PBGC
Pension Benefit
Guaranty Corporation

2017
Annual Report

A MESSAGE FROM OUR CHAIR

The Pension Benefit Guaranty Corporation (PBGC) is critical to ensuring retirement security and is committed to protecting Americans' hard-earned pensions. Our federal pension insurance agency is facing difficult challenges. Many factors are contributing to a rapid decline in the financial position of the program that protects over 10 million workers and retirees in multiemployer plans.

On behalf of the PBGC Board of Directors, I am pleased to present the PBGC's FY 2017 Annual Report, which provides important information about the Corporation's operations and finances. The report highlights many of the PBGC's accomplishments over this past fiscal year to preserve plans and protect pensions, as well as future program challenges.

Although 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, the FY 2017 Annual Report shows that the Multiemployer Plan Program deficit is again too high. The PBGC Multiemployer Insurance Program needs to address the problems affecting troubled plans and shore up the multiemployer fund so that it can be relied upon by the hardworking participants in those plans.

The future of the PBGC's insurance programs is vital to the retirement security of the millions of workers and retirees in defined benefit plans. My fellow Board members, Treasury Secretary Steven Mnuchin and Commerce Secretary Wilbur Ross, and I are proud of the work PBGC does to provide a more secure future for workers and retirees. The Administration looks forward to working with Congress to strengthen both the financial outlook of plans and the ability of PBGC to meet its challenges, now and in the future.

R. Alexander Acosta
Secretary of Labor
Chair of the Board

A MESSAGE FROM THE DIRECTOR

Every American worker should have access to a secure retirement. A vital part of that security for nearly 40 million workers, retirees, and beneficiaries comes from private traditional defined benefit pension plans. Our mission at the Pension Benefit Guaranty Corporation is to protect the predictable, lifetime retirement income that comes from those plans.

Our talented professionals work diligently to enhance retirement security and carry out our mission. We make sure that when a plan can no longer fulfill its promises to participants and beneficiaries, PBGC steps in and pays lifetime benefits up to the legal limits.

Our commitment is to make sure everyone gets their payments on time and to help plan sponsors keep their plans going. Currently, we pay benefits to nearly 840,000 participants in 4,845 failed single-employer plans. PBGC also provides financial assistance to 72 multiemployer plans covering over 63,000 participants currently receiving benefits.

The financial condition of our two insurance programs is among our top priorities as we look to the future. The financial status of the Single-Employer Program continues to improve. However, the Multiemployer Program faces very serious challenges and is likely to run out of money by the end of fiscal year 2025.

In light of these challenges, we continue to work with troubled multiemployer plans and their sponsors to provide advice and assistance to do what we can to help prevent plan insolvency. PBGC approved its first plan partition under the Multiemployer Pension Reform Act of 2014 (MPRA) for the United Furniture Workers Pension Plan A this year. Under partition, early financial assistance from PBGC along with required benefit reductions helps the plan to avoid insolvency and pay benefits to nearly 10,000 participants over the long term. But the tools PBGC has to address the multiemployer crisis are very limited. We have been working with stakeholders and policy makers to find new ideas for shoring up the program.

We engage and collaborate with the pension community, including participants, sponsors and service providers, on best ways to improve our practices. The feedback provided helps us learn what we can do to make it easier for plan sponsors to maintain defined benefit plans into the future. For example, in the upcoming year, the Corporation will implement a Mediation Pilot Program that allows an independent mediator to help PBGC and plan sponsors resolve negotiations more quickly.

The work we do is always with our customers in mind. Their feedback, whether negative or positive, gives us insight on how to enhance our operations to carry out our mission. With their input, we launched a newly redesigned PBGC.gov to create a seamless user experience for all of our customers. We want to make it easier to share important announcements with our customers as well as make it easier for people to engage with us, and this is one step in the right direction.

Our success is possible because of the support we receive from our Board of Directors – Secretary of Labor and Board Chair R. Alexander Acosta, Secretary of the Treasury Steven Mnuchin and Secretary of Commerce

Wilbur Ross and their teams – in addition to our Advisory Committee and our own dedicated staff. As Director, I am immensely grateful to everyone who brings the promise of retirement security to the millions of people we serve in communities across America.

W. Thomas Reeder
Director
November 15, 2017

FISCAL YEAR (FY) 2017 ANNUAL REPORT

This annual report is prepared to meet applicable legal requirements and is in accordance with and pursuant to the provisions of: the Government Corporation Control Act, 31 U.S.C. Section 9106; Circular No. A-11, Revised, "Preparation, Submission and Execution of the Budget," Office of Management and Budget, August 1, 2017; and Circular No. A-136 Revised, "Financial Reporting Requirements," Office of Management and Budget, August 15, 2017. 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

Congress established the Pension Benefit Guaranty Corporation (PBGC or the Corporation) through the Employee Retirement Income Security Act of 1974 (ERISA) to insure the defined benefit pensions of workers and retirees in private-sector pension plans. PBGC runs two programs, which are operated and financed separately, to insure different types of defined benefit pension plans: single-employer plans and multiemployer plans.

PBGC protects the retirement security of nearly 40 million American workers, retirees and beneficiaries. The Corporation is responsible for benefit payments to about 1.5 million people in failed plans. PBGC administers the program in a manner that minimizes the need for Congress to increase premiums. Without PBGC, the customers it protects and serves might have lost the pensions they earned for years of work in various industries, such as steel, auto parts supply, trucking, retail, airline and many others.

More than a quarter of the workers, beneficiaries, and retirees whose benefits are insured by the PBGC are participants in multiemployer plans. As indicated in PBGC's Fiscal Year 2016 Projections Report, the Multiemployer Program will more likely than not be insolvent by the end of 2025. As insolvency grows closer the changes required to prevent insolvency and its consequences become more and more difficult. PBGC is taking action to assist policy makers in evaluating the problem and analyzing possible solutions.

The Corporation strives for excellence in achieving three strategic goals:

- 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 the Corporation's mission.

OPERATIONS IN BRIEF

PBGC strengthens retirement security by preserving plans and protecting participants and their families. The Corporation guarantees payment, up to legal limits, of the pension benefits earned by nearly 40 million American workers and retirees in nearly 24,000 plans. Since 1974, PBGC has taken responsibility for about 1.5 million people in over 4,900 failed single-employer and multiemployer plans. PBGC made benefit payments of $5.8 billion in FY 2017.

To preserve plans and protect plan participants in FY 2017, the Corporation:

- Helped to protect more than 26,700 people by taking action in bankruptcy cases to encourage companies to keep their plans when they emerged from bankruptcy
- Paid $141 million in financial assistance to 72 insolvent multiemployer plans
- Through its Early Warning Program, negotiated almost $600 million in financial protection for more than 240,000 people in plans put at risk by corporate events and transactions. These agreements are also negotiated to avoid placing an unnecessary burden on premium payers.
- Conducted compliance reviews of plan sponsor calculations for plans that ended through standard terminations, resulting in 435 participants receiving corrected benefit amounts with a value of $4.6 million

To pay timely and accurate benefits in FY 2017, the Corporation:

- Assumed responsibility for 23,000 people in 82 trusteed single-employer plans
- Started paying benefits to nearly 14,000 retirees in single-employer plans
- Paid $5.7 billion to nearly 840,000 retirees from 4,845 failed single-employer plans

To maintain high standards of stewardship and accountability in FY 2017, the Corporation:

- Achieved an unmodified financial statement audit opinion and an unmodified opinion on internal controls
- Closed five recommendations related to the four significant deficiencies in PBGC's internal control program, as identified by PBGC's Inspector General
- Continued to provide outstanding service to retirees, as demonstrated by a retiree customer satisfaction score of 91, which is among the best in 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 2017 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 about 22,500 pension plans.

This year, the Multiemployer Program:

- Paid $141 million in financial assistance to 72 multiemployer pension plans, covering the benefits of over 63,000 retirees with nearly 30,000 people entitled to benefits once they retire. Seven of the 72 plans became insolvent during FY 2017. These seven newly insolvent plans cover about 13,900 participants
- Performed 10 multiemployer plan audits to protect the benefits of more than 9,000 people
- Used plan partition, mergers and other tools to protect participants' benefits and support the financial position of the Multiemployer Program

This year, the Single-Employer Program:

- Monitored over 1,500 companies for financial transactions that potentially posed risks to the financial viability of plans
- Protected current and future 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 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 Program is likely to run out of money by the end of FY 2025. Restoring the program to long-term solvency requires congressional action. PBGC works with troubled multiemployer plans to protect participants' benefits and extend their plans' solvency. 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. The Corporation also continues to implement changes mandated by the Multiemployer Pension Reform Act of 2014 (MPRA).

Protecting Pensions in Multiemployer Plans

PBGC monitors all multiemployer plans that request or receive financial assistance. In FY 2017, the Corporation began providing financial assistance to seven newly insolvent multiemployer plans covering about 13,900 participants. Additionally, the Corporation performed 10 audits of multiemployer plans that cover more than 9,000 people and identified 82 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, and effective and efficient management of the assets remaining in terminated plans.

Multiemployer Plan Partitions and Applications for Benefit Reductions

MPRA gives critical and declining plans additional options to address the risk of insolvency, but the use of these options presents difficult choices for plan sponsors and participants. 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.

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 proposing to make the maximum benefit reductions allowed under the law, and that partition is necessary for the plan to remain solvent. If a partition is approved, the original plan's ongoing payments to participants will keep benefits at levels above PBGC's guaranteed amounts over the long term.

Generally, applicants for partitions will also apply to the U.S. Department of the Treasury for a reduction 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 reductions.

In FY 2017, PBGC received two applications for partition. Of those applications, one was withdrawn and one was approved.

In July 2017, PBGC approved the application for a partition submitted by the United Furniture Workers Pension Fund A (UFW Plan), which covers 10,000 participants. The following month PBGC issued an order partitioning the UFW Plan effective September 1, 2017. The early financial assistance from PBGC to the newly partitioned plan, together with benefit reductions that are required as a condition for receiving PBGC assistance, should allow the original plan to avoid insolvency in the long term. Additionally, this partition will reduce PBGC's expected long-term loss with respect to the UFW Plan by $68 million.

Multiemployer Plan Mergers and Transfers

Plan mergers can 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. Transfers of assets and liabilities between plans can have a positive impact on all plans involved.

In FY 2017, PBGC completed its review of five plan mergers. These transactions were not related to provisions under MPRA.

Also, PBGC approved a proposed transfer of liabilities related to current contributing employers from the Bakery Drivers Local 550 Fund, which is projected to become insolvent, to another plan that is expected to remain solvent.

SINGLE-EMPLOYER PROGRAM

The Single-Employer Program covers defined benefit pension plans that generally 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 report a deficit but given the recent trends in claims and premiums, its financial condition is likely to improve over the next ten years.

Protecting Pensions When Plans Are At Risk

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

- In March 2016, PBGC and Sears executed a pension plan protection agreement, under which Sears agreed to protect the assets of certain special purpose subsidiaries holding real estate and intellectual property assets, including the Craftsman brand. In March 2017, PBGC consented to Sears' sale of Craftsman to Stanley Black & Decker ("SBD"). In exchange for this consent, the Sears pension plans (which covered nearly 200,000 participants at the time) received rights to a $250 million payment due to Sears in three years from SBD and a 15-year income stream relating to future SBD sales of Craftsman products. In addition, Sears provided PBGC a lien on $100 million of real estate assets. Subsequently in June 2017, Sears sold the $250 million future payment from SBD for $230 million and the cash was placed in an escrow account for the benefit of the plans. Sears may use a portion of the additional pension contributions to offset certain amounts of Sears' minimum pension funding contributions in the future. After fiscal year-end, on November 8, 2017, PBGC and Sears reached a new agreement that upon closing provides approximately $500 million in funding for Sears' two pension plans, including contributions already made by Sears since August 2017. Closing on this agreement is expected to take about three months. This amendment to the March 2016 agreement allows Sears to monetize the real estate protected in the March 2016 agreement, with the proceeds used to fund the pension plans. The pension protections in the March 2016 agreement that are unrelated to Craftsman and real estate remain unchanged.
- PBGC reached an agreement with SUPERVALU, Inc. (SVU) in connection with SVU's sale of its Save-A-Lot business. SVU will make cash contributions totaling $60 million over two years in

addition to its required pension contributions. This agreement will help protect the benefits of more than 42,000 participants in SVU's pension plan.

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:

- In FY 2017, the bankruptcy court approved PBGC's agreement with Nortel's U.S. debtors to allow PBGC's $625 million claim for pension plan underfunding and cap PBGC's recovery at $565 million. After confirmation of Nortel's plan of liquidation, PBGC received approximately $445 million in distributions on its claim.
- In January 2017, PBGC won a motion in bankruptcy court against Durango Georgia Paper Co. that challenged PBGC's claim for pension plan underfunding. Despite ERISA and PBGC regulations, Durango argued that in bankruptcy proceedings unfunded benefit liabilities may be recalculated to reduce the amount. The bankruptcy court agreed with recent court rulings that PBGC's $52 million claim against the Durango estate must be calculated in accordance with ERISA.
- Avaya filed for Chapter 11 bankruptcy in January 2017. Avaya sponsors an hourly-employee pension plan with 6,900 participants and $600 million in underfunding and a salaried-employee plan with 8,000 participants and $1.1 billion in underfunding. While PBGC supported the company's intention to retain both plans, the debtors ultimately determined that the company could not emerge from bankruptcy with both plans ongoing.

  PBGC engaged in a negotiated resolution in this case. Under PBGC's agreement with Avaya, which has been filed with (but has not yet been approved by) the bankruptcy court, the company will retain the hourly plan and, pending bankruptcy court approval, will terminate the salaried plan. If the salaried plan terminates, PBGC will receive a recovery valued at approximately $460 million on its claims, including $340 million in cash and 5.5 percent of the stock in the reorganized Avaya. To protect the hourly plan against a future sale of Avaya's valuable contact center business or other material transaction, PBGC also negotiated for an excess contribution to the plan in the event of such a transaction. The plan of reorganization, including the PBGC agreement, is subject to bankruptcy court approval.

Significant Litigation

PBGC protects participants in America's private-sector pensions through litigation in federal and state courts. For example, Idaho Hyperbarics moved the court to dismiss PBGC's complaint to enforce a standard termination audit of its pension plan, arguing that the three-year statute of limitations had expired. The U.S. District Court for Idaho ruled that the period had not expired. The court held that the period does not begin to run until PBGC issues an initial determination.

Protecting Pensions in Standard Terminations

A company can end a fully funded plan in a standard termination by paying all the benefits it owes. In FY 2017, more than 1,480 plans, covering approximately 195,000 participants, filed standard terminations. The number of standard terminations filed is marginally higher than past years, but will have minimal effect on PBGC's premium income. Large plan terminations filed this year include The Kroger Consolidated Retirement Benefit Plan, Accenture United States Pension Plan, Invensys Pension Plan, Bright House Networks, and Menasha Corporation. Other large plans, such as INOVA Health System, Samsonite, Sunoco Inc., and Deseret Mutual, completed previously filed standard terminations. Approximately 1,350 plans with almost 142,000 participants completed standard terminations in FY 2017.

When plan sponsors file standard terminations, PBGC conducts audits on a sample of plans to verify that the plan sponsors have properly calculated participants' benefits due to the plan termination. In FY 2017, PBGC conducted 343 such plan audits and, as a result, 435 people in these plans received an additional $4.6 million in benefits.

GOAL NO. 2: PAYING TIMELY AND ACCURATE BENEFITS

Through its Single-Employer Insurance Program, PBGC is directly responsible for the benefits of 1.4 million current and future retirees in trusteed pension plans. These Americans count on PBGC to pay their benefits accurately and on time.

Benefits Administration

PBGC becomes trustee of single-employer plans that end without enough money to pay all their benefit promises. In FY 2017, PBGC took responsibility for 82 single-employer plans that provide the pension benefits of 23,000 current and future retirees.

When PBGC assumes responsibility for a pension plan, the first priority is to make sure the plan's existing retirees continue to receive benefits without interruption. In FY 2017, the Office of Benefits Administration (OBA) oversaw the seamless transition of more than 14,000 retirees to direct payments from PBGC.

The six largest plans that PBGC trusteed in FY 2017 were sponsored by Hancock Fabrics, Inc. (4,149 participants); Marsh Supermarkets, Inc. (4,011 participants); Noranda Aluminum, Inc. (two plans; 3,120 participants); SBC Holdings, Inc. (3,010 participants); and Washington Inventory Service (2,193 participants).

In FY 2017, PBGC paid $5.7 billion in benefits to almost 840,000 retirees in single-employer plans. More than 36,000 new retirees applied for benefits. The Corporation processed more than 87 percent of those applications in 45 days or less, meeting its performance target for FY 2017.

Accuracy of benefit amounts is also a priority. When participants are eligible and request to start receiving their benefit, PBGC begins paying them an estimated benefit, if the Corporation has not completed the process required to issue a final benefit determination. Currently, almost 218,000 retirees whose final benefits are in the process of being calculated receive an estimated benefit amount. In FY 2017, more than 93 percent of final benefit amounts issued were within 10 percent of the estimated benefit amount. This is slightly below our target of 95 percent.

After PBGC becomes trustee of a plan, OBA 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 participants be informed of the exact amount of their benefit.

In recent years, PBGC has focused on calculating final benefits in its largest and most complex plans and improving work products and processes in response to recommendations by the Office of Inspector General. With process improvements in place generating new efficiencies, OBA is on track to reduce processing times starting in FY 2018.

Reviews and Appeals

When participants in trusteed single-employer plans disagree with PBGC's determination of their benefit, they have the right to bring their concerns to PBGC's Appeals Board. Employers and plans may also appeal certain PBGC determinations. The Appeals Board independently reviews each appeal and provides a detailed written explanation of its decision. In FY 2017, the Appeals Board opened 397 new appeals and closed 512 appeals, with 102 still open at the end of the year. The Appeals Board closed over 269 appeals for the Delphi salaried and hourly plans in FY 2017, and only a minimal number of appeals in these two large plans remain open. The Appeals Board statistics for the past 10 fiscal years are on PBGC's website.[1]

[1] 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 is an independent entity within PBGC. The Advocate is selected by PBGC's Board of Directors and reports to PBGC's Board of Directors and Congress. The Advocate acts as a liaison among 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, as well as assisting participants and plans sponsors in resolving disputes with the Corporation. The Advocate also identifies areas where participants and plan sponsors have persistent problems in dealings with PBGC and may propose changes in PBGC's administrative practices and recommend legislative changes to mitigate problems.

In the Advocate's annual report issued December 30, 2016, the Advocate continued to recognize PBGC for handling large volumes of routine transactions exceptionally well. The report acknowledged improvements in PBGC's approach when addressing participant benefit claims. The report also noted positive response from both the participant and plan sponsor communities regarding PBGC's proposed Missing Participants Regulation. Additionally, the report cited PBGC's updated premium penalty rule as an effort by PBGC to reduce regulatory costs and make it easier for plan sponsors to maintain traditional defined benefit plans. Observing notable themes in the challenges participants and plan sponsors encounter with the agency, the Advocate urged PBGC leadership to take a fresh look at administrative practices and act in partnership with plan sponsors and participants to resolve these ongoing challenges.

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 meeting customer service goals.

Each quarter, PBGC leaders participate in data-driven discussions covering the Corporation's progress in 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	2017	2016
People Protected in Plans Emerging From Bankruptcy		26,700	55,000
Standard Termination Audits: Additional Payments		$4.6M to 435 people	$4.5M to 940 people
People Receiving Benefits – Single-Employer		840,000	840,000
People to Receive Benefits in Future – Single-Employer		552,000	559,000
People Receiving Benefits in Plans Receiving Financial Assistance – Multiemployer		63,000	59,000
People to Receive Benefits in Future in Plans Receiving Financial Assistance – Multiemployer		30,000	27,000
Estimated Benefits Within 10 Percent of Final Calculation	95%	93%	96%
Average Time to Provide Benefit Determinations (Years)	4.3	6.2	6.3
Improper Payment Rates Within OMB Threshold[1]	<1.5%	Yes	Yes
Applications Processed in 45 Days	87%	87%	87%
Retiree Satisfaction – ACSI[2]	90	91	90
Caller Satisfaction – ACSI	83	83	84
Premium Filer Satisfaction – ACSI	73	77	79
Overall Customer Satisfaction[3]	80	72	73
Contract Awards Fully Competed		77%	75%
Financial Surplus (Deficit) – Single-Employer		($10.9B)	($20.6B)
Financial Surplus (Deficit) – Multiemployer		($65.1B)	($58.8B)
Unmodified Financial Statement 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 as outlined in OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments (10/20/2014).
[2] The American Customer Satisfaction Index (ACSI) uses a 0-100 scale; 80 or above is considered excellent.
[3] This 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 trusteed by PBGC and recoveries from the companies formerly responsible for the plans. PBGC receives no taxpayer dollars. The Corporation pays benefits based on federal law and the provisions of the plans trusteed by PBGC.

Fiscal Deficit

The net financial position remains in deficit for both the Single-Employer and Multiemployer Programs. Per current estimates from PBGC's FY 2016 Projections Report, the net financial position of the Single-Employer Program is likely, but not guaranteed, to improve. Over the next 10 years the Single-Employer Program's deficit of $10.9 billion is projected to turn into a surplus. However, without changes in law, the Multiemployer Insurance Program is likely to run out of money by the end of FY 2025. The longer the delay in making the changes, the more disruptive and painful they will be for participants, plans, and employers. The Single-Employer and Multiemployer Programs are operated and financed separately. Assets from one program cannot be used to support the other.

