KEVA

2014 ANNUAL REPORT

Annual report 2014

Content

CEO and Managing Director's review for 2014

An eventful but good year

Public interest in pensions and future pension provision was intense in the year 2014. A particular topic of interest was the pension reform agreed in late September and taking effect in 2017. The agreement on the reform aims to extend working life and to narrow the sustainability gap in public finances. As a whole, the agreement arrived at was good and empowering but the details as concerns public sector pensions will continue to be finalised during 2015. The reform will bring about much work for all authorised pension providers, Keva included: information systems must be upgraded, customers provided with advice, and processes developed for the new pension benefits.

The funding of local government pensions and the stability of the financing base was also discussed during the year under review. According to a report by the Ministry of Finance, the financing basis of the local government pension system is solid, yet the impacts of structural reforms on the numbers of employees in the local government sector must be monitored and corrective action undertaken as required. Two separate reports prepared in 2013 also arrived at the same conclusion (ETLA January 2013, Pension Panel headed by Chief Director Pekkarinen May 2013).

Agreement on the manner in which social and healthcare services are to be organised reached in late 2014 and the Government Bill for the new social and healthcare services organisation was submitted to Parliament in early December. Social and healthcare services reform was brought up for consideration again at the start of 2015, however, and the debate now continues. When implemented, the reform will have a deep-seated impact on the entire sector of local government and Keva's operating environment. Keva is actively monitoring the structural reform of municipal service provision and analysing its effects on the funding and financial stability of local government pensions.

The local government sector was in transition in other respects as well in the year under review, and the outlook in the local government economy grew more sombre. The payroll for employees insured under the local government pension system, though higher than a year before, declined slightly in real terms, and the local government payroll is estimated to see only slow growth in upcoming years as well. The number of employees insured under the Local Government Pensions Act held steady from last year.

The pension contribution under the local government pension system should remain stable and predictable in order to safeguard the pensions of future generations and maintain fairness in pension contributions. The pension contributions associated with the work now carried out by municipally owned entities are in line with those in the private sector, as per our strategy. Municipalities and joint municipal authorities are furthermore 'burdened' by the superior pension benefits accruing up to 1995. Then again, the ongoing restructuring of municipalities may decrease the payroll in the local government pension system, which in turn may serve to elevate the level of contributions. At present, it is still impossible to determine where the level of contributions in the public sector will ultimately settle. All calculations and estimates on this matter will be made in late 2015 once greater clarity is reached concerning the impacts of the pension reform for the public sector.

Excellent year for investments

The year 2014 turned out to be an excellent one for Keva's investment operations. Equity and private equity investments performed very well relative to expectations, as did fixed-income investments. Real estate investments performed in line with expectations. The local government pension fund increased by a total of EUR 4.1 billion, with investment operations contributing 3.4 billion euro and the sum of 0.7 billion in contribution income also being transferred into the fund. Return on investments was good in the year under review, coming in at 8.7%. The five-year real return without capital weighting has been 5.6%. The capital-weighted, annual cumulative real return on investments since inception (1988) until the end of 2014 was 4.0%. Over the past three years, our investment operations have generated a total of 9.9 billion euro towards securing future pensions.

The global economy remains unstable and the outlook for the Finnish economy has continued to grow darker. Global economic growth is set to continue but at a rate considerably slower than the one we had grown accustomed to in the pre-financial crisis era. It is indeed quite likely that we are entering an era of greater uncertainty and lower returns in investment operations.

It is currently believed that in the foreseeable future, the local government pension systems will switch over to using the proceeds from its funds to pay for pensions. This is already a reality for authorised pension providers. It is important to ensure that economic and structural sustainability deficit problems are not passed on the financing of the pensions system by using pension contributions to provide stability through economic cycles.

Organisational reform at Keva

In late 2013, the Board of Directors decided to initiate a reform of Keva's management system and leadership culture. All rules and guidelines which steer and define Keva's operations were reviewed and rewritten as necessary during 2014, and Keva's operational organisation was also redesigned. The role of the Board of Directors in the management of Keva was reinforced, the management team was reworked and operational employer-employee negotiations were conducted in all of Keva's functions. The new organisation was launched in September 2014, with supervisors and all employees provided support for the change in the form of change coaching. Progress towards change has been made, but organisational cultures are slow to evolve. Going ahead, we must pay more and more attention to the turnkey management of customer relationships and the utilisation of customer feedback in the management and development of operations.

Keva once again led the pack in 2014 in the efficiency and speed of pension decision processing. Operating costs remained in line with last year. Keva is a highly cost-effective actor in the earnings-based pension sector.

Online services play an increasingly important role in customer service provision. The service entitled 'Your Pension Information' grew in popularity and received over 300,000 visits during the year. The extranet services for employers, the Asta online services, were made available to State, Church and Kela employers during the year under review.

Change in the public sector also poses a challenge to the occupational well-being of employees. Consequently, one of the cornerstones of Keva's strategy is to maintain public sector employees' ability to work, promote their occupational well-being, and support their continuing at work. Customers were supported in their occupational well-being activities through the Kaari services.

The past year 2014 was one of the best if not the best for Keva in terms of operational and financial performance. My sincere thanks go out to Keva's customers, skilled personnel and decision-makers.

In Helsinki, March 2015

Jukka Männistö
CEO and Managing Director

Report of the Board of Directors 2014

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Operating environment

Civic debate in the year under review was dominated by the economy. Short-term concerns had to do with the protracted crisis in the global economy and the European economies in particular. Much attention was also paid to the structural sustainability gap. Discussion and legislation on the structures and duties of local government and especially the manners of organising social and healthcare services were also affected by these topics. At the same time, local government reorganised its service provision structure to comply with legislative reforms.

In Finland, the economic outlook continued to grow darker as the ramifications of industrial restructuring grew more apparent. The situation was only exacerbated by world politics and the sanctions on Russia. The export market was characterised not only by sanctions but also by deteriorating competitiveness and weakening demand in Europe as well as in other markets. Continuing to take on debt, the state of Finland lost its AAA credit rating in the year under review.

The outlook in the local government economy grew much more sombre. Cost-cutting measures which target municipal employees resulted in the growth of the local government pension system's payroll falling clearly short of estimates and actually declining somewhat in real terms. No statistics are yet available for 2014 as regards developments in outsourced services, but the intense growth seen in earlier years is likely to have continued.

The manner in which social and healthcare services are to be organised was finally agreed and the Government Bill for the new social and healthcare services organisation was submitted to Parliament in early December. The new service structure would be based on there only being five social welfare and healthcare regions that would organise all services in these fields. Joint municipal authorities responsible for provision, numbering no more than 19, would provide the actual services. The new social welfare and healthcare regions are envisioned to launch operations at the beginning of 2016, the joint municipal authorities responsible for provision at the beginning of 2017.

An understanding as regards reform of the earnings-related pension system was reached in September and the agreement on the reform that will take effect in 2017 was signed by all central labour market organisations except for Akava. The agreement aims to extend working life and to narrow the sustainability gap in public finances. The key element in the agreement with regard to these aims is the gradual raising of the old-age pension limit to 65 years and then linking the age limit to life expectancy. The agreement also provides for the introduction of partial early old-age pension and years-of-service pension and the elimination of part-time pension. The signatories also came to agreement on changes to the pension accrual rates. The legislative amendments necessitated by the agreement will be drafted in spring 2015. In the public sector, separate negotiations will be pursued regarding items such as benefits under the previously protected system of supplementary pensions.

As part of the earnings-related pension reform negotiations, the Ministry of Finance appointed Jukka Ahtela, LL.M. with court training, to prepare a report on factors impacting on the funding and financing base of local government pensions and possible contribution base risks, and to present alternative solutions to these. According to the report, the financing basis of the local government pension system is solid, yet the impacts of structural reforms on the numbers of employees in the local government sector must be monitored and corrective action undertaken as required. The rapporteur proposed certain reforms to existing structures and procedures as well as a longer-term solution consisting of the merging of the local government and private sector pensions systems.

The year in investments 2014 was clearly better than expected. The European Central Bank's balance sheet continued to expand and the risk of deflation grew higher towards the end of the year. Storm clouds started gathering over the Eurozone in anticipation of political upheaval in Greece. As usual, the markets reacted to global political crises with sharp fluctuations.

Changes in regulations

The Local Government Pensions Act was amended by incorporation of a provision that requires authorised pension providers on their own initiative to issue to people applying for disability pension a preliminary decision on the right to occupational rehabilitation whenever the conditions for such rehabilitation are satisfied.

