

Understanding Your Money Plan

Brush Up Quiz!
**Economic /
Money Sense**

Take our quiz on topics related to oft-mentioned fundamental financial issues and test your economic knowledge and money sense.

**A Money Plan
That Makes
Sense**

This edition's theme is "Rebalancing."

**Money for
Life Events,
and so on**

Introducing ideas on money. This time, the topic is "Home Mortgages."

Brush Up Quiz!
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Take the Money Quiz!

Q 1 For ordinary NISA or Junior NISA, what is the term for when the financial instruments owned are moved (transferred) to a new tax-exempt investment allowance in the following year when the original tax-exempt period (five years) is up?

- A Takeover B Roll Over C Roll Cut

Q 2 Which of the following items is not subject to the reduced consumption tax hike that was implemented on October 1, 2019

- A Food and drink products(excluding alcoholic beverages), dining out and catering
B Newspapers issued more than twice a week by subscription.
C Medical and pharmaceutical products, quasi-drugs, etc.



Q1

The answer is

B ▶

By using the tax-exempt investment allowance for the amount of rollover, the amount that can be newly invested is reduced. After 5 years, it is possible to move the investments to a taxable account (a designated account or an ordinary account) at the current market price, or continue to hold them tax-free by using the tax-exempt allowance of the tax-exempt account in the following year. (If the tax-exempt allowance for the following year is utilized at the end of the tax-exempt period, it is possible to roll it over even if the total market value exceeds 1.2 million yen *.)

* 0.8 million yen in the case of Junior NISA

Q2

The answer is

C ▶

"Food and drink", which are items subject to the reduced tax rate, refer to food stipulated in the Food Labeling Act (excluding alcoholic beverages stipulated under the Liquor Tax Law). "Food" as stipulated in the Food Labeling Law refers to all food and drink excluding "medical and pharmaceutical products", "quasi-drugs" and "regenerative medicine products" as stipulated in the "Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices" but includes "additives" defined in the Food Sanitation Law.

A Money Plan That Makes Sense

“Leaving assets alone for a long time” is not a long-term investment



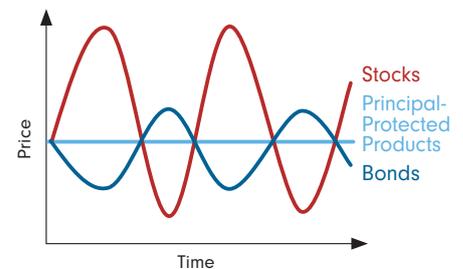
A periodic asset allocation review is required

1

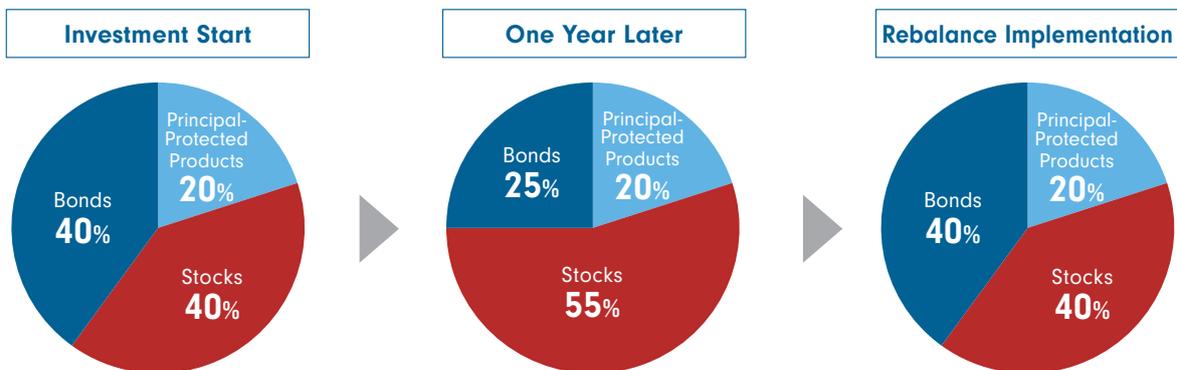
Asset allocation changes as a result of market fluctuations

Just as you would check your health with a regular health examination, it is also important to check your asset allocation on a regular basis. Unlike principal-protected products, risky assets such as stocks and bonds vary in price from day to day due to fluctuations in the market. After a certain amount of time has elapsed since the start of an investment, your asset allocation is altered because of market movements. If you continue on regardless despite these changes, your assets may decline in value.