Financial Soundness and Financial Integrity

PBGC is responsible for insuring the pensions of nearly 40 million people with a present value of accrued benefits totaling $3 trillion. In addition to collecting premiums, PBGC oversees the management of over $100 billion in total assets. In FY 2017, the Corporation attained its 25th consecutive unmodified audit opinion on its financial statements.

Collecting Premiums

In FY 2017, combined premium cash receipts collected totaled $7.2 billion. Single-Employer Program premium cash receipts collected added up to $6.9 billion. Separately, Multiemployer Program premium cash receipts were approximately $300 million. Premium rates are set by Congress and 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 2017, PBGC improved its premium collection processes by sending an acknowledgement for each premium filing received, which includes the results of processing the filing (e.g., notification of any balance due or overpaid).

Investing Prudently

PBGC investment assets are administered by 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 composite's respective benchmark. For more information, refer to Section VII Investment Activities.

TABLE 2: PBGC FY 2017 INVESTMENT RETURNS VERSUS BENCHMARKS

	1-Year Period	3-Year Period	5-Year Period
Total Fund Composite	**5.6%**	**5.4%**	**5.4%**
Total Fund Benchmark [1]	**5.0%**	**5.0%**	**5.0%**
ERISA/ PPA Portfolio Benchmark[2]	**11.3%**	**7.7%**	**9.4%**
Total Global Public Stock	17.6%	8.8%	11.2%
Total Public Stock Benchmark[3]	17.2%	8.2%	10.8%
Total Global Bonds	0.7%	4.2%	3.0%
Total Global Bonds Benchmark[4]	0.1%	3.9%	2.7%

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

[2] The ERISA/PPA Portfolio Benchmark is based on a hypothetical portfolio with a 60 percent allocation to the Standard & Poor's 500 equity index and a 40 percent allocation to the Bloomberg Barclays 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 on 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 on the weights of PBGC's fixed income managers and the returns of their respective benchmarks.

OUTREACH AND CUSTOMER SERVICE

Customers are at the center of PBGC's mission, and their interests are considered when decisions are made at every level of the organization. The Corporation's customers include workers, retirees and their families, plan sponsors, and stakeholders.

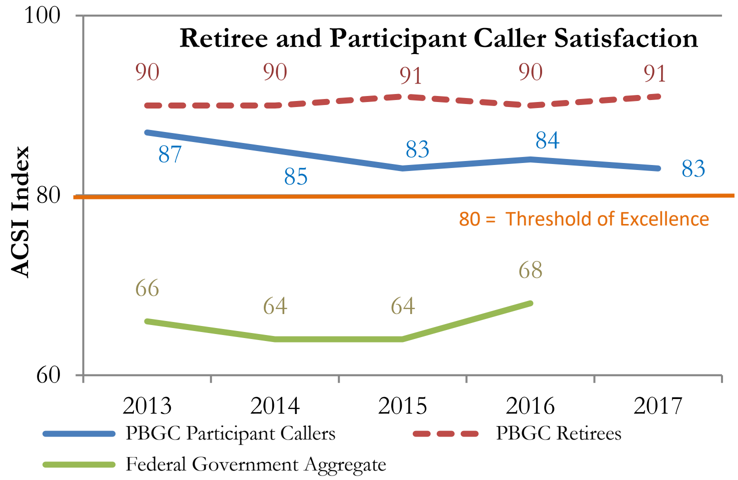
Survey Results

PBGC first identifies and prioritizes customer needs through surveys that assess major processes and communications. The Corporation then sets targets to promote continued improvement in the areas that matter most to customers.

Telephone Surveys

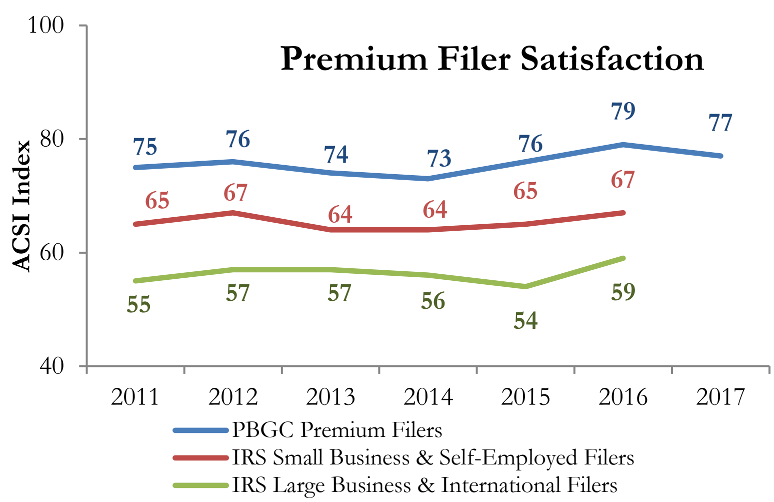
PBGC uses telephone surveys to get feedback from its customers, including retirees, premium filers and callers to the Corporation's Customer Contact Center. The American Customer Satisfaction Index (ACSI) evaluates PBGC's services to this sector of customers. ACSI surveys use a proven statistical methodology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

The retiree survey measures satisfaction among retirees who receive monthly benefits from PBGC. This group rated its satisfaction at 90 or above for five consecutive years, including a score of 91 in FY 2017, slightly higher than the target of 90. Survey respondents indicated an appreciation of PBGC's dependable and timely payment of their benefits. This year, PBGC streamlined the process for beneficiaries of deceased payees to receive survivor benefits. PBGC was recognized in the 2016 ACSI Federal Government Report as "a consistent satisfaction leader in the federal government" whose scores are "higher than most private sector companies reported by the ACSI."[1]



The participant caller survey measures the satisfaction of pension plan participants who call PBGC's toll-free number. Customers rate their call 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 met its FY 2017 target of 83. This year's tax season brought an exceptionally high volume of calls resulting from an unusual number of requests for address changes, account reactivations and reissued tax forms. The nearly 40 percent jump in call volume initially caused long waits, but PBGC responded by implementing Saturday hours for the duration of tax season and permanently extending the evening hours of its field offices. These improvements, along with expanded online self-service options, have mitigated concerns and are expected to improve satisfaction going forward.

The premium filer survey measures satisfaction among plan sponsors and their representatives who file mandatory annual premiums with PBGC. The Corporation exceeded its FY 2017 target of 73 by four points, scoring 77. In addition, PBGC was the highest scoring regulatory agency in the ACSI 2016 results.[2] PBGC listened to its premium filers and incorporated their input, particularly with respect to its online premium filing application, My PAA.

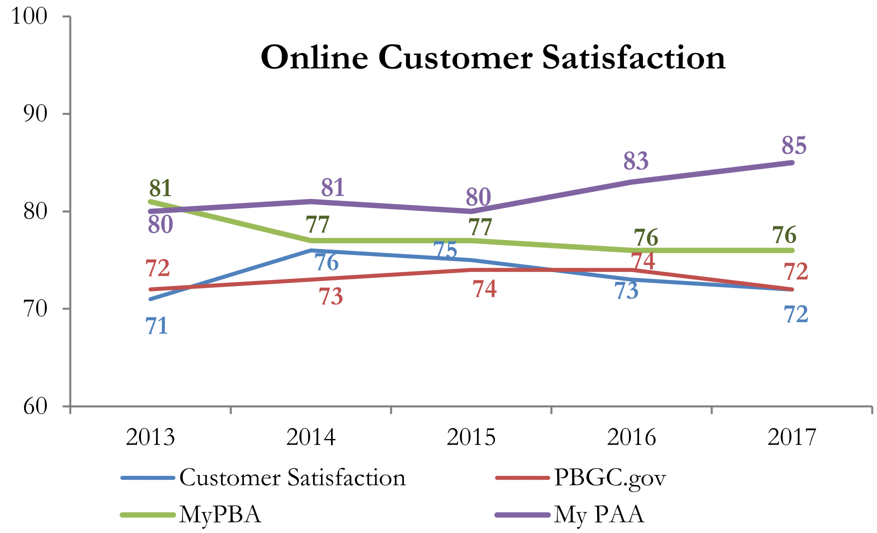


[1] theacsi.org/news-and-resources/customer-satisfaction-reports/reports-2016/acsi-federal-government-report-2016
[2] theacsi.org/index.php?option=com_content&view=article&id=563&Itemid=1026

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)
- PBGC.gov website
- Overall satisfaction of all customers



These surveys provide valuable benchmark data and track trends in customer satisfaction. Online surveys collect continuous feedback, 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 withholdings or requesting benefit estimates. The MyPBA survey measures satisfaction in areas such as functionality, look and feel, and plain language. The MyPBA satisfaction score is 76, slightly below the target of 77. This year's tax season was exceptionally challenging, with many MyPBA account holders needing assistance with reactivating expired accounts. In July, MyPBA added the ability for customers with expired accounts to reset them without the need for a telephone call to PBGC. Although this improvement was made in the fourth quarter of FY 2017, customers used it nearly 6,400 times by the end of the year.

Practitioners use My PAA to file premiums with PBGC. The My PAA survey measures satisfaction with aspects such as navigation and site performance. The FY 2017 satisfaction score, 85, is an all-time high and exceeds PBGC's target of 79. My PAA implemented upgrades throughout the year to simplify navigation, improve communication, prepopulate more fields for increased accuracy and expand the information viewable online.

The PBGC.gov survey measures satisfaction with PBGC's public website, including such aspects as search, navigation, content and plain language. The website satisfaction score was 72, slightly below the target of 75. PBGC launched a new website incorporating several improvements requested by customers, and the customer response has been largely positive.

PBGC's customer satisfaction survey measures customer views on how well the Corporation delivers on its mission. This year, PBGC attained a score of 72, below the target of 80. The Corporation continues to listen to its customers and strives to serve them better. Tax season and a newly redesigned website presented challenges in 2017 that PBGC is still addressing. PBGC also continues to communicate regularly with its customers via targeted newsletters, press releases, blog entries and social media.

Engaging With Customers and Stakeholders

PBGC works to keep its customers, stakeholders and constituents up to date on the Corporation's activities through its outreach efforts. In FY 2017, the Corporation enhanced its communication channels and outreach strategies, including a redesigned website, email campaigns and speaking engagements.

In May 2017, PBGC launched its redesigned website, PBGC.gov, using a new content management system. The new PBGC.gov features a cleaner look and updated search functionality and it is mobile-friendly. The redesign incorporates the latest trends in web design and user experience, as well as customer feedback and ideas.

With the purpose of providing customers with a seamless online experience, the information on PBGC.gov is better structured for the Corporation's many audiences to access. PBGC's online service, MyPBA, is prominently featured on each page for retirees to access their benefit account and update contact information.

The Corporation increased its use of email, including sending regular participant communications via email for the first time. In FY 2017, PBGC developed a letter for participants in estimated benefit status, and sent over 12 percent of those letters via email. The email included helpful information as well as questions and answers about the Corporation, all available in English and Spanish.

PBGC continued to distribute its seasonal newsletters to retirees. More recently, the Corporation reissued the annual deferred vested newsletter via email and postal mail. These newsletters reach hundreds of thousands of people, informing them about the services PBGC provides as they plan for retirement.

A large portion of PBGC's outreach efforts is focused on the pension community, including employer, pension and participant groups. To listen to their concerns and develop ways to enhance retirement security, PBGC met with groups such as AARP, the American Society of Pension Professionals and Actuaries, the American Benefits Council, the ERISA Industry Committee, the Committee on Investment of Employee Benefit Assets, the National Coordinating Committee for Multiemployer Plans, the National Retiree Legislative Network, the Pension Rights Center, the Women's Institute for a Secure Retirement, U.S. Chamber of Commerce, and several organizations representing the actuarial profession. Additionally, PBGC participated in various meetings and conferences throughout the year. In FY 2017, PBGC representatives attended more than 150 events, sharing their expertise on matters regarding multiemployer plans, risk transfers, single-employer plans, lifetime income and the Missing Participants Program.

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 its programs' financial health and improve its ability to manage risk.

Research and Analysis Activities

PBGC serves as an expert source of information about pensions and retirement policy. The Corporation's Policy, Research, and Analysis Department (PRAD) delivers timely and accurate analysis of PBGC programs and policy alternatives to lawmakers, 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 expanded the Data Book and the graphical supplement for the Multiemployer Program. 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.

Several studies are underway including an updated study of the historical experience of plan participants who receive benefits from the Single-Employer Program. In addition, PBGC is studying retirement experience as part of its review of its regulations that prescribe expected retirement ages and various studies of employer-contribution and risk-transfer activity for purposes of its modeling program. PBGC also researched and deployed a revised methodology for establishing interest rates for valuing its liabilities based on a curve of a 30-year series of annual rates (interest factors). PBGC anticipates proposing to extend that methodology to the valuation of claims.

Improvements to the Pension Insurance Modeling System and Related Reports

PRAD's primary forecasting model is the Pension Insurance Modeling System (PIMS). In FY 2017, PRAD used the model to issue the annual Projections Report, which outlines the direction of PBGC's Single-Employer and Multiemployer Programs. For purposes of improving the model, PBGC studied mass withdrawal experience under multiemployer plans and published the results of its analysis on PBGC.gov. The most recent Projections Report and other reports generated by PIMS are available on PBGC.gov.

Results of the PIMS projections are also incorporated into PBGC's determinations under MPRA as to whether providing early financial assistance via a partition or facilitated merger will impair PBGC's ability to assist other plans.

Outside experts review PIMS, and the model is periodically tested through a congressionally mandated peer review, required under the Moving Ahead for Progress in the 21st Century Act (MAP-21) and commissioned by the Social Security Administration. Completed reviews are publicly available, and PBGC uses these 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. PBGC has undertaken a multi-year effort to improve the speed and performance of PIMS; additional improvements are in progress.

Managing Enterprise Risk

As part of the Corporation's Enterprise Risk Management (ERM) practices, the Risk Management Council (RMC) – chaired by the risk management officer – has developed a preliminary framework to assess and analyze risks across the Corporation. The RMC is in the process of refining, implementing and documenting this methodology to accomplish the main purpose of ERM – providing managers and leaders with tools and risk information on which to make decisions. Additionally, the Corporation completed its FY 2017 risk profile and is working on mitigation strategies for top risks. Other accomplishments for this year include:

- Providing ERM training and making it available to all employees
- Establishing a Vision, Roles and Responsibilities document to assist in cultural change and lay out the goals of the ERM program
- Documenting a common terminology for the Corporation's ERM effort

Regulatory Activities

PBGC continues to issue regulations to protect plan participants and minimize burdens on pension plans and plan sponsors.

- In FY 2017, PBGC received comments to its 2016 proposed rule to expand and update the Missing Participants Program. Under the expanded program, most terminated defined contribution plans will be able to transfer the benefits of missing participants to PBGC or to inform PBGC about other arrangements for distributing their benefits. PBGC's search efforts and its centralized online searchable database will help defined contribution participants find and receive the benefits being held for them. By fiscal year end, PBGC had submitted the text of a final rule to the Office of Management and Budget (OMB). PBGC expects the expanded Missing Participants Program to be up and running in 2018 after publication of a final rule.
- PBGC also reviewed comments on its 2016 proposed rule on facilitated multiemployer plan mergers. This proposed rule implements MPRA requirements for PBGC to facilitate mergers among seriously underfunded multiemployer plans. Such mergers can improve plans' ability to survive and continue paying benefits to participants. PBGC expects to publish a final rule in 2018.

In FY 2017, PBGC published:

- A final rule to update its Freedom of Information Act (FOIA) regulation to make changes specifically required by the FOIA Improvement Act of 2016 and to incorporate a statutory change under the Open Government Act of 2007.
- A request for information (RFI) to obtain public comment on the adoption by multiemployer plans of "two-pool" alternative withdrawal liability arrangements. Two-pool arrangements allocate shares of plan underfunding to employers that withdraw from plan participation and settlement of that liability. The RFI sought comment on the various forms these arrangements may take; the terms and conditions for contributing employers who enter into such arrangements; and the benefits and risks to multiemployer plans and their participants, employers, and the Multiemployer Insurance Program.
- An RFI to obtain information, suggestions and comments from the public on regulatory and deregulatory actions PBGC should take, in keeping with a series of executive orders on regulatory planning and review. PBGC expects that comments will help its efforts to provide plans, practitioners and participants with clear and meaningful guidance, minimize burdens, maximize benefits and address ineffective and outdated rules.
- A Technical Update to provide guidance that addresses possible duplicative reporting for plans that reported an active participant reduction due to a single-cause under PBGC's reportable events regulation. The Technical Update provides an alternative method for determining whether an active

participant reduction due to attrition must be reported to PBGC that takes into account an event already reported to PBGC as a single cause event.

- A new webpage, "PBGC Insurance Coverage," to update employers and practitioners on the types of pension plans covered by PBGC, those that are not covered, and how plans can request a coverage determination from PBGC.

STRENGTHENING A DIVERSE WORKFORCE AND LEADERSHIP

PBGC continues to be committed to maintaining a diverse and inclusive workplace, while also increasing succession planning efforts to ensure knowledge sharing and prevent the loss of institutional knowledge. In FY 2017, the Corporation implemented new training programs and reached a milestone with the hiring of veterans who have disabilities.

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. Also, the survey provides an opportunity for employees to influence change in their workplace. All federal employees are encouraged to take the survey and make their voice heard. In FY 2017, 69 percent of PBGC's federal employees participated in the survey. This is an increase from the FY 2016 participation rate of 65 percent. It is also significantly higher than the 2017 governmentwide participation rate of 46 percent.

According to the survey results, PBGC has an engaged workforce. The Corporation exceeded its engagement score target of 69 percent and achieved its highest engagement score with a 2017 FEVS engagement score of 75 percent. 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 the employee's role in the workplace.

Additionally, PBGC's Inclusion Quotient (IQ) index score increased from 64 percent in 2016 to 69 percent in 2017. In fact, PBGC's IQ score has increased each year since 2013. This index identifies behaviors that help create an inclusive environment. It is built on the concept that repetition of inclusive behaviors will create positive habits among team members and managers.

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 identify PBGC's strengths and challenges. This year's survey results can be found on PBGC.gov.

Management and Leadership Training

Investing in the future of PBGC, the Corporation designed and delivered two management development series: Bridge Builder for Inclusion and Resilience in the Face of Turbulence. Through several series-related courses, supervisors, managers and executives had the opportunity to deepen their understanding of important concepts critical to the enhancement of specific leadership competencies.

Leaders Building Community (LBC) is the title of the PBGC's training program for new supervisors. Through LBC, new supervisors learn, examine and practice important aspects of a broad range of supervisory and management concepts. This also fosters a community of excellence among new supervisors. More than 20 new supervisors are participating in the program, which began in April and concludes in December.

PBGC successfully automated the senior-level executive development plans (EDPs). The EDPs are used as a road map for short- and long-term developmental activities designed to strengthen leadership skills and performance. This tool is then used to support growth and development, enhance performance, maintain accountability for meeting departmental and agency goals, and broaden perspectives of PBGC functions.

As a result of developing a robust Management and Leadership Training Program, the Office of Management and Budget (OMB) requested to review PBGC's program for possible benchmarking for other federal agencies to use.

Recruitment and Employment

PBGC has been steadfast in continuing to support and encourage the hiring of veterans who have disabilities. In FY 2014, PBGC developed and launched the "Why Hire a Disabled Veteran" campaign, which helped in part to increase the hiring of these veterans. With a 20 percent increase in the number of veterans with disabilities employed by PBGC in the last fiscal year, this veteran population is currently the highest ever in PBGC's history.

Continuing with this effort, PBGC implemented a successful recognition program for senior management officials who make significant contributions toward the hiring and retention of veterans with disabilities by recognizing their efforts in the areas of recruitment, communication and employee engagement.

Diversity and Inclusion

In its third year, the PBGC Diversity and Inclusion Council launched its first newsletter, the S.T.E.W. (Standing Together Everyone Wins), a resource designed to provide the PBGC community with practical, research-based tips and suggestions for enhancing collaboration, productivity and problem solving. With a diverse representation of PBGC's employees, management, affinity groups and the union, the council meets monthly to promote diversity and inclusion practices in a variety of ways. The council participated in the International Association of Black Actuaries Career Networking event and continued its partnership with Morgan State University (MSU). PBGC actuaries visited MSU in the fall to participate in the school's professional development series and in the summer to participate in their high school STEM program. The council also hosted a Diversity Fair that celebrated many employee groups, departments, skill sets, and occupations that make up the PBGC community and provided employees an opportunity to learn more about their colleagues and business partners.

Equal Employement Opportunity

The Affirmative Employment Program (AEP) operated by PBGC's Office of Equal Employment Opportunity (OEEO) is essential to PBGC's mission. The AEP has a focus of promoting equal employment opportunity by identifying and eliminating discriminatory practices and policies that impede progress for all workforce demographics.

To assist in this effort, OEEO established Affirmative Employment Committees focusing on Hispanics and women. The committees, comprised of a diverse representation of PBGC employees, assists the OEEO in maintaining a model program by:

- Promoting awareness, training assistance, career development and advancement of Hispanics and women
- Identifying possible barriers to equal access and opportunity
- Supporting a diverse and inclusive environment where all people can work to their full potential

In a proactive effort to eradicate discrimination and reduce complaints of discrimination, OEEO initiated an EEO training for supervisors and managers. The training, "A Day in the Life of a Supervisor," was developed to heighten awareness of requirements of EEO laws, regulations and policies. The training also fosters a practical understanding of the EEO process if a complaint of discrimination is filed, teaches the pitfalls of making erroneous employment decisions and stresses the importance of a workplace free from reprisal. Various efforts to prevent discrimination have resulted in formal complaints declining to 15 in FY 2017 from 29 in FY 2016, and 45 in FY 2015.