Clarifications and specifications were made to the provisions of the Local Government Pensions Act and the State Employees' Pensions Act regarding survivor's pension reduction and the reduction of primary benefit.

A reference to the Debt Collection Act was also incorporated in both Acts. When collection is initiated on unpaid earnings-related pension contributions, collection costs of EUR 40 per each unpaid instalment are directly enforceable.

Provisions supplementing the Administrative Procedure Act regarding the provision of reasoning in decisions were incorporated in the Local Government Pensions Act. When a rejection is based on medical facts in particular, the reasoning of the decision must specify the facts that primarily impacted on the assessment as well as the conclusions drawn from those facts. In addition, the pension provider's advisory physician is required to prepare a reasoned estimate which must be entered in the records.

Provisions governing the termination of the employment of Keva's CEO were incorporated in the Local Government Pensions Act. Under these provisions, the employment of the CEO may be terminated or the CEO may be re-assigned to other duties when the CEO no longer has the confidence of the Council. In addition, the CEO may now be hired under an executive employment contract. If the Board of Directors is dismissed by the Council, a new Board is to be elected for the remaining term of the dismissed Board.

A separate Act was issued on the index adjustments of pensions and other benefits in 2015. Earnings-based pension indices and national pension indices were increased by 0.4% from the index in 2014. The earnings-related pension index in 2015 stands at 2,519 and the national pension index at 1,637. An increase of 0.4% was made to financial support sums.

Customer relations and customers

The focal areas for the customer work directed at employers were incorporation matters and earnings-related pension insurance at Keva as well as disability-related costs, occupational wellbeing at work and continuing at work.

Keva organised 210 bespoke training events and 398 meetings for local government, State and Church employers. A further 963 employer representatives took part in Keva's seminars and workshops.

In the interests of the stability of the financing basis for local government pensions, Keva seeks to land as customers all new limited liability companies controlled by local government. In 2014, Keva added 33 new companies to its customer base, and a further 21 at the start of 2015. Most of the companies which joined Keva as member organisations were incorporation on the basis of the amendment of the Local Government Act which entered into force the year before last. This amendment included the duty to incorporate arising from competition neutrality.

Registered users of the extranet services for employers, the Asta online services, numbered 3,347 and the number of visits to the services totalled slightly over 40,000 (an increase of 14% on the year). During the year under review, the service expanded to cover State, Church and Kela employers.

The number of visits to the open section of Keva's website aimed at employers increased by 8% from the previous year to reach nearly 97,000. This was some 8% of all visits to the website.

The website's Pensions section received over 650,000 visits in 2014, an increase of 10% from 2013. This section represented some 54% of all visits to the website.

The online service aimed at employee customers – the Your Pension Information service – was logged into 303,000 times (up by 14% from the previous year). The most popular parts of the service were the pension calculators and pension record.

In 2014, Keva received nearly 63,000 pension applications, of which 21% were electronic applications, the same percentage as a year before. Local government pension ombudsmen forwarded 15% of all pension applications to Keva (16% in 2013). The työeläke.fi service available to Keva's employee customers accounted for 6% of applications (5% in 2013). In old-age pension applications, which may be submitted electronically via either local government pension ombudsmen or the työeläke.fi service, electronic applications accounted for 49% of the total (46% in 2013).

During the year, 143,000 employee customers called Keva. Of these, 96,000 calls concerned general pension advice and the rest pension payments. 37,000 fewer calls were placed than a year earlier. Keva sent out 12,700 answers to written inquiries from customers during 2014. Keva's pension advisory service served 4,500 customers and Keva responded to 3,400 requests for employment inquiries.

Well over 8,000 insured employees took part in the 217 training events arranged for employee customers, such as pension information briefings and Your Pension Information tour events. In addition, Keva organised 49 training events for trade union operatives, which were attended by 1,600 people all told.

The customer relations function was reorganised in the year under review The segmentation and service models for customers and customer relations were also redefined.

The overall rating given to Keva by employer customers in a survey conducted in the year under review was 3.9 on a scale of 1–5. The equivalent figure among stakeholders was 3.7. Customers thought Keva to be professional, knowledgeable, service-minded, evolving, dependable, helpful and friendly. Our customer service and pension service were thought effective and knowledgeable. Keva's cooperativeness and investment operations also received high marks. The survey was directed at our employer customers' senior management, financial management, human resources management as well as at pension ombudsmen and HR officers (online survey, 1,010 respondents). Stakeholders were also surveyed on the same occasion (telephone interview, n=50).

Keva's employer customers 31 Dec 2014

Employer	Number	Insured employees [1], (31 Dec 2013)
Local government customers	974	524,211
cities and municipalities	317	355,513
joint municipal authorities	149	137,927
limited liability companies	485	29,145
associations and foundations	20	1,053
other municipal organisations	3	573
State's employer customers	1,023	150,229
Church's employer customers	304	19,000
Kela's employer customers	1	6,113
Total	**2,302**	**699,553**

[1] A person may be insured under more than one Pensions Act.

Contribution income

At the end of 2014, some 525,000 employees were insured under the Local Government Pensions Act (KuEL), i.e. around the same number as at the end of the previous year. The total payroll for employees insured under the Act was EUR 16,670 million which was EUR 142 million (0.9%) more than in 2013.

Local government contribution income totalled EUR 4,971 million, i.e. 29.82% of the payroll (EUR 4,890 million and 29.58% in 2013, respectively). Contribution income increased by EUR 82 million (1.7%) from the previous year. The local government contribution income is made up of four parts: the employer's and employee's pay-based contributions as well as employer's contributions based on pension expenditure and early retirement pension expenditure.

Pay-based contributions were collected in the amount of EUR 3,814 million, which is 4.8% more than in 2013. The employees' share of the contribution was EUR 1,005 million and the employers' share EUR 2,809 million. The pay-based contribution in 2014 was on average 22.88% of salaries, i.e. 0.85 percentage units more than in 2013. The contribution breaks down such that employees under the age of 53 were charged 5.55%, employees 53 and over 7.05% and employers 16.85%.

In accordance with the decision of Keva's Council, Keva charged EUR 1,005 million in pension expenditure-based contributions from its member organisations, which was equivalent to 6.03% of the payroll, a decrease of EUR 93 million from the previous year, i.e. 8.5%.

In accordance with the decision of the Council, Keva charged EUR 152 million in early retirement pension expenditure-based contributions, which was 0.91% of the payroll.

Financial support is a benefit equivalent to group life insurance paid to the beneficiaries of a deceased local government officeholder or employee. At the end of 2014, 631 member organisations had arranged for financial support through Keva. Keva collected roughly EUR 6.6 million in financial support contributions in 2014, i.e. about EUR 1 million more than in the previous year.

Keva received some EUR 194 million in contribution income from the Unemployment Insurance Fund, which is EUR 40 million more than in 2013.

Under law, Keva is also responsible for the calculation and collection of State pension contributions. Keva collects the contributions directly in the State Pension Fund's bank account but is responsible for all related practical measures. In 2014, State pension contributions amounted to some EUR 1.7 billion. State pension contributions do not impact Keva's profit and loss account or balance sheet.

Local government contribution rates 2005–2014

Year	Employer's contribution rate					Employee's pension contribution percentage	Average total
	Pay-based contribution	Pension expenditure-based contribution	Early pension expenditure-based contribution	Additional employer contributions	Total		
2014	16.85	6.03	0.91		23.79	6.03 [1]	29.82
2013	16.45	6.64	0.91		24.00	5.58 [2]	29.58
2012	16.35	6.21	0.99		23.55	5.57 [3]	29.12
2011	16.10	6.45	1.00		23.55	5.10 [4]	28.65
2010	15.60	6.66	1.29		23.55	4.87 [5]	28.42
2009	15.90	6.60	1.10		23.60	4.62 [6]	28.22
2008	16.00	6.62	1.08		23.70	4.42 [7]	28.12
2007	16.50	6.54	0.79		23.83	4.61 [8]	28.44
2006	17.10	6.11	0.50		23.71	4.60 [9]	28.31
2005	17.10	5.55		0.56	23.21	4.90 [10]	28.11

[1] 5.55% for people under 53 and 7.05% for people aged 53 or over
[2] 5.15% for people under 53 and 6.5% for people aged 53 or over
[3] 5.15% for people under 53 and 6.5% for people aged 53 or over
[4] 4.7% for people under 53 and 6.0% for people aged 53 or over
[5] 4.5% for people under 53 and 5.7% for people aged 53 or over
[6] 4.3% for people under 53 and 5.4% for people aged 53 or over
[7] 4.1% for people under 53 and 5.2% for people aged 53 or over
[8] 4.3% for people under 53 and 5.4% for people aged 53 or over
[9] 4.3% for people under 53 and 5.4% for people aged 53 or over
[10] 4.6% for people under 53 and 5.8% for people aged 53 or over

Pensions and benefits

Applications received and corresponding decisions

Keva issued 64,869 decisions, of which 58,895 concerned actual pension matters, 5,490 rehabilitation and the rest benefits such as financial support. The figures include all decisions on applications received based on the Local Government Pensions Act (KuEL), State Employees' Pensions Act (VaEL), the Evangelical-Lutheran Church Pensions Act (KiEL), and the National Pension Institutions Act (KelaL) pertaining to Kela's salaried employees.

