefits, at beginning of year -- Single-Employer, net	\$102,774	\$105,018
Estimated recoveries, prior year	56	44
Assets of terminated plans pending trusteeship, net, prior year	226	1,517
Present value of future benefits at beginning of year, gross	<u>103,056</u>	<u>106,579</u>
Settlements and judgments, prior year	(62)	(57)
Net claims for probable terminations, prior year	(401)	(745)
Actuarial adjustments -- underwriting:		
Changes in method and assumptions	\$ 603	\$ (168)
Effect of experience	<u>(289)</u>	<u>(368)</u>
Total actuarial adjustments -- underwriting	314	(536)
Actuarial charges -- financial:		
Expected interest	3,339	3,339
Change in interest factors	<u>5,851</u>	<u>(940)</u>
Total actuarial charges -- financial	9,190	2,399
Total actuarial charges, current year	9,504	1,863
Terminations:		
Current year	1,912	1,928
Changes in prior year	<u>(1,202)</u>	<u>(1,453)</u>
Total terminations	710	475
Benefit payments, current year <sup>1</sup>	(5,570)	(5,522)
Estimated recoveries, current year	(475)	(56)
Assets of terminated plans pending trusteeship, net, current year	(447)	(226)
Settlements and judgments, current year <sup>2</sup>	26	62
Net claims for probable terminations:		
Future benefits <sup>3</sup>	1,226	759
Estimated plan assets and recoveries from sponsors	<u>(641)</u>	<u>(358)</u>
Total net claims, current year	585	401
Present value of future benefits, at end of year -- Single-Employer, net	106,926	102,774
Present value of future benefits, at end of year -- Multiemployer	<u>0*</u>	<u>0*</u>
Total present value of future benefits, at end of year, net	<u>\$106,926</u>	<u>\$102,774</u>

\* Less than \$500,000 (actual amount is \$266,702 and \$369,259 for the 10 Pre-MPPA trustee multiemployer plans at September 30, 2015, and September 30, 2014, respectively).

- (1) The benefit payments of \$5,570 million at September 30, 2015, and \$5,522 million at September 30, 2014, include \$45 million in FY 2015 and \$45 million in FY 2014, respectively, for benefits paid from plan assets prior to trusteeship.
- (2) PBGC recently determined it is highly unlikely that more than half of the total potential future Page/Collins settlement liability will be paid. Accordingly, PBGC estimates that the PBGC's future Page/Collins settlement liability amount is \$26 million at September 30, 2015, as compared to \$62 million at September 30, 2014.
- (3) The future benefits for probable terminations of \$1,226 million and \$759 million for the periods ending September 30, 2015, and September 30, 2014, include \$163 million and \$226 million, respectively, for probable terminations not specifically identified, and \$422 million and \$533 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, 2015		September 30, 2014	
	Basis	Market Value	Basis	Market Value
<i>(Dollars in millions)</i>				
U.S. Government securities	\$ 0	\$ 0	\$ 0	\$ 0
Corporate and other bonds	284	280	104	105
Equity securities	170	169	122	126
Private equity	0 *	0 *	0	0
Insurance contracts	0 *	0 *	0 *	0 *
Other	1	(2)	(5)	(5)
Total, net	\$ 455	\$447	\$ 221	\$ 226

\* Less than \$500,000

## NET CLAIMS FOR PROBABLE TERMINATIONS

Factors that at present are not fully determinable may be responsible for why these claim estimates differ from actual experience. Included in net claims for probable terminations is a provision for future benefit liabilities for plans not specifically identified. This reserve for small unidentified probable losses is recorded for the estimated future contingent losses stemming from insured single-employer plans with an aggregate underfunding of less than \$50 million. The reserve is based on the historic three-year rolling average of actual plan terminations (with an aggregate underfunding of less than \$50 million) and indexed to the S&P 500 to reflect changes in economic conditions. The September 30, 2015, Net Claims for Probable Terminations is \$585 million, of which \$163 million is from the small unidentified probable losses and \$422 million is from a specific identification process.

