~~2222~~ 118791

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Disclaimer Of Opinion On The Financial Statements Of The Pension Benefit Guaranty Corporation For The Fiscal Year Ended September 30, 1980

GAO disclaims an opinion on whether the Pension Benefit Guaranty Corporation's financial statements present fairly its financial condition at September 30, 1980, and the results of operations and changes in financial condition for the fiscal year then ended. The disclaimer of opinion is because of material accounting and estimating problems, internal control problems, and other factors beyond the Corporation's control which have prevented it from developing reliable financial statements.

GAO recommends that the Executive Director, Pension Benefit Guaranty Corporation improve the reliability and fair presentation of the financial statements by initiating efforts to strengthen internal controls and to improve recordkeeping and financial statement preparation.

UNITED STATES GENERAL ACCOUNTING OFFICE

118791

GAO/AFMD-82-42

JUNE 23, 1982

022539

Request for copies of GAO reports should be sent to:

U.S. General Accounting Office
Document Handling and Information
Services Facility
P.O. Box 6015
Gaithersburg, Md. 20760

Telephone (202) 275-6241

The first five copies of individual reports are free of charge. Additional copies of bound audit reports are $3.25 each. Additional copies of unbound report (i.e., letter reports) and most other publications are $1.00 each. There will be a 25% discount on all orders for 100 or more copies mailed to a single address. Sales orders must be prepaid on a cash, check, or money order basis. Check should be made out to the "Superintendent of Documents".

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-164292

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

We have examined the combined statement of financial condition of the Pension Benefit Guaranty Corporation (Corporation) as of September 30, 1980, and the related combined statements of operations and changes in the deficiency in net assets, and changes in financial condition for the year then ended. (See app. II.) Our examination was made pursuant to the Government Corporation Control Act (31 U.S.C. 850) and in accordance with generally accepted government auditing standards; accordingly, it included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our examination disclosed material accounting and estimating problems, internal control weaknesses, and major uncertainties that significantly reduce the reliability of important account balances. We were unable to determine the reasonableness of the Corporation's "Deficiency in assets," reported as a $103.1 million deficit in the fiscal 1980 financial statements. This deficiency reflects the amount of additional funds needed to pay all guaranteed benefits and is instrumental in establishing the premium rates required by the Corporation to meet its obligations. The most significant accounts affecting this deficiency make up the "Reserve for guaranteed benefits."

The reasonableness of the "Reserve for guaranteed benefits" could not be determined because recently developed estimating procedures had not yet been sufficiently tested to permit their verification. Also, a major portion of the reserve, which makes up 97 percent of the Corporation's liabilities, was not calculated using acceptable actuarial principles and practices. Because it had not developed and maintained current and complete participant data after each pension plan's date of termination, the Corporation had to overextend a computer model used to project its expected fiscal yearend liability. Without adequate participant data on terminated pension plans, we could not determine the reasonableness of actuarial and other assumptions used to value the reserve accounts.

We also could not determine the reasonableness of other material account balances. For example:

--The reliability of the account "Assets of terminated plans, not in trusteeship" was weakened by inadequate internal controls over the reconciliation of plan asset totals between two computer systems, unsubstantiated third-party information, and the lack of an accurate inventory of plans.

--The reported values of estimated future settlements in the account, "Amounts due for employer liability" could not be satisfactorily verified.

--The Corporation's premium and benefit payment accounts were uncertain because the Corporation lacked assurances that all premiums are being received and appropriate benefits are being paid.

These estimating, accounting, and administrative control problems are discussed in more detail in appendix I.

Because of the matters discussed in this report, we are unable to express an opinion on whether the Corporation's financial statements present fairly the financial condition of the Corporation at September 30, 1980, and the results of its operations and changes in financial condition for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The combined statement of financial condition of the Pension Benefit Guaranty Corporation, as of September 30, 1979, and the related combined statements of operations and changes in the deficiency in net assets and changes in financial condition for the year then ended were not audited by us and, accordingly, we do not express an opinion on them.

This was our second financial statement audit since the Corporation's inception in September 1974. Our first report resulted in a disclaimer of opinion because of various procedural and accounting problems and material uncertainties found in receivables and reserves. As a result, the Corporation began a corporatewide effort in 1979 to produce reliable financial statements. Nevertheless, additional efforts are needed to produce financial statements that can be attested to as fairly stated.

CONCLUSIONS AND RECOMMENDATIONS

The Corporation must overcome major problems before it can prepare financial statements that can be attested to as fairly presented. These problems result largely from a lack of procedures for collecting financial information on pension plans and a lack of the historical experience needed to substantiate estimated amounts. To improve the development and fair presentation of these statements we recommend that the Executive Director, Pension Benefit Guaranty Corporation:

--Develop a system for financial statement reporting that values benefits on a current, individual participant basis. (See app. I, pp. 8-11.)

--Substantiate the reasonableness of actuarial assumptions, estimation techniques, and models. (See app. I, pp. 5-11.)

--Determine reasons for changes in the pension plan inventory and establish allowances in the financial statements for expected variances. (See app. I, pp. 10-11, 14-16.)

--Establish accounting controls and procedures to reconcile financial data maintained by separate computer systems. (See app. I, pp. 10, 14-16.)

--Develop policies and procedures for substantiating information provided by external organizations. (See app. I, pp. 15-16.)

Other matters were discussed with Corporation officials and corrective actions are in process. (See app. I, pp. 14, 17, and 20.)

CORPORATION'S COMMENTS

The Corporation agrees with the general conclusions of the report and the need to further strengthen internal controls and improve recordkeeping and financial reporting. The Corporation's comments on the report (app. III) include additional information not presented in our report. We did not verify this information.

\- - - - -

We are sending copies of this report to the Director, Office of Management and Budget; the Secretaries of Commerce, Labor, and the Treasury; and the Executive Director, Pension Benefit Guaranty Corporation.

Charles A. Bowsher

Comptroller General
of the United States

C o n t e n t s

PROBLEMS AND UNCERTAINTIES IN MATERIAL FINANCIAL STATEMENT ACCOUNT BALANCES

INTRODUCTION

The Pension Benefit Guaranty Corporation was established under Title IV of the Employee Retirement Income Security Act (ERISA) of 1974 (29 U.S.C. 1302) as a wholly owned Government corporation. The goals of the Corporation are to:

--Encourage the continuation and maintenance of private pension plans for the benefit of plan participants.

--Provide for the timely and uninterrupted payment of pension benefits.

--Establish and maintain premiums at the lowest level that will allow the Corporation to carry out its obligations.

The Corporation administers insurance programs that primarily pay guaranteed benefits to participants and beneficiaries of covered defined benefit pension plans when the plans terminate without sufficient assets to provide vested basic benefits. The Corporation's primary source of income is the premiums received from administrators of existing pension plans. These premiums pay both administrative expenses and guaranteed benefits not covered by plan assets or employer liability recovered by the Corporation. 1/

Terminated pension plans

Administrators of covered pension plans are required to file a notice with the Corporation if they intend to terminate their pension plans. When such a notice is received, the Corporation values remaining plan assets and determines the benefits owed as of the plan's expected date of termination, in order to determine the assets' sufficiency or insufficiency.

A plan is judged "sufficient" if the Corporation determines that the plan's assets are adequate to pay all guaranteed benefits. Since its inception in 1974 through fiscal 1980, the Corporation has received approximately 33,000 termination notices. Ninety-eight percent of the plans were judged to be sufficient. For such plans the Corporation usually does not become trustee. It issues a "notice of sufficiency" to the plan administrator, thereby authorizing the plan's liquidation. Afterward, the Corporation checks the distribution of liquidation proceeds to ensure that the provisions of ERISA and the interests of plan participants and beneficiaries have been properly satisfied.

1/See app. IV, Glossary, for definitions of accounting and pension-related terms such as a "defined benefit pension plan," "guaranteed benefits," or "employer liability."

A plan is judged "insufficient" if the Corporation determines that the plan's assets are not adequate to pay all guaranteed benefits when they become due. For these plans, the Corporation issues a "notice of inability to determine sufficiency" and begins a process to take over the plan assets and insured liabilities as trustee. The Corporation assumes responsibility as of the date of termination and accounts for plan assets, liabilities, benefit payments, and investment and actuarial gains and losses that may occur thereafter. However, the Corporation does not administratively control the plan until trusteeship.

Inventory of terminated pension plans represented on financial statements

For its financial statements, the Corporation compiles an inventory of all terminated pension plans that have been or are expected to be trusteed. The table below shows the growth since fiscal 1977 in the number of plans included in the inventory.

	Fiscal year			
	1977	1978	1979	1980
Plans trusteed	145	266	389	507
Plans expected to be trusteed	281	260	259	171
Plans included in financial statements	426	526	648	678

The fiscal 1980 financial statements represent assets and liabilities for 678 plans with known termination dates prior to October 1, 1980, that the Corporation has trusteed or expects to trustee. This includes 672 single-employer plans and 6 multiemployer plans. The financial statements also include a provision for plans pending termination. This provision represents an estimated net liability for plans which, at fiscal yearend, the Corporation believes will terminate and become trusteed in a subsequent period.

Once a plan has terminated, its assets and liabilities are valued and either updated or projected to the Corporation's financial statement date. Financial data were estimated for major portions of the statements because (1) actual data were not available to the Corporation or (2) a final actuarial determination of guaranteed benefits had not been completed. Furthermore, the dates of termination for some plans had not been settled. In these cases, the statements reflected the dates of termination that the Corporation believed to be most appropriate under the circumstances. When additional information is gathered and analyzed, changes in asset and liability values and dates of termination are reflected in the financial statements.

Previous GAO audit

The Government Corporation Control Act (31 U.S.C. 850) requires the General Accounting Office to audit the financial statements of the Corporation at least once every 3 years. This is our second financial statement audit since the Corporation's inception in September 1974. Our first report, "Examination Of Financial Statements Of The Pension Benefit Guaranty Corporation For The Fiscal Year Ended September 30, 1977" (HRD-79-44) was issued on May 3, 1979, and resulted in a disclaimer of opinion because of various procedural and accounting problems and material uncertainties found in receivables and reserves.

As a result of that audit, the Corporation began a corporate-wide effort to produce reliable financial statements. The effort included contracting with a public accounting firm to develop a detailed plan for improving the financial statements. The firm estimated it would take up to 5 years to implement the suggested changes. Some of the firm's recommendations have been implemented; others have yet to be completed. In fiscal 1979, for the first time, financial statements were prepared on a more complete and documented basis. By fiscal 1980, the Corporation had increased the proportion of assets based on verifiable data from less than 50 percent in fiscal 1977 to about 60 percent. Nevertheless, additional efforts are needed to produce financial statements that can be attested to as fairly presented.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit for fiscal 1980 was designed to enable us to express an opinion on the Corporation's financial statements. Because of the significance of the accounting and estimating problems we found, and uncertainties about several major account balances for the single-employer program, we did not extend our audit tests and procedures to the financial transactions of the multiemployer program. As a result, the remaining sections of this appendix are based on financial information from the single-employer program only. Also, we did not audit the financial data furnished by interim custodians, plan administrators, and other third parties, nor the Corporation's trust funds maintained by its custodian bank. However, during fiscal 1980, a public accounting firm conducted a special study and evaluation of the system of internal controls pertaining to the employee benefit accounts maintained by the custodian bank. No material weaknesses were disclosed. These assets represent about one-quarter of the Corporation's total assets.

To develop a control orientation and to understand the Corporation's financial activity, we included in our audit procedures:

--Interviews with appropriate Corporation officials and review of written procedures regarding internal accounting controls.

--Analysis of various procedures, methodologies, and estimating techniques (actuarial and statistical) used in processing financial data, and tests of the validity of such data (limited data prevented detailed analysis in most cases).

--Tests of the competency and sufficiency of financial data on a sample basis and comparison of data with the accounting records.

--Examination of laws and regulations that materially affect the Corporation's financial statements.

Our findings discussed herein are based on accounting records and information provided by the Corporation. Because we did not render an opinion on the Corporation's financial statements, it was not practical for us to verify the reliability of the Corporation's computer processing systems or related data files.

REASONABLENESS OF MATERIAL FINANCIAL STATEMENT ACCOUNTS CANNOT BE DETERMINED

Our examination disclosed significant accounting and estimating problems, internal control weaknesses, and major uncertainties in determining the reasonableness of material financial statement account balances. The "Reserve for guaranteed benefits" contributed most to our inability to express an opinion on the financial statements. The reserve comprises two accounts: "Present value of future benefits for terminated plans" and "Estimated net claims for pending terminations." For the single-employer program, these accounts represent 96 percent of the Corporation's total liability of $524 million. In addition to serious problems in determining the reasonableness of the reserve, problems and uncertainties were identified in other significant accounts. The accounts reviewed during our examination and the problems noted are summarized below.

