



Ryan ALM, inc.

Asset/Liability Management

The Solutions Company



Ronald Ryan, CEO, CFA

The Ryan Letter

July 2006

Index	Returns YTD 2006	Estimated Weights
Liabilities :		
Market (Tsy STRIPS)	- 5.15 %	100 %
IRS (30 yr Treasury)	2.97	
ROA (8% constant rate)	4.67	
Assets :		
Ryan Cash	2.71 %	5 %
Lehman Aggregate	0.62	30
S&P 500	3.34	60
MSCI EAFE Int'l	11.61	5
Asset Allocation Model	2.92 %	100 %
Assets – Liabilities		
Market	8.07 %	
IRS	- 0.05	
ROA	- 1.75	

The month of July produced decent growth in Assets, 0.85%, but liability growth rose 2.29%. For the year, Asset growth is still 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 **8.07%** using market valuations (i.e. STRIPS); but are down vs. liabilities by **-0.05%** under the IRS Contribution rules; and down **-1.75%** 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 -64% since 1999** when you compound asset growth and liability growth (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	2.92
Liabilities	25.96	3.08	19.47	1.96	9.35	8.87	- 5.15
Difference	-28.46	- 8.48	-30.89	18.08	-0.43	-4.44	8.07
Cumulative		-37.60	-73.40	- 60.08	-66.13	-76.75	-63.80

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 Suite 2515 New York, NY 10165

House and Senate Pass Pension Bill

The House and Senate both passed a 900-page Pension Protection Act that covers both defined-contribution plans and defined-benefit plans. It is now up to the President to sign or veto. To encourage workers to put more money into 401(k) and IRA accounts, the bill has two sensible provisions. It gives workers the option of having their tax refunds transferred directly into an IRA, and it helps employers make participation in 401(k) plans the default option.

The bill's main focus is defined-benefit retirement plans. Employers are not putting enough money (contributions) into these plans to fully fund the pension promises they made. This deficit or gap is estimated at over \$450 billion by the PBGC. The House bill gives companies seven years to close their pension funding gap. It lays down that underfunded pension plans should pay extra premiums to the PBGC to reflect the extra risk that they pose to the system. It also requires companies to make realistic assumptions about the life expectancy of their workers (mortality tables) and the investment returns (ROA) on their pension assets. This will force a higher contribution than under tradition rules.

Unfortunately, the House phases these reforms in slowly and is especially lenient toward airlines. Northwest and Delta are getting an astonishing 17 years in which to fund their pension promises while American and Continental get 10 years, and they are allowed to assume that the investment returns on their pension assets will be 8.85% ... about a third higher than other companies are allowed to assume.

The Congressional Budget Office said the pension bill would initially raise federal tax receipts, but those would then decline as provisions encouraging the use of tax-deferred 401(k) retirement savings plans and IRAs kick in. **Over 10 years the bill would increase the U.S. budget deficit by \$66.4 billion, the CBO estimates.**

Pension Watch: Airlines

Only two major airlines, American and Continental, have active defined benefit plans, according to a June report by Congress' Government Accountability Office. All other major carriers have either terminated their DB plans and turned over their assets to the PBGC or have frozen their plans and quit making contributions.

Delta has frozen all of their DB plans. Delta claims its pilot and non-pilot pension plans are underfunded by \$6.37 billion. The PBGC estimates it to be \$10.6 billion (different discount rates?). Northwest reports that they have a \$3.7 billion deficit while the PBGC believes it is \$5.7 billion. Continental reported at the end of 2005 it was underfunded by \$1.2 billion. American reported an underfunding of \$2.3 billion as of December 31, 2005. US Airways eliminated its three employee pension plans in March 2003. United dropped its four employee plans in December 2004. The PBGC assumed about \$10 billion in underfunded liabilities from the two airlines.

PBGC Pension Study

In an effort to educate lawmakers about the consequences of the new pension bill, the PBGC disclosed a study with some critical observations. The PBGC estimates that the agency would have to absorb around \$12.8 billion in claims between 2007 and 2016. Meanwhile, required contributions to defined-benefit pension plans under the new bill would be reduced by \$10 to \$35 billion over the next 10 years. Rep. George Miller, D-Calif. was quite outspoken exclaiming “This pension reform is the worst of every possible world. By driving up the PBGC’s deficit, it will increase the risk of an eventual taxpayer bailout of that agency. By increasing pension underfunding, it will put more Americans’ pension benefits at risk. And to top it all off, it will encourage more companies to drop their traditional pension plans altogether, stripping millions of Americans of a secure retirement.”

Pension Watch ... GM

GM cleared a major hurdle in July in its efforts to sell its GMAC finance unit. The PBGC decreed that the buyer of GMAC won’t be held responsible for the pension obligations here. In a GM filing with the SEC on July 20, the automaker said that as a result of the GMAC sale it will not move to terminate GM’s pension plans. If in the future it becomes evident that GM did indeed use the GMAC deal for evasion purposes, the PBGC can reverse its decision.

Inflation Watch - Minimum Wage

The House voted to increase the minimum wage from \$5.15 to \$7.25 over the next three years. This is a 40.8% cumulative increase or about 13.2% annually.

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

Pension Monitor

the latest pension articles and news from around the world

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 (click on Pension Archive). We believe that this is the most comprehensive site for pension articles in the world today. To view, please go to :

<http://www.pensionmonitor.com/>