

September 1993

FINANCIAL AUDIT

Pension Benefit
Guaranty Corporation's
1992 and 1991
Financial Statements

149990

**Comptroller General
of the United States**

B-164292

September 29, 1993

To the President of the Senate and the
Speaker of the House of Representatives

This report presents our opinion on the Statements of Financial Condition of the Single-Employer Fund and the Multiemployer Fund for the fiscal years ended September 30, 1992 and 1991. These financial statements are the responsibility of the Pension Benefit Guaranty Corporation, the administrator of the funds. Because of the considerable progress the Corporation has made in improving internal controls, we were able, for the first time, to opine on the Corporation's statements of financial condition. Although material weaknesses that affect both funds remain, the Corporation is committed to resolving them.

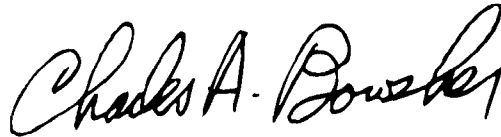
The Statement of Financial Condition for each fund presents fairly, in all material respects, its financial position, except for the Multiemployer Fund's liability for future financial assistance, for which a scope limitation prevented us from determining whether the reported liability was fairly presented. We were previously unable to audit each fund's financial statements for the fiscal year ended September 30, 1991; since those statements materially affect the results of operations and cash flows for fiscal year 1992, we are unable to opine on the other financial statements which accompany the September 30, 1992, statements of financial condition.

This report also presents our opinion on the Corporation's system of internal controls as it relates to each fund. Internal controls were not effective in providing reasonable assurance that the Corporation properly recorded, processed, and summarized transactions for its financial statements and other financial reports. However, internal controls as of September 30, 1992, provided reasonable assurance that assets were safeguarded against loss and that transactions were executed in accordance with management's authority and with significant provisions of selected laws and regulations. We found no material instances of noncompliance with the provisions of laws and regulations we tested, and nothing came to our attention in the course of our work to indicate that material noncompliance with such provisions occurred. In addition, this report includes our recommendations to improve the Corporation's internal control structure and discusses (1) our concerns about the long-term viability of the Single-Employer Fund, (2) the reliability of the

Multiemployer Fund's liability for future financial assistance, and (3) the weaknesses in employee benefit plan audits and reports.

We conducted our audit pursuant to the provisions of 31 U.S.C. 9105, as amended, and in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs, the House Committee on Government Operations, and the Subcommittee on Oversight of the House Committee on Ways and Means; the Secretaries of Labor, the Treasury, and Commerce in their capacities as Chairman and members of the Board of Directors of the Pension Benefit Guaranty Corporation; the Corporation's Executive Director; the Director of the Office of Management and Budget; and other interested parties.

A handwritten signature in black ink, reading "Charles A. Bowsher". The signature is fluid and cursive, with the first name "Charles" and last name "Bowsher" clearly legible.

Charles A. Bowsher
Comptroller General
of the United States

Contents

Letter	1
Opinion Letter	6
Appendix I Objectives, Scope, and Methodology	18
Appendix II Financial Statements	20
Statements of Financial Condition (Restated)	20
Statements of Operations and Changes in Equity (Restated)—Unaudited	22
Statements of Cash Flows (Restated)—Unaudited	23
Notes to Financial Statements	24
Appendix III Comments From the Pension Benefit Guaranty Corporation	42

Abbreviations

ERISA	Employee Retirement Income Security Act
GAO	General Accounting Office
FBA	field benefit administrator
PC	personal computer
PLUS	Pension and Lump Sum

Comptroller General
of the United States

B-164292

To the Board of Directors
Pension Benefit Guaranty Corporation

We have audited the accompanying statements of financial condition as of September 30, 1992, of the Single-Employer and Multiemployer Funds with reported assets of \$6.4 billion and \$283 million, respectively, administered by the Pension Benefit Guaranty Corporation. The scope of our audit was limited to the September 30, 1992, statements of financial condition. Therefore, we do not express an opinion on the other accompanying financial statements. We found:

- The Corporation has made considerable progress in improving internal controls, but material weaknesses that affect both funds remain. The Corporation is committed to resolving these weaknesses.
- The September 30, 1992, statements of financial condition were reliable in all material respects, except for the Multiemployer Fund's liability of \$60 million for future financial assistance because information on certain financially troubled pension plans was not available to determine whether assistance from the Corporation may be necessary.
- Internal controls as of September 30, 1992, were not effective in assuring that transactions were properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with generally accepted accounting principles and to maintain accountability for assets among funds. However, internal controls in effect on September 30, 1992, did provide reasonable assurance that assets were safeguarded from material loss and that transactions were executed in accordance with management authority and significant provisions of selected laws and regulations.
- No material noncompliance with laws and regulations we tested.

Discussed in the following section are significant matters considered in performing our audit and forming our opinions. This report also discusses our audit conclusions, our recommendations for improving the Corporation's internal control structure, and the Corporation's comments on our report. Appendix I discusses the scope of our audit, including one area for which we reviewed and relied on the work of an independent public accountant under contract to the Corporation's Inspector General. The Corporation's written comments on a draft of this report are included in appendix III.

Significant Matters

The following information discusses

- our concerns about the long-term viability of the Single-Employer Fund;
- limitations on the reliability of the Multiemployer Fund's liability for future financial assistance; and
- weaknesses in employee benefit plan audits and reporting.

Concerns About the Long-Term Viability of the Single-Employer Fund

The Single-Employer Fund is able to meet its near-term benefit obligations, as presently premium receipts exceed benefit payments, and the fund ended the fiscal year with \$5.9 billion in investments and cash. However, the fund's unfunded \$2.7 billion deficit represents a shortfall in assets needed to fully satisfy the Corporation's benefit liabilities for terminated plans and for those plans considered likely to terminate. In addition to the losses recorded in the financial statements and reflected in the unfunded deficit as of September 30, 1992, the Corporation disclosed \$12 billion to \$20 billion in estimated unfunded liabilities in single-employer plans which represent reasonably possible future losses.

The Single-Employer Fund's long-term viability is also affected by (1) pension funding standards which do not ensure that sponsors contribute enough assets to fund benefits should the plan terminate and (2) a premium structure that is not fully risk-related. These conditions limit the Corporation's ability to control or manage its exposure from underfunded plans should plan sponsors be unable to meet their pension obligations. The Employee Retirement Income Security Act of 1974 (ERISA), which created the pension insurance program, established funding standards for insured plans but enabled benefits to become guaranteed prior to being funded by plan sponsors. This timing difference between benefit guarantee and funding has contributed, in large measure, to the Corporation's exposure should plans terminate without sufficient assets to pay guaranteed benefits. While the effect of this timing difference has been reduced by congressional action—most recently in 1987—to strengthen minimum funding standards, many plans that were underfunded when ERISA was enacted remain underfunded.

The Single-Employer Fund's premium structure further limits the Corporation's ability to manage the risk posed by underfunded plans because premiums paid by underfunded plans do not fully cover the risks their underfunding represents. In 1987, the Congress modified the Single-Employer Fund's basic flat-rate premium structure by adding a supplemental variable rate premium which, for the first time, linked premiums to the amount of plan underfunding. The variable rate premium is based on the plan's reported unfunded vested liability, which is adjusted

for a common interest rate, rather than the specific unfunded liability the fund assumes if a plan terminates. However, as recently reported,¹ the Single-Employer Fund often assumes a substantially larger liability on termination than last measured and reported by the plans. Also, the variable rate premium is subject to a maximum dollar amount which limits its effectiveness in covering the risk posed by severely underfunded plans.

Limited Reliability of the Multiemployer Fund's Liability for Future Financial Assistance

The Corporation did not consider whether liabilities associated with certain financially troubled multiemployer plans should have been recognized in the financial statements even though the plans may ultimately require financial assistance. Because the Corporation had not considered the liability exposure and did not have evidence about the financial condition of these plans, we could not determine whether any liability should have been recognized for them. Although the total assistance ultimately required for these plans could be material to the Multiemployer Fund's reported \$60 million liability for future financial assistance as of September 30, 1992, we believe that such assistance, if required, would not significantly affect the overall soundness of the multiemployer program.

Even with an assessment process that adequately considered and recognized the Multiemployer Fund's exposure to liabilities for future financial assistance, the process would be subject to material uncertainties, the effects of which cannot presently be determined. Identifying multiemployer plans which are likely to require future assistance and estimating the amount of such assistance require consideration of many complex factors. These factors, which include the future financial condition of the plans and their multiple sponsors, will be affected by future events, most of which are beyond the Corporation's control. Given these uncertainties, the amount of liabilities for future financial assistance that ultimately results may differ materially from the amounts recorded and disclosed.

Weaknesses in Employee Plan Audits and Reporting

Weaknesses in the scope and quality of employee benefit plan audits and the lack of plan reporting on internal controls reduce their effectiveness in safeguarding the interests of plan participants and the government. The Department of Labor is responsible, under ERISA, for establishing reporting and disclosure requirements and monitoring ongoing employee benefit

¹Pension Plans: Hidden Liabilities Increase Claims Against Government Insurance Program (GAO/HRD-93-7, December 30, 1992).

plans, which include defined benefit pension plans insured by the Corporation.