SAFEGUARDING CUSTOMERS' INTERESTS

Strengthening E-Government and Information Technology

PBGC continued to modernize its information technology infrastructure and strengthen its cybersecurity posture, while reducing overall spending. PBGC's Office of Information Technology (OIT) worked on strengthening the Corporation's cybersecurity posture by partnering with the U.S. Department of Homeland Security (DHS) and Office of Management and Budget (OMB) in cross-agency cybersecurity and privacy shared service initiatives.

These initiatives are ongoing and will continue to improve efficiency and effectiveness by streamlining mission support functions and leveraging existing solutions. Cybersecurity activities and improvements include the following:

- Collaborating with DHS on a risk vulnerability assessment. As a result, several vulnerabilities have been identified and remediated.
- Providing an automated solution to enhance the existing PBGC employee and contractor separation process. This includes improved documentation, sequencing and notifications for required separation activities. This solution has improved tracking of assigned and completed separation activities, as well as the notification and escalation of incomplete separation activities.
- Enabling the EINSTEIN 3 Accelerated (E3A) services for enhanced cybersecurity analysis, situational awareness and security response. With E3A, PBGC will be better able to detect and prevent malicious traffic targeting PBGC's network.
- Deploying a privileged account management system that will allow for consistent enforcement of Personal Identity Verification credential-based access for all administrative functions across all

devices and automated password rotation for service accounts. This system will also allow for improved auditing and incident investigation capabilities through session recording, and consolidated and streamlined Federal Information Security Management Act (FISMA) metric compliance.

In addition, during FY 2017, PBGC's OIT completed a number of initiatives to modernize outdated infrastructure and improve operational efficiency, including:

- Completing several critical end-of-service-life modernization efforts including migration from and decommission of PlumTree Portal and elimination of Windows XP and 2003.
- Establishing additional controls of budget and acquisition processes to provide greater transparency as well as identifying and executing opportunities for cost savings to achieve significant reductions in utility and backup costs.
- Modernizing more than 900 mobile phones with new hardware, software and management configuration, addressing stability issues and improving capabilities, including the ability to access Office 365 and use Office applications on the phone.

Ensuring Ethical Practices

In FY 2017, 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. PBGC also developed and provided agency wide training on the Hatch Act, which limits federal employee participation in partisan political activity.

PBGC continued to ensure that exiting employees had the opportunity to meet with an ethics counselor to discuss the rules on post-employment activities. As an additional outreach measure, the ethics program also implemented email notices to all PBGC employees on various ethics topics of interest.

Protecting Privacy Interests

Among PBGC's highest priorities is protecting the personal information of its participants, beneficiaries, employees and contractors. In FY 2017, the Corporation created a Privacy Office with dedicated staff to create a risk-management approach to privacy. This work includes reviewing PBGC systems to optimize the confidentiality, integrity and availability of the information PBGC maintains.

PBGC provided mandatory Privacy Awareness Training for new hires and annual refresher training for current employees and contractors. The privacy team also hosted its seventh annual Privacy Week. This event offered training, information about hot topics in the privacy field, Q&A sessions and a guest speaker. The Privacy Office expanded its role-based training on handling personally identifiable information to more corporate business units. The Privacy Office also conducted its annual inventories of its holdings of personally identifiable information and routinely acts to reduce the use of Social Security numbers to the minimum amount necessary.

Strengthening Transparency and Disclosure

PBGC continues to be a leader within the federal government in promoting compliance with the Freedom of Information Act (FOIA) and the Privacy Act. PBGC ended FY 2017 with no backlog of FOIA requests. The average processing time for all requests, including simple, complex, and special project cases, is 10 working days – 10 days less than the 20-day statutory time requirement.

PBGC's Disclosure Division participated in a Government Accountability Office (GAO) audit, and GAO complimented PBGC for its demonstrated performance and compliance with FOIA and the U.S. Department of Justice's FOIA guidelines. This year's accomplishments are a direct result of PBGC's diligence in forming partnerships throughout the agency, triaging cases at the outset, implementing targeted and individualized training for recipients of certain FOIA requests and continuing to improve its business model. Upon request, the Corporation has shared its disclosure model with other federal agencies.

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. To maintain high standards of stewardship and accountability, PBGC continues to strengthen controls over operations, financial reporting and compliance with laws and regulations.

Office of Inspector General

PBGC places a strong emphasis on diligently addressing the Office of Inspector General's (OIG) 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. 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. The number of open OIG recommendations was reduced from more than 180 in 2015 to 84 at the end of the fiscal year. In addition, PBGC closed five recommendations related to four significant deficiencies.

OIG oversaw the annual financial statement audit completed by an independent public accounting firm, CliftonLarsonAllen LLP. The Corporation attained the 25th consecutive unmodified audit opinion on its financial statements. In addition, during FY 2017 OIG performed other audits and evaluations, including the following:

- Report on Internal Controls Related to the Pension Benefit Guaranty Corporation's Fiscal Year 2016 and 2015 Financial Statements Audit (AUD-2017-3): In this report, OIG observed improvements to the internal controls. These improvements led to a change in classification of a previously reported material weakness in controls over the Present Value of Future Benefits (PVFB) liability to a significant deficiency. PBGC received its second consecutive unmodified opinion on internal controls. However, in the report, OIG states that serious internal control weaknesses in PBGC's programs and operations include four significant deficiencies: Controls over PVFB Liability; Present Value of Nonrecoverable Future Financial Assistance (PVNFFA); Entity-Wide Security Program Planning and Management; and Access Controls and Configuration Management.
- Evaluation of PBGC's Fiscal Year 2016 Compliance with Improper Payments Elimination and Recovery Act (EVAL-2017-10): As required by the Improper Payments Information Act (IPIA) of 2002, OIG reviewed PBGC's compliance with improper payment requirements. For FY 2016, PBGC assessed payments to contractors and multiemployer financial assistance payments and determined that the payment streams were not susceptible to significant improper payments. OIG determined that PBGC was compliant with the applicable improper payment reporting requirements.
- Insolvent Multiemployer Plans: Ensuring Administrative Expenses are Reasonable, Necessary, and Adequately Supported (AUD-2017-11): OIG found that the Corporation adequately ensured that recurring financial assistance related to administrative expenses was reasonable, necessary and adequately supported. OIG reviewed nine plans and determined that PBGC auditors properly assessed multiemployer plans' administrative expenses and processed recurring financial assistance

requests. However, OIG identified two opportunities where the agency could strengthen data quality and monitoring to ensure that recurring administrative expenses for financial assistance are necessary and reasonable. While these opportunities did not constitute formal audit recommendations, PBGC is committed to addressing the recommendations.

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

Government Accountability Office

GAO's latest high-risk report, dated February 2017,[1] continued to include PBGC's Single-Employer and Multiemployer Insurance Programs as one of 34 government programs most at risk due to vulnerabilities. The report underscores the risk of PBGC's Multiemployer Insurance Program being exhausted in less than 10 years as a result of projected pension plan insolvencies.

PBGC monitors its progress in addressing GAO recommendations. As of September 30, 2017, PBGC had only two open GAO recommendations relating to past reviews and has requested closure on one of them, which has been fully addressed by PBGC. PBGC also updated GAO on its work to address the sole remaining recommendation.

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

[1] GAO.gov/highrisk/pension_benefit/why_did_study

FINANCES

FISCAL YEAR 2017 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 trusteed by PBGC, and recoveries from the companies formerly responsible for the plans.

FINANCIAL POSITION

PBGC Combined Financial Position

PBGC's combined net position improved by $3,447 million, decreasing the Corporation's combined deficit to $75,966 million as of September 30, 2017, from $79,413 million as of September 30, 2016. This is largely due to $7,214 million in premium and other income and $5,310 million in investment income, offset by $6,438 million in multiemployer losses from insolvent and probable plans and $3,063 million in single-employer losses from completed and probable terminations. Combined actuarial credits totaled $973 million. As discussed in greater detail in the paragraph below, PBGC now uses a curve of one-year discount rates (interest factors) instead of select and ultimate factors of the past. The curve of one-year discount rates (interest factors) for September 30, 2017 starts at 1.54% in year 1 and varies annually for each year thereafter until year 31 when the factor becomes 2.44% for the remaining years. The overall FY 2017 impact of the increase in interest factors during FY 2017 was a $4,704 million credit and consists of a $2,476 million credit from multiemployer probable plans, a $2,183 million credit from terminated single-employer plans, and a $45 million credit from insolvent multiemployer plans. Offsetting the combined gain is the addition of $11,536 million for the 22 plans added to PBGC's inventory of multiemployer plans requiring financial assistance currently or in the future (offset by the deletion of three plans of $2,838 million), and the addition of over $3,100 million for five new single-employer probable plans.

During FY 2017 PBGC refined its methodology for determining the interest factors it uses to measure its single-employer and multiemployer program benefit liabilities. PBGC now uses a curve of one-year discount rates (interest factors) instead of just two select and ultimate factors. Use of a curve of rates is consistent with modern annuity pricing by insurers and is more responsive to changes in annuity market prices. The curve is a 30-year series of one-year rates (interest factors) and thus is a more segmented approach to discounting future payments than the select and ultimate rate structure used previously.

Multiemployer Financial Position

- The multiemployer program's net position declined by $6,219 million, increasing its deficit to $65,052 million, an all-time high for the multiemployer program. PBGC's recently issued FY 2016 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 11 years, reaching over 99 percent by the end of FY 2036. When the program becomes insolvent, PBGC will be unable to provide financial assistance to pay the full level of guaranteed benefits in insolvent plans. At that time, PBGC will be only able to pay financial assistance to the extent PBGC receives multiemployer premium income.

- The $6,219 million increase in the multiemployer program's deficit is primarily due to newly identified probable plans, offset by credits due to a change in interest factors (which was a result of increases in market interest rates as well as a new methodology for determining interest factors consisting of a curve of one-year discount rates (interest factors), adopted March 31, 2017, and going forward). Losses from financial assistance in insolvent and probable plans were $6,438 million. The primary factors for this loss are the addition of 22 new plans with net claims of $11,536 million added to the multiemployer inventory (includes 19 multiemployer probable plans as well as three new insolvent plans), offset by gains due to credits resulting from the change in interest factors of $2,476 million for identified multiemployer probable plans and to the deletion of three plans for $2,838 million. Credits for insolvent plans (i.e., plans currently receiving financial assistance) included $45 million due to the change in interest factors and $40 million from actuarial adjustment credits, offset by a $62 million charge due to expected interest on accrued liabilities. Other factors that contributed to the multiemployer program's deficit are $53 million in investment losses and charges of $42 million for administrative expenses, offset by $291 million in net premium income.

Single-Employer Financial Position

- The single-employer program's net position improved by $9,666 million, decreasing the program's deficit to $10,914 million. The primary factors in the single-employer program's FY 2017 net gain of $9,666 million included $6,923 million in net premium and other income, a gain of $5,363 million in investment income, $2,183 million in credits due to a change in interest factors (which was a result of increases in market interest rates as well as a new methodology for determining interest factors consisting of a curve of one-year discount rates (interest factors), adopted March 31, 2017 and going forward), and $1,299 million in credits to actuarial adjustments. These favorable factors for the single-employer program were offset by $3,063 million in losses from completed and probable terminations, $2,532 million in charges due to expected interest, and $507 million of administrative, investment, and other expenses.

INVESTMENTS

- **Global Public Stock** – U.S. equities posted strong returns throughout FY 2017. Growth stocks outperformed value stocks across the market capitalization spectrum in FY 2017, while small capitalization stocks outperformed large capitalization stocks. Non-U.S. equities outperformed U.S. equities in FY 2017, particularly European and Emerging Market equities.

  For FY 2017, global equity market returns generated $4,453 million of investment income from equity investments compared to investment income of $2,768 million for FY 2016 (17.6% return for Total Global Public Stock in FY 2017 versus 13.5% in FY 2016).

- **Global Bonds** - The Treasury yield curve moved up and flattened in FY 2017, with yields at the short end of the curve rising more than yields at the longer end. Long-duration Government/Treasury bonds underperformed shorter-duration bonds during FY 2017, while long-duration corporate bonds outperformed shorter-duration ones as credit spreads tightened.

  For FY 2017, global fixed income generated a gain of $571 million from fixed income investments compared to a gain of $5,923 million for FY 2016. Due to lower fixed income returns (0.7% return for Total Global Bonds in FY 2017 versus 10.0% in FY 2016), FY 2017 total fixed investment income was lower than FY 2016.

- **Combined Investment Return** – FY 2017 investment returns contributed to a total PBGC combined investment gain of $5,310 million. PBGC's Total Fund Composite (excluding transition accounts) earned 5.6% in FY 2017, exceeding the Total Fund Benchmark return of 5.0%.

OPERATIONS

- PBGC's combined single-employer benefit payments and multiemployer financial assistance were $5,840 million in FY 2017 and $5,772 million in FY 2016. PBGC assumed responsibility for the benefit payments of an additional 23,000 workers and retirees in the 82 single-employer plans that were trusteed during FY 2017.
- FY 2017 combined net premium income increased by $369 million to $7,030 million compared to FY 2016 net premium income of $6,661 million. The primary components of the combined net premium income are: (a) variable rate premium (VRP) income of $4,948 million, and: (b) flat rate premium income of $2,077 million. Overall, this represented a 6% year-to-year increase in combined premium income and is largely due to higher premium rates for both the flat and variable rate premiums.
- During FY 2017, PBGC assumed financial responsibility for 76 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. Because of PBGC's previous efforts to evaluate its exposure to probable terminations, $231 million of the net claims for these plans were already reflected in PBGC's FY 2016 results. These 76 terminated plans had an average funded ratio of about 45%, and these terminations resulted in an aggregate net loss to PBGC of $526 million (see Note 12).
- Five single-employer plans with underfunding of $3,103 million were newly classified as probable terminations in FY 2017 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 $67,283 million consists of 72 insolvent plans ($2,662 million), 68 terminated plans not yet insolvent but probable ($1,966 million), and 47 ongoing plans that are projected to exhaust plan assets within 10 years and are classified as probable ($62,655 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 $238,188 million in FY 2017, a $14,913 million increase compared to $223,275 million in FY 2016. This increase is primarily due to the decrease in the interest factors used for valuing liabilities.
- PBGC's estimate of its multiemployer reasonably possible exposure decreased to $13,972 million in FY 2017, a $5,513 million reduction from the $19,485 million in FY 2016. This decrease is primarily due to the removal of eight plans that are no longer classified as reasonably possible (five plans became probable and three plans became remote) net of 13 plans that are newly classified as reasonably possible.

KEY SINGLE-EMPLOYER AND MULTIEMPLOYER RESULTS

(Dollars in millions)		**FY 2017**		FY 2016
Insurance Activity				
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED				
Single-employer Benefits Paid	**$**	**5,699**	$	5,659
Multiemployer Financial Assistance Paid	**$**	**141**	$	113
Retirees Receiving Benefits (at end of year)		**903,000**		898,000
Total Participants Receiving or Owed Benefits (at end of year)		**1,485,000**		1,485,000
New Underfunded Terminations		**76**		67
Terminated/Trusteed Plans (combined to date)		**4,855**		4,779
Plans That Have Received Financial Assistance		**72**		65
Summary of Operations				
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED				
Premium Income, Net	**$**	**7,030**	$	6,661
Losses (credits) From Completed and Probable Terminations	**$**	**3,063**	$	(417)
Losses From Financial Assistance	**$**	**6,438**	$	6,768
Investment Income	**$**	**5,310**	$	8,791
Actuarial Charges and Adjustments	**$**	**(973)**	$	11,682
Financial Position				
SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED				
Total Assets	**$**	**108,458**	$	99,546
Total Liabilities	**$**	**184,424**	$	178,959
Net Income (Loss)	**$**	**3,447**	$	(3,064)
Net Position	**$**	**(75,966)**	$	(79,413)
SINGLE-EMPLOYER PROGRAM				
Total Assets	**$**	**106,196**	$	97,342
Total Liabilities	**$**	**117,110**	$	117,922
Net Income (Loss)	**$**	**9,666**	$	3,485
Net Position	**$**	**(10,914)**	$	(20,580)
MULTIEMPLOYER PROGRAM				
Total Assets	**$**	**2,262**	$	2,204
Total Liabilities	**$**	**67,314**	$	61,037
Net Income (Loss)	**$**	**(6,219)**	$	(6,549)
Net Position	**$**	**(65,052)**	$	(58,833)

FINANCIAL SUMMARY–SINGLE-EMPLOYER PROGRAM

(Dollars in millions)		Fiscal Year Ended September 30, **2017**	2016	2015	2014	2013	2012	2011	2010	2009	2008
Insurance Activity:											
Benefits paid	$	**5,699**	5,659	5,570	5,522	5,449	5,384	5,340	5,467	4,478	4,292
Participants receiving monthly benefits at end of year [1]		**839,772**	838,493	825,666	812,608	799,210	781,160	775,300	747,530	743,610	640,070
Plans trusteed and pending trusteeship by PBGC[2]		**4,845**	4,769	4,706	4,640	4,557	4,446	4,292	4,140	3,993	3,850
Summary of Operations:											
Premium income, net[3]	$	**6,739**	6,379	4,138	3,812	2,943	2,642	2,072	2,231	1,822	1,340
Other income	$	**184**	25	11	22	38	13	17	30	16	23
Investment income (loss)	$	**5,363**	8,648	324	6,439	2,741	8,792	3,446	7,594	6,330	(4,164)
Actuarial charges and adjustments (credits)	$	**(950)**	11,515	9,504	1,864	3,054	14,874	6,561	9,421	13,901	(4,813)
Losses (credits) from completed and probable termination	$	**3,063**	(417)	(780)	(115)	468	2,006	201	509	4,234	(826)
Administrative and investment expenses	$	**481**	465	446	464	434	443	424	449	417	400
Other expenses	$	**26**	4	30	17	5	-	21	(7)	15	5
Net income (loss)	$	**9,666**	3,485	(4,727)	8,043	1,761	(5,876)	(1,672)	(517)	(10,399)	2,433
Summary of Financial Position:											
Cash and investments[4]	$	**96,830**	89,596	80,090	81,215	77,881	76,941	71,292	69,150	62,062	51,722
Total assets	$	**106,196**	97,342	85,735	88,013	83,227	82,973	78,960	77,463	68,736	64,612
Present value of future benefits	$	**111,280**	113,704	106,926	102,774	105,018	105,635	92,953	90,022	83,035	59,996
Net position	$	**(10,914)**	(20,580)	(24,065)	(19,338)	(27,381)	(29,142)	(23,266)	(21,594)	(21,077)	(10,678)

[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.
[4] Cash and investments consists of Cash and cash equivalents, Total investments, and Receivables, net: Investment income.

FINANCIAL SUMMARY–MULTIEMPLOYER PROGRAM

(Dollars in millions)		Fiscal Year Ended September 30, 2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Insurance Activity:											
Financial assistance paid	$	**141**	113	103	97	89	95	115	97	86	85
Plans that have received financial assistance		**72**	65	57	53	44	49	49	50	43	42
Summary of Operations:											
Premium income, net [1]	$	**291**	282	212	122	110	92	92	93	95	90
Other income	$	**-**	-	-	-	-	-	-	-	2	-
Investment income (loss)	$	**(53)**	143	68	75	(96)	91	148	183	121	121
Actuarial charges and adjustments (credits)	$	**(23)**	167	135	95	41	164	99	-	-	(1)
Losses (gains) from insolvent and probable plans - financial assistance	$	**6,438**	6,768	9,963	34,260	2,969	2,466	1,461	831	614	(271)
Administrative and investment expenses	$	**42**	39	32	18	25	20	14	12	-	-
Net income (loss)	$	**(6,219)**	(6,549)	(9,850)	(34,176)	(3,021)	(2,467)	(1,334)	(567)	(396)	482
Summary of Financial Position:											
Cash and investments[2]	$	**2,080**	2,037	1,768	1,701	1,715	1,804	1,725	1,613	1,441	1,318
Total assets	$	**2,262**	2,204	1,924	1,769	1,719	1,807	1,739	1,628	1,459	1,327
Present value of future benefits	$	**-**	-	-	-	-	1	1	1	1	1
Nonrecoverable future financial assistance, present value	$	**67,283**	61,009	54,186	44,190	9,931	7,010	4,475	3,030	2,296	1,768
Net position	$	**(65,052)**	(58,833)	(52,284)	(42,434)	(8,258)	(5,237)	(2,770)	(1,436)	(869)	(473)

[1] Beginning in FY 2009, PBGC started to reflect premium income net of bad debt expense for premium, interest and penalties.
[2] Cash and investments consists of Cash and cash equivalents, Total investments, and Receivables, net: Investment income.

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 57, and the accompanying notes beginning on page 61.

II. FINANCIAL AND PROGRAM RISKS

As of September 30, 2017, the single-employer and multiemployer programs reported deficits of $10,914 million and $65,052 million, respectively. The multiemployer program's net position declined by $6,219 million, increasing its deficit to $65,052 million, a record high for the multiemployer program. Notwithstanding these deficits, the Corporation has about $106,196 million in single-employer assets and $2,262 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 FY 2016 Projections Report shows that the risk of multiemployer program insolvency rises rapidly, exceeding 50 percent in 2025 and reaching 99 percent by the end of 2036. (Please refer to Section V Overall Capital and Liquidity).

