Ryan ALM, inc.

Asset/Liability Management

The Solutions Company

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The Ryan Letter

May 2008

Index	Returns YTD 2008	Estimated Weights
Liabilities :		
Market (Tsy STRIPS)	-1.68 %	100 %
IRS (Corporates)	1.01	
ROA (8% constant rate)	3.33	
Assets :		
Ryan Cash	1.24 %	5 %
Lehman Aggregate	1.21	30
S&P 500	-3.80	60
MSCI EAFE Int'l	-2.64	5
Asset Allocation Model	-1.89 %	100 %
Assets – Liabilities		
Market	-0.21%	
IRS	-2.90	
ROA	-5.22	

Based on the Asset Allocation above, year to date 2008 pension assets **underperformed** liabilities by **-0.21%** using market valuations (i.e. STRIPS); lost by **-2.90%** under the IRS Contribution rules (PPA Corporate rates); and lost by **-5.22%** using the ASOP 27 methodology of a constant ROA (i.e. 8.00%). Such valuations show the significant difference in not using proper *market* valuations. Most pension funds enjoyed a funded ratio surplus in 1999. However, assets have underperformed liabilities **by about -76% since 1999** on a compounded index basis starting at 100 on 12/31/99!

(see Graphs and Index disclosures on pages 6 and 7)

Total Returns

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Assets	-2.50	-5.40	-11.41	20.04	8.92	4.43	12.25	6.82	- 1.89
Liabilities	25.96	3.08	19.47	1.96	9.35	8.87	0.81	11.76	- 1.68
Difference:									
Annual	-28.46	-8.48	-30.89	18.08	-0.43	-4.44	11.44	-4.94	-0.21
Cumulative		-37.60	-73.40	-60.08	-66.13	-76.75	-64.60	-78.38	-76.48

God Bless Pension America !

FASB, PPA, GASB, ASOP 27 … Oh, my

Dorothy on her way to Oz encountered many strange things which caused her fright and severe life and death struggles. Well, such is the journey of pensions as they go through a mysterious land of accounting rules and actuarial practices that have misled and misguided them. This has led, in some terminal cases, to the death of defined benefit pensions and has bankrupt numerous corporations (PBGC has take over 3,444 defined benefit plans). Now the health of many cities and even states seems to be in question. As the New York Times reported on May 21 ("Actuaries Scrutinized on Pensions" by Mary Walsh) state and local governments are promising pension benefits on the basis of numbers that make little economic sense. "Actuarial assumptions based on misinformation are a recipe for disaster," said the Texas attorney general, Greg Abbott. This has been my position for over 20 years. Bad accounting and actuarial rules have led to bad investment decisions, bad benefit decisions and bad contribution decisions. They can all come under the title of misinformation. Such rules tend to misprice liabilities using a very high discount rate (i.e. ROA) that today undervalues public plan liabilities by 35% to 60%. Because of this return on asset (ROA) assumption, most public pension plans are told that they are "actuarially sound". I don't know what sound this is … perhaps the Gong show. If a doctor told you were physically sound, you would think that you are ok and can behave in most physical endeavors. Well, if a pension was told that they were actuarially sound they believe that they are funded well and will behave accordingly … by raising benefits or reducing contributions or both. Fully funded is not what actuarially sound means. This term is a product of an actuarial projection that calculates if the plan achieves its ROA and makes all projected contributions (huge spiking numbers) over 30 years then at the end of this period the plan is properly funded … but not today. Well, most Public Plans are faced with skyrocketing projected contributions that may wreck havoc with financial budgets … perhaps, threatening bankruptcy. **This budget tragedy is due to spiraling pension contributions which is the pension crisis of public fund America.** Several lawsuits have now been filed based on this misinformation (i.e. Alaska, Milwaukee, New York, San Diego).

