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Keva's financial statement bulletin 2018: Shorter old-age pension processing times, rise in disability pension applications

Keva's pension decision operations last year were marked by a strong rise in the number of disability pension applications. Pension processing times remain among the best in the industry. The investments of Keva, which is responsible for the funding of local government pensions and the investment of pension assets, closed the year at -3%. At year-end 2018, the market value of Keva's investments was EUR 50.1 billion (2017: EUR 51.9 billion).

According to Keva CEO **Timo Kietäväinen**, clear progress was made in the pension insurer's operations during the year.

"Processing of all pension benefits was faster than average in the earnings-related pension sector," he says. "Old-age pensions were processed in an average of 23 days. Besides this, the processing time of old-age pensions and partial early old-age pensions was 3-4 days shorter than in 2017," he comments.

Two thirds of old-age pension applications made online

All in all, Keva made 70,259 pension and benefit decisions in 2018. Online applications rose to account for 41% (2017: 36%) of applications received. Last year, 67% of old-age pension applications and 19% of disability pension applications were made online.

Keva made 9.3% fewer old-age pension decisions than during the previous year. This was due to the 2017 pension reform and ensuing changes to the system. The popularity of partial early old-age pensions declined and more than 12% fewer decisions were made than in 2017. Another retirement option, years-of-service pension, ushered in by the 2017 pension reform has still failed to gain traction and last year Keva issued just nine years-of-service pension decisions.

There was a marked rise in the numbers of disability pension and rehabilitation decisions last year. Disability pension applications increased most in the over 60 years and under 45 years age groups. The number of disability pension decisions (including partial disability pension decisions) grew by 9% and rehabilitation decisions by 11.6%. The processing times for these are still notably shorter than the average in the earnings-related pension sector.

Last year Keva issued 5,202 decisions, just under 8% more than in the previous year, on the right to vocational rehabilitation. After rehabilitation, around 78% returned to working life or were available on the labour market.

Turn in investment returns at the end of the year

Keva's long-term return on investments has been excellent. The cumulative capital-weighted real return on investments since funding started in 1988 to

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year-end 2018 was 3.8% a year. The real average return, excluding capital weighting, over the same period was 5.1%. The Finnish pension sector normally calculates long-term returns without capital weighting. The five-year real return without capital weighting has been 4.4% (nominal return 5.0%) and the ten-year return 6.1% (nominal return 7.4%).

After costs, the total return on Keva's investments at market value was -3% in 2018.

"The last quarter of 2018 saw our investment returns retreat into negative territory," notes CEO Timo Kietäväinen.

"The entire investment year was marked by restlessness and nor can the market events at the end of the year be called rational," explains Chief Investment Officer **Ari Huotari**. "Whereas the markets have begun on a positive note in 2019, the underlying concerns have not in reality disappeared. I think we'll still see quite considerable market fluctuations also during the current year," he adds.

Regarding asset classes, the top performers were private equity investments (16.5%), unlisted equities (13.5%) and real estate investments (7.0%). Also hedge funds generated a positive return (0.3%). Fixed income investments (-1.6%) and listed equities (-10.4%) took returns into negative territory.

The market value of Keva's investments at year-end 2018 totalled EUR 50.1 billion. Fixed income investments (including the impact of derivatives) accounted for 42.1%, listed equities for 34.4%, private equity investments (including unlisted equities) for 9.3%, hedge fund investments for 7.6% and real estate for 6.6% of the market value.

Increase in number of persons insured and sum of wages and salaries in local government sector

At year-end 2018, around 535,000 (2017: 528,000) people were insured under Keva's member organisations' pension system. The sum of wages and salaries was EUR 17.4 billion (2017: EUR 16.8 billion). Better than forecast contribution income in the local government sector meant that pension contributions were just EUR 310 million smaller than pensions paid out. After Unemployment Insurance Fund contributions and other items, net income from financial operations was EUR 178 million negative (2017: -EUR 37 million). Net income from financial operations will also be negative in coming years as the fund is used to balance pension expenditure.

Contribution income in the local government sector in 2018 was up 2.6% compared to 2017 and amounted to EUR 4.92 billion (2017: EUR 4.79 billion). Keva paid pensions totalling EUR 5.2 billion. The number of people insured in local government rose by around 7,000. This was the second year in a row that the number had risen.

At year-end 2018, around 134,000 people were insured under State pension cover. During the year, Keva paid out State pensions amounting to EUR 4.68 billion, up 1.7% compared to the previous year.

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At year-end 2018, around 17,500 people were insured under the Church pension cover. Evangelical Lutheran Church pension expenditure amounted to around EUR 204 million.

Keva paid pensions totalling EUR 102 million to the Social Insurance Institution of Finland's (Kela) employees.

Board of Directors adopted the strategy

In its meeting of 7 March, Keva's Board of Directors adopted the new strategy for 2019-2025. The strategic focus areas are strengthening efficiency, developing customer relationships, utilising digitalisation and preparations for changes in the earnings-related pension sector.

Keva's key figures

	2018	2017	2016	2015	2014
Sum of wages and salaries of Keva's member organisations, €m	17 410	16 844	16 888	16 820	16 670
Share of contribution of Keva's member organisations, €m	4 920	4 793	4 966	5 013	4 971
Number of people insured in Keva's member organisations, 31 Dec.	535 000	528 000	519 000	522 000	523 000
No. of pension recipients in Keva's member organisations, 31 Dec.	406 286	398 000	387 000	378 000	371 000
Amount of pensions paid out in Keva's member organisations, €m	5 230	5 005	4 754	4 559	4 361
Fair value of investments, 31 Dec., €m	50 129	51 871	48 524	44 214	41 548
Return on investments at fair value	-3.0%	7.7%	7.4%	4.8%	8.7%
Annual real return on investments since funding at start of 1988 (capital weighted)	3.8%	4.3%	4.2%	4.0%	4.0%
Annual real return on investments since funding at start of 1988 (not capital weighted)	5.1%	5.5%	5.4%	5.3%	5.4%
Operating costs, €m	74.9	76.1	73.7	81.5	94.2
Employees, permanent, 31 Dec.	515	519	520	530	534
No. of State pension recipients, 31 Dec.	251 505	256 000	259 000	263 000	266 000
Amount of State pensions paid out, €m *)	4 675	4 597	4 502	4 440	4 352
No. of Evl. Church pension recipients, 31. Dec.	19 250	19 000	18 700	18 400	18 200
Amount of Evl. Church pensions paid out, €m *)	204	196	188	180	176
No. of Kela pension recipients, 31 Dec.	5 945	6 000	5 900	5 900	5 900
Amount of Kela employee pensions paid out, €m *)	102	99	96	93	91

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



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Keva's financial, annual and interim reports are published at www.keva.fi. The Report of the Board of Directors and the financial statements will be posted on our website on 19 March 2019 after consideration and adoption by Keva's Council.

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