OFFICE OF INSPECTOR GENERAL

AUDIT REPORT

Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2020 and 2019 Financial Statements

Report No. AUD-2021-02
December 9, 2020

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Office of Inspector General

December 9, 2020

To the Board of Directors
Pension Benefit Guaranty Corporation

The Office of Inspector General contracted with Ernst & Young LLP (EY), 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 year ended September 30, 2020. EY conducted the audit in accordance with the following auditing standards: Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States and the Office of Management and Budget Bulletin No. 19-03, “Audit Requirements for Federal Financial Statements.”

In their audit, EY found:

- The financial statements 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, 2020, and the results of their operations and cash flows for the year then ended, in accordance with accounting principles generally accepted in the U.S. This is the 28th consecutive unmodified financial statement audit opinion. The financial statements of PBGC for the year ended September 30, 2019, were audited by CliftonLarsonAllen LLP (CLA), who expressed an unmodified opinion on those statements on November 15, 2019.

- PBGC maintained, in all material respects, effective internal control over financial reporting as of September 30, 2020, 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 Enterprise Risk Management and Internal Control (0MB Circular A-123). As of September 30, 2020, PBGC has two significant deficiencies: (1) Controls over Actuarial Liability Estimates and (2) Controls over Information Systems - Segregation of Duties.

- No instances of noncompliance or other matters with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements.

EY is responsible for the accompanying auditor's report dated December 9, 2020 and the conclusions expressed in the report. We do not express opinions on PBGC's financial statements or internal control over financial reporting, nor do we draw conclusions on compliance with laws and regulations. The financial statement audit report (AUD-2021-02/FA-20-148-1) is also available on our website at oig.pbgc.gov.

Respectfully,

Nicholas J. Novak

Nicholas J. Novak
Acting Inspector General

cc: Gordon Hartogensis
Patricia Kelly
Alice Maroni
Kristin Chapman
David Foley
Karen Morris
Andy Banducci
Robert Scherer
Theodore Winter
Frank Pace

Audit of the Pension Benefit Guaranty Corporation's

Fiscal Year 2020 and 2019 Financial Statements

Audit Report AUD-2021-02/FA-20-148-1

Section I

Independent Auditors' Report

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Building a better
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Report of Independent Auditors

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, 2020, and the related statements of operations and changes in net position and cash flows of the Single-Employer and Multiemployer Program Funds administered by the PBGC for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's judgment, including the assessment of the 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 PBGC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Single-Employer and Multiemployer Program Funds administered by the PBGC as of September 30, 2020, and the results of their operations and cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 9 to the financial statements, the potential losses from Single Employer plans which termination is reasonably possible as a result of unfunded vested benefits are estimated to be approximately $176 billion. Management calculated the potential losses from single-employer plans which termination is reasonably possible based, on the most recent data available from filings and submissions for plan years ended on or after December 31, 2018, and adjusted the value reported for liabilities to the estimated balance as of December 31, 2019, using actuarial assumptions. PBGC did not adjust the estimate for economic conditions that occurred between December 31, 2019 and September 30, 2020, and as a result, the underfunding for the Single-Employer Program as of September 30, 2020, could be substantially different. Our opinion is not modified with respect to this matter.

Report of Other Auditors on PBGC's FY 2019 Financial Statements

The financial statements of PBGC for the year ended September 30, 2019, were audited by other auditors who expressed an unmodified opinion on those statements on November 15, 2019. The report included a similar emphasis of matter as that disclosed in the paragraph above related to estimates of potential losses recorded as Single Employer reasonably possible contingencies.

Other Information

Our audit was conducted for the purpose of forming opinions on PBGC's financial statements. The accompanying other information, including 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) 2020 Financial Statement Highlights, Management's Discussion and Analysis, Analysis of Entity's Systems, Controls and Legal Compliance, Management Representation, Improper Payment Reporting, 2020 Actuarial

Valuation, Letter of the Inspector General, and Management's Response to the Report of Independent Auditor and Organization contain a wide range of information, is presented for purposes of additional analysis 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 basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2020, on our audit of PBGC's internal control over financial reporting. The purpose of that report is to provide an opinion on internal control over financial reporting. In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2020, on our tests of PBGC's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PBGC's internal control over financial reporting and compliance.

Ernst + Young LLP

December 9, 2020

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Report of Independent Auditors on Internal Control Over Financial Reporting

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

We have audited the Pension Benefit Guaranty Corporation's (PBGC) internal control over financial reporting as of September 30, 2020, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers**'** Financial Integrity Act (FMFIA), as implemented by OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* and in *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States.

Management's Responsibility for Internal Control Over Financial Reporting

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Analysis of Entity's Systems, Controls and Legal Compliance section of the Annual Report.

Auditor's Responsibility

Our responsibility is to express an opinion on the PBGC's internal control over financial reporting based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk. We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations.

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

Definition 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, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, although certain internal controls could be improved, PBGC maintained, in all material respects, effective internal control over financial reporting as of September 30, 2020, based on criteria established under FMFIA.

Reporting Significant Deficiencies in Internal Control Over Financial Reporting as Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies. A *deficiency in internal control* over financial reporting (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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

As discussed in **Exhibit I**, our audit identified deficiencies in PBGC's controls over actuarial estimations and information systems that represent significant deficiencies in PBGC's internal control over financial reporting.

PBGC's Response to Findings

PBGC's response to the findings identified in **Exhibit I** of our report is included in **Exhibit II**. We did not audit management's response and, accordingly, express no opinion on it.

Report on Financial Statements

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, the financial statements of the PBGC, which comprise the statement of financial position as of September 30, 2020, and the related statements of operations and changes in net position and cash flows of the Single-Employer and Multiemployer Program Funds administered by the PBGC for the year then ended, and the related notes to the financial statements. Our report dated December 9, 2020, expressed an unmodified opinion thereon.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2020, on our tests of PBGC's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PBGC's compliance.

Ernst & Young LLP

December 9, 2020

Exhibit I

Internal Control Significant Deficiencies

Actuarial Liability Estimates

The present value of future benefits (PVFB) is the estimated liability for future pension benefits that the Pension Benefit Guaranty Corporation (PBGC) is or will be obligated to pay the participants of Single-Employer trusteed plans and the net liability for plans pending termination and trusteeship. PBGC uses a combination of two methods to calculate the PVFB liability – seriatim and nonseriatim. The seriatim method is used when PBGC has sufficient accurate data to calculate the liability separately for each participant's benefit. The nonseriatim method is used when PBGC does not have sufficient accurate or complete data to value individual benefits. The present value of nonrecoverable future financial assistance (PVNRFFA) 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 values of the PVFB and PVNRFFA are particularly sensitive to changes in underlying estimates and assumptions.

In accordance with FMFIA, management is responsible for establishing and maintaining internal controls that enable an agency to provide reasonable assurances over obligations and costs. PBGC continues to develop and execute corrective actions to remediate previously reported internal control deficiencies related to its actuarial liability estimates. In fact, PBGC remediated several previously identified internal control deficiencies by executing sensitivity analyses and developing reasonableness thresholds for PVFB and PVNRFFA estimates, and conducting an experience study over its 10-year projected insolvency criteria for PVNRFFA estimates. However, due to the time-consuming process that is required to enact previously recommended corrective actions, the following internal control deficiencies continue to exist that could lead to inaccuracies in the estimation process. We considered these deficiencies, in aggregate, to be a significant deficiency.

- The experience studies on which the PVFB and PVNRFFA expected retirement age and PVNRFFA withdrawal liability payment collectability assumptions are set are outdated. In addition, PBGC has not completed an experience study related to PVNRFFA administrative expenses. Therefore, PBGC management may not be using the most up-to-date and relevant assumptions.

- Although sensitivity analyses were conducted during the current year, PBGC has not yet conducted sensitivity analyses related to PVNRFFA administrative expenses or over PVFB and PVNRFFA expected retirement age assumptions. Lack of sensitivity analyses prevents PBGC from assessing estimation uncertainty related to these assumptions.

- PBGC lacked adequate documentation of rationale for the following assumptions and methods, and therefore is unable to support the use of these assumptions within the estimates:

    PVFB nonseriatim: Percent male and smoothing adjustment for benefit projections assumptions.

    PVNRFFA: Subcase count, subcase attained age, subcase liability distribution, expected retirement age, expected contribution, normal cost projection and new entrants, administrative expenses, percent male, assent blend and expected return on assets.

Recommendations

PBGC should consider taking the following corrective actions to remediate the internal control deficiencies identified above:

- Conduct an experience study for PVFB and PVNRFFA expected retirement age, vs. actual retirement age, as well an experience study for the PVNRFFA withdrawal liability payment collectability and administrative expenses assumption (2021-02-01).

- Conduct sensitivity analyses over PVNRFFA administrative expenses and over PVFB and PVNRFFA expected retirement age assumptions (2021-02-02).

- Document rationale for and/or update the following assumptions and methods:

    PVFB nonseriatim: Percent male and smoothing adjustment for benefit projections assumptions (2021-02-03).

    PVNRFFA: Subcase count, subcase attained age, subcase liability distribution, expected retirement age, expected contribution, normal cost projection and new entrants, administrative expenses, percent male, assent blend and expected return on assets (2021-02-04).

Information Systems – Segregation of Duties

PBGC has improved its identity and access management and configuration management controls for information technology (IT) systems supporting the financial reporting environment. PBGC has established a strong governance model and integrated a series of toolsets to monitor individual system and enterprise compliance with risk thresholds established by PBGC management. These efforts by PBGC management and its ongoing commitment to managing IT risks resulted in the reduction of the previously reported access control and configuration management significant deficiency.

However, during the current year, we identified control deficiencies in the areas of segregation of duties that we considered pervasive across the PBGC environment. The *Standards for Internal Controls in the Federal Government* issued by the Government Accountability Office (GAO) requires management to consider segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.

These deficiencies were noted due to outdated or unenforced procedures related to the management of user roles and responsibilities across the PBGC environment. As a result, users maintained access to conflicting roles within the PBGC environment. This access if utilized could have circumvented established IT general controls. The following is a summary of the deficiencies that we considered in aggregate to be a significant deficiency.

- Segregation of duty rulesets were not designed effectively to mitigate weaknesses in PBGC's logical access authorizations to IT systems supporting financial reporting.

- User roles in supporting applications did not reconcile to the identity management system utilized by PBGC to manage segregation of duty conflicts within the corporation.

- A user maintained access to an IT system supporting financial reporting that constituted a segregation of duties risk, without appropriate monitoring or mitigating controls being implemented.

Recommendation

PBGC should consider taking the following corrective actions to remediate the internal control deficiencies identified above:

- Develop and update segregation of duty matrices to reflect the risk of multiple role assignments based on the current business operations of PBGC within the IT systems supporting the financial reporting environment (2021-02-05).

- Review existing role assignments based on updated segregation of duty matrices for existing conflicts and remediate them as appropriate (2021-02-06).

- Implement application monitoring controls to mitigate risks associated with required role assignments that violate separation of duty requirements (2021-02-07).

- Implement preventative mechanisms within their enterprise account management provisioning process to restrict the ability to assign conflicting roles without elevated approvals (2021-02-08).

- Ensure the enterprise account management solution is synchronized with application roles assigned within the IT systems supporting the financial reporting environment (2021-02-09).

- Increase the frequency of the periodic review of users with known separation of duties violation to determine management concurrence with the appropriateness of the access and their risk acceptance (2021-02-10).

Exhibit II

Pension Benefit Guaranty Corporation Managements Response FY2020
Independent Auditor Report September 30, 2020

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

Office of the Director

December 9, 2020

MEMORANDUM

To: Nick Novak
Acting Inspector General

From: Gordon Hartogensis
Director

Subject: Response to the Independent Auditor's Combined Audit Report for the FY 2020 Financial Statement Audit

Thank you, once again this year for the opportunity to comment on the Office of Inspector General's FY 2020 audit results regarding the agency's financial statements, internal controls, and compliance with laws and regulations. Given that PBGC protects the pensions of millions of Americans, it is especially noteworthy that our financial statements have once again received an unmodified opinion, as have our internal controls over financial reporting.

We agree with your observations on internal controls and are fully committed to addressing the issues noted in this year's report. Work remains to be done, and as management completes it, we will certainly keep your office informed. Your attention to reviewing our corrective actions is especially appreciated.

cc:

Kristin Chapman
Patricia Kelly
Andy Banducci
David Foley
Alice Maroni
Karen Morris
Robert Scherer
Paul Chalmers
Frank Pace
Theodore J. Winter

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Report of Independent Auditors on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, the financial statements of the Pension Benefit Guaranty Corporation (PBGC), which comprise the statement of financial position as of September 30, 2020, and the related statements of operations and changes in net position and cash flows of the Single-Employer and Multiemployer Program Funds administered by the PBGC for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 9, 2020. We also have audited PBGC's internal control over financial reporting as of September 30, 2020, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA) as implemented by OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* and in *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States, and have issued our report thereon dated December 9, 2020.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PBGC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 19-03.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated December 9, 2020, on our audit of PBGC's internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PBGC's internal control over financial reporting.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing compliance and the results of that testing, and not to provide an opinion on 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 communication is not suitable for any other purpose.

