PBGC
Protecting America's Pensions

2015 Annual Report

PRESERVING AND PROTECTING PENSIONS

A MESSAGE FROM OUR CHAIR

A secure retirement is a critical component of what it means to be middle class in our country. The Obama Administration is committed to ensuring that workers have every opportunity to retire with dignity and financial security. The Pension Benefit Guaranty Corporation (PBGC) has an important role in these efforts by working with employers to preserve their pension plans and by providing a safety net for people whose pensions have failed.

Today, hundreds of thousands of retirees currently receive $5.7 billion annually from the PBGC and more than 40 million workers and retirees are in plans insured by the PBGC. The strength and future of the PBGC's insurance programs are vital to the retirement security of the millions of workers and retirees in defined benefit plans.

The PBGC's FY 2015 Annual Report provides important information about the PBGC's operations and finances for its single-employer and multiemployer insurance programs. The PBGC's insurance programs continue to face high deficits. In December, Congress passed the Multiemployer Pension Reform Act of 2014 to improve the financial outlook of multiemployer plans and the PBGC's multiemployer program. The law gives the PBGC and plan trustees new tools to help plans remain solvent and provides additional premiums to fund the PBGC's multiemployer program. The PBGC is working diligently with the ERISA agencies to implement the new law.

More needs to be done to strengthen the PBGC's programs. My fellow Board members, Treasury Secretary Jack Lew and Commerce Secretary Penny Pritzker, and I are pleased to welcome Director Tom Reeder who has the skills, knowledge, and integrity to be a strong leader of this important agency. The Board is committed to working with Director Reeder to shore up the PBGC and provide a more secure future for America's workers and retirees.

Thomas E. Perez
Secretary of Labor
Chair of the Board

A MESSAGE FROM THE DIRECTOR

I am honored to have been nominated by President Obama and confirmed by the Senate as director of the Pension Benefit Guaranty Corporation (PBGC). I have always had deep respect for the people at PBGC, but during the confirmation process I learned even more about their talents and their dedication to their responsibilities. One of the most important things we can do as a nation is to help people become more financially secure during their retirement years. And, for more than four decades, PBGC and its extraordinary professionals have played a vital role in securing retirement for millions of workers and retirees. I am fortunate to be able to play a role in this effort.

One of the most important functions of PBGC is assuming responsibility for pension plans when their sponsors can no longer keep them going. We insure the benefits of more than 40 million workers and retirees. Currently, we pay more than 800,000 people each month. An additional 585,000 workers are scheduled to receive benefits from PBGC when they retire.

Our record of consistent on-time payments has earned the trust of retirees across the country. We realize our importance to the financial stability of families and their communities. Because of this, we continue to strengthen our management team, empower our staff, and work diligently to maintain high standards of stewardship and accountability. We are proud to have attained our 23rd consecutive unmodified financial statement audit opinion.

PBGC continues to engage stakeholders, including many employer, labor, retiree and practitioner groups, to explain agency activities and listen to their concerns. Working with stakeholders helps strengthen our relationships and enables us to work toward shared goals. For example, in September, we announced a new final rule on reportable events that reflected feedback from the sponsor community. The new rules give plans and sponsors flexibility in qualifying for waivers from reporting and will reduce the burden for employers whose plans are not at risk.

In December 2014, Congress passed the Multiemployer Pension Reform Act of 2014, which gives troubled multiemployer plans tools to help prevent insolvency of the plan and provides additional premiums to fund PBGC's multiemployer program. PBGC, along with the departments of Treasury and Labor, is working hard to implement the new law as fairly as possible. We, along with others in the administration, are focusing on doing what we can do to improve the deficits in both the single-employer and multiemployer programs so that we will be able to protect retirement promises long into the future.

As the environment for a secure retirement continues to change, a strong and effective PBGC is more important than ever. I am extremely honored to be appointed to lead PBGC during this critical time. I am also especially proud of the work we do here. All of us at PBGC share the same passion for and commitment to protecting the pension benefits of the nation's workers and retirees.

WTReeder

W. Thomas Reeder
Director
November 16, 2015

FY 2015 ANNUAL REPORT

This annual report is prepared to meet applicable legal requirements and is in accordance with and pursuant to the provisions of: the Government Corporation Control Act, 31 U.S.C. section 9106; Circular No. A-11, Revised, "Preparation, Submission and Execution of the Budget," Office of Management and Budget, June 30, 2015; and, Circular No. A-136 Revised, "Financial Reporting Requirements," Office of Management and Budget, August 4, 2015. Section 4008 of the Employee Retirement Income Security Act, 29 U.S.C. section 1308, also requires an actuarial report evaluating expected operations and claims that will be issued as soon as practicable.

ANNUAL PERFORMANCE REPORT

Congress established the Pension Benefit Guaranty Corporation (PBGC or the Corporation) 41 years ago to insure the pension benefits of workers and retirees who work for private-sector employers. Today, PBGC protects the retirement security of more than 40 million workers and retirees in private defined benefit pension plans.

The Employee Retirement Income Security Act of 1974 (ERISA) created two insurance programs to be administered by PBGC: single-employer and multiemployer. These programs are operated and financed separately. PBGC encourages the continuation of defined benefit pension plans and provides pension benefits for retirees and beneficiaries in failed plans.

The agency has three overarching strategic goals:

- Preserve plans and protect pensioners;
- Pay pension benefits on time and accurately; and
- Maintain high standards of stewardship and accountability.

This annual performance report details the agency's operations, measurements of success, and progress in achieving our goals.

OPERATIONS IN BRIEF

PBGC strengthens retirement security by preserving plans and protecting pensioners. The agency guarantees payment of the basic pension benefits earned by more than 40 million American workers and retirees in nearly 24,000 plans. Since 1974, PBGC has become responsible for almost 1.5 million people in nearly 4,800 failed single-employer and multiemployer plans, and it made benefit payments of $5.7 billion in FY 2015.

To preserve plans and protect pensioners in FY 2015, the agency:

- Helped to protect 16,000 people by encouraging companies to keep their plans when they emerged from bankruptcy;
- Negotiated almost $563 million in financial assurance to protect more than 116,000 people in plans at risk from corporate events and transactions; and
- Conducted compliance reviews of plan sponsor calculations for plans that end through a standard termination, resulting in almost 1,500 participants receiving corrected benefit amounts totaling $5.8 million.

To pay timely and accurate benefits in FY 2015, the agency:

- Assumed responsibility for more than 25,000 people in 65 trusteed single-employer plans;
- Started paying benefits to almost 37,000 retirees in single-employer plans; and
- Paid $5.6 billion to almost 826,000 retirees from more than 4,700 failed single-employer plans (an additional 560,000 workers will receive benefits when they retire).

To maintain high standards of stewardship and accountability in FY 2015, the agency:

- Achieved an unmodified financial statement audit opinion;
- Closed 78 audit recommendations issued by the Office of the Inspector General; and
- Continued to provide outstanding service to retirees, as demonstrated by a Retiree Customer Satisfaction Score of 91.

STRATEGIC GOALS AND RESULTS

This annual performance report provides information on PBGC's performance in achieving the three goals outlined in the agency's strategic plan. Performance results for FY 2015 are detailed below.

GOAL #1: PRESERVING PLANS AND PROTECTING PENSIONERS

PBGC engages in activities to preserve plans and protect pensioners. The agency administers two separate insurance programs. The single-employer program protects about 30 million workers and retirees in over 22,000 pension plans. The multiemployer program protects over 10 million workers and retirees in about 1,400 pension plans. PBGC's 2014 Projections Report provides information on the condition of both insurance programs.

This year, the single-employer program:

- Monitored 1,500 companies for financial transactions that potentially posed risks to the financial viability of plans;
- Protected pensioners whose plan sponsors were in bankruptcy; and
- Ensured that participants received the law's full protection in both distress and voluntary plan terminations. The 2015 maximum guarantee of $60,136 will remain the same in 2016.

This year, the multiemployer program:

- Paid $103 million in financial assistance to 57 multiemployer pension plans covering the benefits of 54,000 retirees over the past year;
- Became responsible for the future payment of benefits to an additional 25,000 people when they retire; and
- Performed 26 multiemployer plan audits to protect the benefits of more than 36,000 people.

PBGC, along with plan sponsors and other ERISA agencies, strives to find solutions to improve plans' financial health and protect workers and retirees covered by the plans.

Multiemployer Program

Assistance to Multiemployer Plan Sponsors

PBGC provides technical assistance to multiemployer plan professionals regarding difficult interpretation issues arising under Title IV of ERISA. One way that PBGC supports multiemployer plan sponsors is by allowing flexibility in the employer withdrawal liability rules. In FY 2015, PBGC approved an alternative method for determining allocable unfunded vested benefits, as well as alternative terms and conditions for satisfaction of withdrawal liability for a troubled plan.

Multiemployer Plan Mergers and Transfers

Plan mergers can be a way to help protect people's benefits in multiemployer plans. In general, the mergers can broaden a plan's contribution base, reduce administrative and investment expenses for small plans, and rescue troubled plans from projected insolvency. Similarly, transfers of assets and liabilities between plans, often followed by a plan merger, can have a healthy impact for all plans involved. Such transfers may result in steady or improved funding to help sustain the plans in the future. In FY 2015, PBGC processed 12 plan mergers and three transfers of assets and liabilities. These transactions did not relate to new provisions under the Multiemployer Pension Reform Act of 2014 (MPRA), discussed below.

Protecting Pensioners In Multiemployer Plans

PBGC monitors all multiemployer plans that request or receive financial assistance. The agency performed 26 audits of multiemployer plans that cover more than 36,000 people and identified 118 findings. The chief objective of these audits is to ensure:

- Timely and accurate payment of benefits to all plan participants;
- Compliance with applicable regulations; and
- Effective and efficient management of the assets remaining in terminated plans.

The Multiemployer Pension Reform Act of 2014

In FY 2015, PBGC published an interim final regulation on partition of multiemployer pension plans to implement the partition provisions of the Multiemployer Pension Reform Act of 2014 (MPRA). Before MPRA, PBGC could authorize partitions only in situations involving the bankruptcy of one or more of a plan's contributing employers. The benefits of participants who had service with those employers were reduced to PBGC-guaranteed levels.

Under the new rule, certain plans that are projected to run out of money within 20 years may ask PBGC to approve a partition ("critical and declining" plans). A partition will transfer responsibility for paying some participant and beneficiary monthly guarantee amounts from the plan to PBGC, relieving plans of some of their financial obligations. This allows plans to preserve benefits for participants at levels above the PBGC-guaranteed amounts and continue to pay retirement benefits over the long term. For a plan to be eligible for partition, plan trustees will have to show that they took all reasonable measures to avoid insolvency. Measures generally will include applying to the Treasury Department for approval to reduce participant benefits to 110 percent of the PBGC-guaranteed level (except for age-protected and disability-protected benefits).

In addition, MPRA expanded PBGC's ability to facilitate the merger of two or more plans. A merger may proceed if the transaction is in the interests of participants and beneficiaries of at least one of the plans, and if the merger is not reasonably expected to adversely affect the overall interests of participants and beneficiaries of any of the plans involved. In certain circumstances, PBGC may be able to provide financial assistance to facilitate a merger if the merger would avoid or postpone the insolvency of one or more critical and declining plans and if other requirements are met. PBGC expects to publish a proposed rule on facilitated mergers in December 2015.

PBGC's ability to approve partitions or facilitate mergers will be limited by its financial resources. The agency must certify that providing help to a particular plan does not impair its ability to meet existing financial assistance obligations to participants in other troubled plans.

In addition, MPRA increased the premium rate for multiemployer plans to $26 per participant, beginning in 2015, and indexed thereafter. Total multiemployer premiums for the year that ended September 30, 2015, were $212 million, up from $122 million in 2014.

Single-Employer Program

Protecting Pensioners When Plans Are At Risk

PBGC monitored more than 1,500 companies to identify transactions and events that potentially posed risk to the people covered under their pension plans. The agency reviewed more than 100 transactions, and, where appropriate, arranged for suitable protections to safeguard participant benefits. Some examples include:

- PBGC reached an agreement with Safeway Inc. for a one-time contribution of $212 million to its pension plan following the acquisition of Safeway by AB Acquisitions LLC through a leveraged buyout. This contribution is estimated to improve the plan's funding level to at least 80 percent and protect almost 54,000 participants.
- PBGC reached an agreement with Gannett Co., Inc., in connection with the spin-off of its publishing business from its broadcasting and digital businesses. The publishing business retained most of the pension liabilities. Under the agreement, Gannett made a one-time $100 million contribution to its largest pension plan and the publishing business will contribute $140 million to the pension plan over the next six years. These contributions will improve the pension plan funding levels and protect more than 43,000 participants.
- PBGC negotiated an agreement with Sears – subject to definitive documentation to be completed in FY 2016 – that helps protect the Sears pension plan, its more than 200,000 participants, and the pension insurance program. Sears will provide meaningful protection in the form of asset retention and shielding.

Additionally, each year PBGC receives distress termination applications and identifies abandoned plans. These situations may signify a plan's financial difficulty and often result in plan terminations or settlement agreements. In FY 2015, PBGC worked with approximately 12 plan sponsors to achieve more favorable outcomes for them and participants, including the continuation or standard termination of the associated plans.

Protecting Pensioners Whose Plans End in Bankruptcy

PBGC takes an active role in bankruptcies to protect the interests of employees and retirees in the plans. The agency works to prevent unnecessary terminations and to obtain the maximum possible financial recovery when a plan must terminate. For example, the four plans in the Revstone-controlled group covered more than 1,900 people and were significantly underfunded when the company filed for bankruptcy in 2012. After allegations of fiduciary breach and mismanagement were made against Revstone's management through DOL-initiated litigation, PBGC stepped in. The agency successfully terminated the pension plans and in FY 2015 reached a settlement under which PBGC will recover the vast majority of the pension plans' underfunding.

Protecting Pensioners in Standard Terminations

A company can end a fully funded plan in a standard termination by paying all the benefits it owes. In FY 2015, almost 1,350 plans, covering approximately 250,000 participants, filed standard terminations. The standard termination of these plans will have a minimal effect on PBGC's premium income. While the number of standard terminations is consistent with past years, more large plans filed this year, including H. J. Heinz, 21st Century Fox America, Hannaford Brothers, Sunoco, Samsonite and Fluor Corporation. Other large plans such as Motorola Solutions Inc., Herman Miller and Equilon Enterprises LLC (doing business as Shell Oil Products US) completed previously filed standard terminations.

PBGC conducted over 260 standard termination audits. As a result, almost 1,500 people in these plans will receive an additional $5.8 million in benefits. Occasionally, PBGC's audit findings are contested. For example, Royal Oak Enterprises, LLC and Kentucky Bancshares sued in U.S. district court to challenge PBGC's audit findings that they had inappropriately decreased benefits. PBGC successfully defended the standard termination and audit processes in each case.

Significant Litigation

PBGC works to protect America's pensions in complex civil, appellate and bankruptcy cases in federal and state courts nationwide. Some examples of decisions include:

- In *Cox Enterprises Inc. v. News-Journal Corporation*, the U.S. Court of Appeals for the Eleventh Circuit affirmed an order providing PBGC with full payment of its $13.9 million claim for News-Journal's pension underfunding. PBGC had been litigating with Cox Enterprises, a minority shareholder of News-Journal, over the proceeds from News-Journal's liquidation. The Eleventh Circuit's decision confirmed that under state law, PBGC was entitled to receive full payment on its claim before Cox received any payment for its News-Journal stock.
- PBGC successfully defended its actions as the post-termination trustee of the US Airways Pilots Plan. After protracted litigation, the U.S. District Court in D.C. found that PBGC had met the prudent person standard required of trustees under ERISA. The U.S. Court of Appeals for the D.C. Circuit later affirmed this decision.
- PBGC determined that Kentucky Bancshares underpaid participants in a standard termination by adopting a post-termination date plan amendment that reduced the amount of lump sum payable to participants. The U.S. District Court for the Eastern District of Kentucky ruled in favor of PBGC, accepting its view that the law established a floor for valuing lump sums and agreeing that the tax code does not prohibit a sponsor from paying a larger benefit if required by another statutory provision or a plan term. The U.S. Court of Appeals for the Sixth Circuit affirmed the decision.

GOAL #2: PAYING TIMELY AND ACCURATE BENEFITS

PBGC's goal is to provide quality service to participants by paying timely and accurate benefits. Nearly 1.4 million current and future retirees in single-employer pension plans trusteed by PBGC rely on the agency to pay their benefits.

Benefit Administration

A key aspect of PBGC's mission is to protect the retirement security of the workers and retirees who rely on the Corporation's insurance programs. When a single-employer plan ends without enough money to cover all of its benefit promises, PBGC steps in to become trustee and pay benefits.

In FY 2015, PBGC took responsibility for more than 25,000 additional workers and retirees in 65 single-employer plans. Almost 3,000 of these new participants were existing retirees who continue to receive their benefit every month. The five largest plans that PBGC trusteed were sponsored by Standard Register (8,502 participants), Reichhold Inc. (4,571), James River Coal Company (1,998), Kolmar Laboratories Inc. (1,143), and Evans and Sutherland Computer Corporation (1,131).

PBGC paid $5.6 billion in benefits to over 826,000 retirees in single-employer plans. The benefit administration team processed the applications of almost 37,000 new retirees now receiving benefits. The agency processed 80 percent of those applications within 45 days, a significant increase over FY 2014's 75 percent. This is a positive step toward achieving our target of 87 percent.

Making sure that retirees receive their benefits on time is the highest priority for the benefit administration team. Almost 245,000 retirees receive estimated benefits each month while their final benefit determinations are being calculated. Over the last four years more than 95 percent of PBGC estimated benefits have been within 10 percent of the final benefit determination.

After PBGC becomes trustee of a pension plan, the agency engages in a complex, multiyear process of valuing the plan's assets, reviewing plan and participant data, and calculating final benefits. Only after this process is finished can PBGC tell individual participants the exact amount of their final benefit. The agency sent final benefit determination letters to 33,215 people in FY 2015, as compared to nearly 65,000 in FY 2014. PBGC sent fewer letters because of its intense focus on completing final benefit determinations for its largest and oldest plans. These plans take longer to process because most contain multiple layers of plan provisions, complex asset structures, and incomplete plan and participant data. As a result, the time to issue a final benefit determination increased to an average of 4.8 years from 4.3 years in FY 2014.

Reviews and Appeals

Since federal law limits the benefits that PBGC can guarantee, the benefits the agency is allowed to pay may be different from the benefits promised under a terminated plan. PBGC's Appeals Board allows participants to raise concerns and obtain relief if mistakes were made in determining their benefits. Employers may also appeal certain PBGC determinations to the Appeals Board. All decisions by the Appeals Board are in writing and fully explain the decision.

Historically, approximately 1 percent of benefit determinations are appealed. The Appeals Board closed 236 appeals by fiscal year-end, with 171 still open at the end of the year.

GOAL #3: MAINTAINING HIGH STANDARDS OF STEWARDSHIP AND ACCOUNTABILITY

PBGC must perform its duties in ways that earn and keep the trust of all of its customers — employers, workers and retirees with defined benefit pension plans — as well as the general public. The agency does that by maintaining high standards and holding ourselves accountable.

Participant and Plan Sponsor Advocate

The Participant and Plan Sponsor Advocate appointed by the PBGC Board of Directors acts as a liaison between PBGC, sponsors of defined benefit plans and participants in plans trusteed by the PBGC. The advocate helps resolve disputes between PBGC and sponsors or participants, and advocates for the rights of people in plans trusteed by PBGC. The advocate provides an annual report summarizing issues raised and makes recommendations for legislative and administrative changes.

On December 31, 2014, the advocate issued an initial report to Congress and the PBGC Board of Directors. The report stated that PBGC's dedicated professional employees conduct themselves with integrity and are the agency's greatest strength. The advocate identified issues with non-routine participant transactions and interactions with plan sponsors. In response, PBGC engaged in thoughtful assessment of its related policies and practices. The agency has taken specific actions with respect to non-routine participant transactions to address the observations and recommendations of the advocate.

Accountability: Measuring and Monitoring Performance

To gauge how well the agency does its job and serves customers, PBGC uses a wide range of performance measures. Among them are how quickly and seamlessly the agency pays retirees, how accurately PBGC calculates their benefits, and how well the agency invests assets from trusteed plans. PBGC conducts surveys to help improve the coordination and cooperation essential to meet customer service goals.

On a quarterly basis, PBGC leaders participate in data-driven discussions covering agency progress in pre- and post-trustee operations, stewardship and accountability, customer satisfaction, and building and maintaining a model workplace. The strategic use of performance data better informs planning and execution of operations, as well as corporate and program area decision-making.

Table 1 is a summary of our FY 2015 key activities and performance data.

TABLE 1: SUMMARY OF PBGC MEASURES AND ACTIVITIES

	Target	2015	2014
Preserve Plan and Protect Pensioners			
People Protected in Plans Emerging from Bankruptcy		16,000	163,000
Standard Termination Audits: Additional Payments		$5.8 M to 1,456 people	$6.5 M to 938 people
Pay Timely and Accurate Benefits			
People Receiving Benefits – Single-employer		826,000	813,000
People to Receive Benefits in Future – Single-employer		560,000	595,000
People Receiving Benefits in Plans Receiving Financial Assistance – Multiemployer		54,000	52,000
People to Receive Benefits in Future in Plans Receiving Financial Assistance – Multiemployer		25,000	23,000
New Retiree On-time Payments	100%	100%	100%
Estimated Benefits within 10 percent of Final Calculation	95%	96%	97%
Average Time to Provide Benefit Determinations (years)	4.3	4.8	4.3
Improper Payment Rates within OMB Threshold[1]	<1.5%	Yes	Yes
Applications Processed in 45 days	87%	80%	75%
Maintain High Standards of Stewardship and Accountability			
Retiree Satisfaction – ACSI[2]	85	91	90
Caller Satisfaction – ACSI	85	83	85
Premium Filer Satisfaction – ACSI	72	76	73
Overall Customer Satisfaction[3]	80	75	76
Contract Awards Fully Competed		92%	91%
Financial Surplus (Deficit) – Single-employer		($24.1B)	($19.3B)
Financial Surplus (Deficit) – Multiemployer		($52.3B)	($42.4B)
Unmodified Audit Opinion	Yes	Yes	Yes

1 The OMB threshold for significant improper payment reporting is as follows: amounts that exceed (1) both 1.5 percent and $10 million in improper payments, or (2) $100 million in improper payments.
2 The American Customer Satisfaction Index (ACSI) uses a 0-100 scale; 80 or above is considered excellent.
3 Measures customer satisfaction with information and services provided by the agency.

