



This is the 4th affidavit of
Miriam Domínguez in this case
and was made on 24 November /2016

NO. S-1510120
VANCOUVER REGISTRY

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED

AND

IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*,
S.B.C. 2002, c. 57, AS AMENDED

AND

IN THE MATTER OF THE PLAN OF COMPROMISE AND ARRANGEMENT
OF WALTER ENERGY CANADA HOLDINGS, INC., AND THE OTHER
PETITIONERS LISTED ON SCHEDULE "A" TO THE INITIAL ORDER

PETITIONERS

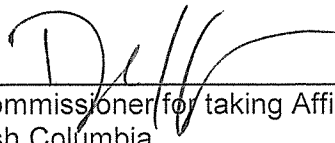
AFFIDAVIT

I, MIRIAM DOMINGUEZ, legal assistant, of 20th Floor – 250 Howe Street, in the City of Vancouver, in the Province of British Columbia, AFFIRM THAT:

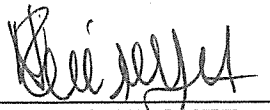
1. I am a legal assistant at Dentons Canada LLP, Canadian solicitors for the United Mine Workers of America 1974 Pension Plan and Trust (the "**1974 Pension Plan**"), a claimant in this proceeding, and as such I have personal knowledge of the facts and matters deposed to in this Affidavit except where I depose to a matter based on the information from an informant I identify, in which case, I believe that both the information from the informant and the resulting statement are true.
2. Attached hereto and marked as **Exhibit "A"** is a copy the 2016 Annual Report of the Pension Benefit Guaranty Corporation ("**PBGC**") dated for reference November 15, 2016.

3. I make this affidavit in support of the Application Response of the 1974 Pension Plan filed the 24th day of November, 2016.

AFFIRMED BEFORE ME at Vancouver, BC,
on 24 / November / 2016.

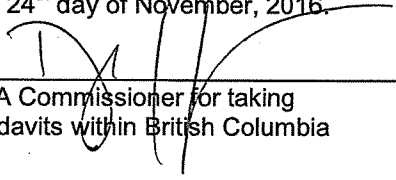


A Commissioner for taking Affidavits within
British Columbia



MIRIAM DOMINGUEZ

This is **Exhibit "A"** referred to in the Affidavit of
Miriam Domínguez sworn before me at Vancouver
this 24th day of November, 2016.

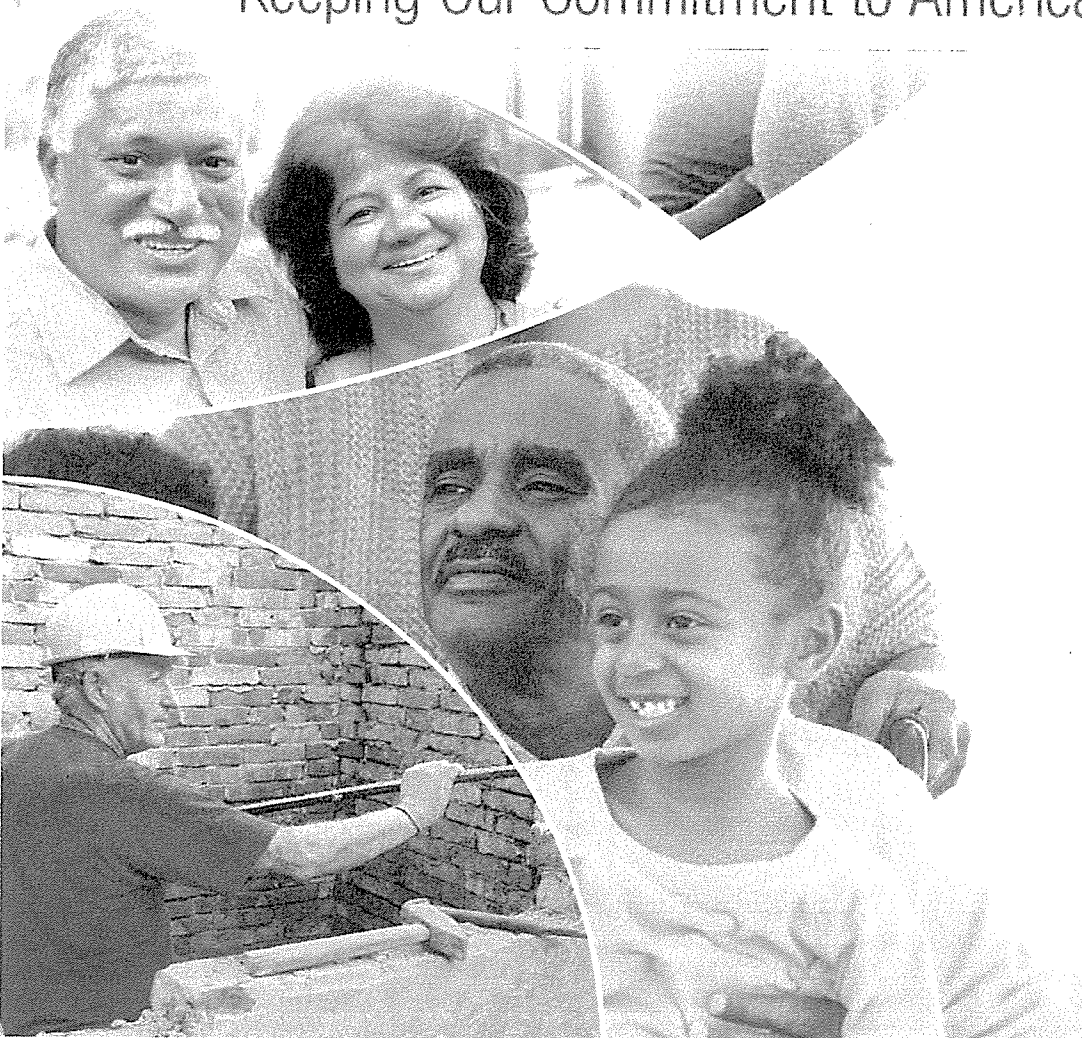


A Commissioner for taking
Affidavits within British Columbia



Annual Report 2016

Keeping Our Commitment to America's Workers



A MESSAGE FROM OUR CHAIR



Protecting retirement security for the middle class in our country remains a top priority of the Obama Administration. The Pension Benefit Guaranty Corporation (PBGC) has an important role in ensuring that workers have every opportunity to retire with dignity and financial stability. Today, hundreds of thousands of retirees currently receive \$5.8 billion annually from the PBGC and nearly 40 million workers and retirees are in plans insured by the PBGC. The strength and future of the PBGC's insurance programs are vital to the retirement security of the millions of workers and retirees in defined benefit plans.

On behalf of the PBGC Board of Directors, I am pleased to present the PBGC's FY 2016 Annual Report, which provides important information about the PBGC's operations and finances. The report highlights many of PBGC's accomplishments over this past fiscal year to preserve plans and protect pensions, as well as the PBGC's future program challenges.

Two of PBGC's accomplishments this year, of which I am especially proud, are its continuing progress on implementing the Smaller Asset Managers Pilot Program and an enterprise risk management framework. The Smaller Asset Managers Pilot Program reduces barriers that smaller investment firms face when competing for the PBGC's business. We are pleased that, after extensive collaborative work with the PBGC Advisory Committee, PBGC made awards to five firms in June. In addition, the PBGC has made significant progress on enterprise risk management in evaluating the different entity-wide risks that the corporation might experience. These efforts help to foster a culture of risk awareness that is essential to good governance and stewardship.

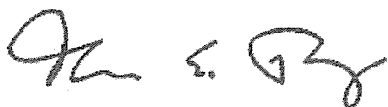
While I am pleased that given the recent trends in claims and premiums, the single-employer program is likely to continue to improve over the next decade, I remain concerned that the multiemployer plan program faces a growing deficit. The FY 2016 Annual Report shows that the multiemployer plan program deficit is at an all-time high and needs significant reform in order to remain viable.

Multiemployer defined benefit plans provide retirement security to more than 10 million participants and their beneficiaries. But PBGC estimates that plans covering about 10% to 15% of the 10 million multiemployer participants are at risk of running out of money over the next 20 years and that PBGC's multiemployer insurance program is likely to run out of money by the end of 2025. Insolvency of PBGC's multiemployer insurance program would devastate not only the retirement benefits of the 1 million to 1.5 million participants and their families in these at-risk plans but all the participants in multiemployer plans that are currently receiving financial assistance from PBGC as well.

We must address the challenges of the multiemployer insurance program before it is too late. The Multiemployer Pension Reform Act (MPRA) Report issued earlier this year showed that the longer we wait, the greater the premium increases needed to avoid insolvency, further straining a system that is already under great stress.

The PBGC multiemployer insurance program needs reform that addresses the problems affecting plans, and also strengthens the multiemployer fund so that workers, retirees, and plan sponsors can rely on it for years to come. The President's 2017 Budget proposed a structure for increased premiums under the multiemployer program at a level that would help alleviate some of the risk of the multiemployer program becoming insolvent within 20 years. Changes to the multiemployer insurance program such as this restructuring are urgently needed to protect the lifetime pensions of millions of America's workers and retirees.

The strength and future of the PBGC's insurance programs are vital to the retirement security of the millions of workers and retirees in defined benefit plans. My fellow Board members, Treasury Secretary Jack Lew and Commerce Secretary Penny Pritzker, and I are proud of the work PBGC has accomplished to provide a more secure future for America's workers and retirees. We are confident that under the continued leadership of Director Tom Reeder, the PBGC will continue to work toward financially sound insurance programs to protect the retirement savings of America's workers and retirees.



Thomas E. Perez
Secretary of Labor
Chair of the Board

A MESSAGE FROM THE DIRECTOR



The most important role we have at the Pension Benefit Guaranty Corporation is to protect the retirement security of nearly 40 million workers, retirees, and beneficiaries in traditional pension plans. These plans, and the guarantee provided by the PBGC, are important not only for the participants, but also their families and often the communities in which they live.

As many Americans continue to benefit from longer lifespans, the need for lifetime income is more important for current retirees and generations that follow. Nothing gives people more retirement security than a traditional pension that they can't outlive or outspend.

During this past year, I've been able to work with a talented group of professionals to make sure that when a plan can no longer fulfill its promises to participants and beneficiaries, PBGC will step in and pay the statutory guarantee.

Currently, we pay nearly 840,000 retirees and beneficiaries, and almost 560,000 workers are scheduled to receive benefits from PBGC when they retire. We are committed to getting timely and accurate payments to these people each month.

Preserving plans and protecting pensioners are two of our highest priorities. An important accomplishment this year was the restoration of two RG Steel pension plans to the Renco Group. This is the second time in our history that we have restored a plan back to the sponsor that made the commitment to its workers in the first place. This is an extraordinary outcome for the 1,350 people covered. Thanks to PBGC's efforts, they will receive the full benefits they've worked for.

We also strive to engage and collaborate with the stakeholder community, including participants, sponsors and service providers, to listen to their concerns and continue to work on ways to make it easier for plan sponsors to maintain traditional pension plans. This year, for example, PBGC issued a final rule that cuts penalties for late payment of premiums in half, which reduces the regulatory and financial burdens of sponsoring a pension plan.

Additionally, the scope of PBGC's mission is increasing by expanding our Missing Participants Program to include terminating defined contribution plans that are not covered by the existing program. We reached out to the community to see what was needed and got input on practical ways to do it. In September, we issued a proposed rule that would help find participants and connect them with their retirement savings.

PBGC's work on implementing the Multiemployer Pension Reform Act of 2014 is ongoing. We issued a proposed rule on facilitated mergers, a tool targeted to help troubled multiemployer plans improve their long-term health. PBGC continues to work with the Departments of Labor and Treasury to carry out the law.

PBGC continues to collaborate with stakeholders in the multiemployer system to find solutions to resolve its financial difficulties. At the same time, we must protect the benefits of those left behind in the existing defined benefit system, even as new plan models emerge.

We are working to remedy the financial troubles of PBGC's Multiemployer Program, which is expected to run out of money in the near future. It is in all stakeholders' interests -- workers, retirees, and plan sponsors -- that the PBGC is financially sound.

We continue to work with others in the administration on ways to improve the financial condition of the multiemployer program. There is still much work to be done to protect the retirement incomes of those who rely on us.

Providing excellent customer service is among our top priorities. We are proud that the retirees we serve have given us a score of 90 on the American Customer Satisfaction Index. This score is among the best in the public and private sectors. Everywhere I go, people make an effort to tell me about someone at PBGC who was very helpful to them. It reinforces what I already know -- that the drivers of PBGC's hard work and accomplishments are the agency's professional staff who are dedicated and passionate about PBGC's mission. Together, we have a firm commitment to ensure that American workers have greater financial security in their retirement years.

I am grateful to the Board of Directors -- Secretary of Labor Tom Perez, Secretary of the Treasury Jack Lew and Secretary of Commerce Penny Pritzker and their staff -- for their support during my first year at PBGC. We thank them for their leadership and dedication to our mission.



W. Thomas Reeder
Director
November 15, 2016

FY 2016 ANNUAL REPORT

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This annual report is prepared to meet applicable legal requirements and is in accordance with and pursuant to the provisions of: the Government Corporation Control Act, 31 U.S.C. Section 9106; Circular No. A-11, Revised, “Preparation, Submission and Execution of the Budget,” Office of Management and Budget, July 1, 2016; and Circular No. A-136 Revised, “Financial Reporting Requirements,” Office of Management and Budget, October, 7, 2016. Section 4008 of the Employee Retirement Income Security Act of 1974 (ERISA), 29 U.S.C. Section 1308, also requires an actuarial report evaluating expected operations and claims that will be issued as soon as practicable.

ANNUAL PERFORMANCE REPORT

Established by Congress in 1974, the Pension Benefit Guaranty Corporation (PBGC and the Corporation) insures the defined benefit pensions of workers and retirees in private-sector pension plans. PBGC now protects the retirement security of nearly 40 million American workers and retirees in defined benefit pension plans. PBGC is responsible for benefit payments to more than 1.5 million people in failed plans who otherwise may have lost their pensions – earned for years of work for steel mills, auto parts suppliers, trucking companies, grocery and department stores, airlines and more. In doing so, the Corporation enhances the retirement security of workers and retirees, and their families across the country.

PBGC runs two programs to insure different types of defined benefit pension plans: single-employer plans and multiemployer plans. These two insurance programs are operated and financed separately. PBGC's mission is to enhance retirement security by preserving plans and protecting pensioners' benefits.

The Corporation strives for excellence in the following areas:

- Preserve plans and protect plan participants and their families.
- Pay benefits accurately and on time.
- Maintain high standards of stewardship and accountability.

This annual performance report outlines PBGC's operations, measures of success, and progress toward achieving our mission.

OPERATIONS IN BRIEF

PBGC strengthens retirement security by preserving plans and protecting plan participants and their families. The corporation guarantees payment of the defined benefit pension benefits, up to the legal limits, earned by nearly 40 million American workers and retirees in nearly 24,000 plans. Since 1974, PBGC has become responsible for more than 1.5 million people in over 4,800 failed single-employer and multiemployer plans. PBGC made benefit payments of \$5.8 billion in FY 2016.

To preserve plans and protect plan participants in FY 2016, the Corporation:

- Helped to protect over 55,000 people by taking various actions in the bankruptcy process to encourage companies to keep their plans when they emerged from bankruptcy.
- Reached an agreement that returned two terminated pension plans to the sponsor, required the sponsor to restore full benefits to the plan's 1,350 steelworkers, and mandated back payments to retirees for benefits not guaranteed by PBGC.
- Paid \$113 million in financial assistance to 65 insolvent multiemployer plans.
- Through the Early Warning Program, negotiated almost \$3 billion in financial assurance to protect more than 367,000 people in plans at risk from corporate events and transactions. These agreements also avoid placing an unnecessary burden on premium payers.
- Conducted compliance reviews of plan sponsor calculations for plans that ended through standard terminations, resulting in almost 940 participants receiving corrected benefit amounts with a value of \$4.5 million.

To pay timely and accurate benefits in FY 2016, the Corporation:

- Assumed responsibility for more than 46,000 people in 76 trustee single-employer plans.
- Started paying benefits to almost 35,000 retirees in single-employer plans.
- Paid \$5.7 billion to nearly 840,000 retirees from more than 4,700 failed single-employer plans.

To maintain high standards of stewardship and accountability in FY 2016, the Corporation:

- Achieved an unmodified financial statement audit opinion.
- Reduced the number of open audit recommendations from 163 to 86, a reduction of 47 percent.
- Continued to provide outstanding service to retirees, as demonstrated by a retiree customer satisfaction score of 90 that is among the best public and private sectors, according to the American Customer Satisfaction Index.

STRATEGIC GOALS AND RESULTS

This annual performance report provides information on PBGC's performance in achieving its mission as outlined in its three strategic goals. Performance results for FY 2016 are detailed below.

GOAL NO. 1: PRESERVING PLANS AND PROTECTING PENSIONERS

PBGC engages in activities to preserve plans and protect plan participants by administering two separate insurance programs. The multiemployer program protects over 10 million workers and retirees in about 1,400 pension plans. The single-employer program protects about 30 million workers and retirees in over 22,000 pension plans.

This year, the multiemployer program:

- Paid \$113 million in financial assistance to 65 multiemployer pension plans covering the benefits of over 59,000 participants with an additional 27,000 people entitled to benefits once they retire. Ten of the 65 plans became insolvent during FY 2016. These 10 newly insolvent plans cover about 10,000 participants.
- Performed 16 multiemployer plan audits to protect the benefits of more than 14,000 people.

This year, the single-employer program:

- Monitored 1,500 companies for financial transactions that potentially posed risks to the financial viability of plans.
- Protected pensioners whose plan sponsors were in bankruptcy.
- Ensured that participants received the law's full protection in both underfunded and fully funded plan terminations.

MULTIEMPLOYER PROGRAM

A multiemployer plan is a pension plan created through a collective bargaining agreement between employers and a union. The employers are usually in the same or related industries. Multiemployer plans provide benefits for people in several industries, such as transportation, construction, mining, and hospitality. PBGC provides financial assistance to insolvent multiemployer plans, and offers technical assistance to multiemployer plan administrators, service providers and other stakeholders.

The multiemployer insurance program is likely to run out of money by the end of 2025. PBGC is taking steps to improve the financial status of its multiemployer program. For example, PBGC reviews plan termination filings and plan merger notices, and responds to requests for PBGC approval of various transactions under the multiemployer provisions of ERISA's Title IV. In addition, PBGC continues to implement changes mandated by the Multiemployer Pension Reform Act of 2014 (MPRA).

Protecting Pensioners in Multiemployer Plans

PBGC monitors all multiemployer plans that request or receive financial assistance. In FY 2016, the Corporation began providing financial assistance to 10 insolvent multiemployer plans covering about 10,000

participants. Additionally, the Corporation performed 16 audits of multiemployer plans that cover more than 14,000 people and identified 142 findings. The chief objectives of these audits are to ensure:

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

Multiemployer Plan Partitions and Applications for Benefit Suspensions

MPRA provides more options for sponsors of plans likely to become insolvent when facing funding issues. Certain critical and declining plans that are projected to run out of money, generally within 20 years, may ask PBGC to approve a partition. A partition will transfer responsibility for paying a portion of participants' and beneficiaries' monthly guaranteed benefit amounts to a successor plan that will receive financial assistance from PBGC, relieving the original plan of some of its financial obligations.

In order for a plan to be eligible for a partition, the plan sponsor must show that the plan has taken all reasonable measures to avoid insolvency, including maximum benefit suspensions under the law, and that partition is necessary for the plan to remain solvent. If partition is approved, the original plan will have an ongoing benefit payment obligation to preserve benefits for all participants at levels above PBGC guaranteed amounts over the long term.

Generally, applicants for partitions will also apply to the Treasury Department for a suspension of benefits to 110 percent of the PBGC-guaranteed level, except for age-protected and disability-protected benefits. PBGC plays a consultative role to the Treasury Department for the review of applications for benefit suspensions.

In FY 2016, PBGC received three applications for partition. Of those applications, one was denied and two are currently under review.

Multiemployer Plan Mergers and Transfers

Plan mergers can be a way to help protect people's benefits in multiemployer plans. In general, mergers can broaden a plan's contribution base, reduce administrative and investment expenses for small plans, and rescue troubled plans from projected insolvency. Similarly, transfers of assets and liabilities between plans, often accompanied by a plan merger, can have a healthy impact on all plans involved. Such transfers may result in steady or improved funding to help sustain the plans in the future. In FY 2016, PBGC processed six plan mergers and one transfer of plan assets and liabilities. These transactions were not related to provisions under MPRA.

In FY 2016, PBGC proposed a rule that would implement changes under MPRA and update the plan merger process in general. The proposed rules give PBGC the authority to facilitate plan mergers by providing technical assistance, or financial assistance if necessary, to avoid plan insolvency.

Assistance to Multiemployer Plan Sponsors

PBGC provides technical assistance to multiemployer plan professionals regarding difficult interpretation issues arising under Title IV of ERISA. In 2016, PBGC worked with plan sponsors on how to administer the

payment of Qualified Pre-Retirement Survivor Annuities (QPSA) under the revised rules pursuant to MPRA. That law made QPSA benefits payable to spouses of participants who were alive on the date of plan insolvency or termination. PBGC worked with terminated and insolvent multiemployer plans to ensure the successful payment of these benefits.

SINGLE-EMPLOYER PROGRAM

The single-employer program covers defined benefit pension plans that are sponsored by one employer. When an underfunded single-employer plan terminates, PBGC steps in to provide guaranteed benefits. This typically happens when the employer sponsoring an underfunded plan goes bankrupt or out of business, and can no longer afford to keep the plan going. In this type of termination, PBGC takes over the plan's assets, administration, and payment of plan benefits up to the legal limits. Single-employer plans can also end in a standard termination, provided the plan has enough money to pay all benefits owed to participants.

The single-employer program continues to have a deficit, but given the recent trends in claims and premiums, it is likely to improve over the next decade. Now and in the coming years, PBGC will continue its efforts to protect the interests of single-employer plan participants and beneficiaries.

Protecting Pensioners When Plans Are at Risk

Under the Early Warning Program, PBGC monitored more than 1,500 companies to identify transactions and events that potentially posed risk to the people covered under their pension plans. The Corporation reviewed more than 200 transactions and, where appropriate, arranged agreements for suitable protections to safeguard participant benefits in the following three cases:

- PBGC and Sears finalized an agreement to help protect the Sears pension plan and its nearly 200,000 participants. Sears will continue to protect the assets of certain special purpose subsidiaries, which hold real estate and/or intellectual property assets. The subsidiaries will grant springing liens of up to \$2.7 billion on the protected assets in favor of PBGC. The liens will be triggered only by failure to make required contributions to the plan, by prohibited transfers of ownership interests in the subsidiaries, termination of the pension plan, or by bankruptcy of the company or certain subsidiaries.
- PBGC reached an agreement with Alcoa, Inc. in connection with the company's split into two businesses: the mining and commodities business and the value-added business that consists of the multimaterial products and solutions company. Alcoa will make cash contributions totaling \$150 million over two years in addition to its required pension contributions. This agreement helps to protect more than 102,000 participants in the pension plans.
- PBGC reached an agreement with Computer Sciences Corporation (CSC) and CSRA Inc., to protect the benefits of more than 23,000 participants. PBGC acted prior to the separation of CSC's public sector consulting practice from its commercial practice, and the merger of the public sector practice with SRA International, Inc. Under the agreement, CSRA now sponsors all of CSC's pension plans. If CSRA's indebtedness does not decline to agreed-upon levels or the company does not achieve investment-grade ratings, CSRA will contribute \$100 million to its largest pension plan.

Additionally, each year PBGC receives distress termination applications and identifies abandoned plans. These situations may signify a plan's financial difficulty and often result in plan terminations or settlement agreements.

Protecting Pensioners Whose Employers File for Bankruptcy

PBGC takes an active role in bankruptcies to protect the interests of employees and retirees in the plans. The Corporation works to prevent unnecessary terminations and to obtain the maximum possible financial recovery when a plan must terminate. Examples include:

- PBGC was prepared to terminate HOVENSA's pension plan after the company closed its oil refinery and filed for bankruptcy. However, PBGC worked closely with all stakeholders to reach a resolution that provided for assumption of the pension plan by Hess Corporation, HOVENSA's 50 percent joint-owner. As a result, the plan was not terminated, and its 1,610 participants can expect to receive their promised plan benefits.
- Alpha Natural Resources, Inc., a coal company, filed Chapter 11 bankruptcy on August 3, 2015, in the Eastern District of Virginia. At the time, Alpha sponsored three single-employer plans with a total of 14,794 participants and combined unfunded benefit liabilities of approximately \$429 million. PBGC co-chaired the Committee of Unsecured Creditors. In the course of the bankruptcy, several of Alpha's mines were sold to its first-lien lenders and are operating as Contura Energy, Inc. Alpha emerged from bankruptcy on July 26, 2016, and continued sponsorship of its single-employer plans (though it withdrew from the multiemployer UMWA 1974 Pension Plan). Alpha agreed to make a total of \$18 million in excess contributions to its single-employer plans, in two equal installments in 2017 and 2018. The excess contributions are part of the bankruptcy plan of reorganization.

Significant Litigation

PBGC protects participants in America's private-sector pensions through litigation in federal and state courts. In June 2016, PBGC restored the RG Steel pension plans to the sponsorship of The Renco Group, Inc. This marks only the second time in PBGC history that terminated plans were restored to an employer.

The restoration followed PBGC's lawsuit against Renco, in which PBGC alleged that Renco had entered into a financing transaction with a principal purpose of evading liability for RG Steel's pension plans. PBGC also alleged that Renco committed fraud against PBGC in connection with that transaction. Less than five months after the transaction, RG Steel liquidated in bankruptcy, and later its pension plans were terminated.

In December 2015, a trial was held, but PBGC and Renco negotiated a settlement prior to the court's decision. In the settlement, Renco agreed to assume the plans, to pay all future benefits promised under the plans, and to make back payments for benefits not guaranteed by PBGC. Renco also agreed to reimburse PBGC for \$15 million in benefits paid after the termination, and to pay about \$35 million in shutdown benefits to participants that would have gone unpaid absent the plan restoration. Shutdown benefits are early retirement benefits payable to certain participants when a company shuts down its operations.

Protecting Pensioners in Standard Terminations

A company can end a fully funded plan in a standard termination by paying all the benefits it owes. In FY 2016, almost 1,340 plans, covering approximately 193,000 participants, filed standard terminations. The number of standard terminations was consistent with past years and will have minimal effect on PBGC's premium income. Large plans that filed this year include CVS Health Corporation, Inova Health System, Community Hospitals of Indiana, Philips Electronics, Pfizer, Inc., and First American Financial Corporation. Philips Electronics also completed the standard termination process in FY 2016. Other large plans, such as NBC Universal, Acument Global Technologies, Fluor Corporation, Hannaford Brothers, and Fannie Mae, completed previously filed standard terminations. Approximately 1,225 plans with more than 209,000 participants completed standard terminations in FY 2016.

PBGC conducted 260 standard termination audits to verify that plan sponsors properly calculated participants' benefits due to the plan termination. As a result, almost 940 people in these plans received an additional \$4.5 million in benefits.

GOAL NO. 2: PAYING TIMELY AND ACCURATE BENEFITS

Nearly 1.4 million current and future retirees in trustee single-employer pension plans rely on PBGC for their benefits. The benefits administration team is committed to paying their benefits accurately and on time.

Benefit Administration

When a single-employer plan ends without enough money to cover all of its benefit promises, PBGC steps in to become trustee and pay benefits up to legal limits. In FY 2016, PBGC became responsible for more than 46,000 additional workers and retirees in 76 single-employer plans. Nearly 17,000 of these new participants are already retired and continue to receive their benefit every month.

The five largest plans that PBGC trustee in FY 2016 were sponsored by the Great Atlantic & Pacific Tea Company Inc. (21,069 participants), Freedom Communications (5,214 participants), Southern Regional Health System Inc. (2,759 participants), Walter Energy Inc. (2,722 participants), and the Estate of Vincent Posner (2,101 participants).

PBGC paid \$5.7 billion in benefits to almost 840,000 retirees in single-employer plans. In FY 2016, almost 35,000 new retirees applied to begin benefits. The benefit administration team processed over 87 percent of those applications in 45 days or less, an improvement over FY 2015's 80 percent.

