VARMA

Key terminology

A

Assets covering technical provisions

The assets covering the technical provisions consist mainly of investments which are valued at fair value and which are subject to some quantitative restrictions in order to limit risks. The restrictions are related to liquidity, currency and counterparty risks and to various risk concentrations in general. As of 1 January 2017, the regulations on the assets covering the technical provisions are abolished, but similar factors, such as concentration risks, will continue to be taken into account in the calculation of the solvency limit.

C

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.

D

Derivative

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

E

Equalisation provision

The amount of the provision for claims outstanding accumulated from the risk business 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 is divided into the following sub-sections: old-age and disability pensions, and unpaid contributions. As of 1 January 2017, the equalisation provision will be incorporated in the provision for future bonuses.

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 buffer fund can be greatly affected by changes in equity values. The regulations were amended as of the beginning of 2017. In future, when at its lowest, it may reduce 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.

I

Investment result

Investment result at fair value is calculated by deducting the return requirement on technical provisions from the net investment return and change in valuation differences.

L

Liquidity

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

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.

M

Market risk

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

P

Pension record

A summary of an individual's employment history over a minimum period of five years detailing the registered earnings accumulated in the private sector and when self-employed, social benefits affecting the individual's pension, and information about the earnings-related pension accrued by the end of the previous year. The pension record was sent out to individual customers of earnings-related pension companies for the first time in 2008. The pension record is sent out annually, and 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. As of 2013, those who have opted for the print version receive the record by post only every three years. Those aged 60 or over will continue to receive a hard copy every year. Those who have opted for the electronic pension record can check their record annually.

Provision for current bonuses

Part of the provision for unearned premiums. Certain portions of the investment surplus and 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.

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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 loading profit (see Provision for current bonuses) are transferred to the provision for current bonuses, which is used as a measure to prepare for investment value fluctuations.

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.

R

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 2016, the supplementary factor stood at 1.12 per cent on average. Since 1 January 2017, the supplementary factor has been 1.09 per cent. The return-on-equity component in 2016 was approximately 0.58 per cent.

S

Solvency capital

From the beginning of 2013, the solvency of earnings-related pension companies has been measured using solvency capital, which comprises capital and reserves, accumulated appropriations, valuation differences, the provision for future bonuses, and the equalisation provision. Earnings-related pension insurance companies carry investment and insurance risks through solvency capital. Until 2012, investment risks were carried through solvency capital, and insurance risks through the equalisation provision.

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. As of 1 January 2013, the calculation of the solvency limit has also taken 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.

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.

T

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 2016, the technical interest rate stood at 4.50 per cent throughout the year. As of 1 January 2017, the rate is 4.75 per cent.

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.

Technical provisions to be covered

Technical provisions plus liabilities in respect of pooled pension expenditure and policyholders, less the premium reserve for self-employed persons' pension insurance. The regulations concerning assets covering the technical provisions were abolished as of 1 January 2017. In future, the risks, such as the concentration risk, which were earlier taken into consideration in said regulations will be taken into consideration in the calculation of the solvency limit.

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 adds to the equalisation provision (as of 1 January 2017 the provision for future bonuses) and a negative result reduces the provision.

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.

V

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.

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.

Volatility

Change in the value of an investment.