Ernst & Young LLP

December 9, 2020

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Audit of the Pension Benefit Guaranty Corporation's

Fiscal Year 2020 and 2019 Financial Statements

Audit Report AUD-2021-02/FA-20-148-1

Section II

Pension Benefit Guaranty Corporation's

Fiscal Year 2020 and 2019 Financial Statements

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PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF FINANCIAL POSITION

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in Millions)	**2020**	2019	**2020**	2019	**2020**	2019
ASSETS						
Cash and cash equivalents	**$6,265**	$5,494	**$205**	$108	**$6,470**	$5,602
Securities lending collateral (Notes 3 and 5)	**3,949**	4,719	**-**	-	**3,949**	4,719
Investments, at market (Notes 3 and 5):						
Fixed maturity securities	**100,290**	86,736	**2,734**	2,550	**103,024**	89,286
Equity securities	**24,008**	22,277	**-**	-	**24,008**	22,277
Private equity	**276**	379	**-**	-	**276**	379
Real estate and real estate investment trusts	**2,784**	2,568	**-**	-	**2,784**	2,568
Other	**7**	6	**-**	-	**7**	6
Total investments	**127,365**	111,966	**2,734**	2,550	**130,099**	114,516
Receivables, net:						
Sponsors of terminated plans	**26**	20	**-**	-	**26**	20
Premiums (Note 11)	**3,606**	4,515	**192**	181	**3,798**	4,696
Sale of securities	**1,500**	423	**-**	-	**1,500**	423
Derivative contracts (Note 4)	**122**	248	**-**	-	**122**	248
Investment income	**614**	659	**12**	18	**626**	677
Other	**6**	6	**-**	-	**6**	6
Total receivables	**5,874**	5,871	**204**	199	**6,078**	6,070
Capitalized assets, net	**19**	18	**1**	1	**20**	19
Total assets	**$143,472**	$128,068	**$3,144**	$2,858	**$146,616**	$130,926

The accompanying notes are an integral part of these financial statements.
The Single-Employer Program and Multiemployer Program are separate by law.
The "Memorandum Total" data columns presented above are solely an entity-wide informational view of the PBGC's two independent insurance programs.

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF FINANCIAL POSITION

(Dollars in Millions)	Single-Employer Program September 30, **2020**	2019	Multiemployer Program September 30, **2020**	2019	Memorandum Total September 30, **2020**	2019
LIABILITIES						
Present value of future benefits, net (Note 6):						
Trusteed plans	**$119,576**	$112,814	**-**	-	**$119,576**	$112,814
Plans pending termination and trusteeship	**635**	96	**-**	-	**635**	96
Settlements and judgments	**17**	17	**-**	-	**17**	17
Claims for probable terminations	**202**	173	**-**	-	**202**	173
Total present value of future benefits, net	**120,430**	113,100	**-**	-	**120,430**	113,100
Present value of nonrecoverable future financial assistance (Note 7)						
Insolvent plans	**-**	-	**2,994**	2,807	**2,994**	2,807
Probable insolvent plans	**-**	-	**63,871**	65,188	**63,871**	65,188
Total present value of nonrecoverable future financial assistance	**-**	-	**66,865**	67,995	**66,865**	67,995
Payables, net:						
Derivative contracts (Note 4)	**73**	192	**-**	-	**73**	192
Due for purchases of securities	**3,294**	1,159	**-**	-	**3,294**	1,159
Payable upon return of securities loaned	**3,949**	4,719	**-**	-	**3,949**	4,719
Unearned premiums	**181**	176	**5**	6	**186**	182
Accounts payable and accrued expenses (Note 8)	**67**	66	**23**	23	**90**	89
Total payables	**7,564**	6,312	**28**	29	**7,592**	6,341
Total liabilities	**127,994**	119,412	**66,893**	68,024	**194,887**	187,436
Net position	**15,478**	8,656	**(63,749)**	(65,166)	**(48,271)**	(56,510)
Total liabilities and net position	**$143,472**	$128,068	**$3,144**	$2,858	**$146,616**	$130,926

The accompanying notes are an integral part of these financial statements.
The Single-Employer Program and Multiemployer Program are separate by law.
The "Memorandum Total" data columns presented above are solely an entity-wide informational view of the PBGC's two independent insurance programs.

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	For the Years Ended September 30,		For the Years Ended September 30,		For the Years Ended September 30,	
(Dollars in Millions)	**2020**	2019	**2020**	2019	**2020**	2019
UNDERWRITING:						
Income:						
Premium, net (Note 11)	**$5,663**	$6,352	**$322**	$310	**$5,985**	$6,662
Other	**28**	47	**-**	-	**28**	47
Total	**5,691**	6,399	**322**	310	**6,013**	6,709
Expenses:						
Administrative	**387**	365	**40**	40	**427**	405
Other	**16**	14	**-**	-	**16**	14
Total	**403**	379	**40**	40	**443**	419
Other underwriting activity:						
Losses (credits) from completed and probable terminations (Note 12)	**1,926**	91	**-**	-	**1,926**	91
Losses (credits) from insolvent and probable plans-financial assistance (Note 7)	**-**	-	**(1,137)**	11,662	**(1,137)**	11,662
Actuarial adjustments (credits) (Note 6)	**48**	(811)	**(34)**	(31)	**14**	(842)
Total	**1,974**	(720)	**(1,171)**	11,631	**803**	10,911
Underwriting gain (loss)	**3,314**	6,740	**1,453**	(11,361)	**4,767**	(4,621)
FINANCIAL:						
Investment income (loss) (Note 13):						
Fixed	**10,507**	14,350	**180**	442	**10,687**	14,792
Equity	**2,087**	61	**-**	-	**2,087**	61
Private equity	**(17)**	17	**-**	-	**(17)**	17
Real estate	**(118)**	386	**-**	-	**(118)**	386
Other	**11**	6	**-**	-	**11**	6
Total	**12,470**	14,820	**180**	442	**12,650**	15,262
Expenses:						
Investment	**135**	123	**2**	-	**137**	123
Actuarial charges (Note 6):						
Due to expected interest	**2,620**	2,950	**68**	74	**2,688**	3,024
Due to change in interest factors	**6,207**	12,270	**146**	297	**6,353**	12,567
Total	**8,962**	15,343	**216**	371	**9,178**	15,714
Financial gain (loss)	**3,508**	(523)	**(36)**	71	**3,472**	(452)
Net income (loss)	**6,822**	6,217	**1,417**	(11,290)	**8,239**	(5,073)
Net position, beginning of year	**8,656**	2,439	**(65,166)**	(53,876)	**(56,510)**	(51,437)
Net position, end of year	**$15,478**	$8,656	**($63,749)**	($65,166)	**($48,271)**	($56,510)

The accompanying notes are an integral part of these financial statements.
The Single-Employer Program and Multiemployer Program are separate by law.
The "Memorandum Total" data columns presented above are solely an entity-wide informational view of the PBGC's two independent insurance programs.

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF CASH FLOWS

(Dollars in millions)	Single-Employer Program For the Years Ended September 30, 2020	2019	Multiemployer Program For the Years Ended September 30, 2020	2019	Memorandum Total For the Years Ended September 30, 2020	2019
OPERATING ACTIVITIES:						
Premium receipts	**$ 6,577**	$ 5,488	**$ 309**	$ 296	**$ 6,886**	$ 5,784
Interest and dividends received	**3,411**	3,425	**92**	103	**3,503**	3,528
Cash received from plans upon trusteeship	**(23)**	385	**-**	-	**(23)**	385
Receipts from sponsors/non-sponsors	**131**	(115)	**-**	-	**131**	(115)
Receipts from the missing participant program	**81**	35	**-**	-	**81**	35
Other receipts	**1**	2	**-**	-	**1**	2
Benefit payments – trusteed plans	**(6,069)**	(5,960)	**-**	-	**(6,069)**	(5,960)
Financial assistance payments	**-**	-	**(173)**	(160)	**(173)**	(160)
Settlements and judgments	**-**	(1)	**-**	-	**-**	(1)
Payments for administrative and other expenses	**(527)**	(471)	**(29)**	(27)	**(556)**	(498)
Accrued interest paid on securities purchased	**(421)**	(631)	**(16)**	(29)	**(437)**	(660)
Net cash provided (used) by operating activities (Note 15)	**3,161**	2,157	**183**	183	**3,344**	2,340
INVESTING ACTIVITIES:						
Proceeds from sales of investments	**174,976**	133,096	**5,760**	4,891	**180,736**	137,987
Payments for purchases of investments	**(177,366)**	(135,336)	**(5,846)**	(5,049)	**(183,212)**	(140,385)
Net change in investment of securities lending collateral	**(770)**	710	**-**	-	**(770)**	710
Net change in securities lending payable	**770**	(710)	**-**	-	**770**	(710)
Net cash provided (used) by investing activities	**(2,390)**	(2,240)	**(86)**	(158)	**(2,476)**	(2,398)
Net increase (decrease) in cash and cash equivalents	**771**	(83)	**97**	25	**868**	(58)
Cash and cash equivalents, beginning of year	**5,494**	5,577	**108**	83	**5,602**	5,660
Cash and cash equivalents, end of year	**$ 6,265**	$ 5,494	**$ 205**	$ 108	**$ 6,470**	$ 5,602

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

The Single-Employer Program and Multiemployer Program are separate by law.

The "Memorandum Total" data columns presented above are solely an entity-wide informational view of the PBGC's two independent insurance programs.

NOTES TO FINANCIAL STATEMENTS

September 30, 2020 and 2019

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. PBGC's 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 PBGC-initiated 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 PBGC-initiated terminations (also referred to as an involuntary termination). 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, 2020, the Single-Employer and Multiemployer Programs reported net positions of $15,478 million and ($63,749) million, respectively. The Single-Employer Program had assets of $143,472 million offset by total liabilities of $127,994 million, which include total present value of future benefits (PVFB) of $120,430 million. As of September 30, 2020, the Multiemployer Program had assets of $3,144 million offset by $66,865 million in present value of nonrecoverable future financial assistance. The Corporation has sufficient liquidity to meet its obligations for a number of years; however, barring changes, the Multiemployer Program will with certainty not be able to fully satisfy its long-term obligations to plan participants. The FY 2019 Projections Report shows that the Multiemployer Program estimates a very high likelihood of insolvency during FY 2026, and that insolvency is a near certainty by the end of FY 2027.

PBGC's $137,195 million of total investments (including cash and investment income receivable) represents the largest component of PBGC's Statements of Financial Position Memorandum Total assets of $146,616 million at September 30, 2020. This amount of $137,195 million (as compared to investments under management of $132,862 million, as reported in section VIII Investment Activities) reflects the fact that PBGC experiences a recurring inflow of trusteed plan assets that have not yet been incorporated into the PBGC investment program. For total investments (i.e., not the investment program), cash and fixed-income securities ($110,108 million) represent 80 percent of the total investments, while equity securities ($24,020 million) represent 18 percent of total investments. Private market assets, real estate, and other investments ($3,067 million), represent 2 percent of the total investments.

SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAM EXPOSURE

PBGC's estimate of the total underfunding in single-employer plans was $176,190 million for those sponsored by companies that have credit ratings below investment grade and that PBGC classified as reasonably possible of termination, as of September 30, 2020. This is an increase of $21,517 million from the reasonably possible exposure of $154,673 million in FY 2019. This increase is primarily due to the decrease in the interest factors used for estimating exposure, and the increase in the number of companies with lower than investment grade bond ratings and/or credit scores. These estimates are measured as of December 31 of the previous year (see Note 9). For FY 2020, this exposure is concentrated in the following sectors: manufacturing, transportation/communications/utilities, and services.

PBGC estimates that as of September 30, 2020, it is reasonably possible that multiemployer plans may require future financial assistance in the amount of $9,312 million (see Note 9). This is a decrease of $1,559 million from the reasonably possible exposure of $10,871 million in FY 2019. The primary reason for the decrease in exposure was due to the favorable net effect of removing three larger plans that are no longer classified as reasonably possible. These three plans had net liabilities greater than the net liabilities of five new plans classified as reasonably possible. Another driver of the decrease was the decline in the reasonably possible small plan bulk reserve. The decline in yield curve rates had an offsetting effect on the exposure.

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, along with the concentration of claims in a relatively small number of terminated plans, has 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 appropriately described.

Under the Single-Employer Program, PBGC is liable for the payment of guaranteed benefits with respect 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 initiates terminating 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 PBGC to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions may change over time as new information is obtained or subsequent developments occur. Actual results could differ from those estimates.

RECENT ACCOUNTING DEVELOPMENTS

In August 2018, the FASB issued Accounting Standards Update (ASU) 2018-13, "Changes to the Disclosure Requirements for Fair Value Measurement" which modifies disclosure requirements for fair value measurements. The guidance is effective for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years. PBGC has evaluated the impact of this guidance and will modify the financial statement disclosures in accordance with this ASU upon adoption in FY 2021. This ASU includes eliminating the requirement to disclose the amounts and reasons for transfers between level 1 and level 2 of the fair value hierarchy, and modifies the disclosure requirement relating to investments in funds at net asset value (NAV).

VALUATION METHOD

A key 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 benefit." 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 trusteed plans 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 fund includes assets (e.g., pension plan investments) PBGC assumes (or expects to assume) once a terminated plan has been trusteed, and related investment income. These assets generally are held by custodian banks. The trust fund supports the operational functions of PBGC.

The trust fund reflects accounting activity associated with:

1) Trusteed plans (plans for which PBGC has legal responsibility). The assets and liabilities are reflected separately on PBGC's Statements of Financial Position, the income and expenses are included in the

Statements of Operations and Changes in Net Position, and the cash flows from these plans are included in the Statements of Cash Flows.

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

3) Probable terminations (plans that PBGC determines are likely to terminate and be trusteed by PBGC). The assets and liabilities for these plans are reported as a net amount on the Liabilities section 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 (credits) 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 to the extent that such amounts are not directly attributable to a specific fund (e.g., a given PBGC investment manager directing a PBGC investment portfolio for the sole benefit of the Multiemployer Program represents a direct expense). Revolving fund assets and liabilities are allocated according to the year-end equity of each program's revolving fund. 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 fund 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 non-listed securities, or on a valuation model in the case of fixed income securities that are not actively traded. These valuations are determined as of the end of each fiscal year. Purchases and sales of securities are recorded on the trade date. In addition, PBGC invests in and discloses its derivative investments in accordance with the guidance contained in the FASB Accounting Standards Codification Section 815, *Derivatives and Hedging*. Investment income is accrued as earned. Dividend income is recorded on the ex-dividend date. Realized gains and losses on sales of investments are calculated using first-in, first-out for the revolving fund and weighted average cost for the trust fund. PBGC marks the plan's assets to market, and any increase or decrease in the market value of a plan's assets occurring after the date on which the plan is terminated must, by law, be credited to or suffered by PBGC.

SECURITIES PURCHASED UNDER 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 that mature in more 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." Repurchase agreements that mature in one day are included in "Cash and cash equivalents," which are reported on the Statements of Financial Position. 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 reports 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 (EL) and due and unpaid employer contributions (DUEC) is reported as "Income: Other." The change in the allowances for uncollectible EL and DUEC is reported as "Expenses: Other."

