2011 ANNUAL REPORT

Annual report 2011

Content

Review of 2011, CEO and Managing Director Merja Ailus

Year of changes

We started the year 2011 with a new name, image and organisation, and owing to the transfer of state employees' and state pensioners' pension matters to us, with an expanded customer base. This marked a major change; the number of Keva's employees increased from less than 400 to 524, and the number of employee customers to 1.3 million insured employees and pension recipients.

In general the transfer of state employees' pension matters from the State Treasury to Keva went smoothly. In spite of the changes, the pension processing times remained practically unaltered and the service level also remained generally good. Early in the year we received a larger number of enquiries from customer than usual, but this was to be expected. We still have our work cut out to increase new customers' awareness of Keva and to shorten pension processing times, among other things.

In the spring we surveyed the experiences of our employer customers concerning Keva and Keva's services. Customer satisfaction clearly increased over the survey results from autumn 2009. Local government leaders felt that they had received sufficient information on the expansion of Keva's scope of activities. According to a survey towards the end of the year, satisfaction among employee customers was also at a good level.

Keva's web-based electronic services are popular, and more than 70 per cent of the municipal pension applications arriving at Keva are in electronic form. This has contributed to the fact that the processing times for municipal pensions are the shortest in the entire earnings-related pensions sector. The work to revamp Keva's online services will continue, and new services such as the electronic pension record and pension estimate calculator will become available to all public sector employees by autumn 2012.

At the end of the year Keva focussed on the introduction of the new pension processing system, and this work has continued to occupy the institution's employees in 2012.

Continuing at work must be supported amidst changes

Keva pursues and supports longer working careers in order to reduce pressures to increase pension contributions. Indicators for continuing at work show good results so far. For example, an increasing number of people retire at the age of 63 or over, and the share of partial disability pensions of all disability pensions has continued to increase. The total number of commencing disability pensions has remained roughly at the same level since the beginning of the 21st century. The expected retirement age had been rising in previous years, but this trend came to a halt and the share of people working until their personal retirement age or beyond remained at the 2010 level.

Keva's services for continuing at work were consolidated under a single brand, Kaari. The Kaari brand now covers all of Keva's services that support both employers and employees in continuing-at-work issues. Research activities aimed at developing work life focussed especially on partial disability pensions from the perspective of the employee, supervisor and the entire organisation.

Changes in operating environment require action

Changes taking place in municipalities continued. At the end of the year the local government reform caused at times heated discussion that has continued to date. Legislation concerning the corporatisation of municipal enterprises was not yet presented in 2011, but we prepared for changes and kept at the fore the impact that the changes in the municipal and service structure would have on the local government pension scheme.

According to the new Government Programme, the preparation of public sector pension acts was centralised with the Ministry of Social Affairs and Health. In accordance with the Government Programme, the change does not affect the implementation, financing or investment activities relating to the public and private sector pension provision. The Ministry of Finance will continue to supervise Keva. The Government Programme mentions several projects aimed at developing work life. Keva will closely monitor the progress of these projects and will also engage in them making use of its competence in the field. Towards the end of the year the Ministry of Finance set up a working group to prepare a draft Government bill for the transfer of tasks related to pension provision still under the State Treasury in 2011 to Keva at the beginning of 2013.

In the autumn Keva was given a seat in the Pension Negotiation Group led by Managing Director Jukka Rantala, Finnish Centre for Pensions, discussing means for lengthening careers, securing the financing of the pension scheme and ensuring sufficient pension cover.

The local government payroll continued to increase with a real growth of one per cent. The payroll may in future be influenced by changes in service structure and the tightening competition for labour, should the number of municipal personnel be reduced due to the changes.

With regard to financing, the state of the global economy, which had an impact on investment returns, caused concerns. The investment environment in early 2011 was affected by the Arab Spring and Japanese tsunami. U.S. debt problems also caused turbulence, and the eurozone problems had a strong impact on investment returns at the end of the year. Under the prevailing market conditions our investments did reasonably well to say the least.

For us 2012 took off full of energy and with the aim of responding to the changes in the operating environment. We have also taken over the statutory responsibility for the pensions of the Evangelic-Lutheran Church and the Social Security Institution Kela. We are thus providing services for the personnel of the entire public sector. We remain the municipalities' own pension institution, as the financing of the local government pension scheme is our responsibility.

I would like to thank our Board and Council for their support and for providing a framework for our operations. I would also like to take this opportunity to thank our personnel for their efforts that have helped Keva achieve the targets set for it. Our customers and stakeholders also deserve a thank you for their feedback which helps us develop our operations.

In Helsinki, March 2012

Merja Ailus
CEO and Managing Director

Report of the Board of Directors 2011

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Operating environment

2011 offered a relatively eventful operating environment for Keva. The year was spent implementing the expansion of Keva's scope of activity, in preparing for the new pensions processing system and supporting continuing at work. Keva's operations were also affected by changes in the municipal sector, by the uncertain investment environment and the Government Programme.

The investment year 2011 was also characterised by the unequal financial development of the EU countries and the debt crisis, the debt problems in the US, the Arab Spring, Japanese tsunami and the more prominent role of the emerging countries in the global economy. Uncertainty concerning the eurozone debt crisis and the United States' debt problems caused declines in investment market values and significant weakening of return estimates.

Pension policies were defined by the promises made by the various parties prior to the parliamentary elections in spring 2011, especially concerning the retirement age. The six-party Government, formed on the basis of the negotiations around the Government Programme, established that the sustainability gap for the national economy will be decreased by lengthening careers and ensuring the viability and sufficient funding of the earnings-related pension system. In order to ensure adequate pension cover, the focus is, for the most part, on the lengthening of careers but also on index hedging. The Government Programme separately mentions that the funding of public sector pensions also needs to be ensured. Solutions for the objectives set by the Government Programme's pension policy are being sought by the Pension Negotiation Group in which Keva is also represented.

According to the Government Programme, the preparation of public sector pension acts was centralised with the Ministry of Social Affairs and Health. The aim of centralising law drafting is not to alter the implementation models, financing, investment activities or other similar aspects of public or private sector earnings-related pension cover. The Ministry of Finance will continue to supervise Keva.

A draft of the White Paper concerning pensions in the EU was published in December 2011 and the final version on 16 February 2012. The revision of pension fund directives is still underway. The White Paper includes a description of the Commission's visions for the future of the pension system as well as 20 concrete proposals for future bills which would achieve the desired situation. It contains several proposals concerning the postponing of retirement and promoting longer working lives. Although the Finnish pension system falls within the scope of national decision-making, wider trends may have repercussions in Finland, too. The European Union also plays a key role in strengthening and tightening the supervision of the financial markets.

Discussion in the local government sector in 2011 focused largely on service provision methods. The legislation concerning the corporatisation of municipal enterprises has not yet been presented, but municipal enterprises are already being corporatised in anticipation of this legislation. In view of the financing of local government pensions, the current trend is not as yet alarming, as the municipalities' payroll kept increasing at a reasonable rate. The reform in local government structures caused a lot of debate in the municipal sector. Its effects are being monitored and anticipated as far as the results affect the arrangement of services.

