2013 ANNUAL REPORT

Annual report 2013

Content

Acting CEO and Managing Director's review of 2013

For Keva, 2013 was an eventful year with a strong emphasis on pensions and future pension cover. The year's topics for discussion included the pension reform planned for 2017 and the sustainability of pension financing.

In 2013, we completed the implementation of the new pension processing system. It was more challenging than anticipated, which unfortunately caused our pension processing times to be prolonged temporarily. Our goal for 2014 is to recover our position as the most effective and fastest processer of pension decisions, as stated in the new strategy approved during the reporting year by our Board of Directors.

Electronic services hold an even greater role in the strategy. The Your Pension Information service, launched in 2012, was received enthusiastically, with some one thousand visitors logging in each day. For our employer customers we added some supplementary features to the electronic Asta services. As a result we welcomed the Evangelical-Lutheran Church and State employers to our ever-more comprehensive electronic services in 2014. Our website also passed the one-million-visitors mark.

Change is accelerating in the public sector. Also for this reason, our partnership in maintaining personnel's working capacity, improving well-being at work and supporting longer careers is one of the cornerstones of our strategy. We support remaining in working life through our Kaari services. We offered our customers disability cost calculation services, strategic well-being at work coaching and the popular Kaari workshops.

Changes in the local government sector continued and the financial situation remained difficult. The real growth in the local government payroll was less than one percentage unit and the number of people insured in the local government pension system remained on a par with the previous year. As before, the purpose is to keep the local government pension contribution steady and predictable, so that the pensions of future generations will be sufficient and contributions will remain reasonable.

An increasing number of employees insured under the local government pension system work in organisations other than a municipality or a joint municipal board. Some five

per cent of the insured employees work in municipal limited liability companies. This figure is rising and due to the fact that it is possible for limited companies to select a pension insurance system, Keva must be able to provide competitive services so that local government work will continue to be insured in its own pension system.

Keva's Council decided to lower the average pension contribution for local government employers by 0.2 percentage units. The reduction was directed at pension-expenditure-based contributions, which fell to 5.95 per cent. Pay-based pension contributions increased to 16.85 per cent and the early-pension-expenditure-based contribution remained the same at 0.9 per cent on average. The pension contributions of municipally-owned limited companies follow the pension contribution level of the private sector as determined in our strategy. Our Council did not approve the proposal by the City of Joensuu's Board of Directors concerning the temporary interruption of the collection of a pension contribution higher than the pension expenditure.

The state of the global economy has long been unstable. Fixed-income markets dragged behind at a very low level this year with next to no interest returns. On the other hand, the equity markets were brisk, just as in the previous year. The local government pension fund grew by EUR 2.6 billion as a result of Keva's investment operations. The annual return was good at 7.5 per cent. The real return for the past five years has been excellent with the average annual return at 7.8 per cent.

The instability of the global economy also seems to be continuing and the local government pension expenditure is estimated to reach the contribution income level within the space of a few years. At the same time the issue of how readily investments can be liquidated is becoming more and more important. The global investment environment is therefore becoming increasingly challenging.

Keva's responsibilities increased during the reporting year as we took on the management of State employers' earnings-related pension services. The State's employer customers deal with Keva in matters related to the employment register, pension contributions and actuarial and statistical matters related to State pensions. The 2013 operating year was thus the first year in which we were in charge of the earnings-related pension services for both employee and employer customers for the entire public sector.

The consolidation of the implementation of public sector earnings-related pensions with Keva has also increased cost-effectiveness. The State and local government sectors have accumulated more than EUR 10 million in savings annually. We also boost cost-effectiveness through the efficient use of IT and communications technology, as prescribed by our strategy. Close co-operation in developing the earnings-related pension sector's IT system continues.

In addition to high-quality services, sustainable and well-balanced pension financing as well as cost-effectiveness, the fourth pillar of our new strategy is active societal influence. We offered our public sector earnings-related pension expertise through a variety of networks and forums.

As usual we highlighted the topic of continuing at work, i.e. extending careers at their middle as well as their end. We were visible to the public through, among other things, a research project that looked into the final working years.

Supporting continuing at work has been productive and the results have been excellent in the local government sector. The proportion of partial disability pensions of all disability pensions was less than one fifth in the 2000s. The proportion has already increased to 45 per cent, which means that the remaining work capacity is being utilised better than ever before. At the same time, the proportion of those 63 years and over of all local government employees who retired has risen to 55 per cent whereas at the beginning of the millennium the percentage was 22.

The final part of 2013 was defined by the uproar that led to CEO Merja Ailus's decision to resign. The person appointed by the Board of Directors to look into the company stated that our basic operations were taken care of commendably, however, our management and their remunerations required some further adjustments. The reform work initiated by our Board of Directors is presently ongoing. We wish to be a more open, responsible, productive and customer-oriented pension institution and partner.

I wish to thank each and every Keva employee for the excellent work they perform every day on behalf of our customers. It is precisely on Keva's expert personnel that we can build and further develop our operations.

I also wish to extend my gratitude to all of our customers for their trust and communication, based on which we have been able to improve our services to correspond with expectations.

Our decision-makers, i.e. Keva's Council and Board of Directors, also deserve our thanks for providing the foundation and framework on which Keva's work rests.

In Helsinki, March 2014

Pekka Alanen
Acting CEO and Managing Director

Report of the Board of Directors 2013

Contents

Operating environment

Public debate in 2013 was strongly defined by economic unease. Short-term concerns were related to the prolonged global economic crisis, which affected European countries in particular. The structural sustainability deficit hanging over the future was also a key topic of discussion. Both perspectives also affected the ongoing debate concerning municipal structures, tasks and methods for organising services. The pension system and the benefits it offers continued to be strongly present in the discussion.

The securing of local government pensions was studied in the Research Institute of the Finnish Economy (ETLA) report published in 2013. This work was continued by the group of experts led by Director General of the Economics Department at the Ministry of Finance Jukka Pekkarinen. According to both studies, the financing of the local government pension system is on a stable basis but follow-up measures are necessary.

In 2013, legislative projects impacting the operating environment moved forward and became legislation. Some of the legislative projects, for example the amendment to the municipal act concerning municipal companies and the amendment to the Polytechnics Act, may affect the financing basis for the local government pension system, i.e. the number of people insured under the Local Government Pensions Act and the payroll of the local government pension system.

The outlook for the municipal economy became considerably bleaker during 2013. As a consequence of the savings measures targeted at local government employees, growth in the local government pension system's payroll fell clearly short of the estimate, although in real terms it still grew by less than a percentage point. Statistics on the development of services purchased by municipalities are not available yet for 2013, but it looks as though the strong growth of previous years has continued.

The budget negotiations of the Finnish Government in the autumn decided on the structural policy programme aimed at strengthening growth conditions and reducing the public sector sustainability deficit. The programme involves proposals for service production in the local government sector, related to, for example, the reduction of municipalities' tasks and increasing productivity.

Pension negotiations were on hold for part of the year while the Finnish labour market organisations waited for the report by the expert group headed by Director General Jukka Pekkarinen. According to the report, the effects of the 2005 pension reform are insufficient to cover the goal set for 2025 and the pension system must be adapted to the lengthening of life expectancy. The labour market organisations and the Government have agreed that negotiations for the pension reform will be completed by the end of 2014. A group composed of the negotiating parties prepared an agenda for the negotiations and the actual negotiations commenced immediately at the start of 2014. Local Government Employers (KT) represents the public sector employers in the group.

The equity markets performed well in 2013, but the fixed-income markets were rather challenging. The relatively positive news from the US, and to some extent from the euro zone, brightened the outlook for the markets in the global economy. China's economic growth continued to be fairly swift in comparison with the rest of the world but modest on the scale accustomed to in China. This raised concerns especially among the nearby emerging Asian countries.

The EU also reinforced its role in improving and tightening the supervision of the financial markets. The regulations on the budget discipline of the EU countries, for example, also create new reporting requirements for the earnings-related pension system.

Customer relations and customers

Employer customers

The focal areas for the customer work directed at employers were incorporation matters, earnings-related pension insurance at Keva, disability-related costs, occupational well-being and continuing at work.

Keva took on the management of State employer customers' earnings-related pension matters from the beginning of the year.

Keva organised 701 events and meetings for local government, State and Church employers with altogether 7,040 employer representatives taking part. Additionally, Keva's management toured the major cities and the cities' administrations and elected officials took part in these events.

Events organised in 2013 for local government, State and Church employer customers 2013

Events	Number of participants	Number of events
Events organised for employer customers (workshops, training, fairs)	5,540	227
Meetings with employer customers	1,500	474
Total	**7,040**	**701**

Keva strengthened its co-operation with employer customers by appointing coordinators.

