United States General Accounting Office

GAO

Report to the Congress

March 1992

FINANCIAL AUDIT

Pension Benefit Guaranty Corporation's 1991 and 1990 Financial Statements

145977

GAO/AFMD-92-35

GAO

United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-164292

March 2, 1992

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

This report presents the results of our attempt to audit the Pension Benefit Guaranty Corporation's financial statements for the fiscal years ended September 30, 1991 and 1990. Our work was performed in accordance with our authority under 31 U.S.C. 9105, as amended. The Corporation administers two guaranty programs which provide protection for qualifying defined benefit plans. Consistent with the self-financing nature of the guaranty programs, operations are financed by premiums funded by plan sponsors and invested assets.

The report presents our disclaimer of opinion on the Corporation's 1991 financial statements and describes weaknesses in internal controls and financial systems which continue to limit the Corporation's ability to prepare reliable financial statements. These weaknesses were reported to the Corporation following our attempt to audit the Corporation's fiscal year 1990 financial statements. The Corporation has made a commitment to correct the weaknesses, and this report discusses the Corporation's efforts.

The report also provides a discussion and analysis of the Corporation's reported financial condition and operations. As reported by the Corporation, the financial condition of the single employer guaranty fund—the most significant of the two guaranty funds—continued to deteriorate during the fiscal year. Reflecting an approximate $600 million loss, the guaranty fund's deficit grew to over $2.5 billion. In addition, the financial statements disclose the fund's increasing exposure from underfunded plans sponsored by companies facing severe financial difficulty.

While the Corporation reports more than $5 billion in cash and invested assets available to pay future benefits and other operating cash needs, the continuing growth in the unfunded deficit raises concern about the Corporation's ability to meet its long-term benefit obligations. The long-run financial condition of the pension guaranty funds will continue to be affected by economic conditions as well as the management and oversight of the guaranty programs and private pensions.

We are sending copies of this report to the Chairman and Ranking Minority Member of the Subcommittee on Oversight, House Committee on Ways and Means; the Secretaries of Labor, the Treasury, and Commerce in their capacities as Chairman and members of the Board of Directors of the Corporation; the Corporation's Executive Director; and the Director of the Office of Management and Budget. Copies will be made available to others upon request.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

Contents

Abbreviations

ERISA	Employee Retirement Income Security Act
GAO	General Accounting Office
PAS	Premium Accounting System

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To the Board of Directors
Pension Benefit Guaranty Corporation

In accordance with our authority under 31 U.S.C. 9105, as amended, we undertook an audit of the Pension Benefit Guaranty Corporation's financial statements for the fiscal years ended September 30, 1991 and 1990. These financial statements are the responsibility of the Corporation's management.

Our work disclosed that although the Corporation has made a major commitment to correcting weaknesses identified in our attempt to audit its fiscal year 1990 financial statements,[1] it had not made sufficient progress for us to complete a financial audit of its fiscal year 1991 financial statements. Most importantly, the Corporation had not yet developed the documentation and support for the techniques and assumptions used to estimate its reported $7.8 billion liability for future benefits nor had it assessed the completeness and accuracy of the data used by each estimating technique. Also, weaknesses in related estimating system software continued in fiscal year 1991.

Because these material weaknesses continued during fiscal year 1991 and we were unable to apply other auditing procedures to satisfy ourselves as to the fair presentation of the liability estimates, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Corporation's financial statements for fiscal years 1991 and 1990. We continue to caution users that the Corporation's financial statements have limited reliability.

Other internal control and system weaknesses in premium and accounting operations also affected the reliability of the Corporation's financial statements for fiscal year 1991. While the Corporation has initiated a series of efforts intended to address these weaknesses and assess corporationwide internal controls and financial systems, major components of these efforts were not completed at the end of fiscal year 1991.

The Corporation's unaudited fiscal year 1991 financial statements indicate that the financial condition of the single employer pension guaranty fund

[1]GAO letter to the Board of Directors of the Pension Benefit Guaranty Corporation disclaiming an opinion on the Corporation's Fiscal Year 1990 Financial Statements (GAO/AFMD-91-48, January 3, 1991).

continued to deteriorate during the year.[2] While this fund has reportedly more than $5 billion in cash and investment assets available to finance future benefits and operating expenses, its approximately $600 million loss for fiscal year 1991 increased the fund's accumulated deficit to over $2.5 billion. The single employer guaranty fund also faced increased exposure from underfunding in ongoing plans. As estimated by the Corporation, underfunding on single employer plans rose from more than $20 billion for 1989 to $31 billion for 1990 and is concentrated in certain troubled industries. The future of the single employer guaranty fund will depend largely on the economic well-being of these industries as well as the plan sponsors' continued broad-based participation in the guaranty program.

Objective, Scope, and Methodology

Our objective was to determine the auditability of the Corporation's September 30, 1991, financial statements and, if possible, conduct a financial audit as a basis for expressing an opinion on whether the statements were fairly presented in accordance with generally accepted accounting principles. Our work was conducted in accordance with generally accepted government auditing standards. These standards require that in conducting a financial audit we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatements.

Our work concentrated on the Corporation's liability estimation, premium processing, and accounting operations because material weaknesses in these areas prevented us from expressing an opinion on its fiscal year 1990 financial statements. Our work consisted primarily of discussions with Corporation officials and reviews of documents related to fiscal year 1991 operations and to efforts underway to address the previously reported weaknesses. These documents included briefing materials, policy directives, operating procedures, and plans for corrective actions. Our work was conducted at the Pension Benefit Guaranty Corporation in Washington, D.C., between September 1991 and January 1992.

Based on the information we obtained, we determined that we could not evaluate the reliability of the Corporation's process for estimating its principal liability account—its liability for future benefits. Because this situation precluded the expression of opinion on the Corporation's financial statements, we did not attempt to complete the financial audit

[2]The Corporation administers two separate programs which provide benefit protection for qualifying defined benefit plans sponsored by a single employer and those sponsored by multiple employers. Operations of each program are funded by premiums and invested assets, and funds available for one program may not be used to support the other program.

and did not perform the detailed audit work to support reporting on internal controls and compliance with laws and regulations. However, we are reporting on the conditions we observed and the Corporation's efforts to address the previously identified weaknesses.

