

26.2.2020

Keva's financial statement bulletin 2019: Record EUR 6.4 billion return on Keva's investments

The year 2019 was the best investment year in Keva's history in terms of euros: after costs, the total return on Keva's investments at market value was 12.8% or EUR 6.4 billion. At year-end 2019, the pension fund was EUR 56 billion.

Of the investment assets, the best performers were listed equities 23.4%, private equity investments 11.1% and real estate investments 7.3%. The return on fixed income investments was 6.6% and on hedge funds 4.7%.

The investment assets of Keva, which is responsible for the funding of local government pensions and the investment of pension funds, had a market value totalling EUR 56.2 billion at year-end 2019. Fixed income investments (including the impact of derivatives) accounted for 38.6% of the investment assets, listed equities for 37.7%, private equity investments (including unlisted equities) for 10.4%, hedge fund investments for 7.0% and real estate for 6.3%.

Keva CEO **Timo Kietäväinen** is delighted with the excellent result.

"All asset classes generated good returns last year to give Keva a record result in terms of euros," says Kietäväinen.

"We emphasise that the returns for one quarter or even for one year are not decisive. From the perspective of future earnings-related pensions, it is important for investment returns to perform well long term and contribute to securing the funding of earnings-related pensions," he adds.

Keva's long-term return on investments has been excellent. The cumulative capital-weighted real return on investments since funding started in 1988 to year-end 2019 was 4.2% a year. The average real return, excluding capital weighting, over the same period was 5.3%.

The Finnish pension sector normally calculates long-term returns excluding capital weighting. Keva's five-year real return excluding capital weighting has been 5.1% (nominal return 5.8%) and the ten-year return 5.4% (nominal return 6.8%).

Keva Chief Investment Officer **Ari Huotari** says that all investors benefited from the strong rise of the equity markets on the one hand and the fall in interest rates on the other.

"The return on investment was certainly good given our very moderate investment risk level," Huotari highlights. "After this, it's realistic to accept that as far as investment returns are concerned, expectations are lower than earlier. You see, among other things, also the grandchildren's interest income has already been cleared," he points out.

Faster pension application processing times

Processing times of all pension types were shorter than a year earlier and Keva continues to have shorter processing times than average in the earn-

26.2.2020

ings-related pension sector. Keva processed old-age pensions in an average of 20 days and disability pensions in an average of 46 days. Processing times of partial early old-age pension applications were fastest, with decisions being issued in an average of seven days.

Timo Kietäväinen is pleased with the progress of reform at Keva and with good customer feedback. The good ratings in the reputation survey in particular give cause for satisfaction.

“Under our new strategy, we aim to be the most efficient in the sector, to deliver the best customer experience and for our investment operations to be at the top of sector,” he explains.

Online application growing in popularity

Last year, Keva received a total of some 69,500 pension and benefit applications. The percentage of online applications rose to 47% (2018: 41%). Delays in the postal service later in the year added to the numbers of online applications. Around 72% of old-age pension and 26% of disability pension applications were made online.

The number of old-age pension applications fell by 9.5% because of a rise in the lower age for old-age pension. The popularity of early old-age pension applications rose and there were 17% more applications than a year earlier.

The Incomes Register was brought into use at the beginning of 2019 and this caused changes in the processing of old-age pensions, for example. Employers had problems in reporting earnings and information concerning the end of employment relationships to the Incomes Register. This is why Keva had to resort to using the exceptional procedures to process old-age pensions under the back-up plan drawn up in 2018. By the early autumn, the worst of the problems were over even though errors resulting from the Incomes Register still had to be corrected towards the end of the year.

Increase in sum of wages and salaries in local government

The sum of wages and salaries of Keva member organisations - towns and cities, municipalities, joint municipal authorities and municipal limited liability companies - grew by a total of 4.1% in 2019. A total of EUR 5.3 billion in contribution income accrued. Keva paid out EUR 5.5 billion in local government pensions. The difference between contribution income and pension expenditure was met out of investment income.

In 2019, Keva paid out pensions totalling EUR 5.1 billion to State, Evangelical Lutheran Church and Social Insurance Institution of Finland (Kela) personnel. The State, Church and Kela fund their own pensions and Keva's investment assets are used solely to provide local government pensions.

26.2.2020

Keva's key figures

	2019	2018	2017	2016	2015
Sum of wages and salaries of Keva's member organisations, €m	18 126	17 410	16 844	16 888	16 820
Share of contribution of Keva's member organisations, €m	5 127	4 920	4 793	4 966	5 013
Number of people insured in Keva's member organisations, 31 Dec. *)	556 000	535 000	528 000	519 000	522 000
No. of pension recipients in Keva's member organisations, 31 Dec.	413 084	406 286	398 000	387 000	378 000
Amount of pensions paid out in Keva's member organisations, €m	5 488	5 230	5 005	4 754	4 559
Fair value of investments, 31 Dec., €m	56 166	50 129	51 871	48 524	44 214
Return on investments at fair value	12.8%	-3.0%	7.7%	7.4%	4.8%
Annual real return on investments since funding at start of 1988 (capital weighted)	4.2%	3.8%	4.3%	4.2%	4.0%
Annual real return on investments since funding at start of 1988 (not capital weighted)	5.3%	5.1%	5.5%	5.4%	5.3%
Operating costs, €m	82.2	74.9	76.1	73.7	81.5
Employees, permanent, 31 Dec.	513	515	519	520	530
No. of State pension recipients, 31 Dec.	246 874	251 505	256 000	259 000	263 000
Amount of State pensions paid out, €m **)	4 761	4 675	4 597	4 502	4 440
No. of Evl. Church pension recipients, 31. Dec.	19 469	19 250	19 000	18 700	18 400
Amount of Evl. Church pensions paid out, €m **)	212	204	196	188	180
No. of Kela pension recipients, 31 Dec.	5 942	5 945	6 000	5 900	5 900
Amount of Kela employee pensions paid out, €m **)	105	102	99	96	93

*) Due to the Incomes Register and new reporting practice in employment relationships, there is a break in the time series between 2018 and 2019

**) These payments have no impact through profit and loss on Keva's financial statements

Keva's financial, annual and interim reports are published at www.keva.fi/tulostiedot. The Report of the Board of Directors and the financial statements will be posted on our website after consideration by Keva's Council on 5 March 2020.

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