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

## RECONCILIATION OF NET CLAIMS FOR PROBABLE TERMINATIONS

	September 30,	
<i>(Dollars in millions)</i>	2015	2014
Net claims for probable terminations, at beginning of year	\$ 401	\$ 745
New claims	\$ 422	\$ 175
Actual terminations	(175)	(351)
Deleted probables	0	0
Change in benefit liabilities	(63)	(168)
Change in plan assets	0	0
Loss (credit) on probables	184	(344)
Net claims for probable terminations, at end of year	\$ 585	\$ 401

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

## PROBABLES EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

<i>(Dollars in millions)</i>	FY 2015	FY 2014
------------------------------	---------	---------

Manufacturing	\$ -	\$175
Retail	344	-
Health Care	78	-
Total	<u>\$422</u>	<u>\$175</u>

For further detail regarding single-employer probables, see Note 2 under Present Value of Future Benefits (PVFB) subpoint (4) on page 63.

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

<i>(Dollars in millions)</i>				
	Status of Probables from 1987-2014 at September 30, 2015			
	Number of Plans	Percent of Plans	Net Claim	Percent of Net Claim
Beginning in 1987, number of plans reported as Probable:				
Probables terminated	371	79%	\$29,639	71%
Probables not yet terminated or deleted	0	0	0	0
Probables deleted	101	21	11,974	29
Total	<u>472</u>	<u>100%</u>	<u>\$41,613</u>	<u>100%</u>

#### 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

<i>(Dollars in millions)</i>	September 30, 2015	September 30, 2014
Gross balance at beginning of year	\$880	\$783
Financial assistance payments - current year	103	97
Write-offs related to settlement agreements	<u>(60)</u>	<u>0</u>
Subtotal	923	880
Allowance for uncollectible amounts	<u>(923)</u>	<u>(880)</u>
Net balance at end of year	<u>\$ 0</u>	<u>\$ 0</u>

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 are about to begin receiving financial assistance. In addition, a change in the valuation of the liability due to new data received (e.g., new plan expenses, more recent valuation liabilities, and new withdrawal payment schedules) is included as financial assistance from insolvent and probable plans on the Statements of Operations and Changes in Net Position. This valuation data change is a separate line item from actuarial adjustments and actuarial charges.

To enhance an existing methodology for determining the probable liability, effective with FY 2014, ongoing plans are divided into segments based on the number of plan participants with different processes by plan size. The reserve for small ongoing plans (fewer than 2,500 participants) with probable losses not individually identified uses an aggregate method to estimate liability and exposure, rather than reviewing each plan

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individually, based on the use of seven years of plan termination history to project the current probable liability. For mid-sized plans (2,500 to 35,000 participants), risk-based rules are applied using a cash-flow model. For large plans (more than 35,000 participants), PBGC identifies ongoing high risk plans for a projection of the date of insolvency to measure the probable liability.

This change in estimate described in the paragraph above applies to FY 2014. Hypothetically, if this change in estimate was not applied to FY 2014, the result would be a decrease to the reserve for medium plans and large plans of approximately \$7.8 billion.

MPRA provides that certain plans may apply to the Department of the Treasury to suspend benefits, and provides for a participant vote on the benefit suspension. These plans also may apply to PBGC for financial assistance: either for a facilitated merger or a partition. Application for partition generally will occur in conjunction with an application to Treasury for benefit suspension. These actions are not considered in the determination of whether nonrecoverable future financial assistance is probable until the approval has been granted and the changes in benefit payments have commenced.

As of September 30, 2015, the Corporation expects 160 individually identified multiemployer plans will exhaust plan assets and need financial assistance from PBGC to pay guaranteed benefits and plan administrative expenses. The present value of nonrecoverable future financial assistance for these 160 plans is \$54,186 million (inclusive of the reserve for small ongoing plan losses not individually identified). The 160 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 comprise 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

<i>(Dollars in millions)</i>	September 30, 2015		September 30, 2014	
	Number of Plans	Net Liability	Number of Plans	Net Liability
Plans currently receiving financial assistance	55	\$1,627	53	\$1,506
Plans that have terminated but have not yet started receiving financial assistance (classified as probable)	67	2,110	61	1,756
Ongoing plans (not terminated) that the Corporation expects will require financial assistance in the future (classified as probable)	38	50,449 <sup>1</sup>	30	40,928 <sup>1</sup>
Total	160	\$54,186	144	\$44,190

<sup>1</sup> Ongoing plans include a small probable bulk reserve of \$1,431 million and \$1,408 million for September 30, 2015, and September 30, 2014, respectively.