Continuing Weaknesses Limit the Reliability of the Corporation's Financial Statements

Weaknesses in internal controls and financial systems, identified during our attempt to audit the Corporation's fiscal year 1990 financial statements, continued to limit the Corporation's ability to prepare reliable financial statements that fairly present its financial condition and operations for fiscal year 1991. Reliable financial statements are essential to evaluate the financial condition of the pension guaranty funds and the adequacy of premium levels to meet the Corporation's long-term obligation to pay benefits on terminated plans.

In response to the identified weaknesses, the Corporation undertook, in fiscal year 1991, a series of efforts intended to identify and correct internal control and financial system weaknesses. However, because of the nature and timing of these efforts, they had only a limited impact on the reliability of the Corporation's financial information and financial statements for fiscal year 1991. Correcting these weaknesses will require additional time, resources, and a continuing management commitment.

Liability Estimation

We were unable to evaluate the reliability of the Corporation's estimated $7.8 billion liability for future benefits because the Corporation is still in the process of (1) developing the documentation and support for its various estimating techniques and assumptions, (2) assessing the completeness and accuracy of data used by each technique, and (3) correcting weaknesses in estimating software. This liability account, which makes up more than 95 percent of the Corporation's total reported liabilities, represents the present value of the future pension benefits the Corporation is committed to pay.

The Corporation has developed three techniques to estimate its liability for future benefits. Different techniques are used for plans at different stages in the termination process. Each technique consists of a unique combination of mathematical formulas and assumptions which, when applied to applicable data, are intended to yield an actuarially based estimate of future benefit liability. To evaluate the reliability of the estimating process, it is necessary to (1) understand the interaction of the formulas, (2) evaluate the appropriateness and application of assumptions,

(3) assess the quality of the underlying data, and (4) establish how well each technique approximates an actuarial valuation for each individual.

In response to the identified weaknesses, the Corporation contracted with an accounting firm in an effort to correct many of the weaknesses with liability estimation. During fiscal year 1991, these efforts concentrated on documenting and improving one of the three techniques and correcting weaknesses in related software. In addition, the Corporation's staff initiated an effort to improve the completeness and accuracy of data used by this technique. However, because these efforts are still underway and additional work must be done on the other two techniques and estimating assumptions, the Corporation continued to use its existing undocumented and unsupported estimating process to develop its fiscal year 1991 estimates.

Premium Processing

During fiscal year 1991, the Corporation continued to experience serious system limitations which restrict its ability to fully process all premium information, assess the accuracy of premium amounts, and collect amounts due. These limitations prevented the Corporation from effectively accounting for, reporting, and controlling premium receivables, including interest and penalties, for plan years 1988 through 1991.

Premiums funded by sponsors of qualifying defined benefit plans are a major source of the Corporation's income and, in keeping with the self-financing nature of the Corporation, are intended to finance the Corporation's losses arising from plan termination and administrative expenses. Each year, administrators of qualifying defined benefit plans are required to determine premiums due and report certain premium-related information as part of their plan filing. The Corporation developed the Premium Accounting System (PAS) to process and maintain this information and to support its collection and enforcement efforts. However, the Corporation was unable to successfully modify PAS to accommodate the introduction of a variable rate premium for plan years after 1987. As a result, the Corporation did not use the system to process premium filings received after August 1988.

According to Corporation officials, they were able to restore data entry capabilities to PAS in early fiscal year 1991 and resumed limited system operations. With limited system operations, the Corporation began to (1) record total amounts paid to plan history files, (2) identify and resolve a significant number of suspended transactions, (3) use the plan filing data as well as other data maintained by the Internal Revenue Service to identify and notify potential nonfilers, and (4) issue automated billing documents for unpaid premiums, interest, and penalties for plan years prior to 1988.

However, according to Corporation officials, key modifications to the existing PAS were not completed and implemented by the end of fiscal year 1991. As a result, for premium filings received for plan years 1988 through 1991, the Corporation was unable to

- evaluate the accuracy of self-assessed premium filings and, as appropriate, generate billing documents for unpaid premium, interest, and penalties and
- account for single employer premium-related receipts in accordance with provisions of the Employee Retirement Income Security Act (ERISA).[3]

According to Corporation officials, difficulties in modifying PAS to accommodate changes in the premium processing requirements led the Corporation to begin development of a replacement system. During fiscal year 1991, the Corporation completed work on functional requirements for a replacement system. As of December 1991, the Corporation expected to implement the new system by the middle of fiscal year 1993.

Accounting Operations

Although the Corporation had various efforts underway to address previously reported weaknesses in accounting policies and procedures as well as internal control and accounting systems, our work disclosed that many of these weaknesses continued to affect accounting operations in fiscal year 1991. According to Corporation officials, efforts are underway to document and evaluate both its basic accounting policies and the major operating procedures for its general accounting operations.[4] Also, the Corporation began to document and evaluate the appropriateness of the process it uses to assemble and summarize accounting information in the

[3]ERISA requires the Corporation to separately account for all single employer premium-related receipts in excess of the first $8.50 per participant of flat rate premiums and limits the use of these receipts. Because the Corporation was unable to accurately account for premium-related receipts for plan years 1988 to 1991, the Corporation relied on estimates of the portion attributable to the first $8.50 of each participant's flat rate premium to separate its accounting for premium receipts.

[4]The Corporation uses separate accounting operations and general ledger systems for its general accounting operations and its trust accounting operations. General accounting operations include the receipt of premiums and the subsequent investment in Treasury securities until needed to pay operating expenses and a portion of current benefit payments. Trust accounting operations include the receipt of assets acquired through plan termination and the subsequent investment of these assets until needed to pay the balance of current benefit payments.

Corporation's annual financial statements. However, as of the end of the fiscal year, these efforts had not been completed and had not been incorporated into the Corporation's daily accounting operations. As a result, fiscal year 1991 accounting operations and financial reporting continued without written accounting policies and procedures.