Reviews of independent public accountants' audits of employee benefit plans found weaknesses in both the quality and scope of plan audits so severe that their reliability and usefulness were questionable.² ERISA allows plan administrators to limit the scope of plan audits by excluding plan assets held by certain regulated institutions from the scope of the auditor's work. Thus, the auditor provides little or no assurance about the existence, ownership, or value of those assets. In addition, plan auditors are not explicitly required to check the accuracy and completeness of a plan's pension insurance premium filings or of the actual premium payments made to the Corporation. Finally, while plan administrators are responsible for establishing sound internal controls and for complying with applicable laws and regulations, neither plan administrators nor plan auditors are required, by ERISA, to report to regulators and participants on the effectiveness of internal controls. In our April 1992 report (GAO/AFMD-92-14), we recommended that the Congress eliminate ERISA's limited scope audit provision and require plan administrators and auditors to report on internal controls. As of the end of July 1993, the Congress had not yet acted on these recommendations.

Material Internal Control Weaknesses

As of September 30, 1992, the Corporation had made considerable progress in improving internal controls affecting its financial reporting. Most notably, the Corporation had developed and implemented various valuation systems and internal controls surrounding its process for estimating its benefit liability. Because of this progress, we were able, for the first time, to audit and express an opinion on the Corporation's statements of financial condition. However, material weaknesses³ remain in the Corporation's internal control structure. Our audit found

- weaknesses in financial systems and in the implementation of other internal controls,

²These reviews are discussed in *Employee Benefits: Improved Plan Reporting and CPA Audits Can Increase Protection Under ERISA* (GAO/AFMD-92-14, April 9, 1992) and *Changes Are Needed in the ERISA Audit Process To Increase Protection for Employee Benefit Plan Participants*, U.S. Department of Labor, Office of Inspector General, 09-90-001-12-001 (Washington, D.C.: November 9, 1989).

³A material weakness is a reportable condition in which the design or operation of the internal controls does not reduce to a relatively low level the risk that losses, noncompliance, or misstatements in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of their assigned duties.

- an inadequate assessment of the Multiemployer Fund's liability for future financial assistance, and
- inadequate controls over the input of nonfinancial participant data.

These material weaknesses existed during the fiscal year because the Corporation either had not completed actions to address previously recognized weaknesses or had not previously recognized the nature and extent of the weaknesses. Financial system and reporting control weaknesses existed as of September 30, 1992, because the Corporation had not fully implemented key controls intended to compensate for its lack of financial system integration. Similarly, the weaknesses in controls over participant data existed because various quality improvement efforts had not been completed by the end of the fiscal year. In contrast, the Corporation had not previously recognized the weaknesses with the Multiemployer Fund's assessment of future liabilities and, thus, had not yet initiated corrective actions.

Except for the Multiemployer Fund's liability for future financial assistance, discussed earlier, we were able to satisfy ourselves, through substantive audit procedures, that these weaknesses did not have a material effect on the September 30, 1992, statements of financial condition of the Single-Employer and Multiemployer Funds. However, these weaknesses could result in misstatements in future financial statements and other financial information if not corrected by management. These weaknesses, described below, potentially have an adverse impact on management decisions which are based, in whole or in part, on information whose accuracy is affected by the deficiencies. Unaudited financial information reported by the Corporation, including budget information, also may contain misstatements resulting from these deficiencies.

Weaknesses in Financial Systems and Internal Control Implementation

Weaknesses in financial systems and in the implementation of internal controls present an unacceptable risk to the Corporation that material misstatements may occur in the funds' financial statements and not be detected promptly by the Corporation.

- The Corporation's primary and subsidiary financial systems generally are not integrated and thus are unable to share data. This lack of system integration has resulted in overreliance on personal computers (PC) that often requires redundant data entry to accomplish complex fund allocations, summarize financial information, and prepare financial

statements and reports. Such processes, which occur outside traditional computer controls and without adequate compensating controls and supervisory review, increase the risk that financial information may be misstated.

- The Corporation had no established methodologies or organizational standards to govern the consistent development or modification of computer application systems and related controls. In addition, the Corporation did not effectively utilize its security software to limit access to application systems or to promptly detect unauthorized access.
- Faced with continuing premium accounting system deficiencies, the Corporation used stopgap measures to conduct a targeted premium billing and collection process. This temporary labor-intensive process was used to generate bills and collect amounts owed for certain past-due premiums, interest, and penalties. However, we found that the process was inefficient and prone to error and required intense managerial oversight.
- To varying degrees at fiscal year-end, the Corporation was still developing, documenting, and implementing significant internal controls designed to strengthen its annual financial reporting process. For example, policies and procedures governing revolving fund asset and income allocations, recognition of contingent liabilities for future plan terminations, and several other key areas were still in draft and under review. Also, the Corporation's efforts through fiscal year-end to collect premium-related amounts had not identified each of the plans and related amounts owed for premiums, interest, and penalties. Completing the development and implementation of these financial reporting controls will improve the reliability of the Corporation's annual financial statements. In addition, performing these controls more often than annually, as part of a regular process to prepare interim financial statements, should help make them part of the Corporation's operating culture and, in the process, improve the reliability of the Corporation's interim financial information.

In combination, the Corporation's systems and internal control weaknesses significantly increase the risk that errors and misstatements may occur in accounting and financial reporting and not be detected by the Corporation. Our work found misstatements, some of which were material, resulting from incorrect asset and income allocations and errors associated with redundant data entry. These misstatements necessitated adjustments to the Corporation's previously issued, but unaudited, fiscal year 1992 and 1991 financial statements.

Limited Assessment of the Multiemployer Fund's Liability for Future Assistance

The Corporation did not adequately assess the Multiemployer Fund's liability for future financial assistance. The Corporation considered recognizing a liability and related loss provision for future financial assistance only for plans that were presently receiving financial assistance or had notified the Corporation of their pending insolvency. This approach prevented the Corporation from fully considering the fund's exposure to future liabilities because it overlooked other financially troubled multiemployer plans, identified during our audit, which may require future financial assistance. We also found little evidence of supervisory review of the Corporation's assessment process and its results.

We performed audit procedures designed to identify and assess the fund's potential exposure from underfunded multiemployer plans that were not considered in the Corporation's assessment. Our work resulted in material adjustments to the previously reported liability and related disclosures which have been reflected in the accompanying Multiemployer Fund's financial statements. However, as noted earlier, we were unable to obtain financial information on certain remaining financially troubled multiemployer plans and, as a result, qualified our opinion on the fund's statement of financial condition because of the potential material effect these plans may ultimately have on the reported liability for future financial assistance as of September 30, 1992.

Inadequate Controls Over Participant Data

Data input controls did not assure that accurate nonfinancial participant data were used by the Corporation to value its fiscal year-end benefit liabilities for participants in certain terminated plans. Inaccurate nonfinancial data can adversely affect the precision of the Corporation's annual benefit valuation.

In processing a terminated pension plan, the Corporation obtains nonfinancial participant data (such as social security number and dates of birth and employment) and uses the data, in conjunction with other information, to initially determine participants' guaranteed benefits. Once benefits and the nonfinancial data are determined, the data are entered into an automated data base—Pension and Lump Sum (PLUS) system—which is used in responding to participant inquiries and in administering other benefit services. The Corporation uses this system data, annually, to value its benefit liability for participants whose data have been entered in the PLUS system.

Internal controls over the initial input of nonfinancial participant data into actuarial worksheets and then later into the PLUS system did not assure that accurate data are entered and used in calculating the Corporation's liability for future benefits. The Corporation did not verify that the nonfinancial participant data were accurately entered on actuarial worksheets which are used to calculate a plan's final termination liability. Inaccurate data can delay this final calculation because of the need to recalculate benefit liabilities after errors in nonfinancial data are detected and corrected. In addition, the Corporation did not verify that the nonfinancial participant data were accurately entered into and updated on the PLUS system. Inaccurate data maintained on the PLUS system can reduce the precision of the Corporation's fiscal year-end liability valuation.

This weakness and related recommendations are discussed further in the Pension Benefit Guaranty Corporation Inspector General Report No. 93-6/23069-1. The report's recommendations, with which we concur, are directed at strengthening the verification of participant data and the input and edit controls over participant data maintained in the PLUS system.

Opinion on Fiscal Year 1992 Statements of Financial Condition and Disclaimer of Opinion on Other Financial Statements

The accompanying statements of financial condition, including the related notes, present fairly, in all material respects, the financial position of the Single-Employer and Multiemployer Funds as of September 30, 1992, in accordance with generally accepted accounting principles, with the exception of the Multiemployer Fund's liability for future financial assistance, for which we could not determine whether the reported amounts are reliable.