PREMIUMS

Premiums receivable represents (1) the plan reported premiums owed, (2) PBGC estimated amounts on filings not yet due and (3) submitted and past due premiums deemed collectible, including penalties and interest. The liability for unearned premiums represents annual premium fees that have been received in advance of the period in which they will be earned by PBGC. They remain as liabilities until 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. For insolvent multiemployer plans, bad debt expense also includes a reserve for premium payments waived by PBGC and treated as financial assistance in accordance with ERISA Section 4007 (see Note 11).

CAPITALIZED ASSETS

Capitalized assets include furniture and fixtures, electronic processing equipment and internal-use software. This includes costs for internally developed software incurred during the application development stage (system design including software configuration and software interface, coding, and testing). These costs are shown net of accumulated depreciation and amortization. See Note 16, Other Assets, for further details.

PRESENT VALUE OF FUTURE BENEFITS (PVFB)

The PVFB is the estimated liability for future pension benefits that PBGC is or will be obligated to pay the participants of trusteed plans and the net liability for plans pending termination and trusteeship. The PVFB liability (including trusteed plans and 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).

PVFB is reported as follows:

(1) Trusteed Plans: Represents the present value of future benefit payments less the present value of expected recoveries (for which a settlement agreement has not been reached with sponsors and members of their controlled group) for plans that have terminated and been trusteed by PBGC prior to fiscal year-end. Assets are shown separately from liabilities for trusteed plans. PBGC's liability under the expanded Missing Participants Program is included in this category. Under this program that began in FY 2018, most terminated defined contribution plans, small professional service pension plans, and multiemployer plans can now transfer the benefits of missing participants to PBGC. Previously, the program covered only insured single-employer defined benefit plans terminating in a standard termination.

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

(3) Settlements and Judgments: Represents estimated liabilities related to settled litigation (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. PBGC believes it is likely that one or more events subsequent to the 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; the sponsor has filed or intends to file for distress plan termination and the criteria will likely be met; or PBGC is considering initiating plan termination. In addition, PBGC 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 following: 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 historical three-year rolling average of losses related to 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.

PBGC identifies certain plan sponsors as high risk if the plan sponsor is in Chapter 11 proceedings or the sponsor's senior unsecured debt is rated CCC+/Caa1 or lower by S&P or Moody's, respectively. PBGC specifically reviews each plan sponsor identified as high risk and classifies pension 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 plan sponsors are classified as reasonably possible.

In accordance with the FASB Accounting Standards Codification Section 450, *Contingencies*, PBGC's exposure to losses from plans of companies that are classified as reasonably possible is disclosed in the footnotes. In order for a plan sponsor to be specifically classified as reasonably possible, it must first have $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 (IRS); the sponsor missed a minimum funding contribution; the 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 of the plan. 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 PBGC, 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 benefits. 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 plans that are at risk of becoming probable and reasonably possible claims on the insurance program. Regulatory filings with PBGC, IRS and DOL are important to this analysis and determination of risk, especially the designation of critical and declining status, which means the plan is projecting insolvency within 15-20 years. 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 uses specific criteria for classifying multiemployer plans as insolvent (PBGC's insurable event for multiemployer plans), probable, and reasonably possible. The criteria are as follows:

- Any multiemployer plans currently receiving financial assistance are classified as insolvent.
- Terminated, underfunded multiemployer plans (i.e., "wasting trusts") are classified as probable.
- Ongoing multiemployer plans projected to become insolvent:
  - Within 10 years are classified as probable.
  - From 10 to 20 years are classified as reasonably possible.

In general, the date of insolvency is estimated by projecting plan cash flows using actuarial assumptions. PBGC uses information provided by the plan actuary for assumptions such as termination of employment rates, retirement rates, average ages, the plan's schedule of future withdrawal liability payments owed, and contributions. PBGC uses assumptions set by PBGC for purposes of projecting returns on plan assets, future contributions, future withdrawal liability payments, expenses, mortality rates, and guaranteed benefits.

In addition, a bulk reserve method is employed to estimate future contingent losses for small multiemployer plans with fewer than 2,500 participants. Probable losses for plans are accrued, and reasonably possible losses are disclosed. 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 the present value of nonrecoverable future financial assistance for plan termination history to project the current probable liability. The small plan probables 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 liability.

MPRA provides that certain plans may apply to the U.S. 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 for a partition. Plans applying for a partition are also required to apply to U.S. Treasury for a suspension of benefits. These actions do not affect the determination of the nonrecoverable future financial assistance liability until U.S. Treasury has issued the final authorization to suspend benefits in the case of a benefit suspension application, or until PBGC has approved the application for financial assistance, in the case of a facilitated merger or a partition request.

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 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 Programs. All indirect administrative expenses associated with the Single-Employer and Multiemployer Programs are 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 from the amount previously reported), with any change in the estimate recorded in the Statements of Operations and Changes in Net Position. In addition, the plan's net income from DOPT 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 a 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 ten 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. See Note 16, Other Assets, for further details.

NOTE 3: INVESTMENTS

Premium receipts are invested through the revolving fund in U.S. Treasury securities. The trust funds include assets that 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 ending September 30, 2020. 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 the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), and Government National Mortgage Association (GNMA). In accordance with FASB Accounting Standards Codification Section 815, *Derivatives and Hedging*, TBA and Bond Forward contracts are deemed regular way trades as they are completed within the time frame generally established by regulations and conventions in the marketplace 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, 2020, TBA receivables were $1,243 million and no Bond Forward receivables were reported. In addition, as of September 30, 2020, TBA payables were $2,626 million and no Bond Forward payables were reported.

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

	September 30, 2020		September 30, 2019	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	**$59,300**	**$63,879**	$47,540	$52,120
Commercial paper/securities purchased under repurchase agreements	**432**	**432**	251	251
Asset backed securities	**5,111**	**5,267**	4,463	4,584
Pooled funds				
Domestic	**1,083**	**850**	4,536	4,514
International	**-**	**-**	-	-
Global/other	**0 ***	**0 ***	0 *	0 *
Corporate bonds and other	**18,571**	**20,646**	14,851	16,256
International securities	**9,113**	**9,216**	8,778	9,011
Subtotal	**93,610**	**100,290**	80,419	86,736
Equity securities:				
Domestic	**1,137**	**1,137**	308	269
International	**2,130**	**2,472**	1,802	1,935
Pooled funds				
Domestic	**5,961**	**10,797**	6,740	10,691
International	**6,768**	**9,595**	5,736	9,380
Global/other	**7**	**7**	2	2
Subtotal	**16,003**	**24,008**	14,588	22,277
Private equity	**1,149**	**276**	1,158	379
Real estate and real estate investment trusts	**2,826**	**2,784**	2,232	2,568
Insurance contracts and other investments	**6**	**7**	5	6
Total[1]	**$113,594**	**$127,365** [2]	$98,402	$111,966

* Less than $500,000

[1] Total includes securities on loan at September 30, 2020, and September 30, 2019, with a market value of $5,490 million and $5,357 million, respectively.

[2] This total of $127,365 million of investments at market value represents the single-employer assets only.

INVESTMENTS OF MULTIEMPLOYER REVOLVING FUNDS AND MULTIEMPLOYER TRUSTEED PLANS

	September 30, 2020		September 30, 2019	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
Investment securities:				
Fixed U.S. Government securities	**$2,623**	**$2,734**	$2,328	$2,550
Equity securities	**-**	**-**	-	-
Total	**$2,623**	**$2,734**	$2,328	$2,550

INVESTMENT PROFILE

	September 30,	
	2020	2019
Fixed Income Assets		
Average Quality	**AA**	**AA**
Average Maturity (years)	**16.1**	**16.6**
Duration (years)	**12.7**	**13.4**
Yield to Maturity (%)	**1.7**	**2.7**
Equity Assets		
Average Price/Earnings Ratio	**23.4**	**19.2**
Dividend Yield (%)	**2.3**	**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 the Corporation 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 in the PBGC investment portfolio is also further restricted insofar as they may not be used to create leverage in the portfolio. Thus, derivatives are not permitted to be utilized 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 2020 and 2019, 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 futures, forward and option contracts. Some of these derivatives are traded on organized exchanges and thus bear minimal counterparty risk. The counterparties to PBGC's non-exchange-traded derivative contracts are major financial institutions subject to ISDA (International Swaps and Derivatives Association, Inc.) master agreements or IFEMAs (International Foreign Exchange Master

Agreements) and minimum credit ratings required by investment guidelines. 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 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 also reduced 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 or to make settlement based on comparable economics, but without actually delivering the foreign currency. 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 securities.

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

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

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

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

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

For the fiscal years ended September 30, 2020 and 2019, 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.

FASB Accounting Standards Codification Section 815, *Derivatives and Hedging*, 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 ending September 30, 2020 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.
- Offsetting of Derivative Assets – Presents the impact of legally enforceable master netting agreements on derivative assets.
- Offsetting of Derivative Liabilities – Presents the impact of legally enforceable master netting agreements on derivative liabilities.

FAIR VALUES OF DERIVATIVE INSTRUMENTS

	Asset Derivative					
	September 30, 2020			September 30, 2019		
(Dollars in millions)	Statements of Financial Position Location	**Notional**	**FMV**	Statements of Financial Position Location	Notional	FMV
Futures	Derivative Contracts	**$23,731**	**$6**	Derivative Contracts	$15,378	$5
Swap contracts						
Interest rate swaps	Investments-Fixed	**1,200**	**2**	Investments-Fixed	815	(24)
Other derivative swaps	Investments-Fixed	**1,046**	**4**	Investments-Fixed	904	24
Option contracts	Investments-Fixed	**18**	**0** *	Investments-Fixed	9	1
Forwards - foreign exchange	Investments-Fixed	**5,843**	**1**	Investments-Fixed	4,341	3
	Investments-Equity	**-**	**-**	Investments-Equity	-	-

	Liability Derivative					
	September 30, 2020			September 30, 2019		
(Dollars in millions)	Statements of Financial Position Location	**Notional**	**FMV**	Statements of Financial Position Location	Notional	FMV
Futures	Derivative Contracts	**$10,578**	**($18)**	Derivative Contracts	$2,249	($160)
Option contracts	Derivative Contracts	**385**	**(1)**	Derivative Contracts	172	(1)

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

(Dollars in millions)	September 30, 2020 Gross Amount of Recognized Assets	September 30, 2020 Gross Amounts Offset in Statements of Financial Position	September 30, 2020 Net Amounts of Assets Presented in Statements of Financial Position	September 30, 2019 Gross Amount of Recognized Assets	September 30, 2019 Gross Amounts Offset in Statements of Financial Position	September 30, 2019 Net Amounts of Assets Presented in Statements of Financial Position
Derivatives						
Interest-rate contracts	**$ 0***	**$ -**	**$ 0***	$ 0*	$ 0*	$ 0*
Foreign exchange contracts	**44**	**(29)**	**15**	35	(18)	17
Other derivative contracts[1]	**5**	**(1)**	**4**	5	0*	5
Cash collateral nettings	**-**	**4**	**4**	-	2	2
Total Derivatives	**$49**	**($26)**	**$23**	$40	($16)	$24
Other financial instruments[2]						
Repurchase agreements	**768**	**-**	**768**	576	-	576
Securities lending collateral	**3,949**	**-**	**3,949**	4,719	-	4,719
Total derivatives and other financial instruments	**$4,766**	**($26)**	**$4,740**	$5,335	($16)	$5,319

(Dollars in millions)	**September 30, 2020** Gross Amounts Not Offset in Statements of Financial Position			September 30, 2019 Gross Amounts Not Offset in Statements of Financial Position		
	Net Amount of Assets Presented in Statements of Financial Position	**Collateral Received**	**Net Amount**	Net Amount of Assets Presented in Statements of Financial Position	Collateral Received	Net Amount
Repurchase agreements	**$ 768**	**$ -**	**$768**	$ 576	$ -	$576
Security lending collateral	**3,949**	**(3,949)**	**-**	4,719	(4,719)	-
Total	**$4,717**	**($3,949)**	**$768**	$5,295	($4,719)	$576

* Less than $500,000

1 Other derivative contracts include total return swaps, currency swaps, and credit default swaps.

2 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

(Dollars in millions)	September 30, 2020 Gross Amount of Recognized Liabilities	September 30, 2020 Gross Amounts Offset in Statements of Financial Position	September 30, 2020 Net Amounts of Assets Presented in Statements of Financial Position	September 30, 2019 Gross Amount of Recognized Liabilities	September 30, 2019 Gross Amounts Offset in Statements of Financial Position	September 30, 2019 Net Amounts of Assets Presented in Statements of Financial Position
Derivatives						
Interest-rate contracts	$ -	$ -	$ -	$ 0*	$ 0*	$ 0*
Foreign exchange contracts	43	(29)	14	32	(18)	14
Other derivative contracts[1]	9	(1)	8	1	(1)	0*
Cash collateral nettings	-	-	-	-	-	-
Total Derivatives	$52	($30)	$22	$33	($19)	$14
Other financial instruments[2]						
Resale agreements	$ -	$ -	$ -	$ -	$ -	$ -
Securities lending collateral	3,949	-	3,949	4,719	-	4,719
Total derivatives and other financial instruments	$4,001	($30)	$3,971	$4,752	($19)	$4,733

(Dollars in millions)	September 30, 2020 Gross Amounts Not Offset in Statements of Financial Position			September 30, 2019 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
Resale agreements	$ -	$ -	$ -	$ -	$ -	$ -
Security lending collateral	3,949	(3,949)	-	4,719	(4,719)	-
Total	$3,949	($3,949)	$ -	$4,719	($4,719)	$ -

* Less than $500,000

[1] Other derivative contracts include total return swaps, currency swaps, and credit default swaps.

[2] 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, 2020, and September 30, 2019.

