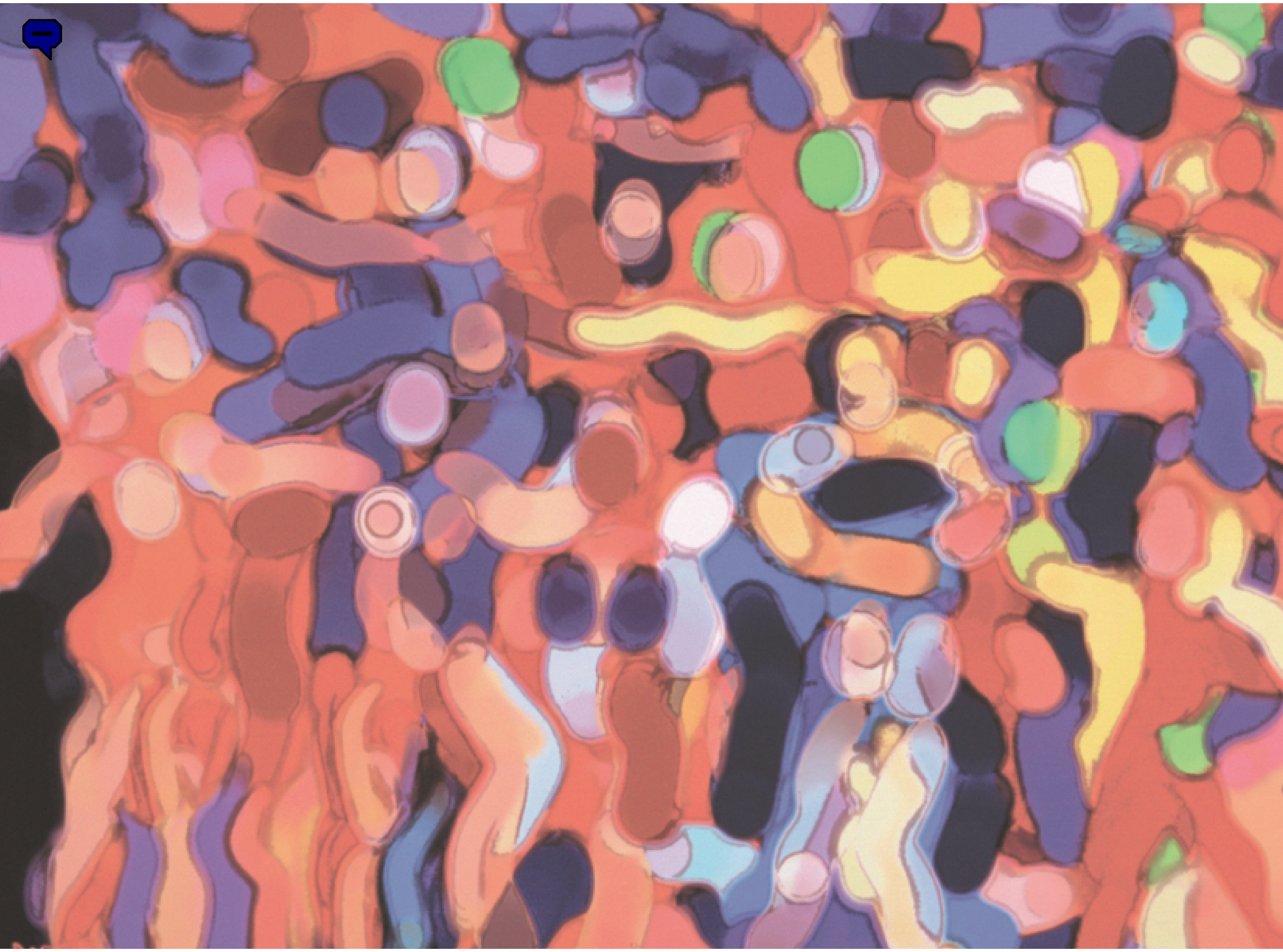
2000 ANNUAL REPORT



PENSION BENEFIT GUARANTY CORPORATION

CONTENTS

The Pension Benefit Guaranty Corporation protects the pensions of more than 43 million working men and women in nearly 38,000 private defined benefit pension plans, including about 1,750 multiemployer plans. These pension plans provide a specified monthly benefit at retirement, usually based on salary or a stated dollar amount and years of service. The Employee Retirement Income Security Act of 1974 established PBGC as a federal corporation.

PBGC receives no funds from general tax revenues. Operations are financed by insurance premiums set by the 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 trusteed plans.

PBGC's mission is to operate as a service-oriented, professionally managed agency that protects participants' pension benefits and supports a healthy retirement plan system by:

- encouraging the continuation and maintenance of voluntary private pension plans for the benefit of their participants,
- providing timely payments of benefits in the case of terminated pension plans, and
- making the maximum use of resources and maintaining premiums and operating costs at the lowest levels consistent with statutory responsibilities.

H I G H L I G H T S

The net financial position of the single-employer insurance program continued to strengthen as assets exceeded liabilities by about $9.7 billion at yearend, largely because both fixed-income and equity investments produced significant income while losses from plan terminations remained significantly below historical averages.

PBGC pressed forward with corporate-wide customer service initiatives to satisfy its customers' needs and expectations.

PBGC paid $903 million in benefits to 226,700 people during the year. PBGC is responsible for the pensions of 541,000 participants, including those who will receive benefits when they retire in the future. The agency further reduced the average time needed to issue final benefit determinations, meeting its annual performance target.

PBGC has or will become trustee of 2,874 underfunded pension plans, including 92 terminated during the year.

Premium income declined by $94 million as variable-rate premium payments fell for the fourth year in a row.

The multiemployer program remained financially sound as investment earnings resulted in net income of $68 million and an improved net financial position of $267 million at yearend.

As described in PBGC's annual performance report, the agency continued to make progress in reaching the performance goals set under the five-year strategic plan.

(Dollars in millions)

	2000	1999
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Summary of Operations		
Premium Income	**$ 831**	$ 925
Losses (Credits) from Plan Terminations	**$ (80)**	$ 49
Investment Income	**$ 2,462**	$ 672
Actuarial Charges (Credits)	**$ 453**	$ (602)
Insurance Activity		
Benefits Paid	**$ 903**	$ 902
Retirees	**226,700**	214,890
Total Participants in Terminated and Multiemployer Plans	**541,000**	532,000
New Underfunded Terminations	**92**	122
Terminated/Trusteed Plans (Cumulative)	**2,874**	2,785
Financial Position		
SINGLE-EMPLOYER PROGRAM		
Total Assets	**$20,715**	$18,431
Total Liabilities	**$11,011**	$11,393
Net Income	**$ 2,666**	$ 2,026
Net Position	**$ 9,704**	$ 7,038
MULTIEMPLOYER PROGRAM		
Total Assets	**$ 694**	$ 692
Total Liabilities	**$ 427**	$ 493
Net Income (Loss)	**$ 68**	$ (142)
Net Position	**$ 267**	$ 199

C H A I R M A N ' S   M E S S A G E

THOUGH THIS ANNUAL REPORT covers the activities of the Pension Benefit Guaranty Corporation prior to my tenure as its chairman, I have examined it with great interest. The new economy is transforming not only the way people enter and progress in the workforce, but also the way people leave the workforce and plan for retirement. American workers are demanding—and getting—more for their retirement than would have been thought possible a generation ago: more flexibility, more portability, and more control.

Presiding over these unprecedented changes is the PBGC, and it is meeting these challenges head-on. This report details how PBGC has re-engineered its technological base and upgraded customer service in the last several years. With payments of more than $75 million in retirement benefits every month, the agency has meant the difference between retirement security and financial peril for hundreds of thousands of workers and their families.

As our workforce ages, and the new economy continues to revolutionize our whole conception of retirement, it is crucial that PBGC continue to modernize and keep step with the dramatic changes confronting America's workforce. That is the continuing mission of this critical agency for the future.

Elaine L. Chao
Secretary of Labor
Chairman of the Board

March 2001

EXECUTIVE DIRECTOR'S MESSAGE

I AM PLEASED TO REPORT THAT THE federal pension insurance system is in its best shape ever. For the fifth consecutive year, PBGC's insurance programs ended the year with a surplus. Despite declining premium revenues, with low claims and good investment returns PBGC ended Fiscal Year 2000 with a surplus of almost $10 billion. We have built a cushion to protect the insurance program in the event of an economic downturn.

We have laid a firm foundation for the future. Over the past few years, we have made major changes in how we conduct business. We have harnessed the power of computers to improve our operations and lift our productivity. We have begun a new era of customer service, through dedicated customer service centers and use of the Internet. We have a stronger investment program and solid financial management. Although we have not yet mastered paperless transactions, we are moving rapidly toward "electronic government."

It has been an honor and a privilege to serve as PBGC's Executive Director for the last 3 1/2 years. I am proud of what we have accomplished toward making PBGC a financially strong, premier customer service agency. These accomplishments are due to PBGC's employees, who are dedicated to serving the 43 million workers and retirees in the 38,000 plans that PBGC insures.

David M. Strauss
Former Executive Director

L I S T E N I N G T O

THE NEED TO PROVIDE PREMIER customer service shapes virtually every action now taken or planned by PBGC. Yet we continue to face rising customer expectations as customers become accustomed to higher service levels in other areas of their lives.

PBGC'S CUSTOMER SERVICE PLEDGE

Our customers deserve our best effort as well as our respect and courtesy.

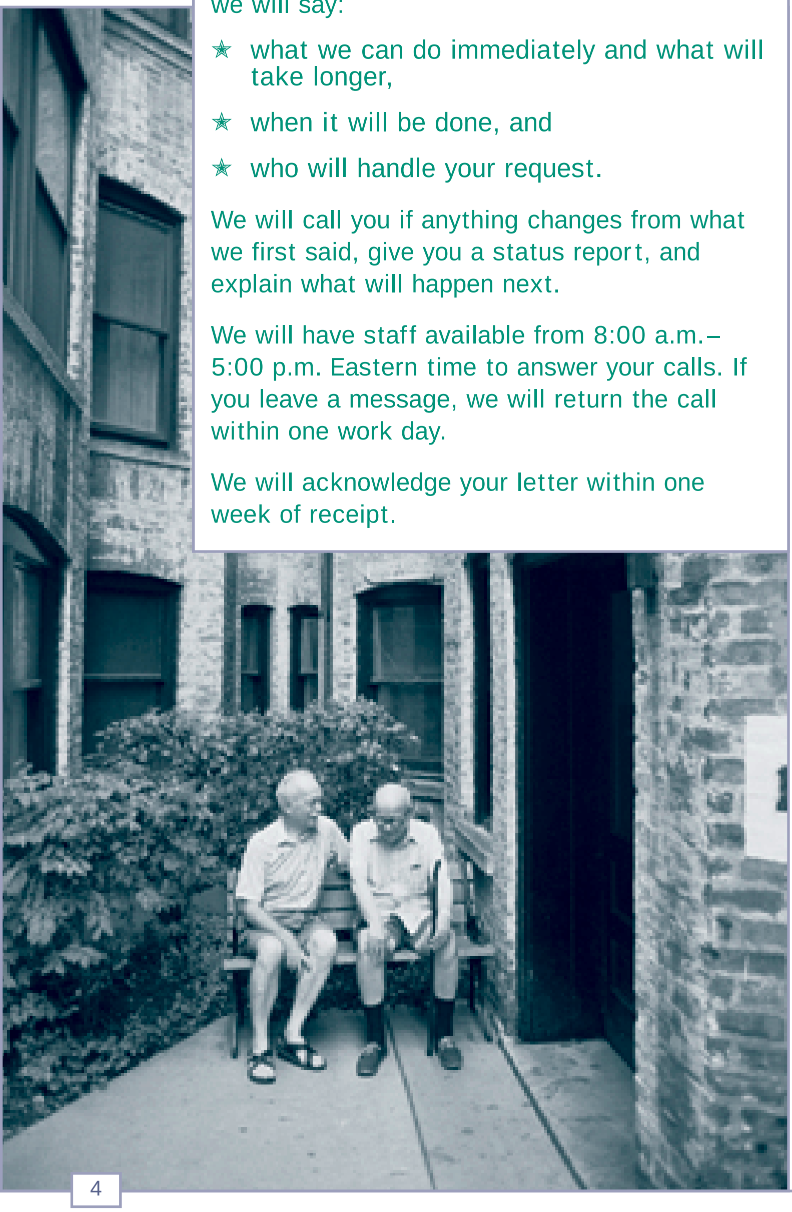
On the first call from you, our customer, we will say:

- what we can do immediately and what will take longer,
- when it will be done, and
- who will handle your request.

We will call you if anything changes from what we first said, give you a status report, and explain what will happen next.

We will have staff available from 8:00 a.m.–5:00 p.m. Eastern time to answer your calls. If you leave a message, we will return the call within one work day.

We will acknowledge your letter within one week of receipt.



The overarching principle of customer service, for federal agencies as well as the private sector, is to provide service to the public that matches or exceeds the "best in the business." This means asking customers what kind and quality of service they want and how well we are meeting their needs. It also means giving customers choices about the services we provide and a means to complain that includes a mechanism to address their complaints.

PBGC has taken this principle to heart. The agency works hard at communicating with and listening to its customers—participants in PBGC-trusteed plans, and sponsors of PBGC-insured plans and the pension professionals who assist them. Every year, PBGC conducts surveys and focus groups with both participants and practitioners. Through these focus groups and surveys, PBGC asks its customers about the quality of the agency's service and how that service can be improved. Then, under its ongoing Reach for Excellence and Customer Happiness (REACH) initiative, PBGC uses interdepartmental teams of employees to translate the focus group and survey findings into service improvements. One major component of our commitment to customer service, discussed later in the "Protecting Benefits" section of this Report, is the agency's continuing success in issuing more benefit determinations—and issuing them more quickly—than in any previous period in its history.

In response to participant suggestions, in 2000 PBGC began providing benefit estimates to participants within 15 days of their request. The agency tested a new introductory package of customer-focused materials that will improve initial communications with participants in newly trusteed plans, which PBGC is refining based on initial results and customer reactions. As a means of keeping customers informed about their benefits, PBGC also tested use of an annual status report for participants who have not yet retired or received their benefit determination.