The development of continuing in working life has been positive. The proportion of people retiring on partial disability pensions of all disability pensions continued to rise and employers' awareness of the significance of continuing and coping at work increased clearly due to Keva's measures as well as public debate.

Keva's operations were reorganised when pension processing for the State's employee customers was transferred from the State Treasury to Keva at the beginning of 2011. Generally speaking, the transfer of duties took place smoothly.

The changes continued in 2012 when the responsibility for the pension security of the Evangelical-Lutheran Church's and the Social Insurance Institution of Finland's employees was statutorily transferred to Keva.

In the autumn the Ministry of Finance assigned a working group to prepare changes to legislation which will lead to the tasks related to pension provision still under the responsibility of the State Treasury being transferred to Keva from the start of 2013.

Changes in regulations

In addition to the transfer of the pension provision of personnel covered by the Evangelical-Lutheran Church Pensions Act (KiEL) to Keva beginning on 1 January 2012, several individual amendments were made to the Local Government Pensions Act and State Employees' Pensions Act. The amendments were minor and related to the reduction of the primary benefit, part-time pensions, granting old-age pensions retroactively, the retroactive abolishment of the disability pension and the right to give interim decisions. The survivors' pension was changed so that it is calculated directly from the pension that the deceased received at the time of his or her death, also when the deceased person's pension event has taken place before 2005.

A provision on the bankruptcy of a member organisation was added to the Local Government Pensions Act. Also the bankrupt's estate may, if it wishes to do so, continue as a member organisation of Keva.

Customer relations

The aim of developing customer relations is to create productive partnerships which benefit municipal employers, other public sector operators and Keva. Municipal employer clients were provided with multidisciplinary services. The management and control processes for customer relations were developed and the customer orientation of services was enhanced. The largest member organisations, i.e. regional centres and large joint municipal boards were assigned customer coordinators to coordinate operations. The State became a customer.

The customer satisfaction of municipal employers increased from earlier levels. 95% of respondents to the customer satisfaction survey gave Keva a rating of 8–10, on a scale of 4–10 (92% in 2008 and 88% in 2009).

Municipal leaders, financial executives and HR managers were provided with information particularly concerning Keva's Kaari services, the significance of continuing at work, pension contributions and the significance and practical aspects of corporatisation. The importance of group administration was emphasized.

During the period under review, Keva organised hundreds of events of which most involved training related to pension provision. Pension training was begun in state workplaces. Additionally, Keva was involved in the pension information events organised by The Finnish Pension Alliance TELA for persons born between 1951 and 1953.

Supporting continuing at work was a central theme of the training events. During the reporting year well-being at work and vocational rehabilitation coaching and workshops were organised. Topics concerning well-being at work included creating procedures for active support, strategic well-being at work coaching and presenting the results of occupational well-being surveys to municipal management groups as a tool for taking the required measures.

Video conferencing was taken into use at training events and other meetings. Altogether almost 20,000 people took part in events organised by Keva. Keva also took part in 15 events as an exhibitor.

The sixth Keva Day was held in spring. The event dealt with the economic aspects of the pension system.

Contribution income

At the end of 2011, there were about 509,000 people insured under the Local Government Pensions Act (KuEL), i.e. slightly more than at the end of the previous year. The total payroll for employees insured under the Act was EUR 15,376 million which was EUR 643 million (4.4 %) more than in 2010.

In 2011, local government contribution income totalled EUR 4,406 million (EUR 4,187 million), i.e. 28.65% of the payroll. Contribution income increased by EUR 219 million (5.2%) over the previous year. The local government contribution income is made up of four parts i.e. the employer's and employee's pay-based contributions as well as employer's contributions based on pension expenditure and early retirement pension expenditure.

Local government contribution rates 2002–2011

Year	Employer's contribution rate					Employee's pay-based contribution rate	Average total
	Pay-based contribution	Pension-expenditure-based contribution	Early-retirement-pension-based contribution	Additional employer contributions	Total		
2011	16.10	6.45	1.00		23.55	5.10 [1]	28.65
2010	15.60	6.66	1.29		23.55	4.87 [2]	28.42
2009	15.90	6.60	1.10		23.60	4.62 [2]	28.22
2008	16.00	6.62	1.08		23.70	4.42 [3]	28.12
2007	16.50	6.54	0.79		23.83	4.61 [4]	28.44
2006	17.10	6.11	0.50		23.71	4.60 [5]	28.31
2005	17.10	5.55		0.56	23.21	4.90 [6]	28.11
2004	17.45	4.98		0.64	23.07	4.60	27.67
2003	17.45	4.59		0.69	22.73	4.60	27.33
2002	17.65	4.17		0.70	22.52	4.40	26.92

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

EUR 3,260 million of pay-based contributions were collected, which is 8.1% more than in 2010. The employees' share of the contribution was EUR 785 million and the employers' share EUR 2,475 million. The pay-based contribution in 2011 was on average 21.2% of salaries, i.e. 0.73 percentage units more than in 2010. The contribution was divided so that 4.7% was paid by employees under the age of 53, 6.0% by employees 53 and over and 16.1% by employers.

In accordance with the decision of Keva's Council, EUR 992 million in pension-expenditure-based contributions were charged from member organisations, which was equivalent to 6.45% of the payroll, an increase of EUR 11 million over the previous year, i.e. 1.1%.

In accordance with the decision of the Council, EUR 153 million in early-retirement pension-expenditure-based contributions were charged which was 1.0% of the payroll.

Credit losses on local government contribution income have been extremely rare, but in 2010 one member organisation (Adulta Oy) filed for bankruptcy, as was established in the Report of the Board of Directors 2010. During 2011 Keva's receivables from the bankrupt's estate amounted to EUR 537,000. As great uncertainty is related to the receivables, the total amount was entered in the 2011 bookkeeping as contribution income credit losses. Any possible distribution from the bankrupt's estate will be entered as income once the matter has been resolved.

At the end of 2011, 581 member organisations had arranged for financial support through Keva. About EUR 4 million in financial support contributions were collected in 2011, i.e. around EUR 1 million less than in the previous year. Financial support is a benefit equivalent to group life insurance paid to the beneficiaries of a deceased local government officeholder or employee.

The Unemployment Insurance Fund contribution was EUR 135 million, equal to the amount received in 2010.

Pensions and vocational rehabilitation

The responsibility for the State's pension and rehabilitation matters was transferred from the State Treasury to Keva at the beginning of 2011. In 2011 benefit matters related to local government pensions and state pensions were still handled using different processing systems. Resulting from the different systems, the numbers of local government and state pension decisions are not entirely mutually comparable.

Resolved local government pension matters

Keva resolved a total of 57,605 benefit-related matters in 2011. Of these, 48,547 were actual pension-related matters and the rest were other pension matters and rehabilitation applications. The number of resolved pension matters decreased by 174 (-0.3%) over the previous year. Fewer old-age pension matters were resolved than in the previous year (-1.2%).

The most significant decreases took place in unemployment pension-related matters (-56.2%) and part-time pension matters (-30.7%). The number of resolved part-time pension matters decreased because the minimum age limit to receive part-time pension for persons born in 1953 or later is 60 years. The unemployment pension is being phased out, and people born in 1950 or later are no longer entitled to this pension.

