



# Ryan ALM, inc.

## Asset/Liability Management

The Solutions Company



Ronald Ryan, CEO, CFA

## The Ryan Letter

September 2008

| Index                       | Returns<br>YTD 2008 | Estimated<br>Weights |
|-----------------------------|---------------------|----------------------|
| <b>Liabilities :</b>        |                     |                      |
| Market (Tsy STRIPS)         | 5.37 %              | 100 %                |
| IRS (Corporates)            | 1.21                |                      |
| ROA (8% constant rate)      | 6.00                |                      |
| <b>Assets :</b>             |                     |                      |
| Ryan Cash                   | 2.26 %              | 5 %                  |
| Lehman Aggregate            | 0.64                | 30                   |
| S&P 500                     | -19.27              | 60                   |
| MSCI EAFE Int'l             | -28.91              | 5                    |
| Asset Allocation Model      | -13.00 %            | 100 %                |
| <b>Assets – Liabilities</b> |                     |                      |
| Market                      | -18.37%             |                      |
| IRS                         | -14.21              |                      |
| ROA                         | -19.00              |                      |

Based on the Asset Allocation above, year to date 2008 pension assets **underperformed** liabilities by **-18.37%** using market valuations (i.e. STRIPS); lost by **-14.21%** under the IRS Contribution rules (PPA Corporate rates); and lost by **-19.00%** 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 -106% since 1999** on a compounded index basis starting at 100 on 12/31/99!

(see Graphs and Index disclosures in Pension Scoreboard section)

| 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   | -13.00  |
| Liabilities   | 25.96  | 3.08   | 19.47  | 1.96   | 9.35   | 8.87   | 0.81   | 11.76  | 5.37    |
| Difference:   |        |        |        |        |        |        |        |        |         |
| Annual        | -28.46 | -8.48  | -30.89 | 18.08  | -0.43  | -4.44  | 11.44  | -4.94  | -18.37  |
| Cumulative    |        | -37.60 | -73.40 | -60.08 | -66.13 | -76.75 | -64.60 | -78.38 | -106.13 |

**God Bless Pension America !**

Ryan ALM, Inc. - The Solutions Company  
www.ryanalm.com

### **The Bailout ...Emergency Economic Stabilization Act of 2008 (H.R. 1424)**

This epic and hopefully never repeated legislation was quickly put together under an emotional cloud of fear, desperation and uncertainty. In its initial Bill form that was defeated by a Democratic skewed House (needed 12 more yeas to pass with 95 Democrats voting nay), there was the usual nonsensical earmarks attached that included \$140 billion to ACORN. The final ACT included the now infamous Wooden Arrow earmark that provides Rose City Archery an exemption from a federal excise tax of 43 cents for a natural wood unreinforced arrow (“kiddie arrows”). Both the Bill that failed the House and the new Act are on our web site under Company Info/Research. Let us pray that we find economic stability and growth from these most difficult times.

### **The Bailout: Relaxes Market Value Accounting Standards**

One of the hot topics in the bailout was market value accounting. The bailout gives the SEC the authority to suspend mark-to market accounting as required under FAS 157. It also requires the SEC, in consultation with the Federal Reserve and the Treasury, to conduct studies on the FAS 157 standards. Just because a company is bankrupt on paper does not mean it has to go bankrupt. To value assets at some method that is not market value indeed is a financial lie. If earnings and/or balance sheets are exaggerated because of these inflated valuations this would be unfair to stockholders and bondholders. We need to be careful not to allow Enron and WorldCom situations to thrive. We should tell the financial truth. We need accounting mechanisms and rules that prevent exaggerated earnings and credit ratings that pay executives on fictitious earnings and ultimately hurt stockholders and bondholders. The pension world is a great example of what happens when you do not mark-to-market. Corporations are allowed to forecast the return on pension assets (ROA) in the annual calculation of pension expense instead of using actual returns. Naturally, their forecast is positive and robust which normally washes out pension expense as a hit to earnings. In fact, it is common practice to forecast an ROA that creates pension income and provides *phantom earnings*. Smoothing techniques proliferate in pension accounting which may seriously distort the true economic Funded Ratio which has led to inappropriate benefit and contribution decisions. Can you imagine the error today in valuing equities on a five-year smoothing methodology:

|                             | <u>09/30/03</u> | <u>09/30/08</u> | <u>5 year</u> | <u>Difference</u> |
|-----------------------------|-----------------|-----------------|---------------|-------------------|
| <b>Dow Jones Industrial</b> | <b>9,469</b>    | <b>10,851</b>   | <b>11,388</b> | <b>4.95%</b>      |
| <b>AIG</b>                  | <b>57.70</b>    | <b>3.33</b>     | <b>60.98</b>  | <b>18,212</b>     |
| <b>Lehman</b>               | <b>34.54</b>    | <b>0.22</b>     | <b>53.11</b>  | <b>24,040</b>     |
| <b>Merrill</b>              | <b>53.53</b>    | <b>25.30</b>    | <b>63.14</b>  | <b>150</b>        |
| <b>WMU</b>                  | <b>39.37</b>    | <b>0.08</b>     | <b>35.98</b>  | <b>44,875</b>     |