Account	Problem
Present value of future benefits for terminated plans	Estimation techniques could not be proven reliable and unacceptable actuarial procedures were used to value the benefits.
Estimated net claims for pending terminations	Procedures lacked precision necessary to determine their reasonableness.
Assets of terminated plans, not in trusteeship	Internal control procedures over the reconciliation of subsidiary records were inadequate, and assets held by third parties were not fully substantiated.
Amounts due for employer liability	Results of estimation techniques could not be verified.

Unearned premium income Premium income receivable	Premium information was incomplete and assumptions were unsupported.
Benefit payments	Controls over accounting for both internal payments and payments made by third parties were not effective.

ESTIMATION TECHNIQUES AND PROCEDURES TO ESTABLISH "PRESENT VALUE OF FUTURE BENEFITS FOR TERMINATED PLANS" CANNOT BE PROVEN RELIABLE

The Corporation is required to guarantee certain basic benefits to participants when an insured plan terminates with insufficient assets. The account "Present value of future benefits for terminated plans" represents the amount needed to pay the guaranteed benefits of all surviving participants and beneficiaries in the 672 terminated single-employer plans reported on the Corporation's financial statements. This account, reported as $462 million, makes up 88 percent of the Corporation's total liabilities and is clearly the most substantial account. It is developed in two steps. The first step is to calculate, using actuarial methods prescribed by the Corporation, the amount of liability the Corporation expects to assume as of each plan's date of termination. The second step projects that liability to the end of the fiscal year, using a computer model.

We cannot ascertain whether the account "Present value of future benefits for terminated plans" presents fairly the Corporation's liability as of September 30, 1980, because:

--Estimation techniques used to value a major portion of date-of-termination liabilities produced amounts that could not be proven reasonable.

--Procedures used to project date-of-termination liabilities to fiscal yearend were not consistent with conventional actuarial practices and produced results that could not be substantiated.

--Experience since fiscal 1979 suggests that the plan inventory may be overstated.

These problems have an undeterminable effect on the reasonableness of the liability. Until the collection and maintenance of plan and participant data are improved, and the reliability of estimation techniques proven, we will be unable to attest to the fairness of the financial statements taken as a whole.

Estimated date-of-termination liabilities are questionable

A significant portion of the account "Present value of future benefits for terminated plans" is based on estimates. The Corporation has improved its procedures for estimating its date-of-termination liabilities. However, limited data and unproven estimation techniques weakened the reliability of the estimated values. The Corporation needs to develop a more extensive historical basis before it can judge the reasonableness of its estimates.

Use of estimates is a cost effective means of establishing reserve liabilities. However, the reliability of estimates rests on the ability to establish the accuracy and reasonableness of the techniques used. In addition, the techniques need to be applied consistently over a period of time and tested against actual experience. The following table allows a comparison of the plans having a final date-of-termination liability value with those having an estimated value. The latter represented approximately 55 percent of the total date-of-termination liabilities.

Fiscal year of plan termination (note a)	Final liability		Estimated liability		Total liability	
	Number of plans	Value	Number of plans	Value	Number of plans	Value
1980	8	$ 2,537,937	90	$114,274,233	98	$116,812,170
1979	19	11,690,628	65	76,115,871	84	87,806,499
1978	48	88,105,082	49	35,871,111	97	123,976,193
1977	90	24,133,278	37	30,636,691	127	54,769,969
1976	117	74,072,617	21	7,063,719	138	81,136,336
1975	85	26,252,491	22	23,930,523	107	50,183,014
1974	15	11,322,380	6	3,184,240	21	14,506,620
Total	382	$238,114,413	290	$291,076,388	672	$529,190,801

a/This table does not reflect the 1976 change in the fiscal year from June 30 to Sept. 30. Plan terminations are shown by fiscal year from 1977 through 1980. 1974 through 1976 reflect plan terminations for the 12-month periods ending Sept. 30.

Within the last 2 years, the Corporation has improved its procedures for estimating guaranteed benefits. Prior to fiscal 1979, these calculations were not regularly computed by qualified actuaries and the procedures followed were not always well documented. For fiscal 1979 and 1980, an actuarial consulting firm made most of the calculations after reviewing plan files and developing consistent techniques for making the best use of the data available. Given the limited data available, the consulting firm's techniques appeared reasonable.

Because the confidence level in the reliability of the estimates varied with the degree of available data, the consulting firm graded its estimates, using three judgmental confidence codes, to reflect how close it believed the estimate would be to the final date-of-termination liability. The confidence codes can be translated into high, medium, and low levels of confidence. 1/

In the aggregate, the estimates given high, medium, and low levels of confidence were considered by the Corporation to be within 2 percent, 5 percent, and 10 percent of the final results. The following table shows, by date of termination, the level of confidence placed on the 290 estimates calculated for the fiscal 1980 financial statements.

Fiscal year of plan termination (note a)	High confidence		Medium confidence		Low confidence	
	Number of plans	Value	Number of plans	Value	Number of plans	Value
1980	39	$17,262,077	24	$17,115,701	27	$ 79,896,455
1979	25	24,079,665	25	9,800,469	15	42,235,737
1978	17	18,445,674	23	7,668,759	9	9,756,678
1977	23	7,112,314	9	5,926,395	5	17,597,982
1976	12	1,087,144	6	1,334,335	3	4,642,240
1975	14	20,623,273	4	2,168,100	4	1,139,150
1974	1	1,117,260	2	1,770,920	3	296,060
Total	131	$89,727,407	93	$45,784,679	66	$155,564,302

a/This table does not reflect the 1976 change in the fiscal year from June 30 to Sept. 30. Plan terminations are shown by fiscal year from 1977 through 1980. 1974 through 1976 reflect plan terminations for the 12-month periods ending Sept. 30.

As the table shows, the low confidence estimates represent a larger portion of the estimated values than the other two confidence levels combined.

Since the grading of estimates had been done for only 2 years, not many of the estimates could be tracked to finally determined values. Nevertheless, changes in the reported values of date-of-termination liabilities from year to year could be significant. Of those plans included in the fiscal 1980 financial statements, 337 were estimated in the fiscal 1979 statements. Amounts in 251 of these plans changed from fiscal 1979 to 1980, yielding a net decrease of about $24 million. That figure included 133 plans

---

1/To quantify a "reasonable estimate" the reviewers expected the estimates to be correct within the following bounds: plus or minus the greater of $50,000 or 10 percent of the amount estimated (error not to exceed $1 million). A high level of confidence means the reviewer was at least 90-percent confident that the estimate would fall within the defined bounds; a medium level means 50 to 90 percent; a low level means less than 50 percent.

that decreased by about $32 million and 118 that increased by about $8 million. One plan accounted for a variance of about $13 million. An adjustment was necessary for this plan because insurance contracts had been recorded incorrectly.

To expect that estimation techniques will not be needed to value the Corporation's liabilities in the future is unrealistic. However, with such a large portion of the present value of future benefits based on estimates and on inadequate historical experience by which to judge their reasonableness, the overall reliability of the reserve is reduced. In addition, since a lack of data caused a low level of confidence to be placed on 53 percent of the total estimated date-of-termination liability values, and significant differences existed in those reported from fiscal 1979 to 1980, we could not be sure that these liability values were reasonable. These uncertainties will exist until the Corporation conducts additional tests and refines, as necessary, the procedures used to value the estimated portion of this account.

Acceptable actuarial principles and practices are not used to calculate yearend benefit liabilities

The Corporation established the fiscal 1980 reserve by projecting both estimated and final date-of-termination liabilities to fiscal yearend using a computer model that simulated the aging of participants. Consequently, current data were not used to calculate the reserve liability. The model projected final liability values from a plan's date of termination because it did not have current, complete, and accurate participant data beyond that date. This produced substantial uncertainty. Without current information the Corporation could not conduct an individual participant assessment of future benefits. In addition, the date-of-termination information used in the model could not be proven reliable because (1) the model population did not include all participants whose benefit calculations were completed and (2) inconsistencies were noted in balances for liabilities maintained in separate computer systems. The Corporation needs to maintain current information to more precisely calculate the present value of guaranteed benefits.

Since the Corporation's inception, sufficient actual data have not been properly maintained to accurately compute the reserve needed to pay future guaranteed benefits. Corporation officials agreed that the appropriate method for calculating guaranteed benefits, as of the fiscal yearend, would be a direct benefit valuation of all participants whose liabilities had been finally determined and continually updated from the plan's date of termination forward to fiscal yearend. This type of system is commonly used throughout the insurance industry. However, the Corporation does not use such a system because it has not maintained all the necessary data on each participant beyond a plan's date of termination. Consequently, participant information from as far back as 1974 was projected to fiscal 1980, even though reasonable actuarial projections can be made only through the first few years after a plan's termination date.

The Corporation's projection model contained various actuarial and statistical assumptions that were not tested against actual experience. The model assumed, for example, that the distribution of sexes, ages, benefit amounts, and participant payment forms had changed little over the years preceding the termination dates. In addition, to simplify the computations, the model assumed all participants to be single males with payments for life. All persons with deferred benefits were assumed to retire at age 60. Similar assumptions are commonly made in actuarial projections but are frequently tested and adjusted to reflect changing experience. Because the Corporation lacks current data against which to test these assumptions, the fiscal 1980 reserve liability could not be ascertained.

For these reasons, we could not regard the reserve as having been calculated in accordance with acceptable actuarial principles and practices. Until the Corporation maintains and uses actual information from the plans' dates of termination forward to calculate the present value of future benefits, we will not be able to determine the reasonableness of this account.

Model population not proven representative

In calculating the reserve, the Corporation uses a computer-based system that was designed to disburse benefit checks rather than to calculate benefits. While some calculating capability has been added, most of the emphasis in entering data has been on providing the information necessary for disbursements. Numerous additional data are needed to calculate the present value of benefits. For example, the Corporation should obtain the following data on all participants: date of birth, monthly benefit entitlement, expected retirement age if payment is deferred, form of benefit, and sex.

The Corporation recognizes the need to maintain sufficient participant information on plans with completed date-of-termination liabilities. During fiscal 1980, in an attempt to "catch up," the Corporation hired a consulting firm to enter benefit information on participants into the computer as of their plans' respective dates of termination. Corporation officials had hoped that information on more than 20,000 participants could be entered for the fiscal 1980 financial statements. However, because of difficulties in locating benefit information in the Corporation's manual files and a misunderstanding between the Corporation and the firm, the participant information entered into the computer system was not complete and, at times, was incorrect. As a result, the model's population of participants was drawn from less than 30 percent of those plans with finally determined date-of-termination liabilities. Although those plans were reported to have 17,930 participants, data were used on only 12,576. Further, those with deferred vested benefits were frequently assigned incorrect retirement dates, and an unknown number of participants were classified as unmarried, straight-life annuitants when no actual information on their marriage status or benefit form existed.

Termination date liabilities do not match original evaluations

As part of an internal check on the accuracy of its information, the Corporation attempted to match the date-of-termination liabilities used for the model population with those in the original valuations. Separate corporate divisions maintain such benefit information on independent computer based systems. We view such matching as vital confirmation that the participant information in the model's population was entered correctly. The Corporation's attempt at matching was not successful.

Plan inventory is incertain

Identifying and including the correct number of plans in the terminated plan inventory is essential to accurately reflect the Corporation's financial condition. Yet, because of uncertainties which are partly inherent in its operations, the Corporation is unable to determine the exact number of insufficient plans and, therefore, the amount that will be needed to pay guaranteed future benefits.

In its role as trustee or expected trustee of a terminated plan (subject to title IV of ERISA), the Corporation must account for a plan's financial activity from its date of termination forward. Depending on the circumstances surrounding termination, the time needed to establish asset and liability values and to determine whether the plan is insufficient at the date of termination varies from several months to several years. Complex issues, litigation proceedings, and limited staff cause delays in processing a case. As a result, decisions to include a plan in the Corporation's financial statements are often based on limited or preliminary information--especially if the plan's date of termination is near the fiscal yearend. Consequently, after issuing financial statements, the Corporation often finds that some plans that were expected to be trusteed are later determined to be sufficient, not in need of trusteeship, and thus must be deleted from the inventory.

The Corporation's policy is to adjust the financial statements in the period during which revised or final data become available. During fiscal 1980, the gathering and analyzing of additional information revealed that 95 plans on the fiscal 1979 statements were determined to be not in need of trusteeship and were deleted from the case inventory. Accordingly, the account "Present value of future benefits for terminated plans" was overstated for fiscal 1979 by approximately $20 million.

The terminated plan inventory included in the fiscal 1980 financial statements consisted of 672 single-employer plans, of which 502 were already trusteed. The other 170 were plans that the Corporation believed needed trusteeship. Although Corporation officials recognized that some plans in the fiscal 1980 inventory would subsequently be excluded, they lacked the historical experience to estimate the number or the value of such plans.

The Corporation should determine reasons for changes in its financial statement inventory and establish an allowance for doubtful trusteeships to better reflect the net realizable value of the account. However, because the Corporation lacked the experience to establish a reasonable allowance for inventory fluctuations in the fiscal 1980 statements, and because experience since fiscal 1979 indicates that the liability may be subject to change, the reported value for the reserve account "Present value of future benefits for terminated plans" is uncertain.