The number of resolved pension matters increased for other pension matters (10.2%) and for rehabilitation decisions (11.6%). "Other pensions matters" includes, among others, rehabilitation allowance and financial support. The number of resolved disability pension and survivors' pension matters also increased slightly over the previous year.

The number of new resolved pension matters equalled 32,480 which is 3.9% less than a year earlier. A pension was granted on 29,241 applications. 19.8% of the disability pension applications were rejected; in 2010 the rejection rate was 17.4%.

Resolved local government pension matters by pension benefit 2011 and 2010

Pension benefit	Number of all pension matters		Change, %	of which new pension matters 2011
	2011	2010		
Old-age pension	20,089	20,327	-1.2	17,542
Full disability pension	15,235	15,036	1.3	7,302
Partial disability pension	6,256	5,938	5.4	2,751
Unemployment pension	255	582	-56.2	198
Part-time pension	2,532	3,652	-30.7	1,931
Survivors' pension	4,180	4,069	2.7	2,756
Other pension matters	4,978	4,518	10.2	
Rehabilitation decision	4,080	3,657	11.6	
Total	**57,605**	**57,779**	**-0.3**	**32,480**

Keva's service level target for 2011 was to present 92% of the resolved local government pension matters on time. According to the service level indicator, 93.4% of pension matters were resolved on time (92.9% in 2010).

Insured persons covered by 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 insured persons covered by the Act was relatively high at 45.3 years.

Insured local government employees by age and gender on 31 Dec. 2010

Age	Men	Women	Total
–19	1,021	2,506	3,527
20–24	5,167	15,218	20,385
25–29	9,052	30,923	39,975
30–34	11,568	39,645	51,213
35–39	12,534	42,943	55,477
40–44	13,413	47,268	60,681
45–49	15,646	56,054	71,700
50–54	16,945	61,796	78,741
55–59	16,980	57,017	73,997
60–64	11,900	33,899	45,799
65–	1,948	3,661	5,609
Total	**116,174**	**390,930**	**507,104**

The data in the table dates from 2010, because data for 2011 will not be available until in summer 2012.

Retirement on a local government pension

13,482 local government employees retired on local government pensions in 2011, which is 0.7% (94 persons) less than in 2010. This is mainly caused by the decrease in the number of unemployment pensions.

The number of persons retiring on old-age pensions (7,927 persons) continued to increase (1.4%) but more slowly. Also the number of persons retiring on partial disability pensions and those receiving cash rehabilitation benefits increased, whereas fewer persons retired on full disability pensions than in 2010 (-6.5%).

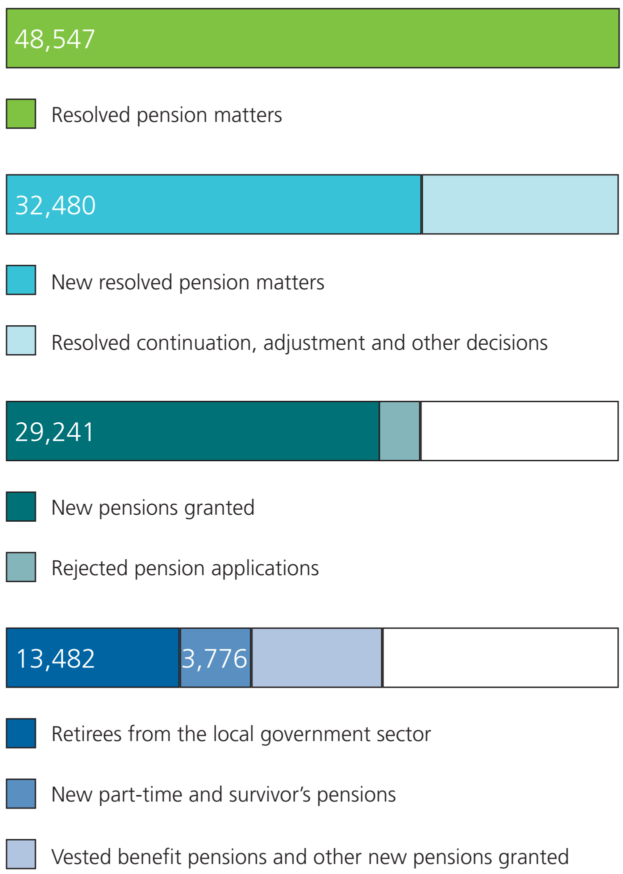
The proportion of people who retired on a partial disability pension (incl. partial cash rehabilitation benefit) continued to rise and was 38% (36%) of all those who retired on a disability pension. The annual number of persons retiring on partial disability pensions exceeded the 2,000 person mark for the first time.

The average age of those who retired was 59.8 years when in 2010 it was 59.7 years. The expected effective retirement age for a 25-year-old municipal employee was 60.5 years. Also in the entire employment pension sector, the average retirement age for a 25-year-old person was 60.5 years in 2011. The expected retirement age for a 50-year-old municipal employee was 62.8 years. 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 in precisely the same way as in the year under review.

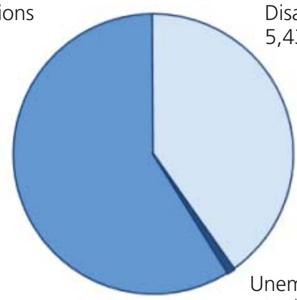
It is possible to retire flexibly on an old-age pension between the ages of 63 and 68 years. In the year under review, the proportion of people who retired after their personal retirement age was 37% of all the people who retired on old-age pensions, equalling 2,932 people. 1,155 people opted for early retirement, i.e. 15% of all the people who retired on an old-age pension.

Musculoskeletal and mental disorders were the most common reasons for disability in 2011, and accounted for 69% of the reasons for retiring on a disability pension. Disability pensions granted for an indefinite period are most often granted because of musculoskeletal disorders, while the rehabilitation benefit is mostly granted for mental disorders.

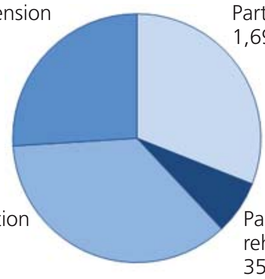
Resolved local government pension matters and those retired in 2011



Retirement on local government pension in 2011



Retirement on a local government disability pension in 2011



Those retired on local government pensions, average age and average pension by benefit in 2011

Pension benefit	Number of people	Average age	Average pension, euros/month
Old-age pension	7,927	63.7	1,773
Full disability pension	1,402	57.8	1,179
Full rehabilitation benefit	1,979	49.0	1,064
Partial disability pension (incl. partial cash rehabilitation benefit)	2,054	56.0	704
Unemployment pension	120	61.7	963
Total	**13,482**	**59.8**	**1,437**

Self-correction of 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 2011, Keva processed 1,106 appeals against its local government pension decisions (1,091 in 2010), of which 920 (920) were related to the assessment of working capacity. Keva upheld 10.3% (11.0%) of all appeals and 8.5% (9.3%) of appeals concerning the assessment of working capacity.

In 2011 Keva processed 279 (357 in 2010) of the appeals lodged with the Insurance Court concerning local government pension decisions of the Pension Appeal Board. Of the appeals, 245 (316) concerned assessments of working capacity and Keva rectified 4.1% (3.2%) of the assessments.

