Ryan ALM, inc.

Asset/Liability Management

The Solutions Company

Ronald Ryan, CEO, CFA

The Ryan Letter

November 2006

Index	Returns YTD 2006	Estimated Weights
Liabilities :		
Market (Tsy STRIPS)	3.98 %	100 %
IRS (Corporates)	5.04	
ROA (8% constant rate)	7.33	
Assets :		
Ryan Cash	4.47 %	5 %
Lehman Aggregate	4.95	30
S&P 500	14.19	60
MSCI EAFE Int'l	22.99	5
Asset Allocation Model	11.31%	100 %
Assets – Liabilities		
Market	7.33 %	
IRS	6.27	
ROA	3.98	

Based on the Asset Allocation above, the month of November produced high growth in Assets at **1.66%**, but higher Liability growth at **2.58%**. For the year, Asset growth is 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 market rates**. Pension assets are up vs. liabilities for the year by about **7.33%** using market valuations (i.e. STRIPS); up **6.27%** under the IRS Contribution rules (Corporate rates); and up only **3.98%** 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 -71% 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	11.31
Liabilities	25.96	3.08	19.47	1.96	9.35	8.87	3.98
Difference	-28.46	- 8.48	-30.89	18.08	-0.43	-4.44	7.33
Cumulative		-37.60	-73.40	- 60.08	-66.13	-76.75	-71.61

God Bless Pension America !

William B. Sharpe Indexing Lifetime Achievement Award

I was recently honored at the Superbowl of Indexing Conference with this year's Indexing Lifetime Achievement Award. A sincere thanks to my index teams over the last 32 years of index design and to IMN for making it happen.

PBGC Deficit Reduced

On November 15, the PBGC issued a report that its deficit for single employer plans had been reduced to $18.1 billion in the fiscal year ended September 30 from $22.8 billion the year before. The PBGC contributed the reduction largely due to provisions in the Pension Protection Act of 2006 which eased pension funding requirements for major airlines. Higher interest rates also played a role in reducing the PBGC liabilities. Improved credit ratings and plan funding (contributions) by key employers lowered the PBGC's potential future exposure to losses from financially shaky plan sponsors to $73 billion in fiscal 2006 vs. $108 billion the previous year.

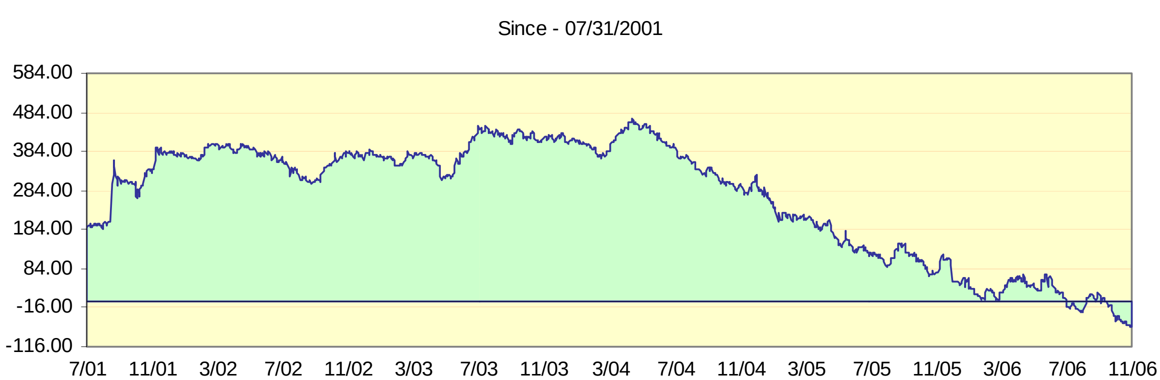
New York City Faces Health Costs of $53.5 Billion

NYC will face future health costs of $53.5 billion, about the same for all of New York State, according to the city's financial report. All public plans will be required to disclose their retiree health benefits based upon new GASB rules at year end. It is estimated that the total liability for all state and local health benefits is near $1 trillion. NYC set aside $2.2 billion of its record city surplus of $6.1 billion for future health care benefits. This prudent and uncommon public plan decision helped prompt S&P to raise it's NYC rating to AA-, the highest ever. Congratulations New York for being fiscally responsive!