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	
(Dollars in millions)		**Sept. 30, 2020**	Sept. 30, 2019
Futures			
Contracts in a receivable position	Investment Income-Fixed	**($1,431)**	($154)
Contracts in a receivable position	Investment Income-Equity	**-**	-
Contracts in a payable position	Investment Income-Fixed	**1,919**	1,812
Contracts in a payable position	Investment Income-Equity	**-**	-
Swap agreements			
Interest rate swaps	Investment Income-Fixed	**(19)**	(29)
Other derivative swaps	Investment Income-Fixed	**(10)**	13
Option contracts			
Options purchased (long)	Investment Income-Fixed	**1**	1
Options purchased (long)	Investment Income-Equity	**-**	-
Options written (sold short)	Investment Income-Fixed	**(1)**	(1)
Options written (sold short)	Investment Income-Equity	**0 ***	-
Forward contracts			
Forwards - foreign exchange	Investment Income-Fixed	**(50)**	31
	Investment Income-Equity	**0 ***	0 *

* Less than $500,000

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

SECURITIES LENDING

PBGC participates in a securities lending program administered by its custodian bank. The custodian bank requires initial collateral that equals 102 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, 2020, and through September 30, 2019, was $6,041 million and $5,613 million, respectively. The average value of lendable securities was $41,012 million through September 30, 2020, and $31,118 million through September 30, 2019. 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 was 15 percent through September 30, 2020 and 18 percent through September 30, 2019. The average utilization rate decrease is primarily due to a decrease in utilization of U.S. Corporate Bonds and Equity securities and U.S. Government securities as discussed below.

The average value of U.S. Corporate Bonds and Equity securities on loan through September 30, 2020, was $3,218 million, as compared to $3,900 million through September 30, 2019. The average value of U.S. Corporate Bonds and Equity securities on loan is 53 percent of the $6,041 million average value of securities on loan through September 30, 2020, as compared to 70 percent of the $5,613 million average value of securities on loan through September 30, 2019. The average value of lendable U.S. Corporate Bonds and Equity securities was $23,453 million through September 30, 2020, or 57 percent of PBGC's overall average value of lendable securities; while the average value of lendable U.S. Corporate Bonds and Equity securities was $19,827 million through September 30, 2019, or 64 percent of PBGC's overall average value of lendable securities. The average utilization of U.S. Corporate Bonds and Equity securities was 14 percent through September 30, 2020 and 20 percent through September 30, 2019. The decrease in the utilization of U.S. Corporate Bonds and Equity securities was caused by a shift in the lendable assets away from high yield bonds to investment grade bonds, which usually are in less demand from borrowers. Changes in the supply and demand dynamics for U.S. Corporate Bonds also contributed to a lower level of utilization in the fiscal year ending September 30, 2020 compared with the fiscal year ending September 30, 2019.

The average value of U.S. Government securities on loan through September 30, 2020, was $2,773 million, as compared to $1,664 million through September 30, 2019. The average value of U.S. Government securities on loan was 46 percent of the $6,041 million average value of securities on loan through September 30, 2020, as compared to 30 percent of the $5,613 million average value of securities on loan through September 30, 2019. The average value of lendable U.S. Government securities through September 30, 2020, was $13,348 million, or 33 percent of PBGC's overall average value of lendable securities; whereas the average value of lendable U.S. Government securities through September 30, 2019, was $7,575 million, or 24 percent of PBGC's overall average value of lendable securities. The increase in the average value of lendable U.S. Government securities was largely driven by the addition of a large Treasury Only Portfolio to the lending program. The average utilization of U.S. Government securities was 21 percent through September 30, 2020 and 24 percent through September 30, 2019. Utilization of U.S. Government securities declined year over year because of a lower level of demand for U.S. Government Securities from borrowers and constraints in the ability to invest cash collateral at attractive spreads compared with rebates owed to borrowers for cash collateral.

The following table presents utilization rates of investment securities in the custodian administered securities lending program.

UTILIZATION RATES IN THE SECURITIES LENDING PROGRAM

	Daily Utilization Rates at Sept. 30, 2020	Sept. 30, 2020 Average Utilization Rates	Sept. 30, 2019 Average Utilization Rates
U.S. Corporate Bond & Equity	12%	14%	20%
U.S. Government Securities	18%	21%	24%
Non-U.S. Corporate Bond & Equity	2%	2%	2%
Non-U.S. Fixed Income	0%*	0%*	1%
Total PBGC Program	13%	15%	18%

*Less than 1%.

The amount of cash collateral received for securities on loan at September 30, 2020, and September 30, 2019, was $3,949 million and $4,719 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 PBGC Collateral Fund.

In addition to its custodian agent lending program, PBGC invests in commingled index funds that participate in securities lending. PBGC does not own the securities in a commingled fund but owns units in the fund. The index fund provider utilizes an affiliated lending agent that lends the securities in the fund and receives collateral in return. The lending agent monitors and manages the collateral levels as well as monitors the credit quality and operations of their lending counterparties. The lending agent performs this service on behalf of the many clients that are invested in the commingled funds that participate in securities lending. This collateral is not valued or recorded on PBGC's financial statements as PBGC only owns units in the commingled funds.

PBGC earned $21 million from its agency securities lending programs as of September 30, 2020. Also contributing to PBGC's securities lending income is its participation in the commingled index funds mentioned above. 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.

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, 2020, PBGC had $768 million in repurchase agreements. The amount includes maturities of one day which is reported as an asset and included in the "Cash and cash equivalents" balance.

Those that mature in more than one day are reported under "Fixed maturity securities". 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 its outstanding repurchase agreements as of September 30, 2020.

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). 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 PBGC's 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 and Changes in Net Position and Statements of Financial Position.

Amounts in the table below represent the derivative contracts in a receivable position at September 30, 2020. Collateral deposits of $93 million, which represent cash paid as collateral on certain derivative contracts, are shown below.

DERIVATIVE CONTRACTS

(Dollars in millions)	**September 30, 2020**	September 30, 2019
Open receivable trades on derivatives:		
Collateral deposits	**$93** [1]	$229 [2]
Futures contracts	**6**	5
Interest rate swaps	**0**	1
Other derivative swaps	**23**	13
Total	**$122**	$248

[1] For FY 2020, where a legally enforceable master netting agreement exists, amounts for "Receivables, net – Derivative Contracts" and "Payables, net – Derivative Contracts" will include net of cash collateral deposited for non-exchange traded derivatives which are subject to master netting agreements. Collateral deposits receivable are $93 million ($106 million gross collateral deposits receivable less $13 million due to a netting of collateral deposits receivable and payable).

[2] For FY 2019, where a legally enforceable master netting agreement exists, amounts for "Receivables, net – Derivative Contracts" and "Payables, net – Derivative Contracts" will include net of cash collateral deposited for non-exchange traded derivatives which are subject to master netting agreements. Collateral deposits receivable are $229 million ($242 million gross collateral deposits receivable less $13 million due to a netting of collateral deposits receivable and payable).

Amounts in the Derivative Contracts table below represent derivative contracts in a payable position at September 30, 2020, which PBGC reflects as a liability. Collateral deposits of $31 million, which represent cash received as collateral on certain derivative contracts, are included.

DERIVATIVE CONTRACTS

(Dollars in millions)	**September 30, 2020**	September 30, 2019
Open payable trades on derivatives:		
Collateral deposits	**$31** [1]	$19 [2]
Futures contracts	**18**	159
Interest rate swaps	**0**	1
Other derivative swaps	**23**	12
Options-fixed income	**1**	1
Total	**$73**	$192

[1] For FY 2020, where a legally enforceable master netting agreement exists, amounts for "Receivables, net – Derivative Contracts" and "Payables, net – Derivative Contracts" will include net of cash collateral deposited for non-exchange traded derivatives which are subject to master netting agreements. Collateral deposits payable are $31 million ($44 million gross collateral deposits payable less $13 million due to a netting of collateral deposits receivable and payable).

[2] For FY 2019, where a legally enforceable master netting agreement exists, amounts for "Receivables, net – Derivative Contracts" and "Payables, net – Derivative Contracts" will include net of cash collateral deposited for non-exchange traded derivatives which are subject to master netting agreements. Collateral deposits payable are $19 million ($32 million gross collateral deposits payable less $13 million due to a netting of collateral deposits receivable and payable).

NOTE 5: FAIR VALUE MEASUREMENTS

FASB Accounting Standards Codification Section 820, *Fair Value Measurements and Disclosures*, 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).

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. PBGC'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 include 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:

- 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, repurchase agreements, bond forwards, and swaps.
- 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.
- Pricing models whose inputs are observable for substantially the full term of the asset or liability — included are insurance contracts and bank loans.
- 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, 2020

(Dollars in millions)	Investment Measured at Net Asset Value (NAV)	Quoted Market Prices in Active Markets (Level 1)	Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)	Total Net Carrying Value in Statements of Financial Position
Assets					
Cash and cash equivalents	$ -	$ 2,369	$ 4,101	$ -	$ 6,470
Securities lending collateral[1]	-	-	3,949	-	3,949
Investments:					
Fixed maturity securities					
U.S. Government securities	-	-	66,613	-	
Commercial paper/securities purchased under repurchase agreements	-	-	432	-	
Asset backed/Mortgage backed securities	-	-	5,267	-	
Pooled funds[2]	-	58	0*	-	
Pooled funds fixed maturity at NAV[2,3]	791	-	-	-	
Corporate bonds and other	-	0*	20,646	0*	
International securities	-	1	9,216	-	
Total Fixed Maturity Securities	791	59	102,174	0*	103,024
Equity securities:					
Domestic	-	202	931	4	
International	-	2,472	-	0*	
Pooled funds[2]	-	144	-	-	
Pooled funds equity securities NAV[2,3]	20,255	-	-	-	
Total Equity Securities	20,255	2,818	931	4	24,008
Private equity at NAV[3]	276	-	-	-	276
Real estate and real estate investment trusts	-	1,498	-	8	
Real estate and real estate investment trusts at NAV[3]	1,278	-	-	-	
Total Real Estate	1,278	1,498	-	8	2,784
Insurance contracts and other Investments	-	-	-	7	7
Receivables: [4]					
Derivative contracts[5]	-	6	116	-	122
Liabilities					
Payables: [4]					
Derivative contracts[6]	-	19	54	-	

* Less than $500,000.

1 For securities lending details, please refer to the Securities lending section in Note 3 – Investments.
2 Pooled funds fixed and Pooled funds equity consists of domestic, international and global/other.
3 Certain investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) practical expedient have been excluded from fair value hierarchy. See Significant Accounting Policies – Note 2.
4 Where a legally enforceable master netting agreement exists, amounts for "Receivables, net – Derivative Contracts" and "Payables, net – Derivative Contracts" will include net of cash collateral deposited for non-exchange traded derivatives which are subject to master netting agreements. Collateral deposits receivable are $93 million ($106 million gross collateral deposits receivable less $13 million due to a netting of collateral deposits receivable and payable). Collateral deposits payable are $31 million ($44 million gross collateral deposits payable less $13 million due to a netting of collateral deposits receivable and payable).
5 Derivative contracts receivables are comprised of open receivable trades on futures, swaps, and collateral deposits. See the Derivative Contracts table under Note 4.
6 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, 2020, 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, 2020

(Dollars in millions)	**Fair Value at September 30, 2019**	**Total Realized and Unrealized Gains (Losses) included in Income**	**Purchases**	**Sales**	**Transfers Into Level 3**	**Transfers Out of Level 3[1]**	**Fair Value at September 30, 2020**	**Change in Unrealized Gains (Losses) Related to Financial Instruments held at September 30, 2020[2]**
Assets:								
Fixed	$ -	0*	0*	-	-	-	$ 0*	$ 0*
Pooled funds (fixed)	$ -	-	-	-	-	-	$ -	$ -
Domestic/Int'l equity[3]	$ 8	(4)	1	(1)	-	-	$ 4	($4)
Private equity	$ -	-	-	-	-	-	$ -	$ -
Real estate & real estate investment trusts	$ 8	0*	1	(1)	x*	-	$ 8	$0*
Other	$ 6	0*	1	0*	-	-	$ 7	$0*

* Less than $500,000
1 Certain investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) practical expedient have been excluded from fair value hierarchy. See Significant Accounting Policies – Note 2.
2 Amounts included in this column solely represent unrealized gains and losses and cannot be derived from other columns from this table.
3 Assets which are not actively traded in the market place.

Pursuant to FASB Accounting Standards Codification Section 820, *Fair Value Measurement, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*; additional disclosures for Investments priced at Net Asset Value are discussed below.

FAIR VALUE MEASUREMENTS OF INVESTMENTS THAT ARE MEASURED AT NET ASSET VALUE PER SHARE (OR ITS EQUIVALENT) AS A PRACTICAL EXPEDIENT FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Net Asset Value (in millions)	Unfunded Commitments [1,2]	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Real estate (a)	$ 1,278	$ 60	n/a	n/a
Private equity (b)	276	81	n/a	n/a
Pooled funds (c)	21,046	-	n/a	n/a
Total	$22,600	$141		

[1] Unfunded amounts include recallable distributions. A substantial portion of the unfunded commitments is unlikely to be called.
[2] These amounts include unfunded commitments that are measured at Net Asset Value.

a. This class includes public and private real estate investments that invest primarily in U.S. commercial real estate and U.S. residential real estate. For the private real estate investments, the fair value of each individual investment in this class has been estimated using the net asset value of PBGC's ownership interest in partners' capital. Generally, these investments do not have redemption provisions. Distributions from each asset include periodic income payments and the proceeds from the sale of the underlying real estate assets. The underlying real estate assets can generally be held indefinitely from the inception date of the investment. There are no plans to sell PBGC’s interest in private real estate fund investments in this class in the secondary market. The public real estate investment is an investment in a unit trust that is intended to match the return of a REIT index. 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 at least monthly when a per unit value is determined and are based upon the closing per unit net asset value.

b. This class includes private market investments that invest primarily in U.S. buyout and U.S. venture capital funds. These investments do not generally have redemption provisions. Instead, investments in this class typically make distributions which result from liquidation of the underlying assets of the funds. These distributions can extend 10 years or more from the inception of each individual fund. The fair value of each individual investment has been estimated using the net asset value of PBGC's ownership interest in partners' capital.

c. This class includes investments in unit trusts that are intended to match or outperform the 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 at least monthly 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 factor 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 in 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 factors. 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 FACTOR SENSITIVITY CALCULATIONS OF PVFB SINGLE-EMPLOYER TRUSTEED PLANS AND MULTIEMPLOYER PROGRAM[1]

September 30, 2020 *(Dollars in millions)*	**Sensitivity Factors Curve of One-Year Spot Rates (Interest Factors) - Varies Annually from (-0.38% in year 1 for 30 years, 0.49% thereafter)**	**Official Factors[2] Curve of One-Year Spot Rates (Interest Factors) - Varies Annually from 0.62% in year 1 for 30 years, 1.49% thereafter)**	**Sensitivity Factors Curve of One-Year Spot Rates (Interest Factors) - Varies Annually from 1.62% in year 1 for 30 years, 2.49% thereafter)**
Single-Employer Program[3]	$134,194	**$119,713**	$107,837
Multiemployer Program	80,521	**66,865**	55,990
Total	$214,715	**$186,578**	$163,827

[1] Level 3 Fair Value Measurements.
[2] Actual Spot Curve factors and PVFB amounts calculated for September 30, 2020, fiscal year-end financial statements.
[3] Gross PVFB liability for trusteed plans prior to the netting of recoveries.