At the same time, the agency initiated or continued developing a number of other important communication tools. Among these were a letter to remind participants of the approach of their retirement date and a pilot program that will use a special Web page to provide targeted services, including plan-specific information and benefit estimates for participants in newly trusteed large plans. Telephone system enhancements during the year included a new Spanish language greeting on the toll-free customer service number and useful messages providing information about PBGC's commitment to service and general retirement tips for callers who have to be put on hold until their call can be completed.

PBGC continued to provide easy-to-find information for its customers on its Web site at www.pbgc.gov. The Web site now includes a "Contact Us" section that provides useful PBGC telephone numbers and e-mail addresses for the general public, participants in PBGC-trusteed plans, and pension professionals. During the year PBGC upgraded the Web site to ensure that the agency's information is accessible to users with disabilities.

The agency has found meetings with large groups of participants from newly trusteed plans to be particularly useful in allaying participant concerns and explaining PBGC's insurance. PBGC held 54 such information sessions across the country in 2000, which about 3,400 plan participants attended. Executive Director David Strauss attended each of the sessions to meet the participants and answer their questions.

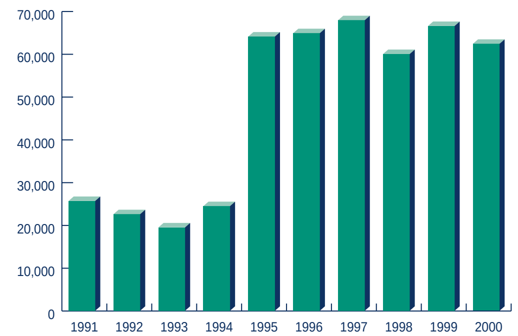
PBGC continues to make changes to its policies, procedures and regulations to help its customers.

For example, a new policy allows PBGC to increase the maximum guaranteed benefit to recipients who are older than 65 either when their plan terminates or, if later, when PBGC begins paying their benefits.

PBGC also broadened its safe harbor relief from premium penalties, committed to publishing PBGC lump sum interest rates indefinitely, and sought the public's input on valuing cash balance plans. The agency also simplified its premium payment forms.

Shortly after the year ended, PBGC announced several additional changes in its premium regulations that simplify procedures and ease burdens for plan administrators. One of these changes allows plan administrators to pay a prorated premium for

BENEFIT DETERMINATIONS ISSUED, 1991-2000



a short plan year rather than pay a full year's premium and request a refund or claim a credit against a future premium payment, as has been necessary up to the present. Another change narrowed the definition of "participant" for PBGC premium purposes by allowing administrators to exclude from their participant counts people who have not earned benefits and for whom the plan has no other benefit liabilities. With this latter change, a new plan will not have to pay a premium for its first year unless it provides credit for service before the plan began.

As a result of suggestions from pension professionals, PBGC revised its criteria for taking action under the early warning program and published explicit guidance on the program's operation. The agency expects the new criteria to significantly circumscribe PBGC involvement in corporate transactions. PBGC also changed the orientation of the premium audit program from its traditional focus on premium collections to one that emphasizes helping premium payers comply with their premium obligations. In addition, the agency began working on ways to make termination- and premium-related audits more understandable and easier for plan sponsors and pension professionals.

Vigorously encouraging customer feedback, PBGC has made it easier for customers to contact the agency and resolve issues affecting their benefits or plans. PBGC has two centralized customer service centers, one for participant inquiries and the other for practitioners, each with its own toll-free number. To improve the service center for practitioners, during 2000 PBGC installed a call tracking system similar to that used in the participant service center to ensure that calls are responded to correctly and timely, and that problems are identified so they can be dealt with quickly. PBGC's separate problem resolution

EMPLOYEE DEVELOPMENT

PBGC primarily uses its own in-house facility, the Martin Slate Training Institute, for the training and development of agency staff. The Institute, established in November 1994 and subsequently named in memory of a former Executive Director, provides a structured learning and networking environment in which PBGC employees can avail themselves of a range of programs, including technical and computer training, customer service training and mentoring programs.

The Institute relies on PBGC employees who serve as internally trained instructors and as subject matter specialists who develop the instructional materials. In keeping with the principle of "listening to our customers," the Institute develops new courses with the assistance of focus groups of PBGC employees.

The Institute adds about 9 new technical courses a year. In 2000, the Institute offered a total of 185 courses, taught in nearly 400 sessions with a total enrollment of nearly 5,600. Among other achievements during the year, the Institute:

- developed its first two "web-based" courses, which can be accessed by employees through their desktop computers rather than in a classroom. These courses allow interactive teaching using multimedia formats. PBGC's use of this new technology for employee development puts it in the forefront of smaller government agencies. The Institute's future programs will be a combination of web-based and classroom instruction.
- launched and completed a new round of customer service training, which emphasized practical application of customer service skills. Previous customer service training, which has been a staple of the Institute's offerings for the past six years, was intended to foster broad customer service awareness and skills.
- continued to build its mentoring program, through which experienced staff members share their knowledge and insights with less seasoned co-workers.
- opened a new, state-of-the-art computer lab for web-based training, testing software for training purposes, and teaching computer systems and applications.

officers for plan participants and for practitioners provide customers with a highly effective avenue for addressing difficult issues.

To measure overall satisfaction with service and help PBGC track how well it has been doing, PBGC uses annual surveys and, beginning in 2000, customer comment cards. The comment cards are particularly useful in obtaining customer feedback soon after a service contact, when memory of the contact is still fresh. According to the most recent completed surveys, 71 percent of participants and 62 percent of practitioners rated PBGC's service as "above average" or "outstanding." Under the agency's five-year strategic plan, the goal is for 90 percent of participants and 84 percent of practitioners to rate PBGC's service as "above average" or "outstanding" by the close of the year 2005.

PROBLEM RESOLUTION

Participants in PBGC-trusteed plans may reach PBGC's Participant Problem Resolution Officer by calling 1-800-400-PBGC or by e-mail at **participant.pro@pbgc.gov**.

Plan sponsors, plan administrators, and pension professionals may reach PBGC's Practitioner Problem Resolution Officer by calling 1-800-736-2444 (202-326-4242 if in the Washington, DC, metropolitan area) or by e-mail at **practitioner.pro@pbgc.gov**.

TTY/TDD users may call the Federal relay service toll-free at 1-800-877-8339 and ask the communications assistant to connect them to the appropriate telephone number.

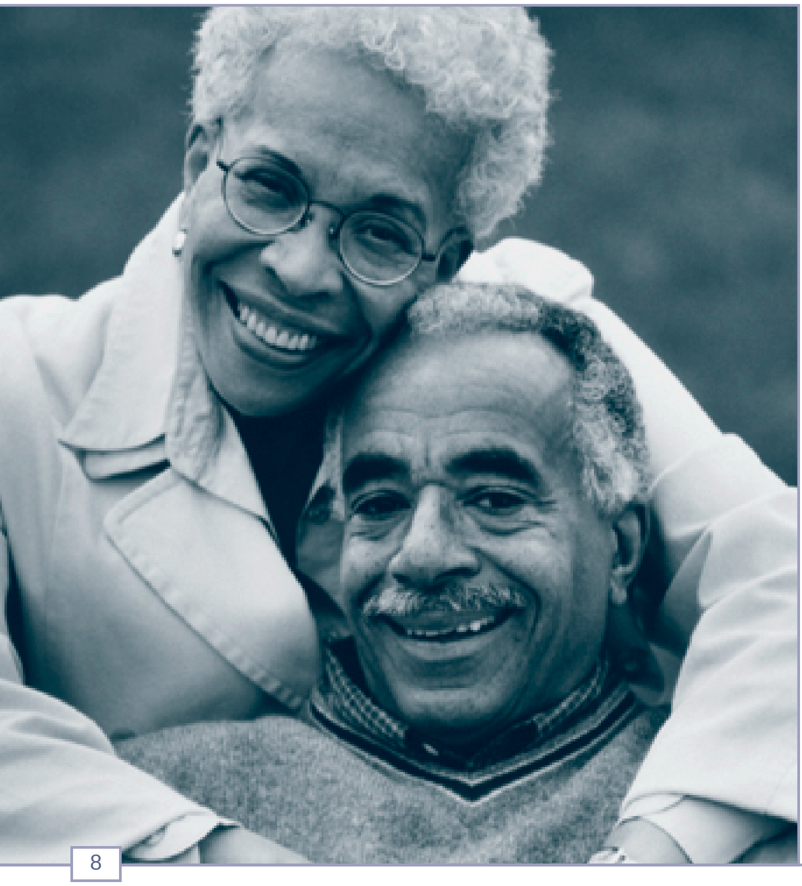
PBGC's "one-call" approach is perhaps the most critical element of the agency's service pledge. This means that, on the customer's first call, we will either answer the question immediately or we will let the customer know who will handle the problem and when an answer can be expected. If it is found that a request is going to take longer to answer than initially thought, we will call back to keep the customer informed of our progress.

PBGC is committed to being a premier customer service organization—for participants who depend on the agency for their pension benefits as well as for plan sponsors and the pension professionals who assist them. The performance standard that customers now expect is "online, on time, all the time." PBGC is working to keep up with the advances in technology to meet that goal.

WHILE TERMINATIONS OF FULLY funded pension plans declined for the 10th straight year, terminations of underfunded plans fell to their lowest level since 1993. At the same time, the agency continued to show progress in its effort to speed up the issuance of final benefit determinations. Despite receiving relatively few requests for financial assistance, the separate multiemployer program provided in excess of $90 million in assistance in 2000, more than in any other year since the current program's creation in 1980.

SINGLE-EMPLOYER PROGRAM

Through its single-employer program, PBGC oversees terminations of fully funded plans and guarantees payment of basic pension benefits when underfunded plans must be terminated. The single-employer program covers more than 34 million workers and retirees in about 36,000 plans.



During 2000 the agency completed the termination of 92 underfunded plans, the vast majority of which were involuntary terminations by PBGC. In most cases termination was necessary because the sponsoring employer had gone out of business, sometimes in earlier years.

After a plan has terminated, PBGC becomes trustee of the plan and administers benefits. In 2000, PBGC became trustee of 103 single-employer plans covering about 27,500 people. By the end of the year, PBGC was responsible for a total of 2,840 trusteed plans, including 10 multiemployer plans. An additional 34 terminated single-employer plans were pending trusteeship as the year ended. (This total also reflects the elimination of three single-employer plans included in last year's total, which no longer required PBGC to become trustee. One plan was converted to a standard termination; the other two plans were merged into a third plan.)

Benefit Processing: By the end of the year, PBGC was responsible for the current and future pension benefits of about 541,000 participants from single-employer and multiemployer plans. These included 226,700 retirees who received benefit payments totaling $903 million for the year.

The past year was a period of sustained progress as PBGC maintained the high pace of activity that has characterized the most recent years. During 2000, the agency issued nearly 63,500 benefit determinations, exceeding 60,000 determinations for the sixth straight year. The number of outstanding determinations awaiting completion also declined for the sixth straight year, leaving about 156,000 determinations to be completed. This represents a dramatic reduction from the situation that prevailed in 1994, when the agency had about 300,000 outstanding determinations and was making little headway in reducing this number. Moreover, this progress came during a

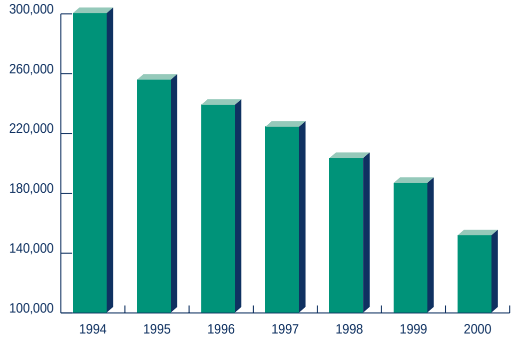
six-year period in which PBGC assumed responsibility for the benefits of more than 240,000 additional people from newly trusteed plans.

PBGC has now completed benefit determinations for virtually all plans trusteed prior to 1996. The average age of unissued benefit determinations is down to 2 years, reflecting the fact that most pending determinations are for plans trusteed within the past two to three years. On average, in 2000 PBGC issued final benefit determinations 4.9 years after the date it had trusteed the participant's plan, meeting the performance goal of 4-5 years set for 2000 under PBGC's strategic plan.

PBGC routinely pays benefits in estimated amounts until final determinations are completed. Ninety-four percent of PBGC's final benefit determinations during 2000 were within 10 percent of the estimated benefit provided earlier to participants.

Appeals Processing: PBGC's Appeals Board reviews appeals of certain PBGC determinations. Most of the appeals are from people disputing their benefit determinations. Typically, about 2 percent of all benefit determinations are appealed. During 2000, the Appeals Board received 1,275 appeals. The Board decided 1,583 appeals during the year and reduced its open case inventory by 8 percent. Shortly after the end of the year, PBGC began to re-engineer its appeals process with the assistance of a cross-functional team of agency staff and guidance from experts at the Federal Consulting Group. Completion of the effort, which is intended to improve organizational efficiency and customer service, is scheduled for later in 2001.