In FY 2018, 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 2018 premium receipts ranges between $6,800 million and $7,100 million. No reasonable estimate can be made of FY 2018 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

LEGISLATIVE DEVELOPMENTS

Although no new legislation affecting PBGC was enacted during fiscal year FY 2017, the Bipartisan Budget Act of 2015 (P.L. 114-74) provided for premium increases for single-employer plans that first affect PBGC in, or after, FY 2017. Specifically:

- The 2017 single-employer annual flat rate premium of $69 per participant will increase to $74 for 2018 and $80 for 2019.
- The 2017 single-employer annual variable rate premium of $34 per $1,000 of unfunded vested benefits capped at $517 per participant will increase to $38 per $1,000 of unfunded vested benefits capped at $523 per participant. For 2019, the $38 rate will increase by $4 plus indexing. The cap will also be indexed.

After 2019, the flat rate, the variable rate, and the VRP cap will be subject to annual indexing based on national average wages. PBGC posts premium rates on its website.

REGULATORY REVIEW AND REFORM

In FY 2017, PBGC continued to focus on making regulations work better to protect plan participants and reduce burdens on pension plans and plan sponsors. Building on its active regulatory planning and retrospective review pursuant to Executive Orders (E.O.s) 12866 and 13563, PBGC incorporated into its planning the requirements of new E.O.s 13771 and 13777. E.O. 13771 seeks to reduce regulatory requirements and control regulatory costs. E.O. 13777 calls for a Regulatory Reform Task Force in each agency, which PBGC has formed, to evaluate existing regulations and make recommendations regarding their repeal, replacement, or modification, consistent with applicable law. Although PBGC's regulations largely deal with transfer payments that OMB Memorandum M-17-21 exempts from E.O. 13771, PBGC is committed to seeking ways to reduce regulatory burden.

Reflecting PBGC's existing commitment to retrospective regulatory review and consistent with the spirit of E.O.s 13777 and 13771, PBGC published a request for information (RFI) to obtain suggestions and comments from the public on regulatory and deregulatory actions PBGC should take. PBGC received 38 comments from individuals and organizations. The comments will help PBGC in its ongoing efforts to provide plans, practitioners, and participants with clear and meaningful guidance, minimize burdens, maximize benefits, and address ineffective and outdated rules in support of PBGC's commitment to strengthening the retirement security of American workers.

Fiscal year 2017 saw PBGC take other important steps toward its regulatory goals. PBGC received and analyzed comments on its proposed rule on missing participants. The expanded Missing Participants Program (the Program) will give more terminated defined contribution plans a new option to make arrangements for the benefits of missing participants by allowing these plans to either transfer the benefits to PBGC or provide certain information to PBGC if the plan made other distribution arrangements to missing participants. Through PBGC's search efforts and its centralized online searchable database, the expanded Program will help participants find and receive the benefits being held for them. The Program is designed to cover terminated small professional service pension plans and multiemployer plans as well. PBGC expects the expanded Program to be operational in 2018 after publication of a final rule.

In FY 2017, PBGC also reviewed comments it received to its proposed rule on facilitated multiemployer plan mergers. This rule would implement requirements under the Multiemployer Pension Reform Act (MPRA) for PBGC to provide financial and other assistance for mergers among seriously underfunded multiemployer plans. Such mergers can improve plans' ability to avoid insolvency and continue paying benefits to participants. PBGC expects to publish a final rule in 2018.

In addition to the above-mentioned RFI on regulatory planning and review, PBGC published in this fiscal year:

- An RFI to obtain public comment on the adoption by multiemployer plans of "two-pool" alternative withdrawal liability arrangements (i.e., methods of allocating shares of plan underfunding to employers that withdraw from plan participation and settlement of that liability), including the various forms these arrangements may take, the terms and conditions that apply to new and existing contributing employers who enter into such arrangements, and the benefits and risks these arrangements may present to multiemployer plans and their participants, employers, and the multiemployer pension insurance program.

- A Technical Update providing guidance to address possible duplicative reporting for plans that reported an active participant reduction due to a single-cause under PBGC's reportable events regulation. The Technical Update provides an alternative method for determining whether an active participant reduction due to attrition must be reported to PBGC that takes into account an event already reported to PBGC as a single cause event.

- A final rule to update its Freedom of Information Act (FOIA) regulation to make changes specifically required by the FOIA Improvement Act of 2016 and to incorporate a change under the Open Government Act of 2007.

On October 5, 2017, the Internal Revenue Service (IRS) issued a final regulation updating the mortality table that single-employer plans use to determine funding requirements. The mortality table update has a direct impact on PBGC's future variable rate premium income because ERISA requires that liabilities used for variable rate premium purposes are determined using the same mortality assumption used to determine funding requirements. As noted in the new table, participants are expected to live longer, and thus, other things being equal, plan liabilities (and variable rate premiums) will be higher using the new mortality table.

The final regulation is effective for plan years beginning in 2018, but in a change from the proposed regulation, the final regulation provides an option to delay use of the new table until 2019 if the plan sponsor determines that using the new table for 2018 would be administratively impracticable or would result in a "non-de minimis" adverse business impact. PBGC anticipates that most plans will opt for the one-year delay. As a result, PBGC expects the increase in variable rate premium income associated with the new mortality table will begin primarily in premium filings for plan years beginning in 2019 and then decline over the three subsequent years as plan funding improves.

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 57-60, 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 27.5 million people (excluding those in plans that PBGC has trusteed), down from the 28.4 million people PBGC covered in FY 2016. The number of covered ongoing plans increased from about 22,300 in 2016 to about 22,500 in FY 2017.

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 2018 will be approximately 1% higher than the limits that applied for 2017 as shown below for sample ages:

MAXIMUM GUARANTEED ANNUAL BENEFIT PAYABLE AS A SINGLE LIFE ANNUITY

Age	Plans Terminating in 2017	Plans Terminating in 2018
70	$106,957	$107,975
65	$64,432	$65,045
60	$41,881	$42,279
55	$28,994	$29,270

The guarantee limit is a cap on what PBGC guarantees, not on what PBGC pays. In some cases, such as when PBGC recovers sufficient plan assets to pay more than just the maximum guarantee benefit, PBGC pays benefits above the guarantee limit.

The applicable maximum guarantee is determined by the year the retiree's plan terminated (if the plan terminated during the plan sponsor's bankruptcy, the year the sponsor entered bankruptcy), or the year when the participant begins collecting benefits if later.

Net income for the single-employer program was $9,666 million in FY 2017. The primary drivers included the following: net premium income and other income of $6,923 million, investment income of $5,363 million, credits of $2,183 million due to an increase in interest factors (which has the effect of decreasing benefit liabilities and actuarial charges), and credits from actuarial adjustments of $1,299 million. This was offset by $3,063 million in losses from completed and probable terminations, a $2,532 million actuarial charge due to expected interest on accrued liabilities, $397 million in administrative and other expenses, and $110 million in investment expenses.

PBGC's FY 2017 single-employer program realized net income of $9,666 million compared to FY 2016 net income of $3,485 million. This favorable $6,181 million year-over-year change was primarily attributable to:

(1) a favorable change in actuarial charges due to change in interest factors of $8,484 million,
(2) a favorable change in actuarial adjustments (credits) of $3,584 million,
(3) an increase in net premium and other income of $519 million,
(4) a decrease in actuarial charges due to expected interest of $397 million,
(5) an increase in charges from completed and probable terminations of $3,480 million,
(6) a decrease in investment income of $3,285 million (a gain of $5,363 million in FY 2017 compared to a gain of $8,648 million in FY 2016), and
(7) an increase in administrative, investment, and other expenses of $38 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 $4,762 million in FY 2017, $592 million more than the FY 2016 gain of $4,170 million. This $592 million increase from the previous year was primarily due to the $3,584 million favorable change in actuarial adjustments (credits), and a $519 million increase in single-employer net premium and other income, offset by increase of $3,480 million in losses from completed and probable terminations and a $31 million increase in other expenses.

Premium and other income from underwriting activity increased (from $6,404 million in FY 2016 to $6,923 million in FY 2017), largely due to an increase in net premium income from plan sponsors (from $6,379 million in FY 2016 to $6,739 million in FY 2017). The increase in net premium income was primarily due to higher premium rates for both flat and variable rate premiums. Other income, consisting of interest on recoveries from sponsors, increased from $25 million in FY 2016 to $184 million in FY 2017.

Annual variable rate premium income, paid by underfunded single-employer plans, increased by $309 million to a total of $4,948 million. The prior year's VRP rate of $30 per $1,000 of underfunding increased to $34 per $1,000 of underfunding for plan years beginning in 2017. Annual flat rate premiums for the single-employer program increased from $64 to $69 per participant in FY 2017, contributing to an increase in the flat rate premium income of $43 million to a total of $1,785 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 2017 segment rates for calendar-year plans were 2.04%, 4.03% and 4.82% for the first, second, and third segments, respectively.

The Corporation's losses from completed and probable plan terminations increased from a credit of $417 million in FY 2016 to a loss of $3,063 million in FY 2017. The $3,063 million FY 2017 loss is due to $2,713 million increase in probable claims and $520 million for charges related to new plan terminations, offset by a credit of $170 million from revaluations of plans that had terminated in prior years (see "Subtotal terminated plans" in Note 12).

The net claim for single-employer probable terminations as of September 30, 2017, was $3,242 million, while the net claim as of September 30, 2016, was $376 million. This $2,866 million increase is due primarily to the addition of five new probables with a net claim of $3,103 million and an increase in the reserve for small unidentified probables of $12 million. These factors were offset by the transfer of $230 million of previously accrued claims to a termination status and the deletion of one plan with a net claim of $18 million (see Note 6).

Single-employer administrative expenses increased $9 million from $362 million in FY 2016 to $371 million in FY 2017.

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

- $107,974 million – trusteed plans (4,820 plans)
- $46 million – plans pending termination and trusteeship (25 plans)
- $3,242 million – five probable plans and a reserve for small plans
- During FY 2017, PBGC terminated 76 underfunded single-employer plans with a net claim of $520 million, with $230 million already accrued as probable.

SINGLE-EMPLOYER FINANCIAL ACTIVITY

In FY 2017, single-employer financial net income increased from a loss of $685 million in FY 2016 to a gain of $4,904 million. This is due to a decrease of $8,881 million in actuarial charges, offset by a decrease of $3,285 million in investment income ($5,363 million in FY 2017 compared with $8,648 million in FY 2016), and an increase of $7 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 factors and the expected interest accrued on the present value of future benefits. The change in interest factors generally reflects the difference in the liability for future benefits of terminated plans at year-end when valued using updated interest factors compared to the liability when valued using the prior year's interest factors. A credit of $2,183 million to the single-employer expenses due to change in interest factors occurred in FY 2017 due to an increase in the interest factors from FY 2016, whereas a charge of $6,301 million occurred in FY 2016 due to a decrease in the interest factors from FY 2015.

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 based on the interest factor in effect at the beginning of the year. The interest factor in effect at the beginning of FY 2017 (2.27%) decreased compared to the factor at the beginning of FY 2016 (2.80%). The single-employer expected interest decreased in FY 2017 (from $2,929 million in FY 2016 to $2,532 million in FY 2017).

PBGC's single-employer Present Value of Future Benefits (PVFB) decreased from $113,704 million at September 30, 2016, to $111,280 million at September 30, 2017. PVFB represents the majority of PBGC's combined total liabilities of $184,424 million on its Statements of Financial Position.

PBGC discounts its liabilities for future benefits with interest factors[1] 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 2017, PBGC changed the methodology for determining interest factors from prior years. Specifically, PBGC now uses an interest factor set that incorporates a curve of one-year discount rates (interest factors) instead of the select and ultimate interest factors used in prior years. The curve of one-year discount rates (interest factors) for September 30, 2017, starts with an interest factor of 1.54% in year 1 and varies annually thereafter until year 31, where the interest factor becomes 2.44% for the remaining years. In FY 2016, PBGC used a 20-year select interest factor of 2.27% followed by an ultimate factor of 2.14% for the remaining years. With either methodology, there was a general increase in interest factors going from September 30, 2016, to September 30, 2017, which leads to a general decrease in liabilities due to the change in interest factors.

---

[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 a 30 year curve of one-year rates that together with PBGC's mortality table will best match the private sector prices from surveys. Any curve of interest factors will generate liability amounts that differ from the survey prices, which cover 14 different ages or benefit timings for both male and female annuitants. The PBGC process derives the curve of interest factors that differs least over the range of prices in the survey. The derived rates in the curve are structured as "forward" rates, not "spot" rates, because of the way they are applied in the present value calculations. For example, in a forward rate structure, discounting a payment due 25 years in the future requires use of 25 different rates, each associated with a one-year period, rather than by discounting using the single rate associated with year 25.

PBGC also changed the mortality table methodology in determining future mortality rates, going from static mortality tables to new generational mortality tables. With the new tables and projection scales, there was a general increase in mortality rates (reflects the adoption of a new mortality projection scale with shortening longevity) going from September 30, 2016, to September 30, 2017. Shorter longevity in the new mortality tables leads to a general decrease in the resulting liability. The impact to PVFB from these mortality assumption changes is included in the actuarial adjustments (credits) amount reported in the Underwriting section of the Statements of Operations and Changes in Net Position.

If the prior methodologies had been applied for the September 30, 2017 year-end valuation, the combined effect of the interest factors and mortality tables would have resulted in a slightly lower PVFB. As a result, when comparing the two methodologies (from the prior select and ultimate factors with static mortality to the more robust new curve of one-year discount rates (interest factors) with generational mortality) on September 30, 2017, the new factors resulted in a slight increase in liability for the single-employer program of approximately $484 million (0.4% of total PVFB), at September 30, 2017, and an increase in liability for the multiemployer program of approximately $777 million (1.2% of total PVNFFA) for the same period. These results are reflective of the higher duration of multiemployer liabilities relative to single-employer liabilities.

IV.B MULTIEMPLOYER PROGRAM RESULTS OF ACTIVITIES AND TRENDS

During FY 2017, PBGC's obligations for future financial assistance to multiemployer plans increased from $61,009 million at September 30, 2016, to $67,283 million at September 30, 2017, an increase of $6,274 million (10%).

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 $6,438 million as of September 30, 2017. A significant driver of the change is the net addition of 22 new plans added to the multiemployer inventory (includes 19 multiemployer probable plans as well as three new insolvent plans) in FY 2017. These additional plans accounted for $11,536 million in additional liabilities reported by PBGC at September 30, 2017. Of this $11,536 million amount, multiemployer plans classified as probable accounted for $11,345 million.

A key actuarial driver offsetting the increase in liabilities in FY 2017 was the increase in the pension liability valuation interest factors. This increase in interest factors accounted for over $2,521 million decrease in multiemployer program liabilities.

This decrease in liability was due to the change in interest factors as well as a new refined methodology for determining interest factors using a curve of one-year discount rates (interest factors) adopted March 31, 2017. As described earlier, PBGC now uses a curve of one-year discount rates (interest factors) instead of the select and ultimate structure used previously. The curve of one-year discount rates (interest factors) for September 30, 2017 is 1.54% in year 1 and varies annually for each year thereafter until year 31 when the factor becomes 2.44% for the remaining years.

Finally, another driver (partially offsetting the above increases) for the change in estimated multiemployer liabilities was the removal of three deleted plans from the inventory of plans classified as probable. The deletion of these three plans accounted for nearly a $2,838 million reduction in the estimated liabilities.

PBGC paid $141 million in financial assistance to 72 insolvent plans covering over 63,000 participants currently receiving benefits.

PBGC's multiemployer program covers about 10.6 million participants (an increase from 10.5 million participants in FY 2016) in about 1,400 insured plans. The multiemployer flat rate premium increased from $27 per participant in 2016 to $28 for 2017. This upward movement contributed to an increase in flat rate premium income of $9 million to a total of $293 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. 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 sufficient 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 $6,219 million in FY 2017 compared with a net loss of $6,549 million in FY 2016. This resulted in a negative net position of $65,052 million in FY 2017 compared with a negative net position of $58,833 million in FY 2016. The FY 2017 deficit is an all-time high for the multiemployer program.

The year-to-year decrease in net loss of $330 million was primarily due to the decrease in financial assistance losses from insolvent and probable plans of $330 million, a favorable impact from the change in interest factors of $145 million, an increase in credits to actuarial adjustments of $51 million, and an increase in premium income of $9 million, offset by a decrease in investment income of $196 million, an increase in charges due to expected interest of $6 million, and an increase in administrative expenses of $3 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, investment management fees, and the administrative 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. The multiemployer program is particularly at risk. For example, the FY 2016 Projections Report shows that the risk of multiemployer program insolvency rises rapidly, exceeding 50 percent in 2025 and reaching over 99 percent by the end of 2036. On the other hand, FY 2016 single-employer scenarios simulated over the 10-year projection period indicated that none would result in PBGC single-employer program assets being completely exhausted.

FY 2017 combined premium cash receipts totaled $7,165 million, an increase of $1,645 million from $5,520 million in FY 2016, due primarily to the increase in variable rate premiums. Net cash flow used by investment activities increased to $2,920 million used versus $490 million used in FY 2016. In FY 2017, PBGC's cash receipts of $10,122 million from operating activities of the single-employer program were sufficient to cover its operating cash obligations of $6,552 million. This resulted in net cash provided by operating activities of $3,570 million (as compared to net cash provided by operating activities of $1,141 million in FY 2016). When the single-employer cash used through investing activities of $2,808 million is added to this net cash provided, the single-employer program in the aggregate experienced a net cash increase of $762 million.

In the multiemployer program, cash receipts of $345 million from operating activities were sufficient to cover its operating cash obligations of $186 million, resulting in net cash provided by operations of $159 million. When this net cash provided is added to net cash used through investing activities of $112 million, the multiemployer program in the aggregate experienced an overall net cash increase of $47 million.

During FY 2017, PBGC recovered $559 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 2017, PBGC's combined net increase in cash and cash equivalents amounted to $809 million, arising from an increase of $762 million for the single-employer program and an increase of $47 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) as $238,188 million at September 30, 2017, and $223,275 million at September 30, 2016. 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 2017, 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, 2017, it is reasonably possible that multiemployer plans may require future financial assistance of $13,972 million, compared to $19,485 million at September 30, 2016. This is primarily due to the decrease in liability from the removal of 8 plans totaling $10,532 million net of the addition of 13 new plans totaling $5,521 million as well as changes in the data and underlying assumptions.

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 2017, 1,482 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). Some large plans that terminated in FY 2017 were those sponsored by The Kroger Company, Accenture LLP, Invensys Inc., Advance Newhouse Partnership

(Bright House Networks Pension Plan), and Menasha Corporation. Other large plans such as INOVA Health System Retirement Income Plan, The Samsonite Employee Retirement Income Plan, Sonoco Inc. Retirement Plan, and Deseret Mutual Transitional Master Retirement Plan 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) has issued a final regulation to implement new mortality tables effective for plan years beginning January 2018 (with an option to delay use of the new table until 2019 as discussed on page 35), which will make lump sum benefit payments more expensive. 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 interest rates rise and reduce 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 contractually 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 investment benchmarks.

PBGC's investment assets consist of premium revenues, which are accounted for in the revolving fund, and assets from trusteed plans and their sponsors, which are accounted for in the trust fund. By law, PBGC is required to invest certain revolving funds (i.e., Funds 1 and 2) in obligations issued or guaranteed by the United States government. Portions of the other revolving fund (i.e., Fund 7) can be invested in other debt obligations, but under PBGC's current investment policy these revolving funds are invested solely in Treasury securities (PBGC has never established funds 3, 4, 5 or 6, which ERISA authorized for special discretionary purposes). 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, 2017, were $29,860 million ($1,657 million for Fund 1, $2,080 million for Fund 2, and $26,123 million for Fund 7). Trust fund investments totaled $69,050 million as of September 30, 2017. At the end of FY 2017, PBGC's total investments consisting of cash and cash equivalents, investments, and investment income receivable as shown on the Statements of Financial Position were $98,910 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 the asset composition of potential trusteed plans. The investment policy establishes a 30 percent target asset allocation for equities and other non-fixed income assets, and a 70 percent asset allocation for fixed income.

PBGC's investment program had assets under performance management of $97,130 million as of September 30, 2017. Of the approximate $1,800 million difference between the September 30, 2017, investment assets reported on the Statements of Financial Position and the assets within PBGC's investment performance portfolio, approximately $700 million represent net unsettled purchases, $500 million for funds available for the following month's benefit payments, $400 million represent custodial bank holding accounts, and $200 million are newly trusteed assets that have not yet been commingled. 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 69 percent of total assets under performance management invested at the end of FY 2017, compared with approximately 70 percent for FY 2016. Equity securities (i.e., public equities) represented 30 percent of total assets under performance management invested at the end of FY 2017, compared with about 29 percent at the end of FY 2016. The Total Fund Composite return (excluding private market assets and transition accounts) for FY 2017 was 5.6% compared with 10.8% in FY 2016. The returns reflect weaker bond market performance during the period. A small percentage of PBGC's investments (0.003 percent of total investment assets at FY 2017, compared with 1.3 percent at FY 2016) 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 5.6% in FY 2017, compared to 10.7% in FY 2016. Private markets assets, comprised largely of private equity, private debt, and private real estate that are currently part of PBGC's investment portfolio, represented about 0.9% of total investments at the end of FY 2017, compared with 1.2% of total investments at the end of FY 2016.