The benefit administration team's highest priority is to ensure that existing retirees in newly trustee plans continue to receive retirement benefits without interruption. In addition, the benefit administration team makes sure that newly eligible retirees who apply for benefits receive them promptly.

PBGC also works hard to make sure that benefits are accurate. Each month, almost 220,000 retirees whose final benefits are being calculated received an estimated benefit amount. Over the last six years, more than 95 percent of our estimated benefits have been within 10 percent of the final benefit amount.

After PBGC becomes trustee of a plan, the benefits administration team begins a complex, multiyear process of valuing the plan's assets, reviewing plan and participant data, and calculating final benefits. Only after this

process is finished can we tell individual participants the exact amount of their benefit. In FY 2016 the benefit administration team informed 67,318 people of their final benefit amounts, including 15,256 participants in the Delphi Salaried Plan and 19,741 in the Delphi Hourly Plan.

PBGC continues to work on calculating final benefits of its largest and oldest plans, including the Delphi plans. Delphi is PBGC's second largest case, and its pension plans present by far the most complex asset structure in the Corporation's history. Processing times have increased due to procedure changes and a reorganization for the Office of Benefits Administration designed to enhance the quality of work products and close audit findings. These improvements will reduce processing times beginning in FY 2018.

Reviews and Appeals

When participants in trustee single-employer plans disagree with PBGC's determination of their benefit, they have the right to bring their concerns to the attention of the PBGC's Appeals Board. Employers may also appeal certain PBGC determinations. The Appeals Board independently reviews each appeal, and provides a detailed written explanation of its decisions. Historically, approximately 1 percent of benefit determinations are appealed. In FY 2016, the Appeals Board closed 351 appeals, with 217 still open at the end of the year. The Appeals Board statistics for the last ten fiscal years are on PBGC's website.¹

¹ <http://www.pbgc.gov/Documents/PBGC-appeals-datagov.pdf>.

GOAL NO. 3: MAINTAINING HIGH STANDARDS OF STEWARDSHIP AND ACCOUNTABILITY***Participant and Plan Sponsor Advocate***

The PBGC Participant and Plan Sponsor Advocate, selected by the PBGC Board of Directors, acts as a liaison between PBGC, sponsors of insured defined benefit plans, and participants in PBGC-trusteed plans. The duties of the position include advocating for the full attainment of the rights of participants in trusteed plans and assisting participants and plan sponsors in resolving disputes with the Corporation. The Advocate also identifies areas in which participants and plan sponsors have persistent problems in dealings with PBGC, and may propose changes in PBGC's administrative practices to mitigate problems. The Advocate summarizes requests for assistance and identifies persistent problems, as well as specific legislative and regulatory changes to address such problems, in an annual report to PBGC's congressional committees of jurisdiction, the PBGC Board of Directors, and PBGC's Director.

The Advocate issued her second annual report on December 31, 2015. The report noted progress in handling unusual benefits issues and PBGC's engagement with participant advocacy groups; and expressed optimism that changes in PBGC's leadership will lead to an improved relationship between the corporation and the sponsor community. The Advocate identified areas where improvement could be made, and also recommended the corporation take a fresh look at premium penalties.

Accountability: Measuring and Monitoring Performance

PBGC continuously monitors how well the Corporation does its job and serves customers using a wide range of performance measures. Among them are how quickly and seamlessly the Corporation pays retirees, how accurately PBGC calculates their benefits, and how well the Corporation invests assets. PBGC conducts surveys to help improve the coordination and cooperation essential to meet customer service goals.

Each quarter, PBGC leaders participate in data-driven discussions covering the Corporation's progress in pre- and post-trusteeship operations, stewardship and accountability, customer satisfaction, and building and maintaining a model workplace. The strategic use of performance data better informs planning and execution of operations, as well as corporate and program area decision-making.

TABLE 1: SUMMARY OF PBGC MEASURES AND ACTIVITIES

	Target	2016	2015
Preserve Plan and Protect Pensioners			
People Protected in Plans Emerging From Bankruptcy		55,000	16,000
Standard Termination Audits: Additional Payments		\$4.5 M to 940 people	\$5.8 M to 1,456 people
Pay Timely and Accurate Benefits			
People Receiving Benefits – Single-employer		840,000	826,000
People to Receive Benefits in Future – Single-employer		559,000	560,000
People Receiving Benefits in Plans Receiving Financial Assistance – Multiemployer		59,000	54,000
People to Receive Benefits in Future in Plans Receiving Financial Assistance – Multiemployer		27,000	25,000
New Retiree On-time Payments	100%	100%	100%
Estimated Benefits Within 10 percent of Final Calculation	95%	96%	96%
Average Time to Provide Benefit Determinations (years)	4.3	6.3	4.8
Improper Payment Rates within OMB Threshold ¹	<1.5%	Yes	Yes
Applications Processed in 45 Days	87%	87%	80%
Maintain High Standards of Stewardship and Accountability			
Retiree Satisfaction – ACSI ²	90	90	91
Caller Satisfaction – ACSI	83	84	83
Premium Filer Satisfaction – ACSI	73	79	76
Overall Customer Satisfaction ³	80	73	75
Contract Awards Fully Competed		75%	92%
Financial Surplus (Deficit) – Single-employer		(\$20.6B)	(\$24.1B)
Financial Surplus (Deficit) – Multiemployer		(\$58.8B)	(\$52.3B)
Unmodified Audit Opinion	Yes	Yes	Yes
Compliance with EEOC Management Directive 715	Yes	Yes	Yes

¹ The OMB threshold for significant improper payment reporting is as follows: amounts that exceed (1) both 1.5 percent and \$10 million in improper payments, or (2) \$100 million in improper payments.

² The American Customer Satisfaction Index (ACSI) uses a 0-100 scale; 80 or above is considered excellent.

³ Measures customer satisfaction with information and services provided by the corporation.

PBGC'S OWN FINANCES MUST BE SOUND

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

Fiscal Deficit

The net financial position remains in deficit for both the single-employer and multiemployer programs. The net financial position of the larger single-employer program is likely, but not guaranteed, to improve over the next decade. Current projections of the single-employer program show a surplus in 2025. The multiemployer insurance program is likely to run out of money by the end of 2025. The single-employer and multiemployer programs are operated and financed separately. Assets from one program cannot be used to support the other program.

Financial Soundness and Financial Integrity

PBGC is responsible for insuring the pensions of tens of millions of people, whose benefits are valued at hundreds of billions of dollars. In addition to collecting premiums, exercising care in the management of about \$100 billion in total assets and attaining the 24th consecutive unmodified audit opinion on its financial statements, PBGC stayed focused on improving management in several areas.

Collecting Premiums

In FY 2016, combined premium cash receipts collected totaled \$5.5 billion. Single-employer program premium cash receipts collected were \$5.2 billion. Separately, multiemployer program premium cash receipts were around \$300 million. Premium rates are generally indexed for inflation. In addition, the Bipartisan Budget Act of 2013, the Multiemployer Pension Reform Act of 2014, and the Bipartisan Budget Act of 2015 specify premium rates or premium increases for certain years. In FY 2016, PBGC published a final rule that reduces the late premium payment penalty rates for all plans and waives most of the penalty for plans with a good compliance record that pay promptly after notification of late payment.

Investing Prudently

PBGC investment assets are administered by private investment management firms, subject to PBGC's investment policies and oversight procedures. Procedures for internal controls, due diligence and risk management are subject to periodic review. Regular and detailed communication with management firms enables the Corporation to stay informed on matters affecting its investment program. The following table provides a comparison of PBGC investment performance relative to each composites' respective benchmark. For further information, refer to Section VII. Investment Activities.

TABLE 2: PBGC FY 2016 INVESTMENT RETURNS VERSUS BENCHMARKS

	1-Year Period	3-Year Period	5-Year Period
Total Fund Composite	10.8%	6.2%	6.7%
Total Fund Benchmark¹	10.4%	6.0%	6.4%
ERISA/ PPA Portfolio Benchmark²	11.2%	8.4%	11.1%
Total Global Public Stock	13.5%	6.7%	12.1%
Total Public Stock Benchmark ³	13.1%	6.4%	11.7%
Total Global Bonds	10.0%	6.3%	4.8%
Total Global Bonds Benchmark ⁴	9.6%	6.2%	4.4%

¹The Total Fund Benchmark is a dynamic weighted benchmark based upon the weights of the Total Global Public Stock Benchmark, the Total Global Bonds Benchmark and the Total Money Market Securities Benchmark. This benchmark is utilized to compare against the Total Fund Composite returns shown above.

²The ERISA/PPA Portfolio Benchmark is based upon a hypothetical portfolio with a 60% allocation to the Standard & Poor's 500 equity index and a 40% allocation to the Barclays Capital Aggregate fixed income index. See section VII Investment Activities (The Pension Protection Act of 2006 Reporting Requirement).

³The Total Global Public Stock Benchmark is a dynamic weighted benchmark based upon the weights of the U.S. Public Stock composite and the International Public Stock composite and the returns of their respective benchmarks.

⁴The Total Global Bonds Benchmark is a dynamic weighted benchmark based upon the weights of PBGC's fixed income managers and the returns of their respective benchmarks.

Smaller Asset Managers Pilot Program

PBGC implemented a Smaller Asset Managers Pilot Program that creates new opportunities for smaller asset managers to compete for the Corporation's business. Before the pilot program, these contracts were out of reach for smaller asset managers because the minimum required assets under management, often in the billions, was too large for small firms to qualify. In order for firms to be eligible for the pilot program, applicants were required to have a minimum of \$250 million in assets under management and a five-year performance history. They also were required to undergo the same competitive evaluation as other PBGC money managers.

In FY 2016, five firms were selected to participate in the pilot program, and each firm will be responsible for investing \$175 million in U.S. core fixed-income instruments. PBGC limited its allocations to no more than 20 percent of a firm's assets under management, which is in keeping with industry standards. The firms will be evaluated on their performance, after fees, against the portfolio benchmark over a full market cycle of highs and lows at an acceptable level of risk.

OUTREACH AND CUSTOMER SERVICE

Listening to Customers

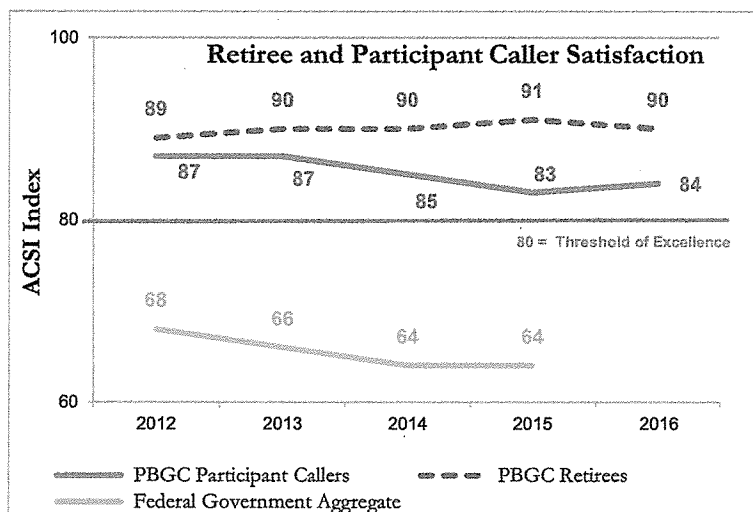
Our customers are at the center of PBGC's mission, and their interests are considered when decisions are made at every level of the organization. PBGC first identifies and prioritizes customer needs through the use

of surveys that assess major processes and communications. The Corporation then sets targets to promote continued improvement in the areas that matter most to our customers.

Telephone Surveys

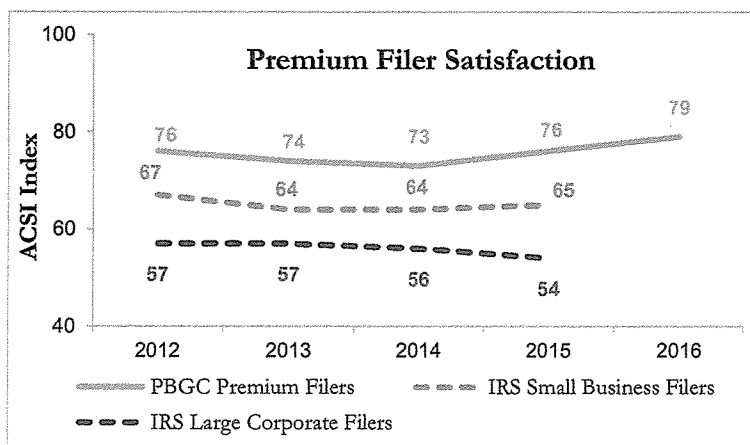
PBGC uses telephone surveys to get feedback from its customers, including retirees, premium filers, and callers to the Corporation's Customer Contact Center. The American Customer Satisfaction Index (ACSI) evaluates PBGC's services to this sector of customers. ACSI surveys use a proven statistical methodology to identify where improvements can be made.

The retiree survey measures satisfaction among retirees who receive monthly benefits from PBGC. This group rated the Corporation's satisfaction at 90 or above for four consecutive years, including a score of 90 in FY 2016. Survey respondents indicated an appreciation of PBGC's dependable and timely payment of their PBGC benefits. In the 2015 ACSI Federal Government Report, PBGC was recognized among government's "satisfaction success stories," with a score higher than the best among private-sector firms.



The participant caller survey measures the satisfaction of pension plan participants who call PBGC's toll-free number. Customers rate their overall experience, including the automated phone system, interactions with representatives, and resolution of their concerns. Other service aspects, such as written communication or the benefit application process, are also evaluated. PBGC exceeded its FY 2016 target of 83, scoring an 84.

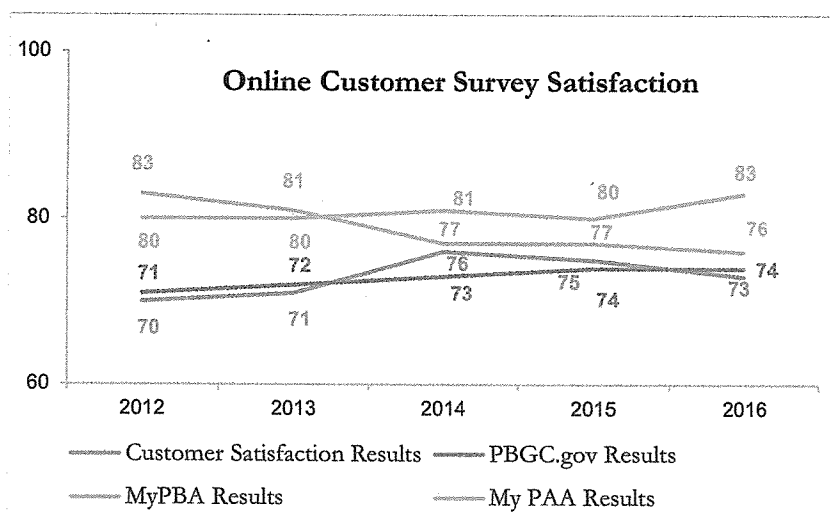
The premium filer survey measures satisfaction among plan sponsors and their representatives who file mandatory annual premiums with PBGC. For the second consecutive year, the premium filer score increased by three points over the previous year's score, achieving a 79 and surpassing the goal of 73. Streamlining of filing requirements in recent years improved the process.



Online Surveys

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

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



These surveys provide valuable benchmarking insight and track trends in customer satisfaction. Online surveys collect feedback continuously, allowing PBGC to promptly address customer concerns.

Participants use MyPBA to conduct transactions with PBGC, such as applying for benefits, updating their address or banking information, specifying federal tax withholding, or requesting benefit estimates. The MyPBA survey measures satisfaction in areas, such as functionality, look and feel, and plain language. MyPBA incorporated two customer friendly upgrades designed to improve messaging and make it easier for participants to select benefit forms and to file their taxes. The MyPBA satisfaction score is 76, just below its target of 77.

Practitioners use My PAA to file premiums with PBGC. The My PAA survey measures satisfaction covering topics such as navigation and site performance. The satisfaction score is 83, exceeding the target of 79. My PAA implemented upgrades to simplify navigation, improve printing, increase validations that reduce filing errors, and make other usability improvements based on customer feedback.

The PBGC.gov survey measures satisfaction with PBGC's public website, in terms of content and plain language. The website satisfaction score was 74, meeting the target. PBGC is using this customer feedback for a site redesign slated to launch in FY 2017. More specifically, the new site will provide visitors simple search features and easier navigation as well as better visibility for the MyPBA application.

PBGC's customer satisfaction survey takes a broader perspective and measures customer views on how well the Corporation performs its mission. This year, PBGC attained a score of 73, below the target of 80. The Corporation continues to listen to its customers and strives to serve them better. The combination of improvements to the online service tools, the Corporation's website redesign and improved communications with future retirees is expected to have a positive impact on overall customer satisfaction.

Reaching Out to Customers and Stakeholders

PBGC continues to educate and reach out to stakeholders, constituents, and customers about the Corporation's ongoing activities. In FY 2016, PBGC representatives participated in 160 events with plans sponsors, service providers and participant groups. These events involved discussions on topics such as the multiemployer insurance program, actuarial matters and lifetime income.

PBGC holds regular meetings with organizations that represent the interests of pension plan participants such as AARP, the Pension Rights Center, the National Retiree Legislative Network, and various labor organizations. The Corporation regularly communicates with employer and practitioner groups such as the American Society of Pension Professionals and Actuaries, the ERISA Industry Committee, the American Benefits Council, the National Coordinating Committee for Multiemployer Plans, the U.S. Chamber of Commerce, the American Bar Association's Joint Committee on Employee Benefits, and several organizations representing the actuarial profession. These meetings strengthen PBGC's relationships with stakeholders and build on shared goals.

PBGC's blog – *Retirement Matters* – launched a new series titled *Director's Hub*. Written by Director Reeder, the series presents his take on PBGC's activities and his thoughts about preserving pension plans and protecting retirement security. With a 40 percent increase in page views over the prior year, *Retirement Matters* also brings to customers important stories about PBGC and pensions.

The Corporation expanded its online outreach materials on PBGC.gov to ensure that customers have easy access to information, including updated content on the Health Coverage Tax Credit, the Delphi Hourly and Salaried Pension Plans, and PBGC's multiemployer activities. In addition to informing the public through a variety of formats, including press releases and newsletters, PBGC sent over 2 million emails to keep customers and stakeholders informed about the latest developments on pensions and retirement security. All PBGC.gov content complements PBGC's social media outreach, which includes regular postings to Facebook and Twitter.

SUSTAINING THE PROGRAMS

PBGC continuously monitors and reports on its insurance programs and their effectiveness. The model used to accomplish this task is reviewed internally and by outside experts. The Corporation implements strategies to strengthen the programs' financial health and improve its ability to manage risk.

Research and Analysis Activities

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

Each year PRAD updates the Pension Insurance Data Book, a compendium of data regarding PBGC and its single-employer and multiemployer insurance programs. As part of its focus on the multiemployer insurance system, this year PBGC added a graphical supplement that illustrates aspects of the multiemployer program in greater detail. The supplement allows users to look at time-series data on the funding status of multiemployer plans as set forth in the Pension Protection Act of 2006. Additional studies on both the multiemployer and single-employer retirement systems are in progress.

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

PRAD's primary forecasting model is PIMS. In FY 2016, PRAD used the model to issue three major reports: the report due every five years under the Multiemployer Pension Plan Amendments Act of 1980; the annual Projections Report, which outlines the direction of PBGC's single-employer and multiemployer programs; and a special report, required by the Multiemployer Pension Reform Act of 2014 (MPRA), that estimates average premiums needed in order to maintain PBGC solvency for 10- and 20-year periods. Each of the reports, and the PIMS model, has a dedicated page on PBGC's website¹, and PRAD staff performs outreach to a variety of audiences to discuss the future outlook for PBGC's programs.

Outside experts review PIMS, and the model is periodically tested through a congressionally mandated peer review. Completed reviews are publicly available, and PBGC uses reviews to improve PIMS and the Corporation's reports. PBGC also uses PIMS to illustrate the effects of proposed changes to pension law and to provide other technical assistance.

Managing Enterprise Risk

In March 2016, PBGC established an Enterprise Risk Management Council to develop and implement an enterprise risk management framework for PBGC. The framework will help managers, leaders and the Board of Directors assess and mitigate the Corporation's risks. The council is responsible for integrating risk management into the culture and processes of the corporation, leveraging existing work where possible. It also works to develop the Corporation's risk profile and advises leadership on plans to deal with strategic risks. PBGC created and posted a vacancy for a Risk Management Officer and is interviewing applicants.

Regulatory Activities

PBGC continues to issue regulations to protect plan participants and minimize burdens on pension plans and plan sponsors. In FY 2016, PBGC published:

- A proposed rule to expand the Missing Participants Program to cover defined contribution plans. The Missing Participants Program helps plans by providing alternatives for dealing with the benefits of missing participants on plan termination, letting plans transfer the benefits to PBGC instead of establishing an individual retirement account at a financial institution for each missing participant account. The program helps participants who lose touch with their plans because PBGC will add the missing participant to its online searchable database – making it easier for people to find their accounts – and also will periodically search for the participant.
- A proposed rule to facilitate multiemployer plan mergers. This rule implements statutory procedures that give PBGC new authority to facilitate mergers among seriously underfunded plans. Such mergers can improve plans' ability to survive and continue paying benefits to participants.
- A final rule to reduce penalties for late payment of premiums. Smaller penalties reduce the cost of maintaining plans and encourage their continuance.

¹ <http://www.pbgc.gov/about/projections-report/pension-insurance-modeling-system.html>

- A final rule on annual reporting for controlled groups with serious plan underfunding. Under the rule, plans that seek a reporting waiver must determine their aggregate underfunding by using unstabilized interest rates that have not been adjusted to IRS-determined corridors. The rule adds new reporting waivers for smaller plans and for plans that must file solely because of large missed contributions or funding waiver applications previously reported to PBGC. It also provides alternative ways to report certain actuarial information.
- A final rule that makes minor changes to the interim final rule on multiemployer plan partitions that PBGC issued in FY 2015 to take account of public comments.

STRENGTHENING A DIVERSE WORKFORCE AND LEADERSHIP

In an effort to improve organizational performance and ensure proper alignment within the Corporation, PBGC successfully implemented the reorganizations of five mission critical departments and began preparing for a potential wave of retirements. With 36 percent of its workforce eligible to retire in the next five years, PBGC has increased succession planning efforts throughout the Corporation. PBGC began developing departmental succession plans that address not just mission critical positions, but also all key positions as identified by management, back-ups for key positions, roles and responsibilities of key positions, and knowledge transfer strategies to prevent a loss of institutional knowledge.

Federal Employee Viewpoint Survey

The Federal Employee Viewpoint Survey (FEVS) provides a confidential and voluntary method for PBGC federal employees to share honest and candid feedback about the Corporation's work environment, work-life balance programs, and other aspects of the Corporation. The survey also provides an opportunity for employees to influence positive change in their workplace. All federal employees are encouraged to take the survey and have their voice heard. In FY 2016, 65 percent of PBGC's federal employees participated in the survey. This rate of participation is significantly higher than the government-wide participation rate of 46 percent.

According to the survey results, PBGC has an engaged workforce. Our 2016 FEVS engagement score is 72 percent, the Corporation's highest score yet. The engagement score measures responses to questions on how well leaders lead, the interpersonal employee/supervisor relationship, and the level of employee motivation related to their role in the workplace. PBGC exceeded its engagement score target of 69 percent, as well as the government-wide target of 67 percent.

PBGC's leaders use the feedback from the FEVS to gain valuable insight into the concerns of PBGC's greatest asset, its workforce. Reviewing the survey results is one of the ways the Corporation's leaders identifies PBGC's strengths and challenges. This year's survey results can be found on PBGC.gov.

Diversity and Inclusion

According to FEVS, 63 percent of PBGC employees believe that the Corporation's policies and programs promote diversity in the workplace. In its second year, PBGC's Diversity and Inclusion Council is one of these programs that promotes dialogue across the Corporation on diversity and inclusion priorities. The council consists of senior-level management, affinity groups and the Independent Union of Pension

Employees for Democracy and Justice. The group met monthly to identify and promote diversity and inclusion practices in a variety of areas, including recruitment, communication, and employee engagement.

This year, the council partnered with Morgan State University's Summer Academy of Mathematics and Science Program to host a day-long event that introduced high school students to the field of actuarial science and PBGC. The students engaged in hands-on activities to learn more about PBGC as a career option and the career path needed for actuarial science. The council also expanded its employee engagement practices by participating in a community day where staff learned more about the Corporation's diverse affinity groups.

Management and Leadership Training

PBGC introduced a new service that offers a variety of assessments for individuals, teams and organizations. The assessments provide insight into such dimensions as leadership, conflict management, emotional intelligence, team functioning and organizational culture. This service provides opportunities for self-awareness and a better understanding of the impact on others – two main objectives for leadership development.

Records Management Training and Workshops

The National Archives and Records Administration (NARA) recognized PBGC as a leader in federal records management training. In November 2015, NARA reported that PBGC created online records management training and workshops that engage different areas of the Corporation in meeting records management requirements.

SAFEGUARDING CUSTOMER INTERESTS

Strengthening E-Government and Information Technology

While maintaining a sound security posture, PBGC continued to refine its strategy to modernize its information technology (IT) platform. PBGC updated its IT infrastructure program planning process to include procedures for end of serviceable life technology management and established a security requirements checklist utilized for all IT acquisitions. The procedures and checklist will ensure that acquired IT hardware, software, and professional services comply with PBGC and federal policy requirements. As a result of changes noted by the Inspector General's independent auditor in late 2015, two material weaknesses were downgraded to significant deficiencies – entity-wide security program planning and management, and access controls and configuration management. In addition, during FY 2016, PBGC's Office of Information Technology completed a vast number of initiatives, including:

- Enforcement of personal identification verification card usage for logical access for all users, expanded from just privileged users in the previous year.
- Acquisition of identity and access management services that will ultimately establish an enterprise identity management platform for the Corporation.
- Migration to Skype for Business on the Microsoft Office 365 cloud, migration of all electronic mail to the Microsoft Office 365, and migration of each individual's home directory content to the OneDrive for Business component of the Microsoft Office 365 cloud in response to the Cloud First initiative.

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- Reduction of access to participant privacy data by masking sensitive data in development environments and test environments.
 - Relocation of Service Desk staff to a facility in Colorado to improve service and efficiency.

Ensuring Ethical Practices

The U.S. Office of Government Ethics (OGE) conducted an inspection of PBGC's ethics program. The inspection's purpose was to collect and assess the program's compliance data and to identify and mitigate program vulnerabilities. OGE found that the program complied with its requirements and made only one recommendation for PBGC to ensure timely notification of financial disclosure report filing requirements for new entrant confidential reports. After conducting a follow-up review and determining that PBGC had taken sufficient action to resolve the concern underlying the one recommendation, OGE officially closed its review of the ethics program.

In FY 2016, PBGC continued to ensure that new employees received ethics training within 90 days of their date of hire. All financial-disclosure filers and agency-designated employees received annual ethics training by the end of the fiscal year. In advance of OGE requirements, the ethics program required all public financial disclosure report filers to use OGE's electronic filing system, *Integrity*, at the start of the fiscal year. PBGC also developed and provided agency-wide training on the Hatch Act, a federal statute that limits federal employee participation in partisan political activity.

Protecting Privacy Interests

Among PBGC's highest priorities is protecting the personal information of its participants, beneficiaries, employees and contractors. In FY 2016, the Corporation's privacy team reviewed PBGC systems to optimize the confidentiality, integrity, and availability of the information PBGC maintains. In addition to mandatory Privacy Awareness Training for new hires and annual refresher training for current employees and contractors, the privacy team hosted its sixth annual Privacy Week. This multi-day event offered training, information about hot topics in the privacy field, Q&A sessions, and a guest speaker. The privacy team also reached out to other work units within the Corporation to provide role-based training on handling personally identifiable information.

Strengthening Transparency and Disclosure

PBGC continues to promote compliance with the Freedom of Information Act (FOIA) and the Privacy Act through the efficient use of technology and human capital management. The Corporation ended FY 2016 with no backlog of FOIA requests. The disclosure team's compliance goal received support across the Corporation, resulting in streamlined processes and decreased processing times. The average processing time for all requests, including simple, complex and special project cases, is seven working days – 13 days less than the 20-day statutory time requirement.

