

17.2.2023

Tough year on the markets took Keva's earnings into negative territory

Keva, which is responsible for the funding of local government pensions and the investment of pension funds, reported a total return on Keva's investments at market value of -7.0% or -EUR 4.6 billion for 2022.

Of Keva's investment assets, the best performers were hedge funds, which generated a return of 6.1%, private equity investments 3.1% and real estate investments 2.7%. Fixed income investments generated a return of -11.3% and listed equities -11.4%.

Keva's investment assets had a market value totalling EUR 62.2 billion at year-end 2022. Of this, listed equities accounted for 31.3%, fixed income investments (including the impact of derivatives) for 21.8%, private equity investments (included unlisted equities) for 18.6%, real estate 7.6% and hedge fund investments for 7.2% of risk-based distribution.

Keva CEO **Jaakko Kiander** notes that the past year has changed the direction of many things.

"Russia's invasion of Ukraine a year ago triggered global inflation, which resulted in the end of a long era of loose monetary policy. With inflation came rising interest rates, which in turn led to a decrease in all asset values. This was also reflected in Keva's investment performance," Kiander says.

CIO **Ari Huotari** assesses that the climate will continue to be difficult for investors.

"The year was historically bad on both the equity and fixed income markets at the same time. Cause for investor comfort was in short supply. Nor am I convinced that this storm has yet passed," Huotari reflects.

At the same time, it's important to remember that, by nature of their mission, pension investors are long-horizon investors. Individual years or periods of a few years do not derail us from performing our mission, i.e. long-term intergenerational fairness in pension funding," Huotari reminds us.

Long-term investment return still good

Keva's long-term return on investments has been at a good level. The cumulative capital-weighted real return on investments since funding began in 1988 to year-end 2022 was 3.7% a year. The average real return, excluding capital weighting, over the same period was 4.9%. The Finnish pension sector normally calculates long-term returns excluding capital weighting. Keva's five-year real return excluding capital weighting has been 1.3% (nominal return 4.3%) and the ten-year return 3.9% (nominal return 5.7%).

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Sum of wages and salaries in local government sector increased

The sum of wages and salaries of Keva member organisations – towns and cities, municipalities, joint municipal authorities and municipal limited liability companies – was EUR 20,345 million, up 4.5% compared to 2021. A total sum of EUR 5.8 billion in contribution income accrued. Keva paid out EUR 6.2 billion in local government pensions. The difference between contribution income and pension expenditure was met out of investment income.

In 2022, Keva paid out pensions totalling EUR 5.4 billion to State, Evangelical Lutheran Church, Social Insurance Institution of Finland (Kela) and Bank of Finland personnel. The State, Church, Kela and Bank of Finland fund their own pensions and Keva's investment assets are used solely to provide local government pensions.

Fast processing of large numbers of applications triggered by the index increase

Exceptionally high numbers of applications for old-age pension and partial early old-age pension were received last year. The number of early old-age pension decisions increased by around 6,600 decisions, up 154%, and the number of old-age pension decisions by around 3,300, up 14%. The reason for the increase in applications was the exceptionally high index increase, 6.8%, in earnings related pensions made because of rising inflation. The increase was effective from the beginning of 2023.

All the same, the processing times of all types of pension were either shorter or remained unchanged compared to the previous year. Keva processed old-age pension applications in 6 days and disability pension applications in 28 days on average. Partial early old-age pension applications were processed fastest and decisions were issued in 1 day on average. Applications for all types of pension were processed 1-8 days faster than pensions on average by private earnings related pension providers.

Around 63% of all pension applications were made electronically through the Keva My Pension service. The customer satisfaction of pension applicants again remained at an excellent level.

A total of 5,303 public sector employees took disability pension, which was at the same level as a year earlier.

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Keva's key figures 2022

	2022	2021	2020	2019	2018
Sum of wages and salaries of Keva member organisations, €m	20 345	19 462	18 487	18 126	17 410
Share of contribution of Keva member organisations, €m	5 677	5 489	5 252	5 127	4 920
Number of people insured in Keva member organisations 31 Dec. *)	573 945	563 644	541 239	544 942	535 000
Number of pension recipients in Keva member organisations, 31 Dec.	435 830	423 827	418 696	413 084	406 286
Amount of pensions paid out in Keva member organisations, €m	6 192	5 915	5 728	5 488	5 230
Fair value of investments, 31 Dec., €m	62 235	66 849	58 009	56 166	50 129
Return on investments at fair value	-7,0 %	15,8 %	4,7 %	12,8 %	-3,0 %
Annual real return on investments since funding began in 1988 (capital weighted)	3,7 %	4,4 %	4,0 %	4,0 %	3,8 %
Annual real return on investments since funding began in 1988 (not capital weighted)	4,9 %	5,5 %	5,2 %	5,2 %	5,1 %
Operating costs, €m	81,1	79,9	76,6	82,2	74,9
Permanent employees, 31 Dec.	481	485	496	513	515
Number of State pension recipients, 31 Dec.	232 613	237 008	242 145	246 874	251 505
Amount of State pensions paid out, €m **)	4 982	4 879	4 857	4 761	4 675
Number of Evangelical Lutheran Church pension recipients, 31 Dec.	19 928	19 573	19 509	19 469	19 250
Amount of Evangelical Lutheran Church pensions paid out, €m **)	234	223	217	212	204
Number of Kela pension recipients, 31 Dec.	6 057	5 965	5 958	5 942	5 945
Amount of Kela employee pensions paid out, €m **)	114	108	106	105	102
Number of Bank of Finland pension recipients, 31 Dec.	1 458	1 404			
Amount of Bank of Finland pensions paid out, €m **)	29	29			

*) Due to the Incomes Register and new reporting practice in employment relationships, there is a break in the time series between 2018 and 2020. The figure for 2020 has been updated.

*) An update of the accounting principles for insured persons was made for 2020: zero-earning insured persons not in employment or service. The reference year 2019 has been calculated retrospectively using the updated accounting principles.

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

Keva's administration of Bank of Finland pensions began on 1 January 2021.

The figures in this release are preliminary and have not been subject to audit.

Keva's financial statements, annual reports and interim reports are published on our website at <https://www.keva.fi/en/this-is-keva/financial-information/>.

The report of the Board of Directors and the financial statements will be published on our website after the meeting of Keva Councillors on 8 March.