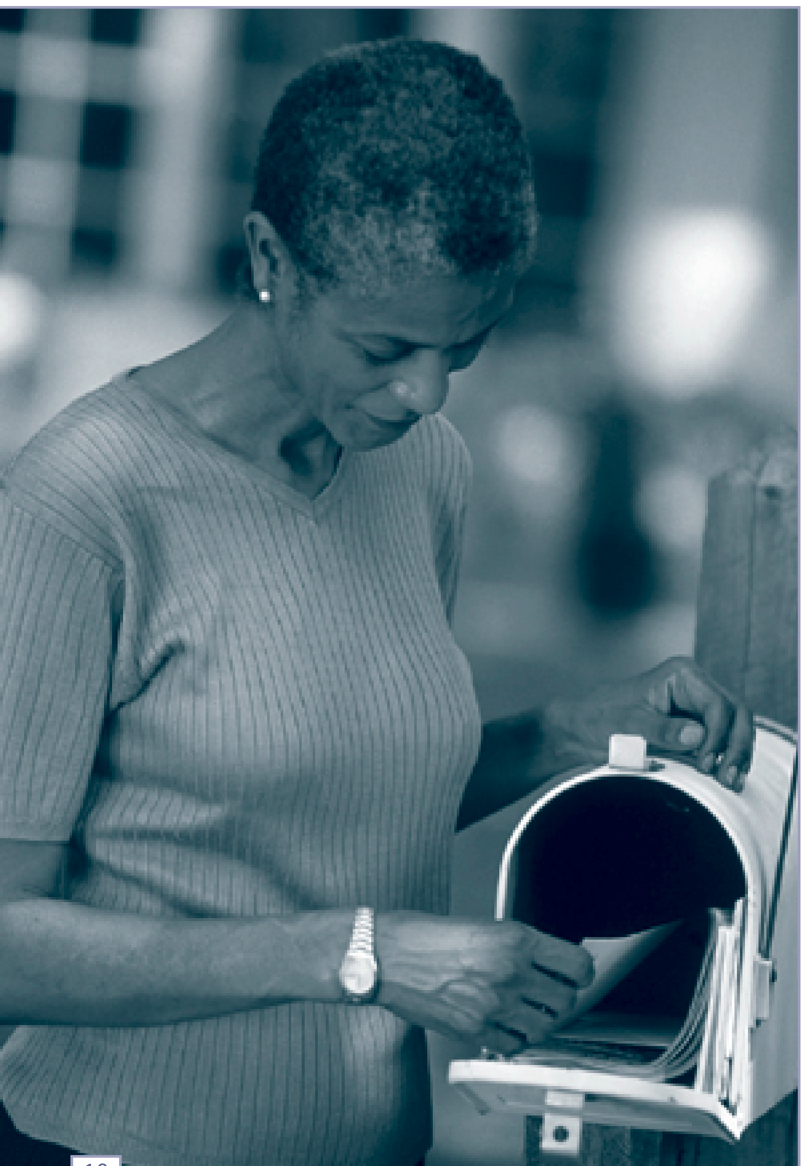
OUTSTANDING BENEFIT DETERMINATIONS, 1994-2000



Standard Terminations of Fully Funded Plans: The number of standard terminations continued to decline steadily from their peak of about 11,800 in 1990, with 1,882 submitted to PBGC in 2000. More than three-fourths of these plans had 50 or fewer participants.

Compliance with the legal requirements for standard terminations remained high and PBGC again found very few errors or omissions that might force cancellation of a termination. The agency's increased flexibility in addressing administrative errors, in particular, is helping to avert many of the problems filers experienced in years past. In 2000, only two terminations had to be canceled for failure to comply with legal requirements, compared to 4 such cases in 1999, 24 in 1998 and 118 in 1997.

PBGC audits a statistically significant number of completed terminations to confirm compliance with the law and proper payment of benefits. These audits generally have found few and relatively small errors in benefit payments, which plan administrators are required to correct. The errors arise primarily from use of incorrect interest-rate assumptions in valuing lump-sum distributions to plan participants. Due to PBGC's audits, in 2000 some 2,300 participants (about 2.2 percent of all participants in audited plans) received more than $1.5 million of additional benefits.



Pension Search Program: PBGC's Pension Search Program consists of three separate, coordinated efforts to locate missing people owed a pension by a terminated plan. Historically, the agency has conducted extensive searches for people missing from underfunded pension plans for which PBGC has taken responsibility. Since January 1996, PBGC also has provided a "missing participants clearinghouse" to assist employers terminating fully funded plans; if an employer is unable to locate a former employee, PBGC will accept payment for the benefit and continue searching for the person to allow the employer to complete the termination. As a last means of finding people who have not been found in all previous searches by either their former employer or by PBGC, the agency has maintained a Pension Search listing on the Internet since December 1996. These efforts have helped PBGC locate thousands of people who were unaware they were owed a pension benefit. PBGC's Pension Search Program received a boost during the year when the agency concluded an agreement with the Social Security Administration that allows PBGC to regularly search SSA's data base for names and current addresses.

During this fiscal year, 340 companies asked the clearinghouse to find 3,901 missing participants, some 2,900 of whom were due benefit payments totaling nearly $6.8 million. The other 1,000 people were covered by annuity contracts that will pay their benefits when they are found. PBGC was able to confirm addresses for 3,465 of the missing people and to pay 765 of them a total of more than $2.7 million in benefits.

Additionally, the Pension Search listing on the Internet helped PBGC find 4,800 other people who were owed about $10 million. When the year ended, the total Internet list, which included people PBGC was unable to find through the clearing-house, identified more than 11,500 unlocated people who were owed about $27 million in pension benefits. Since inception, PBGC's Internet pension search has helped nearly 6,600 people obtain more than $21 million in owed benefits plus interest. The Internet listing is found at http://search.pbgc.gov.

MULTIEMPLOYER PROGRAM

The multiemployer program, which covers more than 9.1 million workers and retirees in about 1,750 insured plans, is funded and administered separately from the single-employer program and differs from the single-employer program in several significant ways. The multiemployer program covers only collectively bargained plans involving two or more unrelated employers. For such plans, the event triggering PBGC's guarantee is the inability of a covered plan to pay benefits when due at the guaranteed level, rather than plan termination as required under the single-employer program. PBGC provides financial assistance through loans to insolvent plans to enable them to pay guaranteed benefits.

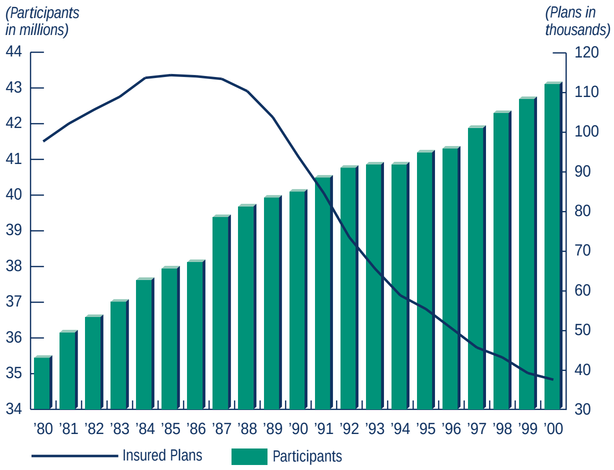
Financial Assistance: The multiemployer program continues to receive relatively few requests for financial assistance. Since 1980, PBGC has provided assistance to only 27 of the 1,750 insured plans, with a total value of approximately $148 million net of repaid amounts. During the year, 21 of these plans received assistance totaling about $91 million, including one-time payments totaling $87 million for two financially troubled multiemployer plans that merged into large national plans. PBGC's payments facilitated the mergers, as a result of which retirees continue to receive their full benefits and participants continue to earn benefits in an ongoing plan.

SINCE THE EARLY 1980S, THERE HAS been a gradual shift away from defined benefit pension plans in the private sector. The number of PBGC-insured defined benefit plans peaked in 1985 at about 114,000. Since then there has been a sharp decline to about 38,000 plans in 2000.

This reduction has not been proportional across all plan sizes. Plans with fewer than 100 participants have shown the most marked decline, from about 90,000 in 1985 to less than 23,000 in 2000. There also has been a sharp decline for plans with between 100 and 999 participants, from more than 19,000 in 1985 to about 10,500 in 2000.

In marked contrast to the trends for plans with fewer than 1,000 participants, the number of plans with more than 1,000 participants has shown modest growth. Since 1980, the number of PBGC-insured plans with between 1,000 and 9,999 participants has grown by about 4 percent, from 4,017 to 4,174 in 2000. The number of plans with at least 10,000 participants has grown from 469 in 1980 to 776 in 2000, an increase of 65 percent.

PBGC-INSURED PARTICIPANTS AND PLANS, 1980-2000



The growth in the number of large plans is attributable to two factors. First, the rapid increase in inactive participants (retirees and separated vested participants) has pushed some plans into higher size categories. Second, there has been considerable plan merger activity over the fifteen-year period from 1985 through 2000.

In contrast to the dramatic reduction in the total number of plans, the total number of participants in PBGC-insured defined benefit plans has shown modest growth. In 1980, there were 35.5 million participants. By 2000, this number had increased to more than 43 million.

These numbers, however, mask the downward trend in the defined benefit system because total participants include not only active workers but also retirees (or their surviving spouses) and separated vested participants. The latter two categories of participants reflect past coverage patterns in defined benefit plans. A better forward-looking measure is the trend in the number of active participants, workers currently earning pension accruals. Here, the numbers continue to decline.

In 1988, there were 27.3 million active participants in defined benefit plans; by 1998 (the latest data available), this number had fallen to 22.9 million, a decrease of more than 16 percent. At the same time, the number of inactive participants has been growing. In 1980, inactive participants accounted for only 23 percent of total participants in defined benefit plans. By 1988 this number had increased to 31 percent; 46 percent of the participants in defined benefit plans were inactive participants by 1998. If this trend continues, by the year 2003 the number of inactive participants will exceed the number of active workers.

LEGISLATIVE PROPOSALS

The Clinton Administration's budget for fiscal year 2001 included numerous provisions to encourage the expansion of retirement plan coverage, including under defined benefit plans. These provisions included:

- a simplified defined benefit plan called SMART (Secure Money Annuity or Retirement Trust) for small businesses with 100 or fewer employees;
- a reduced PBGC premium of $5 per participant for the first five years of a small business's new plan and phase-in of the variable-rate premium over five years for new plans of all sizes;
- expansion of the missing participants clearing-house to other terminating plans, including multiemployer defined benefit pension plans insured by PBGC, certain other defined benefit pension plans not insured by PBGC, and defined contribution plans;
- simplified rules governing PBGC's guarantee of benefits for a partial owner of a company and the allocation of plan assets to the benefits of these owner-employees;
- doubling PBGC's benefit guarantee for multi-employer plans, which has been at the same level since 1980, from the current maximum guarantee of $5,850 to $12,870 (shortly after the year ended, the Congress enacted the increase in the multiemployer guarantee as part of the Consolidated Appropriations Act, 2001—the guarantee increase requires no change in the multiemployer premium rate);
- a tax credit for part of the administrative expenses that a small business incurs when setting up a new plan;
- a tax credit for part of the cost of the contributions a small business makes to a defined benefit or defined contribution plan; and
- permitting accelerated funding of defined benefit plans.

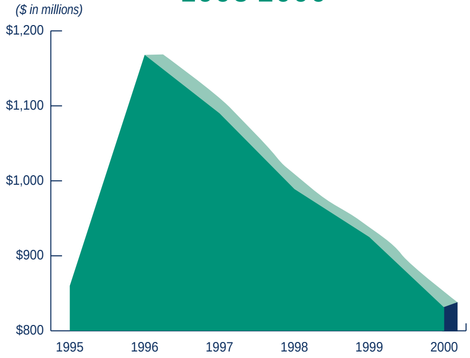
FAVORABLE ECONOMIC CONDITIONS enabled PBGC to further strengthen its financial position. Terminations of underfunded plans fell to their lowest level since 1993, contributing to the increasing strength of PBGC's net financial position. Although premium income declined for the fourth straight year, strong returns on both fixed-income and equity investments enabled both insurance programs to report net income for the year. The agency's determined defense of its legal positions led to important outcomes as well, both in negotiated settlements and in court.

FINANCIAL MANAGEMENT

Both of PBGC's insurance programs posted significant financial gains during 2000, with the single-employer program recording the largest one-year gain in its history. Both programs' gains came mainly from investment income.

For the single-employer program, both fixed-income and equity investments contributed to the final result, producing total investment income of nearly $2.4 billion. However, due largely to companies' reduced risk-based premiums, premium income continued to decline from the record level reached in 1996, falling to $807 million in 2000. Consistent with recent trends, losses from plan terminations continued to decline. The

PREMIUM INCOME, 1995-2000



INFORMATION SYSTEMS AND SECURITY

PBGC's extensive efforts to prepare its information systems and software for the Year 2000 century-date change produced a seamless transition from 1999 to 2000. All PBGC mission-critical and secondary systems continued to function normally with no Y2K problems.

The agency's primary focus shifted during 2000 to enhancing the security of its existing information systems and data. Testing of the agency's computer systems by PBGC's Inspector General found PBGC's systems secure from penetration through the Internet but identified other vulnerabilities common in complex networks. The agency immediately took corrective actions to address these problems, in the process accelerating initiatives planned for future years. These measures included:

- new, more robust passwords for access to the information systems and additional automated tools for monitoring and testing compliance;
- an annual independent assessment of PBGC's vulnerabilities;
- enhanced controls restricting high-level access to authorized users backed by a strong hardware-based authentication mechanism;
- implementing an intrusion management program to detect and address intrusion attempts;
- establishing and filling the new position of Information Systems Security Officer; and
- enhancing corporate-wide computer security awareness training and procedures for monitoring compliance with security policies.

PBGC also placed a major emphasis on improving its capabilities for conducting its business electronically. The ultimate goal is to provide electronic alternatives to paper forms and records within the next few years. In addition, the agency upgraded its Internet Web site to make the agency's information accessible to users with disabilities.

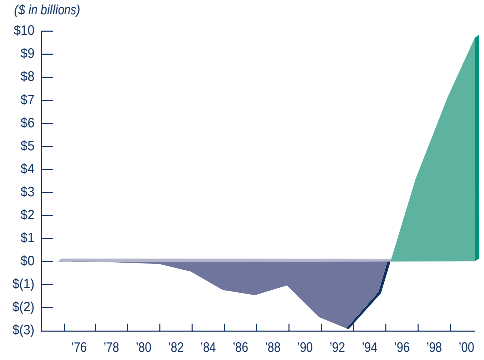
combination of low termination losses and strong returns on investments enabled the single-employer program to record net income of nearly $2.7 billion, increasing the program's net surplus to $9.7 billion. This current surplus provides the insurance program with a cushion against future sizeable losses that are unforeseen and episodic in nature.

The multiemployer program reported net income of $68 million, due almost entirely to investment returns on the program's fixed-income assets. With total assets of $694 million and liabilities totaling $427 million primarily for nonrecoverable future financial assistance, the program had an end-of-year surplus of $267 million. The program's premium income increased slightly to about $24 million.

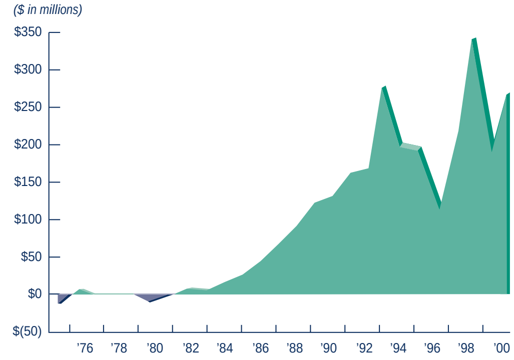
PBGC's financial statements have received their eighth consecutive unqualified opinion from the agency's auditors. The 2000 audit was again performed by PricewaterhouseCoopers LLP under the direction and oversight of PBGC's Inspector General.