In fiscal year 1991, the Corporation also initiated two corporationwide efforts that will require the periodic review and assessment of internal controls and financial systems. During the year, Corporation managers assessed internal controls and reported to Corporation management. Based on the results of these reviews, more in-depth internal control reviews have been scheduled over the next few years. In addition, the Corporation evaluated its 12 financial systems during fiscal year 1991. This effort is intended to assess system operations and integrity as well as the degree to which the financial systems support the budget process and management's needs and provide full financial disclosure. Corporation officials have prepared a long-range work plan which calls for the completion of more detailed system reviews by the end of fiscal year 1993.

Discussion and Analysis of the Corporation's Financial Condition

Although the Corporation's financial statements were unauditable, they reflect a growing uncertainty about the financial soundness of the single employer guaranty fund. For fiscal year 1991, its unfunded deficit rose by more than 30 percent to over $2.5 billion, reflecting a $597 million loss for the year. As reported by the Corporation for fiscal year 1991, the loss reflects the continuing failure of premium income to adequately offset losses on terminated plans and those expected to terminate in the future as well as other operating expenses. When combined with the reported $789 million loss for fiscal year 1990, the 123 percent increase in the fund's reported deficit over the last 2 years is of even greater concern. A significant factor in this increase has been the Corporation's recognition of losses on plans sponsored by companies in the airline and steel industries.

During fiscal year 1991, the Corporation's Statement of Operations reported $899 million in investment income, which almost offset the $940 million increase in the Corporation's reported liability on terminated plans arising from changes in discount rates and the passage of time.[5]

[5]The Corporation discounts its liability for future benefits to an estimated present value using long-term discount rates. This present value represents the Corporation's estimate of what its liabilities could be settled for in the marketplace. Annually, the Corporation adjusts the liability to reflect the change in the present value due to the passage of time, as well as changes in discount rates, experience, methods, and data. These net changes in the liability are recognized in the current year result of operations.

During the fiscal year, the Corporation reported the completion of its investment asset restructuring which began in fiscal year 1990. The restructuring, which increased the Corporation's holdings in fixed-income securities, was designed to better match changes in its liability for future benefits caused by changes in discount rates with changes in the market value of invested assets.

While the single employer guaranty fund is considered self-financing, the reported $2.5 billion unfunded deficit indicates that, since its inception, the fund has not received sufficient income to finance its losses from plan terminations and other operating expenses. However, with over $5 billion in cash and invested assets and fiscal year 1991 operating receipts exceeding $1 billion, the deficit does not place the Corporation's ability to pay near-term pension benefits and expenses at immediate risk. For fiscal year 1991, the Corporation's financial statements disclose that $660 million in cash was used to pay current benefits and other operating cash needs of the single employer guaranty fund. While the Corporation may have sufficient assets to meet its near-term benefit obligations, sponsors of ongoing single employer plans will be expected to finance the $2.5 billion unfunded deficit in addition to the future cost of the guaranty fund.

The Corporation also faces a growing risk from increased underfunding on single employer plans, especially those concentrated in troubled industries. As part of an annual estimate of underfunded ongoing pension plans, the Corporation calculated a $11 billion increase in aggregate plan underfunding based on financial data reported by plan sponsors. The increase—from $20 billion for 1989 to $31 billion for 1990—was reportedly due to weak 1990 investment returns and an increase in benefit liability. The concentration of plan underfunding in troubled industrial sectors, such as the steel and automobile industries, is particularly troubling.[6] The current economic downturn could make it increasingly difficult for plan sponsors in these troubled industries to improve their plan funding levels.

Companies in bankruptcy or close to it with underfunded pension plans represent the Corporation's most immediate exposure. The Corporation's fiscal year 1991 financial statements disclosed more than $13 billion in potential exposure to the single employer guaranty fund from about 80 such companies. This represents an increase of more than 60 percent over

[6]The degree of concentration can be seen in the Corporation's November 1991 disclosure of the 50 companies responsible for the largest underfunded defined benefit pension plans. Of the $21.5 billion in underfunding disclosed for those companies, $10.5 billion, or 49 percent, was attributable to companies in the automobile industry and $5.2 billion, or 24 percent, was attributable to the steel industry.

the $8 billion disclosed in the fiscal year 1990 statements. If many of the plans which make up the $13 billion in underfunding terminate in the near future, there would be concern as to whether the Corporation's premium structure could be adjusted to meet its resulting funding needs. As reported by the Corporation, benefit payments are expected to exceed premium income in fiscal year 1992 and could exceed premium and investment income by the end of the decade. Such events could result in a call for the federal government to assist the guaranty fund directly or to provide some form of assistance to financially troubled companies.

In contrast to the deteriorating financial condition of the single employer guaranty fund, the Corporation reported a $55 million increase in the funded surplus for the multiemployer guaranty fund—from a reported $132 million for fiscal year 1990 to $187 million for fiscal year 1991. The Corporation disclosed a comparable increase in the fund's potential exposure from underfunded plans, from $100 million reported for fiscal year 1990 to $150 million for fiscal year 1991.

Economic conditions and the quality of management and oversight of the guaranty programs and private pension plans will continue to affect the future financial condition of the pension guaranty funds. In this respect, strong internal controls and systems are essential to preparing reliable financial information needed to oversee the guaranty programs and assess their financial condition. The Corporation has made a commitment to dealing with its internal control and system problems. However, until these problems are resolved, they represent a significant element of the risk the Corporation faces.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

January 10, 1992

Financial Statements

Statements of Financial Condition (Unaudited)

(Dollars in millions)	Single-Employer Fund September 30, 1991	1990	Multiemployer Fund September 30, 1991	1990	Total September 30, 1991	1990
Assets						
Investments, at market—Note 3:						
Fixed maturity securities	$3,139	$1,357	$221	$160	$3,360	$1,517
Equity securities	1,092	758	3	3	1,095	761
Real estate	91	79	0	0	91	79
Other	28	34	2	4	30	38
	4,350	2,228	226	167	4,576	2,395
Cash and equivalents	231	214	21	16	252	230
Receivables, net—Note 4:						
Due from sponsors of terminated plans	271	343	0	0	271	343
Due from sponsors of restored plans	11	192	0	0	11	192
Premiums	17	14	0	1	17	15
Notes—financial assistance			7	6	7	6
Other	234	92	0	0	234	92
	533	641	7	7	540	648
Assets of plans pending trusteeship, at market, net—Note 3	550	28	0	0	550	28
Total assets	$5,664	$3,111	$254	$190	$5,918	$3,301