The scope of our work was limited to the September 30, 1992, statements of financial condition of the Single-Employer and Multiemployer Funds. In our prior audits, most recently fiscal year 1991, we were unable to express an opinion on the Corporation's financial statements.⁴ Because the amounts in the September 30, 1991, statements of financial condition materially affect the determination of the results of operations and cash flows for fiscal year 1992, we were unable to express an opinion on any financial statements presented other than the statements of financial condition as of September 30, 1992, or on the consistent application of generally accepted accounting principles between years.

⁴Financial Audit: System and Control Problems Further Weaken the Pension Benefit Guaranty Fund (GAO/AFMD-92-1, November 13, 1991) and Financial Audit: Pension Benefit Guaranty Corporation's 1991 and 1990 Financial Statements (GAO/AFMD-92-35, March 2, 1992).

Misstatements may occur in other financial information reported by the Corporation as a result of the internal control weaknesses previously described. In this regard, the accompanying financial statements have been revised from the unaudited statements previously issued by the Corporation to reflect adjustments resulting from our audit of the September 30, 1992, statements of financial condition, as discussed in note 17 to the financial statements.

Opinion on Internal Controls

We evaluated whether the Corporation's internal controls, in effect on September 30, 1992, provided reasonable assurance that losses, noncompliance, or misstatements, material in relation to the financial statements, would be prevented or detected. Specifically, the controls we evaluated were those designed to

- safeguard assets against loss from unauthorized use or disposition;
- assure the execution of transactions in accordance with management authority and with laws and regulations; and
- properly record, process, and summarize transactions to permit the preparation of financial statements in accordance with generally accepted accounting principles and to maintain accountability for assets.

Because of the material weaknesses in internal controls previously described, internal controls did not provide reasonable assurance that the Corporation properly recorded, processed, and summarized transactions to permit the preparation of financial statements in accordance with generally accepted accounting principles and to maintain accountability among funds. However, controls in effect on September 30, 1992, provided reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authority and with significant provisions of selected laws and regulations.

Reportable Conditions

Our audit also identified the following reportable conditions which, although not considered to be material, represent significant deficiencies in the design or operation of the Corporation's internal controls and should be corrected.

1. The Corporation did not have controls designed to audit or test the financial information of multiemployer plans to assure that (1) requests for financial assistance were properly calculated and adequately supported,

and (2) funds provided were actually used to pay guaranteed benefits and related expenses.

2. The Corporation's controls over documentation supporting PLUS system data were inadequate. In many cases, the Corporation was unable to provide documentation supporting the nonfinancial participant data entered in the PLUS system. In addition, the Corporation was not always able to demonstrate that procedures designed to support the accuracy of data recorded in the PLUS system were performed. Without proper supporting documentation, it is not possible to test the accuracy of data maintained in the PLUS system and used to value the Corporation's liability for terminated plans.

3. The Corporation's monitoring of field benefit administrators has been sporadic and limited. Field benefit administrators provide contract support services, such as creating participant files and corresponding with participants. The Corporation did not consistently review the reconciliations of financial benefit data between field benefit administrators and the Corporation's benefit payment agent and promptly resolve differences identified. Since the Corporation relies heavily on contractors to perform many participant services, it is essential that proper internal controls over the activities of field benefit administrators be in place and that the Corporation periodically monitor their effectiveness.

The reportable conditions dealing with controls over the Corporation's support for PLUS data and oversight of field benefit administrators are discussed further in the Pension Benefit Guaranty Corporation Inspector General Report No. 93-6/23069-1. The report includes recommendations, with which we concur, directed at improving the Corporation's ability to (1) provide documentary support for participant data and (2) review and monitor the activities of field benefit administrators.

Compliance With Laws and Regulations

Our tests of compliance with significant provisions of selected laws and regulations disclosed no material instances of noncompliance. Also, nothing came to our attention in the course of our other work to indicate that material noncompliance with such provisions occurred.

Recommendations

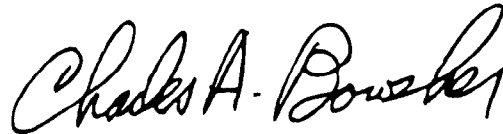
To strengthen financial systems and corporate-wide financial accounting and reporting controls, we recommend that the Corporation's Executive Director direct the Chief Financial Officer to

- establish controls over the development and use of PC-based accounting applications,
- require the use of security access software to limit and detect unauthorized access to computerized application software,
- implement a formal system methodology to govern the consistent development and modification of computerized application systems and controls,
- implement a financial system improvement plan which effectively utilizes integrated financial systems to address current and anticipated information requirements,
- require the preparation of financial statements more frequently than annually,
- implement a formal process that uses current and accurate financial information to (1) monitor all financially troubled multiemployer plans and (2) determine the fund's current financial exposure from those financially troubled plans that are likely to require future financial assistance,
- implement a process for audits and/or other tests of financial information of multiemployer plans requesting future financial assistance to provide reasonable assurance that the amounts provided are actually needed and used to pay guaranteed benefits and related expenses, and
- implement the Inspector General's recommendations on strengthening internal controls over participant data and field benefit administrators as reported in Inspector General Report No. 93-6/23069-1.

Agency Comments and Our Evaluation

Commenting on a draft of this report, the Corporation's Executive Director agreed with our findings and recommendations. The Executive Director's written comments, provided in appendix III, discuss various efforts, many of which are ongoing, intended to address the reported material weaknesses and reportable conditions and respond to our

recommendations. We plan to evaluate the adequacy and effectiveness of these efforts as part of our follow-up audits of the Corporation's financial statements.

A handwritten signature in black ink, reading "Charles A. Bowsher". The signature is written in a cursive, flowing style with a large initial "C".

Charles A. Bowsher
Comptroller General
of the United States

July 30, 1993

Objectives, Scope, and Methodology

The Corporation's management is responsible for

- preparing the annual financial statements of the two funds in conformity with generally accepted accounting principles,
- establishing and maintaining internal controls and systems to provide reasonable assurance that the internal control objectives discussed earlier are met, and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the September 30, 1992, statements of financial condition are free of material misstatement and presented fairly in conformity with generally accepted accounting principles and (2) relevant internal controls are in place and operating effectively. We are also responsible for testing compliance with significant provisions of selected laws and regulations.

In fulfilling these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the statements of financial condition of each of the two funds;
- assessed the accounting principles used and significant estimates made by the Corporation's management;
- evaluated the overall presentation of the statements of financial condition of each of the two funds;
- evaluated and tested relevant internal controls over the following areas:
 - present value of future benefits,
 - benefit determinations,
 - present value of nonrecoverable future financial assistance,
 - financial reporting,
 - investments and treasury,
 - premium receivables,
 - other assets,
 - other liabilities, and
 - budget accounting.
- evaluated and tested compliance with significant provisions of the Employee Retirement Income Security Act of 1974, as amended, and the Chief Financial Officers Act. The provisions selected for testing included, but were not limited to, those relating to:
 - premiums and the assessment of related interest and penalties;
 - availability of, accounting for, and use of funds;
 - benefit guarantees and financial assistance; and

- the preparation and issuance of financial statements and management reports.

We also conducted tests of compliance with the Anti-Deficiency Act that were limited to comparing the Corporation's recorded payments to related authorized limitations on certain payments and apportionments.

In fulfilling our responsibilities, we have relied on audit work performed by an independent public accounting firm under the direction of the Corporation's Inspector General. The scope of this work, performed in conjunction with our audit, included an audit of the Corporation's liabilities for future benefits on terminated plans and related internal controls and compliance. We worked with the Inspector General to establish the scope of the this work. We reviewed the work and concur with its scope, opinions, conclusions, and recommendations which are presented in Inspector General Report No. 93-6/23069-1.

We limited our work to accounting and other controls necessary to achieve the objectives outlined in our opinion on internal controls. Because of inherent limitations in any system of internal control, losses, noncompliance, or misstatements may nevertheless occur and not be detected. We also caution that projecting our favorable evaluation of controls related to safeguarding of assets, execution of transactions in accordance with management authority, and compliance with laws and regulations to future periods is subject to the risk that controls may become inadequate because of changes in conditions or the degree of compliance with controls may deteriorate.

Our audit was conducted pursuant to provisions of 31 U.S.C. 9105, as amended, and in accordance with generally accepted government auditing standards. We believe our audit provides a reasonable basis for our opinions.