The Local Government Act amendment that came into force at the beginning of September included a corporatisation obligation based on competition neutrality. Keva's goal is to obtain the limited liability companies to be established,

Keva's employer customers 31 Dec 2013		
Employer	Number	Insured employees [1], (31. Dec 2012)
Local government employer customers	948	521,155
cities and municipalities	320	352,386
joint municipal boards	154	140,084
limited liability companies	453	27,155
associations and foundations	21	974
other municipal organisations	3	556
State's employer customers	1,308	152,962
Church's employer customers	312	20,302
Kela's employer customers	1	6,145
Total	**2,569**	**700,564**

[1] A person can be insured according to several different pensions acts.

based on the amendment, as its customers. In 2013, 45 new companies became Keva's clients.

Registered users of the extranet services for employers, the Asta online services, numbered 2,400 and the number of visits to the services totalled close to 36,000. So far, the service has been available to local government employers but in 2014 it will also expand to cover State, Church and Kela employers.

The open section of Keva's website aimed at employers received more than 90,000 visits in 2013, which is some 8 per cent of all visits to the website. In 2012, the number of visits equalled 83,097, i.e. the number increased by 8.5 per cent from the previous year.

Keva continued its co-operation with the Association of Finnish Local and Regional Authorities, its corporation and Local Government Employers (KT), the objective of which is to carry out a shared analysis of the operating environment.

A study implemented during the reporting period showed that nearly 60 per cent of pension ombudsmen and people taking care of the State's pension matters were fully satisfied with the events and services offered by Keva.

Services for employee customers

During the year, 180,000 employee customers called Keva. Of these, 125,000 calls concerned general pension advice and the rest pension payments. 28,000 fewer calls were placed than a year earlier. Keva sent out 19,700 answers to written inquiries from customers during 2013. Keva's pension advisory service served 4,500 customers.

The online service aimed at employee customers – the Your Pension Information service – was logged into 261,000 times with the most popular parts of the service being the pension calculators and pension record. The online Pensions section received 593,711 visits in 2013, which was approximately 51 per cent of the total number of visits to the website. In 2012, the number of visits equalled 482,989, a 23 per cent increase on the previous year.

Keva sent out pension records to nearly all of its 700,000 insured employees during the period between autumn 2012 and spring 2013. In future, customers can retrieve their pension records from the Your Pension Information service. The pension records encourage customers to look into their employment data. In 2013, Keva received 9,100 requests for employment inquiries.

In November, Keva launched its new customer service software. It enables the giving of customer feedback, recording and analysis of phone calls in order to improve quality, and call-back requests. The rollout of the new customer service software has improved the efficiency of phone services.

In 2013, Keva received 57,200 pension applications, of which 24 per cent were electronic applications. Local government pension ombudsmen forwarded altogether 10,600 pension applications to Keva, which is 1,400 applications and 15 per cent more than in 2012. Over 3,200 old-age pension applications were received through the työeläke.fi service available to Keva's employee customers, which is some 1,100, i.e. 53 per cent, more that in 2012.

Just over 5,000 insured employees took part in 103 training events for employee customers, such as pension information briefings and Your Pension Information tour events. In addition Keva organised 37 training events for trade union operatives. Altogether 1,100 people took part in these.

Contribution income

At the end of 2013, some 521,000 employees were insured under the Local Government Pensions Act (KuEL), i.e. around the same number as at the end of the previous year. The total payroll for employees insured under the Act was EUR 16,528 million which was EUR 406 million (2.5%) more than in 2012.

Local government contribution income totalled EUR 4,890 million (EUR 4,696 million), i.e. 29.58 per cent (29.12%) of the payroll. Contribution income increased by EUR 194 million (4.1%) over the previous year. The local government contribution income is made up of four parts: the employer's and employee's pay-based contributions as well as employer's contributions based on pension expenditure and early retirement pension expenditure.

EUR 3,641 million of pay-based contributions were collected, which is 3.0% more than in 2012. The employees' share of the contribution was EUR 922 million and the employers' share EUR 2,719 million. The pay-based contribution in 2012 was on average 22.03% of salaries, i.e. 0.11 percentage units more than in 2012. The contribution was divided so that 5.15% was paid by employees under the age of 53, 6.5% by employees 53 and over and 16.45% by employers.

In accordance with the decision of Keva's Council, Keva charged EUR 1,098 million in pension-expenditure-based contributions from its member organisations, which was equivalent to 6.64% of the payroll, an increase of EUR 97 million over the previous year, i.e. 9.7%.

In accordance with the decision of the Council, Keva charged EUR 151 million in early-retirement pension-expenditure-based contributions, which was 0.91% of the payroll.

Credit losses on local government contribution income have been rare and the previous time that Keva recorded them was in the financial statements for 2011 (Adulta Oy). In 2013, the member organisation Kinnula Mahis Oy filed for bankruptcy and Keva recorded credit losses of more than EUR 16,000 in local government contribution income.

Financial support is a benefit equivalent to group life insurance paid to the beneficiaries of a deceased local government officeholder or employee. At the end of 2013, 620 member organisations had arranged for financial support through Keva. Keva collected about EUR 5.7 million in financial support contributions in 2013, i.e. just under EUR 1 million more than in the previous year.

Keva received some EUR 154 million in contribution income from the Unemployment Insurance Fund, which is EUR 29 million more than in 2012.

Based on legislation, Keva has been responsible for the calculation and collection of State pension contributions as of the beginning of 2013. Keva collects the contributions directly in the State Pension Fund's bank account but Keva is responsible for all of the related practical measures. In 2013, State pension contributions amounted to just under EUR 1.7 billion. State pension contributions do not impact Keva's profit and loss account or balance sheet.

Pensions and benefits

Keva phased in a new pension processing system during 2012 and 2013. The launching of the new system temporarily increased the processing times of pensions somewhat during the years in question.

Received applications and corresponding decisions

Keva made 67,570 decisions, of which 61,731 concerned actual pension matters, with the rest consisting of rehabilitation applications and other benefits. The figures include all decisions on received applications based on the Local Government Pensions Act (KuEL), State Employees Pensions Act (VaEL), the Evangelical-Lutheran Church Pensions Act (KiEL) and the National Pension Institutions Act (KelaL) pertaining to Kela's salaried employees. The number of decisions made concerning received applications rose significantly by 19,644 (41%) compared with 2012.

The number of decisions made by Keva reached a record-high in 2013. The reasons for this were the growth in the number of applications and especially the fact that Keva processed a larger than normal volume of applications that had already arrived in the previous year. Keva failed to reach the service level and processing time targets because applications were backed up and had long been pending. The service level means the proportion, of all decisions, of those decisions in which the processing time is less than one month or the decision has been given prior to the start

Local government contribution rates 2004–2013

Year	Employer's contribution rate					Employee's pension contribution percentage	Average total
	Pay-based contribution	Pension-expenditure-based contribution	Early-pension-expenditure-based contribution	Additional employer contributions	Total		
2013	16.45	6.64	0.91		24.00	5.58 [1]	29.58
2012	16.35	6.21	0.99		23.55	5.57 [2]	29.12
2011	16.10	6.45	1.00		23.55	5.10 [3]	28.65
2010	15.60	6.66	1.29		23.55	4.87 [4]	28.42
2009	15.90	6.60	1.10		23.60	4.62 [5]	28.22
2008	16.00	6.62	1.08		23.70	4.42 [6]	28.12
2007	16.50	6.54	0.79		23.83	4.61 [7]	28.44
2006	17.10	6.11	0.50		23.71	4.60 [7]	28.31
2005	17.10	5.55		0.56	23.21	4.90 [8]	28.11
2004	17.45	4.98		0.64	23.07	4.60	27.67

1) 5.15% for people under 53 and 6.5% for people aged 53 or over
2) 5.15% for people under 53 and 6.5% for people aged 53 or over
3) 4.7% for people under 53 and 6.0% for people aged 53 or over
4) 4.5% for people under 53 and 5.7% for people aged 53 or over
5) 4.3% for people under 53 and 5.4% for people aged 53 or over
6) 4.1% for people under 53 and 5.2% for people aged 53 or over
7) 4.3% for people under 53 and 5.4% for people aged 53 or over
8) 4.6% for people under 53 and 5.8% for people aged 53 or over

Total processing time for pension applications 2013				
Pension benefit	Processing time, days			
	Local government pensions	State pensions	Church pensions	Private institu-tions
Old-age pension	74	71	97	51
Part-time pension	32	45	37	57
Disability pension	62	60	72	50
Survivors' pension	41	31	57	25

Source: Finnish Centre for Pensions

of the pension or the decision has been made in less than three months and at the latest 30 days from the start of the pension.

In the next sections we present the legislation-specific figures, with the exception of the decisions concerning Kela's salaried employees, the number of which is small. In 2013, Keva made 543 decisions according to the regulations for Kela's salaried employees, 326 of which were decisions related to new pension matters.