Of the 160 plans:

- 1) 55 have exhausted plan assets and are currently receiving financial assistance payments from PBGC. The present value of future financial assistance payments for these insolvent 55 plans is \$1,627 million.
- 2) 67 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 for these 67 terminated plans is \$2,110 million.
- 3) 38 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 38 ongoing plans is \$50,449 million.

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

<i>(Dollars in millions)</i>	September 30, 2015	September 30, 2014
Balance at beginning of year	\$44,190	\$9,931
Changes in allowance:		
Losses from insolvent and probable plans - financial assistance	9,963	34,260
Actuarial adjustments	7	60
Actuarial charges (credits) - Insolvent plans:		
Due to expected interest	52	47
Due to change in interest factors	77	(11)
Financial assistance granted (previously accrued)	<u>(103)</u>	<u>(97)</u>
Balance at end of period	<u>\$54,186</u>	<u>\$44,190</u>

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 lines: Actuarial adjustments, Due to expected interest, and Due to change in interest factors. Insolvent plans are presented within these three 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. The FY 2015 increase in the multiemployer program’s deficit is primarily due to losses from future financial assistance of \$9,963 million primarily due to a decrease in the interest factors of \$4,322 million for previously identified multiemployer probable plans (for example the select interest rate factor decreased by 55 basis points to 2.80% at September 30, 2015, from 3.35% at September 30, 2014), and the FY 2015 addition of 17 new probable plans (\$4,625 million).

## 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

<i>(Dollars in millions)</i>	September 30, 2015	September 30, 2014
Annual leave	\$9	\$ 9
Other payables and accrued expenses	<u>62</u>	<u>76</u>
Accounts payable and accrued expenses	<u>\$71</u>	<u>\$ 85</u>

## 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 represent PBGC’s estimates of the reasonably possible exposure to loss given the inherent uncertainties about



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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 that sponsor plans with total unfunded vested benefits greater than \$50 million as reasonably possible rather than probable terminations, reflecting the sponsors' financial condition and other factors that did not indicate termination of their plans was likely. This classification was done based upon information about the companies as of September 30, 2015. PBGC criteria for a single-employer plan sponsor to be classified as Reasonably Possible are:

- a. The sponsor(s) or significant member(s) of its controlled group (e.g., a parent or major subsidiary) is in reorganization under Title 11 of the United States code.
- b. An application for a funding waiver is pending or outstanding with the IRS.
- c. A minimum funding contribution has been missed.
- d. The sponsor(s) has an S&P senior unsecured credit rating or an issuer credit rating less two notches of BB+ or below, or a Moody's senior unsecured credit rating or a corporate family rating less one notch of Ba1 or below. If the controlled group is not rated by Moody's and S&P, PBGC will use the Dun & Bradstreet Financial Stress Score (if available) to classify the controlled group as Reasonably Possible or Remote.
- e. The sponsor(s) has no bond rating, but analysis indicates that its unsecured debt would be below investment grade.
- f. The sponsor(s) meet at least one of the PBGC "high risk" criteria.
- g. Other (detailed explanation must be provided and be approved by PBGC's Contingency Working Group).

Effective with FY 2014, the reserve for the small unidentified reasonably possible exposure (companies that sponsor plans with less than \$50 million in unfunded vested benefits) is calculated using an aggregate method to estimate liability and exposure, rather than reviewing each company individually.

The estimate of the reasonably possible exposure to loss for the single-employer plans of these companies was measured as of December 31, 2014. The reasonably possible exposure to loss was \$217,699 million for FY 2015. This is a significant increase of \$50,586 million from the reasonably possible exposure of \$167,113 million in FY 2014. This increase is primarily due to the growth in the number of companies meeting the reasonably possible criteria and the decrease in the interest rate used for valuing liabilities.

Except in the rare circumstances indicated earlier in this note, 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 the Corporation for plan years ended on or after December 31, 2013. PBGC adjusted the value reported for liabilities to December 31, 2014, using a select rate of 2.68% for the first 20 years and 2.79% 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 2024 using Scale AA to approximate annuity prices as of December 31, 2014. The underfunding associated with these plans could be substantially different at September 30, 2015, because of the economic conditions that changed between December 31, 2014 and September 30, 2015. PBGC did not adjust the estimate for events that occurred between December 31, 2014, and September 30, 2015.

