



# Ryan ALM, inc.

## Asset/Liability Management

*The Solutions Company*



Ronald Ryan, CEO, CFA

## The Ryan Letter

October 2006

Index	Returns YTD 2006	Estimated Weights
<b>Liabilities :</b>		
Market (Tsy STRIPS)	1.36 %	100 %
IRS (Corporates)	4.53	
ROA (8% constant rate)	6.66	
<b>Assets :</b>		
Ryan Cash	4.02 %	5 %
Lehman Aggregate	3.74	30
S&P 500	12.06	60
MSCI EAFE Int'l	19.39	5
<b>Asset Allocation Model</b>	<b>9.49 %</b>	<b>100 %</b>
<b>Assets – Liabilities</b>		
Market	8.13 %	
IRS	4.96	
ROA	2.83	

Based on the Asset Allocation above, the month of October produced very high growth in Assets at **2.37%**, with Liability growth at **1.16%**. For the year, Asset growth is still well ahead of Liability growth based on market value but less so 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 **8.13%** using market valuations (i.e. STRIPS); up **4.96%** under the IRS Contribution rules (using Corporate rates); and up only **2.83%** 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 -69% since 1999** (see table below and **GRAPHS** at end).

Total Returns							
	2000	2001	2002	2003	2004	2005	2006
Assets	- 2.50	- 5.40	-11.41	20.04	8.92	4.43	9.49
Liabilities	25.96	3.08	19.47	1.96	9.35	8.87	1.36
Difference	-28.46	- 8.48	-30.89	18.08	-0.43	-4.44	8.13
Cumulative		-37.60	-73.40	- 60.08	-66.13	-76.75	-68.72

**God Bless Pension America !**

Ryan ALM, Inc. - The Solutions Company  
[www.ryanalm.com](http://www.ryanalm.com)

### **DOL Blesses LDI Strategies**

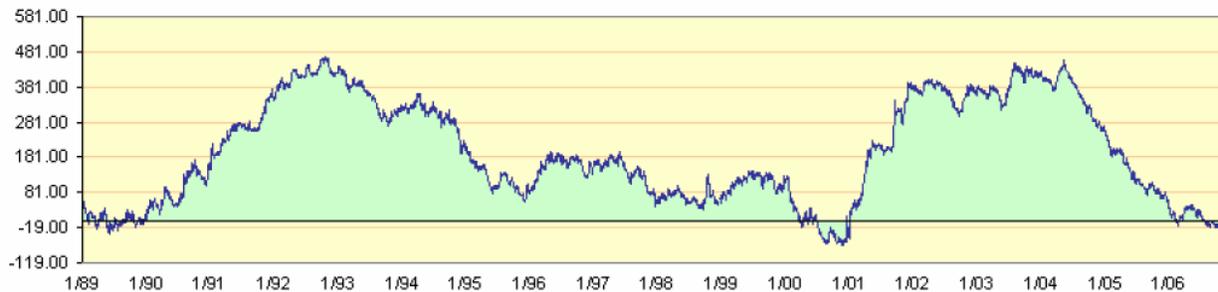
In an October advisory letter to JPMorgan Chase Bank, the Labor Department gave this opinion regarding the application of the fiduciary responsibility provisions of Title I of the ERISA Act of 1974. The DOL said pension plan fiduciaries have broad discretion to define investment strategies for their plans. “A fiduciary would not, in the view of the department, violate their duties under (ERISA) solely because the fiduciary implements an investment strategy for a plan that takes into account the liability obligations of the plan and the risks associated with such liabilities and results in reduced volatility in the plan’s funding requirements.” Sections 403(c) and 404 (a)(1)(A) of ERISA require plan fiduciaries to discharge their duties with respect to a plan solely in the interest of plan participants and beneficiaries (versus the employer) and defraying the reasonable expenses of administering the plan. The ERISA attorney for JPMorgan Chase said the advisory opinion would give “greater comfort” to plan fiduciaries who want to seek a better match between a plan’s liabilities and its assets.