The Joint Financial Management Improvement Program (JFMIP) recognized the accomplishments of Chief Financial Officer N. Anthony Calhoun by presenting him with its annual Donald L. Scantlebury Memorial Award for distinguished leadership in financial management improvement in the public sector. The award cited Mr. Calhoun's "exceptional leadership in improving financial management of the retirement benefits of millions of Americans," noting Mr. Calhoun's championing of innovative financial systems technology and implementation of a system of internal controls that assure the issuance of reliable financial information. The JFMIP is a joint program of the Department of the Treasury, Office of Management and Budget, and Office of Personnel Management that works with all federal agencies to improve financial management practices and policies.

NET POSITION OF THE SINGLE-EMPLOYER PROGRAM, 1975-2000



NET POSITION OF THE MULTIEMPLOYER PROGRAM, 1975-2000



Investment Program: The Corporation's investable assets consist of premium revenues accounted for in the Revolving Funds and assets from terminated plans and their sponsors accounted for in the Trust Funds. By law, PBGC is required to invest the Revolving Funds in fixed-income securities; current policy is to invest these funds only in Treasury securities. The agency has more discretion in its management of the Trust Funds, which it invests primarily in high-quality equities. The asset allocation is designed to provide sound long-term performance.

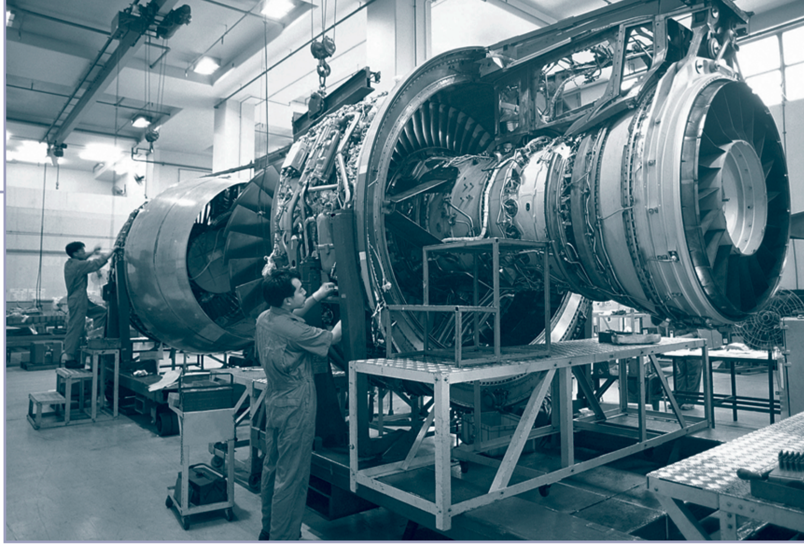
PBGC has structured its investment portfolio to improve the agency's financial condition in a prudent manner. The Revolving Fund assets are invested to earn a competitive return and partially offset changes in its benefit liabilities. The agency's investment in equities provides overall portfolio diversification and a higher long-term expected return, within prudent levels of risk. PBGC uses institutional investment management firms to invest its assets subject to PBGC oversight. PBGC, with the advice of its Advisory Committee, continually reviews its investment strategy to ensure that the agency maintains an investment structure that is consistent with its long-term objectives and responsibilities.

Investment Profile

	September 30, 2000	1999
FIXED-INCOME ASSETS		
Average Quality	**AAA**	AAA
Average Maturity (years)	**21.1**	20.0
Duration (years)	**10.9**	10.2
Yield to Maturity (%)	**6.0**	6.4
EQUITY ASSETS		
Average Price/Earnings Ratio	**29.7**	28.2
Dividend Yield (%)	**1.1**	1.4
Beta	**.98**	1.03

As of September 30, 2000, the value of PBGC's total investments in the single-employer and multiemployer programs, including cash, was approximately $21 billion. The Revolving Fund's value was $12.1 billion and the Trust Fund's value was $8.9 billion. Cash and fixed-income securities represented 61 percent of the total assets invested at the end of the year, as compared to 60 percent at the end of 1999, while the equity allocation remained constant at 39 percent of all investments. A very small portion of the invested portfolio remains in real estate and other financial instruments.

The current allocation to equities is the maximum currently allowable to PBGC, given legislative restrictions limiting equity investments to the Trust Funds. The increased equity allocation, adopted in 1994 as part of a strategic change in the agency's investment policy, has significantly improved PBGC's overall financial condition, as PBGC's equity assets have substantially outperformed its long-term Treasury portfolio by more than 11 percentage points per year over the past 6 years (21.7% versus 9.9%). This change in policy has made an important contribution to the insurance program's current surplus and to PBGC's long-term financial viability.



Results for fiscal year 2000 were favorable for capital market investments and PBGC's investment program. For the year, PBGC's fixed-income program returned 9.8% while its equity program advanced 18.2%. PBGC's five-year returns approximated their comparable market indices, meeting the agency's strategic performance goal. For the year, PBGC reported a gain of $1.1 billion from fixed-income investments and a gain of $1.3 billion from equity investments.

Investment Performance

(Annual Rates of Return)

	September 30, **2000**	September 30, 1999	Five Years Ended September 30, 2000
Total Invested Funds	**13.2%**	3.6%	12.1%
Equities	**18.2**	24.7	19.9
Fixed-Income	**9.8**	(7.9)	7.6
Trust Funds	**18.1**	24.3	19.2
Revolving Funds	**9.7**	(7.7)	7.5
INDICES			
Wilshire 5000	**17.6**	27.0	20.4
S&P 500 Stock Index	**13.3**	27.8	21.7
Lehman Brothers Long Treasury Index	**9.8**	(7.7)	7.5

Contract Management: Following a review of PBGC's contract management, the U.S. General Accounting Office reported during the year that, although PBGC complied with all legal requirements, the agency's contract management might be improved through better contract procedures and monitoring. The GAO recommended measures that PBGC accepted and began implementing before the year ended. At the same time, PBGC significantly increased the training provided to its Contracting Officer's Technical Representatives (COTRs) and its contract monitors. By the end of the year, the agency had begun developing a COTR certification program to ensure that agency COTRs are and remain qualified for that function.

Of the contracts issued during 2000, PBGC awarded 88 percent through full and open competition. The remainder were sole-source contracts or set aside for minority bids.

SINGLE-EMPLOYER PROGRAM EXPOSURE

PBGC's "expected claims" are dependent on two factors: the amount of underfunding in the pension plans that PBGC insures (i.e., exposure), and the likelihood that corporate sponsors of these underfunded plans encounter financial distress that results in bankruptcy and plan termination (i.e., the probability of claims).

Over the near term, expected claims result from underfunding in plans sponsored by financially weak firms. PBGC treats a plan sponsor as financially weak based upon factors such as whether the firm has a below-investment-grade bond rating. PBGC calculates the underfunding for plans of these financially weak companies using the best available data, including the annual confidential filings that companies with large underfunded plans are required to make to PBGC under Section 4010 of ERISA.

For purposes of its financial statements, PBGC classifies the underfunding of financially weak companies as "reasonably possible" exposure, as required under accounting principles generally accepted in the United States of America. As of December 31, 1999, as disclosed in the financial statements, PBGC's estimated "reasonably possible" exposure was $5 billion.

Over the longer term, exposure and expected claims are more difficult to quantify either in terms of a single number or a limited range. Claims are sensitive to changes in interest rates and stock returns, overall economic conditions, the development of underfunding in some large plans, the performance of some particular industries, and the bankruptcy of a few large companies. Large claims from a small number of terminations and volatility characterize the agency's historical claims experience and are likely to affect PBGC's potential future claims experience as well.

Methodology for Considering Long-Term Claims: No single underfunding number or range of numbers—even the reasonably possible estimate—is sufficient to evaluate PBGC's exposure and expected claims over the next ten years. There is too much uncertainty about the future, both with respect to the performance of the economy and the performance of the companies that sponsor insured pension plans.

PBGC uses a stochastic model—the Pension Insurance Modeling System (PIMS)—to evaluate its exposure and expected claims.

PIMS portrays future underfunding under current funding rules as a function of a variety of economic parameters. The model recognizes that all companies have some chance of bankruptcy and that these probabilities can change significantly over time. The model also recognizes the uncertainty in key economic parameters (particularly interest rates and stock returns). The model simulates the flows of claims that could develop under thousands of combinations of economic parameters and bankruptcy rates. (For additional information on PIMS, see PBGC's *Pension Insurance Data Book 1998*, pages 10-17, which also can be viewed on PBGC's Web site at www.pbgc.gov/publications/databooks/databk98.pdf.)

Under the model, median claims over the next ten years will be about $650 million per year (expressed in today's dollars); that is, half of the scenarios show claims above $650 million per year, and half below. The mean level of claims (that is, the average claim) is much higher, more than $1,050 million per year. The mean is higher because there is a chance under some scenarios that claims could reach very high levels. For example, under the model, there is a ten percent chance that claims could exceed $2.6 billion per year.

PIMS projects PBGC's potential financial position by combining simulated claims with simulated premiums, expenses, and investment returns. The mean outcome is an $11.6 billion surplus in 2010 (in present value terms). However, the model also shows the potential for significant downside outcomes. In particular, there is nearly a 20 percent chance that the agency could return to a deficit in the next ten years and a ten percent chance that the deficit could exceed $12.0 billion in 2010 (in present value terms). These outcomes are most likely if the economy performs poorly, in which case PBGC may experience large claims amounts and investment losses. PBGC is continuing to analyze the best way to manage and reduce the risk of insolvency.

LOSS PREVENTION

During the year, PBGC took a significant step toward easing employers' concerns about the Early Warning Program by issuing guidance clarifying the scope of the program's operation. Under the Early Warning Program, PBGC monitors certain companies with underfunded pension plans in order to identify corporate transactions that could jeopardize pensions and to arrange suitable protections for those pensions and the pension insurance program. Following a comprehensive internal review of the program, which included discussions with employers, pension professionals and others with interest in the program, PBGC adopted new more-restrictive screening criteria for determining when to contact companies about pending transactions. The agency then issued detailed guidance to help plan sponsors and pension professionals anticipate when PBGC is likely to be concerned about a business transaction and understand the types of pension protection PBGC may seek. The new guidance was well-received, and PBGC anticipates that its new screening criteria will result in far fewer contacts with corporate sponsors of pension plans.

During the year, PBGC reached agreements valued at about $66 million with 5 companies. These agreements provided contributions, security, and other protections for the pensions of about 31,000 workers and retirees.

LITIGATION

PBGC continued to face challenges in courts across the country, a number of which could impair the agency's ability to recover its losses for underfunded plans from the employers responsible for those plans. At the end of the year, PBGC had 81 active cases in state and federal courts and 575 bankruptcy cases.

Major cases in 2000 included:

White Consolidated Industries, Inc.: In a July 1999 ruling, a district court found White liable for the unfunded benefits of six pension plans that White transferred to the Blaw Knox Corporation in 1985. PBGC later took over the plans because they ran out of money or would have been abandoned after Blaw Knox ceased business in 1994. PBGC sought to recover approximately $120 million, plus interest, for the

plans' underfunding, alleging that a principal purpose of White's transaction was to evade its pension liabilities. This effort culminated in the district court ruling. White appealed to the Third Circuit Court of Appeals, which affirmed the district court's ruling in June 2000. In July 2000, PBGC and White reached an agreement settling the litigation and White's separate administrative appeal before PBGC challenging the agency's calculation of the unfunded benefit liabilities. Under the settlement, White agreed to resume sponsorship of the six pension plans and pay the plan participants their full plan benefits with a 5 percent increase, plus any benefits PBGC did not pay because of the legal limits on PBGC's guarantee. White also agreed to reimburse PBGC for its costs in paying benefits under the plans as well as its litigation costs. Certain aspects of the agreement are subject to approval by the Internal Revenue Service and the Department of Labor. Should the agreement not go forward for any reason, PBGC will keep the plans. White will then pay the plan participants the value of their unpaid non-guaranteed benefits and pay PBGC $180 million less the amount White pays directly to participants. This agreement is unprecedented in that it is the only time PBGC has conditioned settlement on getting participants benefits they would otherwise not be able to receive.

Copperweld Steel Company: PBGC continued to pursue bankruptcy claims to recover amounts due PBGC and Copperweld's three terminated pension plans, which covered about 3,000 workers and retirees. The company's liquidation trustee contests whether PBGC's claims for unpaid minimum funding contributions in excess of $1 million are entitled to tax priority, and whether the assumptions PBGC prescribes in its regulations appropriately measure PBGC's claims for unfunded benefit liabilities. In December 1997, the bankruptcy court ruled for the liquidation trustee's position on both issues. On PBGC's appeal, the district court affirmed the bankruptcy court's adverse decision and, in November 2000, the Sixth Circuit Court of Appeals affirmed the lower court rulings. PBGC is considering whether to seek further review.

Pineiro, Brooks, and Beaumont v. PBGC: In 1991, PBGC became trustee of three Pan Am pension plans underfunded by $914 million. Three former employees of Pan American World Airways later filed suit asking a district court to replace PBGC with an independent trustee. In 1997, the court initially dismissed virtually all of the allegations as meritless, leaving open only an allegation concerning the timeliness of PBGC's notices of benefit determination to the Pan Am participants. The plaintiffs filed an amended complaint in January 1998 realleging PBGC delays in issuing benefit determinations as well as most of the dismissed allegations; PBGC responded with a motion to dismiss the amended complaint. In March 2000 the district court issued a new decision that vacated significant parts of its 1997 ruling, allowing several of the plaintiffs' claims to continue while dismissing others. The court's decision focused on the technical legal issue of whether

PBGC operates as a "trustee" or as a "statutory guarantor" when calculating guaranteed benefits. The district court subsequently permitted PBGC to file an immediate appeal of its ruling and stayed all further proceedings in the case pending that appeal. PBGC's request to immediately appeal the district court decision was pending before the appellate court at yearend. Despite the exceedingly poor condition of company records and the difficulties caused by Pan Am's protracted bankruptcy proceedings, PBGC has been paying benefits to Pan Am retirees continuously since taking over the plans. The agency has completed all benefit determinations for the 53,000 former Pan Am workers and retirees.