Conclusions and recommendations

A significant portion of the account "Present value of future benefits for terminated plans" is based on estimating procedures that are too new to be judged reliable. More important, however, the Corporation lacks procedures to collect all the data necessary to make annual valuations of the liability for each individual participant. As a result, it could not directly value guaranteed benefits for plans with a final date-of-termination liability. In addition, it was unable to test actuarial and other assumptions used to value this account and had to overextend a computer model to project its liabilities. Finally, the model population could not be proven to accurately represent all final date-of-termination liabilities and the Corporation was unable to determine the exact number of plans that should be included in this account.

We recommend that the Executive Director, Pension Benefit Guaranty Corporation:

--Develop a system for financial statement reporting that values benefits on a current, individual participant basis.

--Substantiate the reasonableness of actuarial assumptions, estimation techniques, and models.

--Determine reasons for changes in the pension plan inventory and, for financial statement purposes, establish an allowance in this account for expected variances.

--Establish accounting controls and procedures to reconcile benefit data maintained by separate computer systems.

PROCEDURES TO VALUE "ESTIMATED NET CLAIMS FOR PENDING TERMINATIONS" ARE NOT PRECISE

The account "Estimated net claims for pending terminations," reported as $44 million or 8 percent of the Corporation's total liabilities, is the second of two accounts that make up the "Reserve for guaranteed benefits." It represents a provision for certain probable net claims 1/ from future plan terminations

---

1/The liability remaining after estimated plan assets and amounts recoverable from employers have been deducted.

and has three components: subsequent terminations, pending terminations, and terminations not reported. Subsequent terminations are plans in which events making termination inevitable occurred before fiscal yearend, and actual termination occurred before the completion of the financial statements. Pending terminations are plans that have not yet terminated but that the Corporation believes have an 80 percent or greater probability of terminating. "Terminations not reported" is a statistically determined category for cases that terminated before fiscal yearend but have not yet been reported to the Corporation. Claims reported within these components in the fiscal 1980 financial statements amounted to $21 million, $19 million, and $4 million, respectively.

No matter how effective the Corporation's accounting system is, this account will always have a certain degree of uncertainty because situations leading to plan terminations (and the resulting liability) are predicated on future events not necessarily under the Corporation's control. However, procedures used in identifying probable plan terminations and the associated net claims can be improved. As the Corporation gains experience, it should statistically determine the probability of plan terminations and develop a historical perspective to prove the reasonableness of the estimating procedures.

Number of pending terminations is uncertain

The number of plans that should be included in the financial statements as pending termination is uncertain. In determining which plans should be included the Corporation focuses on reportable events 2/ or other known events that are believed to lead to plan termination. If, in the Corporation's estimation, such events indicate that it is probable a plan will terminate with insufficient assets, its estimated net claim is included in the financial statements. If such events indicate a reasonable chance of termination,

---

2/As required by ERISA, a plan administrator or representative is required to submit to the Corporation a "notice of a reportable event." A reportable event indicates a possibility of plan termination. The notification of a reportable event allows the Corporation to act to protect the benefits of plan participants and beneficiaries or to prevent unnecessary losses to the termination insurance program. Examples of reportable events are a plan's failure to meet minimum funding standards or its inability to pay benefits when due. In August 1980, the Corporation published a regulation which added new reportable events to those already listed in ERISA. They pertain to bankruptcy, insolvency or similar settlement, liquidation or dissolution, and transactions involving a change of employer. Although not all reportable events result in plan terminations, the Corporation believes that the new reportable event requirements are more closely linked to plan terminations.

the plan's estimated net claim is disclosed in the notes to the financial statements. If such events indicate a remote chance of plan termination, no disclosure is made. As indicated by this process, the determination of which plans' net claims to include in the financial statements and notes is mostly subjective. A contributing factor to this subjectivity is that no statistical relationships have been identified between reportable events or other known events and subsequent plan terminations.

Nevertheless, for the fiscal 1980 financial statements, the categorization of plans significantly affected the Corporation's financial condition. As disclosed in note 2 G 2 to the financial statements, several plans with a total estimated net insufficiency of about $130 million were believed to have only a reasonable chance of terminating and therefore were not included on the financial statements. One of these plans, with an estimated net liability of about $58 million, was considered to be a borderline probable termination. Although no provision was made for this plan on the fiscal 1980 statements, it did terminate on November 30, 1981.

Because of the materiality of plans with a reasonable chance of terminating for fiscal 1980 and the uncertainty associated with classifying plans according to the Corporation's guidelines, we cannot state that the reported value for pending terminations is fairly stated.

Unrefined procedures are used to value liability

Once the decision has been made to include a pension plan in the financial statements, the Corporation faces other problems affecting the reliability of the reported values. For example, asset and liability data do not always reflect current values at the financial statement date, unsupported discounting procedures are used to value assets, and actuaries are not involved in valuing the estimated future benefits.

In addition to the uncertainties described, the financial statement presentation of this account does not conform to generally accepted accounting principles. Such principles require the asset and liability values to be reported separately on the financial statements. Showing only a net liability does not provide adequate disclosure and is inappropriate. For the plans included in the September 30, 1980, financial statements, assets and liabilities were estimated by the Corporation to be roughly $37 million and $81 million, respectively.

This account will always have a certain degree of uncertainty. However, using experience to support the reasonableness of the discounting procedures and qualified actuaries to value the estimated future benefits of these plans would help to improve the reliability of reported values and reduce the uncertainty.

Corrective actions

The Corporation has agreed to take certain actions to improve its estimating procedures. It acknowledges that the amount reported for "Estimated net claims for pending terminations" is uncertain. Contributing to the uncertainty is the lack of (1) evidence to support a statistical relationship between reportable or other identifiable events and subsequent plan terminations and (2) an adequate historical perspective to ensure the reasonableness of procedures used to value the account. The Corporation agreed that as it gains more experience it will (1) improve its criteria for identifying plans that should be included on the financial statements and in footnote disclosures and (2) test the reliability of its estimating procedures. It also agreed to use actuaries in the valuation process and to show the assets and the liabilities separately on future financial statements.

LACK OF INTERNAL CONTROLS WEAKENS RELIABILITY OF "ASSETS OF TERMINATED PLANS, NOT IN TRUSTEESHIP" ACCOUNT

The account "Assets of terminated plans, not in trusteeship" represents the fair market value at fiscal yearend of assets of all terminated plans that are believed to be insufficient, but are not yet trusteed or physically controlled by the Corporation. This account represents 16 percent or $68 million of the total assets of the Corporation.

The Corporation records the assets of terminated pension plans prior to trusteeship because it is statutorily responsible for assuming the liabilities of these plans (mostly guaranteed future benefits) at termination. Plan assets are valued at date of termination to see if they are sufficient to pay guaranteed benefits. Plan transactions occurring between date of termination and date of trusteeship (such as purchases and sales of plan assets, realized gains and losses on assets, investment income, benefit payments, and administrative expenses) are updated to fiscal yearend based on third-party information provided by interim custodians, plan administrators, insurance carriers, or others who physically control the assets.

However, internal control weaknesses reduced the reliability of this account. The Corporation lacked controls over processing data and reconciling asset balances. The failure to substantiate third-party information and an inaccurate plan inventory also added to the uncertainty of the account's reasonableness.

Separate divisions within the Corporation collect information on plan assets as of their dates of termination and maintain it in two separate computer systems. In comparing the asset balances maintained in the two systems for the 170 plans comprised by the account, we found 146 cases where a plan's termination asset balance varied. Variances were found both above and below asset values used in the financial statements, with an average variance of about $70,000; 18 plans had variances over $100,000. 1/ These differences were partly explained as stemming from inconsistently applied procedures for entering information into the separate computer systems. However, the vast majority of the differences remained unreconciled.

The accuracy of the asset values is further weakened because the Corporation does not substantiate third-party information it uses to update plan assets from date of termination to financial statement date. The information received from interim custodians, plan administrators, insurance carriers, or others is unaudited and no assurances exist that all post-termination gains and losses are properly accounted for or that fiscal yearend data have been accurately reported. Reliance on unsubstantiated financial information can extend over several years. We noted 74 plans that had terminated before the close of fiscal 1978 that had not been trusteed as of September 30, 1980.

In addition, the Corporation is unable to determine within reasonable limits the number of plans that ultimately will be insufficient and trusteed. The fiscal 1979 financial statements reported that $49.5 million in assets for 259 terminated plans was expected to be trusteed. However, during fiscal 1980 the Corporation discovered that 95 of these plans, amounting to about $13 million in assets, would not be trusteed and should not have been reported on the financial statements. We could not determine the amount of possible error for fiscal 1980 because the Corporation lacks sufficient experience to make accurate predictions.

Conclusions and recommendations

Since the Corporation had neither reconciled inconsistent initial date-of-termination asset balances nor substantiated third-party financial data on subsequent plan activity, and had difficulty establishing a proper financial statement inventory, we cannot state that the account balance was fairly presented. However, these problems can be corrected. Procedures can be established to ensure that initial plan asset values maintained in separate systems are reconciled regularly. Interim plan transactions could be further substantiated through letters of representation, audited financial statements, and/or onsite compliance visits. In addition, an allowance for doubtful trusteeships could be established to better reflect the net realizable value of the account.

1/Inconsistent date-of-termination asset balances were also noted in those plans that were already trusteed by the Corporation. Altogether, 562 contradictory asset balances were found for the 672 plans included in the Corporation's fiscal 1980 financial statements. Because of the large number of variances it was impractical for us to extend our audit procedures.

We recommend that the Executive Director, Pension Benefit Guaranty Corporation:

--Establish accounting controls and procedures to reconcile asset data maintained by separate computer systems.

--Develop policies and procedures for substantiating information provided by external organizations.

--Determine reasons for changes in the pension plan inventory and establish, for financial statement purposes, an allowance in this account for expected variances.

ESTIMATES USED TO DEVELOP "AMOUNTS DUE FOR EMPLOYER LIABILITY" ACCOUNT CANNOT BE VERIFIED

The account "Amounts due for employer liability" represents amounts due the Corporation by employers of terminated insufficient plans. According to ERISA, the Corporation is entitled to collect from an employer an amount equal to the plan's asset insufficiency or 30 percent of the employer's net worth, whichever is less. This account includes two subclassifications: (1) amounts established by a written agreement between the Corporation and plan employers and (2) estimates of future recoveries where no formal agreement has been reached on the amounts owed or the right of collection. In the latter, the Corporation records the estimates as assets prior to legal settlement because it considers such claims to be significant assets of the Corporation and failure to recognize them would result in a material misstatement of the Corporation's financial condition. As of September 30, 1980, the Corporation reported about $3 million in agreement with employers and $45 million in estimated future settlements. The account represented about 11 percent of the Corporation's total assets.

Our concern rests with the estimated future settlements because the degree of objectivity and verifiability attained in these cases is, in our opinion, less than is customary for reported assets. Although we agree in principle with the Corporation's position that amounts for "estimated future settlements" should be recorded, we were unable to determine the reasonableness of the balance because:

--The actual amounts owed were uncertain. The Corporation and the sponsoring employers had not agreed on the extent of the liability.

--The techniques used to develop the estimate, including an allowance for uncollectible amounts, were not well defined and were unsupported.

--The Corporation's confidence in its estimates varied according to the reliability of the data available and a significant portion of the estimated values were not given a high level of confidence.

--The Corporation's collection experience is limited and procedures used to develop the estimates since fiscal 1979 were substantially different from those previously used.

--The Corporation's ability to assess and collect claims against employers' assets under certain circumstances has been challenged in the courts. The outcome of the court cases cannot be predicted. 1/

Furthermore, problems encountered in determining appropriate balances within the accounts "Reserve for guaranteed benefits" and "Assets of terminated plans, not in trusteeship" also affect the reasonableness of this account. The reliability of a plan's asset insufficiency estimates, a basis for this account, depends on whether they include (1) the appropriate number of plans and (2) reliable asset and liability values. As previously discussed, the reliability of both is uncertain.

Corrective actions

The account "Amounts due for employer liability" cannot be verified. Although some of the concerns discussed above cannot be readily resolved, improvements can be made to strengthen the reliability of the account. Verifying estimated amounts will always be difficult because of the lack of agreement on the actual amount owed and because the Corporation cannot control the outcome of pending litigation. Nevertheless, reliability can be improved by defining and consistently applying supportable criteria to value the account and by developing a collection experience that supports the reasonableness of the estimates. In addition, the improvements we previously discussed, such as further substantiation of a plan's financial data and improvements in the Corporation's procedures for valuing its liability, would increase the account's reliability.

To reduce the use of subjective judgment, the Corporation needs to develop procedures that will base settlement estimates on available supportive evidence. The Corporation is working with a private consulting firm to establish estimating procedures that can be audited and proven to reasonably estimate the amounts collectible from employers.