The number of decisions issued concerning applications declined by 2,695 (4.0%) compared with 2013. The decline was largely due to there being fewer applications received in the previous year waiting to be processed in 2014 than there were in 2013.

The number of applications received by Keva remained nearly unchanged. Of the 62,790 applications received in 2014 (62,860 the year before), 56,751 were pension applications while the remainder concerned other benefits.

Pension application processing time at Keva was shorter than at private institutions on average. In 2014, Keva was well within target as concerns processing times.

Total processing time for pension applications 2014

Pension benefit	Processing time, days				
	KuEL	VaEL	KiEL	KelaL	Private institutions
Old-age pension	32	35	35	31	47
Part-time pension	25	35	41	23	55
Disability pension	37	40	43	35	54
Survivors' pension	15	15	31	53	21

Source: Finnish Centre for Pensions

Local government pensions

Local government pension applications and corresponding decisions

The number of local government pension applications received was 41,735, an increase of 0.8% over 2013. More applications than the year before were received for old-age pension, disability pension and partial disability pension. In the latter two categories, the increase came from extension applications and the number of applications for new pension benefits of this kind decreased somewhat from the previous year.

The number of part-time pension applications decreased by as much as 38%, which is attributable to the raised age limit for part-time pension. The number of applications concerning the right to vocational rehabilitation was 2,623, an increase of 5.2% over the previous year.

Keva issued 48,422 decisions under the Local Government Pensions Act (KuEL), of which 43,195 concerned actual pension matters and the rest rehabilitation decisions and other benefits. Decisions issued concerning the right to vocational rehabilitation numbered 2,378 while the remaining rehabilitation decisions concerned the content of vocational rehabilitation. The number of decisions issued on applications received declined by 1,694 (3.4%) compared with 2013.

Decisions on new pension applications based on KuEL numbered 28,062. Of these, 25,531 were favourable. The rejection rate for new disability pension applications was 21.2% (19.8% the year before) while 11.4% (13.8%) of all rehabilitation decisions were negative.

Employees insured under the Local Government Pensions Act

At year-end, 2013, the Local Government Pensions Act covered 542,211 people. Roughly 77% of them are women. The average age of the insured was 45.4 years, which is lower than in the public sector on average.

Local government pension applications by pension benefit 2014 and 2013

Pension benefit	2014	2013	Change, %
Old-age pensions	16,741	16,285	2.8
Full disability pensions	13,757	13,475	2.1
Partial disability pensions	7,244	6,893	5.1
Survivors' pensions	2,737	2,742	-0.2
Part-time pensions	1,256	2,018	-37.8
Total	**41,735**	**41,413**	**0.8**

Local government pension decisions by pension benefit 2014 and 2013

Pension benefit	Number of all pension matters		Change, %
	2014	2013	
Old-age pensions	17,667	18,127	-2.5
Full disability pensions	13,917	15,057	-7.6
- of which new decisions	4,978	5,700	-12.7
Partial disability pensions	7,405	7,237	2.3
- of which new/ preliminary decisions	3,030	3,259	-7.0
Survivors' pensions	2,871	2,678	7.2
Part-time pensions	1,335	2,070	-35.5
Other pension matters	448	318	40.9
Rehabilitation decisions	4,779	4,629	3.2
Total	**48,422**	**50,116**	**-3.4**

Persons retired on local government pensions

In the year under review, 14,356 people retired on local government pensions from the local government sector. This was 534 people fewer (3.6%) than in 2013.

The average age of those who retired on local government pensions was 60.7 years, compared to 60.4 years in 2013. The average old-age retirement age in 2014 was 64 years (63.9 years in 2013). Old-age pensions accounted for 67% of all pensions taken.

The expected effective retirement age for a 25-year-old municipal employee was 61.3 years (60.8 years in 2013) while for a 50-year-old it was 63.5 years (63.1 years in 2013). The expected retirement age defines the age at which a 25-year-old or 50-year-old employee would retire, on average, if people were to retire precisely according to the same pattern as in the year under review. In the entire employment pension sector, the average effective retirement age in 2014 for a 25-year-old person was 61.2 years.

Self-correction of local government pension decisions

In 2014, Keva processed 1,117 complaints concerning decisions issued under the Local Government Pensions Act. Of these, 871 had to do with assessing work capacity. Keva upheld 13.1% of all appeals and 11.7% of appeals concerning the assessment of work capacity.

In 2014, Keva processed 229 of the appeals lodged with the Insurance Court concerning local government pension decisions issued by the Pension Appeal Board under the Local Government Pensions Act. Of the appeals, 198 had to do with assessment of work capacity and Keva rectified 4.0% of the assessments.

Retirement on local government pensions and average age by pension benefit 2014

Pension benefit	Number of people	Average age, years
Old-age pension	9,575	64.0
Full disability pension	887	58.3
Full rehabilitation benefit	1,690	49.0
Partial disability pension	2,204	56.1
Total	**14,356**	**60.7**

State employee pensions

State employee pension applications and corresponding decisions

The number of State pension applications totalled 12,964, which was 3.6% less than in 2013. Fewer applications than in the previous year were received for full and partial disability pension. The number of part-time pension applications declined owing to the changed age limits. Vocational rehabilitation applications numbered 295, a decrease of 16% from the previous year.

Keva issued 14,120 decisions under the State Employees' Pensions Act (VaEL), of which 13,531 concerned actual pension matters and the rest rehabilitation decisions and other benefits. Decisions concerning the right to vocational rehabilitation numbered 257, the remainder of the rehabilitation decisions concerning the content of vocational rehabilitation. The number of decisions issued concerning applications received fell by 718 (4.8%) compared with 2013.

Keva issued 9,801 decisions concerning new applications, and 9,408 of these were favourable. Keva rejected 18.2% of all applications pertaining to disability pensions while 15.4% of all rehabilitation decisions were negative. The corresponding figures in 2013 were 17.4% and 16.5%, respectively.

Employees insured under the State Employees' Pensions Act

At year-end 2013, the State Employees' Pensions Act covered 150,229 insured people. Roughly 55% of them are women. The average age of the insured employees was 47.8 years, i.e. higher than in the local government sector.

Employees retired under the State Employees' Pensions Act

The number of State employees (not including soldiers) who retired on State pensions in 2014 was 4,621. This was 326 people (6.7%) fewer than in 2013.

The average age of those who retired under the State Employees' Pensions Act was 62.1 years when in 2013 it was 61.7 years. In 2014, the average old-age retirement age was 63.4 years (63.4 years in 2013). Old-age pensions accounted for 84% of all State employee pensions taken.

The expected effective retirement age for a 25-year-old State employee was 62.0 years (61.5 years in 2013) while for a 50-year old it was 63.1 year (62.8 years in 2013).

Self-correction of State pension decisions

Keva processed 284 appeals concerning decisions issued under the State Employees' Pensions Act, of which 152 were related to assessing work capacity. Keva upheld 16.2% of all

State pension applications by pension benefit 2014 and 2013			
Pension benefit	2014	2013	Change, %
Old-age pensions	6,695	6,676	0.3
Full disability pensions	2,059	2,309	-10.8
Partial disability pensions	1,020	1,135	-10.1
Survivors' pensions	2,761	2,742	0.7
Part-time pensions	429	591	-27.4
Total	**12,964**	**13,453**	**-3.6**

State pension decisions by pension benefit 2014 and 2013			
Pension benefit	Number of all pension matters		Change, %
	2014	2013	
Old-age pensions	7,037	7,264	-3.1
Full disability pensions	2,106	2,368	-11.1
- of which new decisions	704	935	-24.7
Partial disability pensions	1,088	1,133	-4.1
- of which new/ preliminary decisions	423	507	-16.6
Survivors' pensions	2,851	2,743	3.9
Part-time pensions	449	619	-27.5
Other pension matters	34	23	47.8
Rehabilitation decisions	555	688	-19.3
Total	**14,120**	**14,838**	**-4.8**

Retirement on State pensions and average age by pension benefit 2014		
Pension benefit	Number of people	Average age, years
Old-age pension	3,898	63.4
Full disability pension	167	58.7
Full rehabilitation benefit	227	50.4
Partial disability pension	329	55.9
Total	**4,621**	**62.1**

appeals and 17.1% of appeals concerning the assessment of working capacity.