INDEPENDENT EVALUATION OF PBGC PROGRAMS

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

Office of Inspector General (OIG)

PBGC places a strong emphasis on diligently addressing the OIG's audit recommendations. To facilitate timely completion and closure of such recommendations, regular status reports are issued to executive management to assist in monitoring corrective actions, particularly those relating to material weaknesses and significant deficiencies. Once work on recommendations is completed, evidence documenting the corrective actions taken is provided for OIG review.

PBGC is committed to addressing the related OIG recommendations in a timely manner. During FY 2016, PBGC reduced the number of open OIG recommendations from 163 to 86, representing a significant reduction from prior years. PBGC closed 16 recommendations related to the two material weaknesses, Entity Wide Security and Access Controls/Configuration Management. As a result, these material weaknesses were reduced to significant deficiencies. In addition, PBGC closed seven recommendations regarding the Present Value of Non-recoverable Future Financial Assistance significant deficiency.

PBGC's OIG oversaw the annual financial statement audit completed by an independent public accounting firm, CliftonLarsonAllen LLP. In addition, during FY 2016 the OIG performed other audits and evaluations, including the following:

- **Audit of the Effectiveness of PBGC's Governance of Internal Control (AUD-2016-8):** In this report the OIG made three recommendations regarding PBGC's Internal Control Committee activities, agency risk assessment processes, and documentation practices for assessments supporting assurance statements under the Federal Managers' Financial Integrity Act. PBGC management agreed to implement each of the OIG's recommendations.
- **Audit of PBGC's Fiscal Year 2015 Compliance with Improper Payments Information Act Requirements (AUD-2016-09):** For 2015, PBGC performed a risk assessment of the Benefit Payments and Premium Refunds Payment streams based on risk factors included in Appendix C of OMB Circular A-123. PBGC concluded that neither program was susceptible to significant improper payments. In FY 2016, the OIG confirmed that PBGC had complied with applicable improper payment reporting requirements.
- **Fiscal Year 2015 Cybersecurity Act Evaluation (Eval-2016-10):** The OIG performed an assessment analyzing PBGC's information security policies, practices and procedures governing computer systems that contain personally identifiable information (PII). The OIG did not identify any recommendations.

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

Government Accountability Office (GAO)

PBGC's single-employer and multiemployer insurance programs remain on GAO's biennial "high-risk" list of 30 government programs most at risk due to vulnerabilities. This status is due to long-term structural

challenges relating to funding of defined benefit pension plans and the limited tools available to the Corporation to address PBGC's long-term financial stability.

PBGC also monitors progress in addressing GAO recommendations. As of September 30, 2016, PBGC had two open GAO recommendations relating to past reviews with one recommendation having been reported to GAO as being complete. PBGC is considering corrective actions to address the remaining recommendation.

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

FINANCES

FISCAL YEAR 2016 FINANCIAL STATEMENT HIGHLIGHTS

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

FINANCIAL POSITION

PBGC Combined Financial Position

PBGC's combined net position decreased by \$3,064 million, increasing the Corporation's combined deficit to \$79,413 million as of September 30, 2016, a record loss, from \$76,349 million as of September 30, 2015. This is largely due to pension liability valuation interest factors decreasing for both insurance programs, the select interest rate factor decreased by 53 basis points to 2.27% at September 30, 2016, from 2.80% at September 30, 2015, and the ultimate factor for both insurance programs decreased to 2.14% at September 30, 2016 (after the first 20 years) from 2.86% at September 30, 2015 (after the first 25 years). The overall FY 2016 impact of the change in interest factors was \$12,542 million and consists of \$6,141 million from multiemployer probable plans, \$6,301 million from terminated single-employer plans, and \$100 million from insolvent multiemployer plans. Another factor driving the combined loss is the addition of over \$6,300 million for the 11 plans added to PBGC's inventory of multiemployer plans requiring financial assistance currently or in the future. Charges were partially offset by \$8,791 million in investment income and \$6,686 million in premium and other income.

Multiemployer Financial Position

- The multiemployer program's net position declined by \$6,549 million, increasing its deficit to \$58,833 million, an all-time high for the multiemployer program. PBGC's recently issued FY 2015 Projections Report indicates that the program's risk of insolvency rises over time, exceeding 50 percent in 2025. The risk of insolvency rises rapidly over the following 10 years, reaching over 90 percent by the end of FY 2035. When the program becomes insolvent, PBGC will be unable to provide financial assistance to pay the full level of guaranteed benefits in insolvent plans.
- The \$6,549 million increase in the multiemployer program's deficit is primarily due to newly identified probable plans and decreases in interest factors offset by changes in assumptions regarding the percentage of benefits that would be guaranteed upon the insolvency of a plan. Losses from financial assistance in insolvent and probable plans were \$6,768 million. The primary factors for this loss are the addition of 10 new probable plans with net claims of \$6,332 million (which represent 10 of the 11 new additions to PBGC's multiemployer inventory), and charges resulting from the change in interest factors of \$6,141 million for previously identified multiemployer probable plans, offset by gains due to change in the guaranteed factor of \$4,051 million. Losses for insolvent plans (i.e., plans currently receiving financial assistance) included \$100 million due to the change in interest factors and \$56 million due to expected interest on accrued liabilities. Other factors that contributed to the multiemployer program's deficit are

charges of \$39 million for administrative expenses and \$11 million in actuarial adjustments, offset by \$282 million in net premium income and \$143 million in investment income.

Single-Employer Financial Position

- The single-employer program's net position increased by \$3,485 million, decreasing the program's deficit to \$20,580 million. The primary factors in the single-employer program's net gain of \$3,485 million included \$8,648 million in investment income, \$6,404 million in net premium income and other income, and \$417 million credit from completed and probable terminations. These factors were offset by charges of \$6,301 million due to a reduction in interest factors, \$2,929 million charge due to expected interest on accrued liabilities, \$2,285 million from actuarial adjustments, and \$469 million of administrative, investment, and other expenses.

INVESTMENTS

- PBGC's Total Fund Composite (excluding transition accounts) returned 10.8% in FY 2016, exceeding the Total Fund Benchmark return of 10.4%. FY 2016 investment returns contributed to a total PBGC combined investment income of \$8,791 million.
- Due to higher fixed income returns in FY 2016 (10.0% return for Total Global Bonds versus 2.2% in FY 2015), global fixed income market returns generated a gain of \$5,923 million from fixed income investments compared to a \$1,113 million gain for FY 2015. Due to an increase in equity returns in FY 2016 (13.5% return for Total Global Public Stock versus a negative 3.6% in FY 2015), global equity market returns generated \$2,768 million of investment income from equity investments compared to a loss of \$1,231 million for FY 2015.

OPERATIONS

- PBGC's combined single-employer benefit payments and multiemployer financial assistance were \$5,772 million in FY 2016 and \$5,673 million in FY 2015. PBGC assumed responsibility for the benefit payments of an additional 46,000 workers and retirees in the 76 single-employer plans that were trustee during FY 2016.
- FY 2016 combined net premium income increased by \$2,311 million to \$6,661 million compared to FY 2015 net premium income of \$4,350 million. The primary components of the combined net premium income are: (a) variable-rate premium (VRP) generated income of \$4,639 million, and: (b) flat-rate premium income of \$2,026 million. Overall, this represented a 50% year-to-year increase in combined premium income and is largely due to the increase in premium rates and higher levels of plan underfunding.
- During FY 2016, PBGC assumed financial responsibility for 67 underfunded single-employer plans that were terminated. Some of these plans are pending the completion of a trusteeship agreement with PBGC as of year-end and are being administered by interim trustees. Because of PBGC's previous efforts to evaluate its exposure to probable terminations, \$382 million of the net claims for these plans were already reflected in PBGC's FY 2015 results. These 67 terminated plans had an average funded ratio of about 58%, and these terminations resulted in an aggregate net loss to PBGC of \$975 million (see Note 12).

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- Three single-employer plans with underfunding of \$249 million were newly classified as probable terminations in FY 2016 representing PBGC's total single-employer probable inventory. Probable terminations represent PBGC's best estimate of claims for plans that are likely to terminate in a future year.
 - The present value of multiemployer nonrecoverable future financial assistance of \$61,009 million consists of 65 insolvent plans (\$2,139 million), 63 terminated plans not yet insolvent but probable (\$1,986 million), and 40 ongoing plans which are projected to exhaust plan assets within 10 years and are classified as probable (\$56,884 million) (see Note 7).

ESTIMATES OF REASONABLY POSSIBLE CONTINGENCIES

- At fiscal year-end, PBGC's estimate of its single-employer reasonably possible exposure increased to \$223,275 million in FY 2016, a \$5,576 million increase compared to \$217,699 million in FY 2015. This increase is primarily due to an increase in the number of companies meeting the reasonably possible criteria.
- PBGC's estimate of its multiemployer reasonably possible exposure decreased to \$19,485 million in FY 2016, a \$472 million decrease from the \$19,957 million in FY 2015. The primary reason for the decrease in liability was due to changes in the data and underlying assumptions.

KEY SINGLE-EMPLOYER AND MULTIEMPLOYER RESULTS

<i>(Dollars in millions)</i>	FY 2016	FY 2015
Insurance Activity		
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Single-employer Benefits Paid	\$ 5,659	\$ 5,570
Multiemployer Financial Assistance Paid	\$ 113	\$ 103
Retirees Receiving Benefits (at end of year)	898,000	880,000
Total Participants Receiving or Owed Benefits (at end of year)	1,485,000	1,473,000
New Underfunded Terminations	67	69
Terminated/Trusteed Plans (combined to date)	4,779	4,716
Plans That Have Received Financial Assistance	65	57
Summary of Operations		
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Premium Income, Net	\$ 6,661	\$ 4,350
Losses (credits) From Completed and Probable Terminations	\$ (417)	\$ (780)
Losses From Financial Assistance	\$ 6,768	\$ 9,963
Investment Income	\$ 8,791	\$ 392
Actuarial Charges and Adjustments	\$ 11,682	\$ 9,639
Financial Position		
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED		
Total Assets	\$ 99,546	\$ 87,659
Total Liabilities	\$ 178,959	\$ 164,008
Net Income (Loss)	\$ (3,064)	\$ (14,577)
Net Position	\$ (79,413)	\$ (76,349)
SINGLE-EMPLOYER PROGRAM		
Total Assets	\$ 97,342	\$ 85,735
Total Liabilities	\$ 117,922	\$ 109,800
Net Income (Loss)	\$ 3,485	\$ (4,727)
Net Position	\$ (20,580)	\$ (24,065)
MULTIEMPLOYER PROGRAM		
Total Assets	\$ 2,204	\$ 1,924
Total Liabilities	\$ 61,037	\$ 54,208
Net Income (Loss)	\$ (6,549)	\$ (9,850)
Net Position	\$ (58,833)	\$ (52,284)

FINANCIAL SUMMARY—SINGLE-EMPLOYER PROGRAM

<i>(Dollars in millions)</i>	Fiscal Year Ended September 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Insurance Activity:										
Benefits paid	\$ 5,659	5,570	5,522	5,449	5,384	5,340	5,467	4,478	4,292	4,266
Participants receiving monthly benefits at end of year ¹	838,493	825,666	812,608	799,210	781,160	775,300	747,530	743,610	640,070	631,130
Plans trustee and pending trusteeship by PBGC ²	4,769	4,706	4,640	4,557	4,446	4,292	4,140	3,993	3,850	3,783
Summary of Operations:										
Premium income, net ³	\$ 6,379	4,138	3,812	2,943	2,642	2,072	2,231	1,822	1,340	1,476
Other income	\$ 25	11	22	38	13	17	30	16	23	55
Investment income (loss)	\$ 8,648	324	6,439	2,741	8,792	3,446	7,594	6,330	(4,164)	4,737
Actuarial charges and adjustments (credits)	\$ 11,515	9,504	1,864	3,054	14,874	6,561	9,421	13,901	(4,813)	346
Losses (credits) from completed and probable terminations	\$ (417)	(780)	(115)	468	2,006	201	509	4,234	(826)	399
Administrative and investment expenses	\$ 465	446	464	434	443	424	449	417	400	378
Other expenses	\$ 4	30	17	5	-	21	(7)	15	5	114
Net income (loss)	\$ 3,485	(4,727)	8,043	1,761	(5,876)	(1,672)	(517)	(10,399)	2,433	5,031
Summary of Financial Position:										
Cash and investments	\$ 89,596	80,090	81,215	77,881	76,941	71,292	69,150	62,062	51,722	61,122
Total assets	\$ 97,342	85,735	88,013	83,227	82,973	78,960	77,463	68,736	64,612	67,241
Present value of future benefits	\$ 113,704	106,926	102,774	105,018	105,635	92,953	90,022	83,035	59,996	69,235
Net position	\$ (20,580)	(24,065)	(19,338)	(27,381)	(29,142)	(23,266)	(21,594)	(21,077)	(10,678)	(13,111)

1) This measure may differ from yearly performance numbers reported in PBGC's Annual Performance Report, which also include participants whose benefit payments ended during the year (for example, due to death or a final lump-sum payout).

2) These cumulative measures may differ due to plans that terminated in a prior year may have been removed from inventory in a subsequent year.

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

As a general note, a dash "-" indicates no net activity to be reported.

FINANCIAL SUMMARY—MULTIEMPLOYER PROGRAM

(Dollars in millions)	Fiscal Year Ended September 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Insurance Activity:										
Financial assistance paid	\$ 113	103	97	89	95	115	97	86	85	71
Plans that have received financial assistance	65	57	53	44	49	49	50	43	42	36
Summary of Operations:										
Premium income, net ¹	\$ 282	212	122	110	92	92	93	95	90	81
Other income	\$ -	-	-	-	-	-	-	2	-	-
Investment income (loss)	\$ 143	68	75	(96)	91	148	183	121	121	23
Actuarial charges and adjustments	\$ 167	135	95	41	164	99	-	-	(1)	-
Losses (gains) from insolvent and probable plans - financial	\$ 6,768	9,963	34,260	2,969	2,466	1,461	831	614	(271)	319
Administrative and investment expenses	\$ 39	32	18	25	20	14	12	-	-	-
Net income (loss)	\$ (6,549)	(9,850)	(34,176)	(3,021)	(2,467)	(1,334)	(567)	(396)	482	(216)
Summary of Financial Position:										
Cash and investments	\$ 2,037	1,768	1,701	1,715	1,804	1,725	1,613	1,441	1,318	1,196
Total assets	\$ 2,204	1,924	1,769	1,719	1,807	1,739	1,628	1,459	1,327	1,197
Present value of future benefits	\$ -	-	-	-	1	1	1	1	1	2
Nonrecoverable future financial assistance, present value	\$ 61,009	54,186	44,190	9,931	7,010	4,475	3,030	2,296	1,768	2,124
Net position	\$ (58,833)	(52,284)	(42,434)	(8,258)	(5,237)	(2,770)	(1,436)	(869)	(473)	(955)

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

As a general note, a dash “-” indicates no net activity to be reported.

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

I. INTRODUCTION

PBGC management believes its discussion and analysis of its financial statements and other statistical data will help all interested parties and readers better understand PBGC's financial condition and results of operations. Readers should consider this material in conjunction with the Annual Performance Report starting on page 1, the financial statements beginning on page 54, and the accompanying notes beginning on page 58.

II. FINANCIAL AND PROGRAM RISKS

As of September 30, 2016, the single-employer and multiemployer programs reported deficits of \$20,580 million and \$58,833 million, respectively. The multiemployer program's net position declined by \$6,549 million, increasing its deficit to \$58,833 million, a record high for the multiemployer program. Notwithstanding these deficits, the Corporation has about \$97,342 million in single-employer assets and \$2,204 million in multiemployer assets and will be able to meet its obligations for a number of years. However, it is not certain that either program at present has the resources to fully satisfy PBGC's long-term obligations. For example, the multiemployer program is projected to likely exhaust its assets by 2025 (Please refer to Section V Overall Capital and Liquidity).

In FY 2017, significant factors beyond PBGC's control (including the performance of financial markets, changes in interest rates, plan contributions made by sponsors, and recently enacted statutory and regulatory changes) will continue to influence PBGC's underwriting income and investment gains or losses. PBGC's best estimate of FY 2017 premium receipts ranges between \$7,100 million and \$7,400 million. No reasonable estimate can be made of FY 2017 terminations, effects of changes in interest rates, or investment income.

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

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

III. LEGISLATIVE AND REGULATORY DEVELOPMENTS

BIPARTISAN BUDGET ACT OF 2015

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

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

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

REGULATORY REVIEW AND REFORM

In 2011, the President issued Executive Order 13563, “Improving Regulation and Regulatory Review,” for agencies to consider the benefits and costs of regulations. In response, PBGC continues to focus on making regulations work better to protect plan participants and reduce burdens on pension plans and plan sponsors.

Fiscal year 2016 saw PBGC take an important step toward both these goals with the publication of a proposed rule on missing participants in response to congressional authorization to expand PBGC’s existing Missing Participants Program to cover terminated individual account plans (such as “401(k) plans”). The expanded program will offer such plans the opportunity to provide their missing participants protections like those already afforded to missing participants in terminated PBGC-insured plans — a listing of missing participants on PBGC’s website and no annual fees to eat away at benefit values. In addition, the proposal simplifies benefit valuation procedures for terminated insured plans with missing participants. PBGC is seeking public comment on its proposal and plans to have the expanded program operational in 2018. The program is designed to cover terminated small professional service pension plans and multiemployer plans as well.

On the multiemployer plan front, PBGC in FY 2016 issued a final rule to fine-tune the interim final rule on multiemployer plan partitions that it issued in FY 2015, and a proposed rule to facilitate multiemployer plan

mergers. PBGC is now considering the comments received on its merger proposal. These complementary regulations (on dividing and combining plans) implement MPRA, enacted in FY 2015. Together they seek to improve plans' ability to survive and continue paying participants' benefits.

PBGC took the initiative in FY 2016 to re-examine the penalties it charges for the late payment of premiums, and the result was a final rule providing substantial penalty relief. Premium penalties are tied to the amount of premium paid late, and Congress has raised premiums significantly over the years. As a result, penalties have grown proportionally. PBGC reviewed its experience with premium penalties and concluded that it could reduce penalties and still reasonably expect a satisfactory level of compliance. Accordingly, PBGC changed its premium payment regulation to cut late payment penalties in half. PBGC went further and established a new 80-percent penalty waiver for plans with good premium compliance histories that correct underpayments promptly after notification by PBGC.

Also in fiscal year 2016, PBGC issued a final rule on annual reporting for controlled groups with serious plan underfunding. Under the rule, a determination of whether aggregate plan underfunding is low enough to qualify for a reporting waiver must be made using recent market interest rates rather than rates used under minimum funding rules which reference long-term averages. The rule also adds new reporting waivers for smaller plans and for plans that must file solely because of large missed contributions or funding waiver applications previously reported to PBGC. It also provides alternative ways to report certain actuarial information.

IV. DISCUSSION OF INSURANCE PROGRAMS

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

By law, the two programs are funded and administered separately and their financial conditions, results of operations, and cash flows are reported separately. The accompanying financial statements for both programs, which appear on pages 54-57, have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Please refer to Note 2: "Significant Accounting Policies" for further detail, including a description of PBGC's valuation method used in determining benefit liabilities.

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

The single-employer program covers about 28.4 million people (excluding those in plans that PBGC has trustee), down from the 29.8 million people PBGC covered in 2015. The number of covered ongoing plans increased from about 22,200 in 2015 to about 22,300 in 2016.

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

In contrast, PBGC becomes trustee when a covered underfunded plan terminates. PBGC applies legal limits to payouts and pays the benefits. To determine the amount to pay each person, PBGC takes into account (a) the benefit that the participant had accrued in the terminated plan, (b) the availability of assets from the terminated plan to cover benefits, (c) how much PBGC recovers from employers for plan underfunding, and (d) the limits on guaranteed benefits provided under ERISA. The guarantee limits are indexed (i.e., they increase in proportion to increases in a specified Social Security wage index) and vary based on the participant's age and elected form of payment.

Because of indexing, the guarantee limits for plans that fail in calendar year 2017 will be 7.1% higher than the limits that applied for 2015 and 2016 as shown below for sample ages:

**Maximum Guaranteed Annual Benefit
Payable as a Single Life Annuity**

Age	Plans Terminating in 2015 and 2016	Plans Terminating in 2017
70	\$99,826	\$106,957
65	\$60,136	\$64,432
60	\$39,089	\$41,881
55	\$27,061	\$28,994

The guarantee limit is a cap on what PBGC guarantees, not on what PBGC pays. In some cases, PBGC pays benefits above the guarantee limit.

The applicable maximum guarantee is determined by the year the retiree's plan terminated (or, if the plan terminated during the plan sponsor's bankruptcy, the year the sponsor entered bankruptcy), even if the retiree does not begin collecting benefits until a future year.

Net income for the single-employer program was \$3,485 million in FY 2016. The primary drivers included the following: investment income of \$8,648 million, net premium income and other income of \$6,404 million, and a credit due to completed and probable terminations of \$417 million. This was offset by a charge of \$6,301 million due to a decrease in interest factors (which has the effect of increasing benefit liabilities and actuarial charges), a \$2,929 million actuarial charge due to expected interest on accrued liabilities, a charge for actuarial adjustments of \$2,285 million, a charge of \$366 million in administrative and other expenses, and investment expenses of \$103 million.

PBGC's single-employer program realized net income of \$3,485 million compared with a net loss in FY 2015 of \$4,727 million. This favorable \$8,212 million change was primarily attributable to:

- (1) an increase in investment income of \$8,324 million (a gain of \$8,648 million compared to a gain of \$324 million in FY 2015),
- (2) an increase in net premium and other income of \$2,255 million,
- (3) a decrease in charges due to expected interest of \$410 million,
- (4) a decrease in administrative, investment, and other expenses of \$7 million,

- (5) an increase in charges for underwriting actuarial adjustments of \$1,971 million,
- (6) an increase in actuarial charges due to change in interest factors of \$450 million; and
- (7) a decrease in credits from completed and probable terminations of \$363 million.

Actuarial charges and adjustments arise from changes from mortality and retirement assumptions, changes in interest factors and expected interest. Expected interest refers to the interest that PBGC expects to accrue during the current fiscal year based on PBGC's liability and interest factors at the end of the prior year, with adjustments made for new plans and benefit payments made during the year.

SINGLE-EMPLOYER UNDERWRITING ACTIVITY

PBGC's single-employer program realized a net underwriting gain of \$4,170 million in FY 2016, \$61 million less than the FY 2015 gain of \$4,231 million. This \$61 million decrease from the previous year was primarily due to the \$1,971 million increase in charges for underwriting actuarial adjustments and a decrease of \$363 million in credits from completed and probable terminations, partially offset by a \$2,241 million increase in single-employer net premium income.

Premium and other income from underwriting activity increased (from \$4,149 million in FY 2015 to \$6,404 million in FY 2016), largely due to an increase in net premium income from plan sponsors (from \$4,138 million in FY 2015 to \$6,379 million in FY 2016). The increase in net premium income was primarily due to the increase in the variable rate premium for plan years beginning in 2016, given the combined effect of the variable rate increases and higher levels of underfunding. Other income, consisting of interest on recoveries from sponsors, increased from \$11 million in FY 2015 to \$25 million in FY 2016.

Annual variable rate premium income, paid by underfunded single-employer plans, increased by \$2,074 million to a total of \$4,639 million. The prior year's VRP rate of \$24 per \$1,000 of underfunding increased to \$30 per \$1,000 of underfunding for plan years beginning in 2016. Annual flat rate premiums for the single-employer program increased from \$57 to \$64 per participant in FY 2016, contributing to an increase in the flat rate premium income of \$186 million to a total of \$1,742 million.

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

The Treasury determines each segment rate monthly using the portion of a corporate bond yield curve that is based on corporate bonds maturing during that segment rate period. The corporate bond yield curve is also prescribed every month by the Treasury. It reflects the yields for the previous month on investment-grade corporate bonds with varying maturities that are in the top three quality levels. The January 2016 segment rates for calendar-year plans were 1.82%, 4.12% and 5.01% for the first, second, and third segments, respectively.

The Corporation's credits from completed and probable plan terminations decreased from a credit of \$780 million in FY 2015 to a credit of \$417 million in FY 2016. The \$417 million FY 2016 credit is due to a credit of \$1,183 million from revaluations of plans that had terminated in prior years and a \$209 million decrease in

probable claims, offset by \$975 million for charges related to new plan terminations (see “Subtotal terminated plans” in Note 12).

The net claim for single-employer probable terminations as of September 30, 2016, was \$376 million, while the net claim as of September 30, 2015, was \$585 million. This \$209 million decrease is due primarily to the transfer of \$382 million of previously accrued claims to a termination status, the deletion of one plan with a net claim of \$40 million, and a favorable decrease in the reserve for small unidentified probables of \$36 million. These factors were offset by the addition of three new probables with net claims of \$249 million (see Note 6).

Single-employer administrative expenses increased \$8 million from \$354 million in FY 2015 to \$362 million in FY 2016.

In summary, the following key metrics describe the components of PBGC’s single-employer present value of future benefits liability:

- \$113,011 million – trustee plans (4,738 plans)
- \$296 million – plans pending termination and trusteeship (31 plans)
- \$376 million – three probable plans and a reserve for small plans
- During FY 2016, PBGC terminated 67 underfunded single-employer plans with a net claim of \$975 million, with \$382 million already accrued as probable.

SINGLE-EMPLOYER FINANCIAL ACTIVITY

In FY 2016, single-employer financial net loss decreased from a loss of \$8,958 million in FY 2015 to a loss of \$685 million. This is due to an increase of \$8,324 million in investment income (\$8,648 million in FY 2016 compared with \$324 million in FY 2015), offset by an increase of \$40 million in actuarial charges and an increase of \$11 million in investment expense. PBGC marks its assets to market, which is consistent with the Financial Accounting Standards Board (FASB) Accounting Standards Codification Section 820, *Fair Value Measurements and Disclosures* (see Note 5).

Actuarial charges under financial activity represent the effects of changes in interest rates and the expected interest accrued on the present value of future benefits. The interest rate in effect at the beginning of FY 2016 (2.80%) decreased compared to the rate at the beginning of FY 2015 (3.35%). A charge to the single-employer interest factor occurred in both FY 2015 and FY 2016 due to a decrease in the interest factors from the previous year (the interest factor charge was \$5,851 million in FY 2015 and \$6,301 million in FY 2016). The expected interest refers to the interest that PBGC expects to accrue during the fiscal year on PBGC’s liability at the end of the prior year. Charges to the single-employer expected interest decreased in FY 2016 (the expected interest charge was \$3,339 million in FY 2015 and \$2,929 million in FY 2016).

PBGC discounts its liabilities for future benefits with interest factors¹ that, together with the mortality table used by PBGC, approximate the price in the private-sector annuity market at which a plan sponsor or PBGC could settle its obligations. In FY 2016 PBGC's select interest factor decreased to 2.27% (for the first 20 years after the valuation date) at September 30, 2016, from 2.80% (for the first 25 years) at September 30, 2015. The ultimate factor decreased to 2.14% at September 30, 2016 (after the first 20 years) from 2.86% at September 30, 2015 (after the first 25 years).

PBGC's single-employer Present Value of Future Benefits (PVFB) increased from \$106,926 million at September 30, 2015, to \$113,704 million at September 30, 2016. PVFB comprises the majority of PBGC's combined total liabilities of \$178,959 million on its Statements of Financial Position.

IV.B MULTIEMPLOYER PROGRAM RESULTS OF ACTIVITIES AND TRENDS

During FY 2016, PBGC's obligations for future financial assistance to multiemployer plans increased from \$54,186 million at September 30, 2015, to \$61,009 million at September 30, 2016, an increase of \$6,823 million (13%).

There were three key drivers for change in our reported multiemployer liabilities that are included in the losses from insolvent and probable plans—financial assistance amount of \$6,768 million as of September 30, 2016. A significant driver of the change is the net addition of 11 new plans added to the multiemployer inventory (includes 10 multiemployer probable plans as well as 1 new insolvent plan) in FY 2016. These additional plans accounted for \$6,347 million in additional guaranteed liabilities reported by PBGC at September 30, 2016. Of this \$6,347 million amount, multiemployer plans classified as probable accounted for \$6,332 million.