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

**REASONABLY POSSIBLE EXPOSURE TO LOSS BY INDUSTRY  
(PRINCIPAL CATEGORIES)**

<i>(Dollars in millions)</i>	<b>FY 2015</b>	<b>FY 2014</b>
Manufacturing <sup>1</sup>	<b>\$84,108</b>	\$84,020
Transportation, Communication and Utilities <sup>2</sup>	<b>57,771</b>	45,545
Services	<b>32,887</b>	19,805
Wholesale and Retail Trade	<b>13,485</b>	8,371
Health Care	<b>12,895</b>	4,517
Finance, Insurance, and Real Estate	<b>12,624</b>	2,741
Agriculture, Mining, and Construction	<b>3,929</b>	2,114
Total	<b>\$217,699</b>	\$167,113

<sup>1</sup> Primarily automobile/auto parts and fabricated metals.

<sup>2</sup> Primarily airlines.

## 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, 2015, that it is reasonably possible that other multiemployer plans may require future financial assistance in the amount of \$19,957 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 latter of September 30, 2015, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2015. PBGC's identification of plans that are likely to require such assistance and estimation of related amounts required consideration of many complex factors, including estimating future cash flows, future mortality rates, and age of participants not in pay status. These factors are affected by future events, including actions by plans and their sponsors, most of which are beyond PBGC's control. Reasonably possible multiemployer classification is defined as an ongoing plan with a projected insolvency date between 10 and 20 years from the valuation date.

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

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**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 2019. The minimum future lease payments for office facilities having noncancellable terms in excess of one year as of September 30, 2015, are:

**COMMITMENTS: FUTURE LEASE PAYMENTS**

<i>(Dollars in millions)</i>	
Years Ending September 30,	Operating Leases
2016	\$ 19.9
2017	19.8
2018	19.0
2019	4.7
Minimum lease payments	<u>\$ 63.4</u>

Lease expenses were \$19.9 million in FY 2015 and \$19.7 million in FY 2014.

**NOTE 11: PREMIUMS**

For both the single-employer and multiemployer programs, ERISA provides that PBGC shall continue to guarantee basic benefits despite the failure of a plan administrator to pay premiums when due. PBGC assesses interest and penalties on the unpaid portion of or underpayment of premiums. Interest continues to accrue until the premium and the interest due are paid. See Note 2, *Premiums* for PBGC's premium revenue accounting policy. For plan year 2015, the flat-rate premium for single-employer pension plans was \$57 per participant and for multiemployer plans, \$26 per participant. For plan years 2014 and 2013, the flat-rate premiums for single-employer pension plans were \$49 and \$42, respectively, per participant and for multiemployer plans, \$12 for both years, per participant. The variable-rate premium for single-employer plans was \$9 per \$1,000 of unfunded vested benefits for plan years 2013, \$14 for plan years 2014, and \$24 for plan years 2015.

Net premium income for FY 2015 was \$4,350 million and consisted of \$2,565 million in variable-rate premiums, \$1,768 million in flat-rate premiums, \$19 million in termination premiums, and \$5 million interest and penalty income, offset by a bad debt expense of \$7 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 2014 was \$3,934 million and consisted of \$2,439 million in variable-rate premiums, \$1,501 million in flat-rate premiums, a credit to bad debt expense of \$24 million, and \$3 million interest and penalty income, offset by \$(33) million in termination premiums. The termination premium applies to certain plan terminations occurring after 2005. If a pension plan terminates in a distress termination pursuant to ERISA section 4041(c)(2)(B)(ii) or (iii), or in a PBGC-initiated termination under ERISA section 4042, the plan sponsor and its controlled group are liable to PBGC for a termination premium at the rate of \$1,250 per plan participant per year for three years.

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

Plan Years Beginning on or after January 1	Single-Employer Plans			Multiemployer Plans
	Flat-Rate Premium	Variable-Rate Premium		
	Rate Per Participant	Rate per \$1,000 UVBs	Per Participant Cap	Flat-Rate Premium Rate Per Participant
2015	\$57	\$24	\$418	\$26
2014	\$49	\$14	\$412	\$12
2013	\$42	\$ 9	\$400	\$12

Based on Executive Order 13563, “Improving Regulation and Regulatory Review,” PBGC moved the flat-rate premium due date for large plans to the same date as the variable-rate premium due date for such plans starting with the 2014 plan year. The due date change of 7.5 months resulted in a one-time shift of the premium payment cash collections of large plans between the old and new premium filing due dates.

