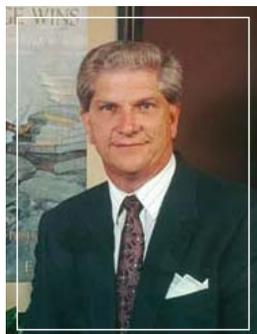




Ryan ALM, inc.

Asset/Liability Management

The Solutions Company



Ronald Ryan, CEO, CFA

The Ryan Letter

June 2006

Index	Returns YTD 2005	Estimated Weights
Liabilities :		
Market (Tsy STRIPS)	- 7.27 %	100 %
IRS (30 yr Treasury)	2.68	
ROA (8% constant rate)	4.00	
Assets :		
Ryan Cash	2.24 %	5 %
Lehman Aggregate	- 0.72	30
S&P 500	2.71	60
MSCI EAFE Int'l	10.50	5
Asset Allocation Model	2.05 %	100 %
Assets – Liabilities		
Market	9.32 %	
IRS	- 0.63	
ROA	- 1.95	

The month of June produced no growth in Assets, 0.17%, while liability growth rose 1.24%. For the year, Asset growth is well ahead of Liability growth based on market value but not on the IRS and ASOP 27 rules. This demonstrates the **tremendous error in pricing liabilities at any discount rate except the market rates**. Pension assets are up vs. liabilities for the year by about **9.32%** using market valuations (i.e. STRIPS); but are down vs. liabilities by **-0.63%** under the IRS Contribution rules; and down **-1.95%** 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 -40% since 1999** (see table below).

Total Returns							
	2000	2001	2002	2003	2004	2005	2006
Assets	- 2.50	- 5.40	-11.41	20.04	8.92	4.43	2.05
Liabilities	25.96	3.08	19.47	1.96	9.35	8.87	- 7.27
Difference	-28.46	- 8.48	-30.89	18.08	-0.43	-4.44	9.32
Cumulative		-34.53	-54.75	- 46.57	-46.80	-49.16	-44.42

God Bless Pension America !

Ryan ALM, Inc. - The Solutions Company
www.ryanalm.com

Ryan ALM moved !

Ryan ALM moved to the Lincoln Building ... a historic Landmark across from Grand Central. The building just completed a \$200 million renovation. Our new address is :

60 East 42nd Street 25th Floor New York, NY 10165

1st Half Scoreboard : Assets + 2.05% ... Liabilities -7.27%

The first six months of 2006 witnessed one of the best semi-annual periods for Assets vs. Liabilities Performance ever. **This growth rate difference (i.e. true Alpha) results in a Funded Ratio improvement of approximately 9.32% in just six months !** Such Liability Alpha resulted mainly from a decline in the present value of Liabilities. Even a zero-growth asset class (i.e. mattress) earned Alpha during 2006. Should assets return to a normal growth rate pattern (i.e. ROA = 8.0%) then additional Alpha can be earned to further erase any pension deficit. If interest rates continue to rise over the next three years then liabilities will continue to post negative growth rates. There are essentially four ways to cure a pension deficit :

- 1. Asset side grows well (ROA)**
- 2. Liability side has low or negative growth**
- 3. Increase Contributions**
- 4. All of the above**

So far, 2006 has been a period of #2 and #3 for most pension plans. If this Liability Alpha trend of 9.32% in the first half of 2006 could continue for just three more semi-annual periods, ($9.32\% \times 4 = 37.28\%$), most corporate pensions would reach a Fully Funded position. Public pension plans may need a little more help since their true economic funded position (market valuation) tends to be 20% to 40% worst than what is reported.

May the Force (Higher Interest Rates) be with Pensions !