Local government pension applications received and corresponding decisions

Keva made 50,122 decisions according to the Local Government Pensions Act (KuEL), of which 45,175 concerned actual pension matters, with the rest consisting of rehabilitation decisions and other benefits. 2,289 decisions concerning the right to vocational rehabilitation were given by Keva with the remainder of the rehabilitation decisions concerning the content of vocational rehabilitation. The number of decisions made concerning received applications rose by 15,205 (44%) compared with 2012. Especially the number of decisions pertaining to part-time pensions increased as their number was particularly low in 2012 due to the raising of the age limits for part-time pensions.

The number of pension applications increased compared with the previous year. The number of pension applications based on local government pension applications totalled 41,481, which was 12 per cent more than in 2012. 2,494 applications for vocational rehabilitation arrived, i.e. 23 per cent more than in the previous year.

30,465 decisions were made on new pension applications based on KuEL, of which 27,933 were favourable. Of new disability pension applications, 19.8 per cent were rejected. 13.8 per cent of rehabilitation decisions were negative.

Keva's goal was for 88 per cent of decisions according to the Local Government Pensions Act to be given on time (service level target). According to the service level indicator, Keva made 76.8 per cent of its pension decisions on time (77.1 per cent in 2012).

Keva processed old-age pension applications on average in 74 days, disability pensions in 62 days, survivors' pensions in 41 days and part-time pensions in 32 days.

Local government pension applications by pension benefit 2013 and 2012				
Pension benefit	2013	2012	Change, %	of which electronic, %, 2013
Old-age pensions	16,313	14,372	13.5	55
Full disability pensions	13,536	13,355	1.4	-
Partial disability pensions	6,877	5,659	21.5	3
Survivors' pensions	2,743	2,503	9.6	-
Part-time pensions	2,012	1,168	72.3	75
Total	**41,481**	**37,057**	**11.9**	**26**

Local government pension decisions by pension benefit 2013 and 2012				
Pension benefit	Number of all pension matters		Change, %	of which new pension matters v. 2013
	2013	2012		
Old-age pensions	18,131	11,587	56.5	17,486
Full disability pensions	15,058	11,712	28.6	5,700
Partial disability pensions	7,239	4,901	47.7	3,259
Survivors' pensions	2,678	2,093	28.0	2,022
Part-time pensions	2,070	1,043	98.5	1,998
Other pension matters	317	389	-18.5	-
Rehabilitation decisions	4,629	3,180	45.6	-
Total	**50,122**	**34,905**	**43.6**	**30,465**

Employees insured according to the Local Government Pensions Act

The Local Government Pensions Act covers more than half a million insured people, some 77% of whom are women. The average age of the insured people is 45.4 years, which is lower than in the public sector on average.

Insured local government employees by age and gender on 31 Dec. 2012

Age	Men	Women	Total
–19	929	2,707	3,636
20–24	5,203	17,104	22,307
25–29	9,336	32,105	41,441
30–34	9,459	31,531	40,990
35–39	15,390	54,504	69,894
40–44	13,597	47,415	61,012
45–49	15,453	54,625	70,078
50–54	16,669	61,015	77,684
55–59	17,123	60,097	77,220
60–64	12,280	37,003	49,283
65–	2,613	4,997	7,610
Total	**118,052**	**403,103**	**521,155**

The data in the table dates from 2012, because data for 2013 will not be available until in summer 2014.

Vocational rehabilitation customers according to the Local Government Pensions Act

The number of new employee customers based on the Local Government Pensions Act in vocational rehabilitation was 2,635 when also taking into account new rehabilitation assessments. The average age of new customers was 46.3 and the single largest age group was the 50–54-year-olds. 83 per cent of new customers were women. The risk of disability was most commonly caused by musculoskeletal disorders. The second most common reason was mental health disorders.

The most common vocational rehabilitation measure taken was work trials, as in previous years. The number of new training decisions declined slightly on the previous year while an increasing number of customers applied for apprenticeship training compared with the previous year.

Keva processed applications for the right to vocational rehabilitation in 12 days on average.

Persons retired on local government pensions

14,890 people retired on local government pensions from the local government sector. 1,660 more people (12.5 per cent) retired than in 2012. The proportion of people retiring on old-age pensions was 65 per cent of all persons who retired. The number of people who retired on old-age pensions (9,676 people), partial disability pensions (2,317 people) and cash rehabilitation benefit (1,895) increased compared to the previous year. In contrast, fewer people (1,002 in total) retired on full disability pensions than in the previous year (3.7 per cent).

The average age of those who retired on local government pensions was 60.4 years while in 2012 it was 60.5 years. In 2012, the proportion of people who retired based on an illness was unusually low, which contributed to the higher average retirement age. In 2013, the average old-age retirement age was 63.9 years (average in 2012 63.8 years).

The expected effective retirement age for a 25-year-old municipal employee was 60.8 years (60.9 years in 2012) and 63.1 years for a 50-year-old (63.0 years in 2012). The expected retirement age defines at what age a 25-year-old or 50-year-old employee would retire, on average, if people were to retire precisely according to the same pattern as in the year under review. In the entire employment pension sector, the average retirement age for a 25-year-old person was 60.9 in 2013.

As in previous years, musculoskeletal and mental disorders were the most significant reasons for disability in 2013. Disability pensions are most often granted because of musculoskeletal disorders, while the rehabilitation benefit is mostly granted for mental disorders.

Retirement on local government pension and average age by pension benefit in 2013

Pension benefit	Number of people	Average age, years
Old-age pension	9,676	63.9
Full disability pension	1,002	57.9
Full rehabilitation benefit	1,895	49.4
Partial disability pension	2,317	56.0
Total	**14,890**	**60.4**

Self-correction of local government pension decisions

Pension decisions made by Keva may be appealed to the Pension Appeal Board, and decisions made by the Pension Appeal Board may be appealed to the Insurance Court. The petitions of appeal are submitted to Keva, which can either rectify the decisions itself or forward them to the appeal bodies.

In 2013, Keva processed 1,128 complaints concerning decisions made according to the Local Government Pensions Act, of which 896 were related to assessing work capacity. Keva upheld 11.0 per cent of all appeals and 9.4 per cent of appeals concerning the assessment of working capacity.

In 2013, Keva processed 303 of the appeals lodged with the Insurance Court concerning local government pension decisions of the Pension Appeal Board. Of the appeals, 289 concerned assessments of working capacity and Keva rectified 2.4 per cent of the assessments.

State employee pension applications and corresponding decisions

Keva made 14,838 decisions according to the State Employees' Pensions Act (VaEL), of which 14,127 concerned actual pension matters, with the rest consisting of rehabilitation decisions and other benefits. 333 decisions concerning the right to vocational rehabilitation were given by Keva with the remainder of the rehabilitation decisions concerning the content of vocational rehabilitation. The number of decisions made concerning received applications rose by 3,666 (33%) compared with 2012. The number of decisions increased especially in old-age pensions, partial disability pensions and part-time pensions.

The number of pension applications increased compared with the previous year. The number of State pension applications totalled 13,492, which was 13 per cent more than in 2012. 351 applications for vocational rehabilitation arrived, i.e. 15 per cent more than in the previous year.

Keva made 10,844 decisions concerning new applications, of which 10,377 were favourable. Keva rejected 17.4 per cent of all applications pertaining to disability pensions. 16.5 per cent of rehabilitation decisions were negative.

Keva's goal in 2013 was for 87 per cent of decisions according to VaEL to be given on time (service level target). According to the service level indicator Keva made 78.4 per cent of its pension decisions on time (82.9 per cent in 2012).

Keva processed old-age pension applications according to VaEL on average in 71 days, disability pensions in 60 days, survivors' pensions in 31 days and part-time pensions in 45 days.

Employees insured according to the State Employees' Pensions Act

The State Employees' Pensions Act covers some 150,000 insured people, some 55% of whom are women. The average age of the insured employees was 47.7 years, i.e. higher than in the local government sector.

Vocational rehabilitation customers according to the State Employees' Pensions Act

The number of new employee customers based on the State Employees' Pensions Act in vocational rehabilitation was 363 when also taking into account new rehabilitation assessments. The average age of new customers was 47.2 and the single largest age group was the 50–54-year-olds. 59 per cent of new customers were women. The risk of disability was most commonly caused by mental health disorders and musculoskeletal disorders. The most common vocational rehabilitation measure taken was work trials, as in the previous year. Keva processed applications for the right to vocational rehabilitation in 12 days on average.