Raytech Corporation: In 1986 Raymark Industries, Inc., formerly known as Raybestos-Manhattan, Inc., created Raytech Corporation as a wholly owned subsidiary. In doing so, Raytech acquired Raymark's profitable assets while leaving Raymark with asbestos-related liabilities and two pension plans that are underfunded by about $19 million. In 1999, while undergoing reorganization in bankruptcy, Raytech filed for a declaration that it was not liable for any minimum funding contributions to the Raymark pension plans after it ceased being a member of Raymark's controlled group. PBGC filed a counterclaim alleging that the spin-off of Raytech and Raymark was a scheme intended to defraud creditors and asking the court to order Raytech to maintain, administer and fund the plans. In December 1999, the bankruptcy court granted PBGC's motion for summary judgment and ordered Raytech to take full responsibility for the two pension plans. The court agreed with PBGC that the transactions that separated Raytech from Raymark were intended to defraud Raymark's creditors and that PBGC was entitled to relief under fraudulent conveyance law. Raytech's appeal was pending before the district court at yearend.

ANNUAL PERFORMANCE

PBGC'S FIVE-YEAR STRATEGIC PLAN has four broad goals that form the framework of the agency's short- and long-term plans. In 2000, PBGC updated the plan to cover the period 2000-2005, in some cases refining the performance measures to make them more meaningful to customers. The PBGC goals are to:

(1) protect existing defined benefit plans and their participants, thereby encouraging new plans;

(2) provide high quality, responsive services, and accurate and timely payment of benefits to participants;

(3) strengthen financial programs and systems to keep the pension insurance system solvent; and

(4) improve internal management support operations.

2000 PBGC Corporate Performance Measures

Measure	Applicable Goal	2000 Milestone	2000 Result	Baseline*
Protecting the Interests of Participants: *Protect the interests of defined benefit pension plan participants by:*				
• Resolution of bankruptcy actions with companies sponsoring plans	(1)	**	82 plans 56,800 participants	92 plans 226,000 participants (1999)
• Finding and paying benefits to missing participants in plans	(1)	**	8,265 participants	1,303 participants (1999)
Customer Satisfaction: *Achieve "outstanding" or "above average" ratings (on a five point customer satisfaction scale) for inquiries handled:*				
• From people whose plans we trustee	(2)	74%	71%	79% (1997)
• From pension practitioners/sponsors	(2)	67%	62%	54% (1997)
Operations:				
Provide reliable estimated benefits to participants that are within 10% of final benefits and are in clear, understandable language	(2)	88%	94%	84% (1999)
Reduce from 5-6 years to 4-5 years the average time frame to send benefit determinations to participants in defined benefit plans taken over by PBGC	(2)	4-5 years	4.9 years	5.95 years (1997)
Reduce the age of pre-trusteeship inventory to no more than 1 year	(2)	100% 2 years or less	98% 2 years or less	98.6% 4 years or less (1998)
Send the first benefit payment to an eligible person within 3 months of receiving his/her completed application	(2)	88%	91%	83% (1999)
Financial Management:				
Collect 99% of pension insurance premiums due	(3)	99%	99%	97% (1997)
Research and respond within 90 days to requests for premium refunds, waiver of premium penalties, and reconsiderations of PBGC premium decisions	(3)	99%	99%	90% (1999)
Approximate comparable 5-year investment indices for PBGC's portfolio performance	(3)	**	PBGC / Index Equities 19.9% / 20.4% Fixed-Income 7.6% / 7.5%	(1997) PBGC / Index Equities 20.6% / 20.6% Fixed-Income 10.9% / 8.9%

* Year in parentheses indicates the year in which the baseline value was set.

** By their nature, these measures do not lend themselves to setting annual targets or milestones. PBGC measures performance annually based on actual results.

The performance measures track specific results that are significant to PBGC's customers and gauge PBGC's solvency and customer service accomplishments. The previous table shows the results achieved in 2000 and meets the annual reporting requirement established by the Government Performance and Results Act. More information on PBGC's strategic plan and annual performance plan may be found on PBGC's Web site at www.pbgc.gov/about_pbgc/mission/mission.htm.

ACHIEVING PERFORMANCE TARGETS

Protecting the Interests of Participants, Thereby Encouraging New Plans:

- Six times more missing participants were located through PBGC's efforts during the year compared to the prior year. This was due in part to an agreement allowing PBGC to regularly search the Social Security Administration data base for names and addresses. Participants thus received millions of dollars in pension benefits they otherwise would have lost.

- PBGC also protects participants' interests by educating participants and pension practitioners about defined benefit plans. PBGC conducted 54 group meetings to inform participants in PBGC-trusteed pension plans about the PBGC guarantee and what they can expect. Similarly, PBGC officials participated in 59 meetings and conferences with pension practitioners to address issues of mutual concern and to get their feedback.

Customer Satisfaction:

- PBGC continues to learn about customer expectations and opinions through satisfaction surveys and focus groups, and has set performance targets for both participants' and practitioners' satisfaction through 2005.

- In 2000, participant satisfaction remained at the same level as the previous year. Retired participants receiving benefits continue to report a higher level of satisfaction with PBGC service than those due a future pension. PBGC has taken steps to improve the accuracy and timeliness of benefit estimates and to communicate earlier and more frequently with future payees. These changes will address a major cause of dissatisfaction.

- 62% of pension practitioners rated PBGC's overall service "outstanding" or "above average" in 2000, slightly down from the previous year, but within the margin of error. PBGC's 2000 goal was 67%. To address this, after year's end, PBGC changed and simplified its premium regulations to ease the burden for plan administrators: prorated premium payments for short plan years are now allowed; the definition of participant for premium purposes is simpler; and the standard for claiming the variable-rate premium exemption for a fully insured plan is simpler. By consistently meeting its customer service pledge, and making changes based on practitioner feedback, PBGC expects to improve overall satisfaction in 2001.

Operations:

- The principal measure of operations is to "reduce to 3 to 4 years the average time frame to send benefit determinations to participants in defined benefit pension plans taken over by PBGC." Efforts to speed up processing have succeeded. Participants received benefit determinations in 2000 almost one year faster on average than participants in the previous year. As an indication of continued improvement in processing times in the future, the average age of unissued benefit determinations was reduced from 2.3 years to 2 years.

- During the year, participants received final benefits within 10% of the earlier estimated benefits in 94 percent of the cases. PBGC revised this measure, broadening it to include all participants versus the small number of participants included in the old definition. The new definition is more meaningful to the participant universe.

- PBGC further reduced the age of cases awaiting trusteeship. The goal is that no pending case be more than one year old by 2002, reached in annual milestones. At the end of the fiscal year, 98 percent of cases to be trusteed were two years old or less.

- 91 percent of eligible participants who completed applications received pension payments from PBGC within three months, a significant improvement over the previous year.

Financial Management:

- The premium collection rate is the amount of premiums collected divided by the amount of premiums due. PBGC achieved its 99 percent collection goal.

- Practitioners now routinely receive responses to requests for premium refunds, waiver of penalties, and reconsiderations of premium decisions within ninety days 99% of the time. Practitioners said this is an important service element, and PBGC responded.

- Investment management results are measured against recognized industry indices aggregated over a five-year period. The five-year period smooths out volatility in annual market performance and provides a more realistic, long-term view of investment success. This year, PBGC's performance approximated the indices for equities and fixed-income investments.

PROGRAM EVALUATION

PBGC conducted customer satisfaction surveys of participants in plans trusteed by PBGC, and of pension practitioners who have dealings with us on premium payment or standard termination matters. Evaluation of the survey responses resulted in improvements in program operations, as discussed earlier in the Annual Report.

Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

The following discussion and analysis provide information that management believes is relevant to an assessment and understanding of the Corporation's financial condition and results of operations. The discussion should be read in conjunction with the financial statements and notes thereto.

PBGC's operating results are subject to significant fluctuation from year to year depending on the frequency and severity of losses from terminating pension plans, general economic conditions, and other factors such as changes in law. Consequently, certain traditional financial ratios and measurements are not meaningful and, therefore, not presented.

COMBINED RESULTS

For 2000, PBGC's combined underwriting and financial activities resulted in a net gain of $2.734 billion. The single-employer and multiemployer programs reported net income of $2.666 billion and $68 million respectively. By law, these two programs are separate.

SINGLE-EMPLOYER PROGRAM

Results of Activities and Trends: The net income in 2000 was $2.666 billion compared to net income of $2.026 billion in 1999. The $640 million increase was primarily attributable to the net increase from financial activity.

Underwriting Activity: The gain of $942 million in 2000 was up from a gain of $823 million in 1999. This $119 million increase was primarily due to a decrease in losses from completed and probable terminations and a decrease in the actuarial adjustment, which was partially offset by a decrease in premium income.

Underwriting income decreased from $905 million in 1999 to $812 million in 2000. The $93 million change related primarily to the decrease in variable-rate premium payments. The decrease in these payments was due to an increase in the interest rate (used in valuing the liabilities of calendar year plans) from 4.3% at December 31, 1998, to 5.4% at December 31, 1999, and to a larger number of plans being at the full funding limit.

The Corporation's losses from completed and probable plan terminations decreased from $49 million in 1999 to a credit of $80 million in 2000. Although there were no major plan terminations in 2000, future losses remain unpredictable.

Operating costs increased $5 million over 1999.

Financial Activity: Financial income increased from $1.203 billion in 1999 to $1.724 billion in 2000. This change was primarily due to the increase in income earned by fixed-income securities, which was partially offset by the reduction in the credit from the change in interest rates.

The total return on investments was 13.2% in 2000, compared to 3.6% in 1999. Fixed-income investment returns in 2000 increased by $1.886 billion over 1999 while equity investment returns were $237 million less in 2000 than in 1999. PBGC, in accordance with accounting principles generally accepted in the United States of America (GAAP), marks its assets and liabilities to market.

Actuarial charges primarily resulted from the aging of the present value of future benefits. The select interest rate at September 30, 1999, and at September 30, 2000, was 7.00% while the ultimate rate increased from 6.5% to 6.75%.

Liquidity and Capital Resources: The single-employer program's net position improved in 2000 to approximately $9.7 billion primarily because of a strong return on fixed-income investments and the effect of rising interest rates on actuarial charges. Approximately $20.5 billion (99 percent) of the program's total assets of $20.7 billion are in marketable assets.

PBGC's primary sources of cash are from premium receipts and investment activities. If funds generated from these sources are insufficient to meet fixed charges in any period, the Corporation has available a $100 million line of credit from the U.S. Treasury for liquidity purposes. PBGC did not use this borrowing authority in 1999 or 2000 and has no plans to use it in the future.

Benefit payments and administrative expenses will approximate $1.2 billion in 2001. Due to significant factors beyond PBGC's control (e.g., fluctuations in interest rates, contributions made to PBGC-insured plans by sponsors, etc.), it is difficult to project premium revenue with a high degree of certainty.

The Corporation is subject to litigation that could have considerable impact on its financial condition. The total underfunding in large plans that are sponsored by companies with below-investment-grade bond ratings is approximately $5 billion. Losses from these plans are not probable at this time but GAAP requires the exposure to be disclosed in the footnotes to the financial statements. This exposure is principally in primary metals and fabricated metal products (steel), air transportation, general merchandise-retail trade, electronic and other equipment, rubber and miscellaneous plastics, apparel and accessory stores, and transportation equipment industries.

The single-employer program's positive net position of approximately $9.7 billion at yearend will help provide the financial foundation needed to support the Corporation's long-term responsibilities under the Employee Retirement Income Security Act. A properly managed insurance program must have the resources to provide for unforeseen losses from terminating pension plans.

MULTIEMPLOYER PROGRAM

Results of Activities and Trends: The 2000 multiemployer results of operations culminated in a positive net position of $267 million. The program reported a gain of $68 million in 2000 compared to a net loss of $142 million in 1999. The change in net income was due to the $83 million reduction in losses from future financial assistance and to the $126 million increase in investment income. Premium income increased from $23 million in 1999 to $24 million in 2000 due to an increase in participants. Of the program's assets, PBGC invested 96.7 percent in Treasury securities in 1999 and again in 2000.

Liquidity and Capital Resources: As the multiemployer program has a positive net position and most assets are highly liquid Treasury securities, PBGC has sufficient resources to meet its liquidity requirements. In 2001, premium receipts will approximate $24 million, while benefit payments and financial assistance will be about $5 million.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT STATEMENT

Management controls in effect in 2000 provided reasonable assurance that assets were safeguarded from material loss and that transactions were executed in accordance with management's authority and with significant provisions of selected laws and regulations. Furthermore, PBGC management controls provided reasonable assurance that transactions were properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and to maintain accountability for assets among funds.

PBGC did not identify any material weaknesses during fiscal year 2000.

Management Representation

PBGC's management is responsible for the accompanying Statements of Financial Condition as of September 30, 2000 and 1999, 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.

The Inspector General engaged Pricewaterhouse-Coopers LLP (PwC) to conduct the audit of the Corporation's 2000 and 1999 financial statements. In its opinion on PBGC's financial statements, PwC reported that the Statements of Financial Condition as of September 30, 2000 and 1999, and the Statements of Operations and Changes in Net Position and Statements of Cash Flows for the fiscal years ended September 30, 2000 and 1999, were fairly stated in all material respects.

In the opinion of management, the financial statements present fairly the financial position of PBGC at September 30, 2000, and September 30, 1999, and the results of operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America (GAAP) and actuarial standards applied on a consistent basis.

Estimates of probable terminations, nonrecoverable future financial assistance, amounts due from employers, and the present value of future benefits may have a material effect on the financial results being reported. In addition to litigation that has been properly disclosed and reported in accordance with GAAP, other litigation may have an effect on the financial condition of the Corporation.

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.