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, 2017, PBGC's annualized return on total invested funds excluding private market assets and transition accounts was 5.4% compared with a total fund benchmark return of 5.0% — a benchmark based on the relative weights of the underlying managed accounts. Including the transition accounts, the five-year annualized return was 5.3%. Separately, the annualized ERISA/PPA hypothetical portfolio benchmark return for the five-year period ending September 30, 2017, was 9.4%. (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, 2017	September 30, 2016	Three and Five Years Ended September 30, 2017 3 yrs	Three and Five Years Ended September 30, 2017 5 yrs
Total Fund Composite	**5.6%**	10.8%	5.4%	5.4%
Total Fund Benchmark [1]	**5.0**	10.4	5.0	5.0
ERISA/PPA Portfolio Benchmark[2]	**11.3**	11.2	7.7	9.4
Total Global Public Stock	**17.6**	13.5	8.8	11.2
Total Global Public Stock Benchmark [3]	**17.2**	13.1	8.2	10.8
Total Global Bonds	**0.7**	10.0	4.2	3.0
Total Global Bonds Benchmark [4]	**0.1**	9.6	3.9	2.7
Smaller Asset Managers Pilot Program [5]	**0.7**	n/a	n/a	n/a
Trust Funds	**9.1**	12.0	6.6	6.9
Revolving Funds	**(2.0)**	7.1	2.7	1.4
Indices				
Russell 3000 Index	**18.7**	15.0	10.7	14.2
MSCI ACWI ex-U.S. IMI Index	**19.6**	9.8	5.2	7.3
Dow Jones U.S. Select Real Estate Securities Index	**(0.8)**	17.7	9.3	9.1
Bloomberg Barclays Treasury Index	**(1.7)**	4.1	2.0	1.2
Bloomberg Barclays Aggregate Bond Index	**0.1**	5.2	2.7	2.1
Bloomberg Barclays Global Aggregate ex-US (Hedged) Index	**(0.6)**	7.5	3.4	3.7

[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 Bloomberg Barclays 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, prior year, as well as three and five year performance is not yet available. This program is currently benchmarked against the Bloomberg Barclays Aggregate Bond Index, shown within the Indices section.

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, 2017, is also parenthetically provided in the text 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, 2017, the weighted benchmark encompasses the Revolving Fund Treasuries Custom Benchmark (33.4%), the Revolving Fund TIPS Custom Benchmark (11.1%), the Total Long Duration Bonds Benchmark (30.4%), the Bloomberg Barclays Aggregate Bond index (8.3%), the Total Developed Market Bonds Benchmark (1.3%), the Total High Yield Bonds Benchmark (5.7%), and the Total Emerging Market Bonds Benchmark (9.8%). The overall Total Global Bonds composite equals 64.2 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 21.4 percent of PBGC's investment program assets at year-end. The Revolving Fund Treasuries Custom Benchmark encompasses the Bloomberg Barclays US Treasury 7+ index (65.0%) and the Bloomberg Barclays U.S. 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 7.1 percent of PBGC's investment program assets at year-end. The Revolving Fund TIPS Custom Benchmark encompasses the Bloomberg Barclays U.S. TIPS index (50.0%) and the Bloomberg Barclays U.S. TIPS 10+ index (50.0%). The Revolving Fund TIPS Custom Benchmark is a customized index made up of U.S. TIPS securities. 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 19.5 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, 2017, the Total Long Duration Bonds Benchmark encompasses the Bloomberg Barclays Long U.S. Government/Credit index (22.4%), Bloomberg Barclays U.S. Long Credit index (3.0%), Bloomberg Barclays U.S. Long Government index (5.0%) and Custom Benchmarks (69.6%). The Bloomberg Barclays 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 Bloomberg Barclays 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 Bloomberg Barclays U.S. Long Government index includes U.S. Treasury and U.S. Agency securities that 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 5.3 percent of PBGC's investment program assets at year-end. The Core Fixed Income Benchmark is the Bloomberg Barclays Aggregate Bond index. The Bloomberg Barclays 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 0.8 percent of PBGC's investment program assets at year-end. The Total Developed Market Bonds Benchmark is the Bloomberg Barclays Global Aggregate index hedged. The Bloomberg Barclays 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. 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, 2017, the weighted benchmark encompasses the Bloomberg Barclays US High Yield Ba/B 1% Issuer Capped index (54.9%), the Bloomberg Barclays US High Yield 2% Issuer Capped index (29.2%) and the Bloomberg Barclays US High Yield Ba/B 2% Issuer Capped index (15.9%). The Bloomberg Barclays 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 Bloomberg Barclays 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 Bloomberg Barclays U.S. High Yield Ba/B 2% Issuer Capped index is identical to the Bloomberg Barclays 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 makes up 6.3 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, 2017, the weighted benchmark encompasses the JP Morgan EMBIG Diversified index (52.7%), JP Morgan GBI EM Global Diversified (4.8%) and Custom Benchmarks (42.5%). 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, 2017, the weighted benchmark encompasses the 3-month Treasury bill (41.1%) and the 4-week Treasury bill (58.9%). The cash composite represents 3.6 percent of PBGC's investment program as of September 30, 2017. PBGC is able to redeem money market securities upon request.

GLOBAL PUBLIC STOCK

This category includes investments in the U.S. Public Stock composite and the International Public Stock composite, and applies to 30.4 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 and the returns of their respective benchmarks. PBGC is able to redeem composite assets upon request. As of September 30, 2017, the Total Global Public Stock Benchmark comprises the Total U.S. Public Stock Benchmark (53.4%), and the Total International Public Stock Benchmark (46.6%). PBGC is able to redeem composite assets upon request.

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 16.2 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 managers and the returns of their respective benchmarks. As of September 30, 2017, the weighted benchmark comprises the Russell 3000 index (81.7%), the Dow Jones U.S. Select Real Estate Securities index (10.7%) and the FTSE NAREIT EQ REITs index (7.6%). 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 14.1 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 the international public stock managers and the returns of their respective benchmarks. As of September 30, 2017, the weighted benchmark encompasses the MSCI EAFE index (54.5%), MSCI EAFE IMI Net index (5.5%), the MSCI EAFE Small Cap index (9.4%), the MSCI Emerging Markets index (23.9%), and the MSCI Canada index (6.7%). The MSCI EAFE index (Europe, Australasia and Far East) is designed to measure the developed markets large and mid-capitalization equity performance, excluding the U.S. and Canada. The MSCI EAFE IMI Net index is designed to measure the developed markets large, mid and small capitalization equity performance, 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 0.9 percent of PBGC's investment program assets at fiscal year-end. The Smaller Asset Managers Pilot Program Benchmark is the Bloomberg Barclays Aggregate Bond index. The Bloomberg Barclays 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 0.9 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 Bloomberg Barclays Aggregate Bond index, would have increased the assets of the Corporation by about $5.3 billion (11.2% return compared with PBGC's Total Fund Composite return including transition accounts of 5.6%) for the one-year period ending September 30, 2017, and increased the assets of the Corporation by about $20.0 billion (9.4% annualized return compared with PBGC's Total Fund Composite annualized return including transition accounts of 5.3%) over the five-year period ending September 30, 2017. 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 2016 Annual Report, the same "60/40 portfolio" 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% annualized return compared with PBGC's Total Fund Composite annualized return including transition accounts of 6.7%) for the five-year period ending September 30, 2016.

These results are summarized in the following table (Due to the unique calculation methodology in the 60/40 hypothetical portfolio, please note that the 60/40 calculation returns may vary slightly to similar investment performance returns presented elsewhere in the Annual Report).

INVESTMENT PORTFOLIO ANALYSIS

60/40 Hypothetical Portfolio Analysis Versus PBGC Fiscal Year Actual Return (60/40 comprises S&P 500 Index/Bloomberg Barclays Aggregate Bond Index)						
	1-Year Period Ending			5-Year Period Ending		
Fiscal Year	60/40 Incremental $ Billions	60/40 % Return	PBGC Actual Return[1]	60/40 Incremental $ Billions	60/40 % Return	PBGC Actual Return[1]
9/30/2016	$0.5	11.4%	10.7%	$20.2	11.1%	6.7%
9/30/2017	$5.3	11.2%	5.6%	$20.0	9.4%	5.3%

[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 continued implementing the new requirements specified in the last revision to OMB Circular A-123 and, as noted below, performs a number of activities that serve to support the FMFIA Statement of Assurance. For FY 2017, PBGC provided an unmodified FMFIA Statement of Assurance and also highlighted a compliance matter regarding a reported instance of noncompliance with the recording 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 coordinates with the Risk Management Council (RMC). In addition, the ICC continues to increase 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. In FY 2017, PBGC continued to follow up on recommendations from an initial assessment of activities and controls supporting the Green Book's five internal control components and the 17 underlying control principles.

Business Level 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 and Finance, Financial Reporting, Human Resources/Payroll, Investments, Losses on Completed and Probable Terminations, Multiemployer, Procurement Accounts Payable and Related Expenses, 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.

Fraud Prevention: PBGC created a fraud risk profile and response plan as part of a continuing effort to fully implement GAO's Framework for Managing Fraud Risks in Federal Programs. The work was begun in FY 2016 and continued through FY 2017. The 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. In addition to the current controls already in place to help prevent fraud, the ICC is overseeing a new effort, supported by a data analytics contractor, to prevent and detect fraud using sophisticated analytical techniques.

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 a risk assessment in FY 2017 for payments to Federal employees. 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.

ENTERPRISE RISK MANAGEMENT ACTIVITIES

As part of the Corporation's Enterprise Risk Management (ERM) activities, the Risk Management Council (RMC)—chaired by the Risk Management Officer—has developed a preliminary framework to assess and analyze risks across the Corporation. The RMC is in the process of refining, implementing and documenting this methodology to accomplish the main purpose of Enterprise Risk Management—providing managers and leaders with tools and risk information on which to make decisions. Additionally, the Corporation completed its FY 2017 Risk Profile and is working on mitigation strategies for top risks. Other accomplishments for this year include providing enterprise risk management training and making it available to all employees; establishing a vision, roles and responsibilities document to assist in cultural change and lay out the goals of the ERM Program; and documenting a common terminology for the Corporation's ERM effort.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT STATEMENT OF ASSURANCE (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 prepared a list of cross-cutting control issues for consideration by members of PBGC's executive management. Based on the results of the completed assessments and other relevant factors, PBGC's executive management recommended, and the Director approved, the FY 2017 FMFIA Statement of Assurance included below:

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT STATEMENT OF ASSURANCE

The 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. The 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, the PBGC can provide reasonable assurance that internal control over operations, reporting, and compliance was operating effectively as of September 30, 2017.

The 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. The PBGC conducted an assessment of internal controls over financial reporting. The results of that assessment provide reasonable assurance that internal controls over external financial reporting were operating effectively as of September 30, 2017.

PBGC was not in compliance with law and regulation due to a violation of the Antideficiency Act determined after guidance from GAO relative to the recording of obligations for multi-year leases. PBGC has submitted the draft ADA report to OMB for external reporting, as required, and is in the process of remediating all leases to conform to GAO guidance.

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, 2017, and September 30, 2016, 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, 2017, and September 30, 2016, 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 2017 and 2016 financial statements, and CliftonLarsonAllen LLP issued an unmodified opinion on those financial statements.

W. Thomas Reeder
Director

Patricia Kelly

Patricia Kelly
Chief Financial Officer

November 15, 2017

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF FINANCIAL POSITION

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in Millions)	**2017**	2016	**2017**	2016	**2017**	2016
ASSETS						
Cash and cash equivalents	**$5,185**	$ 4,423	**$149**	$ 102	**$5,334**	$ 4,525
Securities lending collateral (Notes 3 and 5)	**3,106**	1,910	**-**	-	**3,106**	1,910
Investments, at market (Notes 3 and 5):						
Fixed maturity securities	**60,666**	57,292	**1,921**	1,925	**62,587**	59,217
Equity securities	**26,748**	23,684	**-**	-	**26,748**	23,684
Private equity	**606**	721	**-**	-	**606**	721
Real estate and real estate investment trusts	**3,114**	2,963	**-**	-	**3,114**	2,963
Other	**16**	72	**-**	-	**16**	72
Total investments	**91,150**	84,732	**1,921**	1,925	**93,071**	86,657
Receivables, net:						
Sponsors of terminated plans	**17**	55	**-**	-	**17**	55
Premiums (Note 11)	**4,439**	4,534	**180**	165	**4,619**	4,699
Sale of securities	**1,555**	1,080	**-**	-	**1,555**	1,080
Derivative contracts (Note 4)	**212**	124	**-**	-	**212**	124
Investment income	**495**	441	**10**	10	**505**	451
Other	**5**	6	**-**	-	**5**	6
Total receivables	**6,723**	6,240	**190**	175	**6,913**	6,415
Capitalized assets, net	**32**	37	**2**	2	**34**	39
Total assets	**$106,196**	$97,342	**$2,262**	$2,204	**$108,458**	$99,546

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

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF FINANCIAL POSITION

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in Millions)	**2017**	2016	**2017**	2016	**2017**	2016
LIABILITIES						
Present value of future benefits, net (Note 6):						
Trusteed plans	**$107,974**	$ 113,011	**-**	-	**$107,974**	$ 113,011
Plans pending termination and trusteeship	**46**	296	**-**	-	**46**	296
Settlements and judgments	**18**	21	**-**	-	**18**	21
Claims for probable terminations	**3,242**	376	**-**	-	**3,242**	376
Total present value of future benefits, net	**111,280**	113,704	**-**	-	**111,280**	113,704
Present value of nonrecoverable future financial assistance (Note 7)						
Insolvent plans	**-**	-	**2,662**	2,139	**2,662**	2,139
Probable insolvent plans	**-**	-	**64,621**	58,870	**64,621**	58,870
Total present value of nonrecoverable future financial assistance	**-**	-	**67,283**	61,009	**67,283**	61,009
Payables, net:						
Derivative contracts (Note 4)	**161**	49	**-**	-	**161**	49
Due for purchases of securities	**2,290**	2,037	**-**	-	**2,290**	2,037
Payable upon return of securities loaned	**3,106**	1,910	**-**	-	**3,106**	1,910
Unearned premiums	**221**	167	**8**	7	**229**	174
Accounts payable and accrued expenses (Note 8)	**52**	55	**23**	21	**75**	76
Total payables	**5,830**	4,218	**31**	28	**5,861**	4,246
Total liabilities	**117,110**	117,922	**67,314**	61,037	**184,424**	178,959
Net position	**(10,914)**	(20,580)	**(65,052)**	(58,833)	**(75,966)**	(79,413)
Total liabilities and net position	**$106,196**	$ 97,342	**$2,262**	$2,204	**$108,458**	$ 99,546

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

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION

(Dollars in Millions)	Single-Employer Program For the Years Ended September 30, 2017	2016	Multiemployer Program For the Years Ended September 30, 2017	2016	Memorandum Total For the Years Ended September 30, 2017	2016
UNDERWRITING:						
Income:						
Premium, net (Note 11)	**$6,739**	$ 6,379	**$291**	$ 282	**$7,030**	$ 6,661
Other	**184**	25	**-**	-	**184**	25
Total	**6,923**	6,404	**291**	282	**7,214**	6,686
Expenses:						
Administrative	**371**	362	**42**	39	**413**	401
Other	**26**	4	**-**	-	**26**	4
Total	**397**	366	**42**	39	**439**	405
Other underwriting activity:						
Losses (credits) from completed and probable terminations (Note 12)	**3,063**	(417)	**-**	-	**3,063**	(417)
Losses from insolvent and probable plans-financial assistance (Note 7)	**-**	-	**6,438**	6,768	**6,438**	6,768
Actuarial adjustments (credits) (Note 6)	**(1,299)**	2,285	**(40)**	11	**(1,339)**	2,296
Total	**1,764**	1,868	**6,398**	6,779	**8,162**	8,647
Underwriting gain (loss)	**4,762**	4,170	**(6,149)**	(6,536)	**(1,387)**	(2,366)
FINANCIAL:						
Investment income (loss) (Note 13):						
Fixed	**624**	5,780	**(53)**	143	**571**	5,923
Equity	**4,453**	2,768	**-**	-	**4,453**	2,768
Private equity	**129**	81	**-**	-	**129**	81
Real estate	**145**	7	**-**	-	**145**	7
Other	**12**	12	**-**	-	**12**	12
Total	**5,363**	8,648	**(53)**	143	**5,310**	8,791
Expenses:						
Investment	**110**	103	**-**	-	**110**	103
Actuarial charges (Note 6):						
Due to expected interest	**2,532**	2,929	**62**	56	**2,594**	2,985
Due to change in interest factors	**(2,183)**	6,301	**(45)**	100	**(2,228)**	6,401
Total	**459**	9,333	**17**	156	**476**	9,489
Financial gain (loss)	**4,904**	(685)	**(70)**	(13)	**4,834**	(698)
Net income (loss)	**9,666**	3,485	**(6,219)**	(6,549)	**3,447**	(3,064)
Net position, beginning of year	**(20,580)**	(24,065)	**(58,833)**	(52,284)	**(79,413)**	(76,349)
Net position, end of year	**($10,914)**	$ (20,580)	**($65,052)**	$ (58,833)	**($75,966)**	$ (79,413)

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

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF CASH FLOWS

(Dollars in millions)	Single-Employer Program For the Years Ended September 30, 2017	2016	Multiemployer Program For the Years Ended September 30, 2017	2016	Memorandum Total For the Years Ended September 30, 2017	2016
OPERATING ACTIVITIES:						
Premium receipts	**$ 6,888**	$ 5,250	**$ 277**	$ 270	**$ 7,165**	$ 5,520
Interest and dividends received	**2,483**	2,107	**68**	46	**2,551**	2,153
Cash received from plans upon trusteeship	**20**	25	**-**	-	**20**	25
Receipts from sponsors/non-sponsors	**712**	88	**-**	-	**712**	88
Receipts from the missing participant program	**18**	6	**-**	-	**18**	6
Other receipts	**1**	6	**-**	-	**1**	6
Benefit payments – trusteed plans	**(5,686)**	(5,592)	**-**	-	**(5,686)**	(5,592)
Financial assistance payments	**-**	-	**(141)**	(113)	**(141)**	(113)
Settlements and judgments	**(5)**	(11)	**-**	-	**(5)**	(11)
Payments for administrative and other expenses	**(468)**	(454)	**(29)**	(28)	**(497)**	(482)
Accrued interest paid on securities purchased	**(393)**	(284)	**(16)**	(6)	**(409)**	(290)
Net cash provided (used) by operating activities (Note 15)	**3,570**	1,141	**159**	169	**3,729**	1,310
INVESTING ACTIVITIES:						
Proceeds from sales of investments	**103,440**	82,406	**2,878**	1,384	**106,318**	83,790
Payments for purchases of investments	**(106,248)**	(82,818)	**(2,990)**	(1,462)	**(109,238)**	(84,280)
Net change in investment of securities lending collateral	**1,196**	665	**-**	-	**1,196**	665
Net change in securities lending payable	**(1,196)**	(665)	**-**	-	**(1,196)**	(665)
Net cash provided (used) by investing activities	**(2,808)**	(412)	**(112)**	(78)	**(2,920)**	(490)
Net increase (decrease) in cash and cash equivalents	**762**	729	**47**	91	**809**	820
Cash and cash equivalents, beginning of year	**4,423**	3,694	**102**	11	**4,525**	3,705
Cash and cash equivalents, end of year	**$ 5,185**	$ 4,423	**$ 149**	$ 102	**$ 5,334**	$ 4,525

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

NOTES TO FINANCIAL STATEMENTS

September 30, 2017 and 2016

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, 2017, the single-employer and multiemployer programs reported net positions of $(10,914) million and $(65,052) million, respectively. The single-employer program had assets of $106,196 million offset by total liabilities of $117,110 million, which include a total present value of future benefits (PVFB) of $111,280 million. As of September 30, 2017, the multiemployer program had assets of $2,262 million offset by $67,283 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. The multiemployer program is particularly at risk.

PBGC's $98,910 million of total investments (including cash and investment income receivable) represents the largest component of PBGC's Statements of Financial Position combined assets of $108,458 million at September 30, 2017. This amount of $98,910 million (as compared to investments under management of $97,130 million, as reported in section VII Investment Activities) reflects the fact that PBGC experiences a recurring inflow of trusteed plan assets that have not yet been incorporated into the PBGC investment program. For total investments (i.e., not the investment program), cash and fixed-income securities ($68,417 million) represent 69 percent of the total investments, while equity securities ($26,757 million) represent 27 percent of total investments. Private market assets, real estate, and other investments ($3,736 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 $238,188 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, 2017. This is an increase of $14,913 million from the reasonably possible exposure of $223,275 million in FY 2016. This increase is primarily due to the decrease in the interest factors used for valuing liabilities. These estimates are measured as of December 31 of the previous year (see Note 9). For FY 2017, 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, 2017, it is reasonably possible that multiemployer plans may require future financial assistance in the amount of $13,972 million (see Note 9). This is a decrease of $5,513 million from the reasonably possible exposure of $19,485 million in FY 2016. The primary reasons for the decrease in liability was due to changes in the plan inventory as well as changes in the data and underlying assumptions..

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 amendment 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 trusteed and to provide funds for financial assistance. The Pension Protection Act of 1987 created a single-employer revolving fund (Fund 7) that is credited with all premiums in excess of $8.50 per participant, including all penalties and interest charged on these amounts, and its share of earnings from investments. This fund may not be used to pay

PBGC's administrative costs or the benefits of any plan terminated prior to October 1, 1988, unless no other amounts are available.

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

The trust funds reflect accounting activity associated with:

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

ALLOCATION OF REVOLVING AND TRUST FUNDS

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

CASH AND CASH EQUIVALENTS

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

SECURITIES LENDING COLLATERAL

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

INVESTMENT VALUATION AND INCOME

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

SECURITIES PURCHASED UNDER REPURCHASE AGREEMENTS

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

SPONSORS OF TERMINATED PLANS

The amounts due from sponsors of terminated plans or members of their controlled group represent the settled, but uncollected, claims for employer liability (underfunding as of date of plan termination) and for contributions due their plan less an allowance for estimated uncollectible amounts. PBGC discounts any amounts expected to be received beyond one year for time and risk factors. Some agreements between PBGC and plan sponsors provide for contingent payments based on future profits of the sponsors. The Corporation 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. For insolvent multiemployer plans, bad debt expense also includes a reserve for premium payments waived by PBGC and treated as financial assistance in accordance with ERISA Section 4007 (see Note 11).