New Asset Class ? ... Serta

So far in 2006 a 0% return has been a winner vs. liability growth. Putting the assets in a mattress (i.e. Serta) has earned **Alpha = 7.27%** this year in only six months. Such an unprofessional idea actually has been not such a bad investment over time. Based on our analysis of monthly returns, here is how the mattress has done :

Frequency of Monthly Negative Returns

Lehman Aggregate (Since 12/31/75) = 30.6%
S&P 500 (Since 6/30/56) = 37.7%

Hard to believe that bonds (the Lehman Aggregate) has had a monthly negative return 30% of the time over its 31 year history with interest rates secularly moving down for the last 24 years. Hedge Funds take note! If you can time the market with some degree of accuracy you can increase Market Alpha (vs. Liability Alpha) by a significant amount:

Pension Watch ... Delta

A U.S. Bankruptcy Court judge gave Delta Air Lines a for-month deadline extension, until November 8th), for filing its reorganization proposal. It was originally due July 11. As part of the reorganization plan, Delta seeks to terminate its pilots' pension plan which was underfunded by \$6.3 billion as of September 30, 2005. That deficit represents the majority of the \$10.6 billion pension deficit Delta faces. Stay tuned for more action.

Pension Watch ... GM

GM may receive U.S. government approval for an agreement to sell a majority of its GMAC unit before September without worrying about its pension liabilities. An approval by the PBGC, most likely, is one of six requirements needed to complete the deal. GM agreed to sell 51% of GMAC in April for \$14 billion to a group led by Cerberus Capital Management LP. GM gets \$10.1 billion from the sale in 2006 and expects \$4 billion more over three years. The PBGC is reviewing the transaction to ensure that it won't inhibit GM's ability to meet an estimated \$89 billion pension liability. GM reported a pension surplus of \$7.5 billion at the end of 2005 in their regulatory filings. The PBGC has the power to put conditions on the sale of an asset to protect a pension if the agency determines a transaction is a risk to retirees future benefit payments. Another condition on the sale is that GM's debt rating can not fall below CCC on concerns that the collateral needed for a \$4.48 billion loan would mean fewer assets available if GM declared bankruptcy. On June 20 Moody's cut GM's debt to Caa1 or the equivalent of CCC+.

PBO or ABO Liabilities

FASB and the SEC sparred with employers and actuaries on late June on the first phase of FASB's proposed overhaul of pension accounting. FASB and the SEC want companies to disclose the size of their PBO liabilities (a larger liability that includes projected salary increases) while opponents want to record the ABO liabilities (a smaller liability calculation). Most actuaries feel that the PBO is inappropriate since future salary raises are not guaranteed and not earned. Some feel that the higher the liability calculation the greater the risk that companies will freeze their pension plans.

Illegal Mexican Workers May Get Social Security ! ?

On June 29, the TREA Senior Citizens League filed two lawsuits regarding the Totalization Agreement with Mexico on the U.S. Social Security Trust Fund. This Agreement is awaiting President Bush's signature. Once President Bush approves the agreement either house would have 60 days to disapprove it. Under the Totalization Agreement, millions of illegal Mexicans working in the U.S. could claim Social Security benefits for work performed in the U.S. illegally. The U.S. has 21 similar agreements if effect with other nations, which are intended to eliminate dual taxation for persons who work outside their country or origin.

Ryan Indexes

In March 1983, my index team and I at the Ryan Financial Strategy Group (RFSG) created the **1st Daily bond Index ... Ryan Index**. The best way to understand the interest rate behavior of bonds is to use the Ryan Treasury constant maturity series for each Treasury *auction* series with two composite indexes ... **Ryan Cash and Ryan Index**.

The best way to price and understand the interest rate sensitivity of liabilities is the Treasury STRIPS yield curve. In March 1985, when STRIPS were born, my team and I at the Ryan Financial Strategy Group (RFSG) created the **1st STRIPS Index**.

To view all Ryan Indexes data go to : www.RyanIndex.com

Given the Wrong Index ... you will get the Wrong Risk/Reward
Confucius



In order to closely watch the ever evolving tragedy of the Pension Crisis, we have designed the **Pension Monitor**. This web based site is a chronology of press clippings and research reports on what's happening with pensions throughout the world. Currently, there are over 2,000 press articles going back to 2002. We believe that this is the most comprehensive site for pension articles in the world today. To view, please go to :

www.RyanALM.com/PensionMonitor