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

(Dollars in millions)	Single-Employer Fund September 30, 1991	Single-Employer Fund September 30, 1990	Multiemployer Fund September 30, 1991	Multiemployer Fund September 30, 1990	Total September 30, 1991	Total September 30, 1990
Liabilities						
Present value of future benefits—Note 5:						
Trusteed plans	$ 5,632	$ 3,618	$ 16	$ 15	$ 5,648	$ 3,633
Plans pending trusteeship	1,437	61	0	0	1,437	61
Net claims for probable terminations	776	1,111	0	0	776	1,111
	7,845	4,790	16	15	7,861	4,805
Present value of nonrecoverable future financial assistance—Note 6			42	33	42	33
Unearned premiums	197	150	7	8	204	158
Accounts payable	132	84	2	2	134	86
Commitments and contingencies—Notes 5, 7, and 8						
	8,174	5,024	67	58	8,241	5,082
Equity						
Accumulated results of operations (deficit)	(2,510)	(1,913)	187	132	(2,323)	(1,781)
Total liabilities and equity	$ 5,664	$ 3,111	$254	$190	$ 5,918	$ 3,301

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

Statements of Operations and Changes in Equity (Unaudited)

(Dollars in millions)	Single-Employer Fund September 30, 1991	1990	Multiemployer Fund September 30, 1991	1990	Total September 30, 1991	1990
Underwriting Activity:						
Income:						
Premium income—Note 9	$ 741	$ 659	$ 23	$ 21	$ 764	$ 680
Expenses:						
Losses (gains) from completed and probable terminations—Note 10	1,049	938	0	0	1,049	938
Losses (gains) from financial assistance—Note 6			11	23	11	23
Administrative expenses	64	57	0	2	64	59
Other expenses	212	162	0	0	212	162
Actuarial adjustments—Note 5	(35)	(6)	1	0	(34)	(6)
Total	1,290	1,151	12	25	1,302	1,176
Underwriting income (loss)	(549)	(492)	11	(4)	(538)	(496)
Financial Activity:						
Income:						
Fixed—Note 11	550	101	44	14	594	115
Equity—Note 11	304	(210)	1	(1)	305	(211)
Other income	45	5	1	1	46	6
Total	899	(104)	46	14	945	(90)
Expenses:						
Investment expenses	7	6	0	0	7	6
Actuarial charge (credit)—Note 5:						
Due to passage of time	427	267	1	1	428	268
Due to change in interest rates	513	(80)	1	0	514	(80)
Total	947	193	2	1	949	194
Financial income (loss)	(48)	(297)	44	13	(4)	(284)
Net income (loss)	(597)	(789)	55	9	(542)	(780)
Accumulated results of operations beginning of period (deficit)	(1,913)	(1,124)	132	123	(1,781)	(1,001)
Accumulated results of operations end of period (deficit)	$(2,510)	$(1,913)	$187	$132	$(2,323)	$(1,781)

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

Statements of Cash Flows (Unaudited)

(Dollars in millions)	Single-Employer Fund September 30, 1991	1990	Multiemployer Fund September 30, 1991	1990	Total September 30, 1991	1990
Operating Activities:						
Receipts:						
Premiums	$ 786	$ 660	$ 23	$ 23	$ 809	$ 683
Interest and dividends	305	164	4	19	309	183
Other	0	3	0	0	0	3
Total	1,091	827	27	42	1,118	869
Disbursements:						
Benefit payments	514	369	2	2	516	371
Benefit payments from terminated nontrusteed plans	(34)	(9)			(34)	(9)
Administrative expenses	63	70	0	2	63	72
Investment expenses	5	6	0	0	5	6
Interest purchased	81	26	1	3	82	29
Financial assistance	0	0	3	1	3	1
Advances to LTV—net	31	140	0	0	31	140
Total	660	602	6	8	666	610
Net cash and equivalents provided by operating activities—Note 12	431	225	21	34	452	259
Investing Activities:						
Receipts:						
Cash and equivalents from trusteed plans	248	5	0	0	248	5
Due from employers	30	16	0	0	30	16
Sale of fixed-income securities	5,446	1,206	67	123	5,513	1,329
Sale of equities	1,257	663	16	78	1,273	741
Sale of futures	29	0	0	0	29	0
Total	7,010	1,890	83	201	7,093	2,091
Disbursements:						
Purchase of fixed-income securities	6,208	1,595	83	182	6,291	1,777
Purchase of equities	1,211	468	16	55	1,227	523
Purchase of futures	5	0	0	0	5	0
Total	7,424	2,063	99	237	7,523	2,300
Net cash and equivalents provided by investing activities	(414)	(173)	(16)	(36)	(430)	(209)
Net increase (decrease) in cash and equivalents	17	52	5	(2)	22	50
Cash and equivalents, beginning of year	214	162	16	18	230	180
Cash and equivalents, end of year	$ 231	$ 214	$ 21	$ 16	$ 252	$ 230

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

Notes to Financial Statements

Note 1—Organization and Purpose

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

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

ERISA requires that the PBGC programs be self-financing. The Corporation finances its operations through premiums collected from covered plans, assets assumed from terminated plans, the collection of employer liability payments due under ERISA as amended, and investment income. In addition, PBGC may borrow up to $100 million from the U.S. Treasury to finance its operations. The Corporation did not use this borrowing authority during the years ended September 30, 1991, or September 30, 1990, nor is use of this authority currently planned.

ERISA provides that the U.S. Government is not liable for any obligation or liability incurred by PBGC.