NOTE 6: PRESENT VALUE OF FUTURE BENEFITS

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

PBGC uses a curve of interest factors to determine the actuarial present value of future benefit payments (as well as projected multiemployer nonrecoverable future financial assistance as discussed in Note 7). PBGC surveys life insurance industry annuity prices through the American Council of Life Insurers (ACLI) to obtain input needed to determine interest factors and then derives a 30-year curve of interest factors that together with PBGC's mortality assumption best matches the private sector annuity prices from the ACLI surveys. PBGC's process derives the curve of interest factors that differs least over the range of annuity prices in the ACLI surveys.

These interest factors were determined to be those that, given the mortality assumption used, best match the annuity prices provided by the ACLI surveys. The yield curve of rates is adjusted to best fit the survey prices considering unobserved factors such as: differing mortality improvement expectations; hedging activities and their costs; regulatory costs on insurers; varying profit and book-of-business expectations; etc. Many factors including Federal Reserve policy, changing expectations about longevity risk, and competitive market conditions may affect these rates.

The rates determined as the best fit for the price information from the two most recent ACLI surveys have been adjusted to the date of the financial statements using market interest rates. In PBGC's opinion, the liability for future benefit payments, net of administrative expenses, could be settled in the market for single-premium nonparticipating group annuities issued by private insurers at September 30, 2020 using these rates. Prior to September 30, 2020, the best-fit rates from the surveys were adjusted to a date one-month prior to the date of the financial statements due to the lack of market interest rate information available on a basis timely enough to meet the financial statement preparation schedule.

Prior to September 30, 2020 group annuity pricing rates from the surveys were adjusted to the date of PVFB measurement using corporate bond rates from the Financial Times Stock Exchange (FTSE) Pension Discount Curve and Treasury spot rates produced by the Federal Reserve. As of September 30, 2020, this adjustment is made using rate information obtained from the Intercontinental Exchange (ICE) index data platform. Corporate bond rates are from the ICE AAA-A3 market-weighted corporate bond spot curve which is based primarily on single A bond rates and which should represent group annuity pricing better than the FTSE curve which is based exclusively on AA bond rates because group annuity pricing is driven primarily by single A bond rates. Treasury rates are from the ICE U.S. Government spot curve. Because the spread between single A and AA rates does not typically change significantly, no material impact and no systematic increase or decrease in the PVFB measurement is expected to result from this change in normal market environments. The change has the potential in some unusual market conditions to have a larger impact on the PVFB measurement, but this should be infrequent.

Illustrated in the table below is a comparison of the September 30, 2020 and September 30, 2019 yield curves shown in spot rate format. Future payments are discounted by the single spot rate applicable for the future year in which the payment is made. For September 30, 2020, the spot rate yield curve starts with an interest factor of 0.62% in year 1 and changes as the future period for discounting gets longer until year 31 when the factor becomes 1.49% and is assumed to remain level thereafter. For September 30, 2019, the spot rate yield curve started with an interest factor of 2.36% in year 1 and the interest factor for year 31 and beyond was 1.98%.

CURVE OF SPOT RATES FOR SEPTEMBER 30, 2020 AND SEPTEMBER 30, 2019

Period (in Years)	09/30/2020	09/30/2019	Change	Period (in Years)	09/30/2020	09/30/2019	Change
1	0.62%	2.36%	-1.74%	16	1.64%	2.10%	-0.46%
2	0.71%	2.09%	-1.38%	17	1.64%	2.11%	-0.47%
3	0.90%	2.02%	-1.12%	18	1.64%	2.12%	-0.48%
4	1.09%	2.01%	-0.92%	19	1.64%	2.13%	-0.49%
5	1.25%	2.01%	-0.76%	20	1.64%	2.15%	-0.51%
6	1.38%	2.04%	-0.66%	21	1.63%	2.14%	-0.51%
7	1.47%	2.05%	-0.58%	22	1.62%	2.13%	-0.51%
8	1.54%	2.06%	-0.52%	23	1.61%	2.11%	-0.50%
8	1.58%	2.08%	-0.50%	24	1.60%	2.08%	-0.48%
10	1.60%	2.08%	-0.48%	25	1.58%	2.06%	-0.48%
11	1.62%	2.08%	-0.46%	26	1.56%	2.03%	-0.47%
12	1.63%	2.08%	-0.45%	27	1.54%	2.01%	-0.47%
13	1.63%	2.09%	-0.46%	28	1.52%	1.99%	-0.47%
14	1.64%	2.09%	-0.45%	29	1.50%	1.98%	-0.48%
15	1.64%	2.10%	-0.46%	30	1.49%	1.98%	-0.49%
				Longer Periods	1.49%	1.98%	-0.49%

PBGC converts the above spot rates into equivalent forward rates in its present valuation calculations utilized within its automated systems. When applied to projected benefit payments (as well as projected multiemployer nonrecoverable future financial assistance as discussed in Note 7), the spot rates and forward rates produce equivalent results as explained in the following example. A spot rate is the single rate of interest used to convert a single payment at a particular future year into a present value (PV). Thus, if $1,000 is payable at year 2 and the year 2 spot rate is 3%, the present value of the $1,000 is equal to $1,000 divided by 1.03 for each year for two years, or PV = $1000 ÷ [1.03 x 1.03] = $942.60. The equivalent forward rate, on the other hand, is the rate used to discount a present value for each year into the future (discount from year x+1 to year x). Thus, if the year 1 forward rate is 2% and the year 2 forward rate is 4.0098%, the present value of $1,000 payable at year 2 is $1,000 divided by 1.040098 (the year 2 forward rate) and then divided by 1.02 (the year 1 forward rate), or PV = [$1000 ÷ 1.040098] ÷ 1.02 = $942.60.

PBGC uses a fully generational mortality projection scale. The mortality tables PBGC used for September 30, 2020 consisted of the Retirement Plan 2014 (RP-2014) Healthy Male mortality table times 1.09 and the RP-2014 Healthy Female mortality table times 0.99 each with adjustments before age 50 and projected generationally with the Male and Female MP-2019 Projection Scales, respectively. For September 30, 2019, PBGC used the same tables projected generationally with the Male and Female MP-2018, respectively.

Beginning with the FY 2019 valuation, the expense reserve factor for administrative expenses is 0.68 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 trusteed plans for FY 2020 and FY 2019 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 below summarizes the actuarial adjustments, charges, and credits that explain how the Corporation's Single-Employer Program liability for the PVFB changed for the fiscal year ended September 30, 2020, and for the fiscal year ended September 30, 2019.

RECONCILIATION OF THE PRESENT VALUE OF FUTURE BENEFITS FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	September 30,			
(Dollars in millions)	**2020**		2019	
Present value of future benefits, at beginning of year -- Single-Employer, net		**$113,100**		$101,866
Estimated recoveries, prior year		**146**		214
Assets of terminated plans pending trusteeship, net, prior year		**378**		215
Present value of future benefits at beginning of year, gross		**113,624**		102,295
Settlements and judgments, prior year		**(17)**		(18)
Net claims for probable terminations, prior year		**(173)**		(1,799)
Actuarial adjustments -- underwriting:				
Changes in method and assumptions	**838**		(331)	
Effect of experience	**(790)**		(480)	
Total actuarial adjustments -- underwriting	**48**		(811)	
Actuarial charges -- financial:				
Expected interest	**2,620**		2,950	
Change in interest factors	**6,207**		12,270	
Total actuarial charges -- financial	**8,827**		15,220	
Total actuarial charges, current year		**8,875**		14,409
Terminations:				
Current year	**5,508**		4,627	
Changes in prior year	**(108)**		(60)	
Total terminations		**5,400**		4,567
Benefit payments, current year[1]		**(6,126)**		(6,020)
Estimated recoveries, current year		**(135)**		(146)
Assets of terminated plans pending trusteeship, net, current year		**(1,237)**		(378)
Settlements and judgments, current year [2]		**17**		17
Net claims for probable terminations:				
Future benefits[3]	**429**		173	
Estimated plan assets and recoveries from sponsors	**(227)**		-	
Total net claims, current year		**202**		173
Present value of future benefits, at end of year -- Single-Employer, net		**120,430**		113,100
Present value of future benefits, at end of year -- Multiemployer		**0***		0*
Total present value of future benefits, at end of year, net		**$120,430**		$113,100

* Less than $500,000 (actual amount is $62,865 and $75,606 for the 10 Pre-MPPAA (Multiemployer Pension Plan Amendments Act) trusteed multiemployer plans at September 30, 2020, and September 30, 2019, respectively).

1 The benefit payments of $6,126 million at September 30, 2020, and $6,020 million at September 30, 2019, include $56 million in FY 2020 and $60 million in FY 2019, respectively, for benefits paid from plan assets prior to trusteeship.

2 PBGC 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 PBGC's future Page/Collins settlement liability amount was $17 million at both September 30, 2020 and September 30, 2019.

3 The future benefits for probable terminations of $429 million and $173 million at September 30, 2020, and September 30, 2019, include $99 million and $173 million, respectively, for probable terminations not specifically identified, and $103 million and $0 (zero) 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, 2020		September 30, 2019	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
U.S. Government securities	**$ -**	**$ -**	$ -	$ -
Corporate and other bonds	**574**	**574**	183	182
Equity securities	**664**	**664**	205	205
Private equity	**-**	**-**	-	-
Insurance contracts	**-**	**-**	-	-
Other	**(1)**	**(1)**	(9)	(9)
Total, net	**$1,237**	**$1,237**	$379	$378

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, 2020, Net Claims for Probable Terminations is $202 million, of which $103 million is from a specific identification process and $99 million is from the reserve for small unidentified probable losses.

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

RECONCILIATION OF NET CLAIMS FOR PROBABLE TERMINATIONS

	September 30,			
(Dollars in millions)		**2020**		2019
Net claims for probable terminations, at beginning of year		**$ 173**		$ 1,799
New claims	**103**		-	
Actual terminations	**-**		(1,635)	
Deleted probables	**-**		-	
Change in benefit liabilities	**(74)**		9	
Change in plan assets	**-**		-	
Loss (credit) on probables		**29**		(1,626)
Net claims for probable terminations, at end of year		**$ 202**		$173

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

PROBABLES EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	**FY 2020**	FY 2019
Retail	**$ -**	$ -

Manufacturing	**103**	-
Forest Product	**-**	-
Total[1,2]	**$103**	$ -

[1] Total excludes a small unidentified bulk reserve of $99 million and $173 million for September 30, 2020 and September 30, 2019, respectively.
[2] For fiscal year ended September 30, 2019, PBGC did not have any specifically identified single-employer plans classified as probable in inventory.

For further detail regarding single-employer probables, see Note 2 under Present Value of Future Benefits (PVFB) subpoint (4) on pages 68-69.

The following table shows what has happened to plans classified as probable. This table does not include those plans that were classified as probable and then subsequently terminated within the same fiscal year.

ACTUAL PROBABLES EXPERIENCE

As Initially Recorded Beginning in 1987

(Dollars in millions)	Status of Probables from 1987-2019 at September 30, 2020			
Beginning in 1987, number of plans reported as Probable:	Number of Plans	Percent of Plans	Net Claim	Percent of Net Claim
Probables terminated	387	79%	$34,173	74%
Probables not yet terminated or deleted	-	0%	-	0%
Probables deleted	103	21%	12,032	26%
Total	490	100%	$46,205	100%

NOTE 7: MULTIEMPLOYER FINANCIAL ASSISTANCE

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

NOTES RECEIVABLE MULTIEMPLOYER FINANCIAL ASSISTANCE

(Dollars in millions)	**September 30, 2020**	September 30, 2019
Gross balance at beginning of year	**$1,497**	$1,335
Financial assistance payments	**164**	160
Financial assistance - premiums waived	**2**	2
Write-offs related to settlement agreements	**0** *	0 *
Subtotal	**1,663**	1,497
Allowance for uncollectible amounts	**(1,663)**	(1,497)
Net balance at end of year	**$ -**	$ -

* Less than $500,000

The Underwriting losses from financial assistance (insolvent plans) and probable financial assistance reflected in the Statements of Operations and Changes in Net Position include period changes in the estimated present value of nonrecoverable future financial assistance. The Financial expenses related to 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 begun 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 determine the probable liability, 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 individually to identify probable losses, the reserve for small ongoing plans (fewer than 2,500 participants) uses an aggregate method to estimate liability and exposure based on the use of seven years of plan termination history to project the current probable liability.

For medium-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 and then calculates projected dates of insolvency for these plans to measure the probable liability.

MPRA provides that certain plans may apply to the U.S. Department of the Treasury (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. Plans applying for a partition are also required to apply to Treasury for a suspension of benefits. These actions do not affect the determination of the nonrecoverable future financial assistance liability until approval has been granted and Treasury has issued the final authorization to suspend benefits. In the case of a benefit suspension application, the plan is no longer classified as probable once Treasury has issued the final authorization to suspend benefits. In the case of a partition application, the original plan is no longer classified as probable once PBGC has approved the application and Treasury has issued the final authorization to suspend benefits.