PREMIUM ACCOUNTS: CORPORATION DOES NOT KNOW IF ALL PREMIUMS ARE BEING RECEIVED

The Corporation lacks assurances that it receives all the income it should. Even though premiums are its main source of income, the Corporation does not know if all premiums due are paid or even

---

1/As discussed more fully in note 6 of the Corporation's financial statements, the pending litigation significantly affects the Corporation's financial condition. It affects the Corporation's ability to assess and collect claims against an employer's assets as well as other significant issues.

if all plans are paying premiums. Due to the complexity of problems in collecting and maintaining plan data and in collecting and processing premiums, we could not verify the amounts reported in the premium accounts.

ERISA requires the Corporation's insurance programs to be self-financed, primarily through premiums collected from insured pension plans and earnings from investment. (29 U.S.C. 1306) As of September 30, 1980, the annual premium was $2.60 per participant for the single-employer program. The premium income reported by the Corporation represented 76 percent of its total revenue. The financial statements reflected the following premium accounts:

Premium income	$71,200,000
Unearned premium income	$14,400,000
Premium income receivable	$ 2,700,000

Several control problems affect the Corporation's ability to identify and collect premium income.

--The total number of plans required to pay premiums is not known.

--The Corporation cannot verify the number of participants on which premiums are based. The Corporation relies solely on the integrity of plan administrators for this information.

--The Corporation does not assign plan identification numbers, and accordingly cannot control plan number changes.

The first two problems cause uncertainty about the amount reported as premium income receivable, since the Corporation may be losing revenue from plans that do not pay premiums at all or from those that do not pay correct amounts. The third problem causes duplicate records and inaccuracies in the Corporation's files due to unreconciled changes in plan numbers. Consequently, the Corporation cannot be certain that plans paying premiums in previous years are continuing to pay, or whether plans paying premiums for the first time should have been doing so earlier.

Our report "Better Management of Private Pension Plan Data Can Reduce Costs and Improve ERISA Administration" (HRD-82-12), issued October 19, 1981, provides the results of our detailed review of the Corporation's management practices related to premium receipts. We reported that (1) the Corporation did not ensure that plans paying premiums from year to year were consistently identified on Corporation files and (2) premium collection weaknesses could be causing substantial revenue loss.

In addition, the Corporation experienced significant control problems with a computer-based system that maintains information on premium receipts. The system, originally designed for recordkeeping, could not provide the accounting information necessary to maintain subsidiary records. As a result, the accounting for premium receipts was not plan-specific. The Corporation was forced to make certain general assumptions for a substantial portion of its collections: that all payments are timely, all income is premium income, and all income is current year income. Such assumptions reduce the reliability of the allocations between earned and unearned income for financial statement purposes.

The Corporation has recently taken some corrective actions and intends to do more to improve premium collections. During fiscal 1980 the Corporation implemented procedures for reviewing premium payments by plan and taking action against those plans that pay late or pay insufficient amounts. It also reconciled premium payments for some plans during the 1974-79 period to identify overpayments and underpayments. During fiscal 1981, the Corporation intends to implement better controls to improve the accuracy of plan identification numbers.

Conclusions

We were unable to assure ourselves that all premium receivables are properly accounted for or that the proration between earned and unearned premium income is correct; therefore, we cannot state that the reported amounts for "Premium income receivable" and "Unearned premium income" are fairly presented.

In our October 1981 report we concluded that, even with the improvements suggested above, the Corporation's ability to effectively collect premiums from all insured plans is severely restricted. We recommended that the Internal Revenue Service assume responsibility for receiving and processing premium collections.

INTERNAL CONTROLS OVER REPORTING BENEFIT PAYMENTS ARE LACKING

The account "Benefit payments" represents the benefits paid during fiscal 1980 to participants and beneficiaries of the 672 terminated plans reported on the financial statements. Of the $36.6 million recorded in this account, the Corporation reportedly disbursed $20.3 million directly to the participants and beneficiaries and relied on interim custodians, plan administrators, or insurance carriers to pay the remaining $16.3 million.

Uncertainty existed over the reasonableness of the reported "Benefit payments" on the Corporation's fiscal 1980 financial statements. Auditing the benefit payments account is complicated because the necessary financial data are gathered and maintained by several different corporate divisions using separate automated and manual processing systems. Further, the difficulty of accurately accounting for benefit payments is increased because the Corporation experiences lengthy delays before a plan's date-of-termination values are finally computed and trusteeship is assumed. Significant accounting and estimating problems and major uncertainties in other financial statement accounts made extensive audit tests uneconomical, so our review was limited to Corporation procedures for valuing benefit payments.

The amount reported in benefit payments disbursed by the Corporation or third parties includes an undetermined amount of overpayments which may be recoverable. This is because guaranteed benefit levels were not determined for all plan participants; the Corporation was paying some participants at their original benefit levels. Since no allowance was made for possible overpayments, the reported value of benefit payments may be overstated. We cannot determine the significance of the amounts involved, but the potential for significant overpayments exists.

In addition, the accuracy of the reported $16.3 million of benefit payments executed by third parties was uncertain because the payments were based on unsubstantiated financial reports. The reliability of such information depends on the accuracy, completeness, and timeliness of amounts reported and the procedures used to verify such amounts. However, the Corporation does not attempt to verify the reliability of these reports.

Finally, information available on fiscal yearend benefit payments was limited because of problems in the Corporation's automated benefit payment system, and procedures and documentation were not sufficient to maintain and coordinate participant data among Corporate divisions. Numerous problems concerning participant data and the lack of manual and data processing controls have been recognized in internal and external reports.

Corrective actions

The amount reported on the Corporation's financial statements as benefit payments is uncertain. The Corporation has recognized that it has significant shortcomings in this area and has begun a project to examine all aspects of the benefit payment process, in particular

--identifying and reporting benefits paid in excess of the guaranteed amounts,

--calculating benefit data (including the calculation, maintenance, and transfer of information within the Corporation's divisions), and

--substantiating benefit payments made by third parties on behalf of the Corporation.

Pension Benefit Guaranty Corporation
Combined Statements of Financial Condition
(Dollars in thousands)

	Single-Employer Fund		Multiemployer Fund		Combined	
	Year Ended September 30, 1980	1979	Year Ended September 30, 1980	1979	Year Ended September 30, 1980	1979
Assets						
Investments, at market—Notes 2C and 3:						
U.S. Government securities	$144,977	$128,141	$ 6,229	$ 8,433	$151,206	$136,574
Common stock and other equity securities	105,655	60,619	10,012	7,034	115,667	67,653
Commercial paper and certificates of deposit	9,771	11,258	178	459	9,949	11,717
Corporate bonds	588	107	—	—	588	107
Insurance contracts	27,247	23,065	—	—	27,247	23,065
Real estate mortgages and miscellaneous	351	223	1,007	1,113	1,358	1,336
Total investments	288,589	223,613	17,426	17,039	306,015	240,652
Cash	1,089	478	199	360	1,288	838
Premium income receivable—Note 2E	2,739	2,543	726	383	3,465	2,926
Accrued investment income	5,534	3,792	329	362	5,863	4,154
Other receivables—Note 2C	14,635	9,056	—	177	14,635	9,233
Amounts due for employer liability—Note 2D:						
By agreement	3,191	3,028	1,090	1,615	4,281	4,643
Estimated future settlements	44,972	39,568	1,118	549	46,090	40,117
Assets of terminated plans, not in trusteeship—Note 2C	68,027	49,500	138	—	68,165	49,500
Furniture and equipment, net—Note 2F	759	738	72	66	831	804
	$429,535	$332,316	$21,098	$20,551	$450,633	$352,867
Liabilities						
Reserve for guaranteed benefits:						
Present value of future benefits for terminated plans—Note 2G1	$462,000	$425,000	$28,700	$19,167	$490,700	$444,167
Estimated net claims for pending terminations—Note 2G2	44,000	35,000	—	—	44,000	35,000
	506,000	460,000	28,700	19,167	534,700	479,167
Unearned premium income—Note 2E	14,361	13,364	707	671	15,068	14,035
Accounts payable	2,735	4,480	158	487	2,893	4,967
Accrued expenses and other liabilities—Note 2H	1,045	865	68	226	1,113	1,091
	524,141	478,709	29,633	20,551	553,774	499,260
Deficiency in Assets; Note 4:						
Accumulated(decrease) from operations:						
Single-employer fund	(94,606)	(146,393)	—	—	(94,606)	(146,393)
Multiemployer fund	—	—	(8,535)	(10,933)	(8,535)	(10,933)
Amount of liabilities offset due to statutory coverage limitation by reducing the present value of future benefits for terminated plans	—	—	—	10,933	—	10,933
	(94,606)	(146,393)	(8,535)	—	(103,141)	(146,393)
Commitments and Contingencies—Notes 2H, 6 and 7						
	$429,535	$332,316	$21,098	$20,551	$450,633	$352,867

See notes to combined financial statements.

Pension Benefit Guaranty Corporation
Combined Statements of Operations and Changes in the Deficiency in Net Assets
(Dollars in thousands)

	Single-Employer Fund		Multiemployer Fund		Combined	
	Year Ended September 30, 1980	1979	Year Ended September 30, 1980	1979	Year Ended September 30, 1980	1979
		(Restated; see Note 2D)		(Restated; see Note 2D)		(Restated; see Note 2D)
Revenues						
Premium income—Note 2E	$ 71,171	$ 69,685	$ 4,472	$3,732	$ 75,643	$ 73,417
Investment and other income—Notes 2C and 3	22,257	17,757	1,847	1,557	24,104	19,314
Total	93,428	87,442	6,319	5,289	99,747	92,731
Expenses						
Additions to reserve for guaranteed benefits—Note 2A						
Net claims for terminated plans:						
Present value of liabilities assumed—Note 2G	78,071	116,232	1,487	2,002	79,558	118,234
Less—plan assets acquired—Note 2C	57,658	39,888	142	342	57,800	40,230
Plan asset insufficiency	20,413	76,344	1,345	1,660	21,758	78,004
Less—estimated recoveries from employers—Note 2D	3,155	7,177	490	532	3,645	7,709
Net claims	17,258	69,167	855	1,128	18,113	70,295
Change in reserve for pending terminations	9,000	(1,000)	—	—	9,000	(1,000)
Total	26,258	68,167	855	1,128	27,113	69,295
Actuarial adjustment—Note 2G	(4,388)	12,064	994	3,465	(3,394)	15,529
Administrative expenses	19,771	15,844	2,072	1,737	21,843	17,581
Total	41,641	96,075	3,921	6,330	45,562	102,405
Income over(under) expenses	51,787	(8,633)	2,398	(1,041)	54,185	(9,674)
Equity (deficiency in assets) at beginning of period—Notes 5 and 6	(146,393)	(137,760)	-0-	-0-	(146,393)	(137,760)
Change in statutory limitation of guaranteed benefits offset against the present value of future benefits payable—Note 2G	—	—	(10,933)	1,041	(10,933)	1,041
Equity (deficiency in assets) at end of period	$ (94,606)	$ (146,393)	$ (8,535)	$ -0-	$ (103,141)	$ (146,393)

See notes to combined financial statements.

Pension Benefit Guaranty Corporation
Combined Statements of Changes in Financial Condition
(Dollars in thousands)

	Single-Employer Fund		Multiemployer Fund		Combined	
	Year Ended September 30,		Year Ended September 30,		Year Ended September 30,	
	1980	1979	1980	1979	1980	1979
Source of Funds from Operations						
Income over(under) expenses	$ 51,787	$ (8,633)	$2,398	$ (1,041)	$ 54,185	$ (9,674)
Charges to operations not affecting cash & investments:						
Depreciation	147	103	17	11	164	114
Present value of liabilities assumed	78,071	116,232	1,487	2,002	79,558	118,234
Actuarial adjustment	(4,388)	12,064	994	3,465	(3,394)	15,529
Increase(decrease) in reserve for pending terminations	9,000	(1,000)	—	—	9,000	(1,000)
Increase(decrease) in unearned premiums	997	(1,985)	36	69	1,033	(1,916)
Total provided by (used for) operations	135,614	116,781	4,932	4,506	140,546	121,287
Uses of Funds						
Additions to furniture and equipment	168	143	22	15	190	158
Increase(decrease) in other assets	7,517	8,371	133	263	7,650	8,634
(Increase)decrease in other liabilities	1,565	(3,343)	487	(415)	2,052	(3,758)
Increase(decrease) in assets of terminated plans	18,527	2,707	138	—	18,665	2,707
Increase in amounts due from employers	5,567	5,154	44	(39)	5,611	5,115
Benefit payments	36,683	32,296	3,882	4,367	40,565	36,663
Total uses (additional sources)	70,027	45,328	4,706	4,191	74,733	49,519
Increase in cash and investments	$ 65,587	$ 71,453	$ 226	$ 315	$ 65,813	$ 71,768

See notes to combined financial statements.

Notes to Combined Financial Statements

Pension Benefit Guaranty Corporation

September 30, 1980

Note 1 — Organization and Purpose

The Pension Benefit Guaranty Corporation (PBGC) is a federal government corporation which guarantees basic pension benefits. This coverage is provided within statutory limits to participants in all covered private defined benefit pension plans.