Financial Statements

Statements of Financial Condition (Restated)

Pension Benefit Guaranty Corporation

Statements of Financial Condition (Restated)

(Dollars in millions)	Single-Employer Fund		Multiemployer Fund		Memorandum Total	
	September 30,		September 30,		September 30,	
	1992 Audited	1991 Unaudited	1992 Audited	1991 Unaudited	1992	1991
Assets						
Investments, at market (Note 3):						
Fixed maturity securities	\$4,065	\$3,112	\$267	\$213	\$4,332	\$3,325
Equity securities	1,235	1,092	3	3	1,238	1,095
Real estate	106	91	0	0	106	91
Other	253	35	0	0	253	35
	<u>5,659</u>	<u>4,330</u>	<u>270</u>	<u>216</u>	<u>5,929</u>	<u>4,546</u>
Cash and cash equivalents	238	232	9	20	247	252
Receivables, net						
Due from sponsors of terminated plans	102	20	0	0	102	20
Due from sponsors of restored plans (Note 8)	17	11	0	0	17	11
Premiums	47	17	1	0	48	17
Notes--financial assistance (Note 4)			0	0	0	0
Due from sale of securities	86	53	0	0	86	53
Lease receivable (Note 4)	116	0	0	0	116	0
Due from insurance companies	0	178	0	0	0	178
Accrued investment income	40	28	3	2	43	30
Other	3	3	0	0	3	3
	<u>411</u>	<u>310</u>	<u>4</u>	<u>2</u>	<u>415</u>	<u>312</u>
Assets of terminated plans pending trusteeship, at market, net (Note 3)	73	550	0	0	73	550
Total assets	\$6,381	\$5,422	\$283	\$238	\$6,664	\$5,660

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

**Appendix II
Financial Statements**

Pension Benefit Guaranty Corporation

Statements of Financial Condition (Restated)

(Dollars in millions)	Single-Employer Fund		Multiemployer Fund		Memorandum Total	
	September 30, 1992 1991		September 30, 1992 1991		September 30, 1992 1991	
	Audited	Unaudited	Audited	Unaudited		
Liabilities						
Present value of future benefits, net (Note 5):						
Trusteed plans	\$7,553	\$5,381	\$13	\$16	\$7,566	\$5,397
Plans pending trusteeship	210	1,437	0	0	210	1,437
Net claims for probable terminations	1,027	776	0	0	1,027	776
	<u>8,790</u>	<u>7,594</u>	<u>13</u>	<u>16</u>	<u>8,803</u>	<u>7,610</u>
Present value of nonrecoverable future financial assistance (Note 6)			60	52	60	52
Unearned premiums	204	197	7	7	211	204
Accounts payable and accrued expenses (Note 7)	124	134	0	0	124	134
Commitments and contingencies (Notes 5, 6, 8, and 9)						
Total liabilities	<u>9,118</u>	<u>7,925</u>	<u>80</u>	<u>75</u>	<u>9,198</u>	<u>8,000</u>
Equity						
Accumulated results of operations (deficit)	(2,737)	(2,503)	203	163	(2,534)	(2,340)
Total liabilities and equity	<u>\$6,381</u>	<u>\$5,422</u>	<u>\$283</u>	<u>\$238</u>	<u>\$6,664</u>	<u>\$5,660</u>

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

**Appendix II
Financial Statements**

Statements of Operations and Changes in Equity (Restated) –Unaudited

Pension Benefit Guaranty Corporation

**Statements of Operations and Changes in Equity (Restated)
Unaudited**

	<u>Single-Employer Fund</u>		<u>Multiemployer Fund</u>		<u>Memorandum Total</u>	
(Dollars in millions)	September 30, 1992 1991		September 30, 1992 1991		September 30, 1992 1991	
Underwriting:						
Income:						
Premium income (Note 10)	\$ 875	\$ 741	\$ 23	\$ 23	\$ 898	\$ 764
Other income (Note 11)	118	45	1	1	119	46
Total	<u>993</u>	<u>786</u>	<u>24</u>	<u>24</u>	<u>1,017</u>	<u>810</u>
Expenses:						
Losses from completed and probable terminations (Note 12)	896	1,049	0	0	896	1,049
Losses from financial assistance (Note 6)			12	21	12	21
Administrative expenses	90	64	0	0	90	64
Other expenses	0	212	0	0	0	212
Actuarial adjustments (Note 5)	(256)	(35)	(1)	1	(257)	(34)
Total	<u>730</u>	<u>1,290</u>	<u>11</u>	<u>22</u>	<u>741</u>	<u>1,312</u>
Underwriting income (loss)	<u>263</u>	<u>(504)</u>	<u>13</u>	<u>2</u>	<u>276</u>	<u>(502)</u>
Financial:						
Income:						
Fixed (Note 13)	441	537	27	37	468	574
Equity (Note 13)	106	304	0	1	106	305
Other	67	19	0	0	67	19
Total	<u>614</u>	<u>860</u>	<u>27</u>	<u>38</u>	<u>641</u>	<u>898</u>
Expenses:						
Investment expenses	7	7	0	0	7	7
Actuarial charges (credits) (Note 5):						
Due to passage of time	427	427	(1)	1	426	428
Due to change in interest rates	677	513	1	1	678	514
Total	<u>1,111</u>	<u>947</u>	<u>0</u>	<u>2</u>	<u>1,111</u>	<u>949</u>
Financial income (loss)	<u>(497)</u>	<u>(87)</u>	<u>27</u>	<u>36</u>	<u>(470)</u>	<u>(51)</u>
Net income (loss)	<u>(234)</u>	<u>(591)</u>	<u>40</u>	<u>38</u>	<u>(194)</u>	<u>(553)</u>
Accumulated results of operations beginning of period (deficit)	<u>(2,503)</u>	<u>(1,912)</u>	<u>163</u>	<u>125</u>	<u>(2,340)</u>	<u>(1,787)</u>
Accumulated results of operations end of period (deficit)	<u><u>\$(2,737)</u></u>	<u><u>\$(2,503)</u></u>	<u><u>\$203</u></u>	<u><u>\$163</u></u>	<u><u>\$(2,534)</u></u>	<u><u>\$(2,340)</u></u>

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

**Appendix II
Financial Statements**

Statements of Cash Flows (Restated)—Unaudited

Pension Benefit Guaranty Corporation

**Statements of Cash Flows (Restated)
Unaudited**

	<u>Single-Employer Fund</u>		<u>Multiemployer Fund</u>		<u>Memorandum Total</u>	
	<u>September 30,</u>		<u>September 30,</u>		<u>September 30,</u>	
(Dollars in millions)	1992	1991	1992	1991	1992	1991
Operating Activities:						
Premium receipts	\$ 873	\$ 785	\$ 22	\$ 22	\$ 895	\$ 807
Benefit payments - insured plans	(626)	(478)	(2)	(2)	(628)	(480)
Interest received, net	215	173	9	24	224	197
Cash received from plans upon trusteeship	18	249	0	0	18	249
Receipts of due from sponsors	35	74	0	0	35	74
Receipts of loans receivable	29	0	0	0	29	0
Advances to LTV, net	0	(31)	0	0	0	(31)
Financial assistance payments	0	0	(4)	(2)	(4)	(2)
Payments for administrative and other expenses	(85)	(69)	0	0	(85)	(69)
Net cash provided by operating activities	459	703	25	42	484	745
Investing Activities:						
Proceeds from sales of investments	4,208	6,403	82	119	4,290	6,522
Payments for purchases of investments	(4,661)	(7,088)	(118)	(157)	(4,779)	(7,245)
Net cash used in investing activities	(453)	(685)	(36)	(38)	(489)	(723)
Net change in cash and cash equivalents	6	18	(11)	4	(5)	22
Cash and cash equivalents, beginning of year	232	214	20	16	252	230
Cash and cash equivalents, end of year	\$ 238	\$ 232	\$ 9	\$ 20	\$ 247	\$ 252

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

Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS ¹
SEPTEMBER 30, 1992 AND 1991

Note 1 -- Organization and Purpose

The Pension Benefit Guaranty Corporation (PBGC) insures pensions, within statutory limits, of participants in covered single-employer and multiemployer defined benefit pension plans that meet the criteria specified in Section 4021 of the Employee Retirement Income Security Act of 1974 (ERISA).

PBGC is a federal corporation subject to the provisions of the Government Corporation Control Act. PBGC was created by Title IV of ERISA. Its activities are defined in ERISA as amended by the Multiemployer Pension Plan Amendments Act of 1980 (MPPAA), the Single-Employer Pension Plan Amendments Act of 1986 (SEPPAA), and Title IX of the Omnibus Budget Reconciliation Act of 1987.

ERISA requires that the PBGC programs be self-financing. The Corporation finances its operations through premiums collected from covered plans, assets assumed from terminated plans, the collection of employer liability payments due under ERISA as amended, and investment income. In addition, PBGC may borrow up to \$100 million from the U.S. Treasury to finance its operations. The Corporation did not use this borrowing authority during the years ended September 30, 1992, or September 30, 1991, nor is use of this authority currently planned. ERISA provides that the U.S. Government is not liable for any obligation or liability incurred by PBGC.

Under the single-employer plan insurance program, PBGC is liable for the payment of guaranteed benefits only with respect to underfunded terminated plans. An underfunded plan may terminate only if PBGC finds that one of the four conditions for a distress termination is met or if PBGC involuntarily terminates a plan under one of four specified statutory tests. The net liability assumed by PBGC is generally equal to the present value of the future benefits less (1) the amounts that are provided by the plan's assets and (2) the amounts that are recoverable by PBGC from the plan sponsor and members of the plan sponsor's controlled group, as defined by ERISA.

Under the multiemployer plan insurance program, if a plan becomes insolvent, it receives financial assistance from PBGC to allow the plan to pay participants their guaranteed benefits. Such assistance is recognized as a loss to the extent the plan is expected to be unable to repay it from future plan contributions.