In 2014, Keva processed 53 of the appeals lodged with the Insurance Court concerning State pension decisions issued by the Pension Appeal Board under the State Employees' Pensions Act. Of the appeals, 40 concerned assessments of working capacity, and Keva rectified 7.5% of the assessments.

Evangelical-Lutheran Church pensions

Evangelical-Lutheran Church pension applications and corresponding decisions

The number of pension applications received under the Evangelical Lutheran Church Pensions Act was 1,637, a decrease of 5.2% from the year before. Fewer applications than a year earlier were submitted for old-age pension, partial disability pension and part-time pension. The number of part-time pension applications decreased owing to changes in the age limits. Applications concerning the right to vocational rehabilitation numbered 68, a decrease of 12.8% from the year before.

Keva issued 1,868 decisions under the Evangelical-Lutheran Church Pensions Act (KiEL), of which 1,746 concerned actual pension matters and the rest rehabilitation decisions and other benefits. Decisions concerning the right to vocational rehabilitation issued by Keva numbered 54, with the remainder of the rehabilitation decisions concerning the content of vocational rehabilitation. The number of decisions issued on applications received fell by 199 (9.6%) compared with 2013.

Keva issued 1,186 decisions on new pension applications based on KiEL, and 1,095 of these were favourable. In 2014, Keva rejected 23.9% of all applications concerning disability pension while 10.2% of all rehabilitation decisions were negative. The corresponding figures in 2013 were 25.7% and 20.0%, respectively.

Employees insured under the Evangelical Lutheran Church Pensions Act

At year-end 2013, the Evangelical-Lutheran Church Pensions Act covered just under 19,000 people, roughly 68% of whom are women. The average age of the insured employees was 45.8 years.

Persons retired on Church pensions

Church employees retiring on Church pensions in 2014 numbered 609. This was 65 people or 9.6% fewer than in 2013.

The average age of those who retired under the Evangelical-Lutheran Church Pensions Act was 62.1 years, i.e. the same as in 2013. The average old-age retirement age in 2014 was 64.5 years (64.4 years in 2013). Old-age pensions accounted for 76% of all pensions taken.

Self-correction of Church pension decisions

In 2014, Keva processed 31 complaints concerning decisions issued under the Evangelical-Lutheran Church Pensions Act, of which 24 were related to assessing work capacity. Keva upheld 16.1% of all appeals and 12.5% of appeals concerning the assessment of working capacity.

In 2014, Keva processed altogether 10 of the appeals lodged with the Insurance Court concerning pension decisions issued by the Pension Appeal Board under the Evangelical Lutheran Church Pensions Act. Of the appeals, 7 concerned assessments of working capacity and none of these was rectified by Keva.

Evangelical Lutheran Church pension applications by pension benefit 2014 and 2013

Pension benefit	2014	2013	Change, %
Old-age pensions	815	874	-6.8
Full disability pensions	492	489	0.6
Partial disability pensions	166	172	-3.5
Survivors' pensions	149	130	14.6
Part-time pensions	15	62	-75.8
Total	**1,637**	**1,727**	**-5.2**

Evangelical-Lutheran Church pension decisions by pension benefit 2014 and 2013

Pension benefit	Number of all pension matters		Change, %
	2014	2013	
Old-age pensions	881	987	-10.7
Full disability pensions	500	579	-13.6
- of which new decisions	198	230	-13.9
Partial disability pensions	185	173	6.9
- of which new/ preliminary decisions	68	81	-16.0
Survivors' pensions	161	129	24.8
Part-time pensions	19	59	-67.8
Other pension matters	2	0	..
Rehabilitation decisions	120	140	-14.3
Total	**1,868**	**2,067**	**-9.6**

Retirement on Church pensions and average age by pension benefit 2014

Pension benefit	Number of people	Average age, years
Old-age pension	463	64.5
Full disability pension	41	57.9
Full rehabilitation benefit	61	51.1
Partial disability pension	44	56.0
Total	**609**	**62.1**

Kela employees' pensions

Kela employees' pension applications and corresponding decisions

The number of pension applications received concerning Kela employees was 415, a decrease of 9.0% from the year before. Fewer applications than a year earlier were made for old-age pension, survivors' pension and part-time pension. The number of part-time pension applications decreased owing to changes in the age limits. Applications concerning the right to vocational rehabilitation numbered 21, an increase of 5.0% from the year before.

Keva issued 459 decisions concerning Kela employees. Of these decisions, 423 concerned actual pension matters and the rest rehabilitation decisions and other benefits. Decisions concerning the right to vocational rehabilitation numbered 20, the remainder of the rehabilitation decisions concerning the content of vocational rehabilitation. The number of decisions issued concerning applications received fell by 84 (15.5%) compared with 2013.

Keva issued 276 decisions on new pension applications concerning Kela employees and 255 of these were favourable. Keva rejected 17.3% of all applications pertaining to disability pensions (17.8% in the previous year), while 27.8% of all rehabilitation decisions were negative.

Employees insured under Kela employees' pension scheme

At year-end 2013, the Kela salaried employees' pension scheme covered 6,113 people. Roughly 83% of them are women. The average age of the insured employees was 46.5 years.

Persons retired under Kela employees' pension scheme

In 2014, 159 employees retired under the Kela employees' pension scheme, 37 people or 18.9% fewer than in 2013.

The average age of those who retired under the Kela employees' pension scheme was 62.0 years (62.5 years in 2013). The average old-age retirement age in 2014 was 64.7 years (64.7 years in 2013 as well). Old-age pensions accounted for 75% of all pensions taken.

Self-correction of pension decisions concerning Kela employees

In 2014, Keva processed 11 complaints concerning Kela employees' pension decisions, 8 of which had to do with assessing work capacity. Kela upheld 9.1% of all appeals and 12.5% of appeals concerning the assessment of work capacity.

Kela employees' pension applications by pension benefit 2014 and 2013			
Pension benefit	2014	2013	Change, %
Old-age pensions	172	206	-16.5
Full disability pensions	90	78	15.4
Partial disability pensions	107	101	5.9
Survivors' pensions	30	36	-16.7
Part-time pensions	16	35	-54.3
Total	**415**	**456**	**-9.0**

Pension decisions concerning Kela employees by pension benefit 2014 and 2013			
Pension benefit	Number of all pension matters		Change, %
	2014	2013	
Old-age pensions	179	230	-22.2
Full disability pensions	90	91	-1.1
- of which new decisions	26	21	23.8
Partial disability pensions	104	107	-2.8
- of which new/ preliminary decisions	43	34	26.5
Survivors' pensions	33	35	-5.7
Part-time pensions	17	38	-55.3
Other pension matters	0	0	..
Rehabilitation decisions	36	42	-14.3
Total	**459**	**543**	**-15.5**

Retirement under Kela employees' pension scheme and average age by benefit 2014		
Pension benefit	Number of people	Average age, years
Old-age pension	120	64.7
Full disability pension	7	57.0
Full rehabilitation benefit	11	46.8
Partial disability pension	21	55.9
Total	**159**	**62.0**

Pension expenditure

The total pension expenditure under the Local Government Pensions Act was EUR 4,351 million, which was EUR 234 million (5.7%) more than in 2013. The number of pension recipients totalled around 373,000 at the end of the year, i.e. just under 2% more than in 2013.

In 2014, Keva paid out a total of EUR 4,352 million in State pensions, an increase of EUR 125 million or 3% from the previous year. The number of State pension recipients was around 270,000 at year end, approximately 1% less than a year earlier. Evangelical Lutheran Church pensions paid out amounted to EUR 176 million or 5.6% more than in 2013. The equivalent pension expenditure for Kela's salaried employees was EUR 91 million, up by 4.8% from the year before.

The State, the Evangelical Lutheran Church and Kela funded their own pensions such that they 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 2014, Keva will return EUR 14.4 million to the State and EUR 1.2 million to the Church. The advances fell short of actual pension expenditure in respect of Kela, to which Keva will invoice a further EUR 4.2 million. These items were entered in the financial statements as adjustments to the advance payments.

