Investment assets totalled EUR 188.5 billion at the end of 2016 – return for the past 20 years 4.3 per cent in real terms

At the end of 2016, the total net amount of assets put into funds by earnings-related pension insurers came to EUR 188.5 billion. The amount increased by EUR 4.4 billion when compared against the situation at the end of September (*). Our analyst **Peter Halonen** has drawn up the following analysis on the amount and allocation of investment assets at the end of year 2016.

(*) Owing to revisions made to the figures in winter, the net amount of investment assets at the end of September 2016 fell by EUR 0.4 billion, to EUR 184.1 billion. The revision also had minor effects on some other figures describing the situation at the end of September. The figures of the Q3/2016 analysis were updated on 23 March 2017.

Halonen's analysis comprises the following sections:

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1. Overview

After initial difficulties, 2016 turned out to be a good year for investors. During this particular year, pension insurers managed to attain, on average, a nominal return of 6.0 per cent and a real return of 5.0 per cent on their investments. This can be considered a good result, taking into account how eventful the year 2016 was on the financial market. The early part of the year was plagued by fears among market actors that the growth of China's economy would slow down at a rapid rate. This fear was visible especially on the stock market, where falling rates were recorded on many days.

The liberal monetary policy of central banks also played an important role in 2016, as many major central banks continued their line of providing stimulus for the economy. The investment year was also characterized by political tensions both in Europe and across the Atlantic, in the USA. Despite all this uncertainty, the returns obtained by pension insurers constituted a sizeable additional contribution to the sustainability of the pension system. Last year's events on the financial market are described in more detail in section 2.

In total, pension assets rose to EUR 188.5 billion. Private-sector pension insurers accounted for EUR 117.9 billion of this sum, while the remaining EUR 70.6 billion was administered by public-sector pension insurers. The rise in pension assets was mainly attributable to an increase in investments in equities and equity-like instruments. This was the first time when the share of this investment category exceeded 50 per cent of all investment assets. The shares of fixed-income investments and real estate investments declined correspondingly.

However, at the same time, pension assets were weighed down by the fact that the pensions paid out from the assets exceeded the pension contributions collected into the system. In the coming years, the increased assets will be used ever more widely to meet the continually rising pension costs. On the other hand, good returns help reduce the pressure to raise pension contributions. In other words, despite the record-high pension assets, there will be more and more uses for all assets. Finland's economic growth and employment trend are also crucial for the sustainability of the pension system. They determine how much of the assets needed for financing pensions is obtained from pension contributions.

The trend of returns on pension asset investments should be examined over the long term; not too much weight should be given to changes during one quarter – or even during one year.

The statistics compiled by us at TELA describe returns since the beginning of 1997. As a result, we are now able to present the average return figures for the past 20 years. The medium-term and long-term returns realized for the whole sector are listed below:

- 2012–2016: nominal 7.2 and real return 6.1 per cent
- 2007–2016: nominal 4.5 and real return 2.8 per cent
- 1997–2016: nominal 5.9 and real return 4.3 per cent

A point worth noting in the analysis of returns is that past returns cannot be used to predict future returns. Secondly, as indicated by the figures, the returns differ from each other depending on which period is selected for the examination.

Pension insurers' solvency has remained strong. Owing to these buffers meant for rainy days, pension insurers are able to withstand occasional worse times on the financial market – thanks to good historical returns. This topic is discussed in more detail in section 4.

2. A lame start for the year on the financial market – risk appetite was rewarded as the year progressed

In early 2016, several factors diminished returns, especially on quoted shares: the market's concern over the slowdown of the Chinese economy; declining raw material prices; and rising risk premiums in high-risk corporate loans. For their part, the weak financial position of some European banks, Britain's decision to resign from the European Union, and the consequent economic and political uncertainty towards the EU raised concern among investors. The sluggish progress of financial performance in the first quarter also weighed down the market atmosphere.