Note 2 -- Significant Accounting Policies

Certain items on the 1991 financial statements have been reclassified to conform with present year classifications.

¹ Information in the notes to financial statements related to balances presented in the 1992 statements of financial condition has been audited. All other information in the notes to the financial statements is unaudited.

Appendix II
Financial Statements

Valuation Method: PBGC reports its assets and liabilities on a market basis because PBGC believes that this provides the most realistic measure of its financial condition and that it is the most appropriate basis on which to evaluate its performance. If PBGC did not value its assets at market, the deficit would be \$764 million higher.

Revolving and Trust Funds: PBGC accounts for each insurance program's revolving and trust funds on an accrual basis. The revolving and trust funds each pay a pro rata portion of the benefits paid each year. The revolving and trust funds have been combined for presentation purposes in the financial statements. The single-employer and multiemployer programs are separate entities by law and, therefore, are reported separately.

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

The trust funds reflect accounting activity associated with: (1) trustee plans--plans for which PBGC has legal responsibility, (2) plans pending trusteeship--terminated plans for which PBGC has not become legal trustee by fiscal yearend, and (3) probable terminations--plans that PBGC expects will terminate and incur a loss for PBGC. PBGC cannot exercise control over the assets of plans until it becomes trustee, which may be several years after the date of plan termination.

Allocation of Revolving and Trust Funds: Total revolving and trust fund investment assets and the earnings on those investment assets are allocated to each insurance program's revolving and trust funds to the extent that such amounts are not directly attributable to a specific fund. Revolving fund investment earnings are allocated on the basis of each program's average cash available for investment during the year. Total ending revolving fund investment assets are allocated on the basis of the ending equity of each program's revolving funds. The plan assets acquired by PBGC and commingled at the PBGC's custodian bank, as well as the earnings on the commingled investment 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.

Asset Valuation and Investment Income: Market values are based on the last sale of a listed security, on the mean of the "bid-and-asked" for nonlisted securities, and on a valuation model in the case of fixed-income securities that are not actively traded. Purchases and sales of securities are recorded on the trade date. Investment income is accrued as earned. Dividend income is recorded on the ex-dividend date. Realized gains and losses on sales of investments are calculated using average cost (see Notes 3 and 13.)

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

Due from Sponsors of Terminated Plans: The amount due from sponsors of terminated plans is the settled claims for employer liability (underfunding as of plan termination) and for contributions due from sponsors less an allowance for uncollectible amounts. Some agreements between PBGC and plan sponsors provide for contingent payments based on future profits of the debtors. Any such future amounts realized will be reported in the period in which they accrue or are paid.

Premiums: Premiums receivable represent the earned portion of the premium for plans that have a plan year commencing before the end of PBGC's fiscal year but have not paid their premium by fiscal yearend and past due premiums deemed collectible, including collectible penalties and interest. Unearned premiums represent an estimate of payments received during the fiscal year that cover the portion of a plan's year after the Corporation's fiscal yearend (see Note 10). Premium income represents revenue generated from self-assessments received from defined benefit pension plans as required by Title IV of ERISA.

Notes--Financial Assistance and Present Value of Nonrecoverable Future Financial Assistance: Under the multiemployer program, financial assistance is recorded as a receivable, net of an allowance for uncollectibility determined on a case-by-case basis. The liability for estimated future financial assistance is for nonrecoverable future payments that PBGC deems to be probable and estimable for multiemployer plans that have notified the Corporation of their financial difficulties or whose financial condition makes it likely that PBGC will need to provide financial assistance in the future (see Notes 4 and 6). The amount reflects the rates at which these liabilities could be settled in the market for single-premium nonparticipating annuities issued by private insurers.

Present Value of Future Benefits (PVFB): The PVFB is the liability for future pension benefits that PBGC is or will be obligated to pay with respect to trustee plans and plans pending trusteeship. For financial statement purposes, the estimated liabilities attributable to probable future plan terminations is also included in the PVFB. The PVFB liability is stated as the actuarial present value of estimated future benefits less the present value of expected recoveries from sponsors. To measure the actuarial present value, PBGC used assumptions to adjust the value of those future payments to reflect the time value of money (by discounting) and the probability of payment (by means of decrements, such as for death, retirement, or disability). PBGC also included anticipated expenses to settle the benefit obligation in the determination of the PVFB.

- (1) **Trusteed Plans**--represents the present value of future payments of benefits less the present value of expected recoveries, for which an agreement has not been reached, from sponsors of plans that have terminated and been trustee by PBGC prior to fiscal yearend.
- (2) **Plans Pending Trusteeship**--represents the present value of future payments of benefits less the present value of expected recoveries, for which an agreement has not been reached, from sponsors of plans that have terminated but not been trustee by PBGC prior to fiscal yearend. Any changes after the date of plan termination in the amounts for trustee plans and terminated plans pending trusteeship are reported as an actuarial charge (credit) in the Statements of Operations and Changes in Equity.
- (3) **Net Claims for Probable Terminations**--includes estimates of the losses, net of plan assets and estimated recoverable employer liability, from plans that were expected to terminate based on the occurrence of an identifiable event by yearend and the expectation that the distress tests will be met or PBGC itself will seek termination of the plan (see Note 5).

Losses from Completed and Probable Terminations: Amounts reported as losses from completed and probable terminations on the Statements of Operations and Changes in Equity represent the difference 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 estimated employer liability (see Note 12).

Actuarial Charges: Actuarial charges, credits, and adjustments are allocated in the Statements of Operations as follows: Actuarial charges (credits) related to changes in method, changes in data, and the effect of experience are classified as underwriting activity. Actuarial charges (credits) related to changes in interest rates and passage of time are classified as financial activity. These charges, credits, and adjustments represent the change in the PVFB that results from applying actuarial assumptions in the calculation of future benefit liabilities.

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

Note 3 – Investments

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

The trust funds include assets PBGC acquires or expects to acquire from terminated plans, missed contributions, employer liability, and investment income thereon. These assets are held by a custodian bank and are invested in equity securities, fixed-income securities, and real estate pooled funds.

The basis and market value of the investments by type are detailed below. The basis indicated is cost of the asset if acquired after the date of plan termination or the market value at date of plan termination if the asset was acquired as a result of a plan's termination.

**Appendix II
Financial Statements**

**Investments of Single-Employer Revolving Funds and Single-Employer Trusteed Plans
(Dollars in millions)**

	September 30,		September 30,	
	1992		1991	
			Unaudited	
	Basis	Market Value	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	\$3,299	\$3,642	\$2,565	\$2,760
Commercial paper	3	3	2	2
Corporate bonds	393	420	333	350
Subtotal	3,695	4,065	2,900	3,112
Equities	908	1,235	862	1,092
Real estate funds	114	106	80	91
Insurance contracts	67	115	22	22
Mortgages	92	98	1	1
Foreign securities	38	40	11	12
Total	\$4,914	\$5,659	\$3,876	\$4,330

**Investments of Multiemployer Revolving Funds and Multiemployer Trusteed Plans
(Dollars in millions)**

	September 30,		September 30,	
	1992		1991	
			Unaudited	
	Basis	Market Value	Basis	Market Value
U.S. Government securities	\$239	\$267	\$196	\$213
Equities	3	3	2	3
Total	\$242	\$270	\$198	\$216

**Appendix II
Financial Statements**

**Investments of Single-Employer Terminated Plans Pending Trusteeship
(Dollars in millions)**

	September 30,		1991	
	1992		Unaudited	
	Basis	Market Value	Basis	Market Value
U.S. Government securities	\$13	\$13	\$ 5	\$ 5
Corporate bonds	2	2	25	25
Equities	23	23	366	371
Insurance contracts	27	18	5	5
Cash and equivalents	17	17	12	12
Other	0	0	132	132
Total	\$82	\$73	\$545	\$550

Note 4 -- Receivables, Net

**Receivables, Net: Notes--Financial Assistance
(Dollars in millions)**

	September 30,	
	1992	1991 Unaudited
Balance at beginning of year, net	\$0	\$0
Financial assistance advanced	4	2
Interest accrued and not paid	1	2
Allowance for uncollectible amounts	(5)	(4)
Net receivable	\$0	\$0

The lease receivable, which had a value of \$116 million at September 30, 1992, was sold for approximately \$125 million as of December 31, 1992.

Note 5 -- Present Value of Future Benefits

The following table summarizes the actuarial charges and credits that explain how the Corporation's Single-Employer Fund liability changed from September 30, 1991, to September 30, 1992. In 1992, PBGC changed its estimates by enhancing computer software used for the calculations and revised individual assumptions to better approximate the anticipated experience.

PBGC changed the interest assumptions used for the September 30, 1992, valuation from those prescribed in the Valuation of Plan Benefits regulation (29 CFR 2619) to a twenty-year select interest rate of 7.2% followed by an ultimate rate of 6.25%. These rates were determined as those needed to match the survey of insurance company prices provided by the American Council of Life Insurance (ACLI).