In FY 2020, PBGC approved the merger of the Laborers International Union of North America 1000 Pension Fund (Local 1000 Plan) with the Laborers Local 235 Pension Fund (Local 235 Plan, collectively the Plans), PBGC's first facilitated merger under MPRA. Beginning FY 2020, PBGC is to provide three annual installments of $9 million to the merged plan. The Local 1000 Plan, which was in critical and declining status, had been projected to become insolvent in 2026. The merger enabled Local 1000 Plan participants to postpone or avoid certain benefit reductions, while not harming the Local 235 Plan. The financial assistance is expected to reduce PBGC's long-term loss with respect to these plans.

As of September 30, 2020, the Corporation expects that 192 individually identified multiemployer plans have exhausted or 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 192 plans is $66,865 million (inclusive of the reserve for small ongoing plan losses not individually identified, and $18 million that resulted from the first facilitated merger of two multiemployer plans under MPRA. This newly merged plan is not included in the insolvent plan count noted in the table below). The 192 plans fall into three categories: (1) plans currently receiving financial assistance (whether terminated or not); (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: Plans that have terminated but have not yet started receiving financial assistance 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: Ongoing plans with a projected date of insolvency within 10 years. Small plans with fewer than 2,500 participants are excluded from the plan count for this category. The liability for small plans is based on an aggregate method to determine a small plan bulk reserve.

MULTIEMPLOYER FINANCIAL ASSISTANCE

	September 30, 2020		September 30, 2019	
(Dollars in millions)	**Number of Plans**	**Net Liability**	Number of Plans	Net Liability
Plans currently receiving financial assistance	**91** [1]	**$2,994** [2]	85	$2,807
Plans that have terminated but have not yet started receiving financial assistance (classified as probable)	**61** [3]	**2,072**	65	1,955
Ongoing plans (not terminated) that the Corporation expects will require financial assistance in the future (classified as probable)	**40** [4]	**61,799** [5,6]	41	63,233 [6]
Total	**192**	**$66,865**	191	$67,995

[1] Three new plans were added to "Plans currently receiving financial assistance", four plans transferred from "Plans that have terminated but have not yet started receiving financial assistance" to "Plans currently receiving financial assistance", and one plan was removed from inventory due to a closeout via annuity purchase.

[2] Net liability for "Plans currently receiving financial assistance" includes $18 million that resulted from the facilitated merger of two multiemployer plans under MPRA. However, this newly merged plan is not included in the insolvent plan count noted in the table above.

[3] Two new plans were added to "Plans that have terminated but have not yet started receiving financial assistance", four plans transferred to "Plans currently receiving financial assistance" from "Plans that have terminated but not yet receiving financial assistance", and two plans were removed from inventory.

[4] Four new plans were added to Ongoing plans", and five plans were removed from inventory.

[5] The Bipartisan American Miners Act of 2019, enacted December 2019, provides for annual payments from the U.S. Treasury to the United Mine Workers 1974 Pension Fund based on interest earned on the Abandoned Mine Reclamation Fund and other appropriations. In FY 2020, the amount

transferred under this legislation totaled $1.57 billion (including retroactive transfers for fiscal years 2017 through 2019). Since these payments are projected to allow the UMWA fund to remain solvent, it is not expected to require financial assistance from PBGC. Therefore, the plan is no longer classified as an ongoing future probable (as it was in FY 2019), contributing to a reduction in liability.

[6] "Ongoing plans" include a small unidentified probable bulk reserve of $1,232 million and $1,149 million for September 30, 2020, and September 30, 2019, respectively.

Of the 192 plans:

a) 91 have exhausted plan assets and are currently receiving financial assistance payments from PBGC. The present value of future financial assistance payments for these insolvent 91 plans is $2,994 million (see sub note 2 above).

b) 61 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 61 terminated plans is $2,072 million.

c) 40 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 (e.g., investment income, contribution income and withdrawal liability income) to the plan, and the possibility for future changes in contributions. The present value of future financial assistance payments for these 40 ongoing plans is $61,799 million.

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

(Dollars in millions)	**September 30, 2020**	September 30, 2019
Balance at beginning of year	**$67,995**	$56,153
Changes in allowance:		
Losses (credits) from insolvent and probable plans - financial assistance	**(1,137)**	11,662
Actuarial adjustments	**(34)**	(31)
Actuarial charges (credits) - Insolvent plans:		
Due to expected interest	**68**	74
Due to change in interest factors	**146**	297
Financial assistance granted (previously accrued)	**(164)**	(160)
Financial assistance granted through MPRA merger[1]	**(9)**	-
Balance at end of period	**$66,865**	$67,995

[1]PBGC approved its first facilitated merger of two multiemployer plans under MPRA that resulted in an additional $9 million in financial assistance in FY 2020.

In the table above, actuarial charges are reported separately from "Losses (credits) 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 (credits) 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. PBGC uses a curve of interest factors to determine the actuarial Multiemployer Nonrecoverable Future Financial Assistance. See Note 6 for the table of yield curves shown in spot rate format.

NOTE 8: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

(Dollars in millions)	**September 30, 2020**	September 30, 2019
Annual leave	**$13**	$10
Other payables and accrued expenses	**77**	79
Accounts payable and accrued expenses	**$90**	$89

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 than plans sponsored by companies with investment grade ratings. The estimated unfunded vested benefits exposure amounts disclosed represent PBGC's estimates of the reasonably possible exposure to loss given the inherent uncertainties about these plans.

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 $50 million or more 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 based upon information available about the companies as of September 30, 2020. If a single-employer plan sponsor meets any of the following criteria, PBGC classifies the plan sponsor as reasonably possible:

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).

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

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

A 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 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, 2019. The reasonably possible exposure to loss was $176,190 million for FY 2020. This is an increase of $21,517 million from the reasonably possible exposure of $154,673 million in FY 2019. This increase is primarily due to the decrease in the interest factors used for estimating exposure and the increase in the number of companies with lower than investment grade bond ratings and/or credit scores that therefore are classified as reasonably possible.

The estimate of unfunded vested benefit 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, 2018.

The present value of vested benefits, and resulting estimate of unfunded vested benefit exposure to loss, are based on a measurement date of December 31, 2019. Effective FY 2020, PBGC changed the methodology for determining interest factors utilized to discount the reasonably possible exposure as compared to prior years. Specifically, PBGC now uses a yield curve of spot rates (interest factors), instead of select and ultimate factors previously used. PBGC surveys life insurance industry annuity prices through the American Council of Life Insurers (ACLI) to obtain input needed to determine these interest factors and then derives a 30-year curve of interest factors that, together with PBGC's mortality assumption used for reasonably possible exposure, best matches the private sector annuity prices from the ACLI surveys.

The yield curve and rates are shown below in spot rate format. Future payments are discounted by the single rate applicable for the period (years) in which the payment is expected to be made. For the December 31, 2019 measurement of reasonably possible exposure, the yield curve starts with an interest factor of 2.18% in year 1 and changes as the future period for discounting gets longer until year 31 when the factor becomes 2.26% and is assumed to remain level thereafter.

CURVE OF SPOT RATES FOR DECEMBER 31, 2019 MEASUREMENT OF SINGLE-EMPLOYER REASONABLY POSSIBLE EXPOSURE

Period (in Years)	Interest Factor	Period (in Years)	Interest Factor	Period (in Years)	Interest Factor
1	2.18%	11	2.41%	21	2.46%
2	2.12%	12	2.41%	22	2.44%
3	2.15%	13	2.41%	23	2.41%
4	2.20%	14	2.42%	24	2.38%
5	2.24%	15	2.42%	25	2.35%
6	2.30%	16	2.42%	26	2.32%
7	2.34%	17	2.43%	27	2.29%
8	2.37%	18	2.43%	28	2.27%
9	2.39%	19	2.45%	29	2.26%
10	2.40%	20	2.47%	30	2.26%
			Longer Periods		2.26%

For the December 31, 2019 measurement of reasonably possible exposure, PBGC used the RP-2014 Healthy Male and Healthy Female mortality tables projected generationally using the MP-2019 male and female projections scales, respectively.

The expense load defined in 29 CFR Part 4044, Appendix C was estimated and applied to the present value of vested benefits.

Note that the aforementioned interest factors used for the reasonably possible exposure are derived at a different point in time than the interest factors used for PBGC's Present Value of Future Benefits presented in Note 6. Due to the amount of time required to develop the reasonably possible exposure, it is measured as of the prior December 31, rather than as of the fiscal year-end.

In FY 2019, PBGC estimated the reasonably possible exposure as of December 31, 2018 using a 20-year select interest factor of 3.05% followed by an ultimate factor of 3.04% thereafter, and applying the expense load as defined in 29 CFR Part 4044, Appendix C. The interest factors were derived in conjunction with the 1994 Group Annuity Mortality Static Table (with margins) projected to 2028 using Scale AA to approximate annuity prices as of December 31, 2018.

The underfunding associated with these plans could be substantially different at September 30, 2020, because of changes in economic conditions between December 31, 2019, and September 30, 2020. PBGC did not adjust the estimate for events that occurred between December 31, 2019, and September 30, 2020.

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

REASONABLY POSSIBLE EXPOSURE TO LOSS BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	**FY 2020**	FY 2019
Manufacturing	**$61,568**	$57,706
Transportation, Communication and Utilities	**43,345**	41,699
Services	**36,949**	26,027
Wholesale and Retail Trade	**10,975**	10,922
Health Care	**10,120**	7,625
Finance, Insurance, and Real Estate	**6,435**	5,380
Agriculture, Mining, and Construction	**6,798**	5,314
Total	**$176,190**	$154,673

MULTIEMPLOYER PLANS

Multiemployer plans that have become insolvent will require financial assistance. PBGC included amounts in the liability for the present value of nonrecoverable future financial assistance (see Note 7) for multiemployer plans that have become insolvent and for plans that PBGC estimated may require future financial assistance. In addition, PBGC estimated as of September 30, 2020, that it is reasonably possible that other multiemployer plans may require future financial assistance in the amount of $9,312 million, a $1,559 million decrease from the $10,871 million in FY 2019. The primary reason for the decrease in exposure was due to the net effect of removing three larger plans that are no longer classified as reasonably possible. These three plans had net liabilities greater than the net liabilities of five new plans classified as reasonably possible. Another driver of the decrease was the decline in the reasonably possible small plan bulk reserve. The decline in yield curve rates had an offsetting effect on the exposure. Reasonably possible multiemployer classification is defined as an ongoing plan with a projected insolvency date between 10 and 20 years from the valuation date.

PBGC calculated the future financial assistance liability for each multiemployer plan identified as probable (see Note 7), or reasonably possible. PBGC used a formula to calculate the present value of guaranteed future benefits and expense payments, net of any future contributions or withdrawal liability payments. These amounts were as of the later of September 30, 2020, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2020. 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.

To determine the probable liability and reasonably possible exposure, 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 for small plans is derived by subtracting the probable liability for small plans from the total exposure for high-risk small plans. For medium-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 and then calculates projected dates of insolvency for these plans to measure the reasonably possible exposure.

NOTE 10: COMMITMENTS

PBGC's lease commitments for its office and field benefit administrators' facilities total $353.1 million in future years. These leases provide for periodic rate increases based on increases in operating costs and real estate taxes over the base amount. In FY 2022, PBGC will relocate to its new headquarters under a new 15 year leasing agreement (includes rent-free period for the first nine months). The minimum future lease payments for PBGC facilities having non-cancellable terms in excess of one year as of September 30, 2020, are:

COMMITMENTS: FUTURE LEASE PAYMENTS

(Dollars in millions)	
Years Ending September 30,	Operating Leases
2021	$ 15.3
2022	16.8
2023	23.1
2024	22.6
2025	22.6
Thereafter	252.7
Minimum lease payments	$ 353.1

In addition to the committed minimum operating lease payments of $353.1 million as noted in the table above, PBGC has estimated future uncommitted operating leases of $3.0 million.

Lease expenses were $15.9 million in FY 2020 and $17.1 million in FY 2019.

NOTE 11: PREMIUMS

For both the Single-Employer and Multiemployer Programs, ERISA provides that PBGC continues to guarantee basic benefits despite the failure of a plan administrator to pay premiums when due. PBGC assesses interest and penalties on the late or unpaid portion 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 years beginning in 2020, the per-participant flat rate premium was $83 for single-employer pension plans and $30 for multiemployer plans. For plan years 2019 and 2018, the per-participant flat rate premiums for single-employer pension plans were $80 and $74, respectively, and for multiemployer plans, $29 and $28, respectively.

Single-employer plans also owe a variable rate premium (VRP) tied to the amount of underfunding, if any. For plan years beginning in 2020, the VRP rate was $45 per $1,000 of unfunded vested benefits subject to an overall cap of $561 per participant. For plan years 2019 and 2018, the VRP rates were $43 and $38, respectively. Applicable caps for those plan years are shown in the table below.

The termination premium applies to certain plan terminations occurring after 2005. If a single-employer 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.

Net premium income for FY 2020 was $5,985 million and consisted of $3,770 million in VRPs, $2,198 million in flat rate premiums, $12 million in termination premiums, $2 million in interest and penalty income, and a credit of $3 million to bad debt expense. Bad debt expenses include a reserve for uncollectible premium receivables (including flat, variable, termination premiums, and insolvent multiemployer plans), interest, and penalties. The SECURE Act of 2019 (enacted December 20, 2019) significantly lowered premium rates for several Cooperative and Small-Employer Charity (CSEC) plans (i.e., pre-Pension Protection Act of 2006 premium rates). Since the Premium and Practitioner System (PPS) was not updated to reflect these lower premium rates, FY 2020 premium revenue data for CSEC plans was reviewed and adjusted based on the lower premium rates and plan information provided in CSEC plan premium filings. The adjustments resulted in lower variable rate premiums of $62 million and lower flat rate premiums of $17 million.

Net premium income for FY 2019 was $6,662 million and consisted of $4,488 million in VRPs, $2,194 million in flat rate premiums, $4 million in termination premiums, and $4 million in interest and penalty income, offset by a bad debt expense of $28 million. Bad debt expenses include a reserve for uncollectible premium receivables (including flat, variable, termination premiums, and insolvent multiemployer plans), interest, and penalties.