State pension applications by pension benefit 2013 and 2012

Pension benefit	2013	2012	Change, %	of which electronic %, 2013
Old-age pensions	6,702	5,737	16.8	31
Full disability pensions	2,319	2,209	5.0	-
Partial disability pensions	1,138	828	37.4	-
Survivors' pensions	2,740	2,797	-2.0	-
Part-time pensions	593	423	40.2	7
Total	**13,492**	**11,994**	**12.5**	**16**

State pension decisions by pension benefit 2013 and 2012

Pension benefit	Number of all pension matters		Change, %	of which new pension matters 2013
	2013	2012		
Old-age pensions	7,265	4,860	49.5	6,946
Full disability pensions	2,368	1,936	22.3	934
Partial disability pensions	1,133	718	57.8	507
Survivors' pensions	2,742	2,674	2.5	1,876
Part-time pensions	619	395	56.7	581
Other pension matters	23	-	-	-
Rehabilitation decisions	688	587	17.2	-
Total	**14,838**	**11,170**	**32.8**	**10,844**

Insured State employees by age and gender on 31 Dec. 2012			
Age	Men	Women	Total
–19	26	43	69
20–24	1,482	698	2,180
25–29	3,848	2,732	6,580
30–34	6,888	5,443	12,331
35–39	8,421	7,453	15,874
40–44	8,723	10,683	19,406
45–49	11,863	16,157	28,020
50–54	10,659	15,230	25,889
55–59	9,724	15,585	25,309
60–64	6,315	8,979	15,294
65–	1,066	944	2,010
Total	**69,015**	**83,947**	**152,962**

The data in the table dates from 2012, because data for 2013 will not be available until in summer 2014.

Employees retired according to the State Employees' Pensions Act

In 2013, 4,950 State employees retired on State pensions. 435 more people (9.6 per cent) retired than in 2012. The proportion of people retiring on old-age pensions was 82 per cent of all persons who retired according to the State Employees' Pensions Act. The number of people who retired on old-age pensions (4,053 people), partial disability pensions (376 people) and cash rehabilitation benefit (300) increased compared to the previous year. In contrast, fewer people (221 in total) retired on full disability pensions than in the previous year (3.1%).

The average age of those who retired according to the State Employees' Pensions Act was 61.7 years while in 2012 it was 61.4 years. In 2013, the average old-age retirement age was 63.4 years (62.8 years in 2012). Mental disorders and musculoskeletal disorders were the most significant reasons for disability in 2013.

Retirement on State pension and average age by pension benefit in 2013		
Pension benefit	Number of people	Average age
Old-age pension	4,053	63.4
Full disability pension	221	58.0
Full rehabilitation benefit	300	50.2
Partial disability pension	376	55.3
Total	**4,950**	**61.7**

Self-correction of State pension decisions

Keva processed 284 complaints concerning decisions made according to the State Employees' Pensions Act, of which 162 were related to assessing work capacity. Keva upheld 12.3 per cent of all appeals and 11.1 per cent of appeals concerning the assessment of working capacity.

In 2013, Keva processed 72 of the appeals lodged with the Insurance Court concerning State pension decisions of the Pension Appeal Board. Of the appeals, 57 concerned assessments of working capacity and Keva rectified 3.5 per cent of the assessments.

Evangelical-Lutheran Church pension applications and corresponding decisions

Keva made 2,067 decisions according to the Evangelical-Lutheran Church Pensions Act (KiEL), of which 1,927 concerned actual pension matters, with the rest consisting of rehabilitation decisions and other benefits. 70 decisions concerning the right to vocational rehabilitation were given by Keva with the remainder of the rehabilitation decisions concerning the content of vocational rehabilitation. The number of decisions made concerning received applications rose by 624 (43%) compared with 2012. The number of decisions increased in all of the pension benefits.

The number of pension applications increased compared with the previous year. The number of pension applications based on KiEL numbered 1,732, which was 9 per cent more than in 2012. 78 applications for vocational rehabilitation arrived, i.e. 53 per cent more than in the previous year.

Keva made 1,331 decisions on new pension applications based on KiEL, of which 1,228 were favourable. Keva rejected 25.7 per cent of all applications pertaining to disability pensions. 20.0 per cent of rehabilitation decisions were negative.

Keva processed old-age pension applications according to KiEL on average in 97 days, disability pensions in 72 days, survivors' pensions in 57 days and part-time pensions in 37 days.

Employees insured according to the Evangelical-Lutheran Church Pensions Act

The Evangelical-Lutheran Church Pensions Act covers some 20,000 insured people, some 68 per cent of whom are women. The average age of the insured employees was 47.7 years, i.e. the same as for State employees and higher than in the local government sector.

Vocational rehabilitation customers according to the Evangelical-Lutheran Church Pensions Act

The number of new employee customers based on the Evangelical-Lutheran Church Pensions Act in vocational rehabilitation was 87 when also taking into account new rehabilitation assessments. The average age of new customers was 46.4 and the single largest age group was the 50–54-year-

Evangelical-Lutheran Church pension applications by pension benefit 2013 and 2012				
Pension benefit	2013	2012	Change, %	of which electronic, %, 2013
Old-age pensions	878	853	2.9	18
Full disability pensions	491	499	-1.6	-
Partial disability pensions	171	129	32.6	-
Survivors' pensions	130	77	68.8	-
Part-time pensions	62	34	82.4	-
Total	**1,732**	**1,592**	**8.8**	**9**

Evangelical-Lutheran Church pension decisions by pension benefit 2013 and 2012				
Pension benefit	Number of all pension matters		Change, %	of which new pension matters in 2013
	2013	2012		
Old-age pensions	987	722	36.7	889
Full disability pensions	579	410	41.2	230
Partial disability pensions	173	110	57.3	81
Survivors' pensions	129	66	95.5	74
Part-time pensions	59	38	55.3	57
Other pension matters	-	-	-	-
Rehabilitation decisions	140	96	45.8	-
Total	**2,067**	**1,442**	**43.3**	**1,331**

Insured Church employees by age and gender on 31 Dec. 2012			
Age	Men	Women	Total
–19	165	328	493
20–24	353	685	1,038
25–29	441	939	1,380
30–34	529	1,233	1,762
35–39	593	1,345	1,938
40–44	615	1,418	2,033
45–49	782	2,012	2,794
50–54	899	1,971	2,870
55–59	980	1,949	2,929
60–64	806	1,612	2,418
65–	286	361	647
Total	**6,449**	**13,853**	**20,302**

The data in the table dates from 2012, because data for 2013 will not be available until in summer 2014

Retirement on Church pension and average age by pension benefit in 2013		
Pension benefit	Number of people	Average age
Old-age pension	528	64.4
Full disability pension	38	57.7
Full rehabilitation benefit	61	49.1
Partial disability pension	50	56.9
Total	**677**	**62.1**

olds. 77 per cent of new customers were women. The risk of disability was most commonly caused by musculoskeletal disorders and mental health disorders. The most common vocational rehabilitation measure taken was work trials, as in the previous year. Applications for the right to vocational rehabilitation were processed by Keva in 13 days on average.

Persons retired on Church pensions

In 2013, 677 Church employees retired on Church pensions. 39 more people (6 per cent) retired than in 2012. The proportion of people retiring on old-age pensions was 78 per cent of all persons who retired. The number of people who retired on old-age pensions (528 people), partial disability pensions (50 people) and cash rehabilitation benefit (61) increased compared to the previous year. In contrast, fewer people (38 in total) retired on full disability pensions than in the previous year.

The average age of those who retired according to the Evangelical-Lutheran Church Pensions Act was 62.1 years while in 2012 it was 62.0 years. In 2013, the average old-age retirement age was 64.4 years (64.4 years in 2012). Musculoskeletal and mental disorders were the most significant reasons for disability in 2013.

Self-correction of Church pension decisions

In 2013, Keva processed 59 complaints concerning decisions made according to the Evangelical-Lutheran Church Pensions Act, of which 39 were related to assessing work capacity. Keva upheld 13.6 per cent of all appeals and 5.1 per cent of appeals concerning the assessment of working capacity.

In 2013, Keva processed altogether 19 of the appeals lodged with the Insurance Court concerning Church pension decisions of the Pension Appeal Board. Of the appeals, 18 concerned assessments of working capacity and Keva rectified 5.6 per cent of the assessments.

Pension expenditure

The total pension expenditure under the Local Government Pensions Act was EUR 4,117 million which was EUR 291 million (7.6%) more than in 2012. The number of pension recipients totalled 367,000 at the end of the year, i.e. just under four per cent more than in 2012.

In 2013, Keva paid out a total of EUR 4,226 million in State pensions of which EUR 153 million or nearly 4 per cent was comparable growth on the previous year. The number of State pension recipients was around 274,000 at year end, approximately one per cent more than a year earlier. Evangelical Lutheran Church pensions paid out amounted to EUR 166 million when taking into account the cost distribution items. The comparative pension expenditure for Kela's salaried employees was some EUR 86 million.