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

### Net Premiums Receivable

(Dollars in Million)	Single-Employer		Multiemployer		Memorandum Total	
	Sept. 30, 2015	Sept. 30, 2014	Sept. 30, 2015	Sept. 30, 2014	Sept. 30, 2015	Sept. 30, 2014
Premiums Not Yet Due:						
Estimated Flat-Rate Premiums	<b>\$1,015</b>	\$882	<b>\$145</b>	\$60	<b>\$1,160</b>	\$942
Estimated Variable-Rate Premiums	<b>2,182</b>	1,723	<b>0</b>	0	<b>2,182</b>	1,723
Total Net Premiums Not Yet Due	<b>3,197</b>	2,605	<b>145</b>	60	<b>3,342</b>	2,665
Premiums Past Due:						
Flat-Rate Premiums	<b>66</b>	86	<b>9</b>	6	<b>75</b>	92
Allowance for Bad Debt-Flat-Rate	<b>(3)</b>	(10)	<b>0 *</b>	(1)	<b>(3)</b>	(11)
Variable-Rate Premiums	<b>103</b>	74	<b>0</b>	0	<b>103</b>	74
Allowance for Bad Debt-Variable-Rate	<b>(4)</b>	(9)	<b>0</b>	0	<b>(4)</b>	(9)
Total Net Premiums Past Due	<b>162</b>	141	<b>9</b>	5	<b>171</b>	146
Termination Premiums: <sup>1</sup>						
Termination Premiums	<b>244</b>	227	<b>0</b>	0	<b>244</b>	227
Allowance for Bad Debt-Termination	<b>(229)</b>	(213)	<b>0</b>	0	<b>(229)</b>	(213)
	<b>15</b>	14	<b>0</b>	0	<b>15</b>	14
Interest and Penalty:						
Interest and Penalty Due	<b>2</b>	2	<b>0 *</b>	0 *	<b>2</b>	2
Allowance for Bad Debt-Int/Penalty	<b>(1)</b>	(1)	<b>0 *</b>	0 *	<b>(1)</b>	(1)
Total Net Interest and Penalty Due	<b>1</b>	1	<b>0 *</b>	0 *	<b>1</b>	1
Grand Total Net Premiums Receivable	<b>\$3,375</b>	\$2,761	<b>\$154</b>	\$65	<b>\$3,529</b>	\$2,826

\* Less than \$500,000

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



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

#### PREMIUM INCOME BY PREMIUM TYPE

<i>(Dollars in millions)</i>	September 30, 2015	September 30, 2014
Flat-Rate Premium:		
Single-Employer	\$1,556	\$1,378
Multiemployer	<u>212</u>	<u>123</u>
Total Flat-Rate Premium	1,768	1,501
Variable-Rate Premium	2,565	2,439
Interest and Penalty Income	5	3
Termination Premium	19	(33)
Less Changes in the Allowance Reserve for Bad Debts for Interest, Penalties, and Premiums	<u>(7)</u>	<u>24</u>
<b>Total Premiums</b>	<b><u>\$4,350</u></b>	<b><u>\$3,934</u></b>

#### PREMIUM INCOME BY INSURANCE PROGRAM

<i>(Dollars in millions)</i>	September 30, 2015	September 30, 2014
Single-Employer:		
Flat-Rate and Variable-Rate Premiums	\$4,126	\$3,820
Termination Premium	19	(33)
Less Changes in the Allowance Reserve for Bad Debts for Interest, Penalties, and Premiums	<u>(7)</u>	<u>25</u>
Total Single-Employer	<u>4,138</u>	<u>3,812</u>
Multiemployer:		
Flat-Rate Premiums	212	123
Less Changes in the Allowance Reserve for Bad Debts for Interest and Penalties	<u>0*</u>	<u>(1)</u>
Total Multiemployer	<u>212</u>	<u>122</u>
<b>Total Premiums</b>	<b><u>\$4,350</u></b>	<b><u>\$3,934</u></b>