Another key actuarial driver increasing the liabilities in FY 2016 was the decrease in the pension liability valuation interest factors. The select interest rate factor decreased by 53 basis points to 2.27% at September 30, 2016, from 2.80% at September 30, 2015. This decrease in interest factor accounted for over \$6.2 billion in additional guaranteed liabilities.

Finally, another key actuarial driver (partially offsetting the above increases) for the change in estimated multiemployer liabilities is updated actuarial assumptions. The most important of these is a change in the estimated guarantee factor that PBGC uses in determining PBGC-guaranteed liabilities for multiemployer plans. The change reflects a revised procedure for determining the guaranteed benefit reduction factor, based on an assumption that both retirees and terminated vested participants have lower average years of service compared to estimates used prior to September 30, 2016. In FY 2016, PBGC hired an actuarial firm to conduct a study of PBGC's actual guarantee factor experience for multiemployer plans. This comprehensive study looked at all plans in the PBGC multiemployer probable plan universe where guarantee benefit data were available. This study found that the PBGC guarantees a smaller percentage of the multiemployer plan liabilities than previously estimated. As a result, PBGC updated the assumption to reflect the lower

¹ PBGC surveys life insurance industry annuity prices through the American Council of Life Insurers (ACLI) to obtain input needed to determine interest factors and then derives interest factors that will best match the private-sector prices from the surveys. The interest factors are often referred to as select and ultimate interest factors. Any pair of interest factors will generate liability amounts that differ from the survey prices, which cover 14 different ages or benefit timings. The PBGC process derives the interest factor pair that differs least over the range of prices in the survey.

guarantee. This change in the guaranteed factor assumption accounted for nearly a \$4,051 million reduction in the estimated guaranteed liabilities.

PBGC paid \$113 million in financial assistance to 65 insolvent plans that cover over 59,000 retirees.

PBGC's multiemployer program covers about 10.6 million participants (an increase from 10.3 million participants in FY 2015) in about 1,400 insured plans. The multiemployer flat rate premium increased from \$26 per participant in 2015 to \$27 for 2016. This upward movement contributed to an increase in flat rate premium income of \$72 million to a total of \$284 million.

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

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

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

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

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

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

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

Benefits under the multiemployer program are calculated based on (a) the benefit a participant would have received under the insolvent plan, subject to (b) the legal multiemployer guarantee under ERISA. The guaranteed amount depends on the participant's years of service and the level of the benefit accruals. Monthly benefit accrual rates per year of service up to \$11 are fully guaranteed; the portion of monthly benefit accrual rates between \$11 and \$44 is 75% guaranteed; monthly benefit accrual rates in excess of \$44 are not guaranteed. For example, for a participant with 20 years of service, PBGC's guarantee would cover 100% of annual amounts up to \$2,640 and partially cover amounts in excess of that not to exceed a total of \$8,580 per year. Similarly, for a participant with 35 years of service, PBGC's guarantee would cover 100% of annual amounts up to \$4,620 and partially cover amounts in excess of that not to exceed a total of \$15,015 per year. The multiemployer guarantee limit has been in place since 2001.

The multiemployer program reported a net loss of \$6,549 million in FY 2016 compared with a net loss of \$9,850 million in FY 2015. This resulted in a negative net position of \$58,833 million in FY 2016 compared with a negative net position of \$52,284 million in FY 2015. The FY 2016 deficit is an all-time high for the multiemployer program.

The year-to-year decrease in net loss of \$3,301 million was primarily due to the decrease in financial assistance losses from insolvent and probable plans of \$3,195 million, an increase in investment income of \$75 million, and an increase in premium income of \$70 million, offset by an unfavorable impact from the change in interest factors of \$23 million, an increase in administrative expenses of \$7 million, an increase in charges due to expected interest of \$5 million, and an increase in charges to actuarial adjustments of \$4 million.

Multiemployer program investments originate mainly from the cash receipts for premiums due from insured plans. PBGC is required to invest these premiums in obligations issued or guaranteed by the United States government.

V. OVERALL CAPITAL AND LIQUIDITY

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

The Corporation has sufficient liquidity to meet its obligations for a number of years; however, barring changes, neither program will, with certainty be able to fully satisfy PBGC's long-term obligations to plan participants. For example, the FY 2015 Projections Report shows that the risk of multiemployer program insolvency rises rapidly, exceeding 50 percent in 2025 and reaching over 90 percent by the end of 2035. On the other hand, FY 2015 single-employer scenarios simulated over the 10 year projection period indicated that none would result in PBGC assets being completely exhausted.

FY 2016 combined premium cash receipts totaled \$5,520 million, an increase of \$1,824 million from \$3,696 million in FY 2015, due primarily to the increase in variable rate premiums. Net cash flow used by investment activities decreased to \$490 million used versus \$712 million used in FY 2015. In FY 2016, PBGC's cash receipts of \$7,482 million from operating activities of the single-employer program were sufficient to cover its operating cash obligations of \$6,341 million. This resulted in net cash provided by operating activities of \$1,141 million (as compared to net cash used of \$136 million in FY 2015). When the

single-employer cash used through investing activities of about \$412 million is added to this net cash provided, the single-employer program in the aggregate experienced a net cash increase of \$729 million.

In the multiemployer program, cash receipts of \$316 million from operating activities were sufficient to cover its operating cash obligations of \$147 million, resulting in net cash provided by operations of \$169 million. When this net cash provided is added to net cash used through investing activities of \$78 million, the multiemployer program in the aggregate experienced an overall net cash increase of \$91 million.

During FY 2016, PBGC recovered \$88 million through agreements with sponsors of terminated plans for unpaid contributions and unfunded benefits. A portion of those recovered funds are paid out as additional benefits to plan participants with nonguaranteed benefits according to statutory priorities.

In FY 2016, PBGC's combined net increase in cash and cash equivalents amounted to \$820 million, arising from an increase of \$729 million for the single-employer program and an increase of \$91 million for the multiemployer program.

VI. SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAM EXPOSURE

PBGC estimates its single-employer loss exposure to reasonably possible terminations (e.g., underfunded plans sponsored by companies with credit ratings below investment grade) of \$223,275 million at September 30, 2016, and \$217,699 million at September 30, 2015. PBGC's exposure to loss may be less than these amounts because of the statutory guarantee limits on insured pensions, but PBGC is unable to estimate prospectively the extent and effect of the guarantee limitations. These estimates are measured as of December 31 of the previous year (see Note 9). For FY 2016, this exposure was concentrated in the following sectors: manufacturing (primarily automobile/auto parts and fabricated metals), transportation (primarily airlines)/communications/utilities and services.

PBGC estimates that, as of September 30, 2016, it is reasonably possible that multiemployer plans may require future financial assistance of \$19,485 million, compared to \$19,957 million at September 30, 2015. The decrease in FY 2016 from FY 2015 is primarily due to changes in the data and underlying assumptions. The change in data was a result of updated plan asset and liability information. The changes in assumptions include the reduction in discount factors, an update to the small plan bulk reserve process, and the revised procedure for determining the guaranteed benefit reduction factor (an assumption that both retirees and terminated vested participants have smaller guaranteed benefits compared to that of a higher assumption that was used prior to September 30, 2016).

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

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

In FY 2016, 1,338 plans filed standard terminations. The number of filings is consistent with that in the previous five years (ranging from 1,350 to 1,450 each year). Even though the total number of filings remains steady, there is a noticeable increase in larger plan standard terminations. Some of the large plans that terminated were those sponsored by CVS Health Corporation, Inova Health System, Community Hospitals of Indiana, Philips Electronics, Pfizer, Inc. and First American Financial Corporation. Philips Electronics also completed the standard termination process in FY 2016. Other large plans such as NBC Universal, Acument Global Technologies, Fluor Corporation, Hannaford Brothers and Fannie Mae completed previously filed standard terminations.

As in previous years, the majority of the plans that filed standard terminations were small plans with 300 or fewer participants.

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

VII. INVESTMENT ACTIVITIES

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

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

Total revolving fund investments, including cash and investment income, on September 30, 2016, were \$26,013 million (\$1,490 million for Fund 1, \$2,036 million for Fund 2, and \$22,487 million for Fund 7). Trust fund investments totaled \$65,620 million as of September 30, 2016. At the end of FY 2016, PBGC's total

investments consisting of cash and cash equivalents, investments, and investment income receivable as shown on the Statements of Financial Position were \$91,633 million.

The objective of PBGC's investment policy is to maximize funded status within a prudent risk framework that is informed by PBGC's fixed obligations and asset composition of potential trustee plans. The investment policy establishes a 30 percent target asset allocation for equities and other non-fixed income assets, and a 70 percent asset allocation for fixed income.

PBGC's investment program had assets under performance management of \$89,500 million as of September 30, 2016. Of the \$2,100 million difference between the September 30, 2016, assets reported on the Statements of Financial Position and the assets within PBGC's investment performance portfolio, \$900 million represent net unsettled purchases, \$500 million for funds available for the following month's benefit payments, \$400 million are newly trustee assets that have not yet been commingled, and \$300 million represent custodial bank holding accounts. Asset allocation percentages refer to the investments within PBGC's investment program that are subject to the Corporation's investment policy, as described below.

Cash and fixed income securities totaled about 70 percent of total assets under performance management invested at the end of FY 2016, compared with approximately 68 percent for FY 2015. Equity securities (i.e., public equities) represented about 29 percent of total assets under performance management invested at the end of FY 2016, compared with approximately 31 percent for FY 2015. The Total Fund Composite return (excluding private market assets and transition accounts) for FY 2016 was 10.8% compared with 0.1% in FY 2015. The returns reflect stronger capital markets performance during the period. A small percentage of PBGC's investments (1.3 percent of total investment assets at FY 2016, compared with 0.1 percent at FY 2015) predominantly represent assets that are in the process of moving out of one of the manager portfolios either for liquidation or for transfer to another manager. The return of the Total Fund Composite including these transition accounts was 10.7% in FY 2016, compared to 0.1% in FY 2015. Private markets assets, comprised largely of private equity, private debt, and private real estate that are currently part of the investment portfolio, represented about 1.2% of total investments at the end of FY 2016, compared with 1.7% of total investments at the end of FY 2015.

Due to the cyclical nature of capital markets, PBGC also reports five-year returns for its investment program. For the five-year period ending September 30, 2016, PBGC's return on total invested funds excluding transition accounts was 6.7% compared with a total fund benchmark return of 6.4% — a benchmark based on the relative weights of the underlying managed accounts. Including the transition accounts, the five-year annualized return was 6.7%. Separately, the ERISA/PPA hypothetical portfolio benchmark return for the five-year period ending September 30, 2016, was 11.1%. (See section VII Investment Activities (The Pension Protection Act of 2006 Reporting Requirement).

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

INVESTMENT PERFORMANCE

(Annual Rates of Return)

	September 30,		Three and Five Years Ended September 30, 2016	
	2016	2015	3 yrs	5 yrs
Total Fund Composite	10.8%	0.1%	6.2%	6.7%
Total Fund Benchmark¹	10.4	(0.1)	6.0	6.4
ERISA/PPA Portfolio Benchmark²	11.2	1.0	8.4	11.1
Total Global Public Stock	13.5	(3.6)	6.7	12.1
Total Global Public Stock Benchmark³	13.1	(4.3)	6.4	11.7
Total Global Bonds	10.0	2.2	6.3	4.8
Total Global Bonds Benchmark⁴	9.6	2.2	6.2	4.4
Smaller Asset Managers Pilot Program⁵	n/a	n/a	n/a	n/a
Trust Funds	12.0	(1.0)	6.6	8.1
Revolving Funds	7.1	3.4	5.0	2.9
Indices				
Russell 3000 Index	15.0	(0.5)	10.4	16.4
MSCI ACWI ex-U.S. IMI Index	9.8	(11.4)	0.6	6.4
Dow Jones U.S. Select Real Estate Securities Index	17.7	11.8	14.2	15.6
Barclays Capital Treasury Index	4.1	3.8	3.4	2.2
Barclays Capital Aggregate Bond Index	5.2	2.9	4.0	3.1
Barclays Capital Global Aggregate ex-US Index, Hedged	7.5	3.4	5.8	5.0

¹ The Total Fund Benchmark is a dynamic weighted benchmark based upon the weights of the Total Global Public Stock Benchmark, the Total Global Bonds Benchmark and the Total Money Market Securities Benchmark. This benchmark is utilized to compare against the Total Fund Composite returns shown above.

² The ERISA/PPA Portfolio Benchmark is based upon a hypothetical portfolio with a 60% allocation to the Standard & Poor's 500 equity index and a 40% allocation to the Barclays Capital Aggregate fixed income index. See section VII Investment Activities (The Pension Protection Act of 2006 Reporting Requirement).

³ The Total Global Public Stock Benchmark is a dynamic weighted benchmark based upon the weights of the U.S. Public Stock composite and the International Public Stock composite and the returns of their respective benchmarks.

⁴ The Total Global Bonds Benchmark is a dynamic weighted benchmark based upon the weights of PBGC's fixed income managers and the returns of their respective benchmarks.

⁵ The performance inception date for the Smaller Asset Managers Pilot Program is August 2016. As such, one year of performance is not yet available.

FIXED INCOME

As described below, PBGC fixed income investment managers use a number of different benchmarks. Where applicable, the relative percentage that each index or benchmark represents for its respective asset class is provided. The percentage invested under each benchmark(s), in aggregate, for each asset class relative to the overall PBGC investment program as of September 30, 2016, is also provided below.

The Total Global Bonds Benchmark is a dynamic weighted benchmark based on the weights of the underlying fixed income managers and the returns of their respective benchmarks. As of September 30, 2016, the weighted benchmark encompasses the Revolving Fund Treasuries Custom Benchmark (30.3%), the Barclays Capital U.S. TIPS index (11.8%), the Total Long Duration Bonds Benchmark (24.0%), the Barclays Capital Aggregate Bond index (8.7%), the Total Developed Market Bonds Benchmark (10.4%), the Total High Yield Bonds Benchmark (5.6%), and the Total Emerging Market Bonds Benchmark (9.2%). The overall Total Global Bonds composite equals 65.6 percent of the total PBGC portfolio.

Treasuries: This category includes investments in United States Dollar (USD) denominated fixed income securities managed by outside professional asset managers and it applies to 19.9 percent of PBGC's investment program assets at year-end. The Revolving Fund Treasuries Custom Benchmark encompasses the Barclays Capital US Treasury 7+ index (65.0%) and the Barclays Capital US Treasury Intermediate index (35.0%). The Revolving Fund Treasuries Custom Benchmark is a customized index made up of U.S. Treasury notes and bonds. While PBGC is able to redeem composite assets upon request, the composite assets are part of the Revolving Fund and can only be redeemed to meet pension benefit obligations and administrative expenses.

U.S. Treasury Inflation Protected Securities (TIPS): This category includes investments in USD denominated fixed income securities managed by outside professional asset managers, and it applies to 7.8 percent of PBGC's investment program assets at year-end. The TIPS Benchmark is the Barclays Capital U.S. TIPS index. While PBGC is able to redeem composite assets upon request, the composite assets are part of the Revolving Fund and can only be redeemed to meet pension benefit obligations and administrative expenses.

Long Duration: This category includes investments mainly in USD-denominated fixed income securities managed by outside professional asset managers, and applies to 15.7 percent of PBGC's investment program assets at year-end. The Total Long Duration Bonds Benchmark is a dynamic weighted benchmark based on the weights of the underlying Trust Fund long-duration fixed income managers and the returns of their respective benchmarks. As of September 30, 2016, the Total Long Duration Bonds Benchmark encompasses the Barclays Capital Long U.S. Government/Credit index (47.2%), Barclays U.S. Long Credit Index (3.9%), and Custom Benchmarks (48.9%). The Barclays Capital Long U.S. Government/Credit index includes both government and credit securities. The government component includes public obligations of the U.S. Treasury that have remaining maturities of more than one year and publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government. The credit component of the index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality (investment grade) requirements. The Barclays Capital U.S. Long Credit index includes investment-grade corporate debt and sovereign, supranational, local authority and non-U.S. agency bonds that are dollar denominated and have a remaining maturity of greater

than or equal to 10 years. The custom benchmarks include similar securities and are weighted combinations of sub-sector benchmarks. PBGC is able to redeem composite assets upon request.

Core: This category includes investments primarily in USD-denominated fixed income securities managed by outside professional asset managers. It applies to 5.7 percent of PBGC's investment program assets at year-end. The Core Fixed Income Benchmark is the Barclays Capital Aggregate Bond index. The Barclays Capital Aggregate Bond index includes securities that are registered with the Securities and Exchange Commission (SEC) and are taxable and dollar-denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, asset-backed securities, and foreign securities. PBGC is able to redeem composite assets upon request.

Developed Markets: This category includes investments in USD-denominated fixed income securities and fixed income securities denominated in other foreign currencies managed by outside professional asset managers. It applies to 6.8 percent of PBGC's investment program assets at year-end. The Total Developed Market Bonds Benchmark is a dynamic weighted benchmark based on the weights of all developed market bond managers and the returns of their respective benchmarks. As of September 30, 2016, the weighted benchmark encompasses the Barclays Capital Global Aggregate index hedged (52.5%) and the Barclays Capital Global Aggregate ex-USD index hedged (47.5%). The Barclays Capital Global Aggregate index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD-denominated investment grade 144A securities. The hedged index negates exposure to foreign currencies by hedging currency exposure back to the U.S. dollar. The ex-USD index excludes USD denominated securities and provides a broad-based measure of international investment-grade fixed income markets. PBGC is able to redeem composite assets upon request.

High Yield: This category includes investments primarily in USD-denominated fixed income securities managed by outside professional asset managers. It applies to 3.7 percent of PBGC's investment program assets at year-end. The Total High Yield Bonds Benchmark is a dynamic weighted benchmark based on the weights of all high yield bond managers and the returns of their respective benchmarks. As of September 30, 2016, the weighted benchmark encompasses the Barclays Capital US High Yield Ba/B 1% Capped index (55.1%), the Barclays Capital US High Yield 2% Issuer Capped index (29.1%) and the Barclays Capital US High Yield Ba/B 2% Capped index (15.8%). The Barclays Capital U.S. High Yield Ba/B 1% Issuer Capped index includes the universe of fixed rate, non-investment grade debt securities rated Ba or B. The index also includes Canadian and global bonds (SEC registered) of issuers in non-Emerging Market countries. The index limits the size of an individual issuer to 1% of the index. The Barclays Capital U.S. High Yield 2% Issuer Capped index includes the universe of fixed rate, non-investment grade debt securities rated Ba-D. The index also includes Canadian and global bonds (SEC-registered) of issuers in non-Emerging Market countries. The index limits the size of an individual issuer to 2% of the index. The Barclays Capital U.S. High Yield Ba/B 2% Issuer Capped index is identical to the Barclays Capital U.S. High Yield Ba/B 1% Issuer Capped index, except it limits the size of an individual issuer to 2% of the index instead of 1% of the index. PBGC is able to redeem composite assets upon request.

Emerging Market Bonds: This category includes fixed income securities denominated in either U.S. dollars or foreign currencies, and managed by outside professional asset managers. It comprises 6.0 percent of PBGC's investment program assets at year-end. The Total Emerging Market Bonds Benchmark is a dynamic weighted benchmark based on the weights of all emerging market bond managers and the returns of their respective benchmarks. As of September 30, 2016, the weighted benchmark encompasses the JP Morgan EMBIG Diversified index (50.8%) and Custom Benchmarks (49.2%). The custom benchmarks are weighted combinations of the JP Morgan EMBIG Diversified and the JP Morgan GBI EM Global Diversified indices. The JP Morgan EMBIG Diversified index includes USD-denominated debt instruments issued by Emerging Market countries. The index also includes USD-denominated Brady bonds, Eurobonds, and traded loans issued by sovereign and quasi-sovereign entities. The JP Morgan GBI EM Global Diversified index includes local currency or non-U.S. dollar-denominated debt instruments issued by Emerging Market countries. PBGC is able to redeem composite assets upon request.

MONEY MARKET SECURITIES

This category includes investments in money market instruments managed by an outside professional asset manager who invests in a diversified portfolio of short-term obligations and deposits, including, but not limited to, Treasury and agency obligations, certificates of deposits, commercial paper, and repurchase agreements (Trust Fund Cash). In addition, the category includes overnight investments in Treasury securities held at Treasury (Revolving Fund Cash). The Total Money Market Securities Benchmark is a dynamic weighted benchmark based on the weights of the Trust Fund Cash and the Revolving Fund Cash and the returns of their respective benchmarks. As of September 30, 2016, the weighted benchmark encompasses the 3-month Treasury bill (52.8%) and the 4-week Treasury bill (47.2%). The cash composite represents 3.0 percent of PBGC's investment program as of September 30, 2016. PBGC is able to redeem money market securities upon request.

GLOBAL PUBLIC STOCK

This category includes investments in the U.S. Public Stock composite and the International Public Stock composite, and applies to 27.9 percent of PBGC's investment program assets at fiscal year-end. The Total Global Public Stock Benchmark is a dynamic weighted benchmark based upon the weights of the U.S. Public Stock composite and the International Public Stock composite as well as on the returns of their respective benchmarks. PBGC is able to redeem composite assets upon request.

As of September 30, 2016, the Total Global Public Stock Benchmark comprises the Total U.S. Public Stock Benchmark (51.2%), and the Total International Public Stock Benchmark (48.8%).

U.S. Public Stock: This category includes investments in U.S. publicly traded equity securities and U.S. publicly traded real estate investment trusts (REITs) managed by outside professional asset managers. It applies to 14.3 percent of PBGC's investment program assets at year-end. The Total U.S. Public Stock Benchmark is a dynamic weighted benchmark based upon the weights of the U.S. Public Stock composite and the returns of their respective benchmarks. As of September 30, 2016, the weighted benchmark comprises the Russell 3000 index (88.1%) and the Dow Jones U.S. Select Real Estate Securities index (11.9%). PBGC is able to redeem composite assets upon request.

International Public Stock: This category includes investments in International Equity securities managed by outside professional asset managers. It applies to 13.6 percent of PBGC's investment program assets at year-end. The Total International Public Stock Benchmark is a dynamic weighted benchmark based upon the weights of all of the international funds and the returns of their respective benchmarks. As of September 30, 2016, the weighted benchmark encompasses the MSCI EAFE index (60.6%), the MSCI EAFE Small Cap index (9.8%), the MSCI Emerging Markets index (22.7%), and the MSCI Canada index (6.9%). The MSCI EAFE index (Europe, Australasia and Far East) is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. The MSCI EAFE Small Cap index is designed to measure the developed markets small capitalization equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets index is designed to measure equity market performance of emerging markets and the MSCI Canada index is designed to measure the equity market performance of Canada. PBGC is able to redeem composite assets upon request.

Smaller Asset Managers Pilot Program: PBGC implemented the Smaller Asset Managers Pilot Program, which creates new opportunities for smaller asset managers, who wish to compete for the agency's business. Five investment management firms were selected to participate in the pilot program and were funded in fiscal year 2016. This category includes investments primarily in USD-denominated fixed income securities managed by outside professional asset managers. It applies to 1.0 percent of PBGC's investment program assets at fiscal year-end. The Smaller Asset Managers Pilot Program Benchmark is the Barclays Capital Aggregate Bond index. The Barclays Capital Aggregate Bond index includes securities that are SEC-registered, taxable, and dollar-denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, asset-backed securities, and foreign securities. PBGC is able to redeem composite assets upon request.

PRIVATE MARKETS

This category includes private equity, private debt, and private real estate funds that invest mainly in buyouts, venture capital, distressed debt, and commercial real estate. It applies to 1.2 percent of PBGC's investment program assets at year-end. Private investments are difficult to benchmark due to their illiquid nature. Typical benchmarks utilized for private equity include universe comparisons, where funds that have the same original investment date are compared against the performance of a similar fund. For direct private real estate investments, many institutions use the National Council of Real Estate Investment Funds (NCREIF) index, which includes U.S. commercial real estate properties acquired in the private market for investment purposes. For investments in private equity real estate, peer universe comparisons based on similar funds with the same original investment date are often utilized. Private market investments typically do not have redemption provisions; instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the funds. It is estimated that the majority of the underlying assets of the funds will be liquidated over the next five years. The fair values of the investments in this category have been estimated using the net asset value of PBGC's ownership interest in partners' capital.

THE PENSION PROTECTION ACT OF 2006 REPORTING REQUIREMENT

The Pension Protection Act of 2006 requires PBGC to estimate the effect of an asset allocation based on a combination of two commonly used market benchmarks. This hypothetical portfolio (used as a benchmark for a typical pension plan, rather than an insurer), with a 60 percent allocation to the Standard & Poor's 500

equity index and a 40 percent allocation to the Barclays Capital Aggregate Bond index, would have increased the assets of the Corporation by about \$0.5 billion (11.4% return compared with PBGC's Total Fund Composite return including transition accounts of 10.7%) for the one-year period ending September 30, 2016, and increased the assets of the Corporation by about \$20.2 billion (11.1% return compared with PBGC's Total Fund Composite return including transition accounts of 6.7%) over the five-year period ending September 30, 2016. For further analysis of PBGC's Investment Activities please refer to the MD&A of Results of Operations and Financial Position. As reported in last year's FY 2015 Annual Report, the same "60/40 portfolio" would have increased the assets of the Corporation by about \$0.7 billion (1.0% return compared with PBGC's Total Fund Composite return including transition accounts of 0.1%) for the one-year period ending September 30, 2015, and increased the assets of the Corporation by about \$16.1 billion (9.5% return compared with PBGC's Total Fund Composite return including transition accounts of 5.6%) for the five-year period ending September 30, 2015.

These results are summarized in the following table.

INVESTMENT PORTFOLIO ANALYSIS

60/40 Hypothetical Portfolio Analysis Versus PBGC Fiscal Year Actual Return (60/40 comprises S&P 500 Index/Barclays Capital Aggregate Bond Index)						
Fiscal Year	1-Year Period Ending			5-Year Period Ending		
	60/40 Incremental \$ Billions	60/40 % Return	PBGC Actual Return ¹	60/40 Incremental \$ Billions	60/40 % Return	PBGC Actual Return ¹
9/30/2015	\$0.7	1.0%	0.1%	\$16.1	9.5%	5.6%
9/30/2016	\$0.5	11.4%	10.7%	\$20.2	11.1%	6.7%

¹ PBGC actual return is the PBGC's Total Fund Composite return including transition accounts.

ANALYSIS OF ENTITY'S SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

PBGC maintains an Internal Controls Program designed to support compliance with the *Federal Managers' Financial Integrity Act* (FMFIA) and Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. PBGC has begun implementation of the new requirements specified in the July 2016 revision to OMB Circular A-123 and, as described below, performs a number of activities that serve to undergird the FMFIA Statement of Assurance. For FY 2016, PBGC provided an unmodified FMFIA Statement of Assurance and also highlighted a compliance matter regarding a reported instance of noncompliance with the voluntary service provision of the Antideficiency Act.

INTERNAL CONTROL COMMITTEE

The PBGC Internal Control Committee (ICC) provides corporate oversight and accountability regarding internal controls over PBGC's operations, reporting, and compliance with laws and regulations. Chaired by the Chief Financial Officer, the committee includes members from each major area of the agency, including a representative of the OIG as a non-voting member. The ICC approves major changes to key financial reporting and entity-wide controls and PBGC systems, monitors the status of internal control deficiencies and related corrective actions, and considers other matters, including controls designed to prevent or detect fraud. The ICC charter was updated to reflect coordination with a newly established Risk Management Council (RMC), especially when risks that require new or updated controls as part of a risk remediation strategy are identified. In addition, the ICC will be increasing its focus on controls over operations, nonfinancial reporting, and compliance with laws and regulations, based on the updated OMB Circular A-123 requirements.