Resolved state pension matters

Due to the different processing systems, there is not equally comprehensive information to be had concerning state pensions as there is for local government pensions. The numbers for state benefits are also not directly comparable with the corresponding figures for local government benefits.

In 2011 altogether 19,903 pension-related matters were resolved concerning state benefits. In comparison to the previous year, the number of resolved pension matters rose by 119 (0.6%). The highest increase was seen in resolved old-age pension matters (8.1%) and survivors' pension matters (6.4%).

Fewer unemployment pension (-76.1%) and part-time pension matters (-15.8%) were resolved than in the previous year. Also fewer "other pension matters" were resolved compared to the previous year (-25.7%).

19.8% of the disability pension applications were rejected; in 2010 the rejection rate was 18.1%.

In 2011, Keva processed 290 appeals against its decisions pertaining to state pensions, of which 172 were related

Those retired on a local government disability pension according to disease category in 2011

Disease category	Percentage of total			**Total disability pensions**
	Full disability pension	Full rehabilitation benefit	Partial disability pensions	
Musculoskeletal and similar disorders	35.7	31.5	59.5	**43.2**
Mental disorders and similar	20.7	40.7	15.2	**25.9**
Tumours	10.3	7.7	2.6	**6.5**
Disorders of the nervous system	9.8	3.1	6.0	**6.0**
Cardiovascular disorders	8.1	4.2	6.0	**5.9**
Injuries, poisonings and the like	5.0	7.5	1.8	**4.7**
Other illnesses	10.3	5.2	8.8	**7.9**
Total	**100**	**100**	**100**	**100**

to the assessment of working capacity. Keva upheld 10.3% of all appeals and 6.4% of appeals concerning the assessment of working capacity.

In 2011 Keva processed 50 of the appeals lodged with the Insurance Court concerning state pension decisions of the Pension Appeal Board. Of the appeals, 37 concerned assessments of working capacity and Keva rectified 2.7% of the assessments.

Resolved state pension matters by pension benefit 2011 and 2010

Pension benefit	Number of all pension matters		Change, %
	2011	2010	
Old-age pension	8,728	8,076	8.1
Full disability pension	3,609	3,638	-0.8
Partial disability pension	639	636	0.5
Unemployment pension	54	226	-76.1
Part-time pension	1,898	2,253	-15.8
Survivors' pension	4,061	3,815	6.4
Other pension matters	437	588	-25.7
Rehabilitation decision	477	552	-13.6
Total	**19,903**	**19,784**	**0.6**

Pension processing times

The total processing times for disability pensions, part-time pensions and rehabilitation commitments for local government employees were shortened. Rehabilitation commitment decisions were made the quickest, and applicants received a decision on average in 13 days. Old-age pension decisions were made on average in 25 days. The processing time for disability pensions was the longest at 46 days.

The processing times for part-time pensions, unemployment pensions and rehabilitation commitments for state employees were shortened. Unemployment pension decisions were made the quickest, and applicants received a decision in an average of 23 days. Old-age pension decisions were made on average in 54 days. The processing time for disability pensions was the longest at 63 days, an increase over the previous year. This increase resulted from the changes made to the processing of the pensions to correspond with the local government pension handling process while the old State Treasury system was still in use. This system does not support Keva's pension processing and requires significant amounts of manual work.

In 2012 a new joint pension processing system will be implemented with an increased level of automation. The new system is expected to decrease pension processing times in the near future, especially for state pensions.

Online customer services

Keva's online services for municipal employees and employers were popular in 2011.

During the year, a total of about 124,200 people (101,500) logged in to use the pension calculator and register extract service for municipal employees. The most popular service was the old-age pension calculator, which was used by over 80,300 people in 2011. The part-time pension calculator was used by approximately 16,000 people. The pension register extract service was visited by some 71,200 people.

The use of the electronic application form available to ombudsmen was once again popular. 73.3% of those who retired on local government pensions applied for a pension electronically (73% in 2010). As regards part-time pensions, the proportion was even higher, with 83.2% (84%) of applications submitted through Keva's online service.

Online services were not yet available for customers covered by the State Employees' Pensions Act in 2011. Keva's new online service, which will be launched in autumn 2012, enables everyone working for the municipalities, State, Church and the Social Insurance Institution of Finland to calculate their pension estimates and examine their personal service and pension information.

Total processing time for pension applications 2011 and 2010
Local government, State and private pension institution

Pension benefit	Processing time, days					
	Local government pensions		State pensions		Private pension institutions	
	2011	2010	2011	2010	2011	2010
Old-age pension	25	25	54	54	49	49
Part-time pension	34	35	44	65	62	59
Disability pension	46	47	63	51	55	58
Unemployment pension	33	20	23	25	28	20
Survivors' pension	20	18	27	27	24	21
Rehabilitation commitment	13	14	29	33	40	43

Vocational rehabilitation

The number of new local government rehabilitation customers was 2,695 (2,340 in 2010). The number of new customers increased significantly, becoming the all-time record number of new customers per year. The average age of the customers was 47.4 years (0.1 years lower than in 2010). In line with previous years, the most common occupational groups requiring rehabilitation were enrolled nurses, practical nurses, medical nurses, cleaning staff, child minders and day-care assistants.

4,080 rehabilitation decisions were given to local government customers (3,657 in 2010), 1,926 of which concerned the right to vocational rehabilitation and 2,154 concerned the nature of the rehabilitation. The processing time for rehabilitation decisions was 13 days (14 days in 2010). The proportion of rejected applications was 18.5%, remaining the same as in the previous year.

In the case of 44% of the applicants, working capacity was reduced by musculoskeletal disorders. The second most common cause was mental disorders (24%). The vocational rehabilitation programme was completed by 994 customers, 78% of whom returned to work. The proportion of people who returned to work decreased by three percentage points on the previous year. The employment opportunities of partially disabled employees have become more challenging due to a shift in the professional structure resulting from the corporatisation and transforming of public services into public corporations in the municipal sector.

Vocational rehabilitation for state employees came under Keva's responsibility beginning on 1 January 2011. The number of state employees receiving vocational rehabilitation decreased compared to the previous year. The number of people applying for vocational rehabilitation was 253 when in 2010 362 people sent in applications.

477 decisions were made during the year concerning state employee customers. The average processing time for state employee rehabilitation decisions was 29 days. The processing time will most probably decrease as a result of the new processing system. The application processing was changed to correspond with the local government pension handling process in 2011 but it was still performed using the old system transferred from the State Treasury.

In the case of 45% of state applicants, working capacity was reduced by mental disorders and for 30% by musculoskeletal diseases. Among state employees who seek vocational rehabilitation, office secretary is the most common profession.

Pension expenditure

Pension expenditure under the Local Government Pensions Act in 2011 was EUR 3,541 million, which was EUR 220 million (6.6%) more than in the previous year. The number of pension recipients totalled 349,000 at the end of the year, i.e. just under 3% more than in 2010.

