



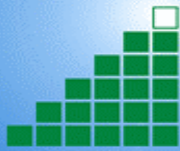
January 2005

Asset / Liability Scoreboard

Index	Returns YTD 2005	Estimated Weights
Liabilities :		
Market (Treasury STRIPS)	3.45 %	100 %
Pension Act (Corporates)	0.87	
ROA (8% constant rate)	0.67	
Assets :		
Ryan Cash	0.17 %	5 %
Lehman Aggregate	0.63	30
S&P 500	- 2.44	60
MSCI EAFE Int'l	- 1.83	5
Asset Allocation Model	-1.36 %	100 %
Assets - Liabilities		
Market	-4.81 %	
Pension Bill	-2.23	
ROA	-2.03	

The year 2005 has started off on the wrong foot as asset growth was a negative in January. Assets underperformed liabilities by as much **-4.81%** using market valuations (i.e. STRIPS); by **-2.23%** using the new Pension Act valuation (moving average of three corporate indexes); and by **-2.03%** using the ASOP 27 methodology of a constant ROA (i.e. 8.00%). The new Pension Act is skewed to old interest rate data (i.e. four year weighted average of three corporate indexes) and so far in 2004 and 2005 certainly creates a pricing distortion versus an accurate market valuation which should be challenged and corrected on the New version of this Act. Most pension funds enjoyed a funding ratio surplus in 1999. However, this funding ratio has been reduced by about **-50%** since then (see table below).

Total Returns						
	2000	2001	2002	2003	2004	2005
Pension Assets	- 2.50	- 5.40	-11.41	20.04	8.92	-1.36
Pension Liabilities	25.96	3.08	19.47	1.96	9.35	3.45
Difference	-28.46	- 8.48	-30.89	18.08	-0.43	-4.81
Cumulative		-34.53	-54.75	- 46.57	-46.80	-50.64



Secretary of Labor Elaine Chao Remarks

Before the National Press Club on January 10, 2005 Secretary Chao presented the Bush's administration plan for protecting the retirement security of America's workers. Secretary Cho estimated that private defined benefit pension plans were \$450 billion underfunded. This does not include public pension plans which Morgan Stanley estimates has a deficit at over \$1 trillion ! The Bush Administration wants to reform the funding rules. She said that the current funding rules are incomprehensible, they look like an engineering schematic. The Administration proposes to do away with the confusion by replacing multiple measures of pension liabilities with one basic concept. The goal is to ensure that the assumptions that go into measuring a plan's liability better reflect whether or not it will be terminated.

Ryan ALM agrees with Secretary Chao and the Bush Administration as we fully promote new pension reform. Until accurate economic valuations are created for liabilities, pension plans are in jeopardy of working from erroneous information. Ryan ALM has two recent research articles that detail our position here. One of them was published in the Institutional Investor magazine January edition (Reforming Pension Reform). We created a more thorough research paper (Pension Reform Needs Reform) in late January. Both articles are readable from our web site under Research.

Custom Liability Index

Since 1991, I (Ron Ryan) have been on a mission to provide accurate pricing and valuation of pension liabilities. I feel that this is best accomplished through a Custom Liability Index that best represents the present value of the projected benefit payment schedule. Although I feel that the rates used should be real market rates and purchasable, Ryan ALM builds Custom Liability Indexes based on any rate structure the client and their consultants and actuaries feel is appropriate. Currently, Ryan ALM prices liabilities using :

- 1. Market Rates (STRIPS)**
- 2. Single Discount Rates (ROA, New Pension Bill, Moody's AA rate, etc.)**
- 3. Swap Curve**
- 4. Annuity Rates**

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 releases :

Pension Solution # 1... Custom Liability Index

Pension Reform Needs Reform

Reforming Pension Reform

Please note that the Custom Liability Index 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.

God Bless Pension America !