Ryan ALM, inc.

Asset/Liability Management

The Solutions Company

Ronald Ryan, CEO, CFA

The Ryan Letter

July 2008

Index	Returns YTD 2008	Estimated Weights
Liabilities :		
Market (Tsy STRIPS)	0.45 %	100 %
IRS (Corporates)	1.26	
ROA (8% constant rate)	4.67	
Assets :		
Ryan Cash	1.64 %	5 %
Lehman Aggregate	1.05	30
S&P 500	-12.64	60
MSCI EAFE Int'l	-13.45	5
Asset Allocation Model	-7.89 %	100 %
Assets – Liabilities		
Market	-8.34%	
IRS	-9.15	
ROA	-12.57	

Based on the Asset Allocation above, year to date 2008 pension assets **underperformed** liabilities by **-8.34%** using market valuations (i.e. STRIPS); lost by **-9.15%** under the IRS Contribution rules (PPA Corporate rates); and lost by **-12.57%** 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 -89% 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	-7.89
Liabilities	25.96	3.08	19.47	1.96	9.35	8.87	0.81	11.76	0.45
Difference:									
Annual	-28.46	-8.48	-30.89	18.08	-0.43	-4.44	11.44	-4.94	-8.34
Cumulative		-37.60	-73.40	-60.08	-66.13	-76.75	-64.60	-78.38	-88.96

God Bless Pension America !

KLD, Mergent and Ryan ALM Launch First ESG Corporate Bond Indexes !

KLD Research & Analytics, Inc, Mergent, Inc. and Ryan ALM, Inc. announced the August 1, 2008 launch of the KLD U.S. Corporate Bond (USCB) Index series. These investable indexes are the first to apply environmental, social and governance (ESG) performance factors to a U.S. fixed income asset class. The KLD 1-3 Year U.S. Corporate Bond Index (USCB3), KLD 1-5 Year U.S. Corporate Bond Index (USCB5), and KLD 1-10 Year U.S. Corporate Bond Index (USCB10) are available for licensing as well as "***custom indexes***".

The KLD USCB series is the product of collaboration by three firms: KLD Research & Analytics, the leading ESG research firm in the world; Mergent, fixed income terms & conditions data; and **Ryan ALM, fixed income index architect and calculation agent**.

"These bond indexes provide an additional asset class for investors wanting to integrate KLD's ESG factors into their fixed income portfolios," said Peter Ellsworth, Business Development Manager for KLD Indexes. "Our clients have made it clear that environmental, social and governance issues are as important to fixed income investors as they are to equity investors."

"The KLD USCB series provides index solutions that minimize ESG risk factors and limit exposure to any one issuer," said Ron Ryan, CEO of Ryan ALM. "Traditional bond indexes are market-weighted, so companies who issue more bonds gain a larger share of the overall index. The KLD USCB indexes are equal-weighted with a 5% cap, so no one issuer could ever become a significant weight factor," Ryan explained. "Moreover, the USCB indexes only use the largest issues of each issuer, which provides the best liquidity and pricing."

The KLD USCB series covers three maturity parameters with 1-3 year, 1-5 year, and 1-10 year indexes. To construct the USCB5 and USCB10 indexes, KLD evaluates the ESG performance of the largest one thousand publicly traded companies in the United States. Ryan then selects companies from the top quartile of ESG performers that issue investment grade debt within the maturity parameters of each index and meet specific liquidity criteria. The USCB3 index includes companies ranked in KLD's 1st and 2nd quartiles of ESG performers whose issues are within the 1-3 year maturity parameter.

All indexes are equal weighted and no issuer may exceed 5% of the total value of the index. The indexes are rebalanced monthly and reconstituted annually. Custom fixed income indexes can be built to meet customer demand. These could include indexes with market-weighted or alternative weight factors; indexes with longer term maturities; or indexes with specific responsible investing strategies such as faith-based investing, sustainable investing, or green investing.

KLD U.S. Corporate Bond (USCB) Index Series	
Minimum Credit Worthiness:	**Investment Grade**
Minimum Issue Amount:	**$250 Million**
Maturity Parameters:	**1-3 years, 1-5 years, 1-10 years**
Call Protection:	**1, 3, 3 years**
Weight Factor:	**Equal Weighted**
Cap:	**5% per Issuer**
Frequency of Rebalance:	**Monthly**
Frequency of Reconstitution:	**Annually in August**

KLD Indexes is a unit of KLD Research & Analytics, Inc., the leading provider of environmental, social and governance (ESG) research for institutional investors. KLD Indexes develops and licenses benchmark, strategy and custom indexes that investment managers use to integrate ESG criteria into their investment decisions. KLD Indexes are designed to be transparent, representative and investable. Products based on KLD Indexes include:

Mutual Funds	ETFs
Separately Managed Accounts	Unit Investment Trusts
Variable Annuities	Structured Products

More than $10 billion is invested in vehicles based on KLD Indexes.