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

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

Note 2—Significant Accounting Policies

A Statement of Cash Flows has been added as required by the Financial Accounting Standard Board's (FASB) Financial Accounting Standard #95 ("Statement of Cash Flows") and by the Chief Financial Officers Act of 1990. The Statements of Operations and Changes in Equity have been restructured to separately reflect PBGC's underwriting activity from its financial activity. Underwriting activity reflects premium income and the expenses incurred to insure covered pension plans. Financial activity shows how PBGC's investment income covers the costs incurred as the present value of PBGC's liability for future benefits changes due to the passage of time and interest rate fluctuations. In addition, certain items on the 1990 financial statements have been reclassified to conform with present year classifications.

Valuation Method: PBGC reports its assets and liabilities on a market basis because PBGC believes this provides the most realistic measure of its financial condition and is the most appropriate basis on which to evaluate its performance.

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

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

The trust fund reflects accounting activity associated with (1) trusteed plans—plans for which PBGC has legal responsibility, (2) plans pending trusteeship—plans for which PBGC has not become legal trustee by fiscal yearend, and (3) probable terminations—plans that PBGC expects will terminate and incur a loss for PBGC.

PBGC cannot exercise control over the assets of plans until it becomes trustee, which may be several years after plan termination.

Asset Valuation and Investment Income: Market values are based on the last sale of a listed security, on the mean of the "bid-and-asked" for nonlisted securities, and on a valuation model in the case of fixed-income securities that are not actively traded. Receivables are recorded at estimated value (see Note 3).

Cash and Equivalents: Cash and equivalents include cash on hand, money market instruments, and other debt issues purchased with an original maturity date of ninety days or less.

Due from Sponsor of Terminated Plans: The amount due from sponsors of terminated plans is the estimated value of recoverable claims for employer liability (underfunding as of plan termination) and for contributions due from sponsors.

Some agreements between PBGC and plan sponsors provide for contingent payments based on future profits of the debtors. Any such future amounts realized will be reported in the period in which they accrue or are paid.

Premiums and Unearned Premiums: Amounts due from premium payers, including penalty and interest, represent the estimated earned portion of the premium for plans that have a plan year commencing before the end of PBGC's fiscal year but for which the premium payment was not received by fiscal yearend. Unearned premiums represent an estimate of payments received during the fiscal year that cover the portion of a plan's year after the Corporation's fiscal yearend (see Note 9).

Financial Assistance Notes Due and Present Value of Nonrecoverable Future Financial Assistance: Under the multiemployer program, financial assistance is recorded as a receivable, net of an allowance for uncollectibility determined on a case-by-case basis. The liability for estimated future financial assistance is for nonrecoverable future payments that PBGC deems to be probable and estimable for multiemployer plans that have notified the Corporation of their financial difficulties (see Notes 4 and 6).

Present Value of Future Benefits:

(1) Trusteed Plans—represents the present value of future payments of benefits for plans that have terminated and have been trusteed by PBGC prior to fiscal yearend.

(2) Plans Pending Trusteeship—represents the present value of future payments of benefits for plans that have terminated but have not been trusteed by PBGC prior to fiscal yearend.

Any changes after the date of plan termination in the amounts for trusteed plans and terminated plans pending trusteeship are reported as an actuarial charge (credit) in the Statements of Operations and Changes in Equity.

(3) Net Claims for Probable Terminations—includes estimates of the losses, net of plan assets and estimated recoverable employer liability, from plans that were expected to terminate based on the occurrence of an identifiable event by yearend and the expectation that the distress tests will be met or PBGC itself will seek termination of the plan (see Note 5).

Losses (Gains) from Completed and Probable Terminations: Amounts reported as losses from completed and probable terminations on the Statements of Operations and Changes in Equity represent the difference between the present value of future benefits (including amounts owed under Section 4022(c) of ERISA) assumed, or expected to be assumed, less related plan assets and estimated employer liability (see Note 10).

Actuarial Charge: Actuarial charges are allocated in the Statements of Operations as follows: Actuarial charges (credits) related to changes in method, changes in data, and the effect of experience are classified as underwriting activity. Actuarial charges (credits) related to changes in interest rates and passage of time are classified as financial activity.

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

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

The Corporation's contribution to the CSRS plan equals the 7 percent of base pay contributed by employees covered by that system. For those employees covered by FERS, the Corporation's contribution is 13.8 percent of base pay. In addition, for FERS-covered employees, PBGC automatically contributes 1 percent of base pay to the employee's Thrift Savings account, matches the first 3 percent contributed by the employee, and matches one-half of the next 2 percent contributed by the employee.

The retirement plan expenses amounted to $3 million in both 1991 and 1990.

Note 3—Investments

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

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

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

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

	September 30,			
	1991		1990	
	Basis	Market Value	Basis	Market Value
U.S. Government securities	$2,557	$2,752	$1,326	$1,326
Equities	862	1,092	724	758
Certificates of deposit	2	2	0	0
Corporate bonds	333	350	28	28
Insurance contracts	22	22	2	2
Real estate funds	80	91	62	79
Mortgages	1	1	1	1
Obligations of foreign governments	11	12	0	0
Accrued investment income	28	28	34	34
Total	$3,896	$4,350	$2,177	$2,228

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

	September 30,			
	1991		1990	
	Basis	Market Value	Basis	Market Value
U.S. Government securities	$204	$220	$163	$160
Equities	2	3	3	3
Corporate bonds	1	1	0	0
Accrued investment income	2	2	4	4
Total	$209	$226	$170	$167

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

	September 30,			
	1991		1990	
	Basis	Market Value	Basis	Market Value
U.S. Government securities	$ 5	$ 5	$ 0	$ 0
Equities	366	371	9	9
Corporate bonds	25	25	2	2
Insurance contracts	5	5	11	11
Cash and equivalents	12	12	5	5
Other	132	132	1	1
Total	$545	$550	$28	$28

Note 4—Receivables, Net (Other)

Included in due from sponsors of terminated plans is a 30-year zero-coupon bond with an estimated present value of $6 million that PBGC expects to receive from LTV for employer liability for an LTV plan that was terminated and for which PBGC remains the successor trustee. The $11 million shown as due from sponsors of restored plans represents the estimated present value of a 30-year zero-coupon bond PBGC expects to receive from LTV for settlement of amounts advanced to three other LTV plans for benefit payments before those three plans were restored. The loss attributable to the reduced estimate for recovery of employer liability for the PBGC-trusteed plan has been charged to losses from completed and probable terminations ($189 million) and the loss attributable to the amounts advanced for benefit payments has been charged to other expenses ($212 million). Further information concerning the status of the case with LTV can be found in Note 7.