Housing Overview

The Wall Street Journal reported that the Chapter 11 Bankruptcy filing of Landsource Community Development is the biggest housing related bankruptcy ever. The partnership owns 15,000 acres outside Los Angeles and its largest investor is California Public Employees' Retirement System (CalPERS). The WSJ reports that CalPERS will lose $970 million in this bust and has decided to take the loss rather than infuse more capital. The national inventory of unsold homes and condos jumped 10.5% to 4.6 million representing an 11.2 month supply at the April sales pace. This is the biggest inventory of unsold condos on record (data since 1999) and the highest inventory of single-family homes since 1985. Following my points of view in last month's newsletter, I found a great source of info on the sub-prime crisis. Please check out **www.advisorperspectives.com.**

Should The Fed Now Fight Inflation and Raise Rates? … That is the Question

Reuters reported on May 28 that two Federal Reserve policy makers warned that interest rate increases might be needed to curb inflation even with the current weak economy. Dallas Fed President Richard Fisher and Minneapolis Fed President Gary Stern, both voting members of the FOMC, said they are keeping a close watch on inflation. "If inflationary developments and, more important, inflation expectations, continue to worsen, I would expect a change in monetary policy to occur sooner rather than later. Rate increases could be made even in the face of an anemic economic scenario," said Mr. Fisher. Fisher also said it would be unacceptable for the Fed to be viewed as resigned to higher levels of inflation. What is the Fed waiting for to admit that we have an inflationary trend. Check out commodity prices and the growth in money supply (M3). I believe that the long trend of lowering interest rates instituted by Fed Chairman Mr. Greenspan was a significant contributor to our mortgage crisis, credit crisis and pension crisis. Higher rates are a definite solution to the pension crisis and hopefully can curtail inflationary trends and help stop the easy mortgage credit now available (better credit rules are perhaps the best solution).

John McCain's Solution to Escalating Gas Prices

On his web site (**www.johnmccain.com**) presidential candidate John McCain is asking Americans to sign his petition to reduce oil prices. His strategy is:

1. Summer Gas Tax Holiday – suspend the 18.4% federal gas tax and 24.4% diesel tax from Memorial day to Labor Day.
2. Stop Filing The Strategic Petroleum Reserve (SPR) – international demand for oil is bolstered by federal purchases for the SPR. There is no reason to fill the SPR at these oil prices especially since the SPR is of adequate size.
3. End Policies That Contribute to Higher Transportation Costs – Ethanol subsidies, tariff barriers and sugar quotas drive up food prices.

Away from oil, McCain proposes a one-year spending pause on federal programs (except military) to review their effectiveness.

Tiburon CEO Conference

I was honored recently to be chosen as one of nine speakers before the Tiburon CEO conference. A review by Tiburon of each speakers' presentation is on our web site **www.RyanALM/CompanyInfo/Speeches.com**.

If Elected President …

Given that we are now in the stretch run of an election, I thought I would offer some ideas for the candidates. Hopefully, you find them entertaining and even useful. I would appreciate any critiques sent to **rryan@ryanalm.com** :

1. Require Less Dependence on Foreign Oil - Given the escalating and high cost of oil we continue to feed these foreign oil exporting countries with great wealth, some of whom are considered our enemy (i.e. Venezuela). We need to reduce our dependence on foreign oil. We need to be self sufficient on such a dependent commodity. We need to allow more exploration in our own oil deposits (i.e. Alaska and off shore Florida). We need to promote other sources of fuel as a replacement for oil, especially flex-fuel (alcohol based fuel). We need to find a replacement for the internal-combustion engine. After 100 years, can't we find a more energy efficient and cost effective alternative to run our cars and trucks. Congress needs to act quickly to promote the proper incentives plus place penalties (taxes) where companies do not behave in the best interests of the American economy (i.e. gas guzzling cars). Most of these foreign oil export countries have built a Sovereign Wealth Fund of incredible size. This is most commendable to these countries leadership as they save and invest during their good times (surplus) protecting and ensuring their future. Where is America's Sovereign Wealth Fund?

Why don't we ever run a Surplus economy? What role do oil lobbyists play in our energy demise?