PBGC's Own Finances Must Be Sound

PBGC's operations are financed by insurance premiums set by Congress and paid by sponsors of defined benefit plans, along with investment income, assets from pension plans trusteed by PBGC, and recoveries from the companies formerly responsible for the plans. PBGC receives no funds from taxpayer dollars. The agency pays benefits based on the law and the provisions of the plans it trustees.

Fiscal Deficit

The net financial position remains in deficit for both the single-employer and multiemployer programs. The net financial position of the larger single-employer program faces a wide range of potential outcomes but, on average, is likely to improve over the next decade. The multiemployer program faces a significant and increasing risk of insolvency during the latter part of the coming decade. The net financial position of the multiemployer program is expected to remain in deficit over the decade, even assuming that some troubled plans will implement benefit suspensions under MPRA. The single-employer and multiemployer programs are operated and financed separately. Assets from one program cannot be used to support the other program.

Financial Soundness and Financial Integrity

PBGC is responsible for insuring the pensions of tens of millions of people, whose benefits are valued at hundreds of billions of dollars. In addition to collecting premiums, exercising care in the management of about $88 billion in total assets and attaining the 23rd consecutive unmodified audit opinion on its financial statements, PBGC stayed focused on improving management in several areas. During FY 2015, PBGC strengthened its internal controls activities by expanding testing and providing training for managers.

Collecting Premiums

In FY 2015, PBGC collected $3.7 billion in premiums for both the single-employer and multiemployer programs. Premium rates are generally indexed for inflation; recent legislation, including the Bipartisan Budget Act of 2013, the Multiemployer Pension Reform Act of 2014, and the Bipartisan Budget Act of 2015, specifies premium rates or premium increases for certain years. PBGC fully implemented a new rule on premium due dates for small plans. For plan years beginning in or after 2015, small plans are now subject to the same normal due date rules as all other plans.

Investing Prudently

PBGC investment assets are administered by private investment management firms, subject to PBGC's investment policies and oversight procedures. Procedures for internal controls, due diligence and risk management are subject to periodic review. Regular and detailed communication with management firms enables the agency to stay informed on matters affecting its investment program.

TABLE 2: FY 2015 INVESTMENT RETURNS VERSUS ERISA/PPA BENCHMARKS

	1-Year Period	3-Year Period	5-Year Period
ERISA Benchmark[1]	**1.0%**	**8.2%**	**9.5%**
Total Fund Composite	**0.1%**	**3.5%**	**5.6%**
Total Fund Benchmark [2]	**-0.1%**	**3.3%**	**5.3%**
Total Global Bonds	2.2%	1.6%	4.5%
Total Global Bonds Benchmark[3]	2.2%	1.4%	4.2%
Total Global Public Stock	-3.6%	8.3%	8.1%
Total Global Public Stock Benchmark[4]	-4.3%	8.0%	7.9%

[1]The ERISA/PPA Portfolio Benchmark is based upon a hypothetical portfolio with a 60% allocation to the Standard & Poor's 500 equity index and a 40% allocation to the Barclays Capital Aggregate fixed income index. See page 44 for a description of this reporting requirement.

[2] The Total Fund Benchmark is a dynamic weighted benchmark based upon the weights of the Total Global Public Stock Benchmark, the Total Global Bonds Benchmark and cash benchmarks. This benchmark is used to compare against the Total Fund Composite returns shown above.

[3]The Total Global Bonds Benchmark is a dynamic weighted benchmark based upon the weights of all bond managers and the returns of their respective benchmarks.

[4]The Total Global Public Stock Benchmark is a dynamic weighted benchmark based upon the weights of the Total U.S. Public Stock composite and the Total International Public Stock composite benchmarks.

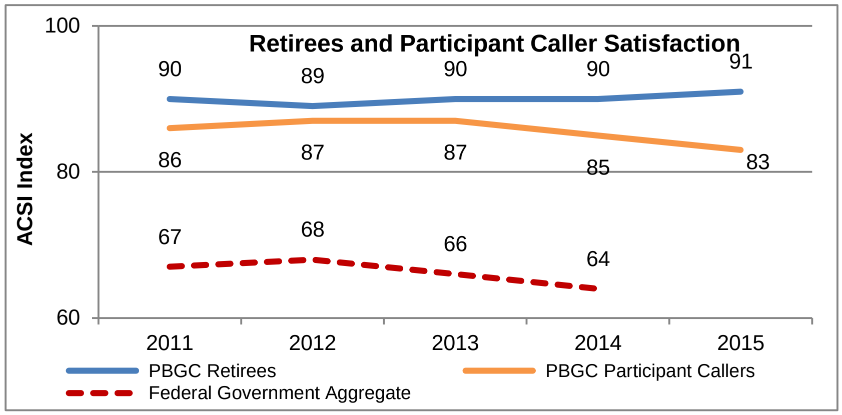
What Customers Tell PBGC

PBGC is dedicated to providing premier customer service to all of its customers. Serving the public with quality service is a core value of the agency's culture. PBGC surveys customers to find out their needs, expectations, and challenges. The agency uses feedback to improve existing programs and services, and as a result, achieves high scores from key customer groups, such as retirees. PBGC establishes targets to foster continuous improvement by setting challenging and realistic goals based on historical performance and communication channels.

Telephone Surveys

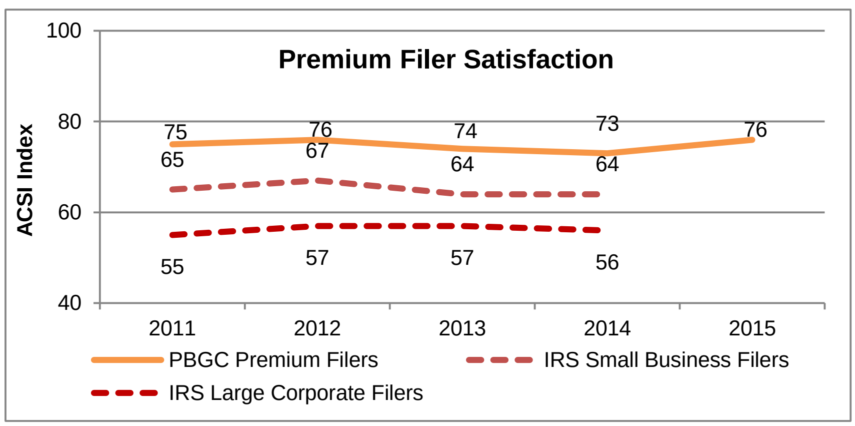
PBGC conducts three telephone surveys to gather feedback from retirees, premium filers, and people who called the Customer Contact Center. The agency uses the American Customer Satisfaction Index (ACSI) model for these surveys, which measures satisfaction on a 0 - 100 scale and targets service elements that most affect satisfaction.

The retiree survey measures satisfaction among retirees who receive monthly benefits from PBGC. The survey results indicate this customer group is very pleased with the services the agency provides. Historically, the scores in this area have been high. Since 2013, the retiree satisfaction score has been 90 or above. By fiscal year-end, PBGC received an all-time-high score of 91, six points above its target of 85.



The participant caller survey measures satisfaction among participants who have recently called the Customer Contact Center's toll-free number. Customers in this group were asked to rate their experience in such areas as customer care and concern resolution. The FY 2015 score in this area was 83, slightly below the agency target of 85. To improve the customer experience, PBGC streamlined its caller verification process by using unique identification numbers assigned to participants. When participant callers use their identification number, PBGC customer service representatives are able to quickly confirm the identity of the callers and appropriately address their questions or concerns.

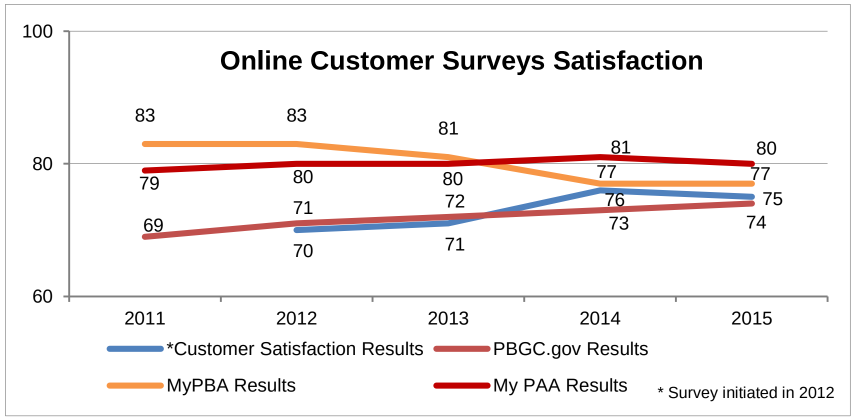
In FY 2014, the Corporation implemented several streamlined regulations designed to make pension practitioner interactions with PBGC easier and less frequent. The premium filers survey measures satisfaction among employers who file premiums with PBGC. This year the agency exceeded its target of 72, and the premium filer customer satisfaction survey score increased by three points, from 73 to 76.



Online Surveys

PBGC conducts four online surveys measuring user satisfaction. These cover:

- Online service for participants using My Pension Benefit Account (MyPBA);
- Online service for practitioners using My Plan Administration Account (My PAA);
- The PBGC.gov website; and
- Overall satisfaction of all customers.



These surveys provide valuable benchmarking insight and track trends in customer satisfaction.

Pension plan participants use MyPBA to conduct transactions with PBGC such as applying for benefits, updating their address or banking information, specifying federal tax withholding, or requesting benefit estimates. The MyPBA survey measures satisfaction with this tool in such areas as functionality, look and feel, and plain language. The FY 2015 score was 77, four points below the target of 81. The agency is carefully analyzing the survey results and participant comments to help improve the user experience.

Pension plan practitioners use My PAA to file premiums with PBGC. The My PAA survey measures satisfaction with this tool, covering such topics as navigation and site performance. The score for FY 2015 was 80, exceeding the target of 78. Focus groups were conducted early in the fiscal year. Feedback gathered supported several usability improvements to help filers more easily accomplish their goals in the tool.

The PBGC.gov survey measures satisfaction with PBGC's public website and explores such aspects as content and plain language. The FY 2015 score was 74, meeting the target. As an increasingly diverse set of customers visit the website, the agency is challenged with providing new information on its insurance programs, as well as a wide variety of information on pensions and retirement security.

The customer satisfaction survey measures customers' perceptions about how well the agency performs its mission and meets priorities. In FY 2015, PBGC attained a score of 75, a few points below the target of 80. In response to customer comments, PBGC has expanded its website content, including frequently asked questions, referral information, and improved online search and navigation. PBGC has made hundreds of personal customer contacts to provide individual information and assistance. The agency is developing more proactive approaches to anticipate and address customer concerns.

Reaching Out To Customers and Stakeholders

In FY 2015, PBGC continued to engage stakeholders and customers, including many employer, labor and practitioner groups, to explain agency activities and listen to their concerns. These groups include the American Benefits Council; American Society of Pension Professionals and Actuaries; Committee on

Investment of Employee Benefit Assets; and U.S. Chamber of Commerce. In 2015, PBGC began to hold quarterly meetings with groups that represent the interests of pension plan participants, including the AARP, National Legislative Retirement Network and Pension Rights Center. These meetings are a valuable forum for discussion of issues and ideas. They also let PBGC strengthen relationships with stakeholders and build on shared goals.

PBGC representatives participated in 129 events, speaking on diverse topics including multiemployer plans, actuarial matters and lifetime income. For instance, in April 2015 a group of PBGC experts presented information and answered questions about regulatory changes at the annual Enrolled Actuaries meeting, which brings together pension practitioners and representatives of government agencies with authority under ERISA.

Last year, PBGC celebrated its 40th anniversary. That milestone gave the agency an opportunity to remind stakeholders, the press and public of the important role PBGC continues to play in Americans' retirement security. In January 2015, the agency invited stakeholders to two events to commemorate the anniversary. The first event featured a panel discussion with former PBGC directors who spoke about their tenures at the helm of the agency and the future of pensions. In partnership with the U.S. Chamber of Commerce and Pension Rights Center, PBGC later hosted a forum that brought together experts from the pension community, academics and practitioners. The speakers reflected on the early history of ERISA and discussed the current state of pensions.

PBGC continued to inform the public through its *Retirement Recap*, an email summary of pension news for customers and stakeholders, and the annual *PBGC Retiree News*. In addition, the agency's *Retirement Matters* blog continues to bring customers important stories about PBGC and pensions. With over 25,500 views in 2015, *Retirement Matters* complements PBGC social media outreach, which also includes regular postings to Facebook and Twitter, to keep the agency's many stakeholders informed and up to date.

PBGC provides information and communication about its insurance programs to customers in the format they prefer. For example, the agency published new data sets to include PBGC Appeals Board historic data and monthly recaps of the last two years of customer satisfaction survey results.

STRENGTHENING THE DIVERSE WORKFORCE AND LEADERSHIP

PBGC performance depends on the coordinated actions of hundreds of professionals possessing specialized skills in actuarial science, accounting, finance, law and other disciplines. Improving programs and services starts with hiring the right people and creating opportunities for professional development.

Training

To automate and streamline human resources systems, PBGC completed adoption of a one-stop concept that consolidates various learning systems into one portal. The successful launch of the Talent Management System (TMS) ensures efficiency for all training requirements within the Corporation.

All managers and supervisors were required to complete a minimum of 32 hours of management and leadership development training this fiscal year. PBGC's Management and Leadership Development Program offered a new service, the Leadership Challenge Interviews and Discussions, which gave supervisors and managers access to hundreds of videos on leadership and management. Additionally, PBGC launched the

Conflict Coaching Program, providing supervisors and managers strategies to deal with difficult interactions and conversations.

The Executive and Leadership Coaching Program continues to grow. Participation increased by 14 percent in FY 2015.

PBGC was successful in finalizing all senior level Executive Development Plans (EDPs). The EDPs will be used as a road map for short- and long-term developmental activities to strengthen leadership skills and performance. Using the EDPs will let those at the senior level gain a broader perspective of PBGC functions and gain support to meet departmental and agency goals.

PBGC's employee performance management training curriculum continues to receive recognition from the Office of Personnel Management (OPM) as a model program. This fiscal year, OPM referred the Overseas Private Investment Corporation and Department of Commerce to PBGC to benchmark the Employee Performance Management Program for best practices.

Equal Employment Opportunity

PBGC offered workshops to raise awareness of equal opportunity, diversity and inclusion, and deployed two new online training programs: No FEAR Act Training and Refresher EEO Training for Supervisors and Managers. The Human Resources Department and Office of Equal Employment Opportunity partnered to implement a corporate wide online course on micro-triggers in the workplace to raise awareness on the topic of unconscious bias.

The PBGC Diversity and Inclusion Council was launched with representation from PBGC senior-level management, affinity groups and the union. The council met monthly, developed a charter, and identified short- and long-term diversity and inclusion goals.

Recruitment

PBGC is committed to recruiting talented and qualified individuals to support the agency's mission. The agency's hiring practices include accessing a diverse employment pool by using various hiring authorities. This practice helped increase the Corporation's overall disabled veteran population by 40 percent.

The Corporation implemented a new Pathways Intern Training Program, and joined with the Partnership for Public Service to host the training sessions on a bi-weekly basis. Course offerings focus on professional development to enhance the intern's performance, networking and communication skills.

PBGC successfully hosted 26 Hispanic Association of Colleges and Universities interns, the most the Corporation has had since the inception of the program. Because it was so successful and beneficial for managers and interns, PBGC has extended the summer program to add a fall session.

SAFEGUARDING CUSTOMER INTERESTS

Plan participants and sponsors have entrusted PBGC with their sensitive financial and personal information. Protecting that information is among the agency's top priorities. PBGC continues to strengthen its information technology systems and ensure all employees understand their responsibility to safeguard customer interests. The agency also upholds the highest standards of ethical behavior and transparency in day-to-day interactions with customers and stakeholders, as well as within the workforce.

Strengthening E-Government and Information Technology

PBGC took actions to strengthen its IT security posture and embraced the Office of Management and Budget (OMB) and Department of Homeland Security (DHS) key initiatives that will set the stage for additional accomplishments in years to come.

PBGC's Office of Information Technology (OIT) initiated continuous monitoring (CM) of IT security-control efforts for its enterprise and information systems. CM provides PBGC with ongoing awareness of its information security posture, identifies existing and potential vulnerabilities, and determines levels of resulting risk. Through continual assessment, PBGC will be better able to determine the effectiveness of planned, required and deployed security controls to protect information systems.

In accordance with PBGC's IT strategic plan, the OIT:

- Completed system security assessments and authorizations for all of its Federal Information Security and Management Act reportable systems;
- Launched a phishing awareness campaign, in accordance with the administration's Cybersecurity Cross Agency Priorities, to educate users on how to avoid being compromised by malicious actors;
- Completed activation of issued personal identification verification cards, in response to the OMB Cyber Sprint, for logical access use and expanded enforcement to all users with elevated privileges; and
- Completed a pilot of electronic mail migration to the Microsoft Office 365 cloud, in response to the Cloud-First initiative.

Ensuring Ethical Practices

New PBGC employees receive ethics training within 90 days of their hire. In 2015, PBGC updated its new employee ethics training to highlight the Hatch Act, which limits federal-employee political activity. All financial-disclosure filers and agency designated employees received annual ethics training by fiscal year-end.

In advance of U.S. Office of Government Ethics requirements, PBGC successfully transitioned a subset of employees who must file public financial disclosures to a new electronic financial disclosure system. This new system, Integrity, will be required for all filers in 2016.

Protecting Privacy Interests

Protecting the personal information of plan participants, employees and contractors is among PBGC's highest priorities. In a year when cybersecurity incidents have often been in the news and as a direct response to those security breaches, the agency's privacy team conducted a Privacy Wellness Day to give employees the information they need to protect their personal data. The privacy team also hosted its annual Privacy Week, which included training, interactive sessions, and a guest speaker.

The privacy team works hard to ensure that PBGC complies with evolving privacy requirements. The team collaborated with information technology staff to craft an updated directive on protecting sensitive information. The team works diligently to implement new privacy controls required by the National Institute of Standards and Technology, which provide additional protections to the sensitive financial and personal information that PBGC maintains.

Strengthening Transparency and Disclosure

PBGC continues to use technology to make records available to the public online and to reduce the time and labor needed to process Freedom of Information Act (FOIA) requests. PBGC's average response time to FOIA requests is 10 days – half the time mandated by law. In 2015 the National Security Archives recognized PBGC with its highest level "E-Star" rating for the continued use of technology to promote transparency. In addition, the Department of Justice rated PBGC at the highest "Dark Green" level for improving FOIA administration.

SUSTAINING THE PROGRAMS

PBGC continuously monitors its insurance programs and their effectiveness. The agency implements strategies to strengthen the programs' financial health and improve their ability to manage risk. Agency regulations are drafted to protect pensioners and reduce burdens on employers who sponsor pension plans.

Research and Analysis Activities

PBGC serves as an impartial source of information about pensions and retirement policy. Its Policy Research and Analysis Department (PRAD) delivers timely and accurate analysis of PBGC programs and policy alternatives to PBGC decision-makers and external stakeholders.

Each year PRAD refreshes the Pension Insurance Data Book – a compendium of data regarding PBGC and both the single-employer and multiemployer insurance programs. In addition, PRAD has initiated a program of reports and studies specifically focused on the multiemployer insurance system. Issued in 2015, PBGC's Multiemployer Guarantee Study[4] was the first summary PBGC has published on the effectiveness of the multiemployer guarantee for workers and retirees in troubled plans. Additional studies on the multiemployer retirement system are in progress.

Improvements to the Pension Insurance Modeling System (PIMS) and Related Reports

PRAD conducts its forecasting and modeling work through PIMS. The annual Projections Report outlines the direction of PBGC's single-employer and multiemployer programs based on projections from PIMS[5].

Outside experts review PIMS, and the model is periodically tested through a congressionally mandated peer review. Based on these reviews, PBGC improved PIMS to better reflect the actual experience of multiemployer plans and participants. The revised model proved useful in providing technical assistance to illustrate the effects of MPRA and alternatives.

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[4] http://www.pbgc.gov/documents/2015-ME-Guarantee-Study-Final.pdf

[5] Further information about the PIMS model is posted on PBGC's website. (http://www.pbgc.gov/about/projections-report/pension-insurance-modeling-system.html)

Regulatory Activities

PBGC's regulatory program continues to issue regulations to protect plan participants and minimize burdens on pension plan sponsors.

In FY 2015, PBGC published:

- A final rule on reportable events, which was developed after public comment on two proposals and PBGC's first-ever regulatory hearing. The rule will change waivers, redefine some events and require electronic filing of notices. PBGC estimates the new rule will exempt more than 94 percent of plans and sponsors from many reporting requirements and result in an overall reduction in burden on the public. The regulatory changes will generally be applicable in 2016.
- An interim final rule on partitions of eligible multiemployer plans. The interim final rule prescribes the application process and notice requirements for partitions of eligible multiemployer plans under MPRA.
- Proposed and final rules to require electronic filing of certain multiemployer notices. The regulatory changes will make it easier for plan sponsors to provide information to PBGC and result in a slight decrease in the burden on the public. The rule will apply to filings made in 2016.
- A proposal to revise reporting waivers under ERISA section 4010. Under the proposal, only smaller plans would be exempt from 4010 filings because of aggregate plan underfunding of $15 million or less. Also, reporting waivers would be granted to plans that must file solely because of either a statutory lien for $1 million or more of missed contributions or outstanding minimum funding waivers of more than $1 million that were previously reported to PBGC. The proposal also codifies recent statutory changes and related PBGC guidance that affect 4010 reporting. The proposed regulatory changes would be applicable to filings due on or after April 15, 2017.
- A final rule on treatment of benefits rolled over from a defined contribution plan to a PBGC-trusteed defined benefit plan. A benefit resulting from rollover amounts generally will not be subject to PBGC's maximum guarantee or phase-in limitations. Also, in the allocation of assets it will be in the second highest priority category. This regulation was part of the administration's initiative to promote lifetime income options.