PBGC is a self-financed corporation which is subject to the provisions of the Government Corporation Control Act. PBGC's income is derived primarily from premiums paid by covered pension plans. PBGC was created by Title IV of the Employee Retirement Income Security Act of 1974 (ERISA) and its activities are defined in ERISA as amended. PBGC commenced operations on September 2, 1974.

When a single employer plan covered by PBGC terminates, PBGC is liable for the payment of all guaranteed benefits in the plan. The net liability or net claim assumed by PBGC is equal to the present value of the guaranteed benefits less (1) the amounts that are provided by the plan's assets and (2) the amounts that are recoverable by PBGC from the employer(s) that maintained the plan.

PBGC may also be contingently liable in the event an insurance carrier should fail to pay benefits for annuities purchased by a plan pursuant to receiving a Notice of Sufficiency. Since these annuities must be purchased from carriers licensed by a state or the District of Columbia, PBGC regards the potential of such a claim materializing as being remote. No provision is made in the statements for this contingency.

PBGC insurance coverage applies to all single and multiemployer defined benefit plans that meet the criteria specified in Section 4021 of ERISA. Public Law 96-364, the Multiemployer Pension Plan Amendments Act of 1980 (Multiemployer Act) was signed into law on September 26, 1980. It significantly changed the nature of the multiemployer insurance program. (See Note 5, "Multiemployer Plans.")

Note 2 — Basis of Financial Statements

2 A. *Basic Accounting Policies*

2 A 1. Single Employer Fund

The Single Employer Fund includes the assets and liabilities of all defined benefit pension plans for which PBGC is trustee, as well as those plans which have terminated and are expected to result in PBGC trusteeship. PBGC's liabilities and the resulting net claims are recognized as of the date of plan termination for single employer plans. PBGC's net claim is determined as of the date of termination. The net claim is equal to the plan asset insufficiency (present value of guaranteed benefits less plan assets acquired) less the estimated present value of amounts expected to be recovered from the employer(s). In accordance with the employer liability provisions of ERISA, the latter amount is collectable from the employer(s) that maintained the plan.

2 A 2. Multiemployer Fund

The Multiemployer Fund, like the Single Employer Fund, includes the assets and liabilities of all defined benefit pension plans for which PBGC is trustee. For those multiemployer plans which terminated prior to August 1, 1980, PBGC's liability is recognized as of the date that PBGC agrees to grant discretionary benefit guarantees. For those plans which terminated between August 1, 1980 and September 25, 1980, liability is recognized as of the termination date. From September 26, 1980, PBGC may loan money to plans requesting financial assistance. Claims arising from requests for financial assistance will be recognized when financial assistance commences.

2 A 3. Single and Multiemployer Funds

The statements include estimated financial data relating to certain plans for which actual data was unavailable to PBGC. In some cases, a final determination has not been made as to the effective date of a plan's termination. In these cases statements reflect the date of termination which PBGC believes is most appropriate under the circumstances. Changes in these values are reflected in the financial statements for the period in which revised or final data becomes available.

In addition, the statements include a provision for pending terminations. That provision is made when a definite, identifiable event has come to PBGC's attention, prior to the fiscal year end, and it believes a net liability will result in a subsequent period. (See Note 2G2, "Reserve for Pending Terminations.")

2 B. Fund Accounting

PBGC maintains both a revolving fund and a trust fund for each of its basic benefit programs (single employer and multiemployer) as required by ERISA. For presentation in the financial statements, the single employer revolving and trust funds have been combined as have the multiemployer revolving and trust funds. The single employer and multiemployer funds, however, are separate entities; and gains from one cannot be used to offset losses from the other fund.

2 C. Asset Valuation

Assets assumed by PBGC from terminating plans are valued at fair market value. Insurance contracts are valued in accordance with the rules PBGC has proposed for valuing insurance contracts. These rules measure the current value of the unallocated portion of insurance contracts. The value reported is the greater of (1) the value that can be transferred to PBGC (its cash out amount based on the present value) or (2) the value to PBGC of the benefits that could be purchased through conversion of the contract to fully allocated annuities under the relevant insurance contract. Any gain or loss in the value of all assets, whether realized or unrealized, is included in investment income in the accompanying combined statements of operations. (See Note 3, "Investment Policy.")

The combined statement of operations and change in the deficiency in net assets also includes an amount for unpaid employer contributions which are due the plan as of the date of termination. In some cases, the value is based on amounts subsequently paid to the plan. In other cases, it is based on PBGC's estimates of the amount due the plan. For plans in which PBGC is trustee, amounts unpaid as of the fiscal year end are reported under other receivables.

2 D. Employer Liability

An employer is liable to PBGC whenever a plan under its sponsorship terminates without sufficient assets to pay plan benefits guaranteed by PBGC. The amount of this liability is the excess of the value of the guaranteed benefits over the value of the plan assets; however, the liability cannot exceed 30 percent of the employer's statutory net worth. This liability is measured as of the date of termination. Amounts estimated to be recoverable from employers are recognized by PBGC as an asset as of the date of termination.

The amounts shown as recoverable from employers represent the total estimated value of both anticipated settlements with employers for liability pursuant to the Act and amounts recoverable by formal agreement. Amounts outstanding and recoverable by formal agreement as of fiscal year end are reported separately. A significant portion of this latter amount is estimated since much of the final amount to be recovered is based upon the outcome of certain contingencies as agreed to with the sponsoring employers or as a result of litigation. Estimated future recoveries are based in certain instances on estimated values of (1) plan liabilities for guaranteed benefits, (2) plan assets and/or (3) employer net worth, if applicable. Estimated future recoveries are shown net of an estimated allowance for uncollectability. The estimated future recovery from employers has also been discounted since, as of the dates of the comparative statements, this receivable was not accruing interest. A PBGC regulation (29 CFR Part 2622) effective April 1, 1981, provides that PBGC charges interest on unpaid employer liability beginning April 1, 1981. The rate of interest will be the rate charged by the IRS on delinquent tax payments. The allowances and discounts are shown in the table below.

(Dollars in thousands)	**Single-Employer**		**Multiemployer**	
	September 30			
	1980	**1979**	**1980**	**1979**
Allowance for uncollectability	5,219	4,980	151	95
Discount	2,645	7,209	75	55

The decrease in the discount on unpaid single employer liability results from the employer liability regulation, discussed above, becoming effective April 1, 1981, thereby reducing the discount period from eighteen to six months. The income applicable to the earned discount is included in Investment and Other Income in the Combined Statement of Operations for the period ended September 30, 1980. It is also reflected as a restatement of the amounts reported for the period ended September 30, 1979 for the earned discount applicable to that period previously included in net claims.

The amounts shown are based on the premise that the employer liability provisions of ERISA as interpreted by PBGC are legally enforceable. There have, however, been several legal challenges to these provisions. To date, several federal courts have ruled in favor of PBGC on this issue. (See Note 6, "LITIGATION".)

2 E. Premium Income

All premiums are recognized as revenues as they are earned during the year. Plans are required to pay premiums within 7 months after the beginning of the plan year. As a result, a receivable for premium income earned but not received by year end is normally associated with plan years that begin between March 1 and September 30. Unearned premium income, which reflects amounts that have been received but not yet earned is normally recorded for plan years beginning between October 1 and March 1.

ERISA provides that PBGC shall not cease to guarantee basic benefits because of the failure of a plan administrator to pay any premium when due. Management does not believe nonpayment of premiums to be significant in comparison to the total plan universe. PBGC, as provided in ERISA, is authorized to assess a late payment penalty. In addition, interest is chargeable for underpayment, nonpayment, or late payment of premiums and, together with refunds, is recognized when collected or paid. Management does not believe these amounts to be significant in relation to the total premiums collected by PBGC.

The Multiemployer Act revised the multiemployer premium schedule. Under ERISA, multiemployer plans previously paid annual premiums at a rate of $.50 per participant. The Multiemployer Act established a graduated increase in the premium rate for multiemployer plans from $.50 to $2.60 per participant over a 10 year period, beginning when the Multiemployer Act was passed.

2 F. Depreciation

Depreciation of furniture and equipment is provided for on the straight-line basis over the estimated useful lives of the assets which range from 5 to 10 years.

Leasehold improvements (the amounts of which are not significant) have been charged to operations as incurred.

2 G. Reserve for Guaranteed Benefits

2 G 1. Present Value of Future Benefits for Terminated Plans

The Reserve for guaranteed benefits represents the present value of future payments of guaranteed benefits for plans which have terminated as of the end of the fiscal year, and for which PBGC either has assumed trusteeship or is expected to become trustee. It is computed using the actuarial methods prescribed in PBGC's Valuation of Plan Benefits Regulation (29 CFR 2619). The Reserve for guaranteed benefits as of the end of PBGC's fiscal year is based upon the actuarial assumptions in effect on that date.

A significant portion of the Reserve for guaranteed benefits is based upon estimated data, since a final actuarial determination has not yet been made by PBGC. Any changes in these estimates are reflected in the fiscal year in which the benefits are actuarially determined or re-estimated by PBGC.

The Reserve for guaranteed benefits is adjusted subsequent to the date of plan termination to reflect benefits paid, the passage of time, the write-off of amounts not recoverable by PBGC, changes in actuarial assumptions and other factors. The impact of these adjustments is reported as an actuarial adjustment in the combined statement of operations.

The most significant actuarial assumption is the assumed rate of interest. The rate changed for participants in pay status from 7.75% as of September 30, 1979 to 9.00% as of September 30, 1980. Comparable changes were made in the rates used to value deferred annuities.

Prior to August 1, 1980, PBGC could not guarantee benefits of multiemployer plans if it had to increase premiums or borrow funds to do so. The Multiemployer Act required PBGC to guarantee benefits, regardless of its financial position. As a result, $10,933,000 was charged to net deficiency in assets in the current year to provide a reserve for guaranteed benefits.

This deficiency results from plans accepted by PBGC for benefit guarantees made by PBGC under the discretionary program.

The changes in the Reserve for guaranteed benefits during the years ending September 30, 1980 and September 30, 1979 are summarized in the accompanying table.

Analysis of the Reserve for Guaranteed Benefits for the Years Ended as Indicated

(Dollars in millions)

	Single-Employer 9/30/80	Single-Employer 9/30/79	Multi-employer 9/30/80	Multi-employer 9/30/79	Total 9/30/80	Total 9/30/79
Actuarial adjustments:						
Increase for interest due to the decrease in the discount period	$ 33	$ 27	$ 3	$ 2	$ 36	$ 29
Change in interest rate used to value benefits	(43)	(17)	(3)	(1)	(46)	(18)
Change in prior years aging estimates	6	2	1	2	7	4
Total actuarial adjustments per statement of operations	(4)	12	1	3	(3)	15
Increase during year attributable to net benefits guaranteed	78	116	2	2	80	118
Elimination (in 1980) and change (in 1979) in statutory limitation	—	—	11	(1)	11	(1)
Benefits paid	(37)	(32)	(4)	(4)	(41)	(36)
Net increase (decrease)	37	96	10	0	47	96
Balance at beginning of year	425	329	19	19	444	348
Balance at end of year	$462	$425	$29	$19	$491	$444

2 G 2. Reserve for Pending Terminations

This reserve represents a provision of certain probable net claims from future plan terminations. It is based upon (1) available information on certain plans which were under active review by PBGC at year end ($40 million as of September 30, 1980 and $32 million as of September 30, 1979) and (2) prior experience concerning terminations which have occurred prior to year end, but for which PBGC did not have specific knowledge as of the date the statements were prepared ($4 million as of September 30, 1980 and $3 million as of September 30, 1979). Most of the plans listed as under active review terminated subsequent to September 30, 1980.

In addition to the plans discussed above, there were several other plans under review, when these statements were completed, for which management believes there was a reasonable chance that a future net claim might arise. Based upon the information currently available, the possible liability for these additional plans is estimated to be up to $130 million.

There continue to be a number of other potential plan terminations of which PBGC is aware. In these cases, the possibility of a claim was either not deemed sufficiently likely or insufficient information was available to develop an estimate of the magnitude of a possible future PBGC liability. No provision has been made for liabilities that could result from these terminations.

2 H. Deferred Compensation

Employees are permitted to accumulate certain unused annual leave which is payable when taken, upon severance of employment, or retirement. Approximately $760,000 of the amount shown as accrued expenses represents accrued unused annual leave as of September 30, 1980 compared to $577,000 as of September 30, 1979.

No accrual for accumulated unused sick leave is recorded since employees do not have a formal vested interest in such leave until they reach retirement age. In such cases, the vested interest pertains to retirement benefits payable under the federal retirement system. No amounts are paid unless sick leave is used.

There was no significant PBGC liability outstanding as of September 30, 1980 in connection with the participation of PBGC's employees in the federal retirement system. PBGC's liability is 7% of the salary of covered employees. This amount is paid on a current basis.