Support for continuing at work

Keva supported the occupational well-being activities of its clients through the Kaari services.

Keva offered its employer customers services in the areas of occupational wellbeing management, active support, support for change, controlling disability costs, and improving cooperation in the sector of occupational healthcare. Keva also arranged training, coaching and workshops. Two extensive customer seminars were also held in the year under review, the one in spring focusing on human resources management and the one in autumn on occupational health care.

Keva redesigned Kuntasi työhyvinvointisyke, a service that allows local government customers to gain insight into the occupational wellbeing status of their organisation and to obtain support and guidance in enhancing their occupational wellbeing management.

The Kaari calculator service allows customers to gain insight into their disability costs and the structure of such costs in their respective organisations. The calculator's calculations were automated to provide a foundation for upcoming development efforts that will permit a more detailed classification of an organisation's costs.

The quality of medical statements was enhanced as part of an undertaking by the Ministry of Social Affairs and Health to improve the system of insurance physicians.

A new kind of occupational rehabilitation model was introduced to major local government employers to allow them to focus on the needs of employees on extended medical leaves. The '150' rehabilitation investigation resulted in a total of 212 municipal employees being referred to Keva. Occupational rehabilitation tools can in all likelihood help most of them continue working.

Intensified support was provided to people whose disability pension applications were rejected. The number of people taking part in these 'situation reviews' doubled on the year and reached roughly 200 in 2014.

Keva continued to pursue close cooperation with other actors in the field. A website designed to provide workplace supervisors with guidance on change was implemented in collaboration with labour market stakeholders in the public sector. A public sector occupational wellbeing survey was conducted together with the Local Public Sector Group of the Centre for Occupational Safety, the first of its kind to examine the wellbeing of municipal and Church employees within the framework of a single survey. The piloting of the programme to provide management and leadership training for supervisors and middle management (EKJ programme) was prepared in collaboration with the Association of Finnish Local and Regional Authorities, Local Government Employers KT, and FCG.

Investment operations

From the investor's perspective, the year 2014 turned out to be the year no one saw coming. It seemed at the start of the year that fixed-income investments had bottomed out, yet interest rates fell below even the starkest forecasts. The equity markets continued to flourish for the most part, and solid gains have indeed been seen in these markets in the wake of the financial crisis.

The US economy continued to rally despite occasional mixed messages. The situation in Europe was far more problematic and the economic outlook for the Eurozone is very modest for the foreseeable future. The investor's year was further disrupted by the Ukrainian crisis, the development of oil prices, and a slew of similar news.

The year 2014 turned out a good one for Keva in terms of investments. Equity and private equity investments delivered high returns and hedge fund investments also performed well. Fixed-income investments performed very well indeed, considering expectations, while the returns on real estate investments were in line with expectations.

At the beginning of 2014, the market value of Keva's investments totalled EUR 36,503 million. At the end of the year, the market value of investments was EUR 41,386 million, i.e. 13.4% more than at the end of 2013.

Investments are divided into asset classes, which are 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. Targeted returns are hedged using derivative instruments, the effects of which on allocation by asset class are taken into consideration in the figures that illustrate the risk-adjusted distribution of investment assets.

The market value of invested capital used to calculate return includes not only the assets mentioned above but also accrued income including accrued interest as well as other items, a total of EUR 161.5 million. Taking these items into account, the market value of invested capital totals EUR 41,548 million.

Of the different asset classes, the best result was generated by private equity investments (22.8%), equities (listed equities 12.5%), and hedge funds (6.2%). Fixed-income investments (4.9%) and real estate investments (5.6%) also delivered clearly positive returns. The return on the small allocation to commodities was negative at -36.0%.

At year-end 2014, the risk-appropriate market value of Keva's investments broke down as follows: fixed-income investments (including the impact of derivatives) accounted for 38.9%, listed equities for 42.1%, real estate for 6.8%, private equity funds for 6.2%, hedge funds for 5.4% and commodities for 0.5%.

Keva's total investment return at market value after expenses was 8.7% in 2014. The capital-weighted, annual cumulative real return on investments since inception (1988) until the end of 2014 was 4.0%. The non-capital weighted average real return for the same period was 5.4%. The five-year nominal return without capital weighting has been 7.8%, and the real return 5.6%. The ten-year nominal return without capital weighting has been 6.2% and the real return 4.3%.

Fixed-income investments

The year kicked off with interest rates at low levels. The decline in long-term interest rates, in the Eurozone in particular, came as a surprise to many market actors. The CDS market remained strong all year, as languishing interest rates prompted investors to seek a boost to their returns from corporate bonds and other similar instruments. As unlikely as it appeared at the start of the year, 2014 ultimately turned out to be a good year for fixed-income investments.

At year-end 2014, the total market value of Keva's investments in bonds and fixed-income funds stood at EUR 14,374 million, an increase of EUR 505 million on the year. A total of EUR 4,407 million or 30.7% of the bond portfolio was allocated to external asset managers (including funds). The market value return on bonds was 5.8%.

Loans (excluding those granted to Keva companies) totalled EUR 536 million at the end of 2014. This loan portfolio decreased by EUR 86 million during the year. These promissory note loans yielded an income of EUR 6.4 million in interest.

Money market investments totalled EUR 504 million at year-end 2014.

A total of EUR 242 million in fixed-income returns was recorded for the fixed-income portfolios. The market value return on fixed-income investments was 4.9%.

Equity investments

The year 2014 started out with fairly positive sentiments in the equity markets even though valuations could no longer be described as low, at least in the historical perspective. Recovery was nonetheless expected in the global economy, and balance sheets in the corporate sector were also in other respects much stronger than those of, say, sovereign states.

The year did indeed bring positive performance in the equity markets, particularly in the United States. Despite returns being slightly depressed by the global unrest seen in the autumn, the year turned out happily for equities. Equity markets the world over continued to enjoy support from low interest rates, and the lack of other investment options will continue to bolster this asset class for the foreseeable future.

The MSCI index (EUR), which illustrates the average trend of the world's equities, ended up at 19.2% in 2014, compared to 21.2% in 2013. Measured by the Stoxx 600 index, European equities rose 7.2% (20.8% in 2013). The return on Asian equities (MSCI Asia-Pacific) was 13.6 & (7.1%).

At the end of 2014, the total market value of Keva's listed equity investments was EUR 17,940 million. A total of EUR 14,569 million, i.e. 81.2% of the entire equity portfolio, was allocated to external asset managers (including funds).

Dividend income from equity investments totalled EUR 157 million. The market value return on listed equity investments was 12.5%.

Real estate investments

Keva's real estate portfolio primarily comprises direct investments in domestic real estate and real estate shares. The portfolio also includes investments in real estate funds in Finland and abroad, which currently account for roughly one third of all real estate investments.

New construction ventures started in previous years were completed in 2014 in the field of direct investments in domestic real estate. Keva has sought to reduce the relative share of office buildings in its portfolio by acquiring shopping centres and residential buildings. Commercial premises have been in good investor demand in the Helsinki region and its outlying areas despite the ongoing deterioration of the future outlook in retail.

The market value of real estate and real estate shares was EUR 2,644 million at the end of the year. Real estate funds accounted for EUR 698 million of this sum. A further EUR 221 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 1,300 million, with undrawn commitments making up the sum of EUR 249 million.

At year-end, the rentable floor space of the 124 real estate companies owned by Keva totalled approximately 825,000 m2, and the number of leases was 4,125. The net rental income was EUR 97 million, and the market-value return on direct real estate investments stood at 3.9%. The return on direct real estate investments calculated on the basis of the Finnish Institute for Real Estate Economics' KTI Index was 3.8%.

The market value return on all real estate investments was 5.6%.

Investments at market value 31 Dec 2014

	EUR million	%
Fixed income	15,494	37.4
Equities*	18,245	44.1
Real estate	2,866	6.9
Private equity	2,263	5.5
Hedge funds	2,312	5.6
Commodities	206	0.5
Total	**41,386**	**100**

* Includes balanced funds

Investments by currency at market value 31 Dec 2014

	EUR million	%
EUR	24,497	59.2
USD	14,006	33.8
GBP	929	2.2
JPY	856	2.1
SEK	195	0.5
CHF	350	0.8
Other	553	1.3
Total	**41,386**	**100**

Geographical distribution of investments at market value 31 Dec 2014

	EUR million	%
Finland	6,965	16.8
Europe (excl. Finland)	15,854	38.3
North America	9,638	23.3
Emerging markets	4,670	11.3
Asia (excl. Japan)	2,280	5.5
Japan	1,329	3.2
Other	650	1.6
Total	**41,386**	**100**

Private equity, hedge fund and commodity investments

The private equity investment environment remained more favourable than anticipated in 2014 despite only modest improvement in the economy. The main reasons for this situation are the high supply of investable funds, the lack of investment options, and the effective functioning of the debt market. The same trend prevailed on all continents but was strongest in the United States owing to its overall economic development.