In 2015, PBGC took important steps to improve its information collections. In particular, new information requirements were added on termination forms to help answer questions from people who think they may be owed benefits from PBGC. New premium filing requirements were added to report certain risk transfers through lump sum windows and annuity purchases—information critical to PBGC's ability to assess its future financial condition. OMB approved the changes after notice and comment.

In FY 2015, PBGC rejoined the Administrative Conference of the United States as a liaison member. PBGC's general counsel serves on the conference's Judicial Review committee.

INDEPENDENT EVALUATION OF PBGC PROGRAMS

PBGC programs are regularly subjected to independent evaluations, which helps the agency remain true to its mission and accountable for service provided to the public. PBGC continues to work to strengthen controls over operations, financial reporting, and compliance with laws and regulations.

Office of Inspector General (OIG)

PBGC places a strong emphasis on audit follow-up and diligently addresses the OIG's audit recommendations. To facilitate timely completion and closure of such recommendations, regular status reports are issued to executive management to assist in monitoring of corrective actions. Once work on recommendations is completed, evidence documenting the corrective actions taken is provided for OIG review.

During the fiscal year, the OIG made decisions on 78 audit recommendations, closing 15 related to material weaknesses and closing 63 other recommendations. PBGC has established corrective action plans regarding the existing material weaknesses and is committed to addressing the related OIG recommendations in a timely manner.

PBGC's OIG oversaw the annual financial statement audit completed by an independent public accounting firm, CliftonLarsonAllen LLP. In addition, the OIG performed other audits and evaluations, including the following:

- Compliance with MAP-21: This OIG review primarily focused on the extent to which PBGC had addressed previously-noted deficiencies regarding the accuracy and oversight of actuarial projections (Report No. AUD-2015-05). The OIG acknowledged that PBGC had made improvements in regard to its operations and processes by establishing policies, procedures and internal controls. The report also cited the need for additional remediation, and PBGC continues to work to address the issues the OIG raised in its report.
- Improper Payments Information Act Compliance: The OIG conducted a performance audit of PBGC's compliance with the Improper Payments Information Act (IPIA) for FY 2014 (Report No. AUD-2015-10). In its audit, the OIG concurred with the Corporation's assessment that payments to federal employees were not susceptible to significant improper payments. With regard to payments to multiemployer plans, PBGC had supplemented its assessment of payments to multiemployer plans with optional statistical sampling and reported that this payment stream was also not susceptible to significant improper payments. The OIG concluded that PBGC's statistical sample of 24 of the 162 payments made to multiemployer plans was not large enough. For this reason, OIG could not assess the reasonableness of PBGC's statistical projections and could not offer an opinion on the accuracy of the improper payment reporting for that payment stream. Although PBGC asserts compliance with IPIA and the requirements of Appendix C of OMB Circular A-123, PBGC agreed to address minimum sample size considerations in its procedures and to reassess the multiemployer plan payment stream again in FY 2016.
- Cloud Computing: The OIG reviewed PBGC's nascent cloud computing efforts and recommended that PBGC establish standards and make other improvements (Report No. AUD-2015-11). PBGC agreed with the report's four recommendations, and corrective actions are underway.

For more information about OIG's work in promoting accountability in PBGC operations, visit OIG.PBGC.gov.

Government Accountability Office (GAO)

In February 2015, GAO included PBGC's single-employer and multiemployer insurance programs on its biennial "high-risk" list of 30 government programs most at risk due to vulnerabilities identified by GAO (Report No. GAO-15-290). This status is due to long-term structural challenges relating to funding of defined benefit pension plans and the limited tools available to the agency to address PBGC's long-term financial stability.

PBGC also monitors progress in addressing GAO recommendations. As of September 30, 2015, PBGC had five open GAO recommendations relating to past reviews with one recommendation having been reported to GAO as being complete. Corrective actions remain in process with regard to other recommendations.

For more information about GAO work on pensions and retirement security issues, visit GAO.gov.

FINANCES

FISCAL YEAR 2015 FINANCIAL STATEMENT HIGHLIGHTS

The Pension Benefit Guaranty Corporation (PBGC or the Corporation) is a federal corporation established under the Employee Retirement Income Security Act (ERISA) of 1974, as amended. It guarantees payment of basic pension benefits earned by more than 40 million of America's workers and retirees participating in nearly 24,000 private-sector defined benefit pension plans. The Corporation receives no funds from general tax revenues. Operations are financed by insurance premiums set by Congress and paid by sponsors of defined benefit plans, investment income, assets from pension plans trusteed by PBGC, and recoveries from the companies formerly responsible for the plans.

FINANCIAL POSITION

- PBGC's combined financial position decreased by $14,577 million, increasing the Corporation's combined deficit (net position) to $76,349 million as of September 30, 2015 an all-time record high, from $61,772 million as of September 30, 2014. This is largely due to pension liability valuation interest factors decreasing for both insurance programs (for example the select interest rate factor decreased by 55 basis points to 2.80% at September 30, 2015, from 3.35% at September 30, 2014). This resulted in a combined $5,928 million in actuarial charges due to change in interest factors. The combined actuarial charges for expected interest on accrued liabilities amounted to $3,390 million, and represents a $4 million increase from the prior fiscal year.
- The multiemployer program's net position declined by $9,850 million, increasing its deficit to $52,284 million, an all-time record high for the multiemployer program. PBGC's recently issued FY 2014 Projections Report indicates that the risk of insolvency rises over time, to exceed 50 percent in 2025. The risk of insolvency rises rapidly after the next 10 years, reaching over 90 percent by the end of the first 20 years. When the program becomes insolvent, PBGC will be unable to provide financial assistance to pay guaranteed benefits in insolvent plans.
- The $9,850 million increase in the multiemployer program's deficit is primarily due to changes in interest rates and newly identified probable plans. Losses from financial assistance in insolvent and probable plans were $9,963 million. This represents a loss due to change in interest factors of $4,322 million for previously identified multiemployer probable plans (for example, the select interest rate decreased 55 basis points from 3.35% at September 30, 2014, to 2.80% at September 30, 2015), and the FY 2015 addition of 17 new probable plans with net claims of $4,625 million. Losses for insolvent plans (i.e., plans currently receiving financial assistance) included $77 million due to the change in interest factors and $51 million due to expected interest on accrued liabilities. Other factors included charges of $32 million for administrative expenses and $7 million in actuarial adjustments, offset by $212 million in net premium income and $68 million in investment income.
- The single-employer program's net position decreased by $4,727 million, increasing the program's deficit to $24,065 million.
- The primary factors in the single-employer program's net loss of $4,727 million included charges of $5,851 million due to a reduction in interest factors (this represents a $6,791 million unfavorable change loss compared to the credit shown for the prior fiscal year), $3,339 million charge due to expected interest on accrued liabilities, $476 million of administrative, investment, and other expenses, and $314 million from actuarial adjustments. These factors were offset by $4,149 million in net premium income

and other income, $780 million credit from completed and probable terminations, and $324 million in investment income.

OPERATIONS

- PBGC's combined single-employer benefit payments and multiemployer financial assistance were $5,673 million in FY 2015 and $5,619 million in FY 2014. PBGC assumed responsibility for the benefit payments of an additional 25,000 workers and retirees in the 65 single-employer plans that were trusteed during FY 2015.
- FY 2015 combined net premium income increased by $416 million to $4,350 million compared to FY 2014 net premium income of $3,934 million. The primary components of the combined net premium income are: (a) variable-rate premium (VRP) generated income of $2,565 million, and: (b) the flat-rate premium income was $1,768 million. Multiemployer program premium income was $212 million.
- PBGC's portfolio achieved a return on investment of 0.1% in FY 2015. This is below the ERISA/Pension Protection Act (PPA) hypothetical portfolio benchmark return of 1.0%, but above the benchmark return of -0.1%, which PBGC uses to conform to its investment policy, (see Investment Performance table on page 40 for longer term comparisons).
- During FY 2015, PBGC assumed financial responsibility for 69 underfunded single-employer plans that were terminated. Several of these plans are pending the completion of a trusteeship agreement with PBGC as of year-end and are being administered by interim trustees. Because of PBGC's previous efforts to evaluate its exposure to probable terminations, $175 million of the net claims for these plans were already reflected in PBGC's FY 2014 results. These 69 terminated plans had an average funded ratio of about 59%. Their terminations resulted in an aggregate net loss to PBGC of $780 million (see Note 12).
- Five single-employer plans with underfunding of $422 million were newly classified as probable terminations in FY 2015 representing PBGC's total single-employer probable inventory. Probable terminations represent PBGC's best estimate of claims for plans that are likely to terminate in a future year.
- The present value of multiemployer nonrecoverable future financial assistance of $54,186 million consists of 55 insolvent plans ($1,627 million), 67 terminated plans not yet insolvent but probable ($2,110 million), and 38 ongoing plans which are projected to exhaust plan assets within 10 years and are classified as probable ($50,449 million) (see Note 7).

ESTIMATES OF REASONABLY POSSIBLE CONTINGENCIES

- At fiscal year-end, PBGC's estimate of its single-employer reasonably possible exposure increased to $217,699 million in FY 2015, a $50,586 million increase compared to $167,113 million into FY 2014. This increase is primarily due to an unfavorable decrease in the select interest factor used to determine PBGC's estimate of its single-employer reasonably possible exposure.
- PBGC's estimate of its multiemployer reasonably possible exposure increased to $19,957 million in FY 2015, a $2,721 million increase over the $17,236 million in FY 2014. This increase is primarily due to a decrease in the select interest factor used to determine PBGC's estimate of its multiemployer reasonably possible exposure.

KEY SINGLE-EMPLOYER AND MULTIEMPLOYER RESULTS

(Dollars in millions)	**FY 2015**	FY 2014
Insurance Activity		
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Single-employer Benefits Paid	**$ 5,570**	$ 5,522
Multiemployer Financial Assistance Paid	**$ 103**	$ 97
Retirees Receiving Benefits (at end of year)	**880,000**	864,000
Total Participants Receiving or Owed Benefits (at end of year)	**1,473,000**	1,486,000
New Underfunded Terminations	**69**	86
Terminated/Trusteed Plans (combined to date)	**4,716**	4,650
Plans That Have Received Financial Assistance	**57**	53
Summary of Operations		
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Premium Income, Net	**$ 4,350**	$ 3,934
Losses (credits) from Completed and Probable Terminations	**$ (780)**	$ (115)
Losses from Financial Assistance	**$ 9,963**	$ 34,260
Investment Income	**$ 392**	$ 6,514
Actuarial Charges and Adjustments	**$ 9,639**	$ 1,959
Financial Position		
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Total Assets	**$ 87,659**	$ 89,782
Total Liabilities	**$ 164,008**	$ 151,554
Net Income (Loss)	**$ (14,577)**	$ (26,133)
Net Position	**$ (76,349)**	$ (61,772)
SINGLE-EMPLOYER PROGRAM		
Total Assets	**$ 85,735**	$ 88,013
Total Liabilities	**$ 109,800**	$ 107,351
Net Income (Loss)	**$ (4,727)**	$ 8,043
Net Position	**$ (24,065)**	$ (19,338)
MULTIEMPLOYER PROGRAM		
Total Assets	**$ 1,924**	$ 1,769
Total Liabilities	**$ 54,208**	$ 44,203
Net Income (Loss)	**$ (9,850)**	$ (34,176)
Net Position	**$ (52,284)**	$ (42,434)

FINANCIAL SUMMARY–SINGLE-EMPLOYER PROGRAM

		Fiscal Year Ended September 30,								
(Dollars in millions)	**2015**	2014	2013	2012	2011	2010	2009	2008	2007	2006
Insurance Activity:										
Benefits paid	$ **5,570**	5,522	5,449	5,384	5,340	5,467	4,478	4,292	4,266	4,082
Participants receiving monthly benefits at end of year [1]	**825,666**	812,608	799,210	781,160	775,300	747,530	743,610	640,070	631,130	612,630
Plans trusteed and pending trusteeship by PBGC[2]	**4,706**	4,640	4,557	4,446	4,292	4,140	3,993	3,850	3,783	3,673
Summary of Operations:										
Premium income, net [3]	$ **4,138**	3,812	2,943	2,642	2,072	2,231	1,822	1,340	1,476	1,442
Other income	$ **11**	22	38	13	17	30	16	23	55	79
Investment income (loss)	$ **324**	6,439	2,741	8,792	3,446	7,594	6,330	(4,164)	4,737	2,184
Actuarial charges and adjustments (credits)	$ **9,504**	1,864	3,054	14,874	6,561	9,421	13,901	(4,813)	346	4,819
Losses (credits) from completed and probable terminations	$ **(780)**	(115)	468	2,006	201	509	4,234	(826)	399	(6,155)
Administrative and investment expenses	$ **446**	464	434	443	424	449	417	400	378	405
Other expenses	$ **30**	17	5	0	21	(7)	15	5	114	2
Net income (loss)	$ **(4,727)**	8,043	1,761	(5,876)	(1,672)	(517)	(10,399)	2,433	5,031	4,634
Summary of Financial Position:										
Cash and investments	$ **80,090**	81,215	77,881	76,941	71,292	69,150	62,062	51,722	61,122	57,728
Total assets	$ **85,735**	88,013	83,227	82,973	78,960	77,463	68,736	64,612	67,241	59,972
Present value of future benefits	$ **106,926**	102,774	105,018	105,635	92,953	90,022	83,035	59,996	69,235	69,143
Net position	$ **(24,065)**	(19,338)	(27,381)	(29,142)	(23,266)	(21,594)	(21,077)	(10,678)	(13,111)	(18,142)

1) This measure may differ from yearly performance numbers reported in PBGC's Annual Performance Report, which also include participants whose benefit payments ended during the year (for example, due to death or a final lump-sum payout).
2) These cumulative measures may differ due to plans that terminated in a prior year may have been removed from inventory in a subsequent year.
3) Beginning in FY 2009, PBGC started to reflect premium income net of bad debt expense for premium, interest and penalties.

FINANCIAL SUMMARY–MULTIEMPLOYER PROGRAM

(Dollars in millions)		Fiscal Year Ended September 30, **2015**	2014	2013	2012	2011	2010	2009	2008	2007	2006
Insurance Activity:											
Financial assistance paid	$	**103**	97	89	95	115	97	86	85	71	70
Plans that have received financial assistance		**57**	53	44	49	49	50	43	42	36	33
Summary of Operations:											
Premium income, net [1]	$	**212**	122	110	92	92	93	95	90	81	58
Other income	$	**0**	0	0	0	0	0	2	0	0	0
Investment income (loss)	$	**68**	75	(96)	91	148	183	121	121	23	(1)
Actuarial charges and adjustments (credits)	$	**135**	95	41	164	99	0	0	(1)	0	0
Losses (gains) from insolvent and probable plans - financial	$	**9,963**	34,260	2,969	2,466	1,461	831	614	(271)	319	461
Administrative and investment expenses	$	**32**	18	25	20	14	12	0	0	0	0
Net income (loss)	$	**(9,850)**	(34,176)	(3,021)	(2,467)	(1,334)	(567)	(396)	482	(216)	(404)
Summary of Financial Position:											
Cash and investments	$	**1,768**	1,701	1,715	1,804	1,725	1,613	1,441	1,318	1,196	1,164
Total assets	$	**1,924**	1,769	1,719	1,807	1,739	1,628	1,459	1,327	1,197	1,166
Present value of future benefits	$	**0**	0	0	1	1	1	1	1	2	2
Nonrecoverable future financial assistance, present value	$	**54,186**	44,190	9,931	7,010	4,475	3,030	2,296	1,768	2,124	1,876
Net position	$	**(52,284)**	(42,434)	(8,258)	(5,237)	(2,770)	(1,436)	(869)	(473)	(955)	(739)

1) Beginning in FY 2009, PBGC started to reflect premium income net of bad debt expense for premium, interest and penalties.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL POSITION

I. INTRODUCTION

PBGC management believes its discussion and analysis of its financial statements and other statistical data will help all interested parties and readers better understand PBGC’s financial condition and results of operations. Readers should consider this material in conjunction with the Annual Performance Report starting on page 1, the financial statements beginning on page 51, and the accompanying notes beginning on page 55.

II. FINANCIAL AND PROGRAM RISKS

As of September 30, 2015, the single-employer and multiemployer programs reported deficits of $24,065 million and $52,284 million, respectively. The multiemployer program’s net position declined by $9,850 million, increasing its deficit to $52,284 million, an all-time record high for the multiemployer program. Notwithstanding these deficits, the Corporation has about $85,735 million in single-employer assets and $1,924 million in multiemployer assets and will be able to meet its obligations for a number of years. However, neither program at present has the resources to fully satisfy PBGC’s long-term obligations.

In FY 2016, significant factors beyond PBGC’s control (including the performance of financial markets, changes in interest rates, plan contributions made by sponsors, and recently enacted statutory and regulatory changes) will continue to influence PBGC’s underwriting income and investment gains or losses. PBGC’s best estimate of FY 2016 premium receipts ranges between $5,100 million and $5,400 million. No reasonable estimate can be made of FY 2016 terminations, effects of changes in interest rates, or investment income.

PBGC’s operating results can change markedly from year to year depending on the severity of losses from plan terminations, investment performance, changes in the interest factors used to discount future benefit payments, general economic conditions, changes in law, and other factors. PBGC’s operating results may vary more than those of most private insurers, in part because PBGC must insure against catastrophic risk without all the tools private insurers use to address risk. Most private insurers can diversify or reinsure their catastrophic risks or apply traditional insurance underwriting methods to these risks. Unlike private insurers, the Corporation cannot decline insurance coverage regardless of the potential risk posed by an insured. Private insurers can also adjust premiums in response to risk. PBGC cannot. PBGC’s premiums are defined by statute and the Congress must approve any premium changes.

Claims against PBGC’s insurance programs vary greatly from year to year. A single large pension plan termination may result in a larger claim against the Corporation than the termination of many smaller plans. So, future claims will continue to depend largely on the rare and unpredictable failures of a few very large plans. Additionally, PBGC’s risks are concentrated in certain industries. Finally, PBGC’s financial condition is also sensitive to market risk. Interest rates and equity returns affect not only PBGC’s own assets and liabilities but also those of PBGC-insured plans.

III. LEGISLATIVE AND REGULATORY DEVELOPMENTS

MULTIEMPLOYER PENSIONS

On December 16, 2014, President Obama signed the omnibus spending bill for Fiscal Year 2015 (P.L. 113-235), which included the Multiemployer Pension Reform Act of 2014 (MPRA). MPRA significantly changed multiemployer pension plan rules for financially troubled plans. MPRA:

- Extended the multiemployer plan critical and endangered status funding rules enacted in the Pension Protection Act of 2006 (PPA). These rules had been scheduled to sunset for newly distressed plans for plan years beginning after 2014.
- Created a new "critical and declining" funding status. Plans that are "critical and declining" are projected to run out of money in less than 20 years (or 15 years in certain situations).
- Created tools for plans in "critical and declining" status to suspend benefits if certain requirements are met, in order to avoid running out of money.
- Amended current plan partition rules to permit PBGC to approve a partition for a plan that has taken (or is taking) all reasonable measures to avoid insolvency. PBGC may approve a partition only if the financial assistance that PBGC would provide does not impair the agency's ability to meet its existing obligations. Former rules allowed PBGC partition action only in certain limited circumstances involving employer bankruptcies.
- Provided PBGC with statutory authority to facilitate plan mergers, including the authority to provide financial assistance.
- Increased PBGC multiemployer plan premiums from $12 per participant to $26 per participant for plan years beginning in 2015. PBGC posts premium rates on its website.

Under MPRA, PBGC administers partitions and mergers and has a consultative role, along with the Department of Labor, in benefit suspensions, which are administered by the Department of the Treasury (Treasury). On June 19, 2015, implementing regulations on benefit suspension and partition were issued by the Treasury and PBGC, respectively. The regulations incorporate the statutory coordination requirements that are triggered when a plan makes applications both to Treasury for benefit suspensions and to PBGC for partition. PBGC expects to issue proposed MPRA merger regulations in December 2015.

Projections for the multiemployer insurance program show modest improvement under MPRA, according to PBGC's FY 2014 Projections Report, issued on September 29, 2015. It is more likely than not that the multiemployer's program's assets will be depleted in 2025, compared with 2022 in the 2013 report, due primarily to the new premium revenues anticipated under MPRA. In addition, the multiemployer program's FY 2014 deficit of $42.4 billion is projected to decrease to, on average, $28 billion (measured in present value) for FY 2024, as a result of increased premiums under MPRA and PBGC's best estimates of how and when plans will use the new options for benefit suspension and partition available to them through MPRA. This decrease represents an improvement over last year's projections, which showed an average deficit of $49.6 billion at 2023.

BIPARTISAN BUDGET ACT OF 2015

Premiums The Bipartisan Budget Act of 2015 (P.L. 114-74), signed into law on November 2, 2015, increases PBGC single-employer premiums beginning with the 2017 plan year and accelerates the premium due date for the 2025 plan year. PBGC posts premium rates on its website.

- The single-employer annual flat-rate premium replaces increases for inflation with specific dollar amounts for 2017-2019. These amounts increase the 2016 $64 per participant premium to $69 for 2017, $74 for 2018, and $80 for 2019. The amount will then be re-indexed for inflation.
- The variable-rate premium, which is $30 per $1,000 of unfunded vested benefits for 2016, will continue to be indexed for inflation, but will increase by an additional $3 for 2017, $4 for 2018, and $4 for 2019.
- The premium due date for the 2025 plan year for single-employer and multiemployer plans is accelerated by one month for most plans. For example, the due date for calendar-year plans will be September 15, 2025, rather than October 15.