David M. Strauss
Executive Director

N. Anthony Calhoun
Deputy Executive Director
and Chief Financial Officer

January 19, 2001

Pension Benefit Guaranty Corporation Statements of Financial Condition

(Dollars in millions)	Single-Employer Program September 30, 2000	1999	Multiemployer Program September 30, 2000	1999	Memorandum Total September 30, 2000	1999
ASSETS						
Cash and cash equivalents	**$ 341**	$ 334	**$ 8**	$ 9	**$ 349**	$ 343
Investments, at market (Note 3):						
Fixed maturity securities	**11,719**	10,239	**671**	669	**12,390**	10,908
Equity securities	**8,186**	7,342	**3**	3	**8,189**	7,345
Real estate and real estate investment trusts	**16**	13	**0**	0	**16**	13
Other	**32**	37	**0**	0	**32**	37
Total investments	**19,953**	17,631	**674**	672	**20,627**	18,303
Receivables, net:						
Sponsors of terminated plans	**28**	18	**0**	0	**28**	18
Premiums (Note 9)	**143**	240	**1**	1	**144**	241
Sale of securities	**57**	45	**0**	0	**57**	45
Investment income	**189**	156	**11**	10	**200**	166
Other	**2**	5	**0**	0	**2**	5
Total receivables	**419**	464	**12**	11	**431**	475
Furniture and fixtures, net	**2**	2	**0**	0	**2**	2
Total assets	**$20,715**	$18,431	**$694**	$692	**$21,409**	$19,123

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

Pension Benefit Guaranty Corporation
Statements of Financial Condition

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in millions)	**2000**	1999	**2000**	1999	**2000**	1999
LIABILITIES						
Present value of future benefits, net (Note 4):						
Trusteed plans	**$ 9,426**	$ 9,677	**$ 4**	$ 5	**$ 9,430**	$ 9,682
Terminated plans pending trusteeship	**62**	81	**0**	0	**62**	81
Settlements and judgments	**242**	228	**0**	0	**242**	228
Claims for probable terminations	**901**	1,087	**0**	0	**901**	1,087
Total present value of future benefits, net	**10,631**	11,073	**4**	5	**10,635**	11,078
Present value of nonrecoverable future financial assistance (Note 5)			**414**	479	**414**	479
Unearned premiums (Note 9)	**206**	208	**9**	9	**215**	217
Accounts payable and accrued expenses (Note 6)	**174**	112	**0**	0	**174**	112
Commitments and contingencies (Notes 7,8, and 14)						
Total liabilities	**11,011**	11,393	**427**	493	**11,438**	11,886
Net position	**9,704**	7,038	**267**	199	**9,971**	7,237
Total liabilities and net position	**$20,715**	$18,431	**$694**	$692	**$21,409**	$19,123

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)	**2000**	1999	**2000**	1999	**2000**	1999
UNDERWRITING:						
Income:						
Premium (Note 9)	**$ 807**	$ 902	**$ 24**	$ 23	**$ 831**	$ 925
Other	**5**	3	**0**	0	**5**	3
Total	**812**	905	**24**	23	**836**	928
Expenses:						
Administrative	**152**	147	**0**	0	**152**	147
Other	**(2)**	(1)	**0**	0	**(2)**	(1)
Total	**150**	146	**0**	0	**150**	146
Other underwriting activity:						
Losses (credits) from completed and probable terminations (Note 10)	**(80)**	49	**0**	0	**(80)**	49
Losses from financial assistance (Note 5)			**26**	109	**26**	109
Actuarial adjustments (Note 4)	**(200)**	(113)	**0**	0	**(200)**	(113)
Total	**(280)**	(64)	**26**	109	**(254)**	45
Underwriting income (loss)	**942**	823	**(2)**	(86)	**940**	737
FINANCIAL:						
Investment income (loss) (Note 11):						
Fixed	**1,081**	(805)	**69**	(57)	**1,150**	(862)
Equity	**1,310**	1,547	**1**	1	**1,311**	1,548
Other	**1**	(14)	**0**	0	**1**	(14)
Total	**2,392**	728	**70**	(56)	**2,462**	672
Expenses:						
Investment	**15**	14	**0**	0	**15**	14
Actuarial charges (Note 4):						
Due to passage of time	**658**	601	**0**	0	**658**	601
Due to change in interest rates	**(5)**	(1,090)	**0**	0	**(5)**	(1,090)
Total	**668**	(475)	**0**	0	**668**	(475)
Financial income (loss)	**1,724**	1,203	**70**	(56)	**1,794**	1,147
Net income (loss)	**2,666**	2,026	**68**	(142)	**2,734**	1,884
Net position, beginning of year	**7,038**	5,012	**199**	341	**7,237**	5,353
Net position, end of year	**$9,704**	$7,038	**$267**	$199	**$9,971**	$7,237

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

Pension Benefit Guaranty Corporation
Statements of Cash Flows

	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)	**2000**	1999	**2000**	1999	**2000**	1999
OPERATING ACTIVITIES:						
Premium receipts	**$ 902**	$ 658	**$ 24**	$ 23	**$ 926**	$ 681
Interest and dividends received, net	**775**	710	**49**	43	**824**	753
Cash received from plans upon trusteeship	**32**	17	**0**	0	**32**	17
Receipts from sponsors	**28**	18	**0**	0	**28**	18
Other receipts	**10**	71	**0**	0	**10**	71
Receipts of notes receivable	**0**	1	**0**	0	**0**	1
Benefit payments—trusteed plans	**(895)**	(886)	**(1)**	(1)	**(896)**	(887)
Financial assistance payments			**(91)**	(19)	**(91)**	(19)
Settlements and judgments	**(162)**	(125)	**0**	0	**(162)**	(125)
Pretermination payments	**(25)**	0	**0**	0	**(25)**	0
Payments for administrative and other expenses	**(175)**	(158)	**0**	0	**(175)**	(158)
Net cash provided (used) by operating activities (Note 13)	**490**	306	**(19)**	46	**471**	352
INVESTING ACTIVITIES:						
Proceeds from sales of investments	**12,824**	5,727	**401**	88	**13,225**	5,815
Payments for purchases of investments	**(13,307)**	(6,392)	**(383)**	(146)	**(13,690)**	(6,538)
Net cash provided (used) by investing activities	**(483)**	(665)	**18**	(58)	**(465)**	(723)
Net increase (decrease) in cash and cash equivalents	**7**	(359)	**(1)**	(12)	**6**	(371)
Cash and cash equivalents, beginning of year	**334**	693	**9**	21	**343**	714
Cash and cash equivalents, end of year	**$ 341**	$ 334	**$ 8**	$ 9	**$ 349**	$ 343

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

Notes to Financial Statements September 30, 2000 and 1999

NOTE 1: ORGANIZATION AND PURPOSE

The Pension Benefit Guaranty Corporation (PBGC or the Corporation) is a federal corporation created by Title IV of the Employee Retirement Income Security Act of 1974 (ERISA) and is subject to the provisions of the Government Corporation Control Act. Its activities are defined in ERISA as amended by the Multiemployer Pension Plan Amendments Act of 1980, the Single-Employer Pension Plan Amendments Act of 1986, the Pension Protection Act of 1987, and the Retirement Protection Act of 1994. The Corporation insures pensions, within statutory limits, of participants in covered single-employer and multiemployer defined benefit pension plans that meet the criteria specified in Section 4021 of ERISA.

ERISA requires that PBGC programs be self-financing. The Corporation finances its operations through premiums collected from covered plans, assets assumed from terminated plans, collection of employer liability payments due under ERISA as amended, and investment income. In addition, PBGC may borrow up to $100 million from the U.S. Treasury to finance its operations. The Corporation did not use this borrowing authority during the years ended September 30, 2000, or September 30, 1999, nor is use of this authority currently planned. ERISA provides that the U.S. Government is not liable for any obligation or liability incurred by PBGC.

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 (including amounts owed under Section 4022(c) of ERISA) less (1) the amounts that are provided by the plan's assets and (2) the amounts that are 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 expected to be unable to repay these amounts from future plan contributions, employer withdrawal liability, or investment earnings.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

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 has combined the revolving and trust funds for presentation purposes in the financial statements. The single-employer and multiemployer programs are separate programs by law and, therefore, PBGC reports them separately.

ERISA provides for the establishment of revolving funds to be used by PBGC in carrying out its duties. The revolving funds support the operational and administrative functions of PBGC and fund any deficits incurred by PBGC in trusteeing plans or providing financial assistance. Premiums collected from ongoing plans are accounted for through the revolving funds. The Pension Protection Act of 1987 created a single-employer revolving fund that is credited with all premiums in excess of $8.50 per participant, including all penalties and interest charged on these amounts, as well as investment income. 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 reflect accounting activity associated with: (1) trusteed plans—plans for which PBGC has legal responsibility, (2) plans pending trusteeship—terminated plans for which PBGC has not become legal trustee by fiscal yearend, and (3) probable terminations—plans that PBGC determines are likely to terminate and be trusteed by PBGC. PBGC cannot exercise legal control over a plan's assets until PBGC becomes trustee, which may be several years after the date of plan termination.

Allocation of Revolving and Trust Funds: PBGC allocates revolving and trust fund assets, liabilities, income, and expenses to each program's revolving and trust funds to the extent that such amounts are not directly attributable to a specific fund. Revolving fund income is allocated on the basis of each program's average cash available for investment during the year while the expenses are allocated on the basis of each program's present value of future benefits. Revolving fund assets and liabilities are allocated on the basis of the yearend equity of each program's revolving funds.

The 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.

Valuation Method: Consistent with accounting principles generally accepted in the United States of America outlined in Statements of Financial Accounting Standards Nos. 35 ("Accounting and Reporting by Defined Benefit Pension Plans"), 60 ("Accounting and Reporting by Insurance Enterprises"), 87 ("Employers' Accounting for Pensions"), and 133 ("Accounting for Derivative Instruments and Hedging Activities"), PBGC reports its assets and liabilities at fair value. A primary objective of PBGC's financial statements is to provide financial information that is useful in assessing PBGC's present and future ability to ensure that defined benefit pension plan beneficiaries receive benefits when due. PBGC believes that measuring its assets and liabilities at fair value provides the most relevant information to the reader.

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

Investment Valuation and Income: PBGC bases fair values on the last sale of a listed security, on the mean of the "bid-and-asked" 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. 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 an average cost basis. 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 (see Notes 3, 4, and 11).

Sponsors of Terminated Plans, Receivables: The amounts due from sponsors of terminated plans or members of their controlled group represent the settled claims for employer liability (underfunding as of date of plan termination) and for contributions due their plan less an allowance for 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 realized in the period in which they accrue or are received.

Premiums: Premiums receivable represent the earned but unpaid portion of the premiums for plans that have a plan year commencing before the end of PBGC's fiscal year and past due premiums deemed collectible, including collectible penalties and interest. Unearned premiums represent an estimate of payments received during the fiscal year that cover the portion of a plan's year after the Corporation's fiscal yearend. Premium income represents revenue generated from self-assessments from defined benefit pension plans as required by Title IV of ERISA (see Note 9).

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 with respect to trusteed plans and terminated plans pending trusteeship. This liability 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 terminated plans pending trusteeship. PBGC also includes the estimated liabilities attributable to probable future plan terminations as a separate line item in the PVFB (net of estimated recoveries and assets). To measure the actuarial present value, PBGC used 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 included anticipated expenses to settle the benefit obligation in the determination of the PVFB.

(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 yearend.

(2) Terminated Plans Pending 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 that have terminated but have not been trusteed by PBGC prior to fiscal yearend.

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

(4) Net Claims for Probable Terminations—includes reasonable estimates 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 a future year. These estimated losses are based on conditions that existed as of PBGC's fiscal yearend. It is likely that one or more events subsequent to PBGC's fiscal yearend will occur, confirming the fact of the loss.

PBGC's benefit payments to participants represent a reduction to the PVFB (see Note 4).

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 5).

Other Expenses: These expenses represent a current period estimate of the net amount of receivables deemed to be uncollectible. 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 date of plan termination 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 10). In addition, the plan's net income from date of plan termination to the beginning of the 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: PBGC classifies actuarial adjustments related to changes in method and the effect of experience as underwriting activity. Actuarial charges related to changes in interest rates and passage of time are classified as financial activity. These adjustments and charges represent the change in the PVFB that results from applying actuarial assumptions in the calculation of future benefit liabilities (see Note 4).

Depreciation: PBGC calculates depreciation of its furniture and equipment on a straight-line basis over the estimated useful lives of the assets. The useful lives range from 5 to 10 years. Routine maintenance and leasehold improvements (the amounts of which are not material) are charged to operations as incurred.

NOTE 3: INVESTMENTS

Premium receipts are invested in securities issued by the U.S. Government.

The trust funds include assets PBGC acquires or expects to acquire with respect to terminated plans 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. The basis indicated is cost of the asset if acquired after the date of plan termination or the market value at date of plan termination if the asset was acquired as a result of a plan's termination. Realized and unrealized gains and losses, in addition to interest and dividends earned on these investments, are disclosed in Note 11.

Investments of Single-Employer Revolving Funds and Single-Employer Trusteed Plans

(Dollars in millions)	September 30, 2000 Basis	September 30, 2000 Market Value	September 30, 1999 Basis	September 30, 1999 Market Value
Fixed maturity securities:				
U.S. Government securities	**$11,110**	**$11,299**	$10,172	$ 9,987
Commercial paper	**27**	**27**	34	34
Corporate bonds	**393**	**393**	218	218
Subtotal	**11,530**	**11,719**	10,424	10,239
Equity securities	**4,150**	**8,186**	4,376	7,342
Real estate and real estate investment trusts	**15**	**16**	11	13
Other:				
Insurance contracts	**35**	**31**	49	36
Other investments	**1**	**1**	1	1
Total	**$15,731**	**$19,953**	$14,861	$17,631

Investments of Multiemployer Revolving Funds and Multiemployer Trusteed Plans

(Dollars in millions)	September 30, 2000 Basis	September 30, 2000 Market Value	September 30, 1999 Basis	September 30, 1999 Market Value
Fixed maturity securities:				
U.S. Government securities	**$660**	**$671**	$681	$669
Equity securities	**2**	**3**	2	3
Total	**$662**	**$674**	$683	$672

Derivative Investments: Financial Accounting Standard No. 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. PBGC has elected early adoption beginning with fiscal year 2000. The implementation had no impact on prior year statements. During fiscal years 1999 and 2000, PBGC invested in an investment product that contained Standard & Poor's (S&P) 500 financial futures contracts. The purpose of this investment strategy is to exceed, net of fees, the total rate of return over the S&P 500 Index, while maintaining a very similar risk level to that of the index. PBGC is accomplishing the objective typically, but not exclusively, by holding long positions in stock index futures while actively managing liquid debt securities backing the futures positions.