2. Increase IRA Allowance – As we prepare for a Social Security crisis, American taxpayers should be allowed to provide for their retirement. The IRA has been a great invention but limited. We need to allow our citizens to provide for their own retirement. We need to raise the limits on what taxpayers can allocate to their IRA plan. At current IRA allowances plus Social Security benefits, most Americans would be hard pressed to meet retirement costs. Why not allow a 20% allocation to an IRA. The government still gets paid in taxes. The only question becomes is it upfront (Roth IRA) or deferred.

3. Make Healthcare Assets Tax-Exempt - We are currently facing the largest financial disaster in America's history … how to pay for Healthcare benefits (OPEB). Pensions were given an incentive to prefund pension liabilities by making them tax-exempt. However, healthcare assets do not have the same tax treatment. As a result, there has been a reluctance to prefund. Instead of funding these future liabilities at 50 to 60% cost thereby saving 40 to 50% most institutions (corporate and Public) have chosen a pay-as-you-go strategy which funds such liabilities at 100% cost.

4. Reduce Taxes – If our Declaration of Independence is correct that all men are created equal then perhaps we should treat our citizens the same way. Robbing the rich to give to the poor may be a Robin Hood value but does not work in a capitalist system. We need to motivate the rich to live and work in America. A FLAT INCOME TAX would be a fair system which would eliminate much cost of preparing those arduous tax forms and generate as much revenue as the government gets today. We also need to reduce the Corporate income tax which is the second highest in the world to attract and keep corporations in America. We need to create an environment that motivates the most productive people and companies to live, build and work here. In this way, they will in turn hire more people, spend more in our economy. We should also make permanent the lower capital gains tax rates and eliminate double taxation of dividends to motivate economy activity.

5. Find and Buy Low Cost Manufacturing - America has steadily lost its manufacturing to the rest of the world due to our higher labor costs and taxes. We need to find a way to produce our goods cheaper where the production facilities are on our soil. It's time we become more self dependent, especially on any critical goods and services. As we see with oil, any dependence on foreign goods here can be harmful to our economy. Why not buy a less developed country to be a low cost provider where we send our intellectual property to teach a low cost labor force. We do not want them to come to America where they would have to be paid at least our minimum wage, move away from family and live a life style they are not used to or perhaps want. Remember, most of America's land mass was purchased! Our key cities and environmental resources were founded mainly by purchasing the land (i.e. Manhattan, Louisiana Purchase, Alaska, etc.). I would think that Haiti is an ideal candidate. It is close to our shores with the third largest land mass in the Caribbean. I would think that we could buy this undeveloped country for a lot less than the Iraq war costs. I am sure that the Haitians would welcome to become a U.S. possession that would upgrade their way of life. I am sure that the politicians would also welcome it for a price that would be less costly than any war.

6. Bring back Investment Tax Credit - We are losing our manufacturing steadily to the rest of the world for many years now. We need incentives for corporations to do the right thing for America. Build plant and equipment here in America, hire more Americans! It worked before in the 1960s and 1970s … we need a strong corporate America.

7. Legalize National Lottery - There are about 38 states that have a state lottery. For many states, this is the second or third largest revenue for that state. We need to find ways to finance and support Social Security and Medicare without taxing our citizens. A National Lottery with revenue dedicated to SS and Medicare would be a big help.

8. Sell our Gold – Since we left the Gold standard many decades ago, there is no economic reason to hold this commodity. Given the fact that Gold is now at an all time high price ($821.50 per troy ounce as of 11/30/07) and our economy needs a stimulus (other than raising taxes) this might be a proper strategy and certainly good timing. As of September 2007, the U.S. owned 8,133.5 tonnes of Gold (Germany has 3,417.5, China = 600 and the UK = 310.3) . There are 32,551 troy ounces in each tonne. This would value our Gold reserves at $214,822,380,207. Such a new found wealth could shore up the Social Security and Medicare trust fund which is the next big financial crisis that all Americans will pay for in higher FICA taxes. Put the sale proceeds in a lock box and only use the interest income when you start to run SS deficits in future years. This way we would have an interest earning asset rather than the reverse situation which we have today (a cost center not a profit center).