Minimum Funding The new law extends for three years temporary provisions of current law that constrain interest rates used to value liabilities for purposes of calculating minimum required contributions. The 10 percent corridor around the 25-year average segment rates will remain in effect through 2020 (three additional years) and then will widen in 5 percent increments - to 15% for 2021, 20% for 2022, 25% for 2023, and 30% for 2024 and later plan years. The law also modifies the provision that allows plans to replace standard mortality assumptions for plan funding when the plans are large enough to have credible mortality experience. Smaller plans would be allowed to adjust the standard mortality tables to the extent they have credible mortality experience.

REGULATORY REVIEW AND REFORM

In 2011, the President issued Executive Order 13563, "Improving Regulation and Regulatory Review," for agencies to consider the benefits and costs of regulations. In response, PBGC continues to focus on making regulations work better to protect people from risk to their pensions — and on eliminating burdens on pension plan sponsors where there is less risk.

As part of this initiative, in FY 2015, PBGC published a final rule on reportable events. The final rule, which was developed as a result of public comment on two proposals and PBGC's first-ever regulatory hearing, will change waivers, redefine some events, and require electronic filing of reportable events notices. PBGC estimates that more than 94 percent of plans and sponsors will be exempt from many reporting requirements and that there will be an overall reduction in burden on the public. The regulatory changes will generally be applicable starting 2016.

Also, as part of PBGC's initiative to improve its regulations, in FY 2015, PBGC published proposed and final rules to require electronic filing of certain multiemployer notices. The regulatory changes will make the provision of information to PBGC more efficient and effective, result in a slight decrease in burden on the public, and will be applicable to filings made in 2016.

In FY 2015, PBGC published a proposal to limit the reporting waiver under the current regulation tied to aggregate plan underfunding of $15 million or less to smaller plans. The rule would also add reporting waivers for plans that must file solely on the basis of either a statutory lien resulting from missed contributions over $1 million or outstanding minimum funding waivers exceeding the same amount (provided the missed contributions or funding waivers were previously reported to PBGC), and codify recent statutory changes and related PBGC guidance. Under the proposal, the regulatory changes would first be applicable to filings due on or after April 15, 2017.

As part of its efforts in FY 2015 to enhance retirement security by promoting lifetime income options, PBGC published a final rule to clarify the treatment of benefits resulting from a rollover distribution from a defined contribution plan to a defined benefit plan if the defined benefit plan was terminated and trusteed by PBGC. Under the regulatory changes, a benefit resulting from rollover amounts generally will not be subject to PBGC's maximum guaranteeable benefit or phase-in limitations and will be in the second highest priority category of benefits in the allocation of assets.

PBGC made great progress in FY 2015 in its development of a proposal to improve and expand the current missing participants program. The expanded program will cover terminating defined contribution plans, non-covered defined benefit plans, and multiemployer plans. PBGC is working closely with the Departments of the Treasury and Labor to coordinate government requirements for dealing with missing participant issues. In FY 2015, PBGC also took steps to finalize its FY 2012 proposal to implement PPA changes to terminating cash balance and other hybrid plans.

PBGC also made several significant changes to its information collections in FY 2015. In particular, PBGC added new information requirements to its termination forms to help address inquiries from individuals who think they may be owed benefits from PBGC. PBGC also added to its premium filings new requirements to report certain risk transfers through lump sum windows and annuity purchases — information critical to PBGC's ability to assess its future financial condition. The changes were approved by the Office of Management and Budget after notice and comment.

In FY 2015, PBGC rejoined the Administrative Conference of the United States (ACUS) as a liaison member. PBGC's general counsel serves on the conference's Judicial Review committee.

IV. DISCUSSION OF INSURANCE PROGRAMS

PBGC operates two separate insurance programs for defined benefit plans. PBGC's single-employer program guarantees basic pension benefits when underfunded plans terminate. By contrast, in the multiemployer program, the insured event is plan insolvency. PBGC's multiemployer program financially assists insolvent covered plans to pay benefits at the level the law guarantees.

By law, the two programs are funded and administered separately and their financial conditions, results of operations, and cash flows are reported separately. The accompanying financial statements for both programs, which appear on pages 51-54, have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Please refer to Note 2: "Significant Accounting Policies" for further detail including a description of PBGC's valuation method used in determining benefit liabilities.

IV.A SINGLE-EMPLOYER PROGRAM RESULTS OF ACTIVITIES AND TRENDS

The single-employer program covers about 29.8 million people (excluding those in plans that PBGC has trusteed), slightly down from the 30.9 million people PBGC covered in 2014. The number of covered ongoing plans decreased from about 22,300 in 2014 to about 22,200 in 2015.

Most plans that were terminated had sufficient funding to cover future benefits and distributed all plan benefits as insurance company annuities or lump sums pursuant to the standard termination rules of ERISA. In these cases, PBGC's activities are limited to ensuring compliance with standard termination regulations.

In contrast, PBGC becomes trustee when a covered underfunded plan terminates. PBGC applies legal limits to payouts and pays the benefits. To determine the amount to pay each person, PBGC takes into account (a) the benefit that the participant had accrued in the terminated plan, (b) the availability of assets from the terminated plan to cover benefits, (c) how much PBGC recovers from employers for plan underfunding, and (d) the legal, maximum benefits provided under ERISA. In 2015, the maximum annual payment guaranteed under the single-employer program was just over $60,000 for a retiree aged 65, up from almost $59,300 in 2014. The maximum guarantee will remain unchanged in 2016. The applicable maximum guarantee is determined by the year the retiree's plan terminated (or, if the plan terminated during the plan sponsor's bankruptcy, the year the sponsor entered bankruptcy), even if the retiree does not begin collecting benefits until a future year. In some cases, retirees can receive more than the maximum guarantee.

In FY 2015, the primary drivers of the single-employer net loss of $4,727 million included the following: a charge of $5,851 million due to a decrease in interest factors (which has the effect of increasing benefit liabilities and actuarial charges), a $3,339 million actuarial charge due to expected interest on accrued liabilities, a charge of $384 million in administrative and other expenses, a charge for actuarial adjustments of $314 million, and investment expenses of $92 million. This was offset by net premium income and other income of $4,149 million, a credit due to completed and probable terminations of $780 million, and investment income of $324 million.

PBGC's single-employer program realized a net loss of $4,727 million compared with a net gain in FY 2014 of $8,043 million. The $12,770 million change was primarily attributable to:

(1) a $6,791 million increase in actuarial charges due to change in interest factors,
(2) a decrease in investment income of $6,115 million (a gain of $324 million compared to a gain of $6,439 million in FY 2014),
(3) a $849 million increase in charges for underwriting actuarial adjustments,
(4) an increase of $665 million in credits from completed and probable terminations,
(5) an increase in net premium and other income of $315 million, and;
(6) a $5 million decrease to administrative, investment, and other expenses.

Charges due to expected interest of $3,339 million remained unchanged from FY 2014. Actuarial charges and adjustments arise from gains and losses from mortality and retirement assumptions, changes in interest factors, and expected interest. Expected interest refers to the interest that PBGC expects to accrue during the current fiscal year based on PBGC's liability and interest rates at the end of the prior year, with adjustments made for new plans and benefit payments made during the year.

SINGLE-EMPLOYER UNDERWRITING ACTIVITY

PBGC's single-employer program realized a net underwriting gain of $4,231 million in FY 2015, $132 million more than the FY 2014 gain of $4,099 million. This $132 million increase from the previous year was primarily due to the $849 million increase in charges for underwriting actuarial adjustments, partially offset by an increase of $665 million in credits from completed and probable terminations and a $326 million increase in single-employer net premium income.

Premium and other income from underwriting activity increased (from $3,834 million in FY 2014 to $4,149 million in FY 2015), largely due to an increase in net premium income from plan sponsors (from $3,812 million in FY 2014 to $4,138 million in FY 2015). The increase in net premium income was primarily due to the increase in the flat-rate premium for plan years beginning in 2015. Other income, consisting of interest on recoveries from sponsors, decreased from $22 million in FY 2014 to $11 million in FY 2015.

Annual flat-rate premiums for the single-employer program increased from $49 to $57 per participant in FY 2015, contributing to an increase in the flat-rate premium income of $178 million to a total of $1,556 million. Annual variable-rate premium (VRP) income, paid by underfunded single-employer plans, increased by $126 million to a total of $2,565 million. The prior year's VRP rate of $14 per $1,000 of underfunding increased to $24 per $1,000 of underfunding for plan years beginning in 2015.

Beginning with calendar-year 2008 plans, the Pension Protection Act (PPA) eliminated the full-funding VRP exemption and changed the interest rate rules for determining a plan's present value of vested benefits for VRP purposes. Under PPA, the present value is determined using three "segment" rates. The first of these applies to benefits expected to be paid within five years of the first day of the plan year, the second applies to the following 15 years, and the third applies to benefits expected to be paid after that.

The Treasury determines each segment rate monthly using the portion of a corporate bond yield curve that is based on corporate bonds maturing during that segment rate period. The corporate bond yield curve is also prescribed every month by the Treasury. It reflects the yields for the previous month on investment-grade corporate bonds with varying maturities that are in the top three quality levels. The January 2015 segment rates for calendar-year plans were 1.48%, 3.77%, and 4.79% for the first, second, and third segments, respectively.

The Corporation's credits from completed and probable plan terminations increased from a credit of $115 million in FY 2014 to a credit of $780 million in FY 2015. The $780 million FY 2015 credit is due to a credit of $1,745 million from revaluations of plans that had terminated in prior years, offset by $780 million for charges related to new plan terminations and a $185 million increase in probable claims (see "Subtotal terminated plans" in Note 12).

The net claim for probable terminations as of September 30, 2015, was $586 million, while the net claim as of September 30, 2014, was $401 million. This $185 million increase is due primarily to the addition of five new probables with net claims of $422 million. This factor was offset by the transfer of $175 million of previously accrued claims to a termination status and a favorable decrease in the reserve for small unidentified probables of $62 million (see Note 6).

Single-employer administrative expenses decreased $14 million from $368 million in FY 2014 to $354 million in FY 2015.

SINGLE-EMPLOYER FINANCIAL ACTIVITY

In FY 2015, single-employer financial net gain decreased from a gain of $3,944 million in FY 2014 to a loss of $8,958 million. This is due to $9,190 million in actuarial charges and $92 million in investment expenses, offset by investment income of $324 million (compared with investment income of $6,439 million in FY 2014). PBGC marks its assets to market, which is consistent with the Financial Accounting Standards Board (FASB) Accounting Standards Codification Section 820, *Fair Value Measurements and Disclosures* (see Note 5).

Actuarial charges under financial activity represent the effects of changes in interest rates and the expected interest accrued on the present value of future benefits. The expected interest refers to the interest that PBGC expects to accrue during the fiscal year on PBGC's liability at the end of the prior year. Charges to the single-employer expected interest remained unchanged from FY 2014. The interest rate in effect at the beginning of FY 2015 (3.35%) increased slightly compared to the charges at the beginning of FY 2014 (3.25%) (the expected interest charge is $3,339 million in FY 2015 and was $3,339 million in FY 2014). A charge to the single-employer interest factor occurred in FY 2015 due to a decrease in the interest factors from the previous year, whereas a credit occurred in FY 2014 due to an increase in the interest factors from the previous year (the interest factor credit was $940 million in FY 2014 and is a charge of $5,851 million in FY 2015).

PBGC discounts its liabilities for future benefits with interest factors[6] that, together with the mortality table used by PBGC, approximate the price in the private-sector annuity market at which a plan sponsor or PBGC could settle its obligations. In FY 2015 PBGC's select interest factor decreased to 2.80% (for the first 25 years after the valuation date) at September 30, 2015, from 3.35% (for the first 25 years) at September 30, 2014. The ultimate factor decreased to 2.86% at September 30, 2015 (after the first 25 years) from 3.25% at September 30, 2014 (after the first 25 years).

PBGC's single-employer Present Value of Future Benefits (PVFB) increased from $102,774 million at September 30, 2014, to $106,926 million at September 30, 2015. PVFB comprises the majority of PBGC's combined total liabilities on its Statements of Financial Position of $164,008 million.

IV.B MULTIEMPLOYER PROGRAM RESULTS OF ACTIVITIES AND TRENDS

During FY 2015, PBGC's obligations for future financial assistance to multiemployer plans increased from $44,190 million at September 30, 2014, to $54,186 million at September 30, 2015, an increase of $9,996 million (23%). This increase is primarily due to an unfavorable decrease in the interest factors of $4,397 million for both probable and insolvent plans (for example the select interest rate factor decreased by 55 basis points to 2.80% at September 30, 2015, from 3.35% at September 30, 2014), and the addition of 17 new probable plans ($4,625 million). PBGC paid $103 million in financial assistance to 57 insolvent plans that cover approximately 54,000 retirees.

PBGC's multiemployer program covers about 10.3 million participants (unchanged from 10.3 million participants in FY 2014) in about 1,400 insured plans. The multiemployer flat-rate premium moved from $12

[6] 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 interest factors that will best match the private-sector prices from the surveys. The interest factors are often referred to as select and ultimate interest factors. Any pair of interest factors will generate liability amounts that differ from the survey prices, which cover 14 different ages or benefit timings. The PBGC process derives the interest factor pair that differs least over the range of prices in the survey.

per participant in 2013 and 2014 to $26 for 2015. This upward movement contributed to an increase in flat-rate premium income of $90 million to a total of $212 million.

A multiemployer plan is a pension plan maintained by two or more unrelated employers under collective bargaining agreements with one or more unions. Multiemployer plans cover most unionized workers in the trucking, retail food, construction, mining, and garment industries. A person doing work for any employer contributing to the plan is usually eligible for benefits. Workers accrue pension credits in the plan even when they change employment from one contributing employer to another.

Multiemployer plans are typically governed by a board of trustees appointed in equal numbers by labor and management. Under ERISA, the trustees have a fiduciary duty to act solely in the interest of participants and beneficiaries. Multiemployer plans are subject to ERISA minimum funding requirements. Although bargaining parties negotiate over plan contributions, they usually delegate plan design to the trustees.

Most collective bargaining agreements that cover multiemployer plans provide for contributions based on time worked in a covered job. Some plans base contributions on "units of production," such as number of items produced, tons of coal mined, or gross sales achieved. In some plans, benefits depend on the level of contributions that employers make to the plan for the participants' work.

Contributions are held in a trust fund that is managed and invested by the board of trustees in accordance with ERISA's fiduciary standards. All plan assets in the trust are available to pay all benefit claims. Assets do not revert to contributing employers.

Employers in multiemployer plans generally remain in the plan unless they go out of business, bargain out of the plan, or move their business out of the plan coverage area. If an employer withdraws from the plan, it may be assessed withdrawal liability. Withdrawal liability is generally based on the plan's unfunded vested benefits and the employer's share of contributions to the plan made by all contributing employers. In some instances, the employer may be assessed partial withdrawal liability.

PBGC does not trustee multiemployer plans. In the multiemployer program, the event triggering PBGC's guarantee is plan insolvency – the inability to pay guaranteed benefits when due.

Insolvency usually occurs after all contributing employers have withdrawn from the plan, and the plan has spent almost all of its assets, leaving the plan without a source of income. PBGC provides insolvent multiemployer plans with financial assistance, in the statutorily required form of loans, sufficient to pay PBGC-guaranteed benefits and reasonable administrative expenses. These loans generally continue until the plan no longer needs assistance or has paid all promised benefits at the guaranteed level. These loans are rarely repaid (and for that reason are fully reserved).

Benefits under the multiemployer program are calculated based on (a) the benefit a participant would have received under the insolvent plan, subject to (b) the legal multiemployer guarantee under ERISA. The guaranteed amount depends on the participant's years of service and the level of the benefit accruals. Monthly benefit accrual rates per year of service up to $11 are fully guaranteed; the portion of monthly benefit accrual rates between $11 and $44 is 75% guaranteed; monthly benefit accrual rates in excess of $44 are not guaranteed. For example, for a participant with 30 years of service, PBGC's guarantee would cover 100% of annual amounts up to $3,960 and partially cover amounts in excess of that not to exceed a total of $12,870 per year.

The multiemployer program reported a net loss of $9,850 million in FY 2015 compared with a net loss of $34,176 million in FY 2014. This resulted in a negative net position of $52,284 million in FY 2015 compared with a negative net position of $42,434 million in FY 2014. The FY 2015 deficit is an all-time record high for the multiemployer program.

The year-to-year net loss decrease of $24,326 million was primarily due to the decrease in financial assistance losses from insolvent and probable plans of $24,297 million attributed to the two unusually large new probables added in FY 2014, an increase in premium income of $90 million, and a decrease in charges to actuarial adjustments of $53 million, offset by an unfavorable impact from the change in interest factors of $89 million, an increase in administrative expenses of $14 million, and a decrease in investment income of $7 million. Multiemployer program investments originate mainly from the cash receipts for premiums due from insured plans. PBGC is required to invest these premiums in obligations issued or guaranteed by the United States government.

On September 25, 2015, a large multiemployer pension plan submitted an application to Treasury to suspend certain benefits in accordance with the Multiemployer Pension Reform Act of 2014 (MPRA). Treasury has posted the application on its website (treasury.gov/mpra) and has published a notice in the Federal Register soliciting public comments on the application from plan participants and other interested parties. MPRA requires the Secretary of the Treasury, in consultation with the PBGC and the Secretary of Labor, to approve or deny an application for suspension within 225 days after the application is submitted. The application is pending Treasury action. See III. Legislative and Regulatory Developments, Multiemployer Plans above for a description of the MPRA.

V. OVERALL CAPITAL AND LIQUIDITY

PBGC's obligations include monthly payments to participants and beneficiaries in terminated defined benefit plans, financial assistance to multiemployer plans, and PBGC's operating expenses. The financial resources available to pay these obligations are underwriting income received from insured plan sponsors (largely premiums), the income earned on PBGC's investments, and the assets taken over from failed plans.

The Corporation has sufficient liquidity to meet its obligations for a number of years; however, barring changes, neither program will be able to fully satisfy PBGC's long-term obligations to plan participants. For example, the FY 2014 Projections Report shows that the risk of multiemployer program insolvency rises rapidly, exceeding 50 percent in 2025 and reaching 90 percent by 2032.

FY 2015 combined premium cash receipts totaled $3,696 million, an increase of $1,873 million from $1,823 million in FY 2014, and due primarily to the shift of estimated flat-rate calendar year single-employer plan premium receipts from the end of February to October 15. Net cash flow from investment activity decreased to $712 million used versus $2,137 million provided in FY 2014. In FY 2015, PBGC's cash receipts of $6,063 million from operating activities of the single-employer program were insufficient to cover its operating cash obligations of $6,199 million. This resulted in net cash used by operating activities of $136 million (as compared to net cash used of $1,953 million in FY 2014). When the single-employer cash used through investing activities of about $677 million is added to this net cash used, the single-employer program in the aggregate experienced a net cash decrease of $813 million.

In the multiemployer program, cash receipts of $174 million from operating activities were sufficient to cover its operating cash obligations of $137 million, resulting in a net cash provided by operations of $37 million. When this net cash provided is added to net cash used through investing activities of $35 million, the multiemployer program in the aggregate experienced an overall net cash increase of $2 million.

During FY 2015, PBGC recovered $123 million through agreements with sponsors of terminated plans for unpaid contributions and unfunded benefits. A portion of those recovered funds are paid out as additional benefits to plan participants with nonguaranteed benefits according to statutory priorities.

In FY 2015, PBGC's combined net decrease in cash and cash equivalents amounted to $811 million, arising from a decrease of $813 million for the single-employer program and an increase of $2 million for the multiemployer program.

VI. SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAM EXPOSURE

PBGC estimates its single-employer loss exposure to reasonably possible terminations (e.g., underfunded plans sponsored by companies with credit ratings below investment grade) of $217,699 million at September 30, 2015, and $167,113 million at September 30, 2014. PBGC's exposure to loss may be less than these amounts because of the statutory guarantee limits on insured pensions, but PBGC is unable to estimate prospectively the extent and effect of the guarantee limitations. These estimates are measured as of December 31 of the previous year (see Note 9). For FY 2015, this exposure was concentrated in the following sectors: manufacturing (primarily automobile/auto parts, and fabricated metals), transportation (primarily airlines)/communications/utilities, services, and wholesale and retail trade.

PBGC estimates that, as of September 30, 2015, it is reasonably possible that multiemployer plans may require future financial assistance of $19,957 million, compared to $17,236 million at September 30, 2014. The increase in FY 2015 from FY 2014 is primarily due to lower interest factors and the addition of five large new plans as reasonably possible.

The significant volatility in plan underfunding and sponsor credit quality over time makes long-term estimates of PBGC's expected claims uncertain. This volatility, and the concentration of claims in a relatively small number of terminated plans, has characterized PBGC's experience to date and will likely continue. Factors such as economic conditions affecting interest rates, financial markets, and the rate of business failures will also influence PBGC's claims going forward.

PBGC's sources of information on plan underfunding are the most recent Section 4010 and PBGC premium filings, Form 5500 and other submissions to the Corporation. PBGC publishes Table S-49, "Various Measures of Underfunding in PBGC-Insured Plans," in its *Pension Insurance Data Book*. In that table the limitations of the estimates are fully and appropriately described.

In FY 2015, approximately 1,350 plans filed standard terminations. The number of filings is consistent with that in the previous five years (ranging from 1,350 to 1,450 each year). Even though the total number of filings remains steady, there is a noticeable increase in larger plan standard terminations. Some of the large plans that terminated were those sponsored by Motorola Solutions Inc., Fluor Corporation, Hannaford Brothers Company, Sunoco Inc., Samsonite LLC, Acument Global Technologies Inc., 21st Century Fox America Inc., and H. J. Heinz Company.