The following table shows the premium rates for 2018 through 2020:

PREMIUM RATES FOR SINGLE-EMPLOYER AND MULTIEMPLOYER PLANS

	Single-Employer Plans			Multiemployer Plans
	Flat Rate Premium	Variable Rate Premium		
Plan Years Beginning in	Rate Per Participant	Rate per $1,000 UVBs	Per Participant Cap	Flat Rate Premium Rate Per Participant
2020	$83	$45	$561	$30
2019	$80	$43	$541	$29
2018	$74	$38	$523	$28

Premium income is accrued for months in which a plan year overlaps the fiscal year. Because of this rule, premiums for 2018, 2019, and 2020 plan years are accrued in FY 2020, and premium rates change each calendar year, so three sets of premium rates were used to calculate FY 2020 premium revenue.

For example, consider a plan with a September 1, 2019 to August 31, 2020 plan year. Only the first month of that plan year occurs during FY 2019, so 1/12 of the plan's premium was accrued in FY 2019 and 11/12 accrued in FY 2020. Similarly, for a plan with a December 1, 2018 to November 30, 2019 plan year, the last two months of that plan year occur during FY 2020, so 2/12 of the plan's premium income was accrued in FY 2020 and 10/12 was accrued in FY 2019.

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

Net Premiums Receivable

(Dollars in millions)	Single-Employer Sept. 30, 2020	Single-Employer Sept. 30, 2019	Multiemployer Sept. 30, 2020	Multiemployer Sept. 30, 2019	Memorandum Total Sept. 30, 2020	Memorandum Total Sept. 30, 2019
Premiums Not Yet Due:						
Estimated Flat-Rate Premiums	**$1,090**	$1,124	**$186**	$173	**$1,276**	$1,297
Estimated Variable-Rate Premiums	**2,102**	2,995	**-**	-	**2,102**	2,995
Total Net Premiums Not Yet Due	**3,192**	4,119	**186**	173	**3,378**	4,292
Premiums Past Due:						
Flat-Rate Premiums	**157**	149	**6**	8	**163**	157
Allowance for Bad Debt-Flat-Rate	**(1)**	(3)	**0 ***	0 *	**(1)**	(3)
Variable-Rate Premiums	**248**	244	**-**	-	**248**	244
Allowance for Bad Debt-Variable-Rate	**(3)**	(5)	**-**	-	**(3)**	(5)
Total Net Premiums Past Due	**401**	385	**6**	8	**407**	393
Termination Premiums:[1]						
Termination Premiums	**304**	305	**-**	-	**304**	305
Allowance for Bad Debt-Termination	**(292)**	(296)	**-**	-	**(292)**	(296)
	12	9	**-**	-	**12**	9
Interest and Penalty:						
Interest and Penalty Due	**1**	3	**1**	0 *	**2**	3
Allowance for Bad Debt-Int/Penalty	**0 ***	(1)	**(1)**	0 *	**(1)**	(1)
Total Net Interest and Penalty Due	**1**	2	**0 ***	0 *	**1**	2
Grand Total Net Premiums Receivable	**$3,606**	$4,515	**$192**	$181	**$3,798**	$4,696

* Less than $500,000

[1] 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 receive either nothing or only a very small fraction of its total claims filed.

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

PREMIUM INCOME BY PREMIUM TYPE

(Dollars in millions)	**September 30, 2020**	September 30, 2019
Flat-Rate Premium:		
Single-Employer	**$1,874**	$1,882
Multiemployer	**324**	312
Total Flat-Rate Premium	**2,198**	2,194
Variable-Rate Premiums	**3,770**	4,488
Interest and Penalty Income	**2**	4
Termination Premium	**12**	4
Less Bad Debts for Premiums, Interest, and Penalties	**3**	(28)
Total Net Premiums	**$5,985**	$6,662

PREMIUM INCOME BY PROGRAM

(Dollars in millions)	**September 30, 2020**	September 30, 2019
Single-Employer:		
Flat-Rate and Variable-Rate Premiums	**$5,644**	$6,370
Interest and Penalty Income	**1**	4
Termination Premiums	**12**	4
Less Bad Debts for Premiums, Interest, and Penalties	**6**	(26)
Total Single-Employer	**5,663**	6,352
Multiemployer:		
Flat-Rate Premiums	**324**	312
Interest and Penalty Income	**1**	0 *
Less Bad Debts for Premiums, Interest, and Penalties	**(3)**	(2)
Total Multiemployer	**322**	310
Total Net Premiums	**$5,985**	$6,662

* Less than $500,000

NOTE 12: LOSSES (CREDITS) 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 (CREDITS) FROM COMPLETED AND PROBABLE TERMINATIONS – SINGLE-EMPLOYER PROGRAM

	For the Years Ended September 30,					
		2020			2019	
(Dollars in millions)	**New Terminations**	**Changes in Prior Years' Terminations[6]**	**Total**	New Terminations	Changes in Prior Years' Terminations[6]	Total
Present value of future benefits	**$5,500**	**($105)**	**$5,395**	$4,614	($59)	$4,555
Less plan assets	**3,423**	**85**	**3,508**	3,060	121	3,181
Plan asset insufficiency	**2,077[1]**	**(190)**	**1,887**	1,554	(180)	1,374
Less estimated recoveries	**-**	**(10)**	**(10)**	-	(61)	(61)
Subtotal	**2,077[2]**	**(180)**	**1,897**	1,554[2]	(119)	1,435
Settlements and judgments		**0*[7]**	**0*[7]**		0*[7]	0*[7]
Loss (credit) on probables	**103[3]**	**(74)[4]**	**29[5]**	(1,354)[3]	10[4]	(1,344)[5]
Total	**$2,180**	**($254)**	**$1,926**	$200	($109)	$91

* Less than $500,000

[1] Includes Missing Participant activity; if excluded the Present value of future benefits for New Terminations would be $5,414 million, Plan assets $3,337 million and Plan asset insufficiency $2,077 million.

[2] Net claim for plans terminated during the period (67 plans at September 30, 2020 and 47 plans at September 30, 2019), including plans previously recorded as probables which have since terminated.

[3] Includes net claims for plans that are currently classified as probable, plans that were previously recorded as probable that have since terminated and plans that were deleted.

[4] Changes to the single-employer small plan unidentified probables bulk reserve.

[5] See Note 6 - includes $103 million at September 30, 2020, and $1,354 million at September 30, 2019, previously recorded relating to plans that terminated during the period ("Actual terminations").

[6] 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.

[7] PBGC 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 PBGC's future Page/Collins settlement liability is $17 million for both September 30, 2020 and September 30, 2019, respectively.

NOTE 13: FINANCIAL INCOME

The following table details the Memorandum Total financial income by type of investment for both the Single-Employer and Multiemployer Programs:

INVESTMENT INCOME SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS

(Dollars in millions)	**Single-Employer Program Sept. 30, 2020**	**Multiemployer Program Sept. 30, 2020**	**Memorandum Total Sept. 30, 2020**	Single-Employer Program Sept. 30, 2019	Multiemployer Program Sept. 30, 2019	Memorandum Total Sept. 30, 2019
Fixed maturity securities:						
Interest earned	**$2,633**	**$37**	**$2,670**	$2,629	$68	$2,697
Realized gain (loss)	**6,372**	**32**	**6,404**	3,808	101	3,909
Unrealized gain (loss)	**1,502**	**111**	**1,613**	7,913	273	8,186
Total fixed maturity securities	**10,507**	**180**	**10,687**	14,350	442	14,792
Equity securities:						
Dividends earned	**54**	**-**	**54**	122	-	122
Realized gain (loss)	**1,749**	**-**	**1,749**	1,636	-	1,636
Unrealized gain (loss)	**284**	**-**	**284**	(1,697)	-	(1,697)
Total equity securities	**2,087**	**-**	**2,087**	61	-	61
Private equity:						
Distributions earned	**2**	**-**	**2**	0 *	-	0 *
Realized gain (loss)	**74**	**-**	**74**	103	-	103
Unrealized gain (loss)	**(93)**	**-**	**(93)**	(86)	-	(86)
Total private equity	**(17)**	**-**	**(17)**	17	-	17
Real estate:						
Distributions earned	**43**	**-**	**43**	0 *	-	0 *
Realized gain (loss)	**218**	**-**	**218**	444	-	444
Unrealized gain (loss)	**(379)**	**-**	**(379)**	(58)	-	(58)
Total real estate	**(118)**	**-**	**(118)**	386	-	386
Other income:						
Distributions earned	**3**	**-**	**3**	6	-	6
Realized gain (loss)	**8**	**-**	**8 ***	0 *	-	0 *
Unrealized gain (loss)	**0 ***	**-**	**0 ***	0 *	-	0 *
Total other income	**11**	**-**	**11**	6	-	6
Total investment income	**$12,470**	**$180**	**$12,650**	$14,820	$442	$15,262

*Less than $500,000

NOTE 14: EMPLOYEE BENEFIT PLANS

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

Total retirement plan expenses amounted to $30 million in FY 2020 and $26 million in FY 2019. 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 investments. Sales and purchases of investments are driven by the magnitude and investment composition of newly trusteed plans, the unique investment strategies implemented by PBGC's investment managers, and the varying capital market conditions in which they invest during the year. These cash flow numbers can vary significantly from year to year based on the fluctuation in these three variables.

INVESTING ACTIVITIES (SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS MEMORANDUM TOTAL)

	September 30,	
(Dollars in millions)	**2020**	2019
Proceeds from sales of investments:		
Fixed maturity securities	**$159,258**	$122,569
Equity securities	**13,217**	8,853
Other/uncategorized	**8,261**	6,565
Memorandum total	**$180,736**	$137,987
Payments for purchases of investments:		
Fixed maturity securities	**($166,585)**	($129,940)
Equity securities	**(9,688)**	(6,329)
Other/uncategorized	**(6,939)**	(4,116)
Memorandum total	**($183,212)**	($140,385)

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

RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in millions)	**2020**	2019	**2020**	2019	**2020**	2019
Net income (loss)	**$6,822**	$6,217	**$1,417**	($11,290)	**$8,239**	($5,073)
Adjustments to reconcile net income to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	**(9,777)**	(12,066)	**(112)**	(360)	**(9,889)**	(12,426)
Net (gain) loss of plans pending termination and trusteeship	**19**	(5)	**-**	-	**19**	(5)
Losses (credits) on completed and probable terminations	**1,926**	91	**-**	-	**1,926**	91
Actuarial charges (credits)	**8,875**	14,409	**-**	-	**8,875**	14,409
Benefit payments - trusteed plans	**(6,069)**	(5,960)	**-**	-	**(6,069)**	(5,960)
Settlements and judgments	**0**	(1)	**-**	-	**0**	(1)
Cash received from plans upon trusteeship	**(23)**	385	**-**	-	**(23)**	385
Receipts from sponsors/non-sponsors	**131**	(115)	**-**	-	**131**	(115)
Receipts for missing participants and other	**82**	37	**-**	-	**82**	37
EL/DUEC Trusteeship interest (non-cash)	**(26)**	(45)	**-**	-	**(26)**	(45)
Cash receipts timing from Trust to Revolving	**-**	-	**-**	-	**-**	-
Amortization of discounts/premiums	**217**	47	**14**	4	**231**	51
Amortization and Depreciation expense	**8**	11	**-**	-	**8**	11
Bad debt expense/Write-offs (net)	**16**	14	**-**	-	**16**	14
Changes in assets and liabilities, net of effects of trusteed and pending plans:						
(Increase) decrease in receivables	**954**	(927)	**(5)**	(8)	**949**	(935)
Increase in present value of nonrecoverable future financial assistance	**-**	-	**(1,130)**	11,842	**(1,130)**	11,842
Increase (decrease) in unearned premiums	**5**	51	**(1)**	(5)	**4**	46
Increase (decrease) in accounts payable	**1**	14	**-**	-	**1**	14
Net cash provided (used) by operating activities	**$3,161**	$2,157	**$183**	$183	**$3,344**	$2,340

NOTE 16: OTHER ASSETS

The following tables display the details of Property and Equipment (Capitalized assets, net). The "Capitalized assets, net" line item on the Statements of Financial Position consists of the following components.

PROPERTY AND EQUIPMENT, NET

FY 2020	September 30, 2020 Single-Employer			September 30, 2020 Multiemployer			September 30, 2020 Memorandum Total		
(Dollars in millions)	**Cost**	**Accumulated Depreciation/ Amortization**	**Net**	**Cost**	**Accumulated Depreciation/ Amortization**	**Net**	**Cost**	**Accumulated Depreciation/ Amortization**	**Net**
Furniture and Equipment	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Mechanical Equipment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
ADP Equipment	**9**	**(7)**	**2**	**1**	**0**	**1**	**10**	**(7)**	**3**
Internal Use Software - In Development	**4**	**n/a**	**4**	**0 ***	**n/a**	**0 ***	**4**	**n/a**	**4**
Internal Use Software	**136**	**(123)**	**13**	**8**	**(8)**	**0 ***	**144**	**(131)**	**13**
Total	**$149**	**($130)**	**$19**	**$9**	**($8)**	**$1**	**$158**	**($138)**	**$20**

FY 2019	September 30, 2019 Single-Employer			September 30, 2019 Multiemployer			September 30, 2019 Memorandum Total		
(Dollars in millions)	Cost	Accumulated Depreciation/ Amortization	Net	Cost	Accumulated Depreciation/ Amortization	Net	Cost	Accumulated Depreciation/ Amortization	Net
Furniture and Equipment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Mechanical Equipment	-	-	-	-	-	-	-	-	-
ADP Equipment	9	(6)	3	1	(1)	0 *	10	(7)	3
Internal Use Software - In Development	2	n/a	2	0 *	n/a	0 *	2	n/a	2
Internal Use Software	129	(116)	13	8	(7)	1	137	(123)	14
Total	$140	($122)	$18	$9	($8)	$1	$149	($130)	$19

* Less than $500,000

Combined depreciation and amortization expense was $8 million and $11 million for FY 2020 and FY 2019, respectively. The Memorandum Total for "Capitalized assets, net" on the Statements of Financial Position consist of the components above.