**Appendix II
Financial Statements**

PBGC changed the healthy life mortality table used from the UP84 mortality tables prescribed in the 29 CFR 2619 to the 1983 Group Annuity Mortality Table with margins (83GAM loaded). This is the most recent standard mortality table for group annuity business.

The administrative expense assumption was changed from an implicit reduction in the immediate interest rate to an explicit formula consisting of (1) an initial case processing cost of \$8,000 per plan (prorated over the first \$200,000 of liability) plus \$200 per plan participant, both of which costs are to be phased out over four years following the date of plan termination; and (2) a flat 1 percent of total plan liability. PBGC also derived this formula from the ACLI survey.

The total actuarial charge for changes in method decreased liabilities by \$328 million. Of this, \$299 million (or 4 percent of the PVFB at September 30, 1992) was due to the changes in assumptions described above.

Because PBGC has not yet completed experience studies on which to base a determination of best estimate assumptions, PBGC has relied on the assumptions generally incorporated in the pricing of private sector group annuities as its best estimate of each individual assumption. The resulting liability represents PBGC's best estimate of the measure of anticipated experience under these programs.

**Appendix II
Financial Statements**

**Reconciliation of the Present Value of Future Benefits for the Years Ended September 30, 1992, and September 30, 1991
(Dollars in millions)**

	September 30, 1992	1991 Unaudited
Single-Employer Program		
Present value of future benefits, at beginning of year, net	\$7,594	\$4,454
Estimated recovery	<u>251</u>	<u>336</u>
PVFB at beginning of year, gross	7,845	4,790
Net claims for probable terminations, prior year	(776)	(1,111)
Actuarial charges (underwriting):		
Changes in method	\$ (328)	\$ (19)
Changes in data and effect of experience	<u>72</u>	<u>(16)</u>
Total actuarial charges (underwriting)	(256)	(35)
Actuarial charges (financial):		
Passage of time	427	427
Changes in interest rate	<u>677</u>	<u>513</u>
Total actuarial charges (financial)	1,104	940
Total actuarial charges (credits)	848	905
Terminations:		
Current year	789	3,010
Changes in prior year	<u>(121)</u>	<u>(11)</u>
Total terminations	668	2,999
Benefit payments**	(634)	(514)
Estimated recoveries	(188)	(251)
Net claims for probable terminations:		
Future benefits	2,726*	1,552
Estimated plan assets available and recoveries from employers	<u>(1,699)</u>	<u>(776)</u>
Total net claims, current year	<u>1,027</u>	<u>776</u>
Present value of future benefits, at end of year -- Single-Employer, net	8,790	7,594
Present value of future benefits, at end of year -- Multiemployer	<u>13</u>	<u>16</u>
Total present value of future benefits, at end of year, net	\$8,803	\$7,610

* The future benefits amount of \$2,726 million for probable terminations includes \$26 million in net claims (future benefits less estimated plan assets and recoveries) for small probables not specifically identified.

** The benefit payment amounts of \$634 million and \$514 million include \$8 million and \$36 million for benefit payments of plans pending trusteeship for fiscal years 1992 and 1991, respectively.

**Appendix II
Financial Statements**

The present value of future benefits for terminated multiemployer plans reflects benefit payments of \$2 million, change in interest assumption of \$1 million, passage of time of \$(1) million, and changes in data and effect of experience of \$(1) million during 1992.

Net Claims for Probable Terminations: As these claims are estimates, factors that are presently not fully determinable may be responsible for actual experience differing from the estimates used. The values recorded in the following reconciliation table have been adjusted to the expected dates of termination.

Reconciliation of Net Claims for Probable Terminations
(Dollars in millions)

	1992	September 30, 1991 Unaudited
Net claims for probable terminations, at beginning of year	\$776	\$1,111
New claims	710	0
Actual terminations	(394)	(551)
Eliminated probabilities	(20)	(2)
Change in benefit liabilities	(43)	167
Change in plan assets	69	32
Change in expected recoveries	(71)	19
Net claims for probable terminations, at end of year	\$1,027	\$ 776

Note 6 -- Present Value of Nonrecoverable Future Financial Assistance and Losses from Financial Assistance

PBGC provides financial assistance to multiemployer plans that are insolvent as defined by the Multiemployer Pension Plan Amendments Act of 1980. The present value of nonrecoverable future financial assistance is based on the difference between the present value of future benefits and the market value of plan assets of those plans that are expected to require future nonrecoverable financial assistance. Assets include both the plan assets as of September 30, 1992, and the present value of future amounts expected to be paid by plan sponsors.

The losses from financial assistance include the estimated nonrecoverable future financial assistance and amounts recorded for uncollectible current financial assistance. An analysis is done each year of those plans that have received assistance to determine the required allowance for uncollectible amounts.

Present Value of Nonrecoverable Future Financial Assistance and Losses from Financial Assistance
(Dollars in millions)

	1992	September 30, 1991 Unaudited
Balance at beginning of year	\$52	\$33
Changes in allowance:		
Losses from financial assistance	12	21
Financial assistance granted (previously accrued)	(4)	(2)
Balance at end of year	\$60	\$52

**Appendix II
Financial Statements**

Note 7 -- Accounts Payable and Accrued Expenses

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

Accounts Payable and Accrued Expenses
(Dollars in millions)

	September 30,	
	1992	1991 Unaudited
Due for purchase of securities	\$ 83	\$114
Annual leave	2	2
Accrued expenses	39	18
Accounts payable and accrued expenses	\$124	\$134

Note 8 -- Contingencies

A. Collins and Page: The Collins and Page cases were brought against PBGC as separate class actions. Plaintiffs assert that PBGC should have guaranteed benefits in plans terminating before September 26, 1980, that were vested or otherwise required under the minimum standards in Title I of ERISA but not under plan terms and that such benefits are fully guaranteeable rather than subject to phase-in over a five-year period. (Legislation that took effect on September 26, 1980, resolved the issue for future cases.) The two cases have been consolidated and the district court certified a nationwide class that may include participants in up to 12,000 terminated plans. In February 1991, the district court ruled in PBGC's favor, but, in July 1992, the court of appeals reversed and remanded for a "first instance decision" by PBGC's Board of Directors. Following that decision, plaintiffs sought discovery of materials outside the administrative record. On April 23, 1993, the district court granted motions to quash and for a protective order, thereby denying that discovery. The Board's decision, issued December 7, 1992, upheld the denial of the guarantee in these cases. These cases could have a material financial impact on PBGC's single-employer program. The potential cost to PBGC, including substantial administrative costs, is estimated at approximately \$300 million.

B. LTV: On January 1, 1991, the restoration of three LTV Steel plans that were the subject of the 1990 Supreme Court case was finally implemented, following a district court order enforcing the Supreme Court's decision.

Under a tentative agreement with LTV and the largest of LTV's creditor groups, LTV would agree to fund the three restored plans. As part of tentative overall settlements with LTV and LTV's major creditor groups, PBGC would provide contingent value rights (CVRs), which provide limited downside protection on LTV's common stock. PBGC's maximum exposure would be \$96.25 million. In return, LTV would give PBGC stock appreciation rights (SARs), which provide PBGC with uncapped upside potential on the stock. The CVRs and the SARs will have equal and offsetting value, based upon a valuation by PBGC's financial advisors. PBGC would also receive two 28-year zero-coupon bonds, with face amounts of \$454 million and \$270 million, for the receivable from the restored plans and the Republic Retirement Plan. The receivables have been written down to the present value of the bonds, which are \$17 million (shown as the amount due from sponsors of restored plans) and \$10 million (included as an estimated recovery in the PVFB), respectively, on the assumption that a settlement will ultimately be consummated on these or similar terms.

In addition, PBGC will provide \$50 million at confirmation, which will be contributed to LTV's plans, and one year after confirmation PBGC will receive LTV common stock worth \$54.3 million at the then-current market price.

The agreement described above became effective in June 1993.

C. Reasonably Possible Losses: There are a number of other possible large single-employer plan terminations and some multiemployer plans that may require financial assistance. PBGC estimates that the range of total unfunded vested benefits on termination of the single-employer plans that represent reasonably possible losses is approximately \$12 billion to \$20 billion. The lower end of the range (\$12 billion) has been calculated as in previous years by using data obtained from corporate annual reports for fiscal years ending in calendar 1991. The value reported for liabilities has been adjusted to the then-prevailing immediate interest rate of 6.25%. When available, data has been adjusted to a consistent set of mortality assumptions. Plans not insured by PBGC have been eliminated from the data. Since these figures are generally based on Financial Accounting Standard #87 ("Employers' Accounting for Pensions") reporting requirements, no provision has been made for the possible failure of the plan sponsor to make subsequent contributions or for plan liabilities that would be incurred after that date.