Rates recovered slightly during the second quarter, thanks to fairly good economic figures obtained, for example, from the United States and China. The fact that the central banks continued their stimulating monetary policy also contributed to the recovery. However, the second quarter ended with Brexit and, as a result, rates fell.

Still, it was unexpected how quickly the financial markets quieted down after the Brexit referendum. Stock markets, in particular, continued to recover globally almost all through the summer. In some places in August, the markets even exceeded the level that had prevailed before the referendum – thanks to central banks, companies' good financial performance in the second quarter, and partly also to the fairly stable financial figures obtained from various continents. On the whole, Brexit had less of an economic impact than expected in the latter half of the year, and economic growth in the UK has exceeded expectations. However, it is still too early to assess the final long-term economic impacts of Brexit.

An indication of all of this was that, as far as returns on shares were concerned, the third quarter went well. Risk sentiments were also positive on the emerging markets, owing to their improved growth prospects and the monetary policy pursued by the Federal Reserve, which was more expansionary than expected. However, it did not take long before market actors began to think about the U.S. presidential election and other political elections in Europe.

Nor was the final quarter any less surprising than the previous quarters, as Donald Trump of the Republican Party, somewhat unexpectedly, was elected President of the United States. The reactions on the market were initially negative but quickly turned positive once Trump had revealed his intentions to revive the economy through tax cuts to companies, investments in infrastructure, and deregulation of the banking and pharmaceutical sectors.

However, Trump's policies were not the only factors underlying the rise on the stock market. Above all, market actors' reduced fears of a rapid slowdown in the Chinese economy and the relaxed monetary policies pursued by the central banks contributed to rising stock market prices.

Optimism was also visible in the real economy: both the purchasing managers' indices illustrating companies' outlook and the indicators measuring consumers' confidence have risen widely. Unemployment statistics from the United States have also given rise to optimism. In addition, both inflation and the expectations for economic growth and inflation have risen, for instance in Europe. This is partly reflected in the interest rate market, where the rates of interest on long-term debt securities have been rising. This is in part an indication of investors' confidence in future economic growth.

Optimism notwithstanding, uncertainty factors have not completely disappeared. The indebtedness of the world economy is one major concern alongside the fact that political crises may be imminent in 2017 – especially in the euro area. On the other hand, it may also be asked whether the market has been too optimistic with regard to Trump: Will he be able to carry out the stimulating fiscal policy that he has talked about? Will it work in the desired way? And how will his protectionist ideas be realized?

What is certain is that pension insurers will have to keep relying on the most important guideline in investments: productivity and security. However, pension insurers have very good solvency, which is why they can withstand occasional market fluctuations. The long time span of investment and the diversification of assets invested, i.e. good risk management, play a key role now and in the future.

3. Investment returns itemized

For the whole sector, the nominal return for 2016 came to 6.0 per cent, whereas the real return was about 5.0 per cent. There was slight variation between the returns of the various pension institution groups:

- for pension insurance companies, the average rate of return was 5.1 per cent in nominal terms and 4.1 per cent in real terms;
- the corresponding return figures were 6.5 and 5.4 per cent for company pension funds and industry-wide pension funds;
- for public-sector pension insurers, the average rate of return was 7.4 per cent in nominal terms and 6.3 per cent in real terms.

The nominal annual returns of the seven largest earnings-related pension providers in 2016 ranged between 4.7 and 7.4 per cent in nominal terms and between 3.7 and 6.3 per cent in real terms (see in more detail Quarterly information on the breakdown of investments and on returns).

The returns by investment type were as follows:

- the best nominal annual returns for the whole sector came from investments in equities and equity-like instruments: 6.4 per cent;
- real estate investments yielded 4.3 per cent; and
- despite the challenging market conditions, fixed-income investments yielded a reasonably solid return of 3.9 per cent.