For hedge funds, the environment was more challenging and returns indeed failed to reach the level seen in earlier years. The shift of capital flows back to hedge funds first starting in the post-financial crisis year of 2010 nonetheless remained strong also in the year under review.

The commodities market experienced intense fluctuations in the year under review, as was the case in the previous year as well. Commodities on average nonetheless performed very poorly. The commodities market is nowadays heavily dependent on the development of countries where the economy is growing at a fast pace. China in particular has risen in significance over the past few years.

At the end of the year, the market value of Keva's private equity investments totalled EUR 2,263 million, and it also had three direct investments in unlisted companies. The market value of hedge fund investments totalled EUR 2,312 million at year-end. The risk-adjusted allocation of commodity investments stood at EUR 227.1 million (market value of EUR 206.3 million). The amount of investment commitments made to private equity investments totalled EUR 5,113 million, with undrawn commitments making up the sum of EUR 1,830 million.

The market-value return on private equity investments was 22.4%, on hedge fund investments 6.2%, and on commodity investments -36.0%.

Investment strategy

Keva's strategy determines the central principles for funding the local government pension system, and the strategic objectives set for the investment operations are derived from these.

The Board of Directors manages Keva's long-term investment activities through the investment strategy. In the shorter term, the Board of Directors manages the investment activities for a given year 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 8 May 2014.

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.

The Board receives regular reports on how investment operations have catered to social responsibility. 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 measures taken as a result of the observations.

Subsidiary and associated companies

At the end of 2014, Keva owned, fully or partly, 124 Finnish real estate companies, two less than the year before. Keva owned 103 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 held the entire capital stock of Kuntasijoitus KE Oy as well as a 30.66% stake in Municipality Finance Plc and a 25.5% stake in 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 2014, the fund stood at EUR 42,306 million, which was EUR 4,104 million (10.7%) more than a year earlier.

Present value of benefits accrued under the local government pension system

Based on the provisions of pension legislation, the value of the benefits that have accrued in the local government pension system but 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 have been EUR 101 billion at the end of 2013. In 2014, the value increased by EUR 2 billion to EUR 103 billion.

As the value of the pension liability fund in 2014 grew by more than the present value of benefits, the present value of unfunded benefits decreased by roughly EUR 2 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. The pension reform taking place in 2017 will also likely impact on the present value of accrued benefits. The impacts of the pension reform can only be accounted for once the relevant legislation has been passed.

Operating costs and depreciation

Operating costs and depreciation before payments received (gross operating costs) totalled EUR 101.2 million, the same as in 2013. The largest item among operating costs were personnel expenses, EUR 40.8 million, which increased by EUR 1.0 million or 2.4% on the year. The increase was above all attributable to the rise in the provision for performance bonuses. All other costs save personnel expenses decreased compared with 2013.

Keva received reimbursements for operating costs and depreciation in the sum of roughly EUR 25.3 million (EUR 25.8 million in 2013). Of this sum, some EUR 21.5 million were paid by the State, EUR 2.5 million by the Evangelical Lutheran Church and EUR 0.8 million by the Social Insurance Institution of Finland Kela. Keva's net operating costs, including payments received, came to EUR 75.8 million, which is EUR 0.5 million or 0.7% more than in the previous year.

When examined by function, the gross costs for pension operations stood at EUR 55.8 million, nearly 3% less than in 2013. When payments received are taken into account, the costs for pension operations decreased by the same amount, 3%. The costs for investment operations stood at EUR 25.4 million, roughly 1% more than in 2013. No reimbursements were allocated to investment operations. The gross operating costs for administration stood at EUR 20.0 million, which was 6% more than in 2013. When reimbursements are taken into account, operating costs increased by 8%. The provision for performance bonuses was recognised in the administration function, which caused administration costs to rise markedly.

Investments in machinery, equipment, and computer software totalled EUR 3.3 million, which was EUR 4.6 million less than in the previous year. Keva sold its pension processing system to other pension institutions and received a payment of EUR 5.2 million, which contributes to lower planned depreciation.

Planned depreciation for 2014 amounted to EUR 7 million, which was EUR 0.4 million more than in 2013.

Statutory payments refer to Keva's share of the costs of the Finnish Centre for Pensions, the Pension Appeal Board and the Financial Supervisory Authority. The costs totalled EUR 10.2 million, of which the State, Evangelical Lutheran Church and Kela paid around EUR 3 million.

In total, Keva received EUR 27.8 million in reimbursements from the State, Evangelical Lutheran Church and Kela, which is EUR 0.3 million less than in 2013.

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 Council consists of 30 members, 26 of whom are appointed according to a proposal by the Association of Finnish Local and Regional Authorities, which is based on the results of the municipal elections. Four members are appointed based on a proposal by the main municipal negotiating organisations. The term of the current Council started in 2013 and extends until the end of 2016.

The Council's Chairman was, Harri Jokirata, Deputy Mayor of Seinäjoki, and its Deputy Chairman was Maarit Ojavuo, an IT expert from Kajaani.

The Council convened for four meetings during the year under review. The attendance rate of the Council's regular members was 82. When the attendance of deputy members is included, the attendance rate was 90. The Council members received EUR 400 in remuneration for meetings, in addition to which the Chairman is paid EUR 9,000 and the Deputy Chairman 8,000 annually. The members of the Council were paid altogether EUR 62,425 in remuneration for meetings.

Keva has a Board of Directors to attend to the administration of Keva. The Board is elected by the Council to serve for a term of two years. The Board elected for the 2013–2014 term was chaired by Laura Räty, Deputy Mayor of Helsinki, until 30 June 2014. She relinquished the post upon her appointment as Minister of Social Affairs and Health. On 18 September 2014, the Council elected Anna-Kaisa Ikonen, Mayor of Tampere, to replace Räty on the Board as member and Chairman. Kari Nenonen, Mayor of Vantaa, is the Deputy Chairman. The other regular members of the Board are Business Director Heini Jalkanen, communications consultant Sallamaari Muhonen, Member of Parliament Juha Rehula, Managing Director Harri Virta, and Master of Laws Raimo Vistbacka along with Risto Kangas, Director at the Negotiation Organisation for Public Sector Professionals, and Päivi Niemi-Laine, Chief Executive Officer at the Union of Local Government Employees.

The Board convened for 14 meetings during the year under review. The attendance rate of the Board's regular members was 92. When the attendance of deputy members is included, the attendance rate was 99. The Council's Chairman and Deputy Chairman also have the right to attend and speak at the Board meetings. The remuneration paid to Board members for meetings is EUR 400. In addition, the Chairman of the Board receives EUR 18,000, the Deputy Chairman EUR 10,000 and the members EUR 8,000 in annual remunerations. The members of the Board were paid altogether EUR 59,525 in remuneration for meetings.

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 main municipal negotiating organisations, 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, Director of the Regional Administrative Agency of Northern Finland, acted as Deputy Chairman. The Committee convened for one meeting during the year under review.

The Working Life Development Working Group is a body defined in the Standing Orders that is tasked with developing measures to maintain the health and work capacity of municipal employees. Of the 12 working group members, six are chosen on the basis of proposals by the main municipal negotiating organisations. The Chairman of the Working Life Development Working Group was Aki Lindén, Chief Executive Officer of the HUS Joint Authority. The Group convened for three meetings during the year under review.

Deputy CEO Pekka Alanen served as Acting CEO and Managing Director of Keva until new CEO Jukka Männistö started at Keva on 14 August 2014.

Pekka Alanen and Tapani Hellstén served as Deputy CEOs. On 8 May 2014, the Board of Directors defined Alanen's primary area of responsibility as customer relations and Hellstén's as pension and working life services. Prior to this, Alanen was responsible for the execution of the customer strategy and Hellstén for the implementation of the work capacity and continuation strategy. Pekka Alanen retired on 31 December 2014. He was replaced as Deputy CEO by Kimmo Mikander, who joined Keva on 23 March 2015 from the position of Mayor of Mikkeli.