DOCUMENTATION AND TESTING OF CONTROLS

As part of the Internal Controls Program, controls are evaluated, on a test basis, to assess the adequacy of control design and the extent to which they are operating effectively. Reports regarding results of the testing are provided to stakeholders within the agency and corrective actions are recommended, where appropriate. Areas of focus include:

Standards for Internal Control in the Federal Government (Green Book): These standards, published by the GAO, represent guidance to be used by federal agencies in implementing effective internal control systems. FY 2016 was the first year of their applicability, and PBGC completed an initial assessment of activities and controls supporting the Green Book's five internal control components and the 17 underlying control principles. A number of recommendations were identified to enhance existing practices.

Financial Reporting Controls: Cycle memorandums documenting financial reporting controls within the following 12 major business process cycles were updated and approved during the fiscal year: Benefit Payments, Benefit Determinations, Budget, Financial Reporting, Human Resources/Payroll, Investments, Losses on Completed and Probable Terminations, Non-Recoverable Future Financial Assistance, Payables, Premiums, Single-Employer Contingent Liability, and Present Value of Future Benefits. The ICC has designated certain controls as key internal controls over financial reporting within each of these cycles, and

employees responsible for performance of these controls are required to provide quarterly representations regarding the performance of those controls and to maintain evidence documenting control execution.

Entity-Wide Controls: These controls are overarching controls that support the overall effectiveness of PBGC's internal control environment. The ICC has designated certain controls as key entity-wide controls within the following six categories: control environment, risk assessment, control activities, information and communication, monitoring and anti-fraud. With regard to anti-fraud efforts, PBGC conducted an initial fraud assessment during FY 2016 as part of a continuing effort to fully implement GAO's Framework for Managing Fraud Risks in Federal Programs. This framework is focused on identifying and responding to fraud risks and developing control activities to prevent and detect fraud. The use of this framework is required under the Fraud Reduction and Data Analytics Act and OMB Circular A-123.

Information Technology Controls: In order to protect the confidentiality, integrity, and availability of PBGC information systems and the information processed and stored by those systems, PBGC implements the controls included in the National Institute of Standards and Technology's Special Publication No. 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*. These controls are documented as part of System Security Plans which are maintained within the Cyber Security Assessment and Management (CSAM) tool managed by the Office of Technology's Enterprise Cybersecurity Division.

ASSESSMENT OF IMPROPER PAYMENT RISK

Based on the requirements of OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, and related improper payment legislation, PBGC performed risk assessments of two payment streams for FY 2016: 1) financial assistance payments to insolvent multiemployer plans that are unable to pay benefits when due under the requirements of Title IV of ERISA (Financial Assistance Payments); and 2) payments to contractors for goods and services, including government credit card transactions (Payments to Contractors). Please refer to the Improper Payment Assessment section of this report for additional information.

AUDIT COORDINATION AND FOLLOW-UP PROGRAM

In implementing OMB Circular A-50, PBGC has established its *Audit Coordination and Follow-up Directive*. It is PBGC policy to fully cooperate with audits of PBGC operations and ensure the efficient tracking, resolution, and implementation of agreed-upon audit recommendations contained in audit reports issued by OIG and the GAO. PBGC has dedicated staff to coordinate with OIG and GAO audit representatives in providing access to records and information needed to complete audits and ensure that management responses to draft reports are provided in a timely manner. To facilitate timely completion and closure of audit recommendations, staff regularly monitors implementation efforts, including regular distribution of audit follow-up status reports to executive management via a corporate-wide portal and formal submission of documentation evidencing completion of required corrective actions. Status reports are used to document planned corrective actions and estimated completion dates; they also indicate those recommendations for which work has been completed and reported as such to the OIG and to GAO. In addition, PBGC prepares a management report in response to the Semiannual Report to Congress (SARC) issued by the OIG, which addresses the status of agreed-upon OIG recommendations and provides other information required under the Inspector General Act of 1978, as amended.

COMPLIANCE WITH LAWS, REGULATIONS, AND OTHER REQUIREMENTS

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

RISK MANAGEMENT ACTIVITIES

PBGC established a Risk Management Council during FY 2016. PBGC has appointed an acting Risk Management Officer (RMO) and is actively recruiting to fill the position on a permanent basis. The RMO serves as RMC Chair and reports directly to the PBGC Director. The RMC has established a charter and is taking the lead in implementing enterprise risk management (ERM). This implementation will support integration and coordination of risk and control activities throughout the agency. PBGC has completed an assessment of entity-wide risks, and certain departments have initiated or completed risk assessments at the departmental level. The RMC is in the process of developing guidance supporting the completion and coordination of additional risk assessments across the agency. These efforts will support the preparation of a corporate risk profile as required by OMB Circular A-123.

FMFIA ASSURANCE STATEMENT PROCESS

The heads of departments, offices and selected other work units within PBGC performed assessments of internal controls over operations, reporting (financial and nonfinancial), and compliance with laws and regulations. These assessments addressed several different considerations affecting internal controls, such as existence of policies and procedures, extent of management oversight, performance of internal compliance reviews, results of external reviews (e.g., OIG, GAO, or other reviews), and evaluation of known internal control deficiencies. In addition, the ICC was presented with the results of the PBGC's initial Green Book assessment and prepared a list of cross-cutting control issues for consideration by members of PBGC's executive management. Further, the corrective actions taken in response to the two FMFIA material weaknesses that were reported in FY 2015 (System Security and IT Operational Effectiveness and Corrective Action Plans, and Operational Processes and Records Management) were evaluated for adequacy to ensure that these matters no longer represented material weaknesses. Based on the results of the completed assessments and other relevant factors, PBGC's executive management recommended, and the Director approved, the FY 2016 FMFIA Statement of Assurance included below:

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT STATEMENT OF ASSURANCE

PBGC's management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act. PBGC conducted its assessment of risk and internal control in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, PBGC

can provide reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2016.

PBGC's management is also responsible for managing risks and maintaining effective internal control over financial reporting in accordance with Appendix A of OMB Circular A-123. PBGC conducted an assessment of internal controls over financial reporting. The results of that assessment provide reasonable assurance that internal controls over financial reporting were operating effectively as of September 30, 2016.

PBGC was not in compliance with law and regulation due to a violation of the voluntary services provision of the Antideficiency Act, which was duly reported externally, as required. PBGC is developing corrective actions to help prevent such a violation from occurring in the future, and has provided training on the Antideficiency Act requirements.

MANAGEMENT REPRESENTATION

PBGC's management is responsible for the accompanying Statements of Financial Position of the Single-Employer and Multiemployer Funds as of September 30, 2016, and September 30, 2015, the related Statements of Operations and Changes in Net Position, and the Statements of Cash Flows for the years then ended. PBGC's management is also responsible for establishing and maintaining systems of internal accounting and administrative controls that provide reasonable assurance that the control objectives (i.e., preparing reliable financial statements, safeguarding assets, and complying with laws and regulations) are achieved.

PBGC management believes the financial statements of the Single-Employer and Multiemployer Program Funds present fairly the financial position of PBGC as of September 30, 2016, and September 30, 2015, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and actuarial standards applied on a consistent basis. As noted in the FMFIA Statement of Assurance above, PBGC provides reasonable assurance that its internal controls are effective.

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

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

The Inspector General engaged CliftonLarsonAllen LLP to conduct the audit of the Corporation's fiscal years 2016 and 2015 financial statements, and CliftonLarsonAllen LLP issued an unmodified opinion on those financial statements.



W. Thomas Reeder
Director



Patricia Kelly
Chief Financial Officer

November 15, 2016

PENSION BENEFIT GUARANTY CORPORATION
STATEMENTS OF FINANCIAL POSITION

<i>(Dollars in Millions)</i>	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30, 2016	2015	September 30, 2016	2015	September 30, 2016	2015
ASSETS						
Cash and cash equivalents	\$4,423	\$ 3,694	\$102	\$ 11	\$4,525	\$ 3,705
Securities lending collateral (Notes 3 and 5)	1,910	1,245	-	-	1,910	1,245
Investments, at market (Notes 3 and 5):						
Fixed maturity securities	57,292	49,778	1,925	1,749	59,217	51,527
Equity securities	23,684	22,466	-	-	23,684	22,466
Private equity	721	895	-	-	721	895
Real estate and real estate investment trusts	2,963	2,855	-	-	2,963	2,855
Other	72	10	-	-	72	10
Total investments	84,732	76,004	1,925	1,749	86,657	77,753
Receivables, net:						
Sponsors of terminated plans	55	46	-	-	55	46
Premiums (Note 11)	4,534	3,375	165	154	4,699	3,529
Sale of securities	1,080	559	-	-	1,080	559
Derivative contracts (Note 4)	124	374	-	-	124	374
Investment income	441	392	10	8	451	400
Other	6	5	-	-	6	5
Total receivables	6,240	4,751	175	162	6,415	4,913
Capitalized assets, net	37	41	2	2	39	43
Total assets	\$97,342	\$85,735	\$2,204	\$1,924	\$99,546	\$87,659

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

PENSION BENEFIT GUARANTY CORPORATION
STATEMENTS OF FINANCIAL POSITION

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
<i>(Dollars in Millions)</i>	2016	2015	2016	2015	2016	2015
LIABILITIES						
Present value of future benefits, net (Note 6):						
Trusteed plans	\$113,011	\$ 105,932	-	-	\$113,011	\$ 105,932
Plans pending termination and trusteeship	296	383	-	-	296	383
Settlements and judgments	21	26	-	-	21	26
Claims for probable terminations	376	585	-	-	376	585
Total present value of future benefits, net	113,704	106,926	-	-	113,704	106,926
Present value of nonrecoverable future financial assistance (Note 7)						
Insolvent plans	-	-	2,139	1,627	2,139	1,627
Probable insolvent plans	-	-	58,870	52,559	58,870	52,559
Total present value of nonrecoverable future financial assistance	-	-	61,009	54,186	61,009	54,186
Payables, net:						
Derivative contracts (Note 4)	49	334	-	-	49	334
Due for purchases of securities	2,037	1,100	-	-	2,037	1,100
Payable upon return of securities loaned	1,910	1,245	-	-	1,910	1,245
Unearned premiums	167	138	7	8	174	146
Accounts payable and accrued expenses (Note 8)	55	57	21	14	76	71
Total payables	4,218	2,874	28	22	4,246	2,896
Total liabilities	117,922	109,800	61,037	54,208	178,959	164,008
Net position	(20,580)	(24,065)	(58,833)	(52,284)	(79,413)	(76,349)
Total liabilities and net position	\$97,342	\$ 85,735	\$2,204	\$1,924	\$99,546	\$ 87,659

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

PENSION BENEFIT GUARANTY CORPORATION
STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION

<i>(Dollars in Millions)</i>	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,	
	2016	2015	2016	2015	2016	2015
UNDERWRITING:						
Income:						
Premium, net (Note 11)	\$6,379	\$ 4,138	\$282	\$ 212	\$6,661	\$ 4,350
Other	25	11	-	-	25	11
Total	<u>6,404</u>	<u>4,149</u>	<u>282</u>	<u>212</u>	<u>6,686</u>	<u>4,361</u>
Expenses:						
Administrative	362	354	39	32	401	386
Other	4	30	-	-	4	30
Total	<u>366</u>	<u>384</u>	<u>39</u>	<u>32</u>	<u>405</u>	<u>416</u>
Other underwriting activity:						
Losses (credits) from completed and probable terminations (Note 12)	(417)	(780)	-	-	(417)	(780)
Losses from insolvent and probable plans-financial assistance (Note 7)	-	-	6,768	9,963	6,768	9,963
Actuarial adjustments (credits) (Note 6)	2,285	314	11	7	2,296	321
Total	<u>1,868</u>	<u>(466)</u>	<u>6,779</u>	<u>9,970</u>	<u>8,647</u>	<u>9,504</u>
Underwriting gain (loss)	<u>4,170</u>	<u>4,231</u>	<u>(6,536)</u>	<u>(9,790)</u>	<u>(2,366)</u>	<u>(5,559)</u>
FINANCIAL:						
Investment income (loss) (Note 13):						
Fixed	5,780	1,045	143	68	5,923	1,113
Equity	2,768	(1,231)	-	-	2,768	(1,231)
Private equity	81	125	-	-	81	125
Real estate	7	379	-	-	7	379
Other	12	6	-	-	12	6
Total	<u>8,648</u>	<u>324</u>	<u>143</u>	<u>68</u>	<u>8,791</u>	<u>392</u>
Expenses:						
Investment	103	92	-	-	103	92
Actuarial charges (Note 6):						
Due to expected interest	2,929	3,339	56	51	2,985	3,390
Due to change in interest factors	6,301	5,851	100	77	6,401	5,928
Total	<u>9,333</u>	<u>9,282</u>	<u>156</u>	<u>128</u>	<u>9,489</u>	<u>9,410</u>
Financial gain (loss)	<u>(685)</u>	<u>(8,958)</u>	<u>(13)</u>	<u>(60)</u>	<u>(698)</u>	<u>(9,018)</u>
Net income (loss)	<u>3,485</u>	<u>(4,727)</u>	<u>(6,549)</u>	<u>(9,850)</u>	<u>(3,064)</u>	<u>(14,577)</u>
Net position, beginning of year	<u>(24,065)</u>	<u>(19,338)</u>	<u>(52,284)</u>	<u>(42,434)</u>	<u>(76,349)</u>	<u>(61,772)</u>
Net position, end of year	<u>(\$20,580)</u>	<u>\$ (24,065)</u>	<u>(\$58,833)</u>	<u>\$ (52,284)</u>	<u>(\$79,413)</u>	<u>\$ (76,349)</u>

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

PENSION BENEFIT GUARANTY CORPORATION
STATEMENTS OF CASH FLOWS

<i>(Dollars in millions)</i>	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,	
	2016	2015	2016	2015	2016	2015
OPERATING ACTIVITIES:						
Premium receipts	\$ 5,250	\$ 3,571	\$ 270	\$ 125	\$ 5,520	\$ 3,696
Interest and dividends received	2,107	2,341	46	49	2,153	2,390
Cash received from plans upon trusteeship	25	22	-	-	25	22
Receipts from sponsors/non-sponsors	88	123	-	-	88	123
Receipts from the missing participant program	6	6	-	-	6	6
Other receipts	6	-	-	-	6	-
Benefit payments – trustee plans	(5,592)	(5,525)	-	-	(5,592)	(5,525)
Financial assistance payments	-	-	(113)	(103)	(113)	(103)
Settlements and judgments	(11)	(6)	-	-	(11)	(6)
Payments for administrative and other expenses	(454)	(441)	(28)	(28)	(482)	(469)
Accrued interest paid on securities purchased	(284)	(227)	(6)	(6)	(290)	(233)
Net cash provided (used) by operating activities (Note 15)	<u>1,141</u>	<u>(136)</u>	<u>169</u>	<u>37</u>	<u>1,310</u>	<u>(99)</u>
INVESTING ACTIVITIES:						
Proceeds from sales of investments	82,406	70,708	1,384	2,770	83,790	73,478
Payments for purchases of investments	(82,818)	(71,385)	(1,462)	(2,805)	(84,280)	(74,190)
Net change in investment of securities lending collateral	665	(1,623)	-	-	665	(1,623)
Net change in securities lending payable	(665)	1,623	-	-	(665)	1,623
Net cash provided (used) by investing activities	<u>(412)</u>	<u>(677)</u>	<u>(78)</u>	<u>(35)</u>	<u>(490)</u>	<u>(712)</u>
Net increase (decrease) in cash and cash equivalents	729	(813)	91	2	820	(811)
Cash and cash equivalents, beginning of year	3,694	4,507	11	9	3,705	4,516
Cash and cash equivalents, end of year	<u>\$ 4,423</u>	<u>\$ 3,694</u>	<u>\$ 102</u>	<u>\$ 11</u>	<u>\$ 4,525</u>	<u>\$ 3,705</u>

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

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

NOTE 1: ORGANIZATION AND PURPOSE

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

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

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

As of September 30, 2016, the single-employer and multiemployer programs reported net positions of \$(20,580) million and \$(58,833) million, respectively. The single-employer program had assets of \$97,342 million offset by total liabilities of \$117,922 million, which include a total present value of future benefits (PVFB) of \$113,704 million. As of September 30, 2016, the multiemployer program had assets of \$2,204 million offset by \$61,009 million in present value of nonrecoverable future financial assistance. Notwithstanding these deficits, the Corporation has sufficient liquidity to meet its obligations (liabilities) for a significant number of years; however, neither program at present has the resources to fully satisfy PBGC’s long-term obligations to plan participants.

PBGC’s \$91,633 million of total investments (including cash and investment income receivable) represents the largest component of PBGC’s Statements of Financial Position combined assets of \$99,546 million at September 30, 2016. This amount of \$91,633 million (as compared to investments under management of \$89,492 million, as reported in section VII Investment Activities) reflects the fact that PBGC experiences a recurring inflow of trustee plan assets that have not yet been incorporated into the PBGC investment program. For total investments (i.e., not the investment program), cash and fixed-income securities (\$64,187 million) represent 70 percent of the total investments, while equity securities (\$23,690 million) represent 26 percent of total investments. Private market assets, real estate, and other investments (\$3,756 million), represent 4 percent of the total investments.

SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAM EXPOSURE

PBGC’s estimate of the total underfunding in single-employer plans was \$223,275 million for those sponsored by companies that have credit ratings below investment grade and that PBGC classified as reasonably possible of termination, as of September 30, 2016. This is an increase of \$5,576 million from the

reasonably possible exposure of \$217,699 million in FY 2015. This increase is primarily due to the growth in the number of companies meeting the reasonably possible criteria. These estimates are measured as of December 31 of the previous year (see Note 9). For FY 2016, this exposure is concentrated in the following sectors: manufacturing (primarily automobile/auto parts and fabricated metals), transportation (primarily airlines)/communications/utilities, and services.

PBGC estimates that as of September 30, 2016, it is reasonably possible that multiemployer plans may require future financial assistance in the amount of \$19,485 million (see Note 9). This is a decrease of \$472 million from the reasonably possible exposure of \$19,957 million in FY 2015. The primary reason for the decrease in liability was due to changes in the data and underlying assumptions. The change in data was a result of updated plan asset and liability information. The changes in assumptions include the reduction in discount factors, an update to the small plan bulk reserve process, and the revised procedure for determining the guaranteed benefit reduction factor (an assumption that both retirees and terminated vested participants have smaller guaranteed benefits compared to that of a higher assumption that was used prior to September 30, 2016).

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

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

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

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of the financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Estimates and assumptions may change over time as new information is obtained or subsequent developments occur. Actual results could differ from those estimates.

RECENT ACCOUNTING DEVELOPMENTS

In May 2015, the FASB issued Update No. 2015-07, "Fair Value Measurement (Topic 820, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)," which removes investments from the fair value hierarchy for which the practical expedient is used to measure fair value at net asset value (NAV). Instead, an entity is required to include those investments as a reconciling line item so that the total fair value amount of investments in the disclosure is consistent with the amount on the balance sheet. The amendment is effective beginning October 1, 2017. Adoption of this amendment is not expected to have a material effect on our financial statements.

In April 2015, the FASB issued Update No. 2015-05, "Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40; Customer's Accounting for Fees Paid in a Cloud Computing Arrangement)," which provides guidance in evaluating the accounting for fees paid by a customer in a cloud computing arrangement. The amendment, which allows for early adoption, is effective beginning October 1, 2016. Adoption of this update will not affect PBGC's financial statements.

In February 2015, the FASB issued an amendment to U.S. GAAP to remove the concept of "extraordinary items," which are defined as items that are unusual and infrequent in nature. The amendment, which allows for early adoption, is effective beginning on October 1, 2016. Adoption of this amendment is not expected to have an impact on our financial statements.

VALUATION METHOD

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

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

REVOLVING AND TRUST FUNDS

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

ERISA provides for the establishment of the revolving fund where premiums are collected and held. The assets in the revolving fund are used to cover deficits incurred by plans trustee and to provide funds for

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

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

The trust funds reflect accounting activity associated with:

- 1) Trusteed plans (plans for which PBGC has legal responsibility). The assets and liabilities are reflected separately on PBGC's Statements of Financial Position, the income and expenses are included in the Statements of Operations and Changes in Net Position, and the cash flows from these plans are included in the Statements of Cash Flows.
- 2) Plans pending termination and trusteeship (plans for which PBGC has begun the process for termination and trusteeship by fiscal year-end). The assets and liabilities for these plans are reported as a net amount on the liability side of the Statements of Financial Position under "Present value of future benefits, net." For these plans, the income and expenses are included in the Statements of Operations and Changes in Net Position, but the cash flows are not included in the Statements of Cash Flows.
- 3) Probable terminations (plans that PBGC determines are likely to terminate and be trusteeed by PBGC). The assets and liabilities for these plans are reported as a net amount on the liability side of the Statements of Financial Position under "Present value of future benefits, net." The accrued loss from these plans is included in the Statements of Operations and Changes in Net Position as part of "Losses from completed and probable terminations." The cash flows from these plans are not included in the Statements of Cash Flows. PBGC cannot exercise legal control over a plan's assets until it becomes the trustee.

ALLOCATION OF REVOLVING AND TRUST FUNDS

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

CASH AND CASH EQUIVALENTS

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

SECURITIES LENDING COLLATERAL

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

INVESTMENT VALUATION AND INCOME

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

SECURITIES PURCHASED UNDER REPURCHASE AGREEMENTS

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

SPONSORS OF TERMINATED PLANS

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

PREMIUMS

Premiums receivable represent the plan reported premiums owed, and the PBGC estimated amounts on filings not yet submitted, for plans that have a plan year commencing before the end of PBGC's fiscal year

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

CAPITALIZED ASSETS

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

PRESENT VALUE OF FUTURE BENEFITS (PVFB)

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

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

- (1) **Trusteed Plans:** Represents the present value of future benefit payments less the present value of expected recoveries (for which a settlement agreement has not been reached with sponsors and members of their controlled group) for plans that have terminated and been trustee by PBGC prior to fiscal year-end. Assets are shown separately from liabilities for trustee plans.
- (2) **Pending Termination and Trusteeship:** Represents the present value of future benefit payments less the plans' net assets (at fair value) anticipated to be received and the present value of expected recoveries (for which a settlement agreement has not been reached with sponsors and members of their controlled group) for plans for which termination action has been initiated and/or completed prior to fiscal year-end. Unlike trustee plans, the liability for plans pending termination and trusteeship is shown net of plan assets.
- (3) **Settlements and Judgments:** Represents estimated liabilities related to settled litigation (see Note 6).
- (4) **Net Claims for Probable Terminations:** In accordance with the FASB Accounting Standards Codification Section 450, *Contingencies*, PBGC recognizes net claims for probable terminations which represent PBGC's best estimate of the losses, net of plan assets, and the present value of expected recoveries (from sponsors and members of their controlled group) for plans that are likely to terminate in the future. Under a specific identification process, PBGC evaluates each controlled group having \$50 million or more of underfunding and recognizes a contingent loss for the estimated net claim of those plans meeting the probable termination criteria. These estimated losses are based on conditions that existed as of PBGC's fiscal year-end.

Management believes it is likely that one or more events subsequent to PBGC's fiscal year-end will occur, confirming the loss.

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

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

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

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

PRESENT VALUE OF NONRECOVERABLE FUTURE FINANCIAL ASSISTANCE

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

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

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

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

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

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

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

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

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

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

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

ADMINISTRATIVE EXPENSES

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

OTHER EXPENSES

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

LOSSES FROM COMPLETED AND PROBABLE TERMINATIONS

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

ACTUARIAL ADJUSTMENTS AND CHARGES (CREDITS)

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

DEPRECIATION AND AMORTIZATION

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

NOTE 3: INVESTMENTS

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

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

Bond Forwards and TBAs are reported to "Receivables, net – Sale of securities" and "Due for purchases of securities" from derivative contracts receivables and payables. As of September 30, 2016, TBA receivables were \$498 million and no Bond Forward receivables were reported. In addition, as of September 30, 2016, TBA payables were \$1,214 million and no Bond Forward payables were reported.

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

<i>(Dollars in millions)</i>	September 30, 2016		September 30, 2015	
	Basis	Market Value	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	\$25,460	\$27,070	\$21,106	\$21,807
Commercial paper/ securities purchased under repurchase agreements	128	128	162	162
Asset backed securities	3,815	3,889	3,456	3,502
Pooled funds				
Domestic	1,876	1,827	1,969	1,822
International	213	252	1,144	1,261
Global/other	-	-	-	-
Corporate bonds and other	11,783	12,537	11,247	11,174
International securities	11,311	11,589	10,805	10,050
Subtotal	54,586	57,292	49,889	49,778
Equity securities:				
Domestic	142	162	1,379	1,662
International	769	794	770	736
Pooled funds				
Domestic	10,357	11,424	9,173	9,877
International	8,038	11,300	7,252	10,189
Global/other	4	4	2	2
Subtotal	19,310	23,684	18,576	22,466
Private equity	1,290	721	1,284	895
Real estate and real estate investment trusts	2,613	2,963	2,443	2,855
Insurance contracts and other investments	72	72	9	10
Total ⁽¹⁾	\$77,871	\$84,732 ⁽²⁾	\$72,201	\$76,004

(1) Total includes securities on loan at September 30, 2016, and September 30, 2015, with a market value of \$3,037 million and \$1,894 million, respectively.

(2) This total of \$84,732 million of investments at market value represents the single-employer assets only.

INVESTMENTS OF MULTIEMPLOYER REVOLVING FUNDS AND MULTIEMPLOYER TRUSTEED PLANS

<i>(Dollars in millions)</i>	September 30, 2016		September 30, 2015	
	Basis	Market Value	Basis	Market Value
Investment securities:				
Fixed U.S. Government securities	\$1,811	\$1,925	\$1,696	\$1,749
Equity securities	-	-	-	-
Total	\$1,811	\$1,925	\$1,696	\$1,749

INVESTMENT PROFILE

	September 30,	
	2016	2015
Fixed Income Assets		
Average Quality	A	A
Average Maturity (years)	13.2	12.5
Duration (years)	9.4	8.4
Yield to Maturity (%)	2.9	3.0
Equity Assets		
Average Price/Earnings Ratio	21.8	19.7
Dividend Yield (%)	2.5	2.7
Beta	1.0	1.0

DERIVATIVE INSTRUMENTS

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

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

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

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

During fiscal years 2016 and 2015, PBGC, through its investment managers, invested in investment products that used various U.S. and non-U.S. derivative instruments. Those products included, but are not limited to: index futures, options, money market futures, government bond futures, interest rate, credit default and total return swaps and swaption (an option on a swap) contracts, stock warrants and rights, debt option contracts,

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

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

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

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

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

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

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

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

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

For the fiscal years ended September 30, 2016 and 2015, gains and losses from settled margin calls are reported in “Investment income” on the Statements of Operations and Changes in Net Position. Securities and cash are pledged as collateral for derivative contracts (e.g., futures and swaps) and are recorded as a receivable or payable.