In addition to the initial margin of approximately 5 percent maintained with the broker in Treasury bills, S&P 500 financial futures contracts require daily settlement of variation margin. For the fiscal years ended September 30, 2000, and September 30, 1999, gains and losses from settled margin calls are reported in Investment Income on the Statements of Operations and Changes in Net Position. PBGC limits its investment in these derivative instruments to the aggregate investment in a single fund. At September 30, 2000, and September 30, 1999, the notional cost amount of the derivative investments (the face amount specified in the contract) was approximately $371 million and $201 million, respectively. The fair value of the derivative instruments (the amount needed to settle at September 30) reported on the Statements of Financial Condition was approximately $5 million (included in Accounts payable and accrued expenses) and $3 million (included in Receivables, net: Other) at September 30, 2000, and September 30, 1999, respectively.

The S&P 500 financial future contracts are traded on organized exchanges and thus bear minimal credit risk. The exchange clears, settles, and guarantees transactions occurring through its facilities. Institutional investors hold these future contracts on behalf of PBGC and mark to market daily. In periods of extreme volatility, margin calls may pose a liquidity threat to the underlying portfolio. To mitigate this, PBGC maintains adequate liquidity in its portfolio to meet these margin calls.

NOTE 4: PRESENT VALUE OF FUTURE BENEFITS

The following table summarizes the actuarial adjustments, charges, and credits that explain how the Corporation's single-employer program liability for the present value of future benefits changed for the years ended September 30, 2000 and 1999.

PBGC used a 25-year select interest rate of 7.0% followed by an ultimate rate of 6.75% for 2000 and a 25-year select interest rate of 7.0% followed by an ultimate rate of 6.5% for 1999. These rates were determined to be those needed to continue to match the survey of annuity prices provided by the American Council of Life Insurers. PBGC's regulations state that both the interest rate and the length of the select period may vary to produce the best fit with these prices. The prices reflect rates at which, in the opinion of management, the liabilities (net of expenses) could be settled in the market at September 30, for single-premium nonparticipating group annuities issued by private insurers. Many factors, including Federal Reserve policy, may impact these rates.

PBGC used the 1994 Group Annuity Mortality (GAM) Static Table (with margins), set forward two years and projected 14 years to 2008 using Scale AA.

The reserve for administrative expenses in the 2000 and 1999 valuation was assumed to be 1.18 percent and 1.3 percent, respectively, of benefit liabilities plus additional reserves for cases whose plan asset determinations, participant database audits, and actuarial valuations were not yet complete. The factors to determine the additional reserves were based on case size, number of participants, and time since trusteeship. PBGC updated the expense model in 2000 based on a study prepared by an independent consultant.

The present values of future benefits for trusteed multiemployer plans for 2000 and 1999 reflect the payment of benefits and the changes in interest assumptions, passage of time, and the effect of experience.

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

Reconciliation of the Present Value of Future Benefits for the Years Ended September 30, 2000 and 1999

	September 30,			
(Dollars in millions)		**2000**		1999
Present value of future benefits, at beginning of year—Single-Employer, net		**$11,073**		$12,281
Estimated recoveries		**30**		12
Assets of terminated plans pending trusteeship, net		**41**		29
Present value of future benefits at beginning of year, gross		**11,144**		12,322
Settlements and judgments		**(228)**		(319)
Net claims for probable terminations, prior year		**(1,087)**		(1,426)
Actuarial adjustments—underwriting:				
Changes in method and assumptions	**$ (109)**		$ (105)	
Effect of experience	**(91)**		(8)	
Total actuarial adjustments—underwriting	**(200)**		(113)	
Actuarial charges (credits)—financial:				
Passage of time	**658**		601	
Change in interest rates	**(5)**		(1,090)	
Total actuarial charges (credits)—financial	**653**		(489)	
Total actuarial charges (credits)		**453**		(602)
Terminations:				
Current year	**439**		614	
Changes in prior year	**(42)**		141	
Total terminations		**397**		755
Benefit payments*		**(902)**		(901)
Estimated recoveries		**(205)**		(30)
Assets of terminated plans pending trusteeship, net		**(84)**		(41)
Settlements and judgments		**242**		228
Net claims for probable terminations:				
Future benefits**	**2,752**		2,851	
Estimated plan assets and recoveries from sponsors	**(1,851)**		(1,764)	
Total net claims, current year		**901**		1,087
Present value of future benefits, at end of year—Single-Employer, net		**10,631**		11,073
Present value of future benefits, at end of year—Multiemployer		**4**		5
Total present value of future benefits, at end of year, net		**$10,635**		$11,078

* The benefit payments of $902 million and $901 million include $7 million in 2000 and $15 million in 1999 for benefits paid from plan assets by plans prior to trusteeship.

** The future benefits for probable terminations of $2,752 million and $2,851 million for fiscal years 2000 and 1999, respectively, include $119 million and $124 million, respectively, in net claims (future benefits less estimated plan assets and recoveries) for probable terminations not specifically identified and $2,633 million and $2,727 million, respectively, in net claims for specifically identified probables.

Assets of Single-Employer Terminated Plans Pending Trusteeship, Net

	September 30, 2000		September 30, 1999	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
U.S. Government securities	**$ 2**	**$ 2**	$ 0	$ 0
Corporate bonds	**14**	**14**	19	19
Equity securities	**36**	**37**	17	17
Insurance contracts	**3**	**3**	5	5
Other	**28**	**28**	0	0
Total, net	**$83**	**$84**	$41	$41

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

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

Reconciliation of Net Claims for Probable Terminations

	September 30,			
(Dollars in millions)	**2000**		1999	
Net claims for probable terminations, at beginning of year		**$1,087**		$1,426
New claims	**$ 36**		$158	
Actual terminations	**(99)**		(247)	
Eliminated probables	**(53)**		(51)	
Change in benefit liabilities	**27**		(243)	
Change in plan assets	**(35)**		(34)	
Change in expected recoveries	**(62)**		78	
Loss on probables		**(186)***		(339)*
Net claims for probable terminations, at end of year		**$ 901**		$1,087

*See Note 10

NOTE 5: MULTIEMPLOYER FINANCIAL ASSISTANCE

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

Notes Receivable Multiemployer Financial Assistance

	September 30,	
(Dollars in millions)	**2000**	1999
Gross balance at beginning of year	**$43**	$ 38
Financial assistance payments—current year	**4****	5**
Subtotal	**47**	43
Allowance for uncollectible amounts	**(47)**	(43)
Net balance at end of year	**$ 0**	$ 0

The losses from financial assistance reflected in the Statements of Operations and Changes in Net Position include annual changes in the estimated present value of nonrecoverable future financial assistance and assistance granted that was not previously accrued.

Present Value of Nonrecoverable Future Financial Assistance and Losses from Financial Assistance

	September 30,	
(Dollars in millions)	**2000**	1999
Balance at beginning of year	**$479**	$389
Changes in allowance:		
Losses from financial assistance	**26**	109
Financial assistance granted (previously accrued)	**(91)****	(19)**
Balance at end of year	**$414**	$479

** In FY 2000, PBGC provided nonrecoverable one-time financial assistance to two plans in the amount of $87 million and $4 million to 19 other plans in exchange for notes receivable. During FY 1999, PBGC provided nonrecoverable one-time financial assistance to one plan in the amount of $14 million and $5 million to 20 other plans in exchange for notes receivable.

NOTE 6: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

Accounts Payable and Accrued Expenses

	September 30,	
(Dollars in millions)	**2000**	1999
Due for purchase of securities	**$144**	$ 59
Annual leave	**4**	3
Other payables and accrued expenses	**26**	50
Accounts payable and accrued expenses	**$174**	$112

NOTE 7: CONTINGENCIES

There are a number of large single-employer plans that may terminate. In addition, there are some multiemployer plans that may require future financial assistance. The amounts disclosed below represent the Corporation's best estimates given the inherent uncertainties about these plans.

PBGC estimated that total unfunded vested benefits on termination of single-employer plans that represented reasonably possible exposure as of September 30, 2000, was approximately $5 billion. This exposure was principally in primary metals and fabricated metal products (steel), air transportation, general merchandise-retail trade, electronic and other equipment, rubber and miscellaneous plastics, apparel and accessory stores, and transportation equipment industries. PBGC calculated this estimate as in previous years by using data obtained from filings with the government and corporate annual reports for fiscal years ending in calendar 1999. The Corporation adjusted the value reported for liabilities to the December 31, 1999, PBGC select interest rate of 7.0%. When available, data was adjusted to a consistent set of mortality assumptions. The Corporation eliminated plans not insured by PBGC from the data. PBGC made no provision for the possible failure of the plan sponsor to make subsequent contributions or for plan liabilities that would be incurred after that date.

PBGC included amounts in the liability for the present value of nonrecoverable future financial assistance (see Note 5) for multiemployer plans that PBGC estimated may require future financial assistance. In addition, PBGC currently estimates that it is reasonably possible that other multiemployer plans may require future financial assistance in the amount of $119 million.

The Corporation calculated the future financial assistance liability for each multiemployer plan identified as probable or reasonably possible as the present value of guaranteed future benefit and expense payments net of any future contributions or withdrawal liability payments as of the later of September 30, 2000, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2000, using interest only. The Corporation's identification of plans that are likely to require such assistance and estimation of related amounts require consideration of many complex factors. These factors are affected by future events, including actions by plans and their sponsors, most of which are beyond the Corporation's control.

PBGC used select and ultimate interest rate assumptions of 7.0% for the first 25 years after the valuation date and 6.75% thereafter. The Corporation also used the 1994 Group Annuity Mortality Static Table (with margins), set forward two years, projected to 2008 using Scale AA.

NOTE 8: COMMITMENTS

PBGC leases its office facility under a commitment that began on December 11, 1993, and expires December 10, 2008. The 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 2009. The minimum future lease payments for office facilities having noncancellable terms in excess of one year as of September 30, 2000, are as follows:

Commitments: Future Lease Payments

(Dollars in millions)

Years Ending September 30,	Operating Leases
2001	$ 12.1
2002	12.2
2003	12.1
2004	12.3
2005	12.5
Thereafter	42.8
Minimum lease payments	$104.0

Lease expenditures were $11.8 million in 2000 and $11.7 million in 1999.

NOTE 9: 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 amount for late payment or underpayment of premiums. Late payment interest continues to accrue until the premium and the interest due are paid, while the amount of penalty that can be levied is capped at 100 percent of the premium late payment or underpayment. Annual premiums for the single-employer program are $19 per participant for a fully funded plan. Underfunded single-employer plans pay an additional variable-rate charge, based on funding levels. The multiemployer premium is $2.60 per participant.

NOTE 10: LOSSES (CREDITS) FROM COMPLETED AND PROBABLE TERMINATIONS

Amounts reported as losses are the present value of future benefits (including amounts owed under Section 4022(c)) less related plan assets and the present value of expected recoveries from sponsors. The following table details the components that make up the losses:

Losses (Credits) from Completed and Probable Terminations—Single-Employer Program

	For the Years Ended September 30,					
(Dollars in millions)	**2000**			1999		
	New Terminations	**Changes in Prior Year Terminations**	**Total**	New Terminations	Changes in Prior Year Terminations	Total
Present value of future benefits	**$439**	**$ (42)**	**$ 397**	$614	$141	$755
Less plan assets	**302**	**(9)**	**293**	386	16	402
Plan asset insufficiency	**137**	**(33)**	**104**	228	125	353
Less estimated recoveries	**11**	**163**	**174**	4	(4)	0
Subtotal	**$126**	**$ (196)**	**(70)**	$224	$129	353
Settlements and judgments			**176**			35
Probables			**(186)***			(339)*
Total			**$ (80)**			$ 49

* See Note 4

NOTE 11: FINANCIAL INCOME

Financial Income

	For the Years Ended September 30,	
(Dollars in millions)	**2000**	1999
Fixed-income securities:		
Interest earned	**$ 826**	$ 742
Realized gain (loss)	**(73)**	57
Unrealized gain (loss)	**397**	(1,661)
Total fixed-income securities	**1,150**	(862)
Equity securities:		
Dividends earned	**33**	46
Realized gain	**207**	513
Unrealized gain	**1,071**	989
Total equity securities	**1,311**	1,548
Other income (loss)	**1**	(14)
Total financial income	**$2,462**	$ 672

NOTE 12: EMPLOYEE BENEFIT PLANS

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

The Corporation's contribution to the CSRS plan, for both 2000 and 1999, was 8.51 percent of base pay for those employees covered by that system. For those employees covered by FERS, the Corporation's contribution was 10.7 percent of base pay for both 2000 and 1999. In addition, for FERS-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 $8 million in 2000 and $7 million in 1999.

These financial statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to PBGC employees. These amounts are reported by the U.S. Office of Personnel Management (OPM) and are not allocated to the individual employers. OPM accounts for federal health and life insurance programs for those eligible retired PBGC employees who had selected federal government-sponsored plans. PBGC does not offer other supplemental health and life insurance benefits to its employees.

NOTE 13: CASH FLOWS

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)	**2000**	1999	**2000**	1999	**2000**	1999
Net income (loss)	**$ 2,666**	$2,026	**$ 68**	$(142)	**$ 2,734**	$1,884
Adjustments to reconcile net income to net cash provided by operating activities:						
Net appreciation in fair value of investments	**(1,624)**	19	**(20)**	101	**(1,644)**	120
Net income of terminated plans pending trusteeship	**(1)**	(2)	**0**	0	**(1)**	(2)
Loss on completed and probable terminations	**(80)**	49	**0**	0	**(80)**	49
Actuarial charges (credits)	**453**	(602)	**0**	0	**453**	(602)
Benefit payments-trusteed plans	**(895)**	(886)	**(1)**	(1)	**(896)**	(887)
Settlements and judgments	**(162)**	(125)	**0**	0	**(162)**	(125)
Cash received from plans upon trusteeship	**32**	17	**0**	0	**32**	17
Pretermination payments	**(25)**	0	**0**	0	**(25)**	0
Settlements recorded and paid in full during current year	**21**	10	**0**	0	**21**	10
Changes in assets and liabilities, net of effects of trusteed and pending plans:						
(Increase) decrease in receivables	**45**	(182)	**(1)**	(2)	**44**	(184)
(Increase) decrease in present value of nonrecoverable future financial assistance			**(65)**	90	**(65)**	90
Decrease in unearned premiums	**(2)**	(58)	**0**	0	**(2)**	(58)
Increase in accounts payable	**62**	40	**0**	0	**62**	40
Net cash provided by operating activities	**$ 490**	$ 306	**$(19)**	$ 46	**$ 471**	$ 352

NOTE 14: LITIGATION

PBGC records as a liability on its financial statements an estimated cost for unresolved litigation to the extent that losses in such cases are probable and estimable in amount. In addition to such recorded costs, PBGC estimates that possible losses of up to $30 million could be incurred in the event that PBGC does not prevail in these matters.