Development of administration

At its meeting of 18 December 2013, the Board of Directors decided to initiate a reform of Keva's management system and leadership culture. Among the Board's motivations was the principle that fairness, openness and transparency must be manifest in the day-to-day of the entire organisation.

All rules and guidelines which steer and define Keva's operations were reviewed and rewritten as necessary during 2014, and Keva's operational organisation was redesigned along the lines of a matrix organisation. The role of the Board of Directors in the management of Keva was reinforced, the management team was reworked and operational employer-employee negotiations were conducted in all of Keva's functions. The new organisation was officially launched on 1 September 2014.

Personnel

Keva employed 557 people at year-end (558 in 2013), of whom 23 (21 in 2013) were fixed-term employees. The number of personnel will be kept at a level required to implement full-scale operations also in future. Keva is women-dominated, which is typical of the earnings-related pensions sector. Women account for about 71.5% of our personnel.

Keva enhances the expertise of its personnel though training and development projects as well as new hires. Since our ways of working have changed over the years, personnel and the entire workplace culture must always be prepared and willing to change and evolve.

Keva underwent extensive organisational reform in 2014. In order to support the successful rollout of the reorganisation, the entire supervisory staff was provided with training in change management and labour legislation as well as in conducting performance reviews. Internal agents of change were also put in place to lend further support. The entire personnel was provided with change coaching and a wide array of substantive training.

Keva has adopted a redesigned performance review model in which each Keva employee is set four personal goals. This helps better ensure the role of each employee in implementing Keva's strategy.

The enhancement of work culture is a key area of emphasis for Keva. A personnel survey was conducted in November to pinpoint concrete development areas that might be addressed in 2015.

Keva offers its personnel comprehensive occupational health services, supports well-being through various personnel clubs, and provides monetary support to employees to encourage them to exercise in their free time. An active support model is in place for the purpose of maintaining work capacity.

Keva's remuneration scheme was addressed by the Board of Directors late in the year and going ahead, Keva will implement a simpler and more consistent performance bonus scheme throughout the organisation.

IT management

The degree of automation and performance of the pension applications processing system Elmo was the focus of efforts in the year under review. Pension decision processing times indeed improved over the course of the year and applications were processed considerably faster than the target times.

The transactions in access licences to the Elmo system were continued when Etera also decided to acquire from Keva a licence to the definitions and source code of Elmo. Etera also purchased a licence to the calculation services system Lapa, for which Keva received a licensing fee in accordance with its holding in the Lapa consortium.

Early 2014 saw the launch of an IT project aiming to discontinue the use of the Haku system used to process military pensions and to switch these over to the Elmo system. The switchover will reduce the costs of maintaining parallel systems and environments.

In autumn 2014, Keva abandoned the separate employment registers for local government, State, Church and Kela employee pensions and started full-scale utilisation of the earnings and accrual register Arek, built as a joint effort in the earnings-related pension system. The data content and notification traffic for the register were harmonised at the same juncture, and the online services were redesigned. This delivered greater efficiency in employment registration as well as lower costs and improved services.

Keva continues the development of a new contribution system. At the start of 2014, the system handled the calculation of pay-based pension contributions for local government, the State and the Evangelical Lutheran Church. Contribution data generated by the new system was made available in the online services provided to employers. The calculation of local government's pension expenditure-based contributions was introduced in the service in 2014.

During the year under review, Keva put its IT infrastructure services out to tender. The services to be outsourced encompass Keva's server and administration services, basic user services and related support services, maintenance services, control, and troubleshooting and resolution of problems. The transfer of services to the new service provider has also been included in the request to tender. The competitive tendering is estimated to deliver a considerable decrease in infrastructure costs once the transfer project has been completed.

The operating costs of IT management in 2014 were EUR 29.8 million, with Arek's information services accounting for EUR 10.5 million of this figure. Investments in IT amounted to EUR 3.2 million.

Internal control

Internal control means all the procedures, systems and methods through which Keva's management aims to ensure efficient, economical and reliable operations. Besides daily supervisory control, risk management and internal auditing are also key fundamentals of internal control.

General development of risk management

The focus in 2014 in the general development of risk management was on continuing the rollout of risk management at the various levels of the organisation.

Monitoring and reporting procedures in the risk management process as well as the related technical support were enhanced and documentation was supplemented. Risk surveys were reported to the CEO and the management group at six-month intervals.

In order to further enhance data security and data protection, Keva continued to develop data security principles and processes. The data security level of the IT systems was also regularly tested by Keva through data security audits.

Areas improved by Keva in the Investment Operations function's risk management included risk reporting, authority and limit monitoring, investment processes, and the documentation related to these.

Main risks

According to Keva's assessment, the biggest long-term strategic risk relates to a decrease in the number of employees under the Local Government Pensions Act and the significant decline of the contribution income as a result. Contribution income may decline if the number of people insured under the Local Government Pensions Act declines as the result of e.g discrepancy between workforce availability and demand, or the outsourcing of municipal services. This may cause pressure to increase pension contributions. Uncertainties related to the reform of local government economy, reforms in local government structure and the social and health care sector, and incorporation of municipal companies as well as possible changes in the implementation of local government services highlight the significance of this risk all the more in the long term.

Keva also estimates that if the long-term return on investments remains below the target level specified in the investment strategy, this could constitute a major strategic risk. The target level is defined based on the financing situation in the earnings-related pension system at any given time. The market environment continued to be challenging in terms of investments. The capital-weighted long-term real return on investments between 1988 and 2014 was 4.0%.

According to Keva's assessments, medium-sized strategic risks are related to pension institution management and administration and to the number and quality of personnel. The review and reform of management system and leadership culture launched in early 2014 will be continued in 2015.

The main operational risks had to do with personnel and IT systems.

Market risk and liquidity risk

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 606 million at the end of 2014, 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 VaR figure at the end of the previous year was EUR 757 million. The VaR figure decreased slightly (3.7%) when compared to the previous year (4.6%).

Since Keva's contribution income exceeded pension expenditure, liquidity risk was of little significance.

Contingency plans

In order to ensure that Keva's operations continue without interruption, the Board has approved a general contingency plan for the entire institution as well as supplementary contingency plans for each function, the latter also having been approved by the management group.

Insider guidelines

Keva has in place insider guidelines confirmed by the Board.

Management shareholdings

Keva discloses the shareholdings of the CEO, the Deputy CEO and the other members of the management group on a quarterly basis.

Internal auditing

The internal auditing function's activities are based on the operating plan for internal auditing confirmed each year by the Board. In accordance with the internal 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

In September 2013, the main labour market organisations agreed on the reform of the earnings-related pension system that will take effect in 2017. The legislative effort will proceed such that the Government Bill is expected during spring 2015 for consideration in the fall by the new Parliament to elected in April 2015. The coming years promise to be busy ones for authorised pension providers, what with system upgrades, dissemination of information to customers, and development of procedures and processes for the new pension benefits. The information system developments related to the pension reform challenge the pension providers to seek cost-effectiveness through collaboration.

The impact of pension reform will manifest in a retardation of the rate of increase of pension costs in the pension systems of both the private and the public sector. At present, it is impossible to estimate the future level of contributions in the public sector, as the ongoing local government restructuring may reduce payrolls in the local government pension system, which in turn may serve to increase the pension contribution level. The calculations and estimates regarding the pension contribution level will be prepared in late 2015 once the details of the pension reform have been worked out also for the public sector.

In the context of pension reform, the main labour market organisations also agreed on increases to the earnings-related pension contributions in the private sector. Since the pension contribution for employees within the local government pension system is the same as for those in the private sector, the agreement reached will provide some relief for local government finances in the coming years as concerns employer's pension contributions.

Local government payrolls will continue to rise only slowly. The main reasons underlying this trend are the changes underway in local government service structures, the anticipated moderate wage agreement, and cost-cutting measures which target personnel.

When implemented, the social and healthcare services reform will have a deep-seated impact on the entire sector of local government. Existing joint municipal authorities will be dismantled and new ones will be set up. Municipal employees are also estimated widely to transfer into the employ of joint municipal authorities; some estimates put the number of transferring employees as high as 100,000. If realised, this would have a significant impact on the operating environment, as it would result in the majority of the people insured under the local government pension system being in the employ of joint municipal authorities.

The reforms envisioned for local government structures and the provision of social and healthcare services underscore the fact that the duty of local government to organise the services does not mean that local government has the duty to provide the services, and that services provided by local government may to an increasing degree switch over to market providers instead. Several new solutions will undoubtedly be explored and implemented in service provision, and the private sector is likely to continue to expand strongly into the extensive municipal services market.