As the table shows, the 5-year average price is higher than the closing price on 09/30/08. This overvaluation could be serious especially on companies in the financial sector. I am afraid Jack Nickelson was correct when he remarked: ...”You can’t handle the truth”!

### **Farewell to WMU ...The WMU Purchase by JPM**

On September 25 Washington Mutual Bank (WMU) was closed by the Office of Thrift Supervision and the FDIC was named receiver. With \$307 billion in assets, this is by far the **largest bank failure in American history**. Subsequent to the closure, JPMorgan (JPM)

acquired the assets and some of the liabilities for \$1.9 billion. Any claims by equity, subordinated and senior unsecured debt holders were not acquired. The holding company, Washington Mutual, Inc. was not included in the closure of receivership of the Bank. All equity shareholders own shares in the holding company. On September 26<sup>th</sup>, the holding company filed for bankruptcy. JPM has been revered for coming to the rescue of WMU and Bear Stearns. They purchased WMU without costing the government a nickel and safeguarded WMU depositors. However, as we uncover the reality of the situation the FDIC acted rather strange. The FDIC was quite concerned that a takeover by the FDIC would have severely depleted the insurance fund which stood at \$45.2 billion. WMU estimated cost would have been as much as \$30 billion. There were several suitors for the largest S&L in America with a retail branch distribution that was highly coveted. Worst is that the FDIC was negotiating the sale of WMU without informing management. Apparently, the FDIC went behind WMU's back to work privately with four potential bidders. It sabotaged WMU's effort to sell its valuable branch system. JPM had unprecedented access to WMU's mortgage details. JPM received computer tapes with the most detailed mortgage scores to include: FICO scores, LTVs, MSAs. JPM then had the ability to compare such data to their own data and experiences to make a thorough analysis. The seizure by the FDIC and the deal with JPM came as a shock to WMU's board, which was completely in the dark. The company's new executive, Alan Fishman, was in midair flying from New York to Seattle at the time the deal was finally brokered. For his efforts, or lack thereof, Mr. Fishman got paid a \$7.5 million signing bonus and \$11.6 million in severance pay for less than three weeks on the job. It is estimated that 5,000 employees will lose their jobs. WMU was founded in 1889.

### **FDIC Founded in 1933 ... its déjà vu all over again!**

In 1933 with over 9,000 banks failures, Franklin D. Roosevelt addressed Congress with these words to create the Federal Deposit Insurance Corporation: "On March 3 banking operations in the United States ceased. To review at this time the causes of this failure of our banking system is unnecessary. Suffice it to say that the government has been compelled to step in for the protection of depositors and the business of the nation."

### **Farewell to Lehman ...JPM's Role in the Failure of Lehman**

Lehman Brothers Holdings went to great lengths to conceal their liquidity crisis. They quietly knocked on the doors of the European Central Bank and the Federal Reserve for help. On September 9, they calculated they needed \$3 billion in new capital. But on Sept. 10 in a conference call to investors, they assured employees and clients that Lehman was on solid financial footing and needed no new capital and that their massive real estate portfolio was valued properly. Those in the know on Wall Street (i.e. JPM) thought it was overvalued by as much as \$10 billion. Then on Sept. 11 JPM, as the clearing bank for Lehman's clients, demanded \$5 billion in additional collateral to cover lending positions that JPM clients had with Lehman. This was the knockout blow! This \$5 billion collateral call coupled with an outflow of funds from Lehman's hedge fund clients forced this 158-year-old firm to seek Chapter 11 on Sept. 15th. The House Oversight and Government Reform Committee is holding hearings to examine the regulatory mistakes and financial excesses that led to Lehman's bankruptcy filing. The FBI has also launched a preliminary inquiry into whether Lehman or its executives committed fraud by misrepresenting the firm's condition to investors, especially on Sept. 10.