■ Asset Price Fluctuations (Conceptual diagram)



■ "Rebalance" to return to a predetermined asset allocation ratio



Suppose you start investing with an asset allocation ratio of 20% for principal-protected products and 40% each for stocks and bonds. One year later, let's say the stock market rose and the bond market fell. As a result, stocks accounted for 55% of total assets, up 15% at the start. The stock market moves frequently, and the tendency would be to want to increase the allocation to stocks. However, by selling stocks and purchasing bonds and principal-protected products, we can revert to the predetermined asset allocation ratio. In the investment world, this is called "rebalancing".

2

Aiming for efficient investment by periodic rebalancing

For example, let's consider the case where 1 million yen was invested at the same asset allocation for 3 years and compare the performance of two portfolios with and without annual rebalancing. In the first year, total assets increased by 88,200 yen, but the asset allocation ratio also changed. The principal-protected product is 20% of the total, so it is reduced to 217,640 yen. Stocks and bonds are the same amount and restored to their original asset allocation ratio. The portfolio is rebalanced in the second year as well. In the third year, total assets increased to 1,092,903 yen, due to the rise in both the stock and bond markets.

Price movement of risk assets

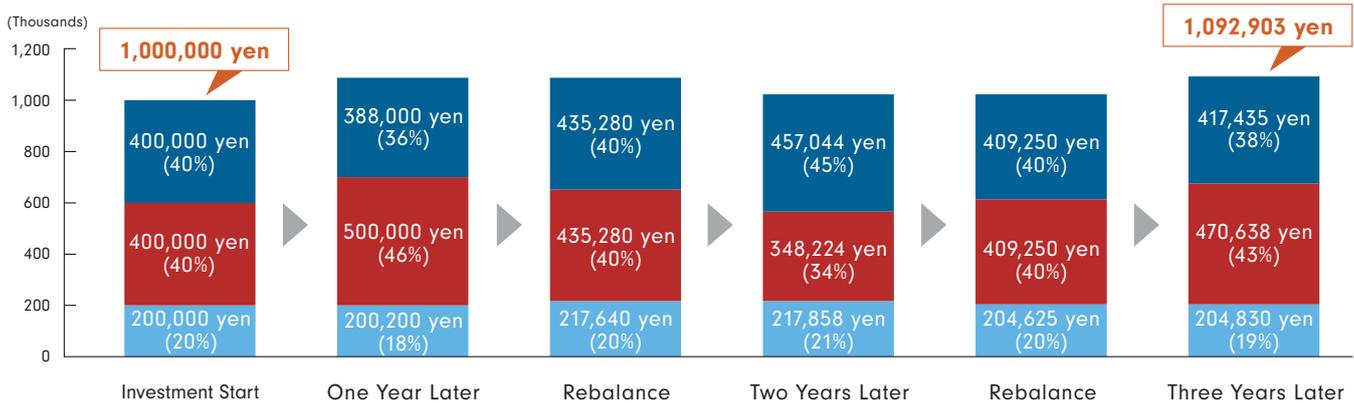
	1st year	2nd year	3rd year
Bonds	↓ 3%	↑ 5%	↑ 2%
Stocks	↑ 25%	↓ 20%	↑ 15%