The State, the Evangelical Lutheran Church and Kela funded their own pensions so that they paid Keva a monthly advance in the amount specified by the Ministry of Finance, which sum was adjusted at the end of the year with the actual pension expenditure. For 2013, Keva will return to the State a sum of EUR 20.1 million, to the Church EUR 1.6 million and to Kela EUR 2.1 million. Keva entered these sums in the financial statements as an adjustment to the advance payments.

Support for continuing at work

The objective of supporting continuing at work is

- to have as many employees as possible work until their personal retirement age or beyond it,
- to decrease the number of commencing disability pensions,
- to enable as many people as possible to continue working despite a weakened capacity.

Continuing at work has developed positively in the local government sector:

- the proportion of those 63 years and over of all local government employees who retired in 2013 was 55 per cent (29% in 2008),
- the age-adjusted commencement rate for local government disability pensions in 2013 was 0.90 per cent (1.06% in 2008),
- the proportion of those who retired on partial disability pensions of all employees who retired on disability pensions in 2013 was 45 per cent (30% in 2008),
- the expected effective retirement age for a 25-year-old employee was 60.8 years in 2013 and (59.9 years in 2008).

Keva supported the occupational well-being activities of its clients through the Kaari services. 18 middle-sized cities and hospital districts took part in the calculation of disability-related costs during 2013. The Kaari calculator enables employer customers to gauge their disability costs and receive development suggestions for the management of disability-related costs. By making use of the financial aspect, Keva's aim is to awaken the interest of local government financial management and political decision-makers in disability issues.

Keva offered its employer customers services for developing their active support and occupational well-being co-operation and supported their occupational well-being management. In addition Keva organised training, workshops and seminars. For the first time, Keva organised an occupational development networking day together with the State Treasury's Kaiku occupational well-being services.

During the year, Keva carried out a survey of local government HR managers and, together with the Association of Finnish Local and Regional Authorities, a survey on the occupational well-being of municipal leaders. Keva took part in the present debate concerning careers through three separate research projects. The studies concluded that people wish their final working years prior to retirement to be as stable as possible without major changes and that retirement is not necessarily a natural topic of discussion at the workplace. In addition, public sector employees nearing the retirement age have excellent work capacity.

The number of vocational rehabilitation applications increased which means that rehabilitation options were looked into more than before. Keva initiated a pilot project in which employers advise employees who have been on sick leave for 150 days to look into the opportunities offered by Keva's vocational rehabilitation. 16 major local government employers registered in the pilot project.

Investment operations

The economic situation in the euro zone in 2013 was more stable that in the few preceding years. This was affected by the European Central Bank's earlier promise of support and a low interest rate level. The future still holds numerous unsolved issues. The euro zone did, however, produce more positive financial results than expected although the reliance of the entire region on the German economy is significant. Finland's economic difficulties began slightly later than those of the other countries.

The world's largest national economy, the United States, regained its growth track, as did Japan's economy, which had been in trouble for decades. Financial news concerning China has also been fairly positive, although tinged with uncertainty.

During 2013, the capital markets were affected mostly by concerns over the reduction of the massive stimulus measures of the central banks. In late spring, investments with the highest risk levels experienced losses when the US Federal Reserve indicated that it would be tightening liquidity. As the year progressed, the situation simmered down with the equity markets, for the most part, rising strongly.

All in all 2013 was a relatively good year for investors although, depending on the weightings of investment allocations, differences in total returns were large even for institutional investors. The return on equity investments rose to a very high level in many markets whereas the return on fixed-income investments remained modest and sometimes even negative due to a difficult interest rate situation.

Keva's investment year 2013 was fairly good. The return on equity and fixed-income investments was high and hedge funds also yielded well. Real estate investments were burdened by write-downs in the value of properties. The return on fixed-income investments was only just positive.

At the beginning of 2013, the market value of Keva's investments totalled EUR 33,528 million. At the end of the year, the market value of investments was EUR 36,503 million, i.e. 8.9 per cent more than at the end of 2012.

Investments are divided into asset classes, which are fixed-income, equity, real estate, private equity and commodity investments and hedge fund investments. Fixed-income investments consist of loans, bonds and money market investments. The investments are managed in part by Keva and in part by external asset managers (e.g. by equity and fixed-income funds). Targeted returns are hedged using derivative instruments, the effects of which on allocation by asset class are taken into consideration in the figures that illustrate the risk-adjusted distribution of investment assets.

Of the different asset classes, the best result was generated by equities (listed equities 16.6 per cent), private equity investments (14.4 per cent) and hedge funds (11.8 per cent). Real estate investments (3.6 per cent) and fixed-income investments (0.4 per cent) also had positive returns. The return on the small allocation to commodities was negative at -3.6 per cent.

Keva's total investment return at market value after expenses was 7.5% in 2013. The capital-weighted, annual cumulative real return on investments since inception (1988) until the end of 2013 was 3.8 per cent. The non-capital-weighted average real return for the same period was 5.3%. The five-year nominal return without capital weighting has been 9.8 per cent, and the real return 7.8 per cent. The ten-year nominal return without capital weighting has been 6.1 per cent and real return 4.1 per cent.

In addition to the assets mentioned above, the invested capital at market value includes EUR 1,316.3 million in accrued income including accrued interest as well as other items used in calculating the return. Taking these items into account, the market value of invested capital totals EUR 37,819 million.

Fixed-income investments

2013 started off with a fairly low interest rate level and investors had relatively low expectations in terms of the return potential on the asset class. For this reason, long-term interest rates took a slight upward trajectory in the early part of the year but relatively low growth figures, particularly in Europe, caused the growth to turn into decline in the spring.

A shift took place in May when the Fed began to hint at a decrease in monetary policy stimulus measures. This affected long-term interest rates without risk as well as risk-bearing asset classes. Interest rates grew during the summer but as a result of the financial news, long-term interest rates began to decline towards year-end. The calming down of the fixed-income markets could be seen in the more risk-bearing asset classes, turning the atmosphere in the market in terms of credit risk clearly more positive. The situation in the corporate bonds market was similar to that of government bonds, with risk premiums first rising slightly in the summer's interest rate turbulence, only to fall sharply in the autumn.

Emerging market bonds, which are traditionally relatively close to higher risk corporate bonds in terms of returns, yielded poorly in 2013. The gradual reduction of stimulus measures indicated by the Federal Reserve weakened both the fixed-income and foreign exchange markets of emerging countries. Although many other asset classes sprang back towards year-end, the emerging markets were not part of this trend. Especially countries in which the fundamentals of the economy were out of balance, in particular in terms of the current account deficit, suffered from market sales pressures. Following a long interval, the markets are once again taking an interest in economic fundamentals, which is not a bad thing as this has not always been a matter of course.

The total market value of Keva's investments in bonds and fixed-income funds stood at EUR 13,869 million at the end of 2013. This was an increase of EUR 221 million on the previous year. A total of EUR 4,773 million i.e. 34.4% of the bond portfolio was allocated to external asset managers (including funds). The market-value return on bonds was 0.4%.

Loans (excluding those granted to Keva companies) totalled EUR 622 million at the end of 2013. This loan portfolio decreased by EUR 87 million during the year. These promissory note loans yielded an income of EUR 7.7 million in interest.

Money market investments totalled EUR 966 million at year-end.

A total of EUR 257 million in fixed-income returns was recorded for the fixed-income portfolios. The market-value return on fixed-income investments was 0.4 per cent.

Equity investments

The mood in the equity markets was positive at the beginning of 2013; valuations continued to be historically low and hopes that the euro crisis would ease rose owing to the determined measures by the ECB. In the background lay concerns over global economic growth and the recurrence of similar volatility as in summer 2012, but the general outlook was cautiously hopeful.

The mood in the market varied during the year with the optimism in the first quarter withering away during early summer and all of the markets experienced at least a momentary increase in volatility. The reason behind the second quarter's adjustment, experienced for the third year running, was the gradual reduction of the monetary policy stimulus measures hinted at by the Fed.

Following the summer, the equity markets calmed down, after all, the reason behind the possible reduction of monetary policy stimulus measures was hopefulness in the US economy. All in all returns rose to a high level in many markets, with the exception of the developing equity markets.

The MSCI index (EUR), which illustrates the average trend of the world's equities, ended up at 21.2% in 2013, compared to 13.6% in 2012. Measured by the Stoxx 600 index, European equities rose 20.8% (18.2% in 2012). The return on Asian equities (MSCI Asia-Pacific) was 7.1 per cent (14.5%)

At the end of 2013, the total market value of Keva's listed equity investments was EUR 14,667 million. A total of EUR 11,385 million, i.e. 78 per cent of the entire equity portfolio, was allocated to external asset managers (including funds).

Dividend income from equity investments totalled EUR 157 million. The market value return on listed equity investments was 16.6% (17.2% in 2012).

Real estate investments

Keva's real estate portfolio primarily comprises direct investments in domestic real estate and real estate shares. The portfolio also includes investments in real estate funds in Finland and abroad.