For more information about KLD's indexes visit http://www.kld.com/indexes

For information about licensing a KLD index for the creation of an investment product, please email indexes@kld.com

IAM Warn Congress of Pension Default

The International Association of Machinists and Aerospace Workers (IAM) warned Congress that a Delta/Northwest Airlines merger would jeopardize workers pensions and the stability of the government's insurance system. According to IAM General Vice President Robert Roach, "Northwest's 12,500 employees are the only group at the airline with an active defined benefit pension plan. If the combined giant airline fails and needs bankruptcy court protection, the frozen company sponsored pension plans would be forced onto the PBGC. This would burden the PBGC with more than $15.8 billion in additional liabilities on top of the $13.1 billion deficit for year 2007." The IAM is the largest airline and rail union in North America representing over 170,000 employees.

GAO Cites $58 billion in Unpaid Payroll Taxes

More than 1.6 million U.S. businesses owe the IRS more than $58 billion in unpaid taxes for Social Security, Medicare and unemployment insurance according to the General Accountability Office. When the money is not passed on to the government, general revenues have to be tapped to make up for the loss to the programs trust funds.

Windfall Tax on Retirement Income?

Speaker of the House, Nancy Pelosi, wants a Windfall Tax on all stock market profits (including retirement income, 401k, Mutual Funds) to help the 12 million immigrants and other unemployed minorities! Is this capitalism or socialism?

Olympic Trivia

Earliest Olympic Games held in ancient Greece in 776 B.C. Modern version started in 1896.

1. Official motto was created in 1924 … "Citius, altius, forties" (Faster, Higher, Stronger).
2. Badminton is the world's fastest sport (shuttlecock reaches speeds of up to 143 mph).
3. Gold medals were solid gold until 1912. Now they are 92.5% silver.
4. BMX (bicycle motocross) will make its debut at the Olympics.
5. Female boxing will become an Olympic sport in 2012.
6. Softball is an Olympic event for WOMEN ONLY.
7. Only 5 sports have been at every Olympic event:
   (Aquatics, Fencing, Gymnastics, Tennis, Track & Field)

Public Pension 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:

Alabama – Jefferson County said it reached an agreement with creditors on an August 1 deadline to pay $100 million in interest on sewer bond debt. Jefferson County ran up its sewer bond debt through costly bond swaps over a period of years. If the county goes bankrupt, it would be the largest municipal bankruptcy in U.S. history.

Illinois - Illinois faces a $45.7 billion pension unfunded obligation. The House rejected Governor Blagojevich's attempt to float another $16 billion in pension fund bonds.

Massachusetts - Lawmakers moving quickly and without debate in the final hours of the legislative session approved a pension increase for state workers that could cost more than $3 billion over the next 20 years. According to Michael Widmer, president of Massachusetts Taxpayer Foundation, "There is no money to pay for this enhanced benefit; regardless of the merits… it's the height of irresponsibility.

New Jersey - Governor Corzine and the Legislature have made several moves to reform the state pension system. The state will raise the retirement age from 60 to 62. There is a proposal to calculate retirement benefits based on the average of the last five years annual salary rather than the current three. It will even eliminate Lincoln's Birthday as a separate holiday after 2011.

Pittsburgh - City's unfunded pension liability for its three pension funds was $660 million as of January 1, 2007 with total liabilities at $1.04 billion. This is a Funded Ratio of 36%.

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 than reported :

($ 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

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. **Quit Stealing from Social Security** – The federal government consistently borrows the so-called Social Security surplus each year and spends it on general budget expenditures. Congress has borrowed over $2 trillion over the years and plans to borrow $209 billion this year. According to a new book "Stop the Raid" by Dennison Smith and Peter Ferrara, they estimate that taxpayers will pay an additional $6 trillion from 2017 to 2041. Art Linkletter writes in the foreword, "What was a much-needed means of social security in the 1930s has become an ATM machine for Congress rather than securing and guaranteeing a portion of our retirement". A solution is now before Congress in the form of Social Security Preservation Act (H.R. 219) that will stop the raiding of SS. Urge your congressman to pass this Act!

2. **Reduce Our U.N. Costs** – The U.N. was a well conceived idea that has gone sour for America and many other Nations over the 59 years of its existence. The central purpose of the United Nations is to preserve peace. Under the charter, member states agree to settle disputes by peaceful means and refrain from threatening or using force against other States. America bears the burden for a great portion of the U.N. costs (@ 30%) but we only have equal vote with the other 192 nations. There needs to be a more equitable sharing of costs. The site of UN

headquarters consists of 18 acres owned by the UN. It is an international territory owned by the UN not America!

3. 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?

4. 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.

5. 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. Treat OPEB assets the same as pension assets … make them tax-exempt!

6. 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.

7. 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 US war.

8. 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! Create tax incentives for companies to build plant & equipment (i.e. jobs) in America. It worked before in the 1960s and 1970s … we need a strong *corporate* America.