Note 3 — Investment Policy

Premium receipts are credited to the appropriate revolving funds. To the extent that such funds exceed current needs, PBGC is required to invest these funds in securities issued or guaranteed by the United States Government. Trust fund assets include both assets of terminated plans and employer liability payments. Those assets, once they have been transferred to PBGC's independent money managers, are invested primarily in equity securities selected by the managers.

The basis and types of investments, which are carried in the combined statement of financial condition at market value (See Note 2C "Asset Valuation"), are shown in the following table. It excludes assets of terminated plans which were not in PBGC trusteeship as of the respective statement dates. Those assets are reported separately until PBGC becomes trustee, at which time they are reclassified.

(Dollars in thousands)	**Year Ended**		**Year Ended**	
	September 30,			
	1980		1979	
	Basis	Market Value	Basis	Market Value
U.S. Government securities	$168,534	$151,206	$141,336	$136,574
Common Stock and other equity securities	93,919	115,667	61,172	67,853
Commercial Paper and certificates of deposit	9,949	9,949	11,717	11,717
Corporate bonds	564	588	108	107
Insurance contracts	23,559	27,247	21,529	23,065
Real Estate and mortgages	1,354	1,358	1,437	1,336
Totals	$297,879	$306,015	$237,299	$240,652

Investment and other income reported in the accompanying 'Combined Statement of Operations (which also includes income since the date of termination for plans identified for potential or actual trusteeship during the year) consist of:

(Dollars in thousands)	Year Ended	Year Ended
	September 30,	
	1980	1979 Restated
Interest, dividends and other investment income	$20,909	$14,727
Interest on employer liability (see Note 2D)	4,528	2,619
Realized and unrealized gains and (losses)	(1,333)	1,968
Totals	$24,104	$19,314

Note 4 — Financing

4 A. *General*

PBGC programs are required by ERISA to be self-financing. PBGC's operations are financed through premiums collected from ongoing covered plans, investment income, assets acquired from terminated plans, and the collection of employer liability payments due under ERISA as amended. In addition, PBGC may borrow up to $100 million from the Treasury to finance its operations. No debt was outstanding in connection with this borrowing authority during Fiscal 1980 and 1979. No use of this borrowing authority is contemplated. The Employee Retirement Income Security Act of 1974 provided under Title IV that the U.S. Government is not liable for any obligation or liability incurred by PBGC.

ERISA originally provided that the receipts and disbursements of PBGC should not be included in the totals of the budget of the United States Government. The Multiemployer Act provides that for fiscal years beginning after September 30, 1980, PBGC's receipts and disbursements shall be included in the totals of the budget of the United States Government.

4 B. *Single Employer Program*

During 1980 and 1981, PBGC conducted a study based on past and expected experience in order to determine whether the $2.60 per participant premium currently charged is adequate to (1) meet future net claims and (2) amortize the deficit applicable to the single employer basic benefits program. The results of that study concluded that a significant increase in premiums is appropriate. Management is now considering how to coordinate a request for a premium increase with proposals expected to be considered in Congress for restructuring the Single Employer program. Such proposals would have a major impact on the Single Employer Program.

Note 5 — Changes in Provisions Affecting Multiemployer Coverage

For multiemployer plans terminating prior to August 1, 1980, PBGC could grant discretionary coverage. As of June 12, 1981, PBGC was considering six plans for discretionary coverage. PBGC had decided to cover 3 plans with an estimated net claim of $700,000 subsequent to year end. It was decided not to cover one of the six plans, and two plans with an estimated net claim of $311,000 were still under consideration. None of the aforementioned plans are included in the statements.

PBGC was required by ERISA to provide coverage for multiemployer plans terminating between August 1, 1980 and September 25, 1980. One plan terminated during this period. Since coverage during that period was mandatory, this claim is reflected in these statements.

On September 26, 1980, the Multiemployer Act was signed into law. The Multiemployer Act provides that PBGC will provide financial assistance and guarantee benefits for insolvent plans after September 26, 1980. Guaranteed benefits under a multiemployer plan differ from guaranteed benefits under a single employer plan. Under a multiemployer plan, the guaranteed benefit is limited to 100% of the first $5 of the employees accrual rate plus a fraction (either 65% or 75%) of the lesser of $15 or the accrual rate in excess of $5, times years of credited service. Financially troubled multiemployer plans are allowed to reduce their benefits. An insolvent plan must reduce certain benefits. Although no plan may reduce its benefits below guaranteed levels, insolvent plans are required to suspend benefits in certain cases.

PBGC provides financial assistance to plans applying for it in accordance with the terms of the statute. If the plan sponsor of an insolvent plan, in which the maximum amount of monthly benefit payments the plan can afford to pay (resource benefit level) exceeds the plan's basic benefits, believes that the plan will not be able to pay the guaranteed basic benefits for a particular month, the plan sponsor may apply to PBGC for financial assistance.

If an insolvent plan's basic benefits for a given year exceed the resource benefit level, the plan sponsor must apply to PBGC for financial assistance.

No plans were granted financial assistance prior to October 1, 1980. One plan requested financial assistance, subsequent to year end, and a secured loan of $311,310 will be made to the plan, to be repaid by August, 1983.

A multiemployer plan can terminate only if (1) by plan amendment it either freezes the accrual and vesting of benefits, or converts to a defined contribution plan, or (2) every employer withdraws from the plan or ceases to have an obligation to contribute to the plan. All employers who have completely or partially withdrawn from a multiemployer plan must pay their share of the plan's liability for unfunded vested benefits by continuing payments to the plan. The amount of the withdrawal liability is determined using one of several allocation methods described in the statute or in regulations promulgated by PBGC (29 CFR Part 2642).

The withdrawn employer's annual payment is generally based upon the highest three consecutive years of annual contribution base units multiplied by the highest contribution rate for the prior five years. This payment is for twenty years, unless the full amount of the liability can be amortized sooner. Where the withdrawn employer sells most or all of its assets in an arm's length transaction, the amount of the unfunded vested benefits allocated to that employer is limited to the greater of: (1) the amount of unfunded vested benefits attributable to that employer's employees, or (2) a percentage of the employer's net worth. The marginal rate of the net worth percentage in alternative (2) varies from 30% to 80%.

Plans that terminate by mass withdrawal (complete withdrawal by every employer) may be trusteed by PBGC. However, PBGC will not become liable until the assets become insufficient to pay basic guaranteed benefits. So as to avoid any claim on the insurance system, fluctuations in asset values between the present value of guaranteed and full accrued benefits will cause a change in the amount of subsequent benefit payments to participants. No terminations by mass withdrawals requiring PBGC trusteeship had occurred during either Fiscal Year 1980, or prior to the issuance of these financial statements.

Note 6 — Litigation

Litigation involving significant financial implications is currently pending. The issues with the most significant financial implications are:

6 A. Whether Title IV's employer liability provisions violate the U.S. Constitution. A final adverse ruling on constitutional grounds would restrict PBGC's ability to collect employer liability, and could result in an increase in PBGC's deficiency in assets. To date, several federal courts have ruled in favor of PBGC on this issue. The Supreme Court has refused to review a U.S. Court of Appeals decision in favor of PBGC. However, there are a number of other cases in which this issue is still pending.

6 B. Whether members of a controlled group of businesses are jointly and severally liable for the underfunding of a plan, based on the consolidated fair market value of the entire group. Final adverse rulings on this issue would restrict PBGC's ability to assess employer liability against those members of a controlled group whose immediate employees did not participate in the terminated plan. A U.S. Court of Appeals has ruled in favor of PBGC in one case. The Supreme Court has refused to review that decision. However, there are a number of other cases in which this issue is still pending.

6 C. Whether Title IV's multiemployer program violates the U.S. Constitution. A complaint was filed challenging the constitutionality of the discretionary multiemployer program as created by the Employee Retirement Income Security Act of 1974. The complaint was later amended to also challenge the mandatory multiemployer program as created by the Multiemployer Pension Plan Amendments Act of 1980. The action is now pending in a U.S. District Court. A final adverse ruling on the constitutionality of either program could require the return of premiums previously paid to PBGC and lead to comparable actions by similar plans. A final adverse opinion on the constitutionality of the mandatory multiemployer program could also prohibit future premium collections with respect to multiemployer plans. Such an adverse ruling would greatly limit the sources of funds available to meet PBGC's liability for benefit obligations under the multiemployer program and could affect PBGC's obligation to guarantee benefits.

6 D. Whether certain pension plans terminated during the discretionary coverage period for single employer plans (July 1, 1974 through and including September 1, 1974). Participants in plans terminated during this period are entitled to guaranteed benefits but sponsors of these plans are not liable for employer liability. Participants in certain plans are claiming guaranteed benefits although PBGC has determined that the terminations occurred prior to the discretionary coverage period. Final adverse rulings in these cases could increase PBGC's deficiency in assets.

6 E. Whether PBGC, as trustee of a pension plan, has the right to collect unpaid employer contributions, in addition to employer liability under Section 4062 of ERISA. A bankruptcy trustee claims that PBGC's exclusive remedy is employer liability and therefore PBGC is prevented by ERISA from any recovery where there is no net worth. A final adverse ruling could limit PBGC's ability to recover unpaid contributions and could result in an increase in PBGC's deficiency in assets.

6 F. Whether certain pension funds to which more than one employer contributes, are single plans or aggregates of single plans. In certain circumstances PBGC has taken the position that a fund is a single plan and that the withdrawal of a contributing employer does not cause a termination. In other circumstances, PBGC asserts that a cessation of an employer's participation in a fund constitutes a termination of that employer's plan (which is one of a group of plans constituting the fund). If the courts conclude that terminations have occurred in circumstances where PBGC contends they have not, it would increase PBGC's deficiency in assets since some sponsors will not be fully liable for the resulting plan asset insufficiency.

6 G. Where certain individuals or groups of individuals were wrongly denied benefits by PBGC. Actions are now pending in several District Courts. Final adverse rulings in these cases could result in an increase in PBGC's deficiency in assets.

6 H. Whether the U.S. District Court has established an appropriate date of termination for a terminated insufficient pension plan. A U.S. Court of Appeals has ruled that the date of termination should be established by balancing the interests of the plan participants with the interest of the PBGC as an insurer. PBGC has filed a notice of appeal alleging that a U.S. District Court erred in establishing the date of plan termination later than the date PBGC requested. Since participants accrue benefits until the date of plan termination, a final adverse ruling would increase PBGC's deficiency in assets.

6 I. Whether the PBGC wrongly refused to agree to the terminations of certain individual pension plans. Actions were recently initiated by plan sponsors at the U.S. District Court level. Final adverse rulings in these cases could increase PBGC's deficiency in assets by as much as $35 million.

Note 7 — Commitments

PBGC leases its office facility under an agreement which expires on September 1, 1985. Annual payments during the period October 1, 1980 to September 30, 1985 are expected to be approximately $1,200,000.

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

APR 19 1982

Mr. Gregory J. Ahart
Director
Human Resources Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

We appreciate the opportunity to comment on the proposed report by the General Accounting Office on its examination of the Pension Benefit Guaranty Corporation's financial statements for the fiscal year ended September 30, 1980.

The proposed report contains a disclaimer of opinion on the fiscal 1980 financial statements. It also provides recommendations for strengthening internal controls and improving recordkeeping and financial statement preparation. We agree with the general conclusions of the proposed report and the need to make further improvements in the areas cited.

It is evident that a significant problem in preparing our financial statements has been the need to rely extensively on estimating techniques in stating certain accounts and the very limited historical basis yet available to us to corroborate those estimates. In addition, a substantial portion of the amounts for which we must account consist of assets and liabilities over which we have not yet assumed control and for which we must rely on data maintained and provided by other parties. These factors significantly affect our accounting procedures and pose difficulties not normally encountered by business endeavors in applying generally accepted accounting practices. Given these circumstances, we believe that our fiscal 1980 statements provide an appropriate presentation of our financial situation as of September 30, 1980.

As your proposed report notes, we began in 1979 a corporate-wide effort to improve the reliability of our financial statements following GAO's comments earlier that year on its examination of our fiscal 1977 financial statements. Because of the relative newness of the program, the unprecedented policy, regulatory and procedural issues to be resolved, and the complexity of the actuarial procedures involved in the termination of plans, the necessary work was estimated in 1979 by a major accounting firm to require up to five years to implement and to involve as much as $10 million in additional costs.

In the short period between the beginning of this effort and the rendering of our fiscal 1980 statements, a number of improvements have been made, commencing with the preparation of the fiscal 1979 financial statements; these improvements have been noted in your proposed report. Improvements have occurred in each successive year, and will continue until all necessary steps are completed. All of the improvements to September 30, 1980 have been accomplished without additional resources, although we now have available a modest amount of additional funds to permit further progress. Notwithstanding our limited resources, we are endeavoring to resolve the matters you have raised and, in that connection, we will be providing you our plan for addressing still needed improvements in financial controls and reporting.

This letter, together with the attached Appendix, discusses some of our efforts in this regard, as well as some of the basic difficulties to be overcome. In addition, we believe it important that certain of the GAO conclusions be placed in proper balance to dispel any impression that each problem cited is of equal significance.