The domestic real estate markets were burdened by weak demand for office premises and the rapid increase in real estate management costs. In terms of direct real estate investments, the year under review was a challenging one, especially due to valuations. Positive results were achieved in real estate funds, however, the real estate fund programme still has a way to go before reaching its original targets.

The market value of real estate and real estate shares was EUR 2,588 million at the end of the year, EUR 693 million of which was accounted for by real estate funds. Furthermore, EUR 226 million was tied up in real estate companies in the form of traditional loans. The amount of investment commitments made in Finnish and foreign real estate funds totalled EUR 1,123 million, EUR 241 million of which were undrawn commitments.

At year-end, the rentable floor space of the 126 real estate company owned by Keva totalled approximately 770,000 m^2, and the number of leases was 3,800. The net rental income was EUR 91 million, and the market-value return on direct real estate investments stood at 3.1%. The return on direct real estate investments calculated on the basis of the Finnish Institute for Real Estate Economics' KTI Index was 3.5%.

The market value return on all real estate investments was 3.6%.

Private equity, hedge fund and commodity investments

The private equity operating environment remained good in 2013, in spite of the uncertain market conditions. Nevertheless, there continued to be a clear geographical polarisation in the private equity markets. In the United States the private equity market was highly active, while in Europe the market remained in a state of subdued activity. The main reason for this lay in how the financial institutions and channels functioned. The return on private equity investments, however, was good.

The operating environment for hedge funds was positive in 2013. The capital flow back to hedge funds, which started a few years earlier following the financial crisis, continued to be strong last year.

Consistent with the rest of the markets, the commodities markets fluctuated strongly during 2013. Investments in commodities were weighed down by, among other things, weak demand in many of the key markets, such as China.

Investments at market value 31 Dec. 2013		
	EUR million	%
Fixed-income investments	15,524	43
Equity investments	14,792	41
Real estate investments	2,814	8
Private equity investments	1,744	5
Hedge funds	1,490	4
Investments in commodities	139	0
Total	**36,503**	**100**

Investments by currency at market value 31 Dec. 2013		
	EUR million	%
EUR	22,721	62
USD	11,073	30
GBP	884	2
JPY	753	2
SEK	326	1
CHF	309	1
Others	438	1
Total	**36,503**	**100**

Geographical distribution of investments at market value 31 Dec. 2013		
	EUR million	%
Finland	6,899	19
Europe (excluding Finland)	13,763	38
North America	8,206	22
Emerging markets	4,333	12
Asia (excluding Japan)	1,715	5
Japan	1,165	3
Others	422	1
Total	**36,503**	**100**

At the end of the year, the market value of Keva's private equity investments totalled EUR 1,744 million, and it had two direct investments in unlisted companies. The market value of hedge fund investments totalled EUR 1,490 million at year-end. The risk-adjusted allocation of commodity investments stood at EUR 212.1 million (market value of EUR 131.1 million). The amount of investment commitments made to private equity investments totalled EUR 3,960 million, EUR 1,543 million of which were undrawn commitments.

The market-value return on private equity investments was 14.4%, on hedge fund investments 11.8%, and on commodity investments -3.6%.

Investment strategy

Keva's strategy determines the central principles for funding the local government pension system, and from these are derived the strategic objectives set for the investment operations.

The Board of Directors manages Keva's long-term investment activities through the investment strategy. In the shorter term, the Board of Directors manages the investment activities for a given year through an approved investment plan which also includes investment authorisations.

The investment strategy sets out the principles and procedures that will help to achieve the targets set for the investment operations in the financial strategy. Most importantly, the investment strategy determines the principles to be followed in the steering of the investment activities.

The Board of Directors of Keva approved the current investment strategy on 22 September 2010.

Social responsibility

Keva's Board of Directors has decided on the most important principles of social responsibility to be observed in its investment operations. It has also outlined the operating methods and procedures that will be used to guarantee social responsibility as part of the investment process.

In accordance with the rules, the Board receives regular reports on how social responsibility has been fulfilled in investment operations. Keva uses information produced by an external service provider that focuses on assessing corporate social responsibility to supplement its own activities relating to investment processes. The report to the Board also describes the measures taken as a result of the observations.

Subsidiary and associated companies

At the end of 2013, Keva owned, fully or partly, 126 Finnish real estate companies, which was on a par with the previous year. Keva owned 104 real estate companies in full and had a majority shareholding in 10 companies. The number of associated companies (holding of 20–50%) was five. In seven real estate companies the holding was smaller than this.

Keva also owned all the shares in Kuntasijoitus KE Oy, 30.66% of Municipality Finance Plc and 25% of Exilion Capital Oy, which manages the Exilion Capital Real Estate fund.

Pension liability fund

The difference between the annual income and Keva's annual expenditure is added to or deducted from the pension liability fund. At year-end 2013, the fund stood at EUR 38,202 million, which was EUR 3,455 million (10%) more than a year earlier.

Present value of the benefits accrued under the local government pension system

The value of the benefits that have accrued, but which have not yet been paid out, in the local government pension system clearly exceeds the value of the pension liability fund. The present value of these accrued benefits was estimated to be EUR 97 billion at the end of 2012. A year earlier this value was estimated to be EUR 98 billion, i.e. the estimate has been adjusted slightly down. The value increased by EUR 4 billion to EUR 101 billion in 2013.

As the value of the pension liability fund in 2013 grew less than the present value of benefits, the present value of unfunded benefits increased by roughly EUR 1 billion during the year.

The present value of accrued benefits is estimated based on the best available information on mortality and other trends. However, this is just a rough estimate of the current situation of the pension system. Changes in the calculation premises may significantly alter it.

Operating costs and depreciation

Keva's operations were expanded in 2013 to include responsibility for the tasks related to the pension security of State employers.

The operating costs and depreciation before payments received (gross operating costs) totalled EUR 101.2 million, which was EUR 5.9 million (around 6%) more than in 2012. The greatest growth was achieved in the management and administration fees included in the purchase of services, altogether EUR 3 million. Personnel expenses increased by some EUR 2.5 million. The growth can be partly explained by the transfer of 17 employees to Keva from the State Treasury in 2013. IT costs and depreciations were equal to the previous year's level.

Keva received reimbursement for the operating costs and depreciation in the sum of EUR 25.8 million (EUR 26 million in 2012), of which some EUR 21.8 million were paid by the State, just over EUR 2.7 million by the Evangelical Lutheran Church and just under EUR 0.8 million by the Social Insurance Institution. Keva's net operating costs, including payments received, equalled EUR 75.3 million, which is EUR 6.1 million (just under 9%) more than in the previous year.

When examined by function, the gross costs for pension operations stood at EUR 57.3 million, which was 2 per cent more than in 2012. When the received payments are taken into account, the costs for pension operations increased by just under 5 per cent. The costs for investment operations stood at EUR 25.1 million, 16 per cent more than in 2012. As described above, the investment management and administration fees grew significantly. No payments received were allocated to investment operations. The gross operating costs for administration stood at EUR 18.8 million, which was 8 per cent more than in 2012. When the received payments are taken into account, the operating costs also increased 8 per cent.

Investments in machinery, equipment, and computer software totalled EUR 7.9 million, which was EUR 4.8 million less than in the previous year. Keva sold its pension processing system to other pension institutions and received a payment of just under EUR 7 million, which lowers the planned depreciation.

Planned depreciation for 2013 amounted to EUR 6.5 million, which was EUR 1.1 million more than in 2012. This growth resulted from the implementation of the final portion of the new pension processing system.

Statutory payments refer to Keva's share of the costs of the Finnish Centre for Pensions, the Pension Appeal Board and the Financial Supervisory Authority. The costs totalled

EUR 9.3 million, of which the State, Evangelical Lutheran Church and Kela paid around EUR 2.8 million.

In total, Keva received EUR 28.1 million in reimbursements from the State, Evangelical Lutheran Church and Kela, which is EUR 2 million more than in 2012.

Administration

Keva's highest decision-making authority is the Council, the members of which are appointed by the Ministry of Finance for the municipal electoral period. The Council consists of 30 members of which 26 are appointed according to a proposal by the Association of Finnish Local and Regional Authorities, which is based on the results of the municipal elections, and four members are appointed based on a proposal by the main employee organisations in the local government sector. The year under review was the first year of the 2013–2016 term for the Council.

Seinäjoki's Deputy Mayor, Harri Jokiranta, was the Council's Chairman and its Deputy Chairman was Maarit Ojavuo (neé Immonen) an IT expert from Kajaani.

The Council convened three times during the financial year. The attendance rate of the Council's regular members was 88. When including the attendance of deputy members, the attendance rate was 96. The Council members received EUR 400 in remuneration for meetings, in addition to which the Chairman is paid EUR 9,000 and the Deputy Chairman 8,000 annually. The members of the Council were paid altogether EUR 53,600 in remuneration for meetings.

