



Promoting and Developing
Social Security Worldwide.

Case Study: Denmark

Seminar on Social Security in Times of Crisis:
Impact, Challenges and Responses

Mads Gosvig
Head of Liability Hedging
ATP, Denmark

www.issa.int

atp=

The financial crisis

uf5-1-20

Technical Seminar on Social Security in Times of
Crisis: Impact, Challenges and Responses
ILO, April 24 2009

Mads Gosvig
Head of Liability Hedging

ATP Results for 2008

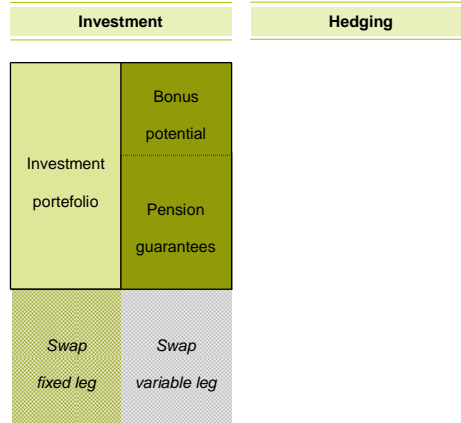
- ATP gained EUR 10.3bn on interest-rate swaps
- The pre-tax market return on ATP's investment portfolio was -3.2 per cent.
- Bonus additions of EUR 1.1 bn. i.e. all current and future pensions will be increased by bonus additions of 2 per cent as at 1 January 2009.
- ATP's reserves totalled EUR 6.4bn at year-end 2008, equivalent to 1.5 additional "red light scenarios"
- Coverage ratio of app. 113 pct. – down from 125 pct.

ATP's approach

- Highest possible real value of future pensions
- Protect ATP's solvency
 - Avoid large losses
- Hedge uncompensated risks
 - Interest rate risk
 - Foreign exchange rate risk
- Diversify aggressively
- Have "Black Swans" and other tail risks in mind

Minimize uncompensated risks

- ATP hedges pension liabilities in a separate portfolio

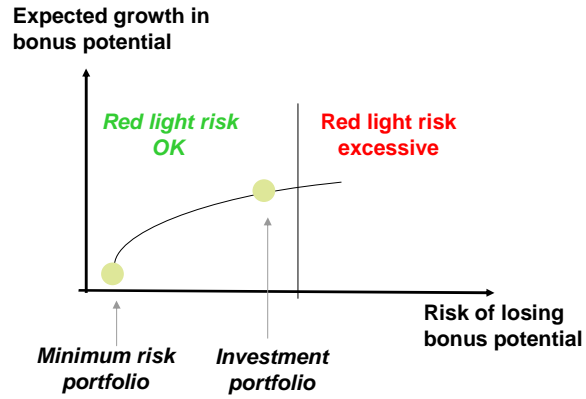


Absolute return target

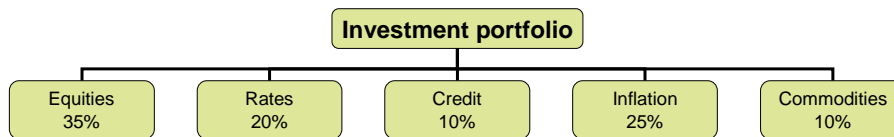
The Investment Portfolio consists of a Beta and an Alpha portfolio with separate management and risk budget

- Absolute return target**
 - Full alignment with members' interests
 - Farewell to benchmarks
- β : Long-horizon investment strategies
 - market risk premia, true diversification, active
- α : Short-horizon investment strategies
 - relative price change

How much investment risk?



