Key terminology

A

Valuation difference

The difference between the fair value and book value of investments included in the solvency capital of an earnings-related pension company. Changes in valuation differences are included in the company's investment result.

Client bonus

An insurance contribution discount, the amount of which depends on, in accordance with the calculation bases, the earnings-related pension company's solvency and operational efficiency (see also Provision for current bonuses).

Customer transfer, transfer transactions

A policyholder may transfer their earnings-related pension insurance from one company to another. The account must be terminated at the latest on the last day of March, June, September or December, and it is then transferred to the new company after three months. The contract may only be transferred again after it has been held by the new company for a minimum of one year.

H

Loading income

The expense loading included in the contribution plus the part of the disability pension contribution component reserved for pension decision expenses. Loading income covers the total operating expenses of an earnings-related pension company except for the costs resulting from maintaining workability, managing investments and statutory charges.

Loading profit

Loading profit shows the amount of the expense loading not used for the company's operating expenses. The ratio of operating expenses to the expense loading reflects the company's efficiency. The lower the ratio, the higher the efficiency of operations.

J

Derivative

A financial investment instrument, the value of which is based on the future value of another underlying security, index, currency, commodity or entitlement.

L

Statutory charges

Of operating expenses, the expenses, i.e. statutory charges, of the Finnish Centre for Pensions, the Financial Supervisory Authority and the Pension Appeal Court are covered through a separate component included in the insurance contribution.

Liquidity

For example, the ability of the securities market to handle large transactions.

M

Market risk

Market risk means the fluctuation in the value of the investment objects.

O

Equity-linked provision for current and future bonuses

A buffer jointly maintained by earnings-related pension companies bearing some of the risks resulting from fluctuations in equity income. The equity-linked share of the technical provisions was 15% in 2017 and is 20% as of 2018. The equity-linked buffer fund can be greatly affected by changes in equity values. When at its lowest, it may reduce the technical provisions by 20%, while at its highest, it may cause technical provisions to increase by 1%. If it accounts for more than 1 per cent of the technical provisions, the funding of old-age pensions will be increased by the amount exceeding the upper limit.

Provision for current bonuses

Part of the provision for unearned premiums. A certain portion of the investment surplus and the entire loading profit have been transferred to the provision for current bonuses on the basis of the company's solvency status. Reserved for the payment of client bonuses in the following year. The transfer to client bonuses is assigned to customers in proportion to the accumulated pension liabilities and insurance contributions.

Provision for future bonuses

Part of the provision for unearned premiums that is included in the company's solvency capital. The remaining investment surplus and underwriting result (see Provision for current bonuses) are transferred to the provision for current bonuses, which is used as a measure to prepare for fluctuations in the value of investments and the technical underwriting result.

P

Technical interest rate

The technical interest rate is used to determine, among other things, the interest rate on a number of items such as insurance contributions. The rate is determined biannually on the basis of the average solvency of earnings-related pension companies. In the first half of 2017 it stood at 4.75% and during the latter half of the year at 5.25%. As of 1 January 2018, the rate is 5.50 per cent.

S

Investment result

The investment result at fair value is calculated by adding the change in valuation differences to the net investment return. The investment result is calculated by deducting the return requirement on technical provisions from the investment result at fair values.

T

Provision for pooled claims

A common buffer for earnings-related pension companies. The buffer ensures the adequacy of financing for jointly covered pension components even in poorer economic circumstances.

Equalisation provision

The amount of the provision for claims outstanding accumulated from the risk result used to equalise any fluctuations in the technical underwriting result or, for example, for years when the number of new pensions granted is higher than estimated at the time when contributions were determined. The equalisation provision was divided into the following sub-sections: old-age and disability pensions, and unpaid contributions. As of 1 January 2017, the equalisation provision is incorporated in the provision for future bonuses.

TyEL (earnings-related pension) premium loan

The policyholder is entitled to borrow part of the technical provisions (loan fund), provided that the requirements of the insurance terms are met. The interest on the loan is quoted daily for different periods.

Pension record

A summary of an individual's employment history over a minimum period of five years, detailing the registered earnings from employment relationships and entrepreneurial activities, social benefits affecting the individual's pension, and information about the earnings-related pension accrued up until the end of the previous year. The recipients are encouraged to verify the accuracy of the information to ensure that they receive the full amount of future pension they are entitled to. Those who have opted for the print version receive the record by post every three years. Those aged 60 or over receive the print version by post every year. Those who have opted for the electronic pension record can check their record annually.

V

Solvency capital

The solvency of an earnings-related pension insurance company is measured by its solvency capital, which comprises capital and reserves, accumulated appropriations, valuation differences and the provision for future bonuses. Earnings-related pension insurance companies carry investment and insurance risks through solvency capital.

Solvency requirements

Solvency requirements are calculated on the risks inherent in the investments that make up the technical provisions margin and are usually proportional to the amount of technical provisions. The calculation of the solvency limit also takes into account the insurance risk, i.e. fluctuations in the technical underwriting result. The minimum requirement for solvency capital is one third of the solvency limit. The maximum level of solvency capital is four times the solvency limit. Solvency requirements were amended as of 1 January 2017.

Technical underwriting result

For old-age and disability pensions business and unpaid contributions, the difference between the insurance contributions and claims expenditure. A positive balance on the technical account increases the provision for future bonuses included in the solvency capital, and a negative result reduces it. Until 2016, the equalisation provision was used to carry any fluctuations in the underwriting result.

Technical provisions

An estimate entered into the financial statements on the company's future pension expenditure for the part that is funded. Technical provisions comprise a provision for unearned premiums and a provision for claims outstanding. The provision for unearned premiums relates to the liabilities of the company for future contingencies for pensions that have accumulated by the end of the financial year. The provision for claims outstanding is the capital value of the funded components of future pensions in respect of contingencies that have already occurred.

Value at Risk (VaR)

The figure indicates the largest possible value of investment loss risk at a selected probability and period of time. CVaR (Conditional Value at Risk) figure refers to expected losses exceeding VaR.

Return requirement on technical provisions

The return requirement on technical provisions is determined on the basis of the fund rate used to calculate pension liabilities, a pension liability supplementary factor approved by the Ministry of Social Affairs and Health and a return-on-equity component determined retroactively. The fund rate stands at 3%. In 2017, the supplementary factor stood at 1.36% on average. Since 1 January 2018, the supplementary factor has been 1.35%. The return-on-equity component in 2017 was approximately 1.44%.

Volatility

Change in the value of an investment.