In its meeting on 25 January 2013, the Council elected the Board of Directors for the period 2013–2014. Until this date, the Board of Directors elected for the previous period was still in operation, the Chairman of which was Member of Parliament Sampsa Kataja. Deputy Mayor Laura Räty from Helsinki was elected as Chairman of the new Board of Directors and Kari Nenonen, Mayor of Vantaa, was elected as Deputy Chairman. The other regular members of the new Board were Business Director Heini Jalkanen from Naantali, Sallamaari Muhonen from Helsinki, Adviser to the Minister, now a freelancer, Member of Parliament Juha Rehula from Hollola, Managing Director Harri Virta from Forssa and Master of Laws Raimo Vistbacka from Alajärvi as well as the statutory members proposed by the main employee organisations in the local government sector: Risto Kangas, Director at the Negotiation Organisation for Public Sector Professionals and Päivi Niemi-Laine Chief Executive Officer, a representative of the Union of Local Government Employees.

The old Board convened once and the new one 12 times during the period under review. The attendance rate of the Board's regular members was 89. When including the attendance of deputy members, the attendance rate was 95. The Council's Chairman and Deputy Chairman also have attendance and speaking rights at the Board of Directors' meetings. The remuneration paid to Board members for meetings is EUR 400. In addition, the Chairman of the Board received EUR 18,000, the Deputy Chairman EUR 10,000 and members EUR 8,000 in annual remunerations. The members of the Board were paid altogether EUR 54,775 in remuneration for meetings.

In addition to the Board and Council, Keva's statutory bodies include the Investment Advisory Committee, the members of which are appointed by the Board for its term of office. The Committee comprises ten members and includes representatives of the main employee organisations in the local government sector, the Ministry of Finance and the Ministry of Employment and the Economy. Seppo Juntti, Financial Director, City of Salo, acted as Chairman of the Investment Advisory Committee, and Terttu Savolainen, Director of the Regional Administrative Agency of Northern Finland, acted as Vice Chairman.

The Working Life Development Working Group is a body defined in the Standing Orders. Its members are invited to join the group by the Board for its term of office. Of the 12 working group members, six are chosen based on proposals by the main employee organisations in the local government sector. Aki Lindén, Chief Executive Officer of the HUS Joint Authority, was the Chairman of the Working Life Development Working Group.

Merja Ailus served as Keva's CEO and Managing Director until 6 December 2013. Following Ailus's resignation from the position, Deputy CEO Pekka Alanen served as Acting CEO as of 23 November 2013. Pekka Alanen and Tapani Hellstén served as Deputy CEOs, the latter of whom started as of 21 January 2013. Alanen was in charge of the execution of the customer strategy and Hellstén for the implementation of the work capacity and continuation strategy.

Personnel

Keva employed 558 people at year-end (547 in 2012), of which 21 (28) were fixed-term employees. In 2013, 17 employees transferred to Keva from the State Treasury.

The number of personnel will be kept at a level required to implement full-scale operations also in future. Keva is women-dominated, which is typical of the earnings-related pensions sector. Women accounted for about 73 per cent of our personnel.

At the end of 2013, Keva implemented its renewed development discussion model in which each Keva employee is set four personal targets. This helps to secure the role of each employee in the implementation of Keva's strategy. The development discussions were also renewed also in terms of content, the discussions will be steered towards competence development and career planning in addition to the setting of targets. By encouraging job rotation, Keva creates improved prerequisites for achieving a more varied career and it values the competence of its own employees by using their potential in the best possible way.

Keva offers its personnel comprehensive occupational health services, supports well-being through various personnel clubs and provides monetary support to employees to encourage them to exercise in their free time.

Keva's personnel will transform significantly over the next three years with the retirement of a large number of Keva employees. Keva will continue to provide high-quality earnings-related pension services through its pre-emptive development of its operations and required competence. Keva develops the competence of its personnel through training and development projects and recruitment. Keva employs many long-term experts. However, ways of working have changed through the years, which entails that the personnel and working culture are willing to adapt to changes.

IT management

Keva focussed especially on the establishment and further development of the pension processing system (Elmo) implemented in 2012. Several new versions of the system were produced. Keva improved the stability and performance of the systems' server environment. In addition, Keva established a new unit that is responsible for the production management of the pension systems. Due to these measures, the production capacity of the pension decisions function was increased by the end of the year to a level that was clearly higher than before.

The usage rights transactions carried out for the Elmo system in the previous year were continued as Ilmarinen also decided to purchase from Keva the usage rights concerning Elmo's specifications and source code. The value of this usage right transaction was several million euros.

Keva implemented its new speech solution and customer service software. The implementation of the system went well and Keva was able to use it in improving its customer service activities.

The development projects for a new loan system and new contribution system continued throughout 2013. The Antti project, which will standardise the notification traffic for the registration and earnings data for public sector employment, progressed as planned.

The IT management plan was updated based on Keva's new strategy. It describes the administration model and procedures of IT management as well as Keva's IT management project portfolio for 2014–2017.

The operating costs of IT management in 2013 were EUR 30.1 million, and acquisitions totalling EUR 7.3 million were recorded in the balance sheet as investments.

Internal control

Internal control means all the procedures, systems and methods through which Keva's management aims to ensure efficient, economical and reliable operations. In addition to daily supervisory control, risk management and internal auditing are key fundamentals of internal control.

General development of risk management

Risk management in 2013 focussed on the establishment of the new pension processing and calculation system and its development and maintenance.

In order to further enhance data security and data protection, Keva continued to develop data security principles and processes. The data security level of the IT systems was also regularly tested by Keva through data security audits.

Areas improved by Keva in the Investment Operation function's risk management included risk reporting, limit monitoring, investment processes and the related documentation.

Main risks

According to Keva's assessment, the key long-term strategic risk relates to a decrease in the number of employees under the Local Government Pensions Act and the significant decline of the contribution income as a result. Contribution income may decline if the number of people insured under the Local Government Pensions Act declines, for example, as the result of a discrepancy between workforce availability and demand or the outsourcing of municipal services. This may cause pressure to increase pension contributions. Uncertainties related to the reform of the local government economy, local government structure and the social and health care sector and incorporation of municipal companies as well as possible changes in the implementation of local government services highlight the significance of this risk all the more in the long term.

Keva also estimates that if the long-term return on investments remains below the target level specified in the investment strategy, it could constitute a major strategic risk. The target level is defined based on the financing situation in the earnings-related pension system at any given time. The market environment continued to be challenging in terms of investments. The capital-weighted long-term real return on investments between 1988 and 2013 was 3.8 per cent.

According to Keva's assessments, medium-sized strategic risks are related to the power relationships and interaction between the bodies and management, to managing the pension institution and to the number and quality of personnel.

In late 2013, a media uproar surrounded Keva due to the management's fringe benefits and their fairness. The CEO resigned and Keva started up a revamping of the leadership system and leadership culture, which is set to continue during 2014.

The main operational risks are related to personnel and IT systems.

Market and liquidity risks

The fluctuation of market values is a short-term investment risk. This risk can be illustrated with the Value at Risk figure (VaR). The VaR figure for Keva's investments calculated on the basis of monthly returns during a two-year period was EUR 757 million at the end of 2013, which means that with a 97.5 per cent probability, this is the biggest possible loss on the entire investment portfolio within the time span of one month. The VaR figure at the end of the previous year was EUR 1,042 million. Percentually, the VaR figure decreased slightly (4.6%) when compared to the previous year (4.8%).

Since Keva's contribution income exceeded the pension expenditure, the liquidity risk was low.

Contingency plans

In order to ensure that Keva's operations continue without interruption, the Board has prepared a general contingency plan for the entire institution as well as supplementary contingency plans for each function, which have been approved by the management.

Insider guidelines

The Board has confirmed insider guidelines for Keva.

Internal auditing

The internal auditing function's activities are based on the operating plan for internal auditing, confirmed each year by the Board of Directors. In accordance with the internal audit charter, the function reported regularly to the CEO and Board on the audits carried out and conclusions made based on them during the year.

Outlook

In August 2013, the main labour market organisations decided on an Employment and Growth Agreement in which it was agreed to raise the earnings-related pension contributions of private sectors in addition to the implementation of a long and moderate wage solution. As the pension contribution of wage earners in the local government pension system is, according to law, the same as in the private sector, this somewhat alleviates the outlook for the local government economy in terms of future pension contributions.

The future earnings development of local government employees will follow the moderate wage solution in the above-mentioned agreement, so the increase in future payrolls will be slower than what we are used to. In addition, savings measures will be targeted at personnel due to the financial difficulties faced by local governments, which will in addition to the reduction of tasks, growth of productivity and use of purchased services, lead to, at best, years of slow payroll development.