9. Get rid of Electoral College - This antiquated system is in defiance of our Declaration of Independence which states that all men are created equal. Each American should get an equal vote in our elections. Anything less or more contradicts our heritage.

"My friends, we live in the greatest nation in the history of the world.
***I hope you'll join with me as we try to change it"* (Huh?)**
Barrack Obama

Public Pension and OPEB Watch

There seems to be an avalanche of recent Public Pension announcements concerning the growth of pension + OPEB deficits and the mismanagement of such funds. As I have preached since 1991, the accounting and actuarial rules (GASB and ASOP 27) governing Public Pension plans are the start of the pension crisis since they do not *mark to market* the liabilities (market rates @ 5.00%). Instead, they value the liabilities at the ROA rate (discount rate @ 8.00%). Such a discount rate methodology has *undervalued* public pension liabilities by 30 to 55% in the last 7 years. As a result, reported funded ratios are not accurate and need to be reduced accordingly. These inappropriate rules have led to inappropriate … benefit decisions, contribution decisions and asset allocation decisions. It all links! Here is an update on some municipalities:

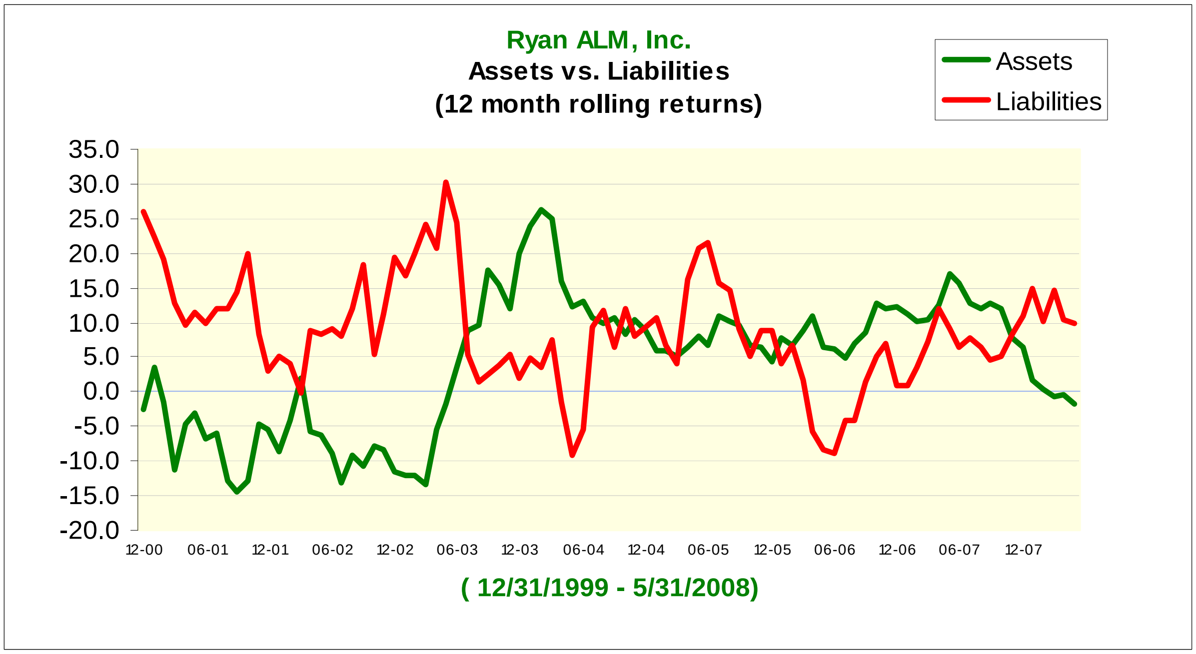
Ten Worst State Pensions – According to a recent S&P study here are the 10 worst state pension plans based on their reported Funded Ratio. Remember these ratios are based on GASB accounting which prices liabilities at the ROA (@ 8.00% average discount rate). As a result, liabilities are about 40% higher than actuarially reported and the deficit should be about 20% higher :