COMBINED (MEMORANDUM TOTAL) PROPERTY AND EQUIPMENT, NET

	September 30,			
(Dollars in millions)	**2020**		2019	
Combined property and equipment, net at beginning of year		**$ 19**		$ 26
Capitalized Acquisitions	**11**		5	
Dispositions	**(2)**		(7)	
Depreciation/Amortization	**(8)**		(5)	
Net change of property and equipment		**1**		(7)
Combined property and equipment, net at end of year		**$ 20**		$19

The following table displays the detail of Other Receivables from sponsors of terminated plans that represents the amounts due from the plan sponsor and its controlled group for the statutory minimum funding contributions owed to the plan, Due and Unpaid Employer Contributions (DUEC), and unfunded benefit liabilities of the plan, Employer Liability (EL). These notes and other receivables for DUEC and EL result from the execution of an approved settlement agreement with the plan sponsors and controlled group, final court order resolving PBGC claims, a confirmed plan of reorganization that sets forth the treatment of PBGC claims, or other circumstances in which significant uncertainties regarding the value of PBGC claims have been removed.

The effective interest rate varies with each settlement agreement. The interest rate for discounting the future payments to the settlement date is a risk-adjusted rate.

Other receivables include amounts due from others that are not included in another receivable account and that result from events that give PBGC a claim for future asset inflows until such time as they are collected, converted into other resources, or determined to be partially or wholly uncollectible.

OTHER RECEIVABES

(Dollars in millions)	Sept. 30 2020	Sept. 30 2019
EL Receivables	**$23**	**$17**
DUEC Receivables	**3**	**3**
Other Receivables	**6**	**6**
Total	**$32**	**$26**

NOTE 17: LITIGATION

Legal challenges to PBGC's policies and positions continued in FY 2020. At the end of the fiscal year, PBGC had 18 active cases in state and federal courts and 152 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 18: SUBSEQUENT EVENTS

PBGC evaluated subsequent events through publication on December 9, 2020, the date the financial statements were available to be issued.

CONDITIONS THAT EXISTED AT SEPTEMBER 30, 2020

Events or transactions for the Multiemployer Program, occurring after September 30, 2020, and before the financial statements were available to be issued, that provided additional evidence about conditions that existed at September 30, 2020, have been recognized in the financial statements. For the Single-Employer Program there was one non-recognized subsequent event as follows:

PBGC's premium rates regulation (29 CFR part 4006) provides rules for determining a plan's unfunded vested benefits for purposes of calculating the variable-rate premium (VRP). Section 4006.4(c) requires that to determine the value of a plan's assets for this purpose, "prior year contributions are included only to the extent received by the plan by the date the premium is filed." The last date for a timely premium filing is the due date provided in § 4007.11(a) of PBGC's premium payment regulation (29 CFR part 4007), e.g., October 15 for a calendar year plan.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act, Pub. L. No. 116-136 ("CARES Act") was signed into law. Section 3608(a)(1) of the CARES Act provides that any minimum required contribution that would otherwise be due under section 303(j) of the Employee Retirement Income Security Act (ERISA) during calendar year 2020 is due on January 1, 2021. The CARES Act did not provide any special rules related to PBGC premiums.

On August 6, 2020, the Internal Revenue Service (IRS) issued Notice 2020-61, Special Funding and Benefit Limitation Rules for Single-Employer Defined Benefit Plans under the CARES Act. Q&A 4 states that the extended due date under section3608(a) of the CARES Act also applies to contributions in excess of the amount needed to satisfy the minimum required contribution for the plan year. On November 16, 2020, the IRS issued Notice 2020-82 that stated that the IRS will consider a contribution with an extended due date of January 1, 2021 to be timely if it is made by January 4, 2021.

Accordingly, PBGC provided relief under Technical Update 20-2 (issued September 23, 2020 and revised on November 16, 2020), that for premium filings due on or after March 1, 2020 and before January 1, 2021, the date by which prior year contributions must be received by the plan to be included in plan assets under § 4006.4(c) of PBGC's premium rates regulation is extended to January 4, 2021. This relief is limited to filings amended on or before February 1, 2021.

Using a calendar year plan to illustrate the various due dates as they relate to PBGC premium filings:

- The premium for the 2020 plan year is due October 15, 2020.
- The due date for 2019 plan year contributions was extended from September 15, 2020 to January 1, 2021.
- Absent the relief provided and assuming the premium is filed on October 15, 2020, the discounted value of contributions for the 2019 plan year received by the plan:
    - On or before October 15, 2020, are included in the asset value used to determine the 2020 VRP, and
    - After October 15, 2020, are not included in the asset value used to determine the 2020 VRP.
    - Because of the relief provided, if the sponsor makes a contribution for the 2019 plan year after October 15, 2020 and on or before January 4, 2021 (the last day that a contribution under the CARES Act extended due date will be considered timely), the 2020 premium filing may be amended to reflect the higher asset value (i.e., to include the discounted value of such contributions).

The intentions of plan sponsors to make additional prior year contributions to be made by January 4, 2021, and the dollar amounts of such contributions, cannot be estimated by PBGC with any practical certainty. This relief is available to most of the Single-Employer Program pension plans because most plans have a calendar year plan year, with premium filings due by October 15, 2020. These calendar year plans may amend their premium filing to include any prior year contributions made on or before January 4, 2021, lowering their variable rate premium owed for the 2020 plan year. Given the uncertainty, PBGC cannot provide additional evidence (i.e., dollar estimate) about the effect of the relief on conditions on September 30, 2020. PBGC plans to recognize premium income reductions resulting from any amended premium filings at the time the amended premium filings are received by PBGC, i.e., these premium income reductions will be recognized in PBGC's FY 2021 financial statements.

CONDITIONS THAT AROSE AFTER SEPTEMBER 30, 2020

For the fiscal year ended September 30, 2020, there were two non-recognized subsequent events or transactions for the Single-Employer Program that provided evidence about conditions that did not exist on September 30, 2020, and which arose before the financial statements were available to be issued. Subsequent to September 30, 2020, business and financial conditions significantly declined for sponsors of two single-employer plans with unfunded guaranteed liabilities of $281 million. Had these events occurred on or prior to September 30, 2020, PBGC's financial statements would have reflected an additional loss of $281 million resulting in a FY 2020 single-employer net income of $6,541 million and a FY 2020 single-employer net position of $15,197 million.

For the fiscal year ended September 30, 2020, there were no non-recognized subsequent events or transactions for the Multiemployer Program that provided evidence about conditions that did not exist on September 30, 2020, and which arose before the financial statements were available to be issued.

Audit of the Pension Benefit Guaranty Corporation's

Fiscal Year 2020 and 2019 Financial Statements

Audit Report AUD-2021-02/FA-20-148-1

Section III

Management Comments

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

Office of the Director

December 9, 2020

MEMORANDUM

To: Nick Novak
Acting Inspector General

From: Gordon Hartogensis
Director

Subject: Response to the Independent Auditor's Combined Audit Report for the FY 2020 Financial Statement Audit

Thank you, once again this year for the opportunity to comment on the Office of Inspector General's FY 2020 audit results regarding the agency's financial statements, internal controls, and compliance with laws and regulations. Given that PBGC protects the pensions of millions of Americans, it is especially noteworthy that our financial statements have once again received an unmodified opinion, as have our internal controls over financial reporting.

We agree with your observations on internal controls and are fully committed to addressing the issues noted in this year's report. Work remains to be done, and as management completes it, we will certainly keep your office informed. Your attention to reviewing our corrective actions is especially appreciated.

cc:

Kristin Chapman
Patricia Kelly
Andy Banducci
David Foley
Alice Maroni
Karen Morris
Robert Scherer
Paul Chalmers
Frank Pace
Theodore J. Winter

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Audit of the Pension Benefit Guaranty Corporation’s

Fiscal Year 2020 and 2019 Financial Statements

Audit Report AUD-2021-02/FA-20-148-1

Supplemental Management Response Received

on January 14, 2021

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

Office of the Director

January 14, 2021

MEMORANDUM

To: Nicholas J. Novak
Acting Inspector General

From: Gordon Hartogensis Gordon Hartogensis
Director

Digitally signed by Gordon Hartogensis
Date: 2021.01.14 18:02:42 -05'00'

Subject: Supplemental Management Response to the Independent Auditor's Combined Audit Report for the FY 2020 Financial Statement Audit

Thank you for incorporating our earlier response to the Fiscal Year 2020 Independent Auditor's Combined Report that was published on December 9, 2020. We would like to provide additional information regarding our plans to address the 10 new recommendations included in that report. Please refer to the attachment to this memorandum.

As we work to address these recommendations, we will coordinate with your office, as needed, and will submit for your review evidence documenting any corrective actions taken.

Addressing the Office of Inspector General's audit recommendations in a timely and effective manner helps improve Pension Benefit Guaranty Corporation's control environment and support compliance with Office of Management and Budget Circular A-50, *Audit Follow-up,* and the Government Accountability Office's *Standards for Internal Control in the Federal Government.*

Please contact Frank Pace should you have any questions.

cc:

Kristin Chapman	Patricia Kelly
Andy Banducci	Paul Chalmers
David Foley	Alice Maroni
Karen Morris	Robert Scherer
Frank Pace	Theodore J. Winter

OIG Recommendation No. 2021-02-01: Conduct an experience study for present value of future benefits (PVFB) and present value of nonrecoverable future financial assistance (PVNRFFA) expected retirement age, vs. actual retirement age, as well as an experience study for the PVNRFFA withdrawal liability payment collectability and administrative expenses assumption.

PBGC Response: PBGC agrees with this recommendation. The studies for the multiemployer solvency projection assumptions and methods and the study for single-employer mortality are prioritized ahead of the study for the single-employer Expected Retirement Age (XRA) assumption. While PBGC currently plans to perform an experience study and sensitivity analysis related to the XRA in fiscal year (FY) 2023, PBGC will perform analysis in FY 2021 to determine the impact of the assumption and re-prioritize the experience study if necessary.

The multiemployer (ME) assumption studies listed in this recommendation will be completed by the target date. Note that PBGC's ability to perform experience studies for the ME program is limited because PBGC does not have seriatim data for ME plans. Our ability to study ME experience is limited to plan-level data mostly contained within the plan actuarial valuation reports and 5500 filings.

Target Completion Date: 6/30/2021

OIG Recommendation No. 2021-02-02: Conduct sensitivity analyses over PVNRFFA administrative expenses and over PVFB and PVNRFFA expected retirement age assumptions.

PBGC Response: PBGC agrees with this recommendation. Note that the need for sensitivity analyses will be governed by the outcome of the studies for these assumptions. If the Actuarial Services and Technology Department (ASTD) concludes that the administrative expenses and the assumed retirement ages for the multiemployer valuation should be input directly from the plan Actuarial Valuation Report or 5500 filing, then there would be no sensitivity analyses required since these items would no longer be assumptions set by PBGC.

Also note that there are technical challenges related to performing a population-wide sensitivity analysis for the single-employer XRA assumption due to PBGC's methodology for determining the XRA. The XRAs are determined during the benefit determination process and the benefits calculated at the XRA are used as data inputs into the financial statement valuation. Any sensitivity analysis performed will be limited to a representative sample of participants and/or plans to determine the potential impact to the PVFB.

Target Completion Date: 6/30/2021

OIG Recommendation No. 2021-02-03: Document rationale for and/or update the PVFB nonseriatim: percent male and smoothing adjustments for benefit projections assumptions.

PBGC Response: PBGC agrees with this recommendation. The single-employer benefit projection methods, which include the smoothing adjustment for benefit projections, is not a high-priority study and is currently scheduled to be completed in FY 2023. ASTD will complete the study for the percent male assumption by 6/30/2021.

Target Completion Date: 6/30/2023

OIG Recommendation No. 2021-02-04: Document rationale for and/or update the following assumptions and methods for PVNRFFA: subcase count, subcase attained age, subcase liability distribution, expected retirement age, expected contribution, normal cost projection and new entrants, administrative expenses, precent male, assent blend, and expected return on assets.

PBGC Response: PBGC agrees with this recommendation. In FY20, PBGC initiated a comprehensive analysis of the multiemployer solvency projection assumptions, including all the assumptions and methods listed in this recommendation. For each item, PBGC will prepare appropriate analysis with documentation and sensitivity analysis, if applicable.

Target Completion Date: 6/30/2021

OIG Recommendation No. 2021-02-05: Develop and update segregation of duty matrices to reflect the risk of multiple role assignments based on the current business operations of PBGC within the IT systems supporting the financial reporting environment.

PBGC Response: PBGC agrees with this recommendation. PBGC will update existing segregation of duties matrices and develop new ones, if required, that will enable mitigation of risk presented by conflicting role assignment.

Target Completion Date: 6/30/2022

OIG Recommendation No. 2021-02-06: Review existing role assignments based on updated segregation of duty matrices for existing conflicts and remediate them as appropriate.

PBGC Response: PBGC agrees with this recommendation. PBGC will leverage the updated conflict matrices to identify and resolve existing conflicts in role assignments where no risk waiver has been justified.

Target Completion Date: 6/30/2022

OIG Recommendation No. 2021-02-07: Implement application monitoring controls to mitigate risks associated with required role assignments that violate separation of duty requirements.

PBGC Response: PBGC agrees with this recommendation. PBGC will implement monitoring controls to identify potential segregation of duty conflicts through GetITAccess and Continuous Automated Compliance Monitoring (CACM) enhancements.

Target Completion Date: 6/30/2022

OIG Recommendation No. 2021-02-08: Implement preventative mechanisms within their enterprise account management provisioning process to restrict the ability to assign conflicting roles without elevated approvals.

PBGC Response: PBGC agrees with this recommendation. PBGC will add a level of approval within GetITAccess to detect and prevent assignment of conflicting roles for all systems.

Target Completion Date: 6/30/2022

OIG Recommendation No. 2021-02-09: Ensure the enterprise account management solution is synchronized with application roles assigned within the information technology (IT) systems supporting the financial reporting environment.

PBGC Response: PBGC agrees with this recommendation. PBGC has been working on Identity, Credential, and Access Management (ICAM) adoption, which includes synchronizing application roles.

Target Completion Date: 6/30/2022

OIG Recommendation No. 2021-02-10: Increase the frequency of the periodic review of users with known separation of duties violation to determine management concurrence with the appropriateness of the access and their risk acceptance.

PBGC Response: PBGC agrees with this recommendation. PBGC will coordinate risk acceptance reviews for segregation of duties risk acceptances every six months and ensure that the expiration period does not exceed six months.

Target Completion Date: 6/30/2022