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

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

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

FAIR VALUES OF DERIVATIVE INSTRUMENTS

<i>(Dollars in millions)</i>	Asset Derivative					
	September 30, 2016			September 30, 2015		
	Statements of Financial Position Location	Notional	FMV	Statements of Financial Position Location	Notional	FMV
Futures	Derivative Contracts	\$3,421	\$2	Derivative Contracts	\$3,453	\$13
Swap contracts						
Interest rate swaps	Investments-Fixed	2,866	(14)	Investments-Fixed	4,301	22
Other derivative swaps	Investments-Fixed	1,683	(19)	Investments-Fixed	1,365	(19)
Option contracts	Investments-Fixed	220	2	Investments-Fixed	48	1
Forwards - foreign exchange	Investments-Fixed	13,815	2	Investments-Fixed	9,166	15
	Investments-Equity	-	-	Investments-Equity	-	-
<i>(Dollars in millions)</i>	Liability Derivative					
	September 30, 2016			September 30, 2015		
	Statements of Financial Position Location	Notional	FMV	Statements of Financial Position Location	Notional	FMV
Futures	Derivative Contracts	\$2,392	\$ (22)	Derivative Contracts	\$1,788	\$ (11)
Option contracts	Derivative Contracts	352	(5)	Derivative Contracts	167	(1)

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

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

OFFSETTING OF DERIVATIVE ASSETS FAIR VALUE

<i>(Dollars in millions)</i>	September 30, 2016			September 30, 2015		
	Gross Amount	Gross Amounts	Net Amounts of	Gross Amount	Gross Amounts	Net Amounts of
	of Recognized	Offset in	Assets Presented	of Recognized	Offset in	Assets Presented
	Assets	Statements of	in Statements of	Assets	Statements of	in Statements of
		Financial	Financial		Financial	Financial
		Position	Position		Position	Position
Derivatives						
Interest-rate contracts	\$ 3	\$ (1)	\$ 2	\$ 105	\$ (83)	\$ 22
Foreign exchange contracts	58	(34)	24	26	(11)	15
Other derivative contracts ⁽¹⁾	6	(4)	2	3	(3)	-
Cash collateral nettings	-	(4)	(4)	-	(1)	(1)
Total Derivatives	\$ 67	\$ (43)	\$ 24	\$ 134	\$ (98)	\$ 36
Other financial instruments⁽²⁾						
Repurchase agreements	\$ 100	\$ -	\$ 100	\$ 156	\$ -	\$ 156
Securities lending collateral	1,910	-	1,910	1,245	-	1,245
Total derivatives and other financial instruments	\$ 2,077	\$ (43)	\$ 2,034	\$ 1,535	\$ (98)	\$ 1,437

<i>(Dollars in millions)</i>	September 30, 2016			September 30, 2015		
	Gross Amounts Not Offset in			Gross Amounts Not Offset in		
	Statements of Financial Position			Statements of Financial Position		
	Net Amount of	Collateral	Net Amount	Net Amount of	Collateral	Net Amount
	Assets Presented	Received		Assets Presented	Received	
	in Statements of			in Statements of		
	Financial			Financial		
	Position			Position		
Repurchase agreements	100	-	100	156	-	156
Security lending collateral	1,910	(1,910)	-	1,245	(1,245)	-
Total	\$ 2,010	\$ (1,910)	\$ 100	\$ 1,401	\$ (1,245)	\$ 156

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

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

OFFSETTING OF DERIVATIVE LIABILITIES FAIR VALUE

<i>(Dollars in millions)</i>	September 30, 2016			September 30, 2015		
	Gross Amount of Recognized Liabilities	Gross Amounts Offset in Statements of Financial Position	Net Amounts of Assets Presented in Statements of Financial Position	Gross Amount of Recognized Liabilities	Gross Amounts Offset in Statements of Financial Position	Net Amounts of Assets Presented in Statements of Financial Position
Derivatives						
Interest-rate contracts	\$ 2	\$ (1)	\$ 1	\$ 83	\$ (83)	\$ -
Foreign exchange contracts	55	(34)	21	11	(11)	-
Other derivative contracts ⁽¹⁾	26	(4)	22	22	(3)	19
Cash collateral nettings	-	-	-	-	-	-
Total Derivatives	\$ 83	\$ (39)	\$ 44	\$ 116	\$ (97)	\$ 19
Other financial instruments⁽²⁾						
Resale agreements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Securities lending collateral	1,910	-	1,910	1,245	-	1,245
Total derivatives and other financial instruments	\$ 1,993	\$ (39)	\$ 1,954	\$ 1,361	\$ (97)	\$ 1,264

<i>(Dollars in millions)</i>	September 30, 2016			September 30, 2015		
	Gross Amounts Not Offset in Statements of Financial Position			Gross Amounts Not Offset in Statements of Financial Position		
	Net Amount of Liabilities Presented in Statements of Financial Position	Collateral Received	Net Amount	Net Amount of Liabilities Presented in Statements of Financial Position	Collateral Received	Net Amount
Resale agreements	-	-	-	-	-	-
Security lending collateral	1,910	(1,910)	-	1,245	(1,245)	-
Total	\$ 1,910	\$ (1,910)	\$ -	\$ 1,245	\$ (1,245)	\$ -

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

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

The following table identifies the location of derivative gains and losses on the Statements of Operations and Changes in Net Position as of September 30, 2016, and September 30, 2015.

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

<i>(Dollars in millions)</i>	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives	
		Sept. 30, 2016	Sept. 30, 2015
Futures			
Contracts in a receivable position	Investment Income-Fixed	(\$107)	(\$69)
Contracts in a receivable position	Investment Income-Equity	-	-
Contracts in a payable position	Investment Income-Fixed	239	138
Contracts in a payable position	Investment Income-Equity	-	-
Swap agreements			
Interest rate swaps	Investment Income-Fixed	(13)	(18)
Other derivative swaps	Investment Income-Fixed	(6)	(5)
Option contracts			
Options purchased (long)	Investment Income-Fixed	1	(1)
Options purchased (long)	Investment Income-Equity	-	-
Options written (sold short)	Investment Income-Fixed	3	7
Options written (sold short)	Investment Income-Equity	-	-
Forward contracts			
Forwards - foreign exchange	Investment Income-Fixed	(75)	419
	Investment Income-Equity	0 *	0 *

* Less than \$500,000.

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

SECURITIES LENDING

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

The average value of securities on loan through September 30, 2016, and through September 30, 2015, was \$2,170 million and \$2,443 million, respectively. The average value of lendable securities was \$24,770 million through September 30, 2016, and \$26,099 million through September 30, 2015. The ratio of the average value of securities on loan and the average value of lendable securities is the average utilization rate. This average utilization rate for the fiscal year ending September 30, 2016, was 9%, unchanged from the average utilization rate for the fiscal year ending September 30, 2015.

The average value of U.S. Corporate Bonds and Equity securities on loan through September 30, 2016, was \$1,301 million, as compared to \$1,456 million through September 30, 2015. The average value of U.S. Corporate Bonds and Equity securities on loan is 60% of the \$2,170 million average value of securities on loan through September 30, 2016, as compared to 60% of the \$2,443 million average value of securities on loan through September 30, 2015. The average value of lendable U.S. Corporate Bonds and Equity securities was \$14,618 million through September 30, 2016, or 59 percent of PBGC's overall average value of lendable securities; while the average value of lendable U.S. Corporate Bonds and Equity securities was \$15,876 million through September 30, 2015, or 61 percent of PBGC's overall average value of lendable securities. The average utilization of U.S. Corporate Bonds and Equity securities for fiscal year ending September 30, 2016, was 9%, unchanged from the average utilization rate for the fiscal year ending September 30, 2015.

The average value of U.S. Government securities on loan through September 30, 2016, was \$750 million, as compared to \$786 million through September 30, 2015. The average value of U.S. Government securities on loan was 35% of the \$2,170 million average value of securities on loan through September 30, 2016, as compared to 32% of the \$2,443 million average value of securities on loan through September 30, 2015. The average value of lendable U.S. Government securities through September 30, 2016, was \$4,674 million, or 19 percent of PBGC's overall average value of lendable securities; whereas the average value of lendable U.S. Government securities through September 30, 2015, was \$4,833 million, or 19 percent of PBGC's overall average value of lendable securities. The average utilization of U.S. Government securities for fiscal year ending September 30, 2016, was 16%, unchanged from the average utilization rate for the fiscal year ending September 30, 2015.

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

UTILIZATION RATES OF SECURITY LENDING COLLATERAL

	Daily Utilization Rates at Sept. 30, 2016	Sept. 30, 2016 Average Utilization Rates	Sept. 30, 2015 Average Utilization Rates
U.S. Corporate Bond & Equity	10%	9%	9%
U.S. Government Securities	24%	16%	16%
Non-U.S. Corporate Bond & Equity	5%	4%	2%
Non- U.S. Fixed Income	1%	2%	4%
Total PBGC Program	11%	9%	9%

The amount of cash collateral received for securities on loan at September 30, 2016, and September 30, 2015, was \$1,910 million and \$1,245 million, respectively. These amounts are recorded as assets and are offset with a corresponding liability. For lending agreements collateralized by securities, no accompanying asset or liability is recorded, as PBGC does not sell or re-pledge the associated collateral. For those securities lending activities that PBGC directs through its custodian manager, the corporation chooses to invest proceeds from securities lending in the Quality A cash collateral pool. PBGC earned \$12 million from its agency securities lending programs as of September 30, 2016. Also contributing to PBGC's securities lending income is its participation in certain pooled index funds. Net income from securities lending is included in "Investment income – Fixed" on the Statements of Operations and Changes in Net Position.

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

REPURCHASE AGREEMENTS

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

As of September 30, 2016, PBGC had \$100 million in repurchase agreements. This amount represents maturities of one day and is reported as an asset and included in the "Cash and cash equivalents" balance. There was no

associated liability for these secured borrowings reported as “Securities sold under repurchase agreements.” PBGC has no restrictions placed on the cash received for all of its outstanding repurchase agreements as of September 30, 2016.

NOTE 4: DERIVATIVE CONTRACTS

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

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

DERIVATIVE CONTRACTS

<i>(Dollars in millions)</i>	September 30, 2016	September 30, 2015
Open receivable trades on derivatives:		
Collateral deposits	\$103 ⁽¹⁾	\$100 ⁽²⁾
Futures contracts	2	13
Interest rate swaps	9	111
Other derivative swaps	10	150
Total	<u>\$124</u>	<u>\$374</u>

* Less than \$500,000

⁽¹⁾ Where a legally enforceable master netting agreement exists, collateral deposits receivable for derivative contracts will include counterparty netting. Collateral deposits receivable of \$103 million are the result of \$135 million gross collateral deposits receivable less \$32 million collateral deposits receivable netted for swap derivative counterparties.

⁽²⁾ For fiscal year 2015, where a legally enforceable master netting agreement exists, collateral deposits receivable for derivative contracts will include counterparty netting. Collateral deposits receivable of \$100 million are the result of \$122 million gross collateral deposits receivable less \$22 million collateral deposits receivable netted for swap derivative counterparties.

Amounts in the Derivative Contracts table below represent derivative contracts in a payable position at financial statement date, which PBGC reflects as a liability. Collateral deposits of \$4 million, which represent cash received as collateral on certain derivative contracts, are included.

DERIVATIVE CONTRACTS

<i>(Dollars in millions)</i>	September 30, 2016	September 30, 2015
Open payable trades on derivatives:		
Collateral deposits	\$4 ⁽¹⁾	\$59 ⁽²⁾
Futures contracts	22	11
Interest rate swaps	8	113
Other derivative swaps	10	150
Options-fixed income	5	1
Total	<u>\$49</u>	<u>\$334</u>

⁽¹⁾ Where a legally enforceable master netting agreement exists, collateral deposits payable for derivative contracts will include counterparty netting. Collateral deposits payable of \$4 million are the result of \$36 million gross collateral deposits payable less \$32 million collateral deposits receivable netted for swap derivative counterparties.

⁽²⁾ For fiscal year 2015, where a legally enforceable master netting agreement exists, collateral deposits payable for derivative contracts will include counterparty netting. Collateral deposits payable of \$59 million are the result of \$81 million gross collateral deposits payable less \$22 million collateral deposits receivable netted for swap derivative counterparties.

NOTE 5: FAIR VALUE MEASUREMENTS

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

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

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

PBGC believes that its valuation techniques and underlying assumptions used to measure fair value conform to the provisions of Section 820. PBGC has categorized the financial assets and liabilities that PBGC carries at fair value in the Statements of Financial Position based upon the standard's valuation hierarchy. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level

1), the next highest priority to pricing methods with significant observable market inputs (Level 2), and the lowest priority to significant unobservable valuation inputs (Level 3).

If the inputs used to measure a financial asset or liability cross different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Management's assessment of the significance of a particular input to the overall fair value measurement of a financial asset or liability requires judgment, and considers factors specific to that asset or liability, as follows:

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

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

- Quoted prices for similar assets or liabilities in active markets. This includes cash equivalents, securities lending collateral, U.S. Government securities, asset backed securities, fixed foreign investments, corporate bonds, repos, bond forwards, and swaps.
- Quoted prices for identical or similar assets or liabilities in non-active markets. This includes corporate stock, pooled funds fixed income, pooled funds equity, and foreign investments equity.
- Pricing models whose inputs are observable for substantially the full term of the asset or liability — included are insurance contracts and bank loans.
- Pricing models whose inputs are derived principally from or are corroborated by observable market information through correlation or other means for substantially the full term of the asset or liability.

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

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

FAIR VALUE MEASUREMENTS ON A RECURRING BASIS AS OF SEPTEMBER 30, 2016

<i>(Dollars in millions)</i>	Quoted Market Prices in Active Markets (Level 1)	Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)	Total Net Carrying Value in Statements of Financial Position
Assets				
Cash and cash equivalents	\$ 482	\$ 4,043	-	\$ 4,525
Securities lending collateral	-	1,910	-	1,910
Investments:				
Fixed maturity securities				
U.S. Government securities	-	28,995	-	
Commercial paper/securities purchased under repurchase agreements	-	128	-	
Asset backed/Mortgage backed securities	-	3,889	-	
Pooled funds				
Domestic	1	1,720	106	
International	-	252	-	
Global/other	-	-	-	
Corporate bonds and other International securities	2	12,535	-	
	<u>2</u>	<u>11,587</u>	<u>-</u>	
Total fixed maturity securities	5	59,106	106	59,217
Equity securities:				
Domestic	118	44	0*	
International	788	6	0*	
Pooled funds				
Domestic	0*	11,424	-	
International	-	11,300	-	
Global/other	<u>4</u>	<u>-</u>	<u>-</u>	
Total equity securities	910	22,774	0*	23,684
Private equity			721	721
Real estate and real estate investment trusts	1,104	1,538	321	2,963
Insurance contracts and other Investments	-	50	22	72
Receivables: ⁽¹⁾				
Derivative contracts ⁽²⁾	2	122	-	124
Liabilities				
Payables: ⁽¹⁾				
Derivative contracts ⁽³⁾	27	22	-	49

* Less than \$500,000.

- (1) Where a legally enforceable master netting agreement exists, amounts for "Receivables: Derivative contracts" and "Payables: Derivative contracts" will include counterparty netting against Level 2 financial assets and liabilities. The Collateral deposits associated with these related open receivables are \$103 million (\$135 million gross collateral deposits receivable less \$32 million collateral deposits receivable to derivative counterparties). The Collateral deposits associated with the related open payables are \$4 million (\$36 million gross collateral deposits payable less \$32 million collateral deposits receivable from derivative counterparties).
- (2) Derivative contracts receivables are comprised of open receivable trades on futures, swaps, and collateral deposits. See the Derivative Contracts table under Note 4.
- (3) Derivative contracts payables are comprised of open payable trades on futures, swaps, options, and collateral deposits. See the Derivative Contracts table under Note 4.

As of September 30, 2016, there were no significant transfers between Level 1 and Level 2. The end of the reporting period is the date used to recognize transfers between levels.

CHANGES IN LEVEL 3 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS FOR THE YEAR ENDED SEPTEMBER 30, 2016

<i>(Dollars in millions)</i>	Fair Value at September 30, 2015	Total Realized and Unrealized Gains (Losses) included in Income	Purchases	Sales	Transfers Into Level 3	Transfers Out of Level 3	Fair Value at September 30, 2016	Change in Unrealized Gains (Losses) Related to Financial Instruments held at September 30, 2016 ⁽²⁾
Assets:								
Pooled funds (fixed)	\$143	(37)	-	-	-	-	\$106	\$ (37)
Corporate bonds and other	\$ -	-	-	-	-	-	\$ -	\$ -
Domestic/Int'l equity ⁽¹⁾	\$ 0*	0*	0*	(1)	1	-	\$ 0*	\$ 0*
Private equity	\$895	(187)	213	(200)	-	-	\$721	\$(180)
Real estate & real estate investment trusts	\$339	(57)	42	(3)	-	-	\$321	\$ (57)
Other	\$ 9	0*	21	(8)	-	-	\$ 22	\$ 0*

* Less than \$500,000.

- (1) Assets which are not actively traded in the market place.
- (2) Amounts included in this column solely represent unrealized gains and losses and cannot be derived from other columns from this table.

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

INVESTMENTS IN CERTAIN ENTITIES THAT CALCULATE NET ASSET VALUE PER SHARE (OR ITS EQUIVALENT) FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Fair Value (in millions)	Unfunded Commitments ¹	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Real estate (a)	\$ 2,963	\$ 68	n/a	n/a
Private equity (b)	721	121	n/a	n/a
Pooled funds (c)	24,807	-	n/a	n/a
Total	<u>\$ 28,491</u>	<u>\$189</u>		

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

- a. This class includes 138 real estate investments that invest primarily in U.S. commercial real estate, and to a lesser extent, U.S. residential real estate. The fair value of each individual investment in this class has been estimated using the net asset value of PBGC's ownership interest in partners' capital. Generally, these investments do not have redemption provisions. Distributions from each fund will be received as the underlying assets of the fund will be liquidated over the next 10 years or so. In addition, distributions will also include any periodic income distributions received. No fund investments in this class are planned to be sold. Individual portfolio investments will be sold over time, however, those have not yet been determined.
- b. This class includes 569 private market investments that invest primarily in U.S. buyout and U.S. venture capital funds. A small number of those focus on natural resources. These investments do not have redemption provisions. Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the funds. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over the next 12 years. However, the individual investments that will be sold have not yet been determined. The fair value of each individual investment has been estimated using the net asset value of PBGC's ownership interest in partners' capital.
- c. This class includes investments in unit trusts that are intended to match returns of domestic and international indices. Units reflect a pro-rata share of the fund's investments. The per unit net asset value is determined each business day based on the fair value of the fund's investments. Issuances and redemptions are possible daily when a per unit value is determined and are based upon the closing per unit net asset value.

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

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

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

September 30, 2016 <i>(Dollars in millions)</i>	Hypothetical Rates 1.27% for 20 years, 1.14% thereafter	Actual Rates ⁽²⁾ 2.27% for 20 years, 2.14% thereafter	Hypothetical Rates 3.27% for 20 years, 3.14% thereafter
Single-Employer Program	\$127,672	\$113,580	\$ 102,002
Multiemployer Program	73,674	61,009	50,845
Total	\$201,346	\$174,589	\$152,847

(1) Level 3 Fair Value Measurements.

(2) Actual rates and PVFB amounts calculated for September 30, 2016, fiscal year-end financial statements.

NOTE 6: PRESENT VALUE OF FUTURE BENEFITS

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

For FY 2016, PBGC used a 20-year select interest factor of 2.27% followed by an ultimate factor of 2.14% thereafter. In FY 2015, PBGC used a 25-year select interest factor of 2.80% followed by an ultimate factor of 2.86% for the remaining years. These factors were determined to be those needed (given the mortality assumptions), to continue to match the survey of annuity prices provided by the American Council of Life Insurers (ACLI). Both the interest factor and the length of the select period may vary to produce the best fit with these prices. The prices reflect rates at which, in PBGC's opinion, the liabilities (net of administrative expenses) could be settled in the market at September 30, for the respective year, for single-premium nonparticipating group annuities issued by private insurers. Many factors including Federal Reserve policy, changing expectations about longevity risk, and competitive market conditions may affect these rates.

For FY 2016, PBGC used the Retirement Plan 2014 Healthy Male mortality table times 1.09 and the Retirement Plan Healthy Female mortality table times 0.99, each with adjustments before age 50, and projected to 2029 using the MP-2015 scale. For September 30, 2015, PBGC used the Retirement Plan-2000 Combined Healthy (RP-2000 CH) Male and Female Tables, each projected 28 years to 2028 using Scale AA

and set back one year. The number of years that PBGC projects the mortality table reflects the number of years from the base year (2014 in FY 2016 and 2000 in FY 2015) of the table to the end of the fiscal year (2 years in FY 2016, 15 years in FY 2015), plus PBGC's calculated duration of its liabilities (13 years in FY 2015 and FY 2014, respectively).

PBGC utilized the results of its recently completed 2016 mortality study. The study removes the margins used in previous studies and provides the most current mortality tables which best matched PBGC's seriatim population experience. Therefore, PBGC adopted a base mortality table (i.e., RP-2014 as adjusted instead of RP-2000 set back one year) that better reflects actual PBGC mortality experience. The ACLI survey of annuity prices, when combined with the mortality table, provides the basis for determining the interest factors used in calculating the PVFB. The insurance company prices, when combined with the stronger mortality table, results in a higher interest factor.

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

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

The PVFB for trustee multiemployer plans for FY 2016 and FY 2015 reflect the payment of benefits and the changes in interest and mortality assumptions, expected interest, and the effect of experience.

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

The table on the following page summarizes the actuarial adjustments, charges, and credits that explain how the Corporation's single-employer program liability for the PVFB changed for the years ended September 30, 2016, and for the fiscal year ended September 30, 2015.

RECONCILIATION OF THE PRESENT VALUE OF FUTURE BENEFITS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

<i>(Dollars in millions)</i>	September 30,	
	2016	2015
Present value of future benefits, at beginning of year -- Single-Employer, net	\$106,926	\$102,774
Estimated recoveries, prior year	475	56
Assets of terminated plans pending trusteeship, net, prior year	447	226
Present value of future benefits at beginning of year, gross	107,848	103,056
Settlements and judgments, prior year	(26)	(62)
Net claims for probable terminations, prior year	(585)	(401)
Actuarial adjustments -- underwriting:		
Changes in method and assumptions	\$2,598	\$ 603
Effect of experience	(313)	(289)
Total actuarial adjustments -- underwriting	2,285	314
Actuarial charges -- financial:		
Expected interest	2,929	3,339
Change in interest factors	6,301	5,851
Total actuarial charges -- financial	9,230	9,190
Total actuarial charges, current year	11,515	9,504
Terminations:		
Current year	2,307	1,912
Changes in prior year	(1,246)	(1,202)
Total terminations	1,061	710
Benefit payments, current year ¹	(5,659)	(5,570)
Estimated recoveries, current year	(568)	(475)
Assets of terminated plans pending trusteeship, net, current year	(279)	(447)
Settlements and judgments, current year ²	21	26
Net claims for probable terminations:		
Future benefits ³	653	1,226
Estimated plan assets and recoveries from sponsors	(277)	(641)
Total net claims, current year	376	585
Present value of future benefits, at end of year -- Single-Employer, net	113,704	106,926
Present value of future benefits, at end of year -- Multiemployer	0*	0*
Total present value of future benefits, at end of year, net	\$113,704	\$106,926

* Less than \$500,000 (actual amount is \$199,930 and \$266,702 for the 10 Pre-MPPA trustee multiemployer plans at September 30, 2016, and September 30, 2015, respectively).

- (1) The benefit payments of \$5,659 million at September 30, 2016, and \$5,570 million at September 30, 2015, include \$67 million in FY 2016 and \$45 million in FY 2015, respectively, for benefits paid from plan assets prior to trusteeship.
- (2) PBGC determined it is highly unlikely that more than half of the total potential future Page/Collins settlement liability will be paid. Accordingly, PBGC estimates that PBGC's future Page/Collins settlement liability amount is \$21 million at September 30, 2016, as compared to \$26 million at September 30, 2015.
- (3) The future benefits for probable terminations of \$653 million and \$1,226 million for the periods ending September 30, 2016, and September 30, 2015, include \$127 million and \$163 million, respectively, for probable terminations not specifically identified, and \$526 million and \$422 million, respectively, for specifically identified probables.

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

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

<i>(Dollars in millions)</i>	September 30, 2016		September 30, 2015	
	Basis	Market Value	Basis	Market Value
U.S. Government securities	\$ -	\$ -	\$ -	\$ -
Corporate and other bonds	156	156	284	280
Equity securities	168	168	170	169
Private equity	-	-	0 *	0 *
Insurance contracts	0 *	0 *	0 *	0 *
Other	(45)	(45)	1	(2)
Total, net	\$ 279	\$279	\$ 455	\$ 447

* Less than \$500,000

NET CLAIMS FOR PROBABLE TERMINATIONS

Factors that at present are not fully determinable may be responsible for why these claim estimates differ from actual experience. Included in net claims for probable terminations is a provision for future benefit liabilities for plans not specifically identified. This reserve for small unidentified probable losses is recorded for the estimated future contingent losses stemming from insured single-employer plans with an aggregate underfunding of less than \$50 million. The reserve is based on the historic three-year rolling average of actual plan terminations (with an aggregate underfunding of less than \$50 million) and indexed to the S&P 500 to reflect changes in economic conditions. The September 30, 2016, Net Claims for Probable Terminations is \$376 million, of which \$127 million is from the small unidentified probable losses and \$249 million is from a specific identification process.

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

RECONCILIATION OF NET CLAIMS FOR PROBABLE TERMINATIONS

<i>(Dollars in millions)</i>	September 30,	
	2016	2015
Net claims for probable terminations, at beginning of year	\$ 585	\$ 401
New claims	\$ 249	\$ 422
Actual terminations	(382)	(175)
Deleted probables	(40)	-
Change in benefit liabilities	(36)	(63)
Change in plan assets	-	-
Loss (credit) on probables	(209)	184
Net claims for probable terminations, at end of year	\$ 376	\$ 585

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

PROBABLES EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

<i>(Dollars in millions)</i>	FY 2016	FY 2015
Manufacturing	\$ 249	\$ -
Retail	-	344
Health Care	-	78
Total	<u>\$249</u>	<u>\$422</u>

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

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

ACTUAL PROBABLES EXPERIENCE

As Initially Recorded Beginning in 1987

<i>(Dollars in millions)</i>	Status of Probables from 1987-2015 at September 30, 2016			
	Number of Plans	Percent of Plans	Net Claim	Percent of Net Claim
Beginning in 1987, number of plans reported as Probable:				
Probables terminated	377	79%	\$30,220	72%
Probables not yet terminated or deleted	-	-	-	-
Probables deleted	102	21	12,014	28
Total	<u>479</u>	<u>100%</u>	<u>\$42,234</u>	<u>100%</u>

NOTE 7: MULTIEMPLOYER FINANCIAL ASSISTANCE

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

NOTES RECEIVABLE MULTIEMPLOYER FINANCIAL ASSISTANCE

<i>(Dollars in millions)</i>	September 30, 2016	September 30, 2015
Gross balance at beginning of year	\$923	\$880
Financial assistance payments - current year	113	103
Write-offs related to settlement agreements	0 *	(60)
Subtotal	<u>1,036</u>	<u>923</u>
Allowance for uncollectible amounts	<u>(1,036)</u>	<u>(923)</u>
Net balance at end of year	<u>\$ -</u>	<u>\$ -</u>

* Less than \$500,000

Losses from financial assistance and probable financial assistance are reflected in the Statements of Operations and Changes in Net Position and include period changes in the estimated present value of nonrecoverable future financial assistance. Fiscal year changes are also attributable to the implementation of the revised procedure for determining the guaranteed benefit reduction factor. Losses from financial assistance are presented as actuarial charges, credits, and adjustments for plans that are known to be insolvent

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

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

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

As of September 30, 2016, the Corporation expects 168 individually identified multiemployer plans will exhaust plan assets and need financial assistance from PBGC to pay guaranteed benefits and plan administrative expenses. The present value of nonrecoverable future financial assistance for these 168 plans is \$61,009 million (inclusive of the reserve for small ongoing plan losses not individually identified). The 168 plans fall into three categories: (1) plans currently receiving financial assistance; (2) plans that have terminated but have not yet started receiving financial assistance from PBGC; and (3) ongoing plans (not terminated) that the Corporation expects will require financial assistance in the future. The latter two categories comprise multiemployer probables as defined by the following classification criteria:

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

MULTIEMPLOYER FINANCIAL ASSISTANCE

<i>(Dollars in millions)</i>	September 30, 2016		September 30, 2015	
	Number of Plans	Net Liability	Number of Plans	Net Liability
Plans currently receiving financial assistance	65	\$2,139	55	\$1,627
Plans that have terminated but have not yet started receiving financial assistance (classified as probable)	63	1,986	67	2,110
Ongoing plans (not terminated) that the Corporation expects will require financial assistance in the future (classified as probable)	40	56,884 ¹	38	50,449 ¹
Total	168	\$61,009	160	\$54,186

¹ Ongoing plans include a small probable bulk reserve of \$1,011 million and \$1,431 million for September 30, 2016, and September 30, 2015, respectively.

Of the 168 plans:

- 1) 65 have exhausted plan assets and are currently receiving financial assistance payments from PBGC. The present value of future financial assistance payments for these insolvent 65 plans is \$2,139 million.
- 2) 63 plans have terminated but have not yet started receiving financial assistance payments from PBGC. Terminated multiemployer plans no longer have employers making regular contributions for covered work, though some plans continue to receive withdrawal liability payments from withdrawn employers. In general, PBGC records a loss for future financial assistance for any underfunded multiemployer plan that has terminated. The present value of future financial assistance payments for these 63 terminated plans is \$1,986 million.
- 3) 40 plans are ongoing (i.e., have not terminated), but PBGC expects they will exhaust plan assets and need financial assistance within 10 years. In this analysis, PBGC takes into account the current plan assets, future income to the plan, the statutory funding rules, and the possibility for future increases in contributions. The present value of future financial assistance payments for these 40 ongoing plans is \$56,884 million.