As in previous years, the majority of the plans that filed standard terminations were small plans with 300 or fewer participants. However, in FY 2015, the number of terminating plans with more than 1,000 participants increased noticeably. Additionally, as compared to previous years, two to four times more large plans (more than 5,000 participants) filed a standard termination.

The short-term projection shows that while the number of standard terminations is expected to stay steady over the next five years, the number of large plans terminating is expected to increase. The Internal Revenue Service (IRS) plans to issue regulations implementing new mortality tables in 2017, which will make lump sums more expensive. The volume of standard terminations is, therefore, expected to be high in 2016 as employers rush to pay out the lump sums associated with a standard termination before the new IRS mortality tables go into effect. After the new mortality tables are adopted, the number of terminations may possibly be lower as long as interest rates do not rise. However, currently low interest rates are likely to rise and lower the lump sum value of benefits, thereby partially offsetting the decrease in standard terminations (as a result of the new mortality table). While the number of terminations may remain at current levels, terminations of larger plans will significantly increase the workload associated with standard terminations.

VII. INVESTMENT ACTIVITIES

PBGC uses institutional investment management firms to invest its assets, subject to PBGC's oversight and consistent with the investment policy statement approved by our Board. PBGC does not determine the specific investments to be made, but instead relies on PBGC's investment managers' discretion in executing investments appropriate for their assigned investment mandates. PBGC does ensure that each investment manager adheres to PBGC's prescribed investment guidelines associated with each investment mandate and measures each investment manager's performance in comparison with agreed-upon benchmarks.

PBGC's investment assets consist of premium revenues, which are accounted for in the revolving fund, and assets from trusteed plans and their sponsors, which are accounted for in the trust fund. By law, PBGC is required to invest certain revolving funds (i.e., Funds 1 and 2) in obligations issued or guaranteed by the United States government. Portions of the other revolving fund (i.e., Fund 7) can be invested in other debt obligations, but under PBGC's current investment policy these revolving funds are invested solely in Treasury securities (PBGC has never established funds 3, 4, 5 or 6, which ERISA authorized for special discretionary purposes).

Total revolving fund investments, including cash and investment income, on September 30, 2015, were \$20,013 million (\$1,139 million for Fund 1, \$1,767 million for Fund 2, and \$17,107 million for Fund 7). Trust fund investments totaled \$61,845 million as of September 30, 2015. At the end of FY 2015, PBGC's total investments consisting of cash and cash equivalents, investments, and investment income receivable as shown on the Statements of Financial Position were \$81,858 million.

The Board approved PBGC's new investment policy in October 2015, which was largely unchanged from the previous policy dated May 2011. The objective is to maximize total return within a prudent risk framework that incorporates PBGC's fixed obligations and asset composition of potential trusteed plans. The investment policy establishes a 30 percent target asset allocation for equities and other non-fixed income assets, and a 70 percent asset allocation for fixed income.

PBGC's investment program had assets under performance management of $80,186 million as of September 30, 2015. Of the $1,700 million difference between the September 30, 2015, assets reported on the Statements of Financial Position and the assets within the PBGC's investment performance portfolio, $800 million are newly trusteed assets that have not yet been commingled, $500 million represent net unsettled purchases, and $400 million for funds available for the following month's benefit payments. Asset allocation percentages refer to the investments within PBGC's investment program that are subject to the Corporation's investment policy, as described below.

Cash and fixed income securities totaled about 68 percent of total assets under performance management invested at the end of FY 2015, compared with approximately 67 percent for FY 2014. Equity securities (i.e., public equities) represented about 31 percent of total assets under performance management invested at the end of FY 2015, compared with approximately 31 percent for FY 2014. The Total Fund Composite return (excluding private market assets and transition accounts) for FY 2015 was 0.1% compared with 8.0% in FY 2014. The returns reflect weaker capital markets performance during the period especially in global equities. A small percentage of PBGC's investments (0.1 percent of total investment assets at FY 2015 is in line with 0.1 percent at FY 2014) predominantly represent assets that are in the process of moving out of one of the manager portfolios either for liquidation or for transfer to another manager. The return of the Total Fund Composite including these transition accounts was 0.1% in FY 2015 compared to 8.0% in FY 2014. Private markets assets, comprised largely of private equity, private debt, and private real estate that are currently part of the investment portfolio, represented about 1.7% of total investments at the end of FY 2015, compared with 1.9% of total investments at the end of FY 2014.

Due to the cyclical nature of capital markets, PBGC also reports five-year returns for its investment program. For the five-year period ending September 30, 2015, PBGC's return on total invested funds excluding transition accounts was 5.6% compared with a total fund benchmark return of 5.3%, a benchmark based on the relative weights of the underlying managed accounts. Including the transition accounts, the five-year annualized return was 5.6%. Separately, the ERISA/PPA hypothetical portfolio benchmark return for the five-year period ending September 30, 2015 was 9.5% (Please refer to the Investment Portfolio Analysis table on page 45 for additional information).

The table below summarizes the performance of PBGC's investment program.

INVESTMENT PERFORMANCE

(*Annual Rates of Return*)

	September 30, 2015	September 30, 2014	Three and Five Years Ended September 30, 2015: 3 yrs	Three and Five Years Ended September 30, 2015: 5 yrs
Total Fund Composite	**0.1%**	8.0%	3.5%	5.6%
Total Fund Benchmark [1]	**(0.1)**	8.0	3.3	5.3
ERISA/PPA Portfolio Benchmark[2]	**1.0**	13.3	8.2	9.5
Total Global Public Stock	**(3.6)**	11.0	8.3	8.1
Total Global Public Stock Benchmark [3]	**(4.3)**	11.2	8.0	7.9
Total Global Bonds	**2.2**	7.0	1.6	4.5
Total Global Bonds Benchmark [4]	**2.2**	6.8	1.4	4.2
Trust Funds	**(1.0)**	9.3	4.5	6.4
Revolving Funds	**3.4**	4.5	0.8	3.2
Indices				
Russell 3000 Index	**(0.5)**	17.8	12.5	13.3
MSCI ACWI ex-U.S. Standard Index	**(12.2)**	4.8	2.3	1.8
S&P 500 Index	**(0.6)**	19.7	12.4	13.3
Barclays Capital Treasury Index	**3.8**	2.3	1.3	2.5
Barclays Capital Aggregate Bond Index	**2.9**	4.0	1.7	3.1
Barclays Capital Global Aggregate ex-US Index, Hedged	**3.4**	6.5	4.0	3.8

[1] The Total Fund Benchmark is a dynamic weighted benchmark based upon the weights of the Total Global Public Stock Benchmark, the Total Global Bonds Benchmark and the Total Money Market Securities Benchmark. This benchmark is utilized to compare against the Total Fund Composite returns shown above.
[2] The ERISA/PPA Portfolio Benchmark is based upon a hypothetical portfolio with a 60% allocation to the Standard & Poor's 500 equity index and a 40% allocation to the Barclays Capital Aggregate fixed income index. See page 44 for a description of this reporting requirement.
[3] The Total Global Public Stock Benchmark is a dynamic weighted benchmark based upon the weights of the U.S. Public Stock composite and the International Public Stock composite and the returns of their respective benchmarks.
[4] The Total Global Bonds Benchmark is a dynamic weighted benchmark based upon the weights of PBGC's fixed income managers and the returns of their respective benchmarks.

FIXED INCOME

As described below, PBGC fixed income investment managers use a number of different benchmarks. Where applicable, the relative percentage that each index or benchmark represents for its respective asset class is provided. The percentage invested under each benchmark(s), in aggregate, for each asset class relative to the overall PBGC investment program as of September 30, 2015, is also provided below.

The Total Global Bonds Benchmark is a dynamic weighted benchmark based on the weights of the underlying fixed income managers and the returns of their respective benchmarks. As of September 30, 2015, the weighted benchmark encompasses the Revolving Fund Treasuries Custom Benchmark (27.4%), the Barclays Capital U.S. TIPS index (10.8%), the Total Long Duration Bonds Benchmark (23.6%), the Barclays Capital Aggregate Bond index (9.8%), the Total Developed Market Bonds Benchmark (12.8%), the Total High Yield Bonds Benchmark (6.8%), and the Total Emerging Market Bonds Benchmark (8.8%). The overall Total Global Bonds composite equals 64.9 percent of the total PBGC portfolio.

Treasuries: This category includes investments in United States Dollar (USD) denominated fixed income securities managed by outside professional asset managers, and applies to 17.8 percent of PBGC's investment program assets at year-end. The Long Treasury Benchmark is the Revolving Fund Treasuries Custom Benchmark. The Revolving Fund Treasuries Custom Benchmark is a customized index made up of U.S. Treasury notes and bonds. While PBGC is able to redeem composite assets upon request, the composite assets are part of the Revolving Fund and can only be redeemed to meet pension benefit obligations and administrative expenses.

U.S. Treasury Inflation Protected Securities (TIPS): This category includes investments in USD denominated fixed income securities managed by outside professional asset managers, and applies to 7.0 percent of PBGC's investment program assets at year-end. The TIPS Benchmark is the Barclays Capital U.S. TIPS index. While PBGC is able to redeem composite assets upon request, the composite assets are part of the Revolving Fund and can only be redeemed to meet pension benefit obligations and administrative expenses.

Long Duration: This category includes investments mainly in USD-denominated fixed income securities managed by outside professional asset managers, and applies to 15.3 percent of PBGC's investment program assets at year-end. The Total Long Duration Bonds Benchmark is a dynamic weighted benchmark based on the weights of the underlying Trust Fund long-duration fixed income managers and the returns of their respective benchmarks. As of September 30, 2015, the Total Long Duration Bonds Benchmark encompasses the Barclays Capital Long U.S. Government/Credit index (56.5%), Barclays U.S. Long Credit Index (3.9%), and Custom Benchmarks (39.6%). The Barclays Capital Long U.S. Government/Credit index includes both government and credit securities. The government component includes public obligations of the U.S. Treasury that have remaining maturities of more than one year and publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government. The credit component of the index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality (investment grade) requirements. The Barclays Capital U.S. Long Credit index includes investment-grade corporate debt and sovereign, supranational, local authority and non-U.S. agency bonds that are dollar denominated and have a remaining maturity of greater than or equal to 10 years. The custom benchmarks include similar securities and are weighted combinations of sub-sector benchmarks. PBGC is able to redeem composite assets upon request.

Core: This category includes investments primarily in USD-denominated fixed income securities managed by outside professional asset managers, and applies to 6.4 percent of PBGC's investment program assets at year-end. The Core Fixed Income Benchmark is the Barclays Capital Aggregate Bond index. The Barclays Capital Aggregate Bond index includes securities that are SEC-registered, taxable, and dollar-denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, asset-backed securities, and foreign securities. PBGC is able to redeem composite assets upon request.

Developed Markets: This category includes investments in USD-denominated fixed income securities and fixed income securities denominated in other foreign currencies managed by outside professional asset managers. This applies to 8.3 percent of PBGC's investment program assets at year-end. The Total Developed Market Bonds Benchmark is a dynamic weighted benchmark based on the weights of all developed market bond managers and the returns of their respective benchmarks. As of September 30, 2015, the weighted benchmark encompasses the Barclays Capital Global Aggregate index hedged (44.5%) and the Barclays Capital Global Aggregate ex-USD index hedged (55.5%). The Barclays Capital Global Aggregate index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD-denominated investment grade 144A securities. The hedged index negates exposure to foreign currencies by hedging currency exposure back to the U.S. dollar. The ex-USD index excludes USD denominated securities and provides a broad-based measure of international investment-grade fixed income markets. PBGC is able to redeem composite assets upon request.

High Yield: This category includes investments primarily in USD-denominated fixed income securities managed by outside professional asset managers, and applies to 4.4 percent of PBGC's investment program assets at year-end. The Total High Yield Bonds Benchmark is a dynamic weighted benchmark based on the weights of all high yield bond managers and the returns of their respective benchmarks. As of September 30, 2015, the weighted benchmark encompasses the Barclays Capital US High Yield Ba/B 1% Capped index (73.4%), Barclays Capital US High Yield 2% Issuer Capped index (13.6%) and Barclays Capital Global High Yield Hedged USD index (13.0%). The Barclays Capital U.S. High Yield Ba/B 1% Issuer Capped index includes the universe of fixed rate, non-investment grade debt securities rated Ba or B. The index also includes Canadian and global bonds (SEC registered) of issuers in non-Emerging Market countries. The index limits the size of an individual issuer to 1% of the index. The Barclays Capital U.S. High Yield 2% Issuer Capped index includes the universe of fixed rate, non-investment grade debt securities rated Ba-D. The index also includes Canadian and global bonds (SEC registered) of issuers in non-Emerging Market countries. The index limits the size of an individual issuer to 2% of the index. The Barclays Capital Global High Yield Hedged USD index includes non-investment grade bonds rated Ba1/BB+ or lower. The index includes debt securities from the United States as well as developed and emerging market countries and negates exposure to foreign currencies by hedging currency exposure back to the U.S. dollar. PBGC is able to redeem composite assets upon request.

Emerging Market Bonds: This category includes fixed income securities denominated in either U.S. dollars or foreign currencies, and managed by outside professional asset managers. It comprises 5.7 percent of PBGC's investment program assets at year-end. The Total Emerging Market Bonds Benchmark is a dynamic weighted benchmark based on the weights of all emerging market bond managers and the returns of their respective benchmarks. As of September 30, 2015, the weighted benchmark encompasses the JP Morgan EMBIG Diversified index (50.7%) and Custom Benchmarks (49.3%). The custom benchmarks are weighted combinations of the JP Morgan EMBIG Diversified and the JP Morgan GBI EM Global Diversified. The JP Morgan EMBIG Diversified index includes U.S. dollar-denominated debt instruments issued by Emerging Market countries. The index also includes U.S. dollar-denominated Brady bonds, Eurobonds, and traded loans issued by sovereign and quasi-sovereign entities. The JP Morgan GBI EM Global Diversified index includes local currency or non-U.S. dollar-denominated debt instruments issued by Emerging Market countries. PBGC is able to redeem composite assets upon request.

MONEY MARKET SECURITIES

This category includes investments in money market instruments managed by an outside professional asset manager who invests in a diversified portfolio of short-term obligations and deposits, including, but not limited to, Treasury and agency obligations, certificates of deposits, commercial paper, and repurchase agreements (Trust Fund Cash). In addition, the category includes overnight investments in Treasury securities held at Treasury (Revolving Fund Cash). The Total Money Market Securities Benchmark is a dynamic weighted benchmark based on the weights of the Trust Fund Cash and the Revolving Fund Cash and the returns of their respective benchmarks. As of September 30, 2015, the weighted benchmark encompasses the 3-month Treasury bill (94.7%) and the 4-week Treasury bill (5.3%). The cash composite represents 2.7 percent of PBGC's investment program as of September 30, 2015. PBGC is able to redeem money market securities upon request.

GLOBAL PUBLIC STOCK

This category includes investments in the U.S. Public Stock composite and the International Public Stock composite, and applies to 30.6 percent of PBGC's investment program assets at fiscal year-end. The Total Global Public Stock Benchmark is a dynamic weighted benchmark based upon the weights of the U.S. Public Stock composite and the International Public Stock composite as well as on the returns of their respective benchmarks. PBGC is able to redeem composite assets upon request.

As of September 30, 2015, the Total Global Public Stock Benchmark is comprised of the Total U.S. Public Stock Benchmark (55.4%), and the Total International Public Stock Benchmark (44.6%).

U.S. Public Stock: This category includes investments in U.S. publicly traded Equity securities and U.S. publicly traded Real Estate Investment Trusts (REITs) managed by outside professional asset managers, and applies to 16.9 percent of PBGC's investment program assets at year-end. The Total U.S. Public Stock Benchmark is a dynamic weighted benchmark based upon the weights of the U.S. Public Stock composite and the returns of their respective benchmarks. As of September 30, 2015, the weighted benchmark encompasses the Russell 3000 index (81.5%) and the Dow Jones U.S. Select Real Estate Securities index (18.5%). PBGC is able to redeem composite assets upon request.

International Public Stock: This category includes investments in International Equity securities managed by outside professional asset managers, and applies to 13.6 percent of PBGC's investment program assets at year-end. The Total International Public Stock Benchmark is a dynamic weighted benchmark based upon the weights of all of the international funds and the returns of their respective benchmarks. As of September 30, 2015, the weighted benchmark encompasses the MSCI EAFE index (63.8%), the MSCI EAFE Small Cap index (9.9%), the MSCI Emerging Markets index (19.7%), and the MSCI Canada index (6.6%). The MSCI EAFE index (Europe, Australasia, and Far East) is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. The MSCI EAFE Small Cap index is designed to measure the developed markets small capitalization equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets index is designed to measure equity market performance of emerging markets and the MSCI Canada index is designed to measure the equity market performance of Canada. PBGC is able to redeem composite assets upon request.

PRIVATE MARKETS

This category includes private equity, private debt, and private real estate funds that invest mainly in buyouts, venture capital, distressed debt, and commercial real estate, and applies to 1.7 percent of PBGC's investment program assets at year-end. Private investments are difficult to benchmark due to their illiquid nature. Typical benchmarks utilized for private equity include universe comparisons where funds which have the same original investment date are compared against the performance of a similar fund. For direct private real estate investments, many institutions use the National Council of Real Estate Investment Funds (NCREIF) index, which includes U.S. commercial real estate properties acquired in the private market for investment purposes. For investments in private equity real estate, peer universe comparisons based on similar funds with the same original investment date are often utilized. Private Market investments typically do not have redemption provisions. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the funds. It is estimated that the majority of the underlying assets of the funds will be liquidated over the next ten years. The fair values of the investments in this category have been estimated using the net asset value of PBGC's ownership interest in partners' capital.

THE PENSION PROTECTION ACT OF 2006 REPORTING REQUIREMENT

The Pension Protection Act of 2006 requires PBGC to estimate the effect of an asset allocation based on a combination of two commonly used market benchmarks. This hypothetical portfolio (used as a benchmark for a typical pension plan, rather than an insurer), with a 60 percent allocation to the Standard & Poor's 500 equity index and a 40 percent allocation to the Barclays Capital Aggregate Bond index, would have increased the assets of the Corporation by about $0.7 billion (1.0% return compared with PBGC's Total Fund Composite return including transition accounts of 0.1%) for the one-year period ending September 30, 2015, and increased the assets of the Corporation by about $16.1 billion (9.5% return compared with PBGC's Total Fund Composite return including transition accounts of 5.6%) over the five-year period ending September 30, 2015. For further analysis of PBGC's Investment Activities please refer to page 38 of the MD&A of Results of Operations and Financial Position. As reported in last year's FY 2014 Annual Report, the same "60/40 portfolio" would have increased the assets of the Corporation by about $4.1 billion (13.3% return compared with PBGC's Total Fund Composite return including transition accounts of 8.0%) for the one-year period ending September 30, 2014, and increased the assets of the Corporation by about $10.9 billion (11.4% return compared with PBGC's Total Fund Composite return including transition accounts of 7.9%) for the five-year period ending September 30, 2014.

These results are summarized in the following table.

INVESTMENT PORTFOLIO ANALYSIS

60/40 Hypothetical Portfolio Analysis versus PBGC Fiscal Year Actual Return (60/40 is comprised of S&P 500 Index/Barclays Capital Aggregate Bond Index)						
	1-Year Period Ending			5-Year Period Ending		
Fiscal Year	60/40 Incremental $ Billions	60/40 % Return	PBGC Actual Return[1]	60/40 Incremental $ Billions	60/40 % Return	PBGC Actual Return[1]
9/30/2014	$4.1	13.3%	8.0%	$10.9	11.4%	7.9%
9/30/2015	$0.7	1.0%	0.1%	$16.1	9.5%	5.6%

[1] PBGC Actual Return is the PBGC's Total Fund Composite return including transition accounts.

PBGC MANAGEMENT ASSURANCES AND INTERNAL CONTROLS PROGRAM

The PBGC's Internal Controls Program is designed to support compliance with the Federal Managers' Financial Integrity Act (FMFIA) and Office of Management and Budget (OMB) Circular A-123 requirements. The Internal Controls Program and the other related activities described below undergird PBGC's FMFIA Assurance Statement. For FY 2015, PBGC provided a qualified Statement of Assurance due to two material weaknesses relating to a) System Security and IT Operational Effectiveness and Corrective Action Plans, and b) Operational Processes and Records Management.

FMFIA ASSURANCE STATEMENT PROCESS

Members of PBGC's executive management prepared assurance statements regarding compliance with the FMFIA. These representations were based on their knowledge of PBGC operations, the results of reviews conducted by the Office of Inspector General (OIG) and the Government Accountability Office (GAO), internal management assessments and evaluations, and consideration of other factors affecting the PBGC control environment.

INTERNAL CONTROL COMMITTEE

The PBGC Internal Control Committee (ICC) provided corporate oversight and accountability regarding internal controls over PBGC's operations, financial reporting, and compliance with laws and regulations. Chaired by the Chief Financial Officer, the committee included members from each major area of the agency, including a representative of PBGC's OIG as a non-voting member. The ICC approves major changes to key financial reporting controls and PBGC systems, monitors the status of internal control deficiencies and related corrective actions, and considers other matters, including controls designed to prevent or detect fraud.

DOCUMENTATION AND TESTING OF CONTROLS

PBGC's Internal Controls Program is primarily focused on documenting and testing controls within the following control areas: financial reporting, entity-wide, and information technology. During the year, selected controls were evaluated for the adequacy of control design and tested to determine operating effectiveness of the controls. Reports regarding results of the testing were provided to PBGC management and ICC members for consideration under FMFIA.

Financial Reporting Controls: PBGC has identified 12 major business process cycles which have a significant impact on PBGC's financial reporting processes: Benefit Payments, Benefit Determinations, Budget, Financial Reporting, Human Resources/Payroll, Investments, Losses on Completed and Probable Terminations, Non-Recoverable Future Financial Assistance, Payables, Premiums, Single-Employer Contingent Liability, and Present Value of Future Benefits. As of the end of FY 2015, PBGC had identified 173 key controls over financial reporting for testing on a rotational basis within these major business cycles. Employees responsible for performance of these controls maintain evidence documenting control execution, and provide quarterly representations regarding the performance of those controls.