### **Yield Curve Most Inverse Since 2000**

The Treasury Yield Curve slope ended October as the most inverse yield curve since 2000. Based on the Ryan Index, the yield spread between the Ryan 3 month T-Bill Index and the Ryan 30-year Treasury Index was at -36 bps. for October 31. The most inverse observation was -69 bps. on 11/24/00. The yield curve slope between the Ryan 6-month Index and 30-year Indexes ended October at -40 bps with -69 bps on 08/31/00 as the most inverse data since 1989. To see all maturities, go to [www.RyanIndex.com](http://www.RyanIndex.com) or [www.RyanALM.com](http://www.RyanALM.com) :

#### **Yield Spreads (Ryan Treasury 30 year – Ryan Treasury 3 month Index)**

Since - 01/03/1989



### **Pension Watch ... Citigroup**

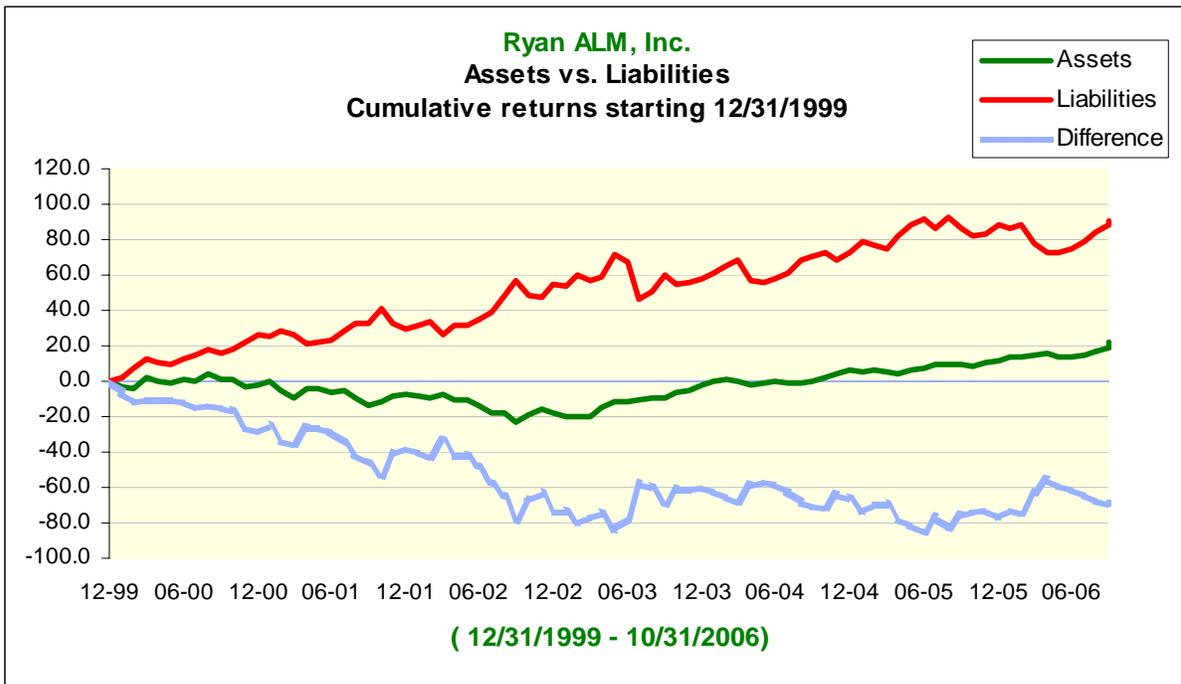
Citigroup, the nation’s largest bank, will freeze its defined benefit plan and raise its contributions to their 401(k). According to the PBGC, DB plans have declined from 112,000 in 1985 to less than 30,000 today. Citigroup’s CEO Charles Prince wrote a memo to employees explaining this change saying “We will invest significantly more in our employees under this improved approach to our retirement savings”. In a recent federal filing Citigroup recorded an \$80 million gain from the change.

### **Pension Watch ... Ford Motor**

Ford Motor posted a \$5.8 billion loss for the third quarter which included a \$437 million charge for pension-related expenses. Ford has an estimated \$41 billion in pension assets.

## Pension Scoreboard

Based on the Ryan generic Liability Index and static Asset Allocation, as shown on page 1, the following graphs show asset growth versus liability growth for rolling 12 month periods and cumulative growth since 1999.



### **Ryan Indexes ...Enhanced !**

In March 1983, my index team and I at the Ryan Financial Strategy Group (RFSG) created the **1<sup>st</sup> 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 daily reports on these indices have been greatly expanded and enhanced to 139 daily pages + 10 pages of research and methodology including :**

**Yield History  
Yield Spreads  
Percentage Spreads  
Returns**

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](http://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

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