CAPITALIZED ASSETS

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

PRESENT VALUE OF FUTURE BENEFITS (PVFB)

The PVFB is the estimated liability for future pension benefits that PBGC is or will be obligated to pay the participants of trusteed plans and the net liability for plans pending termination and trusteeship. The PVFB liability (including trusteed plans 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 trusteed by PBGC prior to fiscal year-end. Assets are shown separately from liabilities for trusteed plans.

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

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

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

Criteria used for classifying a specific single-employer plan as a probable termination include, but are not limited to, one or more of the following conditions: the plan sponsor is in liquidation or comparable state insolvency proceeding with no known solvent controlled group member; sponsor has filed or intends to file for distress plan termination and the criteria will likely be met; or PBGC is considering the plan for involuntary termination. In addition, management takes into account other economic events and factors in making judgments regarding the classification of a plan as a probable termination. These events and factors may include, but are not limited to, the 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.

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., non-seriatim), (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, 2017, TBA receivables were $440 million and no Bond Forward receivables were reported. In addition, as of September 30, 2017, TBA payables were $930 million and no Bond Forward payables were reported.

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

	September 30, 2017		September 30, 2016	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	**$29,867**	**$29,944**	$25,460	$27,070
Commercial paper/securities purchased under repurchase agreements	**200**	**200**	128	128
Asset backed securities	**3,312**	**3,329**	3,815	3,889
Pooled funds				
Domestic	**2,642**	**2,591**	1,876	1,827
International	**-**	**-**	213	252
Global/other	**2**	**2**	-	-
Corporate bonds and other	**14,549**	**15,192**	11,783	12,537
International securities	**9,049**	**9,408**	11,311	11,589
Subtotal	**59,621**	**60,666**	54,586	57,292
Equity securities:				
Domestic	**225**	**253**	142	162
International	**1,704**	**1,884**	769	794
Pooled funds				
Domestic	**9,824**	**12,880**	10,357	11,424
International	**7,010**	**11,728**	8,038	11,300
Global/other	**3**	**3**	4	4
Subtotal	**18,766**	**26,748**	19,310	23,684
Private equity	**1,252**	**606**	1,290	721
Real estate and real estate investment trusts	**2,804**	**3,114**	2,613	2,963
Insurance contracts and other investments	**15**	**16**	72	72
Total[1]	**$82,458**	**$91,150** [2]	$77,871	$84,732

[1] Total includes securities on loan at September 30, 2017, and September 30, 2016, with a market value of $3,686 million and $3,037 million, respectively.

[2] This total of $91,150 million of investments at market value represents the single-employer assets only.

INVESTMENTS OF MULTIEMPLOYER REVOLVING FUNDS AND MULTIEMPLOYER TRUSTEED PLANS

	September 30, 2017		September 30, 2016	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
Investment securities:				
Fixed U.S. Government securities	**$1,919**	**$1,921**	$1,811	$1,925
Equity securities	**-**	**-**	-	-
Total	**$1,919**	**$1,921**	$1,811	$1,925

INVESTMENT PROFILE

	September 30, 2017	2016
Fixed Income Assets		
Average Quality	**A**	**A**
Average Maturity (years)	**14.6**	**13.2**
Duration (years)	**10.3**	**9.4**
Yield to Maturity (%)	**3.2**	**2.9**
Equity Assets		
Average Price/Earnings Ratio	**21.8**	**21.8**
Dividend Yield (%)	**2.3**	**2.5**
Beta	**1.0**	**1.0**

DERIVATIVE INSTRUMENTS

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

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

The use of derivatives by PBGC investment managers is restricted insofar as portfolios cannot use derivatives to create leverage in the portfolios for which they are responsible. Thus, the portfolios are not permitted to 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 2017 and 2016, PBGC, through its investment managers, invested in investment products that used various U.S. and non-U.S. derivative instruments. Those products included, but are not limited to: index futures, options, money market futures, government bond futures, interest rate, credit default and total return swaps and swaption (an option on a swap) contracts, stock warrants and rights, debt option contracts, and foreign currency futures, forward and option contracts. Some of these derivatives are traded on organized exchanges and thus bear minimal counterparty risk. The counterparties to PBGC's non-exchange-traded derivative contracts are major financial institutions subject to ISDA (International Swaps and Derivatives Association, Inc.) master agreements or IFEMAs (International Foreign Exchange Master Agreements) and minimum credit ratings required by investment guidelines. PBGC monitors PBGC's counterparty risk and exchanges collateral under most contracts to further support performance by counterparties. Some of PBGC's non-exchange traded derivative contracts are centrally cleared through a Commodity Futures Trading Commission (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 securities.

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

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

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

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

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

For the fiscal years ended September 30, 2017 and 2016, 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

	Asset Derivative					
	September 30, 2017			September 30, 2016		
(Dollars in millions)	Statements of Financial Position Location	**Notional**	**FMV**	Statements of Financial Position Location	Notional	FMV
Futures	Derivative Contracts	**$3,842**	**$4**	Derivative Contracts	$3,421	$2
Swap contracts						
Interest rate swaps	Investments-Fixed	**2,047**	**8**	Investments-Fixed	2,866	(14)
Other derivative swaps	Investments-Fixed	**985**	**13**	Investments-Fixed	1,683	(19)
Option contracts	Investments-Fixed	**3,202**	**1**	Investments-Fixed	220	2
Forwards - foreign exchange	Investments-Fixed	**4,812**	**(10)**	Investments-Fixed	13,815	2
	Investments-Equity	**-**	**-**	Investments-Equity	-	-

	Liability Derivative					
	September 30, 2017			September 30, 2016		
(Dollars in millions)	Statements of Financial Position Location	**Notional**	**FMV**	Statements of Financial Position Location	Notional	FMV
Futures	Derivative Contracts	**$2,262**	**$ (25)**	Derivative Contracts	$2,392	$ (22)
Option contracts	Derivative Contracts	**166**	**(2)**	Derivative Contracts	352	(5)

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

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

OFFSETTING OF DERIVATIVE ASSETS FAIR VALUE

(Dollars in millions)	September 30, 2017 Gross Amount of Recognized Assets	September 30, 2017 Gross Amounts Offset in Statements of Financial Position	September 30, 2017 Net Amounts of Assets Presented in Statements of Financial Position	September 30, 2016 Gross Amount of Recognized Assets	September 30, 2016 Gross Amounts Offset in Statements of Financial Position	September 30, 2016 Net Amounts of Assets Presented in Statements of Financial Position
Derivatives						
Interest-rate contracts	**$ 2**	**$ 0***	**$ 2**	$ 3	$ (1)	$ 2
Foreign exchange contracts	**30**	**(20)**	**10**	58	(34)	24
Other derivative contracts(1)	**7**	**0***	**7**	6	(4)	2
Cash collateral nettings	**-**	**-**	**-**	-	(4)	(4)
Total Derivatives	**$ 39**	**$ (20)**	**$ 19**	$ 67	$ (43)	$ 24
Other financial instruments(2)						
Repurchase agreements	**$ 242**	**$ -**	**$ 242**	$ 100	$ -	$ 100
Securities lending collateral	**3,106**	**-**	**3,106**	1,910	-	1,910
Total derivatives and other financial instruments	**$3,387**	**$ (20)**	**$ 3,367**	$ 2,077	$ (43)	$ 2,034

(Dollars in millions)	September 30, 2017 Gross Amounts Not Offset in Statements of Financial Position			September 30, 2016 Gross Amounts Not Offset in Statements of Financial Position		
	Net Amount of Assets Presented in Statements of Financial Position	**Collateral Received**	**Net Amount**	Net Amount of Assets Presented in Statements of Financial Position	Collateral Received	Net Amount
Repurchase agreements	**242**	**-**	**242**	100	-	100
Security lending collateral	**3,106**	**(3,106)**	**-**	1,910	(1,910)	-
Total	**$ 3,348**	**$ (3,106)**	**$ 242**	$ 2,010	$ (1,910)	$ 100

* Less than $500,000

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

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

OFFSETTING OF DERIVATIVE LIABILITIES FAIR VALUE

	September 30, 2017			September 30, 2016		
(Dollars in millions)	**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	**$ 0***	**$ 0***	**$ 0***	**$ 2**	**$ (1)**	**$ 1**
Foreign exchange contracts	**41**	**(20)**	**21**	**55**	**(34)**	**21**
Other derivative contracts(1)	**3**	**0***	**3**	**26**	**(4)**	**22**
Cash collateral nettings	**-**	**12**	**12**	**-**	**-**	**-**
Total Derivatives	**$ 44**	**$ (8)**	**$ 36**	**$ 83**	**$ (39)**	**$ 44**
Other financial instruments(2)						
Resale agreements	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Securities lending collateral	**3,106**	**-**	**3,106**	**1,910**	**-**	**1,910**
Total derivatives and other financial instruments	**$3,150**	**$ (8)**	**$3,142**	**$ 1,993**	**$ (39)**	**$ 1,954**

	September 30, 2017			September 30, 2016		
(Dollars in millions)	**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	**3,106**	**(3,106)**	**-**	1,910	(1,910)	-
Total	**$ 3,106**	**$ (3,106)**	**$ -**	$ 1,910	$ (1,910)	$ -

* Less than $500,000

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

[2] Under subheading “Other financial instruments”, repurchase agreements and securities lending collateral are presented on a gross basis within the table and on the Statements of Financial Position.

The following table identifies the location of derivative gains and losses on the Statements of Operations and Changes in Net Position as of September 30, 2017, and September 30, 2016.

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

(Dollars in millions)	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives **Sept. 30, 2017**	Sept. 30, 2016
Futures			
Contracts in a receivable position	Investment Income-Fixed	**$32**	($107)
Contracts in a receivable position	Investment Income-Equity	**-**	-
Contracts in a payable position	Investment Income-Fixed	**(87)**	239
Contracts in a payable position	Investment Income-Equity	**-**	-
Swap agreements			
Interest rate swaps	Investment Income-Fixed	**37**	(13)
Other derivative swaps	Investment Income-Fixed	**29**	(6)
Option contracts			
Options purchased (long)	Investment Income-Fixed	**4**	1
Options purchased (long)	Investment Income-Equity	**-**	-
Options written (sold short)	Investment Income-Fixed	**1**	3
Options written (sold short)	Investment Income-Equity	**0** *	-
Forward contracts			
Forwards - foreign exchange	Investment Income-Fixed	**255**	(75)
	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, 2017, and through September 30, 2016, was $3,576 million and $2,170 million, respectively. The average value of lendable securities was $26,754 million through September 30, 2017, and $24,770 million through September 30, 2016. The ratio of the average value of securities on loan and the average value of lendable securities is the average utilization rate. This average utilization rate was 13% through September 30, 2017 and 9% through September 30, 2016. The average utilization rate increase is due to an increase in utilization of U.S. Corporate Bonds and Equities and U.S. Government Securities as discussed below.

The average value of U.S. Corporate Bonds and Equity securities on loan through September 30, 2017, was $2,036 million, as compared to $1,301 million through September 30, 2016. The average value of U.S. Corporate Bonds and Equity securities on loan is 57% of the $3,576 million average value of securities on loan through September 30, 2017, as compared to 60% of the $2,170 million average value of securities on loan through September 30, 2016. The average value of lendable U.S. Corporate Bonds and Equity securities was $17,485 million through September 30, 2017, or 65 percent of PBGC's overall average value of lendable securities; while 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. The average utilization of U.S. Corporate Bonds and Equity securities was 12% through September 30, 2017 and 9% through September 30, 2016.

The average value of U.S. Government securities on loan through September 30, 2017, was $1,421 million, as compared to $750 million through September 30, 2016. The average value of U.S. Government securities on loan was 40% of the $3,576 million average value of securities on loan through September 30, 2017, as compared to 35% of the $2,170 million average value of securities on loan through September 30, 2016. The average value of lendable U.S. Government securities through September 30, 2017, was $4,578 million, or 17 percent of PBGC's overall average value of lendable securities; whereas 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. The average utilization of U.S. Government securities was 31% through September 30, 2017 and 16% through September 30, 2016. The increase in utilization of U.S. Government securities was driven by an increase in their price volatility, which drives demand to borrow. There was also an increase in demand for high quality liquid assets due to regulation of broker dealers.

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

UTILIZATION RATES OF SECURITIES LENDING PROGRAM

	Daily Utilization Rates at Sept. 30, 2017	Sept. 30, 2017 Average Utilization Rates	Sept. 30, 2016 Average Utilization Rates
U.S. Corporate Bond & Equity	11%	12%	9%
U.S. Government Securities	28%	31%	16%
Non-U.S. Corporate Bond & Equity	3%	2%	4%
Non- U.S. Fixed Income	3%	3%	2%
Total PBGC Program	13%	13%	9%

The amount of cash collateral received for securities on loan at September 30, 2017, and September 30, 2016, was $3,106 million and $1,910 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 $15 million from its agency securities lending programs as of September 30, 2017. 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 decreased year over year.

REPURCHASE AGREEMENTS

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

As of September 30, 2017, PBGC had $242 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, 2017.

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 PBGC's obligations with that counterparty. PBGC considers this risk remote and does not expect the settlement of these transactions to have a material effect in the Statements of Operations 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 $80 million, which represent cash paid as collateral on certain derivative contracts, are shown below.

DERIVATIVE CONTRACTS

(Dollars in millions)	**September 30, 2017**	September 30, 2016
Open receivable trades on derivatives:		
Collateral deposits	**$80** [1]	$103 [2]
Futures contracts	**4**	2
Interest rate swaps	**29**	9
Other derivative swaps	**99**	10
Total	**$212**	$124

[1] Where a legally enforceable master netting agreement exists, collateral deposits receivable for derivative contracts will include counterparty netting. Collateral deposits receivable of $80 million are the result of $87 million gross collateral deposits receivable less $7 million collateral deposits payable netted for swap derivative counterparties.

[2] For fiscal year 2016, 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.

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 $19 million, which represent cash received as collateral on certain derivative contracts, are included.

DERIVATIVE CONTRACTS

(Dollars in millions)	**September 30, 2017**	September 30, 2016
Open payable trades on derivatives:		
Collateral deposits	**$19** [1]	$4 [2]
Futures contracts	**25**	22
Interest rate swaps	**15**	8
Other derivative swaps	**100**	10
Options-fixed income	**2**	5
Total	**$161**	$49

[1] Where a legally enforceable master netting agreement exists, collateral deposits payable for derivative contracts will include counterparty netting. Collateral deposits payable of $19 million are the result of $26 million gross collateral deposits payable less $7 million collateral deposits payable netted for swap derivative counterparties.

[2] For fiscal year 2016, 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.

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, 2017

(Dollars in millions)	Quoted Market Prices in Active Markets (Level 1)	Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)	Total Net Carrying Value in Statements of Financial Position
Assets				
Cash and cash equivalents	$ 505	$ 4,829	-	$ 5,334
Securities lending collateral[4]	-	3,106	-	3,106
Investments:				
Fixed maturity securities				
U.S. Government securities	-	31,865	-	
Commercial paper/securities purchased under repurchase agreements	-	200	-	
Asset backed/Mortgage backed securities	-	3,329	-	
Pooled funds				
Domestic	13	2,504	74	
International	-	-	-	
Global/other	2	-	-	
Corporate bonds and other	0*	15,192	-	
International securities	(10)	9,418		
Total fixed maturity securities	5	62,508	74	62,587
Equity securities:				
Domestic	200	53	0*	
International	1,879	5	0*	
Pooled funds				
Domestic	16	12,864	-	
International	4	11,724	-	
Global/other	3			
Total equity securities	2,102	24,646	0*	26,748
Private equity			606	606
Real estate and real estate investment trusts	1,167	1,689	258	3,114
Insurance contracts and other Investments	-	-	16	16
Receivables: [1]				
Derivative contracts[2]	4	208	-	212
Liabilities				
Payables: [1]				
Derivative contracts[3]	26	135	-	161

* 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 $80 million ($87 million gross collateral deposits receivable less $7 million collateral deposits payable to derivative counterparties). The Collateral deposits associated with the related open payables are $19 million ($26 million gross collateral deposits payable less $7 million collateral deposits payable 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.

4 For securities lending details, please refer to the Securities lending section in Note 3 – Investments.

As of September 30, 2017, 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, 2017

(Dollars in millions)	**Fair Value at September 30, 2016**	**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, 2017**	**Change in Unrealized Gains (Losses) Related to Financial Instruments held at September 30, 2017[2]**
Assets:								
Fixed	$ -	0*	3	(3)	-	-	$ -	$ -
Pooled funds (fixed)	$106	(32)	-	-	-	-	$ 74	$ (32)
Domestic/Int'l equity[1]	$ 0*	0*	0*	0*	0*	-	$ 0*	$ 0*
Private equity	$721	(88)	76	(103)	-	-	$606	$ (78)
Real estate & real estate investment trusts	$321	(21)	2	(44)	0*	-	$258	$ (21)
Other	$ 22	2	4	(12)	-	-	$ 16	$ 1

* 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, 2017

	Fair Value (in millions)	Unfunded Commitments [1]	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Real estate (a)	$ 3,114	$ 48	n/a	n/a
Private equity (b)	606	100	n/a	n/a
Pooled funds (c)	27,204	-	n/a	n/a
Total	$ 30,924	$148		

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

a. This class includes 107 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, but those have not yet been determined.

b. This class includes 383 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 factor risk for Level 3 fair value measurements. A change in interest factors has an impact to the calculation of PBGC's PVFB, and the impact will be reflected in the "Due to change in interest factors." The table below summarizes the hypothetical results of using a 100 basis point difference causing the PVFB liability to increase (decrease) with a corresponding decrease (increase) in the interest factors. Furthermore, any such hypothetical change in the PVFB liability would have a corresponding effect on "Due to change in interest factors" expense.

HYPOTHETICAL AND ACTUAL INTEREST FACTOR SENSITIVITY CALCULATIONS OF PVFB SINGLE-EMPLOYER TRUSTEED PLANS AND MULTIEMPLOYER PROGRAM[1]

September 30, 2017 *(Dollars in millions)*	**Sensitivity Factors Curve of One-Year Discount Rates (Interest Factors) - Varies Annually from 0.54% in year 1 for 30 years, 1.44% thereafter)**	**Official Factors[2] Curve of One-Year Discount Rates (Interest Factors) - Varies Annually from 1.54% in year 1 for 30 years, 2.44% thereafter)**	**Sensitivity Factors Curve of One-Year Discount Rates (Interest Factors) - Varies Annually from 2.54% in year 1 for 30 years, 3.44% thereafter)**
Single-Employer Program	$121,218	**$108,253**	$ 97,588
Multiemployer Program	81,176	**67,283**	56,208
Total	$202,394	**$175,536**	$153,796

[1] Level 3 Fair Value Measurements.
[2] Actual factors and PVFB amounts calculated for September 30, 2017, fiscal year-end financial statements.

NOTE 6: PRESENT VALUE OF FUTURE BENEFITS

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

As of March 31, 2017, PBGC changed the methodology for determining interest factors from prior years. Specifically, PBGC now uses a curve of one-year discount rates (interest factors) instead of select and ultimate factors used previously. PBGC surveys life insurance industry annuity prices through the American Council of Life Insurers (ACLI) to obtain input needed to determine interest factors and then derives a 30 year curve of one-year rates that together with PBGC's mortality table will best match the private sector prices from surveys. Any curve of interest factors will generate liability amounts that differ from the survey prices, which cover 14 different ages or benefit timings for both male and female annuitants. The PBGC process derives the curve of interest factors that differs least over the range of prices in the survey. The derived rates in the curve are structured as "forward" rates, not "spot" rates, because of the way they are applied in the present value calculations. For example, in a forward rate structure, discounting a payment due 25 years in the future requires use of 25 different rates, each associated with a one-year period, rather than by discounting using the single rate associated with year 25.

For September 30, 2017 the table below presents the discount rates (interest factors) which starts at 1.54% in year 1 and varies annually for each year thereafter until year 31 when the factor becomes 2.44% 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). The one-year rates are derived from an underlying yield curve constructed to mimic the typical fixed income portion of portfolios that support life insurance annuity business, 1/3rd Treasury securities and 2/3rd high quality corporate bonds. The yield curve is adjusted to best fit unobserved factors that are reflected in the annuity price survey such as: differing mortality improvement expectations; hedging activities and their costs; regulatory costs on insurers; varying profit and book-of-business expectations; etc. 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, 2017, 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.

CURVE OF ONE-YEAR DISCOUNT RATES (INTEREST FACTORS) AS OF SEPTEMBER 30, 2017

Year 1 – 1.54%	Year 6 – 2.79%	Year 11 – 2.73%	Year 16 – 2.56%	Year 21 – 2.41%	Year 26 – 2.04%
Year 2 – 1.69%	Year 7 – 2.92%	Year 12 – 2.64%	Year 17 – 2.63%	Year 22 – 2.39%	Year 27 – 2.07%
Year 3 – 2.07%	Year 8 – 2.93%	Year 13 – 2.55%	Year 18 – 2.76%	Year 23 – 2.16%	Year 28 – 2.02%
Year 4 – 2.45%	Year 9 – 2.87%	Year 14 – 2.51%	Year 19 – 2.95%	Year 24 – 1.84%	Year 29 – 2.12%
Year 5 – 2.62%	Year 10 – 2.84%	Year 15 – 2.53%	Year 20 – 3.16%	Year 25 – 1.83%	Year 30 – 2.53%
Remaining Years – 2.44%					

For September 30, 2016, PBGC used a 20-year select interest factor of 2.27% followed by an ultimate factor of 2.14% thereafter. 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.