Entity-Wide Controls: These controls are overarching controls which support the overall effectiveness of PBGC's internal control environment. As of the end of FY 2015, PBGC had identified 48 key entity-wide controls for testing within the following six components of its internal control environment: control environment, risk assessment, control activities, information and communication, monitoring, and anti-fraud.

Information Technology Controls: In order to protect the confidentiality, integrity, and availability of PBGC information systems and the information processed, stored, and transmitted by those systems, PBGC implements the controls required by the National Institute of Standards and Technology special publication No. 800-53 (NIST 800-53), Recommended Security Controls for Federal Information Systems and Organizations. For FY 2015, PBGC identified 22 major applications for NIST purposes. PBGC is working to move from Revision 3 of NIST 800-53 to Revision 4.

ASSESSMENT OF IMPROPER PAYMENT RISK

Based on the requirements of OMB Circular A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments and related improper payment legislation, PBGC performed risk assessments of two payment streams for FY 2015: 1) benefit payments to participants in "final pay" status for plans trusteed by PBGC under Title IV of ERISA (Benefit Payments), and 2) refunds of previously paid premiums (Premium Refunds). Please refer to the Improper Payment Assessment section of this report for additional information.

AUDIT COORDINATION AND FOLLOW-UP PROGRAM

In implementing OMB Circular A-50, PBGC has established its Audit Coordination and Follow-up Directive. It is PBGC policy to fully cooperate with audits of PBGC operations and ensure the efficient tracking, resolution, and implementation of agreed-upon audit recommendations contained in audit reports issued by the OIG and GAO. PBGC has dedicated staff to coordinate with OIG and GAO audit representatives in providing access to records and information needed to complete audits and ensure that management responses to draft reports are provided in a timely manner. To facilitate timely completion and closure of audit recommendations, staff regularly monitors implementation efforts, including regular distribution of audit follow-up status reports to executive management via a corporate-wide portal and formal submission of documentation evidencing completion of required corrective actions. Status reports document planned corrective actions and estimated completion dates, and also indicate those recommendations for which work has been completed and reported as such to the OIG and GAO.

COMPLIANCE WITH LAWS, REGULATIONS, AND OTHER REQUIREMENTS

To foster an environment that promotes compliance with laws and regulations, PBGC maintains two legal compendia: the *Compendium of Laws* lists statutes which may have a significant impact on PBGC's financial statements or PBGC operations, and the *Compendium of Executive Orders and OMB Requirements* lists other requirements applicable to PBGC. These documents provide brief descriptions of each applicable requirement and identify the PBGC department or other component with primary compliance responsibility. PBGC updates and maintains these lists to help ensure compliance with applicable laws, regulations, and other requirements.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT STATEMENT OF ASSURANCE

In accordance with the FMFIA and OMB Circular A-123, the PBGC's FMFIA Assurance Statement for FY 2015 is presented below:

PBGC's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of FMFIA. In accordance with OMB Circular A-123, Management's Responsibility for Internal Control, the agency conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations (FMFIA Section 2) and conformance with financial management system requirements (FMFIA Section 4). Based on the results of this evaluation for the period ending September 30, 2015, PBGC is providing a qualified Statement of Assurance that the agency met all the objectives of FMFIA. The results of that assessment provided reasonable assurance that, except for the two noted material weaknesses discussed below, PBGC's internal control over the effectiveness and efficiency of operations and compliance with laws and regulations was operating effectively. Further, the assessment did not identify any non-conformances with financial management system requirements.

In addition, PBGC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. The results of our assessment provide a basis for a qualified statement of assurance. The results provide reasonable assurance that internal controls over financial reporting were operating effectively, except for the two noted material weaknesses discussed below.

SUMMARY OF THE MATERIAL WEAKNESSES RELATING TO SYSTEM SECURITY AND IT OPERATIONAL EFFECTIVENESS AND CORRECTIVE ACTION PLANS

PBGC continues to address the material weakness relating to system security and IT operational effectiveness which was first reported for FY 2009. The first component of this material weakness relates to the entity-wide security program which includes identification of vulnerabilities in PBGC's security control structure, the continuous cycle of activity for assessing risk and monitoring, and the implementation and oversight of security procedures. The second component relates to access controls and configuration management. This weakness relates to the need to limit and monitor least-privilege access of data, equipment, and facilities and to establish baseline inventory, and maintain an accurate accounting, of all changes to hardware, software, and firmware components and related controls.

For FY 2015, OIT made strides in addressing the material weakness by realigning the Enterprise Cybersecurity Division (ECD), hiring new federal personnel and adding contract support personnel in both ECD and the Information Technology Infrastructure Operations Department (ITIOD), developing and implementing repeatable processes, and acquiring new tools and technologies. Both ECD and ITIOD made substantial progress in addressing OIG recommendations as well. Improvements included improving the security assessment and authorization process, enhancing security infrastructure design, and improving access management standards and controls across PBGC's business systems. Addressing cybersecurity risks and protecting participant data and other sensitive data requires constant vigilance, and PBGC continues to work to embed internal controls into the organization's business processes and procedures and improve awareness of risk and controls to help counter the cybersecurity threat. PBGC has made significant progress in regard to the corrective actions for the entity-wide security program, and expects that this component of the existing material weakness will be fully addressed during FY 2016. Significant progress is expected during FY 2016 regarding the access and configuration management of the material weakness with a particular focus on improving incident handling and security monitoring. PBGC expects the material weakness to be fully addressed during FY 2017.

SUMMARY OF MATERIAL WEAKNESS RELATED TO OPERATIONAL PROCESSES AND RECORDS MANAGEMENT

Corrective actions continue regarding this material weakness which was first reported in FY 2011. It relates to the need to improve audits of plan assets and plan participant databases; the acquisition, storage and retention of records; and the oversight of work performed by contractors working in support of the Benefits Administration and Payment Department (BAPD). Another component includes the operation and modernization of the Present Value of Future Benefits system used to value benefit liabilities. BAPD is working to finalize a reorganization that is based on a functionally aligned matrix structure that is focused on four key operational areas: participant services, actuarial services, plan assets and participant data management, and case management and policy. This new structure will drive standardization, improve quality, and promote accountability for internal controls, processes, and system enhancements throughout the organization. During FY 2015, BAPD made progress by addressing OIG recommendations regarding the performance of plan asset audits and enhancing existing procedures regarding record retention, data tracking, and quality assurance related to actuarial reporting. In addition, BAPD developed an archiving framework that links source documents to key data elements specified in plan documents, and initiated an operational risk assessment to inventory key risks and ensure that such risks are appropriately considered and mitigated. This remains a top agency focus, and PBGC anticipates making significant improvements in regard to the audit and records management components of the material weakness during FY 2016 and FY 2017, as implementation of the reorganization of BAPD progresses. The modernization of the PVFB system has begun. The first of four phases was completed in May 2015 and addresses data validation. Phase 2, which addresses portions of the actuarial calculations, is underway with completion targeted for FY 2016. When this project is completed in FY 2019, the material weakness will be fully addressed.

MANAGEMENT REPRESENTATION

PBGC's management is responsible for the accompanying Statements of Financial Position of the Single-Employer and Multiemployer Funds as of September 30, 2015, and 2014, the related Statements of Operations and Changes in Net Position, and the Statements of Cash Flows for the years then ended. PBGC's management is also responsible for establishing and maintaining systems of internal accounting and administrative controls that provide reasonable assurance that the control objectives, i.e., preparing reliable financial statements, safeguarding assets, and complying with laws and regulations, are achieved.

PBGC management believes the financial statements of the Single-Employer and Multiemployer Program Funds present fairly the financial position of PBGC as of September 30, 2015, and September 30, 2014, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and actuarial standards applied on a consistent basis. As noted in the FMFIA Statement of Assurance above, except for two material weaknesses: a) system security and IT operational effectiveness and corrective action plans, and b) operational processes and records management, PBGC's accounting systems and internal controls comply with the provisions of FMFIA. In addition, PBGC has sufficient compensating controls in place to ensure the reliability of the Corporation's financial statements and its notes.

Estimates of probable terminations, nonrecoverable future financial assistance, amounts due from employers, and the present value of future benefits have a material effect on the financial results being reported. Litigation has been disclosed and reported in accordance with U.S. GAAP.

As a result of the aforementioned, PBGC has based these statements, in part, upon informed judgments and estimates for those transactions not yet complete or for which the ultimate effects cannot be precisely measured, or for those that are subject to the effects of any pending litigation.

The Inspector General engaged CliftonLarsonAllen LLP to conduct the audit of the Corporation's fiscal years 2015 and 2014 financial statements, and CliftonLarsonAllen LLP issued an unmodifed opinion on those financial statements.

WTReeder

W. Thomas Reeder
Director

Patricia Kelly

Patricia Kelly
Chief Financial Officer

November 13, 2015

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF FINANCIAL POSITION

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

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

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF FINANCIAL POSITION

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in Millions)	**2015**	2014	**2015**	2014	**2015**	2014
LIABILITIES						
Present value of future benefits, net (Note 6):						
Trusteed plans	**$105,932**	$ 102,065	**$0**	$0	**$105,932**	$ 102,065
Plans pending termination and trusteeship	**383**	246	**-**	-	**383**	246
Settlements and judgments	**26**	62	**-**	-	**26**	62
Claims for probable terminations	**585**	401	**-**	-	**585**	401
Total present value of future benefits, net	**106,926**	102,774	**0**	0	**106,926**	102,774
Present value of nonrecoverable future financial assistance (Note 7)						
Insolvent plans	**-**	-	**1,627**	1,506	**1,627**	1,506
Probable insolvent plans	**-**	-	**52,559**	42,684	**52,559**	42,684
Total present value of nonrecoverable future financial assistance	**-**	-	**54,186**	44,190	**54,186**	44,190
Payables, net:						
Derivative contracts (Note 4)	**334**	114	**-**	-	**334**	114
Due for purchases of securities	**1,100**	1,422	**-**	-	**1,100**	1,422
Payable upon return of securities loaned	**1,245**	2,868	**-**	-	**1,245**	2,868
Unearned premiums	**138**	94	**8**	7	**146**	101
Accounts payable and accrued expenses (Note 8)	**57**	79	**14**	6	**71**	85
Total payables	**2,874**	4,577	**22**	13	**2,896**	4,590
Total liabilities	**109,800**	107,351	**54,208**	44,203	**164,008**	151,554
Net position	**(24,065)**	(19,338)	**(52,284)**	(42,434)	**(76,349)**	(61,772)
Total liabilities and net position	**$85,735**	$ 88,013	**$1,924**	$1,769	**$87,659**	$ 89,782

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

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION

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

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

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF CASH FLOWS

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

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

NOTE 1: ORGANIZATION AND PURPOSE

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

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

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

As of September 30, 2015, the single-employer and multiemployer programs reported net positions of $(24,065) million and $(52,284) million, respectively. The single-employer program had assets of $85,735 million offset by total liabilities of $109,800 million, which include a total present value of future benefits (PVFB) of about $106,926 million. As of September 30, 2015, the multiemployer program had assets of $1,924 million offset by $54,186 million in present value of nonrecoverable future financial assistance. Notwithstanding these deficits, the Corporation has sufficient liquidity to meet its obligations (liabilities) for a significant number of years; however, neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants.

PBGC's $81,858 million of total investments (including cash and investment income receivable) represents the largest component of PBGC's Statements of Financial Position combined assets of $87,659 million at September 30, 2015. This amount of $81,858 million (as compared to investments under management of $80,186 million, as reported on page 39) 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 ($55,630 million) represent 68 percent of the total investments, while equity securities ($22,468 million) represent 27 percent of total investments. Private market assets, real estate, and other investments ($3,760 million), represent 5 percent of the total investments.

SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAM EXPOSURE

PBGC's estimate of the total underfunding in single-employer plans was $217,699 million for those sponsored by companies with credit ratings below investment grade and that PBGC classified as reasonably possible of termination, as of September 30, 2015. This is a significant increase of $50,586 million from the reasonably possible exposure of $167,113 million in FY 2014. This increase is primarily due to the growth in the number of companies meeting the reasonably possible criteria and the decrease in the interest rate used for valuing liabilities. These estimates are measured as of December 31 of the previous year (see Note 9). For FY 2015, this exposure is concentrated in the following sectors: manufacturing (primarily automobile/auto parts and fabricated metals), transportation (primarily airlines)/communications/utilities, services, and wholesale and retail trade.

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

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

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

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

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

RECENT ACCOUNTING DEVELOPMENTS

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

VALUATION METHOD

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

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

REVOLVING AND TRUST FUNDS

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

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

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

The trust funds reflect accounting activity associated with:

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

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

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

ALLOCATION OF REVOLVING AND TRUST FUNDS

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

CASH AND CASH EQUIVALENTS

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

SECURITIES LENDING COLLATERAL

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

INVESTMENT VALUATION AND INCOME

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

SECURITIES PURCHASED UNDER REPURCHASE AGREEMENTS

PBGC's investment managers purchase securities under repurchase agreements whereby the seller will buy the security back at a pre-agreed price and date. Those greater than one day are reported under "Fixed maturity securities" as "Securities purchased under repurchase agreements" in the Note 3 table entitled "Investments of Single-Employer Revolving Funds and Single-Employer Trusteed Plans," on page 65. Repurchase agreements that mature in one day are included in "Cash and cash equivalents" which are reported on the Statements of Financial Position (see page 51). Refer to Note 3 for further information regarding repurchase agreements.

SPONSORS OF TERMINATED PLANS

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

PREMIUMS

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

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

CAPITALIZED ASSETS

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

PRESENT VALUE OF FUTURE BENEFITS (PVFB)

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

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

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

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

(3) Settlements and Judgments: Represents estimated liabilities related to settled litigation (see Note 6).

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

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

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

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

(6) In accordance with the FASB Accounting Standards Codification Section 450, PBGC's exposure to losses from plans of companies that are classified as reasonably possible is disclosed in the footnotes. In order for a plan sponsor to be specifically classified as reasonably possible, it must first have $50 million or more of underfunding, as well as meet additional criteria. Criteria used for classifying a company as reasonably possible include, but are not limited to, one or more of the following conditions: the plan sponsor is in Chapter 11 reorganization; a funding waiver is pending or outstanding with the Internal Revenue Service; the sponsor missed a minimum funding contribution; sponsor's bond rating is below investment-grade for Standard & Poor's (BB+) or Moody's (Ba1); or the sponsor has no bond rating but the Dun & Bradstreet Financial Stress Score is below the threshold considered to be investment grade (see Note 9).

PRESENT VALUE OF NONRECOVERABLE FUTURE FINANCIAL ASSISTANCE

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

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

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

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

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

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

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

In addition, for small plans (fewer than 2,500 participants), the estimated probable and reasonably possible losses are accrued for the estimated future contingent losses stemming from the multiemployer program. This small plan bulk reserve uses an aggregate method to estimate liability and exposure, rather than reviewing each plan individually, based on the use of seven years of plan termination history to project the current probable liability. The small plan 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 exposure.

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

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

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

ADMINISTRATIVE EXPENSES

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

OTHER EXPENSES

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

LOSSES FROM COMPLETED AND PROBABLE TERMINATIONS

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

ACTUARIAL ADJUSTMENTS AND CHARGES (CREDITS)

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

DEPRECIATION AND AMORTIZATION

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

NOTE 3: INVESTMENTS

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

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

Bond forwards and TBAs are reported to “Receivables, net – Sale of securities” and “Due for purchases of securities” from derivative contracts receivables and payables. As of September 30, 2015, TBA receivables were $358 million and no Bond Forward receivables were reported. In addition, as of September 30, 2015, TBA payables were $5 million and no Bond Forward payables were reported.

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

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

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

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

INVESTMENTS OF MULTIEMPLOYER REVOLVING FUNDS AND MULTIEMPLOYER TRUSTEED PLANS

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

INVESTMENT PROFILE

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

DERIVATIVE INSTRUMENTS

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

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

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

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

During fiscal years 2015 and 2014, PBGC, through its investment managers, invested in investment products that used various U.S. and non-U.S. derivative instruments. Those products included, but are not limited to: index futures, options, money market futures, government bond futures, interest rate, credit default and total return swaps and swaption (an option on a swap) contracts, stock warrants and rights, debt option contracts, and foreign currency forward and option contracts. Some of these derivatives are traded on organized exchanges and thus bear minimal counterparty risk. The counterparties to PBGC's non-exchange-traded derivative contracts are major financial institutions subject to ISDA (International Swaps and Derivatives Association, Inc.) master agreements. PBGC monitors PBGC's counterparty risk and exchanges collateral under most contracts to further support performance by counterparties. Some of PBGC's non-exchange traded derivative contracts are centrally cleared through a Commodity Futures Trading Commission (CFTC)-recognized clearinghouse and the required margin (collateral) is maintained by the clearinghouse to support the performance by counterparties, which are members of the clearinghouse. A clearinghouse reduces the settlement risks by netting offsetting transactions between multiple counterparties, by requiring higher levels of collateral deposits or margin requirements compared to bilateral arrangements. Settlement risks are reduced also by the clearinghouse providing independent valuation of trades and margin, monitoring the credit worthiness of the clearing firms, and providing a guarantee fund, which could be used to cover losses that exceed a defaulting clearing firm's margin on deposit.

A futures contract is an agreement between a buyer or seller and an established futures exchange clearinghouse in which the buyer or seller agrees to take or make a delivery of a specific amount of a financial instrument at a specified price on a specific date (settlement date) in the future. The futures exchanges and clearinghouses clear, settle, and guarantee transactions occurring through their facilities. Upon entering into a futures contract, an "initial margin" amount (in cash or liquid securities) of generally 1 to 6 percent of the face value indicated in the futures contract is required to be deposited with the broker. Open futures positions are marked to market daily. Subsequent payments known as "variation margin" are made or received by the portfolio dependent upon the daily fluctuations in value of the underlying contract. PBGC maintains adequate liquidity in its portfolio to meet these margin calls.

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

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

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

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

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

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

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

For the fiscal years ended September 30, 2015 and 2014, gains and losses from settled margin calls are reported in "Investment income" on the Statements of Operations and Changes in Net Position. Securities and cash are pledged as collateral for derivative contracts (e.g., futures and swaps) and are recorded as a receivable or payable.

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

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

- Fair Values of Derivative Instruments – Identifies the location of derivative fair values on the Statements of Financial Position, as well as the notional amounts (see page 69).
- Offsetting of Derivative Assets – Presents the impact of legally enforceable master netting agreements on derivative assets (see page 70).
- Offsetting of Derivative Liabilities – Presents the impact of legally enforceable master netting agreements on derivative liabilities (see page 71).

FAIR VALUES OF DERIVATIVE INSTRUMENTS

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

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

* Less than $500,000

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

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

OFFSETTING OF DERIVATIVE ASSETS FAIR VALUE

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

	September 30, 2015			September 30, 2014		
(Dollars in millions)	**Gross Amounts Not Offset in Statements of Financial Position**			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	**156**	**0**	**156**	189	0	189
Security lending collateral	**1,245**	**(1,245)**	**0**	2,868	(2,868)	0
Total	**$ 1,401**	**$ (1,245)**	**$ 156**	$ 3,057	$ (2,868)	$ 189

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

(Dollars in millions)	September 30, 2015 Gross Amounts Not Offset in Statements of Financial Position			September 30, 2014 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	0	0	0	0	0	0
Security lending collateral	1,245	(1.245)	0	2,868	(2,868)	0
Total	$ 1,245	$ (1,245)	$ 0	$ 2,868	$ (2,868)	$ 0

(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, 2015, and September 30, 2014.

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

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

* Less than $500,000.

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

SECURITIES LENDING

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

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

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

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

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

Utilization Rates of Security Lending Collateral

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

The amount of cash collateral received for securities on loan at September 30, 2015, and September 30, 2014 was $1,245 million and $2,868 million, respectively. These amounts are recorded as assets and are offset with a corresponding liability. For lending agreements collateralized by securities, no accompanying asset or liability is recorded, as PBGC does not sell or re-pledge the associated collateral. For those securities lending activities that PBGC directs through its custodian manager, the corporation chooses to invest proceeds from securities lending in the Quality A cash collateral pool. PBGC earned $11 million from its agency securities lending programs as of September 30, 2015. Also contributing to PBGC's securities lending income is its participation in certain pooled index funds. Net income from securities lending is included in "Investment income – Fixed" on the Statements of Operations and Changes in Net Position.

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

REPURCHASE AGREEMENTS

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

As of September 30, 2015, PBGC had $156 million in repurchase agreements. This amount represents maturities of one day and is reported as an asset and included in the "Cash and cash equivalents" balance. There was no associated liability for these secured borrowings reported as "Securities sold under repurchase agreements." PBGC has no restrictions placed on the cash received for all of its outstanding repurchase agreements as of September 30, 2015.

NOTE 4: DERIVATIVE CONTRACTS

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

Amounts in the table below represent the derivative contracts in a receivable position at financial statement date. Collateral deposits of $100 million, which represent cash paid as collateral on certain derivative contracts, are shown below.

DERIVATIVE CONTRACTS

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

* Less than $500,000

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

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

Amounts in the Derivative Contracts table below represent derivative contracts in a payable position at financial statement date, which PBGC reflects as a liability. Collateral deposits of $59 million, which represent cash received as collateral on certain derivative contracts, are included.

DERIVATIVE CONTRACTS

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

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

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

NOTE 5: FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

FAIR VALUE MEASUREMENTS ON A RECURRING BASIS AS OF SEPTEMBER 30, 2015

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

* Less than $500,000.

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

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

Derivative Contracts table under Note 4.

(3) Derivative contracts payables are comprised of open payable trades on futures, swaps, options, and collateral deposits. See the Derivative Contracts table under Note 4.

As of September 30, 2015, there were no significant transfers between Level 1 and Level 2. The end of the reporting period is the date used to recognize transfers between levels.