($ billions)

State Pension	Pension Size ($)	Deficit (%)	Deficit ($)
West Virginia	11.1	47.3 %	5.3
Rhode Island	10.6	46.6	4.9
Connecticut	33.9	43.6	14.8
Illinois	79.9	40.5	32.4
Oklahoma	24.4	40.5	9.9
Alaska	21.6	39.0	8.4
New Hampshire	6.4	38.6	2.5
Indiana	28.2	35.7	10.1
Hawaii	14.7	35.0	5.1
Louisiana	30.9	33.7	10.4

Pension Scoreboard

Based on the Ryan generic Liability Index and a static Asset Allocation shown on page 1, the following graphs show asset growth versus liability growth for rolling 12 month periods and cumulative growth since 1999. The cumulative growth difference is **-76.48% suggesting any pension with a Funded Ratio below 163.08 in 1999 has a deficit today !**. As a Pension Crisis watchdog, we have also designed the **Pension Monitor** as the most comprehensive site for pension articles in the world today: **http://www.pensionmonitor.com**



Indexes

Custom Liability Indexes

The best way to price (discount rate) and understand the interest rate sensitivity of liabilities is the **Ryan Treasury STRIPS yield curve indexes** known as the **LIABILITY BENCHMARK or LIABILITY INDEX**. In March 1985, when STRIPS were born, my team and I at the Ryan Financial Strategy Group (RFSG) created the **1st STRIPS Index.** Based upon these Ryan STRIPS indexes we created the **1st Liability Index in 1991** as the proper liability Benchmark for liability driven objectives (Pensions, Lotteries, NDT, Insurance Cos., etc.).

Since 1991, the Ryan team has developed hundreds of Custom Liability Indexes (CLI). Similar to snowflakes, no two pension funds are alike in that they have unique benefit payment schedules due to different labor forces, different mortality, different plan amendments. **The true objective of a pension is to fund liabilities at the lowest cost to the plan with prudent risk**. Without a Custom Liability Index it would be difficult, if not impossible, for assets to be managed vs. this liability objective. Until a CLI is installed as a set of economic books, the asset side is in jeopardy of managing vs. the wrong objective (i.e. generic market indexes) **If you outperform generic market indexes, but lose to the CLI … the plan loses !**

Ryan Indexes …Enhanced !

In March 1983, my index team and I at the Ryan Financial Strategy Group (RFSG) created the **1st Daily bond Index … the Ryan Index** as a *Treasury Yield Curve* index series for each auction maturity series (from Bills to Bonds). 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 100 daily pages + many pages of research and methodology including :

Returns
Yield History
Yield Spreads
Percentage Spreads

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

Note: In October 2005, Ron Ryan terminated his license agreement with Ryan Labs to distribute and calculate the Ryan Indexes and Ryan STRIPS Indexes. Ron Ryan and Ryan ALM have no affiliation with Ryan Labs. Any use of the formulas, methodologies and data of any of the Ryan Indexes without Ron Ryan's written permission is prohibited

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

Index Funds

Liability Index Funds

The best way to match assets to liabilities and reduce the volatility of the Funded Ratio is through a Liability Index Fund. Immunization was a common strategy to match liabilities but had a mathematical problem in that it matched the average duration of liabilities instead of the entire term structure of liabilities. Only a Liability Index Fund correctly matches and fully funds each liability payment. This requires a Custom Liability Index. Ron Ryan was the inventor of both the Custom Liability Index and Liability Index Fund (Liability Beta) concept.

ETFs

Powershares Launches ETF based on Ryan/Mergent 1-30 year Maturity Ladder Indexes

On October 11, 2007 Powershares launched a fixed income ETF based upon the Ryan/Mergent 1-30 year Treasury Maturity Ladder index. This index is an equal-weighted diversified portfolio of 30 distinct maturities. For more info on this ETF and index, please go to :

www. Powershares.com (click on fixed income portfolios)