Liability Accounts

The most significant of our liability accounts sets forth the present value of future benefits for terminated plans. As you state, the first step in its development is to calculate the liability we have assumed for each plan as of its date of termination. As you also point out, the time needed to complete the calculation in each case may vary from several months to several years following a plan's termination. 1/ Accordingly, for those numerous plans for which this process has not yet been completed at any financial statement date we must estimate such value on the best available basis.

It is worth noting that as of the end of fiscal 1980, over 45% of our values as of the date of termination were based on final calculations, compared with only 12% as of the fiscal 1977 statement. We are also pleased to note your comment that during the last 2 years we have improved our procedures for estimating guaranteed benefits and that in your view the techniques employed by the actuarial consulting firm which has performed these estimates under contract with PBGC appeared reasonable. I would stress that the results achieved through those procedures have been most encouraging. Of the 142 plans

---

1/ This lapse of time occurs because we must first inventory and value the assets of the plan, calculate the benefit entitlement of each plan participant, allocate the plan's assets to those benefit entitlements in accordance with the order of priority prescribed by Section 4044 of ERISA, and apply the various guaranteed benefit limitations required by the Act (including the phase-in restrictions which Section 4022 provides for benefit increases that have occurred within 5 years prior to plan termination). The guaranteed benefits thus calculated must then be given a present actuarial value determined through the application of various assumptions concerning interest, mortality and benefit option selections. In a large plan with a recent history of benefit increases, this can be an extremely complex and unfortunately time-consuming process, which we must complete before we have a final determination of the present values of the plan's liabilities as of its date of termination.

In addition, serious processing delays are occasioned in many cases by the unavailability of adequate records from plan sponsors, as well as the fact that the resolution of legal issues or litigation arising out of the new statutory provisions has often had to precede other work on a particular case.

GAO reviewed which had estimated date of termination values in 1979, but for which final values were completed in 1980, the estimates were within 1.9% of final values for "high confidence" estimates, 1.4% for "medium confidence" estimates and 6.8% for "low confidence" estimates. 2/

Similarly, as reflected in the footnoted table, for the 67 plans which were shown as estimated in the fiscal 1980 statements, but for which final date of termination values were calculated in fiscal 1981, our analysis shows that the final values overall were only 1.85% over the estimates. 3/

2/ These figures are in the aggregate for each confidence group and are adjusted for the single plan in the "high confidence" group referred to on page 8 of Appendix I to your report which had a significant variance due to a non-estimating error.

3/

Estimate Confidence Level	Number of Plans	Estimates 1980	Final 1981	Percent Difference
High	34	$25,644,181	$25,381,776	- 1.02%
Medium	25	11,450,020	11,497,961	+ .42%
Low	8	10,641,352	11,738,110	+10.31%
TOTAL	67	47,735,553	48,617,847	+ 1.85%

We will, of course, continue to check the precision of our estimates against subsequently determined final values. As we gain greater historical experience we believe you will find that increasing confidence can be placed in these estimates, which I believe we both agree we will always have to rely upon to a significant degree.

Even where final values have been calculated as of the date of a plan's termination, we must also bring those values forward to each successive financial statement date. This is necessary to take account of both the benefits paid subsequent to termination and the extent to which participant mortality and other actual experience subsequent to date of termination may have varied from the assumptions used to determine the date of termination values.

We agree that the most appropriate way to calculate that liability as of each statement date is to make a direct valuation of the benefit entitlement, as of the end of each fiscal year, for each participant for whom we have assumed responsibility and for whom a final date of termination valuation has been made. (That number is now over 70,000 and is, of course, steadily growing.) However, as your report recognizes, in response to the more urgent priorities of its earlier years, the Corporation's systems for entering and maintaining data concerning individual participants, and for processing such data, were originally designed to disburse benefit checks rather than to calculate the changing present values of each participant's benefit entitlement. Consequently, not all of the participant data necessary to make individual valuations as of each statement date were collected or entered into the systems, nor were the systems designed to make those calculations. Instead we have had to rely upon a computer model to project those values forward to each fiscal year end. We have now undertaken, as part of a major improvement project, the development of the capability to make individual participant calculations in the manner you suggest.

Asset Accounts

Since your last audit we have made special efforts with respect to the reliability of our various asset accounts. As of September 30, 1980, some 60% of our assets were held in our commingled trust funds or our revolving funds; we are pleased that you have expressed no reservations concerning the accounts reflecting those predominant portions of our assets.

Of our remaining assets, the larger part consists of "assets of terminated plans not in trusteeship". These are terminated plan assets which are still administered by third-party custodians, such as banks and insurance companies.

Although we now obtain financial data from such custodians for terminated plans, including transactions from date of termination to our financial statement dates, your proposed report states that the accuracy of this account is weakened because the Corporation does not substantiate this third-party information. You recommend that interim transactions could be substantiated through letters of representation, audited financial statements and/or onsite compliance audits.

We have not previously required letters of representation from the custodians holding these assets. However, the data we receive from such fiduciaries are in direct response to our requests, and are submitted to us as official communications. Our experience to date has not indicated any discrepancies between the assets and interim transactions reported by the third-party custodians, and the assets actually coming into our possession at the time of their eventual transfer to our custodian bank. Notwithstanding, we will begin requesting third-party custodians to certify as to the accuracy of the financial data furnished.

We believe that regular onsite audits to verify transactions after plan termination and other financial data reported by interim custodians would be costly and would divert scarce resources from more effective uses. The mere fact that we do not regularly perform onsite audits does not imply that we are without controls over transactions. We review quarterly or annual reports submitted to us, and where we have reason to believe that a more intensive examination may be desirable, we can expand our procedures. Furthermore, we have accelerated the process for assuming custody of these assets and are therefore reducing the time during which these assets must be accounted for by others. This reduction of time between date of termination and transfer to our custody tends to lessen any concerns regarding controls and accountability. However, we do plan to make a limited number of onsite audits in the future.

In view of these considerations, we believe that to routinely require audited financial statements from third-party custodians would involve an unnecessary increase in expense and paperwork. This added cost to the plan custodians for such audits would be a further drain on plan assets, thereby increasing the losses that the Corporation must absorb.

Plan Inventory

In commenting on our inventory of terminated insufficient plans, you state that identifying and including the correct number of plans is essential for reporting on the Corporation's financial condition. To show that plans were not being correctly reported, you cite certain plans reported as insufficient in the fiscal 1979 financial statements that were subsequently found to be sufficient and therefore removed from the fiscal 1980 inventory.

In most cases such a change in the terminated plan inventory is due to the fact that information initially received from the plan administrator indicates the plan may be insufficient, whereas subsequent review and processing may show the plan to be sufficient. Sometimes only small changes in assets or liabilities cause a plan to move from one category to the other. Changes of this type will occur each year, but we do not believe their effect on our financial statements is material. As your proposed report notes, the reserve for guaranteed benefits was overstated by $20 million for fiscal 1979 due to plans later removed from the inventory of insufficient plans, but as your proposed report notes several pages later, our assets were overstated by $13 million for the same reason. Therefore, the net difference impacting our statement of financial condition was $7 million -- which amount becomes self-correcting in subsequent years. As you have recommended, however, we have taken steps to provide estimates of allowances for these plan changes to avoid overstating the plan inventory.

Premium Accounts

Your proposed report states that the Corporation lacks assurances that all premiums due are paid or even if all plans are paying premiums, and that you were unable to assure yourself that the proration between earned and unearned premium income is correct.

We have implemented a number of procedures to address the issue of late or missed premium payments and to prevent the loss of premium income. Since 1979, more than $1 million in additional premium, penalty and interest revenue for the Corporation has been generated by this effort. We are continuing this program to increase premium receipts and our controls over them.

We have recently completed an analysis of one year's premium filings to determine the extent to which non-filers could be identified by comparing our premium records with the Internal Revenue Service's Form 5500 records. Our study focused on apparent identification number mismatches between PBGC and IRS filings, similar to the mismatches considered in the earlier GAO study referred to in your present report.

We concluded that less than 1% of our premium collections are attributable to plans which have not consistently filed with PBGC on a year-to-year basis. We have implemented procedures to assure greater consistency in our annual filings and thereby minimize any loss of revenues which might otherwise be caused by such plans. We also concluded that unpaid premiums attributable to plans that have filed with the IRS but have never filed with the PBGC amounted to only $125,000. Given the great number of apparent mismatches (over 37,000 in the one year studied) that would have to be analyzed each year to produce this potential amount of additional revenue, we doubt that pursuit of such amounts would be cost effective.

Your further comments concerning the proration of premiums between earned and unearned relate not to the total amount of premiums received but rather to the allocation of premium income between fiscal years. Our studies of this proration and the allocation methods we are using do not indicate any material distortions of income between years as reported for fiscal 1981, which report was based on the same assumptions used in fiscal 1980.

Since Appendix I to your proposed report recognizes and discusses in detail many of the inherent uncertainties we will always face in the statement of certain of our financial statement accounts, we have not attempted here to address each of the accounts referred to. However, we do plan to improve our financial reporting with respect to all of the matters you have raised, provided they are within our control and provided the measures which can be taken are practicable and cost effective.

APPENDIX III

The attached appendix covers improvements that have been made in the preparation of the financial statements during the years 1979, 1980 and 1981.

We appreciate the assistance your staff provided in suggesting solutions to a number of these problems. We will be working with you as we develop and implement improvements.

Please feel free to discuss these and related matters with me or Larry Maslan, Director of Financial Operations.

Sincerely,

Robert E. Nagle

Robert E. Nagle
Executive Director

Enclosure

APPENDIX

IMPROVEMENTS IN THE PREPARATION OF FINANCIAL STATEMENTS DURING THE YEARS 1979, 1980 AND 1981

This is a summary of the major improvements recently installed and used in preparing PBGC's financial statements. Improvements that were completed for use in the preparation process of FY 1980 statements are covered in this report. Further improvements have been made and were used in preparing the 1981 statements. Other improvements have been planned and scheduled and this effort will continue.

Since the origin of PBGC in 1974 the Corporation has been in evolutionary development as it assumed its statutory responsibilities. This evolving process directly affects the flow and quality of financial data and thereby impacts the financial statements.

The General Accounting Office's first examination of the PBGC's financial statements covered the statements issued for FY 1977. The report on this audit was issued by the GAO in May 1979. It identified various procedural and reporting problems and material uncertainties in the collection of receivables. As a result, the GAO was not able to express an opinion that the financial statements presented fairly the financial position of the Corporation at September 30, 1977 and were in conformity with generally accepted accounting principles.

In 1979, PBGC initiated as a major priority a corporate-wide effort, requiring at least several years to implement. As part of this initial effort, PBGC staff commenced a series of project-oriented steps to make progressive improvements in the preparation of financial statements for each of the fiscal years 1978, 1979, and 1980.

Notwithstanding PBGC's limited staff, considerable progress has been made in improving the quality of the financial statements for the ensuing three fiscal years. The improvements discussed below are related to GAO's findings and comments reflected in its audit report for the FY 1977 financial statements and are applicable to the FY 1980 statements.

<u>Investments - $106,614,000 at September 30, 1977 and $306,015,000 at September 30, 1980</u>

The GAO noted that financial reports from interim custodians were not prepared in accordance with generally accepted accounting principles (GAAP) or provided in a timely manner for use in statement preparation, and that the Corporation used investment amounts at September 30, 1977 that pertained to earlier periods.

Of the amount listed as investments at September 30, 1980 ($306,015,000), exclusive of insurance contracts ($27,247,000), 85% are in direct custody of the PBGC or "commingled" at the PBGC custodian bank. The remaining 15% are based on financial statements from interim custodians with adjustments as necessary to conform to GAAP. Investments and other assets held by "interim custodians" are discussed under the caption "Assets of Terminated Plans not in Trusteeship."

Although the GAO did not specifically comment on insurance contracts ($7,243,000 in 1977 and $27,247,000 in 1980), considerable improvements have been made in this area. In 1977 there was no reliable inventory of insurance contracts. As a result of a recent effort, we have identified 43 contracts that should have been included in 1977 and were not specifically included as such (in 1977 only 19 contracts were reported). Procedures have been instituted to ensure the reporting of all contracts. Additionally, we now solicit each insurance company to obtain their calculated value of the contract at the statement date and at the date of plan termination, and we review those calculations for reasonableness.

Amounts Due From Employers - $40,457,000 at September 30, 1977 and $50,371,000 at September 30, 1980

These are amounts due from plan sponsors of terminated plans where assets are insufficient to pay benefits guaranteed to participants. The GAO questioned the collectibility of this liability because (1) the actual amounts owed in most cases are still uncertain, (2) the validity of the overall estimate is questionable due to deficiencies in the Corporation's estimating methodology, (3) the allowance for uncollectibles and other valuation allowances lack a historical basis, (4) some employers of terminated plans are either in bankruptcy, in liquidation, or out of business, and (5) the Corporation's ability to assess and collect employer liability, under certain circumstances, has been challenged in the courts.