CHANGES IN LEVEL 3 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS FOR THE YEAR ENDED SEPTEMBER 30, 2015

(Dollars in millions)	Fair Value at September 30, 2014	Total Realized and Unrealized Gains (Losses) included in Income	Purchases	Sales	Transfers Into Level 3	Transfers Out of Level 3	Fair Value at September 30, 2015	Change in Unrealized Gains (Losses) Related to Financial Instruments held at September 30, 2015 (2)
Assets:								
Pooled funds (fixed)	$ 179	$(36)					$ 143	$ (36)
Corporate bonds and other *	0	0	0	0			0	0
Domestic/Int'l equity (1)	3	0*	0*	(3)			0*	0*
Private equity	1,077	(118)	21	(85)			895	(149)
Real estate & real estate investment trusts	346	(4)	1	(4)			339	(4)
Other *	25	0*	7	(23)			9	2

* Less than $500,000.

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

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

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

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

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

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

a. This class includes 141 real estate investments that invest primarily in U.S. commercial real estate, and to a lesser extent, U.S. residential real estate. The fair value of each individual investment in this class has been estimated using the net asset value of the PBGC's ownership interest in partners' capital. Generally, these investments do not have redemption provisions. Distributions from each fund will be received as the underlying assets of the fund will be liquidated over the next 10 years or so. In addition, distributions will also include any periodic income distributions received. No fund investments in this class are planned to be sold. Individual portfolio investments will be sold over time, however, those have not yet been determined.

b. This class includes 585 private market investments that invest primarily in U.S. buyout and U.S. venture capital funds. A small number of those focus on natural resources. These investments do not have redemption provisions. Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the funds. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over the next 12 years. However, the individual investments that will be sold have not yet been determined. The fair value of each individual investment has been estimated using the net asset value of the PBGC's ownership interest in partners' capital.

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

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

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

HYPOTHETICAL AND ACTUAL INTEREST RATE SENSITIVITY CALCULATIONS OF PVFB SINGLE-EMPLOYER TRUSTEED PLANS AND THE MULTIEMPLOYER PROGRAM(1)

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

(1) Level 3 Fair Value Measurements.
(2) Actual rates and PVFB amounts calculated for September 30, 2015, fiscal year-end financial statements.

NOTE 6: PRESENT VALUE OF FUTURE BENEFITS

The PVFB is the estimated liability for future pension benefits that PBGC is or will be obligated to pay for 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.

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

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

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

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

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

The PVFB for trusteed multiemployer plans for FY 2015 and FY 2014 reflect the payment of benefits and the changes in interest and mortality assumptions, expected interest, and the effect of experience.

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

The table on the following page summarizes the actuarial adjustments, charges, and credits that explain how the Corporation's single-employer program liability for the PVFB changed for the years ended September 30, 2015, and for the fiscal year ended September 30, 2014.

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

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

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

(1) The benefit payments of $5,570 million at September 30, 2015, and $5,522 million at September 30, 2014, include $45 million in FY 2015 and $45 million in FY 2014, respectively, for benefits paid from plan assets prior to trusteeship.

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

(3) The future benefits for probable terminations of $1,226 million and $759 million for the periods ending September 30, 2015, and September 30, 2014, include $163 million and $226 million, respectively, for probable terminations not specifically identified, and $422 million and $533 million, respectively, for specifically identified probables.

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

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

	September 30, 2015		September 30, 2014	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
U.S. Government securities	**$ 0**	**$ 0**	$ 0	$ 0
Corporate and other bonds	**284**	**280**	104	105
Equity securities	**170**	**169**	122	126
Private equity	**0 ***	**0 ***	0	0
Insurance contracts	**0 ***	**0 ***	0 *	0 *
Other	**1**	**(2)**	(5)	(5)
Total, net	**$ 455**	**$447**	$ 221	$ 226

* Less than $500,000

NET CLAIMS FOR PROBABLE TERMINATIONS

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

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

RECONCILIATION OF NET CLAIMS FOR PROBABLE TERMINATIONS

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

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

PROBABLES EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	**FY 2015**	FY 2014
Manufacturing	**$ -**	$175
Retail	**344**	-
Health Care	**78**	-
Total	**$422**	$175

For further detail regarding single-employer probables, see Note 2 under Present Value of Future Benefits (PVFB) subpoint (4) on page 60.

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

ACTUAL PROBABLES EXPERIENCE

As Initially Recorded Beginning in 1987

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

NOTE 7: MULTIEMPLOYER FINANCIAL ASSISTANCE

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

NOTES RECEIVABLE MULTIEMPLOYER FINANCIAL ASSISTANCE

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

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

To enhance an existing methodology for determining the probable liability, effective with FY 2014, ongoing plans are divided into segments based on the number of plan participants with different processes by plan size. The reserve for small ongoing plans (fewer than 2,500 participants) with probable losses not individually identified uses an aggregate method to estimate liability and exposure, rather than reviewing each plan individually, based on the use of seven years of plan termination history to project the current probable liability. For mid-sized plans (2,500 to 35,000 participants), risk-based rules are applied using a cash-flow model. For large plans (more than 35,000 participants), PBGC identifies ongoing high risk plans for a projection of the date of insolvency to measure the probable liability.

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

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

As of September 30, 2015, the Corporation expects 160 individually identified multiemployer plans will exhaust plan assets and need financial assistance from PBGC to pay guaranteed benefits and plan administrative expenses. The present value of nonrecoverable future financial assistance for these 160 plans is $54,186 million (inclusive of the reserve for small ongoing plan losses not individually identified). The 160 plans fall into three categories: (1) plans currently receiving financial assistance; (2) plans that have terminated but have not yet started receiving financial assistance from PBGC; and (3) ongoing plans (not terminated) that the Corporation expects will require financial assistance in the future. The latter two categories comprise multiemployer probables as defined by the following classification criteria:

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

MULTIEMPLOYER FINANCIAL ASSISTANCE

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

[1] Ongoing plans include a small probable bulk reserve of $1,431 million and $1,408 million for September 30, 2015, and September 30, 2014, respectively.

Of the 160 plans:

1) 55 have exhausted plan assets and are currently receiving financial assistance payments from PBGC. The present value of future financial assistance payments for these insolvent 55 plans is $1,627 million.

2) 67 plans have terminated but have not yet started receiving financial assistance payments from PBGC. Terminated multiemployer plans no longer have employers making regular contributions for covered work, though some plans continue to receive withdrawal liability payments from withdrawn employers. In general, PBGC records a loss for future financial assistance for any underfunded multiemployer plan that has terminated. The present value of future financial assistance payments for these 67 terminated plans is $2,110 million.

3) 38 plans are ongoing (i.e., have not terminated), but PBGC expects they will exhaust plan assets and need financial assistance within 10 years. In this analysis, PBGC takes into account the current plan assets, future income to the plan, the statutory funding rules, and the possibility for future increases in contributions. The present value of future financial assistance payments for these 38 ongoing plans is $50,449 million.

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

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

In the table above, actuarial charges are reported separately from "Losses from insolvent and probable plans-financial assistance." As a result, the table includes the following lines: Actuarial adjustments, Due to expected interest, and Due to change in interest factors. Insolvent plans are presented within these three actuarial charges (credits) lines. "Losses from insolvent and probable plans-financial assistance" include plans that terminated but have not yet received financial assistance, ongoing plans that PBGC expects will require financial assistance in the future, and those insolvent plans that have a change in liability due to new plan data included in the valuation. The FY 2015 increase in the multiemployer program's deficit is primarily due to losses from future financial assistance of $9,963 million primarily due to a decrease in the interest factors of $4,322 million for previously identified multiemployer probable plans (for example the select interest rate factor decreased by 55 basis points to 2.80% at September 30, 2015, from 3.35% at September 30, 2014), and the FY 2015 addition of 17 new probable plans ($4,625 million).

NOTE 8: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

(Dollars in millions)	**September 30, 2015**	September 30, 2014
Annual leave	**$9**	$ 9
Other payables and accrued expenses	**62**	76
Accounts payable and accrued expenses	**$71**	$ 85

NOTE 9: REASONABLY POSSIBLE CONTINGENCIES

SINGLE-EMPLOYER PLANS

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

In accordance with the FASB Accounting Standards Codification Section 450, *Contingencies*, PBGC classified a number of these companies that sponsor plans with total unfunded vested benefits greater than $50 million as reasonably possible rather than probable terminations, reflecting the sponsors' financial condition and other factors that did not indicate termination of their plans was likely. This classification was done based upon information about the companies as of September 30, 2015. PBGC criteria for a single-employer plan sponsor to be classified as Reasonably Possible are:

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

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

c. A minimum funding contribution has been missed.

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

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

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

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

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

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

Except in the rare circumstances indicated earlier in this note, the estimate of unfunded vested benefits exposure to loss is not generally based on PBGC-guaranteed benefit levels, since data is not available to determine an estimate at this level of precision. PBGC calculated this estimate, as in previous years, by using the most recent data available from filings and submissions to the Corporation for plan years ended on or after December 31, 2013. PBGC adjusted the value reported for liabilities to December 31, 2014, using a select rate of 2.68% for the first 20 years and 2.79% thereafter and applying the expense load as defined in 29 CFR Part 4044, Appendix C. The rates were derived in conjunction with the 1994 Group Annuity Mortality Static Table (with margins) projected to 2024 using Scale AA to approximate annuity prices as of December 31, 2014. The underfunding associated with these plans could be substantially different at September 30, 2015, because of the economic conditions that changed between December 31, 2014 and September 30, 2015. PBGC did not adjust the estimate for events that occurred between December 31, 2014, and September 30, 2015.

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

REASONABLY POSSIBLE EXPOSURE TO LOSS BY INDUSTRY (PRINCIPAL CATEGORIES)

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

[1] Primarily automobile/auto parts and fabricated metals.

[2] Primarily airlines.

MULTIEMPLOYER PLANS

There are some multiemployer plans that may require future financial assistance. PBGC included amounts in the liability for the present value of nonrecoverable future financial assistance (see Note 7) for multiemployer plans that PBGC estimated may require future financial assistance. In addition, PBGC estimated as of September 30, 2015, that it is reasonably possible that other multiemployer plans may require future financial assistance in the amount of $19,957 million.

PBGC calculated the future financial assistance liability for each multiemployer plan identified as probable (see Note 7), or reasonably possible. PBGC used a formula taking the present value of guaranteed future benefits and expense payments net of any future contributions or withdrawal liability payments. These amounts were as of the latter of September 30, 2015, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2015. PBGC's identification of plans that are likely to require such assistance and estimation of related amounts required consideration of many complex factors, including estimating future cash flows, future mortality rates, and age of participants not in pay status. These factors are affected by future events, including actions by plans and their sponsors, most of which are beyond PBGC's control. Reasonably possible multiemployer classification is defined as an ongoing plan with a projected insolvency date between 10 and 20 years from the valuation date.

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

NOTE 10: COMMITMENTS

PBGC leases its office facility under a commitment that began on January 1, 2005, and expires December 10, 2018. This lease provides for periodic rate increases based on increases in operating costs and real estate taxes over a base amount. In addition, PBGC is leasing space for field benefit administrators. These leases began in 1996 and expire in 2019. The minimum future lease payments for office facilities having noncancellable terms in excess of one year as of September 30, 2015, are:

COMMITMENTS: FUTURE LEASE PAYMENTS

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

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

NOTE 11: PREMIUMS

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

Net premium income for FY 2015 was $4,350 million and consisted of $2,565 million in variable-rate premiums, $1,768 million in flat-rate premiums, $19 million in termination premiums, and $5 million interest and penalty income, offset by a bad debt expense of $7 million. Bad debt expenses include a reserve for uncollectible premium receivables (including flat, variable, and termination premiums), interest, and penalties.

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

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

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

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

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

Net Premiums Receivable

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

* 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 receives either nothing or only a very small fraction of its total claims files.

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

PREMIUM INCOME BY PREMIUM TYPE

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

PREMIUM INCOME BY INSURANCE PROGRAM

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

* Less than $500,000

NOTE 12: LOSSES FROM COMPLETED AND PROBABLE TERMINATIONS

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

LOSSES FROM COMPLETED AND PROBABLE TERMINATIONS
SINGLE-EMPLOYER PROGRAM

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

[1] Gross amounts for plans terminated during the period, including plans previously recorded as probables.

[2] Net claims for plans previously recorded as probables that terminated.

[3] Includes changes to old and new probables.

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

[5] 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.

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

NOTE 13: FINANCIAL INCOME

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

INVESTMENT INCOME SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS

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

NOTE 14: EMPLOYEE BENEFIT PLANS

All of PBGC's permanent full-time and part-time employees are covered by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Full-time and part-time employees with less than five years of service under CSRS and hired after December 31, 1983, are automatically covered by both Social Security and FERS. Employees hired before January 1, 1984, participate in CSRS unless they elected and qualified to transfer to FERS. Employees hired during the 2013 calendar year or rehired with less than five years of civilian service that is potentially creditable under FERS participate in FERS-Revised Annuity Employees (FERS-RAE). These employees are still generally considered part of the same pension system but are uniquely identified in human resources and payroll systems to annotate their higher contribution rate. Additionally, under the Bipartisan Budget Act of 2013, a new category of FERS employees was created: FERS-Further Revised Annuity Employees or FERS-FRAE. This pension system is again generally the same, only the contribution rate is changed. As with FERS-RAE employees, human resources and payroll systems use unique identifiers to annotate this higher contribution rate.

PBGC's contribution to the CSRS plan for both FY 2015 and FY 2014 was 7.0 percent of base pay for those employees covered by that system. For those employees covered by FERS, the Corporation's contribution was 13.2 percent of base pay for FY 2015. For employees covered by FERS-RAE, the Corporation's contribution was 11.1 percent of base pay for FY 2015. For employees covered by FERS-FRAE, the Corporation's contribution was 11.1 percent of base pay for FY 2015. In addition, for FERS-covered employees, FERS-RAE covered employees, and FERS-FRAE covered employees, PBGC automatically contributes 1 percent of base pay to the employee's Thrift Savings account, matches the first 3 percent contributed by the employee and matches one-half of the next 2 percent contributed by the employee. Total retirement plan expenses amounted to $23 million in FY 2015, an increase of $2 million from FY 2014. These financial statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to PBGC's employees. These amounts are reported by the U.S. Office of Personnel Management (OPM) and are not allocated to the individual employers. OPM accounts for federal health and life insurance programs for those eligible retired PBGC employees who had selected federal government-sponsored plans. PBGC does not offer other supplemental health and life insurance benefits to its employees.

NOTE 15: CASH FLOWS

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

INVESTING ACTIVITIES (SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED)

	September 30,	
(Dollars in millions)	**2015**	2014
Proceeds from sales of investments:		
Fixed maturity securities	**$66,330**	$68,613
Equity securities	**4,281**	7,143
Other/uncategorized	**2,867**	2,476
Memorandum total	**$73,478**	$78,232
Payments for purchases of investments:		
Fixed maturity securities	**$(67,477)**	$(68,627)
Equity securities	**(4,281)**	(6,242)
Other/uncategorized	**(2,432)**	(1,226)
Memorandum total	**$(74,190)**	$(76,095)

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

NOTE 16: LITIGATION

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

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

NOTE 17: SUBSEQUENT EVENTS

Management evaluated subsequent events through publication on November 13, 2015, the date the financial statements were available to be issued. Events or transactions for either the single-employer or multiemployer program, occurring after September 30, 2015, and before the financial statements were available to be issued, that provided additional evidence about conditions that existed at September 30, 2015, have been recognized in the financial statements.

For the fiscal year ended September 30, 2015, there were no nonrecognized subsequent events or transactions to report for both the single-employer and multiemployer programs that provided evidence about conditions that did not exist on September 30, 2015, and which arose before the financial statements were available to be issued.

IMPROPER PAYMENT REPORTING

INTRODUCTION

OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments* and related improper payment statutes[7] require federal agencies to conduct improper payment risk assessments. In compliance with Executive Order 13520, the PBGC Director serves as the agency official accountable for improper payment reporting purposes.

OMB's Memorandum No. M-15-02, dated October 24, 2014, specifies that in performing a Step 1 risk assessment of improper payments, agencies must institute a systematic method of reviewing all programs or payment streams and identifying those that may be susceptible to significant risk of improper payments.

PBGC performs risk assessments of its payment streams using a rotational strategy based on a three-year cycle. PBGC's payment streams include the following: 1) benefit payments to participants in "final pay" status for plans trusteed by PBGC under Title IV of ERISA (Benefit Payments); 2) payments to contractors for goods and services, including government credit card transactions (Payments to Contractors); 3) payments made to federal employees, including payroll and travel reimbursements (Payments to Federal Employees); 4) financial assistance payments to insolvent multiemployer plans that are unable to pay benefits when due under the requirements of Title IV of ERISA (Multiemployer Plan Financial Assistance Payments); and 5) refunds of previously-paid premiums (Premium Refunds).

None of PBGC's payment streams have been previously determined to be susceptible to significant risk of improper payments as defined by OMB.

RESULTS OF THE FY 2015 IMPROPER PAYMENT RISK ASSESSMENT

With the support of an international public accounting and consulting firm, PBGC performed Step 1 risk assessments of the following two payment streams: Benefit Payments and Premium Refunds. In performing the risk assessments, PBGC considered factors specified in OMB guidance, including the complexity of the payment stream; the volume of payments; recent major changes in program funding, authorities, practices, or procedures; the level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate; inherent risks of improper payments due to the nature of agency programs or operations; and any significant deficiencies in the audit reports issued by the PBGC Office of Inspector General (OIG) and the Government Accountability Office (GAO), and the results from prior risk assessments. To be considered susceptible to significant risk of improper payments, OMB guidance specifies that gross annual improper payments (i.e., the total amount of overpayments plus underpayments) within a payment stream would have to exceed (1) both 1.5 percent of program outlays and \$10,000,000 of payments made during the reporting period or (2) \$100,000,000 (regardless of the improper payment percentage of total program outlays).

7 This references the Improper Payments Information Act of 2002 (IPIA), the Improper Payments Elimination and Recovery Act of 2010 (IPERA), and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA).

Based on the results of the Step 1 risk assessment, PBGC determined that the Benefit Payments and Premium Refunds payment streams were not susceptible to significant risk of improper payments.

Statistical Sampling and Testing Methodology

To supplement its risk assessment of Benefit Payments, PBGC performed optional statistical sampling of payments issued to participants for which a formal benefit determination letter had been issued (i.e., "in final pay"). Payments selected as part of a statistical sample were drawn from the period October 1, 2013, through September 30, 2014. For the purposes of the sample universe, PBGC issued approximately 8.3 million payments to participants in final pay status for a total of approximately $4.6 billion during this time period.

In designing the sampling plan, PBGC followed OMB statistical sampling guidance regarding minimum sample sizes and took steps to ensure that the resulting sample would be representative of the payment population being tested, including the use of random selection and sample stratification techniques. Testing of 256 payments totaling $1,581,473 was completed as part of the sample.

Testing primarily focused on payment accuracy based on established improper payment definitions and testing approach applicable to the Benefit Payments stream. Among other considerations, we tested whether benefit payments were properly calculated, whether payments included amounts in excess of guaranteed amounts, and whether payments were suspended in a timely manner after a notification of the death of a participant.

Results of Benefit Payment Testing

Of the $1,581,473 tested, a total of $12,560 of gross improper payments were identified. The issues noted primarily related to minor payment errors and documentation issues. Based on statistical projections, the estimated gross improper payment (IP) rate is 0.76 percent with the projected value of estimated improper payments totaling $34,642,536. These amounts are below OMB thresholds for improper payment reporting. In addition, the achieved precision or accuracy levels were within the levels specified by OMB in its statistical sampling guidance.

Additional details are presented in the following four tables: a) projection of gross improper payments (over-payments and under-payments added together), b) projection of net improper payments (under-payments subtracted from over-payments), c) improper payments by OMB error type, and d) matrix of improper payment categories.

Projection of Gross Improper Payments						
Sample Universe	**IP %**	**IP $**	**Over-payments %**	**Over-payments IP $**	**Under-payments %**	**Under-payments IP $**
$ 4,585,772,049	0.76%	$ 34,642,536	0.75%	$ 34,397,686	0.01%	$ 244,850

Projection of Net Improper Payments		
Sample Universe	**IP %**	**IP $**
$ 4,585,772,049	0.74%	$ 34,152,836

Improper Payments by OMB Error Type				
Type of Error	**Sample Universe**	**Actual Gross Improper Payments**	**Projected Gross Improper Payment %**	**Projected Improper Payment $**
Incorrect Amount	$ 4,585,772,049	$ 2,926	0.30%	$ 13,608,753
Ineligible Recipient		$ -	$ -	$ -
Lack of Documentation		$ 9,634	0.46%	$ 21,033,783
All Issues Noted		**$ 12,560**	**0.76%**	**$ 34,642,536**

Matrix of OMB Improper Payment Categories				
Reason for Improper Payment		**Type of Improper Payment**		
		Overpayments	**Underpayments**	
Program Design or Structural Issue		$ 957	$ 1,969	1
Inability to Authenticate Eligibility		-	-	2
Failure to Verify:	Death Data	-	-	3
	Financial Data	-	-	4
	Excluded Party Data	-	-	5
	Prisoner Data	-	-	6
	Other Eligibility Data	-	-	7
Administrative or Process Error Made by:	Federal Agency	$ 225	-	8
	State or Local Agency	-	-	9
	Other Party	-	-	10
Medical Necessity		-	-	11
Insufficient Documentation to Determine		$ 9,409		12
Other Reason		-	-	13
		A	B	

FOLLOW-UP ON CORRECTIVE ACTIONS RELATING TO PRIOR RISK ASSESSMENTS

PBGC continues to follow-up on issues identified in connection with prior year risk assessments. The following two payment streams have corrective action plans that remain in progress. Progress updates are shown below:

- Benefit Payments: the Benefits Administration and Payment Department (BAPD) within PBGC continues to implement corrective actions to address legacy documentation issues associated with trusteed pension plans when PBGC conducted a pilot assessment in FY 2011. At that time, OMB advised that PBGC should focus its improper payment testing on payment accuracy and to implement strategies to improve pension documentation over time. BAPD has an established corrective action plan and continues to make progress in improving its documentation practices. During FY 2015, BAPD continued to perform a detailed analysis of its participant data audit process and developed new procedures that will be implemented under a new Data Management Division within BAPD. BAPD also completed an upgrade of its document imaging and storage system – the Document Management System (DMS) stores over 80 million documents, including plan documents and participant records. The entire inventory of documents has been converted from static image format to text-searchable format. This will allow BAPD employees to more quickly locate specific documentation supporting payment calculations and better support audit requirements. In addition, BAPD has begun implementation of a new software application, Teammate, as part its document management and monitoring strategy. This application will be used to better document audit activities that support the accuracy of final benefit determination letters issued to participants.

