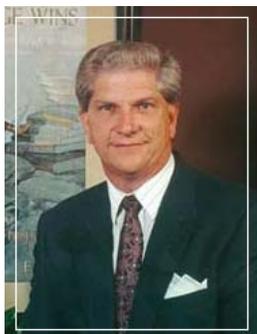




Ryan ALM, inc.

Asset/Liability Management

The Solutions Company



Ronald J. Ryan, CFA
CEO / Chief Financial Architect
RRyan@RyanALM.com

The Ryan Letter

September 2005

Index	Returns YTD 2005	Estimated Weights
Liabilities :		
Market (Treasury STRIPS)	7.51 %	100 %
Pension Act (Corporates)	8.25	
ROA (8% constant rate)	6.75	
Assets :		
Ryan Cash	2.10 %	5 %
Lehman Aggregate	1.83	30
S&P 500	2.76	60
MSCI EAFE Int'l	9.50	5
Asset Allocation Model	2.85 %	100 %
Assets – Liabilities		
Market	-4.66 %	
Pension Bill	-5.40	
ROA	-3.90	

A spike up in interest rates in late September saw liability present value growth decline by about **-3.40%** for the month. Although asset growth was near zero (0.41%), this 3.81% A/L gain improved the Asset/Liability deficit for the year 2005 to **-4.66%** using market valuations (i.e. STRIPS); by **-5.40%** using the new Pension Act valuation (moving average of three corporate indexes with a duration of 12 years); and by **-3.90%** 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 -50% since 1999** (see table below).

Total Returns						
	2000	2001	2002	2003	2004	2005
Pension Assets	- 2.50	- 5.40	-11.41	20.04	8.92	2.85
Pension Liabilities	25.96	3.08	19.47	1.96	9.35	7.51
Difference	-28.46	- 8.48	-30.89	18.08	-0.43	-4.66
Cumulative		-34.53	-54.75	- 46.57	-46.80	-49.28

God Bless Pension America !



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PBGC Names Chief Administrative Officer

PBGC announced Stephen Barber as their new CAO. Previously, Mr. Barber was the Director of Information Management at the DOT federal Motor Carrier Safety Administration. We wish the PBGC and Mr. Barber success in handling one of the more difficult financial dilemmas in America's history.

Cost of Katrina + Rita

Estimates are bouncing all over the place on the true cost of these natural disasters. FEMA supposedly spent over \$10 billion in the first week of its support. Congress has approved over \$60 billion so far as relief measures. Naturally, such funding increases the federal deficit if funded through more Treasury auctions unless it is funded as Agency debt (off budget financing). Anyway you calculate it, this will add to our already burdensome Government debt to be financed. Moreover, inflation fears abound due to the hard hit energy producing resources of the Gulf plus the need to rebuild a major city and surrounding areas over a rather short term. All of this would suggest potentially higher rates.

Generic Bond Indexes are NOT Liability Barometers

As I warned investment practitioners for numerous years, there are no generic bond indexes that can be used to calculate pension liability growth. This year is a good example. The Lehman Aggregate and its long-term sector total returns year to date do not reflect what most pension plan liabilities are experiencing as a present value growth pattern :

Lehman Aggregate	1.82 %
Lehman Long	4.36
Ryan Liability Index	7.48
Ryan 15 year STRIP	7.77
Ryan 20 year STRIP	11.83

Only a **Custom Liability Index** can provide accurate liability growth rates !

Medicare Premiums to rise 13.2%

Senior citizens / disabled will have to pay a monthly Medicare premium of \$88.50 in 2006 for doctor visits and other services, a \$10.30 boost (13.2%) in the fee. Try to find it in the CPI.

Inflation Watch

Crude oil closed above \$70/bbl for the first time in history on August 30th, a 55% increase over 12 months. Why doesn't it show up in the CPI ?

New 50 Year Index Linked Gilt comes to the market

The UK DMO announced the details of a 50-year index linked gilt launched in September. First France, now UK, where is America ? Pensions need long duration bonds for defeasance.

Given the wrong index ... you will get the wrong Risk/Reward
Confucius



Pension Ideas

I. Pension Problems :

A detailed review of key pension problems can be found on our web site :

www.RyanALM.com under **Research / The PENSION CRISIS**

Problems :

1. **Discount Rate** = Wrong rate(s) creates wrong present values
2. **Smoothing** = Distorts / Overstates market values by about 29%
3. **ROA** = Dictates Asset Allocation and Discount Rate for Public Funds.

Pension Solutions :

1. **Custom Liability Index** = No two pension liabilities are alike. Only a Custom Liability Index could accurately represent the true pension objective.
2. **Liability Index Fund** = Buy Time ! ... thru a term structure and duration matched portfolio that out yields liabilities + matches the interest rate sensitivity.
3. **PALS** = Portable Alpha Liability Strategy.

II. The Quest for Alpha

Alpha is the excess return above a benchmark. But... **What is Alpha for a Pension Fund?** It is certainly not excess returns above a **generic** market index benchmark. If you outperform a market index but lose to liabilities, did you win or lose?...**you LOST !** Did you earn Alpha? ...of course not ! The best equity managers in 2000-2002 lost big time to the spectacular growth of pension liabilities for those years :

	2000	2001	2002	Cumulative
S&P 500	- 9.09	- 11.86	- 22.08	- 37.51%
Pension Liabilities	25.96	3.08	19.47	55.12
Difference	- 35.05	- 14.94	- 41.55	- 92.63



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III. Portable Alpha

Portable Alpha strategies should be liability driven since that is their true objective. Instead, most Alpha portfolios are given generic benchmarks not liability indexes and most Beta portfolios have poor correlation to pension liabilities (not matched). Ryan ALM designed our CORE product “**PALS**” as a Portable Alpha Liability Strategy with a heavy allocation to non-bond assets (i.e. Equity, Real Estate, etc.). **Our Alpha portfolio mission is to cure the pension deficit by outperforming target liabilities (Alpha) over a time horizon equal to the liability payment dates.** Based on a Custom Liability Index we build for each client, we know the total return of the target liabilities we are managing to and ultimately funding. When we have achieved the client goal (i.e. full funding) we **port over to the Beta portfolio to match liabilities and secure the victory !**

IV. Custom Liability Index

Ryan ALM provides accurate daily pricing and valuation of pension liabilities through the creation of a **Custom Liability Index that best represents the present value of the projected benefit payment schedule.** Ryan ALM builds Custom Liability Indexes based on any rate structure the client and their consultants and actuaries feel is appropriate. Currently, Ryan ALM prices liabilities using :

1. **Market Rates (STRIPS)**
2. **Single Discount Rates (ROA, New Pension Bill, Moody's AA rate)**
3. **Annuity Rates**

V. Pension Solutions !

Ryan ALM has a series of Pension Solutions research papers.

Please refer to our **RESEARCH** section on our web site for our latest releases :

Pension Solution # 1... Custom Liability Index

Pension Solution # 2... Portable Alpha Liability System (PALS)

VI. Press

Ryan ALM is a vigilant **watchdog** on pension trends, news and events. We created a **PRESS** section on our web site to isolate those stories we feel are the most newsworthy for our readers. Please browse for any important story and give us your thoughts.

Email Us at **CONTACTS@RYANALM.COM** and give us your views on the Pension Crisis.

The easiest thing to do is to tell the truth. Then you don't have to remember what you said.

Robert Evans