A factor underlying the positive price trend of fixed-income investments is the slight decrease in the interest level in 2016. When interest rates fall, the prices of debt securities rise. However, the interest level recovered slightly towards the end of the year, owing to greater expectations for economic growth and inflation. Another factor affecting the returns on fixed-income investments is the running yield, which varies depending on the riskiness of the investment. For instance, for various corporate bonds and government bonds, such as those issued on developing and developed markets, the running yield may vary over a wide range. Changes in exchange rates also have an impact on returns.

In recent years, interest rates have generally been falling, owing to the liberal monetary policy pursued by the central banks. This has pushed interest levels down for both government bonds and certain corporate bonds. The future running yields that will be obtained from fixed-income securities are in part very low for low-risk government and corporate bonds. The low returns expected in the future are challenging for long-term investors, such as pension insurers.

If the returns on investments are examined over a longer term than that used in the graphs, from the start of 1997 to the end of December 2016, the annual mean returns in the private sector are 5.8 per cent in nominal terms and 4.1 per cent in real terms. The nominal and real returns in the public sector are 6.3 and 4.6 per cent, respectively. For the whole sector, however, the annual mean returns are 5.9 per cent in nominal terms and 4.3 per cent in real terms.

In determining the baseline for sustainability calculations, the Finnish Centre for Pensions uses 3.0 per cent as the projected long-term real return over the next ten years. After this, the projected real return will revert to 3.5 per cent, which had been applied earlier.

When making comparisons, it is good to remember that requirements for solvency have only been laid down for private-sector pension providers. In the public sector, decision-making bodies guide investment activities by setting allocation limits for each investment category.

Other long-term and medium-term rates of return for the whole sector are as follows:

- 2012–2016: 7.2 per cent in nominal terms and 6.1 per cent in real terms
- 2007–2016: 4.5 per cent in nominal terms and 2.8 per cent in real terms
- 1997–2016: 5.9 per cent in nominal terms and 4.3 per cent in real terms

By examining the various time ranges, it can be noticed how returns vary depending on which years are included in the examination period.

4. Pension companies’ solvency strengthened

Earnings-related pension providers in the private sector must meet statutory solvency requirements. The solvency of pension providers was strong at the end of December. This reflects good preparation for potential uncertainties on the financial market. The solvency ratio describes a company’s risk-bearing capacity. The solvency ratio is obtained by dividing the solvency capital by technical reserves.

The solvency ratios of the five largest pension insurance companies ranged between 15.4 and 30.9 per cent at the end of December. At the end of the third quarter of 2016, the corresponding range was roughly the same, or between 14.5 and 30.9 per cent. On average, the solvency ratios rose during the last quarter. In the same way as in the third quarter, this is because of the good returns on equities. The express purpose of solvency capital is to serve as a buffer for the varying returns on investments.

The solvency position of the five largest pension insurance companies at the end of December was between 1.4 and 2.6. In September, the corresponding figures had been between 1.5 and 2.6. The solvency position is the solvency capital in relation to the solvency limit. Factors affecting the solvency limit include the risks involved in investments and their mutual correlation. In practice, the solvency position describes a company's risk-bearing capacity in relation to the risks taken. More information about the calculation of solvency is available on our page Calculation of solvency.

5. A marked increase in the investment portfolio – net investment assets EUR 188.5 billion

At the end of the year 2016, the total net amount of assets put into funds by earnings-related pension insurers, i.e. the net investment portfolio, came to EUR 188.5 billion. Compared against the third quarter of 2016, the value of the investment portfolio increased by EUR 4.4 billion.

When examined using the more important indicator, i.e. the longer term, between 2006 and 2016 the investment portfolio increased on average by EUR 7.4 billion per year. For the sake of prudence, however, it should be noted that the amount of assets has fluctuated over a rather wide range from year to year. For instance, during the financial crisis in 2008, assets fell by as much as EUR 17.3 billion, whereas in 2009 assets increased by EUR 19.8 billion on the previous year. For its own part, the rise in pension expenditure will curb the rise in assets ever more in the future.