- Multiemployer Plan Financial Assistance Payments: the Multiemployer Program Division (MEPD) within PBGC continues to work with plans to ensure that participant listings are consistently provided, and is reviewing options on how best to automate the process by which financial assistance payments and related supporting documentation are submitted to PBGC.

PREVENTING AND DETECTING IMPROPER PAYMENTS

In addition to its periodic improper payment testing and in support of the administration's Do Not Pay Initiative, PBGC employs a variety of means to prevent and detect improper payments on an ongoing basis:

- For all of its payment streams, PBGC has established controls to help ensure that payments are accurate and approved. For instance, pre-payment checks include ensuring that documentation for the payment is available for review by the approving official. On a post-payment basis, payment reconciliations are performed to help ensure completeness of payment processing and to identify errors. In addition, payments are subject to periodic compliance reviews.

- PBGC regularly performs electronic data analysis of payment transactions associated with Benefit Payments and Payments to Contractors – the two largest payment streams. This process helps to identify potential duplicate payments, other overpayments, and payment anomalies. When warranted, selected payments are subjected to additional research and analysis.

- For Benefit Payments, the largest payment stream, PBGC checks its participant database against the Social Security Administration's Death Master File (DMF) just prior to the monthly check run to help prevent sending out checks or automated deposits to payees who are deceased and should no longer be receiving benefits. Performing this check on a pre-payment basis avoids costs associated with PBGC seeking payments from the estates of deceased participants. This helps avoid the potential for checks to be stolen or for automated deposits to be fraudulently withdrawn from the accounts of deceased participants. The following table presents the results of DMF matching for FY 2015:

Use of the Death Match File to Prevent Improper Payments			
Number of Payments Reviewed	**Dollars of Payments Reviewed**	**Number of Payments Stopped**	**Dollars of Payments Stopped**
9.7 million	$5.5 billion	19,158	$ 7,971,095

- PBGC participates in the Department of Treasury's Do Not Pay (DNP) program. For example, under the Payments to Contractors stream, payments are screened on a post-payment basis to assess whether companies receiving payments for work performed under PBGC contracts were properly registered in the General Service Administration's System for Award Management (SAM), have not been debarred or suspended from contracting in the federal sector, and do not have federal debts that have been referred to the Department of Treasury for collection. For FY 2015, PBGC did not identify any improper payments using the DNP process for the Payment to Contractors payment stream, as shown below:

Use of the Do Not Pay Database to Prevent Improper Payments			
Number of Payments Reviewed	**Dollars of Payments Reviewed**	**Number of Payments Stopped**	**Dollars of Payments Stopped**
3,977	$ 332,896,727	0	$0

RECAPTURING IMPROPER PAYMENTS

Potential improper payments are subjected to further analysis based on the amount of the payment, the nature of the potential error, and other risk factors to determine whether amounts are due to PBGC. For Benefit Payments, PBGC has established procedures to recapture overpayments through recovery payments, installment repayment agreements, offsets against other continuing benefits to recoup amounts owed by the participant, or referrals to the Department of Treasury's Centralized Receivables Service. In some cases, recapture of payments may not be sought based on demonstration that a participant is experiencing financial hardship or other reasons. Other PBGC payment streams also have procedures in place to collect overpayments.

During FY 2015, high-dollar improper payments associated with the Benefit Payments stream were identified using electronic data analysis. For example, a second back payment sent to a participant in error during a prior fiscal year was identified and classified as an improper payment. In addition, annuity payments to three participants were terminated, after it was determined that benefits had continued past intended end dates of benefits owed under plans that featured a certain and continuous benefit type. PBGC is taking steps to help prevent the reoccurrence of such payments and will continue to proactively seek to identify overpayments.

When it is suspected that PBGC payments were issued, misdirected, or obtained in a fraudulent manner, PBGC works closely with PBGC's Office of Inspector General (OIG). The OIG performs investigations of suspect transactions and, when appropriate, refers matters to the Department of Justice to determine whether there is a sufficient basis to initiate a civil or criminal prosecution.

FY 2015 ACTUARIAL VALUATION

PBGC calculated and validated the present value of future PBGC-payable benefits (PVFB) for both the single-employer and multiemployer programs and of nonrecoverable future financial assistance (NRFFA) under the multiemployer program. Generally, PBGC used the same methods and procedures as in FY 2014 for the Single-Employer and Multiemployer Programs.

PRESENT VALUE OF FUTURE BENEFITS AND NONRECOVERABLE FINANCIAL ASSISTANCE – FY 2015

	Number of Plans	Number of Participants (in thousands)	Liability (in millions)
I. SINGLE-EMPLOYER PROGRAM			
A. Terminated Plans			
1. Seriatim at fiscal year-end (FYE)	4,222	1,035	$ 74,002
2. Seriatim at DOPT, adjusted to FYE	55	104	12,262
3. Nonserieatim[1]	429	234	20,936
4. Missing Participants Program (seriatim)[2]	**	24	64
Subtotal	4,706	1,397	$ 107,264
B. Probable terminations (nonseriatim)[3]	5	27	1,226
	4,711	1,424	$ 108,490
II. MULTIEMPLOYER PROGRAM			
A. Pre-MPPAA terminations (seriatim)	10	0*	$ 0**
B. Pre-MPPAA liability (net of plan assets)			
1. Currently Receiving Assistance	55	76	1,627
2. Probable for Assistance	105	1,019	52,559
Total	170	1,095	$ 54,186

* Fewer than 500 participants

** Less than $500,000

Notes:

1. The liability for terminated plans has been increased by $26 million for settlements.
2. The Missing Participants Program refers to a liability that PBGC assumed for unlocated participants in standard plan terminations.
3. The net claims for probable plans reported in the financial statements include $163 million for not-yet-identified probable terminations. The assets for the probable plans, including the expected value of recoveries on employer liability and due-and-unpaid employer contributions claims, are $641 million. Thus, the net claims for probable terminations as reported in the financial statements are $1,226 million less $641 million, or $585 million.
4. The PVFB in the financial statements ($106,926 million) is net of estimated plan assets and recoveries on probable terminations ($641 million), estimated recoveries on terminated plans ($476 million), and estimated assets for plans pending trusteeship ($447 million), or, $108,490 million less $641 million less $476 million less $447 million = $106,926 million.

Single-Employer Program

PBGC calculated the single-employer program's liability for benefits in the terminated plans and probable terminations, as defined in Note 2 to the financial statements, using a combination of two methods: seriatim and nonseriatim. For 4,222 plans, representing about 90 percent of the total number of single-employer terminated plans (74 percent of the total participants in single-employer terminated plans), PBGC had sufficiently accurate data to calculate the liability separately for each participant's benefit (seriatim method).

This was an increase of 57 plans over the 4,165 plans valued seriatim last year. For 55 plans whose data were not yet fully automated, PBGC calculated the benefits and liability seriatim as of the date of plan termination (DOPT) and brought the total amounts forward to the end of fiscal year 2015 on a nonseriatim basis. For 429 other terminated plans, PBGC did not have sufficiently accurate or complete data to value individual benefits. Instead, the Corporation used a "nonseriatim" method that brought the plan liabilities from the plan's most recent actuarial valuation forward to the end of fiscal year 2015 using certain assumptions and adjustment factors.

For the actuarial valuation, PBGC used a select and ultimate interest rate assumption of 2.80% for the first 25 years after the valuation date and 2.86% thereafter. The mortality tables used for valuing healthy lives were the RP-2000 Combined Healthy Male and Female Tables, each projected 28 years to 2028 using Scale AA and set back one year. The projection period is determined as the sum of the elapsed time from the date of the table (2000) to the valuation date plus the period of time from the valuation date to the average date of payment of future benefits. In fiscal year 2014, the mortality table used for valuing healthy lives were the RP-2000 Combined Healthy Male and Female Tables, each projected 25 years to 2025 using Scale AA and set back one year.

For non-pay-status participants, PBGC used expected retirement ages, as explained in subpart B of the Allocation of Assets in Single-Employer Plans regulation. PBGC assumed that participants who had attained their expected retirement age were in pay status. In seriatim plans, for participants who were older than age 65, were not in pay status, and were unlocated at the valuation date, PBGC reduced the value of their future benefits to zero over the three years succeeding age 65 to reflect the lower likelihood of payment. Similarly, for located participants over age 70 and not in pay status, PBGC reduced the value of their future benefits to zero. For deferred participants who were older than age 70 in the Missing Participant Program, PBGC reduced the value of their future benefits to zero over the 10 years succeeding age 70 to reflect the lower likelihood of payment.

Multiemployer Program

PBGC calculated the liability for the 10 pre-MPPAA terminations using the same assumptions and methods applied to the single-employer program.

PBGC based its valuation of the post-MPPAA liability for nonrecoverable future financial assistance on the most recent available actuarial reports, Form 5500 Schedule B or Schedule MB, as applicable, and information provided by representatives of the individual plans. The Corporation expected 160 plans to need financial assistance because severe industrial declines have left them with inadequate contribution bases and they had insufficient assets for current payments, or were expected to run out of assets in the foreseeable future.

Statement of Actuarial Opinion

This valuation has been prepared in accordance with generally accepted actuarial principles and practices and, to the best of my knowledge, fairly reflects the actuarial present value of the Corporation's liabilities for the single-employer and multiemployer plan insurance programs as of September 30, 2015.

In preparing this valuation, I have relied on information provided to me regarding plan provisions, plan participants, plan assets, and other matters, some of which are detailed in a complete Actuarial Report available from PBGC.

In my opinion, (1) the techniques and methodology used for valuing these liabilities are generally acceptable within the actuarial profession; (2) the assumptions used are appropriate for the purposes of this statement and are individually my best estimate of expected future experience, discounted using current settlement rates from insurance companies as determined by PBGC's Policy Research and Analysis Department; and (3) the resulting total liability represents my best estimate of anticipated experience under these programs.

I, Scott Young, am the Chief Valuation Actuary of the PBGC. I am a Member of the American Academy of Actuaries, a Fellow of the Society of Actuaries, and an Enrolled Actuary. I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report.

Scott G. Young

Scott G. Young, FSA, EA, MAAA
Fellow of the Society of Actuaries
Enrolled Actuary
Member of the American Academy of Actuaries
Chief Valuation Actuary
Actuarial Services Division, Actuarial Services and Technology Department
Pension Benefit Guaranty Corporation

INDEPENDENT AUDIT AND MANAGEMENT'S RESPONSE

Office of Inspector General
Pension Benefit Guaranty Corporation

November 13, 2015

To the Board of Directors
Pension Benefit Guaranty Corporation

The Office of Inspector General contracted with CliftonLarsonAllen LLP, an independent certified public accounting firm, to audit the financial statements of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation as of and for the years ended September 30, 2015 and 2014. CLA conducted the audit in accordance with the following auditing standards: *Government Auditing Standards* issued by the Comptroller General of the United States, attestation standards established by the American Institute of Certified Public Accountants, and the Office of Management and Budget's *Audit Requirements for Federal Financial Statements.*

In their audit, CliftonLarsonAllen found:

- The financial statements were presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. This is the 23rd consecutive unmodified financial statement audit opinion.
- PBGC did not have effective internal control over financial reporting as of September 30, 2015. Serious internal control weaknesses in PBGC's programs and operations include one material weakness (Controls over the Present Value of Future Benefit Liability) and three significant deficiencies (Entity-Wide Security Program Planning and Management, Access Controls and Configuration Management, and Controls of Premium Income). This is the 7th consecutive adverse audit opinion on internal control.

An adverse audit opinion on internal control means that the auditors cannot rely on management's control activities, but must conduct more substantive testing to gain reasonable assurance that the financial information is fairly presented in all material aspects. Notwithstanding the adverse opinion, PBGC management was able to provide sufficient evidence in response to the auditors' substantive procedures to support the amounts reported on the financial statements and the related footnotes.

CliftonLarsonAllen is responsible for the accompanying auditor's report dated November 13, 2015 and the conclusions expressed in the report. We do not express opinions on PBGC's financial statements or internal control, nor do we draw conclusions on compliance with laws and regulations. The financial statement audit report (AUD-2016-2 / FA-15-108-2) is also available on our website at oig.pbgc.gov.

Very truly yours,

Robert A. Westbrooks
Inspector General

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

CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibilities

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit

INDEPENDENT AUDITORS' REPORT (CONTINUED)

procedures that are appropriate in the circumstances. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Single-Employer and Multiemployer Program Funds administered by the PBGC as of September 30, 2015 and 2014, and the results of their operations and cash flows for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Emphasis of Matter

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

Other Information

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Report on Internal Control over Financial Reporting

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

Management's Responsibility for Internal Control

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

Auditors' Responsibilities

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

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

Definitions and Inherent Limitations of Internal Control over Financial Reporting

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

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

Opinion on Internal Control over Financial Reporting

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

Controls over the Present Value of Future Benefit Liability

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

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

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

Compliance with Laws, Regulations, Contracts, and Grant Agreements

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

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

Management's Responsibility

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

Auditors' Responsibilities

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

Purpose of the Report on Compliance

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

Management's Response to Findings

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

Status of Prior Year's Control Deficiencies and Noncompliance Issues

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Calverton, Maryland
November 13, 2015

EXHIBIT I

PENSION BENEFIT GUARANTY CORPORATION
INTERNAL CONTROL DEFICIENCIES
September 30, 2015

BACKGROUND

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

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

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

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

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

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

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

EXHIBIT I

PENSION BENEFIT GUARANTY CORPORATION
INTERNAL CONTROL DEFICIENCIES
September 30, 2015

MATERIAL WEAKNESS

Controls over the PVFB Liability

During FY 2015, the Benefits Administration and Payment Department (BAPD) made progress in their remediation efforts to correct long-standing deficiencies related to controls over the calculation of the PVFB liability. Some of these efforts included an organizational restructuring and refinements to operating divisions' processes within BAPD and personnel changes to key management positions. BAPD enhanced certain business processes and procedures to address prior-year control deficiencies. However, the results of our FY 2015 procedures reveal controls over the calculation of the PVFB liability requiring management's continued focus.

Calculation of the PVFB

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

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

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

Documentation to Support Benefit Calculations

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

Valuation of Plan Assets and Benefits

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

PENSION BENEFIT GUARANTY CORPORATION
INTERNAL CONTROL DEFICIENCIES
September 30, 2015

Recommendations: We continue to recommend that PBGC management:

- Develop and/or implement:
  - Improvements to BAPD systems used to calculate benefits and liabilities (Spectrum and the Integrated Present Value of Futures Benefit Systems).

- Develop a policy to finalize management's position of the financial impact related to the lacking documentation to support IPV. The policy should also document any residual risk that PBGC may elect to accept.

SIGNIFICANT DEFICIENCIES

1. Entity-wide Security Program Planning and Management

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

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

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

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

applied. Such conditions may lead to insufficient protection of the Corporation's sensitive or critical resources.

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

- Implementing common controls and remediating common control weaknesses.
- Making all common controls compliant with NIST Special Publication (SP), Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations* requirements.
- Making all common controls available to system owners for appropriate inclusion in their system security plans.
- Completing the transition to the PBGC Risk Management Framework (RMF) supports PBGC organizational, mission and information system objectives, by addressing each of the six RMF phases: categorize, select, implement, assess, authorize, and monitor.
- Fully implementing a continuous monitoring program.
- Completing the transition to NIST SP 800-53, Revision 4 security controls.

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

Recommendations:

We recommend that PBGC management:

- Complete the PBGC RMF transition, fully implement the entity-wide information security risk management program and provide periodic updates to stakeholders.

- Complete the migration to NIST SP 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations* and provide periodic updates to stakeholders.

- Complete the implementation of NIST SP 800-53, Revision 4 controls for common controls, remediation of common controls weaknesses, and make available to system owners in Cyber Security Assessment and Management for appropriate inclusion in their system security plans.

2. Access Controls and Configuration Management

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

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

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

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

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

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

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

PENSION BENEFIT GUARANTY CORPORATION
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September 30, 2015

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

Recommendations: We continue to recommend that PBGC management:

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

- Implement controls to remedy vulnerabilities identified noted in key databases and applications such as weaknesses in configuration, roles, privileges, auditing, file permissions and operating system access.

3. Controls Over Premium Income[4]

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

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

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

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September 30, 2015

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

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

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

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

- The design of the control for the reconciliation of the PPS subsidiary ledger to the general ledger is still flawed. The programming logic developed for the reconciliation report purposely excluded conversion activities. As a result of PPS coding activities implemented in July 2015, certain transactions were not recording correctly, which resulted in a misstatement of premium income at September 30. Had management performed a comprehensive reconciliation of its subsidiary details to the general ledger, the error could have been detected earlier.

- FOD did not provide all the premium activities recorded in PPS for examination as requested. These activities related to system conversion efforts of the legacy Premium Accounting System to PPS that occurred in FY 2014, and a decision to treat premium activities differently that were related to premium flings for FYs 2011 and earlier. In addition, management did not disclose that PPS was designed not to automatically post certain prior-year premium income to the general ledger. These transactions are part of

PENSION BENEFIT GUARANTY CORPORATION
INTERNAL CONTROL DEFICIENCIES
September 30, 2015

PBGC's premium revenue under management's monitoring and were not disclosed to the auditors.

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

- PBGC management continued to perform a limited comparison to match a plan sponsor's Employer Identification Number/Plan Number between the Form 5500 and Comprehensive Premium Filing. This analysis identifies variances between key data inputs that may alert PBGC of improper premium filings. Both forms include plan participant counts and market value of the plan assets data, and are loaded into the PPS. Accurate information on participant counts and market values is essential for properly calculating the fixed and variable rate premiums.

- The PPS reporting functionality continues to have limitations. A functionality limitation we found was that PPS did not generate a detailed report that displayed the calculated fixed rate and variable rate premium for each pension plan for the period of October 1, 2014 through September 30, 2015.

Recommendations:

We continue to recommend that PBGC management:

- Develop controls to ensure changes in PPS are properly tested prior to being placed into production, including controls to confirm: (1) PBGC's change control processes are followed and (2) system requirements and design changes are fully documented.

- Refine the procedures to reconcile the PPS subsidiary ledger to general ledger reconciliation. The reconciliation must reflect the cumulative PPS subsidiary balance compared to the general ledger at a point in time (e.g., December 31, March 31, June 30, etc.).

- Perform a comprehensive analysis of key data inputs (e.g., participant count, market value, etc.) between Form 5500 and the Comprehensive Premium Filing to identify significant variances. In addition, management should develop a risk analysis that identifies the underlying causes of the significant variances identified from the comprehensive analysis and assess the potential impact to the completeness assertion for premiums.

- Perform a period to period (e.g., year to year, quarter to quarter) fluctuation/variance analysis of plan premium summary level data to identify anomalies, unusual trends and other critical factors evaluated by management. The underlying cause of the variances should be investigated and documented based on thresholds established by management.

- Update current PPS reporting functionality to provide a detailed summary premium report by plan for each reporting period.

EXHIBIT II

PENSION BENEFIT GUARANTY CORPORATION
STATUS OF PRIOR YEAR'S FINDINGS

Prior Year Condition	Status as Reported at September 30, 2014[5]	Status as of September 30, 2015
1. Benefit Administration and Payment Department Management and Oversight	***Material Weakness:*** PBGC had weaknesses in the following: • Calculation of the PVFB Liability • Valuation of Plan Assets	Repeated as a Material Weakness and re-titled as Controls over the PVFB and included in Exhibit I.
2. Entity-wide Security Program Planning and Management	***Material Weakness:*** PBGC had weaknesses in the following: • PBGC had not completed security assessments and authorizations for its major applications. • Weaknesses in PBGC's infrastructure design and deployment strategy for systems and applications adversely affected its ability to effectively implement common security controls across its systems and applications.	Partially resolved and classified as significant deficiency number 1 and included in Exhibit I.
3. Access Controls and Configuration Management	***Material Weakness:*** Weaknesses in the IT environment contributed to deficiencies in system configuration, segregation of duties, role-based access controls, and monitoring.	Partially resolved and classified as significant deficiency number 2 and included in Exhibit I.
4. Financial Reporting	***Significant Deficiency:*** PBGC has control deficiencies in the following: • Lack of controls over the premium process. • Lack of controls over the manual processes. • Monitoring controls over non-commingled assets.	Partially resolved, re-titled as Controls over Premium Income, and classified as significant deficiency number 3 in Exhibit I.

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

EXHIBIT II

PENSION BENEFIT GUARANTY CORPORATION
STATUS OF PRIOR YEAR'S FINDINGS

Prior Year Condition	Status as Reported at September 30, 2014[5]	Status as of September 30, 2015
5. Present Value of Nonrecoverable Future Financial Assistance	***Significant Deficiency:*** PBGC lacks a robust quality control review of the PV NRFFA valuation process.	Partially resolved and included in Management Letter

EXHIBIT II

PENSION BENEFIT GUARANTY CORPORATION
STATUS OF PRIOR YEAR'S FINDINGS

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

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

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

Office of the Director

MEMORANDUM

November 13, 2015

To: Robert Westbrooks
Inspector General

From: W. Thomas Reeder WTReeder
Director

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

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

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

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

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

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