As of June 30, 2017, PBGC changed the methodology for projecting future mortality improvement. Specifically, PBGC now uses a fully generational mortality projection scale instead of the static mortality improvement scales of the past. The mortality tables PBGC used for September 30, 2017 consisted of the Retirement Plan 2014 (RP-2014) Healthy Male mortality table times 1.09 and the RP-2014 Healthy Female mortality table times 0.99 each with adjustments before age 50 and projected generationally with the Male and Female Scale MP-2016 respectively. For September 30, 2016, PBGC used the same tables projected to 2029 using the MP-2015 scale. The number of years that PBGC projected the mortality table for September 30, 2016 reflected the number of years from the base year of the table to the end of the fiscal year (2 years), plus PBGC's calculated duration of its liabilities in the previous fiscal year (13 years).

PBGC utilized the results of its 2016 mortality study in determining the mortality assumptions outlined above. The study removed the margins used in previous studies and provided the most current mortality tables which best matched PBGC's seriatim population experience. PBGC has now adopted a more current base mortality table (RP-2014) 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 expense reserve factor for administrative expenses beginning with the FY 2007 valuation is 1.37 percent plus additional reserves for cases in which plan asset determinations, participant database audits, and actuarial valuations were not yet complete. In addition to the completion of these milestones, PBGC continues to base the reserve on case size, number of participants, and time since trusteeship.

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

The PVFB for trusteed multiemployer plans for FY 2017 and FY 2016 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 fiscal year ended September 30, 2017, and for the fiscal year ended September 30, 2016.

RECONCILIATION OF THE PRESENT VALUE OF FUTURE BENEFITS FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	September 30,			
(Dollars in millions)		**2017**		2016
Present value of future benefits, at beginning of year -- Single-Employer, net		**$113,704**		$106,926
Estimated recoveries, prior year		**568**		475
Assets of terminated plans pending trusteeship, net, prior year		**279**		447
Present value of future benefits at beginning of year, gross		**114,551**		107,848
Settlements and judgments, prior year		**(21)**		(26)
Net claims for probable terminations, prior year		**(376)**		(585)
Actuarial adjustments -- underwriting:				
Changes in method and assumptions	**$ (720)**		$2,598	
Effect of experience	**(578)**		(313)	
Total actuarial adjustments -- underwriting	**(1,298)**		2,285	
Actuarial charges -- financial:				
Expected interest	**2,532**		2,929	
Change in interest factors	**(2,183)**		6,301	
Total actuarial charges -- financial	**349**		9,230	
Total actuarial charges, current year		**(949)**		11,515
Terminations:				
Current year	**997**		2,307	
Changes in prior year	**(169)**		(1,246)	
Total terminations		**828**		1,061
Benefit payments, current year[1]		**(5,699)**		(5,659)
Estimated recoveries, current year		**(278)**		(568)
Assets of terminated plans pending trusteeship, net, current year		**(36)**		(279)
Settlements and judgments, current year [2]		**18**		21
Net claims for probable terminations:				
Future benefits[3]	**7,917**		653	
Estimated plan assets and recoveries from sponsors	**(4,675)**		(277)	
Total net claims, current year		**3,242**		376
Present value of future benefits, at end of year -- Single-Employer, net		**111,280**		113,704
Present value of future benefits, at end of year -- Multiemployer		**0***		0*
Total present value of future benefits, at end of year, net		**$111,280**		$113,704

* Less than $500,000 (actual amount is $132,338 and $199,930 for the 10 Pre-MPPA trusteed multiemployer plans at September 30, 2017, and September 30, 2016, respectively).

1. The benefit payments of $5,699 million at September 30, 2017, and $5,659 million at September 30, 2016, include $13 million in FY 2017 and $67 million in FY 2016, 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 $18 million at September 30, 2017, as compared to $21 million at September 30, 2016.
3. The future benefits for probable terminations of $7,917 million and $653 million for the periods ending September 30, 2017, and September 30, 2016, include $139 million and $127 million, respectively, for probable terminations not specifically identified, and $7,778 million and $526 million, respectively, for specifically identified probables.

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

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

	September 30, 2017		September 30, 2016	
(Dollars in millions)	**Basis**	**Market Value**	Basis	Market Value
U.S. Government securities	**$ -**	**$ -**	$ -	$ -
Corporate and other bonds	**15**	**15**	156	156
Equity securities	**21**	**21**	168	168
Private equity	**-**	**-**	-	-
Insurance contracts	**0 ***	**0 ***	0 *	0 *
Other	**-**	**-**	(45)	(45)
Total, net	**$36**	**$36**	$ 279	$ 279

* 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, 2017, Net Claims for Probable Terminations is $3,242 million, of which $3,103 million is from a specific identification process and $139 million is from the reserve for small unidentified probable losses.

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

RECONCILIATION OF NET CLAIMS FOR PROBABLE TERMINATIONS

	September 30,			
(Dollars in millions)	**2017**		2016	
Net claims for probable terminations, at beginning of year		**$ 376**		$ 585
New claims	**$ 3,103**		$ 249	
Actual terminations	**(231)**		(382)	
Deleted probables	**(18)**		(40)	
Change in benefit liabilities	**12**		(36)	
Change in plan assets	**-**		-	
Loss (credit) on probables		**2,866**		(209)
Net claims for probable terminations, at end of year		**$3,242**		$ 376

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

PROBABLES EXPOSURE BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	**FY 2017**	FY 2016
Retail	**$ 2,421**	$ -
Manufacturing	**615**	249
Forest Product	**67**	-
Total	**$ 3,103**	$ 249

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

(Dollars in millions)	Status of Probables from 1987-2016 at September 30, 2017			
Beginning in 1987, number of plans reported as Probable:	Number of Plans	Percent of Plans	Net Claim	Percent of Net Claim
Probables terminated	379	79%	$30,450	72%
Probables not yet terminated or deleted	-	-	-	-
Probables deleted	103	21%	12,032	28%
Total	482	100%	$42,482	100%

NOTE 7: MULTIEMPLOYER FINANCIAL ASSISTANCE

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

NOTES RECEIVABLE MULTIEMPLOYER FINANCIAL ASSISTANCE

(Dollars in millions)	**September 30, 2017**	September 30, 2016
Gross balance at beginning of year	**$1,036**	$923
Financial assistance payments	**141**	113
Financial assistance - premiums waived	**3**	0 *
Write-offs related to settlement agreements	**0** *	0 *
Subtotal	**1,180**	1,036
Allowance for uncollectible amounts	**(1,180)**	(1,036)
Net balance at end of year	**$ -**	$ -

* 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. 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 Treasury has issued the final order to suspend benefits.

As of September 30, 2017, the Corporation expects that 187 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 187 plans is $67,283 million (inclusive of the reserve for small ongoing plan losses not individually identified). The 187 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. Small plans with fewer than 2,500 participants are excluded from the plan count for this category. The liability for small plans is based on an aggregate method to determine a small plan bulk reserve.

MULTIEMPLOYER FINANCIAL ASSISTANCE

(Dollars in millions)	**September 30, 2017** Number of Plans	**September 30, 2017** Net Liability	September 30, 2016 Number Of Plans	September 30, 2016 Net Liability
Plans currently receiving financial assistance	**72**	**$2,662**	65	$2,139
Plans that have terminated but have not yet started receiving financial assistance (classified as probable)	**68**	**1,966**	63	1,986
Ongoing plans (not terminated) that the Corporation expects will require financial assistance in the future (classified as probable)	**47**	**62,655** [1]	40	56,884 [1]
Total	**187**	**$67,283**	168	$61,009

[1] Ongoing plans include a small probable bulk reserve of $1,080 million and $1,011 million for September 30, 2017, and September 30, 2016, respectively.

Of the 187 plans:

1) 72 have exhausted plan assets and are currently receiving financial assistance payments from PBGC. The present value of future financial assistance payments for these insolvent 72 plans is $2,662 million.

2) 68 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 68 terminated plans is $1,966 million.

3) 47 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 47 ongoing plans is $62,655 million.

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

(Dollars in millions)	**September 30, 2017**	September 30, 2016
Balance at beginning of year	**$61,009**	$54,186
Changes in allowance:		
Losses from insolvent and probable plans - financial assistance	**6,438**	6,768
Actuarial adjustments	**(40)**	11
Actuarial charges (credits) - Insolvent plans:		
Due to expected interest	**62**	56
Due to change in interest factors	**(45)**	101
Financial assistance granted (previously accrued)	**(141)**	(113)
Balance at end of period	**$67,283**	$61,009

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

(Dollars in millions)	**September 30, 2017**	September 30, 2016
Annual leave	**$10**	$ 10
Other payables and accrued expenses	**65**	66
Accounts payable and accrued expenses	**$75**	$ 76

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, 2017. 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, 2016. The reasonably possible exposure to loss was $238,188 million for FY 2017. This is an increase of $14,913 million from the reasonably possible exposure of $223,275 million in FY 2016. This increase is primarily due to the decrease in the interest factors used for valuing liabilities.

Except in the rare circumstances indicated earlier in this note, the estimate of unfunded vested benefits exposure to loss is not generally based on PBGC-guaranteed benefit levels, since data is not available to determine an estimate at this level of precision. PBGC calculated this estimate, as in previous years, by using the most recent data available from filings and submissions to the Corporation for plan years ended on or after December 31, 2015. PBGC adjusted the value reported for liabilities to December 31, 2016, using a select rate of 2.12% for the first 20 years and 2.61% 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 2026 using Scale AA to approximate annuity prices as of December 31, 2016. The underfunding associated with these plans could be substantially different at September 30, 2017, because of changes in economic conditions between December 31, 2016, and September 30, 2017. PBGC did not adjust the estimate for events that occurred between December 31, 2016, and September 30, 2017.

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

REASONABLY POSSIBLE EXPOSURE TO LOSS BY INDUSTRY
(PRINCIPAL CATEGORIES)

(Dollars in millions)	**FY 2017**	FY 2016
Manufacturing [1]	**$93,139**	$85,798
Transportation, Communication and Utilities [2]	**62,729**	56,961
Services	**36,590**	36,066
Wholesale and Retail Trade	**12,296**	12,141
Health Care	**12,273**	11,450
Finance, Insurance, and Real Estate	**11,614**	12,782
Agriculture, Mining, and Construction	**9,547**	8,077
Total	**$238,188**	$223,275

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

[2] Primarily airlines.

MULTIEMPLOYER PLANS

There are many 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, 2017, that it is reasonably possible that other multiemployer plans may require future financial assistance in the amount of $13,972 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 later of September 30, 2017, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2017. 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, 2017, are:

COMMITMENTS: FUTURE LEASE PAYMENTS

(Dollars in millions)	
Years Ending September 30,	Operating Leases
2018	$ 14.6
2019	0.6
2020	0.4
2021	0.1
Minimum lease payments	$ 15.7

In addition to the committed minimum operating lease payments of $15.7 million as noted in the table above, PBGC has estimated future uncommitted operating leases of approximately $68 million.

Lease expenses were $20.0 million in FY 2017 and $19.9 million in FY 2016.

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 2017, the per-participant flat rate premium was $69 for single-employer pension plans, $28 for multiemployer plans. For plan years 2016 and 2015, the per-participant flat rate premiums for single-employer pension plans were $64 and $57, respectively, and for multiemployer plans, $27 and $26, respectively.

Single-employer plans also owe a variable rate premium (VRP) tied to the amount of underfunding. For plans years beginning in 2017, the VRP rate was $34 per $1,000 of unfunded vested benefits subject to an overall cap of $517 per participant. For plan years 2016 and 2015, the VRP rates were $30 and $24 respectively. Applicable caps for those plan years are shown in the table below.

The termination premium applies to certain plan terminations occurring after 2005. If a 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 2017 was $7,030 million and consisted of $4,948 million in variable rate premiums, $2,077 million in flat rate premiums, $3 million in termination premiums, and $2 million in interest and penalty income, offset by a bad debt expense of $0.4 million. Bad debt expenses include a reserve for uncollectible premium receivables (including flat, variable, termination premiums, and multiemployer insolvent plans), interest, and penalties.

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, termination premiums, and multiemployer insolvent plans), 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
2017	$69	$34	$517	$28
2016	$64	$30	$500	$27
2015	$57	$24	$418	$26

Premium income is accrued for months in which a plan year overlaps the fiscal year. Because of this rule, premiums for 2015, 2016, and 2017 plan years are accrued in FY 2017, and premium rates change each calendar year, so three sets of premium rates were used to calculate FY 2017 premium revenue.

For example, consider a plan with a September 1, 2016 to August 31, 2017 plan year only the first month of that plan year occurs during FY 2016, so 1/12th of the plan's premium for this plan year was accrued in FY 2016 and 11/12th accrued in FY 2017. Similarly, for a plan with a December 1, 2015 to November 30, 2016 plan year, the last two months of that plan year occurs during FY 2017, so 2/12th of the plan's premium income is accrued in FY 2017 and 10/12th was accrued in FY 2016.

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

Net Premiums Receivable

(Dollars in Million)	Single-Employer Sept. 30, 2017	Single-Employer Sept. 30, 2016	Multiemployer Sept. 30, 2017	Multiemployer Sept. 30, 2016	Memorandum Total Sept. 30, 2017	Memorandum Total Sept. 30, 2016
Premiums Not Yet Due:						
Estimated Flat-Rate Premiums	**$1,086**	$1,035	**$160**	$155	**$1,246**	$1,190
Estimated Variable-Rate Premiums	**2,918**	3,154	**-**	-	**2,918**	3,154
Total Net Premiums Not Yet Due	**4,004**	4,189	**160**	155	**4,164**	4,344
Premiums Past Due:						
Flat-Rate Premiums	**126**	136	**20**	10	**146**	146
Allowance for Bad Debt-Flat-Rate	**(3)**	(7)	**0 ***	0 *	**(3)**	(7)
Variable-Rate Premiums	**299**	207	**-**	-	**299**	207
Allowance for Bad Debt-Variable-Rate	**(6)**	(10)	**-**	-	**(6)**	(10)
Total Net Premiums Past Due	**416**	326	**20**	10	**436**	336
Termination Premiums:[1]						
Termination Premiums	**251**	249	**-**	-	**251**	249
Allowance for Bad Debt-Termination	**(233)**	(234)	**-**	-	**(233)**	(234)
	18	15	**-**	-	**18**	15
Interest and Penalty:						
Interest and Penalty Due	**2**	5	**0 ***	0 *	**2**	5
Allowance for Bad Debt-Int/Penalty	**(1)**	(1)	**0 ***	0 *	**(1)**	(1)
Total Net Interest and Penalty Due	**1**	4	**0 ***	0 *	**1**	4
Grand Total Net Premiums Receivable	**$4,439**	$4,534	**$180**	$165	**$4,619**	$4,699

* 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 present a year-to-year comparison of key premium income information.

PREMIUM INCOME BY PREMIUM TYPE

(Dollars in Million)	September 30, 2017		September 30, 2016
Flat-Rate Premium:			
Single-Employer	**$1,785**		$1,742
Multiemployer	**292**		284
Total Flat-Rate Premium	**2,077**		2,026
Variable-Rate Premiums	**4,948**		4,639
Interest and Penalty Income	**2**		9
Termination Premium	**3**		5
Less Bad Debts for Premiums, Interest, and Penalties	**0**	*	(18)
Total Net Premiums	**$7,030**		$6,661

* Less than $500,000

PREMIUM INCOME BY PROGRAM

(Dollars in Million)	September 30, 2017		September 30, 2016	
Single-Employer:				
Flat-Rate and Variable-Rate Premiums	**$6,732**		$6,381	
Interest and Penalty Income	**2**		9	
Termination Premiums	**3**		5	
Less Bad Debts for Premiums, Interest, and Penalties	**2**		(16)	
Total Single-Employer	**6,739**		6,379	
Multiemployer:				
Flat-Rate Premiums	**293**		284	
Interest and Penalty Income	**0**	*	0	*
Less Bad Debts for Premiums, Interest, and Penalties	**(2)**		(2)	
Total Multiemployer	**291**		282	
Total Net Premiums	**$7,030**		$6,661	

* Less than $500,000

NOTE 12: LOSSES FROM COMPLETED AND PROBABLE TERMINATIONS

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

LOSSES FROM COMPLETED AND PROBABLE TERMINATIONS – SINGLE-EMPLOYER PROGRAM

	For the Years Ended September 30,					
	2017			2016		
(Dollars in millions)	**New Terminations**	**Changes in Prior Years' Terminations**[5]	**Total**	New Terminations	Changes in Prior Years' Terminations[5]	Total
Present value of future benefits	**$ 997**	**$(169)**	**$828**	$2,307	$(1,246)	$1,061
Less plan assets	**471**	**299**	**770**	1,332	(27)	1,305
Plan asset insufficiency	**526**	**(468)**	**58**	975	(1,219)	(244)
Less estimated recoveries	**-**	**(290)**	**(290)**	-	(30)	(30)
Subtotal	**526**[1]	**(178)**	**348**	975[1]	(1,189)	(214)
Settlements and judgments		**2**[6]	**2**[6]		6[6]	6[6]
Loss (credit) on probables	**(231)**[2]	**2,944**[3]	**2,713**[4]	(382)[2]	173[3]	(209)[4]
Total	**$ 295**	**$ 2,768**	**$3,063**	$ 593	$ (1,010)	$ (417)

[1] Gross amounts for plans terminated during the period (76 plans at September 30, 2017 and 67 plans at September 30, 2016), 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 $231 million at September 30, 2017, and $382 million at September 30, 2016, 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 $18 million at September 30, 2017, as compared to $21 million at September 30, 2016.

NOTE 13: FINANCIAL INCOME

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

INVESTMENT INCOME SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS

(Dollars in millions)	**Single-Employer Program Sept. 30, 2017**	**Multiemployer Program Sept. 30, 2017**	**Memorandum Total Sept. 30, 2017**	Single-Employer Program Sept. 30, 2016	Multiemployer Program Sept. 30, 2016	Memorandum Total Sept. 30, 2016
Fixed maturity securities:						
Interest earned	**$1,886**	**$38**	**$1,924**	$1,739	$38	$1,777
Realized gain (loss)	**351**	**11**	**362**	1,204	32	1,236
Unrealized gain (loss)	**(1,613)**	**(102)**	**(1,715)**	2,837	73	2,910
Total fixed maturity securities	**624**	**(53)**	**571**	5,780	143	5,923
Equity securities:						
Dividends earned	**87**	**-**	**87**	47	-	47
Realized gain (loss)	**775**	**-**	**775**	2,213	-	2,213
Unrealized gain (loss)	**3,591**	**-**	**3,591**	508	-	508
Total equity securities	**4,453**	**-**	**4,453**	2,768	-	2,768
Private equity:						
Distributions earned	**4**	**-**	**4**	6	-	6
Realized gain (loss)	**204**	**-**	**204**	255	-	255
Unrealized gain (loss)	**(79)**	**-**	**(79)**	(180)	-	(180)
Total private equity	**129**	**-**	**129**	81	-	81
Real estate:						
Distributions earned	**-**	**-**	**-**	-	-	-
Realized gain (loss)	**185**	**-**	**185**	67	-	67
Unrealized gain (loss)	**(40)**	**-**	**(40)**	(60)	-	(60)
Total real estate	**145**	**-**	**145**	7	-	7
Other income:						
Distributions earned	**10**	**-**	**10**	12	-	12
Realized gain (loss)	**1**	**-**	**1**	-	-	-
Unrealized gain (loss)	**1**	**-**	**1**	-	-	-
Total other income	**12**	**-**	**12**	12	-	12
Total investment income	**$5,363**	**($53)**	**$5,310**	$8,648	$143	$8,791

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 FY 2017 was 32.8 percent and 33.5 percent for FY 2016 of base pay for those employees covered by that system. For those employees covered by FERS, the Corporation's contribution was 14.7 percent of base pay for FY 2017. For employees covered by FERS-RAE, the Corporation's contribution was 15.3 percent of base pay for FY 2017. For employees covered by FERS-FRAE, the Corporation's contribution was 15.4 percent of base pay for FY 2017. 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 $26 million in FY 2017, an increase of $2 million from FY 2016. These financial statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to PBGC's employees. These amounts are reported by the U.S. Office of Personnel Management (OPM) and are not allocated to the individual employers. OPM accounts for federal health and life insurance programs for those eligible retired PBGC employees who had selected federal government-sponsored plans. PBGC does not offer other supplemental health and life insurance benefits to its employees.