### Interest Rate Swaps ... Caveat Emptor!

Hopefully, another lesson learned from our credit crunch is how dangerous Interest Rate Swaps (IRS) are. These contracts have at least four risk factors. First, is counterparty risk as Lehman has proven how real such a risk can be. Imagine winning big on your IRS only to find out that Lehman cannot pay you your victory. Second, is income risk. In truth, the IRS is a bet on the direction of interest rates. Most bets are that interest rates will go down over time. When used as a hedge for pension liabilities, these contracts are quite long (i.e. 10 to 15 years). Hard to believe that after a 26-year interest rate rally you would bet that interest rates will go down over the next 10 to 15 years. The income difference between the fixed rate you receive and the 3-month LIBOR you are willing to pay is the income bet. The volatility here can and has been considerable. The third risk factor is price risk. The IRS is used as a hedge for liabilities. Similar to immunization strategies, most IRS strategies try to hedge or match the average duration of pension liabilities. Mathematically, this does not work and that was the failure of immunization. You *must match the entire term structure of monthly benefit payments* if you expect to hedge liabilities. Liabilities should be viewed and priced as a yield curve of zero-coupon bonds. That is why they strip and reconstitute long Treasuries ... the pieces don't equal the whole. The fourth risk factor is total return. In an IRS you do not own an asset, it is a contract. The asset can be anything you want. Many believe that equities work well here under the strategy that stocks should beat LIBOR over any 10-year period. Currently, this strategy is down about 20% for the year. I found it unbelievable and totally irrational that these instruments were ever being considered as the risk-free discount rate mechanism to price liabilities. Scratch and sniff what an IRS is all about ... it ain't risk-free!

### Lowest Yields in Recorded History on Treasury 1-month, 3-month, 6-month, 30-year

In March 1983, my team and I developed the *first daily bond indexes* ... the Treasury Yield Curve index series (Ryan Index). On our two web sites ([www.RyanIndex.com](http://www.RyanIndex.com) and [www.RyanALM.com](http://www.RyanALM.com)) we display our Ryan Index, Treasury STRIPS Index and our Treasury Maturity Ladder Index designed for the PowerShares ETF. The month of September 2008 (flight to safety month) proved to be the nadir in yields for several spots on the Treasury yield curve based on our index data. We believe we have the complete history of Treasury auction data for notes, bonds and the 1-month Bill as a continuous series of auctions. According to our calculations, here are the lowest historical yields ever recorded:

| <u>Ryan Treasury Index</u> | <u>YTM</u>    | <u>Lowest YTM - When</u> | <u>Data Starts</u> |                 |
|----------------------------|---------------|--------------------------|--------------------|-----------------|
| <b>Treasury 1-month</b>    | <b>0.893%</b> | <b>0.051%</b>            | <b>09/18/08</b>    | <b>07/13/01</b> |
| <b>Treasury 3-month</b>    | <b>0.925</b>  | <b>0.051</b>             | <b>09/17/08</b>    | <b>01/03/89</b> |
| <b>Treasury 6-month</b>    | <b>1.615</b>  | <b>0.605</b>             | <b>09/18/08</b>    | <b>01/03/89</b> |
| <b>Treasury 12-month</b>   | <b>1.777</b>  | <b>0.922</b>             | <b>06/13/03</b>    | <b>01/03/89</b> |
| <b>Treasury 2-year</b>     | <b>1.992</b>  | <b>1.073</b>             | <b>06/13/03</b>    | <b>08/24/73</b> |
| <b>Treasury 5-year</b>     | <b>2.983</b>  | <b>2.022</b>             | <b>06/13/03</b>    | <b>09/30/81</b> |
| <b>Treasury 10-year</b>    | <b>3.831</b>  | <b>3.105</b>             | <b>06/13/03</b>    | <b>11/01/77</b> |
| <b>Treasury 30-year</b>    | <b>4.305</b>  | <b>4.081</b>             | <b>09/17/08</b>    | <b>05/03/73</b> |

### **\$700 billion Bailout Cheap vs. SS and Medicare**

A financial tsunami is coming in the form of SS and Medicare unfunded liabilities. According to watchdogs, the estimated unfunded obligations in present value dollars total \$41 trillion. In future value dollars, this deficit swells several magnitudes. In the 1960s, five workers paid the taxes for each retiree's Social Security and Medicare benefits. Today that ratio is just 3 to 1 and going down. As I recommend in my "If Elected President" section, I would stop stealing from the SS Trust fund imaginary annual surpluses plus pay back the \$2 trillion stolen over the years. I would also recommend a national lottery whose purpose is to shore up SS and Medicare at no tax to the American citizen. We have got to get going on resolving the largest debt facing America's future.