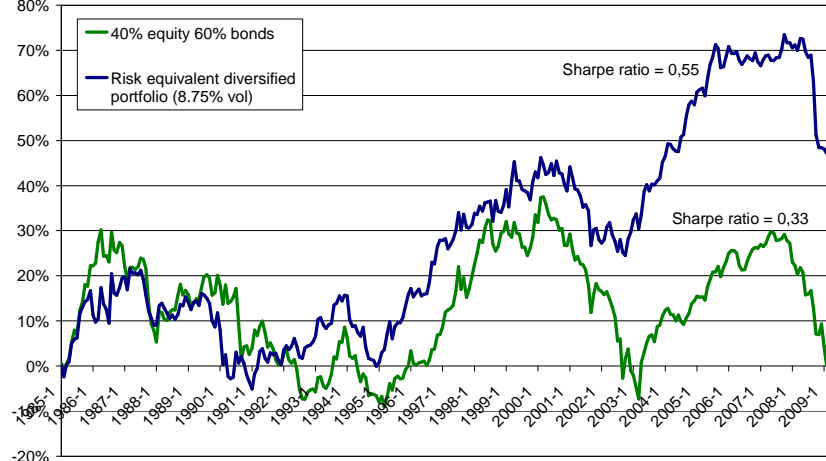
Diversify aggressively



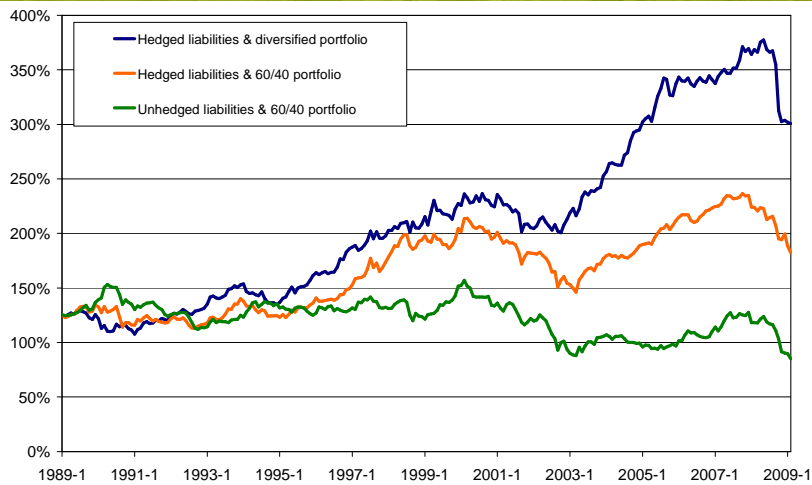
- Each of the five risk classes contributes substantially
- Portfolio expected to be robust in a broad range of environments
- Reduce risk of large losses
- Higher risk-adjusted return

The power of diversification

Accumulated return in excess of absolute return target

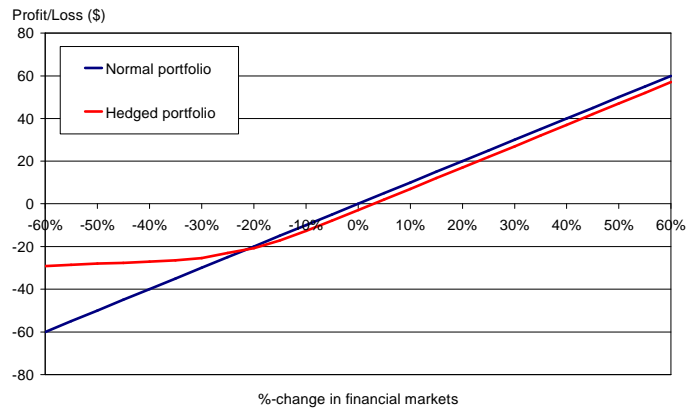


Funding ratios for different investment strategies



Hedging tail risks – use of options

We use option strategies extensively in, e.g., equity and commodity markets



What have we learnt so far?

- Possible to retain a pension system with a high degree of security and predictability for the individual
- Imperative in the long run to hedge uncompensated risks
- Liquidity back in the spotlight
- Necessary to focus on investment tail risks
 - Hundred year storms happen every 2-3 years...
- Regulation

ATP 2008

ATP Key Figures

	2008
<i>Numbers</i>	
Members	4.611.100
Retirees	829.200
Contributors	3.089.400
<i>DKK mill.</i>	
Contributions	7.210
Benefits	7.652
Balance	677.544
<i>DKK</i>	
Investment costs/member	32
Administrative cost/member	40

Fair valuation: Explicit need for a new strategy

