

27 February 2014

Keva's financial statement bulletin 2013:

## Good return on Keva's investments

Keva, which handles funding for local government pensions and pension fund investments, recorded a 7.5 per cent return on investments in 2013.

The pension liability fund amounted to EUR 38.2 billion at the end of the year (EUR 34.7 billion in 2012). EUR 2.6 billion of the growth in the fund was accounted for by investment activities and EUR 0.8 billion by funded contribution income. Contribution income under the local government pensions system amounted to EUR 4.9 billion and pension expenditure to EUR 4.1 billion.

At the start of 2013, Keva also began collecting state pension contributions. Contribution income under the state pension system amounted to EUR 1.7 billion. State pension contributions do not have a material impact on Keva's financial statement, as the contributions are transferred to the State Pension Fund.

According to Keva's Acting CEO, Pekka Alanen, Keva's investments performed well in light of the circumstances.

"Fixed-income markets, in particular, faced difficult times, and interest income remained low. The relatively positive news from the U.S., and to some extent from the euro zone, brightened the outlook for the equity markets in the global economy," says Alanen.

"Pension processing times were longer than normal in 2013, as a result of the introduction of the new pension-processing system. In the course of this year, the processing times will be closer to the very good level Keva has previously achieved."

Alanen also states that the outlook for the municipal economy became considerably bleaker in 2013: "As a consequence of the savings measures targeted at local government employees, growth in the national 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."

### **Investments were profitable**

In 2013, Keva's total investment return at market value after expenses was 7.5 per cent (12.9 per cent in 2012). 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 per cent. The Finnish pension sector normally uses the non-capital-weighted return for long-term returns.

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The five-year real return without capital weighting has been 7.8 per cent, and the ten-year real return has been 4.1 per cent.

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 commodities was negative (-3.6 per cent).

At the end of 2013, the market value of Keva's investment assets stood at EUR 37.8 billion. The market value of fixed income investments was EUR 16.9 billion (44.7 per cent of investments). Equity and private equity investments amounted to EUR 16.5 billion (43.7 per cent), real estate investments to EUR 2.8 billion (7.3 per cent) and other investments to EUR 1.6 billion (4.3 per cent of investments).

### **Further growth in local government 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 as at the end of the previous year. The local government payroll totalled EUR 16.5 billion, which is 2.5 per cent more than in 2012.

Local government contribution income amounted to approximately EUR 4.9 billion in 2013 (EUR 4.7 billion in 2012), representing an increase of 4.1 per cent from the previous year. Local government contribution income is made up of the employer's and employee's pay-based contributions as well as on the employer's contributions based on pension expenditure and early retirement pension expenditure.

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 101 billion at the end of 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.

### **State pensions amounted to EUR 4 billion**

At the end of the year, 153,000 people were insured under the State Employees' Pensions Act (VaEL). Keva paid out EUR 4.2 billion in state pensions during the year. The comparable sum grew four per cent from the previous year.

Those insured under the Evangelical-Lutheran Church Pensions Act (KiEL) amounted to more than 20,000 at the end of 2013. Pension expenditure of the Evangelical-Lutheran Church amounted to EUR 166 million. Staff pension expenditure for employees of the Social Insurance Institution Kela amounted to EUR 86 million.

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Each pension system is responsible for its own pension financing and for the investment of its funds. Keva is responsible for the funding of local government pensions and for investing pension assets, as well as for executing earnings-related pension matters within the entire public sector.

**Keva's key figures for 2013**

	2013	2012	2011	2010	2009
Number of local government pension recipients (31 Dec.)	367,000	354,000	349,000	339,900	331,010
Local government pensions paid (EUR million)	4,117	3,826	3,541	3,321	3,141
Number of state pension recipients (31 Dec.)	274,000	272,000	275,000		
State pensions paid (EUR million)	4,226	3,834	3,656		
Number of Ev. Luth. Church pension recipients (31 Dec.)	18,100	17,300			
Ev. Luth. Church pensions paid (EUR million)	166	170			
Number of Social Ins. Institution pension recipients (31 Dec.)	5,900	5,800			
Social Insurance Institution pensions paid (EUR million)	86	82			
Local government payroll (EUR million)	16,528	16,121	15,376	14,733	14,110
Local government contribution income (EUR million)	4,890	4,696	4,406	4,187	3,982
Number of insured local government employees (31 Dec.)	521,000	521,000	515,000	507,000	497,000
Operating costs (EUR million)	94.6	89.8	82.4	73	63
Personnel (permanent) on 31 Dec.	537	519	524	394	396
Investment assets at market value on 31 Dec. (EUR million)	37,819	34,359	29,568	28,778	24,768
Return on investments at market value	7.5%	12.9%	-1.7%	12.3%	18.9%
Annual capital-weighted real return on investments since inception (from 1988)	3.8%	3.7%	3.2%	3.9%	3.3%
Annual non-capital-weighted real return on investments since inception (from 1988)	5.3%	5.3%	5.1%	5.5%	5.4%

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Since the beginning of 2011, Keva has been statutorily in charge of implementing the state pension system for employee customers and, since the beginning of 2012, for the implementation of the Evangelical Lutheran Church's and Social Insurance Institution of Finland's pension system.

Since the start of 2013, Keva has handled the statutory tasks related to the state pension insurance matters of state employers and the contract-based collection of the Evangelical Lutheran Church's pension contributions.

Keva does not publish a printed annual report. Our financial statements and annual reports are published on our website at [www.keva.fi](http://www.keva.fi). The Report of the Board of Directors and Financial Statements will be available on our website in Finnish as of 13 March 2014, after being reviewed and approved by Keva's Council.

The interim report for the first quarter of 2014 will be published during the week of April 28th.

**For further information, please contact:**

Pekka Alanen, Acting CEO and Managing Director  
tel. +358 20 614 2349 or +358 500 206 052

Ari Huotari, CIO, tel. +358 20 614 2205 or +358 400 451 099

Tom Kåla, CFO, tel. +358 20 614 2211 or +358 40 772 7832