Yield Curve Most Inverse Since 2000

The Treasury Yield Curve slope ended November as the most inverse yield curve since 2000. Based on the Ryan Index, the yield spread between the Ryan 1-month T-Bill Index and the Ryan 30-year Treasury Index was at -67 bps. for November 30. This is the most inverse since the 1-year T-Bill was invented in July 2001! The yield curve slope between the Ryan 3-month Index and 30-year Indexes ended November at -47 bps, the most inverse yield curve since 11/24/00 at -69 bps. To see all Treasury yield curve maturities, go to **www.RyanIndex.com** or **www.RyanALM.com** :

Yield Spreads (Ryan Treasury 30 year – Ryan Treasury 1 month Index



Pension Watch … San Diego

The city of San Diego was sanctioned by the SEC Nov. 14 for securities fraud by misleading investors on the sale of $260 million in municipal bonds in 2002 and 2003.regarding its ability to fund its pension and retiree health-care liabilities. The SEC cited the city for failing to disclose a dramatic projected increase in the $4.45 billion Employees Retirement System unfunded pension liability which went from a deficit of $284 million at the beginning of fiscal 2002 to an estimated $2 billion deficit by 2009. The city's health-care costs were projected to be another $1.1 billion deficit over the same period. The city was also cited for failing to disclose that it had been underfunding its pension obligations (contributions) so that it could increase pension benefits but defer the costs making it extremely difficult to fund pension and health-care costs.

Pension Watch … Ford Motor

In a startling announcement on November 29, Ford expects to burn through nearly half its cash reserves, or $17 billion, by 2009 as 40% of its hourly workers voluntarily leave their jobs. In addition, the Ford Motor Credit Company will suspend dividends payments. Most of the money will be spent on buyout and retirement packages for 30,000 UAW union members. GM did something similar in the summer reducing its union workers by about a third. Ford will borrow $18 billion to carry out this program and will pledge most of its domestic assets as collateral. 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 Watch … Hershey

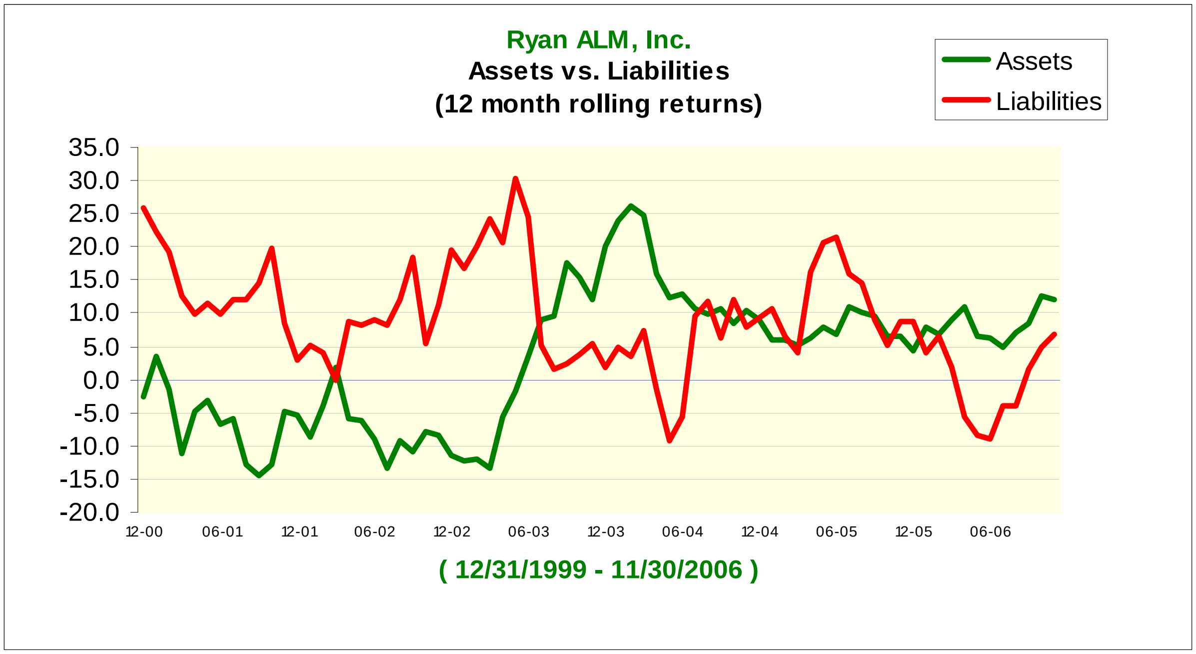
The Hershey Co. announced that its stockholder equity will be reduced by $150 million to $250 million (a 37.5% reduction) as a result of the adoption of accounting rule FAS 158. This rule requires pensions to be valued on a PBO basis rather than ABO basis. Hershey has $680 million in pension assets.