\* 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

(Dollars in millions)	For the Years Ended September 30,					
	New Terminations	2015 Changes in Prior Years Terminations <sup>5</sup>	Total	New Terminations	2014 Changes in Prior Year Terminations	Total
Present value of future benefits	\$1,912	\$(1,202)	\$ 710	\$1,928	\$(1,453)	\$ 475
Less plan assets	1,132	86	1,218	993	(748)	245
Plan asset insufficiency	780	(1,288)	(508)	935	(705)	230
Less estimated recoveries	0	428	428	0	7	7
Subtotal	780 <sup>1</sup>	(1,716)	(936)	935 <sup>1</sup>	(712)	223
Settlements and judgments		(29) <sup>6</sup>	(29) <sup>6</sup>		6 <sup>6</sup>	6 <sup>6</sup>
Loss (credit) on probables	(175) <sup>2</sup>	360 <sup>3</sup>	185 <sup>4</sup>	(351) <sup>2</sup>	7 <sup>3</sup>	(344) <sup>4</sup>
Total	\$ 605	\$ (1,385)	\$(780)	\$ 584	\$ (699)	\$ (115)

<sup>1</sup> Gross amounts for plans terminated during the period, including plans previously recorded as probables.

<sup>2</sup> Net claims for plans previously recorded as probables that terminated.

<sup>3</sup> Includes changes to old and new probables.

<sup>4</sup> See Note 6 - includes \$175 million at September 30, 2015, and \$351 million at September 30, 2014, previously recorded relating to plans that terminated during the period ("Actual terminations").

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

<sup>6</sup> PBGC recently determined that it is highly unlikely more than half of the total potential future Page/Collins settlement liability will be paid. Accordingly, PBGC estimates that the PBGC's future Page/Collins settlement liability is \$26 million at September 30, 2015, as compared to \$62 million at September 30, 2014.

## NOTE 13: FINANCIAL INCOME

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

<b>INVESTMENT INCOME SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS</b>						
	Single-Employer Program	Multiemployer Program	Memorandum Total	Single-Employer Program	Multiemployer Program	Memorandum Total
<i>(Dollars in millions)</i>	Sept. 30, 2015	Sept. 30, 2015	Sept. 30, 2015	Sept. 30, 2014	Sept. 30, 2014	Sept. 30, 2014
Fixed maturity securities:						
Interest earned	\$1,642	\$33	\$1,675	\$1,733	\$39	\$1,772
Realized gain (loss)	757	24	781	790	(1)	789
Unrealized gain (loss)	(1,354)	11	(1,343)	683	37	720
Total fixed maturity securities	1,045	68	1,113	3,206	75	3,281
Equity securities:						
Dividends earned	66	0	66	100	0	100
Realized gain (loss)	861	0	861	3,979	0	3,979
Unrealized gain (loss)	(2,158)	0	(2,158)	(1,568)	0	(1,568)
Total equity securities	(1,231)	0	(1,231)	2,511	0	2,511
Private equity:						
Distributions earned	9	0	9	7	0	7
Realized gain (loss)	265	0	265	465	0	465
Unrealized gain (loss)	(149)	0	(149)	(114)	0	(114)
Total private equity	125	0	125	358	0	358
Real estate:						
Distributions earned	0	0	0	1	0	1
Realized gain (loss)	161	0	161	159	0	159
Unrealized gain (loss)	218	0	218	183	0	183
Total real estate	379	0	379	343	0	343
Other income:						
Distributions earned	6	0	6	10	0	10
Realized gain (loss)	(3)	0	(3)	10	0	10
Unrealized gain (loss)	3	0	3	1	0	1
Total other income	6	0	6	21	0	21
Total investment income	\$324	\$68	\$392	\$6,439	\$75	\$6,514

## 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. Employees hired during the 2013 calendar year or rehired with less than five years of civilian service that is potentially creditable under FERS participate in FERS-Revised Annuity Employees (FERS-RAE). These employees are still generally considered part of the same pension system but are uniquely identified in human resources and payroll systems to annotate their higher contribution rate. Additionally, under the Bipartisan Budget Act of 2013, a new category of FERS employees was created: FERS-Further Revised Annuity Employees or FERS-FRAE. This pension system is again generally the same, only the contribution rate is changed. As with FERS-RAE employees, human resources and payroll systems use unique identifiers to annotate this higher contribution rate.