State pensions

EUR million	2011
Expenditure by pension benefit	
Old-age pension	2,997
Early old-age pension	113
Disability pension	176
Part-time pension	26
Unemployment pension	11
Survivors' pension	322
Rehabilitation allowance	2
Cash rehabilitation benefit	9
Total expenditure	**3,656**
Income	
Advance payments received	-3,720
Excessive advance payments returned	64
Total income	**-3,656**
Impact on Keva's result	**0**

Includes state pensions and pensions paid on behalf of other institutions.

Local government pension expenditure by pension benefit 2007–2011

EUR million	2011	2010	2009	2008	2007
Old-age pension	2,725	2,503	2,322	2,079	1,930
Early old-age pension	118	113	109	94	82
Disability pension	395	398	395	373	350
Individual early retirement pension	0	1	3	5	9
Unemployment pension	18	30	40	42	40
Survivors' pension	171	169	168	159	154
Part-time pension	68	63	61	59	57
Cash rehabilitation benefit	43	41	40	40	41
	3,538	**3,318**	**3,138**	**2,851**	**2,663**
Contributions payable to the State	3	3	3	2	2
Total	**3,541**	**3,321**	**3,141**	**2,853**	**2,665**

In 2011 Keva paid a total of EUR 3,656 million in state pensions which was a 3% increase on the previous year. The number of state pension recipient was around 275,000 at year end. The State funded its own pensions in full so that it 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 2011, Keva will return to the State a sum of EUR 63.9 million which was entered as an adjustment to the advance payments made by the State.

Support for continuing at work

Support for continuing at work is one of the central strategic objectives defined in Keva's strategy. The objective is to have as many municipal employees as possible work until their personal retirement age or beyond it, to decrease the number of commencing disability pensions and to enable as many people as possible to continue working despite a weakened capacity.

During the reporting year a new brand was designed and launched under which all of Keva's services related to continuing at work were assembled. The brand was named 'Kaari'.

Operations involved apprising various parties of costs related to disability. During the year a model related to calculating disability-related costs was developed as well as a related service which will be offered to the largest member organisations during 2012. Keva also took part in the thematically related Haku project, involving the development of key figures depicting the value of personnel.

Keva supports the well-being at work activities of its member organisations by assisting them in developing active support procedures. Active support helps to anticipate problems with working capacity and prepare solutions for them in advance. Over the course of the year Keva's service for developing active support was augmented principally through the North Karelia-based PoKA project. Theme forums were also implemented during the year.

Keva also supported its member organisations' well-being at work activities through strategic well-being at work coaching and a municipality-specific well-being at work service. Various workshops and seminars involving the theme of continuing at work were also organised.

In 2011 vocational rehabilitation was extended to cover state employee customers as well. Different sectors (State and municipalities) have different key operational models and capabilities for detecting rehabilitation requirements which was obvious in the timely application for vocational rehabilitation and thus returning to work. Changes pertaining to the entire public sector significantly affect vocational rehabilitation operations as the opportunities for a partially disabled person to return to work often grow slimmer as a result of the changes. Regardless of the challenges, the results for vocational rehabilitation have remained good.

A comprehensive research project was implemented concerning partial disability pensions. It involved studying the partial disability pension from the perspectives of the employee, supervisor and employer. The research results show that the partial disability pension is a good solution for supporting continuing at work but that employees and employers alike require more information concerning it.

New operational models were taken into use in occupational health services-related operations. The responsibilities and roles of the employer and occupational health services in supporting continuing at work were clarified. Challenges are created by the fact that a larger proportion of member organisations procure their occupational health services from private service providers. Keva strives to encourage occupational health services to take current reforms into account and function according to them.

Keva took a more active interest in national projects related to developing working life and lengthening careers. The objective is to actively impact key projects by promoting Keva's operational models and expertise as well as features particular to the public sector. Keva co-operated with KT Local Government Employers and the main employee organisations in the local government sector concerning continuing at work through the municipal working group on careers and the Centre For Occupational Safety's Local Public Sector Group. The joint local government operations of Keva, Local Government Employers and the Association of Finnish and Regional Authorities created a document concerning scenarios involving work in the local government sector by 2020.

The length of careers in the local government sector developed favourably. 48% of persons insured under the Local Government Pensions Act retiring from employment or service continued at work to a minimum of 63 years. The share of partial disability pensions among all disability pensions has strongly increased in the municipal sector. Whereas the share of partial disability pensions of all persons insured in the local government sector retiring from employment or service on disability pensions in 2000 was 18%, by 2011 the figure had risen to 39%.

Investment operations

The last few years have been very varied from the point of view of investment operations. Due to the financial crisis, 2008 was the poorest in the history of investment operations, while 2009 turned out to be very strong owing to a full turnaround in the markets in early spring. The financial year 2010 also proved to be excellent for investments. In 2011 the situation in the capital markets once again deteriorated.

2011 was, in many ways, an eventful year. The early part of the year saw a natural disaster hit Japan, resulting in a serious nuclear accident. Wide-spread violence and upheaval occurred throughout the year in North Africa and the Arabian Peninsula, with the eurozone and U.S. debt problems culminating repeatedly. Underlying concerns over the sustainability of global economic growth also played a role.

The survival of eurozone countries most deeply in debt and thus the survival of the entire eurozone were widely discussed in Europe and Finland. In addition to Greece, Ireland and Portugal, which had faced problems early on during the debt crisis, also Italy and Spain faced the onslaught of the markets. This increased the severity of the debt crisis significantly and made it more difficult to manage. The eurozone spent the entire year trying to allay the situation but a substantial number of decisions remain to be made in 2012.

Due to the above-described difficulties, return on investments was poor in 2011. Of all of the asset classes positive results were yielded by private equity investments (13.9%), real estate investments (5.9%) and fixed-income investments (3.5%). Negative returns were yielded by equity investments (listed equities -10.0%), commodity investments (-6.1%) and hedge funds (-0.5%). Keva's total return on investments after expenses was -1.7%.

At the beginning of 2011 the market value of Keva's investments totalled EUR 28,643 million. At the end of the year the market value of investments was EUR 29,044 million, i.e. 1.4% more than at the end of 2010.

Investments are divided into 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 type are taken into consideration in the figures that illustrate the risk-adjusted distribution of investment assets.

The return on market value after expenses was -1.7% in 2011. The capital-weighted cumulative real return on investments since inception (1988) until the end of 2011 was 3.2%. The non-capital-weighted average real return for a similar period was 5.1%.

In addition to the assets mentioned above, the invested capital at market value includes EUR 524.3 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 29,568 million.

Investments at market value 31 Dec. 2011

	EUR million	%
Fixed-income investments	13,320	46
Equity investments	11,230	39
Real estate investments	2,450	8
Private equity investments	1,420	5
Hedge funds	617	2
Investments in commodities	7	0
Total	**29,044**	**100**

Fixed-income investments

In 2011 the fixed-income markets were focused on the difficult situation in the eurozone. Especially the problems faced by the larger Euro-countries, Italy and Spain, troubled investors. On the other hand, the fixed-income investments with the lowest risks levels fared well in the market turmoil. Despite these market disturbances, the total return on fixed-income investments was satisfactory.