Notes Receivable–Financial Assistance, Net
(Dollars in millions)

	September 30, 1991	September 30, 1990
Balance at beginning of year	$6	$14
Financial assistance advanced	2	1
Interest accrued and not paid	2	2
Allowance for uncollectible amounts	(3)	(11)
Net receivable	$7	$ 6

Receivables, Net (Other)
(Dollars in millions)

	September 30, 1991	September 30, 1990
Due from sale of securities	$ 53	$89
Due from insurance companies	178	0
Miscellaneous	3	3
Total	$234	$92

Note 5—Present Value of Future Benefits

Trusteed Plans and Plans Pending Trusteeship: The present value of future benefits is computed using the actuarial assumptions prescribed in PBGC's Valuation of Plan Benefits regulation (29 CFR 2619). The interest rate used reflects market conditions on September 30, 1991.

A significant portion of the future benefits is based upon estimated liability because, in many cases, PBGC has not yet made a final benefit determination. Changes in these estimates are reflected in the fiscal year in which PBGC actuarially determines or reestimates the benefits. This estimation technique includes changes in interest rates assumed, benefit payouts subsequent to the valuation date, mortality, interest accumulation on liabilities, and changes resulting from newly available data.

The immediate interest rates used in the actuarial assumptions were 6.75% as of September 30, 1991; 7.75% as of September 30, 1990; and 7.5% as of September 30, 1989. Comparable changes were made to the rates used to value deferred annuities.

Reconciliation of the Present Value of Future Benefits, for Trusteed Plans and Plans Pending Trusteeship for the Years Ended September 30, 1991, and September 30, 1990
(Dollars in millions)

	September 30, 1991		1990	
Single-Employer Program				
Present value of future benefits, at beginning of year		$4,790		$3,984
Actuarial charges (underwriting):				
Changes in method	$ (19)		$ (1)	
Changes in data and effect of experience	(16)		(5)	
Total actuarial charges (underwriting)	(35)		(6)	
Actuarial charges (financial):				
Passage of time	427		267	
Changes in interest rate	513		(80)	
Total actuarial charges (financial)	940		187	
Total actuarial charges (credits)		905		181
Terminations:				
Current year	3,010		147	
Changes in prior year	(11)		(22)	
Total terminations		2,999		125
Benefit payments		(514)		(369)
Net claims for probable terminations:				
Future benefits	1,552		4,345	
Estimated plan assets available and recoveries from employers	(776)		(3,234)	
Total net claims, current year		776		1,111
Net claims for probable terminations, prior year		(1,111)		(242)
Present value of future benefits, at end of year—Single-Employer		7,845		4,790
Present value of future benefits, at end of year—Multiemployer		16		15
Total present value of future benefits, at end of year		$7,861		$4,805

The present value of future benefits for terminated multiemployer plans reflects benefit payments of $2 million, change in interest assumption of $1 million, passage of time of $1 million and changes in data and effect of experience of $1 million during 1991.

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

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

	September 30, 1991	1990
Net claims for probable terminations, at beginning of year	$1,111	$ 242
New claims	0	968
Actual terminations	(551)	(77)
Eliminated probables	(2)	(38)
Change in benefit liabilities	167	22
Change in plan assets	32	(8)
Change in expected recoveries	19	2
Net claims for probable terminations, at end of year	$ 776	$1,111

Note 6—Nonrecoverable Future Financial Assistance, Present Value, and Losses from Financial Assistance

Financial assistance is granted to multiemployer plans that are insolvent as defined by the Multiemployer Pension Plan Amendments Act of 1980. The present value of nonrecoverable future financial assistance is the difference between the present value of future benefits and the market value of plan assets of those plans that are expected to require future nonrecoverable financial assistance. Assets include both the plan assets as of September 30, 1991, and the present value of additional amounts expected to be paid by plan sponsors.

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

Allowance for Future Financial Assistance and Losses from Financial Assistance
(Dollars in millions)

	September 30, 1991	1990
Balance at beginning of year	$33	$11
Changes in allowance:		
Losses (gains) from financial assistance	11	23
Financial assistance granted (previously accrued)	(2)	(1)
Balance at end of year	$42	$33

Note 7—Contingencies

A. Collins and Page: The *Collins* and *Page* cases were brought against PBGC as separate class actions. Plaintiffs assert that PBGC should have guaranteed benefits in plans terminating before September 26, 1980, that were vested or otherwise required under the minimum standards in Title I of ERISA but not under plan terms and that such benefits are fully guaranteeable rather than subject to phase-in over a five-year period. (Legislation that took effect on September 26, 1980, resolved the issue for future cases.) The two cases have been consolidated and the court has certified a nationwide class that may include participants in up to 12,000 terminated plans. In February 1991, a district court ruled in PBGC's favor; plaintiffs have appealed. These cases could have a material financial impact on PBGC's single-employer program. Preliminary estimates indicate that the cost to PBGC, including substantial administrative costs, may be up to $1 billion but likely will be much less.

B. LTV: On January 1, 1991, the restoration of the three LTV Steel plans that were the subject of the 1990 Supreme Court case was finally implemented, following a district court order enforcing the Supreme Court's decision. LTV continued to contest the restoration of one of those plans on technical grounds, but its appeal has been suspended during settlement negotiations.

The district court in September 1991 adopted a recommended decision by the bankruptcy court that ruled against PBGC on several key issues. The court held that PBGC's claims are not entitled to priority in bankruptcy and that the bankruptcy court should set a "discount rate" to value those claims. The court also held that the Department of Labor could not compel LTV to fund its plan while in bankruptcy.

PBGC has been negotiating with LTV and its creditors over the funding of the three restored LTV Steel plans and repayment of amounts owed to PBGC by the restored plans. The negotiations also encompass PBGC's bankruptcy claims for the Republic Retirement Plan, a fourth LTV plan that has not been restored.

