



March 2005

Asset / Liability Scoreboard

Index	Returns YTD 2005	Estimated Weights
Liabilities :		
Market (Treasury STRIPS)	1.24 %	100 %
Pension Act (Corporates)	2.62	
ROA (8% constant rate)	2.00	
Assets :		
Ryan Cash	0.56 %	5 %
Lehman Aggregate	-0.47	30
S&P 500	-2.15	60
MSCI EAFE Int'l	-0.10	5
Asset Allocation Model	-1.39 %	100 %
Assets – Liabilities		
Market	-2.63 %	
Pension Bill	-4.01	
ROA	-3.39	

A poor showing for all asset classes in March widened the Asset/Liability deficit for the year 2005 to **-2.63%** using market valuations (i.e. STRIPS); by **-4.01%** using the new Pension Act valuation (moving average of three corporate indexes with a duration of 12 years); and by **-3.39%** using the ASOP 27 methodology of a constant ROA (i.e. 8.00%). Most pension funds enjoyed a funded ratio surplus in 1999. However, this funded 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	-1.39
Pension Liabilities	25.96	3.08	19.47	1.96	9.35	1.24
Difference	-28.46	- 8.48	-30.89	18.08	-0.43	-2.63
Cumulative		-34.53	-54.75	- 46.57	-46.80	-48.20



100% Bonds Confusion

I continually hear people comment that they believe I promote 100% bonds as the preferred asset allocation. Indeed, as I have written consistently, this sole asset class portfolio would not help pensions reduce or remove their deficit but lock it in. Moreover, my dramatic move to create Ryan ALM as the **Solutions Company** was based on our CORE product “**PALS**” which is a Portable Alpha Liability Strategy with a heavy allocation to non-bond assets (i.e. Equity, Real Estate, etc.). Our Alpha portfolio mission is to cure the deficit by outperforming it over a target time horizon equal to the liability payment dates. The confusion must come from my speeches and educational research articles describing the pricing and behavior of Liabilities as a 100% zero-coupon bond portfolio. That is the opponent! Understand liabilities risk/reward behavior and build a strategy to outperform it based on its strength and weaknesses. Obviously, liabilities are extremely interest rate sensitive. But at today’s interest rates, liabilities should exhibit low growth over the long term or interest rates would have to go negative. This is the best time in 45 years to outperform liabilities since their yield (hurdle rate) is so low today. Yes, Virginia, Ron Ryan recommends non-bonds as the preferred strategy to win the pension game.

Viva la France ! ... Bully for England !!

France recently issued a 50 year Government bond to take advantage of historically low rates and support their pension funds need for long duration bonds. We salute their initiative and wonder if maybe our Treasury Department took note especially since Secretary Chao spoke about matching assets to liabilities with long bonds. Since we canceled the 30-year auction on Halloween 2001 maybe they will issue a longer bond on July fourth week and help support the defeasement of liabilities for pensions, lotteries, insurance contracts and any other liability driven objective.

Two of the largest pension plans in England (BT Pension Scheme = \$56 billion and Railways = \$25 billion) went to daily measurement of assets vs. liabilities in order to allow a more dynamic approach to their risk budgeting according to P&I magazine. This move from annual and even triennial reporting is driven in part by changes to UK accounting standards that require plan sponsors to report pension liabilities at market valuations in their company accounts. Bravo to the Brits !

Custom Liability Index

Ryan ALM provides accurate daily pricing and valuation of pension liabilities through the creation of a Custom Liability Index that best represents the present value of the projected benefit payment schedule. 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 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 Solution # 2... Portable Alpha Liability System \(PALS\)](#)



Ryan ALM, inc.

Asset / Liability Management

The Solutions Company

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 !