The reason for the rise in the investment portfolio was the positive trend of returns gained on pension asset investments. In the last quarter, the returns were good especially in equity investments. Fixed-income investments and real estate investments also yielded a good return. It should also be noted at the same time that the pensions paid out from the assets exceeded the pension contributions collected into the system. This had a negative impact on pension assets. In fact, assets are put into funds and invested so that some of the financing needed for pensions can be obtained from these sources.

Both investment returns and the difference between pension contributions and pension expenses have an impact on investment portfolio trends. Most of the pension contributions are used to finance current pensions. The remaining pension contributions are placed into funds and invested so that pension contributions can permanently be kept lower than in the alternative where no investments of this type are made.

In 2016, the increase in assets in the entire earnings-related pension system was solely attributable to returns, since part of the pension expenditure was financed from investments in both the private and the public sector. Within the public sector, however, contributions to the municipal-sector pension system were still greater than pension expenses.

6. The share of equities exceeded 50 per cent for the first time, a downturn for fixed-income investments

At the end of 2016, the investment portfolio for the entire sector was broken down as follows:

- investments in equities and equity-like instruments roughly 50.5 [2] per cent (EUR 95.2 billion);
- fixed-income investments 41.2 [3] per cent (EUR 77.8 billion);
- real estate investments 8.2 per cent (EUR 15.4 billion).

Euro-denominated and relative changes by investment category, for the entire investment portfolio, when compared against the previous quarter:

- investments in equities and equity-like instruments: an increase of about EUR 7.4 billion, and an increase of 2.8 percentage points in their relative share;
- the corresponding figures for fixed-income investments: about EUR -3.6 billion and a decrease of 3.0 percentage points in the relative share;
- real estate investments: an increase of about EUR 0.5 billion, and at the same time an increase of 0.1 percentage points in the relative share.

Due to rounding, the change of the investment portfolio in euros does not equal the total amount of the euro-denominated changes calculated by investment type.

The increase in investments in equities and equity-like instruments is explained by two factors. The first reason is the positive value trend of EUR 4.8 billion that emerged when quoted shares, in particular, gained extra impetus after the stock markets had risen late in 2016 in response to the fiscal stimulus promised by Trump and the revival of economic growth in China. The second factor behind the rise in equities was a positive net flow totalling as much as EUR 2.6 billion. About EUR 2.0 billion of this sum came from quoted shares. Thus, pension insurers have increased the share of risky investments in their portfolios. The strategy worked well during the last quarter, when stock markets had an upswing.

In contrast, the downturn in fixed-income investments is explained by their negative net flow, where sales and maturities exceeded purchases. The negative net flow was approximately EUR -2.9 billion. The changes in real estate investments were very moderate, although their purchases exceeded their sales during the last quarter of the year (EUR 0.3 billion).

The statistical reform that came into effect at the start of 2016 contributed to the mutual relations between different investment categories. The biggest factor affecting the mutual relations was in the relationship between real estate investments and one sub-category of fixed-income investments, namely investment loans.

In the new data collection model for earnings-related pension assets devised by Statistics Finland, data are collected on both external and internal lending done by a group of companies. Internal lending comprises all lending to the pension insurer’s own companies, including its own real estate companies Thus, the statistical report does not specify directly how much of the lending goes to the pension insurer's own real estate companies.

Alongside the new reporting, all lending, whether internal or external, is included in investment loans. In consequence, the amount of real estate investments has decreased but, on the other hand, the amount of investment loans has increased by the same sum when compared against the last quarter of 2015. This category shift has an impact of slightly over EUR 2 billion on both investment categories.

However, the new classification and reporting have no effect on the total amount of investment assets. Finally, it must still be taken into account how value changes and the relationship between purchases and sales affect the differences between investment categories.

