26.8.2020

Keva’s interim report for 1 January to 30 June 2020

Keva reform continued in emergency conditions

Keva, which is responsible for the funding of local government pensions and the investment of pension funds, reported a return of -4.7%, or -EUR 2.6 billion, for the first half of 2020. At the end of June, Keva’s investments had a market value of EUR 53.2 billion, compared to EUR 53.5 billion a year earlier. The pandemic affects the funding of Keva member organisations’ pension system in many ways and development in the sum of wages and salaries remained smaller than forecast in the early part of the year.

Contribution income during the first half of the year was EUR 2.7 billion and EUR 2.8 billion was paid out in local government pensions. At the end of June, some 540,000 employees were insured for earnings related pension.

Keva’s return on investments at market value was -4.7% in June. Real estate investments (including real estate funds) generated a return of 0.7%. Returns on other investment assets were in negative territory. Fixed-income investments generated a return of -1.9%, listed equities -9.0%, private equity investments (including unlisted equities -3.5% and hedge fund investments generated a return of -2.8%.

Keva CEO **Timo Kietäväinen** considers the investment performance for the first half year to be reasonable given the highly exceptional environment. He says that Keva has increased its investments in Finnish infrastructure.

”In order to secure Finland’s competitiveness, it is important to seek new alternative financing models outside of the Budget for essential, urgent infrastructure investments,” Kietäväinen says.

According to Kietäväinen, the public sector has coped with the conditions well considering the drastic change in demand for services and the collapse in revenues, and has been able to adapt to new operating conditions. On the other hand, this has increased the pressure on public sector employees.

”It’s important to focus more than present on work ability management and coping at work to prevent the ominous growth in work disabilities. Work disability costs the public sector EUR 3 billion a year. It is possible to lower these costs and attempts must be made to keep all professionals in working life,” Kietäväinen points out.

During the emergency conditions this spring, Keva has continued with reforming its operations: service development projects and Keva’s customer-oriented organisation built on the operating process was successfully launched to schedule.

Good long-term return on investments

Keva’s long-term return on investments continues to be at a good level. The capital-weighted annual cumulative real return on investments since the inception of funding in 1988 until the end of the report period was 3.9%. The non-capital weighted average real return for the same period was 5.2%. The real return for the past five years without capital weighting has been 2.8% and the real return for the past ten years 4.6%.

Fixed-income investments accounted for 36.6% (including the impact of derivatives) and listed equities and equity funds for 37.8% of Keva’s entire investment portfolio. Of the smaller asset classes, private equity investments accounted for 11.6%, hedge funds for 7.3% and real estate investments for 6.9% of the portfolio.

Keva CIO **Ari Huotari** says that the first part of the year was marked by disruptions in the economy and capital markets as a result of the coronavirus pandemic.

”A record fast and sharp fall was seen on the stock markets but this quickly reversed to a strong upswing. Massive corona response packages from central banks and other public actors have significantly supported the stock markets among other things. However, the longer-term impacts of coronavirus are still a great unknown,” Huotari considers.

Coronavirus impacts on Keva member organisation’s pension system

The sum of wages and salaries in the local government sector was around EUR 9.2 billion for the first half of 2020. Incomes Register notifications show an increase of 0.8% in the sum of wages and salaries compared to a year earlier. Total contribution income booked in the profit and loss account rose by around EUR 0.2 billion. Pension expenditure grew by EUR 0.1 billion and 4%.

The current and coming years will see a growing share of pension expenditure being covered through returns on investments or by dipping into investment capital in poor investment years. Keva’s statutory payments, net operating costs and depreciation amounted to EUR 34 million for the first half of 2020 (H1/2019: EUR 36 million in total).

Keva Director of Finance **Allan Paldanius** says that the coronavirus pandemic has affected the funding of Keva member organisations’ pension system in many ways.

”Development of the sum of wages and salaries has missed that forecast as a result of layoffs, interruptions in salary payments, terminations of temporary employment contracts and less use of substitute employees. Not only was there weaker than expected development of the sum of wages and salaries, but member organisations also took advantage of the possibility to defer the due date of pension contributions, totalling some EUR 107 million, by 4 months,” Paldanius says.

According to Paldanius, the development of the fund resulted in pressure to increase the contribution level by a maximum of around one percentage point. Additionally, the development of contribution income meant fund assets had to be used more than expected to pay pensions.

However, Paldanius does not consider there to be any need for immediate action for the time being.

”It would seem the sum of wages and salaries will grow compared to the previous year, the local government wage agreement did not deviate from agreements made before the corona pandemic and with the return of the fund’s value the pressure on the contribution level has partly eased. Apart from a protraction of the situation, there is cause for concern about how coronavirus actions will affect the prospects for future returns,” Paldanius considers.

Pensions paid by Keva to State, Church and Kela employees

Keva is the largest earnings-related pension provider in Finland and is responsible for instituting the pension cover of almost the entire Finnish public sector. During the first half of the year, Keva paid out EUR 2.4 billion in State pensions, EUR 108 million in Evangelical Lutheran Church Pensions and EUR 54 million in Social Insurance Institution of Finland (Kela) pensions. The State, Evangelical Lutheran Church and Kela pay their own pension expenditure and share of operating costs to Keva.

For further information, please contact:

Timo Kietäväinen, CEO, tel. +358 20 614 2201
Ari Huotari, CIO, tel. +358 20 614 2205
Tom Kåla, CFO, tel. +358 20 614 2211
Allan Paldanius, Director of Finance, tel. +358 20 614 2406

The figures in this release are unaudited.

26.8.2020

Key figures H1/2020

	H1/2020	H1/2019	Change, %	2019
Pension and benefit decisions, local govt.	27 926	27 344	2.1	55 184
Pension and benefit decisions, State	6 057	6 080	-0.4	12 097
Pension and benefit decisions, Church	959	998	-3.9	1 984
Pension and benefit decisions, Kela	298	285	4.6	575

	June /2020	June /2019	Change, %	2019
Pension recipients, local govt.	417 234	409 977	1.8	413 084
Pension recipients, State	244 560	249 015	-1.8	246 874
Pension recipients, Church	19 516	19 345	0.9	19 469
Pension recipients, Kela	5 957	5 934	0.4	5 942

	June /2020	June /2019	Change, %	2019
No. of local govt. employees insured (est,)	540 000	550 000	-1,8	560 000