The reforms of the local government structures and social and health services production emphasise the fact that the responsibility to arrange services does not mean that the municipality is required to produce them. As the number of municipalities diminishes and they increase in size, expertise in purchases may also grow and thus local government work may increasingly be taken care of by the markets. It is probable that many new solutions will be implemented in services provision and the private sector will undoubtedly continue to expand strongly into the extensive municipal services market.

The pension reform to be negotiated in 2014 should be able to guarantee the sufficiency of pension cover and sustainability of financing. The European Commission will also be interested in seeing whether the solution will correspond to the suggestions made to Finland in the white paper published in 2012.

The legislation for the pension reform will, according to present agreements, come before Parliament in spring 2015 and the reform itself would be carried out from the beginning of 2017. The IT system work involved in carrying out the pension reform challenges the pension system to seek cost-effectiveness through co-operation.

The local government pension system will, according to current views, shift in upcoming years to using fund returns for paying pensions. It is important to make sure that economic and structural sustainability deficit problems are not transferred to the financing of the pension system by using pension contributions for balancing out economic cycles.

Keva's investments are diversified globally, which means that global economic development has a significant effect on Keva's investment returns. It would seem that the growth of the global economy will continue, although far more slowly that before the financial crisis. Development in the euro zone is affected by the very different economic situations of states. It is now exceptionally difficult to form a perspective on the future. Interest rates are currently at a low level, and it is likely that a general increase in interest rates will take place, which will diminish the attractiveness of fixed-income investments. Equities have yielded fairly well following the financial crisis, which means that they too have only limited return potential. Additionally the upcoming tightening of liquidity by the central banks will take its toll on the capital markets and more risk-bearing investment classes. All in all we have likely moved on to a more uncertain and lower-yield period in terms of investments.

Administration 2013

Council in 2013–2016

Regular members	Personal deputies
Chairman, Mr Harri Jokiranta Seinäjoki	Ms Pilvi Torsti Helsinki
Deputy Chairman, Ms Maarit Ojavuo Kajaani	Mr Risto Ervelä Sauvo
Ms Miia Antin Hattula	Ms Jonna Heikkilä Nakkila
Ms Diana Bergroth-Lampinen Pori	Mr Jukka Nyberg Kouvola
Ms Christina Båssar Vöyri	Mr Christian Sjöstrand Helsinki
Mr Keijo Houhala Technics and Health KTN ry	Ms Leila Lehtomäki Technics and Health KTN ry
Ms Riitta Jakara Orivesi	Mr Toni Eklund Turku
Ms Paula Juka Muhos	Mr Jaakko Uuksulainen Kitee
Mr Harri Kerijoki Heinola	Ms Maarit Markkula Köyliö
Mr Niko-Tapani Korte Kuopio	Ms Sinikka Hälli Joensuu
Mr Markku Koski Sievi	Ms Kirsi Torikka Savonlinna
Ms Outi Kuismin Oulu	Ms Marja Lähde Oulu
Mr Petri Lindroos Negotiation Organisation for Public Sector Professionals	Mr Simo Kekki Negotiation Organisation for Public Sector Professionals
Mr Saku Linnamurto Savonlinna	Mr Pekka Leskinen Leppävirta
Ms Marja Lounasmaa Union for the Municipal Sector	Ms Päivi Ahonen Union for the Municipal Sector

Regular members	Personal deputies
Mr Leo Lähde Nokia	Mr Hannu Kokko Vantaa
Mr Juhani Nummentalo Salo	Mr Ismo Pöllänen Imatra
Mr Lauri Nykänen Tornio	Ms Virpi Takalo-Eskola Oulainen
Ms Helena Ojennus Parkano	Mr Simo Riuttamäki Huittinen
Ms Silja Paavola Negotiating Organization for Salaried Employees TNJ	Ms Anne Sainila-Vaarno Negotiating Organization for Salaried Employees TNJ
Mr Markku Pakkanen Kouvola	Ms Pauliina Takala Muurame
Ms Terhi Peltokorpi Helsinki	Mr Topi Heinänen Ruokolahti
Ms Ulla Perämäki Muurame	Mr Markku Turkia Mikkeli
Mr Antti Rantalainen Hyvinkää	Mr Arto Ojala Kemijärvi
Mr Aki Räisänen Kajaani	Ms Maija Jakka Vihti
Mr Jorma Räsänen Kaavi	Ms Minna Sarvijärvi Ylöjärvi
Ms Tiina Sarparanta Kajaani	Ms Salla Rundgren Vaasa
Ms Piia Soininen Äänekoski	Mr Tommy Björkskog Naantali
Ms Pia Sääski Askola	Mr Jorma Liukkonen Kouvola
Ms Elise Tarvainen Saarijärvi	Ms Aulikki Sihvonen Kontiolahti

Board in 2013–2014

Regular members	Personal deputies
Chairman, Ms Laura Räty Helsinki	Ms Saija Äikäs Espoo
Deputy Chairman, Mr Kari Nenonen Vantaa	Ms Tarja Filatov Hämeenlinna
Ms Heini Jalkanen Naantali	Mr Juha Kuisma Lempäälä
Mr Risto Kangas Negotiation Organisation for Public Sector Professionals	Mr Jukka Kauppala Technics and Health KTN ry
Ms Sallamaari Muhonen Helsinki	Mr Jani Moliis Helsinki

Regular members	Personal deputies
Ms Päivi Niemi-Laine Union for the Municipal Sector	Mr Jarkko Eloranta Union for the Municipal Sector
Mr Juha Rehula Hollola	Ms Tuula Partanen Lappeenranta
Mr Harri Virta Forssa	Ms Oili Heino Pori
Mr Raimo Vistbacka Alajärvi	Ms Marke Tuominen Äänekoski

In the back row from the left Juha Kuisma, Raimo Vistbacka and Risto Kangas.
In the front row from the left Kari Nenonen, Laura Räty, Päivi Niemi-Laine and Oili Heino.

Investment Advisory Committee in 2013–2014

Members	Personal deputies
Chairman, Mr Seppo Juntti	Ms Jonna Sillman-Sola
Deputy Chairman, Ms Terttu Savolainen	Ms Sinikka Malin
Ms Marja Isomäki	Mr Rainer Alanen
Mr Juha Majanen	Mr Jouko Narikka
Ms Minna Martikainen	Mr Matti Keloharju
Mr Tuomo Mäki	Ms Tanja Rantanen
Mr Kari Parkkonen	Ms Tiina Ingman
Mr Mika Periaho	Mr Jan Saarinen
Mr Olavi Ruotsalainen	Ms Sisko Seppä
Ms Anne-Sainila Vaarno	Mr Harri Westerlund

Workplace Development Committee in 2013–2014

Members

Chairman,
Mr Aki Lindén

Mr Kari Hakari

Mr Tapani Hellstén

Mr Risto Kangas

Mr Jukka Kauppala

Ms Marja Lounasmaa

Ms Helena Metsälä

Ms Helena Reinikainen

Mr Tero Ristimäki

Mr Tapio Ropponen

Ms Anne Sainila-Vaarno

Mr Jari Vettenranta

Secretaty,
Mr Pauli Forma

Organisation 31 December 2013

Acting CEO, Managing Director
Mr Pekka Alanen

Internal Audit and Risk Management
Director, Risk Management
Ms Päivi Alanko

Development of Pension Security
Director
Mr Markku Salomaa

Work Capacity and Continuation Strategy

Deputy CEO
Mr Tapani Hellstén

Disability Pensions
Pensions Director
Ms Helena Reinikainen

Insurance Medicine and Rehabilition
Director of Medical Affairs
Mr Tapio Ropponen

Research and Working Life Development
Director of Research and Development
Mr Pauli Forma

Customer Strategy

Deputy CEO
Mr Pekka Alanen

Employer Services
Customership Director
Mr Jorma Rautakoski

Communications
Communications Director
Mr Tero Manninen

Pension Services

Director
Mr Pertti Männistö

Pensions
Pensions Director
Ms Eija Korhonen

Customer Service
Director of Customer Service
Ms Jaana Kekäläinen

Legal Affairs
Director of Legal Affairs
Ms Anne Perälehto-Virkkala

Financial Administration

CFO
Mr Tom Kåla

Pension Payments Unit
Payments Director
Ms Anneli Kajas-Pätäri

Register and Contributions Unit
Register and Contributions Director
Mr Jarmo Helminen

Investments

CIO
Mr Ari Huotari

IT Management

Information Technology Director
Mr Anssi Raitanen

Administration

Administrative Director
Mr Tapani Salmi

Financial Planning

Director, Financial Planning
Mr Allan Paldanius

Personnel Administration

Director of Personnel Administration
Ms Katri Viippola

Keva
PO Box 425
00101 Helsinki
Telephone + 358 20 614 21

www.keva.fi