NOTE 15: CASH FLOWS

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

INVESTING ACTIVITIES (SINGLE-EMPLOYER AND MULTIEMPLOYER PROGRAMS COMBINED)

	September 30,	
(Dollars in millions)	**2017**	2016
Proceeds from sales of investments:		
Fixed maturity securities	**$98,490**	$69,594
Equity securities	**5,040**	10,908
Other/uncategorized	**2,788**	3,288
Memorandum total	**$106,318**	$83,790
Payments for purchases of investments:		
Fixed maturity securities	**$(102,976)**	$(74,671)
Equity securities	**(4,278)**	(7,719)
Other/uncategorized	**(1,984)**	(1,890)
Memorandum total	**$(109,238)**	$(84,280)

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

RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in millions)	**2017**	2016	**2017**	2016	**2017**	2016
Net income (loss)	**$9,666**	$3,485	**$(6,219)**	$(6,549)	**$3,447**	$(3,064)
Adjustments to reconcile net income to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	**(3,302)**	(6,758)	**109**	(91)	**(3,193)**	(6,849)
Net (gain) loss of plans pending termination and trusteeship	**28**	(21)	**-**	-	**28**	(21)
Losses (credits) on completed and probable terminations	**3,063**	(417)	**-**	-	**3,063**	(417)
Actuarial charges (credits)	**(950)**	11,515	**-**	-	**(950)**	11,515
Benefit payments - trusteed plans	**(5,686)**	(5,592)	**-**	-	**(5,686)**	(5,592)
Settlements and judgments	**(5)**	(11)	**-**	-	**(5)**	(11)
Cash received from plans upon trusteeship	**20**	25	**-**	-	**20**	25
Receipts from sponsors/non-sponsors	**712**	88	**-**	-	**712**	88
EL/DUEC Trusteeship interest (non-cash)	**(183)**	62	**-**	-	**(183)**	62
Cash receipts timing from Trust to Revolving	**-**	6	**-**	-	**-**	6
Amortization of discounts/premiums	**76**	(76)	**7**	(7)	**83**	(83)
Amortization and Depreciation expense	**13**	13	**-**	-	**13**	13
Bad debt expense/Write-offs (net)	**26**	4	**-**	-	**26**	4
Changes in assets and liabilities, net of effects of trusteed and pending plans:						
(Increase) decrease in receivables	**41**	(1,209)	**(15)**	(13)	**26**	(1,222)
Increase in present value of nonrecoverable future financial assistance	**-**	-	**6,274**	6,823	**6,274**	6,823
Increase (decrease) in unearned premiums	**54**	29	**1**	(1)	**55**	28
Increase (decrease) in accounts payable	**(3)**	(2)	**2**	7	**(1)**	5
Net cash provided (used) by operating activities	**$3,570**	$1,141	**$159**	$169	**$3,729**	$1,310

NOTE 16: LITIGATION

Legal challenges to PBGC's policies and positions continued in FY 2017. At the end of the fiscal year, PBGC had 21 active cases in state and federal courts and 196 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, 2017, 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, 2017, and before the financial statements were available to be issued, that provided additional evidence about conditions that existed at September 30, 2017, have been recognized in the financial statements.

For the fiscal year ended September 30, 2017, there were no non-recognized 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, 2017, and which arose before the financial statements were available to be issued.

IMPROPER PAYMENT REPORTING

INTRODUCTION

OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments* and related improper payment statutes[1] require federal agencies to conduct improper payment risk assessments. In compliance with Executive Order 13520, the PBGC Director serves as the agency official accountable for improper payment reporting purposes.

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

PBGC performs risk assessments of its payment streams using a rotational strategy based on a three-year cycle. PBGC's payment streams include the following: 1) benefit payments to participants in "final pay" status for plans trusteed by PBGC under Title IV of ERISA (Benefit Payments); 2) payments to contractors for goods and services, including government credit card transactions (Payments to Contractors); 3) payments made to federal employees, including payroll and travel reimbursements (Payments to Federal Employees); 4) financial assistance payments to insolvent multiemployer plans that are unable to pay benefits when due under the requirements of Title IV of ERISA (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 2017 IMPROPER PAYMENT RISK ASSESSMENT

In FY 2017, PBGC performed a risk assessment of Payments to Federal Employees. In performing the risk assessment, 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; whether the program is new to the agency; whether payments or payment eligibility decisions are made outside of PBGC; 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 assessment, PBGC determined that the Payments to Federal Employees were not susceptible to significant risk of improper payments as defined by OMB.

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.

- 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 trusteed 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 transaction cycle to be not susceptible to significant risk of improper payments and did not identify significant benefit calculation errors. In addition, during FY 2017, OBA formally documented a risk acceptance policy associated with legacy documentation issues—the risk acceptance policy remains in place given that there have been no significant changes to the impact and probability considerations related to 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. In FY 2017 this new process increased efficiency and reduced 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.

- Contractor Payments: Following up on a contractor payment issue reported last year, related to retainage, the Procurement Department (PD) issued its *Invoice Verification Checklist and Certification, a* revised checklist provided to the Contracting Officer's Representative via PD's COR Resources SharePoint site. In addition, PD provided training through its Acquisition Excellence Workshops to help address this issue.

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 2017:

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**
10.0 million	$5.7 billion	16,523	$6,723,422

- 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 2017, 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 electronic reclamation and debt collection agreements. PBGC forwards most of its benefit overpayment debts to the Centralized Receivables Service (CRS) of the Treasury Department to serve as its debt collection agent. CRS has the capability to enter into installment repayment agreements and offsets against other federal benefits. 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.

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. The OIG regularly reports its work on its website, https://oig.pbgc.gov, and in its *Semiannual Reports to Congress,* which are posted there.

2017 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, with the exception of the changes in interest and mortality assumptions mentioned on the following page, we used the same methods and procedures as in 2016 for the Single-Employer and Multiemployer Programs.

PRESENT VALUE OF FUTURE BENEFITS AND NONRECOVERABLE FINANCIAL ASSISTANCE – 2017

	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)	4,287	1,005	$74,881
2. Seriatim at DOPT, adjusted to FYE	120	171	21,325
3. Nonserieatim[1]	438	192	12,077
4. Missing Participants Program (seriatim)[2]	-	24	69
Subtotal	4,845	1,392	$108,352
B. Probable terminations (non-seriatim)[3]	5	113	7,917
Total[4]	4,850	1,505	$116,269
II. MULTIEMPLOYER PROGRAM			
A. Pre-MPPAA terminations (seriatim)	10	*	$0
B. Pre-MPPAA liability (net of plan assets)			
1. Currently Receiving Assistance	72	93	2,662
2. Probable for Assistance	115	1,241	64,621
Total	197	1,334	$67,283

* Fewer than 500 participants

Notes:

1) The liability for terminated plans has been increased by $18 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 $139 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 $4,675 million. Thus, the net claims for probable terminations as reported in the financial statements are $7,917 million less $4,675 million, or $3,242 million.
4) The PVFB in the financial statements ($111,280 million) is net of estimated plan assets and recoveries on probable terminations ($4,675 million), estimated recoveries on terminated plans ($278 million), and estimated assets for plans pending trusteeship ($36 million), or, $116,269 million less $4,675 million less $278 million less $36 million = $111,280 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 4,287 plans, representing about 88 percent of the total number of single-employer terminated plans (72 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 28 plans over the 4,259 plans valued seriatim last year. For 120 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 2017 on a nonseriatim basis.

For 438 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 2017 using certain assumptions and adjustment factors.

For the fiscal year 2017 actuarial valuation, PBGC used a curve of one-year discount rates (interest factors) assumption which varies annually from 1.54% in year 1 to 2.44% in year 31 and beyond. In fiscal year 2016, we 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 generationally using Scale MP-2016. In fiscal year 2016, 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.

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 187 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, 2017.

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, 2017

To the Board of Directors
Pension Benefit Guaranty Corporation

The Office of Inspector General contracted with CliftonLarsonAllen LLP (CLA), 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, 2017 and 2016. 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, CLA 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, 2017 and 2016, 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 25th consecutive unmodified financial statement audit opinion.
- PBGC maintained, in all material respects, effective internal control over financial reporting as of September 30, 2017, based on criteria established under 31 U.S.C. 3512 (c), (d), commonly known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control (0MB Circular A-123). Serious internal control weaknesses in PBGC's programs and operations include three significant deficiencies (Controls over the Present Value of Future Benefit Liability, Present Value of Nonrecoverable Future Financial Assistance, and Access Controls and Configuration Management).
- An instance of noncompliance or other matters that are required to be reported in accordance with Government Auditing Standards. Specifically, PBGC was not in

compliance with law and regulation due to a violation of the Antideficiency Act determined after guidance from GAO relative to the recording of obligations for multi-year leases. PBGC has submitted the draft ADA report to OMB for external reporting, as required, and is in the process of remediating all leases to conform to GAO guidance.

CLA is responsible for the accompanying auditor's report dated November 15, 2017 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-2018-X / FA-17-119-1) is also available on our website at oig.pbgc.gov.

Respectfully,

Robert A. Westbrooks

Robert A. Westbrooks
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
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Pension Benefit Guaranty Corporation (PBGC), which comprise the statements of financial position as of September 30, 2017 and 2016, 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. 17-03*, Audit Requirements for Federal Financial Statements* (OMB Bulletin 17-03). Those standards and OMB Bulletin 17-03 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.

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, 2017 and 2016, 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, 2017, PBGC reported in its financial statements net deficit positions (liabilities in excess of assets) in the Single-Employer and Multiemployer Program Funds of approximately $11 billion and $65 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 $238 billion and $14 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, 2015, and adjusted the value reported for liabilities to the estimated balance as of December 31, 2016, using actuarial assumptions. PBGC did not adjust the estimate for economic conditions that occurred between December 31, 2016 and September 30, 2017, and as a result, the actual loss for the Single-Employer Program as of September 30, 2017, 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) 2017 Financial Statement Highlights, Management's Discussion and Analysis, Analysis of Entity's Systems, Controls and Legal Compliance, Management Representation, Improper Payment Reporting, 2017 Actuarial Valuation, Letter of the Inspector General, and Management's Response to the Report of Independent Auditor and Organization contain a wide range of information, 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.

Report on Internal Control over Financial Reporting

We have audited PBGC's internal control over financial reporting as of September 30, 2017, 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 Analysis of Entity's Systems, Controls and Legal Compliance section of 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 auditing standards generally accepted in the U.S. and *Government Auditing Standards*.

An audit of internal control over financial reporting involves the assessment of the risk that a material weakness exists. The procedures performed depend on the auditors' judgment, and includes 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, 2017, based on criteria established under FMFIA and OMB Circular A-123.

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies. 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 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 in PBGC's internal control, 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. 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*.

- 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 all of the multiyear lease arrangements. We reported this as a potential violation in our FY 2016 Independent Auditor's Report. In FY 2017, PBGC general counsel reported the violation to the Office of Management and Budget and is currently awaiting a decision.

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 15, 2016. The status of prior year findings is presented in Exhibit III.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Calverton, Maryland
November 15, 2017

EXHIBIT I

PENSION BENEFIT GUARANTY CORPORATION
INTERNAL CONTROL DEFICIENCIES
September 30, 2017

BACKGROUND

PBGC protects the pensions of approximately 40 million workers and retirees in nearly 24 thousand private defined benefit pension plans. Under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA), PBGC insures, subject to statutory limits, pension benefits of participants in covered private defined benefit pension plans in the U.S. The establishment of a robust internal control framework and the implementation of the appropriate internal control activities are essential to PBGC operations. OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control,* requires agencies to integrate risk management and internal control functions. In FY 2017, the Corporation continues to evaluate whether its key internal controls are suitably designed across business processes to satisfy specific control objectives and mitigate the associated organization business risks.

PBGC strengthened its control environment by implementing management practices to mitigate control deficiencies reported in previous years. Further, management improved its current business processes to address specific financial reporting and information technology control deficiencies. However, management should continue to focus its efforts to resolve outstanding conditions.

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

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

During FY 2017, the Office of Benefits Administration (OBA) continues to implement strategic internal initiatives to strengthen its risk-based corrective actions to mitigate control deficiencies 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. These initiatives include performing trend analysis of known conditions that affect the PVFB estimated liability calculation and assessing its overall impact on the likelihood of a material misstatement. Further, OBA continues to refine its actuarial valuation tool used to calculate the PVFB liability. These refinements enhance the overall capability of the software tool and reduce the risk of reliance on imprecise assumptions. Although progress has been made to controls over the calculation of the PVFB liability, certain conditions remain that require management's concerted effort for improvement.

<u>Calculation of the Present Value of Future Benefit Liability</u>

Consistent with the previous year, we identified errors in the calculation of participant benefits and the related PVFB liability. Specifically, our testing of the PVFB liability reported at June 30 and September 30, continue to reveal:

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

PENSION BENEFIT GUARANTY CORPORATION
INTERNAL CONTROL DEFICIENCIES
September 30, 2017

The resolution of these errors requires management continued focus 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).
- 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.

PBGC continues to have data inputs error in its calculation of the PV NRFFA. Also, we found that PBGC did not update its PV NRFFA valuation methodology that includes a change in premium rates for covered multiemployer plans. During FY 2017, PBGC did not implement an effective quality control review process. Further, PBGC did not fully consider that impact on the exclusion of the premium increase to its liability. Consequently, these errors resulted in misstatements to the PV NRFFA liability at June 30.

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."

Recommendations:

We continue to recommend that PBGC management:

- 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.

EXHIBIT I

PENSION BENEFIT GUARANTY CORPORATION
INTERNAL CONTROL DEFICIENCIES
September 30, 2017

3. Access Controls and Configuration Management

In FY 2017, PBGC focused on resolving its Entity-wide Security Management weaknesses and continued to implement technologies and processes to address long standing access controls and configuration management weaknesses. However, the controls require time to mature and show evidence of their effectiveness. In addition, PBGC realizes it requires cycle time and institutional maturity to 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.

PBGC access and configuration management processes continue to improve in FY 2017. For example, PBGC implemented various tools and processes to establish a more coherent environment. However, continued focus is needed to effectively remediate the remaining risks and weaknesses associated with the access and configuration management controls. We continue to make the recommendations noted below to address the underlying access controls and configuration management weaknesses in PBGC's information system 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 components[1] that can be interconnected in a multitude of arrangements to meet a variety of business, mission and information security needs. How these information system components are networked, configured and managed is critical in providing adequate information security and supporting an organization's risk management process.

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

- 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 processes and procedures for determining and documenting defined security configuration checklists for database applications.
- Removal and decommission of systems and application software 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.

[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.

- Modernization of systems and applications to ensure the cryptography implemented is FIPS 140-2, *Security Requirements for Cryptographic Modules*, compliant.
- 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
- 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.

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.
    - Processes and procedures for determining and documenting defined security configuration checklists for database applications.
    - Removal and decommission of systems and application software that have reached their end of service life.
    - A process to address known security weaknesses in accordance with PBGC's timeline for corrective actions.
    - Enhanced process and procedures to effectively track and remediate known vulnerabilities in a timely manner.
    - Complete the full implementation of security enhancements for PBGC websites in accordance with all OMB M-15-13 requirements.
    - A risk based assessment and compensating controls for FIPS 140-2 non-compliance and non-encryption of data in moderate-impact systems.
    - 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.
    - Enhanced account management procedures to ensure a thorough review of accounts is performed during the annual account recertification and that necessary accounts

are recertified, and implement compensating controls to verify inactive accounts are deactivated in accordance with PBGC policy.

- Requirements for the disposition of dormant accounts for all PBGC systems.
- Effective controls to remove separated users from systems and applications.

EXHIBIT II

PENSION BENEFIT GUARANTY CORPORATION
NONCOMPLIANCE WITH LAWS AND REGULATIONS
September 30, 2017

NONCOMPLIANCE WITH THE ANTIDEFICIENCY ACT

Potential Noncompliance

Leases

In FY 2016, we found that the Corporation violated the Antideficiency Act due to its failure to record in full, all contractual obligations incurred in connection with its headquarters operating lease agreements. The Corporation disclosed in its FY 2017 FMFIA assurance statement that PBGC is in the process of remediating all remaining leases to conform to the GAO guidance for the recording of obligations for multiple – year leases. Further, the Corporation asserted that all operating leases up to five years could be incrementally funded based on authority established by 41 USC, section 3903. The Corporation's position is not consistent with the reporting of its headquarters violations to OMB in FY 2017. During our inspection of the Field Benefit Administrator's (FBA) lease agreements, we found that the Corporation may have violated the Antideficiency statute again in FY 2017. The Corporation did not perform a sufficient review of all operating leases to determine whether it complied with the Anti-Deficiency Act provisions, as described in OMB Circular A -11, *Preparation, Submission and Execution of the Budget*. In summary, the Corporation has 3 headquarters leases, 1 COOP lease and 5 FBA office leases.

Recommendation:

We recommend that PBGC management:

- Perform a comprehensive review of all operating lease arrangements and determine whether the Corporation complies with the Antideficiency Act provisions. Report all violations to OMB immediately.
- Develop and implement a remediation plan to resolve any current and future potential funding deficiencies related to operating lease arrangements.

EXHIBIT III

PENSION BENEFIT GUARANTY CORPORATION
STATUS OF PRIOR YEAR'S FINDINGS

Prior Year Condition	Status as Reported at September 30, 2016[2]	Status as of September 30, 2017
1. Controls over PVFB Liability	***Significant Deficiency:*** PBGC had weaknesses in the calculation of the PVFB Liability	Repeated as significant deficiency number 1 and included in Exhibit I.
2. Present Value of Nonrecoverable Future Financial Assistance (PV NRFFA)	***Significant Deficiency:*** PBGC had weaknesses in the following: • Using the most current and relevant data to update actuarial assumptions • Data input errors used to calculate PV NRFFA	Repeated as significant deficiency number 2 and included in Exhibit I.
3. Entity-wide Security Program Planning and Management	***Significant Deficiency:*** PBGC had weaknesses in the following: • PBGC had not completed security assessments and authorizations for its major applications. • Weaknesses in PBGC's infrastructure design and deployment strategy for systems and applications adversely affected its ability to effectively implement common security controls across its systems and applications.	Partially resolved and included in the Management Letter.
4. Access Controls and Configuration Management	***Significant Deficiency:*** Weaknesses in the IT environment contributed to deficiencies in system configuration, segregation of duties, role-based access controls, and monitoring.	Partially resolved and repeated as significant deficiency number 3 and included in Exhibit I.

[2] Report on Internal Control Related to Pension Benefit Guaranty Corporation's Fiscal Year 2016 and 2015 Financial Statements Audit: http://oig.pbgc.gov/pdfs/FA-16-110-2.pdf

EXHIBIT III

PENSION BENEFIT GUARANTY CORPORATION
STATUS OF PRIOR YEAR'S FINDINGS

Compliance and Other Matters		
Noncompliance with Title 31 of the *Code of Federal Regulation (C.F.R.)*, Part 1342	PBGC reported an Antideficiency Violation – Limitations on Voluntary Services, to the President, President of the Senate, Congress, Speaker of the House of Representatives, OMB Director and the Comptroller General	Resolved.
Potential Noncompliance Title 31 of the *Code of Federal Regulation (C.F.R.)*, Part 1501(a)	PBGC did not record its full contractual obligation under its current multiyear lease arrangement. PBGC has disclosed this matter to OMB and is currently awaiting a decision.	Repeated as a potential Noncompliance with Antideficiency Act in Exhibit II.

EXHIBIT IV

PENSION BENEFIT GUARANTY CORPORATION
MANAGEMENTS RESPONSE FY2017
INDEPENDENT AUDITOR REPORT
SEPTEMBER 30, 2017

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

Office of the Director

NOV 15 2017

MEMORANDUM

To: Robert Westbrooks
Inspector General

From: W. Thomas Reeder
Director

Subject: Response to the Independent Auditor's Combined Audit Report for the FY 2017 Financial Statement Audit

Thank you for the opportunity to comment on the Office of Inspector General's FY 2017 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.

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

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

ORGANIZATION

Board of Directors

Secretary of Labor
R. Alexander Acosta, *Chair*

Secretary of Commerce
Wilbur L. Ross, Jr.

Secretary of the Treasury
Steven T. Mnuchin

Executive Management

Director
W. Thomas Reeder

Chief of Benefits Administration
Cathleen Kronopolus

Chief Financial Officer
Patricia Kelly

Chief Information Officer
Robert Scherer

Chief Management Officer
Alice Maroni

Chief of Negotiations and Restructuring
Karen Morris

Chief of Staff
Ann Orr

Deputy Chief Policy Officer
Michael Rae

General Counsel
Judith Starr

Office of Inspector General

Inspector General
Robert A. Westbrooks

Board Representatives

Department of Commerce
Karen Dunn Kelley
Under Secretary of Commerce for Economic Affairs

Department of Labor
Jeanne Klinefelter Wilson
Acting Assistant Secretary of Labor Employee Benefits Security Administration

Department of Treasury
Christopher Campbell
Assistant Secretary for Financial Institutions

Corporate Management

Actuarial Services & Technology Department
Scott G. Young
Director

Bankruptcy, Litigation & Terminations Department
Charles Finke
Deputy General Counsel

Bankruptcy, Transactions & Terminations Department
Kartar Khalsa
Deputy General Counsel

Benefits Administration Department
David Foley
Deputy Chief

Budget Department
Edgar Bennett
Director

Business Innovation Services Department
Vidhya Shyamsunder
Director

Communications, Outreach & Legislative Affairs Department
Martha Threatt
Director

Corporate Controls & Reviews Department
Martin Boehm
Director

Corporate Finance & Restructuring Department
Adi Berger
Director

Corporate Investments Department
John Greenberg
Director

Enterprise Governance Department
Melanie Carter
Director

Financial Operations Department
Theodore Winter
Director

General Law & Operations Department
Philip Hertz
Deputy General Counsel

Human Resources Department
Arrie Etheridge
Director

Information Technology Infrastructure Operations Department
Joshua Kossoy
Director

Office of Equal Employment Opportunity
Brenecia Watson
Director

Participant Services Department
Jennifer Messina
Director

Plan Asset & Data Management Department
David Foley
Acting Director

Policy, Research & Analysis Department
Jensen Chan
Acting Director

Procurement Department
Steve Block
Director

Program Law & Policy Department
Israel Goldowitz
Deputy General Counsel

Quality Management Department
Diane Braunstein
Director

Risk Management Officer
Nicole Puri

Senior Advisor
Wilmer Graham

Workplace Solutions Department
Alisa Cottone
Director

PBGC Advisory Committee

Robin Diamonte, *Chair*

Henry C. Eickelberg

Regina T. Jefferson

Joyce St. Clair

Consultants to the Committee

Donald J. Butt

Babette A. Ceccotti

Participant and Plan Sponsor Advocate

Constance A. Donovan