NOTE 15: SUBSEQUENT EVENT

On December 21, 2000, the Consolidated Appropriations Act, 2001, was signed into law. The Act includes a provision that increases the maximum benefit guarantee for workers in multiemployer pension plans. The legislation marks the first increase in PBGC's multiemployer guarantee since 1980. The increased guarantee limit will apply to any multiemployer plan that had not received PBGC financial assistance during the one-year period prior to the enactment of the bill on December 21, 2000. The effect of this material increase will be accounted for in the present value of nonrecoverable future financial assistance on the Statements of Financial Condition at September 30, 2001.

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 under the multiemployer program. Methods and procedures for both single-employer and multiemployer plans were generally the same as those used in 1999.

Present Value of Future Benefits and Nonrecoverable Financial Assistance—2000

	Number of Plans	Number of Participants (in thousands)	Liability (in millions)
I. SINGLE-EMPLOYER PROGRAM			
A. Terminated plans			
1. Seriatim at fiscal yearend (FYE)	2,114	262	$ 6,770
2. Seriatim at DOPT, adjusted to FYE	233	52	1,126
3. Nonseriatim[1]	517	133	2,100
4. Rettig Settlement (seriatim)[2]	--	*	1
5. Missing Participants Program (seriatim)[3]	--	12	22
Subtotal	2,864	459	10,019
B. Probable terminations (nonseriatim)[4]	10	59	2,752
Total[5]	2,874	518	$12,771
II. MULTIEMPLOYER PROGRAM			
A. Pre-MPPAA terminations (seriatim)	10	1	$ 4
B. Post-MPPAA liability (net of plan assets)	47	81	414
Total	57	82	$ 418

* Fewer than 500 participants

Notes:

1) The liability for terminated plans has been increased by $279 million for terminated plans not yet reported and for other settlements.

2) The Rettig Settlement refers to the liability that PBGC incurred due to the settlement of a class action lawsuit that increased benefits for some participants and provided new benefits to others. The remaining participants not yet paid are valued seriatim.

3) The Missing Participants Program refers to a liability that PBGC assumed for unlocated participants in standard plan terminations.

4) The net claims for probable plans reported in the financial statements include $119 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 $1,851 million. Thus, the net claims for probables as reported in the financial statements are $2,752 million less $1,851 million, or $901 million.

5) The PVFB in the financial statements ($10,631 million) is net of estimated plan assets and recoveries on probables ($1,851 million), estimated recoveries on terminated plans ($205 million), and estimated assets for plans pending trusteeship ($84 million), or, $12,771 million less $1,851 million less $205 million less $84 million = $10,631 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 2,114 plans, representing about 74 percent of the total number of single-employer terminated plans (57 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—the seriatim method. This was an increase of 276 plans over the 1,838 plans valued seriatim last year. For 233 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 2000.

For 517 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 liabilities from the plan's most recent actuarial valuation forward to the end of fiscal year 2000 using certain assumptions and adjustment factors.

For the actuarial valuation, PBGC used a select and ultimate interest rate assumption of 7.00% for the first 25 years after the valuation date and 6.75% thereafter. The mortality assumptions used for the valuation were the same as for the 1999 valuation. For healthy lives, PBGC used the 1994 Group Annuity Mortality Static Table (with margins), set forward two years, projected 14 years to 2008 using Scale AA. The projection period is determined as the sum of the elapsed time from the date of the table (1994) to the valuation date plus the period of time from the valuation date to the average date of payment of future benefits. PBGC assumed an explicit loading for expenses in all terminated plans and single-employer probable terminations. The reserve for expenses in the 2000 valuation was assumed to be 1.18 percent of the liability for benefits plus additional reserves for cases whose plan asset determinations, participant database audits, and actuarial valuations were not yet complete. The factors to determine the additional reserves were based on case size, number of participants, and time since trusteeship. In fiscal year 2000, PBGC updated the factors used in this expense formula to reflect the results of an independent consultant's study of PBGC's recent expense experience.

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 their plan's normal retirement age, were not in pay status, and were unlocated at September 30, 2000, PBGC reduced the value of their future benefits to zero over the three years succeeding normal retirement age 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's, and information provided by representatives of the affected plans. The Corporation expected 47 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, 2000.

In preparing this valuation, I have relied upon 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; and (3) the resulting total liability represents my best estimate of anticipated experience under these programs.

Joan M Weiss

Joan M. Weiss, FSA, EA
Chief Valuation Actuary, PBGC
Member, American Academy of Actuaries

A complete actuarial valuation report, including additional actuarial data tables, is available from PBGC upon request.

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

Office of Inspector General

To the Board of Directors
Pension Benefit Guaranty Corporation

This letter transmits the PricewaterhouseCoopers LLP (PricewaterhouseCoopers) report on the audit of the Fiscal Years (FYs) 2000 and 1999 financial statements of Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) and the results of the Office of Inspector General's (OIG) review.

Section 9105 of 31 U.S.C., as amended, requires PBGC's Inspector General or an independent external auditor, as determined by the Inspector General, to audit PBGC's financial statements. The audit is to be performed in accordance with *Government Auditing Standards* as issued by the Comptroller General of the United States and other applicable requirements.

PricewaterhouseCoopers issued an unqualified opinion on the FYs 2000 and 1999 financial statements of Single-Employer and Multiemployer Program Funds administered by PBGC. In addition, PricewaterhouseCoopers issued two other reports—an unqualified opinion on PBGC management's assertion about the effectiveness of its internal control and a report on PBGC's compliance with laws and regulations. The FY 1999 audit identified four reportable conditions in PBGC's internal control. Audit work during FY 2000 confirmed that PBGC had strengthened its controls to protect critical information to warrant downgrading the reportable condition to a less significant management letter comment. However, three other reportable conditions remain.

1. PBGC needs to integrate its financial management systems and improve its systems development life cycle methodology;
2. PBGC needs to improve and fully test its plan for maintaining continuity of operations; and
3. PBGC needs to further improve controls surrounding the Participant Records Information Systems Management application.

The report on PBGC's compliance with laws and regulations includes a matter of emphasis paragraph that discusses certain PBGC payments to multiemployer plans characterized as financial assistance. PBGC represents that these transactions were executed in accordance with the Employee Retirement Income Security Act of 1974 (ERISA), as amended. However, PBGC's OIG determined that further evaluation is warranted to resolve compliance issues.

To fulfill our responsibility under the statute, we monitored the quality of audit work performed in accordance with *Government Auditing Standards*. Specifically, we:

- reviewed PricewaterhouseCoopers' approach and planning of the audit;
- evaluated the qualifications and independence of its auditors;
- monitored the progress of the audit at key points;
- examined its working papers and reports to evaluate compliance with *Government Auditing Standards*; and
- performed other procedures that we deemed necessary.

Based on the results of our review, the OIG determined that PricewaterhouseCoopers planned, executed, and reported the results of its audit of FYs 2000 and 1999 financial statements of Single-Employer and Multiemployer Program Funds administered by PBGC in accordance with applicable standards. Therefore, in our opinion, PricewaterhouseCoopers' work provides a reasonable basis on which to render its January 19, 2001 opinion, and we concur with its report.

A set of PricewaterhouseCoopers' reports (2001-9/23149-2) is available upon request from the PBGC's Office of Inspector General.

Sincerely,

Wayne Robert Poll

Wayne Robert Poll
Inspector General

February 23, 2001

PRICEWATERHOUSECOOPERS

Report of Independent Accountants

PricewaterhouseCoopers LLP
1616 North Fort Myer Drive
Arlington VA 22209-3195
Telephone (703) 741 1000
Facsimile (703) 741 1616

To the Inspector General
Pension Benefit Guaranty Corporation

We have audited the accompanying statements of financial condition as of September 30, 2000 and 1999, of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) and the related statements of operations and changes in net position and statements of cash flows for the years then ended. These financial statements are the responsibility of PBGC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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 PBGC as of September 30, 2000 and 1999, and the results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

By law, PBGC's Single-Employer Program Fund (the Fund) must be self-sustaining and as such, its premiums must be sufficient to cover both its short and long-term obligations. The Fund is able to meet its short-term benefit obligations and internal analyses indicate that the combined effect of future premium revenue and reduced underfunding of Single-Employer plans may allow the Fund to meet its future obligations as well. While the Fund's statement of financial condition reports a net position (assets in excess of liabilities) of $9.7 billion at September 30, 2000, losses that are "reasonably possible" as a result of unfunded vested benefits are estimated to be $5 billion, as discussed in Note 7. To the extent contingent losses currently classified as "reasonably possible" become more likely, such as from deteriorating economic conditions or from insolvency of a large plan sponsor, the Fund's net position could be depleted.

The Actuarial Valuation and other supplemental information contain a wide range of data, some of which are not directly related to the principal financial statements. We do not express an overall opinion on this information. However, we compared this information for consistency with the principal financial statements and discussed the methods of measurement and presentation with PBGC officials. Based on this limited work, we found no material inconsistencies with the principal financial statements.

In addition, in accordance with *Government Auditing Standards*, we have issued reports dated January 19, 2001, on PBGC management's assertion about the effectiveness of its internal control and on its compliance with laws and regulations. These reports are integral parts of an audit conducted in accordance with *Government Auditing Standards*, and, in considering the results of the audit, these reports should be read along with the Report of Independent Accountants on the financial statements.

PricewaterhouseCoopers LLP

January 19, 2001
Arlington, Virginia

2001-8/23149-1

O R G A N I Z A T I O N

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Deputy Executive Director and Chief Management Officer

Andrea E. Schneider
Chief Negotiator and *Director*,
Corporate Finance and Negotiations Department

Judy Schub*
Assistant Executive Director for Legislative Affairs

*left office as of Jan. 20, 2001

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[reports directly to the Chairman of the Board]

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Appointed by the President of the United States

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Representing the Interests of Employers

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United States Steel and Carnegie Pension Fund
Millwood, New York

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Representing the Interests of Employee Organizations

Phyllis C. Borzi
O'Donoghue & O'Donoghue and George Washington University School of Public Health and Health Services
University Park, Maryland

Teresa Ghilarducci
University of Notre Dame
South Bend, Indiana

FINANCIAL SUMMARY

(Dollars in millions)

Single-Employer Program	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
	Fiscal Year Ended September 30,									
Summary of Operations:										
Premium income	**$ 807**	902	966	1,067	1,146	838	955	890	875	741
Other income	**$ 5**	3	10	19	26	18	42	38	118	45
Investment income (losses)	**$ 2,392**	728	2,118	2,687	915	1,956	(380)	1,538	614	860
Actuarial charges (credits)	**$ 453**	(602)	815	488	632	1,561	(926)	1,680	848	905
Losses (credits) from completed and probable terminations	**$ (80)**	49	584	489	118	169	(249)	743	896	1,049
Loss on contingent value rights	**$ 0**	0	0	0	0	0	0	96		
Administrative and investment expenses	**$ 167**	161	158	155	150	138	135	107	97	71
Other expenses	**$ (2)**	(1)	6	29	3	19	0	0	0	212
Net income (loss)	**$ 2,666**	2,026	1,531	2,612	1,184	925	1,657	(160)	(234)	(591)
Summary of Financial Position:										
Cash and investments	**$ 20,294**	17,965	17,345	14,988	11,665	10,026	7,857	7,866	5,897	4,562
Total assets	**$ 20,715**	18,431	17,631	15,314	12,043	10,371	8,281	8,267	6,381	5,422
Present value of future benefits	**$ 10,631**	11,073	12,281	11,497	10,760	10,388	9,215	10,693	8,790	7,594
Net position	**$ 9,704**	7,038	5,012	3,481	869	(315)	(1,240)	(2,897)	(2,737)	(2,503)
Insurance Activity:										
Benefits paid	**$ 902**	901	847	823	790	761	719	720	634	514
Participants receiving monthly benefits at end of year	**226,080**	214,160	208,450	204,800	198,600	181,000	172,800	156,800	150,200	140,100
Plans trusteed and pending trusteeship by PBGC	**2,864**	2,775	2,655	2,500	2,338	2,084	1,961	1,848	1,760	1,644

(Dollars in millions)

Multiemployer Program	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
	Fiscal Year Ended September 30,									
Summary of Operations:										
Premium income	**$ 24**	23	23	23	22	22	23	23	23	23
Other income (losses)	**$ 0**	0	0	0	1	0	0	(1)	1	1
Investment income (losses)	**$ 70**	(56)	133	68	12	83	(46)	107	27	38
Actuarial charges (credits)	**$ 0**	0	0	(1)	1	2	(1)	2	(1)	3
Losses (gains) from financial assistance	**$ 26**	109	34	(3)	102	108	57	20	46	21
Administrative and investment expenses	**$ 0**	0	0	0	0	0	0	0	0	0
Net income (loss)	**$ 68**	(142)	122	95	(68)	(5)	(79)	107	6	38
Summary of Financial Position:										
Cash and investments	**$ 682**	681	736	585	498	472	374	405	279	236
Total assets	**$ 694**	692	745	596	505	477	378	407	283	238
Present value of future benefits	**$ 4**	5	6	7	9	10	10	13	13	16
Nonrecoverable future financial assistance, present value	**$ 414**	479	389	361	365	268	164	110	94	52
Net position	**$ 267**	199	341	219	124	192	197	276	169	163
Insurance Activity:										
Benefits paid	**$ 1**	1	1	1	2	2	2	2	2	2
Participants receiving monthly benefits from PBGC at end of year	**620**	730	850	1,000	1,100	1,300	1,400	1,590	1,760	1,990
Plans receiving financial assistance from PBGC	**21**	21	18	14	12	9	8	6	6	5