PBGC's contribution to the CSRS plan for both FY 2015 and FY 2014 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 13.2 percent of base pay for FY 2015. For employees covered by FERS-RAE, the Corporation's contribution was 11.1 percent of base pay for FY 2015. For employees covered by FERS-FRAE, the Corporation's contribution was 11.1 percent of base pay for FY 2015. In addition, for FERS-covered employees, FERS-RAE covered employees, and FERS-FRAE covered employees, PBGC automatically contributes 1 percent of base pay to the employee's Thrift Savings account, matches the first 3 percent contributed by the employee and matches one-half of the next 2 percent contributed by the employee. Total retirement plan expenses amounted to \$23 million in FY 2015, an increase of \$2 million from FY 2014. 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 trusteeed 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,	
	2015	2014
Proceeds from sales of investments:		
Fixed maturity securities	\$66,330	\$68,613
Equity securities	4,281	7,143
Other/uncategorized	2,867	2,476
Memorandum total	<u>\$73,478</u>	<u>\$78,232</u>
Payments for purchases of investments:		
Fixed maturity securities	\$(67,477)	\$(68,627)
Equity securities	(4,281)	(6,242)
Other/uncategorized	(2,432)	(1,226)
Memorandum total	<u>\$(74,190)</u>	<u>\$(76,095)</u>

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,	
<i>(Dollars in millions)</i>	2015	2014	2015	2014	2015	2014
Net income (loss)	(4,727)	8,043	(9,850)	(34,176)	(14,577)	(26,133)
Adjustments to reconcile net income to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	1,550	(4,607)	(39)	(45)	1,511	(4,652)
Net gain (loss) of plans pending termination and trusteeship	2	35	0	0	2	35
Losses (credits) on completed and probable terminations	(780)	(115)	0	0	(780)	(115)
Actuarial charges (credits)	9,504	1,864	0	0	9,504	1,864
Benefit payments - trustee plans	(5,525)	(5,477)	0	0	(5,525)	(5,477)
Settlements and judgments	(6)	(1)	0	0	(6)	(1)
Cash received from plans upon trusteeship	22	62	0	0	22	62
Receipts from sponsors/non-sponsors	123	94	0	0	123	94
EL/DUEC Trusteeship interest (non-cash)	111	(17)	0	0	111	(17)
Amortization of discounts/premiums	108	122	11	12	119	134
Amortization and Depreciation expense	13	12	0	0	13	12
Bad debt expense/Write-offs (net)	30	17	0	0	30	17
Changes in assets and liabilities, net of effects of trustee and pending plans:						
(Increase) decrease in receivables	(583)	(1,708)	(90)	(62)	(673)	(1,770)
Increase in present value of nonrecoverable future financial assistance	0	0	9,996	34,259	9,996	34,259
Increase in unearned premiums	44	(283)	1	(35)	45	(318)
Increase (decrease) in accounts payable	(22)	6	8	2	(14)	8
Net cash provided (used) by operating activities	(136)	(1,953)	37	(45)	(99)	(1,998)

## **NOTE 16: LITIGATION**

Legal challenges to PBGC's policies and positions continued in FY 2015. At the end of the fiscal year, PBGC had 28 active cases in state and federal courts and 236 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 13, 2015, 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, 2015, and before the financial statements were



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available to be issued, that provided additional evidence about conditions that existed at September 30, 2015, have been recognized in the financial statements.

For the fiscal year ended September 30, 2015, 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 on September 30, 2015, 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 2015 and 2014 Financial Statements

Audit Report AUD-2016-2 / FA-15-108-2

**Section III**

**Management Comments**

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

Office of the Director

MEMORANDUM

November 13, 2015

To: Robert Westbrooks  
Inspector General

From: W. Thomas Reeder *W. Reeder*  
Director

Subject: Response to the Independent Auditor's Combined Audit Report for the  
FY 2015 Financial Statement Audit

Thank you for the opportunity to comment on the Office of Inspector General's FY 2015 audit results regarding the agency's financial statements, internal controls, and compliance with laws and regulations. Given PBGC's role as the pension guarantor for millions of Americans, we are pleased that our financial statements have once again received an unmodified opinion.

We agree with your opinion on internal controls, and are committed to addressing the issues in this year's report. Your attention to reviewing our corrective actions is especially appreciated. Rest assured that we will continue working to expeditiously address the weaknesses reported.

We appreciate your report highlighting areas where we have made progress. Clearly, work remains to be done. As we continue to make progress, we will of course keep your office informed.

cc: Patricia Kelly  
Cathleen Kronopolus  
Alice Maroni  
Ann Orr  
Michael Rae  
Sanford Rich  
Robert Scherer  
Judith Starr  
Martin O. Boehm  
Christopher Bone  
Theodore J. Winter

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

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1-800-303-9737

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

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Washington, DC 20043-4177