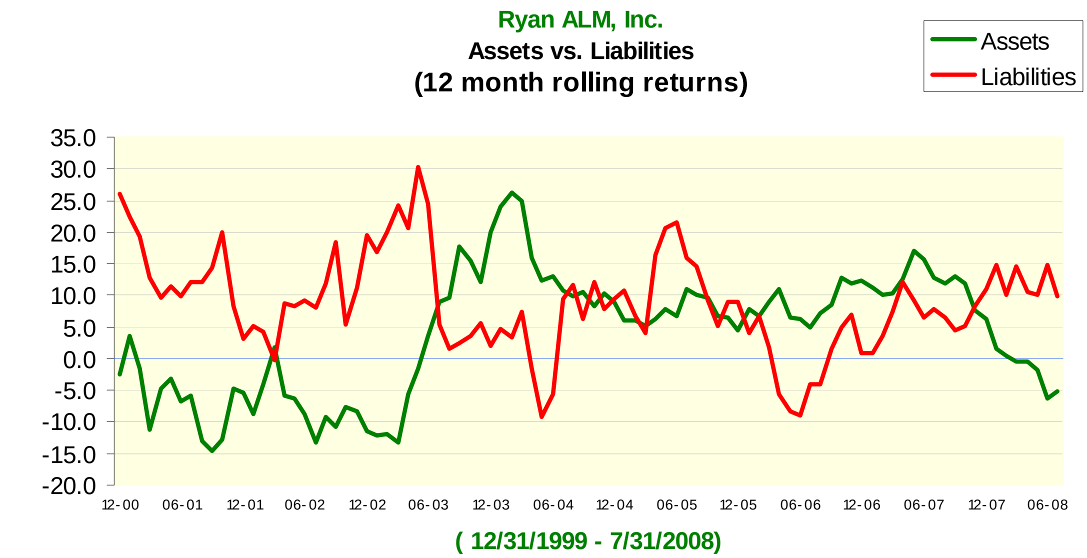
9. Legalize National Lottery - There are about 38 states that have a state lottery. For many states, this is the second or third largest revenue for that state. We need to find ways to finance and support Social Security and Medicare without taxing our citizens. A National Lottery with revenue dedicated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

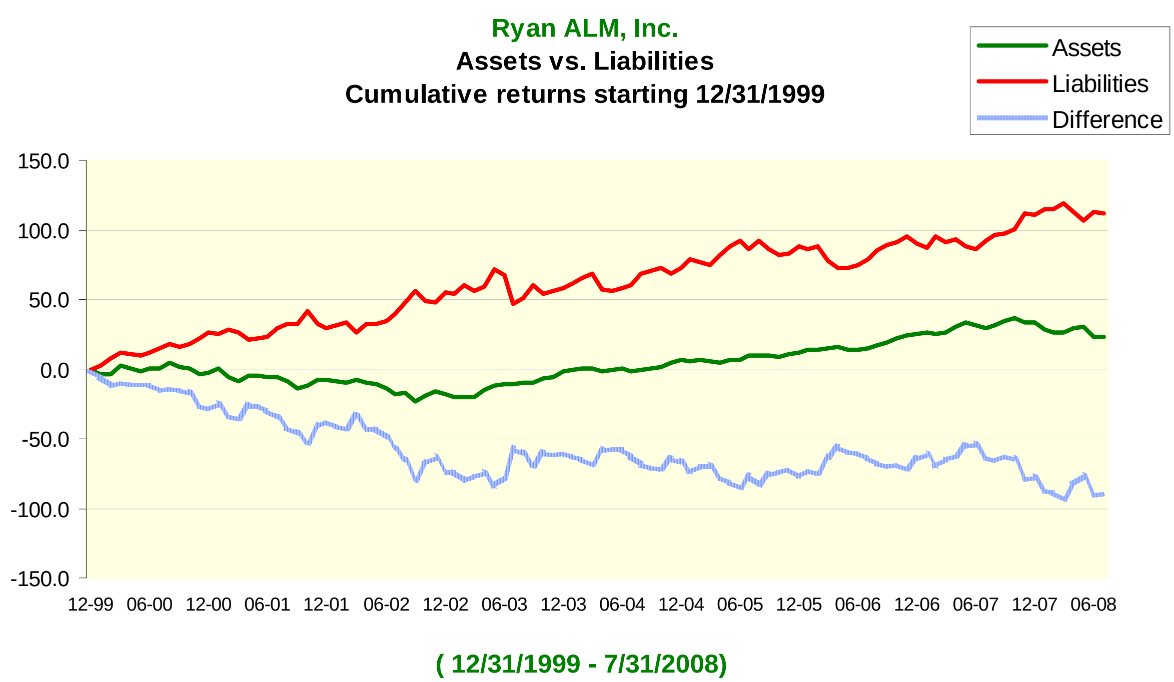
10. Sell our Gold – Since we left the Gold standard many decades ago, there is no economic reason to hold this commodity. Given the fact that Gold is now at an all time high price ($821.50 per troy ounce as of 11/30/07) and our economy needs a stimulus (other than raising taxes) this might be a proper 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).

10. 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.

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 **-88.96% suggesting any pension with a Funded Ratio below 171.82 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 and 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)