Except for item 2 on the validity of estimates, each of the comments can still be asserted and likely will be asserted in subsequent years. However, we have improved the documentation required in the evaluation of each individual receivable and therefore, we feel the estimating methodology is superior to that used for the 1977 statements.

The amounts reported in 1977 were based on over-all estimates with very little substantive support relating to individual employers and their financial status. We now examine each plan and identify and calculate the amount due from the employer. The liability amount is determined by an agreement with the employer or by a valuation made by us based on the net worth determined by a valuation of the employer's financial condition. Our methodology now includes documented procedures consistently applied and provides an estimate of the collecibility of this receivable on a case-by-case basis. A valuation expert is used in a number of instances. Historical data is still too meager to provide reliable data on collection experience.

<u>Assets of Terminated Plans Not in Trusteeship - $47,494,000 at September 30, 1977 and $68,165,000 at September 30, 1980</u>

These are assets held by custodians at date of termination and until such time as trusteeship occurs and the PBGC assumes control.

The GAO observed that PBGC extensively used unsubstantiated financial data not received from the interim custodian or from financial reports furnished by plan administrators covering such terminated plans.

We have developed requirements and procedures for obtaining financial data directly from plan custodians or plan administrators for all terminated plans applicable to the date of our financial statements. For 1980, the data was furnished directly to us for 161 of a field of 169 plans. The financial data obtained includes all transactions for the period since date of termination to statement date.

The Corporation has also improved its Trust Fund Ledger System by installing an automated subsidiary ledger system which enhances PBGC's ability to control assets of terminated plans at the earliest possible date and thus more effectively manage these assets. The TFLS was also modified to automatically post all general ledger entries to a memo ledger or a history file, thus eliminating the need for preparing and posting journal entries to each ledger.

In addition, a portfolio management system was installed which provides the values of each investment holding of a terminated plan. This system improves the accuracy of the investment reporting capability by detailing all stock dividend and stock splits, etc., for each investment to be accounted for in each terminated plan.

<u>Present Value of Future Benefits for Terminated Plans - Single Employer Program - $209,000,000 at September 30, 1977 and $462,000,000 at September 30, 1980</u>

The GAO could not determine whether this estimated liability fairly presented the present value of these future benefits because (1) 88% of the amount was estimated, (2) lack of verification of plan administrators' estimates, (3) failure to analyze actuarial adjustments for 20% of the universe of terminated plans and (4) lack of necessary data and the use of questionable data and assumptions for computing the liability.

The values used in making this determination should be derived from actuarial assumptions applied to the census of participants in accordance with PBGC regulations. For 1977, 12% of the amount was based on actual participant data as of date of termination and the balance was estimated. For 1980, this amount was increased to 49%. Our ability to increase the actual data base is limited by time and the resources required to obtain and process the statistical characteristics applicable to approximately 70,000 participants (less than 30,000 participants in 1977) covered by terminated trusteed or to be trusteed plans.

We are now principally using independent actuaries in accordance with the GAO suggestion to estimate or determine the liability for future benefit payments; the methodologies used are based on data and assumptions which are appropriately documented. Each case is written up in detail, which detail was missing in 1977. We have also made significant reductions in the use of data deemed by GAO to be questionable.

<u>Estimated Net Claims for Pending Terminations - $51,000,000 at September 30, 1977 and $44,000,000 at September 30, 1980</u>

The GAO noted that the full extent of the liability for future benefits associated with incurred but unreported plan terminations and unreported pending terminations is not known and that limited historical experience is available for making estimates.

In 1977, we did not have a computer file for collecting data on reportable events. At that time, reportable events were reviewed and a judgment was made as to whether or not they would eventually result in an insufficient termination. As a result no formal record of experience was developed to use this information for making forecasts of future terminations.

Reportable events cases from 1978 forward are now included in the Case Processing System. Although this provides a small historical base thus far, we are gaining additional data and experience so the information can be used to establish the probability of certain categories of reportable event cases resulting in terminated insufficient plans.

We utilize the Case Processing System to disclose plans that should have been reported previously as terminated plans and plans that terminated subsequent to statement date to include as pending terminations. We also review the Notices of Intent to Terminate received after the year-end and prior to statement preparation date for all major cases, including those actually terminated in this period, to identify those cases that should be reported in the current year's financial statements.

Unearned Premium Income - $9,200,000 at September 30, 1977 and $15,068,000 at September 30, 1980

The GAO could not state that the unearned premium income was fairly presented in the 1977 statements because (1) the actual amount could not be validated, (2) the account included some allocated amounts of underpayments from prior accounting periods which were received during 1977, and (3) the account included allocated overpayments unearned and ignored underpayments due in 1977 but not received.

The program for improvements for this and related areas of premium processing is discussed under the caption Amount Not Reflected in Financial Statements.

Benefits Paid - $19,785,000 for FY 1977 and $40,565,000 for FY 1980

The GAO could not state that this account was fairly presented in the 1977 statements because of (1) the large amount of estimates and unsubstantiated data ($8.5 million of $13 million reviewed) and (2) failure to adjust estimates for plans deleted or added to the universe.

In 1977 only 23% of the total benefit payments were paid directly by the PBGC (compared to 60% in 1980). The 77% reported as paid by insurance companies and interim custodians in 1977 was not substantiated.

In the 1980 financial statements, we have considerably improved our reporting of the actual amounts of benefit payments. Of the $40.5 million paid, $24.1 million or 60% was paid by PBGC from benefit payment records maintained by the Corporation. An additional $13.1 million or 32% represented payments made by insurance carriers or interim custodians and these amounts were furnished by reports, provided by the insurance carriers or custodians, which were reviewed for reasonableness. The amount that was estimated for 1980 was approximately $3.4 million or only 8%, and this estimate was necessary because we did not receive timely data from certain insurance carriers. Nonetheless, this estimate was based on other information received from those insurance carriers. We anticipate the need to make estimates in the future will be significantly reduced or eliminated.

Amounts Not Reflected in Financial Statements

The GAO observed that a Corporation study had identified many premium billing and collection system weaknesses, ranging from duplicate premium filings or no filings to computer entry errors. The GAO noted that because of these weaknesses, the Corporation had not billed plan administrators for premium underpayments and late payment penalty and interest charges or had not refunded a large amount of premium overpayments, and that these amounts, which are substantial, are not included in the financial statements.

The PBGC has undertaken a number of projects to remedy and improve the processes, control and accounting for premiums to correct prior shortcomings. These projects are as follows:

* Established lock box procedures.

* Developed and implemented a Statement of Account Billing System which provides PBGC with the capability to assess late filers for unpaid premiums, late payment penalty and interest charges.

* Analyzed and reconciled the premium filings for major plans for the years 1974 through 1979, representing over 50% of PBGC's annual premium revenues. Issued billings for amounts due PBGC and refunds for amounts due plans.

* Eliminated a backlog of 2,000 refund requests arising as a result of non-coverage determinations.

* Initiated a study to determine if plans that are required to file PBGC-1's are in fact filing and paying premiums. This is performed by comparing filings made with Internal Revenue Service (IRS) with filings of the PBGC-1. The results indicate that any discrepancies are significantly less than may have first appeared.

* Commenced discussions with IRS to explore the feasibility of having IRS collect PBGC premiums to improve collections and thereby reduce cost.

* Initiated the development of a corporate policy relative to late payment penalty and interest charges applicable to plan years 1974 through 1979.

* Commenced the implementation of a comprehensive series of enhancements to the entire premium accounting system to improve internal control,

accounting procedures and EDP systems surrounding the collection of and accounting for PBGC premiums. Improvements Instituted are:

- Establishment of a Premium Accounting Section to segregate the data entry and data control functions, thereby providing appropriate internal control over the collection and accounting for PBGC premium income.

- Implementation of the Cycle Income Summary Report which provides a means of reconciling income received by PBGC with income entered into PBGC's computerized Premium Processing System (PPS).

- Implementation of the Postable Transactions Report and Valid Transactions Report to insure that all valid transactions are posted to the PPS during system update cycles.

SUMMARY

The following major improvements have been made during 1979, 1980, and 1981 and are applicable to FY80 financial statements.

- In FY77 less than 50% of the Corporation's reported investments were based on verifiable data and under PBGC's control. By FY80, this percentage had risen to 86%. The remaining 14% represents investments of PBGC trusteed plans still held by third-party custodians, such as banks and insurance companies, who report those holdings to us.

- Plan assets are being commingled much more rapidly once the PBGC is trustee. This, together with efforts to accelerate PBGC trusteeship means a greater percentage of the Corporation's assets are now under the master trustee's custodianship and therefore are being properly accounted for. Assets under PBGC direct control represent 81% of total assets and the remaining 19% are assets held by third-party custodians, including the assets of terminated plans not yet in PBGC trusteeship.

- In FY 1977, only $25.5 million (12%) of the Reserve for Guaranteed Benefits was based on final calculations as of date of termination. By FY80, this amount had increased to $224.1 million (49%).

- The Trust Fund Ledger System has been expanded to account for assets of insufficient plans that have not yet been trusteed. This currently represents about 15% of the Corporation's assets.

- The Trust Fund Ledger System has been considerably expanded as to the level of supporting detail it captures and reconciles. This allows more rapid reconciliation and aggregation of the data. Records can also be checked against other commercially available computerized files to verify almost all asset values and the receipt and recognition of all dividends, interest payments, etc.

- Terminated plans not yet in trusteeship have been contacted to obtain all transaction data since date of termination. Transactions have been recorded in PBGC books.

- The Case Processing System has been placed into operation. As a result, a computerized inventory exists of active cases from which the Corporation has received a Notice of Intent to Terminate. This list is systematically tested to identify cases that might require PBGC trusteeship and therefore need to be reflected in the Corporation's financial statements.

- The premium collection system has been and is being improved.

- Only 19 of the 62 insurance contracts that should have been included in the FY77 closing were reported as such. Even for there 19 cases, only estimated value were used. For the FY80 closing, established procedures were used to identify the 317 insurance contracts for which the Corporation is trustee or prospective trustee. The contracts were valued at $40.6 million.

GLOSSARY

Actuarial assumptions	Estimates of the probable future magnitude of factors affecting pension cost; for example, mortality rate, employee turnover, compensation levels, and investment earnings
Actuarial gain and loss	The effect on pension cost of differences between actuarial assumptions and actual experience.
Actuary	A person professionally trained in the technical aspects of insurance and related fields, particularly in the mathematics of insurance.
Annuity	A contract that provides an income for a specified period of time, such as for a number of years or for life. The person receiving the payment is called an annuitant.
Date of termination	An established date when the pension plan assets and guaranteed benefit liabilities are valued and a determination of the sufficiency of assets for paying the guaranteed benefits is made.
Defined benefit plan	A pension plan in which there is a promise to the participants of a determinable benefit level at retirement, usually based on factors such as age, years of service, and/or salary.
Disclaimer of opinion	A disclaimer of opinion means the auditor does not express an opinion on whether the financial statements are presented fairly.
Employer liability	The employer sponsoring the plan is liable to the Pension Benefit Guaranty Corporation for the insufficiency, up to 30 percent of the employer's net worth, when a terminating plan has insufficient assets to pay the guaranteed benefits.
Guaranteed benefits	The amount of money, governed by statutory requirements and underlying regulation, that the Pension Benefit Guaranty Corporation will pay to pension plan participants and beneficiaries whose plan terminates with insufficient assets to provide vested basic benefits.

Participant	An employee or former employee who may become eligible to receive, or is receiving, benefits under the plan as a result of credited service.
Pension plan	A plan established and maintained by one or more employers to provide systematically for the payment of benfits to plan participants after their retirement (provided that the benefits are paid for life or are payable for life at the option of the employees). Additional benefits, such as permanent and total disability and death payments and survivorship payments to beneficiaries of deceased employees, may be an integral part of a pension plan.
Present value (actuarially computed values)	The current worth of an amount or series of amounts payable or receivable in the future. If payment or receipt is certain, the present value is determined by discounting the future amount or amounts at a predetermined rate of interest. In annuity valuations, further discounting is necessary for factors affecting the probability that payment or receipt will occur--for instance, mortality.
Reserve	A sum of money needed to fulfill commitments for future benefits.
Trustee	A person, bank, or trust company that has responsibility for holding and investing plan contributions. A trustee can also have responsibility over other financial aspects of a plan such as its receipts and disbursements.
Uncertainty	The situation existing when the outcome of matters that may affect the financial statements or the disclosures required therein cannot be reasonably estimated, and it cannot be determined whether the financial statements should be adjusted or in what amount.
Vested benefit	A benefit the payment of which is not contingent upon a participant's continuation in specified employment.

Vesting	A provision in a plan that a participant will, after meeting certain requirements, retain a right to the benefits he has accrued, or some portion of them, even though his service with the employer terminates before meeting age and/or service requirements for normal retirement.

(920820)

☆U.S. GOVERNMENT PRINTING OFFICE: 1982 361-843/2142 1-3

22290

AN EQUAL OPPORTUNITY EMPLOYER

UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE,$300

POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE

U.S.MAIL

THIRD CLASS