Invested capital by currency at market value 31 Dec. 2011

	EUR million	%
EUR	18,069	62.2
USD	9,050	31.2
GBP	758	2.6
JPY	469	1.6
CHF	270	0.9
SEK	131	0.5
Others	297	1.0
Total	**29,044**	**100**

Geographical distribution of investments at market value 31 Dec. 2010

	EUR million	%
Finland	5,567	19.2
Europe (excluding Finland)	10,502	36.1
North America	6,610	22.8
Emerging markets	3,815	13.1
Asia (excluding Japan)	1,389	4.8
Japan	813	2.8
Others	348	1.2
Total	**29,044**	**100**

The total market value of Keva's investments in bonds and fixed-income funds stood at EUR 11,345 million at the end of 2011. This was an increase of EUR 668 million on the previous year. A total of EUR 4,481 million i.e. 39.5% of the bond portfolio was allocated to external asset managers (including funds). The market-value return on bonds was 3.7%.

Loans (excluding those granted to Keva companies) totalled EUR 833 million at the end of 2011. This loan portfolio decreased by EUR 31 million during the year. These promissory note loans yielded an income of EUR 20 million in interest.

Money market investments totalled EUR 971 million at year-end.

A total of EUR 298 million in fixed-income returns was recorded for the fixed-income portfolios. The market value return was 3.5%.

Equity investments

The equity markets were extremely turbulent throughout 2011. In August the markets fell drastically and only partially recovered by the end of the year. European shares, especially in the banking sector, were depressed by concerns over the extent of the difficulties resulting from the debt crisis. The total return on equity investments was clearly negative.

The MSCI index (EUR), which illustrates the average trend of the world's equities, ended the year at -2.5%, compared to 20.5% in 2010. Measured by the Stoxx 600 index, European equities fell -8.6% (11.6% in 2010). The return on Asian equities (MSCI Asia-Pacific) was -12.3% (26.2%).

At the end of 2011, the total market value of Keva's listed equity investments was EUR 11,172 million. A total of EUR 8,815 million, i.e. 79% of the entire equity portfolio, was allocated to external asset managers (including funds).

Dividend income from equity investments totalled EUR 197 million. The market value return on listed equities investments was -10.0% (20.0%).

Real estate investments

Keva's real estate portfolio primarily comprises direct investments in domestic real estate and real estate shares. Since 2004, investments have also been made 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 nevertheless satisfactory. Positive results were also achieved in real estate funds.

The market value of real estate investments was EUR 2,283 million at the end of the year, EUR 599 million of which was accounted for by real estate funds. Furthermore, EUR 167 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 877 million, EUR 141 million of which were undrawn commitments.

At year-end, the rentable floor space of the 123 real estate companies owned by Keva totalled approximately 740,000 m^2, and the number of leases was 3,369. The net rental income was EUR 84 million, and the market-value return on direct real estate investments stood at 6.1%. The return on direct real estate investments calculated on the basis of the Finnish Institute for Real Estate Economics' KTI Index was 6.1%.

The market value return of all real estate investments was 5.9%.

Private equity, hedge fund and commodity investments

The situation in the private equity markets had markedly improved in 2010, and the investment and exit activity had clearly picked up since the darkest moments of the financial crisis. Over the course of 2011, the situation began to quieten down resulting from the decreased availability of, e.g. debt financing. The return on private equity investments, however, was excellent.

2011 was a difficult year for hedge funds. Most of the funds operating on the markets yielded negative returns. Also the total returns for Keva's hedge funds were slightly negative.

Commodity investments produced low returns. The commodities markets correlated strongly with the equity markets and did not offer investors the expected diversification benefits.

At the end of the year, the market value of Keva's private equity investments totalled EUR 1,419 million, and it had two direct investments in unlisted companies. The market value of hedge fund investments totalled EUR 617 million at year-end. The risk-adjusted allocation of commodity investments stood at EUR 235.3 million (market value of EUR 7.3 million). The amount of investment commitments made to private equity investments totalled EUR 3,175 million, EUR 1,171 million of which were undrawn commitments.

The market value return on private equity investments was 13.9%, on hedge fund investments -0.5%, and on commodity investments -6.1%.

Investment strategy

Keva's funding 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 investment activities for a given year are managed 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 measure taken as a result of the observations.

Subsidiary and associated companies

At the end of 2011, Keva owned, fully or partly, 123 Finnish real estate companies, which was an increase of three compared with the previous year. New ownerships were acquired by buying or establishing 4 companies and 1 company was sold. Keva owned 102 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 six 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 2011, the fund stood at EUR 29,926 million, which was EUR 486 million (2%) more than a year earlier.

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

Under the pension regulations, the value of benefits accrued in the local government pension system, but which have not yet been paid out, clearly exceeds the value of the pension liability fund. The present value of these accrued benefits was estimated to be EUR 90 billion at the end of 2010. A year earlier this present value was estimated to be EUR 89 billion, i.e. the estimate has been adjusted slightly higher. The value increased by EUR 6 billion to EUR 96 billion in 2011.

As the value of the pension liability fund in 2011 increased clearly slower than the present value of benefits, the present value of unfunded benefits increased by approximately EUR 5.5 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 2011 to cover the execution of the state's pension provision, which was reflected in the increase in the gross operating costs. The operating costs before payments received (gross operating costs) totalled EUR 82.4 million in 2011, which was EUR 9.4 million (about 13%) more than in 2010. At the same time the payments received mainly from the State and Evangelical Lutheran Church increased clearly, so net operating costs, including depreciation and payments received, equalled EUR 62 million, which is EUR 9.2 million (some 13%) less than in the previous year. Keva received reimbursement for the operating costs in the sum of EUR 23.5 million (EUR 4.3 million in 2010) of which some EUR 21 million were paid by the State and just over EUR 1.5 million by the Evangelical-Lutheran Church.

The single largest gross operating cost item was personnel costs, at EUR 35.4 million. Personnel costs increased by EUR 7.3 million (26%) over the previous year. As a result of the execution of the State's pension provision, 135 persons transferred from the service of the State Treasury to Keva at the beginning of 2011. IT costs amounted to EUR 26.7 million, EUR 0.9 million (some 3%) more than in the previous year. Outsourced services totalled EUR 14.6 million (EUR 0.1 million or around 1% less than in 2010). The main items under outsourced services were asset management, custodianship and accounting fees related to investments. Other operating costs stood at EUR 5.7 million, which was EUR 1.4 million more than in the previous year.

When examined by function, the gross costs for pensions operations stood at EUR 47.9 million, which was 32% more than in 2010. When the received payments are taken into account, the costs for pension operations decreased by 10.5%. The costs for investment operations stood at EUR 20.5 million, 3.6% more than in 2010. No payments received were allocated to investment operations. Gross operating costs for administration were EUR 14.1 million, 17% less than a year earlier, and taking into account payments received, operating costs decreased by around 36%.

Investments in machinery, equipment, and computer software totalled EUR 15.1 million, which was EUR 5.5 million more than in the previous year. Planned depreciation for 2011 amounted to EUR 3.1 million, which was EUR 0.6 million, or 22% more than in 2010.

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 year under review was the third year for the current Council.

The Council was chaired by Olavi Ruotsalainen, Mayor of Suonenjoki, and Jorma Turunen, municipal manager of Kesälahti was Deputy Chairman.