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

<i>(Dollars in millions)</i>	September 30, 2016	September 30, 2015
Balance at beginning of year	\$54,186	\$44,190
Changes in allowance:		
Losses from insolvent and probable plans - financial assistance	6,768	9,963
Actuarial adjustments	11	7
Actuarial charges (credits) - Insolvent plans:		
Due to expected interest	56	52
Due to change in interest factors	101	77
Financial assistance granted (previously accrued)	<u>(113)</u>	<u>(103)</u>
Balance at end of period	<u>\$61,009</u>	<u>\$54,186</u>

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

NOTE 8: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

<i>(Dollars in millions)</i>	September 30, 2016	September 30, 2015
Annual leave	\$10	\$ 9
Other payables and accrued expenses	<u>66</u>	<u>62</u>
Accounts payable and accrued expenses	<u>\$76</u>	<u>\$ 71</u>

NOTE 9: REASONABLY POSSIBLE CONTINGENCIES

SINGLE-EMPLOYER PLANS

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

In accordance with the FASB Accounting Standards Codification Section 450, *Contingencies*, PBGC classified a number of these companies that sponsor plans with total unfunded vested benefits greater than \$50 million as reasonably possible rather than probable terminations, reflecting the sponsors' financial condition and other factors that did not indicate termination of their plans was likely. This classification was done based upon information about the companies as of September 30, 2016. PBGC criteria for a single-employer plan sponsor to be classified as Reasonably Possible are:

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

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

The estimate of the reasonably possible exposure to loss for the single-employer plans of these companies was measured as of December 31, 2015. The reasonably possible exposure to loss was \$223,275 million for FY 2016. This is an increase of \$5,576 million from the reasonably possible exposure of \$217,699 million in FY 2015. This increase is primarily due to the growth in the number of companies meeting the reasonably possible criteria.

Except in the rare circumstances indicated earlier in this note, the estimate of unfunded vested benefits exposure to loss is not generally based on PBGC-guaranteed benefit levels, since data is not available to determine an estimate at this level of precision. PBGC calculated this estimate, as in previous years, by using the most recent data available from filings and submissions to the Corporation for plan years ended on or after December 31, 2014. PBGC adjusted the value reported for liabilities to December 31, 2015, using a select rate of 2.74% for the first 20 years and 2.86% thereafter and applying the expense load as defined in 29 CFR Part 4044, Appendix C. The rates were derived in conjunction with the 1994 Group Annuity Mortality Static Table (with margins) projected to 2025 using Scale AA to approximate annuity prices as of December 31, 2015. The underfunding associated with these plans could be substantially different at September 30, 2016, because of the economic conditions that changed between December 31, 2015 and September 30, 2016. PBGC did not adjust the estimate for events that occurred between December 31, 2015, and September 30, 2016.

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

REASONABLY POSSIBLE EXPOSURE TO LOSS BY INDUSTRY
(PRINCIPAL CATEGORIES)

<i>(Dollars in millions)</i>	FY 2016	FY 2015
Manufacturing ¹	\$85,798	\$84,108
Transportation, Communication and Utilities ²	56,961	57,771
Services	36,066	32,887
Finance, Insurance, and Real Estate	12,782	12,624
Wholesale and Retail Trade	12,141	13,485
Health Care	11,450	12,895
Agriculture, Mining, and Construction	8,077	3,929
Total	\$223,275	\$217,699

¹ Primarily automobile/auto parts and fabricated metals.

² Primarily airlines.

MULTIEMPLOYER PLANS

There are some multiemployer plans that may require future financial assistance. PBGC included amounts in the liability for the present value of nonrecoverable future financial assistance (see Note 7) for multiemployer plans that PBGC estimated may require future financial assistance. In addition, PBGC estimated as of September 30, 2016, that it is reasonably possible that other multiemployer plans may require future financial assistance in the amount of \$19,485 million.

PBGC calculated the future financial assistance liability for each multiemployer plan identified as probable (see Note 7), or reasonably possible. PBGC used a formula taking the present value of guaranteed future benefits and expense payments net of any future contributions or withdrawal liability payments. These amounts were as of the latter of September 30, 2016, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2016. PBGC's identification of plans that are likely to require such assistance and estimation of related amounts required consideration of many complex factors, including estimating future cash flows, future mortality rates, and age of participants not in pay status. These factors are affected by future events, including actions by plans and their sponsors, most of which are beyond PBGC's control. Reasonably possible multiemployer classification is defined as an ongoing plan with a projected insolvency date between 10 and 20 years from the valuation date.

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

NOTE 10: COMMITMENTS

PBGC leases its office facility under a commitment that began on January 1, 2005, and expires December 10, 2018. This lease provides for periodic rate increases based on increases in operating costs and real estate taxes over a base amount. In addition, PBGC is leasing space for field benefit administrators. These leases began in 1996 and expire in 2021. The minimum future lease payments for office facilities having noncancellable terms in excess of one year as of September 30, 2016, are:

COMMITMENTS: FUTURE LEASE PAYMENTS

<i>(Dollars in millions)</i>	
Years Ending September 30,	Operating Leases
2017	\$ 20.7
2018	19.5
2019	4.9
2020	0.4
2021	0.3
Minimum lease payments	\$ 45.8

In addition to the committed minimum operating lease payments of \$45.8 million as noted in the table above, PBGC has estimated future uncommitted operating leases of approximately \$72 million.

Negotiations are currently underway for an extension of PBGC's current leases to bridge the period between the expiration of the current leases in FY 2019 to the beginning of PBGC's new leases.

Lease expenses were \$19.9 million in FY 2016 and FY 2015.

NOTE 11: PREMIUMS

For both the single-employer and multiemployer programs, ERISA provides that PBGC shall continue to guarantee basic benefits despite the failure of a plan administrator to pay premiums when due. PBGC assesses interest and penalties on the late or unpaid portion of premiums. Interest continues to accrue until the premium and the interest due are paid. See Note 2, *Premiums* for PBGC's premium revenue accounting policy. For plan years beginning in 2016, the per-participant flat-rate premium was \$64 for single-employer pension plans, \$27 for multiemployer plans. For plan years 2015 and 2014, the per-participant flat-rate premiums for single-employer pension plans were \$57 and \$49, respectively, and for multiemployer plans, \$26 and \$12, respectively.

Single-employer plans also owe a variable-rate premium (VRP) tied to the amount of underfunding. For plan years beginning in 2016, the VRP rate was \$30 per \$1,000 of unfunded vested benefits subject to an overall cap of \$500 per participant. For plan years 2015 and 2014, the VRP rates were \$24 and \$14 respectively. Applicable caps for those plan years are shown in a table below.

The termination premium applies to certain plan terminations occurring after 2005. If a pension plan terminates in a distress termination pursuant to ERISA section 4041(c)(2)(B)(ii) or (iii), or in a PBGC-initiated termination under ERISA section 4042, the plan sponsor and its controlled group are liable to PBGC for a termination premium at the rate of \$1,250 per plan participant per year for three years.

Net premium income for FY 2016 was \$6,661 million and consisted of \$4,639 million in variable-rate premiums, \$2,026 million in flat-rate premiums, \$9 million interest and penalty income, and \$5 million in termination premiums, offset by a bad debt expense of \$18 million. Bad debt expenses include a reserve for uncollectible premium receivables (including flat, variable, and termination premiums), interest, and penalties.

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

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

Plan Years Beginning on or after January 1	Single-Employer Plans			Multiemployer Plans
	Flat-Rate Premium	Variable-Rate Premium		
	Rate Per Participant	Rate per \$1,000 UVBs	Per Participant Cap	Flat-Rate Premium Rate Per Participant
2016	\$64	\$30	\$500	\$27
2015	\$57	\$24	\$418	\$26
2014	\$49	\$14	\$412	\$12

Premium income is accrued for months in which a plan year overlaps the fiscal year. Because of this rule, premiums for 2014, 2015, and 2016 plan years are accrued in FY 2016, and premium rates change each calendar year, so three sets of premium rates were used to calculate FY 2016 premium revenue.

For example, consider a plan with a September 1 to August 31 plan year. Only the first month of the plan year beginning 09/01/2016 occurs during FY 2016, so 1/12 of the plan's premium for this plan year is accrued in FY 2016 (along with 11/12 of its prior year's premium). Similarly, for a plan with a December 1 to November 30 plan year, the last two months of the plan year beginning 12/01/2014 plan year occur during FY 2016, so 2/12 of this plan's 2014 premium income is accrued in FY 2016 (along with 10/12 of its 2015 premium income).

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

Net Premiums Receivable

(Dollars in Million)	Single-Employer		Multiemployer		Memorandum Total	
	Sept. 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
Premiums Not Yet Due:						
Estimated Flat-Rate Premiums	\$1,035	\$1,015	\$155	\$145	\$1,190	\$1,160
Estimated Variable-Rate Premiums	3,154	2,182	-	-	3,154	2,182
Total Net Premiums Not Yet Due	4,189	3,197	155	145	4,344	3,342
Premiums Past Due:						
Flat-Rate Premiums	136	66	10	9	146	75
Allowance for Bad Debt-Flat-Rate	(7)	(3)	0 *	0 *	(7)	(3)
Variable-Rate Premiums	207	103	-	-	207	103
Allowance for Bad Debt-Variable-Rate	(10)	(4)	-	-	(10)	(4)
Total Net Premiums Past Due	326	162	10	9	336	171
Termination Premiums:¹						
Termination Premiums	249	244	-	-	249	244
Allowance for Bad Debt-Termination	(234)	(229)	-	-	(234)	(229)
	15	15	-	-	15	15
Interest and Penalty:						
Interest and Penalty Due	5	2	0 *	0 *	5	2
Allowance for Bad Debt-Int/Penalty	(1)	(1)	0 *	0 *	(1)	(1)
Total Net Interest and Penalty Due	4	1	0 *	0 *	4	1
Grand Total Net Premiums Receivable	\$4,534	\$3,375	\$165	\$154	\$4,699	\$3,529

* Less than \$500,000

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

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

PREMIUM INCOME BY PREMIUM TYPE

(Dollars in Million)	September 30, 2016	September 30, 2015
Flat-Rate Premium:		
Single-Employer	\$1,742	\$1,556
Multiemployer	284	212
Total Flat-Rate Premium	2,026	1,768
Variable-Rate Premiums	4,639	2,565
Interest and Penalty Income	9	5
Termination Premium	5	19
Less Bad Debts for Interest, Penalties, and Premiums	(18)	(7)
Total Net Premiums	\$6,661	\$4,350

PREMIUM INCOME BY PROGRAM

(Dollars in Million)	September 30, 2016	September 30, 2015
Single-Employer:		
Flat-Rate and Variable-Rate Premiums	\$6,381	\$4,121
Interest and Penalty Income	9	5
Termination Premiums	5	19
Less Bad Debts for Interest, Penalties, and Premiums	(16)	(7)
Total Single-Employer	6,379	4,138
Multiemployer:		
Flat-Rate Premiums	284	212
Interest and Penalty Income	0 *	0 *
Less Bad Debts for Interest, Penalties, and Premiums	(2)	0 *
Total Multiemployer	282	212
Total Net Premiums	\$6,661	\$4,350

* Less than \$500,000

NOTE 12: LOSSES FROM COMPLETED AND PROBABLE TERMINATIONS

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

LOSSES FROM COMPLETED AND PROBABLE TERMINATIONS SINGLE-EMPLOYER PROGRAM

<i>(Dollars in millions)</i>	For the Years Ended September 30,					
	2016			2015		
	New Terminations	Changes in Prior Years ⁵	Total	New Terminations	Changes in Prior Years ⁵	Total
Present value of future benefits	\$2,307	\$(1,246)	\$1,061	\$1,912	\$(1,202)	\$ 710
Less plan assets	1,332	(27)	1,305	1,132	86	1,218
Plan asset insufficiency	975	(1,219)	(244)	780	(1,288)	(508)
Less estimated recoveries	-	(30)	(30)	-	428	428
Subtotal	975 ¹	(1,189)	(214)	780 ¹	(1,716)	(936)
Settlements and judgments		6 ⁶	6 ⁶		(29) ⁶	(29) ⁶
Loss (credit) on probables	(382) ²	173 ³	(209) ⁴	(175) ²	360 ³	185 ⁴
Total	\$ 593	\$ (1,010)	\$(417)	\$ 605	\$ (1,385)	\$(780)

¹ Gross amounts for plans terminated during the period (67 plans at September 30, 2016 and 69 plans at September 30, 2015), including plans previously recorded as probables.

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

³ Includes deleted probables and changes to old and new probables.

⁴ See Note 6 - includes \$382 million at September 30, 2016, and \$175 million at September 30, 2015, previously recorded relating to plans that terminated during the period ("Actual terminations").

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

⁶ PBGC determined that it is highly unlikely more than half of the total potential future Page/Collins settlement liability will be paid. Accordingly, PBGC estimates that the PBGC's future Page/Collins settlement liability is \$21 million at September 30, 2016, as compared to \$26 million at September 30, 2015.

NOTE 13: FINANCIAL INCOME

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

INVESTMENT INCOME SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS

<i>(Dollars in millions)</i>	Single-Employer Program Sept. 30, 2016	Multiemployer Program Sept. 30, 2016	Memorandum Total Sept. 30, 2016	Single-Employer Program Sept. 30, 2015	Multiemployer Program Sept. 30, 2015	Memorandum Total Sept. 30, 2015
Fixed maturity securities:						
Interest earned	\$1,739	\$38	\$1,777	\$1,642	\$33	\$1,675
Realized gain (loss)	1,204	32	1,236	757	24	781
Unrealized gain (loss)	2,837	73	2,910	(1,354)	11	(1,343)
Total fixed maturity securities	5,780	143	5,923	1,045	68	1,113
Equity securities:						
Dividends earned	47	-	47	66	-	66
Realized gain (loss)	2,213	-	2,213	861	-	861
Unrealized gain (loss)	508	-	508	(2,158)	-	(2,158)
Total equity securities	2,768	-	2,768	(1,231)	-	(1,231)
Private equity:						
Distributions earned	6	-	6	9	-	9
Realized gain (loss)	255	-	255	265	-	265
Unrealized gain (loss)	(180)	-	(180)	(149)	-	(149)
Total private equity	81	-	81	125	-	125
Real estate:						
Distributions earned	-	-	-	-	-	-
Realized gain (loss)	67	-	67	161	-	161
Unrealized gain (loss)	(60)	-	(60)	218	-	218
Total real estate	7	-	7	379	-	379
Other income:						
Distributions earned	12	-	12	6	-	6
Realized gain (loss)	-	-	-	(3)	-	(3)
Unrealized gain (loss)	-	-	-	3	-	3
Total other income	12	-	12	6	-	6
Total investment income	\$8,648	\$143	\$8,791	\$324	\$68	\$392

NOTE 14: EMPLOYEE BENEFIT PLANS

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

PBGC's contribution to the CSRS plan for both FY 2016 and FY 2015 was 7.0 percent of base pay for those employees covered by that system. For those employees covered by FERS, the Corporation's contribution was 13.7 percent of base pay for FY 2016. For employees covered by FERS-RAE, the Corporation's contribution was 11.9 percent of base pay for FY 2016. For employees covered by FERS-FRAE, the Corporation's contribution was 11.9 percent of base pay for FY 2016. In addition, for FERS-covered employees, FERS-RAE covered employees, and FERS-FRAE covered employees, PBGC automatically contributes 1 percent of base pay to the employee's Thrift Savings account, matches the first 3 percent contributed by the employee and matches one-half of the next 2 percent contributed by the employee. Total retirement plan expenses amounted to \$24 million in FY 2016, an increase of \$1million from FY 2015. These financial statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to PBGC's employees. These amounts are reported by the U.S. Office of Personnel Management (OPM) and are not allocated to the individual employers. OPM accounts for federal health and life insurance programs for those eligible retired PBGC employees who had selected federal government-sponsored plans. PBGC does not offer other supplemental health and life insurance benefits to its employees.

NOTE 15: CASH FLOWS

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

INVESTING ACTIVITIES (SINGLE-EMPLOYER AND MULTIEmployer PROGRAMS COMBINED)

<i>(Dollars in millions)</i>	September 30,	
	2016	2015
Proceeds from sales of investments:		
Fixed maturity securities	\$69,594	\$66,330
Equity securities	10,908	4,281
Other/uncategorized	3,288	2,867
Memorandum total	<u>\$83,790</u>	<u>\$73,478</u>
Payments for purchases of investments:		
Fixed maturity securities	\$(74,671)	\$(67,477)
Equity securities	(7,719)	(4,281)
Other/uncategorized	(1,890)	(2,432)
Memorandum total	<u>\$(84,280)</u>	<u>\$(74,190)</u>

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

RECONCILIATION OF NET INCOME TO NET CASH PROVIDED
BY OPERATING ACTIVITIES

<i>(Dollars in millions)</i>	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
	2016	2015	2016	2015	2016	2015
Net income (loss)	3,485	(4,727)	(6,549)	(9,850)	(3,064)	(14,577)
Adjustments to reconcile net income to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	(6,758)	1,550	(91)	(39)	(6,849)	1,511
Net gain (loss) of plans pending termination and trusteeship	(21)	2	-	-	(21)	2
Losses (credits) on completed and probable terminations	(417)	(780)	-	-	(417)	(780)
Actuarial charges (credits)	11,515	9,504	-	-	11,515	9,504
Benefit payments - trustee plans	(5,592)	(5,525)	-	-	(5,592)	(5,525)
Settlements and judgments	(11)	(6)	-	-	(11)	(6)
Cash received from plans upon trusteeship	25	22	-	-	25	22
Receipts from sponsors/non-sponsors	88	123	-	-	88	123
EL/DUEC Trusteeship interest (non-cash)	62	111	-	-	62	111
Cash receipts timing from Trust to Revolving	6	-	-	-	6	-
Amortization of discounts/premiums	(76)	108	(7)	11	(83)	119
Amortization and Depreciation expense	13	13	-	-	13	13
Bad debt expense/Write-offs (net)	4	30	-	-	4	30
Changes in assets and liabilities, net of effects of trustee and pending plans:						
(Increase) decrease in receivables	(1,209)	(583)	(13)	(90)	(1,222)	(673)
Increase in present value of nonrecoverable future financial assistance	-	-	6,823	9,996	6,823	9,996
Increase in unearned premiums	29	44	(1)	1	28	45
Increase (decrease) in accounts payable	(2)	(22)	7	8	5	(14)
Net cash provided (used) by operating activities	1,141	(136)	169	37	1,310	(99)

NOTE 16: LITIGATION

Legal challenges to PBGC's policies and positions continued in FY 2016. At the end of the fiscal year, PBGC had 25 active cases in state and federal courts and 207 bankruptcy and state receivership cases.

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

NOTE 17: SUBSEQUENT EVENTS

Management evaluated subsequent events through publication on November 15, 2016, the date the financial statements were available to be issued. Events or transactions for either the single-employer or multiemployer program, occurring after September 30, 2016, and before the financial statements were available to be issued, that provided additional evidence about conditions that existed at September 30, 2016, have been recognized in the financial statements.

For the fiscal year ended September 30, 2016, there were no nonrecognized subsequent events or transactions to report for both the single-employer and multiemployer programs that provided evidence about conditions that did not exist on September 30, 2016, and which arose before the financial statements were available to be issued.

IMPROPER PAYMENT REPORTING

INTRODUCTION

OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments* and related improper payment statutes¹ require federal agencies to conduct improper payment risk assessments. In compliance with Executive Order 13520, the PBGC Director serves as the agency official accountable for improper payment reporting purposes.

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

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

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

RESULTS OF THE FY 2016 IMPROPER PAYMENT RISK ASSESSMENT

With the support of a public accounting and consulting firm, PBGC performed Step 1 risk assessments of the following two payment streams: Payments to Contractors and Financial Assistance Payments. In performing the risk assessments, PBGC considered factors specified in OMB guidance, including the complexity of the payment stream; the volume of payments; recent major changes in program funding, authorities, practices, or procedures; the level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate; inherent risks of improper payments due to the nature of agency programs or operations; and any significant deficiencies in the audit reports issued by the PBGC Office of Inspector General (OIG) and the Government Accountability Office (GAO), and the results from prior risk assessments.

To be considered susceptible to significant risk of improper payments, OMB guidance specifies that gross annual improper payments (i.e., the total amount of overpayments plus underpayments) within a payment stream would have to exceed (1) both 1.5 percent of program outlays and \$10,000,000 of payments made

¹ This references the Improper Payments Information Act of 2002 (IPIA), the Improper Payments Elimination and Recovery Act of 2010 (IPERA), and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA).

during the reporting period or (2) \$100,000,000 (regardless of the improper payment percentage of total program outlays). Based on the results of the Step 1 risk assessments, PBGC determined that the Payments to Contractors and Financial Assistance Payments streams were not susceptible to significant risk of improper payments as defined by OMB.

Statistical Sampling and Testing Methodology

To supplement its risk assessment of Payments to Contractors and Financial Assistance Payments, PBGC performed optional statistical sampling of payments issued to contractors and eligible multiemployer plans. Payments selected as part of a statistical sample were drawn from the period October 1, 2014, through September 30, 2015. During this period, nearly 4,000 payments were made totaling nearly \$329 million as part of Payments to Contractors, and 184 payments were made totaling nearly \$103 million as part of Financial Assistance Payments.

In designing the sampling plan, PBGC followed OMB statistical sampling guidance regarding minimum sample sizes and took steps to ensure that the resulting sample would be representative of the payment population being tested, including the use of random selection and sample stratification techniques.

For Payments to Contractors, testing of a sample of 63 payments, totaling \$32,201,631, was performed. The purpose of this testing was to assess whether payments complied with the improper payment definitions applicable to this payment stream. For example, we tested whether PBGC officials approved the payment, whether there was documentation supporting that goods or services were received or performed, and whether billed amounts were consistent with contractual terms, including whether unallowable costs, as defined in the Federal Acquisition Regulation (FAR), were excluded.

For Financial Assistance Payments, testing of a sample of 30 payments, totaling \$35,211,862, was performed. The purpose of this testing was to assess whether the payments complied with the improper payment definition applicable to this payment stream. For example, we tested whether PBGC officials approved the payment, whether there was documentation supporting the insolvency of the multiemployer plan, whether administrative expenses of the plan were valid, whether active participants were receiving monthly benefits, whether active participants were eligible to receive monthly benefits, and whether deceased participants were removed from pay status and appropriately reflected in payment reconciliations.

Results of Testing of Payments to Contractors

Of the \$32,201,631 tested for Contractor Payments, a total of \$21,940 of actual improper payments were identified. The issues noted primarily related to minor unapplied withholding and ineligible goods and services issues. Based on statistical projections, the estimated gross improper payment (IP) rate is 0.21 percent with the projected value of estimated improper payments totaling \$675,709. These amounts are below OMB thresholds for improper payment reporting. In addition, the achieved precision or accuracy levels were within the levels specified by OMB in its statistical sampling guidance.

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

Projection of Gross Improper Payments						
Sample Universe	IP %	IP \$	Over-payments %	Over-payments IP \$	Under-payments %	Under-payments IP \$
\$ 328,866,887	0.21	\$ 675,709	0.21	\$ 675,709	0.00	\$ 0

Projection of Net Improper Payments		
Sample Universe	IP %	IP \$
\$ 328,866,887	0.21	\$ 675,709

Improper Payments by OMB Error Type				
Type of Error	Sample Universe	Actual Gross Improper Payments \$	Projected Gross Improper Payment %	Projected Improper Payment \$
Unapplied Credit or Discounts	\$ 328,866,887	\$ 21,940	0.21	\$ 675,709
All Issues Noted		\$ 21,940	0.21	\$ 675,709

Matrix of OMB Improper Payment Categories				
Reason for Improper Payment		Type of Improper Payment		
		Overpayments	Underpayments	
Program Design or Structural Issue		-	-	1
Inability to Authenticate Eligibility		-	-	2
Failure to Verify:	Death Data	-	-	3
	Financial Data	-	-	4
	Excluded Party Data	-	-	5
	Prisoner Data	-	-	6
	Other Eligibility Data	-	-	7
Administrative or Process Error Made by:	Federal Agency	\$ 21,940	-	8
	State or Local Agency	-	-	9
	Other Party	-	-	10
Medical Necessity		-	-	11
Insufficient Documentation to Determine		-	-	12
Other Reason		-	-	13
		A	B	

Results of Testing Financial Assistance Payments

Of the \$35,211,862 tested for Financial Assistance Payments, a total of \$50,688 of gross improper payments were identified. The issues noted primarily related to minor payment errors, documentation, and participant eligibility issues. Based on statistical projections, the estimated gross improper payment (IP) rate for this payment stream is 0.44 percent with the projected value of estimated improper payments totaling \$450,812. These amounts are below OMB thresholds for improper payment reporting. In addition, the achieved precision or accuracy levels were within the levels specified by OMB in its statistical sampling guidance.

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

Projection of Net Improper Payments						
Sample Universe	IP %	IP \$	Over-payments %	Over-payments IP \$	Under-payments %	Under-payments IP \$
\$ 102,640,002	0.44	\$ 450,812	0.42	\$ 428,245	0.02	\$ 22,567

Projection of Net Improper Payments		
Sample Universe	IP %	IP \$
\$ 102,640,002	0.40	\$ 405,678

Improper Payments by OMB Error Type				
Type of Error	Sample Universe	Actual Gross Improper Payments \$	Projected Gross Improper Payment %	Projected Improper Payment \$
Incorrect Amount	\$ 102,640,002	\$ 41,983	0.40	\$ 407,087
Ineligible Recipient		\$ 5,195	0.02	\$ 21,158
Lack of Documentation		\$ 3,510	0.02	\$ 22,567
All Issues Noted		\$ 50,688	0.44	\$ 450,812

Matrix of OMB Improper Payment Categories				
Reason for Improper Payment		Type of Improper Payment		
		Overpayments	Underpayments	
Program Design or Structural Issue		-	-	1
Inability to Authenticate Eligibility		-	-	2
Failure to Verify:	Death Data	-	-	3
	Financial Data	-	-	4
	Excluded Party Data	-	-	5
	Prisoner Data	-	-	6
	Other Eligibility Data	\$ 5,195	-	7
Administrative or Process Error Made by:	Federal Agency	\$ 41,983	-	8
	State or Local Agency	-	-	9
	Other Party	-	-	10
Medical Necessity		-	-	11
Insufficient Documentation to Determine		-	\$ 3,510	12
Other Reason		-	-	13
		A	B	

FOLLOW-UP ON CORRECTIVE ACTIONS RELATING TO PRIOR RISK ASSESSMENTS

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

- Benefit Payments:** The Office of Benefit Administration (OBA) has worked to implement corrective actions and take other steps to address legacy documentation issues associated with trustee pension plans that were identified when PBGC conducted a pilot improper payment assessment in FY 2011. At that time, OMB advised that PBGC should focus its improper payment testing on payment accuracy and to implement strategies to improve pension-related documentation over time. OBA was formed as a result of a reorganization that was completed in FY 2016, and its new structure supports centralized documentation maintenance responsibilities and practices. Data collection and analysis is now centralized within its Data Management Division. To gain a fuller understanding of improper payment risks, OBA also completed an improper payment risk assessment and documented its risk responses. OBA has established monitoring and enforcement procedures to ensure documentation is imaged, archived and stored appropriately and compliance reviews are performed on a regular basis. In addition, OBA has taken steps to ensure that the source data used to support benefit calculations is clearly identified and maintained, has updated its policies to require explanations where data is found to be missing or unavailable, and has expanded its efforts to securely archive electronic data. OBA also provides training on the importance of document retention, archiving and imaging. Prior year improper payment assessments have found the Benefit Payment to be not susceptible to significant risk of improper payments and did not identify significant benefit calculation errors, and during FY 2016, OBA formally documented a risk acceptance policy associated with legacy documentation issues.
- Financial Assistance Payments:** During FY 2016, the Multiemployer Program Division (MEPD) within PBGC implemented an automated system by which applicable multiemployer plans submit requests for financial assistance payments and related supporting documentation to MEPD for

review. This new process increases efficiency and reduces the potential for errors. As part of its oversight efforts, MEPD continues to work with applicable multiemployer plans to ensure that participant listings are consistently provided and maintained.