The upper end of the range (\$20 billion) has been calculated for some plans for which the Corporation has access to more detailed plan and participant information. This additional information allows the application of more refined estimation techniques in determining plan underfunding, including the ability to estimate the effect of termination on early retirement subsidies, as pointed out in GAO's December 1992 report entitled "Pension Plans: Hidden Liabilities Increase Claims Against Government Insurance Program." Thus, this number is virtually always higher than the number derived from publicly available information. The additional effect of shutdown benefits has not been estimated for either the upper nor lower bound. There also are a number of other sponsors of single-employer plans with significant unfunded guaranteed benefits who could, subsequently, qualify for a distress or involuntary termination if they were to encounter serious financial difficulty. The range of loss for multiemployer plans that may possibly require future financial assistance, for which the Corporation can reasonably estimate a range of loss, is approximately \$120 to \$135 million. In addition, there are other multiemployer plans that may possibly require future financial assistance, for which a range of possible loss cannot be reasonably estimated, given the uncertainties described below. No provision has been made in the financial statements for PBGC's potential liabilities upon termination of such single-employer or insolvency of such multiemployer plans, since the likelihood of these liabilities occurring is uncertain and cannot be estimated with sufficient reliability.

The Corporation's estimate of the Multiemployer Fund's liability for future financial assistance is subject to material uncertainties, the effects of which cannot presently be determined. Accordingly, the amount of future financial assistance that may ultimately result may differ materially from the amounts recorded and disclosed. The amounts recorded and disclosed represent the Corporation's best estimates, given the uncertainties.

**Appendix II
Financial Statements**

The Corporation's identification of plans which are likely to require such assistance and estimation of related amounts require complex consideration of many factors. These factors are affected by future events, including actions by plans and their sponsors, most of which are beyond the Corporation's control. In addition, these uncertainties are compounded by difficulties the Corporation encounters in obtaining financial information about defined benefit pension plans and their sponsors necessary for assessing the Corporation's liabilities. In many instances, the Corporation depends on other Federal agencies and various external sources for much of this information.

Note 9 -- Commitments

PBGC leases its office facility under a commitment that expires on December 31, 1993. During Fiscal Year 1992 and 1991, lease expense for such space was \$5,032,347 and \$4,148,950 respectively. The minimum lease payments for Fiscal Year 1993 and the first three months of 1994 will be approximately \$5,636,000 and \$1,553,000, respectively.

On April 27, 1993, the PBGC entered into a lease agreement for office space with a term of 15 years beginning on December 15, 1993. Minimum lease commitment in Fiscal Year 1994 will be \$7,245,000.

Note 10 -- 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 up to 100 percent for late payment or underpayment (see Note 11). Premiums for the single-employer program are \$19 per participant for a fully funded plan with an underfunded plan paying up to an additional \$53 per participant based on funding levels. The multiemployer premium is \$2.60 per participant.

Note 11 -- Underwriting: Other Income

Other Income - Single-Employer Fund
Unaudited
(Dollars in millions)

	1992	September 30, 1991
Interest income - premiums	\$ 4	\$ 0
Penalty income - premiums	20	0
Interest income - employer liability	79	44
Interest income - due and unpaid contributions	8	0
Other	7	1
Total	\$118	\$45

Note 12 -- Losses from Completed and Probable Terminations

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

**Appendix II
Financial Statements**

**Losses from Completed and Probable Terminations - Single-Employer Fund
Unaudited**

(Dollars in millions)

	September 30,					
	1992			1991		
	New Termination	Prior Year Termination	Total	New Termination	Prior Year Termination	Total
Present value of future benefits	\$789	\$(121)	\$668	\$3,010	\$(11)	\$2,999
Less: Plan assets	274	(278)	(4)	1,631	47	1,678
Plan asset insufficiency	515	(157)	672	1,379	(58)	1,321
Less: Estimated recoveries	29	(2)	27	194	(257)	(63)
Subtotal	486	(159)	645	1,185	199	1,384
Probables			251			(235)
Total			\$896			\$1,049

**Appendix II
Financial Statements**

Note 13 -- Investment Income

Investment Income
Unaudited
(Dollars in millions)

	September 30,					
	1992			1991		
	Plans Pending Trusteeship	Revolving Funds & Trusteed Plans	Total	Plans Pending Trusteeship	Revolving Funds & Trusteed Plans	Total
Fixed-income securities:						
Interest earned	\$4	\$188	\$192	\$6	\$209	\$215
Realized gains (losses)	2	122	124	(1)	112	111
Unrealized gains (losses)	0	152	152	4	244	248
Total fixed-income securities	6	462	468	9	565	574
Equity securities:						
Dividends earned	0	11	11	5	17	22
Realized gains (losses)	2	15	17	0	88	88
Unrealized gains (losses)	0	78	78	3	192	195
Total equity securities	2	104	106	8	297	305
Other income (losses)	(8)	75	67	2	17	19
Total investment income	\$0	\$641	\$641	\$19	\$879	\$898

**Appendix II
Financial Statements**

Note 14 -- President's Budget

The Chief Financial Officers Act of 1990 requires a reconciliation of expenses as reported on the Report on Operations (SF-221) to budgetary outlays as reported on the Report on Budget Execution (SF-133). A few differences appear between the financial statements and the results reflected in the President's Budget. These differences are primarily attributable to material events concerning probable terminations and PBGC's finalization of the values used in calculating the net claims and actuarial charges.

Statement of Reconciliation to Budget for the Periods Ended September 30, 1992, and September 30, 1991
Unaudited
(Dollars in millions)

	1992	September 30, 1991
1. Total expenses	\$1,366	\$1,692
2. Add adjustments for:		
a. Benefit funding	648	538
b. Adjustment of undelivered orders	0	(9)
c. Loans issued	4	2
d. Total adjustments added	652	531
3. Less adjustments for:		
a. Liability incurred due to plan terminations	625	1,385
b. Provision for probable terminations	271	(336)
c. Actuarial charge for financial assistance	12	10
d. Trust fund net loss	461	350
e. Bad debt	0	212
f. Restatement adjustments	(66)	0
g. Total adjustments deducted	1,303	1,621
4. Expended appropriations	715	602
5. Less reimbursements and other income	1,459	1,324
6. Expended appropriations, direct	(744)	(722)
7. Less change in accounts payable, net	(90)	65
8. Budgetary outlays	\$ (654)	\$ (787)
9. Obligations incurred, net	\$ (725)	\$ (740)
10. Less change in unpaid obligations, net	(71)	47
11. Budgetary outlays	\$ (654)	\$ (787)

Reconciliation of Expenses, Regulatory Reports to Annual Report
Unaudited
(Dollars in millions)

	1992	September 30, 1991
Total expenses	\$ 1,366	\$ 1,692
Less transfer of trust fund result of operations	461	350
Less adjustment of accounts payable	0	16
Plus trust fund expenses	947	925
Plus effects of prior period adjustments	0	10
Total expense	\$ 1,852	\$ 2,261
Annual Report:		
Underwriting expenses	\$ 741	\$ 1,312
Financial expenses	1,111	949
Total expenses	\$ 1,852	\$ 2,261

Note 15 -- Employee Benefit Plans

All permanent full-time and part-time PBGC employees are covered by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Full-time and part-time employees with less than five years service under CSRS and hired after December 31, 1983, are automatically covered by both Social Security and FERS. Employees hired before January 1, 1984, participate in CSRS unless they elected to transfer to FERS by June 30, 1988. Those with more than five years of past service prior to January 1, 1984, may elect to participate in either CSRS or FERS.

The Corporation's contribution to the CSRS plan equals the 7 percent of base pay contributed by employees covered by that system. For those employees covered by FERS, the Corporation's contribution was 13.7 percent and 13.8 percent of base pay for 1992 and 1991 respectively. In addition, for FERS-covered employees, PBGC automatically contributes 1 percent of base pay to the employee's Thrift Savings account, matches the first 3 percent contributed by the employee, and matches one-half of the next 2 percent contributed by the employee. Total retirement plan expenses amounted to \$3 million in both 1992 and 1991.

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

Appendix II
Financial Statements

Note 16 -- Cash Flows

PBGC has prepared the Statements of Cash Flows in accordance with FASB's Financial Accounting Standards #95, #102 and #104. The following is a reconciliation between the Net Income (Loss) as reported in the Statements of Operations and Changes in Equity and net cash provided by operating activities as reported in the Statements of Cash Flows.

**Reconciliation of Net Income to Net Cash and Equivalents
Provided by Operating Activities**
Unaudited

(Dollars in millions)

	Single-Employer		Multiemployer		Total	
	1992	1991	1992	1991	1992	1991
Net income (loss)	\$(234)	\$(591)	\$40	\$38	\$(194)	\$(553)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Net appreciation in fair value of investments	(394)	(676)	(18)	(16)	(412)	(692)
Net income of plans pending trusteeship	0	(17)	0	0	0	(17)
Loss on completed and probable terminations	896	1,049	0	0	896	1,049
Actuarial charges and adjustments	848	905	(1)	3	847	908
Benefit payments - trustee plans	(626)	(478)	(2)	(2)	(628)	(480)
Cash received from plans upon trusteeship	18	249	0	0	18	249
Changes in assets and liabilities net of effects of trustee and pending plans:						
(Increase) decrease in receivables	(68)	214	(2)	3	(70)	217
Increase in present value of nonrecoverable future financial assistance	0	0	8	19	8	19
Increase (decrease) in unearned premiums	7	47	0	(1)	7	46
Increase (decrease) in accounts payable	12	1	0	(2)	12	(1)
Net cash provided by operating activities	\$459	\$703	\$25	\$42	\$484	\$745

Note 17 -- Restatement of Previously Issued Financial Statements

These financial statements have been restated to reflect the effects of adjustments and reclassifications to the Single-Employer and Multiemployer Fund statements of financial condition, operations and changes in equity, and cash flows, and related footnotes, previously issued. Certain of these adjustments affected Single-Employer and Multiemployer Fund financial statements for prior years. The effects of these prior period adjustments on previously reported beginning equity (deficit) and net income (loss) are presented below. The 1992 and 1991 statements of cash flows for both Funds have been restated to reflect the direct method of presenting cash flows rather than the indirect method.