6.1 A downturn for bonds and convertible bonds

Fixed-income investments (EUR 77.8 billion) decreased rather much, or by EUR 3.6 billion, when compared against the third quarter. Owing to the changes, fixed-income investments can be broken down as follows:

- Bonds and convertible bonds 32.2 per cent of total investment assets (EUR 60.7 billion);
- Money market investments 6.1 per cent (EUR 11.5 billion);
- Investment loans 2.4 per cent (EUR 4.6 billion);
- TyEL premium lending 0.5 per cent (EUR 1.0 billion).

Changes in fixed-income investments, in euros and relative to the entire investment portfolio, when compared against the previous quarter:

- Bonds and convertible bonds, a fall of EUR 2.1 billion; at the same time, their relative share declined by 1.9 percentage points owing to a greater increase in the value of the whole investment portfolio;
- Corresponding figures for money market investments: EUR -1.6 billion and -1.0 percentage points;
- Investment loans: EUR +0.2 billion and 0.0 percentage points;
- TyEL premium lending EUR -0.1 billion and -0.1 percentage points.

The primary reason for the decrease in bonds and convertible bonds is their negative net flow, which was EUR -2.3 billion. Not only the difference between purchases and sales, but also the maturing of bonds affects the net flow of fixed-income investments. The fall in the value of bonds and convertible bonds was softened by a positive price trend, which was about EUR 0.4 billion during the last quarter.

Money market investments have risen in a nearly trend-like manner for two years. However, the last quarter of 2016 was an exception: the value of money market investments declined by about EUR 1.6 billion. Pension insurers have shifted their investment assets to investment categories that have both higher risks and higher expectations for returns, such as equities. A high volume of money market investments usually reflects preparation for increased uncertainty on the investment market, when investors want to lower risk levels. Alternatively, the assets may be kept on the money market for a while before they are invested in longer-term instruments and/or instruments that, in part, involve higher risks. However, the volume of money market investments has still remained fairly high, when it is compared to figures from, say, 2013 and 2014.

The volume of investment loans increased slightly, the main reason being that the net amount of cash collateral for derivatives rose from the previous quarter. This notwithstanding, the amount is still negative by EUR 0.3 billion, but in the previous quarter the figure had been EUR 0.9 billion in the red. Purchase price claims and liabilities also fell slightly – by about EUR 0.2 billion net.

However, on the whole, investment loans have increased significantly during year 2016 when compared against the situation at the end of 2015. Underlying this increase are the category changes stemming from the statistical reform. In consequence, new components are included in investment loans. Some of these components had a positive effect on the entire investment loan category, while others had a negative effect. When compared against the old data collection practice, the first two items on the list below are completely new components for reporting. They also have an impact on the entire investment portfolio:

1) The net amount of cash collateral for derivatives, i.e. the cash collateral given minus the cash collateral received.

2) Purchase price claims and liabilities arisen for the duration of clearing in connection with securities trading.

3) Especially the change in classification practice, propelled by the statistical reform, increased investment loans. This change was already described in more detail at the start of section 6. However, the changes in the relatives shares of investment loans and real estate investments did not have any effect on the total amount of investment assets.

New investment loans and TyEL premium lending granted by pension insurance companies totalled about EUR 0.6 billion during the last quarter of 2016. The figure is slightly higher than in the previous quarters. Still, the figures are far from the amounts recorded during the financial crisis; for instance, in 2009 the value of new loans granted in the first quarter was as high as EUR 1.3 billion.

The figures give an indication of the availability of financing for Finnish companies from sources other than earnings-related pension providers. The higher the sums for these two types of loans are, the more challenging it is for companies to obtain financing, for instance, from banks. On the other hand, the increase in lending for investment loans and TyEL premium lending may reflect the confidence that pension insurers' customers, i.e. enterprises, have in the economy, indicating that they have the courage to take out a loan, for instance for new investments.