The Council convened three times during the financial year.

The Council elected a new Board for the two-year 2011–2012 term in its meeting in December 2010. The composition of the Board of Directors remained unchanged. The Board was chaired by Member of Parliament, lawyer Sampsa Kataja, and Tapani Hellstén, Mayor of the city of Hämeenlinna, served as Vice Chairman. Other members were Mauri Gardin, Mayor of the City of Rovaniemi; Risto Kangas, Director of Negotiations at the Negotiation Organisation for Public Sector Professionals; Paula Kokkonen, Deputy Mayor of Helsinki; Varpu-Leena Malmgren, special education teacher; Sallamaari Repo, Managing Director of Suomen Lyyra; Tuire Santamäki-Vuori, President of the Trade Union for the Public and Welfare Sectors JHL; and Harri Virta, Managing Director of Seure Henkilöstöpalvelut. Santamäki-Vuori requested that she be relieved of her duties on the Board starting on 1 September after she was elected State Secretary to the Minister of Finance. The Council elected Pirjo Mäkinen, CEO of the Trade Union for the Public and Welfare Sectors JHL, to replace Tuire Santamäki-Vuori for the remaining term of office on 24 September.

Of the Board members, Kangas and Santamäki-Vuori, and, as her successor, Mäkinen, are members proposed by the contracting organisations in the local government sector, as required by law.

The Board convened 11 times during the period under review.

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 contracting 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, former Secretary of State, current 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 contracting organisations in the local government sector. Pekka Palola was the Chairman of the Working Life Development Working Group.

Merja Ailus functioned as Keva's CEO and Managing Director. Her first Deputy CEO was Pension Director Eija Lehto-Kannisto. Pekka Alanen was second Deputy CEO, in charge of customer strategy implementation.

Personnel

Keva employed 543 people at year-end 2011 (411 in 2010). Of these, 524 (394) were permanent employees and 19 (17) were fixed-term employees. Women accounted for 74.2% (71.8%) of the employees. The average age of permanent employees was 48.7 (47.3) at year-end. The average age of women was 49.5 and of men 46.3.

The increase in the number of personnel at Keva resulted from the transfer of 135 employees from the State Treasury's pension function at the beginning of 2011. Simultaneously a new organisational structure was introduced at Keva, a course of action which had been decided on earlier during the previous year. Keva employees apparently quickly felt at ease in the new organisation and with their new supervisors and co-workers judging from the positive job satisfaction results from the personnel survey conducted in spring 2011.

Investments in personnel training in 2011 totalled approximately EUR 443,000 (EUR 336,000). In proportion with the number of personnel, the training costs remained on the same level as during the previous year, i.e. around EUR 816/person. The majority of the training events were used to strengthen professional and Keva-related expertise. They included, for example, training in IT systems such as Elmo (pension processing system), document management and the intranet.

IT Management

In 2011 the most significant efforts involved developing the new pensions processing system (Kasper) and preparing for the roll out of the system. Keva's operational capacity was also secured by maintaining current systems and their production environments.

The Kasper project consists of two parts: The development of the processing system (Elmo) used by pension adjudicators as Keva's internal project, and the development of a calculation service system together with Ilmarinen Mutual Pension Insurance Company and Varma Mutual Pension Insurance Company. The total costs for the project between 2006 and 2011 have been some EUR 37.9 million.

The outcome of the project will be a new pension processing system which was originally meant to be implemented beginning in early January 2012. In November 2011, it was decided that the roll out of Kasper would be postponed by two months due to scheduling difficulties. The decision to postpone the launch of the new system was preceded by the detection of flaws in the system during a test run as well as by a decision made at Arek to delay the implementation of Arek's interface modifications until the beginning of March 2012, in accordance with Keva's requirements. The additional two months would guarantee Keva sufficient operating ability right from the start of the implementation of the interface modifications.

In 2011 a new version of WallStreet Suite, the central IT system for investments operations, was implemented and an acquisition of the new loan system was started. Additionally, the development of the new contribution system was continued, mostly by Keva itself. Keva's LAN switches and the entire wireless local area network were upgraded in 2011.

The operating costs of IT management in 2011 were EUR 26.7 million, and acquisitions totalling EUR 14.5 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. Risk management and internal auditing are key fundamentals of internal control.

General development of risk management

In 2011 risk management focused on a controlled and timely transfer of the tasks relating to the execution of the State's pension provision and of state personnel to Keva.

In order to further enhance data security, data security principles and processes were developed. A new data security learning environment was launched in order to enhance personnel's data security know-how. Additionally, data security audits were performed.

Improvement areas in the Investment Operation function's risk management included risk reporting, limit monitoring, investment processes and the related documentation.

Main risks

The most significant strategic risk in 2011 was defined to be the falling of the long-term return on investments below the target level set in the investments strategy, which is determined based on the prevailing financing situation in the pension insurance system. The market environment continued to be challenging in terms of investments. The capital-weighted long-term real return on investments between 1988 and 2011 was 3.2%.

Another major long-term risk relates to a decrease in the number of employees under the Local Government Pensions Act and the decline of the contribution income as a result. Contribution income may weaken 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.

The most significant IT system project over the past few years has been the renewal of the new pension processing and calculation system. The project involves extensive co-operation between pension institutions and with suppliers. Since the reforms will be extensive and highly important, the risks involved are considered strategic.

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 903 million at the end of 2011, which means that with a 97.5% probability, this is the biggest possible loss on the entire investment portfolio within the time span of one month. The risk has increased slightly as the VaR figure at the end of the previous year was EUR 774 million. The increase in the figure results from the increased turbulence in the markets in the second half of 2011.

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 more detailed 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 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

Over the coming years the local government pension scheme, along with other pension systems, will face several major global challenges concerning the sufficiency and sustainability of the pension cover. Longer life expectancy, changes in working life and governments' growing debts will force the different parties to critically review the dimensioning and incentiveness of the pension system. If careers are not lengthened considerably, we will face an inevitable decrease in the pension level and related problems.

Pension cover and its financing will be even more closely linked to the management of public finances and the trend in industrialised countries' debt levels. The EU has acknowledged this, and the White Paper published in February 2012 as a follow-up to the Green Paper included concrete action proposals for the member countries to adopt in order to secure future pensions. For Finland the most concrete proposals involve linking the statutory pension age with the development of life expectancy and increasing the actual retirement age by decreasing early retirement. The EU's influence on Finland's pension policy is likely to grow in the future.

From the point of view of a pension investor, the outlook for the next few years is once again challenging. Especially the public finances of many industrialised countries continue to be burdened by debt problems. Without a plausible solution to the debt problem, including the implementation of drastic but necessary economic cuts, the investment markets will not stabilise in the coming years. The situation for investors will be slightly alleviated by the emerging markets, which are likely to provide reasonable investment returns.

The local government sector will face significant changes in the near future which may affect the local government pension system's funding base. The government's objectives for implementing the reform in local government structures will probably be postponed until after the municipal elections, however, when implemented, they will cause, for example, a significant reduction in the number of municipalities. We will probably see various solutions applied to service provision, and debate over which solution is the best will remain lively. The private sector will undoubtedly continue to expand strongly into the extensive municipal services market, and this trend may even intensify. On the other hand, the increase in the number of crisis municipalities may lead to an increase in the government's role in the local government sector. The division of tasks between local governments and the Government may also be reviewed, which could have major effects on the financing of local government pensions.