### **Farewell Lehman, Bear Stearns, Merrill Lynch, Wachovia, Washington Mutual**

It was sad day on September 15 when Lehman filed for bankruptcy ... a day that will live in infamy. I had a great career at Lehman and was treated quite well. I pray that they arise from the ashes a better entity in whatever form(s) Lehman evolves into.

### **Farewell to Yankee Stadium and Shea Stadium**

In the words of Yogi Berra ... **It ain't over when it's over!**

*In God We Trust ! ... (Not in our Financial Institutions)  
U.S. Currency*

### **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. **Potential municipal bankruptcies are waiting to erupt across America due to budget crises stemming mainly from unaffordable pension and OPEB contributions!** 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:

**Atlanta** – Pension contributions amount to about 20% of the city's budget. For the 12-months ending June 30 contributions cost the city \$118.2 million. This is more than triple what it cost the city in 2002. The current economic and stock market downtown will put more pressure on the city's three pension funds which are down about 10% in market value since June 30.

**California** - Gov. Arnold Schwarzenegger warned Treasury Secretary Henry Paulson on October 2 that the state might need an emergency loan of as much as \$7 billion from the government within weeks. Apparently, the credit crunch has hit CA as it is low in liquidity to run its daily government operations and has been unable to issue short-term loans that it typically relies on to remain solvent. There is a deadline of Oct. 28 to fund a \$3 billion payment to 1,000 school districts. The last municipal rescue by the federal government was New York City in 1975. This situation is not isolated to CA as many other states face short-term financing difficulties. A good idea is for the state pensions to loan the state what is needed. The logic is that many pensions have short term investments in low yielding Treasuries which could be swapped for higher yielding State Revenue Anticipation Notes. This way CA is financed without burdening all of the American taxpayers. Social investing has been a major focus and emphasis of state pension funds.

**New York City** - According to the NY Post, **pension contributions to the five different employee-pension funds has risen from \$1.1 billion in fiscal 2001 to \$6.3 billion in fiscal 2009!** Given the current economic slowdown and credit crunch, NY City would be especially hit hard by the decline in business and income taxes from the Wall Street sector.

### **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](mailto:rryan@ryanalm.com) :

**1. Rank Golden Parachutes as Debt in Bailouts/Mergers** – Golden parachutes that award key executives with incredible severance packages should be positioned as junior debt of the firm. This means that they get paid after senior creditors. This would provide discipline and incentive for these executives to take care of all senior creditors.

**2. Give the President a Line Item Veto** - Many, if not most, Bills presented before Congress get amendments added (“earmarks”) to promote and fund pet projects of our congressmen. These amendments usually have nothing to do with the topic of the Bill being passed but wise politicians realize that they can get their special interests funded if the Bill is favorable to the House and Senate. The President should be allowed to cut the fat and excessive spending by vetoing any of these line item amendments.

**3. 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!

**4. Reduce Our U.N. Costs** – The U.N. was a well conceived idea that has gone sour for America and 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 not America!

**5. 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 (i.e. CNG)? 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 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?

**6. 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.

**7. 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, they are reluctant 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!

**9. 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.

**10. 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 purchased (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.