Under a tentative agreement with LTV and the largest of LTV's creditor groups, LTV would agree to fund the three restored plans. PBGC would receive two 30-year zero-coupon bonds with face amounts of $491 million and $270 million, plus other contingent recoveries that could approach $100 million for the receivable from the restored plans and the Republic Retirement Plan. The receivables have been written down to the present value of the bonds, which are $11 million and $6 million respectively, on the assumption that a settlement will ultimately be consummated on these or similar terms.

C. Navistar: Litigation continues over the amount of employer liability owed to PBGC by Navistar (formerly International Harvester) following the sale of its Wisconsin Steel division and the subsequent termination of the pension plans covering Wisconsin Steel employees. The U.S. District Court for the Northern District of Illinois issued a decision upholding PBGC's claim that a sponsor cannot transfer a plan to another entity to avoid the unfunded pension liabilities. As a result of this decision, PBGC expects to receive up to $150 million, which amount has not been included in these financial statements.

D. Reasonably Possible Losses: There are a number of other possible large single-employer plan terminations and some multiemployer plans that may require financial assistance. PBGC estimates the total unfunded vested benefit amount on termination of the single-employer plans that represent reasonably possible losses is approximately $13 billion. This figure is generally based on data obtained from corporate annual reports for fiscal years ending in calendar 1990. The value reported for liabilities has been adjusted to the then-prevailing immediate interest rate of 7.25%. When available, the data has been adjusted to a consistent set of mortality assumptions. Plans not insured by PBGC have been eliminated from the data. Since these figures are generally based on Financial Accounting Standard #87 ("Employers' Accounting for Pensions") reporting requirements, no provision has been made for the possible failure of the plan sponsor to make subsequent contributions or for plan liabilities that would be incurred after that date—including additional early retirement benefits or shutdown benefits. Because of this and the fact that sponsor contributions usually decline immediately prior to termination, it is likely that, upon termination, the actual exposure would exceed $13 billion. On the other hand, no provision has been made in the estimate of reasonably possible losses for recoveries from the plan sponsor for unpaid contributions and employer liability upon plan termination.

There also are a number of other sponsors with single-employer plans that have significant unfunded guaranteed benefits, who could subsequently qualify for a distress or involuntary termination if they were to encounter serious financial difficulty. In addition, the liability for multiemployer plans that may require financial assistance is approximately $150 million. No provision has been made in the financial statements for PBGC's potential liabilities upon termination of such single-employer or multiemployer plans, since the likelihood of these liabilities occurring is uncertain and cannot be estimated with sufficient reliability.

Note 8—Commitments

PBGC leases its office facility under a commitment that expires on December 31, 1993. Annual payments on a fiscal year basis through December 31, 1993, are expected to be:

1992	$5,335,000
1993	5,574,000
1994	1,454,000

The lease may be renewed at PBGC's option for an additional five years after December 31, 1993, at an approximate annual average payment of $6,807,000 per annum.

Note 9—Premiums

For both the single-employer and multiemployer programs, ERISA provides that PBGC shall continue to guarantee basic benefits despite the failure of a plan administrator to pay premiums when due. PBGC assesses interest and penalties up to 100 percent for late payment or underpayment. All of these items, less refunds, are included in premium income. Premiums for the single-employer program are $19 per participant for a fully funded plan with an underfunded plan paying up to an additional $53 per participant based on funding levels. The *multiemployer premium is $2.60 per participant.*

Note 10—Losses (Gains) from Completed and Probable Terminations

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

Losses (Gains) from Completed and Probable Terminations
(Dollars in millions)

	September 30, 1991	1990
Plans terminated:		
Present value of future benefits assumed	$2,999	$125
Less: Plan assets acquired	1,678	31
Plan asset insufficiency	1,321	94
Less: Estimated recoveries	(63)	25
Subtotal	1,384	69
Changes in provision for probable terminations	(335)	869
Losses (gains)	$1,049	$938

Note 11—Investment Income

Investment Income
(Dollars in millions)

	September 30, 1991		September 30, 1990	
Fixed-income securities:				
Interest earned	$178		$154	
Realized gains and losses	168		1	
Unrealized gains and losses	248		(40)	
Total fixed-income securities		$594		$115
Equity securities:				
Dividends earned	22		25	
Realized gains and losses	88		83	
Unrealized gains and losses	195		(319)	
Total equity securities		305		(211)
Other income		46		6
Total investment income		$945		$(90)

Note 12—Cash Flows

PBGC has prepared the Statements of Cash Flows for the first time as required by The Chief Financial Officers Act of 1990 and in accordance with FASB's Financial Accounting Standards #95, #102, and #104. Accordingly, PBGC has not included the Statements of Changes in Financial Condition, which are available upon request.

The following is a reconciliation between the net income (loss) as reported in the Statements of Operations and Changes in Equity and net cash provided by operating activities as reported in the Statements of Cash Flows. Because this is the first year PBGC has prepared statements of cash flows, certain values were approximated based on existing accounting records.

Reconciliation of Net Income to Net Cash and Equivalents Provided by Operating Activities
(Dollars in millions)

	September 30, 1991	September 30, 1990
Net income (loss)	$ (542)	$(780)
Adjustments to reconcile net income to net cash and equivalents provided by operating activities:		
Actuarial charge	908	182
Loss on terminations and probable terminations	1,049	938
Change in present value of nonrecoverable future financial assistance	9	22
Change in unearned premiums	46	1
Change in premium receivables	(2)	3
Change in accounts payable	48	5
Realized (gains) losses	(256)	(84)
Unrealized (gains) losses	(442)	358
Change in accrued investment income	8	12
Other income	(45)	(6)
Changes in other receivables	110	(66)
Benefit payments	(516)	(371)
Receipts from newly trusteed plans	77	45
Net cash and equivalents provided by operating activities	$ 452	$ 259

Note 13—President's Budget

A few differences appear between the financial statements and results reflected in the President's Budget. These differences are attributable to the write-down of the LTV receivable and differences in classification. Payments to participants in the three restored LTV Steel plans for the period October-December 1990 are shown in the President's Budget but are not treated as benefit payments by PBGC herein.