Keva's operations in 2012 will be characterised above all by the gradual implementation of the new pension processing system, through which the entire public sector pension provision will utilise a single joint system. This will require Keva employees to adopt new working models. Along with these vitally important internal matters, our focus will remain on prolonging careers. Actions to promote coping at work and remaining in working life will be continued, and Keva will actively participate in the pension system's general development efforts. In addition, Keva will promote the development of working life through various projects.

Administration in 2011

Council in 2009–2012

Regular members	Personal deputies	Regular members	Personal deputies
Chairman, Mr Olavi Ruotsalainen Suonenjoki	Mr Jouko Sillanpää Helsinki	Mr Anssi Kujala Espoo	Ms Hilkka Ruusuvirta Nurmijärvi
Deputy Chairman, Mr Jorma Turunen Kesälahti	Mr Hannu Laitinen Jyväskylä	Mr Petri Lindroos Negotiation Organization for Public Sector Professionals	Mr Simo Kekki Negotiation Organization for Public Sector Professionals
Ms Miia Antin Hattula	Mr Timo Rajala Toijala	Ms Marja Lounasmaa Union for the Municipal Sector	Ms Päivi Ahonen Union for the Municipal Sector
Ms Marjo Anttoora Sastamala until August 31, 2011	Mr Asmo Maanselkä Jyväskylä	Mr Jani Moliis Helsinki	Mr Markus Rimón Hämeenlinna
Ms Diana Bergroth-Lampinen Pori	Ms Jaana Ritamäki Paimio	Ms Heidi Nieminen Jyväskylä	Mr Eero Mattila Kouvola
Mr Risto Heikkilä Kouvola	Mr Tommi Lepojärvi Keminmaa	Mr Juhani Nummentalo Salo	Mr Martti Turunen Kuusamo
Ms Hannamari Heinonen Siilinjärvi	Mr Juhani Juuruspolvi Rovaniemi	Mr Lauri Nykänen Tornio	Ms Virpi Takalo-Eskola Oulainen
Mr Keijo Houhala Technics and Health KTN ry	Ms Leila Lehtomäki Technics and Health KTN ry	Ms Tuula Partanen Lappeenranta	Ms Kirsi Torikka Savonlinna
Ms Maarit Immonen Kajaani	Ms Pirkko Vuolle Karhe	Ms Tiina Rajala Kempele	Ms Maija Kyttä Turku
Ms Anita Ismark Korsnäs	Mr Tom Simola Kimitoöns kommun	Mr Aki Räisänen Kajaani	Ms Merja Leskinen Rääkkylä
Ms Riitta Jakara Orivesi	Mr Arto Seppälä Mikkeli	Mr Jorma Räsänen Kaavi	Ms Paula Sihto Ilmajoki
Mr Harri Jokiranta Seinäjoki	Ms Sinikka Hälli Joensuu	Ms Pia Sääski Askola	Mr Jorma Liukkonen Kouvola
Ms Camilla Juntunen Laihia	Ms Hanna Laine Helsinki	Mr Hannu Tuittu Kotka	Mr Ismo Pöllänen Imatra
Mr Markku Koski Sievi	Mr Jorma Pohjus Köyliö	Ms Henna Tuomikoski Negotiating Organization for Salaried Employees TNJ	Ms Anne Sainila-Vaarno Negotiating Organization for Salaried Employees TNJ
Ms Eija Kotkavirta Kerava	Ms Mia Fagerlund Pori	Mr Raimo Vistbacka Alajärvi	Ms Pirkko Ruohonen-Lerner Porvoo

Board in 2011–2012

Regular members	Personal deputies
Chairman, Mr Sampsa Kataja	Ms Kaarina Wilskman
Deputy Chairman, Mr Tapani Hellstén	Ms Sisko Seppä
Mr Mauri Gardin	Ms Maija-Liisa Lindqvist
Mr Risto Kangas	Mr Jukka Kauppala
Ms Paula Kokkonen	Mr Juha-Veikko Kurki
Ms Varpu-Leena Malmgren	Mr Jorma Räsänen
Ms Sallamaari Repo	Mr Hannu Kokko
Ms Tuire Santamäki-Vuori until August 31, 2011	Mr Keijo Tarnanen
Ms Pirjo Mäkinen from September 24, 2011	
Mr Harri Virta	Ms Oili Heino

Investment Advisory Committee in 2011–2012

Members	Personal deputies
Chairman, Mr Seppo Juntti	Ms Jonna Sillman-Sola
Deputy Chairman, Ms Terttu Savolainen	Ms Sinikka Malin
Ms Tuulia Hakola-Uusitalo	Mr Tuomo Mäki
Mr Juha Majanen	Mr Jouko Narikka
Ms Minna Martikainen	Mr Matti Keloharju
Mr Risto Paaermaa	Mr Kari Parkkonen
Mr Mika Periaho	Mr Jarkko Eloranta
Ms Anne Sainila-Vaarno	Mr Rauno Segersvärd
Mr Erik Strömberg	Mr Rainer Alanen
Mr Veli Vanhanen	Ms Sisko Seppä

Workplace Development Committee in 2011

Members

Chairman,
Mr Pekka Palola

Mr Risto Kangas

Mr Jukka Kauppala

Ms Riitta Keskitalo

Ms Eija Lehto-Kannisto

Ms Marja Lounasmaa

Mr Pertti Männistö

Ms Leila Pekkanen

Mr Pekka Poikolainen

Mr Tapio Ropponen

Ms Anne Sainila-Vaarno

Mr Jari Vettenranta

Secretary,
Mr Pauli Forma

Organisation 31 December 2011

CEO, Managing Director
Ms Merja Ailus

Internal Audit and Risk Management
Head of Risk Management
Ms Päivi Alanko

Pension Decisions

Deputy CEO
Ms Eija Lehto-Kannisto

Pensions
Pensions Director
Ms Eija Korhonen

Customer Service
Director of Customer Service
Ms Jaana Kekäläinen

Disability Pensions
Pensions Director
Ms Helena Pankakoski

Insurance Medicine and Rehabilitation
Director of Medical Affairs
Mr Tapio Ropponen

Legal Affairs
Director of Legal Affairs
Ms Anne Perälehto-Virkkala

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

Employer Services and Communications

Deputy CEO
Mr Pekka Alanen

Employer Services
Employer Service Director
Ms Päivi von Plato

Communications
Communications Director
Mr Tero Manninen

Financial Administration

CFO
Mr Tom Kåla

Pension Payments Unit
Director
Ms Anneli Kajas-Pätäri

Register and Contribution Unit
Director
Mr Jarmo Helminen

Investments

CIO
Mr Ari Huotari

IT Management

Information Technology Director
Mr Anssi Raitanen

Administration

Administrative Director
Mr Tapani Salmi

Personnel Administration

Director of Personnel Administration
Mr Juha Poikajärvi

Long-term Financial Planning and

Executive Director

Development of Pension Security

Executive Director
Mr Pertti Männistö

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

www.keva.fi