6.2 The portfolio of quoted shares (incl. funds) rose together with other investments in equities

Quoted shares, in particular, were behind the marked increase (EUR +7.4 billion) in investments in equities and equity-like instruments when compared against the third quarter. The volumes of hedge funds and other investments in equities also rose. Owing to the changes, investments in equities and equity-like instruments can be broken down as follows:

- Quoted shares (incl. funds) 35.0 per cent (EUR 65.9 billion);
- Hedge funds 8.2 per cent (EUR 15.5 billion);
- Other equity investments 7.3 per cent (EUR 13.8 billion).

Changes in investments in equities and equity-like instruments, in euros and relative to the entire investment portfolio, when compared against the previous quarter:

- Quoted shares (incl. funds): an increase of EUR 4.9 billion and a rise of 1.9 percentage points in the relative share;
- The corresponding figures for hedge funds: an increase of EUR 1.4 billion and a rise of 0.5 percentage points in the relative share;
- Other equity investments: EUR +1.1 billion and +0.4 percentage points.

The main factors behind the rapid increase in the amount of quoted shares (incl. funds) are the positive value changes: EUR +2.9 billion. This investment category also had a fairly large positive net flow (EUR 2.0 billion). In addition, both hedge fund units and other investments in equities showed a positive net flow of about EUR 0.3 billion.

Purchase and sales data show how pension insurers have increased the amounts of investments considered risky in their portfolios.

In summary it can be said that the second half of 2016 was stronger on the stock markets than the first half. The returns on quoted shares were good, which was seen as an increase in their amount in pension insurers' investment portfolios.

The euro-denominated index values for returns on quoted shares in various industrialised countries (including the world index) indicate how stock markets developed at a different pace in different parts of the world. The index values for returns showed a rather wide range of variation as the nominal returns ranged from +3.2 to +13.3 per cent between January and December:

- MSCI Europe Index +3.2%.
- MSCI World Index +11.4%
- OMXH Portfolio Index +13.3%

7. Investments outside the euro area keep rising – the relative share exactly 55 per cent

As 2016 drew to a close, investments in countries outside the euro area accounted for 55.0 per cent of total investments. Exactly five years ago, in December 2011, the figure was clearly lower, or 37.6 per cent. In the third quarter of 2016, the share was 53.2 per cent. The share of investments outside the euro area exceeded 50 per cent for the first time in December 2015, when it reached about 50.1 per cent.

Underlying this trend is the more efficient risk diversification of assets in terms of the risk-return tradeoff. Moreover, since the volume of pension assets has grown, the search for suitable investments requires that some investments are made outside Finland. On the other hand, the relative shares of various areas also change, depending on which areas have the best returns. When the value of investments in a certain area rises faster than in other areas, their relative share increases even without new purchases.

Owing to the trend, investments abroad account for an increasingly large share of the returns obtained into the Finnish pension system. When Finland's economic growth does not reach figures as high as those in many other countries, for reasons such as rather weak exports, the fruits of economic growth in other countries can be used, through investments made abroad, to gain additional financing for Finnish pension provision.

As the relative share of investments outside the euro area rose, the relative shares of investments in Finland and in the rest of the euro area declined. Both net flows and rates of return affect the increase in investment portfolios in various areas.

The list below shows the sums and relative shares of investments in the various areas, as well as the changes on the third quarter:

- Investments outside the euro area: 55.0 per cent (roughly EUR 103.8 billion). Change on the third quarter: approximately EUR +5.8 billion and +1.8 percentage points.
- Finland: approximately 25.8 per cent (EUR 48.5 billion). Change: EUR -0.2 billion and -0.7 percentage points.
- Other countries in the euro area: 19.2 per cent (EUR 36.2 billion). Change: approximately EUR -1.3 billion and approximately -1.2 percentage points.