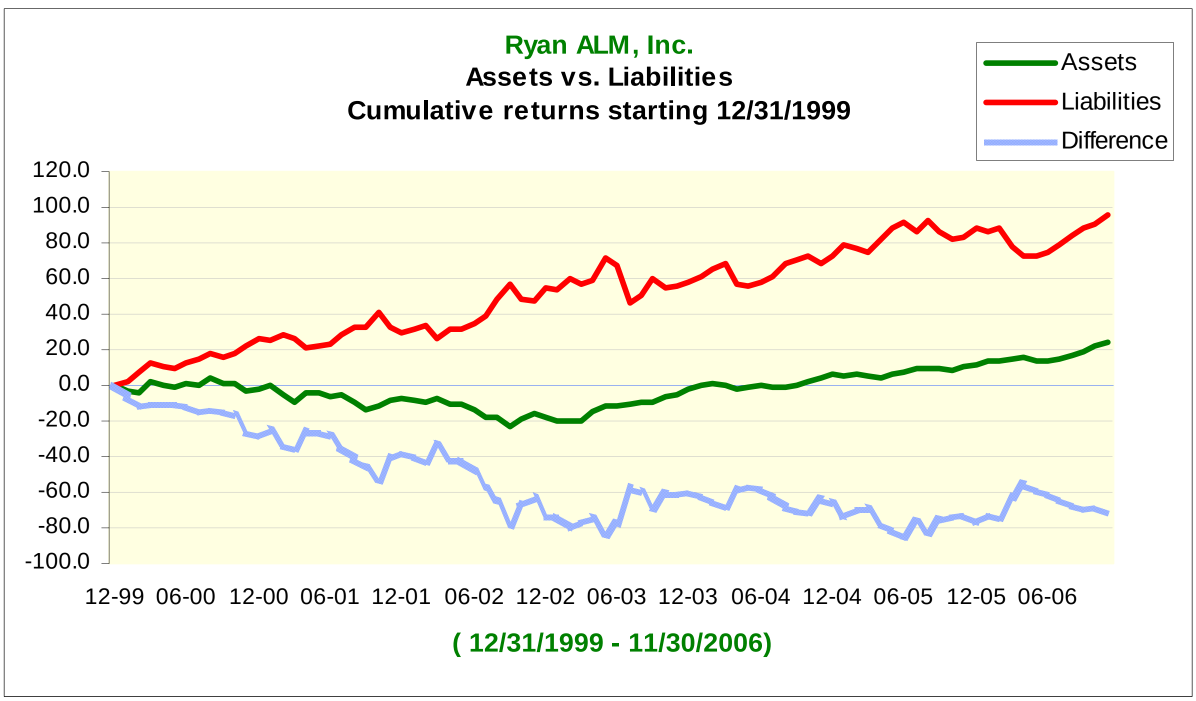
Treasury STRIPS in Big demand

Almost 26% ($6.77 billion) of the 30-year Treasury bond was held as zero-coupon securities as of Oct. 31. That's a 16-fold increase since August 31 according to the Treasury department. Total STRIPS outstanding increased by $9.34 billion, or 4.9 percent, over the past two months.
STRIPS are the best way for pensions to match liabilities and lengthen duration. Many pensions who are moving to longer bond indexes should be cautioned that these bond indexes do **not** contain zero-coupon bonds. As a result, the longest duration of any coupon bond today is about 15 years suggesting that these generic bond indexes will never behave like pension liabilities even if they have the same average duration. Only a Custom Liability Index composed of zero-coupon bonds could ever match the risk/reward behavior of liabilities. Accordingly, only a zero-coupon bond portfolio matched to the benefit payment schedule of a plan sponsor could ever **defease** pension liabilities. Pension clients thinking of switching to a longer generic bond index (like the long Lehman Government Credit Index) should be made aware of the interest rate sensitivity difference versus their true economic liability schedule. The error here can be sizable. **Only a Custom Liability Index could represent the proper benchmark. Pension plans should rethink this key benchmark decision and call Ryan ALM to install a correct LDI benchmark … a Custom Liability Index.**

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 **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 daily reports on these indices have been greatly expanded and enhanced to over 130 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 Ryan 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/