**Appendix II
Financial Statements**

**Effects of Adjustments on Single-Employer Fund
Accumulated Deficit and Net Loss**

(Dollars in millions)	September 30,			
	1992		1991	
	Net Loss	Accumulated Deficit, Beginning of Period	Net Loss	Accumulated Deficit, Beginning of Period
As previously reported	\$(173)	\$(2,510)	\$(597)	\$(1,913)
Adjustments for:				
Interfund allocation errors	4	7	6	1
Correction of premium receivables	(11)			
Additional probable claims, net	(48)			
Other	(6)	—	—	—
Total	\$(61)	7	6	1
As related	\$(234)	\$(2,503)	\$(591)	\$(1,912)

**Effects of Adjustments on Multiemployer Fund
Accumulated Results of Operations and Net Income**

(Dollars in millions)	September 30,			
	1992		1991	
	Net Income	Accumulated Results of Operations, Beginning of Period	Net Income	Accumulated Results of Operations, Beginning of Period
As previously reported	\$48	\$187	\$55	\$132
Adjustments for:				
Interfund allocation errors	(4)	(7)	(6)	(1)
Correction of premium receivables	1			
Additional liabilities for future financial assistance	(4)	(11)	(11)	
Increase in allowance for uncollectible financial assistance	(1)	(6)	—	(6)
Total	\$(8)	(24)	(17)	(7)
As related	\$40	\$163	\$38	\$125

Comments From the Pension Benefit Guaranty Corporation



Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C. 20006-1806

Office of the Executive Director

The Honorable Charles A. Bowsher
Comptroller General of the United States
United States General Accounting Office
Washington, D.C. 20548

SEP 2 1993

Dear Mr. Bowsher:

Thank you for the opportunity to comment on the draft report on GAO's audit of the financial condition of PBGC's single-employer and multiemployer funds, as of September 30, 1992.

We are delighted that the improvements in our financial systems enabled GAO for the first time to find that PBGC's statements of financial condition of its single-employer program were reliable. The single-employer program accounts for more than 95 percent of PBGC's total assets and liabilities.

While we concur with respect to the other findings in this report, they reflect PBGC's situation nearly one year ago. Therefore, we appreciate this opportunity to review our efforts and improvements over the past year.

When Secretary of Labor Robert Reich appointed me to this position in March, one specific charge to me was to improve the agency's management. He was especially concerned about the weaknesses in the agency's financial management systems as reported in several GAO reports over the last few years. One of the first steps I took was to place a more focused emphasis on the agency's management operations. We established a Chief Management Officer to work alongside the Chief Financial Officer. We also sought and were given five additional senior-level positions for the financial and management areas.

Past GAO reports have focused on three financial areas: (1) the actuarial assessment of benefits; (2) the collection of premiums; and (3) financial systems management.

As your report points out, our system for assessing actuarial values is sound with respect to the single-employer program. In the premium area, we have taken measures to modernize our collection efforts, which include the recent awarding of a contract for the design and implementation of a comprehensive automated system. When operational next year, the system will process, account for, and confirm flat and variable rate premium payments by single-employer and multiemployer plans. Meanwhile, through interim measures, we are now up-to-date in billing for delinquent premium payments and have collected almost \$50 million in past-due premiums, penalties, and interest. Next month we will begin billing for overdue payments within 30 days of their due date. We appreciate the work that GAO has done with us to identify areas where our premium collections could be improved.

**Appendix III
Comments From the Pension Benefit
Guaranty Corporation**

The Honorable Charles A. Bowsher
September 2, 1993
Page two

While we made progress in strengthening our financial systems, we recognize that much work remains to be done and are committed to completing the work.

Your report cites three major areas of concern: long-term financial liability of the single-employer fund, liability estimation and application of internal controls for future financial assistance in the multiemployer fund, and application of internal controls throughout the Corporation's financial accounting and reporting systems. Let me be specific in the efforts we have made or are making to resolve these concerns.

Long-Term Viability of the Single-Employer Fund

The concerns the GAO report raised about the long-term viability of the single-employer fund are shared by the Administration. Although the majority of pension plans insured by PBGC are adequately funded, some are underfunded.

Continuation of plan underfunding could jeopardize benefit protection and the single-employer fund's long-term ability to guarantee benefits. In March Secretary Reich established a high-level federal task force, which has worked intensively to identify the problems and develop suitable proposals. The task force has examined such issues as the minimum funding rules, trends in pension underfunding, PBGC's financial condition, and PBGC's premium and guarantee structure. The work of the task force is now completed and the Administration is developing a comprehensive legislative package to assure better pension plan funding and benefit protection.

The Multiemployer Fund's Liability for Future Assistance

Despite the report's concern about the multiemployer fund's exposure for future financial assistance, it acknowledges that such assistance, if required, would not significantly affect the overall soundness of the program, which now has a surplus of \$203 million. The report also acknowledges the complexities and uncertainties in developing a process for assessing the multiemployer fund's exposure to future financial assistance. Notwithstanding, we are determined to improve the process for identifying and evaluating financially troubled multiemployer plans.

The electronic inventory of multiemployer plans created in cooperation with the GAO as of September 30, 1992, will provide a base line that we will update yearly. Also, we are establishing an inventory of plans that contains additional plan-specific information, beginning with plans that have higher risk profiles. We have revised the procedures that apply to these inventories, using expanded evaluation factors and a detailed analysis of plan-specific information. This process will be effective for the 1993 financial statements.

We have also instituted procedures that respond to the GAO concern regarding our lack of controls or tests to assure that financial assistance to multiemployer plans was properly calculated and used appropriately. We have instituted eligibility and overview audits for all plans receiving financial assistance. These audits will be completed by the end of this month. If the audits so demonstrate, additional controls concerning the request and use of financial assistance will be instituted.

Financial Accounting and Reporting Systems

We have made significant advances in addressing the weaknesses in financial systems and accounting and reporting controls discussed in your report.

**Appendix III
Comments From the Pension Benefit
Guaranty Corporation**

The Honorable Charles A. Bowsher
September 2, 1993
Page three

PBGC is developing a financial policy and procedures manual; we are completing a series of desk-top accounting procedures for PC-applications; and we will be preparing semiannual financial statements for the coming year and quarterly statements thereafter. During 1994, we also will produce monthly financial management reports that will include current operational results, performance measurements, and financial projections.

The GAO report points out our need to integrate financial systems and establish a formal methodology for developing and maintaining information management systems. PBGC is undertaking to develop the data and systems framework, or architecture, that will enable us to integrate our current financial systems and ensure standards for consistent future application development. With regard to the development and maintenance of our information management systems, we have adopted a standard development methodology (NAVIGATOR) and initially have applied it to the development and maintenance of our new premium accounting system. PBGC has also begun a joint effort with GAO to assess our information resources infrastructure, planning, and project management.

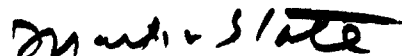
Over the past year, PBGC has strengthened its financial accounting and reporting process by completing and implementing the internal controls that were still under development when GAO began its audit. Specifically, we have finalized our accounting policies and procedures manual; we have established and staffed a financial policy, procedures, and control division to ensure oversight; and our internal controls over premium collections will be certified by a major public accounting firm for fiscal year 1993. PBGC intends to augment its internal controls by establishing a centralized audit function to monitor and test all financial operations and supporting financial information systems.

Progress also has been made with respect to accuracy of participant data. We have implemented a system that automatically transfers participant data to PBGC's benefit paying agent, the State Street Bank, and performs basic checks on nonfinancial data. We also are continuing efforts to confirm and update participant data on the Pension and Lump Sum (PLUS) system, which include manual comparison of the data base to our existing paper files. A separate project to computer-image participant records will make these records more accessible.

As recommended by GAO, PBGC is enhancing oversight of its Field Benefit Administrators (FBAs) through a monthly check of actual benefit payments against the expected payments as determined by the FBAs. In addition, PBGC has implemented an FBA audit program.

We trust that these efforts and achievements will prove fruitful in GAO's audit of our 1993 financial statements. We appreciate GAO's insight and help in addressing our management issues, and we look forward to continued cooperation with GAO and progress in our financial management.

Sincerely,



Martin Slate
Executive Director

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