Domestic investments were broken down, in descending order, as follows:

- quoted shares (incl. funds) 29.1 per cent (EUR 14.1 billion);
- real estate investments 24.3 per cent (EUR 11.8 billion);
- money market investments 18.8 per cent (EUR 9.1 billion);
- bonds and convertible bonds 10.3 per cent (EUR 5.0 billion);
- investment loans 9.5 per cent (EUR 4.6 billion);
- other equity investments 5.9 per cent (EUR 2.9 billion);
- TyEL premium lending 2.1 per cent (EUR 1.0 billion).

No major changes took place in the shares of domestic investments during one quarter, with the exception of the decrease in money market investments. In the long term, the changes have been rather great.

As concerns equities and equity-like instruments (in this case, excluding hedge funds), the largest sales during the last quarter of the year were recorded for investments in the euro area (excluding Finland) (EUR -0.2 billion). Investments in Finland garnered a modest positive net flow. The largest positive net flows focused on investments outside the euro area. Combined, these flows amounted to as much as EUR 2.4 billion. The largest positive flows outside the euro area focused on equity funds (EUR 1.6 billion), while the largest negative flows were recorded for equity funds investing in the euro area (EUR -0.3 billion). The changes in other categories were smaller.

During 2016 the largest positive net flows in investments in equities and equity-like instruments (excluding hedge funds) were recorded outside the euro area (EUR +3.6 billion). In contrast, negative net flow was recorded for the rest of the euro area (EUR -1.0 billion) and Finland (EUR -0.5 billion).

The entire investment category of equities and equity-like instruments (EUR 95.2 billion) was broken down geographically as follows:

- domestic investments 17.9 per cent (EUR 17.0 billion);
- the rest of the euro area about 13.0 per cent (EUR 12.4 billion);
- investments in equities outside the euro area 69.1 per cent (EUR 65.8 billion).

Fixed-income investments (EUR 77.8 billion) were distributed as follows:

- domestic investments 25.3 per cent (EUR 19.7 billion);
- the rest of the euro area 27.6 per cent (EUR 21.5 billion);
- investments outside the euro area 47.1 per cent (EUR 36.6 billion).

Real estate investments (EUR 15.4 billion) were distributed as follows:

- domestic investments 76.6 per cent (EUR 11.8 billion);
- the rest of the euro area 14.9 per cent (EUR 2.3 billion);
- investments outside the euro area 8.5 per cent (EUR 1.3 billion).

8. Basic facts about our investment statistics

Our member organizations are responsible for investing the statutory earnings-related pension assets. The statistics cover the pension insurance companies, the TyEL funds of industry-wide pension funds and company pension funds, and the public-sector earnings-related pension providers: Keva, the State Pension Fund (VER), the pension liability fund for the employees of the Social Insurance Institution (Kela), the Church Pension Fund and the Pension Institution of the Bank of

Finland (SPERA). Also included is the group of specialized pension providers, which encompasses the Farmers' Social Insurance Institution (Mela) and the Seafarer's Pension Fund (MEK).

The statistics only cover the statutory earnings-related pension assets put into funds. They do not include the value of the funds for collective supplementary pension provision, managed by company pension funds and industry-wide pension funds, which totalled about EUR 4.7 billion at the end of 2016.

The data on each quarter of 2016 have been collected using the new report model for earnings-related pension assets devised by Statistics Finland [1]. In consequence, we now use the data collected by Statistics Finland (since the first quarter of 2016). Previously the data were collected using a report model maintained by the Financial Supervisory Authority. The report model had been devised more than ten years ago, primarily to meet the European Central Bank's needs at the time.

Following this change, certain sections in the reporting have become more precise when compared against the old data collection model. For instance, cash collateral given and received in connection with derivatives, and purchase price claims and liabilities associated with investments, are considered at their net value in the new reports. The impact that collateral for derivative contracts and purchase price claims and liabilities have on the investment portfolio is described in more detail in section 6.

The statistical summaries include the adjusted figures in investment loans. The way in which the net value of derivative contracts is reported and handled has also been specified.