**11. 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.

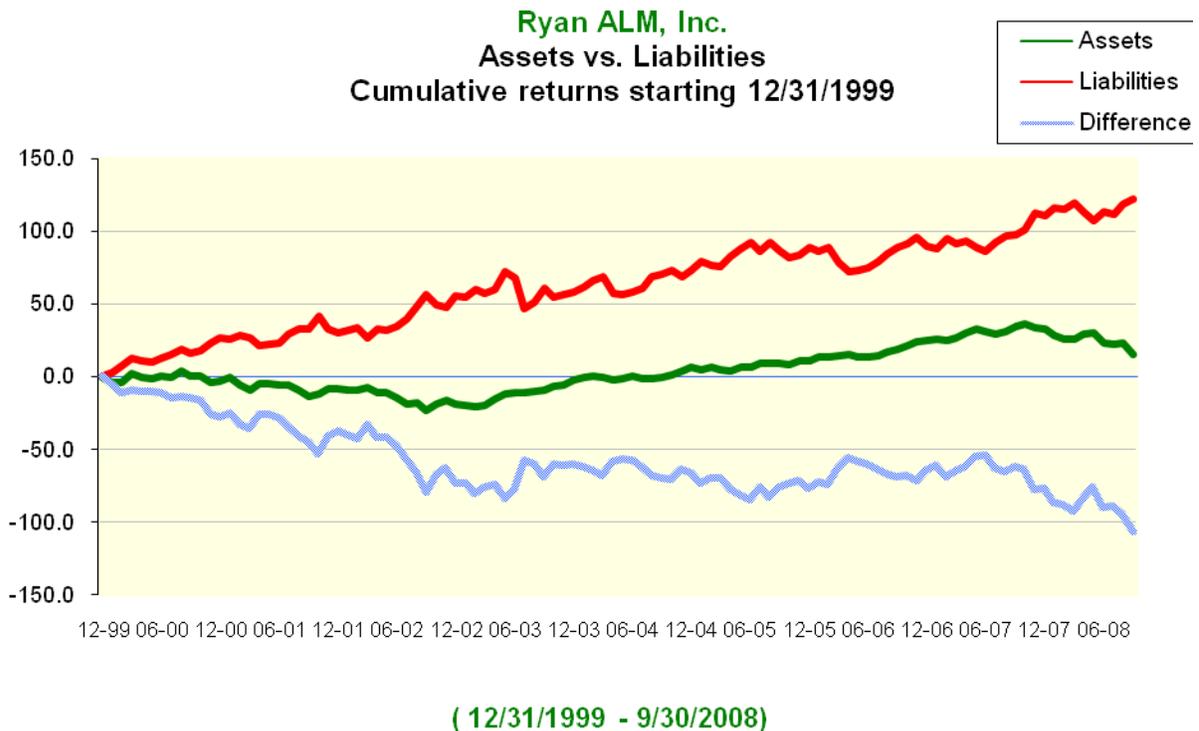
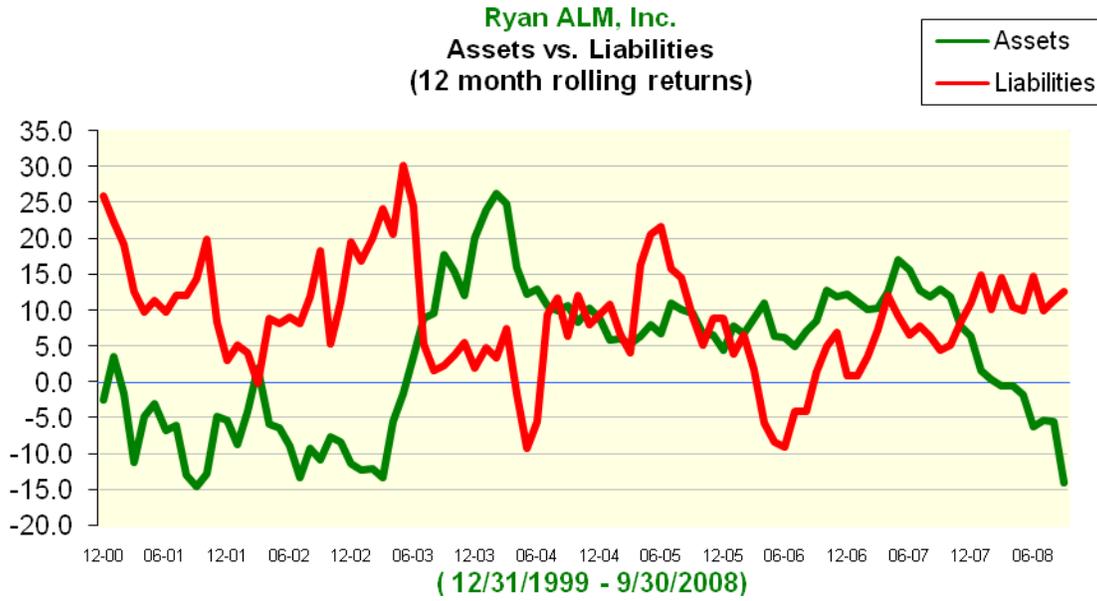
**12. Legalize National Lottery** - There are about 38 states that have a state lottery. For many states, this is the second or third largest revenue for that state. We need to find ways to finance and support Social Security and Medicare without taxing our citizens. A National Lottery with revenue dedicated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

**13. 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).

**14. 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

The graphs below show asset vs. liability rolling 12 month and cumulative growth since 1999. The cumulative growth difference is **- 106.13% suggesting any pension Funded Ratio below 191.59 in 1999 has a deficit today!** As the Pension Crisis watchdog, we designed the **Pension Monitor** to capture world pension news: <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 **1<sup>st</sup> 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 **1<sup>st</sup> 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](http://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 (Liability Beta Portfolio)**

The best way to match assets to liabilities and reduce the volatility of the Funded Ratio is through a Liability Index Fund or Liability Beta Portfolio. Immunization is a popular strategy to match liabilities but has a mathematical problem in that it matches 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 Portfolio) 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](http://www.Powershares.com) (click on fixed income portfolios)**