



December 2004

Asset / Liability Scoreboard

Index	Returns YTD 2004	Estimated Weights
Liabilities :		
Market (Treasury STRIPS)	9.35 %	100 %
Pension Act (Corporates)	12.38	
ROA (8% constant rate)	8.00	
Assets :		
Ryan Cash	1.25 %	5 %
Lehman Aggregate	4.34	30
S&P 500	10.87	60
MSCI EAFE Int'l	20.70	5
Asset Allocation Model	8.92 %	100 %
Assets – Liabilities		
Market	-0.43 %	
Pension Bill	-4.46	
ROA	0.92	

Well, 2004 will go down as a controversial year as pension assets either lost, matched or beat liabilities depending upon what liability valuation was used. Assets underperformed liabilities by only **-0.43%** using market valuations (i.e. STRIPS); by **-4.46%** using the new Pension Act valuation (moving average of three corporate indexes); and won by **0.92%** using the ASOP 27 methodology of a constant ROA. The new Pension Act had a dubious debut suggesting that liabilities grew by 12.38% when the market (Treasury STRIPS) only grew by 9.35%. A four year weighted average of three corporate indexes certainly creates valuation distortions here and should be challenged and corrected on the New version of this Act. **Using market valuations, the cumulative Asset/Liability deficit since December 1999 is now at -46.80% suggesting funding ratios below 60% for most pensions.**

Total Returns					
	2000	2001	2002	2003	2004
Pension Assets	- 2.50	- 5.40	-11.41	20.04	8.92
Pension Liabilities	25.96	3.08	19.47	1.96	9.35
Difference	-28.46	- 8.48	-30.89	18.08	-0.43
Cumulative		-34.53	-54.75	- 46.57	-46.80



New Pension Funding Act of 2004

On April 10th President Bush signed this Act into law. It was designed to provide Pension Relief in the form of a higher discount rate by replacing the 30-year Treasury with a blend of three long corporate bond indexes with ratings mainly in the AA and A category. Unfortunately, it kept in place the old procedure of using a four year weighted average of these monthly rates thus skewing the composite discount rate to old data. Since we have been in a bullish trend on interest rates for some time, this formula creates an artificially high discount rate and a unrealistic growth rate calculation. As the above table shows, the new Pension Act would suggest liabilities grew by 12.38% (based on a 12-year duration) when they grew by 9.35% based on current market valuations. More confusion for pensions.

Ken Buffin, FSA Commentary (Chief Actuary)

We have moved Ken's monthly Commentary to our Monthly Newsletter location on our web site www.ryanalm.com. Ken has an entertaining and educational style that is well focused on today's topical issues. His newsletters are highlighted in green while Ryan ALM is in blue.

Society of Actuaries (SoA) Exposure Draft

On October 12, 2004 the SoA released its final exposure draft on "**Principles Underlying Asset Liability Management**". This is an important document regarding ALM. Ken Buffin's latest January Commentary (see Monthly Newsletters on our web site) deals extensively with this release. The SoA makes it clear in Section III.A. that "...Various accounting measures are affected by rules that change the emergence of income and the reported book value of the assets and liabilities. These measures can sometimes distort economic reality and produce results inconsistent with economic value. Because ALM is concerned with the future asset and liability cash flows, the natural focus of ALM is economic value. **Entities that focus on economic value tend to achieve their financial objectives more consistently in the long term.**"

I have long been a proponent of monitoring economic (market) values. Indeed, Ryan ALM strongly urges pensions to create a set of economic books (hopefully, thru Ryan ALM building a Custom Liability Index system ...**The ALERT System**) that calculate and monitor daily the true economic values of pension liabilities. Without true economic values, how could the asset side function properly on Asset Allocation, Asset Management (ALM) and Performance Measurement.

Pension Solutions !

Ryan ALM has begun a series of Pension Solutions research papers.

Please refer to our RESEARCH section on our web site for our latest release :

Pension Solution # 1... Custom Liability Index.

Please note that this paper has been enhanced (in the Benefit section) since we emailed it to our readers in late December.

Press

Ryan ALM is a vigilant **watchdog** on pension trends, news and events. We created a **PRESS** section on our web site to isolate those stories we feel are the most newsworthy for our readers. Please browse for any important story and give us your thoughts.

Happy and a Prosperous New Year !