The Chief Financial Officers Act of 1990 requires a reconciliation to the budget. The following table reconciles the revolving fund's expenses as reported on the Report on Operations (SF-221) to budget obligations and outlays as reported on the Report on Budget Execution (SF-133).

Revolving Fund
Statement of Reconciliation to Budget for the Period Ended September 30, 1991
(Dollars in millions)

Total expenses	$1,692
Add adjustments for:	
Revolving funds' share of benefit funding	(235)
Adjustment of undelivered orders	(9)
Purchases of investments for revolving fund	789
Financial assistance	2
Total adjustments added	547
Less adjustments for:	
Liability incurred due to plan terminations	1,384
Provision for probable terminations	(335)
Actuarial charge for financial assistance	11
Trust fund net loss	350
Other expense	212
Total adjustments deducted	1,622
Expended appropriations	617
Less reimbursements and other income	1,339
Expended appropriations, direct	(722)
Less change in accounts payable, net	65
Budgetary outlays	$ (787)
Obligations incurred, net	$ (740)
Less change in unpaid obligations, net	47
Budgetary outlays	$ (787)

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

Total expenses	$1,692
Less transfer of trust fund result of operations	350
Less adjustment of accounts payable	16
Plus trust fund expenses	925
Total expenses	$2,251
Annual Report:	
Underwriting expenses	$1,302
Financial expenses	949
Total expenses	$2,251

Disclaimer of Opinion for Fiscal Year 1990

GAO

United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-164292

To the Board of Directors of the
Pension Benefit Guaranty Corporation

At the request of the Pension Benefit Guaranty Corporation's Executive Director and in accordance with our authority under the Government Corporation Control Act (31 U.S.C. 9101-9110), we undertook an audit of the Corporation's financial statements for the fiscal year ended September 30, 1990. The financial statements were prepared by Corporation management and are its responsibility. Our audit objective was to obtain reasonable assurance, and express an opinion, on whether the financial statements present fairly, in all material respects, the Corporation's financial position and results of operations in conformity with generally accepted accounting principles. We determined during our preliminary audit work that the Corporation's estimated liability for guaranteed benefits was unauditable because of the nature and extent of weaknesses in the Corporation's process for estimating its fiscal year-end liability. Considering the liability's material effect on the financial statements, we did not complete the audit, and we do not express an opinion on these financial statements.

Because of the material weakness in internal controls over the liability for guaranteed benefits and other material weaknesses we identified, we caution users that the Corporation's September 30, 1990, financial statements have limited reliability. The internal control weaknesses we identified are as follows.

-- The Corporation was unable to demonstrate the reliability of its estimated liability for guaranteed benefits at fiscal year-end because of unexplained variations in preliminary tests of its plan estimates, weaknesses in estimating system software, and incomplete and missing data on pension beneficiaries. These conditions preclude us from evaluating whether the Corporation's fiscal year-end $4.8 billion estimated liability is fairly presented.

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- Premium income may be misstated in the financial statements, and premiums due may not have been collected because of failure to promptly process premium related filing data reported by plan sponsors. Premium filing data were not processed during fiscal year 1990 because the processing system was not updated to accommodate changes in the Corporation's premium structure. While the Corporation continued to receive and deposit premium payments which accompany premium filings, not processing the filing data reduced substantially the Corporation's capacity to evaluate and, as necessary, follow up on the accuracy and completeness of premium filings by plan sponsors.

- Weaknesses in basic accounting controls, including the failure to regularly reconcile cash and investments and the lack of an operating general ledger system for trust accounting during the first 6 months of fiscal year 1990, prevented the Corporation from ensuring that financial information was promptly and accurately reported. These weaknesses expose the Corporation to the potential loss of assets.

The Corporation's financial statements show a loss of approximately $780 million for fiscal year 1990, increasing its unfunded deficit to over $1.7 billion. This is not an immediate liquidity problem because the Corporation has $2.6 billion in cash and investments, plus annual premium income of approximately $680 million, available to pay administrative expenses and benefits on terminated plans. Although not necessarily indicative of future cash requirements, administrative expenses and benefit payments reported in the financial statements for fiscal year 1990 were approximately $437 million. Instituting financial management reforms will provide a more reliable picture of the Corporation's financial condition, including the claims it must be able to satisfy in the future.

The Corporation's financial future depends upon the continued broad-based participation in the insurance program by pension plan sponsors and the amount of future liabilities the Corporation may incur as a result of

- an increase in termination claims on underfunded plans that are likely to arise from a general downturn in the

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economy, as well as the Corporation's exposure from the airline industry and other troubled sectors of the economy and

-- weaknesses in oversight of pension plans, including limited scope audits of private pension plans.

Corporation management has acknowledged the significance of the internal control weaknesses we identified and noted that it has begun efforts to address them. We are encouraged by the response and will continue to closely monitor the Corporation's progress.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

January 3, 1991

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Related GAO Products

Financial Audit: System and Control Problems Further Weaken the Pension Benefit Guaranty Fund (GAO/AFMD-92-1, Nov. 13, 1991).

Pension Benefit Guaranty Corporation: Weak Financial Condition Worsened by Serious Internal Control Weaknesses (GAO/T-AFMD-91-9, Aug. 1, 1991).

GAO letter to the Executive Director, Pension Benefit Guaranty Corporation, dated January 17, 1986, addressing our inability to express an opinion on the Corporation's fiscal years 1984 and 1985 financial statements.

Review of the Pension Benefit Guaranty Corporation's Progress Towards Improving Accounting and Internal Control Weaknesses (GAO/AFMD-84-2, Nov. 22, 1983).

Disclaimer of Opinion on the Financial Statements of the Pension Benefit Guaranty Corporation for the Fiscal Year Ended September 30, 1980 (GAO/AFMD-82-42, June 23, 1982).

Examination of Financial Statements of the Pension Benefit Guaranty Corporation for the Fiscal Year Ended September 30, 1977 (GAO/HRD-79-44, May 3, 1979).

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