Keva’s interim report for 1 January to 30 September 2022: 2022 is a tough year in the economy and on capital markets

Keva, which is responsible for the funding of local government pensions and the investment of pension funds, reported a return of -6.4% or -EUR 4.3 billion on investments for the first nine months of 2022. Keva’s investments had a market value of EUR 62.2 billion, compared to EUR 64.8 billion a year earlier.

By the end of September, contribution income had amounted to EUR 4.4 billion and EUR 4.6 billion had been paid out in local government pensions. Approximately 565,000 employees had earnings-related pension insurance at the end of September.

Keva CEO **Jaakko Kiander** says that increased uncertainty and higher interest rates had a negative impact on the value of equities and fixed income investments alike during Q3.

“The optimism built up during the summer evaporated during September. This was also reflected in Keva’s investment performance, which was way into negative territory. On the other hand, Keva’s long-term financing outlook remained stable,” Kiander says.

Keva’s investment operations generated a market value return of -6.4% for the first nine months of 2022. The return was 10.9% on hedge fund investments, 8.1% on private equity investments (including unlisted equities), 5.7% on real estate investments (including real estate funds), -10.2% on fixed income investments and -14.0% on listed equities.

Keva’s long-term return on investments is still at a good level. The cumulative, capital-weighted real return on investments since funding began in 1988 to the end of September 2022 was 3.7% a year. The average real return, excluding capital weighting, over the same period was 5.0%. The real return, without capital weighting, over the past five years has been 2.3% and the ten-year real return 4.4%.

Fixed income investments (including the impact of derivatives) accounted for 31.6% of Keva’s entire investment portfolio, and listed equities and equity funds accounted for 30.0%. Of the smaller asset classes, private equity investments accounted for 19.5%, hedge funds for 7.8% and real estate investments for 7.6% of the portfolio.

According to Keva CIO **Ari Huotari**, brief summer expectations of the leniency of central banks and their interest rate hikes ultimately evaporated at speed.

”It now looks very much like the central banks want to demonstrate their independence on the one hand and on the other their reluctance to be always ready to rescue the capital markets when the going gets tough. The capital markets now have to learn a new set up bearing the future in mind," Huotari says.

State, Church, Social Insurance Institution of Finland and Bank of Finland pensions

Keva is the largest earnings-related pension provider in Finland and is responsible for instituting pension cover in the public sector. During the first nine months of 2022, EUR 3.7 billion in State pensions, EUR 175 million in Evangelical Lutheran Church pensions, EUR 85 million in Social Insurance Institution of Finland (Kela) employee pensions and EUR 22 million in Bank of Finland pensions were paid out during the first nine months of 2022. The State, Evangelical Lutheran Church, Kela and the Bank of Finland pay their own pension expenditure and share of operating costs to Keva.

High earnings-related pension index increased numbers of pension applications

On 20 October, the Ministry of Social Affairs and Health confirmed the earnings-related pension index for 2023 at 6.8%, the highest figure for decades. The high index and ensuing publicity has led employees who have reached old-age retirement age to apply for a pension in exceptionally large numbers towards the end of the year.

The end of the year has not traditionally been the most popular time to retire. Just under 800 persons retired in December 2020 and 2019, whereas now it seems the number will triple or even quadruple judging by the number of applications. Last year, 2021, is not suitable for purposes of comparison since the new age group did not qualify for retirement age and there were no new potential pension applicants.

The number of employees rushing to apply for partial early old-age pension is even greater than for an old-age pensions because the only criterion for this pension is age. Receiving an old-age pension depends not just on age but also terminating employment. The large number of applications for partial early old-age pensions began back in September, when more than double the applications were received compared to a year earlier. In October, the pace has accelerated and by 23 October the year on year increase was already 700%.

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The figures in this release are unaudited.