It is currently believed that in the foreseeable future, the local government pension systems will switch over to using the proceeds from its funds to pay for pensions. It is important to ensure that economic and structural sustainability deficit problems are not passed on the financing of the pensions system by using pension contributions to provide stability through economic cycles.

For the investor of pension funds, the coming years seem to bring only further challenges. Roughly 80% of Keva's investments are outside Finland and developments in the global economy will thus have a huge impact on the returns earned by Keva. The global economy is likely to continue growing, but at a rate considerably slower than the one we had grown accustomed to in the pre-financial crisis era. It is indeed difficult to gain insight into the coming years. We are probably looking at a rise in the overall level of interest rates, which will eat into the attractiveness of fixed-income investments. Equities have been performing well since the financial crisis, which means that here, too, the potential for returns has its limits. Moreover, the upcoming tightening of liquidity by the central banks will impact on capital markets and the riskier asset classes. It is indeed quite likely that we are entering an era of greater uncertainty and lower returns in investment operations.

Administration 2014

Council in 2013–2016

Regular members	Personal deputies	Regular members	Personal deputies
Chairman, Mr Harri Jokiranta Seinäjoki	Ms Pilvi Torsti Helsinki	Ms Marja Lounasmaa Union for the Municipal Sector	Ms Päivi Ahonen Union for the Municipal Sector
Deputy Chairman, Ms Maarit Ojavuo Kajaani	Mr Risto Ervelä Sauvo	Mr Leo Lähde Nokia	Mr Hannu Kokko Vantaa
Ms Miia Antin Hattula	Ms Jonna Heikkilä Nakkila	Mr Juhani Nummentalo Salo	Mr Ismo Pöllänen Imatra
Ms Diana Bergroth-Lampinen Pori	Mr Jukka Nyberg Kouvola	Mr Lauri Nykänen Tornio	Ms Virpi Takalo-Eskola Oulainen
Ms Christina Båssar Vöyri	Mr Christian Sjöstrand Helsinki	Ms Helena Ojennus Parkano	Mr Simo Riuttamäki Huittinen
Ms Piia Flink-Liimatainen Äänekoski	Mr Tommy Björkskog Naantali	Ms Silja Paavola Negotiating Organization for Salaried Employees TNJ	Ms Anne Sainila-Vaarno Negotiating Organization for Salaried Employees TNJ
Mr Keijo Houhala Technics and Health KTN ry	Ms Leila Lehtomäki Technics and Health KTN ry	Mr Markku Pakkanen Kouvola	Ms Pauliina Takala Muurame
Ms Riitta Jakara Orivesi	Mr Toni Eklund Turku	Ms Terhi Peltokorpi Helsinki	Mr Topi Heinänen Ruokolahti
Ms Paula Juka Muhos	Mr Jaakko Uuksulainen Kitee	Ms Ulla Perämäki Muurame	Mr Markku Turkia Mikkeli
Mr Harri Kerijoki Heinola	Ms Maarit Markkula Köyliö	Mr Antti Rantalainen Hyvinkää	Mr Arto Ojala Kemijärvi
Mr Niko-Tapani Korte Kuopio	Ms Sinikka Hälli Joensuu	Mr Aki Räisänen Kajaani	Ms Maija Jakka Vihti
Mr Markku Koski Sievi	Ms Kirsi Torikka Savonlinna	Mr Jorma Räsänen Kaavi	Ms Minna Sarvijärvi Ylöjärvi
Ms Outi Kuismin Oulu	Ms Marja Lähde Oulu	Ms Tiina Sarparanta Kajaani	Ms Salla Rundgren Vaasa
Mr Petri Lindroos Negotiation Organisation for Public Sector Professionals	Mr Simo Kekki Negotiation Organisation for Public Sector Professionals	Ms Pia Sääski Askola	Mr Jorma Liukkonen Kouvola
Mr Saku Linnamurto Savonlinna	Mr Pekka Leskinen Leppävirta	Ms Elise Tarvainen Saarijärvi	Ms Aulikki Sihvonen Kontiolahti

Board in 2013–2014

Regular members	Personal deputies
Chairman Ms Laura Räty Helsinki until June 30, 2014	Ms Saija Äikäs Espoo
Ms Anna-Kaisa Ikonen Tampere from September 18, 2014	
Deputy Chairman Mr Kari Nenonen Vantaa	Ms Tarja Filatov Hämeenlinna
Ms Heini Jalkanen Naantali	Mr Juha Kuisma Lempäälä
Mr Risto Kangas Juko ry	Mr Jukka Kauppala KTN ry
Ms Sallamaari Muhonen Helsinki	Mr Jani Moliis Helsinki
Ms Päivi Niemi-Laine Kunta-alan Unioni ry	Mr Jarkko Eloranta Kunta-alan Unioni ry
Mr Juha Rehula Hollola	Ms Tuula Partanen Lappeenranta
Mr Harri Virta Espoo	Ms Oili Heino Pori
Mr Raimo Vistbacka Alajärvi	Ms Marke Tuominen Äänekoski

Investment Advisory Committee in 2013–2014

Members	Personal deputies
Chairman, Mr Seppo Juntti	Ms Jonna Sillman-Sola
Deputy Chairman, Ms Terttu Savolainen	Ms Sinikka Malin
Ms Marja Isomäki	Mr Rainer Alanen
Mr Juha Majanen	Mr Jouko Narikka
Ms Minna Martikainen	Mr Matti Keloharju
Mr Tuomo Mäki	Ms Tanja Rantanen
Mr Kari Parkkonen	Ms Tiina Ingman
Mr Mika Periaho	Mr Jan Saarinen
Mr Olavi Ruotsalainen	Ms Sisko Seppä
Ms Anne-Sainila Vaarno	Mr Harri Westerlund

Workplace Development Committee in 2013–2014

Members

Chairman,
Mr Aki Lindén

Mr Kari Hakari

Mr Tapani Hellstén

Mr Risto Kangas

Mr Jukka Kauppala

Ms Marja Lounasmaa

Ms Helena Metsälä

Ms Helena Reinikainen

Mr Tero Ristimäki

Mr Tapio Ropponen

Ms Anne Sainila-Vaarno

Mr Jari Vettenranta

Secretary,
Mr Pauli Forma

Organisation 31 December 2014

CEO, Managing Director
Mr Jukka Männistö

Internal Auditing
Internal Auditing Manager
Mr Anssi Vesalainen

Customer Relationship Management

Deputy CEO
Mr Pekka Alanen

Customer Service
Director of Customer Service
Ms Jaana Kekäläinen

Employer Services
Customership Director
Mr Jorma Rautakoski

Pension and Working Life Services

Deputy CEO
Mr Tapani Hellstén

Pensions Unit
Pensions Director
Ms Eija Korhonen

Disability Decisions Unit
Pensions Director
Ms Helena Reinikainen

Insurance Medicine and Rehabilitation Unit
Director of Medical Affairs
Mr Tapio Ropponen

Working Life Services Unit
Director, Working Life Services
Mr Pauli Forma

Investments

CIO
Mr Ari Huotari

Internal Equity Unit
CIO, Internal Equity
Mr Fredrik Forssell

External Equity Unit
CIO, External Equity
Ms Maaria Eriksson

Alternative Investments Unit
CIO, Alternative Investments
Mr Markus Pauli

Real Estate Unit
Director, Real Estate
Mr Petri Suutarinen

Loans and Investment Management Unit
CIO (secondary duty)
Mr Ari Huotari

Financing, Financial and Risk Management

CFO
Mr Tom Kåla

Pension Payments Unit
Pensions Director
Ms Anneli Kajas-Pätäri

Financial Unit
Financial Manager
Mr Olli Pasanen

Securities Administration Unit
Head of Securities Administration
Ms Johanna Haukkovaara

Middle Office Unit
Head of Middle Office
Mr Juha Soininen

Financing Unit
Director of Finance
Mr Allan Paldanius

Risk Management
Head of Risk Management
Ms Päivi Alanko

Shared Services

HR and Administrative Director
Ms Katri Viippola

HR Unit
HR Manager
Ms Tuula Kivi

Communications Unit
Communications Manager
Ms Elina Rantanen

Internal Services Unit
Work Environment Manager
Ms Kristina Vuorela

Legal Affairs Unit
Director of Legal Affairs
Ms Anne Perälehto-Virkkala

IT Unit
Information Technology Director
Ms Paula Sivunen

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