PREVENTING AND DETECTING IMPROPER PAYMENTS

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

- For all of its payment streams, PBGC has established controls to help ensure that payments are accurate and approved. For instance, pre-payment checks include ensuring that documentation for the payment is available for review by the approving official. On a post-payment basis, payment reconciliations are performed to help ensure completeness of payment processing and to identify errors. In addition, payments are subject to periodic compliance reviews.
- PBGC regularly performs electronic data analysis of payment transactions associated with Benefit Payments and Payments to Contractors – the two largest payment streams. This process helps to identify potential duplicate payments, other overpayments, and payment anomalies. When warranted, selected payments are subjected to additional research and analysis.
- For Benefit Payments, the largest payment stream, PBGC checks its participant database against the Social Security Administration's Death Master File (DMF) to help prevent sending out checks or automated deposits to payees who are deceased and should no longer be receiving benefits. Performing this check on a regular basis avoids costs associated with PBGC seeking payments from the estates of deceased participants. This helps avoid the potential for checks to be stolen or for automated deposits to be fraudulently withdrawn from the accounts of deceased participants. The following table presents the results of DMF matching for FY 2016:

Use of the Death Match File To Prevent Improper Payments			
Number of Payments Reviewed	Dollar Value of Payments Reviewed	Number of Payments Stopped	Dollar Value of Payments Stopped
9.8 million	\$5.6 billion	16,213	\$6,093,215

- PBGC participates in the Department of Treasury's Do Not Pay (DNP) program. For example, under the Payments to Contractors stream, payments are screened on a post-payment basis to assess whether companies receiving payments for work performed under PBGC contracts were properly registered in the General Service Administration's System for Award Management (SAM), have not been debarred or suspended from contracting in the federal sector, and do not have federal debts that have been referred to the Department of Treasury for collection. For FY 2016, PBGC did not identify any improper payments using the DNP process for the Payment to Contractors payment stream.

RECAPTURING IMPROPER PAYMENTS

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

During FY 2016, some improper payments associated with the Benefit Payments stream were identified using electronic data analysis. For example, annuity payments that were being made to a beneficiary were terminated, after it was determined that the PBGC inadvertently continued to process payments associated with a certain and continuous benefit for a longer period than allowed. This instance was classified as a high dollar improper payment. PBGC is taking steps to help prevent the reoccurrence of such payments and will continue to proactively seek to identify overpayments.

Additionally during FY 2016, on two separate occasions, participant address and payment locations were not captured, updated, and transmitted to PBGC's paying agent in a timely way, resulting in payments going to a prior location. We classified the related payments as improper payments. PBGC has resolved the open issues resulting from these events and is working to prevent and minimize any impact in the future.

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

2016 ACTUARIAL VALUATION

PBGC calculated and validated the present value of future PBGC-payable benefits (PVFB) for both the single-employer and multiemployer programs and of nonrecoverable future financial assistance (NRFFA) under the multiemployer program. Generally, we used the same methods and procedures as in 2015 for the Single-Employer and Multiemployer Programs.

PRESENT VALUE OF FUTURE BENEFITS AND NONRECOVERABLE FINANCIAL ASSISTANCE – 2016

	Number of Plans	Number of Participants (in thousands)	Liability (in millions)
I. SINGLE-EMPLOYER PROGRAM			
A. Terminated Plans			
1. Seriatim at fiscal year-end (FYE)	4,259	1,022	\$ 78,966
2. Seriatim at DOPT, adjusted to FYE	81	161	22,601
3. Nonseriatim ¹	429	192	12,542
4. Missing Participants Program (seriatim) ²	-	24	67
Subtotal	4,769	1,399	\$ 114,176
B. Probable terminations (nonseriatim) ³			
	3	4	653
	4,772	1,403	\$ 114,829
II. MULTIEMPLOYER PROGRAM			
A. Pre-MPPAA terminations (seriatim)	10	0*	\$ 0**
B. Pre-MPPAA liability (net of plan assets)			
1. Currently Receiving Assistance	65	86	2,139
2. Probable for Assistance	103	1,078	58,870
Total	178	1,164	\$ 61,009

* Fewer than 500 participants

**Less than \$500,000

Notes:

- 1) The liability for terminated plans has been increased by \$21 million for settlements.
- 2) The Missing Participants Program refers to a liability that PBGC assumed for unlocated participants in standard plan terminations.
- 3) The net claims for probable plans reported in the financial statements include \$127 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 \$277 million. Thus, the net claims for probable terminations as reported in the financial statements are \$653 million less \$277 million, or \$376 million.
- 4) The PVFB in the financial statements (\$113,704 million) is net of estimated plan assets and recoveries on probable terminations (\$277 million), estimated recoveries on terminated plans (\$569 million), and estimated assets for plans pending trusteeship (\$279 million), or, \$114,829 million less \$277 million less \$569 million less \$279 million = \$113,704 million.

Single-Employer Program

PBGC calculated the single-employer program's liability for benefits in the terminated plans and probable terminations, as defined in Note 2 to the financial statements, using a combination of two methods: seriatim and nonseriatim. For 4,259 plans, representing about 89 percent of the total number of single-employer terminated plans (73 percent of the total participants in single-employer terminated plans), PBGC had sufficiently accurate data to calculate the liability separately for each participant's benefit (seriatim method). This was an increase of 37 plans over the 4,222 plans valued seriatim last year. For 81 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 2016 on a nonseriatim basis.

For 429 other terminated plans, PBGC did not have sufficiently accurate or complete data to value individual benefits. Instead, the Corporation used a "nonseriatim" method that brought the plan liabilities from the plan's most recent actuarial valuation forward to the end of fiscal year 2016 using certain assumptions and adjustment factors.

For the actuarial valuation, PBGC used a select and ultimate interest rate assumption of 2.27% for the first 20 years after the valuation date and 2.14% thereafter. The mortality tables used for valuing healthy lives were the adjusted RP-2014 Healthy Male and Female Tables, each projected to 2029 using Scale MP-2015. The projection period is determined as the sum of the elapsed time from the date of the table (2014) to the valuation date plus the period of time from the valuation date to the average date of payment of future benefits. In fiscal year 2015, the mortality table used for valuing healthy lives were the RP-2000 Combined Healthy Male and Female Tables, each projected 28 years to 2028 using Scale AA and set back one year.

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

Multiemployer Program

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

PBGC based its valuation of the post-MPPAA liability for nonrecoverable future financial assistance on the most recent available actuarial reports, Form 5500 Schedule B or Schedule MB, as applicable, and information provided by representatives of the affected plans. The Corporation expected 168 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, 2016.

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 as determined by PBGC's Policy Research and Analysis Department; and (3) the resulting total liability represents my best estimate of anticipated experience under these programs.

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

Scott G. Young

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

INDEPENDENT AUDIT AND MANAGEMENT'S RESPONSE



Office of Inspector General Pension Benefit Guaranty Corporation

November 15, 2016

To the Board of Directors
Pension Benefit Guaranty Corporation

The Office of Inspector General contracted with CliftonLarsonAllen LLP, an independent certified public accounting firm, to audit the financial statements of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation as of and for the years ended September 30, 2016 and 2015. CLA conducted the audit in accordance with the following auditing standards: *Government Auditing Standards* issued by the Comptroller General of the United States, attestation standards established by the American Institute of Certified Public Accountants, and the Office of Management and Budget's *Audit Requirements for Federal Financial Statements*.

In their audit, CliftonLarsonAllen found:

- The financial statements present fairly, in all material respects, the financial position of the Single-Employer and Multiemployer Program Funds administered by the PBGC as of September 30, 2016 and 2015, and the results of their operations and cash flows for the years then ended, in accordance with accounting principles generally accepted in the U.S. This is the 24th consecutive unmodified financial statement audit opinion.
- PBGC maintained, in all material respects, effective internal control over financial reporting as of September 30, 2016, based on criteria established under 31 U.S.C. 3512 (c), (d), commonly known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB Circular A-123). Serious internal control weaknesses in PBGC's programs and operations include four significant deficiencies (Controls over the Present Value of Future Benefit Liability, Present Value of Nonrecoverable Future Financial Assistance, Entity-Wide Security Program Planning and Management, and Access Controls and Configuration Management).
- Instances of noncompliance or other matters that are required to be reported in accordance with *Government Auditing Standards*.

Board of Directors
November 14, 2016
Page 2

- Antideficiency Violation: On August 23, 2016, PBGC reported a violation of 31 U.S.C, 1342 in connection with voluntary services of an independent subcontractor.
- Potential Antideficiency Violation: PBGC maintains operating leases for all office locations and its Continuity of Operations Plan (COOP) site. However, PBGC did not record its full contractual obligation under its current multiyear lease arrangements.

CliftonLarsonAllen is responsible for the accompanying auditor's report dated November 15, 2016 and the conclusions expressed in the report. We do not express opinions on PBGC's financial statements or internal control, nor do we draw conclusions on compliance with laws and regulations. The financial statement audit report (AUD-2017-2 / FA-16-110-1) is also available on our website at oig.pbgc.gov.

Respectfully,



Robert A. Westbrook
Inspector General

cc: Thomas Reeder
Patricia Kelly
Alice Maroni
Cathleen Kronopolus
Ann Orr
Karen Morris
Michael Rae
Robert Scherer
Judith Starr
Theodore Winter
Marty Boehm

**CliftonLarsonAllen**CliftonLarsonAllen LLP
CLAcconnect.com**INDEPENDENT AUDITORS' REPORT**

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Pension Benefit Guaranty Corporation (PBGC), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of operations, net position and cash flows of the Single-Employer and Multiemployer Program Funds administered by the PBGC for the years then ended, and the related notes to the financial statements (financial statements).

Management's Responsibility for the Financial Statements

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

Auditors' Responsibilities

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Single-Employer and Multiemployer Program Funds administered by the PBGC as of September 30, 2016 and 2015, and the results of their operations and cash flows for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Emphasis of Matter

By law, PBGC's Single-Employer and Multiemployer Program Funds must be self-sustaining. As of September 30, 2016, PBGC reported in its financial statements net deficit positions (liabilities in excess of assets) in the Single-Employer and Multiemployer Program Funds of approximately \$21 billion and \$59 billion, respectively. As discussed in Note 9 to the financial statements, the potential losses from Single-Employer and Multiemployer plans whose termination is reasonably possible as a result of unfunded vested benefits are estimated to be approximately \$223 billion and \$19 billion, respectively. Management calculated the potential losses from single employer plans whose termination is reasonably possible based on the most recent data available from filings and submissions for plan years ended on or after December 31, 2014, and adjusted the value reported for liabilities to the estimated balance as of December 31, 2015, using actuarial assumptions. PBGC did not adjust the estimate for economic conditions that occurred between December 31, 2015 and September 30, 2016, and as a result, the actual loss for the Single-Employer Program as of September 30, 2016, could be substantially different. In addition, PBGC's net deficit and long-term viability could be further impacted by losses from plans classified as reasonably possible (or from other plans not yet identified as potential losses) as a result of deteriorating economic conditions, the insolvency of a large plan sponsor, or other factors. PBGC has been able to meet its short-term benefit obligations; however, as discussed in Note 1 to the financial statements, management believes that neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants. Our opinion is not modified with respect to this matter.

Other Information

The Message from Our Chair, Message from the Director, Annual Performance Report, Operations in Brief, Strategic Goals and Results, Independent Evaluation of PBGC Programs, Fiscal Year (FY) 2016 Financial Statement Highlights, Management's Discussion and Analysis, Analysis of Entity's Systems, Control and Legal Compliance, Management Representation, Improper Payment Reporting, FY 2016 Actuarial Valuation, Letter of the Inspector General, and Management's Response to the Report of Independent Auditor and Organization contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Report on Internal Control over Financial Reporting

We have audited PBGC's internal control over financial reporting as of September 30, 2016, based on criteria established under 31 U.S.C. 3512 (c), (d), commonly known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB Circular A-123).

Management's Responsibility for Internal Control

PBGC management is responsible for maintaining effective internal control over financial reporting, evaluating the effectiveness of internal control over financial reporting based on the criteria described above, and for its statement of assurance of the effectiveness of internal control over financial reporting, included in the Annual Report.

Auditors' Responsibilities

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

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

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.

Definitions and Inherent Limitations of Internal Control over Financial Reporting

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

Opinion on Internal Control over Financial Reporting

In our opinion, PBGC maintained, in all material respects, effective internal control over financial reporting as of September 30, 2016, based on criteria established under FMFIA and OMB Circular A-123.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the PBGC's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies, which are described in Exhibit I, to be significant deficiencies:

1. Controls over the Present Value of Future Benefit Liability
2. Present Value of Nonrecoverable Future Financial Assistance
3. Entity-wide Security Program Planning and Management
4. Access Controls and Configuration Management

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

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

As part of obtaining reasonable assurance about whether PBGC's financial statements are free from material misstatement, we performed tests of the PBGC's compliance with certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a direct effect on the determination of material financial statement amounts and disclosures.

The results of our tests disclosed instances of noncompliance or other matters, described below and in Exhibit II, that are required to be reported in accordance with *Government Auditing Standards*.

- **Antideficiency Violation:** On August 23, 2016, PBGC reported a violation of United States Code (U.S.C.), Title 31, Section 1342, in connection with voluntary services of an independent subcontractor.
- **Potential Antideficiency Violation:** PBGC maintains operating leases for all office site locations and its Continuity of Operations Plan (COOP) site. However, PBGC did not record its full contractual obligation under its current multiyear lease arrangements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)***Management's Responsibility for Compliance***

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

Auditors' Responsibilities

We are responsible for testing compliance with certain provisions of laws, regulations, contracts and grant agreements.

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

Purpose of the Report on Compliance

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

Management's Response to Findings

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

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of PBGC's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated November 13, 2015. The status of prior year findings is presented in Exhibit III.

**CliftonLarsonAllen LLP**

Calverton, Maryland
November 15, 2016

PENSION BENEFIT GUARANTY CORPORATION
INTERNAL CONTROL DEFICIENCIES
September 30, 2016

BACKGROUND

PBGC protects the pensions of nearly 40 million workers and retirees in nearly 24 thousand private defined benefit pension plans. Under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA), PBGC insures, subject to statutory limits, pension benefits of participants in covered private defined benefit pension plans in the U.S. The establishment of a robust internal control framework and the implementation of the appropriate internal control activities are essential to PBGC operations. OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, requires agencies to integrate risk management and internal control functions. The Circular also requires management perform an assessment of its internal control based on GAO's *Standards for Internal Control in the Federal Government* (known as the Green Book). The Green Book defines internal control as a process used by management to help an entity achieve its objectives.

During FY 2016, we observed improvements to the internal controls within PBGC operations that impacted long-standing control deficiencies reported in previous years. These improvements led to a change in classification of a previously reported material weakness in controls over the PVFB liability to a significant deficiency. However, management is continuing its corrective actions related to certain findings as discussed below.

The following provides an overview of the significant deficiencies identified in our audit:

1. Controls over the Present Value of Future Benefit (PVFB) Liability

The Office of Benefits Administration (OBA) continues to make progress in their remediation efforts to correct long-standing deficiencies related to controls over the PVFB liability. The PVFB liability represents the estimated liability for future benefits that PBGC is, or will be, obligated to pay participants of covered Single-Employer and certain Multiemployer pension plans. Some of these efforts included refining OBA's organizational structure and the senior leadership team, updating and implementing specific plan asset valuation policies and procedures, and enlisting subject matter experts to perform key functions. Management performed a more in-depth risk assessment analysis of OBA's operations, to determine root causes of long-standing issues and procedures to mitigate such risks. Further, management's effort has led to the closure of several recommendations, previously identified by the Office of Inspector General and CliftonLarsonAllen LLP, resulting in the resolution of a long standing deficiency regarding the Corporation's valuation of plan assets and benefits.

However, the results of our FY 2016 procedures reveal certain controls over the calculation of the PVFB liability require management's continued focus.

PENSION BENEFIT GUARANTY CORPORATION
INTERNAL CONTROL DEFICIENCIES
September 30, 2016

Calculation of the Present Value of Future Benefit Liability

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

- Errors caused by system limitations or programming flaws
- Data entry errors and inaccurate use of plan data provisions

Although the Corporation continues to refine its business processes related to the calculation of Individual Participant Valuation benefit liabilities, these control deficiencies impede the Corporation's ability to accurately calculate valuations for some participant's benefits and properly estimate and report related future liabilities.

Recommendations:

We continue to recommend that PBGC management:

- Develop and/or implement improvements to OBA systems used to calculate benefits and liabilities (Spectrum and the Integrated Present Value of Futures Benefit Systems).
- Perform risk assessment to identify primary cause of data entry and inaccurate use of plan data provision errors.
- Implement corrective action to address root cause of data entry and inaccurate use of plan data provisions.

2. Present Value of Nonrecoverable Future Financial Assistance (PV NRFFA)

The PV NRFFA represents the estimated nonrecoverable payments PBGC will make to certain multiemployer plans that will not be able to meet their benefit obligations to plan participants. Further, the classification of the future multiemployer liability is determined based on the projected date of insolvency. A cash flow model is updated by actuaries using various assumptions to calculate the PV NRFFA at September 30.

The lack of a quality control review process contributed to control deficiencies we found during testing of the PV NRFFA liability at September 30. Specifically, we identified the following:

- Failure to use the most current and relevant data to update the actuarial assumptions needed to calculate the PV NRFFA
- Errors in the data inputs used to calculate PV NRFFA

The Multiemployer Working Group Procedures for 2016, Appendix D states that "PBGC will use the most recently available data." In addition, "Actuarial Services and Technology Department (ASTD) will follow its existing controls for review and sign off on data entry and computations."

**PENSION BENEFIT GUARANTY CORPORATION
INTERNAL CONTROL DEFICIENCIES
September 30, 2016**

Recommendations:

We recommend that PBGC management:

- Prepare separate annual assumption memos for the multiemployer and single-employer programs, with each assumption memo incorporating more refined key assumptions applicable to each program.
- Consider methods of calculating, reviewing, and documenting plan level adjustments to the IPVFB inputs in order to take individual plan conditions into account.
- Refine current quality control review procedures to effectively minimize data input errors.

3. Entity-wide Security Program Planning and Management

While PBGC continued to make progress in addressing the Corporation's entity-wide security program planning and management control deficiencies, these efforts have not resulted in a fully implemented effective entity-wide information security program as required under OMB and the National Institute of Standards and Technology (NIST) guidance.

In FY 2016, PBGC developed and published the PBGC Risk Management Framework (RMF) Process to transition to, and fully implement, an entity-wide information security risk management program. In addition, PBGC has developed and is implementing a plan to be fully compliant with OMB Circular A-130, *Managing Information as a Strategic Resource*, issued on July 28, 2016. PBGC, however, has not fully implemented components of its entity-wide information security risk management program. Some components not fully implemented include the following:

- Completion of the implementation of PBGC's RMF entity-wide security program and management, which supports PBGC organizational, mission and information system objectives by addressing each of the six RMF phases: categorize, select, implement, assess, authorize, and monitor.
- Full implementation of a continuous monitoring program.
- Common controls compliance with NIST SP 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations* requirements.
- Completion of the transition to NIST 800-53, Revision 4 security controls.
- Full implementation of common controls and remediation of common control weaknesses.
- Availability of common controls to system owners for appropriate inclusion in system security plans.

PBGC implementation of NIST's RMF will establish an integrated enterprise-wide decision structure for cybersecurity risk management that includes and integrates PBGC mission and information system objectives, which will transition PBGC's entity-wide security program to near real-time risk management. This Framework will also address common controls weaknesses and full implementation of continuous monitoring controls.

PENSION BENEFIT GUARANTY CORPORATION
INTERNAL CONTROL DEFICIENCIES
September 30, 2016

Recommendations:

We recommend that PBGC management:

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

4. Access Controls and Configuration Management

While PBGC made progress in addressing access controls and configuration management deficiencies identified in previous years, this progress did not fully resolve some security weaknesses. Weaknesses in the PBGC IT environment continue to contribute to deficiencies in system configuration, segregation of duties and role-based access controls based on least privilege.

In FY 2016, PBGC continued to implement various tools and processes to establish a more coherent environment for access controls and configuration management security controls.

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

An information system is comprised of many components¹ that can be interconnected in a multitude of arrangements to meet a variety of business, mission and information security needs. How these information system components are networked, configured and managed is critical in providing adequate information security and supporting an organization's risk management process.

¹ Information system components include, for example, mainframes, workstations, servers (e.g., database, electronic mail, authentication, Web, proxy, file, domain name), network components (e.g., firewalls, routers, gateways, voice and data switches, wireless access points, network appliances, sensors), operating systems, middleware, and applications.

PENSION BENEFIT GUARANTY CORPORATION
INTERNAL CONTROL DEFICIENCIES
September 30, 2016

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

- Implementation of controls to remedy vulnerabilities identified in key databases and applications, such as weaknesses in configuration, roles, privileges, auditing, file permission, and operating system access
- Development and implementation of an account management monitoring program that ensures that accounts are constantly maintained in accordance with PBGC account management standards and that reduces the dependency on recertification
- Development and implementation of processes and procedures for determining and documenting defined security configuration checklists for database applications
- Implementation of requirements for the disposition of dormant accounts for all PBGC systems
- Full implementation of controls to remove separated users from systems and applications
- Removal and decommission of systems and databases that have reached their end of service life
- Development and implementation of a plan of action to address known security weaknesses in accordance with PBGC's timeline for corrective action

Recommendations:

We continue to recommend that PBGC management:

- Develop and implement the following:
 - Controls to remedy vulnerabilities identified noted in key databases and applications such as weaknesses in configuration, roles, privileges, auditing, file permissions and operating system access.
 - An account management monitoring program that ensures that accounts are constantly maintained in accordance with PBGC account management standards and that reduces the dependency on recertification.
 - Development and implementation of processes and procedures for determining and documenting defined security configuration checklists for database applications.
 - Requirements for the disposition of dormant accounts for all PBGC systems.
 - Effective controls to remove separated users from systems and applications.
 - Removal and decommission of systems and databases that have reached their end of service life.
 - A plan of action to address known security weaknesses in accordance with PBGC's timeline for corrective actions.

**PENSION BENEFIT GUARANTY CORPORATION
NONCOMPLIANCE WITH LAWS AND REGULATIONS
September 30, 2016**

NONCOMPLIANCE WITH THE ANTIDEFICIENCY ACT

Voluntary Services

During FY 2016, PBGC identified and reported an Antideficiency violation to the President, President of the Senate, Speaker of the House of Representatives, OMB Director and the Comptroller General. This noncompliance was due to an override of management controls. A Department Director, who is not a Contracting Officer, acted outside of his or her authority and allowed an independent subcontractor to continue performing work, without compensation, after the contract funding was exhausted.

U.S.C. Title 31, Section 1342, Limitations on voluntary services, states: "an officer or employee of the United States Government or of the District of Columbia government may not accept voluntary services for either government or employ personal services exceeding that authorized by law except for emergencies involving the safety of human life or the protection of property".

We recommend that management:

- Develop and implement a training program that includes specific guidance on Antideficiency responsibilities and procurement practices, for Senior Staff, Department Directors, Contracting Officers, Contracting Officer's Representatives, and other supervisory employees that have the authority to make management or contracting decisions.

Potential Noncompliance

Leases

The Corporation provided its FMFIA's assurance documentation in October 2016. During our review, we discovered that in FY 2015 PBGC's Office of General Counsel (OGC) undertook a review of its operating leases to examine the current lease obligation authority in light of a GAO ruling on multiyear lease authority and the Antideficiency Act. In FY 2015, OGC requested a legal opinion from the U.S. Department of Justice - Office of Legal Counsel (OLC) on its lease obligation authority including funding requirements. In a memorandum dated September 30, 2015 to PBGC OGC, OLC concluded that PBGC has the authority to enter into multiyear leases. However, it does not have the authority to fund multiyear leases longer than five years on an incremental basis and must recognize and record in full, all contractual obligations incurred in connection with the lease agreements. Additionally, OLC concluded that nothing in PBGC's organic statute provides a basis for incremental funding of lease obligations. The remaining life of PBGC's three headquarters leases expire in two years. The OGC "does not believe that, based on the current status of these leases, PBGC has an Antideficiency Act issue with the headquarters leases". Also, PBGC maintains a COOP lease and five federal benefit administration office site leases. It is OGC's opinion that "none of these six leases implicate Antideficiency concerns". Further, the OGC concluded that they have sufficient funds

PENSION BENEFIT GUARANTY CORPORATION
NONCOMPLIANCE WITH LAWS AND REGULATIONS
September 30, 2016

to cover their current obligations although these funds have not been obligated in full. Additional work is needed to determine if the Corporation is in violation of the Antideficiency Act.

U.S.C. Title 31, Section 1501(a)(1), requires an agency to record the full amount of its contractual liability against funds available at the time the contract was executed. U.S.C Title 31 Section 1341(a)(1)(A), prohibits a federal employee from making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law.

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

Prior Year Condition	Status as Reported at September 30, 2015 ²	Status as of September 30, 2016
1. Controls over PVFB Liability	<p><u>Material Weakness:</u> PBGC had weaknesses in the following:</p> <ul style="list-style-type: none"> • Calculation of the PVFB Liability • Valuation of Plan Assets • Documentation to Support Benefit Calculation 	Partially resolved and downgraded to significant deficiency number 1 and included in Exhibit I.
2. Entity-wide Security Program Planning and Management	<p><u>Significant Deficiency:</u> PBGC had weaknesses in the following:</p> <ul style="list-style-type: none"> • PBGC had not completed security assessments and authorizations for its major applications • Weaknesses in PBGC's infrastructure design and deployment strategy for systems and applications adversely affected its ability to effectively implement common security controls across its systems and applications 	Partially resolved and classified as significant deficiency number 3 and included in Exhibit I.
3. Access Controls and Configuration Management	<p><u>Significant Deficiency:</u> Weaknesses in the IT environment contributed to deficiencies in system configuration, segregation of duties, role-based access controls, and monitoring.</p>	Partially resolved and classified as significant deficiency number 4 and included in Exhibit I.
4. Controls over Premium Income	<p><u>Significant Deficiency:</u> PBGC has control deficiencies in the following:</p> <ul style="list-style-type: none"> • Recording of premium income • System requirements and system design documentation • Comparison match of 5500 and Comprehensive Premium Filings 	Partially resolved and included in the Management Letter.

² Report on Internal Control Related to Pension Benefit Guaranty Corporation's Fiscal Year 2015 and 2014 Financial Statements Audit: <http://oig.pbgc.gov/pdfs/FA-15-108-3.pdf>

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

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

**PENSION BENEFIT GUARANTY CORPORATION
MANAGEMENTS RESPONSE FY2016
INDEPENDENT AUDITOR REPORT
SEPTEMBER 30, 2016**



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

Office of the Director

MEMORANDUM

NOV 15 2017

To: Robert Westbrooks
Inspector General

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

Subject: Response to the Independent Auditor's Combined Audit Report for the
FY 2016 Financial Statement Audit

Thank you for the opportunity to comment on the Office of Inspector General's FY 2016 audit results regarding the agency's financial statements, internal controls, and compliance with laws and regulations. PBGC protects the pensions of millions of Americans, so it is especially noteworthy that our financial statements have once again received an unmodified opinion.

Over all, we agree with your opinion on internal controls, and are fully committed to addressing the issues in this year's report. We especially appreciate your attention to reviewing our corrective actions, resulting in the lowest number of open recommendations in many years. Please rest assured that we will continue working to address the remaining control weaknesses as we continue to implement Enterprise Risk Management throughout PBGC.

We sincerely appreciate your report's notice of PBGC's progress, as much staff work has gone into improving controls and implementing audit recommendations. Work remains to be done, and as management completes it, we will certainly keep your office informed.

cc: Patricia Kelly
Cathleen Kronopolus
Alice Maroni
Karen Morris
Ann Orr
Michael Rae
Robert Scherer
Judith Starr
Martin O. Boehm
Theodore J. Winter

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 Risk Management Officer

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