Increase investment efficiency to increase assets

In the event of an annual rebalancing

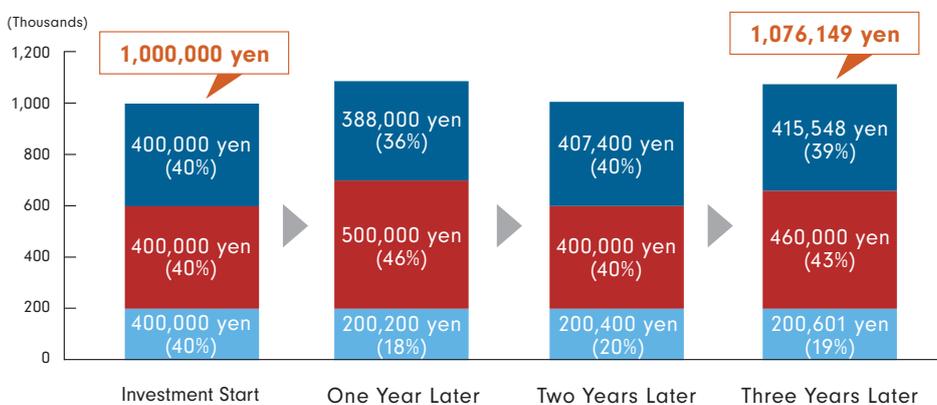
■ Bonds ■ Stocks ■ Principal-Protected Products

1,000,000 yen at the start of the investment → After 3 years, 1,092,903 yen



In the event of no rebalancing

1,000,000 yen at the start of the investment → After 3 years, 1,076,149 yen



If the asset allocation had been left alone without rebalancing, the total amount of assets increased from the principal, but the result was less than the portfolio that was rebalanced.

It is important to properly manage the portfolio. Check the investment status at least once a year and rebalance if the asset allocation ratio is askew. In the long run, rebalancing should increase investment efficiency, which will likely lead to an increase in the asset value as well.

Source: Prepared by Fidelity Investments. Calculations based on principal-protected product with interest rate at 0.1%, rounded down to the nearest integer.

Mortgages

What is the average mortgage
debt balance per household?

Approx. **13.5** million yen

Source: The Central Council for Financial Services Information "Public opinion survey on household financial behavior" [Survey of households with two or more people] (2018)

The repayment of mortgages is a heavy burden on households. The table below shows the results of a "Public Opinion Survey on Household Financial Behavior" conducted in 2018 by the Central Council for Financial Services Information. Approximately 40% of households have outstanding loans, and the average balance of mortgages is 13.5 million yen. As a result of the change in the consumption tax rate that came into effect in October 2019, the mortgage tax deduction system transformed, giving households that acquired a home with a consumption tax rate of 10% and started residing in their new home from October 1, 2019 to December 31, 2020 the ability to qualify for the 3-year extension on the mortgage deduction, meaning the maximum deduction period would extend to thirteen years.

Even in this situation, it is important to pay attention to the outstanding loan balance at the time of retirement. As shown in the table below, the percentage of households in their 60s and 70s who have outstanding mortgages are 30% and 16% respectively, with the average amount being 6.15 million yen and 8.84 million yen. Some households continue to repay even after retirement. Many people in the working generation with outstanding mortgages are seemingly content with repaying the loan with the severance money they receive at the time of retirement, in addition to the monthly repayments. However, retirement funds should mainly be used to support retirees' livelihoods as opposed to repaying loans. It is important for people to make early repayments, such as reviewing the mortgage repayment plan and striving to retire debts.

Percentage of households with borrowings and outstanding mortgages

	Percentage of households with borrowings	Outstanding mortgage amount
Overall	40.9%	13,500,000 yen
20s	37.3%	14,760,000 yen
30s	60.2%	21,210,000 yen
40s	61.8%	16,710,000 yen
50s	56.2%	10,740,000 yen
60s	30.1%	6,150,000 yen
Over 70s	16.9%	8,840,000 yen

Source: The Central Council for Financial Services Information "Public opinion survey on household financial behavior" [Survey of households with two or more people] (2018)

* The content of this follow-up letter is shown for illustrative purposes only and may differ depending on the adopted assumptions, so please consult with experts as necessary.

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